

Exhibit No. ___ (Joint-1T)

Docket UG-101644

**Witnesses: John H. Story
Janet Phelps
Thomas E. Schooley
Mary Kimball
Donald W. Schoenbeck
Stan Gent
Charles M. Eberdt
Kevin C. Higgins**

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent

Docket No. UG-101644

**JOINT TESTIMONY OF JOHN H. STORY, JANET PHELPS, THOMAS E.
SCHOOLEY, MARY KIMBALL, DONALD W. SCHOENBECK, STAN GENT,
CHARLES M. EBERDT, AND KEVIN C. HIGGINS**

SUPPORTING FULL SETTLEMENT OF PSE'S GAS TARIFF INCREASE FILING

FEBRUARY 11, 2011

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I. INTRODUCTION AND PURPOSE OF JOINT TESTIMONY

Qualifications of John H. Story

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

A. My name is John H. Story, and I am appearing on behalf of Puget Sound Energy, Inc. ("PSE" or the "Company"). My qualifications are presented in Exhibit No. ___(JHS-2).

Qualifications of Janet Phelps

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

A. My name is Janet Phelps, and I am appearing on behalf of PSE. My qualifications are presented in Exhibit No. ___(JKP-2).

Qualifications of Thomas E. Schooley

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

A. My name is Thomas E. Schooley, and I am appearing on behalf of the Staff of the Washington Utilities and Transportation Commission ("Staff"). My qualifications are presented in Exhibit No. ___(TES-1).

Qualifications of Mary Kimball

Q. Please state your name and the party for whom you are appearing, and describe your educational and professional qualifications.

1 A. My name is Mary Kimball, and I am appearing on behalf of the Public Counsel
2 Section of the Attorney General's Office ("Public Counsel"). I received a B.A. in
3 Political Science from Williams College in Williamstown, Massachusetts in 1992.
4 In 1997, I received a Masters in Public Policy from the University of California,
5 Berkeley. Since joining the Public Counsel section in July 2000, I have worked
6 on a wide range of issues in the telecommunications and energy sectors. With
7 respect to energy-related issues, my work has included service quality, energy
8 efficiency, decoupling mechanisms, power costs, and affiliate interest issues. I
9 also oversee the work of Public Counsel's analyst staff, including participation in
10 utility conservation and integrated resource plan advisory groups.

11 I testified before the Commission in Avista's 2009 general rate case regarding the
12 evaluation of Avista's energy conservation programs, specifically in connection
13 with Avista's natural gas decoupling pilot (UE-090134 & UG-090135). I testified
14 before the Commission in two service quality proceedings in the US West-Qwest
15 merger settlement docket (UT-991358), as well as in the Qwest AFOR proceeding
16 (UT-061625). Finally, I have testified before the Commission as part of
17 settlement panels in various energy and telecommunications proceedings, and also
18 at Commission Open Meetings.

19 **Qualifications of Donald W. Schoenbeck**

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

1 A. My name is Donald W. Schoenbeck, and I am appearing on behalf of the
2 Northwest Industrial Gas Users ("NWIGU"). My qualifications are presented in
3 Exhibit No. ___(DWS-1).

4 **Qualifications of Stan Gent**

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

6 A. My name is Stan Gent, and I am appearing on behalf of Seattle Steam Company
7 ("Seattle Steam"). My qualifications are presented in Exhibit No. ___(SG-1).

8 **Qualifications of Charles M. Eberdt**

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

10 A. My name is Charles M. Eberdt, and I am appearing on behalf of The Energy
11 Project. My qualifications are presented in Exhibit No. ___(CME-1).

12 **Qualifications of Kevin C. Higgins**

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

14 A. My name is Kevin C. Higgins, and I am appearing on behalf of Nucor Steel
15 Seattle, Inc. ("Nucor Steel"). My qualifications are presented in Exhibit
16 No. ___(KCH-1).

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

18 A. The purpose of this Joint Testimony is to demonstrate that the Settlement
19 Agreement filed with the Commission on January 27, 2011 as a full settlement of

1 PSE's Gas Tariff Increase Filing, Docket UG-101644 (the "Settlement
2 Agreement"), is consistent with the public interest and should be approved in its
3 entirety by the Washington Utilities and Transportation Commission
4 ("Commission").

