EXH. BDJ-5T
DOCKETS UE-190529/UG-190530
UE-190274/UG-190275
2019 PSE GENERAL RATE CASE
WITNESS: BIRUD D. JHAVERI

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket UE-190529** **Docket 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 IT/Technology Investment**	**Docket UE-190274** **Docket UG-190275 (*Consolidated*)**

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF

BIRUD D. JHAVERI

ON BEHALF OF PUGET SOUND ENERGY

JANUARY 15, 2020

PUGET SOUND ENERGY

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I. INTRODUCTION

Q. Are you the same Birud D. Jhaveri who submitted prefiled direct testimony on June 20, 2019 on behalf of Puget Sound Energy ("PSE" or "Company") in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony provides the updated electric cost of service study results based on the electric revenue requirement that is set forth in the Prefiled Rebuttal Testimony of Susan E. Free, Exh. SEF-17T. My testimony also responds to testimony from the following witnesses regarding the Company's electric cost of service study:

1. Jason L. Ball, witness for the Staff of the Washington Utilities and Transportation Commission ("Staff");
2. Glenn A. Watkins, witness for the Public Counsel section of the Washington State Attorney General's Office ("Public Counsel"), and
3. Ali Al-Jabir, witness for the Federal Executive Agencies ("FEA").

II. UPDATED ELECTRIC COST OF SERVICE

Q. What are the results of PSE's updated electric cost of service study?

A. The parity percentages by customer class that result from the updated electric cost of service study, based on the revised electric revenue requirement, are shown in Table 1 below.

Table 1 - Results of Company's Updated Electric Cost of Service Study

Customer Class	Rate Schedule	Parity Percentage
Residential	7	97%
General Service, < 51 kW	24	105%
General Service, 51 – 350 kW	25	106%
General Service, >350 kW	26	106%
Primary Service	31/35/43	101%
Special Contract	SC	120%
High Voltage	46/49	104%
Choice/Retail Wheeling	448/449	88%
Lighting Service	50 - 59	94%
Firm Resale/Special Contract	5	50%
System Total / Average		100 %

Q. Were any other changes made to the electric cost of service model besides updating for the revised revenue requirement that is set forth in the Prefiled Rebuttal Testimony of Susan E. Free, Exh. SEF-17T?

A. No. No other changes were made to the electric cost of service model.

III. RESPONSE TO ISSUES RAISED REGARDING ELECTRIC COST OF SERVICE ANALYSIS

A. Summary of Intervener Parties

Q. Please summarize the various parties' proposals for the classification of PSE's generation and transmission costs.

A. Staff witness Jason Ball finds PSE's cost of service study to be "directionally accurate" and recommends that the Commission rely on PSE's electric cost of service study for this general rate case ("GRC").[1]

After providing a comprehensive overview of generally-accepted methods for classifying and allocating generation and transmission related costs, as well as the results of their application to PSE in this case, Public Counsel witness Glenn Watkins accepts PSE's Peak Credit methodology as producing results within the range of reasonableness and as providing a fair and equitable allocation to all

[1] Ball, Exh. JLB-1T at 13:3-6.

classes.[2] That being said, Mr. Watkins appears to have minor disagreements with PSE's allocation of individual rate base and expense accounts.[3]

FEA witness Ali Al-Jabir explicitly rejects the updated peak credit results presented by PSE as deviating from sound, cost-based ratemaking principles. He also believes generation and transmission costs should be classified entirely on demand basis and allocated to customer classes based on a "4-CP" (four highest monthly coincident peaks) demand basis, or rely on the average and excess method for classification with a "4-NCP" (four highest monthly non-coincident peaks) demand method for class allocation.[4]

B. Classification and Allocation of Generation and Transmission Costs

Q. Please provide a brief background on the classification methodologies used by PSE for demand related generation and transmission cost allocation.

