BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, INC., Respondent.	Docket No. UE-040641 Docket No. UG-040640 SEATTLE STEAM COMPANY'S POST-HEARING BRIEF IN SUPPORT OF THE RATE SPREAD AND RATE DESIGN SETTLEMENT

I, II, and VI ARGUMENT IN SUPPORT OF THE RATE DESIGN AND RATE SPREAD SETTLEMENT AS IT IMPACTS SCHEDULE 57[1]

Intervenor Seattle Steam Company ("Seattle Steam") has one issue of concern in this matter that is unique to it. That is whether the rates charged to Puget Sound Energy's ("PSE") "interruptible transportation" customers under PSE's Schedule 57[2] are "just, fair, reasonable and sufficient" when viewed in relationship to the rates charged to other classes of PSE customers and in relationship to the cost to provide the service Seattle Steam receives. RCW 80.28.010.

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[1] Parties were instructed by Judge Moss to follow a set outline for post-hearing briefs, including a summary of argument (Sect. I) and introduction general argument (Sect. II), as well as the substantive sections. Because Seattle Steam Company intends to address only the rate design and rate spread settlement (Sect. VI), and indeed only one portion of that settlement, it would unduly prolong this brief to break it into three sections.

[2] Schedule 57 customers are responsible for acquiring their own natural gas on the open market and receive interruptible transportation service from PSE.

In a series of decisions, the Commission has recognized that a proper cost of service study is an important step in determining whether rate spread and rate design result in rates that are "just, fair, reasonable and sufficient." In the 1992 *Washington Water Power* decision (UG-901459), 1992 Wash. UTC LEXIS 27 at 7, the Commission described the use of cost of service studies: "Embedded cost of service continues to provide an important means for comparing the contributions made by different customer classes to the company's overall revenue requirement. Therefore, any request for rate changes should be accompanied by an embedded cost-of-service study." In the subsequent *Washington Natural Gas* decision (UG-940814, "*WNG*"), 1995 Wash. UTC LEXIS 19, the Commission reviewed in detail the proper methods for conducting a cost of service study for natural gas, and in particular for "transportation" customers. The Commission has recognized that cost of service for any particular customer class or all classes is not the sole determinant of proper rates. Nonetheless, it is the starting point, and wide disparities between the cost of providing service and the rates charged for the service necessarily cast doubt on whether the rates are just, fair, reasonable or sufficient.

Exhibit 410 (JGY-IT) page 6 of 8 summarizes the results of PSE's current cost of service study as reported by Company witnesses.[3] It showed the following comparison by customer class of "parity ratios," return on net investment, and proposed revenue as a percentage of required revenue from the rates PSE originally proposed:

Schedule	**Parity Ratio**	**% Return on Net Investment**	**Proposed Revenue as a Percentage of Required Revenue**
57: Transportation	171%	15.97%	160%
41: Commercial/Industrial Sales Large	131%	10.68%	101%
31, 36, 51, 61:	119%	9.18%	117%
86: Interruptible Sales – Limited	98%	6.39%	106%
System Total average	100%	6.38%	100%
23: Residential	95%	5.68%	98%
85: Interruptible Sales – General	80%	3.62%	69%
87: Interruptible Sales – Non-exclusive	51%	-2.25%	69%

[3] Exhibit 410 summarizes data shown on Exhibit 271 (JAH-1T) p. 25 of 31; Exhibit 278 (JAH-8) pp. 2-6; and Exhibit 299, adopting DEP-3, pp. 3 and 4. In Exhibit 299, adopting (CEP-11T) pp. 29-32, the Company clarified that it conducted its cost of service study for natural gas on the Commission Basis – utilizing the Commission's decisions in *WNG*.

Given the very significant disparity between the existing parity ratio, return on net investment and proposed revenue as a percentage of required revenue for Schedule 57 as compared to all other rate classes, Seattle Steam believed that both the proposed increase and the existing rates were in conflict with the statutory standard that rates be just, fair, reasonable and sufficient. Recognizing that cost of service is only one factor to be considered in setting rates to meet the statutory standard, nonetheless in Seattle Steam's view, a parity ratio of 171%, a return on net investment almost 50% higher than the next highest returning customer class, and a proposed ratio of revenue generated to revenue required that was 43% higher than the next highest class, showed Schedule 57 customers were unfairly and inappropriately being expected to subsidize all other classes of customers, and the rates for Schedule 57 should be reduced.

The Rate Spread and Rate Design Settlement, in which Seattle Steam joins, does not reduce the rates to Schedule 57. It does, however, assign a significantly lower percentage increase (25% of the average) to the combination of Schedules 57 and 87[4] than will be assigned to other classes. The rate design for Schedules 87 and 57 then recovers that increase primarily through an increase in the customer charge for Schedule 87 from $300 to $500/month and through institution of a procurement surcharge of up to 0.3555 cents per them for Schedule 87. Depending on the Commission's decision about the Company's revenue requirement, those two changes to the Schedules 57/87 rate design may fully fund the increase allocated to Schedule 57/87. If not, the remaining increase will be captured through an equal-cents-per-therm increase to the first block of Schedule 57/87.

While this settlement will not fully address what Seattle Steam believes is the current disparity in the rates charged to Schedule 57 as compared to other rates, it is a significant step in

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[4] At the opposite end of the parity spectrum from Schedule 57, PSE's cost of service study showed a parity ratio for Schedule 87 of only 51%, suggesting that not only Schedule 57, but all other customer classes were subsidizing Schedule 87. Schedule 87 customers receive both gas and interruptible transportation service from PSE. Because the transportation service received by Schedule 57 and 87 customers is the same, and to avoid creating inappropriate incentives for switching between schedules, the two schedules are lumped for purposes of transportation rates in the settlement.

the right direction. It should prevent a further increase in that disparity, and indeed, begin to decrease the disparity. Accordingly, recognizing the nature of settlement and the other factors that can be considered in setting rates in addition to cost of service, Seattle Steam considers the proposed Rate Spread and Rate Design Settlement to be a reasonable and appropriate compromise at this time, and urges the Commission to adopt it.

DATED this 14th day of January, 2005.

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