EXHIBIT NO. ___(DWS-8T)
DOCKET NOS. UE-111048 and
UG-111049 (*Consolidated*)
2011 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 Nos. UE-111048 and UG-111049 (*Consolidated*)**

PREFILED DIRECT TESTIMONY OF

DONALD W. SCHOENBECK

ON BEHALF OF

NORTHWEST INDUSTRIAL GAS USERS

December 7, 2011

PUGET SOUND ENERGY, INC.

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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 conservation savings adjustment ("CSA") rate proposal, allocation of distribution mains within its cost- of- service study, 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 cross-examination of other witnesses and in its briefs.

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

A. The Commission should reject the Company's CSA rate proposal. It is simply another attempt by the Company to impose automatic annual rate increases on customers with no corresponding benefit for the customers. However, if the Commission approves the mechanism, NWIGU recommends a superior grouping of rate schedules--based on the fixed margin charges of the various customer classes--as shown by the following table.

Rate Schedule Grouping Comparison

Group	PSE	NWIGU
1	23, 57	23, 57, 31
2	31, 41	41, 86
3	85, 86, 87	85, 87

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 several proceedings prior to the 2009 general rate case. 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 method and the NWIGU recommended main allocation approach.

Parity Ratio Comparison

Class	PSE Study	NWIGU Study
Residential	0.98	0.98
C&I (31,61)	0.96	0.95
Schedule 41	1.24	1.22
Schedule 85	1.21	1.57
Schedule 86	1.57	1.54
Schedule 87	0.87	0.99
Contracts	0.73	0.87
Rentals	1.97	1.97
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 NWIGU recommended cost study should be used to determine rate spread in this proceeding. The parity ratios from the NWIGU study indicate that no class should receive an above average margin increase. The residential class and Schedules 31, 61 and 87 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	$23,171	8.0%	$23,599	8.2%	$428
C&I (31, 61)	$6,840	8.0%	$6,966	8.2%	$126
Schedule 41	$729	4.0%	$742	4.1%	$13
Schedule 85	$343	4.0%	$0	0.0%	-$343
Schedule 86	$0	0.0%	$0	0.0%	$0
Schedule 87	$702	12.0%	$477	8.2%	-$225
Rentals	$0	0.0%	$0	0.0%	$0
Total:	$31,784	7.5%	$31,784	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. As NWIGU is recommending no increase be assigned to both Schedules 86 and 85, NWIGU believes a superior rate design is to simply not change the existing Schedule 86 and 85 delivery charges and the Schedule 87 demand charges. The remaining Schedule 87 basic and volumetric charges should be increased by a uniform percentage to achieve the schedule's revenue target.

II. PSE'S CSA RATE PROPOSAL

Q. PLEASE BRIEFLY DESCRIBE PSE'S CSA RATE PROPOSAL.

A. The CSA rate proposal seeks recovery of the Company's claimed revenue loss ("unrecovered costs") from implementing the Company's conservation programs that are not already reflected in deriving the rate schedule charges. The Company is proposing to collect 75% of the unrecovered costs in the subsequent year (beginning May 1st of each year) and the remaining 25% in the following year. Also under the Company's proposal there is an earnings test so that the Company will not earn beyond its authorized rate of return because of the CSA charges and the conservation saving is subject to third party verification. As shown by Exhibit __ (JAP-19), the Company is proposing to collect from customers $2.0 million associated with unrecovered fixed gas costs from 2011. The Company's proposed CSA rate charges would collect $1.5 million from May 1, 2012 through April 30, 2012 and the remaining $0.5 million would be collected in the following year.

Q. IS THE PROPOSED CSA COST RECOVERY IN ADDITION TO THE GENERAL RATE INCREASE BEING SOUGHT BY THE COMPANY?

A. Yes. The Company's claimed $31.9 million gas revenue deficiency does not include the amount the Company is seeking under the CSA mechanism. Taken together, the Company's total instant proposal in this proceeding is an increase in gas margins of $33.4 million ($31.9 million + $1.5 million = $33.4 million) with additional amounts from unrecovered costs due to conservation programs in 2011 ($0.5 million) and other subsequent years to follow.

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Q. DOES THE COMPANY CLAIM THERE ARE CUSTOMER BENEFITS FROM THE CSA MECHANISM?

