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October 18, 2017

**SENT VIA ELECTRONIC WEB PORTAL & OVERNIGHT U.S. MAIL**

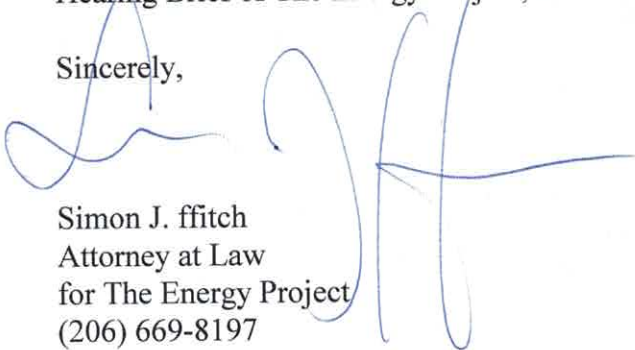
Steven V. King  
Executive Director and Secretary  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Dr. SW  
P. O. Box 47250  
Olympia, Washington 98504-7250

Re: Washington Utilities and Transportation Commission v. Puget Sound Energy, PSE GRC  
Dockets UE-170033 and UG-170034 (*Consolidated*)

Dear Mr. King:

Enclosed for filing in the above-referenced docket is the original and 11 copies of the Initial Post-Hearing Brief of The Energy Project, and Certificate of Service.

Sincerely,

  
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Attorney at Law  
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(206) 669-8197

SJf:cjb  
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ALJ Dennis Moss (via E-mail)  
Service List (via E-mail)

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**CERTIFICATE OF SERVICE**  
**Dockets UE-170033 and UG-170034 (Consolidated)**

I, Carol Baker, do hereby certify that I have this day served a true and correct copy of the *Initial Post-Hearing Brief* to all parties of record listed by electronic mail.

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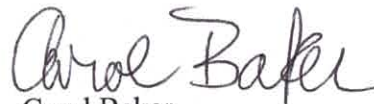
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DATED: October 18, 2017.



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BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION  
COMMISSION,

COMPLAINANT,

v.

PUGET SOUND ENERGY,

RESPONDENT.

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

**INITIAL POST-HEARING BRIEF  
OF THE ENERGY PROJECT**

**OCTOBER 18, 2017**

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## I. INTRODUCTION

1. The Energy Project is a signatory to the Multiparty Settlement Stipulation and Agreement (Settlement) in this docket, filed with the Commission on September 15, 2017. The Energy Project recommends approval of the settlement for the reasons detailed in the supporting testimony of Director Shawn Collins.<sup>1</sup> Key provisions of the settlement provide significant benefits for Puget Sound Energy's (PSE) low-income customers including: increased Home Energy Lifeline Program (HELP) bill assistance funding, increased low-income weatherization funding, HELP eligibility improvements, and establishment of a PSE Low-Income Advisory Committee. While these benefits are welcome and important, they are focused on those PSE customers who participate in the Company's low-income bill assistance and weatherization programs.<sup>2</sup>

2. In this brief, The Energy Project addresses several of the contested issues that remain to be decided in this docket, including: (1) PSE's proposed customer charge increases, (2) Staff's multiple proposals for restructuring PSE's rate design, and (3) PSE's decoupling proposal. Each of these proposals, if approved, will have a harmful impact on all PSE low-income customers by increasing their household energy costs and energy burden. The Commission has an opportunity to provide real rate relief to every low-income household in PSE's service territory in

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<sup>1</sup> Collins, Exh. SMC-4T (Testimony in Support of Multiparty Settlement Stipulation). The low-income provisions of the settlement are unopposed.

<sup>2</sup> Approximately one quarter million (20 percent) of PSE's residential customers are at or below 150 percent of the Federal Poverty Level. Of these, approximately 13 percent receive HELP bill assistance. Collins, Exh. SMC-1Tr at 3:1-9.

Washington, whether or not they are receiving bill assistance or weatherization, by declining to adopt these proposals.

## II. PSE'S PROPOSED BASIC MONTHLY CHARGE INCREASES

3. The Energy Project recommends that the Commission reject PSE's proposed increases in its electric and natural gas monthly customer charges<sup>3</sup> as inconsistent with Washington regulatory policy and precedent. For regulated utilities in this state, it is a "long accepted principle that basic charges should reflect only 'direct customer costs' such as meter reading and billing" and not distribution costs.<sup>4</sup> For this reason, as NW Energy Coalition witness Amanda Levin points out, the Commission has for many years consistently adhered to the Basic Customer method for classification of distribution plant. Under the Basic Customer approach, "the only costs which should be considered customer-related are the costs of meters, services, meter reading, and billing."<sup>5</sup> Neither PSE nor Staff effectively address why this precedent should no longer be followed.

