BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent.	DOCKETS UE-190529 and UG-190530 (c*onsolidated*)
In the Matter of the Petition of PUGET SOUND ENERGY For an Order Authorizing Deferral Accounting and Ratemaking Treatment For Short-life UT/Technology Investment	DOCKETS UE-190274 and UG-190275 (*consolidated*)
In the Matter of the Petition of PUGET SOUND ENERGY For an Order Authorizing Deferred Accounting associated with Federal Tax Act on Puget Sound Energy's Cost of Service	DOCKETS UE-171225 and UG-171226 (*consolidated*)
In the Matter of the Petition of PUGET SOUND ENERGY For an Order Authorizing the Accounting treatment of Costs of Liquidated Damages	DOCKETS UE-190991 and UG-190992 (*consolidated*)

INITIAL POST-HEARING BRIEF OF

THE FEDERAL EXECUTIVE AGENCIES

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OVERVIEW AND SUMMARY OF CASE

The Federal Executive Agencies ("FEA") hereby submits its initial post-hearing brief in this docket. The United States Department of the Navy ("Navy") represents the Department of Defense and all other Federal Executive Agencies in this proceeding. The FEA is one of the largest consumers of electricity in the service territory of Puget Sound Energy ("PSE" or "the Company") and takes electric service from the Company primarily on Schedule 49. The FEA filed response and cross-answering testimony in this docket.

The FEA's testimony in this proceeding focused on certain aspects of PSE's proposed electric class cost of service and rate design. Specifically, the FEA's testimony addressed the following areas:

- The classification and allocation of electric generation and transmission fixed costs;
- The allocation of any changes in electric base rate revenues approved in this case, particularly the allocation to Schedule 49;
- PSE's proposal to implement an attrition adjustment; and
- The Company's proposed Conjunctive Demand Service Option Pilot ("Pilot").

With respect to the classification and allocation of generation and transmission fixed costs, the FEA urges the Commission to reject the Company's proposal to allocate such costs to the customer classes using the peak credit method with updated input assumptions. By reducing the demand-related component of production and transmission fixed costs from 25% to 11%, the Company's proposal to update the peak credit classification assumptions would further deviate from sound, cost-based ratemaking principles. Instead, PSE's production and transmission fixed costs should be classified as entirely demand-related and these costs should be allocated to the customer classes exclusively based on those classes' contribution to the utility system peaks in the months of January, February, November and December 2018 (the "4 CP method"). The 4 CP

method provides a much better reflection of cost causation than classification or allocation methods that utilize energy usage to any significant degree. If the Commission believes that it is appropriate to use energy usage (as measured by average demand) to classify and to allocate a portion of fixed production and transmission costs in this proceeding, a more appropriate and reasonable approach would be to rely on the "average and excess demand" method. Specifically, the FEA recommends applying the average and excess 4 non-coincident peak demand ("A&E 4 NCP") method to allocate production and transmission plant costs to the customer classes using factors that combine the classes' average demands and non-coincident peak demands.

With respect to electric revenue allocation, it is the FEA's position that the Company's electric revenue allocation proposal does not show sufficient movement toward cost-based rates and excessively subsidizes residential customers. Moreover, PSE's proposed revenue allocation would inappropriately impose significant rate increases on customer classes that should receive a rate reduction if cost-based rates were applied. To reduce cross subsidies among rate classes and to create greater movement towards cost-based rates, the FEA recommends that no electric customer class receive a rate increase if it would be entitled to a rate reduction under cost-based rates. This means that Schedules 24, 25, 26, 31 and 46/49 should be maintained at their present rates and should receive no rate increase in this proceeding. Consistent with the Company's electric revenue allocation proposal, the FEA recommends that the revenue deficiency for the Retail Wheeling, Special Contract and Firm Resale classes be directly assigned to the applicable rate schedules.

