

**BEFORE THE WASHINGTON  
UTILITIES & TRANSPORTATION COMMISSION**  
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

---

DOCKETS UE-170033 and UG-170034 (*Consolidated*)

TESTIMONY IN RESPONSE TO PROPOSED SETTLEMENT

OF

GLENN A. WATKINS (GAW-14T)

ON BEHALF OF

WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL,

PUBLIC COUNSEL UNIT

**SEPTEMBER 22, 2017**

1 **Q: Please state your name and business address.**

2 A: My name is Glenn A. Watkins. My business address is 1503 Santa Rosa Road,  
3 Suite 130, Richmond, Virginia 23229.

4 **Q: Have you previously filed testimony in this proceeding?**

5 A: Yes. I pre-filed Response Testimony in this proceeding on June 30, 2017, which was  
6 designated as Exhibit GAW-1T as well as Cross-Answering Testimony on  
7 August 9, 2017, which was designated as Exhibit GAW-13T. I have sponsored Exhibits  
8 GAW-2 through GAW-12.

9 **Q: What is the purpose of this testimony?**

10 A: The purpose of this testimony is to explain why the proposed Multiparty Settlement  
11 Agreement and Stipulation (“Settlement”) on issues concerning electric rate spread is  
12 inadequate.

13 **Q: Can you summarize why the proposed settlement on issues concerning electric rate  
14 spread is inadequate?**

15 A: Yes. There are three primary reasons why the proposed settlement is inadequate as it  
16 relates to electric rate spread. First, based on my recent discussions with Staff and Puget  
17 Sound Energy (PSE), I confirmed that Section III.C.1.a (Paragraph 94) of the proposed  
18 Settlement does not precisely explain or outline the methodology that would be used to  
19 allocate the proposed settlement net electric increase of \$20.160 million (Exhibit A to  
20 Settlement). Second, the proposed Settlement on electric rate spread is incomplete in that  
21 the revenue impact on the largest rate classes is not addressed. Third, the proposed  
22 Settlement is at odds with the Commission’s prior rate spread policies and practices.

1 **Q: Please explain why the proposed Settlement does not precisely explain or outline the**  
2 **methodology that would be used to allocate the proposed Settlement net electric**  
3 **revenue increase of \$20.160 million.**

4 A: The proposed Settlement is very vague and does not accurately portray how the \$20.160  
5 million electric revenue increase would be assigned to the various classes. Specifically,  
6 the entire discussion of electric rate spread is contained in Paragraph 94 of the proposed  
7 Settlement: “The Settling Parties agree to change the allocation of PSE’s electric revenue  
8 deficiency for Schedules 7A, 10, 11, 12, 25, 26, 29, 31, 46, and 49 from 75 percent to 65  
9 percent of the average rate increase.” In order to gain a clearer understanding of this  
10 Settlement provision, I contacted parties to the Settlement. Based on my conversations  
11 with Staff (Mr. Jason Ball) and the Company (Mr. Jon Piliaris) on September 18, 2017,  
12 the language in Paragraph 94 of the Settlement is not intended to be applied literally.  
13 That is, it is my understanding that the proposed Settlement does not imply that the  
14 classes referenced in Paragraph 94 of the Settlement should receive 65 percent of the net  
15 percentage total system increase of approximately 0.94 percent.<sup>1</sup> Rather, the 65 percent  
16 should be applied to the methodology set forth in Mr. Piliaris’ Exhibit JAP-39, which  
17 assigns class revenue responsibility to base rate revenues only, i.e., does not reflect rider  
18 revenue. Mr. Piliaris’ Exhibit JAP-39 reflects the Company’s litigation position for a  
19 requested increase in base rate revenues of \$144.0 million. The methodology in Exhibit  
20 JAP-39 is carried forward to Exhibit JAP-44, which then incorporates the impact of  
21 PSE’s various riders that will be placed into base rates at the conclusion of this case.

---

<sup>1</sup> Calculated as \$20.160 million net increase divided by \$2,134 million total current revenue (base rates plus rider).

1 PSE's litigation position of a net increase of \$68.3 million is then reflected in Exhibit  
2 JAP-44.

3 It is also my understanding that the proposed Settlement increase of \$20.160  
4 million is on a net basis such that the rate spread for the classes referenced in the  
5 Settlement would first be applied to the methodology in Exhibit JAP-39 (with the  
6 substitution of 65 percent increase instead of the 75 percent increase proposed by the  
7 Company for the referenced rate classes). Then the amounts for the referenced rate  
8 schedules would be carried forward using the methodology in Exhibit JAP-44 to assign  
9 the ultimate class revenue increases in order to generate the Settlement total revenue  
10 increase of \$20.160 million. Therefore, based on my discussions with Staff and the  
11 Company, the ultimate increase in rates to the referenced rate classes would be different  
12 than those portrayed in the proposed Settlement. However, the Settlement does not  
13 attempt to quantify the ultimate increases to the referenced rate classes. As a result, it is  
14 not possible to evaluate the reasonableness of the increases to the referenced rate classes.

