Exhibit No. __T (TES-1T)
Dockets UE-072300/
UG-072301/UG-080064
Witness: Thomas E. Schooley

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, INC., Respondent.	DOCKET UE-072300 DOCKET UG-072301 *(Consolidated)* DOCKET UG-080064

TESTIMONY OF

Thomas E. Schooley

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Adjustments for Meter Malfunctions

Revenue Allocation and Rate Design

MAY 30, 2008

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LIST OF EXHIBITS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Thomas E. Schooley. My business address is The Richard Hemstad Building, 1300 S. Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, WA 98504. My email address is tschoole@utc.wa.gov.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission ("UTC") as a Regulatory Analyst.

Q. How long have you been employed by the UTC?

A. My employment with the UTC began in 1991.

Q. Please describe your relevant background and professional qualifications?

A. I received a Bachelor of Science degree from Central Washington University in 1986. I met the requirements for a double major in Accounting and Business Administration-Finance. Additionally, I have a Bachelor of Science degree in geology from the University of Michigan. I passed the Certified Public Accountant exam in 1989. I have attended several regulatory accounting courses, including the summer session of the Institute of Public Utilities.

I testified in Docket UE-960195 involving the merger of Washington Natural Gas Company and Puget Sound Power & Light Company. I was the lead Staff

analyst in several applications for accounting treatment, including Puget Sound Energy, Inc. ("PSE" or "the Company") Dockets UE-971619 and UE-991918. I testified in the Avista general rate case, Docket UE-991606, and Avista energy recovery mechanism proceedings, Dockets UE-000972, UE-010395, UE-011595, and UE-030751. I also assisted in the development of Staff testimony in Puget's "PRAM 2" case, Docket UE-920630, and I presented the Staff recommendation on environmental remediation in Puget Docket UE-911476.

I analyzed PacifiCorp's proposed accounting treatment of Clean Air Act allowances in Docket UE-940947, and participated in meetings of PacifiCorp's inter-jurisdictional task force on allocations. Most recently, I testified in PSE's Power Cost Only Rate Case, Docket UE-031725; PacifiCorp's general rate cases, Dockets UE-032065, UE-050684, and UE-061546; and Avista's general rate case, Dockets UE-070804 and UG-070805.

I have participated in the development of UTC rules, prepared detailed statistical studies for commissioners and other UTC employees, and examined utility reports for rule compliance. I have also presented Staff recommendations at numerous open public meetings.

II. SCOPE OF TESTIMONY

Q. Please explain the purpose of your testimony in these Dockets?

A. The purpose of my testimony is threefold. In Section III of my testimony, I propose two revenue requirements adjustments related to customer meter malfunctions. The

first adjustment increases test-year revenues by about $107,000 on the electric side and $1.2 million on the gas side to disallow discounted sales to customers that were billed retroactively because of these meter or other related billing errors. The other adjustment addresses the metering problem in the working capital calculation by disallowing a return on the receivable for unbilled revenues. Both adjustments are reflected in Staff witness Mr. Weinman's Exhibit No. __ (WHW-2) and Exhibit No. __ (WHW-5). Staff witness Mr. Kermode is responsible for calculating the working capital adjustment.

In Section IV of my testimony, I provide an overview of the cost of service by rate class.

Finally and also in Section IV of my testimony, I accept the Company's proposed electric revenue allocation (or "rate spread") to the various rate schedules and I accept the Company's proposed gas revenue allocation, except for Limited Interruptible Schedule 86. PSE proposes a rate decrease for Schedule 86 while I propose no change. I also present Staff's proposed gas and electric rate designs, which include a recommendation that the monthly customer charges remain unchanged because of the metering issues discussed in Section III.

Q. Were you responsible for reviewing any other ratemaking adjustments shown on Mr. Weinman's exhibits?

A. Yes. I reviewed electric operations Adjustment 11.23 and natural gas operations Adjustment 9.16. Both adjustments address property and liability insurance, and are uncontested as between Staff and PSE.

