

Exhibit No. __ T (JOINT-21T)
Docket Nos. UE-060266/UG-060267
Witnesses: Jim Lazar
Donald Schoenbeck
Joelle Steward
Kevin Higgins
David Hoff
James Selecky
Nancy Glaser

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

DOCKET NO. UE-060266
DOCKET NO. UG-060267
(Consolidated)

**JOINT TESTIMONY OF JIM LAZAR, DONALD SCHOENBECK, JOELLE
STEWART, KEVIN C. HIGGINS, DAVID W. HOFF, JAMES T. SELECKY, AND
NANCY GLASER IN SUPPORT OF THE PARTIAL SETTLEMENT AGREEMENT
RE: ELECTRIC RATE SPREAD, RATE DESIGN AND LOW INCOME ENERGY
ASSISTANCE**

August 23, 2006

1 I. INTRODUCTION

2
3 Qualifications of Jim Lazar

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

5 A. My name is Jim Lazar and I am appearing on behalf of Public Counsel and The
6 Energy Project. My qualifications are presented in Exhibit No. ___ (JOINT-2).

7
8 Qualifications of Donald Schoenbeck

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

10 A. My name is Donald Schoenbeck and I am appearing on behalf of the Industrial
11 Customers of Northwest Utilities (ICNU). My qualifications are presented in Exhibit
12 No. ___ (DWS-2).

13
14 Qualifications of Joelle Steward

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

16 A. My name is Joelle Steward and I am appearing on behalf of Commission Staff. My
17 qualifications are presented in Exhibit No. ___ (JRS-2).

18
19 Qualifications of Kevin C. Higgins

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

21 A. My name is Kevin C. Higgins and I am appearing on behalf of The Kroger Co. My
22 qualifications are presented in Exhibit No. ___ (KCH-1T).

1 **Qualifications of David W. Hoff**

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

3 A. My name is David W. Hoff and I am appearing on behalf of Puget Sound Energy.
4 My qualifications are presented in Exhibit No. __ (DWH-2).
5

6 **Qualifications of James T. Selecky**

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

8 A. My name is James T. Selecky and I am appearing on behalf of Federal Executive
9 Agencies. My qualifications are presented in Appendix A to Exhibit No. __ (JTS-
10 1T).
11

12 **Qualifications of Nancy Glaser**

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

14 A. My name is Nancy Glaser and I am appearing on behalf of the NW Energy
15 Coalition. My qualifications are presented in Exhibit No. __ (NLG-1T).
16

17 **Q. What is the purpose of this Joint Testimony?**

18 A. This Joint Testimony is in support of the Partial Settlement Agreement Re: Electric
19 Rate Spread, Rate Design and Low Income Energy Assistance (“Partial Settlement”),
20 which was filed with the Commission on June 25, 2006. The signatories to the
21 Partial Settlement are referred to collectively as the “Parties”.
22

1 **II. JOINT TESTIMONY ON ELECTRIC RATE SPREAD**

2

3 **Q. Please describe rate spread and the policy interests that are important for**
4 **consideration in establishing rate spread.**

5 A. Rate spread allocates revenue recovery to each of the Company's customer classes.
6 Rate spread should recognize that rates must be just and reasonable and not cause
7 undue discrimination, that is, it should be based on established principles of fairness,
8 equity and sufficiency. To this end, rate responsibility for any class should be guided
9 by the cost to serve the class. Therefore, a cost of service analysis is an important
10 consideration in spreading a revenue increase. However, because of the high degree
11 of judgment on classification and allocation that goes into a cost study, the results do
12 not generally lend themselves to a strict application of the results of the cost study, as
13 the Commission has often noted in the past.¹ Rate spread decisions are usually
14 tempered by consideration of customer impacts and any other pertinent factors
15 appropriate at the time.

16

17 **Q. Please describe the Partial Settlement on electric rate spread.**

18 A. The Parties agreed to allocate any increase PSE may be granted as a result of this
19 proceeding, in proportion to the Company's proposed rate spread, which appears on
20 page 1 in Exhibit No. ___ (JAH-6). The Company's rate spread proposal was based
21 upon moving classes closer to cost-of-service while taking into consideration class
22 specific impacts. The Parties by this Partial Settlement are not agreeing upon any

¹ See, for example, Commission orders in Docket Nos. UE-991832 and UG-940034, and in Cause Nos. U-89-2688 and U-86-100.

