

**EXHIBIT NO. \_\_\_(KSJ-1T)**  
**DOCKET NO. UE-121373**  
**DOCKET NO. UE-121697/UG-121705**  
**DOCKET NO. UE-130137/130138**  
**WITNESS: KENNETH S. JOHNSON**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF  
KENNETH S. JOHNSON  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

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

**MAY 8, 2013**

**PUGET SOUND ENERGY, INC.**  
**PREFILED REBUTTAL TESTIMONY**  
**(NONCONFIDENTIAL) OF KENNETH S. JOHNSON**

**CONTENTS**

I.	INTRODUCTION .....	1
II.	RESPONSE TO ISSUES RAISED REGARDING THE MULTIPARTY SETTLEMENT AND ITS COMPONENTS .....	5
	A.    The Multiparty Settlement .....	5
	B.    Decoupling .....	14
II.	CONCLUSION.....	17

1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**  
3 **KENNETH S. JOHNSON**

4 **I. INTRODUCTION**

5 **Q. Please state your name and business address.**

6 A. My name is Kenneth S. Johnson. I am employed as Director, Rates and  
7 Regulatory Affairs for Puget Sound Energy, Inc. ("PSE"). My business address is  
8 10885 NE Fourth Street, Bellevue, WA 98009-9734.

9 **Q. Have you prepared an exhibit describing your education, relevant**  
10 **employment experience and other professional qualifications?**

11 A. Yes, I have. It is Exhibit No. \_\_\_\_ (KSJ-2).

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

13 A. This prefiled rebuttal testimony responds to those parties who challenge key  
14 components of the Multiparty Settlement Re: Coal Transition PPA and Other  
15 Pending Dockets (the "Multiparty Settlement"), originally negotiated and entered  
16 into by PSE, Staff of the Washington Utilities and Transportation Commission  
17 ("Commission Staff"), and the NW Energy Coalition. I provide a high-level  
18 review of the benefits of the settlement—for customers, PSE, and the region—and  
19 explain how approval of the Multiparty Settlement is in the public interest.

1 **Q. Please explain how approval of the Multiparty Settlement is in the public**  
2 **interest.**

3 A. The Multiparty Settlement embraces a new era of ratemaking that is consistent  
4 with the direction provided by the Commission in recent cases and with the  
5 recommendations of the ratemaking discussion group convened by former  
6 Governor Gregoire and endorsed by Governor Inslee. Both the Commission and  
7 the Governor’s ratemaking discussion group have focused on methods of reducing  
8 regulatory lag through expediting rate processes in which test period information  
9 on investment, revenues, and expenses is updated while certain elements of  
10 rates—such as rate of return and capital structure—are held constant.

11 PSE and its customers will benefit from this progressive shift in the ratemaking  
12 paradigm provided in the Multiparty Settlement. Customers will benefit from the  
13 rate predictability provided by the K-factor component of decoupling, which  
14 limits PSE’s annual rate increases for non-power costs to a preset amount. The  
15 annual increase established in the Multiparty Settlement is substantially below  
16 PSE’s average increases over the past several years. This will require PSE to  
17 manage its delivery-related expense to a budget that is below the consumer price  
18 index (“CPI”) as discussed in more detail in the Prefiled Rebuttal Testimony of  
19 Ms. Katherine J. Barnard, Exhibit No. \_\_\_(KJB-11T), and the Prefiled Testimony  
20 of Mr. Thomas E. Schooley, Exhibit No. \_\_\_(TES-1T). Thus, PSE is required to  
21 operate with exceptional efficiency in an effort to achieve a return on equity close  
22 to what the Commission set in its last general rate case in Docket Nos. UE-  
23 111048 and UG-111049 (the “2011 General Rate Case”).

1 At the same time, PSE will benefit from reductions in regulatory lag that has  
2 delayed PSE's recovery of prudently incurred costs made for the benefit of  
3 customers, and which has hindered PSE's ability to earn its authorized returns for  
4 more than a decade. All stakeholders benefit from a more certain and transparent  
5 process and by reducing the number of time-consuming, expensive, and  
6 contentious general rate cases.

