

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

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|--|---|---------------------------------------|
| In the Matter of the Petition of |) | |
| |) | DOCKET NO. 121373 |
| 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 |) | |
| |) | |
| <hr/> |) | |
| In the Matter of the Petition of |) | |
| |) | DOCKET NOS. UE-121697 |
| PUGET SOUND ENERGY, INC. and NW |) | and UG-121705 (<i>Consolidated</i>) |
| ENERGY COALITION |) | |
| |) | |
| For an Order Authorizing PSE to Implement |) | |
| Electric and Natural Gas Decoupling |) | |
| Mechanisms and to Record Accounting Entries |) | |
| Associated with the Mechanisms. |) | |
| |) | |
| <hr/> |) | |
| WASHINGTON UTILITIES AND |) | |
| TRANSPORTATION COMMISSION, |) | DOCKET NOS. UE-130137 |
| |) | and UG-130138 (<i>Consolidated</i>) |
| Complainant, |) | |
| |) | |
| v. |) | |
| |) | |
| PUGET SOUND ENERGY, INC., |) | |
| |) | |
| Respondent. |) | |
| <hr/> |) | |

POST-HEARING BRIEF OF
NW ENERGY COALITION

May 30, 2013

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INTRODUCTION

1 This docket marks at least the fourth time in as many years that the Utilities and Transportation Commission (“Commission”) has examined in detail the merits of adopting full decoupling to remove utilities’ financial disincentive to pursue aggressively additional energy efficiency resources. In its 2010 Decoupling Policy Statement, the Commission expressed its support for decoupling and provided utilities and other parties with guidance on the elements that a full decoupling proposal should include. In subsequent general rate cases for both Puget Sound Energy (“PSE”) and Avista, in response to specific bench requests from the Commission, the NW Energy Coalition (“Coalition” or “NWEC”) proposed full decoupling mechanisms for each utility, in both instances closely following the Commission’s Decoupling Policy Statement. Following the resolution of the 2011 PSE general rate case, PSE and the Coalition worked closely together to craft a joint decoupling proposal that builds on and improves the Coalition’s 2011 proposal. That joint proposal, as amended to incorporate feedback from the Commission and other parties during several technical workshops, is now before the Commission in this proceeding.

2 The amended joint decoupling proposal is the culmination of years of close study by the Commission and other parties, and grows directly from the Commission’s Decoupling Policy Statement and the extensive evidence supporting the Coalition’s proposal presented in PSE’s 2011 general rate case. The proposed mechanism has the support of the Company and a wide variety of parties representing diverse interests and viewpoints, including groups representing PSE’s customers (ranging from industrial to low-income), Commission Staff, and the Coalition. And the mechanism builds on the overwhelmingly positive experience with full decoupling in no fewer than 25 states across the country. The Commission has before it a wealth of data and evidence supporting the joint proposal, and an opportunity to finally implement a mechanism

that will give the Commission and all parties a chance to truly test and evaluate the many benefits of full revenue decoupling in Washington. There is no better time to bridge the gap from theory to practice: the Commission should adopt the amended joint proposal implementing full electric and gas decoupling for PSE.

3 This post-hearing brief recommends that the Commission approve the multiparty global settlement agreement to which the Coalition is a party. That agreement, signed by the Coalition, PSE, and Commission Staff, and joined by The Energy Project and the Northwest Industrial Gas Users, proposes to resolve all issues in docket numbers UE-121697 and UG-121705 (“decoupling,” consolidated); UE-130137 and UG-130138 (“expedited rate filing,” consolidated), and UE-121373 (“PPA”). The global settlement includes the adoption of the amended joint decoupling proposal filed in the consolidated decoupling dockets, *see* Dockets UE-121697 & UG-121705, and the majority of this post-hearing brief addresses the merits of that joint proposal. This brief also discusses procedural issues related to the global settlement and the merits of the resolution in the global settlement of PSE’s motion to reopen the Power Purchase Agreement (“PPA”) docket, *see* Docket UE-121373. The Coalition is not a party to the consolidated Expedited Rate Filing (“ERF”) dockets, *see* Dockets UE-130137 & UG-130138, and this brief does not address the merits of issues in those dockets.

