BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	
Complainant,	)	
v.	)	**DOCKETS UE-170033 and UG-170034 (Consolidated)**
PUGET SOUND ENERGY,	)	
Respondent.	)	

REPLY BRIEF OF

THE FEDERAL EXECUTIVE AGENCIES

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REPLY BRIEF OF THE FEDERAL EXECUTIVE AGENCIES

INTRODUCTION

The Federal Executive Agencies ("FEA") hereby submits its reply brief in this docket. The United States Department of the Navy ("Navy") represents the Department of Defense and all other Federal Executive Agencies in this proceeding. The FEA is one of the largest consumers of electricity in the service territory of Puget Sound Energy ("PSE" or "the Company") and takes electric service from the Company primarily on Schedule 49. The FEA participated in the hearing on contested issues and the hearing on the Multi Party Partial Settlement in this proceeding ("Settlement") that were convened by the Washington Utilities and Transportation Commission ("Commission"). The FEA also filed response and cross-answering testimony in this docket, as well as testimony in support of the Settlement and an initial post-hearing brief.

The FEA's reply brief responds to certain arguments raised by the following parties in their initial post-hearing briefs that were filed in this proceeding on October 18, 2017:

- Puget Sound Energy ("PSE");
- Public Counsel Unit of the Washington State Office of the Attorney General ("Public Counsel");
- The Staff of the Washington Utilities and Transportation Commission ("Commission Staff"); and
- NW Energy Coalition, Renewable Northwest and Natural Resources Defense Council ("NWEC/RNW/NRDC")

The FEA's reply brief focuses on the following topics:

- Response to PSE, Public Counsel, Commission Staff and NWEC/RNW/NRDC with respect to PSE's electric revenue decoupling mechanism ("RDM");
- Response to PSE with respect to the classification and allocation of electric generation and transmission fixed costs; and
- Response to Public Counsel regarding the allocation of any changes in electric base rate revenues approved in this case, specifically in regard to the allocation to Schedule 49;

ELECTRIC DECOUPLING MECHANISM

With respect to revenue decoupling, the FEA objects to PSE's proposal to continue its electric RDM. In the event the Commission decides to continue RDM, we urge the Commission to exclude Schedules 40, 46 and 49 from the mechanism on a prospective basis. In addition, the Commission should impose a hard three percent annual electric RDM rate cap to limit the rate increases associated with the mechanism and it should further reject any increase in the existing electric RDM rate cap.

In its initial post-hearing brief in this docket, PSE contends that the FEA's arguments against RDM are refuted by the analysis of the Gil Peach Report.[1] In a similar vein, NWEC/RNW/NRDC assert that the FEA's opposition to RDM rest on ideology rather than evidence.[2] These arguments are without merit and should be rejected by the Commission.

First, the foregoing assertions ignore findings in the Gil Peach Report that cast doubts on the merits of continuing RDM. For example, as noted in the response testimony of FEA witness Ali Al-Jabir in this proceeding, the Gil Peach Report concluded that "there is no indication of a sizeable change in electric conservation performance" under decoupling as compared with the time just prior to decoupling.[3/] This finding contradicts the notion that decoupling is required to motivate the Company to undertake conservation efforts.

The Gil Peach Report also determined that, with respect to the Residential Natural Gas decoupling group, cost deferrals in excess of the three percent RDM rate cap were driven by "the nature of the weather."[4/] Moreover, in response to discovery, PSE provided calculations showing that 27% of the electric cost deferrals in calendar year 2016 were due to the impact of weather. For gas customers, the comparable figure is 50%.[5/] This evidence reinforces the concern that decoupling can lead to cost increases for customers that are entirely unrelated to the impact of the Company's energy efficiency programs.

Furthermore, the FEA introduced evidence showing that Washington experienced problems with rate volatility resulting from the decoupling program it implemented in October

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[1] Initial Brief of PSE at p. 30.

[2] Initial Brief of NWEC/RNW/NRDC at p. 8.

[3/] Gil Peach report at p. 20.

[4/] Gil Peach report at p. 25.

[5/] Docket Nos. UE-170033 and UG-170034, Puget Sound Energy's Response to WUTC Staff Data Request No. 351, Attachment A.

