

EXHIBIT NO. ___(JPG1T)
DOCKET NOS. UE-121697/UG-121705
WITNESSES: JON A. PILIARIS
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NANCY HIRSH
EDWARD A. FINKLEA

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 (NONCONFIDENTIAL) IN SUPPORT OF THE JOINT
RESPONSE TO PETITIONS FOR RECONSIDERATION FILED BY THE
NORTHWEST INDUSTRIAL GAS USERS
AND NUCOR STEEL SEATTLE, INC.

NOVEMBER 1, 2013

1 A. My name is Thomas E. Schooley, and I am appearing on behalf of the
2 Commission Staff (“Staff”). I stated my qualifications in Exhibit No. ___(TES-
3 1T) in Dockets UE-121697 and UG-121705.

4 **E. Qualifications of Nancy Hirsh**

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

6 A. My name is Nancy Hirsh, and I am appearing on behalf of the NW Energy
7 Coalition. I stated my qualifications in Exhibit No. ___(NH-1T) in Dockets UE-
8 121697 and UG-121705.

9 **F. Purpose of Joint Testimony**

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

11 A. The purpose of this Joint Testimony is to present the common recommendations
12 of PSE, Staff, NWIGU, Nucor, and NW Energy Coalition, (hereinafter
13 collectively referred to as “Joint Parties”) regarding the going-forward treatment
14 of gas rate schedules 85, 85T, 87 and 87T (hereinafter, “gas industrial
15 customers”) in the context of PSE’s gas decoupling mechanism approved by the
16 Commission in Order 07 issued in these dockets on June 25, 2013. These
17 recommendations are all contained in the Joint Response to the Petitions For
18 Reconsideration Filed By Northwest Industrial Gas Users and Nucor Steel Seattle,
19 Inc. (the “Gas Joint Response”). The Gas Joint Response is being filed with the
20 Commission on November 1, 2013. The Gas Joint Response is, in essence, a
21 multiparty settlement of all issues raised in the petitions for reconsideration filed

1 by NWIGU and Nucor; this testimony provides additional support for the
2 positions set forth in the Gas Joint Response.

3 **II. JOINT TESTIMONY REGARDING TREATMENT OF GAS**
4 **INDUSTRIAL CUSTOMERS**

5 **Q. Please describe how the Joint Parties propose to treat gas industrial**
6 **customers in the context of PSE's gas decoupling mechanism.**

7 A. The Joint Parties have reached agreement regarding the going-forward treatment
8 of gas industrial customers in the context of PSE's gas decoupling mechanism.
9 The proposal in the Gas Joint Response honors the agreement to exclude these
10 schedules from PSE's gas decoupling mechanism, as originally proposed in the
11 Joinder to the Multiparty Settlement filed on May 8, 2013. To aid in the orderly
12 implementation of this proposal, the Joint Parties propose that it take effect on
13 January 1, 2014. Proposed tariff sheets to implement this proposal are provided
14 as Exhibit No. ___(JPG-2) to this testimony.

15 **Q. Did the Commission reject a similar proposal as part of its Order 6 in this**
16 **docket?**

17 A. Yes. However, the rejection of the proposal to exclude gas industrial customers
18 from PSE's gas decoupling mechanism appears to have been a collateral effect of
19 the Commission's rejection of the Multiparty Settlement.¹ As a result, the
20 Commission did not feel compelled to address the merits of the proposal to
21 exclude gas industrial customers from PSE's gas decoupling mechanism.

¹ See Order 07, ¶126.

1 Moreover, the Commission continued to encourage parties to work toward
2 resolution of the issues addressed by said proposal.

