

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

WASHINGTON UTILITIES AND	)	
TRANSPORTATION COMMISSION,	)	
	)	
Complainant,	)	
	)	
v.	)	<b>Docket Nos. UE-072300/</b>
	)	<b>UG-072301 (<i>Consolidated</i>)</b>
PUGET SOUND ENERGY, INC.	)	
	)	
Respondent.	)	
_____	)	

**CROSS ANSWERING TESTIMONY OF DONALD W. SCHOENBECK**  
**ON BEHALF OF**  
**THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

**July 3, 2008**

## **I. INTRODUCTION AND SUMMARY**

1 **Q. PLEASE STATE YOUR NAME.**

2 **A.** My name is Donald W. Schoenbeck. I previously filed direct testimony in this  
3 proceeding on behalf of the Industrial Customers of Northwest Utilities (“ICNU”).

4 **Q. WHAT TOPICS WILL YOUR CROSS ANSWERING TESTIMONY ADDRESS?**

5 **A.** I will address the topic of Schedule 40 cost recovery, and the Schedule 40 cost allocation  
6 proposed in the testimony of Mr. Watkins on behalf of Public Counsel. The fact that I  
7 am not responding to other issues raised by Mr. Watkins should not be construed as  
8 agreement with his positions.

9 **Q. PLEASE BRIEFLY SUMMARIZE YOUR CROSS ANSWERING TESTIMONY.**

10 **A.** Schedule 40 is a formula rate under which power supply charges are based upon the  
11 otherwise applicable high voltage tariff rate and delivery related charges are directly  
12 assigned pursuant to a levelized cost calculation. The Schedule 40 rate formula results in  
13 a cost-based rate that is dependent upon but different from the cost allocation process  
14 used for all other rate classes. The revenue assignment and recovery from Schedule 40  
15 customers should continue to be based upon the existing formula. Mr. Watkin’s  
16 arguments for exogenously determining the revenue assignment and recovery from  
17 Schedule 40 customers should be rejected by the Commission.

## **II. PSE’S SCHEDULE 40**

18 **Q. PLEASE SUMMARIZE AND PROVIDE A BACKGROUND OF SCHEDULE 40.**

19 **A.** Schedule 40 was adopted by the Washington Utilities and Transportation Commission

1 (“WUTC” or the “Commission”) on February 18, 2005.<sup>1/</sup> As part of a joint stipulation  
2 settling rate spread and rate design issues in PSE’s 2004 general rate case, Staff, ICNU,  
3 Public Counsel, Kroger, the Energy Project, and A World Institute for a Sustainable  
4 Humanity proposed that the Commission adopt Schedule 40. Schedule 40, sometimes  
5 identified as the “Campus Rate”, is a large load general service tariff available to  
6 customers with concentrated loads on distribution feeders. Customers eligible for  
7 Schedule 40 must have over 3 aMW of load on a distribution feeder. Service under  
8 Schedule 40 was originally voluntary for the initial three years of the tariff. After this  
9 period, by its terms, the tariff becomes mandatory for all eligible customers at the  
10 conclusion of PSE’s next general rate case following this three year period. As it turns  
11 out, this proceeding will “trigger” the mandatory provision of Schedule 40.

12 Schedule 40 was created as a virtual high voltage service offering. By directly  
13 assigning distribution costs, Schedule 40 allows eligible customers to effectively take  
14 service under the Company’s Schedule 49 High Voltage tariff. The Schedule 40 rate is  
15 based upon customers paying Schedule 49 charges (adjusted for power factor and losses)  
16 for power supply and transmission, while the actual costs of all the Company owned  
17 distribution facilities used to provide delivery services to the customers are directly  
18 assigned. As is the case with most large user or high voltage tariffs, the vast majority of  
19 the costs recovered under Schedule 40 are related to the power supply charges from  
20 Schedule 49.

21 Understanding how the Schedule 40 delivery charges are calculated is critical to  
22 gaining appreciation and insights into the tariff. While the analysis is very time intensive,

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<sup>1/</sup> WUTC v. PSE, Docket Nos. UG-040640, UE-040641, UE-031471, UE-032043, Order No. 6 (Feb. 18, 2005).