5 **Q. Who are the parties to the Settlement Agreement?**

6 A. The parties to the Settlement Agreement are: PSE, Staff, Public Counsel,
7 NWIGU, Seattle Steam, The Energy Project, and Nucor Steel. In the Settlement
8 Agreement and in this Joint Testimony, these parties are collectively referred to as
9 the "Parties" and each individually referred to as a "Party".

10 **II. BACKGROUND AND SCOPE OF THE UNDERLYING**
11 **DISPUTE**

12 **Q. Please describe the filing that gave rise to this proceeding.**

13 A. On October 1, 2010, PSE filed revisions to its currently effective Tariff WN U-2,
14 Natural Gas Service. The filing requested an increase in charges and rates of
15 \$24,384,451, which equated to a 2.3 percent increase in overall revenues, in order
16 to reflect increased costs over the test year ending June 30, 2010. PSE submitted
17 prefiled testimony and exhibits in support of its tariff filing. The Commission
18 suspended the filing on October 28, 2010.

19 **Q. Have the Parties reviewed and investigated PSE's filing?**

20 A. Yes. A prehearing conference was held in the proceeding on November 19, 2010,
21 at which time the Commission granted petitions to intervene filed by NWIGU,

1 Seattle Steam, The Energy Project and Nucor Steel. Staff, Public Counsel,
2 NWIGU, The Energy Project, and Seattle Steam conducted discovery on the
3 Company's prefiled direct testimony and tariff filing.

4 **Q. How did the Settlement Agreement develop?**

5 A. The Parties undertook settlement discussions on January 14, 2011, for purposes of
6 resolving contested issues in this proceeding. The Parties reached a mutually
7 agreed upon settlement and are presenting the Settlement Agreement for the
8 Commission's consideration and approval.

9 **Q. Do all Parties to the proceeding join in support of the Settlement Agreement?**

10 A. Yes. The Settlement Agreement constitutes a full settlement pursuant to
11 WAC 480-07-730(1).

12 **III. THE SETTLEMENT AGREEMENT AND ITS PRINCIPAL**
13 **ASPECTS**

14 **Q. Please briefly describe the main components of the Settlement Agreement.**

15 A. This Settlement Agreement recommends an increase in natural gas revenue
16 requirements of \$19 million, which constitutes a 1.8 percent increase in overall
17 revenues. The Parties have not allocated the increase in revenue requirement to
18 specific ratemaking adjustments, but have agreed that the \$19 million revenue
19 requirement increase will result in rates for natural gas service that are just, fair,
20 reasonable and sufficient, given the evidence filed by the Parties, the discovery
21 undertaken in this case, and the rate spread and design agreed to by the Parties.

1 The Settlement Agreement also includes an agreement related to new water heater
2 depreciation rates.

3 Additionally, as part of the settlement PSE has agreed to continue its ongoing
4 review of its natural gas tariffs as they relate to recovery of costs from firm and
5 interruptible customers on Schedules 85, 86, 87, 85T, 86T and 87T. PSE has
6 agreed to meet with Staff, Seattle Steam, NWIGU, Nucor Steel and other
7 interested Parties to inform them of the progress and preliminary findings of its
8 review of these natural gas rate schedules prior to filing its next general rate case.
9 However, PSE is not required to complete its review prior to the filing of its next
10 general rate case.

11 The Parties have also agreed to support an increase in the annual level of low-
12 income natural gas bill assistance funding when PSE files its low-income tariff
13 (Schedule 129) for the next program year. The Parties have agreed to support an
14 increase that corresponds to the percentage total revenue increase the Commission
15 approves in this proceeding for the residential class of natural gas customers.
16 Finally, the Parties agree that the Settlement Agreement and its underlying facts,
17 principles, methods or theories will have no binding or precedential effect in any
18 later proceeding.

19 **Q. Please describe what the Parties are proposing on the water heater**
20 **depreciation rates.**

21 A. The Parties have agreed to the lower depreciation rates for gas water heaters
22 proposed in the Company's initial filing, as set forth in the Prefiled Direct

1 Testimony of John H. Story, Exhibit No. ___(JHS-1T). The Parties request that
2 the Commission approve these new depreciation rates that will remain in effect
3 until the Company's next depreciation study results are presented and accepted by
4 the Commission.

