BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UE-190529** **Docket No. UG-190530**

POST-HEARING BRIEF OF THE KROGER CO.

I. INTRODUCTION

The Kroger Co. ("Kroger"), on behalf of its Fred Meyer Stores and Quality Food Centers divisions hereby submits this Post-Hearing Brief in support of its recommendation with respect to Puget Sound Energy, Inc.'s ("PSE" or "Company") electric rate case.

II. ARGUMENT

1. **<u>If An Attrition Adjustment Is Approved, Plant Additions That Are Projected To Go Into Service After The Conclusion Of Year 2019 Should Be Excluded.</u>**

As explained in the Direct Testimony of Ronald J. Amen, PSE is requesting an attrition adjustment to address concerns the Company has with traditional ratemaking, particularly regulatory lag, which according to Mr. Amen, prevents PSE from obtaining timely recovery of costs related to infrastructure improvements. According to PSE, this delay in access to necessary funds results in earnings attrition and may discourage ongoing investment in utility infrastructure. PSE proposes an attrition adjustment in this case to address the purported mismatch between earnings and expenditures and provide a better opportunity for the Company to earn its allowed rate of return. The attrition adjustment amounts to $48.8 million; however, according to PSE witness Jon A. Piliaris, the Company is not seeking to recover the full amount of this adjustment. Based on the information provided in the Exhibit SEF-14,[1] sponsored by PSE witness Susan E. Free, the Company proposes to recoup about $42.2 million.

The Company prepared an attrition revenue analysis to demonstrate the disparity between its earnings and expenditures. As described by Mr. Amen, the Company's attrition study starts with historical period plant balances adjusted to remove rate base items that are outside of PSE's historical trend.[2] Using regression analyses, PSE then calculates growth factors for its attrition base year revenues,[3] O&M expense, and certain plant line items. The growth factors are applied to the respective cost categories to arrive at rate year revenues and costs that are representative of the historical trend. Finally, the Company includes pro-forma plant additions to reflect plant expected to go into service during the rate effective period, i.e., the May 2020 to April 2021 timeframe. According to Mr. Amen, these projected capital expenditures include ongoing delivery system infrastructure improvements. According to PSE Exhibit SEF-14, the difference between the net revenue change before attrition ($97.1 million) and after attrition ($145.8 million) produces the claimed attrition revenue shortfall of $48.8 million.[4]

Regardless of whether the Commission determines that some form of attrition adjustment is appropriate, the adjustment should be reasonably connected to the test period in this case. PSE's test period is Calendar Year 2018. PSE's attrition adjustment includes plant additions that are expected to go into service 26 months after the conclusion of the test period and more than 22 months after the

[1] Exhibit SEF-14 was filed on Sep. 17, 2019 and represents an update to Exhibit SEF-3E submitted on Jun. 20, 2019.
[2] Direct Testimony of Ronald J. Amen, pp. 23-24.
[3] The base year in this case is the 12-month period ending December 2018, as shown in Exhibit RJA-3.
[4] Direct Testimony of Kevin Higgins, p. 5.

Company's filing date in this case. It is not reasonable to set current revenue requirements based on a rate base forecast that extends that far into the future. A test period that employs a more near-term measurement of a utility's capital expenditure program when projects are known with greater specificity will prove to be more reliable, and thus, more appropriate for ratemaking. Moreover, under PSE's proposal customers would be required to pay in current rates for plant that is not yet in service.[5]

To the extent that the Commission decides to adopt an attrition adjustment in any form, Kroger recommends that the Company's attrition-related revenue requirement calculations exclude plant additions that are projected to go into service after the conclusion of year 2019. This would address in significant measure concerns about regulatory lag, while setting rates based on more reliable information and with a greater nexus between revenue requirement and plant actually in service.[6]

2. The Commission Should Endeavor To Reduce Inter-Class Subsidies In This Proceeding.

As discussed in the Direct Testimony of Kevin Higgins, in allocating rates among the customer classes it is important to align rates with cost-causation, to the greatest extent practicable. Properly aligning rates with the costs caused by each customer group is essential for ensuring fairness, as it minimizes cross subsidies among customers. It also sends proper price signals, which improves efficiency in resource utilization. At the same time, it can be appropriate to mitigate the impact of moving immediately to cost-based rates for customer groups that would experience significant rate increases from doing so by employing the ratemaking principle of gradualism. When employing this principle, it is important to adopt a long-term strategy of moving in the direction of cost-causation, and to avoid practices that result in permanent cross-subsidies from other customers.[7]

[5] Direct Testimony of Kevin Higgins, pp. 5-6.
[6] Direct Testimony of Kevin Higgins, p. 6.
[7] Direct Testimony of Kevin Higgins, pp. 6-7.