7 The Multiparty Settlement comports with and enhances Washington's State  
8 Energy Policy. Once it is approved, PSE will finalize a long-term power purchase  
9 agreement for coal transition power that provides customers low-cost power and  
10 facilitates the closure of Washington's sole remaining coal plant, consistent with  
11 the policy set forth in the Coal Transition Energy Bill. As part of the transition  
12 from coal-power generation in Washington State, TransAlta Centralia Generation  
13 LLC ("TransAlta") has committed to contribute \$55 million to fund economic and  
14 community development in Lewis and South Thurston County. This includes  
15 \$20 million for education, retraining, economic development, and community  
16 enhancement; \$10 million for energy efficiency and weatherization; and  
17 \$25 million for energy technologies with the potential to create considerable  
18 energy, economic development, and air quality, haze, or other environmental  
19 benefits. In the absence of a long-term power purchase agreement between  
20 TransAlta and PSE, it is highly unlikely any of these transition benefits will  
21 accrue to Washington State or Lewis County.

22 The Multiparty Settlement contains an agreement for the implementation of  
23 electric and natural gas decoupling that is landmark. For more than two decades,

1 regulators, utilities and stakeholders have strived to design and implement  
2 decoupling in Washington in a manner that promote innovation and deployment  
3 of energy efficiency technologies while protecting utilities from undue financial  
4 harm. The decoupling mechanisms that are a part of the Multiparty Settlement  
5 accomplish these long desired objectives by eliminating PSE's incentive to  
6 increase energy usage per customer and reducing the negative financial impact on  
7 the company of its conservation programs. Furthermore, the Multiparty  
8 Settlement builds on PSE's long-standing commitment to energy efficiency by  
9 setting targets for conservation that go beyond its I-937 requirements.

10 Over the past few years the Commission has moved progressively and creatively  
11 to shape the ratemaking landscape in Washington in a manner that benefits  
12 consumers as well as regulated industries. This can be seen in the 2011 General  
13 Rate Case Final Order, the recent approval of the Avista rate case settlement, and  
14 the Policy Statement on Recycling Revenue Sharing Plans for the waste industry.<sup>1</sup>  
15 The Commission can build on this forward-looking leadership by approving the  
16 Multiparty Settlement, which is endorsed by PSE, Commission Staff, NW Energy  
17 Coalition, The Energy Project, and the Northwest Industrial Gas Users.

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<sup>1</sup> See *In the Matter of the Commn.'s Investigation of Recycling Revenue Sharing Plans*,  
Docket TG-112162, Interpretive and Policy Statement on RCW 81.77.185 (May 30, 2012).

1                                   **II.     RESPONSE TO ISSUES RAISED REGARDING THE**  
2                                   **MULTIPARTY SETTLEMENT AND ITS COMPONENTS**

3     **A.     The Multiparty Settlement**

4     **Q.     ICNU questions the appropriateness of including the Coal Transition Power**  
5           **Purchase Agreement in the Multiparty Settlement. Why did the Settling**  
6           **Parties choose to include the Coal Transition Power Purchase Agreement in**  
7           **the Multiparty Settlement?**

8     A.     The Coal Transition Power Purchase Agreement (the “Coal Transition PPA”) was  
9           one of three major issues that PSE and its stakeholders considered in the second  
10          half of 2012. The other two major issues were the expedited rate filing (“ERF”) and the decoupling mechanism. Discussions to resolve these three issues began  
11          on separate tracks but converged to allow the settling parties to enter into a  
12          Multiparty Settlement to resolve all three of these outstanding major issues that  
13          are of importance to PSE and its stakeholders.

15          The Coal Transition PPA is a product of the broad state public policy found in  
16          Engrossed Second Substitute Senate Bill 5769, commonly referred to as the Coal  
17          Transition Bill. A broad coalition of stakeholders supported the Coal Transition  
18          Bill, which reflects a historic agreement to responsibly end coal-fired electric  
19          generation in Washington and invest in an economic transition for Lewis County.

20          The Centralia Coal Transition PPA is a key component of carrying out the plan to  
21          responsibly transition beyond coal generation in Washington while ensuring the  
22          stability of the electric grid and providing customers low-priced power. However,  
23          as discussed in PSE’s Petition For Reconsideration in Docket UE-121373, the

1 Final Order entered by the Commission left areas of uncertainty for PSE  
2 regarding prudence and cost recovery if events beyond PSE's control occurred. It  
3 also provided an equity adder that was substantially below what was  
4 contemplated under the statute. The conditional approval granted by the  
5 Commission left uncertainty regarding cost recovery and potential future  
6 prudence determinations such that PSE would be required to reject the Coal  
7 Transition PPA. Commission Staff and PSE came together to resolve the  
8 uncertainties in the Final Order so that PSE could potentially move forward with  
9 the Coal Transition PPA. The Multiparty Settlement facilitates that transition to  
10 coal-free generation in Washington State.

