

**BEFORE THE**

**WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**DOCKET NOS. UE-011570  
UG-011571**

**DIRECT TESTIMONY**

**OF**

**JIM LAZAR**

**ON BEHALF OF**

**THE PUBLIC COUNSEL SECTION OF**

**THE WASHINGTON STATE ATTORNEY GENERAL'S OFFICE**

**ELECTRIC RATE SPREAD**

1 **Q. PLEASE STATE YOUR NAME, ADDRESS, AND A BRIEF SUMMARY OF**  
2 **YOUR EXPERIENCE.**

3 A. My name is Jim Lazar, I am a consulting economist based at 1063 Capitol Way S. in  
4 Olympia, Washington, and have been engaged in electric and natural gas utility rate  
5 consulting since 1979. I have appeared before the Commission on more than fifty  
6 occasions, testifying in proceedings involving each of the regulated gas and electric  
7 utilities.

8 **Q. WHAT WAS THE NATURE OF YOUR INVOLVEMENT IN THE RATE**  
9 **SPREAD PORTION OF THIS PROCEEDING?**

10 A. I was retained by Public Counsel to review many issues in this proceeding, including  
11 the Company's proposed cost of service study and rate spread proposal. I participated  
12 in the collaborative discussions which resulted in the Stipulation on rate spread.

13 **Q. WHAT IS YOUR PRINCIPAL CONCLUSION WITH RESPECT TO THE**  
14 **FAIRNESS OF THE RATE SPREAD STIPULATION?**

15 A. From my perspective, the proposed rate spread is consistent with the Company's costs  
16 of providing electric service, as measured by the cost of service study using the  
17 methodology approved by the Commission in Docket UE-920499. That study shows  
18 that most of PSE's customer classes are paying very close to their allocated cost of  
19 service, within a range of reasonableness of 90% - 110%. Most of the classes are  
20 receiving approximately the same percentage rate increase under the Stipulation.

21 **Q. WHICH CLASSES ARE RECEIVING SIGNIFICANTLY DIFFERENT FROM**  
22 **AVERAGE INCREASES?**

23 A. There are deviations from this general uniform percentage increase for Schedules 25,  
24 26, and 31. Schedules 25 and 26 are receiving a below-average rate increase, to move  
25 these classes closer to cost, and to close the big gap between Schedules 26 and 31.

1 Schedule 31 is receiving a larger than average increase, to move it closer to cost, and to  
2 close the gap between Schedules 26 and 31.

3 **Q. IS ANY PART OF THIS DIFFERENT FROM TYPICAL RATE SPREAD**  
4 **PROCEDURES IN THE PAST?**

5 A. Yes. The Schedule 26/31 issue is the most unusual part of this proposal. There is  
6 currently a large gap in the price of electricity between these two large commercial rate  
7 schedules which is which is not explained by a large difference in cost. The Stipulation  
8 implements a 3-year program to move the prices on these two schedules closer to cost  
9 and closer to each other than they are under present rates. While it results in both  
10 classes paying slightly below-cost rates, the deviation is very small, and well within the  
11 range of reasonableness historically used by the Commission to determine if classes  
12 should receive disparate rate adjustments.

13 **Q. WERE THE RESULTS OF ANY COST OF SERVICE STUDY USED RIGIDLY**  
14 **IN DETERMINING THE FAIR RATES SPREAD?**

15 A. No. While we used the UE-920499 cost of service methodology as the basis for the  
16 Stipulation, we did not follow the results of the study rigidly, consistent with past  
17 Commission directives that other factors should be considered. These other factors  
18 include rate stability, gradualism, and perceptions of equity and fairness. None of the  
19 parties is fully endorsing the methodology used in this study, and acceptance of the  
20 Stipulation should not be deemed to change any previously issued Commission  
21 decisions on the appropriate methods for apportioning costs between classes.

22 **Q. WHY DOES THE RESIDENTIAL CLASS GET AN ABOVE-AVERAGE RATE**  
23 **INCREASE?**

24 A. This reflects the cost of service study results that the residential class is currently  
25 providing a slightly lower than average rate of return. While this shortfall is not so  
large as to justify a differential rate increase under historical “range of reasonableness”

1 principles, a slightly higher residential increase -- about .17% -- increase was  
2 necessary in order to help to effectuate the convergence of rates for Schedules 26 and  
3 31. The deviation from a system average increase reflected in the Stipulation is very  
4 small, and in the context of a Settlement, is a reasonable adjustment to rates.

5 **Q. WHAT IS THE PURPOSE OF THE PROPOSED SCHEDULES 126 AND 127,**  
6 **THE ONE-YEAR SURCHARGE AND CREDIT MECHANISM RELATED TO**  
7 **SCHEDULE 449?**

8 A. The Retail Wheeling customers are receiving a very sharp decrease in their rates,  
9 compared with the levels established in the Air Liquide settlement (Docket UE-  
10 001952). The surcharge and credit mechanism effectuates a phase-in of this rate  
11 reduction. It is structured in this manner so that all other tariff rates can be set at  
12 “permanent” levels.

13 **Q. TAKING ALL OF THIS INTO CONSIDERATION, WHAT IS YOUR**  
14 **CONCLUSION ON THE STIPULATION?**

15 A. In my opinion, the Stipulation rate spread is fair, just, and reasonable for all classes,  
16 and should be approved.

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 A. Yes.  
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