ARGUMENT

I. THE GLOBAL SETTLEMENT APPROPRIATELY RESOLVES RELATED ISSUES IN MULTIPLE DOCKETS.

4 On March 22, 2013, PSE filed with the Commission a multiparty “global settlement” that resolves all issues as between PSE, Commission Staff, and the Coalition in five dockets: the PPA docket, the two decoupling dockets, and the two ERF dockets. The global settlement was subsequently amended by joinder agreements with The Energy Project and Northwest Industrial

Gas Users, filed by PSE on May 7, 2013 and May 8, 2013, respectively.

5 Following the conclusion of the 2011 PSE general rate case, the Coalition worked closely with PSE to develop and revise a joint decoupling proposal. The global settlement agreement incorporates all aspects of the amended joint decoupling proposal filed by PSE and the Coalition on March 1, 2013. Following that amended filing, the Coalition learned that PSE and Commission Staff had negotiated a global settlement that recommended the adoption of the amended joint proposal, and additionally resolved the ERF and PPA dockets. After review, the Coalition decided to support and join the global settlement, though the Coalition had not participated in the negotiation of the global settlement terms between PSE and Commission Staff. *See* Exhibit No. ____ (NH-1T (Decoupling)) at 1:19 to 2:5 (recommending that the Commission approve the global settlement); Exhibit No. ____ (NH-2T (Decoupling)) at 2:2-5 (clarifying that the Coalition did not participate in global settlement negotiations between PSE and Commission Staff).

6 The global settlement resolves five separate dockets currently pending before the Commission. Such multi-docket settlements are neither inappropriate nor without Commission precedent, and should pose no obstacle to the Commission's approval of the global settlement agreement. As an initial matter, a global settlement addresses the concern, raised by multiple parties, that "there are too many different issues and dockets in discussion at once that all impact PSE's revenue and rates for customers. The need to consider all the impacts in one place was an important rationale for the Coalition to support a settlement that addressed all five dockets." *See* Exhibit No. ____ (NH-2T (Decoupling)) at 3:17-20. Recognizing that the rate and revenue impacts will be interrelated, the global settlement appropriately addresses and resolves all of the issues together.

7 Nor does the Administrative Procedure Act pose any obstacle to the Commission's approval of a global settlement resolving five dockets. As both PSE and Commission Staff have noted, the Commission has in the past approved such multi-docket settlement agreements. *See* Trautman, TR. 106:9-21; Carson, TR. 101:21 to 102:10. Indeed, the Commission's procedural rules explicitly lay out the requirements for the Commission to consider and adopt a proposed settlement. *See* WAC 480-07-740. The Commission's procedural rules provide for the development of an adequate record on which to accept or reject proposed settlements, *see id.*, and adopting a settlement in accordance with these rules and the records developed in separate dockets does not run afoul of the record review requirement in the Administrative Procedure Act, RCW 34.05.476.

8 Should the Commission prefer, there is also no obstacle, nor would the Coalition object, to two separate orders adopting the global settlement: one in the ERF and decoupling dockets adopting the terms of the settlement related to those dockets, and one in the PPA docket adopting the terms relevant there. Because the terms of the settlement are interdependent, however, the Coalition reserves the right to withdraw its support for the global settlement if the Commission approves the provisions related to some dockets but declines to adopt the provisions related to other dockets. So long as the two independent orders incorporate the terms of the global settlement related to all of the dockets without substantial modification, the Coalition has no objection to two separate orders.