5 **Q. Please describe the revenue allocation and rate design proposed by the**
6 **Parties in the Settlement Agreement.**

7 A. Attachment A to the Settlement Agreement shows the revenue requirement
8 allocation among rate schedules and the rate design to be effective April 1, 2011,
9 under the terms of the Settlement Agreement. The rate spread agreed to by the
10 Parties is the same rate spread for natural gas customers that was agreed to and
11 approved by the Commission in PSE's 2009 general rate case, Docket UG-
12 090705. The rate design agreed to by the Parties is the same rate design PSE
13 proposed in this case, except that the monthly residential customer charge will
14 remain at \$10.

15 Furthermore, PSE has agreed to modify its transportation tariff provisions to
16 mirror Northwest Pipeline's monthly balancing and related penalty provisions.
17 Such modification will take place in a separate filing, which PSE has agreed to
18 file within thirty days of a Commission order adopting and approving the
19 Settlement Agreement.

20 **Q. What is the proposed effective date for new rates recommended by the**
21 **Parties?**

1 A. The Parties recommend an effective date of April 1, 2011 for the new rates.

2 **Q. Please explain why the Settlement Agreement is in the public interest.**

3 A. The Settlement Agreement provides a compromise of the Parties' positions on
4 PSE's natural gas revenue requirement. Although the final revenue deficiency
5 was not formulated through the application of any particular ratemaking
6 adjustments or combination of adjustments, nor was the allocation of revenues to
7 rate schedules based on any particular cost of service study, the Parties agree that
8 the proposed revenue increase and rate spread and design are fair and reasonable
9 for PSE's customers and the Company.

10 **IV. INDIVIDUAL STATEMENTS OF SUPPORT OF THE**
11 **SETTLEMENT AGREEMENT**

12 **A. Puget Sound Energy, Inc.**

13 **Q. Please explain why the Settlement Agreement satisfies the interests of PSE.**

14 A. PSE believes the Settlement Agreement reflects a fair and reasonable compromise
15 of several issues in this proceeding. The Settlement Agreement includes a
16 revenue requirement that supports the work the Company has been doing to
17 strengthen its infrastructure and benefit its customers. Additionally, the
18 Settlement Agreement accepts a new rate for water heater depreciation. If the
19 current depreciation rate is not adjusted, the projected net balance of these assets
20 will become negative or over depreciated during 2011. The new depreciation
21 rates have been provided in a limited scope study performed by Gannett Fleming,
22 Inc., which is the same company that sponsored PSE's 2006 Depreciation Study.

1 PSE has an interest in allocating revenue requirement to its customers in a manner
2 that is fair and reasonable. The Parties' agreement on the rate spread is an
3 indication that this interest has been served. The proposed settlement produces no
4 major change in rate design from current practice.

5 In response to customer concerns, PSE has agreed to continue its current, ongoing
6 review of certain tariff schedules and to communicate its progress and preliminary
7 findings to the Parties prior to filing its next general rate case. As noted above,
8 the Settlement Agreement does not require PSE to complete its review before
9 filing its next general rate case.

10 PSE believes that the Settlement Agreement will result in rates, terms, and
11 conditions of service that are fair, just, reasonable, and sufficient, and that the
12 Settlement Agreement is good for the Company, its customers, and its
13 shareholders. PSE recommends approval of the Settlement Agreement.

14 **B. Commission Staff**

15 **Q. Did Staff conduct a full and complete analysis of the Company's proposal to**
16 **increase its natural gas revenues in this proceeding?**

17 A. Yes. Staff reviewed the direct testimony, exhibits, and supporting workpapers of
18 all Company witnesses. Staff also propounded numerous data requests to PSE on
19 a wide range of topics and analyzed the responses to those requests, as well as the
20 responses to data requests submitted to the Company by other parties. Staff
21 engaged in several telephone conference calls with the Company and other
22 parties, and visited the Company's Bellevue offices to review documents and to

1 directly question Company personnel about the filing. In essence, Staff
2 conducted and completed a thorough investigation of the Company's filing in
3 anticipation of submitting its own response case had the Parties not reached a full
4 settlement.

