EXHIBIT NO. ___(JAP-1T)
DOCKET NO. UE-14___
2014 PSE PCORC
WITNESS: JON A. PILIARIS

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UE-14____**

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

MAY 23, 2014

PUGET SOUND ENERGY, INC.

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF JON A. PILIARIS

CONTENTS

PUGET SOUND ENERGY, INC.

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF JON A. PILIARIS

I. INTRODUCTION

Q. Please state your name, business address, and present position with Puget Sound Energy.

A. My name is Jon A. Piliaris. I am employed as Manager, Pricing and Cost of Service with Puget Sound Energy, Inc. ("PSE"). My business address is 10885 NE Fourth Street, Bellevue, WA 98009-9734.

Q. Have you prepared an exhibit describing your education, relevant employment experience and other professional qualifications?

A. Yes, I have. It is Exhibit No. ___(JAP-2).

Q. What topics are you covering in your testimony?

A. My testimony describes how changes to PSE's Power Cost Baseline Rate[1] are allocated to rate classes, the resulting impacts to customers and the derivation of the temperature adjustments to energy sales used in this filing. My testimony also provides an update on the cost of service and rate design collaborative that was

[1] PSE's Power Cost Baseline Rate is discussed in the Prefiled Direct Testimony of Katherine J. Barnard, Exhibit No.___(KJB-1T).

agreed to as part of a settlement of PSE's 2013 power cost only rate case ("PCORC") in Docket No. UE-130617.

Q. Please summarize the revenue impacts associated with this filing.

A. The total revenue decrease resulting from this rate proposal is $9,554,847,[2] an average 0.46 percent decrease relative to the rates set in May 2014.

II. RATE SPREAD AND DESIGN

Q. Please summarize how the proposed change to the Power Cost Baseline Rate will be spread to customers.

A. The Power Cost Adjustment Mechanism ("PCA") requires that changes in rates attributable to adjustments to the Power Cost Baseline Rate as a result of a power cost only review be spread to customers based upon the peak credit results from PSE's most recent general rate case. PSE's most recent general rate case was in 2011, Docket Nos. UE-111048 and UG-111049 ("2011 GRC"). PSE applied the peak credit results from the 2011 GRC to the change in total power costs shown on Exhibit No. ___(KJB-6) page 2 at line 20 to determine the amount to be allocated to each rate class. This allocation to rate class is shown on page one of the second exhibit to my prefiled direct testimony, Exhibit No. ___(JAP-3). The allocated change in power cost is then divided by test year pro forma delivered kWh for each rate class to calculate the amount to be charged to customers

[2] The difference between this amount and the change in total power costs shown in Exhibit No.___(KJB-1T) is due to the rounding required in developing rates and relative schedule level load differences from the 2013 PCORC.

receiving service under each class on a cents/kWh basis. This rate calculation is shown on page one and pages three through six of Exhibit No. ___(JAP-3).

Q. Please describe the peak credit methodology used in the 2011 GRC.

A. The peak credit methodology used in PSE's 2011 GRC:

(i) classified 19 percent of generation and transmission costs on demand,

(ii) classified 81 percent of generation and transmission costs on energy,

(iii) allocated all demand costs (19 percent of generation and transmission costs) to rate classes based on the contribution of the rate class to the top 75 hours of system peak, and

(iv) allocated all energy costs (81 percent of generation and transmission costs) to rate classes based on the contribution of the rate class to total annual kWh sales.

This resulted in peak credit weighted allocation factors for each rate class, which are shown in column (e) on page one of Exhibit No. ___(JAP-3). An example of the calculation of such a factor follows: if the residential class represents 63 percent of the top 75 hours of system peak and 51 percent of the annual kWh load, its peak credit weighted allocation factor would be (19% x 63% + 81% x 51%), or 53 percent. As such, this class would be allocated 53 percent of PCA costs.

Q. Please describe page one of Exhibit No. ___(JAP- 3), titled "Calculation of Schedule 95 Rate."

A. Page one of Exhibit No. ___(JAP-3) presents the calculation of the Power Cost Adjustment rate, Schedule 95, for each rate class.[3] It describes and uses the calculation of the weighted allocation factors used in the 2011 GRC. Exhibit No.___(JAP-3) then shows how those allocation factors are used to allocate the change in power costs to each rate class. Finally, it calculates the Schedule 95 rates for each class by dividing the allocated costs by the weather adjusted delivered kWh for each class for the test year.

