

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Complainant,

v.

PACIFIC POWER dba

PACIFIC POWER & LIGHT COMPANY

Respondent.

DOCKET NOS. UE-230172 AND UE-210852
(Consolidated)

TESTIMONY OF

LAUREN MCCLOY

ON BEHALF OF

NW ENERGY COALITION

September 14, 2023

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	REVENUE DECOUPLING FOR UTILITIES: STRUCTURE, HISTORY, AND PURPOSE	5
III.	THE HISTORY OF REVENUE DECOUPLING IN WASHINGTON	7
IV.	THE CONTINUING PUBLIC INTEREST IN REVENUE DECOUPLING FOR PACIFIC POWER	12
V.	DECOUPLING AND PERFORMANCE BASED REGULATION	23
VI.	BASIC CHARGE	27
	A. Inclusion of Transformers in the Basic Charge	28
	B. Basic Charge Impact on Energy Efficiency	31
	C. Low-Income Impacts	34
VII.	INCLINING BLOCK RATES	35
VIII.	COLSTRIP	39
IX.	CONCLUSION	41

EXHIBIT LIST

Exh. LM-1T, Response Testimony of Lauren McCloy

Exh. LM-2, CV of Lauren McCloy

Exh. LM-3, Ralph Cavanagh, *Energy Efficiency and Decarbonization: Priorities for Regulated Utilities*

1 I. INTRODUCTION

2 Q. Please state your name and business address.

3 A. My name is Lauren C. McCloy, and I am the Policy Director for the NW Energy
4 Coalition (“NWECC” or the “Coalition”). My business address is 811 1st Ave, Suite
5 305, Seattle, WA 98104.

6 Q. Please describe your background and experience.

7 A. As Policy Director for NWECC, I support and guide the Coalition’s policy work in
8 Washington, as well as Oregon, Idaho, and Montana, and also our work on regional
9 and federal issues, including regional planning, markets, and federal infrastructure
10 funding.

11 Previously, I worked as Senior Policy Advisor to Governor Jay Inslee,
12 where I led and managed a broad range of issues in support of the Governor’s
13 energy priorities, including the Clean Energy Transformation Act, Climate
14 Commitment Act, Environmental Justice issues, and elements of the state’s
15 response to the COVID-19 pandemic.

16 Prior to serving in that role, I was the Legislative Director for the
17 Washington Utilities and Transportation Commission (“UTC”, “WUTC”, or
18 “Commission”), where I served as the Commission’s liaison to the state
19 Legislature and the Governor’s office, coordinated the UTC’s legislative activities,
20 and advised the Commissioners on energy policy and legislative issues. Before
21 joining the UTC’s policy staff, I worked as a Compliance Investigator in the
22 UTC’s Consumer Protection Division.

1 My background and first-hand experience are the basis for my expertise and
2 qualifications to testify as an expert on the issues raised in my testimony. I
3 completed Utility Regulation 101 training with the National Regulatory Research
4 Institute in 2015 and Rate Spread and Rate Design training with EUCI in 2016. I
5 have a B.A. from the University of North Carolina at Chapel Hill and an M.S. in
6 International Development from Tulane University Law School. My CV is
7 included as exhibit LM-2.

8 **Q. On whose behalf are you testifying?**

9 **A.** NWEC. Established in 1981, the Coalition is an alliance of over 100
10 environmental, civic, and human service organizations, progressive utilities, and
11 businesses in Oregon, Washington, Idaho, Montana and British Columbia. Our
12 mission is to advance clean, equitable, and affordable energy policies by
13 leveraging our analytic expertise and convening a broad alliance of people and
14 organizations. We envision the Northwest comprised of communities that benefit
15 from a carbon-free energy system that equitably meets the needs of people and
16 preserves the region’s natural resources.

17 We promote the development of renewable energy, energy efficiency,
18 consumer protection, equitable and affordable clean energy services for all
19 consumers, and fish and wildlife restoration on the Columbia and Snake rivers. The
20 Coalition is committed to advancing Justice, Equity, Diversity, and Inclusion and
21 we are committed to addressing the harm that Black, Indigenous, and People of
22 Color have endured due to the energy system, policies, and practices in the
23 Northwest. We are mindful of the intersectional nature of race, economic

1 wellbeing, and geography (urban/rural), and recognize that our commitment to
2 racial justice will help with energy justice more broadly.

3 **Q. What is the purpose of this response testimony?**

4 **A.** The principal purpose of my testimony is to oppose Pacific Power & Light
5 Company’s (“Pacific Power’s” or the “Company’s”) proposal to eliminate its
6 revenue decoupling mechanism. The WUTC has approved full revenue decoupling
7 for all three electric investor-owned utilities, marking a clear transition away from
8 a commodity-based utility business model and removing a major barrier to cost-
9 effective energy efficiency progress in Washington.¹ The Commission approved
10 Pacific Power’s transition to full revenue decoupling in 2016, along with a 5%
11 energy efficiency goal enhancement.² In December 2021, the Commission
12 approved amendments to Pacific Power’s decoupling mechanism in UE-152253.³
13 My testimony supports continuing the mechanism, as amended in that docket.

14 Additionally, Pacific Power proposes to increase its basic charge and
15 eliminate its tiered block rate structure in favor of a seasonal rate proposal. My

¹ See *Schedule 75, Decoupling Mechanism – Electric*, Avista Corporation (Aug. 1, 2023), https://www.myavista.com/-/media/myavista/content-documents/our-rates-and-tariffs/wa/wa_075.pdf; *Electric Schedule 142, Revenue Decoupling Adjustment Mechanism*, Puget Sound Energy (Jan. 5, 2023), https://www.pse.com/-/media/Project/PSE/Portal/Rate-documents/Electric/elec_sch_142.pdf?sc_lang=en; *Schedule 93, Decoupling Revenue Adjustment*, Pacific Power (Sept. 1, 2023), https://www.pacificpower.net/content/dam/pcorp/documents/en/pacificpower/rates-regulation/washington/rates/093_Decoupling_Revenue_Adjustment.pdf.

² See *In re Pacific Power & Light Company Petition For a Rate Increase Based on a Modified Commission Basis Report, Two-Year Rate Plan, and Decoupling Mechanism*, Docket No. UE-152253, Order 12 (Sept. 1, 2016).

³ See Docket No. UE-152253, Order 18 (Dec. 10, 2021).

1 testimony also opposes these proposals, which are contrary to the goal of
2 supporting energy efficiency and equity.

3 Finally, my testimony briefly addresses Pacific Power’s proposed capital
4 expenditures for Colstrip, which NWECC opposes.

5 NWECC Witness Charlee Thompson separately addresses Pacific Power’s
6 Net Billing proposal. NWECC does not address and takes no position on other
7 aspects of Pacific Power’s 2023 general rate case or the consolidated docket
8 regarding fly ash revenues at this time. NWECC will review the testimony of other
9 parties, and, after that review, may take positions on other aspects of the
10 Company’s filing.

11 **Q. Please summarize your testimony.**

12 **A.** Following this Introduction (Section I), Section II of my testimony discusses the
13 structure, history, and purpose of revenue decoupling. Section III of my testimony
14 outlines the history of revenue decoupling in Washington, the background on
15 Pacific Power’s decoupling mechanism, and Pacific Power’s proposal to eliminate
16 its decoupling mechanism in this proceeding. Section IV of my testimony
17 advocates for continuing Pacific Power’s decoupling mechanism in light of the
18 need to support efficient and affordable electrification. Section V of my testimony
19 addresses the continued need for decoupling in light of the Commission’s
20 advancement of performance-based regulation.

21 Shifting to rate design issues, Section VI recommends the Commission
22 rejects Pacific Power’s proposed inclusion of transformers in the basic charge,
23 thereby keeping the fixed monthly charge at \$7.75 for all residential customers.

1 Section VII explains that the elimination of tiered block rates may be worth
2 considering in a future proceeding, but replacing tiered block rates with Pacific
3 Power’s proposed seasonal rates would not provide adequate price signals to
4 encourage efficiency.

