Exhibit No. AZA-6T
Dockets UE-190529|UG-190530|UE-190274|UG-190275
Witness: Ali Al-Jabir

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent.	DOCKETS UE-190529 and UG-190530 (*consolidated*)
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*)

CROSS-ANSWERING TESTIMONY AND EXHIBIT OF ALI AL-JABIR

ON BEHALF OF

THE FEDERAL EXECUTIVE AGENCIES

January 15, 2020

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ali Al-Jabir. My business address is 5151 Flynn Parkway, Suite 412 C/D, Corpus Christi, Texas, 78411.

Q. DID YOU PREVIOUSLY FILE RESPONSE TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. I am appearing on behalf of the Federal Executive Agencies ("FEA"). Our firm is under contract with The United States Department of the Navy ("Navy") to perform cost of service, rate design and related studies. The 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.

Q. WHAT IS THE PURPOSE OF YOUR CROSS-ANSWERING TESTIMONY?

A. My cross-answering testimony focuses on three topics. First, I address the cost allocation methods for generation and transmission fixed costs that were proposed in the response testimony of Glenn A. Watkins on behalf of the Public Counsel Unit of the Washington State Office of the Attorney General ("Public Counsel"). Second, I respond to the electric revenue allocation proposals set forth in the response testimonies of Mr. Watkins, Jason L. Ball of the Staff of the Washington Utilities and Transportation Commission ("Commission Staff") and Kevin C. Higgins on behalf of the Kroger Company ("Kroger"). Finally, I address the recommendations of Mr. Ball with respect

to PSE's proposed Conjunctive Demand Service Option Pilot ("Conjunctive Demand Pilot").

The fact that I am not addressing other issues raised in the response testimony filed by the parties to this proceeding should not be construed as an endorsement of the positions taken by these parties with regard to such issues.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.

A. My conclusions and recommendations can be summarized as follows:

1. The Commission should reject the Probability of Dispatch ("POD") and the Base-Intermediate-Peak ("BIP") allocation methods for fixed generation and transmission costs described in the response testimony of Public Counsel witness Mr. Watkins. These allocation methods inappropriately emphasize load duration and ignore the fact that the most important consideration in the generation planning process is the need to preserve system reliability by ensuring that there is sufficient generation capacity to meet the utility's system peak demand requirements, plus a reasonable reserve margin. Moreover, the POD and BIP allocation methods oversimplify and do not properly reflect the utility system planning or dispatch processes.

2. 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, whatever 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. Therefore, 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.

3. 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 reasonable approach would be to apply 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. This method uses allocation factors that combine the classes' average demands and non-coincident peak demands.

4. The Commission should apply an electric base rate revenue allocation method that maximizes movement toward cost-based rates and that minimizes cross-subsidies among rate classes.

5. The Commission should reject the electric revenue allocation proposals of the Commission Staff, Public Counsel and Kroger because they either exacerbate or fail to adequately remedy the misalignment between costs and rates that would apply to the High Voltage class under PSE's revenue allocation proposal.

6. The Commission should adopt an electric base rate revenue allocation method that ensures that no class receives a base rate increase if it would be entitled to a rate reduction under cost-based rates. This approach would maintain the High Voltage class (Schedules 46 and 49) at its current base rates. This recommendation would avoid the inequity of imposing a base rate increase on the High Voltage class as recommended by PSE, the Commission Staff, Public Counsel and Kroger when the data shows that this class is currently paying rates that are well in excess of its cost of service.

7. The Commission should approve PSE's request to implement the Conjunctive Demand Pilot in this proceeding without additional delay. The Company's application and testimony in this proceeding establish the pilot's goals and support the relationship of the pilot to cost causation on the Company's system. Moreover, the pilot program's benefits can be adequately measured through an ex-post analysis that PSE can provide to the Commission in its pilot program performance report. Based on these considerations, I see no need to delay the implementation of the Conjunctive Demand Pilot or to require the Company to refile the Conjunctive Demand Pilot to address the pricing pilot program design and evaluation elements proposed in the response testimony of Mr. Ball.

Classification & Allocation of Generation & Transmission Fixed Costs

Q. PLEASE SUMMARIZE THE RESPONSE TESTIMONY OF PUBLIC COUNSEL WITNESS GLENN WATKINS WITH RESPECT TO THE CLASSIFICATION AND ALLOCATION OF GENERATION FIXED COSTS.

