

**EXHIBIT NO. \_\_\_\_ (KCH-3T)  
DOCKET NOS. UE-190529/UG-190530  
2019 PSE GENERAL RATE CASE  
WITNESS: KEVIN C. HIGGINS**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket No. UE-190529  
Docket No. UG-190530**

**CROSS-ANSWERING TESTIMONY OF  
KEVIN C. HIGGINS  
ON BEHALF OF THE KROGER CO.**

**January 15, 2020**

**Table of Contents**

1

2 I. INTRODUCTION ..... 1

3 II. SUMMARY AND RECOMMENDATIONS..... 1

4 III. RESPONSE TO PUBLIC COUNSEL REGARDING RATE SPREAD ..... 3

5 IV. RESPONSE TO STAFF REGARDING PSE’S DEMAND AGGREGATION

6 PILOT ..... 7

7

8

1 **CROSS-ANSWERING TESTIMONY OF KEVIN C. HIGGINS**

2 **I. INTRODUCTION**

3 **Q. Please state your name and business address.**

4 A. My name is Kevin C. Higgins. My business address is 215 South State  
5 Street, Suite 200, Salt Lake City, Utah, 84111.

6 **Q. By whom are you employed and in what capacity?**

7 A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies  
8 is a private consulting firm specializing in economic and policy analysis  
9 applicable to energy production, transportation, and consumption.

10 **Q. Are you the same Kevin C. Higgins who provided pre-filed Response**  
11 **Testimony on behalf of The Kroger Co. (“Kroger”)?**

12 A. Yes, I am.

13  
14 **II. SUMMARY AND RECOMMENDATIONS**

15 **Q. What is the purpose of your Cross-Answering testimony?**

16 A. In my Cross-Answering testimony, I respond to:

- 17 • The recommendations of Public Counsel witness Glenn A. Watkins regarding rate  
18 spread; and
- 19 • The recommendation of Staff witness Jason L. Ball regarding the proposal of  
20 Puget Sound Energy (“PSE” or “the Company”) for a demand aggregation  
21 program known as the Conjunctive Demand Service Option Pilot (alternatively,  
22 “Demand Aggregation Pilot”).

23 **Q. Please summarize your conclusions and recommendations.**

1 A. Mr. Watkins' rate spread proposal does not reasonably reflect the  
2 principles of cost causation. A number of classes have parity ratios of 106%  
3 according to PSE's cost of service study. This means that prior to accounting for  
4 any overall change in Company revenue requirement, these classes are paying  
5 rates that are 6% above cost of service. Several parties, including PSE, Staff, the  
6 Federal Executive Agencies ("FEA"), and Kroger propose that these classes  
7 receive rate increases that are less than the system average. In contrast, Mr.  
8 Watkins proposes that rate classes at 106% of parity receive the adjusted average  
9 rate increase without any movement towards parity. Mr. Watkins' proposal  
10 would subject these customer classes to rates that are significantly above the cost  
11 to serve them. His proposal is inequitable and should be rejected. I continue to  
12 recommend that customer classes that are at 106% of parity should receive an  
13 increase that is 50% of the uniform percentage increase.

14 Staff appears generally supportive of PSE's proposed Demand  
15 Aggregation Pilot but recommends that the pilot needs to be revised to reflect  
16 Staff's recommended pricing pilot design and evaluation criteria. While I  
17 appreciate Staff's intent to provide a clear structure for the implementation of new  
18 pricing pilots, I do not believe that PSE's Demand Aggregation proposal fits into  
19 the same framework as other pilots envisioned by Staff. The Demand  
20 Aggregation proposal does not fundamentally change the existing pricing  
21 structure, but rather changes the *measurement* of demand for purposes of billing  
22 customers with multiple service locations. Therefore, I do not believe that a  
23 resubmission of the proposal is necessary. Instead, I recommend that the Demand

1 Aggregation Pilot should be approved by the Commission and that the  
2 Commission should consider expanding the scale of the program, as described in  
3 my Response Testimony, to allow for participation by non-electric vehicle  
4 customers for up to 10 locations and up to 5 MW per customer, with an overall  
5 participation cap of 100 locations.

