

**EXH. BDJ-5T  
DOCKETS UE-190529/UG-190530  
UE-190274/UG-190275  
2019 PSE GENERAL RATE CASE  
WITNESS: BIRUD D. JHAVERI**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY,**

**Respondent.**

**Docket UE-190529  
Docket UG-190530 (*Consolidated*)**

**In the Matter of the Petition of**

**PUGET SOUND ENERGY**

**For an Order Authorizing Deferral  
Accounting and Ratemaking Treatment  
for Short-life IT/Technology Investment**

**Docket UE-190274  
Docket UG-190275 (*Consolidated*)**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**

**BIRUD D. JHAVERI**

**ON BEHALF OF PUGET SOUND ENERGY**

**JANUARY 15, 2020**

**PUGET SOUND ENERGY**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF  
BIRUD D. JHAVERI**

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**PUGET SOUND ENERGY**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF  
BIRUD D. JHAVERI**

**LIST OF EXHIBITS**

Exh. BDJ-6      Results from Cost of Service Study Scenarios

1 **PUGET SOUND ENERGY**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**  
3 **BIRUD D. JHAVERI**  
4

5 **I. INTRODUCTION**

6 **Q. Are you the same Birud D. Jhaveri who submitted prefiled direct testimony**  
7 **on June 20, 2019 on behalf of Puget Sound Energy (“PSE” or “Company”) in**  
8 **this proceeding?**

9 A. Yes.

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. My rebuttal testimony provides the updated electric cost of service study results  
12 based on the electric revenue requirement that is set forth in the Prefiled Rebuttal  
13 Testimony of Susan E. Free, Exh. SEF-17T. My testimony also responds to  
14 testimony from the following witnesses regarding the Company’s electric cost of  
15 service study:

- 16 1. Jason L. Ball, witness for the Staff of the Washington Utilities and  
17 Transportation Commission ("Staff");
- 18 2. Glenn A. Watkins, witness for the Public Counsel section of the  
19 Washington State Attorney General’s Office ("Public Counsel"), and
- 20 3. Ali Al-Jabir, witness for the Federal Executive Agencies (“FEA”).

1 **II. UPDATED ELECTRIC COST OF SERVICE**

2 **Q. What are the results of PSE’s updated electric cost of service study?**

3 A. The parity percentages by customer class that result from the updated electric cost  
4 of service study, based on the revised electric revenue requirement, are shown in  
5 Table 1 below.

6 **Table 1 - Results of Company's Updated Electric Cost of Service Study**

<b>Customer Class</b>	<b>Rate Schedule</b>	<b>Parity Percentage</b>
Residential	7	97%
General Service, < 51 kW	24	105%
General Service, 51 – 350 kW	25	106%
General Service, >350 kW	26	106%
Primary Service	31/35/43	101%
Special Contract	SC	120%
High Voltage	46/49	104%
Choice/Retail Wheeling	448/449	88%
Lighting Service	50 - 59	94%
Firm Resale/Special Contract	5	50%
<b>System Total / Average</b>		<b>100 %</b>

1 **Q. Were any other changes made to the electric cost of service model besides**  
2 **updating for the revised revenue requirement that is set forth in the Prefiled**  
3 **Rebuttal Testimony of Susan E. Free, Exh. SEF-17T?**

4 **A. No. No other changes were made to the electric cost of service model.**

5 **III. RESPONSE TO ISSUES RAISED REGARDING ELECTRIC**  
6 **COST OF SERVICE ANALYSIS**

7 **A. Summary of Intervener Parties**

8 **Q. Please summarize the various parties' proposals for the classification of**  
9 **PSE's generation and transmission costs.**

10 **A. Staff witness Jason Ball finds PSE's cost of service study to be "directionally**  
11 **accurate" and recommends that the Commission rely on PSE's electric cost of**  
12 **service study for this general rate case ("GRC").<sup>1</sup>**

13 After providing a comprehensive overview of generally-accepted methods for  
14 classifying and allocating generation and transmission related costs, as well as the  
15 results of their application to PSE in this case, Public Counsel witness Glenn  
16 Watkins accepts PSE's Peak Credit methodology as producing results within the  
17 range of reasonableness and as providing a fair and equitable allocation to all

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<sup>1</sup> Ball, Exh. JLB-1T at 13:3-6.