5 **Q. Please discuss the results of Staff's examination.**

6 A. Staff's analysis concluded that many drivers of PSE's natural gas revenue
7 deficiency represent prudently incurred expenses and investment, including PSE's
8 significant investment in its gas distribution network to expand the system's
9 capacity.

10 Disagreements on the following revenue requirement topics did arise during
11 Staff's examination:

- 12 • PSE's cost of capital with respect to the cost of debt
- 13 • The calculation of investor supplied working capital
- 14 • The treatment of accumulated deferred income tax benefits resulting
15 from a tax accounting method change
- 16 • Company staffing levels as well as wages, benefits, and incentives
- 17 • Miscellaneous expenses charged to utility accounts and items included
18 in rate base.

19 The Parties were unable to reach agreement on the proper treatment for each of
20 these particular issues. However, Staff is confident that our Settlement

1 Agreement to increase the Company's natural gas revenues by \$19 million is a
2 fair compromise that reserves all parties' rights to contest these issues in a
3 subsequent rate proceeding.

4 **Q. Turning to rate spread and rate design, please explain why Staff supports**
5 **these provisions of the Settlement Agreement?**

6 A. As described in the Settlement Agreement, the agreed upon rate spread provides a
7 1.8 percent increase to PSE natural gas revenues, including gas costs. This
8 represents a 4.76 percent increase on margin with various classes receiving higher
9 or lower proportions of that increase. Residential (Schedules 16, 23, and 53),
10 Commercial and Industrial (Schedules 31 and 61), and Rental customers will see
11 100 percent of a uniform increase. Large Volume (Schedule 41 and 41T) will see
12 75 percent of a uniform increase. Interruptible (Schedules 85, 85T, 87 and 87T)
13 and Limited Interruptible (Schedule 86) will see 50 percent of a uniform increase.
14 This rate spread is the same rate spread to which the parties agreed and the
15 Commission approved in the Company's last general rate case, Docket UG-
16 090705. Our agreed rate design is the same rate design proposed by the Company
17 in this proceeding, except that we have agreed to keep the residential basic charge
18 at \$10 per month, and is also the same rate design approved in the Company's last
19 general rate case. Thus, our agreement largely maintains current practice for rate
20 spread and rate design.

21 Moreover, the gas cost of service study proposed by the Company in this
22 proceeding follows the same methodology used in its last general rate case,

1 Docket UG-090705. Many of the Parties representing opposing customer groups
2 voiced objections to this methodology, but, in the end, we were able to agree on
3 the final rate spread and rate design appearing in this Settlement Agreement. For
4 this reason, the rate spread and rate design proposed in the Settlement Agreement
5 satisfies the interests of all Parties.

6 **Q. Please explain why the Settlement Agreement satisfies Staff's interest.**

7 A. This Settlement Agreement, taken as a whole, provides a fair and reasonable
8 outcome that will result in rates that are fair, just, reasonable, and sufficient. In
9 Staff's view, the 1.8 percent increase in overall revenues represents an appropriate
10 increase in compensation to the Company. Since its last general rate case filed in
11 May of 2009, the Company has made significant investment in its distribution
12 network and experienced operations cost increases that are reflective of modest
13 national inflation over the past two years. Staff believes that these heightened
14 expenditures have resulted in benefits to customers and the public in the form of
15 safe and reliable natural gas distribution service.

16 Under the Settlement Agreement, when the Company files to update its low
17 income tariff rider not later than October 1, 2011 it will update the tariff to reflect
18 the percentage increase to residential customers. This arrangement is in the
19 public interest because it maintains assistance levels relative to tariff rates.

20 With respect to water heater depreciation rates, if the current rate is not adjusted,
21 the projected net balance of these assets will become negative or over depreciated

1 during 2011. Adopting the Company's proposed depreciation rates as an interim
2 step is reasonable until a full depreciation study can be performed.

3 Finally, because the Settlement Agreement sets no precedent, Staff preserves
4 discretion with respect to issues that at this time do not significantly affect the
5 final determination of fair rates.

