

Exhibit No. __ T (Joint-1T)
Docket Nos. UE-072300/UG-072301
Witnesses: Kevin Higgins
Donald Schoenbeck
Thomas E. Schooley
Glenn A. Watkins
Stanley Gent

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

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

DOCKET UE-072300
DOCKET UG-072301
(Consolidated)

**JOINT TESTIMONY OF KEVIN HIGGINS, DONALD SCHOENBECK
THOMAS E. SCHOOLEY, GLENN A. WATKINS AND STANLEY GENT**

NATURAL GAS RATE SPREAD AND INDUSTRIAL NATURAL GAS RATE DESIGN

July 3, 2008

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Qualifications of Stanley Gent

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

A. My name is Stanley Gent and I am appearing on behalf of Seattle Steam Company. My qualifications are presented in Exhibit No. __ (SG-1T), which is part of my individual testimony on natural gas rate spread and rate design.

Q. What is the purpose of this Joint Testimony?

A. The purpose of this Joint Testimony is to present the common recommendation of Staff, Public Counsel, The Energy Project, Seattle Steam Company, Nucor and the NWIGU (hereinafter collectively referred to as "Joint Parties") on the topics of natural gas rate spread, industrial natural gas rate design (Schedules 85, 87 and 57) and a natural gas cost-of-service collaborative, all as contained in the Multiparty Settlement Re: Natural Gas Rate Spread and Industrial Natural Gas Rate Design, filed with the Commission on July 3, 2008.

Q. Have you prepared any exhibits in support of your Joint Testimony?

A. Yes. Attached to this testimony is Exhibit No. __ (Joint-2) illustrating the agreed upon rate spread recommendation of the Joint Parties at an assumed revenue increase of \$50,000,000. The Joint Parties recognize the Commission-ordered gas revenue increase in this proceeding may be a different amount. This value was chosen simply to show the workings of our rate spread recommendation.

1 **II. JOINT TESTIMONY ON NATURAL GAS RATE SPREAD**

2
3 **Q. Please describe rate spread and the policy interests that are important for**
4 **consideration.**

5 A. Rate spread allocates the revenue requirement to each of the Company's customer
6 classes. Rate spread should recognize that rates must be just and reasonable and not
7 cause undue discrimination. To this end, revenue responsibility for any class should
8 be informed by the cost to serve the class. However, the Commission has often
9 stated that factors in addition to cost weigh in the rate spread decision, including the
10 appearance of fairness, perceptions of equity, economic conditions in the service
11 territory, gradualism, and stability.

12
13 **Q. Please explain the differences between the rate spread proposed by PSE and**
14 **that in the Multiparty Settlement.**

15 A. For purposes of comparing inter-class rate impacts, we will refer to the rate impact
16 excluding gas revenues, as that is the component of rates that is at issue in this
17 proceeding. It is also the proper basis for making a rate impact comparison between
18 transportation and sales service customers.

19 The largest difference between the Company's proposed spread and that in
20 the Multiparty Settlement pertains to the treatment of Rentals. Several cost-of-
21 service analyses were prepared in this case, and each shows Rentals as significantly
22 under-recovering their costs. For example, PSE's own study shows Rentals with a
23 parity ratio of only 0.69. Yet, PSE proposes to increase Rentals by only 31% of the

1 system average increase. In contrast, as shown by Exhibit No. __ (Joint-2), the
2 Multiparty Settlement recommends an increase for Rentals of 125% of the system
3 average. Even with the recommended above average increase, Rentals will still be
4 slightly below parity.

5
6 **Q. Under the Multiparty Settlement, is the Rentals rate schedule experiencing the**
7 **largest relative rate increase of all customer classes?**

8 A. No. Assuming an overall revenue requirement increase of \$50 million (or about a
9 15% increase on total margin), the water heating rental customers would receive an
10 increase of about 19% in margin revenue while Commercial & Industrial (“C&I”)
11 customers would see a margin increase of over 21.2%. PSE’s proposed revenue
12 allocation and rate design at the same \$50 million increase results in the Rental class
13 receiving an increase of 5.2% and C&I receiving 21.8%.

14
15 **Q. How does the Multiparty Settlement treat Residential customers in the rate**
16 **spread?**

17 A. The Multiparty Settlement recommends that Residential customers receive an
18 increase that is 98.46% of the system average. This is somewhat less than PSE’s
19 proposal that Residential customers receive 102% of the system average increase.