The FEA also recommends that the Commission reject PSE's proposal to establish an attrition adjustment in this proceeding. Such an adjustment would dilute the Company's incentive to control costs under the traditional ratemaking process and would transfer excessive risks to

PSE's customers. Moreover, an attrition adjustment is unnecessary in light of the numerous opportunities that PSE currently has to recover cost escalations beyond historical test year levels.

Finally, the FEA urges the Commission to approve the Company's proposed Pilot. The Pilot will give customers with multiple locations across PSE's service territory an opportunity to manage their power costs more effectively. At the same time, the Pilot will benefit all customers on the Company's system by providing program participants with more efficient, cost-based price signals to control their maximum simultaneous demands in a manner that will help to reduce incremental generation and transmission investment on the Company's system. After PSE has gained some experience with conjunctive billing through the Pilot, the Company should expand the scope of the conjunctive billing program to other rate schedules, such as Schedule 49, that contain customers with multiple electricity accounts or locations.

The remainder of the Navy's initial post-hearing brief addresses each of the foregoing issues in greater detail.

CLASSIFICATION AND ALLOCATION OF GENERATION AND TRANSMISSION FIXED COSTS

PSE used the peak credit methodology to classify electric production costs into demand and energy components based on the ratio of the cost of a proxy peaking generating resource to the cost of a proxy base load generating resource. The Company allocated the demand-related component of fixed production and transmission costs to the electric customer classes using a 4 CP allocation factor that is based on each class's contribution to the Company's system peak demand during the months of January, February, November and December 2018. PSE allocated the energy-related component of fixed production and transmission costs based on class energy

consumption. Using this peak credit method, PSE classified 11% of fixed production and transmission costs as demand-related and 89% as energy-related.

PSE's proposed method for classifying and allocating generation and transmission fixed costs is improper because it does not reasonably reflect the cost drivers for generation and transmission plant investment. As FEA witness Ali Al-Jabir explained in his response testimony, the cost driver for fixed generation and transmission plant investment is the maximum coincident demand on the system, which dictates the design capacities of such resources. The amount of energy produced by those resources does not drive the incurrence of fixed generation and transmission costs, which are properly classified as entirely demand-related. It is the Company's system peak demands, which occur during the winter months, that drive the need for additional generation and transmission capacity. Demands during moderate-load times, whether time of day or month of year, do not cause new generating capacity to be built because there is excess capacity on the system during those times.

Furthermore, Mr. Al-Jabir demonstrated that it is the demand for power, not the energy flow itself, that determines when additional generation and transmission capacity is needed. Moreover, the fixed and sunk nature of generation and transmission investment means that the cost, once incurred, does not vary with the amount of energy produced or consumed. Only variable costs that vary with the level of output of the units, such as fuel, should be classified as energy-related and allocated on the basis of energy allocators. Moreover, classifying the bulk of production and transmission fixed costs on an energy basis unfairly increases the cost to customers that efficiently utilize the Company's system such as high load factor and off-peak customers. Consequently, PSE's proposal is inconsistent with sound cost causation principles.

Therefore, instead of applying the peak credit method, Mr. Al-Jabir testified that fixed production and transmission costs should be classified as 100% demand-related in this proceeding and allocated to the customer classes according to each class's demand during the system peak months of January, February, November and December 2018 (the "4 CP method"). During the aforementioned months, PSE's production and transmission resources are likely to be in use and operating at or close to their maximum capacities. The 4 CP method provides a much better reflection of cost causation than classification or allocation methods that utilize energy usage to any significant degree.

However, if the Commission believes that it is appropriate to use energy usage (as measured by average demand) to classify and to allocate a portion of fixed production and transmission costs in this proceeding, a more appropriate and reasonable approach would be to rely on the "average and excess demand" method.[1/] Specifically, Mr. Al-Jabir recommends applying the A&E 4 NCP method to allocate production and transmission plant costs to the customer classes using factors that combine the classes' average demands and non-coincident peak demands. Under this approach, a customer class's allocation factor for fixed production and transmission costs would consist of two components. The first component (the average demand factor) is determined using average demand (energy consumption) times the system load factor. The second component of the class allocation factor (the excess demand factor) is determined as the proportion of the difference between the sum of the classes' 4 non-coincident peaks and the system average demand.[2/]

[1/] See NARUC Manual at 49-52.