A. Mr. Watkins sets forth what he perceives to be the strengths and weaknesses of various cost allocation methods for fixed generation costs. Among the allocation methods that Mr. Watkins addresses are the single coincident peak ("1 CP"), 4 CP, summer and winter CP, 12 CP, peak and average, average and excess, BIP, POD and peak credit methods. Mr. Watkins testifies that, in his view, the POD and BIP methods are the most

accurate cost allocation methods for fixed generation costs. He further asserts that the single CP and seasonal CP methods do not reasonably reflect cost causation.[1/]

Q. DO YOU AGREE WITH MR. WATKINS THAT THE CP ALLOCATION METHOD DOES NOT REFLECT COST CAUSATION FOR GENERATION FIXED COSTS?

A. No. To the contrary, the CP method is the allocation method that most accurately reflects the central cost driver for generation investment, which is the system peak demand. As I discussed in detail in my response testimony, 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, whatever 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. Moreover, generation and transmission capital costs are fixed, sunk costs that do not vary with the amount of energy consumed by customers. Economic principles dictate that such fixed, sunk costs should be allocated on a demand basis.

A CP cost allocation method is consistent with cost causation principles because it recognizes the fact that generation and transmission capacity additions are driven by the growth in system peak demand and that these additions must be sized to meet the system peak demand. For any given utility system, the capital costs are not a function of the number of kWh generated, but are fixed and therefore are properly related to system demands, not to kWh sold. Therefore, a CP allocation method properly reflects

[1/] Docket Nos. UE-190529, UG-190530, UE-190274 and UG-190275, Response Testimony of Glenn A. Watkins on behalf of Public Counsel, November 22, 2019, pages 17-18 and 24.

the cost drivers that lead to the construction of generation and transmission facilities and that determine the sizing of such incremental facilities.[2/]

Q. PLEASE SUMMARIZE THE POD METHOD THAT MR. WATKINS DISCUSSES IN HIS RESPONSE TESTIMONY.

A. The POD method allocates generation capital costs to individual hours of the year based on the frequency with which each individual generating plant is dispatched to serve the utility's load. These hourly capacity costs for each generating plant are then summed and assigned to the customer classes based on the hourly class contributions to the total system load.

Q. PLEASE SUMMARIZE THE BIP METHOD THAT MR. WATKINS ALSO FAVORS.

A. The BIP method classifies and assigns individual generating assets based on their specific role in a utility's generation portfolio. Under the BIP method, typically "Base" load units are classified and allocated on energy, "Intermediate" units are classified and allocated based on their capacity factor, and "Peak" units are classified and allocated on peak demand.

Q. DO THE POD AND BIP METHODS REASONABLY REFLECT COST CAUSATION FOR GENERATION PLANT INVESTMENT?

A. No. The underlying premise of the POD and BIP methods is that load duration and the economic trade-off between capacity and energy costs are the driving forces behind generation investment decisions. This argument misrepresents the utility planning process. In reality, the most important consideration in the generation planning process is the need to preserve system reliability by ensuring that there is sufficient generation

[2/] 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 11-15.

capacity to meet the utility's system peak demand requirements, plus a reasonable reserve margin.

By contrast, there is no clear cost-causation relationship between the duration of customer loads and generation resource planning. Utilities identify a need for new generation resources when generating capacity is needed to meet peak day demands and capacity reserves. These reserve margin requirements are tied to the utility's highest peak demands in the year. The generation resource ultimately selected would be the lowest-cost resource available to meet that need for additional peak day capacity. Therefore, the economics of the specific resource investment decision become a factor only after the need for additional capacity to reliably meet system peak requirements is established.

Q. ARE THERE OTHER REASONS TO REJECT THE POD AND BIP ALLOCATION METHODS?

A. Yes. The POD and BIP methods are inappropriate because they oversimplify the utility generation planning process. Important factors such as fuel costs, technological innovations and environmental requirements can change significantly, distorting the dispatch order of a utility's generating resources over time. Changes in these factors can alter the frequency with which generating units are dispatched and can also impact the designation of units as Base or Intermediate. Moreover, the dispatch order of generating units can be distorted by the addition of new plants that produce a different generation mix.

