

**EXH. JDT-9T
DOCKETS UE-190529/UG-190530
UE-190274/UG-190275
2019 PSE GENERAL RATE CASE
WITNESS: JOHN D. TAYLOR**

**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

JOHN D. TAYLOR

ON BEHALF OF PUGET SOUND ENERGY

JANUARY 15, 2020

PUGET SOUND ENERGY

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
JOHN D. TAYLOR**

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PUGET SOUND ENERGY

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
JOHN D. TAYLOR**

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1 **PUGET SOUND ENERGY**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**
3 **JOHN D. TAYLOR**

4 **I. INTRODUCTION**

5 **Q. Are you the same John D. Taylor who submitted prefiled direct testimony on**
6 **June 20, 2019, on behalf of Puget Sound Energy (“PSE”) in this proceeding?**

7 A. Yes. I previously submitted direct testimony on behalf of PSE concerning its: (1)
8 Cost of Service Study (“COSS”) that allocates PSE’s gas distribution costs to the
9 gas distribution customers’ rate classes, (2) class revenue increase apportionment;
10 and (3) proposed rate design for gas service.

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

12 A. The purpose of my rebuttal testimony is to respond to the testimony of the
13 Washington State Office of the Attorney General’s Public Counsel Unit (“Public
14 Counsel”) relating to the allocation of distribution mains, the treatment of the
15 special contract customer class in the COSS, revenue apportionment, and rate
16 design proposals. I also respond to the testimony of the Staff of the Washington
17 Utilities and Transportation Commission (“WUTC” or “Commission”) relating to
18 revenue apportionment and the request for an updated economic bypass study for
19 the special contract customer’s facilities. In addition, I am addressing an issue
20 raised by The Alliance of Western Energy Consumers (“AWEC”) relating to the
21 allocation of certain distribution mains that serve the Tacoma LNG facility.

1 Lastly, I provide an updated COSS based on PSE's updated revenue requirement
2 and the revenue apportionment and rate design implications from that updated
3 COSS.

4 **II. SUMMARY OF FINDINGS AND RECOMMENDATIONS**

5 **Q. Can you briefly summarize your findings and recommendations related to**
6 **these parties' response testimonies?**

7 A. Yes. Based on my review of the points and underlying support presented by these
8 witnesses, I have reached the following findings and recommendations:

- 9 1. The COSS should be updated based on the recommendation of AWEC
10 witness Bradley G. Mullins, in accord with a previous stipulation, to
11 remove all costs associated with distribution mains investment solely
12 relating to the Tacoma LNG facility from the allocation of costs to
13 transportation customers. Accordingly, I have updated the COSS.
- 14 2. The Commission should reject Public Counsel's proposal to use the
15 "Compromise" method for the allocation of distribution mains because it
16 is not fully based on cost causative principles nor the operating or
17 engineering realities of PSE's distribution system.
- 18 3. The Commission should reject Public Counsel's residential customer
19 charge analysis because it underestimates the fixed costs associated with
20 each customer connection and maintaining each customer's account.
- 21 4. Public Counsel's critique of a direct assignment of distribution mains to
22 the Special Contract customer is misplaced, and Public Counsel witness
23 Glenn A. Watkins' alternative method of allocating costs results in an
24 unreasonable portion of distribution mains allocated to that customer.

1 5. The WUTC should reject Public Counsel’s recommendation to allocate
2 the system average increase to the Special Contract customer. This
3 increase would violate the terms of the special contract.

4 6. WUTC Staff’s recommendation that PSE update the economic bypass
5 study is a reasonable request, but it should be done when the Special
6 Contract rate is up for renewal in 2035.

7 As a result, I recommend the Commission adopt PSE’s COSS as presented in this
8 rebuttal testimony, which is conceptually identical to the COSS presented in
9 PSE’s direct testimony and, using WUTC Staff’s language, is “directionally
10 accurate”.¹ Further, I recommend the Commission adopt PSE’s rate
11 apportionment and rate design as described in more detail below.

12 **III. ALLOCATION OF DISTRIBUTION MAINS**

13 **Q. Please summarize Public Counsel witness Glenn A. Watkins’ critique of your**
14 **allocation of distribution mains.**

15 A. Mr. Watkins presents testimony claiming that the method employed by PSE to
16 allocate distribution mains is conceptually materially different from that used by
17 PSE since its 2009 rate case.² Mr. Watkins points to a 2009 collaborative that
18 was created to investigate the methods of allocating mains, pointing out that the
19 collaborative did not result in an agreement on method or philosophical consensus
20 on cost causation. He notes that in PSE's 2009 rate case, PSE witness Janet

¹ Ball, Exh. JLB-1T at 13.