1 classes.<sup>2</sup> That being said, Mr. Watkins appears to have minor disagreements with  
2 PSE's allocation of individual rate base and expense accounts.<sup>3</sup>

3 FEA witness Ali Al-Jabir explicitly rejects the updated peak credit results  
4 presented by PSE as deviating from sound, cost-based ratemaking principles. He  
5 also believes generation and transmission costs should be classified entirely on  
6 demand basis and allocated to customer classes based on a "4-CP" (four highest  
7 monthly coincident peaks) demand basis, or rely on the average and excess  
8 method for classification with a "4-NCP" (four highest monthly non-coincident  
9 peaks) demand method for class allocation.<sup>4</sup>

10 **B. Classification and Allocation of Generation and Transmission Costs**

11 **Q. Please provide a brief background on the classification methodologies used**  
12 **by PSE for demand related generation and transmission cost allocation.**

13 A. PSE's use of the Peak Credit methodology has roots dating back to the early  
14 1980s.<sup>5</sup> While the exact calculation has evolved over time, the current method is  
15 substantially in the form approved by the Commission in 1992.<sup>6</sup> In PSE's 2014  
16 Petition to Update Methodologies Used to Allocate Electric Cost of Service for

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<sup>2</sup> Watkins, Exh. GAW-1T at 35:9-12. Note also that Mr. Watkins references a range of results in his cost of service study discussion using both the originally calculated peak credit results, as well as those using updated data.

<sup>3</sup> *Id.* at 20:1-23:14.

<sup>4</sup> Al-Jabir, Exh. AZA-1T at 2:19-2:33.

<sup>5</sup> Cause No. U-82-38, Brief of the Respondent Puget Sound Power & Light Company, dated June 16, 1983, at 124.

<sup>6</sup> Dockets UE-920433, UE-920499 and UE-921262 (consolidated), Ninth Supplemental Order on Rate Design Issues, at 7. The Commission also reaffirmed the use of peak credit for the allocation of all transmission. *See id.* at 10.

1 Electric Rate Design Purposes (2014 Rate Design Collaborative), the Commission  
2 approved the 2014 Rate Design Collaborative Settlement Agreement (“2014  
3 Settlement”) proposing to use a fixed 25 percent demand and 75 percent energy  
4 classification for PSE’s GRC.<sup>7</sup> The 2014 Rate Design Collaborative discussions  
5 exposed fundamental differences among parties on a number of topics, which  
6 prevented general agreement on cost of service related issues, including  
7 generation and transmission classification methodologies. Consequently, the  
8 settling parties agreed to participate in a formal generic proceeding addressing  
9 cost of service allocation methodologies because that process would allow all  
10 parties to fully present their viewpoints on these issues in one proceeding and  
11 receive policy guidance from the Commission in order to alleviate the need to  
12 litigate cost of service issues in every rate case. Thereafter, the Commission  
13 commenced the Electric Cost of Service Rulemaking under Docket UE-170002  
14 (“COS Rulemaking”), which is currently underway.

15 **Q. Did the 2014 Settlement provide guidance on which cost of service**  
16 **methodologies to use in the interim while the COS Rulemaking is pending?**

17 A. No; there was no broad agreement on which classification and allocation  
18 methodologies to use after PSE’s 2017 GRC in the event another rate case is filed  
19 while the COS Rulemaking is in progress. Staff accepted the continued use of the  
20 existing Peak Credit methodology until the Commission issues a decision on cost

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<sup>7</sup> The fixed 25% demand and 75% energy split was the basis for the demand/energy cost allocation in PSE’s 2017 GRC. See WUTC Docket No. UE-170033, Order 08, at 112:336.