Q. Did you prepare any exhibits in support of your testimony?

A. Yes. I prepared the following exhibits:

Exhibit No. __ (TES-2), Unassigned Meters Sample

Exhibit No. __ (TES-3), Zero Consumption Meters, Investigations, and Billing Corrections

Exhibit No. __ (TES-4), Retroactive Billings and Discounts

Exhibit No. __ (TES-5), Staff Revenue Allocation- Electric

Exhibit No. __ (TES-6), Staff Revenue Allocation- Gas

III. REVENUE REQUIREMENT ADJUSTMENTS FOR METER MALFUNCTIONS

Q. What are the adjustments you propose to revenue requirements?

A. Staff proposes an adjustment for discounts to customers during the test year to settle retroactive bills resulting from malfunctioning meters or other related billing errors. Staff also proposes that FERC Account 173, Accrued Utility Revenues, be excluded from working capital, due to these ongoing and increasing metering problems.

Q. Please explain the metering problems at PSE.

A. According to PSE's responses to Staff Data Request Nos. 165, 166 and 191, there are three main types of metering problems. One is a "stopped meter" where gas may be flowing, but the meter or automatic meter reading device does not register. Thus, the customer incorrectly appears to have zero consumption.

There are, however, valid reasons for customers to show no consumption during a given month, such as turning off all appliances while on vacation or winter-only heating use. A field inspection is necessary to determine the cause of the problem and/or to verify actual zero consumption at the premises.

Q. Please explain the second type of metering problem.

A. The second type of metering problem is an "unassigned energy usage" meter or an "unassigned meter". This occurs when a meter is functioning properly, but the customer's name is unknown.

The number of unassigned energy usage meters climbed to 11,626 at the end of 2007 from 9,885 at the end of 2005. (PSE Response to Staff Data Request No. 165B.) Exhibit No. __ (TES-2) presents a sample from the Company's December 2007 report of unassigned energy usage meters submitted in response to Staff Data Request No. 165C. The entire report contains 454 pages and was labeled by PSE as an "unauthorized usage report." Each two lines of my exhibit represent a meter with a known address and measured consumption, but PSE does not know to whom a bill must be sent. The list shows many customers with thousands of kwh or hundreds of therms of consumption going back years, but who have never been billed. Several highlighted entries show accounts that are greater than one year old, yet there is continued service and significant accumulated usage balances. Please note that I have redacted the street address numbers to alleviate any privacy concerns.

Q. What is the third type of metering problem?

A. The third type of metering problem is a "lost" meter. That occurs when a meter is installed, but the field paperwork is not submitted in a timely manner or at all. Without the field paperwork, the meter cannot be set up in the customer information system for billing. This problem differs from an unassigned meter in that there is neither a customer nor an address for this type of error. Nearly $1 million was billed to correct lost meter errors in 2007.

Q. Has PSE increased its effort to correct these meter problems?

A. Yes, but perhaps not sufficiently. As shown in my Exhibit No. __ (TES-3), field investigations of zero consumption *gas* meters increased to 5,567 in 2007 from 1,999 in 2006. Inspections of zero consumption *electric* meters declined to 1,229 in 2007 from 1,578 in 2006.

Q. Has this effort reduced the number of known stopped meters?

A. No. The number of uninspected zero consumption *gas* meters has continually risen to over 11,000 at the end of 2007, from 10,500 at year-end 2006, and 9,100 at year-end 2005. Uninspected zero consumption *electric* meters have increased to 4,295 at year-end 2007 from the 2005 amount of 3,905.

Q. What is PSE's response to questions about how long a meter may show zero consumption before it is inspected?

A. PSE produces a weekly "zero consumption report." A meter will not show up on a zero consumption report until it shows no consumption for 60 continuous days. At that time a service order is generated "when resources are available." PSE Responses to Staff Data Request Nos. 141E and 148E.

Q. Is the Company spending more on gas meter repairs given the increasing number of zero consumption meters?

A. No. PSE's gas meter repair costs have declined steadily to $406,000 in 2007 from almost $523,000 in 2004. PSE Response to Staff Data Request No. 142.

Q. Has PSE reduced the number of unassigned energy usage meters in recent years?

A. No, the number of unassigned energy usage meters at the end of 2007 was 11,626 (combined gas and electric), up from 10,414 in 2006, and 9,885 in 2005. PSE Response to Staff Data Request No. 165B.

