

EXHIBIT NO. ___(JPE-1T)
DOCKET NOS. UE-121697/UG-121705
WITNESSES: JON A. PILIARIS
KEVIN C. HIGGINS
THOMAS E. SCHOOLEY
NANCY HIRSH

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.
and NW ENERGY COALITION

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

Docket No. UE-121697
Docket No. UG-121705
(Consolidated)

JOINT TESTIMONY IN SUPPORT OF THE
JOINT RESPONSE TO PETITION FOR RECONSIDERATION
FILED BY THE KROGER COMPANY

NOVEMBER 1, 2013

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2 **JOINT TESTIMONY OF**
3 **JON A. PILIARIS, KEVIN C. HIGGINS, THOMAS E. SCHOOLEY, AND**
4 **NANCY HIRSH**
5

6 **DECOUPLING TREATMENT OF ELECTRIC RATE SCHEDULES 26 AND 31**

7 **I. INTRODUCTION**

8 **A. Qualifications of Jon A. Piliaris**

9 **Q. Please state your name and the party for whom you are appearing.**

10 A. My name is Jon A. Piliaris, and I am appearing on behalf of Puget Sound Energy,
11 Inc. ("PSE"). My qualifications are presented in Exhibit No. JAP-2T in Dockets
12 UE-121697 and UG-121705.

13 **B. Qualifications of Kevin C. Higgins**

14 **Q. Please state your name and the party for whom you are appearing.**

15 A. My name is Kevin C. Higgins, and I am appearing on behalf of The Kroger Co.
16 ("Kroger"). My qualifications are presented in Exhibit No. KCH-1T in Dockets
17 UE-121697 and UG-121705.

18 **C. Qualifications of Thomas E. Schooley**

19 **Q. Please state your name and the party for whom you are appearing.**

20 A. My name is Thomas E. Schooley, and I am appearing on behalf of Commission
21 Staff ("Staff"). My qualifications are presented in Exhibit No. TES-1T in
22 Dockets UE-121697 and UG-121705.

1 D. **Qualifications of Nancy Hirsh**

2 Q. **Please state your name and the party for whom you are appearing.**

3 A. My name is Nancy Hirsh, and I am appearing on behalf of NW Energy Coalition.
4 My qualifications are presented in Exhibit No. NH-1T in Dockets UE-121697 and
5 UG-121705.

6 E. **Purpose of Joint Testimony**

7 Q. **What is the purpose of this joint testimony?**

8 A. The purpose of this Joint Testimony is to present the common recommendation of
9 PSE, Staff, Kroger, and NW Energy Coalition (hereinafter collectively referred to
10 as “Joint Parties”) regarding the treatment of electric rate Schedules 26 and 31 in
11 PSE’s decoupling mechanism approved by the Commission in Order 07 in these
12 dockets. These recommendations are all contained in the Joint Response to
13 Petition for Reconsideration Filed By The Kroger Company (the “Joint
14 Response”). The Joint Response is being filed with the Commission on
15 November 1, 2013.

16 **II. JOINT TESTIMONY REGARDING TREATMENT OF**
17 **ELECTRIC RATE SCHEDULES 26 AND 31.**

18 Q. **Please describe how the Joint Response proposes to treat Schedules 26 and 31**
19 **in the context of PSE’s decoupling mechanism.**

20 A. The Joint Parties have reached a compromise regarding the going-forward
21 treatment of Schedules 26 and 31 in the context of PSE’s decoupling mechanism.

1 The essence of the compromise requires two basic changes relative to the status
2 quo. The first change requires the rate design for these two rate schedules to be
3 modified to ensure that all costs for delivery service that are not otherwise
4 recovered in the basic charge are recovered through the respective rate schedule's
5 demand charge. The second change requires the decoupling mechanism for these
6 two rate schedules to be applied through their respective demand charges rather
7 than through their energy charges.

8 **Q. Please explain the basis for these two basic changes.**

9 A. The two basic changes are interrelated. To explain the basis for these changes, it
10 is useful to provide some background.

11 The currently-approved decoupling mechanism targets an allowed revenue-per-
12 customer that is to be recovered by PSE for delivery service. For non-residential
13 customers, the current mechanism is implemented by examining changes in
14 *kilowatt-hour* usage per customer. If kilowatt-hour usage per non-residential
15 customer decreases, delivery service revenues are deemed to have decreased, and
16 an upward rate adjustment is made to compensate. Conversely, if kilowatt-hour
17 usage per non-residential customer *increases*, delivery service revenues are
18 deemed to have increased, and a downward rate adjustment is made to
19 compensate.