1991 for PSE. The program led to annual rate surcharges in the tens of millions of dollars for each of the five years of program implementation, until the Commission cancelled the program in September 1995.[6/] This experience highlights the significant financial harm that can result from RDM and the magnitude of financial risk that the mechanism transfers to ratepayers. Taken together, this evidence provides clear factual support for discontinuing electric RDM in this proceeding, contrary to the assertions of PSE and NWEC/RNW/NRDC.

PSE argues that the FEA's proposal to exclude large customers from PSE's electric RDM is inconsistent with the Commission's Decoupling Policy Statement.[7] This argument is groundless. As the FEA explained in its initial post-hearing brief in this proceeding, the Commission's Decoupling Policy Statement in Docket No. UE-100522 clearly contemplates that a decoupling mechanism could exclude specific customer classes from the operation of the mechanism, where the Commission determines that such an approach is in the public interest and is not unlawfully discriminatory or preferential. Therefore, the FEA's proposal to exclude Schedules 40, 46 and 49 from the Company's electric RDM is not in conflict with the Commission's Decoupling Policy Statement.[8/]

PSE contends that its proposal to increase the electric RDM soft rate cap from three percent to five percent is needed to reflect the fact that a greater amount of electric revenues will be subject to RDM once fixed production costs are included in the mechanism.[9] However, as the FEA explained in its initial post-hearing brief and as Mr. Al-Jabir discussed in his response testimony, this assertion is undermined by the evidence in this proceeding and PSE's own

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[6/] Washington Utilities and Transportation Commission, Docket No. UE-950618, Third Supplemental Order, September 21, 1995, pp. 3 – 5.

[7] Initial Brief of PSE at p. 32.

[8/] Docket No. UE-100522, Decoupling Policy Statement, November 4, 2010, page 18.

[9] Initial Brief of PSE at p. 32.

calculations. Specifically, as Mr. Al-Jabir noted in his response testimony, the independent third-party evaluation of the Company's RDM prepared by H. Gil Peach & Associates, LLC concluded that the current three percent rate cap has worked well for the electric decoupling groups and should be continued.[10/] Additionally, PSE performed a back cast of electric decoupling rate test impacts for the years 2014-2017. The Company's analysis determined that the existing three percent annual rate cap would not have been triggered for electric non-residential customers in any year over the period 2014-2017, even if fixed production costs had been incorporated into the electric decoupling mechanism.[11/]

The Commission Staff asserts that increasing the RDM soft cap from three to five percent would not introduce a price spike or cause rate shock.[12] The Commission Staff makes this argument despite the fact that adding fixed production costs to the mechanism as proposed by PSE will almost double the allowed revenue recovered through the electric RDM. Contrary to the Commission Staff's argument, this doubling of the allowed revenues under the mechanism would only increase the risk of large, cumulative cost deferrals for customers if the soft cap were increased to five percent. Therefore, the Commission should reject any increase in the electric rate cap to protect ratepayers from large RDM rate increases.

In light of the foregoing record evidence and analysis, there is no reasonable basis for increasing the three percent annual electric RDM rate cap. At a minimum, there is no basis for increasing the rate cap for electric non-residential customers.

[10/] Docket Nos. UE-170033 and UG-170034, Response Testimony of Ali Al-Jabir, June 30, 2017, page 17.

[11/] Docket Nos. UE-170033 and UG-170034, Rebuttal Testimony of Jon A. Piliaris on behalf of Puget Sound Energy, August 9, 2017, page 13.

[12] Initial Brief of the Commission Staff at p. 40.

PSE also opposes the FEA's proposal to transform the existing three percent soft rate cap into a hard cap, arguing that a hard cap would reinstate the throughput incentive if or when the cap is reached.[13] The Company also uses the risk of "reintroducing a throughput incentive" as an argument against proposals to remove large customers from electric RDM.[14] These arguments should be rejected as thinly veiled attempts to avoid any measures that would introduce any degree of uncertainty in revenue recovery for PSE. As the FEA explained in its initial post-hearing brief, some level of uncertainty in utility revenue recovery is desirable because it creates a powerful incentive for the Company's management to operate cost-effectively and to promote economic development in its service area.[15] Consequently, the Commission should reject PSE's arguments as a matter of policy.