20
21 **Q. Please compare the rate spread treatment of large customers in the Multiparty**
22 **Settlement versus the Company’s proposed rate spread.**

1 A. The Multiparty Settlement moderates the range of increases that are present in the
2 Company's proposed spread for large customers. PSE had proposed to reduce rates
3 for Schedule 86 by 51% of the relative average percentage increase, while increasing
4 rates for Schedules 87/57 by 128-144% of the system average percentage. PSE also
5 proposes no rate change for Schedules 41 and 85.

6 The Multiparty Settlement eliminates any rate reductions. Consequently,
7 Schedule 86 would experience no rate change. Schedules 41 and 85 would share in
8 the overall increase, each receiving 12.5% of the system average percentage
9 increase, whereas Schedules 87/57 would receive 50 percent of the system average
10 percentage increase. This compromise among the Joint Parties acknowledges that
11 significant differences exist in the cost of service studies sponsored by various
12 witnesses in this proceeding.

13
14 **Q. How is the Contract class treated under the Multiparty Settlement?**

15 A. The Joint Parties' recommended rate spread assigns one-half the average system
16 percentage increase to the contract class. We realize the actual increase experienced
17 by these customers will be pursuant to their specific contractual provisions.
18 However, the Joint Parties agreed that for this proceeding an assignment comparable
19 to the increase that will be experienced by the other large industrial customers was
20 equitable and appropriate.

1 Q. Please explain why the Joint Parties believe this rate spread is in the public
2 interest.

3 A. The rate spread set forth in the Multiparty Settlement and illustrated in Exhibit No.
4 __ (Joint-2) acknowledges that there has been considerable controversy in this
5 proceeding regarding the many cost-of-service studies prepared by PSE and the other
6 parties.

7 While there were major differences in cost study results for the non-
8 residential classes, we found some consistent threads we could use to create a fair
9 and reasonable rate spread. All cost studies consistently showed the Residential
10 class near parity, the Rental class substantially below parity and certain schedules
11 (41, 85 and 86) well above parity.

12 For Schedules 87 and 57, and the Contract class, the cost study results ranged
13 from indicating well above parity to slightly less than parity. The compromise
14 reached by the Joint Parties was to assign one-half the average increase to these
15 classes.

16 Taken together, the Joint Parties believe that the recommended rate spread is
17 in the public interest because it makes every effort to move classes toward parity
18 where there are uniform results indicated by the cost studies submitted in this
19 proceeding while minimizing severe customer impacts. For classes where there were
20 contradictory results indicated by the various cost studies, the parties were able to
21 achieve a compromise reflecting a middle ground.

22

1 **III. JOINT TESTIMONY ON INDUSTRIAL NATURAL GAS RATE DESIGN**

2
3 **Q. Please describe the importance of rate design.**

4 A. Rate design is the pricing mechanism for the Company to recover its costs. Rate
5 design determines the rates that each individual customer actually pays. As a result,
6 rate design is important for the same reasons that rate spread is important.

7
8 **Q. What policy interests are involved in rate design?**

9 A. There are a variety of interests that need to be addressed. Rates should be designed
10 to correctly reflect costs and to provide for revenue collection within customer
11 classes that is fair and reasonable. Just as important, customers with similar load
12 characteristics and cost of service should be grouped or aggregated onto the same
13 rate schedule. In this proceeding, PSE is attempting to do this with the proposal to
14 phase out Schedule 57.

15
16 **Q. Were these principles applied in order to develop the proposed industrial gas**
17 **rate structures proposed by the Joint Parties?**

18 A. Yes. As set forth in the Multiparty Settlement, the Joint Parties recommend
19 Schedule 57 be eliminated at the conclusion of this proceeding if and only if the
20 existing terms and conditions of the existing Schedule 57 are maintained in the new
21 transportation schedules. Therefore, the settlement for the new Schedules 85T and
22 87T proposes there be no requirement for fuel exclusivity, or fuel back-up, and there
23 be annual, instead of monthly, minimum bill provisions for Schedules 85 and 87.

1 The Multiparty Settlement incorporates the same language into both the sales and
2 transportation schedules, and entirely eliminates the current Schedule 57.