A. PSE's use of the Peak Credit methodology has roots dating back to the early 1980s.[5] While the exact calculation has evolved over time, the current method is substantially in the form approved by the Commission in 1992.[6] In PSE's 2014 Petition to Update Methodologies Used to Allocate Electric Cost of Service for

[2] Watkins, Exh. GAW-1T at 35:9-12. Note also that Mr. Watkins references a range of results in his cost of service study discussion using both the originally calculated peak credit results, as well as those using updated data.
[3] *Id.* at 20:1-23:14.
[4] Al-Jabir, Exh. AZA-1T at 2:19-2:33.
[5] Cause No. U-82-38, Brief of the Respondent Puget Sound Power & Light Company, dated June 16, 1983, at 124.
[6] Dockets UE-920433, UE-920499 and UE-921262 (consolidated), Ninth Supplemental Order on Rate Design Issues, at 7. The Commission also reaffirmed the use of peak credit for the allocation of all transmission. *See id*. at 10.

Electric Rate Design Purposes (2014 Rate Design Collaborative), the Commission approved the 2014 Rate Design Collaborative Settlement Agreement ("2014 Settlement") proposing to use a fixed 25 percent demand and 75 percent energy classification for PSE's GRC.[7] The 2014 Rate Design Collaborative discussions exposed fundamental differences among parties on a number of topics, which prevented general agreement on cost of service related issues, including generation and transmission classification methodologies. Consequently, the settling parties agreed to participate in a formal generic proceeding addressing cost of service allocation methodologies because that process would allow all parties to fully present their viewpoints on these issues in one proceeding and receive policy guidance from the Commission in order to alleviate the need to litigate cost of service issues in every rate case. Thereafter, the Commission commenced the Electric Cost of Service Rulemaking under Docket UE-170002 ("COS Rulemaking"), which is currently underway.

Q. Did the 2014 Settlement provide guidance on which cost of service methodologies to use in the interim while the COS Rulemaking is pending?

A. No; there was no broad agreement on which classification and allocation methodologies to use after PSE's 2017 GRC in the event another rate case is filed while the COS Rulemaking is in progress. Staff accepted the continued use of the existing Peak Credit methodology until the Commission issues a decision on cost

[7] The fixed 25% demand and 75% energy split was the basis for the demand/energy cost allocation in PSE's 2017 GRC. See WUTC Docket No. UE-170033, Order 08, at 112:336.

of service classification and allocation methodologies through the COS Rulemaking or in PSE's GRC, but FEA did not support the use of any ratemaking principles, theories or concepts that underlie the Settlement Agreement outside of the one-time settlement on a stand-alone basis.[8]

Q. Has progress been made in the COS Rulemaking to inform this case on classification of generation and transmission costs?

A. Yes. In July 2018, the Commission filed a Preproposal Statement of Inquiry (CR-101) to address cost of service study topics.[9] Subsequently, the Commission hosted several technical workshops, requested feedback from parties on draft cost of service rules, and requested electric utilities to evaluate multiple classification and allocation method scenarios.

Upon reviewing the classification and allocation scenario results, Commission Staff indicated a preliminary preference for the Renewable Future Peak Credit with net power costs ("NPC") allocated on energy as the method to classify generation costs, while classifying transmission costs as 100 percent demand. Renewable Future Peak Credit is similar to the current Peak Credit method, except that the proxy peaking generating resource used is a battery instead of a simple cycle combustion turbine, and the proxy baseload generating resource used is wind instead of a combined cycle combustion turbine.

[8] Docket UE-141368, Joint Testimony in Support of Settlement Stipulation at 14 and 24.
[9] Dockets UE-170002 and UG-170003.

Q. Have you conducted a scenario of the Company's cost of service study using the Renewable Future Peak Credit with NPC allocated on energy method for classifying generation costs?

A. Yes. In the first exhibit to my prefiled rebuttal testimony, Exhibit BDJ-6, I have updated PSE's Response to WUTC Staff Data Request No. 156, which provides the cost of service study results using the following specifications:

- Generation classification: Renewable Future Peak Credit with NPC allocated on energy;
- Generation allocation: Demand – load net of renewable generation, using "12-CP" method (twelve highest monthly coincident peaks); Energy – allocated using retail sales;
- Transmission classification: 100 percent demand, and
- Transmission allocation: 12-CP method.

Q. Why is the Company not using Renewable Future Peak Credit with NPC allocated on energy as the classification method for generation costs?

A. As I previously mentioned, the COS Rulemaking is still pending. While the Commission has begun the process to develop cost of service rules, it has yet to file draft rules under CR-102 or final rules under CR-103. Additionally, the COS Rulemaking has made significant progress since the time of the Company's initial GRC filing in June 2019, and Staff only recently indicated the Renewable Future Peak Credit method as a preliminary preference.