Q. Please describe page two of Exhibit No. ___(JAP-3), titled "Statement of Pro forma and Proposed Revenues for Schedule 95."

A. Page two of Exhibit No. ___(JAP-3) shows the pro forma and proposed revenue under current and proposed rates based on test period billing determinants. Column (a) shows the test year pro forma delivered volumes for each rate class; column (b) shows total test year pro forma revenue produced at current rates (effective May 1, 2014); column (c) shows the current cents/kWh attributable to the 2013 Power Cost Baseline Rate that is allocated to each class and column (d) shows the cents/kWh attributable to the 2014 Power Cost Baseline Rate to be allocated to each class. Total revenue under the current rates is shown in column (e), total revenue under the proposed rates is shown in column (f), and the

[3] The revenue surplus on this page for the lighting class is converted to a monthly $/lamp charge on pages three through six of Exhibit No.____(JAP-3).

total change in revenue due to the proposed change in the Power Cost Baseline Rate is shown in column (g). The percentage impact of the proposed change on each class is shown in column (h).

Q. Please summarize the impacts of the proposed Schedule 95 rates.

A. The impacts are summarized in the table below. The results show that the percentage impacts are in the range of a 0.2 percent to 1.0 percent decrease. Residential customers receive slightly over half of the overall revenue reduction. As shown on page seven of Exhibit No.___(JAP-3), this translates into a forty-seven cent per month reduction in residential customer bills.

Table 2. Summary of Impacts of Proposed Schedule 95 Rates by Class

Rate Schedule	Revenue Impact	% Impact
Schedule 7	$(5,067,820)	(0.438)%
Schedule 8/24	(1,141,020)	(0.433)%
Schedule 11/25/29	(1,295,342)	(0.472)%
Schedule 12/26	(875,808)	(0.544)%
Schedule 10/31/35/43	(584,464)	(0.479)%
Schedule 40	(332,189)	(0.658)%
Schedule 46/49	(217,776)	(0.473)%
Schedules 51-59	(37,005)	(0.200)%
Firm Resale	(3,422)	(1.022)%
Total	$(9,554,847)	(0.456)%

Q. Were PSE customers served in Jefferson County included in the calculation of proposed Schedule 95 rates?

A. No. PSE completed the sale of its distribution assets to the Jefferson County Public Utility District No. 1 ("JPUD") on March 31, 2013. As of April 1, 2013, approximately 18,000 customers formerly served by PSE in Jefferson County are now served by JPUD. As a result, the calculation of proposed Schedule 95 rates in this filing excludes energy sales to these customers.

Q. Has PSE prepared revised Schedule 95 (Power Cost Adjustment Clause) tariff sheets to reflect the proposed adjustments to the Power Cost Baseline Rate?

A. Yes, revised tariff sheets for Schedule 95 are presented in Exhibit No. ___(JAP-4). The revised Schedule 95 tariff sheets reflect the amounts calculated for each rate class in Exhibit No. ___(JAP-3).

III. COST OF SERVICE AND RATE DESIGN COLLABORATIVE UPDATE

Q. Are cost allocation and rate design issues normally adjudicated in PSE's PCORC filings?

A. No. The standard practice in PSE's PCORC filings is to use the peak credit results from its prior GRC to allocate the approved revenue deficiency (or surplus). That deficiency (or surplus) is then recovered on a simple dollar per kWh basis through PSE's Schedule 95.

Q. Were such issues raised in PSE's 2013 PCORC?

A. Yes. The Industrial Customers of Northwest Utilities ("ICNU") proposed certain limited changes to the allocation of PSE's power costs and proposed that its rate design also be modified to reflect the allocation of all PCA-related costs, not simply the deficiency (or surplus) approved in the filing. The underlying basis for ICNU's proposals was the understanding that, as a result of the order approving PSE's electric decoupling mechanism, PSE was largely prevented from filing another GRC until April 2016, at the earliest, thereby delaying the adjudication of ICNU's issues until that time.

