

EXHIBIT NO. ___(JAP-24T)
DOCKET NO. UE-121373
DOCKET NO. UE-121697/UG-121705
DOCKET NO. UE-130137/130138
WITNESS: JON A. PILIARIS

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

<p>In the Matter of the Petition of PUGET SOUND ENERGY, INC. For Approval of a Power Purchase Agreement for Acquisition of Coal Transition Power, as Defined in RCW 80.80.010, and the Recovery of Related Acquisition Costs</p>	<p>DOCKET NO. 121373</p>
<p>In the Matter of the Petition of PUGET SOUND ENERGY, INC. and NW ENERGY COALITION For an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanisms and to Record Accounting Entries Associated with the Mechanisms</p>	<p>DOCKET NOS. UE-121697 and UG-121705 (Consolidated)</p>
<p>WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, INC., Respondent.</p>	<p>DOCKET NOS. UE-130137 and UG-130138 (Consolidated)</p>

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
JON A. PILIARIS
ON BEHALF OF PUGET SOUND ENERGY, INC.**

*In Support of the Multiparty Settlement
Re: Coal Transition PPA and other Pending Dockets*

MAY 8, 2013

PUGET SOUND ENERGY, INC.
PREFILED REBUTTAL TESTIMONY
(NONCONFIDENTIAL) OF JON A. PILIARIS

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**
3 **JON A. PILIARIS**

4 **I. INTRODUCTION**

5 **Q. Are you the same Jon A. Piliaris who provided prefiled testimony and**
6 **supporting exhibits on behalf of Puget Sound Energy, Inc. ("PSE") in these**
7 **proceedings?**

8 A. Yes; in Docket Nos. UE-130137 and UG-130138 (consolidated) I filed prefiled
9 direct testimony, Exhibit No. ___(JAP-1T), and supporting exhibits, Exhibit
10 No. ___(JAP-2) through Exhibit No. ___(JAP-6), on February 1, 2013.
11 In Docket Nos. UE-121697 and UG-121705 (consolidated) I filed prefiled direct
12 testimony, Exhibit No. ___(JAP-1T), and supporting exhibits, Exhibit
13 No. ___(JAP-2) through Exhibit No. ___(JAP-7) on October 25, 2012. On March
14 1, 2013, I filed prefiled supplemental direct testimony, Exhibit No. ___(JAP-8T),
15 and supporting exhibits, Exhibit No. ___(JAP-9) through Exhibit No. ___(JAP-
16 23).

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

18 A. This prefiled rebuttal testimony responds to the following:

19 (i) the Prefiled Response Testimony of Mr. James R. Dittmer,
20 Exhibit No. ___(JRD-1T), on behalf of the Public Counsel
21 Section of the Washington Attorney General's Office
22 ("Public Counsel");

23 (ii) the Prefiled Response Testimony of Mr. Michael P.
24 Gorman, Exhibit No. ___(MPG-1T), on behalf of the
25 Industrial Customers of Northwest Utilities ("ICNU");

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- (iii) the Prefiled Response Testimony of Mr. Michael C. Deen, Exhibit No. ___(MCD-1T), on behalf of ICNU;
- (iv) the Prefiled Response Testimony of Mr. Michael C. Deen, Exhibit No. ___(MCD-8T), on behalf of the Northwest Industrial Gas Users ("NWIGU");
- (v) the Prefiled Response Testimony of Mr. Edward A. Finklea, Exhibit No. ___(EAF-1T), on behalf of NWIGU;
- (vi) the Prefiled Response Testimony of Mr. Kevin G. Higgins, Exhibit No. ___(KGH-1T), on behalf of The Kroger Co. ("Kroger") on behalf of its Fred Meyer Stores and Quality Food Centers divisions; and
- (vii) the Prefiled Response Testimony of Mr. Kevin G. Higgins, Exhibit No. ___(KGH-5T), on behalf of Nucor Steel Seattle, Inc. ("Nucor").

Q. What issues have been raised in the response testimony of these witnesses that you will address?

A. I will address the following issues presented in the response testimony of these witnesses:

- Whether the decoupling proposal is consistent with the *Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, To Encourage Utilities To Meet Or Exceed Their Conservation Targets*¹ ("Decoupling Policy Statement") issued by the Washington Utilities and Transportation Commission ("Commission"),
- Whether the customer protections in the Joint Decoupling Proposal are sufficient,

¹ Docket No. U-100522 (November 4, 2010).

