

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY,**

**Respondent.**

**DOCKETS UE-170033/UG-170034**

**REPLY BRIEF ON BEHALF OF COMMISSION STAFF**

**October 27, 2017**

**ROBERT W. FERGUSON  
Attorney General**

**ANDREW J. O'CONNELL  
BRETT P. SHEARER  
CHRISTOPHER M. CASEY**

**Assistant Attorneys General  
Office of the Attorney General  
Utilities & Transportation Division**

**1400 S Evergreen Park Drive S.W.  
P.O. Box 40128  
Olympia, WA 98504-0128  
(360) 664-1192**

**TABLE OF CONTENTS**

I. INTRODUCTION .....1

II. DECOUPLING .....1

    A. PCA Settlement Agreement .....1

    B. State Energy Policy .....4

V. CONCLUSION .....5

**TABLE OF AUTHORITIES**

*Cases*

*Administrative Cases*

*In re WUTC Investigation into Energy Conservation Incentives*,  
Docket U-100522, Report and Policy Statement on Regulatory Mechanisms,  
including Decoupling, To Encourage Utilities To Meet or Exceed Their  
Conservation Targets (Nov. 4, 2010) .....4

*Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*,  
Dockets UE-130583, UE-130617, UE-131099, UE-131230, Order 11 (Aug. 7, 2015) .....2

*Statutes and Regulations*

RCW 19.285 .....4

*Other Authorities*

## I. INTRODUCTION

1 Staff of the Washington utilities and Transportation Commission (“Staff”) files this reply brief in accordance with WAC 480-07-390 and the procedural schedule allowed in this general rate case. Staff responds in this brief to two arguments presented by Puget Sound Energy (“PSE” or the “Company”) in its initial post-hearing brief, both regard decoupling: first, that proposing to exclude *any* customer group from the decoupling mechanism is contrary to a settlement reached by the Company, the Public Counsel Unit of the Attorney General’s Office, and Staff in *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Docket UE-130617 (“PCA Settlement Agreement”); and, second, that excluding large customers from the decoupling mechanism would be contrary to the state’s energy policy.

## II. DECOUPLING

2 Staff proposes in this case to remove certain schedules from the Company’s decoupling mechanism.<sup>1</sup> Several parties, including ICNU and FEA, support Staff’s proposal to do so. PSE does not. Despite the Company’s allegations, removing certain schedules from the Company’s decoupling mechanism is in no way contrary to either the state’s energy policy or the PCA Settlement Agreement.

### A. PCA Settlement Agreement

3 The Company has alleged, twice, that Staff is not abiding by the PCA Settlement Agreement. The Company is wrong. Mr. Piliaris, witness for PSE, alleged that excluding certain customers from PSE’s electric decoupling mechanism

[W]ould fundamentally alter the terms of the settlement agreement approved by the Commission in Order No. 11 of Docket UE-130617, where parties agreed to move fixed production costs into PSE’s electric decoupling mechanism should it continue. PSE’s expectation in entering into this

---

<sup>1</sup> Liu, Exh. JL-1CT at 45:16-22.

agreement was that all fixed production costs would be moved into the decoupling mechanism. By excluding customer groups from PSE's electric decoupling mechanism, the parties' proposals have the effect of moving the recovery of their share of those fixed production costs out of the decoupling mechanism. Here again is an example of terms of a settlement agreement that are under attack in a subsequent rate proceeding.<sup>2</sup>

In its initial brief, PSE again alleged that the proposal – which is Staff's – to exclude certain customers from the decoupling mechanism would

[U]ndermine the PCA settlement agreement (“PCA Settlement Agreement”), which allowed fixed production costs to be moved from the PCA with the understanding that if decoupling continues, these fixed production costs would be included in the decoupling mechanism. Excluding customer groups from PSE's electric decoupling mechanism effectively moves the recovery of approximately 20 percent of fixed production costs out of the decoupling mechanism, contrary to the PCA Settlement Agreement.<sup>3</sup>

4 The Commission should read the actual language in the PCA Settlement Agreement for itself. The PCA Settlement Agreement states:

**The Settling Parties are not bound to any position with respect to the continuation of decoupling or the treatment of Fixed Production Costs within the decoupling mechanism in PSE's next general rate case.** However, if the electric decoupling mechanism continues for PSE after the review of decoupling in PSE's next general rate case, the electric decoupling mechanism will include Fixed Production Costs that were formerly tracked in the PCA mechanism and which are identified in item III B above. Nothing in this Settlement binds any party to any position with regard to treatment of costs in an automatic escalation factor mechanism (such as a K-factor) or in a multi-year rate plan.<sup>4</sup>

Staff interprets this language to mean that the settling parties are not obliged to take any particular position regarding the continuation of PSE's decoupling mechanism. PSE seems to think otherwise.

