EXHIBIT NO. ___(DWS-5T)
DOCKET NOS. UE-090704 and UG-090705 (*Consolidated*)
2009 PSE GENERAL RATE CASE
WITNESS: Donald W. Schoenbeck

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UE-090704 and UG-090705 (*Consolidated*)**

PREFILED DIRECT TESTIMONY OF

DONALD W. SCHOENBECK

ON BEHALF OF

NORTHWEST INDUSTRIAL GAS USERS

November 17, 2009

PUGET SOUND ENERGY, INC.

PREFILED DIRECT TESTIMONY OF DONALD W. SCHOENBECK

CONTENTS

I. INTRODUCTION AND SUMMARY 1

II. ALLOCATION OF DISTRIBUTION MAIN COSTS.....4

III. RATE SPREAD.....10

IV. INDUSTRIAL RATE DESIGN 12

PUGET SOUND ENERGY, INC.

PREFILED DIRECT TESTIMONY OF
DONALD W. SCHOENBECK

I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Donald W. Schoenbeck. I am a member of Regulatory & Cogeneration Services, Inc. ("RCS"), a utility rate and economic consulting firm. My business address is 900 Washington Street, Suite 780, Vancouver, WA 98660.

Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.

A. I've been involved in the electric and gas utility industries for over 35 years. For the majority of this time, I have provided consulting services for large industrial customers addressing regulatory and contractual matters. I have appeared before the Washington Utilities and Transportation Commission ("Commission") on many occasions, including several proceedings regarding the establishment of charges for customers of Puget Sound Energy ("PSE" or the "Company"). A further description of my educational background and work experience can be found in Exhibit No. ___ (DWS-2) in this proceeding.

Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS TESTIMONY?

A. This testimony is on behalf of the Northwest Industrial Gas Users ("NWIGU"). NWIGU is a trade association whose members are large industrial customers served by gas utilities throughout the Pacific Northwest, including Puget Sound Energy.

Q. WHAT TOPICS WILL YOUR TESTIMONY ADDRESS?

A. I will discuss PSE's allocation of distribution mains, rate spread and industrial rate design matters. My testimony will not address revenue requirement issues at this time. This silence should not be construed as acceptance by NWIGU of the Company's proposed increase amount. NWIGU reserves the right to address revenue requirement matters in its briefs.

Q. PLEASE BRIEFLY SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS ADDRESSED IN THIS TESTIMONY.

A. In determining the cost of serving each customer class of a gas distribution company, one of the most critical factors is the classification and allocation of distribution main investment. The Company's main allocation proposal in this proceeding does not make any direct assignment of mains to large users as it had done in the last several proceedings. The Company's proposed allocation method in this case only segments mains by size with regard to the investment considered to be volumetric. The portion of main investment considered to be demand related is allocated to all customers. As a result, the Company's cost study assigns far too much main investment to Schedule 85, 87 and contract customers ("Large Users"). NWIGU recommends that if the Company is going to use a

general allocation approach for assigning main investment, no costs associated with mains less than 4 inches in diameter should be assigned to Large Users. The following table compares the resulting revenue to cost ratio ("parity ratio") for major customer classes based on the Company's proposed updated study and the NWIGU recommended main allocation approach.

Parity Ratio Comparison

Class	PSE Study	NWIGU Study
Residential	0.99	0.98
C&I (31,61)	0.97	0.96
Schedule 41	1.32	1.29
Schedule 85	1.20	1.68
Schedule 86	1.62	1.58
Schedule 87	0.96	1.15
Contracts	0.80	1.01
Rentals	0.80	0.80
Total:	1.00	1.00

The Company's rate spread attempts to move certain customer classes closer to a cost-based rate level. While NWIGU appreciates the Company's acknowledgement of the current rate disparities, the Company's proposal misses its mark particularly with regard to the rental class. The NWIGU cost study should be used to determine rate spread in this proceeding. The parity ratios from the NWIGU study indicate the small commercial and industrial sales rate schedules 31 and 61 and the rental schedules should receive an above average margin increase. The residential class should receive an average increase and the remaining schedules should be assigned a below average increase or no increase at all. The following table summarizes and compares the NWIGU rate spread recommendation with the Company's proposal.