[2/] *Id.*

By linking the energy component of the class allocation factors to the system load factor, the A&E 4 NCP method provides for a more reasonable energy weighting of fixed production and transmission costs that is more reflective of the actual operating characteristics of the Company's system relative to the peak credit method. Therefore, the A&E 4 NCP method is a more reasonable and balanced allocation approach relative to the Company's proposal for continued reliance on the peak credit method in this case. Applying the A&E 4 NCP method in this proceeding results in allocating 62.6% of fixed production and transmission costs on an energy basis and 37.4% of these costs on a demand basis.[3/]

ELECTRIC REVENUE ALLOCATION

In this proceeding, PSE proposes to apply certain criteria that would guide the allocation of electric revenues to the customer classes. Specifically, PSE proposes to apply 100% of the adjusted system average rate increase to retail customer classes that are within 5% of full revenue parity. Rate classes that are more than 5% but less than 10% above full parity would receive a rate increase that is 75% of the adjusted average increase. Rate classes that are below full parity and that fall within a parity ratio bandwidth of 0.89 to 0.95 would receive 125% of the adjusted system average increase. Rate classes that are below full parity and have a parity ratio of less than 0.89 would receive 150% of the adjusted average increase. The adjusted average rate increase calculated by the Company accounts for the effect of above-average and below-average increases to certain classes. Under the Company's proposal, the revenue deficiency for the Retail Wheeling, Special Contract and Firm Resale classes is directly assigned to the applicable rate schedules.[4/]

[3/] Docket Nos. UE-190529, UG-190530, UE-190274 and UG-190275, Response Testimony of Ali Al-Jabir on behalf of the FEA, November 22, 2019, pages 11-16.

[4/] Docket Nos. UE-190529 and UG-190530, PSE's Response to FEA Data Request No. 18.

As. Mr. Al-Jabir demonstrated in the exhibits to his response testimony, the major impact of the Company's revenue allocation proposal is to reduce the rate increase for the residential rate class below the cost-based level. Specifically, line 1 of Mr. Al-Jabir's Exhibit No. AZA-4 shows that the Company is proposing a base rate revenue subsidy of $47.3 million for the residential class under its proposed electric rates. This subsidy is financed by several other rate classes on PSE's system, including Schedule 49, through rates that exceed their fully allocated class cost of service.

The other significant impact of the Company's revenue allocation proposal is that it would impose a rate increase on several rate classes that should receive a rate reduction under cost-based rates. This result is shown in Mr. Al-Jabir's Exhibit Nos. AZA-4 and AZA-5. For example, line 9 of Exhibit No. AZA-4 shows that the High Voltage class (Schedules 46/49) is paying rates that exceed its cost of service by $2.2 million at present rates. However, under the Company's proposal, this class would receive a rate increase of $2.3 million or 5.76%, as shown on line 9 of Exhibit No. AZA-5. A similar pattern applies to each of the three secondary voltage level classes (Schedules 24, 25, and 26) and to the Primary Voltage (Schedule 31) class under PSE's proposed electric revenue distribution.[5/]

The FEA recommends that the Commission reject the Company's electric revenue allocation proposal because it does not show sufficient movement toward cost-based rates and because it excessively subsidizes residential customers. Moreover, it is inappropriate to impose rate increases on customer classes that should receive a rate reduction if cost-based rates were applied.

[5/] Docket Nos. UE-190529, UG-190530, UE-190274 and UG-190275, Response Testimony of Ali Al-Jabir on behalf of the FEA, November 22, 2019, Exhibits Nos. AZA-4 and AZA-5.