- 1 • The extent of the customer impacts from PSE's last experience with
2 decoupling and those anticipated with the current decoupling proposal,
3 • Whether large end users and/or transportation customers should be treated
4 differently in the joint proposal by the NW Energy Coalition ("the Coalition")
5 and PSE for electric and natural gas revenue decoupling ("Joint Decoupling
6 Proposal"), and
7 • Whether the rate design alternatives to the Joint Decoupling Proposal are
8 adequate substitutes.

9 **Q. Do you have any general observations regarding the response testimony filed**
10 **on April 26th in these proceedings?**

11 A. Yes. The issues raised in response testimony are familiar to this Commission, as
12 they have been raised previously in various proceedings and venues where
13 decoupling has been considered. To varying degrees, many of these issues have
14 already been addressed by the Commission. Moreover, as will be shown later in
15 testimony, intervenors in these proceedings have not provided evidence that
16 should prevent the Commission from finding that the Joint Decoupling Proposal
17 is in the public interest and should be approved.

1 **II. JOINT DECOUPLING PROPOSAL IS CONSISTENT WITH**
2 **DECOUPLING POLICY STATEMENT**

3 **Q. Have parties criticized the Joint Decoupling Proposal as being inconsistent**
4 **with the Commission’s Decoupling Policy Statement?**

5 A. Yes. For example, testimony filed on behalf of ICNU lists a series of perceived
6 inconsistencies between the Joint Decoupling Proposal and the Commission’s
7 Decoupling Policy Statement. These include that the proposal (1) was filed
8 outside of a general rate case, (2) decouples on a per-customer rather than per-
9 class basis, (3) provides an inadequate incentive to promote conservation, (4) does
10 not incorporate a decrease in rate of return and (5) does not consider the impacts
11 of conservation on PSE’s off-system sales.² Similar arguments were raised in the
12 testimony of other intervenors.³

13 **Q. Do you have a general response to these concerns?**

14 A. Yes. By their very nature, Commission policy statements provide guidance to
15 interested stakeholders regarding its thinking at the time the statement is offered.
16 They serve an advisory purpose and, therefore, impose no explicit requirements.
17 The Commission itself noted that the Decoupling Policy Statement "was not
18 intended to set forth immutable doctrine on this issue or to negatively imply that
19 we would be receptive to nothing else."⁴ So, while it may be true that certain

² See Exhibit No. ___(MCD-1T), page 22, line 10 through page 23, line 5.

³ See, e.g., Exhibit No. ___(JRD-1T), page 22, line 9 through page 23, line 3; Exhibit No. ___(KCH-1T), page 13, line 9 through page 15, line 4; Exhibit No. ___(KCH-5T), page 10, line 7, through page 11, line 16; and Exhibit No. ___(EAF-1T), page 5, line 16, through page 7, line 7.

⁴ 2011 PSE general rate case ("2011 GRC"), Docket Nos. UE-111048 and UG-111049 (Consolidated), Order 08, footnote 617.

1 features of the Joint Decoupling Proposal are not perfectly aligned with the
2 Decoupling Policy Statement, the Commission has indicated its receptiveness to
3 proposals that were consistent with the general intent of this policy.

4 **Q. Would you like to address any particular issues raised in the context of the**
5 **Commission's Decoupling Policy Statement?**

6 A. Yes, I'd like to address the issue of "found margin" and the impact of PSE's
7 conservation programs on its off-system electricity sales.

8 First, regarding "found margin," much has been made of this issue in the context
9 of decoupling. The current proceeding is no exception, where a number of parties
10 have proposed to return "found margin" from the growth in customers.⁵

11 However, the parties fail to acknowledge that substantial costs are incurred by
12 PSE to serve new customers and that the additional revenue from new customers
13 has repeatedly fallen short of overcoming the Commission-determined revenue
14 deficiencies for PSE over the past decade. Evidence notwithstanding, the Joint
15 Decoupling Proposal offers ample protections to ensure that PSE does not
16 unjustly benefit due to revenues from new customers.

17 Second, regarding the impact of conservation on off-system electricity sales, the
18 Commission's order in PSE's 2011 GRC provided useful guidance. In that order,
19 the Commission rejected PSE's proposed Conservation Savings Adjustment
20 mechanism, in part, because it relied on "engineering estimates of conservation

⁵ See, e.g., Exhibit No. ___(KCH-1T), page 4, lines 17-20; Exhibit No. ___(KCH-5T),
page 4, lines 15-18; and Exhibit No. ___(MCD-1T), page 27, lines 5-6.