4. Notwithstanding this clear guidance from the Commission, both PSE and Staff attempt to argue that line transformers, a type of distribution cost, should be included as a direct customer cost. Expert testimony from Public Counsel witness Glenn Watkins concludes, however, that line transformer costs are not properly classified as direct customer costs and that PSE's current

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<sup>3</sup> Piliaris, Exh. JAP-1T at 65:7-12 (electric), Exh. JAP-1T at 92:1-4 (natural gas).

<sup>4</sup> *Washington Utilities & Transportation Commission v. Pacific Power & Light Company*, Docket UE-140762 et al., (*Pacific Power 2014 GRC*), Order 08, ¶ 216.

<sup>5</sup> Levin, Exh. AML-1T at 4:2-5:18 and Exh. AML-3.



electric monthly charge adequately recovers PSE's costs.<sup>6</sup> Ms. Levin's testimony also concludes that if line transformer costs are excluded, PSE's current charge is in line with current costs.<sup>7</sup>

5. In addition to cost analysis, there are also important policy considerations raised by the proposals to increase fixed monthly charges. Increases in fixed charges make utility service less affordable for customers, penalize low-volume users, and reduce customers' ability to control their utility bills. As the National Association of State Utility Consumer Advocates (NASUCA) noted in its 2015 Resolution on this issue: "the imposition of high customer charge or SFV [straight fixed variable] rates unjustly shifts costs and disproportionately harms low-income, elderly, and minority ratepayers, in addition to low-users of gas and electric utility service in general[.]"<sup>8</sup>

6. The Commission's well-settled principles also remain consistent with forward-looking rate design policy. As a 2015 Regulatory Assistance Project publication observed:

Although some utilities and regulators use customer charges to recover distribution system costs, this paper demonstrates that this is neither cost-based nor economically efficient. High customer charges impose unfair costs on small-use consumers, including most low-income and apartment residents. The fixed charge for residential or commercial service should not exceed the customer-specific costs attributable to an incremental customer.<sup>9</sup>

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<sup>6</sup> Watkins, Exh. GAW-1T at 44:3-15, at 51:13-19.

<sup>7</sup> Levin, Exh. AML-1T at 8:8-16.

<sup>8</sup>NASUCA Customer Charge Resolution 2015-1 (citing data from the U.S. Energy Information Administration Residential Consumption Survey). <https://nasuca.org/customer-charge-resolution-2015-1/>.

<sup>9</sup> Lazar, J. and Gonzalez W. (2015). *Smart Rate Design for a Smart Future*, Montpelier, VT: Regulatory Assistance Project, at 7 (Executive Summary)(*Smart Rate Design*). Available at: <http://www.raponline.org/document/download/id/7680>.

7. Not only do high fixed charges disproportionately impact low-income and low volume users, but high fixed charges also create a disincentive for customers to conserve energy.<sup>10</sup> The Commission recognized this concern in its *Pacific Power 2014 GRC* order, finding that “including distribution costs in the basic charge and increasing it 81 percent...does not promote, and may be antithetical to the realization of conservation goals.”<sup>11</sup> There is little doubt that Washington state law and regulatory policy place a high value on conservation and energy efficiency, as reflected, *inter alia*, in the Energy Independence Act energy efficiency requirements,<sup>12</sup> the least-cost planning framework,<sup>13</sup> and legislative direction to the Commission to encourage utility energy efficiency.<sup>14</sup>

8. Finally, the existence of a continued decoupling mechanism in some form for PSE is itself an argument against higher customer charges. To the extent that higher customer charges are viewed by proponents as a way to stabilize utility revenue by creating more certain cost recovery, that need is now addressed by decoupling. Moreover, because decoupling is justified

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<sup>10</sup> See, e.g., *In The Matter Of The Application Of Potomac Electric Power Company For Adjustments To Its Retail Rates For The Distribution Of Electric Energy*, Public Service Commission of Maryland, Case No. 9418, Order No. 87884, at 110 (November 15, 2016)(Rejecting the utility’s request for a 62 percent customer charge increase, the Maryland Commission placed “emphasis on Maryland’s public policy goals that intend to encourage energy conservation. Maintaining relatively low customer charges provides customers with greater control over their electric bills by increasing the value of volumetric charges.”)