A. Yes. The Company claims there are three benefits from the CSA. These are: more stable and predictable rates, maintaining or improving the Company's credit rating which will reduce borrowing costs, and greater customer scrutiny of conservation program expenditures.

Q. DOES NWIGU AGREE WITH THE COMPANY'S CLAIMED BENEFITS?

A. No. NWIGU views the CSA proposal as yet another attempt by the Company to impose automatic rate increases on its customers with no corresponding tangible benefit. The implementation of the CSA will not result in more stable or predictable rates because the Company has proposed no "stay out" period as part of its proposal. PSE customers have been barraged with rate filings for the past many years, and it is highly likely that this will continue. Accordingly, the implementation of the CSA will only "pancake" on top of the otherwise applicable rate changes. In response to a data request (Public Counsel 255), PSE has acknowledged that it is not possible to quantify the impact of the CSA on the Company's cost of capital. Similarly, the Company's third claimed benefit is also impossible to quantify because it is based on a rather unique perspective that greater customer involvement will occur if the mechanism is adopted. PSE has had the Conservation Resource Advisory Group ("CRAG") in place for many years. The singular focus of this group is to review PSE's conservation program. PSE's third claimed benefit is in essence suggesting that CRAG will do a better job than they are currently doing. Frankly, NWIGU finds all of PSE's claimed benefits to be highly speculative.

Q. DOES NWIGU HAVE ANY OTHER CONCERNS WITH THE CSA PROPOSAL?

A. Yes. As was also the case with regard to PSE's Pipeline Integrity Program, NWIGU considers the CSA to be a single issue rate making mechanism that should not be permitted except under extraordinary circumstances. As PSE has made no showing that extraordinary circumstances exist and PSE has not been able to show any quantifiable benefit, the Commission should reject the Company's CSA proposal.

Q. IF THE COMMISSION WERE TO ADOPT THE MECHANISM OVER NWIGU'S OBJECTION, WOULD YOU RECOMMEND ANY CHANGES TO THE COMPANY PROPOSAL?

A. Yes. Under the Company's proposal, the rate schedules are grouped into three rate categories for deriving the fixed cost margins and subsequent cost recovery. An examination of the individual rate schedule margins within these groupings suggest a superior categorization than that proposed by the Company. Under the Company proposal, Group 1 consists of Schedule 23 and 53 customers, Group 2 consists of Schedule 31 and 41 customers and Group 3 contains customers on Schedule 85, 86 and 87. For Group 2, the current customer margin paid under Schedule 31 is 31.5 cents per therm while the Schedule 41 customer margin is only 17.0 cents per therm. For Group 3, the current customer margins are 9.3 cents per therm for Schedule 85, 17.5 cents per therm for Schedule 86 and 5.4 cents per therm for Schedule 87. Given these specific margins, a superior grouping approach would be to combine rate schedules with similar margins to minimize inequities within a group. This approach suggests including Schedule 31 customers in Group 1 and Schedule 86 customers with Schedule 41 customers. The NWIGU grouping recommendation is summarized in the following table with the PSE proposal.

Rate Schedule Grouping
Comparison

Group	PSE	NWIGU
1	23, 57	23, 57, 31
2	31, 41	41, 86
3	85, 86, 87	85, 87

III. 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-5) while the second study excludes gas costs (see JKP-4). 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 THE NON GAS COST STUDY, DID PSE ALLOCATE COSTS IN THE SAME MANNER AS THE LAST PROCEEDING?

A. Yes. In this proceeding, PSE has allocated main costs in the same manner as it did in the last two proceedings. While there have been limited collaborative efforts to achieve a consensus on how the cost study should be conducted over the past several years, no agreement has been achieved. PSE's method uses a peak and average calculation to classify mains into demand-related and commodity related portions. PSE uses a design day peak demand factor to allocate main investment costs classified to demand. With regard to the volumetric portion, PSE has segmented the investment into three categories (based on 2010 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.

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

A. No. NWIGU objected to this method in both the 2009 and 2010 proceedings and continues to do so. 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, in prior proceedings, the Company has testified that no Schedule 87 customer is connected to either medium or small mains. The Company’s testimony stated there are several Schedule 85 customers connected to medium mains but 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--44%--is for mains with a diameter less than 4 inches with the remaining associated with the large main category as shown by the following table.