1 savings that are ill-suited to development of revenue requirement."⁶ In other
2 words, the Commission concluded that PSE's reported conservation savings
3 should not be used for ratemaking purposes. In rejecting the approach in the Joint
4 Decoupling Proposal to simply let the impacts of conservation flow through
5 PSE's Power Cost Adjustment mechanism, ICNU apparently is arguing that PSE
6 should use these "engineering estimates" for purposes of identifying, and then
7 subsequently monetizing, the impact of PSE's conservation program on its off-
8 system sales.⁷ This clearly conflicts with the Commission's very recent decision
9 on the impermissible use of reported conservation savings figures for ratemaking.

10 **III. CUSTOMER PROTECTIONS IN JOINT DECOUPLING**
11 **PROPOSAL ARE SUFFICIENT**

12 **Q. Have any intervenors made proposals to bolster the existing customer**
13 **protections in the Joint Decoupling Proposal?**

14 A. Yes. ICNU recommends that the earnings test operate at the approved rate of
15 return, not 25 basis points above this level, as proposed.⁸ ICNU also recommends
16 that there be no sharing between the utility and its customers when PSE's
17 earnings are above this threshold.⁹ NWIGU make similar recommendations.¹⁰

⁶ 2011 GRC, Order 08, synopsis.

⁷ Exhibit No. ___(MCD-1T), page 34, line 10 through page 35, line 13.

⁸ Exhibit No. ___(MCD-1T), page 33, lines 6-8.

⁹ *Id.*

¹⁰ Exhibit No. ___(MCD-8T), page 3, lines 13-15.

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

2 A. For the following reasons, the Commission should reject ICNU's recommended
3 changes to the earnings test in the Joint Decoupling Proposal.

4 First, regarding the setting of the appropriate earnings threshold, there appears to
5 be a reasonable amount of support for the threshold set in the Joint Decoupling
6 Proposal. This level was endorsed in Commission Staff's Response to Bench
7 Request No. 3 in PSE's 2011 GRC and is likewise supported by Commission
8 Staff in this proceeding.¹¹ Public Counsel also has endorsed the Joint Decoupling
9 Proposal's recommendation to set the earnings test threshold at 25 basis points
10 above the overall rate of return.¹²

11 Second, with respect to the recommendation for no sharing above the earnings
12 threshold, PSE concurs with the view shared by the Commission in Avista's most
13 recent general rate case. In response to the proposed "hard cap" on Avista's
14 earnings in the agreement to settle issues in that case, the Commission noted the
15 following:

16 In the course of consideration of the Settlement, Avista proposed a
17 cap on its earnings at the 9.8 percent ROE level. We decline to
18 accept that offer. It would send the wrong signal to the Company.
19 Under ratemaking theory applied by this and other state
20 commissions for decades, companies should have every incentive
21 to manage the company efficiently in order to earn more for the
22 company shareholders. We should not set an artificial cap on
23 earnings that could diminish that incentive for efficient
24 management. Further, if Avista were to "overearn" through savings
25 efforts, those savings would become the new norm in the next rate
26 case which would serve to benefit ratepayers in the future. Indeed,

¹¹ Exhibit No. ___(DJR-1T), page 5, lines 3-4.

¹² Exhibit No. ___(JRD-1T), page 22, lines 16-18.

1 the Company's efforts to save money through efficiency are a key
2 element to earning its allowed rate of return.¹³

3 **Q. Do the intervenors recommend any other enhancements to customer
4 protections under the Joint Decoupling Proposal?**

5 A. Yes. ICNU also recommends that the soft rate cap in the Joint Decoupling
6 Proposal be made a hard cap so that any amount in excess of the rate cap would
7 not be deferred for future recovery.¹⁴

8 **Q. Why does ICNU make this recommendation?**

9 A. In part, ICNU's witness concludes that, since the soft rate cap allows future
10 recovery of revenue that exceeds the cap, "there is no limit on the amount of
11 increased revenue that PSE could collect from customers in a given year."¹⁵

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

13 A. I respond by first noting that, under the Joint Decoupling Proposal, PSE is
14 allowed a fixed amount of revenue per customer that is approved by the
15 Commission.¹⁶ Therefore, the conclusion that there is "no limit" on PSE's
16 revenue collections is inaccurate. It is limited by the number of customers PSE
17 serves and the revenue per customer authorized by the Commission. Second, the
18 intent of the proposed soft rate cap was to reasonably smooth out the potential
19 year-to-year variability in rates charged under Schedule 139 in PSE's electric and

¹³ Docket Nos. UE-120436 and UG-120437 (consolidated), Order 09, ¶75.