<sup>11</sup> *Pacific Power 2014 GRC*, Order 08, ¶ 216.

<sup>12</sup> WAC 480-109-100.

<sup>13</sup> WAC 480-100-238 (Each electric utility regulated by the commission has the responsibility to meet its system demand with a least cost mix of energy supply resources and conservation.)

<sup>14</sup> RCW 80.28.024(“The legislature therefore finds and declares that actions and incentives by state government to promote conservation and the use of renewable resources would be of great benefit to the citizens of this state by encouraging efficient energy use[.]”); RCW 80.28.025(1)(“In establishing rates for each gas and electric company regulated by this chapter, the commission shall adopt policies to encourage meeting or reducing energy demand through ... measures which improve the efficiency of energy end use[.]”)(also encouraging co-generation and renewables).



as a way to remove obstacles to conservation, it is counterproductive to then create disincentives for conservation through increasing customer charges.<sup>15</sup>

9. In summary, allowing recovery of distribution costs (in this case line transformers) in PSE's basic customer charge would dramatically depart from several decades of Commission rate design policy. The resulting increase in fixed charges would unreasonably shift costs to low-income and low-volume users and is directly contrary to important state policy goals encouraging energy efficiency. The Energy Project recommends that PSE's electric customer charge remain at its current level.

10. PSE's proposed increase in the natural gas customer charge is more modest. The Energy Project acknowledges that Public Counsel witness Glenn Watkins's cost analysis concludes that the requested amount is reasonable in terms of cost recovery. As a policy matter, however, The Energy Project continues to have concerns about the disproportionate impact of a fixed cost increase on low-income natural gas customers who use limited amounts of gas, as well as the negative impact on conservation. Additionally, since parties in settlement are proposing a significant natural gas rate decrease, it is an inopportune time to include an increase in another part of the rate structure. For customers, this is likely to be viewed as contradictory and confusing. The Energy Project recommends that the natural gas customer charge remain at its current level.

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<sup>15</sup> See, e.g., *In the Matter of the Application of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota*, Minnesota Public Utilities Commission, Docket No. G-008/Gr-15-424, Findings Of Fact, Conclusions, And Order, at 64 (June 3, 2016) ("a major goal of revenue decoupling is to align a utility's interests with the public's interest in energy efficiency. Increasing the customer charge undermines this goal [.]")

### III. STAFF'S RATE DESIGN PROPOSALS

#### A. Staff's Fixed Cost Recovery, Customer Charge, and Minimum Bill Proposals Should Be Rejected.

11. Staff witness Jason Ball's testimony devotes substantial discussion to the concern that PSE's fixed charges need to be increased to properly recover fixed costs and to eliminate what Staff terms "customer cross-subsidization." Staff argues that this cross-subsidization occurs because fixed cost recovery is taking place through volumetric rates rather than the fixed monthly charge. As a result, Mr. Ball argues, customers with higher usage are paying more than their share of fixed costs.<sup>16</sup> Staff disagrees with PSE's requested basic charge increases, arguing that they are inadequate to recover the Company's fixed costs.<sup>17</sup> While Mr. Ball's theoretical discussion of this problem is wide-ranging, upon examination, it turns out to essentially hinge on the inclusion of line transformers in the cost calculation. If line transformers are *not* considered a direct customer cost, Mr. Ball concedes that PSE's current customer charges are sufficient and that no customer cross-subsidization is taking place.<sup>18</sup>

12. As discussed above, clear Commission precedent and policy proscribes the inclusion of distribution cost in the customer charge. This is consistent with most regulatory policy in the United States. In its overview of U.S. energy regulation, for example, the Regulatory Assistance Project explains: "[i]n most states, the customer charge is set to recover customer-specific costs such as metering, meter reading, and payment processing. In other states, and some rural electric cooperative utilities, higher charges are established that recover portions of the distribution

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<sup>16</sup> Ball Exh. JLB-1T at 24:10-25:3.