Q. Has PSE's attention to meter problems increased retroactive billings?

A. Yes. PSE retroactive billings to customers have increased substantially in the past two years, especially for gas service. As seen in my Exhibit No. __ (TES-4) retroactive bills in total have increased to almost $9 million in gas and $2.4 million in electricity in 2007, up from $5.2 million and $1.8 million, respectively, in 2006.

Q. If meters are not functioning properly, please explain how PSE determines revenues from gas and electricity sales.

A. The kilowatt-hours of electricity or therms of gas delivered into the system during a calendar month are known and measurable at the end of each month. Revenues are based on the bills to customers during the month, but those bills represent consumption over various periods of time, depending on each customer's billing cycle. Thus, total revenue in a month is based on billings to customers, but it is adjusted to the actual delivery of kwh or therms into PSE's system. PSE Responses to Staff Data Request Nos. 166 and 191-193. This self-corrects the lack of data from malfunctioning meters.

Q. Can PSE identify any specific components of the unbilled revenues, such as the amount of revenue due from unassigned, lost, or stopped meters?

A. No. PSE maintains an interim account in its own name. However, "no meaningful receivable balance can be derived from the PSE interim account because it is not part of PSE's ledger" and "Additionally, these informational charges are not reduced when a meter is assigned and charges are billed." PSE Responses to Staff Data Request No. 193. PSE cannot identify the amount of money due from customers due to stopped, unassigned, or lost meters.

Q. If the meter has not registered any consumption, how does PSE determine the amount to bill a customer for past use?

A. PSE estimates use from the customer's past history, usage patterns of neighboring customers, or the history of a prior occupant. PSE Responses to Staff Data Request Nos. 103, 144, 151.

Q. Does PSE then accept less from the customer than the billed amount?

A. Yes. PSE may settle the bill for less than the full amount due. PSE Response to Staff Data Request No. 161.

Q. Is PSE consistent in how much it will discount a retroactive bill in order to settle the account?

A. It is Staff's understanding that PSE settled retroactive bills prior to 2008 based on the customer's negotiating skill. The Company's Supplemental Response to Staff Data Request No. 171 shows that customers received discounts of as much as fifty percent or as little as nothing.

Q. How does PSE currently determine any discount offered to settle a retroactive bill?

A. The present practice is to settle a retroactive bill on a sliding scale based on the length of time of the billing adjustment.

Q. What adjustments does Staff propose because of the metering issues you have discussed?

A. Staff proposes two adjustments. The first adjustment is shown on Exhibit No. __ (TES-4) and reinstates to revenues discounts given in the test year to settle retroactive bills resulting from malfunctioning meters. This adjustment increases test year electric revenues by $107,016 and test year gas revenues by $1,228,388. The adjustment is necessary to hold other ratepayers harmless for these discounts.

The second adjustment removes the accounts receivable balance in FERC Account 173, Accrued Utility Revenues, from the investor-supplied working capital ("ISWC") balance. A return on the receivable balance through the ISWC is unwarranted given PSE's inability to properly bill substantial numbers of its customers. Through the reduction in ISWC, this adjustment reduces rate base for electric operations by $83,174,764 and $33,961,215 for gas operations. The total ISWC calculation is presented by Mr. Kermode.

Q. Are there other reasons supporting Staff's adjustments for billing discounts and working capital?

A. Yes. There is currently no financial incentive for the Company to promptly identify and resolve meter problems that emerge in the course of regular operations and have grown in number over the past three years. PSE continues to collect revenues whether or not it bills for usage accurately and in a timely manner. Staff's proposed adjustments create a strong incentive for PSE to resolve these metering problems.

In addition, the Company is fully aware that this issue is a concern to Staff. Staff members from the Consumer Affairs Section raised the issue with the Company in 2004 after retroactive bills began to generate consumer complaints.

Further meetings between Consumer Affairs and PSE on the same subject occurred in mid-2006 and in mid-2007. Yet my analysis shows that no meaningful progress by the Company has occurred.