5 Finally, Section VIII addresses Pacific Power’s proposed capital
6 expenditures for Colstrip, which I oppose.

7 **II. REVENUE DECOUPLING FOR UTILITIES: STRUCTURE, HISTORY,**
8 **AND PURPOSE**

9 **Q. What is revenue decoupling?**

10 **A.** Revenue decoupling is a simple system of periodic true-ups in electricity rates,
11 designed to correct for disparities between a utility’s actual delivery system cost
12 recovery and the revenue requirement approved by a utility commission. The true-
13 ups either restore to the utility or give back to customers the revenues that are
14 under- or over-recovered because of fluctuations in retail electricity sales.

15 **Q. Why is decoupling needed?**

16 **A.** Affordable, equitable, and reliable electricity service in a decarbonizing economy
17 depends vitally on harnessing the full capacity of cost-effective energy efficiency
18 and demand response (together, these measures are likely to provide half or more
19 of the total solution in aggregate). Yet traditional state utility regulation typically
20 has treated utilities as commodity providers whose financial health is tied directly
21 to sustained growth in retail kilowatt-hour sales. Well-established regulatory
22 principles accommodate a straightforward solution to this business model dilemma,
23 as the revenue decoupling mechanism replaces rate caps with revenue caps. Absent
24 decoupling, there exists a conflict of interest between utilities and their customers,

1 by guaranteeing that even the most cost-effective electricity savings inflict
2 automatic financial penalties on utilities.

3 **Q. How many U.S. states and utilities have instituted revenue decoupling?**

4 **A.** The most recent survey results of which I am aware appears in a 2021 *Electricity*
5 *Journal* article on energy efficiency and decarbonization:

6 In total, 43 investor-owned electric utilities (IOUs) are now
7 decoupled, accounting for about 36% of total revenues for the
8 sector. They serve 41% of all IOU customers, up from a little
9 less than 25% at the end of 2013. These decoupled electric
10 utilities serve 42.3 million electric customers (i.e., accounts)
11 and represent some \$84.3 billion in annual revenue and 815
12 terawatt hours of annual demand. Over 30 publicly-owned
13 utilities are also decoupled, including the Los Angeles
14 Department of Water and Power and Long Island Power
15 Authority, representing about 19% of public power customers
16 and revenues.⁴

17 **Q. Please summarize evidence that decoupling mechanisms are associated with**
18 **improved energy efficiency results.**

19 **A.** I have not conducted an exhaustive literature review, and I expect there are
20 additional materials in support. In 2015, the American Council for an Energy
21 Efficient Economy (“ACEEE”) concluded in a nationwide assessment that utilities
22 in states “with decoupling have much higher energy efficiency spending and
23 savings” than those in the rest of the nation; the ratios were on the order of three to
24 one, favoring decoupling, for both expenditures and savings.⁵

⁴ See Exh. LM-3 (later published as: Ralph Cavanagh, *Energy Efficiency and Decarbonization: Priorities for Regulated Utilities*, *The Electricity Journal* at 4 (Mar., 2021), <https://www.sciencedirect.com/science/article/abs/pii/S1040619020302001>).

⁵ M. Molina & M. Kushler, *Policies Matter: Creating a Foundation for an Energy Efficient Utility of the Future*, ACEEE at 15-16 (June 2015),

1 **III. THE HISTORY OF REVENUE DECOUPLING IN WASHINGTON**

2 **Q. Please describe the Commission’s policy regarding decoupling.**

3 **A.** In April 2010, the WUTC initiated an inquiry in Docket U-100522 into improving
4 performance of investor-owned electric and natural gas utilities (“IOUs”) in the
5 delivery of conservation resources to customers. Specifically, the inquiry examined
6 whether the Commission should adopt new or modified regulations, or otherwise
7 adopt policies, to address declines in revenues due to utility-sponsored
8 conservation or other causes of conservation. In the Commission’s own words:

9 This inquiry arose, in part, from debate in the 2010 legislative
10 session over a proposal for utility recovery of lost margin
11 related to conservation efforts, specifically decoupling
12 mechanisms. . . . During the 2010 legislative session, a number
13 of bills were introduced to promote conservation and energy
14 efficiency. . . . The Commission raised concerns about these
15 provisions and suggested that it conduct a proceeding to
16 review the issues surrounding conservation incentives in
17 general, including decoupling, and report to the Governor and
18 the Legislature. . . .⁶ The Commission’s goal in initiating
19 the proceeding was to develop a better understanding of the
20 balance between the recovery of a utility’s lost revenue due to
21 conservation and the benefits and costs to ratepayers.⁷

22 In November 2010, the Commission issued a policy statement in this docket
23 pursuant to RCW 34.05.230(1) and WAC 480-07-920.

<https://www.aceee.org/sites/default/files/policies-matter.pdf> (utilities in states with decoupling dedicated an average of 3.8 percent of revenues to energy efficiency investment and achieved annual savings equivalent to 1.4 percent of retail sales; the comparable figures for utilities in states without decoupling were 1.41 percent and 0.5 percent, respectively).

⁶ *In re WUTC Investigation into Energy Conservation Incentives*, Docket No. U-100522, Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation Targets at 5, ¶ 7 (Nov. 4, 2010).

⁷ *See id.* at 6, ¶ 8 (internal citations omitted).

1 **Q. What is the Commission’s policy regarding full revenue decoupling for**
2 **electric utilities?**

3 **A.** While the Commission’s policy statement deems full revenue decoupling a “close
4 call,”⁸ the Commission found that a properly designed full revenue decoupling
5 mechanism can benefit both utilities and customers:

6 [W]e believe that a properly constructed full decoupling
7 mechanism that is intended, between general rate cases, to
8 balance out both lost and found margin from any source can
9 be a tool that benefits both the company and its ratepayers. By
10 reducing the risk of volatility of revenue based on customer
11 usage, both up and down, such a mechanism can serve to
12 reduce risk to the company, and therefore to investors, which
13 in turn should benefit customers by reducing a company’s
14 debt and equity costs. This reduction in costs would flow
15 through to ratepayers in the form of rates that would be lower
16 than they otherwise would be, as the rates would be set to
17 reflect the assumption of more risk by ratepayers.⁹

18 **Q. Did the Commission establish policy guidance for utility requests for full**
19 **decoupling?**

20 **A.** Yes. The Commission established four elements to be addressed in a utility’s initial
21 filing in a general rate case, and seven criteria for Commission approval of
22 decoupling mechanisms.¹⁰ The required elements are:

23 1. True-up Mechanism. Where, between general rate cases,
24 customer use by class deviates either higher or lower from that
25 determined by the Commission when setting rates, a utility can
26 seek an annual true-up of revenue attributed to each affected
27 class of customer.

⁸ The Commission expressed a lingering concern that a utility might have less incentive to operate efficiently, and this was something the WUTC intended to consider in utility-specific proceedings. *See id.* at 15-16.

⁹ *Id.* at 16-17, ¶ 27 (internal citations omitted).

¹⁰ *Id.* at 17-19, ¶ 28.

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2. Impact on Rate of Return. Evidence evaluating the impact of the proposal on risk to investors and ratepayers and its effect on the utility's ROE.
3. Earnings test. A proposed earnings test to be applied at the time of the true- up.
4. Accounting for Off-System Sales and Avoided Costs. A description of the method the company intends to use to determine the financial benefits associated with off-system sales or avoided costs attributable to the utility's conservation efforts and then to net these benefits against the true-up provided in this mechanism.¹¹

The criteria for Commission approval of a decoupling mechanism are:

1. Application to Customer Classes. Generally, a full decoupling proposal should cover all customer classes. However, where in the public interest and not unlawfully discriminatory or preferential, the Commission will consider a proposal that would apply to fewer than all customer classes.
2. Weather adjustment mechanism. The Commission generally would support including the effects of weather in a full decoupling proposal.
3. Incremental Conservation. Evidence describing any incremental conservation the company intends to pursue in conjunction with the mechanism.
4. Low-income. A utility proposing a full decoupling mechanism must demonstrate whether or not its conservation programs provide benefits to low-income ratepayers that are roughly comparable to other ratepayers and, if not, it must provide low-income ratepayers targeted programs aimed at achieving a level of conservation comparable to that achieved by other ratepayers, so long as such programs are feasible within cost-effectiveness standards.
5. Duration of Program. The Commission will generally approve a full decoupling mechanism for the period required to achieve its objectives or until the filing of a utility's next general rate case. Under either circumstance, the burden is upon the utility to demonstrate the continued need for the mechanism.
6. Reports. For companies authorized to implement full decoupling, the Commission may require the utility to file periodic reports so the Commission may evaluate the success and impact of the program. The reported information must be made available to representatives of customer groups, and

¹¹ *Id.*

1 other interested parties, so they too can evaluate the program
2 and its impact on the utility and its ratepayers.