¹⁴ Exhibit No. ___(MCD-1T), page 10, lines 9-10.

¹⁵ *Id.*, lines 2-3.

¹⁶ Deferrals on the recovery of this cost accrue interest at a rate consistent with 18 CFR 35.19a, currently 3.25 percent.

1 natural gas tariffs. This proposal balances the interests of the utility for cost
2 recovery and its customers for a measure of rate stability.

3 **Q. What would be the consequence of adopting ICNU's rate cap**
4 **recommendation?**

5 A. There are at least two consequences. First, PSE would run the risk of not
6 recovering the revenues already approved by the Commission, setting a precedent
7 that may discourage other utilities from considering a decoupling mechanism.
8 Second, it may also discourage PSE's promotion of conservation, since increased
9 levels of conservation would (*ceteris paribus*) increase surcharges, which would
10 subsequently increase the likelihood that the rate cap would trigger. This would
11 clearly run counter to the Commission's intent to promote conservation.

12 **IV. CLAIMED CUSTOMER IMPACTS OF PSE'S**
13 **DECOUPLING MECHANISM ARE OVERSTATED**

14 **Q. ICNU testimony suggests that PSE's previous decoupling mechanism "led to**
15 **annual rate surcharges in the tens of millions of dollars for each of the five**
16 **years of program implementation...."¹⁷ Do you agree?**

17 A. No. Missing from ICNU's testimony is an explanation that the noted surcharges
18 were associated with PSE's Periodic Rate Adjustment Mechanism ("PRAM"),
19 which combined the decoupling mechanism with a power cost adjustment
20 mechanism. In evaluating the operation of PRAM, the trade association for the
21 industrial customers at the time observed that "the primary driver of the large rate

¹⁷ Exhibit No. ___ (MPG-1T), page 25, lines 15-18.

1 increases and deferred balances experienced under PRAM has been the short-term
2 ECAC-related resource component of the adjustment mechanism...."¹⁸ In other
3 words, the surcharges were primarily driven by the power cost adjustment
4 mechanism, not the decoupling component to PRAM. This view was also shared
5 by other participants in the evaluation of PRAM.

6 **Q. Does ICNU express a similar fear of the decoupling proposal in this**
7 **proceeding?**

8 A. Yes. ICNU witness Michael Gorman notes that "the proposal would compensate
9 PSE if sales levels decline for any reason, including an economic recession or
10 abnormal weather" and that "this could result in the accumulation of significant
11 deferrals that would be surcharged to customers in future years."¹⁹

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

13 A. I would respond by first noting the apparent clash of concerns raised by ICNU in
14 this proceeding. On the one hand, Mr. Gorman is concerned that decoupling will
15 lead to rate increases due to the potential for an economic downturn. At the same
16 time, another ICNU witness, Michael Deen, is downplaying the need for PSE's
17 proposed rate plan by noting that "PSE has avoided acknowledging that its results
18 of operations for the past year are already drastically improved – *likely as a*
19 *function of Washington's steady economic recovery.*"²⁰

¹⁸ *Evaluation of PRAM: Phase I Report*, PRAM Evaluation Collaborative, page 38
(October 31, 1994).

¹⁹ Exhibit No. ___ (MPG-1T), page 24, line 26 through page 25, line 4.

²⁰ Exhibit No. ___ (MCD-1T), page 4, lines 15-17 (emphasis added).

1 That said, regardless of which way the economy has gone, the feared rate
2 volatility has yet to manifest in the numerous decoupling mechanisms already in
3 place throughout the country. As noted in the rebuttal testimony of Mr. Ralph
4 Cavanagh, of the more than 1,200 decoupling-related rate adjustments since 2005
5 that were cataloged in a recent decoupling survey, rate changes "did not exceed 2
6 percent for 85 percent of the electric and 75 percent of gas rate adjustments, with
7 37 percent involving refunds to utility customers."²¹ Worthy of note is that these
8 results occurred over a period that included the "Great Recession." Were the dire
9 rate consequences feared by ICNU to materialize, they surely would have been
10 witnessed in a survey covering a period including one of the worst economic
11 recessions in the past century.