Q. Please discuss the alternative generation and transmission classification methods presented by parties in this GRC.

A. Public Counsel and FEA each presented multiple alternative generation and transmission classification and allocation methodologies. Public Counsel submitted studies using the Probability of Dispatch and the Base-Intermediate-Peak methods, with a 4-CP demand allocation factor. FEA submitted two alternative studies as well. The first method classifies100 percent of fixed generation and transmission costs on a 4-CP demand basis. The other method classifies generation and transmission costs using the Average and Excess method, allocating demand costs on a 4-NCP basis.

Q. Are any of the alternative methods clearly superior to the current Peak Credit method?

A. No. The parties have presented full and differing viewpoints on cost of service and allocation methodologies, but no method is clearly superior to PSE's proposed method. Apportioning joint cost is complex, with numerous conflicting standards of fairness and functional efficiency with no one precise or correct answer. There continues to be a conflict between a desire for simplicity and a desire to conform to the principle of cost causation, which itself is mired by disagreements. All methods proposed in this case, including the Peak Credit method, have their advantages and drawbacks. The question of whether to use the Peak Credit method has been repeatedly litigated before the Commission, with parties often settling on the "reasonable" approach, and the Commission

continuing to maintain that the peak credit method is an appropriate methodology for classifying generation and transmission costs.

Q. What are your concerns regarding the Peak Credit?

A. While the current peak credit method continues to be a reasonable methodology for classifying generation and transmission costs, the revisions that must now be incorporated, such as the inclusion of the social cost of carbon, yield a peak credit classification that shifts the majority of generation and transmission costs to energy (89 percent), while only classifying 11 percent to demand. In its current effective base rates, the Company used a fixed 25 percent demand and 75 percent energy ("Fixed method") demand-energy split, as was stipulated in the 2014 Settlement. PSE is concerned that the methodology ultimately employed in this GRC would result in unpredictable movement between demand and energy classifications in a relatively short timeframe. The directionally opposing demand cost movements would be from that of the Settlement's 25 percent, to PSE's proposed Peak Credit of 11 percent, and then potentially to a 49 percent (net NPC) for generation and 100 percent demand for transmission using the Renewable Future Peak method in the COS Rulemaking.

As a steward of gradualism and rate stability, PSE has analyzed the various methodologies with different classifications and allocations and has compared the resulting parity ratios against PSE's proposed Peak Credit method in Exhibit BDJ-6.

Q. What have you concluded from your analysis?

A. The Company's proposed Peak Credit method or the Fixed method would achieve a reasonable, neutral position compared to other methodologies. Both methods comply with precedence and adhere to the principles of simplicity, rate stability, gradualism and acceptability.

Both Probability of Dispatch (sponsored by Public Counsel) and 100 percent demand for fixed generation and transmission costs method (supported by FEA) provide the most diverse results.

I cannot compare the demand-energy classification split directly for all methodologies because some methods do not have a distinct demand and energy separation, but I can infer what the split may be based on the direction of the parity ratio results. Upon comparing the parity ratios from scenarios using other methods to the Company's proposed Peak Credit, one can infer that the proposed Probability of Dispatch method would produce a demand classification percentage even lower than PSE's Peak Credit's 11 percent demand because parity ratios for residential customers rise closer to parity than PSE's Peak Credit method (from 0.97 to 0.99), and large commercial, industrial and wheeling customers experience even lower parity ratios than PSE's Peak Credit method (for example, for Schedule 31 customers, the parity ratio under PSE's proposed Peak Credit method is 1.04, and becomes 0.98 under the Probability of Dispatch method. See Exhibit BDJ-6), indicating higher load factor customers are not paying their fair share of costs. On the other hand, FEA's proposed 100 percent

demand for fixed generation and transmission costs method would swing the parity ratios in the opposite direction for large commercial, industrial and wheeling customers (for Schedule 43 customers, the parity ratio under PSE's proposed Peak Credit method is 0.89, and becomes 1.26 under FEA's 100 percent demand for fixed generation and transmission method), while reducing the parity ratio for residential customers (from 0.97 to 0.94), indicating lower load factor customers are not paying their fair share of costs.