15 **Q: Please explain how the proposed Settlement is incomplete such that the revenue**  
16 **impact on the largest rate classes is not addressed.**

17 A: As I understand it, the specific increases to the largest rate classes are not addressed in  
18 the Settlement and are left to the Commission's discretion. In this regard, the increases to  
19 the largest classes are considered an "unsettled" issue, while only specific rate classes are  
20 addressed under the Settlement.<sup>2</sup>

---

<sup>2</sup> Multiparty Settlement Stipulation and Agreement ¶ 94; Testimony of Thomas E. Schooley and Melissa C. Cheeseman, Exh. TES-4T at 16:10-11, n.4.

1           Specifically, the proposed Settlement rate spread simply carves out lower  
2 percentage increases to the Large Commercial and Industrial rate classes that signed on to  
3 the proposed Settlement. The proposed Settlement does not address how any revenue  
4 increases should be assigned to the Residential (Schedule 7), Small General Service-  
5 Secondary (Schedule 24), Campus Rate (Schedule 40), All Electric Schools (Schedule  
6 43), Retail Wheeling (Schedules 449/459), Lighting (Schedules 50/59), or Irrigation  
7 (Schedule 35) classes.

8           In short, the proposed Settlement asks the Commission to carve out and grant  
9 preferential treatment to certain Large Commercial and Industrial classes and then leave  
10 the majority of the required total increase on the litigation table.

11           In all of my 37 years of practicing utility rate spread/rate design, I have never seen  
12 a Settlement that is incomplete to this extent and only addresses the self-serving  
13 objectives of the Settling Parties as it relates to class revenue increases.

14 **Q: Please explain why the proposed Settlement is at odds with this Commission's prior**  
15 **policies and practices regarding class rate spread.**

16 **A:** As indicated in my Response and Cross-Answering testimonies,<sup>3</sup> this Commission has a  
17 long-standing practice of considering a number of factors other than just class cost of  
18 service results in determining class revenue responsibility. With regard to class cost of  
19 service studies, the Commission has a long-standing practice of considering those classes  
20 with parity ratios between 90 percent and 110 percent to be equivalent to 100 percent  
21 parity. In my Response Testimony, I emphasized this point wherein both PSE's studies

---

<sup>3</sup> Response Testimony of Glenn A. Watkins, Exh. GAW-1T at 36:19-21 and Cross-Answering Testimony, Exh. GAW-13T at 6:12-7:20.

1 and my alternative studies all show that the majority of classes are within +/- 10 percent  
2 of parity. Indeed, each of the rate classes referenced in the proposed Settlement are  
3 within this 10 percent band. Yet the proposed Settlement would abandon the  
4 Commission's long-standing practice and afford these classes special treatment.

5 **Q: Are there any aspects of the proposed Settlement that you find reasonable, which**  
6 **would alter the recommendations presented in your Response Testimony?**

7 A: Yes. Paragraph 96 of the proposed Settlement calls for the discontinuance of Rate  
8 Schedule 40 over time such that this rate schedule will be closed to new customers and  
9 will be eliminated entirely in the Company's next general rate case. Given the  
10 controversial nature surrounding this rate schedule since its inception in the mid-2000s, I  
11 support this provision of the proposed Settlement. In this regard, and given the fact that  
12 there will be a plan in place to eliminate this rate schedule, I would agree to the  
13 ratemaking treatment for Rate Schedule 40 proposed by Company witness Piliaris.  
14 Specifically, if Rate Schedule 40 is closed to new customers with this case, and  
15 eliminated during the next general rate case, I will agree to the special ratemaking  
16 treatment for this rate schedule. In particular, I support the eventual elimination of Rate  
17 Schedule 40 as it relates to the determination of distribution-related revenue, as well as  
18 pricing production and transmission-related revenue at the rate level charged High  
19 Voltage Rate Schedule 46/49 customers. As a result, if this provision of the proposed  
20 Settlement is adopted, I will agree to the ratemaking methodology advocated by Mr.  
21 Piliaris for Rate Schedule 40.

22 **Q: Does this complete your testimony?**

23 A: Yes.