PSE's cost-of-service study (from its supplemental filing) indicates that the Secondary Voltage and High Voltage classes warrant rate *reductions* at the Company's requested base revenue requirement increase of $100.2 million, excluding the attrition adjustment and rider impacts. PSE proposes to address this disconnect between costs-causation and rates by generally applying a rate increase that is 75% of the system average to these subsidy-paying customer classes. PSE's proposed electric rate increases, as provided in the Company's supplemental filing, are shown in the Table below.

PSE Proposed Rate Spread[8]

Voltage Level	PSE Proposal				
	Cost of Service Parity Percentages	Percent of Uniform Increase	Proposed Revenue Increase (%)	Proposed Revenue Increase ($)	Proposed Revenue
Residential	97%	100%	7.68%	$84,940,012	$1,190,836,526
Secondary Voltage					
Demand <= 50 kW	105%	100%	7.68%	$20,230,088	$283,620,485
Demand > 50 kW but <= 350 kW	106%	75%	5.76%	$15,593,821	$286,297,063
Demand > 350 kW	106%	75%	5.76%	$9,232,955	$169,513,796
Total Secondary Voltage	106%			$45,056,864	$739,431,344
Primary Voltage					
General Service	102%	100%	7.68%	$8,698,734	$121,953,951
Irrigation	55%	150%	11.52%	$30,878	$298,893
Interruptible Total Electric Schools	88%	125%	9.60%	$1,026,053	$11,713,202
Total Primary Voltage	101%			$9,755,665	$133,966,046
Total High Voltage	106%	75%	5.76%	$2,311,582	$42,439,830
Choice / Retail Wheeling / Special Contract	92%		-6.39%	($997,726)	$14,610,537
Lighting	94%	125%	9.60%	$1,580,054	$18,037,558
Total Jurisdictional Retail Sales	100%		7.14%	$142,646,450	$2,139,321,840
Firm Resale	50%		108.00%	$353,550	$680,910
Total Sales	100%		7.16%	$143,000,000	$2,140,002,750

PSE's rate spread proposal recognizes that certain classes warrant rate increases that are below the system average. However, it does not adhere closely enough to the principles of cost-causation.

[8] Source: WP-JAP06-ELEC-RATESPREAD-DESIGN (Supplemental)

According to the Company's cost-of-service study, the classes that are at 106% of parity deserve rate *decreases* at the Company's requested base revenue requirement increase prior to the inclusion of the attrition adjustment.[9] Yet the Company proposes that these rate schedules receive 75% of the adjusted average increase.

A greater move toward cost-causation than proposed by PSE is warranted because there is overwhelming evidence that certain classes are seemingly perpetual subsidizers of other customers. Consider Schedules 25/29 and 26. In each PSE rate case since 2004, these rate schedules have had parity ratios significantly above unity, as measured by PSE in its direct filings in these cases. This pattern is shown in Table KCH-1-CA below.

Parity Ratios for Schedules 25/29 & 26 as Calculated in Past Cases by PSE[10]

Class	2004 [11]	2006 [12]	2007 [13]	2009 [14]	2011 [15]	2017 [16]	2019 [17]
Sch. 25/29	115%	105%	121%	112%	106%	108%	106%
Sch. 26	108%	103%	117%	105%	104%	107%	106%

The combined revenues for Schedules 25/29 and 26 prior to the proposed increase in this case are approximately $430 million. Including a 6% cross-subsidization premium in these rate schedules costs the customers served on them an additional $25 million per year. [18] A subsidy of this sort extended for more than 15 years represents a substantial intra-class transfer.

[9] Direct Testimony of Kevin Higgins, Table KCH-1.
[10] See Cross-Answering Testimony of Kevin Higgins, p. 6, Table KCH-1-CA.
[11] Docket Nos. UG-040640/UE-040641, PSE Exhibit No.__JAH-1T (Direct Testimony of James A. Heidell), p. 13.
[12] Docket Nos. UE-060266/UG-060267, PSE Exhibit No.__JAH-1T (Direct Testimony of James A. Heidell), p. 29.
[13] Docket Nos. UE-072300/UG-070201, PSE Exhibit No.__DWH-1T (Direct Testimony of David W. Hoff), p. 10.
[14] Docket Nos. UE-090704/UG-090705, PSE Exhibit No.__JAP-1T (Direct Testimony of Jon A. Piliaris), p. 16.
[15] Docket Nos. UE-111048/UG-111049, PSE Exhibit No.__JAP-1T (Direct Testimony of Jon A. Piliaris), p. 10.
[16] Docket Nos. UE-170033/UG-170034, PSE Supplemental CCOSS, provided in PSE's Response to Kroger Data Request No. 005, Attachment A.
[17] PSE Exhibit BDJ-1T (Direct Testimony of Birud D. Jhaveri), p. 7.
[18] Cross-Answering Testimony of Kevin Higgins, p. 5.