3 7. Other Factors Impacting the Public Interest. The criteria listed
4 above are not intended to limit the Commission's authority to
5 review other factors affecting its analysis of full decoupling as
6 a regulatory tool, including whether it remains in the public
7 interest to continue its use by a particular utility.¹²

8 **Q. To your knowledge, has the Commission revisited this policy statement or**
9 **issued new generally applicable guidance on decoupling?**

10 **A.** No.

11 **Q. Does the Commission guidance require utilities to have a decoupling**
12 **mechanism?**

13 **A.** No. My understanding is that Commission policy statements are non-binding. In its
14 policy statement, the Commission clearly communicated its intent to test and
15 improve decoupling and direct incentives for conservation:

16 As stated above, the Legislature has specifically authorized
17 policy statements as tools for agencies to state their current
18 intentions without committing to a binding and perhaps
19 inflexible rule. In our view, this policy statement is a more
20 appropriate means to express our current thinking on
21 decoupling and conservation incentive mechanisms than either
22 a rule or a formal order in an adjudicative proceeding. A rule
23 is too inflexible, while an adjudication does not enable us to
24 evaluate, as we did here, the many facets of the issue of
25 incentives to ensure that utilities acquire all achievable, cost-
26 effective conservation and are not unduly impacted by lost
27 margin attributable to those conservation efforts.

28
29 However, within the parameters discussed above, we expect
30 utilities to propose limited decoupling or full decoupling
31 mechanisms in the context of a general rate case and to
32 propose direct incentives in the context of their conservation
33 target filings or in the case of gas utilities in the context of a
34 general rate case. In those proceedings, we encourage the

12 *Id.*

1 companies, Commission Staff, Public Counsel, and other
2 parties to test, and help us improve, the policy we here describe
3 and adopt.¹³

4 **Q. Please provide some background on Pacific Power’s revenue decoupling**
5 **mechanism.**

6 **A.** Pacific Power proposed its decoupling mechanism in an expedited rate filing on
7 November 25, 2015 (docket UE-152253). Previously, in the Company’s general
8 rate case filing in 2014 (docket UE-140762), the Commission invited a proposal
9 from Pacific Power to implement a decoupling mechanism similar to those
10 implemented by Puget Sound Energy (“PSE”) and Avista Corporation.¹⁴ The
11 Company’s rationale for the proposed decoupling mechanism was to provide the
12 Company better fixed cost recovery in light of changes in usage due to weather or
13 energy efficiency. In that case, NWECA supported the Company’s proposal.¹⁵

14 In this case, Pacific Power Witness Robert Meredith describes the
15 mechanism as a “pilot mechanism.”¹⁶ However, the Commission, in its 2016 order,
16 did not refer to the mechanism as a pilot. The Commission approved the
17 mechanism for a duration of five years, subject to an evaluation at the end of the
18 third year.

13 *Id.* at 22-23, ¶¶ 35-36.

14 *WUTC v. Pacific Power & Light Company*, Docket No. UE-140762 et al., Order 08
at 94, ¶ 222 (Mar. 25, 2015).

15 *See* Docket No. UE-152253, NWECA Exh. RC-1T, Testimony of Ralph Cavanagh
(Mar. 17, 2016).

16 RMM-1T at 38:10-21.

1 **Q. Has Pacific Power evaluated and proposed changes to its decoupling**
2 **mechanism?**

3 **A.** Yes. In its 2020 General Rate Case, the Company proposed and the Commission
4 approved some refinements to the mechanism that took effect on January 1, 2021.
5 In August 2021, the Company filed its decoupling mechanism evaluation, which is
6 included in this proceeding as Exhibit No. RMM-10. The evaluation made some
7 recommendations to improve the mechanism, which NWECC did not contest, and
8 that the Commission ultimately approved in December 2021. Even if the initial
9 mechanism as proposed in 2015 was considered a pilot, the refinements and
10 reauthorization in the 2020 General Rate Case are indicative that the mechanism
11 has moved well beyond any pilot phase.

12 **IV. THE CONTINUING PUBLIC INTEREST IN REVENUE DECOUPLING**
13 **FOR PACIFIC POWER**

14 **Q. What are the rationales Pacific Power uses for their proposal to eliminate**
15 **decoupling?**

16 **A.** Pacific Power argues that a decoupling mechanism is unnecessary in Washington
17 because the Company is already required to pursue all cost-effective conservation
18 measures per I-937, and must meet biennial goals or face penalties. The Company
19 also argues that decoupling is a disincentive for utilities to pursue electrification
20 because electrification of transportation and heating increases sales while energy
21 efficiency reduces sales. Lastly, the Company argues that the passage of multi-year
22 rate plan legislation which supports performance-based regulation in Washington
23 negates the need for decoupling.

1 **Q. Has anything changed that might alter the Commission’s 2016 and 2021**
2 **conclusions about revenue decoupling for Pacific Power?**

3 **A.** No. While Washington’s policy and regulatory landscape has continued to evolve
4 since Pacific Power established its decoupling mechanism, none of the reasons
5 cited by the Company warrant eliminating the mechanism. My testimony disputes
6 each of Pacific Power’s rationales for eliminating the mechanism.

7 **Q. Is decoupling contrary to the goal of increasing electrification?**

8 **A.** No. In fact, decoupling supports affordability in a system experiencing increased
9 electrification by returning surplus revenues to customers. Washington’s
10 strengthened carbon reduction goals will require extensive electrification, but it
11 would be wrong to assume that somehow this removes the need to shift utilities
12 away from a business model linked to commodity sales, or that the value of end-
13 use efficiency is somehow diminished as electrification increases. For example, a
14 recent assessment of untapped energy efficiency potential in electric vehicles
15 demonstrates the cost-effective potential to more than triple fleet average
16 miles/kWh.¹⁷ With revenue decoupling eliminated, Pacific Power would lose
17 money with every efficiency upgrade in its customers’ electric vehicles, or any
18 other efficiency improvements in its service territory’s buildings or industry. By
19 contrast, Pacific Power would profit automatically from reductions in efficiency or
20 slowdowns in the installation of cost-effective distributed generation. It is not in
21 the public interest automatically to penalize proactive utility investment in reduced

¹⁷ See Amory B. Lovins, *Reframing Automotive Fuel Efficiency*, SAE Mobilus (Apr. 16, 2020), <https://saemobilus.sae.org/content/13-01-01-0004>.

1 customer electricity needs, or to reintroduce a utility incentive to resist progress in
2 efficiency and distributed generation.

3 **Q. What underpins your conviction that energy efficiency is crucial to the success**
4 **of affordable decarbonization and electrification?**

5 **A.** The research supporting energy efficiency’s role in keeping decarbonization
6 affordable is very clear. In a retrospective look at energy resource contributions to
7 meeting the needs of a growing US economy since 1970, the Bipartisan Policy Center
8 determined that energy efficiency had surpassed all other resources combined,
9 including fossil fuels, nuclear power and renewable energy.¹⁸ This is consistent with
10 decades of Northwest energy efficiency progress reports by the Northwest Power and
11 Conservation Council.¹⁹ And forward-looking assessments are united in concluding
12 that all these energy efficiency advances, impressive by any measure, must accelerate
13 dramatically to achieve decarbonization. I provide five examples below:

14 1. According to a 2018 report from the International Energy Agency,
15 significant investments in energy efficiency could cut global climate
16 pollution by 7.1 Gt CO₂-eq annually by 2040, delivering over 40% of the

¹⁸ *America’s Energy Resurgence: Sustaining Success, Confronting Challenges*, Bipartisan Policy Center at VIII (2013), <https://bipartisanpolicy.org/download/?file=/wp-content/uploads/2019/03/BPC20SEPI20Energy20Report2020131-1.pdf> (“[O]ver the last four decades, energy savings achieved through improvements in energy productivity have exceeded the contribution from all new supply resources in meeting America’s growing energy needs.”).

¹⁹ *Energy Efficiency*, Northwest Power and Conservation Council (accessed Sept. 13, 2023), <https://www.nwcouncil.org/energy/energy-topics/energy-efficiency/#:~:text=Through%20energy%20efficiency%2C%20the%20current,million%20tons%20less%20carbon%20dioxide.&text=Includes%20all%20generating%20resources>.