20 The proposal contained in the Joint Response modifies the decoupling mechanism
21 for Schedules 26 and 31 such that the decoupling adjustment would be derived
22 from observed changes in *billing demand* per customer for Schedule 26 and 31

1 customers rather than changes in *kilowatt-hour* usage per customer. Certain of
2 the Joint Parties (e.g., Kroger) believe that if a decoupling mechanism is to be
3 adopted, it is preferable for the decoupling adjustment to be derived using
4 changes in demand usage rather than energy usage because the former is less
5 variable than the latter. Consequently, a decoupling adjustment that is calculated
6 based on observed changes in billing demand per customer is likely to be less
7 variable than a decoupling adjustment calculated based on observed changes in
8 kilowatt usage per customer.

9 To enable a decoupling mechanism that is structured around demand charges
10 rather than energy charges, the Joint Response also includes changes to the rate
11 design for these two schedules. Schedule 26 and 31 demand charges are
12 increased, while their respective energy charges are reduced in a manner that is
13 revenue-neutral both to PSE and to each of the two rate schedules. This change
14 would allow PSE to fully recover its delivery service costs for Schedules 26 and
15 31 through the basic charge and demand charges (with decoupling adjustments).

16 **Q. Has an exhibit been prepared to illustrate the operation of the proposed**
17 **changes to the electric decoupling mechanism as it relates to customers**
18 **served under Schedules 26 and 31?**

19 A. Yes. The analysis supporting the proposed changes to the electric decoupling
20 mechanism for customers served under Schedules 26 and 31 is presented in
21 Exhibit No. ___ (JPE-2). These exhibits are modeled after those supporting the
22 approved electric decoupling mechanism with two key differences: the

1 decoupling deferrals and associated true-ups are (1) based on demand charges
2 rather than energy charges and (2) calculated independently for each rate schedule
3 (i.e., rather than being comingled as a common decoupling rate group). The
4 operation of the proposed decoupling mechanism for Schedules 26 and 31 follow
5 directly from the proposed rate design changes for these schedules.

6 **Q. Describe the proposed change in rate design for Schedules 26 and 31.**

7 A. The proposed change in rate design moves the recovery of some fixed costs that
8 are currently recovered through energy charges to demand charges. In the view of
9 at least some of the Joint Parties, some of the fixed costs that are currently
10 recovered through energy charges will continue to be recovered through energy
11 charges.

12 **Q. What will be the impact of this proposed change in rate design?**

13 A. Under the proposed change in rate design, customers in schedules 26 and 31 will
14 see an increase in their demand charges and a decrease in their energy charges
15 relative to the current rate design for these schedules. As a result, customers
16 served under these schedules with higher load factors will experience modest bill
17 reductions, while those with lower load factors will see modest increases. There
18 are various interests that need to be addressed in rate design, and there are
19 tradeoffs among these interests. The proposed rate design is a compromise that is
20 the product of give and take among the Joint Parties.

21 **Q. Have exhibits been prepared to illustrate the calculation of the proposed**
22 **rates for Schedules 26 and 31?**

1 A. Yes. The analysis supporting the proposed energy and demand charges for
2 Schedules 26 and 31 is presented in Exhibit No. ___(JPE-3). This analysis starts
3 from the compliance rate design sheets filed in support of rate changes approved
4 in PSE’s expedited rate filing (“ERF”), Docket No. UE-130137. Energy charges
5 are first reduced from current levels to produce test year energy revenues half way
6 between what would have been recovered at current rates and the energy-related
7 production costs allocated to each rate schedule. Each rate schedule’s seasonal
8 demand charges is then proportionally increased to recover the revenue shortfall
9 created by the reduction in the energy charges. Finally, as it pertains to the
10 proposed decoupling mechanism, the portion of the demand charge related to the
11 recovery of costs underlying rates approved in ERF (i.e., the delivery costs) are
12 isolated from the overall demand charges. These “ERF-related” demand charges
13 are then used as the “Delivery Revenue Per Unit” in the decoupling deferral
14 calculations.

15 **Q. Have you developed revised tariff sheets in connection with this proposal?**

16 A. Yes. The tariff sheets implementing these proposed rate design changes, as well
17 as the proposed changes to the electric decoupling mechanism, are presented in
18 Exhibit No. ___(JPE-4).

19 **Q. Will there be a way to evaluate whether the proposed change in rate design
20 does in fact affect customer incentives to conserve?**

21 A. Yes. While not all Joint Parties believe the rate design change will affect
22 customer incentives to conserve, some of the Joint Parties have raised this

1 question. The Joint Response provides for an evaluation of the change in rate
2 design for Schedules 26 and 31 that will examine whether there is conclusive
3 evidence that the change had an appreciable effect on customers' energy
4 efficiency achievements, including but not limited to achievements made through
5 customer participation in PSE's energy efficiency programs.

