

**BEFORE THE WASHINGTON
UTILITIES & TRANSPORTATION COMMISSION**
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,
Complainant,
v.
PUGET SOUND ENERGY,
Respondent.

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

TESTIMONY IN RESPONSE TO PROPOSED SETTLEMENT
OF
MICHAEL L. BROSCH (MLB-11T)
ON BEHALF OF
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL,
PUBLIC COUNSEL UNIT

SEPTEMBER 22, 2017

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I. INTRODUCTION / SUMMARY

Q: Please state your name and business address.

A: Michael L. Brosch. P.O. Box 481934, Kansas City, Mo. 64148-1934.

Q: Are you the same Michael L. Brosch who previously submitted Response Testimony on behalf of the Public Counsel Unit of the Washington Attorney General's Office ("Public Counsel") in this proceeding?

A: Yes. My Response Testimony was identified as Exhibit MLB-1T and my qualifications were summarized in Exhibit MLB-2. I also sponsored Exhibits MLB-3 through MLB-10.

Q: What is the purpose of your testimony at this time?

A: I have been asked by Public Counsel to evaluate and respond to the Settlement Stipulation and Agreement ("Settlement") that was entered into by several parties to this proceeding and the related supportive testimony recently filed by those parties.

Q: What issues are addressed in the Settlement that were addressed in your previously filed Response Testimony?

A: The Settlement addresses "Decoupling" matters at page 31, paragraphs 113 and 114. The Settlement also provides for the filing of an Expedited Rate Filing (ERF) at page 31, paragraph 115 and in Exhibit I to the Settlement.

Q: What additional information did you review in preparing this responsive testimony?

A: In addition to the voluminous materials I had already reviewed in preparing my prior Response Testimony, to prepare this testimony, I reviewed the Multiparty Settlement Stipulation and Agreement dated September 15, 2017, the Joint Memorandum in Support of the Multiparty Partial Settlement filed on the same date, the recently filed Settlement

1 supportive testimonies of Puget Sound Energy (PSE), Staff and Intervenor witnesses and
2 certain transcripts from the hearings previously conducted in these dockets.

3 **II. DECOUPLING SETTLEMENT PROVISIONS**

4 **Q: In your Response Testimony, you recommended cessation of the Revenue per**
5 **Customer (RPC) form of decoupling that has historically benefited PSE, at the**
6 **expense of its customers, and indicated that RPC decoupling should be replaced**
7 **with Complete Decoupling.¹ How does the Settlement address this proposal?**

8 A: The Settlement moves part of the way toward the complete decoupling approach that I
9 support, by eliminating RPC decoupling for only the Company's Fixed Power Costs.
10 Paragraph 113 states, "The Settling Parties agree to Commission Staff's proposal to set
11 the total Allowed Revenue for fixed production costs recovery per decoupled group at the
12 level the Commission authorizes in this general rate proceeding." While this approach is
13 attributed to Staff in the Settlement document, this is the same "complete" decoupling
14 approach I recommended for fixed power costs in my Response Testimony.²

15 **Q: Does the adoption of complete decoupling for fixed power costs in the Settlement**
16 **demonstrate PSE's ability to implement such a mechanism for the entirety of its**
17 **revenue requirement?**

18 A: Yes. The mechanics of complete decoupling are not difficult to apply. They involve
19 setting the total Allowed Revenue for delivery service cost recovery per decoupled group
20 at the level the Commission authorizes in this general rate proceeding. This could be
21 accomplished using the same terminology included within Settlement paragraph 113 for

¹ Response Testimony of Michael L. Brosch, Exh. MLB-1T at 26-40.

² *Id.* at 40-44.

1 fixed production costs.

2 **Q: Do you continue to recommend adoption of complete decoupling for the entirety of**
3 **PSE’s electric and gas base rate revenue requirements?**

4 A: Yes, for all the reasons stated in my Response Testimony, Exhibit MLB-11T.

5 **III. EXPEDITED RATE FILING PROCEDURES**

6 **Q: What does the Settlement provide for with respect to PSE’s desire for “Expedited”**
7 **future rate filings?**

8 A: At paragraph 115, the Settlement states:

9 PSE may file one ERF within one year after the effective date of the tariffs
10 resulting from this proceeding that is consistent with the process and
11 procedures used by the Commission in Dockets UE-130137 & UG-
12 130138 and the parameters identified in Exhibit I to this Settlement. The
13 Settling Parties will support, or not oppose, a schedule for such ERF that
14 would allow rates to take effect within 120 calendar days after filing. Any
15 subsequent ERF or limited rate proceeding filed by PSE shall be
16 consistent with Commission guidance provided by rule or policy statement
17 in Docket A-130355.

18 Exhibit I to the Settlement specifies the following additional ERF parameters:

- 19 • Utilization of Commission Basis Reports (CBR) for a recently completed
20 accounting period consistent with the cited WAC-defined approach.
- 21 • Use of end of period rate base is acceptable.
- 22 • Annualization of revenues and underlying costs associated with those revenues.
- 23 • Removal of power and purchased gas costs and any approved ECRM revenues,
24 rate base and expenses.
- 25 • No updating of the Rate of Return except for interest on debt, if needed.
- 26 • No changes to rate spread or rate design.

1 No conditions are placed upon PSE's discretion over future ERF filings that are
2 authorized under the Settlement beyond what is contained in paragraph 115 and Exhibit I.