The POD and BIP methods ignore these significant factors that can alter the dispatch arrangement of a utility's generation units and that can impact the designation of Base, Intermediate or Peak resources on a utility's system. Therefore, these

allocation methods do not properly reflect the dynamic nature and the complexities of the utility system planning or dispatch processes.

Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE CLASSIFICATION AND ALLOCATION OF FIXED PRODUCTION AND TRANSMISSION COSTS IN THIS PROCEEDING?

A. For the reasons set forth above, the Commission should reject the POD and BIP methods for the classification and allocation of fixed generation and transmission investment. Instead, as discussed in my response testimony in this proceeding, 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 the 4 CP method. This allocation method relies on the contribution of the customer classes to the utility system peaks in the months of January, February, November and December 2018. 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 nevertheless 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 reasonable approach would be to apply the A&E 4 NCP method. This method allocates production and transmission plant costs to the customer classes using factors that combine the classes' average demands and non-coincident peak demands.

Electric Revenue Allocation

Q. PLEASE SUMMARIZE THE COMMISSION STAFF'S ELECTRIC REVENUE ALLOCATION RECOMMENDATION.

A. The Commission Staff approaches revenue allocation by establishing parity ranges that it uses to evaluate the parity ratios of the customer classes under the Company's class

cost of service study results. Under the Commission Staff's paradigm, customer classes that fall within ± 5% of parity are deemed to be within the error range. Classes that fall within ± 10% of parity are considered to be within what the Commission Staff calls a "range of reasonableness." Classes with parity ratios that are ± 20% of parity or higher fall into a range of what the Commission Staff considers to be unreasonable (± 20%), excessive (± 30%) or grossly excessive (± 40%) cross-class subsidization.

Based on these parity ranges, Staff proposes an electric revenue spread that would allocate 150% of the adjusted system average increase to Schedules 35 and 43. The Lighting class would receive 125% of the system average increase, while the Staff would allocate 100% of the adjusted system average increase to Schedule 7 (Residential), Schedule 24 and Schedule 31. Finally, Schedules 25, 26 and 46/49 would receive 75% of the adjusted system average increase.[3/]

Q. WHAT IS THE ELECTRIC REVENUE ALLOCATION PROPOSAL OF PUBLIC COUNSEL?

A. Public Counsel would allocate an equal percentage increase of 101% of the system average increase to almost all of the electric customer classes, including the High Voltage class. The exceptions to this approach are the Retail Choice/Retail Wheeling, Special Contract and Firm Resale classes, which would receive a directly assigned revenue increase as proposed by the Company.[4/]

[3/] Docket Nos. UE-190529, UG-190530, UE-190274 and UG-190275, Response Testimony of Jason L Ball on behalf of the Commission Staff, November 22, 2019, pages 14-17.

[4/] Docket Nos. UE-190529, UG-190530, UE-190274 and UG-190275, Response Testimony of Glenn A. Watkins on behalf of Public Counsel, November 22, 2019, pages 39-42.

Q. PLEASE SUMMARIZE KROGER'S ELECTRIC REVENUE ALLOCATION RECOMMENDATIONS.

A. Kroger recommends that any rate schedule that is at 106% of parity under PSE's class cost of service study should receive a rate increase that is 50% of the adjusted system average percentage base rate increase, rather than the 75% of the adjusted system average percentage increase that the Company recommends for such rate schedules. Under Kroger's proposal, the High Voltage class would receive a base rate increase of 4.10% rather than the 5.76% increase recommended by the Company (including PSE's attrition adjustment).[5/]

Q. ARE THE ELECTRIC REVENUE ALLOCATION PROPOSALS OF THE COMMISSION STAFF, PUBLIC COUNSEL AND KROGER REASONABLE IN YOUR OPINION?

A. No. As I discussed in my response testimony, the revenue allocation and class rate design in this proceeding should be mainly driven by the goal of achieving cost-based rates. In my view, the electric revenue allocation proposals of the Commission Staff, Public Counsel and Kroger do not exhibit sufficient movement towards cost-based rates, particularly with regard to the High Voltage class (Schedules 46 and 49).

Q. PLEASE DISCUSS YOUR SPECIFIC CONCERNS REGARDING THESE ELECTRIC REVENUE ALLOCATION PROPOSALS AS THEY IMPACT THE HIGH VOLTAGE CLASS.