3
4 **Q. What is the Joint Parties' recommended rate design for the large industrial gas
5 rates?**

6 A. The Joint Parties' industrial rate design applies the class average increase to the
7 demand and customer charges for Schedules 85 and 87, recognizing there will now
8 be two customer charges—one for sales service and one for transportation service
9 under each of these schedules. The existing gas procurement charges of Schedule 85
10 and 87 will remain unchanged and the transportation balancing service charge will
11 be as proposed by PSE in its filing. Any remaining assigned increase will be
12 recovered through an equal percentage increase to all volumetric charges for each
13 rate schedule.

14 The Joint Parties consider the industrial rate design and rate spread to be part
15 of a comprehensive package. Compromises were reached with respect to rate spread
16 with the understanding that the large customer rate design would be on essentially an
17 equal percentage approach described above. Under this approach, both firm and
18 non-firm service would experience about the same percentage increase within each
19 large customer rate schedule. In addition, rate shock is minimized during this critical
20 time when many customers will be transferred to a different schedule.

1 acceptance of some parties to receive an increase even though rate decreases were
2 indicated by their own cost studies.

3 The rate design for the industrial schedules maintains proportionate increases
4 to the rate components, which promotes fairness to the customers transitioning to the
5 new transportation schedules from Schedule 57.

6 Finally, the various cost of service studies indicate a substantial difference of
7 opinion on how customers use PSE's gas system. A collaborative effort to reach a
8 common understanding of the system may reduce the need for contentious litigation
9 in future rate cases. This is a laudable goal and Staff supports that effort.

10
11 **Q. Please explain why the Multiparty Settlement satisfies the interests of NWIGU.**

12 **A.** Rate spread and rate design are critical elements for NWIGU. As the record in this
13 proceeding presents a wide variety of positions with regard to cost-of-service and
14 rate design, NWIGU firmly believed working with the all parties to achieve a
15 settlement in these areas was absolutely necessary. While the Multiparty Settlement
16 is not endorsed by the Company, it has a very broad range of support. For NWIGU,
17 it presents a fair distribution of revenue responsibility, a major step in the
18 restructuring of large user tariffs with regard to prices, terms and conditions, and it
19 calls for a collaborative to hopefully lead to more efficient proceedings in the future.
20 For all these reasons, this settlement is in the public interest and fully supported by
21 NWIGU.

1 **Q. Please explain why the Multiparty Settlement satisfies the interest of Public**
2 **Counsel.**

3
4 A. Public Counsel witness Glenn Watkins recognizes the diverse interests of the various
5 parties and stakeholders in this proceeding. This diversity is particularly evident in
6 the area of class revenue responsibility. The Multiparty Settlement represents
7 comprises made by all interests and provides for the allocation of any overall
8 authorized increase that is fair and reasonable to the Company and all jurisdictional
9 ratepayers including residential and small business customers.

10

11 **Q. Please explain why the Multiparty Settlement satisfies the interests of Nucor.**

12 A. The Multiparty Settlement provides a reasonable apportionment of revenue
13 responsibility among customer classes, given the range of results produced by
14 differing cost of service studies. Similarly, the industrial rate design, which provides
15 substantially the same percentage increase for firm service and non-firm service,
16 represents a reasonable compromise in light of the rate spread agreement.

17

18 **Q. Please explain why the Multiparty Settlement satisfies the interests of Seattle**
19 **Steam Company.**

20 A. As other parties have said, the record in this proceeding showed a wide disparity in
21 the positions of the parties, both with regard to cost of service, rate spread and rate
22 design. As with any settlement, the compromise that the Joint Parties are proposing
23 is not entirely satisfactory to any of the parties. Seattle Steam believes, however,

1 that the collaborative that the Joint Parties are proposing, and which we understand
2 the Company also finds acceptable, provides the best forum for resolving those
3 issues in a manner that fully considers all parties positions and interests. Thus
4 Seattle Steam believes it is likely that the best long-term resolution of the contested
5 interests would be achieved by allowing the parties to work together to resolve them
6 rather than forcing the Commission to resolve the divergent positions regarding cost
7 of service, rate spread and rate design that have been expressed in this proceeding.
8

9 **Q. Does this conclude your joint testimony?**

10 **A. Yes.**