1 abatement required to be in line with the Paris Agreement. These energy
2 savings would also reduce energy bills for consumers by more than \$500
3 billion dollars per year and cut other hazardous air pollution. Achieving this
4 would require global efficiency spending to double from today's levels by
5 2025 – and then double again by 2040 – which would result in transportation
6 energy demand remaining flat despite a doubling of miles driven, shipped,
7 or flown by 2040; keep building energy demand flat despite a 60 percent
8 growth in building space; and help industry halve the energy intensity of all
9 goods produced compared to today.²⁰

10 2. According to a 2019 report from the ACEEE, energy efficiency can slash
11 US energy use and greenhouse gas emissions by about 50% by 2050, getting
12 us halfway to our national climate goals. We can achieve almost all these
13 savings, worth more than \$700 billion in 2050, by dramatically scaling up
14 government policies and [utility] programs.²¹

15 3. According to a 2019 report from Evolved Energy, achieving
16 decarbonization in line with 1.5-degree warming rests on four key strategies
17 or “pillars”, including energy efficiency, with the energy intensity of the
18 entire economy needing to drop 60% below today's level by 2050.²²

²⁰ See *Energy Efficiency 2018*, IEA (2018), <https://www.iea.org/reports/energy-efficiency-2018>.

²¹ See *Halfway There: Energy Efficiency Can Cut Energy Use and Greenhouse Gas Emissions in Half by 2050*, ACEEE (Sept. 18, 2019), <https://www.aceee.org/research-report/u1907>.

²² Exh. LM-3 at 3; *350 ppm Pathway Report for the U.S.*, Evolved Energy Research at 52-53 (May 8, 2019), https://docs.wixstatic.com/ugd/294abc_95dfdf602afe4e11a184ee65ba565e60.pdf.

- 1 4. According to Evolved Energy, energy efficiency plays a crucial role in all
2 pathways, and *total energy demand* in 2050 is approximately 10 to 20
3 percent below today’s level, while the population grows by more than 40
4 percent. Despite overall energy demand decreasing, *electricity consumption*
5 increases in all pathways. By 2050, retail electricity sales are projected to
6 increase by 60 to 75 percent relative to today’s level. As a result,
7 electricity’s share of overall energy demand is projected to increase in a
8 deeply decarbonized future.²³
- 9 5. According to a 2023 report from the Lawrence Berkeley National
10 Laboratory and the Brattle Group, by 2050, US building carbon dioxide
11 emissions can be reduced up to 91 percent vs. 2005 levels without
12 increasing electricity use given deployment of a broad suite of demand-side
13 measures including energy efficiency and demand flexibility alongside full
14 electricity decarbonization.²⁴

²³ Gabe Kwok & Ben Haley, *Exploring Pathways to Deep Decarbonization for the Portland General Electric Service Territory*, Evolved Energy Research at 31-34 (Apr. 24, 2018), https://assets.ctfassets.net/416ywc1laqmd/7tc4cXtpYgEOTM8my6rxsP/987f9f746e1bae5072204693a34c1b68/exploring-pathways-to-deep-decarbonization-PGE-service-territory_1.pdf.

²⁴ Langevin et al., *Demand-side Solutions in the U.S. Building Sector Could Achieve Deep Emissions Reductions and Avoid over \$100 billion dollars in power sector costs*, 6 One Earth, 1005 (Aug. 18, 2023), <https://doi.org/10.1016/j.oneear.2023.07.008>.

1 **Q. What are your general conclusions regarding the role of decoupling in**
2 **electrification, decarbonization, and energy equity?**

3 **A.** In general, energy efficiency gains create more headroom in the electricity system to
4 electrify vehicles and buildings, ensuring that widespread electrification can be
5 achieved at lower cost and lower risk. Decoupling also removes a disincentive that
6 utilities might have to invest in deeper energy efficiency retrofits and hard-to-reach
7 market segments which may not be cost-effective in the short-term, but contribute to
8 the achievement of climate and equity goals. These imperatives further reinforce the
9 case for revenue decoupling, given the importance of affordability, reliability, and
10 equity values to Washington’s clean energy transition.

11 **Q. Would eliminating revenue decoupling encourage utilities like Pacific Power**
12 **to press ahead faster with substituting low-carbon electricity for polluting**
13 **fuels?**

14 **A.** No. Displacement of polluting fuels is speeded by substituting more efficient
15 electric end uses, not by increasing retail electricity sales. A recent report by
16 Lawrence Berkley National Laboratory and the Brattle Group highlights this point.
17 The study authors found that by 2050, US building carbon dioxide (“CO2”)
18 emissions can be reduced up to 91% compared to 2005 levels without increasing
19 electricity use given deployment of a broad suite of demand-side measures
20 including energy efficiency alongside full electricity decarbonization.²⁵ The
21 scenario which pairs aggressive demand-side measures to reduce energy use with

²⁵ *Id.*

1 early retrofits reduces emissions faster and at lower costs than scenarios that
2 prioritize electrification and electricity decarbonization only. Critically, this study
3 found that:

4 Demand- side measures in buildings account for up to nearly half
5 (45%) of total 2050 CO2 reductions beyond a reference case, with
6 the remainder attributable to the decarbonization of the electricity
7 supply. Furthermore, aggressive deployment of building
8 efficiency and flexibility generates up to \$107 billion in annual
9 power system cost savings by 2050, offsetting more than a third
10 of the incremental cost of full grid decarbonization.²⁶

11 **Q. What is the magnitude of the financial disincentives to energy efficiency gains
12 that Pacific Power would avoid by maintaining decoupling?**

13 **A.** To illustrate the need to maintain decoupling for Pacific Power, consider a highly
14 conservative estimate of efficiency gains from incentives and standards equivalent to
15 one percent of residential electricity use annually, with no contribution from the
16 transportation sector. Without revenue decoupling, every lost kilowatt-hour of sales
17 brings with it an automatic reduction in non-fuel cost recovery, since most of those
18 costs are embedded in Pacific Power’s volumetric electricity rates. Lost margins
19 associated with those reduced sales would equal about \$1.7 million in the first year.²⁷

20 And the losses get much worse in the context of multi-year programs initiated
21 under a long-term resource plan. Consider a four-year program that pursues annual
22 savings equivalent to one percent of residential load in the initial year, with each year
23 adding new electricity savings equivalent to the savings achieved during the previous

²⁶ *Id.* at 1006.

²⁷ Calculated from Exhibit RMM-6 (“Proposed Rate Spread, Rate Design, and Billing Comparisons”) present year residential revenues per MWh billing unit (i.e., \$176,072,000 * 0.01 = \$1.7 million).

1 year, and all savings persisting for at least four years – the period of time covered by
2 Pacific Power’s Clean Energy Implementation Plan. Using a simplified straight-line
3 calculation based on the Company’s proposed first year revenue requirement in this
4 case, the first year impact on fixed cost recovery is about \$1.7 million, followed by
5 \$3.5 million dollars in the second year (as an equal amount of savings is added), and
6 so on: **after four years, the cumulative “lost margins” from these steady-state**
7 **residential efficiency gains would be some \$17.4 million,**²⁸ with that total continuing
8 to escalate in succeeding years as initial electricity savings persisted (with some gradual
9 erosion) and more savings were added. Note that the utility would absorb these losses
10 even as customers gained from substituting less costly energy efficiency for more
11 costly resources. Even if Pacific Power were to respond by filing more frequent rate
12 cases, it could not recoup losses incurred in the interval between WUTC decisions, and
13 the stream of losses would recommence as soon as each rate case order was issued. The
14 result is a “throughput addiction” that creates a conflict of interests between utility
15 shareholders and customers.²⁹

²⁸ Calculated from Exhibit RMM-6 (“Proposed Rate Spread, Rate Design, and Billing Comparisons”) present year residential revenues per MWh billing unit. Lost margins of 1 percent per year compounded for four years = \$17.4 million in Year 4.

²⁹ Ralph Cavanagh & John Howat, *Finding Common Ground Between Consumer and Environmental Advocates*, EnergyPolicy.com at 5 (May 2, 2012), <https://hepg.hks.harvard.edu/files/hepg/files/cavanagh-howat-5-2-12-final.pdf>.