1 particular cost of service methodology. The Parties accepted this approach in
2 recognition of these factors. In the event the Commission decision results in an
3 overall revenue requirement decrease to PSE, the settlement rate spread is slightly
4 different. Under this circumstance, the current rates for Schedules 449 and 459 are to
5 remain unchanged. Further, the Firm Resale rates will be decreased in proportion to
6 the July 1, 2006 increase from Docket No. UE-060783. For all other classes, the
7 remaining decrease will be in proportion to the Company's proposed rate spread for
8 those classes.

9
10 **Q. Please explain why the Parties believe that this approach for electric rate spread**
11 **is in the public interest and is appropriate for adoption by the Commission.**

12 A. The rate spread is founded on gradual movement toward cost-of-service and specific
13 consideration of customer impacts. It is an equitable recommendation and therefore
14 is in the public interest and appropriate for Commission adoption.

15
16 **III. JOINT TESTIMONY ON ELECTRIC RATE DESIGN**

17
18 **Q. Please describe the importance of rate design.**

19 A. Rate design is the pricing structure for the Company to recover its costs. Rate design
20 determines the rates that each individual customer actually pays. As a result, rate
21 design is important for the same reasons that rate spread is important.

1 **Q. What are the policy interests involved in rate design?**

2 A. There are a variety of interests that need to be addressed. Rates should be based on
3 costs and provide for revenue collection within customer classes that is fair and
4 reasonable. The Partial Settlement balances a number of considerations including the
5 following. It is important to provide customers with appropriate price signals, as
6 individual consumption and conservation decisions will be affected by the prices
7 customers are charged. Minimizing rate shock for customers, that is, a sudden and
8 severe change in utility rates, is another important regulatory policy interest. The rate
9 design should also provide the utility with a reasonable opportunity to recover its
10 revenue requirement. Finally, rates should not be overly complex, so that most
11 customers can readily understand how they are charged for electric or gas service.

12
13 **Q. Were these principles applied in order to develop the proposed electric rate
14 structures?**

15 A. Yes. Consequently, the proposed electric rate design is in the public interest and
16 appropriate for the Commission to adopt.

17
18 **Q. To what revenue requirement change will these rate design provisions apply?**

19 A. These rate design provisions will apply to the combined change in revenue
20 requirements resulting since November 2005 and continuing through the July 1,
21 2006 PCORC increase and any revenue change resulting from this proceeding.

22

1 Residential Rate Design

2 **Q. How do the Parties propose to apply any increase to residential Schedule 7?**

3 A. An equal percentage increase will be applied to all rate components in Schedule 7.
4 This will retain the current proportions between the energy blocks and provide an
5 increase to the basic charge.
6

7 General Service Rate Design – Secondary and Primary Voltage

8 **Q. How will the general service rate design for secondary and primary voltage
9 service be affected under the Partial Settlement?**

10 A. Schedule 24 will simply receive an equal percentage change on all rate elements.
11 Any net rate increase for Schedules 25 and 31 will have a stronger weighting on the
12 basic charge and demand charge to better align these rate elements with PSE's cost
13 of service. The demand charge for Schedule 26 will be set equal to that of Schedule
14 31, adjusted for losses, with the basic charge and reactive demand charge changing
15 by the class average percentage increase, and any remaining rate change applied to
16 the energy charge.
17

18 Industrial Rate Design

19 **Q. How will the industrial tariff charges be changed under the Partial Settlement?**

20 A. The Parties relied on the cost-of-service study results for formulating the proposed
21 changes to each specific industrial tariff. In the event of an increase in revenue
22 requirement, the demand charge for Schedules 46 and 49 will be increased by 125
23 percent of the average percentage increase assigned to these classes. The remaining

1 increase will be recovered by increasing the energy charge the same amount for each
2 tariff. In the event of a decrease in revenue requirement, the demand charges will be
3 maintained at the existing level. The entire decrease will be reflected in a lower
4 energy charge. For the transportation tariffs—Schedules 449 and 459—any increase
5 would be recovered by increasing the basic customer charge by twice the average
6 percentage increase assigned to these schedules. Any remaining increase would be
7 recovered by applying an equal percentage increase to the demand charges.

8
9 **Q. How will the Schedule 40 charges be derived?**

10 **A.** The basic charges for Schedule 40 service will be identical to the final customer
11 charges from the comparable voltage service schedule. The distribution charges will
12 be derived pursuant to the method set forth in the tariff. Any remaining increase or
13 decrease will be recovered through the production and transmission charges by
14 voltage level.