11 At the same time that PSE had been working with stakeholders on the Coal  
12 Transition PPA docket, it also had been working with many of the same  
13 stakeholders on the ERF and decoupling proposals. These discussions had been  
14 in process since shortly after May 2012, when the Commission issued its Final  
15 Order in PSE's 2011 General Rate Case. When Commission Staff and PSE came  
16 together to discuss settlement of PSE's Petition For Reconsideration on Centralia,  
17 it naturally followed that the scope of the settlement discussion would extend to  
18 these other pending and important objectives, and how they could be addressed in  
19 a global resolution of outstanding issues. It made sense to reach a resolution on  
20 all of these outstanding issues to further facilitate the implementation of  
21 Washington's progressive State's Energy Policy, benefiting customers and  
22 providing a more efficient and predictable ratemaking process.



1 **Q. How do you respond to allegations by ICNU that the global settlement is a**  
2 **calculated attempt to subvert the regulatory process. (Deen, p. 10-11)?**

3 A. PSE disagrees with ICNU’s accusation. The Prefiled Rebuttal Testimony of  
4 Mr. Jon A. Piliaris, Exhibit No. \_\_\_(JAP-24T), and the Prefiled Rebuttal  
5 Testimony of Ms. Katherine J. Barnard, Exhibit No. \_\_\_(KJB-11T), both refute  
6 the specific allegation by ICNU witness Mr. Deen that certain “offsetting factors”  
7 are being obscured in this proceeding.

8 However, from a broader perspective, the ICNU testimony demonstrates the  
9 lingering resistance to change from the traditional ratemaking process from  
10 parties, such as ICNU, who have previously agreed that change should be  
11 pursued. The Commission has made significant strides towards progressive  
12 changes in the ratemaking process in recent years, and although some parties have  
13 participated in processes and cases addressing these issues and at times have  
14 supported the recommendations for progressive change in the ratemaking process,  
15 they continues to resist changes that differ from the familiar processes of old.  
16 ICNU is not alone in this regard. The testimony of other intervenors, such as  
17 Kroger and Nucor, ask the Commission to reject the Decoupling K-factor because  
18 the rate increases are not known and measurable adjustments presented in the  
19 context of a rate proceeding.

20 The bottom line is that the Multiparty Settlement is consistent with the direction  
21 charted by the Commission in recent rate cases and policy statements and with the  
22 Governor’s ratemaking discussion group. It provides for decoupling mechanisms  
23 that remove throughput incentives and encourage accelerated conservation. It

1 provides for an expedited rate mechanisms that allows PSE to better recover costs  
2 related to investments made for customers' benefit, while also expanding low-  
3 income bill assistance and shareholder funded energy efficiency assistance. The  
4 Multiparty Settlement also allows PSE to move forward with the Coal Transition  
5 PPA, which is a key component of the state policy to responsibly transition  
6 beyond coal generation in Washington.

7 **Q. How is the Multiparty Settlement consistent with the direction charted by the**  
8 **Commission and the Governor's ratemaking discussion group?**

9 A. Both the Commission and the Governor's ratemaking discussion group have  
10 addressed the need to address regulatory lag that is preventing utilities such as  
11 PSE from having a reasonable chance of recovering costs related to energy  
12 investments and from earning their authorized rate of return. For example, in  
13 PSE's last general rate case, the Commission viewed favorably a proposal by  
14 Commission Staff allowing PSE to file an expedited rate filing that would update  
15 the test period revenues and costs, contain only restating adjustments, and hold  
16 constant the rate of return. Similarly, a few months later, the Governor's  
17 ratemaking discussion group, which included members of customer groups, utility  
18 representatives, and other stakeholders, made a series of recommendations  
19 addressing concerns that existing rate-setting practices and timelines have made it  
20 difficult for the utilities to recover costs related to investments needed to ensure a  
21 reliable energy system and maximize the opportunity for energy efficiency and  
22 the use of clean and renewable energy. The ratemaking discussion group  
23 recommended that the Commission consider expedited treatment of requests for

1 rate increase that updates test period information on investment, revenues, and  
2 expenses since the last formal rate proceeding, while holding some elements of  
3 rates constant, such as recently determined rate of return and capital structure.