1 **Q. Why should the utility not be required to absorb the losses of efficiency gains**
2 **when electrification provides them a greater source of revenue in the first**
3 **place?**

4 **A.** When utilities automatically suffer financial harms as a result of end-use efficiency
5 gains, the result is simply a conflict of interest between customers and shareholders
6 that impedes clean energy progress. And customers would be the losers if utilities
7 retained excess nonfuel revenues associated with faster than anticipated
8 electrification. Decoupling would cap utility revenues at authorized levels. For
9 example, in 2021, the Oregon Public Utility Commission approved an all-party
10 settlement in Portland General Electric Company’s (“PGE’s”) General Rate Case
11 that eliminated the utility’s decoupling mechanism.³⁰ In 2023, PGE acknowledged
12 that there are long-term cost and risk reduction benefits stemming from including
13 additional quantities of energy efficiency beyond what was previously deemed
14 cost-effective, but declined to increase the energy efficiency target in its Clean
15 Energy Plan because, in part, energy efficiency “can have the effect of increasing
16 the costs per unit of sales because it results in decreased total retail sales.... Other
17 supply side resources do not decrease retail sales.”³¹ If this argument is sustained,

³⁰ See *In re Portland General Electric Company, Request for a General Rate Revision*, Oregon Public Utility Commission, Docket No. UE 394, Order No. 22-129 (Apr. 25, 2022).

³¹ *In re Portland General Electric Company’s 2023 Clean Energy Plan and Integrated Resource Plan*, Oregon Public Utility Commission Docket No. LC 80, Portland General Electric Company’s Response to Initial Comments at 20 (May 31, 2023).

1 customers will be harmed by the utility choosing to forego long-term cost and risk
2 reduction benefits in favor of supply-side resources that do not decrease sales.

3 **Q. Are these conflicts of interest limited to cost-effective energy efficiency**
4 **improvements?**

5 **A.** No. Adding distributed generation, such as solar photovoltaic on the customer's
6 side of the meter, reduces retail kilowatt-hour sales and has adverse effects on
7 nonfuel-cost recovery that are identical (per kWh of lost retail sales) to those
8 described above.

9 **Q. How does revenue decoupling remove these conflicts of interest?**

10 **A.** Revenue decoupling makes utilities financially indifferent to retail electricity sales,
11 by ensuring that they recover their authorized nonfuel costs (no more and no less),
12 regardless of any disparities between electricity sales predicted in the most recent
13 rate case and those actually experienced. Efficiency gains and distributed
14 generation additions no longer have any effect on decoupled utilities' opportunity
15 to recover authorized non-fuel costs, even as customers are protected from paying
16 for utility cost recoveries in excess of unauthorized levels as electrification
17 accelerates.

18 **Q. Can a statutory mandate to acquire cost-effective conservation by itself**
19 **eliminate a potent financial disincentive to pursue the resource?**

20 **A.** No. While a statutory mandate is certainly important, its effectiveness depends on
21 many other factors that influence utility and customer behavior, including the
22 utility's financial interests. A mandate to save energy combined with financial
23 disincentives to succeed means that the utility is likely to do the bare minimum,

1 drag its feet, pursue less effective energy efficiency programs and investments,
2 and/or neglect to design programs that serve harder to reach populations or provide
3 a material benefit to low-income customers.

4 **Q. In your opinion, would revenue decoupling make it harder for Pacific Power to**
5 **support and achieve transportation electrification?**

6 **A.** No. On the contrary, revenue decoupling would enhance Pacific Power’s
7 investment in transportation electrification by helping to ensure that such
8 investments benefit all customers. Utilities have long justified transportation
9 electrification initiatives on the grounds that widespread electric vehicle (“EV”)
10 charging will put downward pressure on everyone’s rates and bills, regardless of
11 whether they own EVs. NWECA agrees. But decoupling is crucial to fulfilling that
12 promise by automatically returning revenues in excess of authorized costs to all
13 utility customers in the form of lower rates and bills when electricity sales grow as
14 electrification advances. When the Company reasons: “[w]hile cost effective
15 energy efficiency will reduce sales, electrification of transportation and heating
16 will raise sales. Therefore, a decoupling mechanism could in theory be a
17 disincentive for utilities to support electrification efforts[;]”³² that in essence
18 means that Pacific Power believes it should be permitted to keep throughput-
19 related windfall gains that otherwise would be returned to all customers. In sum,
20 maintaining decoupling allows Pacific Power to push rates and bills down, avoid

³² RMM-1T at 39:19-22.

1 automatic penalties if vehicle efficiency improves, and earn a return on
2 investments to accelerate transportation electrification.

3 **V. DECOUPLING AND PERFORMANCE BASED REGULATION**

4 **Q. Pacific Power mentions docket U-210590 concerning performance-based
5 regulation (“PBR”). Is NWECC familiar with this docket?**

6 **A.** Yes, NWECC has submitted comments in Docket No. U-210590. This docket was
7 initiated due to the passage of Senate Bill 5295 (“SB 5295”), which passed the
8 Washington legislature in 2021 and directed the UTC to:

9 [C]onduct a proceeding to develop a policy statement addressing
10 alternatives to traditional cost of service rate making, including
11 performance measures or goals, targets, performance incentives,
12 and penalty mechanisms. As part of such a proceeding, the utilities
13 and transportation commission must consider factors including,
14 but not limited to, lowest reasonable cost planning, affordability,
15 increases in energy burden, cost of service, customer satisfaction
16 and engagement, service reliability, clean energy or renewable
17 procurement, conservation acquisition, demand side management
18 expansion, rate stability, timely execution of competitive
19 procurement practices, attainment of state energy and emissions
20 reduction policies, rapid integration of renewable energy
21 resources, and fair compensation of utility employees.

22 This PBR proceeding is still in its introductory phase. NWECC provided
23 three sets of comments regarding the workplan for the docket, the goals and
24 outcomes of what utility regulation should seek to achieve in Washington, how
25 well current regulatory mechanisms facilitate achievement of these goals, and the
26 principles for designing metrics to measure outcomes.

1 **Q. Can you briefly summarize NWECC's past comments to the UTC related to PBR**
2 **in Washington State?**

3 **A.** Yes. As expressed in our comments, we think that any regulatory model should
4 aim to give customers equitable access to energy services that are clean, affordable,
5 reliable, and transparent. Regulated utilities should have the opportunity to earn a
6 profit, if such services are provided with minimal environmental impacts and are
7 advancing the best interests of customers. The traditional cost of service regulatory
8 ("COSR") model encourages utilities to add and own capital-intensive generation,
9 transmission, and distribution resources. In some cases, these utility investments
10 could be better served by purchased power (e.g., market purchases), distributed
11 energy resources (e.g., rooftop solar), and/or non-wires alternatives (e.g., targeted
12 demand response programs). However, under a traditional COSR approach utilities
13 forego earnings by making these types of investments, making the investments
14 financially unattractive to the utility even if they are better for customers. The
15 outcomes that traditional cost of service regulation facilitate are generally what is
16 in the best interest of utilities and its shareholders or owners, which are not
17 necessarily the outcomes that serve the best interest of customers.

18 **Q. Is decoupling a component of PBR?**

19 **A.** Yes. Decoupling mechanisms are one of a number of regulatory tools that are often
20 used in PBR, including also: multiyear rate plans ("MYRPs"), performance metrics
21 and scorecards, performance incentives, and penalty mechanisms. The WUTC has
22 made progress over several decades in advancing PBR by adopting decoupling,
23 performance metrics and scorecards, MYRPs, penalties, and most recently,

1 performance incentives. In the future, we hope to see the Commission continue to
2 build on this foundation.

3 **Q. Does PBR, as currently implemented in Washington, negate the need for**
4 **decoupling?**

5 **A.** No. PBR does not negate the need for decoupling for two reasons; on the contrary,
6 decoupling facilitates and lays the foundation for other PBR mechanisms.

7 First, decoupling is, itself, a form of PBR because it removes an inherent
8 incentive in COSR that is present absent decoupling. As discussed previously in
9 my testimony, with decoupling, the throughput incentive is removed by setting an
10 allowed revenue per customer. There is no financial incentive to maximize sales
11 (by, for example, scaling down conservation efforts) if the utility has to refund
12 amounts over the allowed revenue per customer. In this way, decoupling perfectly
13 complements PBR, and is an important component of incentivizing cost control in
14 a MYRP.