A. As I explained in my response testimony, the High Voltage class is above cost of service under the Company's cost of service study in this proceeding and provides a significant cost subsidy to other customer classes. Therefore, the High Voltage class should receive a base rate reduction to bring its base rates completely in line with cost of service.

[5/] Docket Nos. UE-190529, UG-190530, UE-190274 and UG-190275, Response Testimony of Kevin C. Higgins on behalf of Kroger, November 22, 2019, pages 10-13.

Moreover, this subsidization pattern is not a new phenomenon. In the Company's last base rate case, the Company's class cost of service study using a test year ended September 2016 showed that the High Voltage class had a relative rate of return of 157 at present rates, reflecting the fact that the rates of the High Voltage class were in excess of its cost of service in PSE's last base rate case.[6/] This demonstrates that the High Voltage class has been subsidizing the rates of other customer classes for some time and underscores the need to take aggressive action to minimize the magnitude of class cross-subsidization in this case.

In light of these facts, it would be inappropriate to impose a base rate increase on the High Voltage class in this proceeding, as proposed by the Company and other parties. While a base rate reduction would be justified for the High Voltage class to bring it immediately to cost-based rates under a reasonable approach to allocating the Company's fixed costs, the more conservative approach that I recommended in my response testimony is to reduce the cost subsidy that this class is currently providing by maintaining the High Voltage class at its present base rates. This approach would avoid the inequity of imposing a base rate increase on a rate class that in fact merits a base rate reduction. By contrast, the revenue allocation proposals of PSE, the Commission Staff, Public Counsel and Kroger would all impose base rate increases on the High Voltage class and would therefore fail to adequately address the cross-subsidies embedded in PSE's base rates.

6/ Docket Nos. UE-170033 and UG-170034, Response Testimony of Ali Al-Jabir on behalf of the FEA, June 30, 2017, Exhibit AZA-3.

Q. WHY IS THE COMMISSION STAFF'S ELECTRIC REVENUE ALLOCATION PROPOSAL INADEQUATE IN YOUR VIEW?

A. The electric revenue allocation proposal put forth by the Commission Staff mirrors the Company's proposal to increase the base rates of the High Voltage class by 75% of the system average percentage increase. The Commission Staff's proposal is inadequate because it would require the High Voltage class to bear a significant share of the base rate increase in this proceeding, despite the fact that a base rate reduction is justified for this class to bring it to cost-based rates under the Company's cost of service study.

Q. PLEASE EXPLAIN YOUR SPECIFIC CONCERNS WITH THE ELECTRIC REVENUE ALLOCATION PROPOSALS OF PUBLIC COUNSEL AND KROGER.

A. Public Counsel proposes to impose a base rate increase on the High Voltage class that is equivalent to 101% of the system average percentage increase. This approach would impose a significantly larger base rate increase on the High Voltage class relative to PSE's proposed base rate increase of 75% of the adjusted system average increase. Therefore, this proposal is a step in the wrong direction. All else being equal, Public Counsel's proposal would exacerbate the misalignment between costs and rates for the High Voltage class and would increase the subsidy that this class is required to pay relative to PSE's proposal. This result is inconsistent with the goal of maximizing the movement to cost-based rates.

Kroger proposes to reduce the magnitude of the cost subsidy imposed on the High Voltage class by moderating the base rate increase for this class to 50% of the adjusted system average percentage base rate increase, rather than the 75% of the adjusted system average increase that the Company recommends. While this proposal is well intentioned in that it attempts to shrink the magnitude of the cost subsidy that the High

Voltage class provides relative to PSE's proposal, it nevertheless results in inadequate movement toward cost-based rates. This is the case because Kroger's proposal would impose a sizeable base rate increase on the High Voltage class when a base rate reduction would be appropriate to achieve full movement to cost-based rates for this class under the Company's class cost of service study.

Q. DO YOU HAVE ANY OTHER CONCERNS WITH THE ELECTRIC REVENUE ALLOCATION PROPOSALS OF PUBLIC COUNSEL AND THE COMMISSION STAFF?