Rate Spread Comparison
($000)

	PSE Proposal		NWIGU Recommendation		
Class	Change in Margin	Margin Increase	Change in Margin	Margin Increase	Margin Difference
Residential	$22,120	8.2%	$21,550	8.0%	-$570
C&I (31, 61)	$ 6,412	8.2%	$6,873	8.8%	$461
Schedule 41	$738	4.1%	$359	2.0%	-$378
Schedule 85	$356	4.1%	$0	0.0%	-$356
Schedule 86	$0	0.0%	$0	0.0%	$0
Schedule 87	$520	8.2%	$253	4.0%	-$266
Contracts	$56	3.5%	$56	3.5%	$0
Rentals	$206	2.5%	$1,316	15.9%	$1,110
Total:	$30,408	7.5%	$30,408	7.5%	$0

The Company's large customer rate design proposal in this case applied an equal percentage increase to all Schedule 87 delivery-related charges and consistent with past practices, the Company used the resulting demand charge for Schedules 85 and 86 as well. As the Company is proposing no increase to Schedule 86, other charges on this rate schedule were reduced to offset the revenue gain from the higher demand rate. NWIGU believes a superior rate design is to simply not change the existing Schedule 86 delivery charges and the Schedule 85 and 87 demand charges. All remaining Schedule 85 and 87 delivery charges should be increased by the same percentage to achieve each schedule's revenue target.

II. ALLOCATION OF DISTRIBUTION MAIN COSTS

Q. HAS THE COMPANY PREPARED A COST-OF-SERVICE STUDY FOR THIS PROCEEDING?

A. Yes. As it has done in the last several proceedings, the Company has submitted two cost studies in its supplemental exhibits. One study includes gas costs (see JKP-19) while the second study excludes gas costs (see JKP-18). The Company's prefiled testimony presents a table indicating the parity ratio for three additional studies where alternate main allocation methods were employed. In response to data requests, the Company has distributed eight updated cost studies for all four main allocation methods with and without gas costs included. As this case is addressing margin or non-gas costs, all cost-of-service results presented in the remainder of my testimony will refer to cost studies that have gas costs excluded.

Q. IN PERFORMING THESE COST STUDIES, DID PSE ALLOCATE COSTS IN THE SAME MANNER AS THE LAST PROCEEDING?

A. One of the sensitivity cost studies does allocate main investment by the same method the Company proposed in the 2007 rate proceeding. This controversial method resulted in parties agreeing to a collaborative process in an effort to resolve or come to agreement on a single method for allocating mains among all parties. Unfortunately, the collaborative was not successful, and the Company is proposing a slightly different approach for allocating mains in this proceeding as compared to PSE's 2007 method. In the 2007 proceeding, PSE did a direct assignment of mains to Large Users for the peak demand portion of main investment and used the minimum monthly volume of these users in the volumetric allocation. In this proceeding, PSE has eliminated the direct assignment of the peak portion, using just a peak demand factor to allocate the peak main investment costs. With regard to the volumetric portion, PSE has

segmented the investment into three categories (based on 2008 replacement costs): mains less than 2 inches in diameter ("small mains"), mains 2 to 3 inches ("medium mains") and mains larger than 3 inches ("large mains"). PSE is proposing no allocation of the small mains to the Large Users, 33% of the medium main investment is allocated to all users, the remaining 67% of the medium investment is allocated to all users except Schedule 87 and contracts, and the large mains are allocated to all classes. PSE has used the full volumetric throughput of all classes in the allocation factor. The following table compares the results of the Company's proposal from the 2007 proceeding with this proceeding.

Comparison of PSE's Main Allocation
($ Millions)

	2007	2009	Delta
Residential (16,23,53)	$756.0	$751.1	-$4.9
Comm. & Indus. (31,61)	$258.1	$256.3	-$1.7
Large Volume (41, 41T)	$60.7	$60.0	-$0.7
Interruptible (85, 85T)	$27.8	$34.2	$6.3
Limited Interruptible (86)	$6.8	$6.7	-$0.1
Interruptible (87, 87T)	$35.8	$36.1	$0.3
Contracts (SC)	$10.4	$11.3	$0.8
Total:	$1,155.7	$1,155.7	$0.0
Subtotal 85, 87 and Contracts:	$74.1	$81.5	$7.4

As shown by the above table, the net result of the Company's proposal is relatively minor except for Schedule 85 where the Company's proposal increases the allocated amount by 23%.

Q. IS THE COMPANY PROPOSAL AN APPROPRIATE METHOD OF ASSIGNING MAIN INVESTMENT TO LARGE USERS?

A. No. NWIGU objected to the 2007 method, and we certainly disagree with this approach as well. It can be easily shown that the amount of main investment

assigned to Large Users is too high. Large Users are primarily served through mains that are at least 4 inches in diameter. In fact, the Company's testimony acknowledges that there is no Schedule 87 customer connected to either medium or small mains. The Company's testimony states there are several Schedule 85 customers connected to medium mains but in the last proceeding, the associated volume delivered to these customers was only about 15% of the class volume. So, to now allocate the cost of medium mains using 100% of this class's volume is inappropriate, and it makes a substantial difference in the amount of investment assigned to this class and the resulting parity ratio.