1 of service classification and allocation methodologies through the COS  
2 Rulemaking or in PSE's GRC, but FEA did not support the use of any ratemaking  
3 principles, theories or concepts that underlie the Settlement Agreement outside of  
4 the one-time settlement on a stand-alone basis.<sup>8</sup>

5 **Q. Has progress been made in the COS Rulemaking to inform this case on**  
6 **classification of generation and transmission costs?**

7 A. Yes. In July 2018, the Commission filed a Preproposal Statement of Inquiry (CR-  
8 101) to address cost of service study topics.<sup>9</sup> Subsequently, the Commission  
9 hosted several technical workshops, requested feedback from parties on draft cost  
10 of service rules, and requested electric utilities to evaluate multiple classification  
11 and allocation method scenarios.

12 Upon reviewing the classification and allocation scenario results, Commission  
13 Staff indicated a preliminary preference for the Renewable Future Peak Credit  
14 with net power costs ("NPC") allocated on energy as the method to classify  
15 generation costs, while classifying transmission costs as 100 percent demand.  
16 Renewable Future Peak Credit is similar to the current Peak Credit method,  
17 except that the proxy peaking generating resource used is a battery instead of a  
18 simple cycle combustion turbine, and the proxy baseload generating resource used  
19 is wind instead of a combined cycle combustion turbine.

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<sup>8</sup> Docket UE-141368, Joint Testimony in Support of Settlement Stipulation at 14 and 24.

<sup>9</sup> Dockets UE-170002 and UG-170003.

1 **Q. Have you conducted a scenario of the Company’s cost of service study using**  
2 **the Renewable Future Peak Credit with NPC allocated on energy method for**  
3 **classifying generation costs?**

4 A. Yes. In the first exhibit to my prefiled rebuttal testimony, Exhibit BDJ-6, I have  
5 updated PSE’s Response to WUTC Staff Data Request No. 156, which provides  
6 the cost of service study results using the following specifications:

- 7 • Generation classification: Renewable Future Peak Credit with NPC
- 8 allocated on energy;
- 9 • Generation allocation: Demand – load net of renewable generation,
- 10 using “12-CP” method (twelve highest monthly coincident peaks);
- 11 Energy – allocated using retail sales;
- 12 • Transmission classification: 100 percent demand, and
- 13 • Transmission allocation: 12-CP method.

14 **Q. Why is the Company not using Renewable Future Peak Credit with NPC**  
15 **allocated on energy as the classification method for generation costs?**

16 A. As I previously mentioned, the COS Rulemaking is still pending. While the  
17 Commission has begun the process to develop cost of service rules, it has yet to  
18 file draft rules under CR-102 or final rules under CR-103. Additionally, the COS  
19 Rulemaking has made significant progress since the time of the Company’s initial  
20 GRC filing in June 2019, and Staff only recently indicated the Renewable Future  
21 Peak Credit method as a preliminary preference.

1 **Q. Please discuss the alternative generation and transmission classification**  
2 **methods presented by parties in this GRC.**

3 A. Public Counsel and FEA each presented multiple alternative generation and  
4 transmission classification and allocation methodologies. Public Counsel  
5 submitted studies using the Probability of Dispatch and the Base-Intermediate-  
6 Peak methods, with a 4-CP demand allocation factor. FEA submitted two  
7 alternative studies as well. The first method classifies 100 percent of fixed  
8 generation and transmission costs on a 4-CP demand basis. The other method  
9 classifies generation and transmission costs using the Average and Excess  
10 method, allocating demand costs on a 4-NCP basis.

11 **Q. Are any of the alternative methods clearly superior to the current Peak**  
12 **Credit method?**

13 A. No. The parties have presented full and differing viewpoints on cost of service  
14 and allocation methodologies, but no method is clearly superior to PSE's  
15 proposed method. Apportioning joint cost is complex, with numerous conflicting  
16 standards of fairness and functional efficiency with no one precise or correct  
17 answer. There continues to be a conflict between a desire for simplicity and a  
18 desire to conform to the principle of cost causation, which itself is mired by  
19 disagreements. All methods proposed in this case, including the Peak Credit  
20 method, have their advantages and drawbacks. The question of whether to use the  
21 Peak Credit method has been repeatedly litigated before the Commission, with  
22 parties often settling on the "reasonable" approach, and the Commission

1 continuing to maintain that the peak credit method is an appropriate methodology  
2 for classifying generation and transmission costs.