Furthermore, Mr. Al-Jabir testified that the Company's electric class cost of service study ("CCOSS") is based on the application of the peak credit method for the allocation of fixed production and transmission investment. This allocation method allocates excessive costs to the high load factor classes such as Schedule 49 relative to a truly cost-based allocation methodology such as the 4 CP method. Even using the flawed peak credit cost allocation method, the Company's electric CCOSS study shows that Schedule 49 has a revenue parity ratio of 1.05, meaning that it is being required to pay rates that are in excess of its cost of service. If the flawed peak credit allocation approach is corrected to apply a more appropriate 4 CP or A&E 4 NCP allocation method, Mr. Al-Jabir's Exhibit No. AZA-3 shows that the parity ratio for Schedule 49 would increase significantly to either 1.13 under the A&E 4 NCP method or to 1.27 under the 4 CP method. This data demonstrates that, when one applies a more reasonable allocation approach for fixed production and transmission investment, Schedule 49 is in fact providing a much larger subsidy to other classes relative to the Company's analysis. This excessive subsidy is clearly unreasonable and it merits more aggressive action to move Schedule 49 toward cost-based rates relative to the Company's proposal.[6/]

To reduce cross subsidies among the rate classes and to create greater movement towards cost-based rates, the FEA recommends that no customer class receive an electric rate increase in this proceeding if it would be entitled to a rate reduction under cost-based rates. This means that Schedules 24, 25, 26, 31 and 46/49 should be maintained at their present rates and should receive no rate increase in this proceeding. Consistent with the Company's electric revenue allocation proposal, the FEA recommends that the revenue deficiency for the Retail Wheeling, Special Contract and Firm Resale classes be directly assigned to the applicable rate schedules.

[6/] Response Testimony of Ali Al-Jabir, pages 20-21 and Exhibit No. AZA-3.

Mr. Al-Jabir set forth the FEA's proposed electric revenue allocation in Exhibit AZA-5 to his response testimony, based on the requested revenue increase contained in PSE's supplemental filing in this case. As can be seen in Mr. Al-Jabir's Exhibit AZA-5, the FEA's recommended revenue allocation imposes no rate increase on customer classes that should receive a rate reduction under cost-based rates (Schedules 24, 25, 26, 31 and 46/49). Under the FEA's electric revenue allocation proposal, the revenue shortfall resulting from the modified revenue allocation for Schedules 24, 25, 26, 31 and 46/49 is prorated to the Residential, Primary Voltage (Schedule 35), Primary Service (Schedule 43) and Lighting classes based on the revenue allocation proposed by the Company in order to meet PSE's proposed total electric revenue requirement. Similar to PSE's proposal, the FEA's electric revenue allocation directly assigns the revenue increase to the Retail Wheeling, Special Contract and Firm Resale classes.

The FEA's proposed electric revenue allocation results in appropriate movement toward cost-based rates and reduces the class cross subsidies reflected in the Company's current electric rates. For these reasons, the FEA urges the Commission to adopt the FEA's proposed electric revenue allocation in this proceeding.

ATTRITION ADJUSTMENT

PSE asks the Commission to approve an attrition adjustment to its electric and natural gas revenue requirements in this proceeding. The requested attrition adjustment would allow the Company to recover amounts in excess of the revenue requirement levels supported by its cost of service for the historical test year ending December 31, 2018. The Company's attrition study starts with historical cost data taken from PSE's latest eleven Commission Basis Reports ("CBRs") to develop regression analyses that PSE used to develop growth factors for the Company's costs. These growth factors were applied to base amounts for various cost line items to determine

projected rate year values for these costs. The Company used these projected costs to develop an electric attrition revenue deficiency that includes projected rate year costs as estimated by the Company. The Company separately calculated projected costs for specific cost items where it determined that the nature or magnitude of the cost was outside of PSE's historical trend as reflected in the CBRs. The Company states that the corrected revenue amount of its proposed attrition request (prior to adjustment) is approximately $47.7 million for its electric operations and $30.2 million for its natural gas operations. [7/]

The FEA recommends that the Commission reject the Company's proposed attrition adjustment. As Mr. Al-Jabir testified in his response testimony, the attrition adjustment proposed by PSE would fail to adequately protect ratepayers because it would allow the Company to increase rates today based on projections of costs that may or may not materialize in the future. This creates the risk that ratepayers will pay excessive costs through regulated rates if these cost increases do not materialize as projected by the Company. Absent the attrition adjustment, ratepayers would not be exposed to this risk.