6

7 **III. RESPONSE TO PUBLIC COUNSEL REGARDING RATE SPREAD**

8 **Q. Please describe Public Counsel's rate spread proposal.**

9 A. Public Counsel's rate spread proposal is presented by Mr. Watkins. Mr.  
10 Watkins does not challenge the Company's proposal to price the Resale Class at  
11 the full cost of service. He also agrees with PSE's calculation of revenues for the  
12 Special Contract, and Choice/Retail Wheeling classes. Additionally, he  
13 acknowledges that the Irrigation schedule is revenue deficient and necessitates an  
14 increase that is higher than system average.

15 Mr. Watkins disagrees, however, with the Company's proposal to assign  
16 smaller increases to classes with parity ratios of 106%. Based on PSE's proposal,  
17 these classes (Schedules 25/29, 26 and 46/49) would receive a rate increase equal  
18 to 75% of the "adjusted system average," or uniform, percentage increase. Staff's  
19 proposed rate spread for these classes is consistent with this approach.<sup>1</sup> I  
20 recommend a rate increase equal to 50% of the uniform percentage increase for  
21 these classes, a modestly greater step toward parity than proposed by PSE and

---

<sup>1</sup> Response Testimony of Jason L. Ball, p. 17.

1 Staff. FEA recommends moving even more decidedly toward parity.<sup>2</sup> But Mr.  
2 Watkins recommends against any movement toward parity for these classes, and  
3 instead recommends that any classes with parity ratios between 90% and 110%  
4 receive an equal percentage increase.<sup>3</sup>

5 **Q. Do you have any concerns with Mr. Watkins' proposal to provide an equal**  
6 **percentage increase to all of the jurisdictional classes that are within 10**  
7 **percent of parity?**

8 A. Yes, I disagree with Mr. Watkins' proposal. Under the revenue  
9 requirement parity ratios used by PSE, a class's parity ratio is a direct measure of  
10 how far the class's revenue allocation deviates from its cost of service. Thus,  
11 when the Company is earning its fully-authorized revenue requirement, a class  
12 with a parity ratio of 106%, for example, is paying rates that are 6% above its cost  
13 of service.<sup>4</sup> Under Mr. Watkins' proposal, a class that is at 90% of parity under  
14 current rates would receive the same percentage revenue increase as a class that is  
15 at 110% of parity.<sup>5</sup> In my view, this approach does not provide sufficient  
16 recognition in rates of differences in cost to serve. I disagree with Mr. Watkins'  
17 characterization that parity ratios within 10% of unity are "reasonably close" to  
18 100% for purposes of assigning revenue responsibility. Mr. Watkins' proposal  
19 does not allow customer classes to advance sufficiently toward cost of service.

---

<sup>2</sup> Response Testimony of Ali Al-Jabir, p. 21.

<sup>3</sup> Response Testimony of Glenn A. Watkins, pp. 39-40.

<sup>4</sup> Some notes on terminology: PSE calculates revenue-to-cost ratios at both current and proposed rates, whereas the class parity ratios are presented only at current rates. A class's parity ratio is the class's revenue-to-cost ratio divided by the system's revenue-to-cost ratio. Therefore, a class's parity ratio at proposed rates is equal to its revenue-to-cost ratio at proposed rates.

<sup>5</sup> The PSE-calculated parity ratios captured within Mr. Watkins' +/- 10% parity proposal range from 93% to 106%, which is still an unreasonably large range in this case.