3 **Q. What are your concerns regarding the Peak Credit?**

4 A. While the current peak credit method continues to be a reasonable methodology  
5 for classifying generation and transmission costs, the revisions that must now be  
6 incorporated, such as the inclusion of the social cost of carbon, yield a peak credit  
7 classification that shifts the majority of generation and transmission costs to  
8 energy (89 percent), while only classifying 11 percent to demand. In its current  
9 effective base rates, the Company used a fixed 25 percent demand and 75 percent  
10 energy (“Fixed method”) demand-energy split, as was stipulated in the 2014  
11 Settlement. PSE is concerned that the methodology ultimately employed in this  
12 GRC would result in unpredictable movement between demand and energy  
13 classifications in a relatively short timeframe. The directionally opposing demand  
14 cost movements would be from that of the Settlement’s 25 percent, to PSE’s  
15 proposed Peak Credit of 11 percent, and then potentially to a 49 percent (net  
16 NPC) for generation and 100 percent demand for transmission using the  
17 Renewable Future Peak method in the COS Rulemaking.

18 As a steward of gradualism and rate stability, PSE has analyzed the various  
19 methodologies with different classifications and allocations and has compared the  
20 resulting parity ratios against PSE’s proposed Peak Credit method in Exhibit  
21 BDJ-6.

1 **Q. What have you concluded from your analysis?**

2 A. The Company's proposed Peak Credit method or the Fixed method would achieve  
3 a reasonable, neutral position compared to other methodologies. Both methods  
4 comply with precedence and adhere to the principles of simplicity, rate stability,  
5 gradualism and acceptability.

6 Both Probability of Dispatch (sponsored by Public Counsel) and 100 percent  
7 demand for fixed generation and transmission costs method (supported by FEA)  
8 provide the most diverse results.

9 I cannot compare the demand-energy classification split directly for all  
10 methodologies because some methods do not have a distinct demand and energy  
11 separation, but I can infer what the split may be based on the direction of the  
12 parity ratio results. Upon comparing the parity ratios from scenarios using other  
13 methods to the Company's proposed Peak Credit, one can infer that the proposed  
14 Probability of Dispatch method would produce a demand classification  
15 percentage even lower than PSE's Peak Credit's 11 percent demand because  
16 parity ratios for residential customers rise closer to parity than PSE's Peak Credit  
17 method (from 0.97 to 0.99), and large commercial, industrial and wheeling  
18 customers experience even lower parity ratios than PSE's Peak Credit method (for  
19 example, for Schedule 31 customers, the parity ratio under PSE's proposed Peak  
20 Credit method is 1.04, and becomes 0.98 under the Probability of Dispatch  
21 method. See Exhibit BDJ-6), indicating higher load factor customers are not  
22 paying their fair share of costs. On the other hand, FEA's proposed 100 percent

1 demand for fixed generation and transmission costs method would swing the  
2 parity ratios in the opposite direction for large commercial, industrial and  
3 wheeling customers (for Schedule 43 customers, the parity ratio under PSE's  
4 proposed Peak Credit method is 0.89, and becomes 1.26 under FEA's 100 percent  
5 demand for fixed generation and transmission method), while reducing the parity  
6 ratio for residential customers (from 0.97 to 0.94), indicating lower load factor  
7 customers are not paying their fair share of costs.

8 While Public Counsel's Base-Intermediate-Peak method and FEA's Average and  
9 Excess 4-NCP method provide more restrained outcomes than the interveners'  
10 preferred methods, the parity results suggest a demand classification greater than  
11 that of the Fixed method or the Renewable Future Peak Credit method.

12 The Renewable Future Peak Credit method provides parity ratios similar to the  
13 Fixed method, indicating that the implied demand-energy classification split is  
14 closer to the fixed classification method. However, it should be noted that the  
15 inputs and assumptions for the Renewable Future Peak Credit methodology are  
16 still being evaluated and have yet to be sufficiently vetted and approved by the  
17 Commission.