² Watkins, Exh. GAW-1T at 48.

1 Phelps developed a "compromise" allocation that, "addressed concerns raised by
2 parties on both ends of the cost allocation spectrum."³ That method, he states,
3 continued through PSE's 2017 general rate case. Mr. Watkins believes the method
4 employed to allocate distribution mains in PSE's current COSS is an attempt to
5 "move the goal line once again by assigning even more costs to the Residential
6 and Commercial classes and significantly assigning fewer costs to the Large
7 Interruptible and Special Contract classes."⁴ Lastly, Mr. Watkins believes the
8 direct assignment of distribution mains to the Special Contract customer is in
9 conflict with past Commission orders.

10 **Q. Please compare and contrast Ms. Phelps' 2009 "Compromise" method and**
11 **the method presented in your direct testimony.**

12 A. As described by Mr. Watkins, I have "continued to use the long-accepted general
13 methodology known as the Peak & Average approach, wherein distribution mains
14 are allocated based partially on annual throughput (average daily demand) and
15 partially on peak demand."⁵ Further, I have continued to take into account the
16 size of mains as was done in the Compromise method for the peak portion but
17 also applied this to the average portion, because certain rate class' lack of use of
18 smaller size mains should apply to both the peak and average portion for
19 consistency. While the Compromise method excluded 67 percent of 2 - 3-inch

³ Watkins, Exh. GAW-1T at 50.

⁴ Watkins, Exh. GAW-1T at 54.

⁵ Watkins, Exh. GAW-1T at 48.

1 mains and 100 percent of less than 2-inch mains from Non-Exclusive Interruptible
2 and Special Contracts rate classes, I excluded 100 percent of mains that are 2 - 3
3 inches from Non-Exclusive Interruptible and Special Contracts rate classes and
4 100 percent of less than 2-inch mains from Interruptible, Limited Interruptible,
5 and Non-Exclusive Interruptible rate classes. Lastly, I directly assigned mains to
6 the Special Contract rate class.

7 **Q. What were the results of these changes on the allocation of costs and the**
8 **implications of these changes on parity ratios?**

9 A. While I presented the cost implications in my direct testimony on parity ratios,⁶
10 Mr. Watkins also compares the assignment of distribution mains costs under the
11 Compromise method to my proposed approach. He concludes that, “Mr. Taylor’s
12 proposed new approach significantly shifts cost responsibility away from the
13 Interruptible and Special Contract classes to the Firm and Small Volume classes.
14 In particular, Mr. Taylor’s new approach assigns \$16.6 million more to the
15 Residential class and \$6.2 million more to the Commercial & Industrial class.”⁷
16 The \$16.6 million increase of allocation to the Residential class represents a 1.27
17 percent increase, and the \$6.2 million increase to the Commercial & Industrial
18 class represents a 1.30 percent increase compared to the Compromise method
19 results. This small increase is summarized in Mr. Watkins’ conclusion regarding

⁶ Taylor, Exh. JDT-1T at 21.

⁷ Watkins, Exh. GAW-1T at 53.

1 parity ratios, “In terms of parity ratios, there is very little difference between the
2 two methods for all classes except Special Contract.”⁸

3 **Q. Do you agree with Mr. Watkins’ assessment that these changes are**
4 **materially different conceptually?**

5 A. No. These changes are not materially different conceptually nor do they result in
6 materially different results, as discussed above. The changes are a refinement of
7 the Compromise method to better account for the engineering and operational
8 aspects of PSE’s distribution system, as described in my direct testimony. The
9 primary difference in the methods is the exclusion of certain classes from the
10 allocation of smaller size mains and the direct assignment of mains costs to the
11 Special Contract class. As stated in my direct testimony, it is not appropriate to
12 allocate smaller mains to all customer classes. A review of meter sizes for the
13 non-Exclusive Interruptible (87 and 87T) showed that it is reasonable to assume
14 that none of these customers are served from mains that are smaller than four
15 inches. Further, the smallest mains are in isolated locations on PSE’s gas
16 distribution system and are unlikely to provide benefits to the large gas
17 commercial and industrial loads served on Schedules 85, 85T, 86, 86T, 87, and
18 87T. Lastly, none of the medium size mains were allocated to the Non-Exclusive
19 Interruptible classes (Schedules 87 & 87T), given the mains serving these
20 customers were four inch or larger.⁹

⁸ Watkins, Exh. GAW-1T at 55.

⁹ Taylor, Exh. JDT-1T at 17-18.