<sup>17</sup> *Id.*

<sup>18</sup> Ball, Exh. JLB-14X.



system investment and maintenance. For any given revenue requirement for residential consumers a higher customer charge implies a lower per-unit usage charge which favors large usage customers and leads to higher consumption levels.”<sup>19</sup>

13. Monthly customer charges which include the cost of the meter and the service drop, as well as meter reading and billing, are typically low, with specific levels depending on the level of expense. On the other hand, “[w]here higher customer charges are computed, *they typically include recovery of distribution system components, such as transformers and overhead and underground lines.*”<sup>20</sup> Although some analysts differ, “[s]hared facilities, including distribution lines and line transformers, are most commonly recovered through usage charges.”<sup>21</sup>

14. Mr. Ball suggests introducing a new element to PSE’s rate structure –the minimum bill— to help address his concerns regarding insufficient fixed cost recovery. As just noted, however, there is no fixed charge recovery problem unless line transformers are, incorrectly, treated as a direct customer cost. The minimum bill idea, in addition, raises the same general concerns raised by elevated fixed customer charges generally – it disproportionately impacts low volume users and creates a disincentive to conservation.<sup>22</sup>

15. The minimum bill concept finds little support among other parties. PSE opposes the Staff proposal in light of its “negative practical considerations.”<sup>23</sup> PSE expresses concern that it could

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<sup>19</sup> Lazar, J. (2016), *Electricity Regulation in the US: A Guide, Second Edition*. Montpelier, VT: The Regulatory Assistance Project, at 70. Available at: <http://www.raponline.org/knowledge-center/electricity-regulation-in-the-us-a-guide-2>.

<sup>20</sup> Lazar, J. (2013), *Rate Design Where Advance Metering Infrastructure Has Not Been Fully Deployed*, Global Power Best Practice Series No. 5, Regulatory Assistance Project, at 26. Available at [www.raponline.org](http://www.raponline.org).

<sup>21</sup> *Id.*, at 26-27.

<sup>22</sup> Collins, Exh. SMC-3T, at 6:1-9; Levin, Exh. AML-13T, at 2:10-4:11.

<sup>23</sup> Piliaris, Exh. JAP-46CT at 42:1-43:16.

lead to customer dissatisfaction and increasing call volumes, that it could be confusing and contentious, and that implementation could involve significant risk and cost.<sup>24</sup> Both NW Energy Coalition<sup>25</sup> and Public Counsel<sup>26</sup> opposes the minimum charge as well.

**B. References To Residential Demand Charges Are Misplaced.**

16. In support of his rate design proposals, Mr. Ball testifies they will “provide an avenue to introduce residential demand charges and unbundled rates in the future.”<sup>27</sup> This might be a selling point if there were agreement that residential demand charges are a desirable goal in Washington. This is not the case, however. In discovery, The Energy Project asked Staff to identify any Commission orders or policy directives on residential demand charges, any Staff testimony on the topic, and any company requests for approval of such charges. Staff stated it was “not aware of any Commission order, rule, policy, interpretive statement, testimony, or docket that refers to residential demand charges.”<sup>28</sup> Similarly, regarding unbundled rates, other than proposed legislation in 1998, Staff could not cite any activity on the issue in Washington.<sup>29</sup> Far from being agreed policy goals in Washington, therefore, residential demand charges and unbundled rates have hardly been discussed.

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<sup>24</sup> *Id.*

<sup>25</sup> Levin, Exh. AML-13T, at 2:10-3:5.

<sup>26</sup> Watkins, Exh. GAW-13T, at 2:12-3:21 (“the concept of the minimum bill has largely been eliminated over the last 20 or so years.” *Id.*, at 2:17-18.)

<sup>27</sup> Ball, Exh. JLB-1T at 23:8-9.

<sup>28</sup> Ball, Exh. JLB-15X. Staff explains this response by arguing that AMI is required to implement demand charges and because AMI is not yet deployed it is “impossible to propose demand charges for residential customers.” The Energy Project does not agree that it would be impossible to conduct a policy docket or staff investigation examining residential demand charges in advance of full AMI deployment. The Energy Project also notes that some non-residential schedules in Washington have demand charges although AMI is not in place.

<sup>29</sup> *Id.*

17. The addition of demand charges to residential rate designs would almost certainly be controversial. As discussed in Shawn Collins' Cross-Answering Testimony, it is not at all clear that customers can effectively respond to residential demand charges and such charges can create fairness issues if customers do not have timely information.<sup>30</sup> In view of the fact that no regulated company has proposed such charges and that the issue has not been otherwise been addressed in Washington, preparing for their adoption is not a persuasive justification for the Staff rate design proposals.

