EXHIBIT NO. ___ (GRP-1T)
DOCKET NO. UE011570 and UG011571
WITNESS: GEORGE R. POHNDORF, JR.

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DIRECT TESTIMONY OF GEORGE R. POHNDORF, JR. ON BEHALF OF PUGET SOUND ENERGY, INC. REGARDING RATE SPREAD AND RATE DESIGN SETTLEMENTS

JUNE 7, 2002

PUGET SOUND ENERGY, INC.

DIRECT TESTIMONY OF GEORGE R. POHNDORF, JR.

RATE SPREAD AND RATE DESIGN SETTLEMENTS

RATE SPREAD:

Q: Please state your name, business address and present position with Puget Sound Energy, Inc.

A: My name is George Pohndorf. My business address is One Bellevue Center, Suite 300, 411 – 108th Ave. N.E., Bellevue, Washington 98004. I am the Director, Rates and Regulation for Puget Sound Energy, Inc. ("PSE" or "the Company").

Q: What do your responsibilities as Director, Rates and Regulation include?

A: I am responsible for overall management of the Company's rates and regulation department, including the regulatory planning, regulatory compliance, revenue requirements, and cost of service functions. My job duties currently include providing support to Ms. Harris in her oversight of PSE's pending General Rate Case. I have participated on behalf of the Company in many of the collaboratives. I will testify about the settlement with respect to Rate Design, Rate Spread, Time of Use, Line Extension, Conservation, Low Income, Service Quality Indices, and Backup Distribution Service issues.

Q: Why is rate spread important to the Company?

A: Rate spread allocates revenue recovery to each of the Company's customer classes. It is important to the Company that the recovery of revenue from a class of customer corresponds to the costs incurred to serve that class. If

there is an imbalance, changes in revenues to a class of customers will not appropriately track changes in costs. Rate spread is also important to the Company because it is important to our customers. Our customers want to be treated fairly, and the allocation of revenue responsibility among the various classes of customers needs to be done in a fair manner.

Q: Please identify what policy interests the Company considers to be important in addressing rate spread issues?

A: Rate spread should be based on established principles of fairness, equity, and sufficiency. Any shifting of rate responsibility from one rate class to another should be based on the relative cost structures of the classes, the impact of the shift on these customers, and the likelihood that the customers will be able to absorb the shifted costs.

Q: What does the Company believe should provide the basis for rate spread decisions?

A: Rate spread decisions should be based on cost of service analysis. Starting from the cost of service analysis, rate spread decisions should take into consideration the timing of the impact of changes in rates on customers, with the possibility that necessary changes might better be implemented gradually.

Q: What are the basic elements of the settlement?

A: The key result of the stipulation is shown in paragraph C of the Stipulation.

Q: What Cost of Service Methodology did the collaborative use to form its consensus recommendation to the Commission?

A: The parties agreed to rely upon the cost of service methods approved by the Commission in Docket No. UE-920449 and as demonstrated in the Company's Second Supplemental Response to Public Counsel Data

Request No. 12. For settlement purposes, this is a reasonable approach as the policy considerations have been considered by the Commission in the past, though each party reserved the right to propose alternative approaches in future proceedings.

Q: How did the collaborative use the cost of service results to derive the proposed rate spread?

A. Using results of the cost of service analysis, the parties agreed to spread the rate increase differently to two broad groups of customers. To those customer classes that, according to the cost of service analysis, are paying more than their allocated costs (i.e. are above parity), the collaborative assigned a smaller than average rate increase. The remaining group of customers received a higher than average rate increase. The customer classes that were above parity according to the study (and received the smaller percentage rate increase) were the medium general service, large general service, and retail wheeling classes. (Schedules 25, 26, 29, 448, 449, 458, and 459.) The average increase given these customers was 85% of the average increase given the other customers.

Q. What other adjustments are being proposed?

A. With the above as an overall framework, several other adjustments are proposed:

Non-jurisdictional customers (the firm resale rate class) were assigned $537,149 of the additional revenue requirement, based upon that class being at parity.

The differential between Schedules 26 and 31 is to be reduced to better reflect actual cost differentials between these two classes. This will be

accomplished by increasing Schedule 31 energy and demand rates by 1% in each of the next three years, and decreasing Schedule 26 rates by the same dollar amounts each year, and further decreasing Schedule 26 rates by a one-time reduction of $1 million.

The base on which the residential rate increase is calculated is the revenue residential customers are actually paying and excludes payments from BPA to the Company made on behalf of these customers under the residential exchange program. The net result is a lower rate increase to residential customers than if the increase were based on the amount of revenues the Company collects from this sector including the payments from BPA.

Q. How does this settlement address the policy interests addressed above?

The rate spread is based on cost of service analysis, though parties may advocate different methodologies in future cases. As stated above, the Company believes rates should reflect costs, and this was accomplished. The settlement also addresses the issue of the differential between Schedules 26 and 31, which has been a concern to the Company and customers over many years. Further, the settlement continues to reduce the disparity between the general service class and other classes, a reduction that began gradually in the last general rate case and continues in this one.

RATE DESIGN:

Q Why is rate design important to the Company?

A: Rate design is the mechanism for the Company to recover its costs based upon the results of the rate spread determination. Rate design determines the rates that each individual customer actually pays, and which provide the Company's revenue. As a result, rate design is important to the Company for the same reasons that rate spread is important.

Q: Please identify what policy interests the Company considers to be important in addressing rate design issues?