1 **Q. Please summarize Mr. Watkins' critique regarding the direct assignment of**
2 **distribution mains to the Special Contract class.**

3 A. Mr. Watkins states that the direct assignment of distribution mains to the Special
4 Contract class has been expressly rejected by the Commission, citing a 1992 order
5 from a Washington Water Power Company proceeding.¹⁰ In that proceeding the
6 Washington Water Power Company directly assigned distribution main costs to
7 only three customers on its Transportation 148 rate, and the Commission rejected
8 this direct assignment.

9 **Q. How do you respond to Mr. Watkins' critique regarding the direct**
10 **assignment of distribution mains to the Special Contract class?**

11 A. While Mr. Watkins may see this as analogous to the direct assignment of costs to
12 PSE's Special Contract class, it is not. The Special Contract class consists of one
13 customer with nine unique service locations under a single Special Contract
14 approved by the Commission. The direct assignment of distribution mains costs
15 to the Special Contract customer is representative of the initial bypass cost
16 analysis that was performed by the Company, which supported the Special
17 Contract approved by the Commission. This is not the same as three customers in
18 a tariff rate class getting a direct assignment of mains.

19 Under PSE's detailed analysis, which utilized PSE's Geographic Information
20 System, various pipeline pathways from system regulator stations to the

¹⁰ *WUTC v. The Wash. Water Power Co.*, Docket UG-901459, Third Supp. Order at 7
(Mar. 9, 1992).

1 customer's service addresses, along with the related pipeline sizes and material
2 types, were identified. Further analysis was conducted on the use of the pipeline
3 segments by comparing the contract demand levels of the Special Contract
4 customer's facilities to the modeled flows experienced on these pipeline segments
5 during design day conditions. This analysis was not a simple direct assignment of
6 some distribution system costs to a few select customers in one rate class; it was a
7 method employed to provide more insight into the relative cost to serve the
8 Special Contract class' specific facilities. As such, the 1992 Washington Water
9 Power Company order cited by Mr. Watkins, which occurred years before the
10 Commission's approval of this specific Special Contract, is outdated and not
11 helpful in determining the particular usefulness or appropriateness of this
12 analysis.

13 **Q. Does WUTC Staff agree with the changes you made to the allocation of**
14 **distribution mains?**

15 A. Yes. Mr. Ball agrees with these changes stating, "[F]or the purposes of this case,
16 Staff supports the Company's proposed changes because PSE designed them to
17 appropriately allocate costs to cost causers."¹¹ Mr. Ball also believes, given the
18 current cost-of-service rulemaking actively investigating these issues, that the
19 Commission does not need to provide direct guidance in this case. In the end, Mr.
20 Ball concludes, "I recommend the Commission accept, for the purposes of this
21 case, the Company's Electric and Natural Gas Cost of Service Studies (COSS) as

¹¹ Ball, Exh. JLB-1T at 12.

1 directionally accurate.”¹² Mr. Ball does request for PSE to perform an updated
2 economic bypass study by July 1, 2021.

3 **Q. How do you respond to the request of WUTC Mr. Jason Ball for PSE to**
4 **perform an updated economic bypass study by July 1, 2021?**

5 A. Revision Seven to the Special Contract, which extended the term of the initial
6 Special Contract to 40 years, was approved by the Commission in Docket UG-
7 950392. With this revision, the Special Contract will expire on June 1, 2035. It
8 may be advisable for the WUTC to consider the need for an updated economic
9 bypass study near the end of this contract should a proposal be filed to extend the
10 contract but to do so fourteen years before the end of the contract is premature.

11 **Q. Please summarize the recommendation of AWEC witness Bradley G. Mullins**
12 **about the allocation of certain distribution mains.**

13 A. Mr. Mullins points to a settlement stipulation relating to the development of the
14 Tacoma LNG facility in Docket UG-151663 (“Settlement Stipulation”) in support
15 of his allocation recommendation. As part of an agreed upon settlement, “PSE
16 agree[d] not to propose to allocate any costs associated with either the 16-Inch
17 Line or the Bonney Lake Lateral Improvements to transportation customers.”¹³
18 Mr. Mullins requests that these costs be removed from the allocation of

¹² Ball, Exh. JLB-1T at 3.

¹³ Mullins, Exh. BGM-1T at 43, citing, *In the Matter of the Petition of Puget Sound Energy, Inc.*, Docket UG-151663, App. A to Final Order at 12 (Nov. 1, 2016).

1 distribution mains to transportation customers and allocated to sales customers in
2 accord with the Settlement Stipulation.