II. THE COMMISSION SHOULD ADOPT FULL ELECTRIC AND GAS DECOUPLING FOR PUGET SOUND ENERGY.

9 Energy efficiency and demand side management are critical to meeting Washington's energy needs without increasing reliance on costly and polluting new sources of generation. Indeed, the Washington legislature has mandated that utilities acquire all cost-effective energy

efficiency resources to ensure that no opportunity for increasing reliance on this least burdensome energy resource is overlooked. *See* RCW 19.285.040(1). Increasing acquisition of energy efficiency, however, can pose a threat to the financial health of utilities whose cost recovery depends on volumetric sales charges: the more efficiency they acquire, the less likely they will be able to recover their approved costs. Decoupling a utility's recovery of its approved revenue requirement from its volumetric sales removes this disincentive to the acquisition of all cost-effective energy efficiency.

A. Background

10 Decoupling is not new to Washington state: decoupling was first approved for Puget Power in 1991, in a pilot mechanism that the Commission determined achieved its primary goal of removing disincentives to the acquisition of energy efficiency. *See* Exhibit No. ____ (RCC-2T (Decoupling)) at 3-4; *see also* Docket No. UE-920433, Eleventh Supplemental Order (Sept. 21, 1993), p. 10. As a recent, comprehensive national study demonstrates, decoupling now has a demonstrated track record in 25 states for electric and gas utilities. *See* Exhibit No. ____ (RCC-5 (Decoupling)). Moreover, the Commission, in its Decoupling Policy Statement, has formally recognized that decoupling can be a valuable tool to remove utilities' financial disincentive to pursue energy efficiency. *See* Docket No. U-100522 (Nov. 4, 2010) at 16 (“we believe that a properly constructed full decoupling mechanism that is intended, between general rate cases, to balance out both lost and found margin from any source can be a tool that benefits both the company and its ratepayers”).

11 Following the Commission's guidance in its Policy Statement, the Coalition proposed a full electric decoupling mechanism for Puget Sound Energy in PSE's most recent general rate case (“GRC”). *See WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048/UG-111049, Order 08 (May 7, 2012) at ¶ 453 p. 166 (finding that “NWEC's decoupling proposal . . . largely follows

the guidance of the Decoupling Policy Statement”); *id.* at ¶ 455 p.167 (“NWEC’s proposal is consistent in intent and general design” with the Commission’s Decoupling Policy Statement). While the Commission declined to order PSE to adopt decoupling in the face of the Company’s opposition, the Commission noted that it remained open to considering such a proposal if the Company withdrew its opposition. *See id.* at n.617 p.167. In response to the Commission’s invitation, the Coalition and PSE worked closely together to craft a joint decoupling proposal that improves on the mechanism the Coalition proposed in the 2011 General Rate Case and addresses PSE’s specific concerns. After several technical workshops, the Coalition and PSE refined and further improved the joint proposal and filed an amended petition with the Commission in March 2013. The “global settlement” to which the Coalition is a party incorporates all aspects of this improved joint proposal.

B. The Amended Joint Decoupling Proposal Is in the Public Interest.

12 The amended PSE/Coalition joint decoupling proposal is consistent with the Commission’s Decoupling Policy Statement—indeed, it improves upon the 2011 Coalition proposal that the Commission already considered consistent. *See* Cavanagh, TR. 145:10-25. It includes aggressive electric energy efficiency targets that PSE will meet by accelerating the acquisition of cost-effective energy efficiency resources. It includes customer protections by limiting rate fluctuations in any given year to no more than a 3% surcharge, with no limit on rebates. It includes additional bill payment assistance and energy efficiency funding for low-income customers, and it includes a thorough evaluation of the decoupling mechanism to allow the Commission, the Company, and all other interested parties sufficient information to determine how it could be further improved. And finally, it includes a two to three year stay-out provision that will break the pattern of nearly continual rate cases, relieving a litigation burden on the Company (and hence its customers), the Commission, and all involved parties. The joint

proposal is the culmination of years of study and collaboration.

13 Many of the parties to this proceeding support the global settlement and the joint decoupling proposal. Several parties, however, raise objections to the proposal, all of which they have raised each time the issue of decoupling comes before the Commission. These routine objections lack merit for the reasons discussed below.