---

<sup>2</sup> Piliaris, Exh. JAP-46CT at 17:9-18.

<sup>3</sup> Init. Br. of PSE at 33, ¶ 70 (citing *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-130617, Order 11, ¶ 7 (Aug. 7, 2015)).

<sup>4</sup> *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-130617, Order 11, Settlement Stipulation at 8, ¶ 9.6 (Aug. 7, 2015) (emphasis added).

5           The Company’s allegations and arguments are actually contrary to the terms of the PCA Settlement Agreement. PSE argues that removing any customer group from decoupling would violate the PCA Settlement Agreement.<sup>5</sup> This cannot be. Such an interpretation would prevent removal of any customer from the decoupling mechanism and therefore require all customers to remain in the decoupling mechanism, essentially requiring its continuation. This interpretation is incorrect.

6           The PCA Settlement Agreement’s terms are unambiguous: a settling party can take whatever position it chooses on the continuation of decoupling. Staff has proposed that decoupling be discontinued – but only for those schedules for which it identifies that decoupling is inappropriate. PSE seeks to undermine Staff’s proposal by arguing that Staff cannot advocate for any position that would discontinue decoupling, even for certain customers.<sup>6</sup> This restricts Staff’s ability to advocate for its position on the continuation of decoupling. PSE, it appears, would like to recharacterize the terms of the PCA Settlement Agreement, require the settling parties to support the continuation of decoupling, and discredit any party that disagrees. Staff and the Company agree, however, on one thing: “[h]ere again is an example of the terms of a settlement agreement that are under attack in a subsequent rate proceeding.”<sup>7</sup> Staff and the Company only disagree on the identity of the attacker.

7           PSE’s argument detracts from actually addressing the merits of Staff’s proposal. Staff removes certain schedules (and their fixed production costs) from the decoupling

---

<sup>5</sup> Init. Br. of PSE at 33, ¶ 70.

<sup>6</sup> *But see* TR. 321: 14 – 323:20, whereat Mr. Piliaris testifies on behalf of PSE that the Commission can choose to exclude certain schedules from the decoupling mechanism.

<sup>7</sup> *See* Piliaris, Exh. JAP-46CT at 17:16-18.

mechanism, but re-captures these fixed costs by increasing these customers' demand charges.<sup>8</sup> Staff has no confusion in its proposal. Once fixed costs are removed from the volumetric charge, the through-put incentive is also removed. Staff has testified that the demand charge is much more stable over time and offers a reasonable means to collect fixed costs as well as demand-related costs.<sup>9</sup>

## **B. State Energy Policy**

8 The state's energy policy promotes conservation.<sup>10</sup> The Company argues in its initial brief that the state's energy policy is to reduce a Company's throughput incentive. The Company states that

The customers ICNU and FEA propose to exclude from the electric decoupling mechanism have among the largest declines in use per customer. To remove them from the decoupling mechanism would amplify PSE's throughput incentive, contrary to the state energy policy.<sup>11</sup>

PSE misses the point.

9 PSE's throughput incentive, while real, is not the deciding factor in this instance. PSE's influence on these large sophisticated customers is limited to offering conservation rebates, but these customers are better able to respond to the conservation incentive inherent in their bill, as shown in Staff's analysis.<sup>12</sup> Consistent with the state's energy policy, then, Staff's recommendation to exclude certain customers from the decoupling mechanism actually promotes conservation and removes any disincentive to conserve.

---

<sup>8</sup> Ball, Exh. JLB-1T at 54:3-10.

<sup>9</sup> Ball, Exh. JLB-1T at 54:3-10.

<sup>10</sup> See *In the Matter of the Wash. Utils. And Transp. Comm'n's Investigation into Energy Conservation Incentives*, Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, To Encourage Utilities To Meet Or Exceed Their Conservation Targets, Docket U-100522, 2-5, ¶¶ 3-7 (Nov. 4, 2010); Chapter 19.285 RCW.

<sup>11</sup> Init. Br. of PSE at 32-33, ¶ 69.

<sup>12</sup> Liu, Exh. JL-1CT at 36:6 - 38:6.

### III. CONCLUSION

10 Staff requests that the Commission disregard the Company's arguments, outlined above, or in the alternative give them the minimal due weight that they deserve.

DATED this 27th day of October 2017.

Respectfully submitted,

ROBERT W. FERGUSON  
Attorney General

---

ANDREW J. O'CONNELL  
BRETT P. SHEARER  
CHRISTOPHER M. CASEY  
Assistant Attorneys General  
Counsel for Washington Utilities and  
Transportation Commission Staff