18 **Q. What classification and allocation methodology do you recommend the**  
19 **Commission use?**

20 A. As stated earlier, both the Company's proposed Peak Credit methodology and the  
21 Fixed method continue to adhere to precedence and the principles of simplicity,  
22 rate stability, gradualism and acceptability, as well as provide neutral and

1 reasonable results. However, in order to achieve an outcome for customers that  
2 shields them from the directionally opposing near-term movements of the  
3 demand-energy classification, the Company seeks the Commission's guidance  
4 and clear policy direction in selecting the appropriate classification and allocation  
5 methodologies that are reasonable and acceptable to use prior to an outcome of  
6 the COS Rulemaking.

7 **Q. Are there any other matters the Commission should take into consideration**  
8 **regarding the appropriate classification and allocation of generation and**  
9 **transmission costs?**

10 A. Yes. First, the Commission should take into consideration the impact that its  
11 decision regarding the classification and allocation of generation costs will have  
12 on PSE's adjusting price schedules. The subsequent allocation of costs (or  
13 rebates) within PSE's Schedule 95 (Power Cost Adjustment Clause), Schedule  
14 95A (Federal Incentive Tracker), Schedule 120 (Electric Conservation Service  
15 Rider) and, indirectly, Schedule 137 (Temporary Customer Charge or Credit), and  
16 Schedule 140 (Property Tax Tracker)<sup>10</sup> will all likely be impacted by the decision  
17 made in this case, as the allocation of costs (or rebates) in each of these adjusting  
18 price schedules are traditionally tied directly to the results of the peak credit  
19 methodology from the last GRC. In the case of these adjusting price schedules,

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<sup>10</sup> Property taxes are technically allocated on plant. However, the generation and transmission plant is allocated on Peak Credit.

1 the allocation is formulaic (i.e., relying directly on the peak credit results), rather  
2 than being subject to rate spread deadband traditionally used in PSE's rate cases.

3 Second, the Commission should take into consideration the potential impact the  
4 demand-energy classification will have on the Energy Charge Credit received by  
5 customers participating in the Green Direct program. Customers taking service  
6 under Schedule 139 (Voluntary Long Term Renewable Energy Purchase Rider)  
7 receive a credit for the energy-related power cost component of the Energy  
8 Charge of the customer's electric service schedule. The current allocation of  
9 power costs embedded in retail rates to the Energy Charge Credit is traditionally  
10 tied directly to the results of the peak credit methodology from the last GRC.

11 Similar to the adjusting price schedules, the allocation is formulaic, relying  
12 directly on the peak credit results.

13 Finally, the Commission should take into consideration potential implications the  
14 peak credit results will have on downstream decisions for rate design.

15 Specifically, the demand-energy split for generation and transmission costs may  
16 influence decisions about how much revenue to recover from PSE's customers  
17 through energy and demand charges.

18 **C. Allocation of Income Taxes, State Excise Taxes and WUTC Fees**

19 **Q. Please summarize Public Counsel's proposals for the allocation of PSE's**  
20 **income taxes, state excise taxes and WUTC fees costs.**

21 A. Public Counsel witness Glenn A. Watkins believes that these costs are a direct  
22 function of revenue at current rates and, therefore, should be allocated



1 accordingly.<sup>11</sup> However, he concedes that given the relatively good alignment of  
2 revenues and underlying costs, this issue has little practical implication in the  
3 assignment of costs.<sup>12</sup>

4 **Q. How do you respond?**

5 A. While seemingly immaterial, PSE's position is that a cost of service study should  
6 allocate revenue-dependent costs on a cost-basis. To tie these revenue-dependent  
7 costs to actual revenue, as Mr. Watkins proposes, creates a problem of circularity,  
8 where rates that are set based on actual rate revenue produces revenue-dependent  
9 costs. For example, if rates were set to collect revenue below costs, the result  
10 would be lower revenue-dependent costs (e.g., revenue-based taxes), which would  
11 suggest the need for still lower rates, which would then result in still lower  
12 revenue-dependent costs. And so on. The way to avoid this circularity is to  
13 allocate revenue-dependent expenses on a cost of service basis and then  
14 independently decide from that point how much (and in which direction) to  
15 potentially deviate rates from this cost-basis.

16 **IV. CONCLUSION**

17 **Q. Does this conclude your rebuttal testimony?**

18 A. Yes.

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<sup>11</sup> Watkins, Exh. GAW-1T at 20:13-21:9 and 23:3-18.

<sup>12</sup> *Id.*