C. There Is No Evidence to Support a Reduction in the Company's Return on Equity.

14 The joint decoupling proposal does not include a reduction in PSE's return on equity ("ROE"). This is entirely appropriate in light of a recent, nationwide study finding that the vast majority of Commission decisions approving decoupling mechanisms—60 out of 76—include no prospective adjustment to a company's ROE, and 9 include only a 10 basis point reduction (with 4 of those 9 resulting from settlement agreements). *See* Exhibit No. ____ (RCC-4T (Decoupling)) at 6:7-13; Exhibit No. ____ (RCC 5 (Decoupling)) at 14. As Commissions across the country have found, imposing an arbitrary decrease in a Company's ROE as a penalty for adopting a decoupling mechanism makes little sense.

15 Public Counsel and the Industrial Customers of Northwest Utilities ("ICNU") argue, to the contrary, that a dramatic and unprecedented reduction in PSE's ROE is appropriate. Specifically, ICNU Witness Gorman argues that the adoption of full decoupling for PSE should result in a ROE reduction of 25 basis points, despite a lack of evidence supporting this reduction:

COMMISSIONER JONES: Okay. Last question and then I'm done. Decoupling ROE impact issue. You have a recommendation at a minimum of 25 basis points. Mr. Gorman, you have the same recommendation in the last case; correct?

THE WITNESS [Mr. Gorman]: Yes.

COMMISSIONER JONES: 25 basis points. But what — what evidence backs that up? I guess that's what I'm going to drive at. Is that just your gut feeling of doing this for 20 years, and looking at the evidence, both from this case and in other jurisdictions, of full electric decoupling, that that's — because, as you say, you didn't have time to do a full-blown study on this; right?

THE WITNESS [Mr. Gorman]: That's right.

Gorman, TR. 206:3-15.

16 In this case, as in the 2011 PSE General Rate Case, neither Witness Gorman nor any other witness has provided any evidence or analysis supporting a specific ROE reduction as a result of decoupling. Rather, ICNU and Public Counsel's arguments rely on the precedent established by a small handful of Commission decisions that reduce a company's ROE in conjunction with the adoption of a decoupling mechanism, and on the theoretical prospect that the market may determine that a decoupled utility bears less risk. Neither of these rationales bears scrutiny.

17 Turning first to the argument that some Commission decisions impose an ROE reduction in conjunction with the adoption of a decoupling mechanism, as Witness Cavanagh has explained, the witnesses espousing this argument "have cherry-picked the national record, identifying a handful of cases at the extreme of the range canvassed in full by [the comprehensive national study]." *See* Exhibit No. ____ (RCC-4T (Decoupling)) at 6; *see also* Exhibit No. ____ (RCC-5 (Decoupling)). The overwhelming majority of Commission decisions have declined to impose a prospective arbitrary decrease in ROE in the absence of any evidence that such a decrease is warranted. *See* Exhibit No. ____ (RCC-5 (Decoupling)).

18 Looking specifically at the Pacific Northwest, Commissions in Idaho and Oregon have declined to impose substantial ROE reductions in conjunction with the approval of full decoupling mechanisms. *See* Cavanagh, TR. 168:5-22. The Idaho Commission, in approving a permanent full decoupling mechanism for Idaho Power, declined to impose any ROE adjustment either prospectively or retrospectively. *See id.* The Oregon Commission's decision approving decoupling for Portland General Electric did include a small ROE adjustment of 10 basis points, *see id.*; however, that case involved a proposal by the company and an order approving that

proposal, with conditions, by the Commission. Here, in contrast, PSE has negotiated with multiple parties, including Commission Staff, the Coalition, the Northwest Industrial Gas Users (“NWIGU”), and The Energy Project (“TEP”), to reach a comprehensive settlement agreement that already involves give and take by various parties. Under these circumstances, it would not be appropriate for the Commission to condition adoption of the joint proposed decoupling mechanism on an arbitrary ROE adjustment, even a small one. Moreover, in the draft third-party evaluation of Portland General Electric’s decoupling mechanism, the third-party evaluators found no evidence that the decoupling mechanism reduced the company’s cost of capital, and accordingly recommended eliminating the 10 basis point reduction in ROE. *See* Christensen Associates Energy Consulting, An Evaluation of Portland General Electric’s Decoupling Adjustment, Schedule 123 (draft May 7, 2013).