6 **Q. Does the proposed change in rate design and decoupling mechanism for**
7 **Schedules 26 and 31 have any impact on residential customers?**

8 A. No. The currently-approved decoupling mechanism segregates the recovery of
9 delivery costs between residential and non-residential customers. Consequently,
10 modifying the decoupling mechanism for Schedule 26 and 31 customers has no
11 impact on residential customers.

12 **Q. Does the proposed change in rate design and decoupling mechanism for**
13 **Schedules 26 and 31 have any impact on other non-residential customers?**

14 A. The change in rate design has no impact on customers outside Schedules 26 and
15 31. However, the change in the decoupling mechanism is anticipated to have a
16 small collateral impact on other non-residential customers (relative to the current
17 mechanism). Specifically, as shown on page 4 of Exhibit No. ___ (JPE-8),
18 adoption of the stipulated proposal for Schedules 26 and 31 would result in the
19 remaining non-residential customers on the currently authorized decoupling
20 mechanism receiving a projected rate increase in May 2014 of 1.29 percent. The
21 full decoupling analysis for electric customers outside of Schedules 26 and 31 is

1 presented in Exhibit No. ___(JPE-5) through Exhibit No. ___(JPE-8).¹ By
2 comparison, under the currently authorized decoupling mechanism (i.e., without
3 the Joint Parties' proposal), after updating the compliance spreadsheets
4 implementing the electric decoupling mechanism for (1) PSE's new load forecast,
5 (2) a July 2013 start date and (3) actual results through September 2013, the non-
6 residential customers would face a slightly lower 1.22 percent projected rate
7 increase in May 2014. These updated compliance spreadsheets are presented in
8 Exhibit No. ___(JPE-9) through Exhibit No. ___(JPE-12). The noted impact can
9 specifically be found on page 4 of Exhibit No. ___(JPE-12).

10 **Q. What is the cause of this projected impact?**

11 A. This projected impact would occur because the going-forward decoupling
12 mechanism for Schedule 26 and 31 customers would be tracked separately from
13 the other non-residential customers, whereas under the current mechanism, the
14 decoupling adjustment for non-residential customers is calculated for all non-
15 residential customers as an entire group.

16 **Q. Is the expected collateral impact on other non-residential customers the**
17 **result of cost shifting?**

18 A. No. Any impact on other non-residential customers would not be the result of
19 cost shifting, but the *unwinding* of potential cost shifting that previously had been
20 introduced by the currently authorized decoupling mechanism. As noted above,

¹ These exhibits are modeled after those supporting the existing electric decoupling mechanism, specifically Exhibit No. JAP-14, Exhibit No. JAP-16, Exhibit No. JAP-18 and Exhibit No. JAP-22.

1 the current mechanism comingles any shortfall in recovery of delivery costs
2 across all non-residential customers. As it turns out, Schedule 26 and 31
3 customers are projected to have a smaller shortfall (in percentage terms) in the
4 recovery of delivery costs in 2014 than the remaining non-residential customers.
5 When Schedule 26 and 31 customers are moved to separate rate groups within the
6 decoupling mechanism, the remaining non-residential customers are no longer
7 able to take advantage of the smaller percentage shortfall forecasted for the
8 Schedule 26 and 31 customers and are simply responsible for their own
9 (projected) shortfall in delivery cost recovery. Thus, any rate impact of adopting
10 the stipulated treatment of Schedule 26 and 31 is not the result of cost shifting, but
11 the result of each non-residential customer group bearing its own decoupling-
12 related costs (or benefits).

13 **Q. How is the proposed treatment of Schedule 26 and 31 customers responsive**
14 **to Order 07 issued in these dockets?**

15 A. In Order 07 the Commission indicated it is receptive to alternatives to decoupling
16 that are better suited to meeting decoupling's goals for non-residential customers.²

17 The Commission went on to state:

18 ...[W]e strongly encourage customers such as Kroger and Nucor Steel,
19 and trade organizations such as ICNU and NWIGU, to engage in
20 meaningful dialogue with PSE, Staff and others who take an interest,
21 and with the Commission, to monitor carefully how decoupling is
22 working out in practice. It may be that there are alternatives for some,
23 or all, non-residential customers that are better suited to meeting
24 decoupling's goals than are the current decoupling mechanisms. The
25 Commission remains open to hearing fully supported alternative

²Order 07, ¶ 128.