12 **V. LARGE CUSTOMERS ARE BEING TREATED FAIRLY IN**
13 **THE DECOUPLING AND RATE PLAN PROPOSALS**

14 **Q. Did intervenors raise any issues regarding the treatment of large customers**
15 **in the Joint Decoupling and Rate Plan Proposals?**

16 A. Yes. ICNU raised several issues, as did NWIGU, Kroger and Nucor.

17 **Q. What issues did ICNU raise?**

18 A. ICNU argued that the non-residential rate group within the electric decoupling
19 mechanism should be broken up by rate class.²² ICNU also claimed that Schedule
20 449 customers "are charged a higher rate increase than all other customers."²³

²¹ Page 3 of the Prefiled Rebuttal Testimony of Mr. Ralph C. Cavanagh, Exhibit
No. ___(RCC-4T), on Behalf of the NW Energy Coalition.

²² Exhibit No. ___(MCD-1T), page 36, line 10 through page 37, line 2.

1 **Q. How do you respond to the proposal to break up the non-residential rate**
2 **group within the electric decoupling mechanism by rate class?**

3 A. There are clearly trade-offs between including greater or fewer rate classes in a
4 single decoupling rate group. PSE believes that these trade-offs generally weigh
5 in favor of aggregating rate classes within decoupling rate groups. While ICNU
6 correctly notes that cross-subsidization can occur between rate classes in a single
7 rate group, this is undoubtedly also true within each rate class. More importantly,
8 there is an important offsetting factor. The more finely customers are parsed
9 between decoupling rate groups, the greater the potential volatility in the rate used
10 to recover or rebate their decoupling deferrals. Greater rate volatility could lead
11 to greater public resistance to rate decoupling. PSE finds this to be a greater
12 concern to the public interest than a small amount of cross-subsidization that may
13 occur between rate classes within a decoupling rate group.

14 **Q. Does this issue also affect the gas decoupling proposal?**

15 A. Yes, breaking up the gas decoupling rate groups by rate class presents another
16 significant issue. Since PSE's non-residential gas customers are provided a
17 significant amount of flexibility to move between schedules, breaking up the gas
18 decoupling rate groups by rate class would introduce the potential for customers
19 choosing to migrate between schedules simply to avoid decoupling surcharges or
20 to benefit from decoupling rate rebates. Other customers in the affected schedules
21 could pay more (or receive less) as a result. This would serve to amplify the rate

²³ *Id.*, page 43, line 8.

1 volatility discussed earlier and further reinforce resistance to the continuation of
2 rate decoupling.

3 **Q. How do you respond to the assertion that Schedule 449 customers are being**
4 **charged higher rate increases than all other customers?**

5 A. This claim needs to be put into proper context. The costs of electric energy for
6 customers served under Schedule 449 can be broken up into three primary
7 categories; costs recovered directly through Schedule 449, costs recovered
8 through PSE's Open Access Transmission Tariff ("OATT") and costs recovered
9 by the customers' power suppliers. While PSE does not have access to
10 information regarding these customers' power supply costs, they typically make
11 up a substantial fraction of the overall cost of electricity for large customers like
12 these. Of the remaining two components, the vast majority of the costs are
13 currently recovered through PSE's OATT.²⁴ The rate increases referenced in
14 ICNU's testimony do not apply to the OATT component of their bills. The table
15 below illustrates how the cost of these two components change between levels
16 approved in PSE's 2011 GRC and levels proposed with PSE's expedited rate
17 filing ("ERF") and K-factor increases.²⁵

²⁴ PSE's new OATT rates were formally approved by the Federal Energy Regulatory Commission on May 6, 2013.

²⁵ To create a consistent comparison, the billing determinants used for PSE's expedited rate filing were applied to the 2011 GRC rates to derive the costs at that rate level.