19 As for the theoretical argument that the market will recognize that a decoupled utility bears reduced risk, Witness Cavanagh has explained that there is simply no empirical evidence that rate impacts as modest as those contemplated in the proposed decoupling mechanism have any appreciable effect on the company’s cost of capital. *See* Cavanagh, TR. 173:24 to 174:15; *see also* Exhibit No. ____ (RCC 2T (Decoupling)) at 22:2-17. Indeed, the only empirical study on the effects of decoupling on the cost of capital found that if anything, decoupling was associated with a small increase in the cost of capital. *See id.*

20 Moreover, the joint proposal includes two provisions to address the possibility that PSE might over-earn. First, the amended joint proposal includes an earnings test, such that PSE must rebate to its customers 50% of any returns beyond 25 basis points above the Commission-approved Rate of Return. *See* Amended Petition for Decoupling Mechanisms, Dockets UE-121697 and UG-121705, Attachment A at 6. Splitting additional earnings between the

Company and its customers strikes a fair balance between protecting customers from over-earning by the Company, on the one hand, and giving the Company an incentive to strictly manage costs to increase its revenues, on the other. Second, the amended joint proposal requires PSE to return to the Commission for a full General Rate Case no earlier than April 1, 2015 and no later than April 1, 2016. *See* Amended Petition for Decoupling Mechanisms, Dockets UE-121697 and UG-121705, at 12. This two-to-three year stay out ensures that the Commission and all interested parties will have an opportunity to evaluate any potential changes to PSE’s ROE and other costs within a reasonable time, while also breaking the pattern of nearly-continual rate cases.

D. Incorporating an Attrition Adjustment Into the Decoupling Mechanism (the “K-Factor”) Is Neither Novel Nor Inappropriate.

21 The joint proposal includes a K-factor annual rate adjustment to the decoupling mechanism to ensure that the baseline for the decoupling mechanism accounts for attrition. As discussed above, the Coalition proposed a full decoupling mechanism in the context of PSE’s 2011 GRC. The Company opposed this mechanism in part on the grounds that the Coalition’s proposal would not account for the attrition experienced by the Company, and so would prevent the Company from recovering its true costs, thereby making the Company’s attrition problem even worse. *See WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048/UG-111049, Order 08 (May 7, 2012) at ¶¶ 434 pp. 158-59, ¶¶ 453-54 p. 166 (summarizing PSE testimony). The amended joint proposal addresses this issue by incorporating a “K-factor”—a modest increase to rates in both electric and gas schedules—into the decoupling mechanism.

22 The K-factor in the amended joint proposal (filed on March 1, 2013) improves on the design of the K-factor in the initial joint decoupling proposal (filed on October 25, 2012), in response to input from the Commission and other parties at two technical workshops on the

proposal. The K-factor in the amended joint proposal incorporates a straightforward percentage increase to the allowed revenue per customer, to ensure that the mechanism operates simply and predictably, and eliminates the Company's throughput incentive. *See* Cavanagh, TR. 156:9-25. The amended joint proposal also includes a rate plan that tracks the K-factor increases for customers not included in the decoupling mechanism, to ensure that all customers are treated fairly and even-handedly. *See* Amended Petition for Decoupling Mechanisms, Dockets UE-121697 and UG-121705 at 15-16.