**C. Seasonal Rates Should Not Be Adopted In This Case.**

18. Mr. Ball proposes adoption of seasonal rates for PSE. The Energy Project does not support this recommendation. Seasonal rates, by definition, increase utility bills for customers in the winter when demand is less elastic and electricity service is at its most essential.<sup>31</sup> The result from the low-income customer perspective is not a useful price signal but a reduced standard of living and an increased energy burden. PSE, which discontinued seasonal rates a number of years ago, shares The Energy Project's concern, observing that "Staff's proposal may disproportionately impact low-income customers," while potentially benefitting more affluent consumers.<sup>32</sup> PSE raises other concerns as well, cautioning that "as with the minimum bill proposal, there does not appear to be a meaningful enough change in the bill structure to illicit [sic] a large enough change in overall customer usage patterns to outweigh the expected implementation cost, risk, and customer perception challenges."<sup>33</sup>

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<sup>30</sup> Collins, Exh. SMC-3T, at 8:10-9:2.

<sup>31</sup> Collins, Exh. SMC-3T, at 3:11-5:11.

<sup>32</sup> Piliaris, Exh. JAP-46CT, at 53:10-16.

<sup>33</sup> *Id.*, JAP-46CT, at 52:9-12.



**D. A Third Tier Should Not Be Added To PSE's Rate Structure.**

19. There is no consensus among the parties in favor of modifying PSE's rate blocks to add a third tier. A stipulation that a third-tier proposal would be presented in this docket was modified by mutual agreement when PSE, Staff, Public Counsel and The Energy Project concluded that "mandating adoption of the three-tiered block rate structure at this time does not achieve the parties' intended goals and the proposed rate [filed by PSE] does not send the anticipated price signals to customers."<sup>34</sup> Parties were free to make any proposal on the issue they chose to in this case. Ultimately, none of the signatories to the stipulation chose to advocate adoption of a third tier as their primary recommendation, although Staff presented several alternative scenarios with a third tier included (see discussion below).

20. The Energy Project does not recommend adoption of a third tier at this time. As Mr. Collins testified, "adoption of a tail block with high rates can create a significant risk of increased bills for some low-income customers with high consumption resulting from household size, the condition of the housing stock, the heat source, and other factors. These concerns need to be addressed in determining whether to adopt a new rate design."<sup>35</sup> Both The Energy Project and PSE have expressed concerns in this case about the sufficiency of the data available to adopt a new design.<sup>36</sup>

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<sup>34</sup> Joint Motion to Amend Order 03 and Settlement Agreement, ¶ 5. The Joint Movants were PSE, Staff, Public Counsel and The Energy Project. ICNU, FEA, Walmart and Kroger were parties to the stipulation. They did not oppose the motion. Joint Motion, ¶ 6.

<sup>35</sup> Collins, Exh. SMC-1Tr, at 23:9-13.

<sup>36</sup> Collins, Exh. SMC-1Tr, at 24:7-17; Piliaris, Exh. 46-CT, at 56:8-19 (addressing the NW Energy Coalition third tier proposal, "the [load factor] data and analysis that is likely required is not readily available.")



21. As noted, Mr. Ball presented a variety of rate structure scenarios as alternatives to Staff's primary proposal, including the potential addition of a third tier.<sup>37</sup> The Energy Project does not support adoption of any of the alternatives at this time, particularly if coupled with a higher monthly charge or minimum bill, without further analysis of the impact on low-income customers.

22. One idea raised in the record, however, that is worthy of future consideration is to increase the first tier from 600 kWh to 800 kWh. Increasing the size of the first block could cover a larger portion of essential services for most households at a lower rate, and could result in lower bills for many customers. The conservation incentive of the current inverted structure would remain. Other parties have expressed interest in this approach, including Public Counsel<sup>38</sup> and NW Energy Coalition.<sup>39</sup> Staff's alternative rate designs suggest an 800 kWh first tier.<sup>40</sup> If the Commission is interested in further development of this idea, NW Energy Coalition's suggestion for a separate docket to study this and possibly other rate design modifications could be productive.<sup>41</sup>

#### IV. DECOUPLING

##### A. The Commission Should Not Increase The Decoupling Rate Caps.

23. When the Commission approved PSE's 2013 Rate Plan, it provided the following

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<sup>37</sup> Ball, Exh. JLB-2, at 2.

<sup>38</sup> Watkins, Exh. GAW-1T, at 62.