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Table 1 - Change in Annual Charges to Schedule 449 Customers

Filing	Docket	Effective Date	Annual Charges (\$millions)			Change from 2011 GRC
			Sch 449	OATT	Total	
2011 GRC	UE-111048	May-12	\$ 6.32	\$ 1.96	\$ 8.28	
Transmission Reclassification	UE-121263	Sep-12	\$ 0.51	\$ 5.51	\$ 6.02	-27.3%
Expedited Rate Filing	UE-130137	Jul-13	\$ 0.72	\$ 5.51	\$ 6.23	-24.8%
Decoupling w/Rate Plan	UE-121697	Jul-13	\$ 0.73	\$ 5.51	\$ 6.24	-24.6%
Decoupling w/Rate Plan	UE-XXXXXX	Jan-14	\$ 0.74	\$ 5.51	\$ 6.25	-24.5%

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Q. What does the above table show?

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A. This table shows that, if PSE’s ERF and rate plan are adopted as proposed, the combined charges for Schedule 449 customers for delivery services will have decreased by about \$2.0 million, or almost 25 percent, from 2011 GRC levels.

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Each subsequent application of the K-factor would increase their charges by approximately \$10,000 on overall delivery costs of approximately \$6.25 million, or less than 0.2 percent per year. If power supply costs are also taken into consideration, this percentage would be far lower.

11

Q. What issues did NWIGU raise with respect to including large gas users in the Joint Decoupling Proposal?

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A. NWIGU makes the point that PSE has provided no rationale, consistent with the goals of the decoupling proposal, to apply the mechanism to gas transportation customers. It goes further, by recommending that customers served under Schedules 85, 85T, 87 and 87T be excluded from the gas decoupling mechanism.

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Q. What is the rationale for including gas transportation customers in the gas decoupling mechanism?

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A. The rationale is that PSE has the same "throughput incentive" with gas

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transportation customers as it does with its gas sales customers. Note that PSE

1 has parallel gas sales and transportation rate schedules, where the rates charged to
2 transportation customers for gas delivery mirrors the rates charged to similar sales
3 customers. These parallel rates recover fixed delivery costs through variable
4 charges. Therefore, PSE has no less motivation for increased energy consumption
5 by transportation customers than it does for sales customers.

6 **Q. How does PSE respond to NWIGU's recommendation to exempt Schedules**
7 **85, 85T, 87 and 87T from the gas decoupling mechanism?**

8 A. As memorialized in NWIGU's Joinder in the Multiparty Settlement,²⁶ PSE finds
9 this a reasonable proposal. These schedules all have a steeply declining block rate
10 structure. As such, the "marginal" throughput incentive is quite modest for large
11 customers facing the tail block rates on these schedules (i.e., additional sales lead
12 to very little incremental revenue for the Company). Given this weakened
13 throughput incentive, removing these customers from the decoupling mechanism
14 appears appropriate.

15 **Q. Does Nucor raise arguments similar to NWIGU?**

16 A. Yes. However, primarily relying on the fact that gas transportation customers do
17 not participate in PSE's conservation programs, Nucor's witness recommends that
18 all gas transportation customers should be excluded from the proposed gas
19 decoupling mechanisms.

²⁶ See The Northwest Industrial Gas Users Joinder in the Multiparty Settlement Re: Coal Transition PPA and Other Pending Dockets.

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

2 A. As noted earlier, given the design and structure of PSE's gas rate schedules, the
3 throughput incentive is virtually the same across parallel gas sales and
4 transportation schedules. Whether or not a customer participates in PSE's
5 conservation programs and, moreover, whether or not it purchases gas supply
6 directly from PSE does not impact the throughput incentive. PSE's earnings are
7 not materially tied to its sale of gas supply, only to its delivery. As such, PSE still
8 has an incentive for increased deliveries, whether by sales or transportation
9 customers.

10 **Q. Are there other reasons to include transportation customers in the**
11 **decoupling mechanism?**

12 A. Yes. As noted earlier, PSE's non-residential gas customers have a significant
13 amount of flexibility to move between schedules, including between sales and
14 transportation. As with the scenario discussed earlier where the non-residential
15 rate group is delineated by rate class, excluding transportation schedules from the
16 gas decoupling mechanism would likewise introduce the potential for customers
17 choosing to migrate between sale and transportation schedules simply to avoid
18 decoupling surcharges or to benefit from decoupling rate rebates. As discussed
19 earlier, other customers in the affected schedules would be negatively impacted,
20 which would reinforce resistance to the continuation of rate decoupling.