A. Yes. Mr. Watkins attempts to justify his electric revenue allocation proposal by asserting that it is consistent with what he characterizes as the Commission's "general practice," which he interprets to require that classes with parity ratios that are within ± 10% of unity should receive the system average percentage increase.[7/] Similarly, Mr. Ball argues that customer classes that are within ± 10% of parity fall within what he characterizes as a "range of reasonableness" and consequently do not merit significant corrective action to move them aggressively toward cost-based rates in the revenue allocation process.[8/] These arguments are flawed.

First, I disagree with the assertion that aggressive efforts to move a class towards cost-based rates are unwarranted simply because the customer class is within ± 10% of parity. The proposals of Mr. Watkins and Mr. Ball are unreasonable in that they would prevent any significant movement toward cost-based rates for classes such as the High Voltage class that are at a parity ratio of 1.05 under the Company's class cost of service study results. This 1.05 parity ratio falls outside of any reasonable margin of error and merits corrective action to bring the High Voltage class closer to cost-based rates. The

[7/] Response Testimony of Glenn A. Watkins at page 39.
[8/] Response Testimony of Jason L. Ball at page 14.

proposals of Mr. Watkins and Mr. Ball to establish a wide ± 10% "range of reasonableness" in interpreting the class cost of service study results would effectively result in little or no movement toward cost-based rates for a customer class, except in circumstances where the rates of the class are extremely misaligned relative to its cost of service. The proposals of Mr. Watkins and Mr. Ball are flawed because they would severely discount or disregard the class cost of service study results for rate setting purposes, except in the most extreme circumstances. This outcome is unreasonable and should be rejected by the Commission, as it would impede the goal of moving the customer classes toward cost-based rates.

Q. ARE THE ELECRIC REVENUE ALLOCATION PROPOSALS OF MR. WATKINS AND MR. BALL CONSISTENT WITH THEIR OWN DEFINITION OF A "RANGE OF REASONABLENESS" AROUND THE COST OF SERVICE STUDY RESULTS?

A. No. Even if one were to accept their ± 10% "range of reasonableness" approach to interpreting the cost of service study results, there is clear evidence that the electric revenue allocation proposals of Mr. Watkins and Mr. Ball are unreasonable under their own criteria as applied to the High Voltage class.

As I showed in Exhibit AZA-3 to my response testimony in this proceeding, the Company's application of the Peak Credit Method to allocate production and transmission fixed costs masks the true extent of the subsidy that the High Voltage class is providing to other electric classes on the Company's system. Applying a more reasonable Average & Excess 4 NCP allocation method results in a parity ratio for the High Voltage class of 1.13, while applying an optimal 100% 4 CP allocation method

results in a parity ratio of 1.27.[9/] Even under the flawed Base-Intermediate-Peak allocation method that Mr. Watkins identified as one of his two preferred allocation methods for fixed production costs, the resulting parity ratio for the High Voltage class is 1.17, according to Mr. Watkins's response testimony.[10/]

These parity ratios are all clearly outside of the ± 10% "range of reasonableness" identified by Mr. Watkins and Mr. Ball. Therefore, these results underscore the need to adopt an electric revenue allocation method that produces significant movement toward cost-based based for the High Voltage class by assigning a zero base rate increase to this class in this proceeding.

Q. MR. BALL TESTIFIED THAT CONSIDERATIONS OF FAIRNESS AND PERCEPTIONS OF EQUITY REQUIRE THAT ALL CUSTOMERS SHARE SOME PART OF A PROPOSED RATE INCREASE.[11/] DO YOU AGREE?

A. No. Fairness and equity in the revenue allocation process should be measured by the degree to which the rates of a customer class accurately reflect the costs that the class causes the utility system to incur. If the goal is to ensure that rates are fair and equitable, then the Commission should adopt a revenue allocation that maximizes movement toward cost-based rates for each customer class.

When rates are not based on the cost of service, this requires some customers on the utility's system to subsidize the cost to serve other customers. This result is inherently inequitable. In other words, the appropriate analysis to measure equity in rate setting involves a class-specific comparison of rates relative to the class cost of service. The fact that the utility is proposing an overall system average increase in its

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[9/] 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, Exhibit AZA-3.

[10/] Response Testimony of Glenn A. Watkins at page 35.

[11/] Response Testimony of Jason L. Ball at page 16.

electric rates is irrelevant to this analysis. Moreover, this fact should not drive the allocation of the overall rate increase to the classes.