3 **Q. Do the merits of this proposal continue to weigh in favor of Commission**
4 **approval?**

5 A. Yes. The Commission directed parties to explore alternative ratemaking
6 approaches that address “the underlying goals and purposes of decoupling” for
7 non-residential customers.² These goals and purposes are largely twofold: ensure
8 an adequate opportunity for the utility to recover its fixed costs while, at the same
9 time, removing the utility’s “throughput incentive.” Testimony already in the
10 record establishes that any throughput incentive for gas industrial customers is
11 modest³ and that these customers contribute little to PSE’s non-fuel cost
12 recovery.⁴

13 **Q. Have there been any substantive changes to the original proposal to exclude**
14 **industrial customers from PSE’s gas decoupling mechanism?**

15 A. The only material changes to the original proposal relate to how to transition these
16 gas customers out of the existing gas decoupling mechanism and what effect this
17 will have on the non-residential gas customers that remain in the mechanism.

18 **Q. Can you please summarize these changes to the original proposal?**

19 A. Yes. The first key change relates to the allocation and true-up of the decoupling
20 deferral balance accrued through the end of the year. Since gas industrial

² See *id.*, ¶129

³ Exhibit No. JAP-23T, 15:10-12.

⁴ Exhibit No. RCC-4T.

1 customers will have contributed to these decoupling deferral balances, they are
2 entitled to their share of these amounts. The Joint Parties agree that the most
3 appropriate means by which to allocate the year-end balances is relative to their
4 contribution to margin revenue. The Joint Parties also agree to address the
5 specific approach to truing-up the gas industrial customers' share of the year-end
6 balances in the next decoupling filing that will occur on or before April 1, 2014.

7 The second key change relates to the effects of excluding gas industrial customers
8 from PSE's gas decoupling mechanism. First, the Delivery Revenue Per Unit,
9 used to calculate volumetric revenue, and the Monthly Allowed Delivery Revenue
10 Per Customer, used to calculate allowed revenue, will be recalculated and take
11 effect January 1, 2014. The Joint Parties further agree to leave the existing
12 Schedule 142 rates for remaining non-residential gas customers in effect until the
13 next decoupling rate year, beginning May 1, 2014. Exhibit No. ___ (JPG-3)
14 through Exhibit No. ___ (JPG-7)⁵ update the gas decoupling analysis in PSE's
15 compliance filing in this docket for consistency with the terms of the proposal set
16 forth in the Gas Joint Response.

17 **Q. Will gas industrial customers continue to be subject to the rate plan K-**
18 **factor?**

19 A. Yes. As was originally proposed, the 2.2 percent annual K-factor increases will
20 apply to these customers' basic charges, all blocks of the delivery charges, and the
21 gas procurement charges under these schedules. However, the annual K-factor

⁵ These exhibits correspond to Exhibit No. JAP-11, Exhibit No. JAP-15, Exhibit No. JAP-17, Exhibit No. JAP-19, and Exhibit No. JAP-23 in this docket.

1 will not apply to gas industrial customers' demand charge, and the resulting loss
2 in revenue will not be reallocated to other customers.⁶

3 **Q. Is there expected to be a rate impact on remaining non-residential gas**
4 **customers once gas industrial customers are excluded from PSE's gas**
5 **decoupling mechanism?**

6 A. Excluding gas industrial customers is anticipated to have a small collateral impact
7 on non-residential customers (relative to the current mechanism). Specifically, as
8 shown on page 4 of Exhibit No. ___(JPG-7), adoption of the proposal to exclude
9 gas industrial customers is projected to result in a rate increase of 3.0 percent,
10 beginning May 2014, to the remaining non-residential customers. By way of
11 comparison, as shown on page 4 of Exhibit No. ___(JPG-12),⁷ these customers are
12 currently forecasted to receive a smaller 2.25 percent increase with gas industrial
13 customers included in the decoupling mechanism.

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

16 A. No. Any impact on other non-residential customers would not be the result of
17 cost shifting, but the *unwinding* of sharing inherent in a large group of customers
18 with differing growth patterns. The current mechanism comingles any shortfall in

⁶ The resulting loss in revenue is estimated to be less than \$300,000 over the remainder of the rate plan period that may extend through February 2017.