Moreover, Mr. Al-Jabir demonstrated that an attrition adjustment would reduce the incentives that the Company has to control costs under the traditional ratemaking process. Under traditional ratemaking, PSE's base rates are set using a snapshot of costs and revenues for a historical test year, with pro forma adjustments. If the Company can reduce its costs relative to test year levels, the resulting profits flow directly to the utility's bottom line until base rates are reset in the next base rate case. This gives the Company a strong incentive to engage in cost cutting efforts and to enhance the efficiency of its operations.

[7/] Docket Nos. UE-190529 and UG-190530, Prefiled Direct Testimony of Ronald J. Amen on behalf of Puget Sound Energy, June 20, 2019, pages 23-31 and PSE's First Revised Response to AWEC Data Request No. 20.

By contrast, an attrition adjustment would essentially pre-approve the cost increases projected by the Company for the rate year for inclusion in its base rates. Absent the attrition adjustment, the Company would have an incentive to control cost escalations to levels below the growth factors incorporated into its attrition analysis in order to capture additional operating margins for the benefit of its shareholders. The attrition adjustment would undermine this incentive by granting the Company recovery of what are essentially pre-approved cost increases under the assumption that such cost increases are allegedly outside of the Company's ability to control. This would weaken the incentives for cost control that are inherent in the traditional utility ratemaking process and send a signal to the Company's management that there is little incentive to control costs below the projected levels incorporated into the attrition adjustment.

Moreover, Mr. Al-Jabir testified that the Company's shareholders are compensated for the business risks of operating the utility through PSE's allowed rate of return on investment. Among these risks is the exposure to reduced operating margins due to cost escalations between base rate cases. Given this risk compensation through the rate of return, an attrition adjustment is unwarranted.

Finally, Mr. Al-Jabir demonstrated that PSE already benefits from regulatory mechanisms that allow it to either incorporate cost increases into base rates or to transfer the risk of cost escalations to its customers. For example, the Company has the opportunity to seek the Commission's approval of post-test year adjustments for known and measurable changes to its historical test year costs. Therefore, PSE already has an opportunity to include reasonably known and quantifiable increases to its historical costs through such post-year adjustments.

In addition, the Company benefits from numerous adjustment mechanisms that allow it to recover cost increases or to compensate for sales reductions between base rate cases. Examples of

such adjustment mechanisms include the decoupling mechanism. In addition, the Company benefits from trackers and riders for numerous cost items, including conservation expenses, green power costs, municipal taxes, property taxes and others.[8/]

Based on the foregoing considerations, the FEA recommends that the Commission reject PSE's request for an attrition adjustment. Such an adjustment would dilute the Company's incentive to control costs under the traditional ratemaking process and would transfer excessive risks to PSE's customers. Moreover, an attrition adjustment is unnecessary in light of the numerous opportunities that PSE currently has to recover cost escalations beyond historical test year levels.

If PSE experiences significant cost escalations in the future, it will be able to file an application with the Commission to adjust its base rates in a full general rate case proceeding. A general rate case filing would provide the Company with a reasonable opportunity to recover prudently incurred cost increases, while ensuring that the Commission and impacted parties have an adequate opportunity to comprehensively review the prudence of the Company's costs based on actual historical data, rather than relying on uncertain cost projections to set rates.