As I explained in my response testimony, the Company's own class of service study shows that the High Voltage class is paying rates that are clearly in excess of its cost of service. In this context, an electric revenue allocation proposal that would assign a base rate increase to the High Voltage class is inequitable because it would impose a rate increase on a customer class that merits a rate decrease when equity and fairness are properly measured against the yardstick of class-specific cost-based rates. Mr. Ball's approach of assigning rate increases to all customer classes simply because the overall system is experiencing an average electric rate increase would perpetuate rather than correct the inequity in the Company's electric rates by failing to adequately remedy the customer class cross-subsidization that is reflected in those rates.

Q. HAVE YOU DEVELOPED AN ANALYSIS THAT HIGHLIGHTS THE EXTENT OF THE COST SUBSIDY THAT THE HIGH VOLTAGE CLASS WOULD BE REQUIRED TO PAY UNDER THE ELECTRIC REVENUE ALLOCATION PROPOSALS THAT YOU ADDRESS IN YOUR CROSS-REBUTTAL TESTIMONY?

A. Yes. Exhibit No. AZA-7 provides a comparison of the basis point differentials between the class percentage rate of return for the High Voltage class and the system average percentage rate of return that results from the revenue allocation proposals of the FEA, PSE, Staff, Public Counsel and Kroger in this proceeding. As can be seen in this Exhibit, there is a 169 basis point differential between the High Voltage class rate of return and the system average rate of return under current rates. Public Counsel's electric revenue allocation proposal would increase this differential to 193 points, resulting in a further movement away from cost of service. The electric revenue allocation proposals of Staff and PSE also result in large positive basis point

differentials of 159 points and 147 points, respectively, for the High Voltage class relative to the system average rate of return. These large basis point differentials highlight the magnitude of the subsidy that these parties are proposing to impose on the High Voltage class. While Kroger's proposed electric revenue allocation results in a smaller positive basis point differential of 96 points for the High Voltage class relative to the proposals of Staff and Public Counsel, Kroger's proposal nevertheless results in a significant discrepancy between the class rate of return for the High Voltage class and the system average rate of return.

By contrast, the electric revenue allocation proposal set forth in my response testimony would reduce this basis point differential for the High Voltage class to negative 29 points based on the Company's class cost of service study results, which closely approximates a unity rate of return for this class. This data demonstrates that the FEA's electric revenue proposal results in a more appropriate movement toward cost of service for the High Voltage class relative to the proposals submitted by the other parties to this proceeding.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING THE ELECTRIC REVENUE ALLOCATION PROPOSALS PUT FORTH BY THE COMMISSION STAFF, PUBLIC COUNSEL AND KROGER IN THIS PROCEEDING.

A. The Commission should adopt an electric revenue allocation method that maximizes movement toward cost-based rates and that minimizes cross-subsidies among rate classes. I recommend that the Commission reject the electric revenue allocation proposals of the Commission Staff, Public Counsel and Kroger because they either exacerbate or fail to adequately remedy the misalignment between costs and rates that would apply to the High Voltage class under PSE's revenue allocation proposal.

As I explained in my response testimony, a reasonable and conservative approach toward electric revenue allocation would be to ensure that no class receives a base rate increase if it would be entitled to a rate reduction under cost-based rates. My recommendation would avoid the inequity of imposing a base rate increase on the High Voltage class as recommended by PSE, the Commission Staff, Public Counsel and Kroger when this class is in fact entitled to a base rate reduction to fully align its base rates with its cost of service.

Conjunctive Demand Service Option Pilot

Q. PLEASE SUMMARIZE THE COMMISSION STAFF'S POSITION WITH RESPECT TO PSE'S CONJUNCTIVE DEMAND PILOT.

A. Commission Staff witness Mr. Ball testified that the Staff supports the concept of unbundling customer demand served at various locations as reflected in the Company's proposed Conjunctive Demand Pilot. Nevertheless, Mr. Ball recommends that the Commission require the Company to file a revised pilot proposal that incorporates the Staff's proposed pricing pilot program design and evaluation elements. Specifically, Mr. Ball asserts that, prior to pilot approval, PSE must provide additional clarity surrounding the Conjunctive Demand Pilot with respect to matters such as the pilot's goals, target audience, customer outreach, the measurement of benefits, program evaluation, practicality and relationship to cost causation.[12/]

Q. DO YOU AGREE THAT APPROVAL OF THE CONJUNTIVE DEMAND PILOT SHOULD BE MADE CONTINGENT ON CLARIFYING THE AFOREMENTIONED ITEMS AS PROPOSED BY THE STAFF?