23 While opponents of the multiparty settlement attempt to portray the K-factor as novel, precisely the contrary is true. The Commission itself has noted that it is open to considering attrition adjustments when appropriate, and has allowed such adjustments in the past. *See WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048/UG-111049, Order 08 (May 7, 2012) at ¶¶ 489-91 pp. 180-81. Moreover, there is nothing unusual about including such an adjustment in the decoupling mechanism. *See* Cavanagh, TR. 172:11 to 173:10. Indeed, Commissions across the country have approved attrition adjustments in conjunction with decoupling mechanisms 13 times for gas utilities and 11 times for electric utilities. *See* Exhibit No. ____ (RCC-5 (Decoupling)) at 12.

E. The Decoupling Mechanism Will Lead to More Energy Efficiency.

24 The amended joint proposal will lead to increases in cost-effective energy efficiency for two reasons. First, by removing the throughput incentive, the proposal will remove any disincentive for PSE to pursue additional energy efficiency resources. Second, the proposal includes a concrete commitment by PSE to meet heightened energy efficiency targets, by accelerating the acquisition of energy efficiency resources already found to be cost-effective.

25 As Witness Cavanagh testified, based on experience with decoupling mechanisms across the country, "there is a clear correlation between the adoption of revenue decoupling and the

accelerated effort” to acquire energy efficiency. Cavanagh, TR. 153:25 to 154:2. Across the country, comparing companies with decoupling mechanisms to those without, there is “a palpable difference in terms of management commitment, innovation, and engagement” resulting from the removal of the throughput incentive. Cavanagh, TR. 154:3-5; *see also* Exhibit No. ____ (RCC-2T (Decoupling)) at 26:19 to 27:6. Adopting full electric and gas decoupling for PSE will allow PSE, like other decoupled utilities across the country, to substantially increase its commitment to energy efficiency.

26 Additionally, PSE has committed to accelerate its acquisition of energy efficiency resources as part of the amended joint proposal. Specifically, PSE has committed to achieve electric conservation five percent in excess of the targets set by the Commission by accelerating the acquisition of cost-effective energy efficiency resources. *See* Amended Petition for Decoupling Mechanisms, Dockets UE-121697 and UG-121705 at 17. Because the Commission is currently evaluating how to maximize gas conservation, the joint proposal does not include an explicit additional conservation target for gas, but instead requires PSE to participate in the Northwest Energy Efficiency Alliance study on gas conservation. *See* Exhibit No. ____ (RCC-4T (Decoupling)) at 4:20 to 5:3 (“The Commission is now evaluating how best to maximize cost-effective natural gas savings in a changing market; anticipating the results in the joint decoupling proposal would have been premature.”). By including a commitment to increase electric energy efficiency, and to study ways to improve gas energy efficiency, the joint proposal ensures that not only will the decoupling mechanism remove barriers to increased acquisition of energy efficiency, it will in fact lead to concrete increases in efficiency as well.

27 Importantly, while the decoupling mechanism removes the throughput incentive and requires PSE to meet heightened energy efficiency targets, it also sends price signals to

customers that encourage conservation. Because the amended joint proposal retains a billing structure under which customers are charged based on volume of use, customers still have a strong incentive to conserve to reduce their bills. While system-wide decoupling adjustments will compensate the Company for such conservation, the system-wide adjustments will be modest—no more than a 3% increase. Customers pursuing aggressive conservation could easily save far more. *See* Exhibit No. ____ (RCC-4T (Decoupling)) at 4:4-6.

F. The Decoupling Mechanism Includes a Thorough Evaluation, Reporting, and an Appropriate Stay-Out.

28 The amended joint decoupling proposal includes a requirement that the Company file with the Commission as part of its next general rate case a thorough evaluation of the decoupling mechanism. *See* Amended Petition for Decoupling Mechanisms, Dockets UE-121697 and UG-121705 at 19-21. Specifically, the evaluation will include an audit and analysis of the decoupling adjustments implemented under the mechanism, an evaluation of the effect of the mechanism on low-income customers, an evaluation of trends in the Company's conservation performance, and an evaluation of whether the mechanism adversely impacted the Company's service or operation. *See id.* Because the evaluation will be completed before the Company's next general rate case, it will provide the Commission and all other parties with the information necessary to determine whether to continue the decoupling mechanism and how to modify and improve it.