4 The ERF and Decoupling K-factor contained in the Multiparty Settlement follow  
5 the guidance of the Commission and the Governor's ratemaking discussion group.

6 Through the ERF, PSE's investment, revenues, and costs are updated from the  
7 2011 general rate case, while rate of return is held constant. The Decoupling K-  
8 factor allows PSE annual increases in allowed revenues per customer that are  
9 below PSE's historical growth in costs. It avoids the need for contentious general  
10 rate cases over the next few years while incentivizing PSE to continue to operate  
11 efficiently in order to have an opportunity to earn its allowed rate of return.

12 **Q. Should the Commission wait for a rulemaking or policy statement on**  
13 **expedited rate filings rather than implementing the Multiparty Settlement?**

14 A. No. The Commission made clear in PSE's most recent general rate case the need  
15 to maintain reasonable and appropriate flexibility in its regulatory process to  
16 address the dynamic nature of the financial and economic tides that affect utilities  
17 and their customers. As discussed above, the Commission commented favorably  
18 on the outline of a Commission Staff proposal for an expedited rate filing, and  
19 noted that if PSE and Staff work together on such a filing, the Commission would  
20 give it fair consideration. The Multiparty Settlement before the Commission  
21 constitutes such a filing and the Commission should give it fair consideration on  
22 its merits, rather than wait for some other yet-undefined process to be initiated.

23 The experience gained through the implementation of the negotiated aspects of

1 the Multiparty Settlement—specifically the ERF and decoupling with a K-  
2 factor—will allow the Commission and stakeholders to undertake a more  
3 informed process when they do engage in rulemaking or policy workshops.

4 **Q. Please respond to ICNU’s testimony that the global settlement does not**  
5 **contain adequate consumer protections and shifts risk from shareholders to**  
6 **ratepayers. Exhibit No. \_\_\_(MPG-1T), p. 20.**

7 A. The settlement contains numerous consumer protections, including a soft cap on  
8 rate increases, a sharing of any earnings above PSE’s authorized rate of return,  
9 and limits on PSE’s ability to seek rate increases for delivery system investments  
10 beyond those set forth in the Multiparty Settlement. None of these protections  
11 exist at the present time. Currently, PSE may seek rate relief as frequently as  
12 needed, and there is no limit on the revenue requirement it may seek in these  
13 general rate cases.

14 Public Counsel also fails to recognize that customers and PSE both benefit from  
15 decoupling mechanisms. For example, when energy usage is higher due to colder  
16 than normal weather or other factors, PSE’s shareholders will no longer benefit  
17 from the margins associated with the higher use per customer. Those margins  
18 will be deferred and will flow back to customers.

19 Finally, PSE disagrees with ICNU's characterization that the property tax tracker  
20 unfairly shifts risks from shareholders to rate payers. The property tax tracker  
21 allows actual property tax expense to be fairly tracked and recovered from  
22 customers—as the Commission ordered in PSE’s last general rate case. As

1 discussed in Mr. Marcellia's Prefiled Rebuttal Testimony, Exhibit No. \_\_\_\_ (MRM-  
2 1T), no party has opposed the property tax tracker.

3 **Q. Public Counsel proposes to revise to the Multiparty Settlement by replacing**  
4 **the K-factor rate plan with two additional ERFs and by reducing PSE's**  
5 **allowed rate of return, among other things. Does PSE agree with this**  
6 **proposal?**

7 A. No. The Multiparty Settlement is a carefully negotiated agreement. Revisions to  
8 the Multiparty Settlement as suggested by Public Counsel will not provide the  
9 balanced package that is pending before the Commission, a carefully crafted  
10 agreement to which many parties agreed and will cause this delicately knit  
11 settlement to break apart. Public Counsel has previously recognized the  
12 importance of approving a settlement agreement as a comprehensive package.<sup>2</sup> In  
13 a PacifiCorp general rate case, Public Counsel stated, "[T]his settlement was a  
14 package that was put together during an occasionally painful process, and as with  
15 all things, there is give and take..." In urging the Commission to approve one  
16 particular provision, Public Counsel pointed out that such provision may be  
17 integral to a party's' willingness to accept a settlement.<sup>3</sup> The Commission also  
18 views settlements as a whole package, recognizing the significant

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<sup>2</sup> See *WUTC v. PacifiCorp d/b/a Pacific Power & Light*, 204 P.U.R.4th 155, 171, Docket No. UE-991832, Third Supp. Order (Aug. 9, 2000).