Further, a substantial portion of PSE's main investment--$520 million or 45%--is for mains with a diameter less than 4 inches with the remaining $634 million associated with the large main category as shown by the following table.

PSE Main Investment
($ Millions - 2008 Replacement Cost)

Size - Diameter	Amount	Percent
Small <2	$143.2	12%
Medium 2-3	$378.4	33%
Large >3	$634.0	55%
Total:	$1,155.7	100%

Yet PSE's allocation approach assigns $774 million to all customers based on peak demands. Consequently, the Large Users are inappropriately assigned costs of medium and small mains through the Company's allocation method.

Q. WHAT IS YOU RESPONSE TO THE COMPANY'S ASSERTION THAT LARGE USERS BENEFIT FROM THE EXISTENCE OF MEDIUM AND SMALL MAINS?

A. As portions of the system are interconnected, of course the Company can point to

some flow occurring to serve a Large User over a medium or small main. What the Company has not pointed out however is that except for the limited customers connected to the medium and small mains, it would be impossible to serve the complete demand of Large Users from these facilities. We know from the Company's gas flow model, on a peak design day only about $310,000 of medium and small mains are used to serve Large Users. On an average winter day, only $2.4 million of medium and small mains are used to supply Large Users. To use this fact to assign over $24 million of small and medium main investment to these customers is simply not right. The Company's alleged benefit is really just a by-product of the physics of a network system. It cannot be used to justify this dramatic difference in cost assignment being sought by the Company.

Q. WHAT IS YOUR RECOMMENDATION FOR ASSIGNING MAIN INVESTMENT TO LARGE USERS?

A. I believe the most equitable approach is to use a direct assignment method based upon average winter weather conditions using the Company's gas flow model as I have advocated in past proceedings. In the last proceeding, this approach assigned about $59 million to these customers. A pure cost-based allocation approach based on design day peak demand would only assign about $11 million to these customers. Using PSE's peak demand allocation factor in this case as another cost-based approach would only assign $22 million to the Large Users. Thus, my average day recommendation assigns 3-5 times the amount of main investment to these customers in recognition of past decisions of this Commission. But in my opinion, to go beyond this amount places too great a

burden on these customers.

Q. CAN YOU ACHIEVE AN EQUITABLE RESULT WITHIN THE COMPANY'S BASIC STRUCTURE WITHOUT USING THE GAS FLOW MODEL?

A. Yes, this can be done with just two modifications to the Company's proposed method. First, the main investment considered to be peak related should be segmented into three size categories just as the Company has done for the volumetric portion. Second, both the peak and volumetric portions should allocate the costs of the large mains to all users but no medium or small main costs should be allocated to the Schedule 85, 87 and contract classes. The following table compares the NWIGU recommendation with PSE's proposal.

Main Allocation Comparison
($ Millions)

Class	PSE	NWIGU	Delta
Residential (16,23,53)	$751.1	$767.4	$16.3
Comm. & Indus. (31,61)	$256.3	$262.0	$5.7
Large Volume (41, 41T)	$60.0	$62.0	$1.9
Interruptible (85, 85T)	$34.2	$20.1	-$14.0
Limited Interruptible (86)	$6.7	$7.0	$0.3
Interruptible (87, 87T)	$36.1	$28.7	-$7.4
Contracts (SC)	$11.3	$8.4	-$2.8
Total:	$1,155.7	$1,155.7	$0.0
Subtotal 85, 87 and Contracts:	$81.5	$57.3	-$24.2

Q. HAVE YOU INCORPORATED THIS ALLOCATION METHOD INTO THE COMPANY'S COST OF SERVICE MODEL?

A. Yes. Exhibit No. ___ (DWS-6) contains the summary from the cost of service study where main investment was assigned to all classes based on the NWIGU recommendation. The following table compares the revenue to cost ratio or parity ratio for select customer classes based on this cost study. The parity ratio is the

most appropriate yardstick for determining whether the rate schedule charges are equitable to each customer class. A ratio less than 1.0 or 100% indicates a class is not paying its fair share of costs. Conversely, a ratio greater than 100% indicates the class is paying charges in excess of its cost responsibility.

Parity Ratio Comparison

Class	PSE Study	NWIGU Study
Residential	0.99	0.98
C&I (31,61)	0.97	0.96
Schedule 41	1.32	1.29
Schedule 85	1.20	1.68
Schedule 86	1.62	1.58
Schedule 87	0.96	1.15
Contracts	0.80	1.01
Rentals	0.80	0.80
Total:	1.00	1.00

A review of the above table shows the change in main allocation methods has very little impact on the parity ratios of the Residential, small commercial and industrial and rental classes. It is only the Large User schedules that are affected as the parity ratio for Schedules 87, 57 and contracts is much higher than under the Company's studies. However, all the Large User parity ratios are greater than 1.0 indicating these customers are paying too much for delivery service.