1 Indeed, it sets up some classes to be perpetual subsidizers of other customer  
2 classes.

3 **Q. Is there evidence that some classes are serving as perpetual subsidizers of**  
4 **other customers?**

5 A. Yes. Consider Schedules 25/29 and 26. I have been participating in PSE  
6 general rate proceedings going back more than 15 years. In each case in which I  
7 have participated since 2004, these rate schedules have had parity ratios  
8 significantly above unity, as measured by PSE in its direct filings in these cases.  
9 This pattern is shown in Table KCH-1-CA below. The combined revenues for  
10 these rate schedules prior to the proposed increase in this case are approximately  
11 \$430 million. Including a 6% cross-subsidization premium in these rate schedules  
12 costs the customers served on them an additional \$25 million per year. A subsidy  
13 of this sort extended for more than 15 years represents a substantial intra-class  
14 transfer. Mr. Watkins' proposal would extend what has clearly become a long-  
15 term subsidy indefinitely into the future, without even a small attempt to move  
16 toward parity.

1  
2

**Table KCH-1-CA**  
**Parity Ratios for Schedules 25/29 & 26 as Calculated in Past Cases by PSE**

Class	2004 <sup>6</sup>	2006 <sup>7</sup>	2007 <sup>8</sup>	2009 <sup>9</sup>	2011 <sup>10</sup>	2017 <sup>11</sup>	2019 <sup>12</sup>
Sch. 25/29	115%	105%	121%	112%	106%	108%	106%
Sch. 26	108%	103%	117%	105%	104%	107%	106%

3 **Q. What is Staff’s position regarding rate spread in this case?**

4 A. Staff witness Jason L. Ball recognizes that parity ratios warrant significant  
5 consideration when it comes to apportioning revenue responsibility among  
6 customer classes.<sup>13</sup> Accordingly, Staff’s rate spread recommendations reflect  
7 some movement toward cost. This is consistent with PSE’s proposal for rate  
8 schedules with parity ratios of 106% to receive 75% of the adjusted average  
9 increase. While I believe this proposal does not make sufficient progress toward  
10 cost-based rates, it does offer some relief to classes with the highest revenue-to-  
11 cost ratios, thereby promoting a more equitable treatment and reducing existing  
12 cross-subsidies among customers.

13 **Q. What is your recommendation regarding rate spread?**

14 A. As stated in my Response Testimony, customer classes that are at 106% of  
15 parity according to PSE’s cost of service study should receive an increase that is

---

<sup>6</sup> Docket Nos. UG-040640/UE-040641, PSE Exhibit No. \_\_JAH-1T (Direct Testimony of James A. Heidell), p. 13.

<sup>7</sup> Docket Nos. UE-060266/UG-060267, PSE Exhibit No. \_\_JAH-1T (Direct Testimony of James A. Heidell), p. 29.

<sup>8</sup> Docket Nos. UE-072300/UG-070201, PSE Exhibit No. \_\_DWH-1T (Direct Testimony of David W. Hoff), p. 10.

<sup>9</sup> Docket Nos. UE-090704/UG-090705, PSE Exhibit No. \_\_JAP-1T (Direct Testimony of Jon A. Piliaris), p. 16.

<sup>10</sup> Docket Nos. UE-111048/UG-111049, PSE Exhibit No. \_\_JAP-1T (Direct Testimony of Jon A. Piliaris), p. 10.

<sup>11</sup> Docket Nos. UE-170033/UG-170034, PSE Supplemental CCROSS, provided in PSE’s Response to Kroger Data Request No. 005, Attachment A.

<sup>12</sup> PSE Exhibit BDJ-1T (Direct Testimony of Birud D. Jhaveri), p. 7.

<sup>13</sup> Response Testimony of Jason L. Ball, p. 13



1 50% of the uniform percentage increase. My recommended rate spread makes a  
2 greater movement toward the cost of service than that recommended by PSE,  
3 Staff, or Public Counsel.

4 In particular, I recommend that the Commission reject Mr. Watkins' rate  
5 spread proposal, which fails to take any steps toward cost-based rates for classes  
6 that are at 106% of parity.

