EXHIBIT NO. ___(JAP-5T)
2013 PSE PCORC
WITNESS: JON A. PILIARIS

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY, Inc. For an Accounting Order Authorizing Accounting Treatment Related to Payments for Major Maintenance Activities	**Docket No. UE-130583**
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, INC., Respondent.	**Docket No. UE-130617**
In the Matter of the Petition of PUGET SOUND ENERGY, Inc. For an Accounting Order Authorizing the Sale of the Water Rights and Associated Assets for the Electron Hydroelectric Project in Accordance with WAC 480-143 and RCW 80.12.	**Docket No. UE-131099**
In the Matter of the Petition of PUGET SOUND ENERGY, Inc. For an Accounting Order Authorizing the Sale of Interests in the Development Assets Required for the Construction and Operation of Phase II of the Lower Snake River Wind Facility	**Docket No. UE-131230**

PREFILED REBUTTAL TESTIMONY
(NONCONFIDENTIAL) OF JON A. PILIARIS
ON BEHALF OF PUGET SOUND ENERGY, INC.

AUGUST 28, 2013

PUGET SOUND ENERGY, INC.

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF JON A. PILIARIS

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PUGET SOUND ENERGY, INC.

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I. INTRODUCTION

Q. Are you the same Jon A. Piliaris who provided prefiled direct testimony in this docket on behalf of Puget Sound Energy, Inc. ("PSE")?

A. Yes, I filed prefiled direct testimony, Exhibit No. ___(JAP-1T), and three supporting exhibits, Exhibit No. ___(JAP-2) through Exhibit No. ___(JAP-4).

Q. Please summarize the purpose of your rebuttal testimony.

A. My rebuttal testimony responds to the proposal of Mr. Donald Schoenbeck, witness for the Industrial Customers of Northwest Utilities ("ICNU"), to deviate from the standard practice for cost allocation in a Power Cost Only Rate Case ("PCORC"). PSE is filing a motion to strike this testimony because it addresses an issue outside of the scope of this PCORC. However, because the Commission will not rule on the motion to strike prior to the rebuttal filing date, I am providing a substantive response to the ICNU testimony.

My rebuttal testimony also responds to the proposal of Mr. Christopher Mickelson, witness for the Staff of the Washington Utilities and Transportation Commission ("Staff"), to modify the calculation of the production adjustment used in this case.

II. RESPONSE TO ICNU PROPOSAL

Q. Please summarize ICNU's proposed modification to cost allocation in this case.

A. ICNU's testimony proposes to deviate from the standard practice for cost allocation in a PCORC, which traditionally relies on the peak credit results approved in the most recent general rate case ("GRC"). ICNU's testimony proposes to deviate from the standard practice for cost allocation in two respects. First, ICNU proposes to eliminate carbon costs underlying the peak credit results in PSE's most recent GRC. ICNU further proposes to deviate from standard practice by modifying the allocation of <u>all</u> production and transmission costs, not just the <u>change</u> in these costs as is customary.

Q. What is the result of ICNU's proposal?

A. ICNU's cost allocation proposal increases the "demand-related" portion of production and transmission costs from 19%, from PSE's 2011 GRC (Docket UE-111048), to 22%.[1] This shifts almost $5 million in PSE's production and transmission costs to residential customers and away from all other retail electric customers.[2] This is approximately ten times greater than the overall increase in costs of roughly $0.5 million that has been proposed by PSE in this case.[3]

[1] Schoenbeck, Exhibit No. ___(DWS-1T), page 6, lines 15-16.
[2] Exhibit No. ___(DWS-6).
[3] Prefiled Supplemental Direct Testimony of Katherine J. Barnard, Exhibit No. ___(KJB-8T), page 2, line 10.

Q. How does ICNU justify this change in cost allocation methodology?

A. ICNU's testimony points, in part, to evidence that the Company is no longer planning on carbon cost assumptions relied upon in its 2011 GRC for current resource acquisition and planning purposes.[4] It goes on to note that rates from a new GRC filing may not go into effect until as late as 2017,[5] thereby resulting in a purported subsidy of low-load factor customers by high-load factor customers over the intervening years if its proposal is not implemented in this proceeding.[6]

Q. Do you believe it is appropriate to deviate from the standard approach to allocating costs in a PCORC?

A. No. As agreed upon in the settlement agreement approved in PSE's last PCORC, and as acknowledged in the testimony of Mr. Schoenbeck, "the revenue allocation and rate design approved by the Commission in the then most recent general rate case will be applied in all subsequent PCORCs."[7] This has been the agreed upon practice since the inception of the PCORC.