Kroger recommends that the rate schedules that are at 106% of parity according to PSE's cost of service study should receive an increase that is 50% of the uniform percentage increase rather than 75% as proposed by PSE. Kroger's recommended rate spread at PSE's requested revenue requirement (supplemental) is summarized in the Table below.

Kroger Proposed Rate Spread at PSE's Requested Revenue Requirement (including PSE Attrition Adjustment) [19]

Voltage Level	Kroger's Recommended Spread at PSE's Supplemental Requested Revenue Increase				
	Cost of Service Parity Percentages	Percent of Uniform Increase	Proposed Revenue Increase (%)	Proposed Revenue Increase ($)	Proposed Revenue
Residential	97%	100%	8.20%	$90,648,694	$1,196,545,208
Secondary Voltage					
Demand <= 50 kW	105%	100%	8.20%	$21,589,720	$284,980,117
Demand > 50 kW but <= 350 kW	106%	50%	4.10%	$11,094,571	$281,797,813
Demand > 350 kW	106%	50%	4.10%	$6,568,991	$166,849,832
Total Secondary Voltage	106%			$39,253,282	$733,627,762
Primary Voltage					
General Service	102%	100%	8.20%	$9,283,362	$122,538,579
Irrigation	55%	150%	12.30%	$32,953	$300,968
Interruptible Total Electric Schools	88%	125%	10.25%	$1,095,012	$11,782,161
Total Primary Voltage	101%			$10,411,327	$134,621,708
Total High Voltage	106%	50%	4.10%	$1,644,626	$41,772,874
Choice / Retail Wheeling / Special Contract	92%		-6.39%	-$997,726	$14,610,537
Lighting	94%	125%	10.25%	$1,686,246	$18,143,750
Total Jurisdictional Retail Sales	100%		7.14%	$142,646,450	$2,139,321,840
Firm Resale	50%		108.00%	$353,550	$680,910
Total Sales	100%		7.16%	$143,000,000	$2,140,002,750

While Kroger's proposal would still subject the subsidizing classes to an increase, it is a more reasonable increase than that proposed by the Company, and better balances the ratemaking principles of gradualism and cost-causation.

[19] See also, Direct Testimony of Kevin Higgins, Kroger Exhibit No. __ (KCH-2), page 1.

In sum, while PSE's rate spread proposal recognizes that certain classes warrant rate increases that are below the system average, it does not adhere closely enough to the principles of cost-causation. Kroger recommends that the rate schedules that are at 106% of parity according to PSE's cost of service study should receive an increase that is 50% of the uniform percentage increase rather than 75% as proposed by PSE.

3. The Company's Proposed Conjunctive Demand Pilot Program Offers A More Accurate Measure Of Demand Costs And Should Be Approved.

As described by Mr. Piliaris, PSE proposes to implement a pilot program that would allow eligible customers with multiple service locations to aggregate their demands for purposes of power and transmission billing. The Company would measure the highest hourly demand occurring simultaneously across each of a customer's participating locations, thereby measuring billing demand for the totality of the customer's participating sites as if it were a single load for billing purposes. This is described as conjunctive demand billing and would only apply to the customer's generation and transmission service. The distribution portion of the bill would continue to be calculated using demand billing determinants established separately at each location.[20]

According to PSE, the pilot program would be available only to customers taking service under electric Schedules 26 or 31. These customers would be required to install advanced metering infrastructure for accurate demand measurements and agree to have all participating facilities on the same billing cycle. Also, with the exception of customers involved in the electric vehicle industry, the pilot will be limited to no more than five locations and 2 MW per eligible customer and will not allow for more than 50 participating locations in total.[21]

[20] Direct Testimony of Jon. A. Piliaris, pp. 30-31
[21] Direct Testimony of Jon. A. Piliaris, p. 33.