IV. REVENUE ALLOCATION AND RATE DESIGN

A. Electric Rate Spread and Rate Design

Q. Please explain the general concept of revenue allocation and rate design.

A. Revenue allocation, also known as "rate spread", is the process of determining the portion of total revenues to be collected from each rate schedule. Rate design takes the total revenue for each rate schedule and determines the specific charges within the schedule, such as the basic charge per month, the demand charge per kilowatt, and the exact cents per kilowatt-hour.

Q. What is the basic philosophy behind allocating revenues to the rate schedules?

A. The basic philosophy is to charge customers for the costs they impose on the total system. The premise of cost causation is present in many aspects of determining rates in a price-regulated industry. A precise calculation of the costs to be recovered by the customers on each rate schedule is possible, given any one set of allocation assumptions. However, the UTC has often stated that other factors weigh in the rate spread decision, including the appearance of fairness, perceptions of equity,

economic conditions in the service territory, and stability. These concepts apply equally to electricity and gas service.

Q. Please explain the purpose of a "cost-of-service" analysis in revenue allocation?

A. A cost of service analysis shows the rate of return provided by each rate schedule, based on a given set of cost allocation factors. If an increase in overall revenues is necessary to provide the utility with a fair return on rate base, then each schedule may require a different percentage increase to achieve an equal rate of return (or "parity") for all schedules. The "art" in revenue allocation is in determining how much of the average rate increase is fairly apportioned to each schedule.

Q. Turning specifically to electric service, what data are necessary to determine a fair allocation of revenues to the customer classes?

A. The utility must collect data on the use of electricity across a broad spectrum of all customers. This is known as a load study. While it is not feasible to precisely measure every customer's load, statistical sampling provides sufficient data for the intended purposes. For each customer sampled, the data collected should include, at a minimum, the electricity consumed during short time intervals around the clock and over an entire year. The purpose is to group customers into like patterns of use, to determine the time periods in which those customers demand the greatest amount of kilowatts, to compare the peak periods of a group to the lowest use periods within the same group, and to compare each group of customers to other groups of

customers. The utility must also collect data on how it produces and buys electricity to meet customer needs.

Q. Has PSE conducted a recent load study of electricity customer usage patterns?

A. Yes. The most recent electricity load study was produced in February 2007 using data collected by the automatic meter reading system from October 2005 through September 2006.

Q. Does Staff accept the Company's electric load study and method of allocating plant and expenses to the current rate schedules?

A. Yes.

Q. PSE witness Mr. Hoff depicts each schedule's current rate of return on rate base in Exhibit No. __ (DWH-4). Is this as a fair representation of the class contributions to the overall rate of return?

A. Yes. Staff's adjustments to revenue requirement revise the absolute numbers, but the relative proportion of each schedule's contribution to the total remains approximately the same.

Q. What percentages of the average percent increase to revenues does PSE propose for electric service?

A. PSE proposes a 125% of average increase to residential Schedule 7, a 75% of average increase to lighting schedules, and a 50% of average increase to secondary

voltage Schedules 25, 29, and 26. It also proposes an average percent increase to commercial/industrial Schedules 24, 31, 35, 46, 49, and 449. PSE proposes 5% as the total increase to Schedule 40, Campus Rate. Finally, PSE proposes that the total increase to the firm resale rate be in excess of 29% to bring those customers to full parity. Exhibit No. __ (DWH-5).

Q. How are the parity ratios affected by the above percentage increases?

A. The schedules receiving less than 100% of the average increase remain above parity ranging from 107% to 116%. The 125% of average increase for Schedule 7, Residential, moves it to 95% parity from 93%. The other classes stay within five percent of parity. Exhibit No. __ (DWH-5).

Q. Does Staff accept PSE's proposed revenue allocation to its electricity rate schedules?

A. Yes. The proposed revenue allocations maintain or slightly improve each schedule's movement towards parity.

Q. Turning to rate design, did Staff review PSE's electricity proposal?

A. Yes. The Company's proposed rate design is presented by Mr. Hoff in Exhibit No. __ (DWH-1T), beginning at page 21.

Q. Please describe the Company's proposed electric service rate design.

A. PSE proposes three significant changes to its current rate design. First, it increases the monthly customer charge from $6.02 to $9.00 to recover virtually all revenues allocated to customers on a per customer basis. Second, the Company increases the General Service Schedules 24 and 25 to recover greater levels of customer expenses in the customer charge and more demand expenses in the demand charge. Third, PSE revises industrial Schedules 26 and 31 to bring the demand charges closer together and to reduce the parity ratios between these similar customer segments. The increases to customer and demand charges commensurately reduce the kwh energy charges.