15
16 **IV. JOINT TESTIMONY ON LOW-INCOME ENERGY ASSISTANCE**

17
18 **Q. What is the proposal of the Parties on low-income energy assistance?**

19 **A.** We have agreed that the current annual level of low-income electric bill assistance
20 will be increased by \$1,225,000 (net of taxes and revenue sensitive items). This
21 amount will be obtained through a uniform percentage increase to the surcharge in
22 Schedule 129 tariff rider, which goes into effect October 1, 2006. The parties agree
23 not to oppose the inclusion of \$525,000 of additional low-income energy assistance

1 in the companion natural gas proceeding, Docket No. UG-060627, but nothing in this
2 agreement implies that the gas portion has been accepted or adopted. Parties that are
3 not signatories to this settlement are not bound to this agreement.
4

5 **Q. Why is the proposed increase in the public interest and appropriate for**
6 **Commission adoption?**

7 A. PSE's low-income bill assistance program (e.g., the HELP program) was established
8 in the 2001 general rate case, Docket Nos. UE-011570/UG-011571 (Exhibit G to the
9 Settlement Stipulation). The program was established with an annual gross revenue
10 cap of \$8.9 million for both gas and electric program funding. This revenue cap has
11 not been adjusted since the 2001 general rate case, despite several rate increases in
12 the intervening period. Residential electric rates have increased three times as a
13 result of Power Cost Only Rate Cases² and one time as a result of the 2004 general
14 rate case.³ In light of these past rate increases and the proposed increase in this
15 proceeding, the Parties have agreed that the electric low-income program funding
16 cap should be raised.
17

18 **Q. What are the benefits of this program?**

19 A. This program directly benefits low-income consumers who qualify for financial
20 assistance under the program. It also benefits PSE and all other consumers by

² See Docket Nos. UE-031725 (2003 PCORC), UE-050870 (2005 PCORC) and UE-060783 (2005 PCORC Update).

³ See Docket Nos. UE-040641 and UG-040640.

1 reducing costs for collection, reducing the frequency of service disconnections and
2 the associated costs, and reducing uncollectible bill amounts.

3 In the most recent program year, the HELP program provided assistance to
4 over 14,000 electric customers and 5,700 gas customers, with an average benefit
5 payment of \$374.
6

7 **Q. Why do you recommend the increase in low income funding be effective**
8 **October 1, 2006?**

9 A. Since the bulk of the proposed increase in electricity rates went into effect July 1
10 with the Power Cost Only Rate Case adjustment,⁴ it is appropriate that the increase in
11 low-income assistance be available for this year's heating season. The program year
12 begins October 1.
13

14 **Q. What are the specific tariff changes that this element of the Partial Settlement**
15 **involves?**

16 A. First, the overall net annual cap in the electric and natural gas Schedules 129 will
17 increase from \$8.5 million to \$9.725 million.⁵ Specifically, the electric program
18 funding will increase from \$5.7 million to \$6.925 million for the program year
19 beginning October 1, 2006.⁶

⁴ See Docket No. UE-060783.

⁵ The overall annual net cap would increase to \$10.25 million if the increase in natural gas program funding is approved. The natural gas program funding would increase from \$2.8 million to \$3.325 million under the proposed increase for natural gas low income funding recommended in the Joint Testimony of Jim Lazar, Donald Schoenbeck and Joelle Steward on Natural Gas Rate Spread, Rate Design and Low Income Bill Assistance. (See Exhibit No. __ (JOINT-1T).)

⁶ It is important to note that because the 2001 general rate case settlement that originally approved the low income program with an annual net cap of \$8.5 million is not being amended, this \$8.5 million portion of the new annual net cap will continue to be allocated between electric and gas based on the four-factor allocator

1 Second, the current surcharge rates in Schedule 129 will increase by
2 approximately 23 percent. The monthly surcharge for the average residential
3 customer will increase by about 7 cents per month, from \$0.28 to \$0.35.
4

5 **Q. Have the Parties agreed to eliminate the program cap, so that the amount**
6 **collected for low-income assistance will automatically increase as PSE sales and**
7 **revenues increase with customer growth?**

8 A. No. That is not a part of the agreement. The agreement is for a specific increase to
9 the program cap. The rate to each customer class is a uniform percentage increase
10 from the current rate, sufficient to generate the stipulated increase. The surcharge in
11 Schedule 129 is trued-up each year to account for any under- or over-collection in
12 the prior year, and reset to collect the overall revenue authorized under the cap, using
13 forecasted billing determinants.
14

15 **Q. Does this conclude your Joint Testimony in support of the Partial Settlement?**

16 A. Yes.
17
18
19
20

reported in the Company's annual Commission Basis Report. This will have the impact of changing the relative relationship that electric and gas each bear to the combined annual net cap of \$10.25 million. For instance, Company witness Mr. Hoff indicates that based on the current allocators to be used in the next annual low income compliance filing, the allocation of the annual net cap between electric and gas would result in a \$300,000 shift from electric to gas.