<sup>3</sup> *Id.* ("I also in that context want to emphasize that the prudence process is one of three...integral to our willingness to accept this settlement.").

1 accomplishment it can be to reach a collaborative compromise among various  
2 parties regarding complex issues.<sup>4</sup> One unfortunate consequence of the failure of  
3 the Multiparty Settlement would be PSE's rejection of the Coal Transition PPA at  
4 issue in Docket UE-121373.

5 As discussed in more detail in the rebuttal testimonies of Ms. Barnard and Mr.  
6 Schooley, the decoupling K-factor and rate plan provide more benefits to  
7 customers than the repeated ERFs suggested by Public Counsel, because PSE's  
8 revenue requirement for non-power costs are known and preset, and PSE must  
9 live within those preset constraints. In contrast, the ERF allows PSE to recover its  
10 revenue requirement based on costs spent the previous years as set forth in its  
11 Commission Basis Report. The ERF alone does not provide a limit on annual  
12 revenue requirement nor does it create an incentive to achieve the operational  
13 efficiencies required by the K-factor, that is, achieving our public service  
14 obligations within a known growth rate (the K-factor).

15 More fundamentally, there are likely many different iterations of settlements that  
16 could have been drafted, but there is only one settlement proposal before the  
17 Commission in this case. PSE, Commission Staff, the NW Energy Coalition, The  
18 Energy Project and the Northwest Industrial Gas Users ("NWIGU") request that  
19 the Commission approve this settlement.

20 **Q. Were The Energy Project and NWIGU parties to the original settlement?**

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<sup>4</sup> See *WUTC v. PSE*, Docket Nos. UE-011570 and UG-011571 (consolidated), Twelfth  
Supp. Order at ¶¶ 18-20, 40 (June 20, 2002).

1 A. No. These parties have joined the settlement subject to certain conditions. The  
2 Energy Project joined the settlement subject to certain conditions. The Energy  
3 Project joined the settlement under the conditions that PSE and Commission Staff  
4 support additional funding for low-income bill assistance. Additionally, PSE has  
5 agreed to provide additional shareholder funding for low-income energy  
6 efficiency programs. NWIGU joined subject to Schedules 85/85T and 87/87T  
7 being treated as rate plan customers rather than through the decoupling  
8 mechanism and subject to other terms set forth in the Settlement Joinder.

9 **Q. How can a cumulative \$351 million rate increase from decoupling and ERF**  
10 **benefit customers?**

11 A. Customers will continue to benefit from a safe and reliable electric and natural  
12 gas system. The rate increase proposed in the settlement will provide PSE with  
13 the resources needed to efficiently operate, maintain and improve its critical  
14 delivery system. The rate increases proposed in the Multiparty Settlement  
15 provide customers with predictable rates and maintain the limits on equity return  
16 to the company established in the 2011 General Rate Case. Without the  
17 agreement, the cumulative rate increase over the comparable time frame is  
18 unknown.

19 It is important to consider the rate increases in the context of the number of  
20 customers PSE serves, the miles of pipes and wires PSE services, and PSE's total  
21 revenue requirement. For example, in 2011 PSE delivered more than 302 million  
22 cubic feet of natural gas to over 750,000 customers daily through a pipeline  
23 network consisting of 12,000 miles of mains and 13,000 miles of gas service

1 lines. PSE delivered on average approximately 62,000 megawatt-hours of  
2 electricity per day to over 1.1 million customers through approximately 20,500  
3 miles of distribution lines and approximately 2,600 miles of transmission lines.<sup>5</sup>  
4 The simple math is that the cumulative rate increase comes to less than \$190 per  
5 customer (\$365mm / 1.85 million customers) over the next four years. That's less  
6 than \$50 a year per customer.

7 Moreover, as previously discussed, the K-factor and rate plan proposed in this  
8 Multiparty Settlement require PSE to operate efficiently, within a fixed,  
9 predetermined revenue requirement that contains a significant stretch component,  
10 in the face of historical expense trends that exceed the K-factor increases  
11 proposed in this settlement. Customers benefit from a ratemaking paradigm that  
12 encourages more efficiency in operations.