Q. Does Staff accept the Company's proposed changes to the customer charges?

A. No. Staff recommends no increase in the monthly electric service customer charge. Any increase in the customer charge would immunize the Company from the need to fully and promptly solve the problems PSE has in metering and billing customers. PSE will have a greater incentive to cure these problems if a greater portion of its revenues is collected through volumetric charges.

Staff would support some increase to the basic charge if not for the billing and metering issues. However, should the UTC consider an increase to the basic charge, there still remains the question of which specific expenses and plant are appropriately recovered in that charge.

Q. What expenses and plant does PSE include in the customer charge?

A. The electric cost-of-service summary in Exhibit No. __ (DWH-4) at page 15 shows the customer charge calculation proposed by PSE. This sheet shows the expenses and rate base to be recovered in the customer charge. Line 19 shows "net plant investment" of $432.9 million and line 48 shows total related expenses of $82.2 million.

Q. How do these amounts compare to PSE's last general rate case, Docket UE-060266?

A. These figures are substantially greater than the Company's filed case in Docket UE-060266. In that docket, the net plant investment in the customer charge calculation was $188.4 million and total expenses were $46.4 million. The increases are due primarily to PSE's inclusion of FERC Account 368, line transformers, as a rate base item, and FERC Account 595, maintenance of line transformers, as an expense. The line transformer accounts add $226.1 million to customer-related rate base and $324,000 to customer-related expenses.

The other significant increase to customer-related costs is in the allocation of administration and general ("A&G") expenses due to the addition of the transformer accounts. A&G expenses and depreciation in the customer charges are up by $13.9 million and $4.9 million, respectively.

Q. Does Staff agree with the inclusion of line transformer accounts in the basic charge calculation, if the charge is increased by the UTC?

A. Yes. The need for line transformers is directly related to the number of customers. The physics of the electrical system require a new line transformer for every half-dozen or so new customers. The recovery of this cost on a per customer basis would be reasonable.

Q. Does Staff agree with the inclusion of A&G plant and expenses in the basic charge calculation, if the charge is increased by the UTC?

A. No. The calculation should exclude A&G plant and expenses, which would then be recovered on a cents per kwh basis.

Q. Please explain.

A. General Plant and A&G expenses include the plant and costs that are not directly related to one of the primary utility functions of generation, transmission, or distribution. The general plant and A&G expenses are allocated to the functions by various factors. While most costs assigned to the customer charge, such as meters, underground and overhead lines, and meter reading, directly vary with the number of customers, A&G costs do not. Neither do A&G costs vary with kwh sales. It then becomes a question of how much control does the utility have over these expenses and who should bear the risk of recovery of that expense. The utility is fully in control of its A&G expenses and the choices it makes for general plant. By recovering the A&G expenses through a flat charge per month, the utility is nearly guaranteed full recovery. An element of risk is returned to PSE by placing the

recovery of A&G expenses in the volumetric charge. If the Company wishes to reduce the risk of recovery, it may take measures to reduce the A&G costs.

Q. What is the effect of excluding A&G plant and expenses from the customer charge and recovering them on a cents per kwh basis?

A. As applied to PSE's filed case, recovering A&G expenses and general plant on a kwh basis reduces the Residential Schedule 7 monthly customer charge to $7.25, compared to the Company's proposed $9.00.

Q. What is the effect of Staff's proposed electric rate design with no increase to the monthly customer charges and Staff's revenue requirement?

A. For residential customers, the monthly charge remains at $6.02 per month and the cents per kwh charge increases to about 8.4 cents for the first 600 kwh and 10.2 cents for all kwh over 600. Exhibit No. __ (TES-5) presents the percentage increases for each rate schedule given Staff's proposed revenue requirement.