1 proposals for fixed cost recovery from the non-residential class of
2 customers, or subsets of the class.³

3 The Joint Parties have negotiated such an alternative.

4 **Q. Please explain why the Joint Parties believe the proposed treatment of**
5 **Schedules 26 and 31 is in the public interest.**

6 A. The Joint Parties believe that the stipulated approach responds to the
7 Commission's encouragement to parties to engage in meaningful dialogue
8 regarding the implementation of decoupling. The Joint Parties have formulated
9 an alternative approach to decoupling for Schedules 26 and 31 that continues to
10 remove the company's throughput incentive. This joint proposal adopts an
11 approach to decoupling for Schedule 26 and 31 customers that these customers
12 believe is likely to have less variability in adjustment charges than the currently
13 authorized mechanism, and is an improvement because it ensures support for the
14 mechanism from a broader base of PSE's customers.

15 **Q. Did the Joint Parties attempt to address concerns raised by other parties**
16 **regarding the existing electric decoupling mechanism?**

17 A. Yes. The Joint Parties attempted to address issues raised by the Industrial
18 Customers of Northwest Utilities ("ICNU"). The parties discussed possible
19 alternatives to decoupling for Schedule 40, but no agreement was reached in this

³ Order 07, ¶ 129.

1 forum. Schedule 40 will be discussed in upcoming collaboratives.⁴

2 **III. INDIVIDUAL STATEMENTS OF SUPPORT FOR THE**
3 **PROPOSAL CONTAINED IN THE JOINT RESPONSE**

4 **Q. Please explain why the proposal contained in the Joint Response satisfies the**
5 **interests of PSE.**

6 A. The proposal contained in the Joint Response satisfies the interests of PSE
7 through better alignment of rate design with the underlying cost of service for
8 electric Schedules 26 and 31. PSE has always had an interest in aligning its rate
9 design with its cost of service and this proposal is another step in that direction.
10 The proposal contained in the Joint Response also satisfies PSE's interests in
11 helping ensure the continued viability of decoupling. For quite some time, and
12 through considerable effort, PSE has attempted to address the fixed cost recovery
13 challenges created by its promotion of energy conservation (i.e., "lost margin").
14 PSE currently sees decoupling as the most viable model for addressing this issue,
15 at least for the foreseeable future. However, this viability is threatened when
16 PSE's customers actively oppose this approach to addressing this problem. By
17 addressing the concerns of its non-residential electric customers, this proposal
18 improves the chances for a sustainable solution to PSE's long-standing challenges
19 with conservation-related lost margin.

20 Finally, in a similar vein, the Joint Response satisfies the interests of PSE by

⁴ See Docket UE-111048, Electric Settlement Agreement, ¶ 15; Docket UE-130617, Order 06, ¶19 (discussing rate spread/design collaborative).

1 providing a promising alternative approach to decoupling for its non-residential
2 electric customers. Traditional application of decoupling presumes that a
3 company's "throughput incentive" only relates to fixed cost recovery through
4 energy charges. PSE has argued that this incentive is also present for demand
5 charge, although parties have debated the degree to which this is true. As a
6 package, the decoupling proposal for electric Schedules 26 and 31 addresses both
7 sides of this debate. For the utility, continued use of the decoupling model
8 addresses concerns about the effects of conservation on its demand charge
9 revenues. For larger non-residential customers, this proposal moves more of the
10 recovery of fixed costs into the demand charge, which they believe to be more
11 stable, and applies the decoupling mechanism only to demand charge revenue,
12 which mitigates their concerns about decoupling deferrals that would trigger
13 associated rate true-ups. If the proposal is ultimately successful in addressing
14 both the utility's and customers' sides of this issue, it could lead to greater
15 customer acceptance of this approach and serve as a model for decoupling other
16 PSE non-residential electric rate classes in its next general rate case. At a
17 minimum, it provides an interesting point of comparison with the electric
18 decoupling mechanism that will continue to apply to remaining non-residential
19 customers.

1 **Q. Please explain why the proposal contained in the Joint Response satisfies the**
2 **interests of Commission Staff.**

3 A. Commission Staff is pleased with the Joint Response for several reasons. First,
4 the proposal contained in the Joint Response resolves Kroger's request to be
5 removed from the "non-residential" category of the decoupling mechanism.
6 Kroger, as Staff understands, found the volatility of the kilowatt-hour based
7 decoupling unattractive and counter to its interests for rate stability, or at least
8 predictability. The proposed alternative decouples the demand, or kilowatt,
9 component of rates in Schedules 26 and 31. Large commercial customers will
10 now have incentive not only to conserve energy (kilowatt-hours), but to manage
11 peak use as well.