13 **B. Decoupling**

14 Q. How do you respond to the testimony of Mr. Deen that PSE's decoupling  
15 proposal "effectively insulate[s] PSE from losses as result of conservation and  
16 improperly shift the risk of loss from conservation measures to ratepayers."

17 (Deen, p. 28)

18 A. I find it refreshing that Mr. Deen acknowledges that utilities such as PSE have  
19 borne the full risk of losses from conservation up until this time. I am unaware of  
20 any upward adjustment to PSE's return on equity ("ROE") to reflect the greater  
21 risk shareholders faced when conservation was mandated—for example when the

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<sup>5</sup> See McLain, Exh No. \_\_\_ (SML-1CT), from the 2011 General Rate Case.



1 Energy Independence Act was passed—and, as a result, I see no reason why  
2 decoupling should be accompanied by a decrease in ROE. The testimonies of Mr.  
3 Cavanagh and Mr. Doyle confirm that the majority of commissions around the  
4 country do not reduce utilities' equity returns or the equity component of utilities'  
5 capital structures when decoupling is implemented. Also, Mr. Deen fails to  
6 consider the legislative mandate in RCW 80.28.260 that the Commission must  
7 consider policies to protect a company from a reduction of short-term earnings  
8 that may be a direct result of utility programs to increase the efficiency of energy  
9 use. Based on this statute, utilities should not bear the full risk of loss from  
10 conservation measures.

11 **Q. How do you respond to Mr. Gorman’s testimony that “revenue decoupling is**  
12 **an inappropriate and unwarranted departure from traditional ratemaking**  
13 **principles” that should be rejected by the Commission? Exhibit**  
14 **No. \_\_\_(MPG-1T), page 21 lines 17-18.**

15 A. Mr. Gorman disregards completely the direction set forth by the Commission in  
16 its Decoupling Policy Statement. Further, he fails to recognize the emphasis on  
17 energy conservation established in Washington’s State Energy Policy.  
18 Significantly, Mr. Gorman agrees that revenue decoupling removes the strong  
19 incentives associated with sales growth that are created by the traditional  
20 ratemaking process, making shareholders indifferent to the impact of fluctuations  
21 in energy sales in its service territory,<sup>6</sup> but apparently he sees this as a negative. It

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<sup>6</sup> Exh. No. \_\_\_(MPG-1T) p.22, line 20 through p. 23, line 2; p. 24, lines 15-16.

1 suggests Mr. Gorman endorses the antiquated historic regulatory model of  
2 rewarding utilities for encouraging their customers to use more energy. The  
3 State's energy policy long ago moved beyond that philosophy and the  
4 Commission has addressed this progressive shift in policy in recent rate orders  
5 and policy proceedings. The very purpose of decoupling is to remove the  
6 financial incentive for utilities to sell more energy and make shareholders  
7 indifferent to the change in customer usage from such programs. Only by  
8 implementing a decoupling regime, like the one proposed in the Multiparty  
9 Settlement, can the throughput incentive be eliminated such that a utility can  
10 pursue efforts to exceed its conservation targets without suffering the well-  
11 documented economic disincentive to do so.

12 **Q. Do you agree with Mr. Deen's proposal to consider the cost of capital in**  
13 **PSE's pending PCORC proceeding?**

14 A. No. The PCORC is an expedited six-month proceeding, which considers only  
15 power costs and effects only electric rates. Evidence on cost of capital would bog  
16 down the PCORC process making it a mini-general rate case and would create an  
17 unnecessary bifurcated cost of capital between the electric book and the gas book.  
18 Moreover, the Multiparty Settlement does not include a provision for reviewing  
19 cost of capital until PSE files its next rate case, which PSE must do no later than  
20 April 2016. The settling parties' waiver of the 90-day filing provisions embedded  
21 in the PCORC rules contemplated a delay in reviewing PSE's total revenue  
22 requirement in the context of a traditional rate case filing, including cost of  
23 capital, until that time. To do otherwise contravenes the intent of the settlement.

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This approach is also consistent with the ERF proposal in PSE’s 2011 general rate case and recommendations from the Governor’s ratemaking discussion group.

**II. CONCLUSION**

**Q. Does this conclude your Prefiled Rebuttal Testimony?**

A. Yes.