

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.,  
and NORTHWEST ENERGY COALITION

For an Order Authorizing PSE To Implement Electric  
and Natural Gas Decoupling Mechanisms and To  
Record Accounting Entries Associated With the  
Mechanisms

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WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket Nos. UE-121697 and  
UG-121705 (consolidated)

Docket Nos. UE-130137 and  
UG-130138 (consolidated)

**PETITION FOR RECONSIDERATION OF  
NUCOR STEEL SEATTLE, INC.**

July 5, 2013

## I. INTRODUCTION

Pursuant to WAC 480-07-850, Nucor Steel Seattle, Inc. (“Nucor”) respectfully requests that the Washington Utility and Transportation Commission (the “Commission”) reconsider the Commission’s Order No. 7, entered June 25, 2013, in these consolidated dockets (“Order No. 7”) with respect to Puget Sound Energy, Inc. (“PSE” or “the Company”).

Order No. 7 concerns PSE's Expedited Rate Filing (“ERF”) in Dockets UE-130137 and UG-130138 (consolidated) and the Amended Decoupling Petition filed by PSE and the Northwest Energy Coalition (“NWECC”) in Dockets UE-121697 and UG-121705 (consolidated), which sought *inter alia* approval of revenue decoupling mechanisms for PSE’s electric and natural gas operations. Reconsideration of Order No. 7 is necessary for the following two independent reasons: (i) the Commission failed to consider on its merits the evidence supporting the exclusion of Schedules 85, 85T, 87, and 87T from the revenue decoupling mechanism, and (ii) the Commission appears not to have considered the totality of the evidence supporting a reduction in PSE’s return on equity (“ROE”) that is warranted on account of decoupling.

Nucor respectfully requests that the Commission reconsider Order No. 7 with respect to its decisions to include Schedules 85, 85T, 87, and 87T in the revenue decoupling mechanism and not to reduce PSE’s ROE to reflect the reduction in risk attributable to the adoption of revenue decoupling.

## II. ARGUMENT

### A. **The Commission Failed to Consider on its Merits the Evidence Supporting the Exclusion of Schedules 85, 85T, 87, and 87T From the Revenue Decoupling Mechanism.**

In paragraphs 117-129, Order No. 7 addresses *inter alia* Nucor's argument that gas transportation service customers should be excluded from the decoupling mechanism. Nucor contends that gas transportation service customers are comparable to PSE's electric retail wheeling customers, who are properly excluded from the Joint Parties' amended decoupling proposal submitted March 4, 2013.<sup>1</sup> Nucor also points to the fact that gas transportation customers are not even eligible to participate in PSE's energy efficiency programs, rendering irrelevant the Commission's justification that decoupling would remove PSE's disincentive to support energy efficiency.<sup>2</sup>

In rejecting Nucor's argument, the Commission disputes Nucor's contention that gas transportation customers are comparable to PSE's electric wheeling customers and cites as support PSE's supplemental rebuttal testimony:

There is not a parallel situation [to electric retail wheeling] on the natural gas side of PSE's operations. Mr. Piliaris testifies for PSE that the Company has the same throughput incentive with gas transportation customers as it does with its gas sales customers. [Exhibit No. JAP-24T at 14:19-15:5.] This is because the rates charged to transportation customers for gas delivery mirrors the rates charged to similar sales customers and recovers fixed delivery costs through variable charges. Therefore, PSE has the same motivation for increased energy consumption by transportation customers as it does for sales customers.<sup>3</sup>

The Commission also expresses concern that excluding gas transportation customers from decoupling would introduce the potential for customers to migrate between sales and transportation schedules simply to avoid decoupling surcharges or to benefit from decoupling

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<sup>1</sup> Exhibit No. KCH-5T (Higgins' prefiled response testimony on behalf of Nucor Steel Seattle, Inc.) at 14:8-16.

<sup>2</sup> *Id.* at 14:17-20.

<sup>3</sup> Order at Paragraph 119.

rate rebates.<sup>4</sup> The Commission again cites to PSE's supplemental rebuttal testimony as support for this concern.<sup>5</sup>

However, in rejecting Nucor's argument, the Commission overlooks the evidence provided by the same PSE witness in offering an alternative approach that would have fully resolved Nucor's concerns about exemption, namely, the concurrence of PSE and NWECA in the exclusion of Schedules 85, 85T, 87 and 87T from the decoupling mechanism. PSE witness Piliaris testifies that exempting these rate schedules, as initially proposed by Northwest Industrial Gas Users ("NWIGU"), is a reasonable approach:

These schedules all have a steeply declining block rate structure. As such, the "marginal" throughput incentive is quite modest for large customers facing the tail block rates on these schedules (i.e., additional sales lead to very little incremental revenue for the Company). Given this weakened throughput incentive, removing these customers from the decoupling mechanism appears appropriate.<sup>6</sup>

The revision to the amended proposal to exclude these rate schedules was also supported by NWECA witness Cavanaugh:

Q. Do you support witnesses Finklea's and Higgins's proposal to remove natural gas transport and interruptible service customers from inclusion in the proposed decoupling mechanism (Exhibit No. \_\_\_\_ (EAF-1T), pp. 6-8 and Exhibit No. \_\_\_\_ (KCH-5T), pp. 13-14)?

A. Given the evidence on how little these customers contribute to non-fuel cost recovery in variable charges, I support removing schedules 85, 85T, 87 and 87T from the joint decoupling proposal.<sup>7</sup>

This evidence demonstrates that, contrary to the Commission's finding in paragraph 119, the circumstances of the *largest* gas transportation customers are indeed comparable to electric retail wheeling customers – and these gas customers also warrant exclusion from the decoupling mechanism. As noted by Mr. Piliaris, the rate design for *sales* rate schedules 85 and 87 warrant

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<sup>4</sup> Order at Paragraph 120.