12 By conserving energy, the customer reduces its overall load profile including its
13 peak load. The added incentive to reduce demand by the commercial customer
14 will benefit all customers by reducing the need for peaking resources. If the
15 demand rate, in tandem with the basic customer charge, recovers all fixed costs,
16 applying the decoupling concept to demand rates results in full recovery of fixed
17 costs. The alternative proposal is a step in the right direction.

18 Another benefit in Staff's view is movement toward proper price signals. The
19 reduction to the energy rate through shifting some fixed cost to the demand rate
20 gives customers the proper incentive to invest in energy-saving measures.

21 Similarly, the increase to the demand rate also gives the proper incentive to invest
22 in demand control measures and in the correct behavior changes. This movement
23 to proper price signals is important. It behooves utilities and regulators to recover

1 fixed costs through demand charges (or connection fees) so that prices properly
2 incent investments in new technologies, such as distributed generation.
3 The third benefit in the Joint Response is Kroger's agreement to drop its motion
4 to reconsider the rate of return allowed in Order 07, as Staff believes that the
5 Commission's decision not to adjust PSE's rate of return in Order 07 was correct.
6 The decoupling mechanism gives PSE a fair opportunity to earn a reasonable
7 return on rate base with controls on the potential to earn returns in excess of the
8 Commission allowed amount. The mechanism may now work as intended.
9 Staff recommends that the Commission approve the proposal in this Joint
10 Response to the Petition for Reconsideration for the above reasons.

11 **Q. Please explain why the proposal contained in the Joint Response satisfies the**
12 **interests of Kroger.**

13 A. The currently authorized decoupling mechanism was challenged by Kroger in
14 these dockets because, among other things, (a) it did not look first to rate design
15 as a means to reduce the variability in PSE's recovery of delivery service costs
16 from larger non-residential customers; and (b) by focusing on changes in
17 kilowatt-hour usage, the mechanism did not capture the benefits of revenue
18 stability that are provided by that portion of delivery charges recovered through
19 the demand charges.

20 The Joint Response responds to both of these criticisms. First, it improves the rate
21 design for Schedules 26 and 31 by more closely aligning fixed costs with
22 demand-related charges. To do this, Schedule 26 and 31 demand charges are

1 increased, while their respective energy charges are reduced in a manner that is
2 revenue-neutral both to PSE and to each of the two rate schedules. Although
3 Schedule 26 and 31 demand charges would still not fully recover fixed costs,
4 Kroger recognizes that resolution of rate design sometimes requires
5 compromising among different objectives and Kroger considers the stipulated rate
6 design change to be a meaningful step in the right direction. Secondly, Kroger
7 believes that if a decoupling mechanism is to be adopted, it is preferable for the
8 decoupling adjustment to be derived using changes in demand usage rather than
9 energy usage because the former is less variable than the latter. The Joint
10 Response accomplishes this objective. All other things being equal, reducing the
11 expected variability in the decoupling adjustment constitutes an improvement to
12 the mechanism.

13 **Q. Please explain why the proposal contained in the Joint Response satisfies the**
14 **interests of the NW Energy Coalition.**

15 A. The NW Energy Coalition supports the multiparty settlement because it meets the
16 most important goal of the full decoupling mechanism approved by the
17 Commission: it removes the company's throughput incentive, thereby eliminating
18 the Company's disincentive to aggressively pursue additional energy efficiency.
19 The settlement is an improvement over the current decoupling mechanism
20 because it ensures the support of customers in schedules 26 and 31 for the
21 mechanism, and all other things being equal a broader base of support for the
22 mechanism is desirable. The settlement does include changes to rate design that

1 the Coalition believes are detrimental – specifically, the Coalition believes that
2 shifting a higher percentage of the bill to demand charges from energy charges
3 reduces customer incentives to conserve because efficiency and conservation
4 measures will result in smaller bill savings and longer payback periods. The shift,
5 however, is modest enough that the Coalition believes there still will be an
6 incentive for these customers to invest in efficiency retrofits, and the disadvantage
7 posed by the change in rate design is outweighed by the benefit of garnering a
8 broader base of support for the decoupling mechanism. Moreover, the agreement
9 among the settling parties to include an explicit study of this question in the
10 evaluation of the decoupling mechanism will hopefully provide the Coalition and
11 all other parties with additional information that may be relevant to future
12 decisions.

13 IV. CONCLUSION

14 **Q. Does this conclude your joint testimony?**

15 **A. Yes.**