3 **Q: You noted in your Response Testimony that PSE is not required to file an ERF**
4 **whenever its future earnings, as reported in its CBR reports, exceed the return**
5 **levels approved in the Company's most recent general rate case.³ Is this symmetry**
6 **problem remedied under the Settlement?**

7 A: No. Under the Settlement, PSE is authorized, but is not required to file future ERF
8 requests. There is no symmetry in this approach. The continuation of earnings
9 monitoring and sharing in connection with decoupling is only a partial remedy to this
10 problem and serves to ensure that ERF rate filings will only occur when they are
11 beneficial to shareholders and not ratepayers.

12 **Q: Should an end of period rate base be used in ERF proceedings, as specified in**
13 **Settlement Exhibit I?**

14 A: No. This Commission routinely establishes rate base using an average rate base
15 approach. The introduction of end of period rate base, along with the corresponding
16 annualization adjustments for revenues and underlying costs, will add complexity and
17 judgment to ERF proceedings, raising new issues for Staff and other concerned parties to
18 address. WAC 480-90-257 and WAC 480-100-257 require that, "Commission basis
19 reports should not include adjustments that annualize price, wage, or other cost changes
20 during a reporting period, nor new theories or approaches that have not been previously
21 addressed and resolved by the commission." Introduction of end of period rate base
22 calculations with selective income statement annualization adjustments, as an exception

³ *Id.* at 64.

1 to these WAC provisions, is not supported by any evidence in this record, is
2 inappropriate, and should be rejected by the Commission.

3 **Q: In your Response Testimony, you noted that PSE has not asserted or proven that it**
4 **will face any future earnings attrition and has shown no financial need for future**
5 **RPC decoupling revenue growth, the proposed new Electric Cost Recovery**
6 **Mechanism (ECRM) rate increases or future ERF rate increases.⁴ Does the**
7 **Settlement or any of the recently filed testimony supportive of the Settlement**
8 **remedy this critical absence of supporting evidence of need for an ERF?**

9 A: No. This is a fundamental problem with the Company's ERF formalization proposal that
10 is now largely embodied within the Settlement. The fact that there is a revenue
11 requirement Settlement is indicative of PSE's acceptance of the agreed-upon revenue
12 requirement results as adequate to meet the Company's ongoing financial needs. In the
13 absence of any showing of any future earnings attrition problem, the Commission should
14 not approve the ERF provisions contained in the Settlement.

15 **Q: The Settlement schedule for future ERF filings would allow new rates to take effect**
16 **within 120 calendar days after filing. Is this an adequate interval to enable**
17 **sufficient review of ERF filings by Staff and other concerned parties?**

18 A: No. As explained in my Response Testimony, such an expedited schedule assumes that
19 Staff and intervenor parties are standing by with available and uncommitted resources to
20 immediately respond to any ERF filing while also assuming the need for very limited
21 discovery or a single "round" of questions. Such a schedule would also preclude any
22 ability for Staff and other parties to independently analyze the Company's books within

⁴ *Id.* at 38-39, 56-57, 69.

1 only a few weeks of time, in order to identify any unusual or non-recurring transactions,
2 or to understand other new facts and circumstances that need to be addressed with
3 different regulatory adjustments or remedies. PSE would retain only for itself the
4 flexibility to apply ERF procedures, using only previously approved adjustments and rate
5 of return findings, or instead file a general rate case with the attendant flexibility to
6 propose different adjustments and an updated rate of return when the latter approach is
7 more favorable to the utility.

8 **Q: How does the Settlement provision that enables PSE to file for future ERF rate**
9 **relief impact the efficiency incentive that is normally provided to utility**
10 **management under regulation?**

11 A: The ERF provisions are clearly aimed at mitigating future regulatory lag in instances
12 where regulatory lag proves harmful to shareholders.⁵ Regulatory lag serves as a modest
13 but meaningful financial incentive for utility management to work hard at controlling
14 costs. The provision for ERF rate filings within the Settlement insures that any increased
15 costs incurred by PSE to provide service after the test year can be quickly translated into
16 rate increases, greatly diminishing the regulatory lag incentive normally at work to
17 encourage management cost control.

18 **Q: In your Response Testimony, you explained the problems within ERFs when the**
19 **cost of capital, cost of service allocations, and rate design are held constant.⁶ You**
20 **also explained the problems introduced by limiting ratemaking adjustments within**
21 **ERF filings to only those adjustments prescribed in a future rate case, when**

⁵ PSE is not obligated to file for ERF rate changes under the Settlement, and cannot be expected to make ERF filings if the Company experiences adequate or excessive earnings due to regulatory lag.

⁶ *Id.* at 68-69.

1 **changed circumstances create the need for new or different adjustments.⁷ Do the**
2 **prescribed terms for future ERF filings within the Settlement or Exhibit I remedy**
3 **these problems?**

4 A: No. The Settlement limitation to a single ERF filing within 12 months of completing a
5 general rate case and the modestly expanded 120-day review interval is less onerous than
6 PSE's initial proposal for ERF and moves in the direction of suggested constraints in my
7 Response Testimony.⁸ However, there is simply no need to compromise the scope of
8 ratemaking analysis or preclude the consideration of updated information through ERF
9 ratemaking in this case, where PSE has proven no financial need for this form of
10 extraordinary rate relief.

11 **Q: What is your recommendation with respect to the ERF procedures provided for in**
12 **the Settlement?**

13 A: I recommend rejection of the Settlement ERF terms because PSE has not proven that it
14 will face any significant earnings attrition problem prospectively. In the absence of any
15 financial need for abbreviated and expedited rate relief, the Commission should not
16 approve the ERF provisions within the Settlement.

17 **Q: Does this conclude your testimony at this time?**

18 A: Yes.

⁷ *Id.* at 65-67.

⁸ *Id.* at 67.