B. Gas Rate Spread and Rate Design

Q. Turning to natural gas, did PSE review its natural gas schedules as encouraged by the UTC in Order 08, ¶ 143 in Docket UE-060267?

A. Yes. PSE's proposed changes to its natural gas rate schedules are based on a review presented by witness Ms. Phelps in Exhibit No. __ (JKP-3).

Q. Please briefly describe the changes PSE proposes to its gas tariffs.

A. PSE proposes to merge Schedule 36 with Schedule 31 or 41 as appropriate, and to merge Schedule 51 with Schedule 41 because the customers on both sets of these schedules are essentially similar.

PSE also proposes to offer transportation only service as an adjunct to each commercial/industrial schedule, instead of one transportation schedule for all such customers. The goal of these changes is to give customers with similar load and cost characteristics parallel incentives to buy gas either from PSE or from the market. Current tariffs bias the decision in various ways for various customers.

Q. Does the new tariff structure for transportation service, overall, increase revenues from the affected commercial and industrial customers?

A. No. PSE shows there is a net decrease in revenues if potentially affected customers migrate to the tariff most appropriate for them. See Exhibit No. __ (JKP-4) and Exhibit No. __ (KRK-9), Gas Adjustment 9.02.

Q. What is Staff's opinion of the gas transportation tariff restructuring?

A. Staff supports the revisions proposed by PSE. Each of the Schedules 31, 41, 85, 86, and 87 has an allied transportation schedule with identical delivery charges as an option for those customers. This direct relationship gives the proper incentives and choices to the customers on those schedules.

Q. What is Staff's opinion of PSE's proposal to merge certain schedules into other similar schedules?

A. Schedules 36 and 51 are slated for elimination with those customers moving onto Schedules 31 and 41. Schedule 36 is available for customers with prescribed end uses, specifically space and water heating at commercial lodging-type businesses. Schedule 51 is available to multiple unit housing complexes. Only six customers are on this schedule. In both instances, most customers on Schedules 36 and 51 will benefit by taking service on either Schedule 31 or 41. Merging Schedules 36 and 51 into Schedules 31 or 41 is reasonable.

Q. Turning to the subject of gas service revenue allocation, please describe the Company's cost of service analysis.

A. PSE presents a cost of service analysis conducted in the same manner as the last general rate case, Docket UG-060267. Differences between the prior and pending cases arise from the tariff restructuring proposals I just described.

Q. On what basis did PSE allocate gas distribution mains?

A. PSE classifies distribution mains as a demand-related cost and allocates them on a peak and average method that uses the system design day as the peak demand compared to annual throughput for average demand. The result is that distribution mains are allocated 33 percent on average demand and 67 percent on peak demand.

Q. Was this demand allocation method contested in PSE's last general rate case?

A. Yes. Staff, Public Counsel, and NWIGU jointly supported a "Commission Basis" cost-of-service study that relied on a "five-day historic peak" to determine the system peak demand as compared to average demand. Seattle Steam supported PSE's proposal.

Q. Was PSE's system design day peak method accepted in the last case?

A. Yes, although the UTC gave both methods only lukewarm acceptance, stating at ¶ 135 of Order 08, "the evidence and argument on this issue is not developed particularly well by either party."

Q. Is PSE's evidence in the current direct case well developed for its proposal to allocate distribution mains using its system design day?

A. Not particularly. Ms. Phelps at pages 29 to 31 of her direct testimony promotes the system design day method, but provides no analysis or comparison to the "five-day historic peak" method. Staff does support the allocation of gas mains in part on peak demand, however measured, and in part on average demand.

Q. Did Staff review the effect of using the five-day historic peak on the allocation of costs across the schedules?

A. Yes. PSE's Response to Staff Data Request No. 194 revises PSE's gas cost of service study, Exhibit No. __ (JKP-5), by using the five-day historic peak to

determine the peak demand contribution of each schedule. All else being equal, the results show a movement of costs between the rate schedules in varying degrees.