29 The stay-out provision is an integral part of the evaluation and the mechanism as a whole. The two to three year stay-out is the minimum needed to gather meaningful data on the workings of the decoupling mechanism—completing a study after only a year, for example, would not provide enough data points to attempt to assess what changes are likely attributable to the decoupling mechanism and what changes are simply arbitrary fluctuations. Indeed, the two-to-

three-year stay-out included in the amended joint proposal is shorter than the five-year term included in the Coalition's 2011 proposal. To understand the results of the decoupling mechanism, we have to commit to actually trying it for more than a handful of months. The amended joint proposal strikes an appropriate balance between allowing the mechanism to function for long enough to meaningfully understand its effects and requiring the Company to return for a general rate case before too much time has passed to ensure that the terms of the mechanism remain current and fair to the Company and its customers.

30 Finally, the amended joint proposal includes routine filings by the Company to implement the rate adjustments calculated pursuant to the decoupling mechanism. *See* Amended Petition for Decoupling Mechanisms, Dockets UE-121697 and UG-121705, Attachment A at 9. This schedule 139 rate adjustment filing functions as an additional reporting requirement that will give the Commission and other parties an interim picture of how the mechanism is functioning. If the Commission believes additional reporting would assist in the final evaluation or would help to keep the Commission informed of the functioning of the mechanism during the stay-out, adding more frequent reporting requirements to the amended joint proposal may be feasible while still allowing the mechanism to operate for long enough to allow a meaningful evaluation.

G. The Decoupling Mechanism Protects Low-Income Customers.

31 The amended joint proposal, as modified by the settlement joinder with The Energy Project, includes several provisions specifically designed to protect low-income customers. While the rate impacts of the amended joint proposal include a cap of 3% on annual surcharges (with no limit on rebates), even a modest increase can be significant for customers with extremely limited means. Ensuring that PSE's low-income customers have affordable access to essential energy services has long been a priority for the Coalition, and the amended joint

proposal does just that.

32 The amended joint proposal, as modified by the settlement joinder with The Energy Project, ensures that funding for low-income assistance will increase to \$21.7 million annually. *See* The Energy Project’s Joinder in the Multiparty Settlement Re: Coal Transition PPA and Other Pending Dockets, Dockets UE-121373, UE 121697, UG-121705, UE-130137, and UG-130138, at 2 ¶ 2. The proposal, as modified by the joinder, also provides for additional shareholder funding for low-income energy efficiency programs. *See id.* at 2 ¶ 3; *see also* Exhibit No. ____ (JAP-1T (Decoupling)) at 37:18 to 38:11). These additional funds will help PSE’s low-income consumers enjoy the benefits of PSE’s conservation programs, and the flexibility to provide some additional funding for home repair will help ensure that these programs are effective—as Witness Hirsh noted, there is “[n]o sense in adding insulation to an attic that has a hole in the roof.” *See* Exhibit No. ____ (NH-2T (Decoupling)) at 3:6-7.

33 Finally, the evaluation in the amended joint proposal includes a specific focus on low-income customers, including impacts of rate adjustments and modifications to low-income conservation programs. *See* Amended Petition for Decoupling Mechanisms, Dockets UE-121697 and UG-121705, at 20. As numerous parties noted in testimony surrounding the Coalition’s 2011 decoupling proposal, there currently is very little evidence on the impacts of decoupling on low-income customers generally and on the impacts of PSE’s conservation programs on low-income customers specifically. This lack of evidence makes challenging the Commission’s directive in its Decoupling Policy Statement to specifically consider the effects of a proposed decoupling mechanism on low-income customers. The portions of the evaluation targeted at low-income customers directly responds to that issue by generating the information that will allow the Commission and other parties to evaluate more thoroughly the effects of

decoupling on low-income customers and to modify the decoupling mechanism as appropriate on the basis of that information.