7 **IV. RESPONSE TO STAFF REGARDING PSE'S DEMAND AGGREGATION**  
8 **PILOT**

9 **Q. Please describe and respond to Staff's recommendation regarding PSE's**  
10 **proposed demand aggregation program pilot.**

11 A. Staff's position on the Demand Aggregation Pilot is presented by Mr.  
12 Ball. Generally, Staff appears supportive of the Company's proposed  
13 Conjunctive Demand Service program pilot. Mr. Ball states:

14 Staff supports in concept the Company's proposal to unbundle demand for  
15 customers served at various locations. This type of demand charge is a clear  
16 application of cost causation and from within the "intermediate" tier of energy  
17 consumption.<sup>14</sup>

18 I agree that this type of demand charge is a clear application of cost  
19 causation. Indeed, I support the approval and expansion of the Demand  
20 Aggregation Pilot proposed by PSE.

21 However, Mr. Ball also contends that the pilot needs to be revised to  
22 reflect Staff's recommended pricing pilot design and evaluation criteria.<sup>15</sup> On this  
23 score, I do not agree that a resubmission is necessary. To be clear, I do not object

---

<sup>14</sup>Response testimony of Jason L. Ball., p. 60.

<sup>15</sup>*Id.*, p. 60.

1 to the pilot design and evaluation criteria proposed by Staff for pilot programs  
2 *generally*. However, PSE's Demand Aggregation proposal does not  
3 fundamentally change the existing pricing structure, but rather changes the  
4 *measurement* of demand for purposes of billing customers with multiple service  
5 locations. While I appreciate Staff's intent to provide a clear structure for the  
6 implementation of new pricing pilots, I do not believe that PSE's Demand  
7 Aggregation proposal fits into the same framework as other pilots envisioned by  
8 Staff. Consequently, I do not believe it is necessary to require PSE to submit a  
9 new program proposal. In the Company's Direct Testimony, PSE already  
10 describes its intent to collect data and provide feedback following implementation  
11 of the aggregation program.

12 **Q. What is your recommendation regarding PSE's proposed conjunctive**  
13 **demand service option?**

14 A. As I explained in my Response Testimony, I strongly support the  
15 Company's proposal to establish a demand aggregation program. Measuring  
16 generation and transmission demand for multi-site customers on the basis of  
17 conjunctive demand ensures that these customers pay for services that they  
18 actually use and thereby places them on an equal footing with single-site  
19 customers. This practice is based on established cost allocation principles and  
20 should be adopted by the Commission. Moreover, the Commission should  
21 consider expanding the scale of the program to allow for participation by non-  
22 electric vehicle customers for up to 10 locations and up to 5 MW per customer,  
23 with an overall participation cap of 100 locations

1 **Q. Does this conclude your Cross-Answering Testimony?**

2 **A. Yes, it does.**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

v.

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket No. UE-190529**

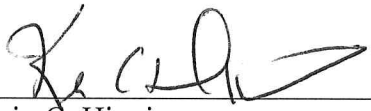
**Docket No. UG-190530**

**AFFIDAVIT OF KEVIN C. HIGGINS**


STATE OF UTAH    )  
  )  
COUNTY OF SALT LAKE    )

Kevin C. Higgins, being first duly sworn, deposes and states that:

1. He is a Principal with Energy Strategies, L.L.C., in Salt Lake City, Utah;
2. He is the witness who sponsors the testimony entitled "Cross-Answering Testimony of Kevin C. Higgins on Behalf of the Kroger Co.";
3. Said testimony was prepared by him;
4. If inquiries were made as to the facts in said testimony he would respond as therein set forth; and
5. The aforesaid testimony is true and correct to the best of his knowledge, information and belief.

  
\_\_\_\_\_  
Kevin C. Higgins

Subscribed and sworn to or affirmed before me this 14<sup>th</sup> day of January, 2020, by Kevin C. Higgins.

  
\_\_\_\_\_  
Notary Public