<sup>39</sup> Levin, Exh. AML-13T, at 11:5-14.

<sup>40</sup> Ball, Exh. JLB-2, at 2.

<sup>41</sup> Levin, Exh. AML-13T, at 11.

overview:

The third initiative the Commission approves in this Order is a rate plan that will *allow modest annual rate increases* in PSE's rates while requiring that the Company not file a general rate increase before March 2016 at the earliest. *This holds the promise of customers paying rates that are lower than might be the case under traditional approaches to ratemaking.* The rate plan is designed to give an incentive to PSE to become more efficient and to implement cost-cutting measures that will promote its ability to earn its authorized overall rate of return. *The rate plan includes important protections for customers, including an earnings test that requires PSE to share with customers on any equal basis any earnings that exceed its authorized return during the term of the plan. Annual rate increases also are capped at 3.0 percent.*<sup>42</sup>

24. The Rate Plan was approved over the objections of residential and industrial customers, in part because it provided these "important customer protections."<sup>43</sup> In this docket, PSE is now proposing to increase the three percent rate cap to five percent for all electric decoupling customers and for residential natural gas customers.<sup>44</sup>

25. Mr. Piliaris testified that "[t]he intent of the Rate Test was to mitigate potential rate volatility associated with PSE's decoupling mechanism."<sup>45</sup> Rate volatility results when rate changes occur frequently and changes are significant in size. Unpredictable utility costs in turn create customer hardship and confusion. As Mr. Piliaris acknowledged at the hearing, increasing the rate cap for PSE's decoupling mechanism will potentially increase rate volatility for

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<sup>42</sup> *In the Matter of the Petition of Puget Sound Energy, Inc., and Northwest Energy Coalition for An Order Authorizing PSE To Implement Electric and Natural Gas Decoupling Mechanisms and To Record Accounting Entries Associated With the Mechanisms*, Dockets UE-121697/UG-121705 *et al.* (consolidated), Order 07, Synopsis.

<sup>43</sup> PSE's industrial customers continue to oppose decoupling and recommend rejection of the mechanism proposed in this docket. Gorman, Exh. MPG-1T at 30:1-3.

<sup>44</sup> Piliaris, Exh. JAP-1T, at 134:7-9.

<sup>45</sup> Piliaris, Exh. JAP-1T, at 115:14-15.

customers.<sup>46</sup> Retaining the three percent rate cap, therefore, serves the important purpose of enhancing rate stability, one of the fundamental goals of ratemaking policy.<sup>47</sup>

26. The three percent metric also has significance as a rate cap level because it is the trigger in the Commission's rules for the application of the general rate case requirements.<sup>48</sup> The rule is effectively a codification of the magnitude of increase that is considered of sufficient customer impact to require more detailed supporting evidence, more opportunity for stakeholder participation, and more thorough scrutiny from the Commission. In the ordinary course, if a regulated utility in Washington wishes to increase its rates by five percent, it must file a general rate case. Increasing the decoupling rate cap above three percent is, therefore, not consistent with the policy considerations behind the rate case rule and erodes the protection the rule affords customers.

27. Part of the debate in the 2013 Rate Plan docket was generated by a concern among consumer parties that the Rate Plan allowed PSE to avoid the general rate case requirements by allowing increases over three percent without substantial evidentiary support or opportunity for review. The reassurance offered was that increases under the Rate Plan and decoupling would be modest and lower than those that would result from traditional ratemaking. PSE apparently believed that it was unlikely that the three percent cap would be reached and, as Mr. Piliaris testified, was "surprised at the level of the deferrals" which were "larger than ... anticipated."<sup>49</sup>

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<sup>46</sup> Piliaris, TR. 340:14-18.

<sup>47</sup> Piliaris, TR. 340:19-341:1.

<sup>48</sup> WAC 480-07-505(1). *Washington Utilities & Transportation Commission v. Avista Corporation*, Docket UE-170484, Order 01, ¶ 15.

<sup>49</sup> Piliaris, TR. 341:20-342:20.



28. PSE now candidly admits that the impact of including power costs in the decoupling mechanism going forward will “create the potential for future problems” and “almost double the ... potential rate impacts in the future,” creating a substantial likelihood that the three percent cap will be exceeded, even without the operation of the K-factor.<sup>50</sup> The Company’s solution to this problem is to expose residential customers, including low-income customers, to increased volatility and annual rate increases of as much as five percent in a given year. This is not a reasonable response to the problem.