Q. Does Staff accept PSE's system design day method for allocating demand-related plant and expenses?

A. The variances between the five-day historic and system design day peak methods do not warrant continuing the dispute over the cost of service methods at this time. Based on the UTC's opinion in Order 8, Staff does not oppose the peak demand allocation method proposed by PSE in the current case.

Q. PSE witness Ms. Phelps depicts each schedule's current rate of return on rate base in Exhibit No. __ (JKP-5). Do you accept this as a fair representation of the class contributions to the overall rate of return?

A. Yes. Staff's adjustments revise the absolute numbers, but the relative proportion of each schedule's contribution to the total remains approximately the same. Note that Exhibit No. __ (JKP-5) is based on the Company's proposed re-arrangement of the gas schedules, as discussed above.

Q. What percentages of the average percent increase to revenues does PSE propose for each rate schedule?

A. PSE proposes an average increase to residential Schedule 23; a 130% of average increase to Schedules 87 and 57, Non-exclusive Interruptible and Transportation; a 145% of average increase for commercial and industrial customers on Schedules 31

and 61; no increase to large volume customers on Schedules 41, 85, and contracts; and a rate decrease to Limited Interruptible customers on Schedule 86. Exhibit No. __ (JKP-10).

Q. How are the parity ratios affected by the above percentage increases?

A. Schedule 23, Residential, stays at the same parity ratio as current rates. The schedules receiving above average increases move to a parity range of about 95% to 119%; and the schedules with no increase or a decrease will remain above parity by 133% to 146%. Exhibit No. __ (JKP-5).

Q. Does Staff accept the Company's proposed revenue allocation for gas service?

A. Yes, with one exception for Schedule 86. Staff proposes an overall increase in revenue requirements of 4.1% with gas costs, or approximately 13.0% without gas cost. Some customers will see delivery cost increases of 18.8%. Staff's proposal results in rates for residential customers increasing 13.0% on delivery costs, or 4.4% overall. No customer group should receive a decrease in rates if most others are getting a substantial increase. Therefore, Staff recommends that Schedule 86 receive neither an increase nor a decrease, similar to Schedules 41 and 85.

Q. Turning to rate design, please describe PSE's proposal for its natural gas rate schedules.

A. PSE proposes that virtually all costs allocated to the customer portion of each rate schedule be collected on a per customer basis. These costs include the return on the

customer-allocated rate base and the customer-allocated operating expenses. The rate base includes distribution plant such as meters and services (but not distribution mains), and a portion of general plant and intangible plant. The expenses include distribution operations and maintenance, customer metering, customer accounts and sales, and A&G.

Q. What is the impact of PSE's allocation of costs to the customer function and its recovery on a customer basis?

A. PSE states that, if all costs allocated or assigned to the customer function are recovered on a flat monthly basis, the total is $18.39 per month for Residential Schedule 23 and $68.59 for General Service Schedule 31. The current customer charges for these schedules are $8.25 and $17.50, respectively. Other proposed rate schedules show similar large increases to the customer charge. Exhibit No. __ (JKP-1T) at 47.

Q. What is PSE's request for recovery of the customer allocated costs?

A. PSE requests that the Residential Schedule 23 monthly customer charge be increased to $18.00 from the current $8.25, and that for General Service Schedule 31 the monthly customer charge be increased to $60.00 from the current $17.50. Exhibit No. __ (JKP-1T) at 47.

Q. Is PSE's gas proposal similar to its proposal for electric rates?

A. Yes. PSE's goal is the same for both services: to recover a greater portion of fixed costs on a fixed price basis.

Q. What is Staff's response to the Company's proposal?

A. As with electric rate design, Staff proposes no change to the monthly customer charges given PSE's ongoing, unresolved metering and billing problems. PSE will have a greater incentive to cure those problems if a greater portion of its gas revenues are collected on a volumetric basis.

Again similar to electric rate design, should the UTC increase the gas basic charge, A&G expenses and general plant should be excluded and recovered on a cents per therm basis.

Q. What is the rate effect of Staff's proposed rate design and revenue increase?

A. Staff proposes that any increase in revenues be recovered in the volumetric charges. Exhibit No. __ (TES-6) shows the results of Staff's proposed increases per schedule.

Q. Does this conclude your testimony?

A. Yes.