Kroger strongly supports the Company's proposal to establish a demand aggregation program. This type of aggregation properly allows a multi-site customer to capture the diversity within its loads for billing purposes, specifically in the determination of billing demand. By treating the multiple loads of a single customer as a single entity for the purpose of measuring the amount of power and transmission service provided to the customer, the customer's load is treated in a manner that is comparable to the treatment of a single-site customer with the same aggregate load shape. It is also comparable to the way the customer's load would be viewed in a competitive market.[22]

Each facility owned by a multi-site customer causes unique distribution costs and therefore it is appropriate to recover those costs based on the peak demand of each individual facility. But that is not the case for fixed production and transmission costs. At the power supply and transmission level, it makes no difference whatsoever whether 5 MW in a given hour is going to a single-site customer with a 5 MW load or to a multi-site customer with five facilities taking 1 MW each. The cost to produce and transmit the 5 MW in that hour is identical in both cases.[23] Mr. Piliaris correctly recognizes this neutrality with respect to cost-causation when he states that "*customers served by PSE through multiple locations look no different (i.e., have no materially different cost of service) than a single customer with similar load characteristics*."[24]

For a multi-site customer, it would not be unusual for each of its sites to be peaking at a different hour in each month. Under the current rate structure, this means that the customer's cumulative billing demand for fixed production costs would exceed the customer's actual aggregated peak demand measured on an hour-by-hour basis (as if it were a single-site customer). In other words, under the current rate structure, the multi-site customer might be billed, say, for 5.5 MW of fixed production demand based on the sum of the individual peaks of each of its sites (occurring at different hours), whereas in fact, the customer's actual aggregate demand for fixed production demand in any hour might

[22] Direct Testimony of Kevin Higgins, p. 15.
[23] Direct Testimony of Kevin Higgins, p. 15.
[24] Direct Testimony of Jon. A. Piliaris, p. 33.

be no greater than 5 MW. A conjunctive demand rate as proposed by PSE can correct for this upward bias in the billing demand that would otherwise be charged to a multi-site customer by aggregating the customer's billing demands for peak demand measurement purposes. With the proper metering in place, this correction simply charges multi-site customers for the fixed production service that they actually use and places them on an equal footing with single-site customers. Under a well-designed conjunctive demand rate, a multi-site customer that has the same aggregate demand for power supply as a single-site customer pays exactly the same rate and dollar amount for power supply as that single-site customer.[25]

Kroger has participated in multi-site rates in other jurisdictions and believes that they are functioning as intended. For example, Consumers Energy in Michigan has such a rate, called the Aggregate Peak Demand Service Provision.[26] This program is available to any customer with 7 accounts or more who desires to aggregate its On-Peak Billing Demands for power supply billing purposes. To be eligible, each account must have a minimum average On-Peak Billing Demand of 250 kW. The aggregated accounts are billed under the same rate schedule and service provisions that apply to the individual sites, with the aggregate maximum capacity to all customers limited to 200,000 kW.[27]

Commission Staff appears to be generally supportive of the Company's proposed Conjunctive Demand Service program pilot. Staff witness Jason Ball states in Response Testimony:

> *Staff supports in concept the Company's proposal to unbundle demand for customers served at various locations. This type of demand charge is a clear application of cost causation and from within the "intermediate" tier of energy consumption.*[28]

Kroger agrees with Mr. Ball that this type of demand charge is a clear application of cost-causation.

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[25] Direct Testimony of Kevin Higgins, p. 16.
[26] See Sheet D-33.00 at https://www.michigan.gov/documents/mpsc/consumers13cur_579011_7.pdf
[27] Direct Testimony of Kevin Higgins, pp. 16-17.
[28]Response Testimony of Jason L. Ball., p. 60.

Mr. Ball also proposes that the pilot should be revised to reflect Staff's recommended pricing pilot design and evaluation criteria.[29] Kroger does not agree that a resubmission is necessary. While Kroger does not object to the pilot design and evaluation criteria proposed by Staff for pilot programs, PSE's Demand Aggregation proposal does not fundamentally change the existing pricing structure, but rather changes the *measurement* of demand for purposes of billing customers with multiple service locations. While Kroger appreciates Staff's intent to provide a clear structure for the implementation of new pricing pilots, Kroger does not believe that PSE's Demand Aggregation proposal fits into the same framework as other pilots envisioned by Staff. Consequently, it is not necessary to require PSE to submit a new program proposal. In the Company's Direct Testimony, PSE already describes its intent to collect data and provide feedback following implementation of the aggregation program.[30]

The conjunctive demand pilot represents a positive development for multi-site customers and Kroger appreciates PSE's preference to introduce this program as a pilot. However, the scale of the program for non-electric vehicle participants could reasonably be expanded at the outset to allow for up to 10 locations and 5 MW per customer, up to an overall maximum of 100 locations, to allow for greater initial participation. Kroger recommends that the Commission approve the proposed conjunctive billing demand pilot program and consider expanding the program as described above.

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Respectfully submitted,

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[29] Response Testimony of Jason L. Ball, p. 60.
[30] Cross- Answering Testimony of Kevin Higgins, pp. 7-8.