H. Other Objections to the Decoupling Mechanism Lack Merit.

34 Other objections to the joint decoupling proposal lack merit and should not long detain the Commission. First, the Commission may properly approve the full decoupling mechanism despite the fact that it is not proposed as part of a general rate case. While the Commission's Decoupling Policy Statement recommends that decoupling proposals be presented in a general rate case, the Commission itself has noted that it remains open to proposals that vary somewhat from that guidance. *See WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048/UG-111049, Order 08 (May 7, 2012) at ¶ 455 p. 167. More importantly, the amended joint proposal follows closely on the heels of the resolution of PSE's most recent general rate case: the Commission's final order in the 2011 PSE GRC was issued on May 7, 2012, and PSE and the Coalition first filed a joint decoupling proposal on October 25, 2012, less than six months later. In the 2011 GRC, numerous parties submitted testimony and conducted extensive discovery on decoupling issues; moreover, since the initial October 2012 joint filing, parties have had the opportunity to participate in two technical workshops and conduct first informal and later formal discovery. The process surrounding the joint decoupling proposal, combined with the extensive consideration of these same issues in the 2011 GRC, have led to the development of an extensive evidentiary record that provides more than sufficient grounds for the Commission to reach its decision.

35 Suggestions that full decoupling will decrease PSE's incentive to control costs are misplaced; as Witness Cavanagh explains, "with the [decoupling] mechanism, controlling costs takes on even greater importance, since PSE can no longer increase profit by increasing sales." *See Exhibit No. ____ (RCC-4T (Decoupling))* at 7:13-15. Similarly, there is no merit to, nor

evidence supporting, the contention that PSE will suddenly fail to provide quality customer service as a result of the decoupling mechanism. *See id.* at 8:5-8. Witness Gorman's claims that Washington has in the past experienced rate volatility as a result of decoupling are overblown, *see id.* at 8:12-18, and highlighting alleged problems with the decoupling mechanism implemented for Detroit Edison as a result of the collapse of the Detroit auto industry have no relevant corollary for PSE, *see Higgins*, TR. 308:9-13; TR 309:8-14.

III. THE COMMISSION SHOULD ADOPT THE GLOBAL SETTLEMENT TERMS RELATING TO THE POWER PURCHASE AGREEMENT DOCKET.

36 As detailed in the Coalition's response to PSE's Motion for Reconsideration and Motion to Reopen the Record in Docket No. UE-121373, filed May 30, 2013, the provisions of the multiparty settlement agreement related to additional reporting commitments and amending the proposed power purchase agreement ("PPA") with TransAlta are critical to addressing concerns raised by the Coalition and by the Commission in Order 03 in that proceeding. The proposed modifications to the PPA guarantee the Commission a role in future potential decisions regarding termination or continuance of the PPA, and protect the interests of PSE's customers and the State of Washington in the event that TransAlta terminates the MOA, ceases generation at the Centralia coal plant, or implements substantial layoffs at that facility.


37 We anticipate the Commission may opt for procedural reasons to issue a final order in Docket No. UE-121373 separate from its order in the decoupling and ERF cases. While the Coalition does not object to such an outcome, as mentioned above, we remind the Commission that the terms of the settlement represent an integrated negotiation of all five dockets. Resolution of each of these dockets ultimately will impact PSE's customers and the Company's cost recovery; hence the substance and policy underlying each docket makes sense to be considered comprehensively, even if it is cumbersome to do so procedurally. If the Commission issues a

separate order in Docket UE-121373, we respectfully request that it contain provisions substantially the same as those in the multiparty settlement agreement.

CONCLUSION

38 For the foregoing reasons, the Coalition requests that the Commission approve the global settlement agreement in its entirety.

Respectfully submitted this 30th day of May, 2013.



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