1 the direct assignment of the costs of the distribution facilities used to serve each Schedule  
2 40 customer is achieved by using a levelized fixed charge rate to convert the distribution  
3 capital costs identified as serving each customer into an annual revenue requirement. A  
4 levelized fixed charge rate calculation—assuming no changes to the cost of capital,  
5 property tax rates or insurance rates—will yield the same annual revenue requirement  
6 each and every year over the life of the facilities. This is different from the manner in  
7 which all other utility rates are derived. Other utility charges are determined based on the  
8 net plant in service life from one year to the next. This “normal” utility accounting  
9 method would yield an ever declining annual revenue requirement for a given investment  
10 over time.

11 **Q. IN YOUR VIEW IS SCHEDULE 40 A COST BASED RATE?**

12 **A.** Absolutely. At the time the Commission adopted Schedule 40, the parties (including  
13 Public Counsel) testified that Schedule 40 was cost based. As I have described, the  
14 power supply charges are the Schedule 49 charges approved by this Commission. The  
15 specific distribution charges are separately calculated according to a cost based  
16 methodology approved by the Commission. Therefore, Schedule 40 appropriately  
17 recovers the cost of serving each Schedule 40 customer.

18 **Q. DO SCHEDULE 40 CUSTOMERS AVOID ANY PUBLIC PURPOSE RELATED**  
19 **COSTS?**

20 **A.** No. Schedule 40 customers continue to pay their share of the low income assistance  
21 program, and they pay the conservation rider. Schedule 40 customers also are eligible for  
22 self directed conservation programs.

23

1 **III. PUBLIC COUNSEL TESTIMONY**

2 **Q. HAVE YOU REVIEWED THE ELECTRIC RATE SPREAD AND RATE DESIGN**  
3 **TESTIMONY OF PUBLIC COUNSEL WITNESS GLENN WATKINS?**

4 **A.** Yes. Mr. Watkins analyzes and proposes a number of modifications to PSE's class cost  
5 of service studies with which I strongly disagree. In particular, I am not persuaded by  
6 Mr. Watkins reasoning with regard to the Company's classification and allocation of  
7 production-related costs. The Company's methods in these areas result in a more  
8 reasoned cost assignment. In addition, it is unfortunate that Mr. Watkins has presented  
9 his cost results using class rate of return indices. The Commission realized many years  
10 ago that a more precise, readily understandable metric was the revenue to cost ratio.

11 **Q. WHAT IS THE IMPACT OF MR. WATKINS' PROPOSALS ON SCHEDULE 40?**

12 **A.** PSE's original filing proposed a 5% rate increase for Schedule 40.<sup>2/</sup> This increase was  
13 based upon the formulaic approach from the Schedule 49 increase coupled with the direct  
14 assignment of delivery-related costs. Mr. Watkins has rejected this formulaic approach  
15 and instead has proposed an increase of 10.94%.<sup>3/</sup> (Mr. Watkins does not calculate his  
16 rate spread or rate design based on PSE's supplemental filing.)

17 **Q. DOES MR. WATKINS SPECIFICALLY DISCUSS SCHEDULE 40?**

18 **A.** No. Mr. Watkins does not address why the Commission should ignore the formula  
19 method of deriving the Schedule 40 charges. From reviewing Mr. Watkins' testimony, it  
20 is unclear if he is aware of the details of Schedule 40 or why it was adopted. For  
21 example, Mr. Watkins seems to be unaware that Public Counsel agreed to the  
22 methodology for calculating Schedule 40 rates.

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<sup>2/</sup> Exhibit No. \_\_ (DWH-1T) at 21.

<sup>3/</sup> Exhibit No. \_\_ (GAW-1T) at 27.

1           It is inappropriate to propose significant changes to Schedule 40 without  
2           considering the details of the tariff and the reasons for its existence. This is particularly  
3           important as this tariff will now be mandatory at the conclusion of this proceeding. If  
4           Mr. Watkins disagrees with Schedule 40, or the basis upon which the tariff was adopted,  
5           then he should have identified his objections and concerns in his testimony. Instead, Mr.  
6           Watkins essentially ignores the key components of the tariff. (See Mr. Watkins  
7           responses to ICNU data requests 1.8 and 1.9 attached as Exhibit \_\_\_ DWS-5.)

8           For all these reasons, Mr. Watkins' proposed direct or exogenous revenue  
9           assignment to Schedule 40 customers should be rejected by the Commission. The  
10          Schedule 40 charges should continue to be determined as the Company has proposed in  
11          its direct filing.

12   **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

13   **A.    Yes, it does.**