3 **Q. Do you agree with this recommended treatment of these Tacoma LNG**
4 **related distribution main costs?**

5 A. Yes. The updated COSS model presented with this rebuttal testimony takes into
6 account the settlement stipulation.

7 **Q. How does the updated COSS model presented with your rebuttal testimony**
8 **treat these costs?**

9 A. The updated COSS model utilizes the design day for sales customer as the method
10 of allocating to each customer class the costs associated with these Tacoma LNG
11 facility related distribution mains. This method aligns with the Settlement
12 Stipulation, ensuring that none of the specified distribution mains costs are
13 allocated to the transportation customers. The following quote is from the
14 Settlement Stipulation and specifies that PSE will allocate these costs to sales
15 customers on the basis of their contribution to PSE's total retail design day system
16 peak demand:

17 In all retail class cost of service studies used to set retail gas sales
18 and transportation delivery tariff rates, PSE agrees to propose to
19 allocate the costs of each of the 16-Inch Line and the Bonney Lake
20 Lateral Improvements identified and recorded in the subaccount of
21 FERC Account 376 in a manner consistent with the interclass
22 allocation of the costs of the Tacoma LNG Facility. PSE will support
23 the interclass allocation of the Tacoma LNG Facility costs to only

1 sales customers on the basis of their contribution to PSE's total retail
2 design day system peak demand (Dth/day).¹⁴

3 These distribution mains costs supporting the LNG facility are therefore
4 functionalized as Storage related and classified within the Direct Sales
5 classification. The functionalized rate base and revenue requirement for these
6 costs can be seen on pages two and three of the First Exhibit to my Prefiled
7 Rebuttal Testimony, Exh. JDT-10. Lastly, PSE is proposing to recover the costs
8 associated with these pipeline facilities from sales customers through the existing
9 procurement charge in the same fashion as the costs associated with storage and
10 supply that are currently recovered through that charge. This is illustrated on
11 page two of the Sixth Exhibit to my Prefiled Rebuttal Testimony, Exh. JDT-15.

12 IV. RESULTS OF UPDATED COSS MODEL

13 **Q. Did you prepare an updated COSS Model that reflects the updated revenue**
14 **requirement presented by PSE witness Susan Free?**

15 A. Yes. The following exhibits reflect the updated COSS model, which utilizes the
16 account level detail and pro forma revenues presented by Susan Free in her
17 Prefiled Rebuttal Testimony, Exh. SEF-17T:

- 18 • Exh. JDT-10 Summary of COSS results
- 19 • Exh. JDT-11 Account Detail by Classification and Rate Class

¹⁴ *In the Matter of the Petition of Puget Sound Energy, Inc.*, Docket UG-151663, App. A to Final Order at 12 (Nov. 1, 2016).

- Exh. JDT-12 Account Inputs and Allocation Choices
- Exh. JDT-13 External Allocation Factors

These exhibits contain the same summary information and are organized in the same manner as those presented with my direct testimony.

I have also updated Table 1 from my direct testimony to include a new column reflecting the Parity Ratios resulting from the updated COSS Model:

Table 1 – Results of Gas Cost of Service Study

Customer Class	Schedule	Direct Parity Ratio	Rebuttal Parity Ratio
Residential	16/23/53	1.07	1.05
Commercial & Industrial	31/31T	0.82	0.84
Large Volume	41/41T	1.22	1.26
Interruptible	85/85T	1.08	1.13
Limited Interruptible	86/86T	1.71	1.77
Non-exclusive Interruptible	87/87T	0.83	0.85
Special Contracts		1.71	1.69
Rentals	71/72/74	1.37	1.31
Total/System Average		1.00	1.00

V. REVENUE APPORTIONMENT AND RATE DESIGN

Q. What was the response from Public Counsel and WUTC Staff regarding PSE’s proposed apportionment of revenues among customer classes?

A. Public Counsel witness Glenn A. Watkins was partially in agreement with the method I employed but proposed to increase the Special Contract class’s revenues by the overall system average return, based on the results of his proposed method of allocating distribution mains (i.e., the old “Compromise” method). Mr.