6 **C. Public Counsel**

7 **Q. Please explain why the Settlement Agreement satisfies the interest of Public**
8 **Counsel.**

9 A. Public Counsel believes the Settlement Agreement is in the public interest and
10 establishes fair, just, reasonable and sufficient rates. Public Counsel appreciates
11 the work of all the Parties to reach a full settlement of all issues in this
12 proceeding. Public Counsel reviewed the Company filing, conducted discovery,
13 reviewed the discovery of other parties, and conferred with other parties on a
14 variety of issues. As a result of this analysis, we identified certain operations and
15 maintenance expenses that we did not believe should be included as test year
16 expense, or included in rates. These expenses included certain advertising costs,
17 sponsorships, Board of Directors catering and other Board expenses, use of
18 corporate aircraft, and other miscellaneous expenses. We believe that the revenue
19 requirement increase of \$19,000,000, which is more than \$5 million lower than
20 PSE's original request, appropriately incorporates a compromise with respect to
21 the disputed expenses identified by Public Counsel, as well as the issues identified
22 by other Parties.

1 Public Counsel also supports the rate spread portion of the settlement. The parties
2 had divergent views regarding the Company gas cost of service study and how it
3 should affect gas rate spread. Public Counsel believes the agreement to continue
4 with the rate spread agreed to in the last PSE gas case, UG-090705, represents a
5 reasonable resolution of these differences by maintaining the compromise arrived
6 at in the prior docket, thus preserving the status quo for all parties. At the same
7 time, the Company gas cost of service study is not adopted or given any
8 precedential effect by virtue of the settlement, and parties will be free to address
9 cost of service issues as they desire in future proceedings.

10 With respect to rate design, Public Counsel generally opposes increases to
11 customer charges because they can act as a disincentive to conservation and
12 because they disproportionately impact lower volume users. For these reasons,
13 Public Counsel strongly supports retention of the residential customer charge at
14 its current level of \$10, as specified in the Settlement Agreement. We are also
15 pleased that all Parties support an increase in the annual level of low-income
16 natural gas bill assistance funding to allow the program to keep pace with the rate
17 increase approved here.

18 **D. Remaining Parties**

19 **Q. Please explain why the Settlement Agreement satisfies the interests of**
20 **NWIGU.**

21 A. NWIGU supports the Settlement Agreement and recommends the Commission
22 adopt it because the best interests of PSE's customers are served by the

1 underlying fair compromise on all revenue requirement and rate spread and
2 design issues. While the signing parties may each hold different positions on the
3 individual components that make up PSE's natural gas revenue requirement
4 increase as well as different positions on an appropriate cost of service study that
5 follows Commission precedent, NWIGU has based its assessment upon the
6 compromises of various revenue requirement issues that brought down the overall
7 gas revenue requirement increase by over \$5.3 million, its own thorough review
8 of the filing and responses to data requests, including the issuance of its own data
9 requests.

10 It is important to NWIGU that all schedules move toward their relative cost of
11 service and that relative cost relationships are maintained in the utility's rate
12 design. NWIGU also finds this Settlement Agreement to be in the public interest
13 as the spread of the gas rate increase is done in a manner that is consistent with
14 various cost of service analyses undertaken by NWIGU. In recommending
15 Commission approval of this Settlement Agreement, NWIGU is not seeking
16 Commission approval of any new process or ratemaking method as part of the
17 Settlement Agreement and reserves the right to raise all issues compromised in
18 this proceeding in any future natural gas rate case. PSE's next natural gas rate
19 case is required under the Settlement Agreement to be a general rate proceeding
20 that meets at least one of the criteria set forth in WAC 480-07-505(1). In
21 addition, NWIGU supports the Settlement Agreement as it appropriately requires
22 PSE to conform its monthly balancing and related penalty provisions for PSE's

1 transportation customers to those of the interconnecting pipeline (i.e., Northwest
2 Pipeline).