A: There are numerous interests that need to be properly balanced. Rates designed to correctly reflect costs and to provide for revenue collection within classes are fair and reasonable. It is also important to provide customers with appropriate price signals as individual consumption and conservation decisions will be affected by prices customers are charged. Another interest is to minimize rate shock for customers resulting from rate design. The final primary interest is ensuring rates are not overly complex, such that most customers understand how they are charged electric service.

Q. Were these principles applied in order to develop the proposed rate structures?

A. Yes.

Q. What rate design was adopted for the residential customer class (Schedule 7)?

A. The blocked rate structure was retained. The seasonal rate differential in the tail block was eliminated because there is little difference between summer and winter marginal energy costs. This conclusion was based upon a power

cost forecast showing that summer and winter marginal energy prices are comparable. Additionally, the rates are more simple and easier to understand. Furthermore, analysis of a statistical sample of residential bills revealed only a minority of customers have significant consumption in the summer tail-block. The settlement increases the current average tail-block rate by 150% of the average rate increase to the rate class. The remainder of the rate increase was applied to the first block rate. Finally, a $5.50 / month single-phase basic charge was agreed to, based on the cost of service study

Q. What agreement was reached regarding rate design for the small non-residential customers (Schedule 24)?

A. Similar to the residential rate design, the settlement proposes a non-seasonally-differentiated rate for the Schedule 24 customers. However, the current design of the rate for this class is significantly different from the design of the current residential rate and the class as a whole has differences in customer characteristics. The current rate design has a single block in both the winter and the summer, and there are no demand charges. (This customer class does not have demand meters.) Rather than eliminate the seasonal differentials, the proposed settlement reduces the seasonal differential by 50%. The single and three-phase basic charges are the same as the basic charges for the residential class since both classes have similar meter configurations.

Q. Were there common rate design elements applied to the remaining non-residential general service customers?

A. Yes. First, the seasonally-differentiated energy charge was removed (with one minor exception) based on the information mentioned above showing

little seasonal differences in marginal energy prices. Next, the seasonally-differentiated demand charges were retained, because this reflects the cost of capacity to serve the Company's winter peaks. The demand charges were kept at a level based upon the demand cost allocation component of the cost of service study. The remaining rate increase was then spread to the energy charges.

Q. What rate design is proposed for Schedule 25 (secondary voltage service with 50 – 350 kW of demand)?

A. The proposal applies the average rate increase to the summer first block and 1.5 times the average rate increase to the winter first block. This is the one exception to the general policy of removing the seasonal differential in the energy charge, and was done to mitigate rate impacts. The remainder of the rate increases, after considering the demand customer charges, was applied to the energy tail block that will have no seasonal energy differentiation. As previously noted, the summer and winter demand rates are differentiated to reflect the cost of winter peak capacity.

Q. What is the proposed rate design for Schedule 26 (secondary voltage service > 350 kW of monthly demand)?

A. For the reasons mentioned above, the seasonal energy rate differential is to be eliminated.

Q. Why does the proposal include a rebalancing of rates between Schedule 26 and 31?

A. Service under Schedule 31 is currently limited to customers who require multiple points of distribution on their service property. This class of service is generally bifurcated into two groups of customers: (i) customers with small loads and specialized distribution needs and (ii) customers with large loads

that need to have their own distribution system. The large load customers often have similar load characteristics to the customers on Schedule 26. However, due to prior rate design, the rate differential between the Schedule 26 and 31 customers is not cost-based. In other words, the rate differential is greater than the cost of transformation and losses associated with secondary service. Over the years, this rate differential has created a tension between customers and the Company, as customers who otherwise would be served on Schedule 26 try to qualify for the lower cost rates available under Schedule 31. To address this issue, three annual rate changes are proposed to both Schedules 26 and 31 starting on the first anniversary after the settlement rates take effect. After the third rate change, Schedules 26 and 31 will be approximately 2.5% apart. The rates will change as follows: on each of the three anniversaries the demand and energy charges for Schedule 31 will be increased by 1%, and the proforma revenues thus created will be applied to Schedule 26 by first decreasing the demand charge by one percent and then applying the remainder of the decrease to the energy charge. At the end of the third year, the two Schedules will be approximately at parity based upon the UE-920499 cost of service methodology. In future rate proceedigns, the Company may propose to remove any barriers or differntial between Schedules 26 and 31.

Q. What is the proposed rate design for Schedule 31 (non-residential primary voltage service)?

A. The proposed settlement recommends seasonally-differentiated demand charges and a constant energy rate year round. In addition, as mentioned above, three annual one percent increases to the energy and demand

charges are proposed starting with the first anniversary of the settlement rates going into effect. A $300 / month basic charge is proposed for Schedule 31.

Q. What is the proposal for the three Internet Service Providers currently under special contracts?

A. The goal was to develop an equitable treatment for these customers and the proposed settlement recommends that these customers receive service under Schedule 31. In addition, it is recommended that these three customers be given a refund under the current line extension policy based upon their current loads. Future incremental load by these customers will be subject to the then effective line extension policies and provisions.

Q. Are additional rate spread and rate design adjustments proposed with respect to Schedule 449.

A. Yes. After the revenue responsibility was spread to each class of customers, an additional three million dollars of revenue responsibility was added to the Schedule 449 rates for one year only through a temporary surcharge rider schedule. The three million dollars associated with this surcharge will be credited back to all other classes of customers on the basis of an equal percentage to each classes' revenues over the same one year time frame through a temporary credit rider schedule. After the one-year period, there will not be any true-up for either rider schedule.

Q. Were there any other changes to rate schedules?

A. Yes. The stipulation also addressed rates for Schedules 43, 46, 49, 448, 458 449, 459, and all lighting schedules. These changes follow the above principles and are described in the stipulation.

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