

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 DESIGN

1
2 **Q. PLEASE STATE YOUR NAME, ADDRESS, AND A BRIEF SUMMARY OF 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 DESIGN PORTION OF THIS PROCEEDING?**

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10 A. I was retained by Public Counsel to review many issues in this proceeding, including
11 the Company's proposed electric rate design proposals. I participated in the
12 collaborative discussions which resulted in the Stipulation on rate design.

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

14 A. I believe that the Stipulation is consistent with the public interest, and should be
15 approved.

16 **Q. PLEASE DESCRIBE THE RESIDENTIAL RATE DESIGN CHANGES THAT ARE PROPOSED BY THE STIPULATION, AND DISCUSS WHY THESE ARE ACCEPTABLE.**

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18 A. The Stipulation provides for a very modest increase to the customer charge, an
19 elimination of the seasonal rate design, and a larger increase to the end-block rate than
20 to the initial block rate.

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22 The customer charge is based on the cost of services, meter reading, and billing for
23 residential customers as measured by the Company's cost of service study. These are
24 the costs which the Commission has found are appropriate for inclusion in the customer
25 charge in previous rate proceedings, including very explicit direction in Cause U-89-

1 2688-T and UE-920499. The Company's original proposal included transformer costs
2 in the customer charge, and that change was not accepted by the Collaborative, and is
3 not reflected in the proposed residential customer charge.

4 The elimination of the seasonal rate design reflects two factors. First, as the West
5 Coast energy market has become more integrated, the value of summer energy has
6 increased relative to the value of winter energy. This is because the
7 California/Nevada/Arizona (summer-peaking) market is larger than the Pacific
8 Northwest (winter-peaking) market. For the past five years or so, summer energy
9 prices at trading points in the Northwest have been higher than winter prices. The
10 seasonal distinction is less appropriate today than it was when it was established in
11 1981. Second, the existence of the two-block inverted rate design is itself a form of
12 seasonal rate, simply because most customers use more power in the winter months,
13 and that increased usage is priced at the higher second-block rate.

14 The higher increase to the end-block reflects two different ratemaking concepts, either
15 of which would be sufficient to justify this approach. First, the Company has a limited
16 amount of low-cost energy available, and incremental power supplies come at a higher
17 cost. The lower rate for the first block more accurately reflects the cost of the limited
18 low-cost power supplies. This is a concept known as "baseline rates" and was adopted
19 by the Commission in Cause U-78-05. The second concept is that higher usage levels
20 in the residential sector are often associated with space conditioning (heating and
21 cooling) usage, and that type of usage has a lower distribution load factor (ratio of
22 average usage to non-coincident peak demand) than other residential usage such as
23 lights and appliances. A more steeply inverted rate design ensures that customers with
24 lower levels of usage for lights and appliances do not subsidize large users. Those
25

1 customers with higher levels of usage pay the full costs of the distribution facilities
2 which must be sized to meet their non-coincident peak demands on the system -- and
3 which operate at far less than design capacity most of the year.

4 **Q. PLEASE TURN TO THE GENERAL SERVICE RATES, AND THE**
5 **PRINCIPAL ISSUES WHICH PUBLIC COUNSEL IS CONCERNED ABOUT**
6 **FOR BUSINESS CUSTOMERS.**

7 A. We were concerned about several factors in these rate designs. First, we wanted to
8 ensure that the customer charges for each class continued to reflect the costs of
9 metering, meter reading and billing, without extraneous factors. The Stipulation
10 reflects this continued approach. Second, we wanted to make sure that customers
11 within each class did not get sharply higher increases than the class average. This was
12 accommodated by imposing a partial phase-out of the seasonal rate design for Schedule
13 24.

14 The rates for other General Service classes were all moved in the direction of cost. For
15 example, the irrigation rates, Schedule 29 and 35, were changed to that the differences
16 in the rate blocks are more consistent with the levels of the demand charges.

17 **Q. WITH THE ABOVE DESCRIPTION OF THE THINKING THAT WENT INTO**
18 **THE DEVELOPMENT OF THE PROPOSED RATE DESIGN ELEMENTS,**
19 **WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE**
20 **STIPULATION?**

21 A. The Stipulation is consistent with the public interest, and should be approved.

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

23 A. Yes.
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