15 Second, the MYRP by itself does not negate the need for decoupling.
16 Absent decoupling, the throughput incentive would still be present in a MYRP.
17 The MYRP does not set an allowed revenue per customer, or any revenue cap for
18 that matter. The only cap provided in the MYRP is the refund trigger in RCW
19 80.28.425(6), which is at 0.5% above the company's authorized rate of return
20 ("ROR").³³ But even with a refund cap, the utility has an opportunity to earn up to

³³ RCW 80.28.425(6): If the annual commission basis report for a gas or electrical company demonstrates that the reported rate of return on rate base of the company for the 12-month period ending as of the end of the period for which the annual commission basis report is filed is more than .5 percent higher than the rate of

1 0.5% over its authorized ROR, so it still has an incentive to maximize throughput
2 in pursuit of maximizing its ROR. Further, to the extent that increased throughput
3 is likely to push ROR over the 0.5% cap, the utility can just increase expenses to
4 pull the ROR back down so that it can minimize refunds to customers while
5 maximizing revenues and profit. For these reasons, it is important to maintain full
6 revenue decoupling in a MYRP in Washington.

7 **Q. Has NWEC previously testified on the appropriateness of decoupling in a**
8 **MYRP filing?**

9 **A.** Yes. On behalf of the Joint Environmental Advocates, I submitted testimony
10 supporting PSE's proposal to continue its decoupling mechanisms in dockets UE-
11 220066/UG-220067.³⁴ In that case, I noted that while the transition to PBR and the
12 need to invest in electrification may warrant a discussion about modernizing PSE's
13 decoupling mechanism in the future, decoupling is and will remain an important tool
14 used in ratemaking to address the disincentive to invest in energy efficiency and
15 conservation as utilities decarbonize.

return authorized by the commission in the multiyear rate plan for such a company, the company shall defer all revenues that are in excess of .5 percent higher than the rate of return authorized by the commission for refunds to customers or another determination by the commission in a subsequent adjudicative proceeding.
³⁴ See generally *In re General Rate Case to Update Electric Base Rate to Recover Increase Electric Revenue Requirements*, Docket Nos. UE-220066 and UG-220067 (consolidated), NWECA Exh. LCM-1T (July 28, 2022).

1 **Q. Would it be appropriate for the Commission to examine the future of decoupling**
2 **in Washington in docket U-210590?**

3 **A.** Yes. Likewise, it would not be appropriate to eliminate Pacific Power's decoupling
4 mechanism before the Commission issues a policy statement in docket U-210590.

5 **VI. BASIC CHARGE**

6 **Q. Please provide a summary of Pacific Power's initial rate design proposals in**
7 **this case.**

8 **A.** Pacific Power proposes to increase the basic charge of single-family residential
9 customers from \$7.75 per month to \$10.00. The basic charge for multi-family
10 dwellings would remain at \$7.75. Pacific Power also proposes replacing inclining
11 tier block rates with seasonal rates. Specifically, residential energy pricing would
12 be 1.921 cents per kwh higher in June through September than during the rest of
13 the year.

14 **Q. Do you support Pacific Power's proposal to increase the basic charge for**
15 **single-family dwellings from \$7.75 to \$10.00 per month?**

16 **A.** I do not, for three reasons. First, the proposed increase to the basic charge
17 inappropriately includes the cost of transformers in the customer charge, a term I
18 explain below. Second, the proposed increase sends a negative price signal for
19 energy efficiency. And third, low-income customers are most negatively impacted
20 by any increase to the customer charge.

1 **A. Inclusion of Transformers in the Basic Charge**

2 **Q. What do you mean the basic charge inappropriately includes the cost of**
3 **transformers in the customer charge?**

4 **A.** The basic charge is also frequently called the “customer charge.” It is called the
5 customer charge because the costs included in the charge cover the costs of
6 providing service to a specific customer. Unlike other costs like generation,
7 transmission, and distribution, which are aggregated and spread amongst and
8 within customer classes, the basic charge exists solely to recover expenditures by a
9 utility that are needed to provide service to a singular customer. Those costs
10 include customer service, metering, and billing. The Regulatory Assistance Project,
11 leading experts in the field of rate design, confirm this definition of Customer
12 Charge: “A fixed charge to consumers each billing period, typically to cover
13 metering, meter reading and billing costs that do not vary with size or usage. Also
14 known as a basic service charge or standing charge.”³⁵

15 **Q. Do transformers fit into the categories of customer service, metering and**
16 **billing?**

17 **A.** They do not.

³⁵ Jim Lazar, et al., *Electric Cost Allocation for a New Era: A Manual*, Regulatory Assistance Project at 259 (Jan. 2020), <https://www.raponline.org/wp-content/uploads/2020/01/rap-lazar-chernick-marcus-lebel-electric-cost-allocation-new-era-2020-january.pdf>.

1 **Q. Do you agree with Pacific Power’s characterization of transformers as**
2 **customer-related for the purposes of the Cost of Service Study?**³⁶

3 **A.** No. Pacific Power notes that distribution costs are classified as demand-related or
4 customer-related in its Cost of Service Study. The utility then makes the decision
5 to include meters, services and transformers as customer-related for the purposes of
6 including those costs in the customer charge.³⁷ However, Pacific Power also notes
7 that transformers are indeed demand-related: “Transformers are usually set at the
8 time of construction and are *designed to provide a sufficient level of capacity* for
9 the needs of a small group of customers that are located close-by.”³⁸ “Capacity” in
10 this sense is the amount of electricity the customer, or customers, will need to
11 operate their dwelling(s), or, simply put, their demand.

12 **Q. Does the size of a transformer installed depend on expected demand?**

13 **A.** Yes, Pacific Power notes that there are three levels of transformers that it can select
14 from when installing a transformer: 10 KVA, 25 KVA and 50 KVA.³⁹ Here again,
15 Pacific Power acknowledges that demand plays a critical role in selection of the
16 transformer to install: “transformers are selected to ensure ample capacity is
17 available to serve the different customers connected to them including some level
18 of growth.”⁴⁰ Critically, “level of growth” indicates a variation in the amount of
19 usage.

³⁶ RMM-1T at 7:10.

³⁷ RMM-1T at 7:10.

³⁸ RMM-1T at 14:17-19 (emphasis added).

³⁹ RMM-1T at 15:1-3.

⁴⁰ RMM-1T at 15:1-3.

1 **Q. Do transformers serve a singular customer?**

2 **A.** Transformers can serve individual customers, and in very rural areas that is not
3 atypical. However, in urban and suburban areas transformers almost always serve
4 multiple customers. Roughly three single-family customers (2.9), on average, are
5 served by a single transformer on Pacific Power's system.⁴¹

6 **Q. Has the WUTC previously provided direction on the inclusion of transformers**
7 **in the basic charge?**

8 **A.** Yes, the WUTC has provided abundantly clear direction on the issue of
9 transformer cost allocation:

10 We determine that neither PSE's proposal to increase basic
11 charges for residential customers, nor Staff's recommendations to
12 add a minimum bill to basic charges and establishing seasonal
13 rates, should be adopted. We are not persuaded on the basis of the
14 current record that transformer costs should be recovered in basic
15 charges, or through a minimum bill. We have never approved such
16 a proposal and continue to believe these costs are not customer-
17 related costs as that term is generally understood. Transformer
18 costs should be recovered as distribution charges subject to PSE's
19 electric decoupling mechanism, which adequately protects the
20 [utility's] recovery of its fixed costs.⁴²

21 This comports with the Regulatory Assistance Project's advice on the issue:

22 To the extent that regulation is a substitute for market forces,
23 regulators should be careful in considering higher basic charges to
24 recover costs that are incurred for utility infrastructure. In general,
25 all distribution costs other than operating expenses, such as basic
26 metering and billing, should be recovered through volumetric
27 rates, reflecting the fact that utility distribution grids are justified

⁴¹ RMM-1T at 13:18-19.

⁴² *In re General Rate Case to Increase in Base Rates to Recover Increased Electric Revenue Requirements*, Docket Nos. UE-170033 and UG-170034 (*consolidated*), Order 08 at 120 (Dec. 5, 2017).