⁷ Exhibit No. ___(JPG-8) through Exhibit No. ___(JPG-12) update Exhibit No. JAP-11, Exhibit No. JAP-15, Exhibit No. JAP-17, Exhibit No. JAP-19, and Exhibit No. JAP-23 provided in PSE's compliance filing in this docket for PSE's new load forecast, as well as current results through September 2013. This new load forecast and the more recent actual data was also used in Exhibit No. ___(JPG-3) through Exhibit No. ___(JPG-7).

1 recovery of delivery costs across all non-residential customers. Gas consumption
2 for industrial customers is projected to decline less (in percentage terms) in 2014
3 than gas consumption for the remaining non-residential gas customers. By
4 removing industrial gas customers from PSE's gas decoupling mechanism, the
5 remaining non-residential customers will simply be responsible for their own
6 (projected) shortfall in delivery cost recovery. Thus, any rate impact of adopting
7 the proposed treatment of gas industrial customers is not the result of cost
8 shifting, but the result of each non-residential customer group bearing its own
9 decoupling-related costs (or benefits). Each group fully recovers its fixed costs;
10 through decoupling in the smaller non-residential group, and through direct
11 charges in Schedules 85 and 87.

12 **Q. Will removing gas industrial customers from the decoupling mechanism have**
13 **any impact on residential customer rates?**

14 A: No.

15 **Q. How is the proposed treatment of gas industrial customers responsive to**
16 **Order 07 issued in these dockets?**

17 A. In Order 07 the Commission indicated it is receptive to alternatives to decoupling
18 that might better enable PSE to recover its fixed costs from non-residential
19 customers while still meeting the goals of decoupling. [Order at Paragraph 128].

20 The Commission went on to state:

21 ...[W]e strongly encourage customers such as Kroger and Nucor Steel,
22 and trade organizations such as ICNU and NWIGU, to engage in
23 meaningful dialogue with PSE, Staff and others who take an interest,
24 and with the Commission, to monitor carefully how decoupling is

1 working out in practice. It may be that there are alternatives for some,
2 or all, non-residential customers that are better suited to meeting
3 decoupling's goals than are the current decoupling mechanisms. The
4 Commission remains open to hearing fully supported alternative
5 proposals for fixed cost recovery from the non-residential class of
6 customers, or subsets of the class.⁸

7 The approach negotiated by the Joint Parties is precisely the sort of alternative to
8 which the Commission indicated it remained receptive.

9 **Q. Please explain why the Joint Parties believe the proposed treatment of gas**
10 **industrial customers is in the public interest.**

11 A. The Joint Parties believe that the stipulated approach responds to the
12 Commission's encouragement of parties to engage in meaningful dialogue
13 regarding the implementation of decoupling. The Joint Parties continue to believe
14 that this proposal is an appropriate alternative to the currently authorized
15 decoupling mechanism for gas industrial customers, while substantially adhering
16 to the objectives of decoupling as established by the Commission. As such, the
17 Joint Parties believe this alternative proposal continues to be in the public interest.

18 **III. INDIVIDUAL STATEMENTS OF SUPPORT FOR THE**
19 **PROPOSED ALTERNATIVE TO DECOUPLING IN THE GAS**
20 **JOINT RESPONSE**

21 **Q. Please explain why the alternative to decoupling set forth in the Gas Joint**
22 **Response satisfies the interests of PSE.**

23 A. PSE's interests are satisfied in the proposed alternative to decoupling set forth in
24 the Gas Joint Response because it honors a proposal already agreed upon between

⁸ Order 07, ¶129.

1 PSE and NWIGU, among others, regarding the appropriate ratemaking treatment
2 of gas industrial customers. From PSE's perspective, the current rate design for
3 gas industrial customers on Schedules 85, 85T, 87 and 87T substantially
4 addresses "the underlying goals and purposes of decoupling." Therefore, it is not
5 necessary to include these customers in decoupling mechanisms. Moreover,
6 inclusion of these customers in the rate plan ensures that all PSE customers are
7 fairly contributing to the increasing gas distribution costs.