While Public Counsel's Base-Intermediate-Peak method and FEA's Average and Excess 4-NCP method provide more restrained outcomes than the interveners' preferred methods, the parity results suggest a demand classification greater than that of the Fixed method or the Renewable Future Peak Credit method.

The Renewable Future Peak Credit method provides parity ratios similar to the Fixed method, indicating that the implied demand-energy classification split is closer to the fixed classification method. However, it should be noted that the inputs and assumptions for the Renewable Future Peak Credit methodology are still being evaluated and have yet to be sufficiently vetted and approved by the Commission.

Q. What classification and allocation methodology do you recommend the Commission use?

A. As stated earlier, both the Company's proposed Peak Credit methodology and the Fixed method continue to adhere to precedence and the principles of simplicity, rate stability, gradualism and acceptability, as well as provide neutral and

reasonable results. However, in order to achieve an outcome for customers that shields them from the directionally opposing near-term movements of the demand-energy classification, the Company seeks the Commission's guidance and clear policy direction in selecting the appropriate classification and allocation methodologies that are reasonable and acceptable to use prior to an outcome of the COS Rulemaking.

Q. Are there any other matters the Commission should take into consideration regarding the appropriate classification and allocation of generation and transmission costs?

A. Yes. First, the Commission should take into consideration the impact that its decision regarding the classification and allocation of generation costs will have on PSE's adjusting price schedules. The subsequent allocation of costs (or rebates) within PSE's Schedule 95 (Power Cost Adjustment Clause), Schedule 95A (Federal Incentive Tracker), Schedule 120 (Electric Conservation Service Rider) and, indirectly, Schedule 137 (Temporary Customer Charge or Credit), and Schedule 140 (Property Tax Tracker)[10] will all likely be impacted by the decision made in this case, as the allocation of costs (or rebates) in each of these adjusting price schedules are traditionally tied directly to the results of the peak credit methodology from the last GRC. In the case of these adjusting price schedules,

[10] Property taxes are technically allocated on plant. However, the generation and transmission plant is allocated on Peak Credit.

the allocation is formulaic (i.e., relying directly on the peak credit results), rather than being subject to rate spread deadband traditionally used in PSE's rate cases.

Second, the Commission should take into consideration the potential impact the demand-energy classification will have on the Energy Charge Credit received by customers participating in the Green Direct program. Customers taking service under Schedule 139 (Voluntary Long Term Renewable Energy Purchase Rider) receive a credit for the energy-related power cost component of the Energy Charge of the customer's electric service schedule. The current allocation of power costs embedded in retail rates to the Energy Charge Credit is traditionally tied directly to the results of the peak credit methodology from the last GRC. Similar to the adjusting price schedules, the allocation is formulaic, relying directly on the peak credit results.

Finally, the Commission should take into consideration potential implications the peak credit results will have on downstream decisions for rate design. Specifically, the demand-energy split for generation and transmission costs may influence decisions about how much revenue to recover from PSE's customers through energy and demand charges.

C. Allocation of Income Taxes, State Excise Taxes and WUTC Fees

Q. Please summarize Public Counsel's proposals for the allocation of PSE's income taxes, state excise taxes and WUTC fees costs.

A. Public Counsel witness Glenn A. Watkins believes that these costs are a direct function of revenue at current rates and, therefore, should be allocated

accordingly.[11] However, he concedes that given the relatively good alignment of revenues and underlying costs, this issue has little practical implication in the assignment of costs.[12]

Q. How do you respond?

A. While seemingly immaterial, PSE's position is that a cost of service study should allocate revenue-dependent costs on a cost-basis. To tie these revenue-dependent costs to actual revenue, as Mr. Watkins proposes, creates a problem of circularity, where rates that are set based on actual rate revenue produces revenue-dependent costs. For example, if rates were set to collect revenue below costs, the result would be lower revenue-dependent costs (e.g., revenue-based taxes), which would suggest the need for still lower rates, which would then result in still lower revenue-dependent costs. And so on. The way to avoid this circularity is to allocate revenue-dependent expenses on a cost of service basis and then independently decide from that point how much (and in which direction) to potentially deviate rates from this cost-basis.

IV. CONCLUSION

Q. Does this conclude your rebuttal testimony?

A. Yes.

[11] Watkins, Exh. GAW-1T at 20:13-21:9 and 23:3-18.
[12] *Id*.