1 only where usage levels are high enough to justify grid
2 construction. In the long run, there are no fixed costs.⁴³

3 As such, the WUTC should not waver from its strong directive, should not
4 allow Pacific Power to include the costs of transformers in the basic charge, and
5 should allow the continuation of Pacific Power's decoupling mechanism to provide
6 protection for the recovery of prudently incurred fixed costs, including demand-
7 related distribution assets.

8 **B. Basic Charge Impact on Energy Efficiency**

9 **Q. How does the customer charge relate to energy efficiency?**

10 **A.** The importance of energy efficiency stems from the fact that not only does the
11 resource reduce individual customer bills, it reduces overall system cost by
12 reducing peak demands and avoiding expensive generation and transmission
13 upgrades.⁴⁴ However, higher fixed charges, and thus lower energy charges, means
14 customers have less incentive to reduce their electricity use because they are
15 required to pay the higher fixed charge regardless of the amount of demand they
16 place on the system.⁴⁵ As noted by the National Association of Regulatory Utility

⁴³ Jim Lazar, Lisa Shwartz, & Riley Allen, *Pricing Do's and Don't's: Designing Retail Rates As if Efficiency Counts*, Regulatory Assistance Project at 6 (Apr. 2011), <https://www.raponline.org/wp-content/uploads/2016/05/rap-lazar-pricingdosanddnts-2011-04.pdf>.

⁴⁴ Brandon Baatz, *Everyone Benefits: Practices and Recommendations for Utility System Benefits of Energy Efficiency*, ACEEE (June 2015), <https://www.aceee.org/research-report/u1505>.

⁴⁵ *A Troubling Trend in Rate Design: Proposed Rate Alternatives to Harmful Fixed Charges*, Southern Environmental Law Center at 3 (Dec. 2015), https://legacy.uploads.southernenvironment.org/news-feed/A_Troubling_Trend_in_Rate_Design.pdf.

1 Commissioners (“NARUC”), “it may be more reasonable to lower the fixed costs
2 and increase the volumetric rate, which would send a more efficient price signal.”⁴⁶

3 **Q. How does Pacific Power’s proposal to increase the basic charge impact energy
4 efficiency acquisition?**

5 **A.** Pacific Power’s proposal to include transformers in the basic charge increases the
6 fixed monthly charge by nearly 30%. As a result, utility customers and the utility
7 itself may have a decreased incentive to pursue energy conservation.

8 **Q. How would customers have a decreased incentive to pursue energy efficiency?**

9 **A.** Pacific Power notes that its proposed increase to the basic charge will be
10 accompanied by a correspondingly lower energy charges.⁴⁷ Yet, the energy charge
11 is the only one of the two in which customers can control their costs. The fixed
12 customer charge remains the same no matter how much energy a customer uses.
13 Thus, if the fixed charge is high and the variable charge is low, or lower, customers
14 will not save as much on their energy bill by choosing to either use less energy
15 (conservation) or investing in more efficient equipment (efficiency). As a result,
16 customers are less motivated to participate in utility efficiency programs, and less
17 able to control their bills by reducing their usage. This could also affect customer
18 adoption of distributed generation, with a high fixed charge extending the payback
19 period for residential investment in solar.

⁴⁶ *NARUC Manual on Distributed Energy Resources Rate Design and Compensation*,
NARUC Staff Subcommittee on Rate Design at 118 (Nov. 2016),
<https://pubs.naruc.org/pub/19FDF48B-AA57-5160-DBA1-BE2E9C2F7EA0>.

⁴⁷ RMM1T at 16:16-17.

1 **Q. How would the utility have a decreased incentive to pursue energy**
2 **conservation?**

3 **A.** The utility would have a decreased incentive because it must prove to the
4 Commission that its energy efficiency expenditures are cost-effective. Any cost-
5 effectiveness calculation must consider the amount of savings a measure would
6 achieve. As noted above, the decreased price signal in the variable energy charge
7 will inherently lessen the desire for customers to participate. As a result, when a
8 utility plugs in less anticipated (or realized) savings into their cost-effectiveness
9 equation, it's possible that fewer measures or programs will have high enough
10 savings to justify the costs.

11 **Q. Why should the Commission be concerned about a decreased incentive to**
12 **invest in energy efficiency and conservation?**

13 **A.** Cost-effective energy efficiency is inherently the cheapest energy resource. It's
14 also the most reliable, as once installed the resource is all but guaranteed to show
15 up. Furthermore, the price of a resource that is not needed is also inherently the
16 least volatile. And as commissions and utilities express concern about resource
17 adequacy and the ability to meet peak load, energy efficiency and conservation is
18 the cheapest and fastest way to ensure that reliability is maintained.

1 **C. Low-Income Impacts**

2 **Q. How does Pacific Power’s proposed increase to the basic charge relate to**
3 **issues concerning low-income customers?**

4 **A.** Higher fixed charges disproportionately impact low-income customers because in
5 many jurisdictions, they tend to have lower than average energy use.⁴⁸ This is
6 consistent with Table 4 in company witness Meredith’s initial testimony, showing
7 that a greater percentage of lower-income customers use fall into the 0-600 kwh
8 usage block and a smaller percentage fall in the over-1200kwh block.⁴⁹ High fixed
9 charges increase total costs for lower energy users while decreasing costs for high
10 energy users. As a result, the higher fixed charge means that low-income customers
11 will see an increased energy burden (percentage of income spent on energy bills)
12 and a decrease in the ability to spend dollars in other parts of the economy.

13 The impact to low-income customers is compounded when taking into
14 consideration that weatherization and efficiency efforts will have a significantly
15 lower benefit due to the requirement to pay the higher fixed customer charge
16 regardless of energy usage. For these reasons, 33 groups representing consumer,

⁴⁸ See Low Income Home Energy Data for Fiscal Year 2017, U.S. Department of Health and Human Services at 3 (Oct. 2018), https://www.acf.hhs.gov/sites/default/files/documents/ocs/RPT_LIHEAP_HEN01_HEDData_FY2017_0.pdf (showing that non-low income households use, on average, 64.1 MMBTU of electricity per year, while low-income households use 50.4 MMBTU, and LIHEAP recipients using 53.7 MMBTU). See also Mark Lebel et al., *Smart Rate Design for Distributed Energy Resources*, Regulatory Assistance Project at 50 (Nov. 2021), <https://www.raponline.org/wp-content/uploads/2021/11/rap-lebel-shiple-ly-lin-vill-kadoch-smart-rate-design-distributed-energy-resources-2021-november.pdf>.

⁴⁹ See RMM-1T at Table 4; see also RMM 1-T at 22:11-12 (“It is true that overall average monthly usage tends to increase with income.”).

1 low-income, environmental, and technology-specific advocates signed a letter to
2 NARUC stating, “We are also concerned that imposing increased fixed
3 charges...may stifle development of nascent technology, discourage innovation,
4 reduce customer control over electricity costs and disproportionately harm low-use
5 and low-income users.”⁵⁰

6 **Q. Would an increase to the revenue requirement without changes in rate design
7 also hurt low-income customers?**

8 **A.** Yes. Any increase in costs passed onto customers without a meaningful increase in
9 weatherization, bill discount, and bill assistance will disproportionately impact
10 low-income customers. That impact is compounded with rate design changes that
11 require lower energy users to pay a higher share of the total costs.

12 **VII. INCLINING BLOCK RATES**

13 **Q. What are the rationales Pacific Power uses for their proposal to eliminate the
14 inclining block rate structure in favor of seasonal rates?**

15 **A.** Pacific Power cites a lack of economic rationale, a perverse incentive to switch to
16 natural gas, a disincentive to invest in transportation electrification, and low-
17 income impacts as its justifications for eliminating the tiered block rate structure.⁵¹

⁵⁰ *Letter to NARUC President Kavulla*, Environmental Defense Fund at 2 (June 23, 2016), <https://blogs.edf.org/energyexchange/files/2016/06/Good-Rate-Design-Process-Letter-to-NARUC.pdf>.

⁵¹ *See* RMM-1T at 21-23.