CONJUNCTIVE DEMAND SERVICE OPTION PILOT

PSE proposes to implement a Pilot that would allow eligible customers to have their demands at multiple locations within the Company's service area be determined on a conjunctive basis for the purpose of billing electric power supply and transmission costs to such customers. This means that the customer's billing demand for electric power supply and transmission charges would be determined based on the highest hourly interval of demand across the customer's

[8/] Response Testimony of Ali Al-Jabir, pages 23-26.

multiple locations participating in the Pilot, as if the customer's multiple locations constituted a single load at a single location. The Pilot would be open to customers taking electric service under PSE Schedules 26 or 31 who also possess meters capable of providing hourly interval meter reads. For customers who are not involved in the electrification of transportation, the Company proposes to limit total participation in the Pilot to 50 locations. Pilot participation by any individual customer would be restricted to no more than five locations and to no more than two MW of maximum monthly billed demand across the participating locations in calendar year 2019. Total participation in the Pilot would also be limited to a maximum of 20 MW.[9/]

The FEA recommends that the Commission approve the Company's proposed Pilot because it is consistent with cost causation principles and because it appropriately reflects the manner in which PSE plans its generation and transmission system. As Mr. Al-Jabir explained in his response testimony, the Pilot appropriately recognizes the fact that the Company plans its generation and transmission system in a manner that recognizes demand diversity. This concept refers to the fact that not all customers or customer locations impose their maximum individual demands on PSE's system at the same time. Traditional billing approaches for generation and transmission costs ignore demand diversity by billing customers with multiple locations based on the sum of the individual maximum demands for each customer location on the utility's system, irrespective of the simultaneous peak demand that the customer imposes across its multiple locations.

Because generation and transmission investments constitute upstream facilities that are shared by all customers on the grid, utilities do not size such facilities based on the maximum

[9/] Docket Nos. UE-190529 and UG-190530, Prefiled Direct Testimony of Jon A. Piliaris on behalf of Puget Sound Energy, June 20, 2019, pages 30-34.

demands of each customer or customer location on the grid, regardless of the time that such individual peak demands occur. Rather, system planners incorporate demand diversity into the planning process by sizing such shared facilities to meet the simultaneous system peak demands that customers impose on the system. Therefore, it is important to transition to billing systems for generation and transmission demand charges such as conjunctive billing that more appropriately recognize demand diversity.

Mr. Al-Jabir further demonstrated that, from both a system planning and a cost causation perspective, the conjunctive billing method used in the Pilot is more appropriate than traditional billing methods because it sends a better, cost-based signal that incents customers to manage and to control the simultaneous maximum demands that they impose on PSE's system across multiple locations. This benefits the Pilot participants by giving them an opportunity to manage their electricity costs by coordinating their electricity demands across multiple locations. At the same time, it benefits all customers on the system by helping to reducing the rate of growth in the simultaneous peak demands that drive incremental generation and transmission investment. This price signal is absent under traditional billing practices that place equal weight on the maximum demand that each customer location imposes on PSE's system in isolation, regardless of the amount of demand diversity that the customer brings to the system.[10/]

For the foregoing reasons, the FEA recommends that the Commission approve the Company's proposed Pilot. PSE's proposed Pilot will give customers with multiple locations across PSE's service territory an opportunity to manage their power costs more effectively. At the same time, the Pilot will benefit all customers on the Company's system by providing program participants with more efficient, cost-based price signals to control their maximum simultaneous

[10/] Response Testimony of Ali Al-Jabir, pages 28-30.

demands in a manner that will help to reduce incremental generation and transmission investment on the Company's system.

After PSE has gained some experience with conjunctive billing through the Pilot, the FEA recommends that the Company expand the scope of the conjunctive billing program to other rate schedules, such as Schedule 49, that contain customers with multiple electricity accounts or locations.

CONCLUSION

The FEA respectfully requests that the Commission issue a final order in this proceeding that is consistent with the position set forth in this initial post-hearing brief. The FEA also requests all other relief at law or in equity to which it may be entitled.

Respectfully submitted,

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