1 Watkins states “I recommend the Special Contract class’ revenues be increased at
2 the system average percentage increase of 21.75 percent and that the Rentals class
3 incur no increase in revenue responsibility. I then utilized Mr. Taylor’s approach
4 for the remaining classes.”¹⁵

5 Similarly, Mr. Ball was in general agreement with the method employed but made
6 the following proposed change, “My proposal aligns with the Company’s for all
7 but one class, Schedule 86/86T, Limited Interruptible. While this schedule
8 currently has a parity ratio in the grossly-excessive range, I do not believe it is
9 appropriate for a customer class to be assigned none of a proposed rate increase.
10 Therefore, I assign this class a small increase to more fairly and equitably spread
11 the overall rate change.”¹⁶

12 **Q. What is your response to these recommendations?**

13 A. I come to the opposite conclusion of Mr. Watkins that, given PSE is in the process
14 of selling its rental business, the rates should be moved to the cost to serve so that
15 the revenues match the cost to serve. If rates are higher than the cost to serve then
16 when PSE sells the rental business the lost revenues cannot be recovered from
17 other classes. PSE will experience a revenue deficiency relating to rental business
18 income between the time period that the rental business is sold and distribution
19 rates are reestablished. As such, I recommend these rates be updated to reflect the
20 actual cost to serve the rental business customers.

¹⁵ Watkins, Exh. GAW-1T at 57.

¹⁶ Ball, Exh. JLB-1T at 19.

1 I do not agree with Mr. Watkins' recommendation to increase the Special
2 Contract revenues. As discussed earlier in this rebuttal testimony, his method to
3 allocate costs to Special Contract customer class does not consider the fact that
4 only a small subset of distribution mains is utilized to provide service to the
5 Special Contract customer's facilities. Furthermore, the terms in the special
6 contract governs any rate changes for this customer and Mr. Watkins' proposed
7 method to increase the rates is a violation of the terms of the contract. Parity
8 concerns for the special contract should be addressed when the contract is up for
9 renewal in 2035.

10 While Mr. Ball would like to see all customer classes receive an increase, I do not
11 believe Schedule 86/86T – Limited Interruptible (which is considered to have a
12 parity ratio in the 'grossly-excessive' range, to use Mr. Ball's characterization)
13 should receive any increase. As can be seen on Exh. JDT-10, Schedule 86/86T –
14 Limited Interruptible is already providing a 21.23 percent return, and in these
15 circumstances an increase would be unwarranted.

16 **Q. Please describe the approach generally followed to allocate PSE's proposed**
17 **revenue increase of \$97.8 million to its customer classes.**

18 A. The method I employed to allocate PSE's proposed revenue increase of \$97.8
19 million to its customer classes is similar to the method utilized and presented in
20 my direct testimony. For the reasons stated above, the Rental class' rates were
21 decreased to their cost of service. Given that the Parity Ratio for Schedule

1 85/85T – Interruptible went from 1.08 to 1.13, that class received 50 percent of
2 the average increase rather than the system average increase.

3 **VI. RATE DESIGN**

4 **Q. What were Public Counsel’s and WUTC Staff’s recommendations regarding**
5 **PSE’s proposed rate design?**

6 A. Mr. Ball stated, “PSE has generally proposed rational and reasonable natural gas
7 rate design changes based on the current estimates of costs to serve customers.
8 Staff supports the Company’s proposed rate design provided they update the
9 economic bypass study for their special contract.”¹⁷

10 Mr. Watkins, based on an analysis of direct customer related costs, recommends
11 that the Residential customer charge be set at no more than \$11.20 per month.¹⁸

12 **Q. Should Mr. Watkins’ direct customer charge analysis be relied upon for**
13 **setting the residential customer charge?**

14 A. No. Mr. Watkins claims his direct customer costs analysis includes those rate
15 base and expense items required for each customer connection, as well as those
16 required to maintain a customer’s account. However, his analysis assumes these
17 customer connections and the maintenance of customer accounts can be
18 accomplished without any vehicles, office space, office furniture, tools and
19 equipment, office supplies, insurance, or employee benefits. Regardless of the

¹⁷ Ball, Exh. JLB-1T at 34.

¹⁸ Watkins, Exh. GAW-1T at 58-59.

1 particular service being discussed, a utility requires all of these items to provide
2 that service. So, while Mr. Watkins might not consider them “direct costs”, they
3 are essential and should be included in a customer cost analysis.

4 **Q. What does PSE propose regarding the Residential basic service charge?**

5 A. PSE proposes to maintain the current level of monthly basic service charges for
6 all customer classes and incorporate the addition of the Schedule 141 (ERF) and
7 Schedule 141X (EDIT) basic service charge adjustments to the base schedule
8 tariffed basic service charge. The Residential basic service charge will move
9 from \$11.00 to \$11.52. This is well within the customer related costs the COSS
10 model demonstrates is reasonable; an amount of \$18.66 as detailed in Exh. JDT-
11 16.

12 VII. CONCLUSION

13 **Q. Does this conclude your prefiled rebuttal testimony?**

14 A. Yes, it does.