1 **Q. Do you agree that there is no economic rationale supporting inclining block**
2 **rates?**

3 **A.** No. Pacific Power states, “there is nothing special about additional overall usage in
4 a monthly billing period that makes it more expensive for the utility to produce that
5 next kilowatt hour of electricity.”⁵² Yet, Pacific Power acknowledges that peak
6 power prices are volatile, dependent on weather (i.e. fluctuating demand to meet
7 variable heating and cooling needs), and more expensive than off peak prices.⁵³ It
8 is well known that spot market prices increase during times of peak demand,
9 especially during the height of summer and winter. Generation costs also increase
10 for utilities that utilize natural gas peakers, as the limited supply of the commodity
11 drives up input costs. Inclining block rates, by sending a signal that increased
12 energy usage in the aggregate for the month will be more expensive, inherently
13 reduces usage at any particular moment as well for it is the sum of these moments
14 that leads to the aggregate.

15 **Q. Do you agree that inverted block rates create a perverse incentive to switch to**
16 **natural gas?**

17 **A.** No. Switching to natural gas requires significant upfront capital which far
18 outweighs the costs of block rates. I do agree that block rates may compound the
19 difficulty in making the upfront capital investments to switch *away* from natural

⁵² RMM-1T at 21:7-9.

⁵³ See RMM-1T at 34-35. See also, PacifiCorp 2023 Integrated Resource Plan, Volume 1 at 44-45 (Mar. 31, 2023), https://www.PacificPower.com/content/dam/pcorp/documents/en/Pacific Power/energy/integrated-resource-plan/2023-irp/2023_IRP_Volume_1.pdf.

1 gas but the fact remains that tiered block rates send a strong efficiency signal that
2 must be replicated in any new rate design structure in order to keep costs low for
3 all customers.

4 **Q. Do you agree that tiered block rates provide a disincentive to invest in**
5 **transportation electrification?**

6 **A.** I agree that there is a fair amount of logic in that statement. Both transportation and
7 building electrification inherently mean that customers will use more electricity,
8 and the costs of doing so may be increased by tiered rates. This is consistent with
9 cost causation principles. Conversely, electricity costs and rates will also be higher
10 if there are not strong signals for customers to be mindful of their energy usage.
11 Furthermore, the decision to purchase an electric vehicle depends much more on
12 other factors, such as the cost savings of electricity compared to gasoline prices.

13 **Q. Do you agree that tiered block rates negatively impact low-income customers?**

14 **A.** No, and especially not in comparison to Pacific Power's proposed seasonal rates
15 replacement structure. According to Pacific Power's figures in Table 4 of company
16 Witness Meredith's testimony, the average customer with income below \$60,000
17 uses 1,129 kwh per month on average. At the current rate structure, the variable
18 charge for the average customer in this income range is \$108.89 per month.⁵⁴ In
19 rate year two of Pacific Power's proposal, that same customer would have a bill

⁵⁴ (600kwh X .08276) + (529kwh X .11198)

1 including a variable charge of no less than \$123.71.⁵⁵ In the months of June-
2 September, the variable charge would rise to \$145.40.⁵⁶

3 **Q. What are your overall thoughts of Pacific Power’s proposal to replace the**
4 **tiered block rate structure with seasonal rates?**

5 **A.** Given our desire to electrify the energy system, we may indeed be approaching the
6 time when simply designed tiered block rates are not justified. However, the
7 replacement structure cannot lead to elimination of the gains we have made in
8 energy efficiency and conservation through rate design. The replacement structure
9 must continue to send a strong price signal to encourage reduced overall usage as
10 well as usage during times of low demand where possible. I don’t believe Pacific
11 Power’s proposal in this case meets that need.

12 **Q. How does Pacific Power’s seasonal rates proposal not send the proper price**
13 **signal to reduce and shift load?**

14 **A.** Pacific Power’s proposal to charge a higher rate in the months of June-September
15 is merely an acknowledgement that the cost to serve customers are higher during
16 those months due to increased market prices. That may be true, but a flat customer
17 charge during those months does not send any signal to reduce or shift load during
18 those months or hours. It merely forces customers to pay more, even if they are
19 using less.

⁵⁵ 1,129kwh X .10958

⁵⁶ 1,129kwh X .12879

1 **Q. What is your recommendation regarding Pacific Power’s rate design**
2 **proposals.**

3 **A.** I recommend the Commission reject Pacific Power’s proposal to increase the basic
4 charge from \$7.75 to \$10.00 for single-family residential customers. Similarly, I
5 recommend the Commission reject Pacific Power’s proposal to eliminate the tier
6 block rate structure in favor of seasonal rates. While I am open to considering the
7 eventual elimination of the tiered rate structure, I believe that a well-designed time-
8 of-use rate, by sending price signals to reduce energy use and shift the time of
9 energy usage, likely provides better outcomes for Pacific Power and its customers.
10 The Commission should direct Pacific Power to complete its time-of-use pilot, and
11 using the data from the pilot, make a proposal to implement time-of-use rates
12 across its service territory in its next general rate filing.

13 **VIII. COLSTRIP**

14 **Q. What is your recommendation regarding Pacific Power’s proposed Colstrip**
15 **capital expenditures in this case?**

16 **A.** All expenditures which are not associated with decommissioning and remediation
17 of the plant should not be included in rates in this proceeding. Under the Clean
18 Energy Transformation Act (“CETA”), Pacific Power must remove all coal-fired
19 power from customer rates by the end of 2025. This means that planned
20 expenditures made during the rate plan for Colstrip Unit 4 will be no longer used
21 and useful by the end of the rate plan. For proposed expenditures which are not
22 part of an approved budget, the Commission should preemptively disallow these
23 investments to provide certainty to customers and the company.

1 I specifically recommend that the following capital expenditures be
2 disallowed. Given that these projects are clearly meant to extend the life of the
3 plant and are not associated with decommissioning and remediation, the costs
4 should not be included in rates to Pacific Power customers:

- 5 • Dry Ash Waste Disposal System (July 2022)
- 6 • Colstrip Unit 4 Overhaul Capital (Dec. 2024)
- 7 • Colstrip Condenser Tube Replacement (Aug. 2024)
- 8 • Colstrip Unit 4 Final Superheat Section Replacement (Aug. 2024)

9 Furthermore, there is no guarantee—and indeed, it seems unlikely—that
10 Colstrip will be operational in 2024. It would not be prudent, therefore, to include
11 these costs in the revenue requirement given their unlikely implementation.

12 **Q. Why is it important for the Commission to disallow these expenditures?**

13 **A.** Sending the message that Washington customers will no longer foot the bill for
14 life- extending investments at Colstrip is not only consistent with the intent of
15 CETA, but it will also provide necessary certainty to the owners, and protect
16 Washington customers from further entanglement in complex legal fights between
17 the Colstrip owners. NWECC and other stakeholders have previously asked the
18 Commission to act preemptively to protect customers from sinking more money
19 into the continued operation of this plant.⁵⁷ Although the Commission has so far
20 declined to do so, it's not fair to customers to keep kicking this can down the road.
21 In my view, the policy, market conditions, and common sense weigh in favor of
22 disallowance of any life-extending investments. We urge the Commission to
23 disallow these costs for recovery in rates.

⁵⁷ See Docket UE-210241: Request to Initiate Investigation on behalf of NGOs.

1 **IX. CONCLUSION**

2 **Q. Please summarize your testimony.**

3 **A.** On decoupling, my testimony summarized the structure, history, and purpose of
4 revenue decoupling and the history of revenue decoupling in Washington. I
5 reviewed the background on Pacific Power’s decoupling mechanism, and Pacific
6 Power’s proposal to eliminate its decoupling mechanism in this proceeding. I
7 advocate for continuing Pacific Power’s decoupling mechanism in light of the need
8 to support efficient and affordable electrification, to eliminate the throughput
9 incentive, and to align financial incentives to the Company with public policy
10 goals supporting decarbonization and advancement of performance-based
11 regulation. With regard to rate design, my testimony recommends the Commission
12 reject the inclusion of transformers in the basic charge, thereby keeping the fixed
13 monthly charge at \$7.75 for all residential customers. I also explain that the
14 elimination of tiered block rates may be worth considering in the future, but Pacific
15 Power’s proposal of seasonal rates does not provide adequate price signals to
16 encourage efficiency. My testimony therefore recommends rejecting Pacific
17 Power’s replacement of tiered block rates with seasonal rates and instead requiring
18 Pacific Power to complete its time-of-use pilot and make a new time-of-use
19 proposal in its next general rate filing.

20 **Q. Does this conclude your testimony?**

21 **A.** Yes.