That said, to the extent this Commission-approved settlement agreement is not determinative, I believe deviations to the standard approach should only occur if there is a compelling reason to do so. The PCORC is intended to be a streamlined and simplified filing. By design, it was intended to avoid the litigation of these

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4 Exhibit No. ___(DWS-1T), page 5, line 18 to page 6, line 2.
5 *Id.*, page 6, lines 2-6.
6 *Id.*, page 6, lines 13-19.
7 Settlement Agreement in Docket No. UE-070565, ¶11.

very issues. Introducing cost allocation issues in this proceeding serves to frustrate this intent, one that has been faithfully honored since the inception of this rate mechanism.

Q. Has ICNU provided a compelling reason to introduce cost allocation issues in this case?

A. I do not believe so. First, as illustrated in ICNU's evidence, the difference in results for its represented customers is less than one percent.[8] Given the customary range of reasonableness afforded cost of service analyses (e.g., +/- 5-10%), ICNU has not shown that the results under PSE's proposal are unreasonable, and, therefore, require change.

Moreover, there is a variety of other assumptions that feed into the calculation of PSE's peak credit results, many of which have changed in PSE's most recent integrated resource plan ("IRP"), and these assumptions will no doubt continue to evolve before PSE's next GRC. ICNU has selected only one update to these assumptions, ostensibly in the spirit of honoring the intended simplified nature of this filing. Therein lies the more fundamental problem with ICNU's proposal; if every party to this case picked one assumption that most strongly favors its interests, this could quickly lead to litigation of the entire peak credit methodology.

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[8] Exhibit No. ___(DWS-6).

More troubling is ICNU's proposal to reallocate production and transmission costs already approved in PSE's 2011 GRC (i.e., not just the change in costs resulting from its PCORC filing). Expanding the scope of this filing to include the allocation of all production and transmission costs significantly amplifies the impact of any proposed changes to cost allocation. This serves to increase the incentive to reignite debate over appropriate cost allocation, moving this regulatory process further away from its intended simple and streamlined nature to one that is more complicated and litigious.

Q. What do you recommend regarding ICNU's proposal?

A. I recommend that the Commission resist the temptation to allow for even limited changes to the peak credit methodology in this proceeding. ICNU has simply not presented a compelling enough case. However, if it decides such changes are warranted, the Commission should provide clear guidance regarding the criteria by which similar changes would be allowed in future PCORC filings so that all parties can prepare accordingly.

III. RESPONSE TO STAFF PROPOSAL

Q. Please summarize Staff's proposed modification to the calculation of the production adjustment in this case.

A. Staff's testimony proposes to modify the way the production adjustment is calculated in this case[9] by relying on data in the calculation that deviates from the Company's financial records.

Q. What data does Staff propose to use to calculate the production adjustment?

A. Staff proposes to tie the calculation of the production adjustment to data derived from PSE's Client Data Analysis Retrieval System ("CDARS"). CDARS is a system developed by PSE that extracts data from its billing system and produces a series of analysis-ready SAS datasets. These datasets are essentially snapshots of certain areas of PSE's billing system.

Q. How has PSE traditionally used CDARS?

A. CDARS was developed as a tool to allow users to look at customer information for statistical purposes. CDARS is predominantly used by analysts within PSE for purposes of ad hoc customer analysis and developing schedule-level allocation factors. CDARS is used as an analytical tool, not as the official source of information for purposes of financial reporting.

Q. Does Staff explain why using data from CDARS in its production adjustment calculation is more appropriate than using data from PSE's financial statements?

A. No. Staff provides no explanation as to why the use of data from CDARS is more appropriate than the use of data that ties directly to the Company's audited

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[9] For a discussion of the production adjustment, please see Barnard, Exhibit No.___(KJB-1T), page 37, lines 1-17.

financial statements. Further, to my knowledge, this is the first time such an approach has been proposed in a PSE PCORC or GRC. Such a departure from standard practice should require well considered justification, particularly in light of the fact that this practice has been undisputed in the many cases litigated over the past ten years.

Q. Is Staff's recommendation regarding the production adjustment consistent with its proposed rate calculations in this filing?

A. No. Staff's proposal also introduces an inconsistency between the data used to calculate the production adjustment (i.e., from CDARS) and the data used to develop the billing determinants used to set rates (i.e., from PSE's financial statements). Under Staff's proposal, the weather-normalized test year load used in the production adjustment is 20,912,761 MWh,[10] whereas the weather-normalized test year load used to derive rates is 20,915,580,431 MWh.[11] There is no legitimate reason for these inconsistent assumptions.

Q. Based on the foregoing, what do you recommend?

A. I recommend that the Commission reject Staff's proposed modification to the production adjustment. Approving the use of CDARS data as proposed by Staff would extend the use of this data beyond its intended purpose, would create inconsistencies in PSE's ratemaking and would create a harmful precedent that encourages unsupported proposals in the future.

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[10] Testimony of Christopher Mickelson, Exhibit No. ___(CTM-1T), page 44, line 3.

[11] Exhibit No. ___(CTM-5), Rate Spread & Rate Design, column h, line 21.

IV. CONCLUSION

Q. Does that conclude your prefiled rebuttal testimony?

A. Yes, it does.