8 Approval of the proposal contained in the Gas Joint Response will further satisfy
9 PSE's interest by providing a more assured outcome in this docket, since NWIGU
10 and Nucor have indicated that approval of the proposal by the Commission will
11 resolve the petitions for reconsideration, and Nucor has agreed to drop its request
12 for reconsideration of the ROE reduction issue.

13 **Q. Please explain why the alternative to decoupling set forth in the Gas Joint**
14 **Response satisfies the interests of Commission Staff.**

15 A. Staff accepts the Gas Joint Response settlement because we find the customers on
16 Schedules 85, 85T, 87 and 87T fully recover their allocated or assigned fixed
17 costs through the existing rate design. Staff acknowledges there is an increased
18 potential for decoupling adjustments to the remaining non-residential customers.
19 This is expected. The end effect could prove to be either beneficial or detrimental
20 to those remaining non-residential customers depending on the direction of the
21 changes in their consumption.

1 A very positive aspect of the Joint Response is Nucor's withdrawal of its motion
2 to have the Commission reconsider the rate of return allowed in Order 07, as
3 Staff believes that the Commission's decision not to adjust PSE's rate of return in
4 Order 07 was correct. The decoupling mechanism gives PSE a fair opportunity to
5 earn a reasonable return on rate base with controls on the potential to earn returns
6 in excess of the Commission allowed amount. The mechanism may now work as
7 intended.

8 Staff recommends that the Commission approve the settlement proposed in the
9 Gas Joint Response for the above reasons.

10 **Q. Please explain why the alternative to decoupling set forth in the Gas Joint**
11 **Response satisfies the interests of NWIGU.**

12 A. NWIGU supports the proposed alternative to decoupling set forth in the Gas Joint
13 Response because the current rate design for gas industrial customers on
14 Schedules 85, 85T, 87 and 87T already recovers the vast majority of fixed costs
15 from these customers, and therefore, decoupling is unnecessary. NWIGU
16 believes this approach also continues the principled long-standing policy of not
17 applying decoupling to large industrial gas customers, especially large gas
18 transportation customers because the throughput incentive that drives much of the
19 decoupling conversation simply does not exist for gas transportation customers,
20 because those customers purchase their own gas. Additionally, company-
21 sponsored conservation programs for non-transportation gas customers are unique
22 and cannot be evaluated in the same way that conservation programs for other

1 customer classes can be evaluated. Industrial customers' demands for gas, for
2 example, are more closely tied to swings in the economy than they are to
3 conservation programs. For the reasons set forth above, NWIGU believes the
4 proposed alternative to decoupling set forth in the Gas Joint Response is in the
5 public interest and should be approved by the Commission.

6 **Q. Please explain why the alternative to decoupling set forth in the Gas Joint**
7 **Response satisfies the interest of Nucor.**

8 A. Nucor believes the alternative to decoupling set forth in the Gas Joint Response is
9 inherently reasonable. The current rate designs for Schedules 85, 85T, 87 and
10 87T do not contribute to the fixed-cost recovery concerns that decoupling is
11 intended to address. Moreover, as a large subset of these customers (85T and
12 87T) is not even eligible to participate in PSE's energy efficiency programs,
13 including these customers in the decoupling mechanism would not contribute at
14 all to removing PSE's disincentive to support energy efficiency. Consequently, it
15 makes good sense for the customers served under these rate schedules not to be
16 included in the decoupling mechanism.

17 **Q. Please explain why the alternative to decoupling set forth in the Gas Joint**
18 **Response satisfies the interests of NW Energy Coalition.**

19 A. The Gas Joint Response addresses the interests of the NW Energy Coalition
20 because it honors the Coalition's commitment to support the settlement agreement
21 reached with NWIGU during the decoupling docket. As the Coalition explained
22 in testimony supporting that settlement, the removal of schedules 85, 87, 85T, and

1 87T will not reintroduce a significant throughput incentive for PSE, and so will
2 still accomplish the primary objective of decoupling. Moreover, the settlement is
3 in the Coalition's interests because it reduces opposition to the decoupling
4 mechanism from at least some of PSE's customers.

5 **IV. CONCLUSION**

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

7 **A. Yes.**