III. RATE SPREAD

Q. HAS THE COMPANY ADDRESSED RATE INEQUITIES IN ITS RATE SPREAD PROPOSAL?

A. For the most part, the Company has proposed class specific increases based upon its cost of service results. However, this does not appear to be the case with regard to the rental class. This class has a parity ratio of just 80% under the

Company's cost study which is the lowest of any major class. For this class, the Company has proposed an increase of just 2.5% while the average margin increase is 7.5%. In other words, the PSE increase is only one-third of the average percentage increase. The Company's proposal moves the parity ratio further from a cost based level, going to just 76% under proposed rates. The very modest increase can not be justified given the cost study result.

Q. HOW SHOULD THE COMMISSION ASSIGN ANY REVENUE INCREASE AMONG THE CUSTOMER CLASSES IN THIS PROCEEDING?

A. The Company's stated intent of moving toward a cost-based level should be the guiding goal line. However, it should apply to all classes and be based upon the cost study results as shown by Exhibit No. ___ (DWS-6). The results of the Company cost study and the NWIGU cost study are very similar for many of the major classes. Consequently, the NWIGU rate spread recommendation essentially adopts the PSE proposal for the residential, Schedule 86 and contract classes and makes a modest adjustment to the small commercial class. However, the NWIGU cost study shows lower increases are warranted for Schedules 41 and 87 and no increase should be assigned to Schedule 85. As previously noted, the rental class should be assigned an above average margin increase. For the rental class, NWIGU recommends an increase that is 200% of the average margin increase. As indicated in Exhibit ___ (DWS-6), at proposed rates, this would make the rental parity ratio move to 86%, still far below a reasonable level. For Schedule 41 NWIGU recommends this class receive just 25% of the average

margin increase and Schedule 87 should receive 50% of the average increase. The following table illustrates and compares the PSE and NWIGU rate spread proposals for PSE's claimed margin increase.

Rate Spread Comparison
($000)

	PSE Proposal		NWIGU Recommendation		
Class	Change in Margin	Margin Increase	Change in Margin	Margin Increase	Margin Difference
Residential	$22,120	8.2%	$21,550	8.0%	-$570
C&I (31, 61)	$ 6,412	8.2%	$6,873	8.8%	$461
Schedule 41	$738	4.1%	$359	2.0%	-$378
Schedule 85	$356	4.1%	$0	0.0%	-$356
Schedule 86	$0	0.0%	$0	0.0%	$0
Schedule 87	$520	8.2%	$253	4.0%	-$266
Contracts	$56	3.5%	$56	3.5%	$0
Rentals	$206	2.5%	$1,316	15.9%	$1,110
Total:	$30,408	7.5%	$30,408	7.5%	$0

IV. INDUSTRIAL RATE DESIGN

Q. HAVE YOU REVIEWED THE COMPANY'S PROPOSED INDUSTRIAL RATE DESIGN?

A. Yes, I have reviewed the Company's rate design proposals for Schedule 85, 86 and 87. With regard to specific pricing elements, the Company is proposing to increase all Schedule 87 delivery-related rate charges by about the same percentage. This proposal causes the Schedule 87 demand charge to increase from $1.10 to $1.19. For many years, the Company has maintained the same demand charge for Schedules 85, 86 and 87 which NWIGU supports. For Schedule 85, after setting the demand charge to $1.19, the Company increases all other charges by the same percentage to achieve the schedule's revenue target. However for Schedule 86, PSE and NWIGU are proposing no increase to this rate

schedule class. Consequently, changing the demand charge to $1.19 on this schedule necessitates the lowering of the other delivery-related charges on Schedule 86.

Q. DOES NWIGU SUPPORT THE COMPANY'S RATE DESIGN?

A. Not quite. The proposed Schedule 86 rate changes will cause intra class rate increases and decreases to Schedule 86 customers. As the Company's rate schedule overhaul is still relatively new, NWIGU believes a superior rate design would leave all the charges on Schedule 86 unchanged so no customer will experience a rate increase or decrease. Consistent with past practice, the demand charge for Schedule 85 and 87 should be maintained at the current level of $1.10 so that all three schedules will have the same price. The revenue assigned to Schedule 87 by the Commission should be recovered by applying an equal percentage increase to all delivery-related charges except the demand charge.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.