A. No. The concerns raised by Mr. Ball do met merit delaying the Conjunctive Demand Pilot. Mr. Ball complains that PSE has not adequately established the target audience

[12/] Response Testimony of Jason L. Ball at page 59-61.

for the pilot or the nature of the customer outreach for the program. However, by definition, pilot programs are experimental in nature and are used to test customer interest in and responsiveness to a particular pricing structure. Therefore, the process of implementing the pilot program will allow both PSE and the Commission to assess on an ex-post basis the interest of specific customers in conjunctive billing and their ability to respond to the pricing structure in a manner that benefits both the customer and the utility system as a whole. In the context of implementing a pricing pilot, it is not necessary to define the target audience and the customer outreach strategy at the level of detail suggested by Mr. Ball prior to program implementation, particularly for larger customers with multiple locations who are generally more sophisticated users of electricity.

Q. WHAT ABOUT SOME OF THE OTHER CRITERIA THAT MR. BALL BELIEVES ARE IN NEED OF FURTHER DEFINITION PRIOR TO THE IMPLEMENTATION OF THE PILOT PROGRAM?

A. The Company has already made a strong case for the pilot program and its relationship to cost causation in its application and supporting testimony in this proceeding. This testimony sets forth the goals of the pilot, the structure of the program and the connection between conjunctive billing and cost causation on PSE's system. For example, with regard to the relationship of conjunctive billing to cost causation, the Company has provided evidence through the direct testimony of Mr. Jon Piliaris showing that conjunctive billing is more consistent with the manner in which it conducts its generation and transmission planning.[13/] Consequently, I see no need to delay

[13/] Docket Nos. UE-190529, UG-190530, UE-190274 and UG-190275, Prefiled Direct Testimony of Jon A. Piliaris on behalf of PSE, June 20, 2019, pages 31-32.

implementation of the Conjunctive Demand Pilot by requiring the Company to provide additional support in the areas identified by Mr. Ball.

Furthermore, the Company can address the measurement of pilot program benefits in its pilot program performance report to the Commission. As part of this performance report, the Company can provide an ex-post analysis of program benefits. This analysis could include metrics that measure the extent of customer participation in the pilot, the mix of pilot program participants, the degree to which pilot program participants were able to reduce their conjunctive demands relative to the status quo billing method, and any other program results that the Commission finds useful to assess the benefits of the pricing pilot. Based on this information, the Commission can make an informed assessment as to whether the pilot program results merit expanding conjunctive billing to a wider set of PSE's customers.

Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE COMPANY'S CONJUNCTIVE DEMAND PILOT PROPOSAL?

A. The Commission should approve PSE's request to implement the Conjunctive Demand Pilot in this proceeding without additional delay. The Company's application and testimony in this proceeding establish the pilot's goals and support the relationship of the pilot to cost causation on the Company's system. Moreover, the pilot program's benefits can be adequately measured through an ex-post analysis that PSE can provide to the Commission in its pilot program performance report. Based on these considerations, I see no need to delay the implementation of the Conjunctive Demand Pilot or to require the Company to refile the Conjunctive Demand Pilot to address the pricing pilot program design and evaluation elements proposed in the response testimony of Mr. Ball.

Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?

A. Yes, it does.

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Exhibit No. AZA-7
Dockets UE-190529|UG-190530|UE-190274|UG-190275
Witness: Ali Al-Jabir

BEFORE THE WASHINGTON
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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*)

EXHIBIT NO. AZA-7

COMPARISON OF BASIS DIFFERENTIAL UNDER VARIOUS REVENUE ALLOCATION PROPOSALS

JANUARY 15, 2020

Exhibit No. AZA-7

Puget Sound Energy

Comparison of Basis Differential
under Various Revenue Allocation Proposals

Customer Class	Current	PSE	FEA	Public Counsel	Kroger	Staff
	(1)	(2)	(3)	(4)	(5)	(6)
High Volt (Sch 46/49)	1.69%	1.47%	-0.29%	1.93%	0.96%	1.59%