29. The Energy Project recommends that the Commission reject PSE’s request to increase the rate cap levels for electric and natural gas customers. PSE’s proposal weakens one of the two important customer protections that originally gave the Commission comfort in adopting decoupling for PSE. It clearly exposes customers to increased rate volatility and allows more significant rate increases to occur without the level of serious review ordinarily given to rate increases over the three percent level. PSE argues, in effect, that there is little alternative because leaving the rate caps at three percent will create a snowball effect in the deferrals and will unduly delay cost recovery. The Energy Project suggests that the Commission instead look at the large deferral problem as indicative of fundamental flaws in the current mechanism, providing a sufficient reason to reconsider revenue-per-customer (RPC) decoupling and to look at other alternatives.

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<sup>50</sup> Piliaris, Exh JAP-1T at 136:1-19.



**B. The Commission Should Consider Public Counsel's Alternative Form of Decoupling.**

30. There is no real dispute that PSE's proposed continued decoupling mechanism is expected to generate annual rate increases which are no longer modest in scale and which require weakening existing rate cap protections and increasing rate volatility. Given these drawbacks to "staying the course," The Energy Project recommends that the Commission consider adopting the Public Counsel alternative to PSE's revenue-per-customer type of decoupling. In addressing the rate cap issue, Public Counsel witness Michael Brosch states: "The better remedy to control the buildup of large revenue deferrals is the termination of RPC decoupling in favor of adopting complete decoupling...where an offset in deferred revenues for customer growth would serve to limit the potential for deferrals so large they could not be recovered within 24 months."<sup>51</sup>

31. Public Counsel has presented a reasoned analysis of PSE's decoupling proposal, pointing out that the mechanism results in piecemeal ratemaking, tracking only weather and conservation related sales fluctuations, while not considering customer growth or "found margins."<sup>52</sup> As Mr. Brosch states: "[t]his has the unfortunate effect of leaving all of the sales and revenue growth caused by adding new customers for the sole benefit of PSE shareholders, while charging ratepayers for the combined impact of [sales fluctuations from weather, economic demand and conservation]."<sup>53</sup> Mr. Brosch proposes that "any future decoupling for PSE sales should be a 'complete' form of decoupling, where all causes of sales fluctuations are tracked in deferred

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<sup>51</sup> Brosch, Exh. MLB-1T, at 46:13-21.

<sup>52</sup> Brosch, Exh. MLB-1T, at 34:4-34:9.

<sup>53</sup> Brosch, Exh. MLB-1T, at 30:14-17.

revenue accounts and the Company is assured of recovering only the amounts of electric and gas revenues that were explicitly approved by the Commission.”<sup>54</sup>

32. In the settlement in this case, PSE and other parties have effectively agreed to use Public Counsel’s alternative approach (mirrored in the Staff proposal) in the case of fixed production costs, agreeing to set the “Allowed Revenue for fixed production costs recovery per decoupled group at the level the Commission authorizes in this general rate proceeding.” The Energy Project supports applying this approach comprehensively for the entire decoupling mechanism as proposed by Public Counsel. This would provide PSE with improved revenue stability while reducing the size of rate increases and deferrals, avoiding the need to increase the rate caps, and protecting customers from substantial increases in rate volatility.

## V. CONCLUSION

33. For the foregoing reasons, The Energy Project recommends that the Commission not approve increases to PSE’s electric and natural gas monthly charges and decline to adopt Staff’s minimum bill, seasonal rate, and third tier proposals. These proposals are not consistent with the declared policy of Washington state to “[p]reserve affordable natural gas and electric services to the residents of the state...maintain and advance the efficiency and availability of natural gas and electric services ... [and] ensure that customers pay only reasonable charges for natural gas and electric service[.]”<sup>55</sup>

34. With regard to decoupling, The Energy Project respectfully recommends that the Commission leave the decoupling rate cap protections at their current levels for both electric and

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<sup>54</sup> Brosch, Exh. MLB-1T, at 35:11-17.

<sup>55</sup> RCW 80.28.074. The statute also supports permitting flexible pricing of natural gas and electric service.

natural gas customers. In addition, The Energy Project recommends that the Commission consider the adoption of the Public Counsel “complete” decoupling proposal as a path to go forward with decoupling which avoids the negative consequences of PSE’s mechanism.

DATED this 18<sup>th</sup> day of October, 2017.

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