Q. Were these issues resolved in PSE's 2013 PCORC?

A. No. However, as part of a settlement agreement in PSE's 2013 PCORC,[4] the parties agreed to engage in a collaborative process per WAC 480-07-720 to discuss cost of service and rate design issues. As noted in paragraph 26 of that agreement, "[i]f the Parties reach agreement in the collaborative, that agreement can be implemented in PSE's next PCORC, subject to Commission approval. If the Parties do not reach agreement, PSE agrees to initiate a docket no later than July 1, 2014, to address issues with cost of service, rate spread, and rate design."

[4] The 2013 PCORC settlement was adopted by reference as Appendix A to Order No. 06 in Docket UE-130617 – Final Order Approving and Adopting Settlement Agreement.

Q. Did the parties reach an agreement on their disputed issues?

A. No. Despite expending a considerable amount of time and effort over the course of seven meetings and conference calls attempting to reach consensus, the parties could not reach a resolution, particularly on the cost of service and rate design issues originally raised by ICNU in PSE's 2013 PCORC.

Q. Will PSE make a filing by July 1, 2014 to address these unresolved cost of service and rate design issues?

A. Yes. At the present time, the parties are discussing the general scope of the issues that they intend to raise in the filing.

IV. TEMPERATURE ADJUSTMENT CALCULATIONS

Q. Has the test year pro forma delivered energy in Exhibit No. ___(JAP-3) and the system level load in Exhibit No. ___(KJB-6) been adjusted for temperature?

A. Yes, the test year pro forma energy sales by rate class shown on each of Exhibit No. ___(JAP-3) and at the system level in Exhibit No. ___(KJB-6) have been adjusted for, and thus include, 21,135 MWh of temperature adjustment. This amount is reduced to 19,656 MWh, to account for system line losses, before being allocated to each of the applicable rate classes.

Q. How did PSE normalize the test year system-level delivered load for temperature in this case?

A. The temperature adjustment to test year system load was estimated by following the same methodology and procedures performed for the 2011 GRC. The temperature adjustment of system load was estimated using model coefficients of temperature-sensitivity. The model coefficients measure the relationship between PSE's actual daily loads and temperatures recorded at Seattle-Tacoma International Airport to adjust system-level delivered load (Generated Purchased and Interchange, or GPI) for temperature. The key variables in the model are heating degree days ("HDD") and cooling degree days ("CDD"), as well as daily system loads. The model relies on data from the four-year period ending September 30, 2012.

The temperature adjustment was calculated by multiplying the weather sensitivity coefficients by the difference between the actual and normal HDDs and CDDs. This process was repeated for each month of the test year for all of the HDD and CDD variables included in the model. The monthly temperature adjustments were added to actual system load to calculate the normalized system load in each month. These loads were then added across the months to calculate the test year temperature-normalized load.

Q. What period was used to calculate "normal" temperature in this analysis?

A. "Normal" temperature was calculated using temperature data compiled over the 30-year period from January 1983 through December 2012.

Q. Were PSE customers served in Jefferson County included in this analysis?

A. No. As noted earlier, these customers are now being served by JPUD. As a result, the historical data used for modeling the temperature adjustment exclude the energy sales and number of customers served by PSE in Jefferson County.

Q. How did PSE calculate the class-specific temperature adjustments to load?

A. PSE used a three-step process to adjust rate class sales for the effects of temperature. The first step was to develop a weather-sensitivity model to characterize the relationship between daily temperature and load for each rate class. The data period selected for modeling was the same four-year period used for the system weather-sensitivity modeling. The second step was to use the class model's temperature variable coefficients to estimate each rate class's relative contribution to the temperature adjustment to system load, adjusted for losses. The third step was to allocate the system temperature adjustment based on each class's relative contribution, as calculated in the previous step.

Q. What are the results of this class-specific analysis?

A. The results of this analysis are summarized by rate class in the table below.

Table 2. Temperature Adjustment to MWh by Schedule

Rate Schedule	MWh Adjustment
Schedule 7	12,550
Schedule 8/24	(8,585)
Schedule 11/25	(11,620)
Schedule 12/26	(6,899)
Schedule 29	(86)
Schedule 10/31	(3,624)
Schedule 40	(1,756)
Schedule 43	355
Firm Resale	9
Total	(19,656)

V. CONCLUSION

Q. Does that conclude your prefiled direct testimony?

A. Yes, it does.