<sup>5</sup> Exhibit No. JAP-24T at 16:12-19.

<sup>6</sup> *Id.* at 15:6-14.

<sup>7</sup> Exhibit No. RCC-4T.

exclusion as well. Moreover, excluding both the sales and transportation variants of the 85/87 rate schedules fully resolves any concerns about large gas customers “gaming” the system by switching between sales and transportation service solely to avoid or benefit from the annual effects of decoupling.

Order No. 7 fails to adopt this solution and ignores the evidence supporting it. The Commission’s decision not to exclude Schedules 85, 85T, 87 and 87T from the decoupling mechanism derives solely from its decision to reject the Multiparty Settlement that revised the amended proposal to provide for this exclusion.<sup>8</sup> However, the evidence in the record overwhelmingly supports the exclusion of these rate schedules from the decoupling mechanism.

Just as the Commission considered the “innovative ratemaking mechanisms” at issue in this case on their merits irrespective of the rejection of the Multiparty Settlement, so must the exclusion of Schedules 85, 85T, 87 and 87T be considered on its merits irrespective of the rejection of the Multiparty Settlement. With regard to this latter point, there is no competent evidence supporting inclusion of these rate schedules in the decoupling mechanism. Indeed, the parties that at one time supported the inclusion of these rate schedules revised their positions *in light of the evidence* and testified in support of *exclusion* on its *merits*. The testimony supporting the revision should not be disregarded simply because it was accompanied by an expanded list of settling parties. Rather, the Commission should look to the substance of the testimony supporting exclusion and recognize that parties may become better informed through the course of a proceeding and revise their positions accordingly. The record simply does not support including rate schedules 85, 85T, 87 and 87T in the decoupling mechanism. Accordingly, the

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<sup>8</sup> Order at Paragraph 126.

Commission should reconsider and revise its decision to subject these rate schedules to decoupling.

**B. The Commission Should Consider the Totality of the Evidence Supporting a Reduction in PSE's Return on Equity**

The Commission determined that the record in this proceeding does not support an adjustment to PSE's equity return.<sup>9</sup> In reaching this determination, Chairman Danner and Commissioner Goltz state they while they do not disagree with certain of the conceptual underpinnings of Commissioner Jones' proposal to reduce PSE's allowed ROE by 30 basis points, they are not willing to extrapolate a percentage reduction from the evidence presented. They further note that the proposals for a risk reduction adjustment by three witnesses are "not supported by empirical evidence or, indeed, any evidence that meets the substantial competent evidence standard."<sup>10</sup>

Order No. 7 characterizes the recommendation by Nucor and Kroger that the Commission make a 25 basis point ROE reduction as if that recommendation were based solely on the fact that such an adjustment would be consistent with reductions in the range of 10 to 50 basis points that have been ordered by other state commissions.<sup>11</sup> While there is no question that Nucor and Kroger offered the decisions of the cited commissions as useful guidance, Kroger also submitted evidence that specifically evaluated the volatility of PSE's usage per customer over the period 2002-2011 and measured the ROE impact of this volatility using the ERF volumetric delivery revenue applied to PSE's ERF rate base for electric and gas delivery services.<sup>12</sup> This analysis is not addressed in Order No. 7 and appears to have been overlooked by the majority in

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<sup>9</sup> Order at Paragraph 107.

<sup>10</sup> Order at 49 n. 162.

<sup>11</sup> Order at Paragraph 101.

<sup>12</sup> Exhibit No. KCH-3 (Exhibit 3 to Higgins' prefiled response testimony on behalf of The Kroger Company) at 4-7. Nucor referenced the analysis at Exhibit No. KCH-5T at 12:3-11.

reaching its decision. This analysis is squarely on point, as it measures the PSE earnings volatility attributable to historical changes in usage per customer – volatility that is eliminated by PSE’s decoupling proposal. The analysis shows that the deviations in PSE’s usage per customer over this period produce impacts of up to 75 basis points (with an average of 33 basis points absolute value) for the electric delivery system and up to 167 basis points (with an average of 84 basis points absolute value) for the gas delivery system. The analysis demonstrates that the 25 basis point ROE adjustment recommended by Nucor and Kroger lies well within this range of earnings volatility and is a reasonable adjustment in light of the Company’s reduced earnings volatility.<sup>13</sup>

PSE offered no rebuttal testimony addressing Kroger’s empirical analysis and waived cross examination of witness Higgins who presented it. The Commission should reconsider its decision not to adjust PSE’s ROE in light of this evidence taken in combination with the evidence presented by Public Counsel witness Hill and ICNU witness Gorman.<sup>14</sup> Accordingly, the Commission should reduce PSE’s ROE by 25 basis points for the functions subject to the decoupling mechanism to account for the reduction in risk attributable to adoption of revenue decoupling.

### **III. CONCLUSION**

Based upon the foregoing, Nucor respectfully requests that the Commission reconsider Order No. 7 and for the reasons set forth above: (i) issue an order excluding Schedules 85, 85T, 87 and 87T from the revenue decoupling mechanism, and (ii) reduce PSE’s ROE by 25 basis points for the functions subject to the decoupling mechanism.

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<sup>13</sup> Exhibit No. KCH-1T (Higgins’ prefiled response testimony on behalf of The Kroger Company) at 20:17-21:7.

<sup>14</sup> Exhibit No. SGH-1T at 3:19-18:11; Exhibit No. MPG-1T at 11:22-14:2 and 28:1-15.

Respectfully submitted,



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