1 **Q. Did Kroger raise similar concerns?**

2 A. Yes. Kroger recommends excluding all customers with billing demands greater
3 than 350 kW from the electric decoupling mechanism.²⁷

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

5 A. Relative to the customers that NWIGU has proposed excluding from the gas
6 decoupling mechanisms, the marginal revenues associated with the customers
7 Kroger proposes to exclude are far more significant. In other words, PSE has a
8 much stronger throughput incentive for these electric customers, since their rate
9 structures do not include the steeply declining block rates that are present for
10 large gas customers. As such, removing these customers from the electric
11 decoupling mechanism would be contrary to the Commission's intended policy.

12 **VI. RATE DESIGN ALTERNATIVES TO JOINT**
13 **DECOUPLING PROPOSAL ARE INADEQUATE**

14 **Q. Did any party propose rate design alternatives to the Joint Decoupling**
15 **Proposal?**

16 A. Yes. Kroger proposed that demand charges for delivery service be better aligned
17 with the recovery of fixed costs.²⁸

18 **Q. Is this an effective substitute for decoupling?**

19 A. No. As PSE showed in its 2011 GRC with Kroger's own data, the demand charge
20 revenues received from Kroger's locations served under Schedule 40 were

²⁷ Exhibit No. ___(KCH-1T), page 29, lines 18-20.

²⁸ *Id.*, page 29, line 20 through page 30, line 2.

1 materially impacted by the energy efficiency measures it implemented.²⁹ This
2 shows that, while not as strong, the throughput incentive also extends to demand
3 charge revenue (i.e., demand charge revenue is not "fixed").

4 **Q. Did any party recommend rate design changes to the decoupling**
5 **mechanisms?**

6 A. Yes. Kroger proposed that, if the Commission rejected its proposal to remove
7 large customers, then the electric decoupling mechanism should be modified to
8 only include a "reasonable portion" of the demand charge revenue from these
9 customers (i.e., to treat the remaining portion as "fixed").³⁰ Kroger also proposes
10 to apply Schedule 139 through demand charges for those customers that are billed
11 on measured demands.³¹ Nucor, through the same witness, proposes that 100
12 percent of the contract firm revenues be excluded from the gas decoupling
13 mechanism.³²

14 **Q. How do you respond to Kroger's proposal to only include a portion of**
15 **demand charge revenue in the decoupling mechanism?**

16 A. I have several points. First, as noted above, PSE does not agree that demand
17 charge revenue is fixed. As such, the throughput incentive extends to demand
18 charge revenue. Second, even if PSE were to agree in concept that a portion of
19 demand charge revenue were "fixed," no analysis has been presented to determine
20 what portion of demand should be considered fixed. Third, even if that portion

²⁹ 2011 GRC, Exhibit No.__(JAP-24CT), page 30, line 12 through page 31, line 16.

³⁰ Exhibit No.__(KCH-1T), page 30, lines 3-7.

³¹ *Id.*, page 31, lines 1-3.

³² Exhibit No.__(KCH-5T), page 4, line 21 through page 5, line 2.

1 could be determined, there is no analysis showing how Kroger's proposal would
2 be implemented within the decoupling mechanism, nor what its effect would be.
3 In summary, given the speculative and preliminary nature of this proposal, it
4 should be rejected by the Commission at this time.

5 **Q. Can PSE accept Kroger's proposal to charge or rebate demand-billed**
6 **customers on Schedule 139 on the basis of demand?**

7 A. Not in its incomplete state. As with Kroger's other proposal, there is no analysis
8 showing how Kroger's proposal would be implemented within the decoupling
9 mechanism, nor what its effect would be. As such, given its preliminary nature,
10 this proposal should be rejected by the Commission at this time.

11 **Q. How do you respond to the Nucor proposal?**

12 A. This proposal suffers from similar flaws that are evident in the corresponding
13 Kroger proposal. While it is true that gas contract firm demand revenues are
14 fixed, this is only true for a short period of time. On their contract anniversary
15 date, gas customers can change their contracted amounts. So, if a customer's
16 energy needs are falling, their contract amounts can also be reduced thereby
17 exposing the inherent throughput incentive associated with this component of
18 their gas rates. Further, as with the Kroger proposal, no evidence was produced to
19 illustrate how this proposal would be implemented within the existing decoupling
20 mechanism. For the foregoing reasons, the Commission should reject this
21 proposal at this time.

VII. CONCLUSION

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Q. Does this conclude your prefiled rebuttal testimony?

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A. Yes.