3 **Q. Please explain why the Settlement Agreement satisfies the interests of Seattle**
4 **Steam.**

5 A. Seattle Steam believes the revenue requirement and rate spread decisions
6 embedded in this Settlement Agreement are a reasonable compromise of
7 contested issues, especially in light of the cost of further litigation.
8 Paragraph 11 of the Settlement Agreement is particularly important to Seattle
9 Steam. In the Multiparty Settlement Re: Natural Gas Rate Spread and Industrial
10 Natural Gas Rate Design, filed July 7, 2008 in docket nos. UE-072300 and UG-
11 072301 (the "2007 Rate Case Settlement"), the parties agreed to a conduct a
12 facilitated collaborative prior to PSE's next general rate case, and that "any
13 agreements reached by the participants in the collaborative will be presented to
14 the Commission for approval in PSE's next general rate case." 2007 Rate Case
15 Settlement, p. 6, Sec. 5. See also, Final Order Approving and Adopting
16 Settlement Stipulations; Authorizing and Requiring Compliance Filing entered on
17 October 8, 2008 in dockets UE-072300 and UG-072301 ("2007 Final Order"), ¶¶
18 32, 78-84. The collaborative occurred. Although the parties did not reach
19 agreement on many of the issues, they did agree "that separation of firm and
20 interruptible service in Schedules 85, 86 and 87 for purposes of developing a cost
21 of service study has conceptual merit, but it is not feasible to include this feature
22 as part of PSE's cost of service study in its next rate case." Letter from the
23 Collaborative Facilitator, F. Jay Cummings to Janet Phelps dated December 30,

1 2008. The results of that agreement were not included in PSE's 2009 general rate
2 case, or in its 2010 rate case now being concluded. PSE's agreement to inform the
3 Parties of its progress on meeting the intent of the 2008 collaboration is a small
4 step in the right direction. Seattle Steam believes the process started in the 2008
5 collaborative should make substantive progress.

6 **Q. Please explain why the Settlement Agreement satisfies the interests of Nucor**
7 **Steel.**

8 A. The Settlement Agreement provides a reasonable revenue requirement change in
9 light of the evidence presented by PSE. It also provides a reasonable
10 apportionment of revenue responsibility among customer classes. This
11 apportionment is consistent with the apportionment determined in the previous
12 PSE general rate case, which took into consideration a range of results produced
13 by various cost of service studies. The rate design for large customers is also
14 reasonable in that it provides for a proportionate increase in all rate components
15 for Schedules 85, 86, and 87, which produces consistent rate impacts across all
16 customers on these rate schedules. Further, the demand charge for large
17 customers will continue to be equalized. This consistency will provide for
18 rational transitions between rate schedules, which is a characteristic of sound rate
19 design.

20 **Q. Please explain why the Settlement Agreement satisfies the interests of The**
21 **Energy Project.**

1 A. The Energy Project recognizes that settlements such as these are compromise
2 agreements. In that regard we believe the compromise in this case balances the
3 diverse interests of the Company, its shareholders, and its customers fairly. The
4 Energy Project is interested in the well being for the Company's low-income
5 customers in particular. Historically, we have argued that the Company's
6 programs to assist low-income must be adjusted as well to compensate for the
7 increase in rates. PSE's bill assistance program, HELP, awards eligible customers
8 funds to help pay their bills. These households generally do not experience an
9 increase in income when rates are increased. The result is that they have to
10 dedicate even more of their meager funds to pay the utility bill. Indexing the
11 HELP program funding to the residential rate increase mitigates this to some
12 extent for those families who are able to qualify for the program. It does leave a
13 gap in two ways, however. First, since a HELP award does not cover the entire
14 bill, the part of the bill that is not covered still increases, requiring more out of
15 pocket funds. Second, even without the added numbers due to the economic
16 downturn, there are many more families who are eligible than ultimately qualify
17 for assistance. Nevertheless, indexing the HELP program funding to increase in
18 an amount equal to the overall percent increase in total revenue to the residential
19 natural gas customers is acceptable.

20 While this change, increasing the HELP funding, is a positive factor, we believe
21 that items that have not changed are also important. The rate spread and rate
22 design have not changed, so more is not being demanded of low-income
23 households because of alterations there. Finally, the Energy Project believes that

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maintaining the current monthly customer charge is also in low-income customers' interest.

V. CONCLUSION

Q. Does this conclude your Joint Testimony?

A. Yes.