CLASSIFICATION AND ALLOCATION OF GENERATION AND TRANSMISSION FIXED COSTS

With respect to the classification and allocation of generation and transmission fixed costs, the FEA urges the Commission to reject the Company's proposal to update the peak credit method classification assumptions, which would modify the demand and energy classification percentages specified in the agreement in Docket No. UE-141368. Instead, the Commission should honor the terms of this settlement agreement by establishing the demand/energy classification percentages for generation and transmission fixed costs at 25% demand and 75% energy.

[13] Initial Brief of PSE at p. 37.

[14] Initial Brief of PSE at p. 34.

[15] Initial Post-Hearing Brief of the FEA at p. 5.

In its initial post-hearing brief, PSE contends that updating the results of the peak credit analysis in this proceeding is "more in line" with the spirit of the rate design settlement in Docket No. UE-141368.[16] The FEA respectfully submits that the Commission should enforce the terms of the rate design settlement in Docket No. UE-141368 based on its plain terms and meaning, not based on one party's interpretation of the "spirit" of the settlement.

As discussed in Mr. Al-Jabir's response testimony, paragraph 10 of the settlement agreement in Docket No. UE-141368 explicitly requires that the demand and energy classification percentages be set at 25% demand and 75% energy in this proceeding.[17/] Therefore, modifying these demand and energy classification percentages in this case would violate the clear terms of a prior settlement agreement that was approved by the Commission. As a matter of fairness and to highlight its intent to honor the sanctity of settlement agreements, the Commission should reject PSE's proposal and strictly enforce the plain terms of the settlement in Docket No. UE141368 with respect to the classification of generation and transmission costs.

SETTLEMENT AGREEMENT -- ELECTRIC BASE RATE REVENUE ALLOCATION TO SCHEDULE 49

The FEA is a signatory to the Settlement in this proceeding. The FEA supports the Settlement because it represents a reasonable compromise of the competing interests of the settling parties with respect to the matters addressed in the Settlement. Among other items, the FEA supports the provisions of the Settlement with regard to the electric base rate revenue allocation to Schedule 49. As discussed in the FEA's initial post-hearing brief, the Settlement

[16] Initial Brief of PSE at p. 43.

[17/] Docket Nos. UE-170033 and UG-170034, Response Testimony of Ali Al-Jabir, June 30, 2017, page 25 and Docket No. UE-141368, Order 03, Final Order Approving and Adopting Settlement Agreement, Appendix A, Paragraph 10, January 29, 2015.

moves Schedule 49 closer to parity by allocating 65%, rather than 75%, of the average percentage electric rate increase to this rate schedule. This has the effect of reducing the subsidy that Schedule 49 is currently providing to other rate classes on PSE's system and thereby moves Schedule 49 closer to cost-based rates.

Public Counsel asserts that the Settlement in this proceeding provides an unduly preferential rate spread treatment to rate schedules that are within ten percent of parity.[18] This argument is without foundation, particularly with regard to Schedule 49. As Mr. Al-Jabir explained in his direct testimony in this proceeding, the current base rates for Schedule 49 are already above cost and this rate schedule should receive a 1.4% base *rate reduction* to bring its rates in line with cost of service.[19] Far from giving Schedule 49 a base rate reduction as would be justified under full cost-based rates, the Settlement slightly moderates the impact of the base rate increase that PSE proposed for Schedule 49 by allocating 65% rather than 75% of the average electric base *rate increase* to this rate schedule.

Viewed from this perspective, it is clear that the provisions of the Settlement with respect to the allocation of base rate revenues are not unduly preferential to Schedule 49. Rather, the Settlement simply takes a modest step toward moving Schedule 49 closer to cost-based rates, an entirely reasonable policy goal that the Commission should support. Moreover, this movement toward cost-based rates for Schedule 49 is a result that almost all of the parties to this proceeding (with the exception of Public Counsel) have accepted by virtue of executing the Settlement. The FEA urges the Commission to approve the Settlement in its entirety.

[18] Initial Brief of Public Counsel at p. 35.

[19] Docket Nos. UE-170033 and UG-170034, Response Testimony of Ali Al-Jabir, June 30, 2017, page 28.

CONCLUSION

The FEA respectfully requests that the Commission issue a final order in this proceeding that is consistent with the positions set forth in its initial post-hearing and reply briefs. The FEA also requests all other relief at law or in equity to which it may be entitled.

Respectfully submitted,

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