PSE Main Investment
(Millions $)

Size - Diameter	Replacement Cost	Percent	Approx. Gross Plant
Small <2	$480.2	19%	$255.0
Medium 2-3	$637.9	25%	$338.7
Large >3	$1,406.5	56%	$746.9
Total:	$2,524.6	100%	$1,340.6

Yet PSE's allocation approach assigns $898.2 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 past proceedings that the Company's gas flow model on a peak design day assigns less than $1.0 million of medium and small mains to Large Users. On an average winter day, about $2.5 million of medium and small mains are used to supply Large Users. To use this fact to assign $21.3 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 a prior proceeding, this approach assigned about $59 million to these customers. A pure cost-based allocation approach using main segmentation and a design day peak demand would only assign about $11.8 million to these customers. Using PSE's peak demand allocation factor in this case as another cost-based approach (applied to all main sizes) would only assign $21.2 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)	$868.5	$882.8	$14.3
Comm. & Indus. (31,61)	$306.2	$311.4	$5.2
Large Volume (41, 41T)	$73.7	$75.3	$1.6
Interruptible (85, 85T)	$34.5	$22.2	-$12.3
Limited Interruptible (86)	$7.0	$7.2	$0.2
Interruptible (87, 87T)	$37.5	$31.4	-$6.1
Contracts (SC)	$13.2	$10.3	-$2.9
Total:	$1,340.6	$1,340.6	$0.0
Subtotal 85, 87 and Contracts:	$85.2	$63.9	-$21.3

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

A. Yes. Exhibit No. ___ (DWS-9) 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	0.98	0.98
C&I (31,61)	0.96	0.95
Schedule 41	1.24	1.22
Schedule 85	1.21	1.57
Schedule 86	1.57	1.54
Schedule 87	0.87	0.99
Contracts	0.73	0.87
Rentals	1.97	1.97
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 ratios for Schedules 85, 87 and contracts are much higher than under the Company's studies.

IV. RATE SPREAD

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

A. The Company has proposed class specific increases based upon its cost of service results. The Company is proposing no increase for Schedule 86 and the rental charges. The Company is proposing that Schedules 41 and 85 receive one-half the average increase while Schedules 31, 61 and the residential class receive the average increase. Finally, the Company is proposing that Schedule 87 receive 150% of the average increase.

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 presented by NWIGU as contained in Exhibit No. ___ (DWS-9). 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 percentage proposal for the residential class as well as Schedules 31, 41, 61 and 86 and the rental charges. However, the NWIGU cost study shows that a lower increase is warranted for

Schedule 87 and no increase should be assigned to Schedule 85. The following table illustrates and compares the PSE and NWIGU rate spread proposals for PSE's claimed margin increase.

Rate Spread Comparison
($000)

Class	PSE Proposal Change in Margin	PSE Proposal Margin Increase	NWIGU Recommendation Change in Margin	NWIGU Recommendation Margin Increase	Margin Difference
Residential	$23,171	8.0%	$23,599	8.2%	$428
C&I (31, 61)	$6,840	8.0%	$6,966	8.2%	$126
Schedule 41	$729	4.0%	$742	4.1%	$13
Schedule 85	$343	4.0%	$0	0.0%	-$343
Schedule 86	$0	0.0%	$0	0.0%	$0
Schedule 87	$702	12.0%	$477	8.2%	-$225
Rentals	$0	0.0%	$0	0.0%	$0
Total:	$31,784	7.5%	$31,784	7.5%	$0

V. 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 $1.14 to $1.28. 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 $1.28, the Company increases all other charges by the same percentage to achieve the schedule's revenue target. However for Schedule 86, PSE is proposing no overall increase to this rate schedule class. Consequently, increasing the demand charge to $1.28 on this schedule necessitates the lowering or decreasing 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. Further, as NWIGU is recommending no increase to Schedule 85 as well, similar impacts would occur under the Company's technique as well. 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 and 85 unchanged so no customer will experience a rate increase or decrease. Consistent with past practice, the demand charge for Schedule 87 should be maintained at the current level of $1.14 so that all three schedules will have the same demand 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.