

**EXHIBIT NO. ____ (KCH-1T)
DOCKET NOS. UE-111048/UG-111049
2011 PSE GENERAL RATE CASE
WITNESS: KEVIN C. HIGGINS**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-111048
Docket No. UG-111049
(Consolidated)**

**PREFILED RESPONSE TESTIMONY OF
KEVIN C. HIGGINS
ON BEHALF OF NUCOR STEEL SEATTLE, INC.**

December 7, 2011

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1 **PREFILED RESPONSE TESTIMONY OF KEVIN C. HIGGINS**

2

3 **Introduction**

4 **Q. Please state your name and business address.**

5 A. Kevin C. Higgins, 215 South State Street, Suite 200, Salt Lake City, Utah,
6 84111.

7 **Q. By whom are you employed and in what capacity?**

8 A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies
9 is a private consulting firm specializing in economic and policy analysis
10 applicable to energy production, transportation, and consumption.

11 **Q. On whose behalf are you testifying in the gas portion of this proceeding, UG-**
12 **111049**

13 A. My testimony in the gas portion of the proceeding, UG-111049, is being
14 sponsored by Nucor Steel Seattle, Inc. (“Nucor”). Nucor owns and operates a
15 steel mill in Seattle and takes gas transportation service from Puget Sound
16 Energy, Inc. (“PSE”) under Schedule 87T.

17 **Q. Please describe your professional experience and qualifications.**

18 A. My academic background is in economics, and I have completed all
19 coursework and field examinations toward the Ph.D. in Economics at the
20 University of Utah. In addition, I have served on the adjunct faculties of both the
21 University of Utah and Westminster College, where I taught undergraduate and
22 graduate courses in economics. I joined Energy Strategies in 1995, where I assist

1 private and public sector clients in the areas of energy-related economic and
2 policy analysis, including evaluation of electric and gas utility rate matters.

3 Prior to joining Energy Strategies, I held policy positions in state and local
4 government. From 1983 to 1990, I was economist, then assistant director, for the
5 Utah Energy Office, where I helped develop and implement state energy policy.
6 From 1991 to 1994, I was chief of staff to the chairman of the Salt Lake County
7 Commission, where I was responsible for development and implementation of a
8 broad spectrum of public policy at the local government level.

9 **Q. Have you previously testified before this Commission?**

10 A. Yes. I testified in the PSE 2009, 2007, 2006, 2004, and 2001 general rate
11 cases and participated in the settlement discussions that resulted in partial
12 settlement agreements pertaining to rate spread and rate design issues in those
13 proceedings. I also testified in the 2009 proceeding that addressed the treatment
14 of revenues from PSE's sales of Renewable Energy Credits ("RECs").

15 **Q. Have you participated in any collaborative processes sponsored by the**
16 **Commission?**

17 A. Yes. On behalf of Nucor, I participated in the 2008 Natural Gas
18 Collaborative that was conducted following the conclusion of PSE's 2007 general
19 rate case.

20 **Q. Have you testified before utility regulatory commissions in other states?**

21 A. Yes. I have testified in approximately 135 proceedings on the subjects of
22 utility rates and regulatory policy before state utility regulators in Alaska,
23 Arizona, Arkansas, Colorado, Georgia, Idaho, Illinois, Indiana, Kansas,

1 Kentucky, Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New
2 York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina,
3 Texas, Utah, Virginia, West Virginia, and Wyoming.

4

5 **Overview and Recommendations**

6 **Q. What is the purpose of your testimony in the gas proceeding?**

7 A. My testimony addresses the cost-of-service and rate spread for PSE's gas
8 distribution service. I also address rate design for non-residential customers and
9 PSE's proposed Conservation Savings Adjustment rate.

10 **Q. Please summarize your conclusions and recommendations.**

11 (1) I have concluded that the gas rate spread proposal put forward by the
12 Company in Column O, page 1, of PSE Exhibit No. __ (JKP-10) is generally
13 reasonable, with the exception of PSE's proposal that Schedule 87/87T receive a
14 rate increase that is 150% of average, which I recommend be reduced to 125% of
15 average. Therefore, I recommend adoption of PSE's proposed rate spread, with
16 this one change, but without endorsing the Company's cost-of-service method.

17 (2) I believe that PSE's proposed non-residential rate design is reasonable
18 and recommend its adoption by the Commission, but without endorsing or
19 opposing the Company's proposed minimum volume requirements.

20 (3) I support PSE's proposal to exclude gas transportation customers from
21 the proposed Conservation Savings Adjustment rate. These customers purchase
22 their energy supplies independently of PSE and should not be included in the
23 utility's program or adjustment rate.

24

1 **Gas Cost-of-Service Study and Rate Spread**

2 **Q. Do you have any comments on the gas cost-of-service study presented by PSE**
3 **in this case?**

4 A. Yes. I testified on the subject of gas cost of service in the 2007 PSE rate
5 case and was critical of the changes PSE had proposed in that case with respect to
6 the allocation of small and medium-diameter distribution mains. I testified that
7 the Company's changes gave an undue weighting to small and medium-diameter
8 mains in the allocation of costs to larger customers. Other parties offered similar
9 criticism. There was also criticism offered in a different direction, namely that
10 the direct assignment of certain costs to large customers per the Company's cost-
11 of-service model unduly favored those customers.

12 These issues were discussed in the subsequent Natural Gas Collaborative,
13 but without resolution.

14 In the subsequent general rate case (2009) and in the current case, PSE
15 witness Janet K. Phelps offers a treatment of small and medium-diameter mains
16 that appears to be an attempt to compromise between those parties, such as
17 myself, who believe that larger customers should not be allocated a significant
18 portion of these costs (because, but for minor exceptions, they do not utilize these
19 facilities) and those parties that wish to allocate a larger portion of these costs to
20 large customers.

21

1 **Q. What is your assessment of PSE’s latest gas cost-of-service proposal and the**
2 **company’s proposed rate spread?**

3 A. I appreciate PSE’s attempt to find a “middle ground” in this debate;
4 however, I believe the Company’s approach continues to give an undue weighting
5 to medium-diameter mains in the allocation of costs to larger customers,
6 particularly in comparison to the approaches the Company used prior to the 2007
7 rate case. This concern notwithstanding, I have concluded that the gas rate spread
8 proposal put forward by the Company in Column O, page 1, of PSE Exhibit
9 No. __ (JKP-10), with one modification, is generally reasonable. Therefore, I
10 recommend adoption of PSE’s proposed rate spread, as modified by my proposed
11 change in the treatment of Schedule 87/87T, but without endorsing the
12 Company’s cost-of-service method. PSE’s proposed rate spread is presented in
13 Table KCH-1, below.

14

1 **Table KCH-1**

2 **Summary of PSE Rate Spread Proposal**

3			4	5	6	7
8	<u>Rate Class</u>	<u>Schedule</u>	<u>Current Parity Percent</u>	<u>Percent of Uniform Increase</u>	<u>PSE Proposed Increase (\$000s)</u>	<u>PSE Percent Increase</u>
9	Residential	16,23,53	98%	100%	\$23,171	8.0%
10	Commercial & Industrial	31,31T,61	96%	100%	\$6,840	8.0%
11	Large Volume	41,41T	124%	50%	\$729	4.0%
12	Interruptible	85,85T	121%	50%	\$343	4.0%
13	Limited Interruptible	86,86T	157%	0%	\$0	0.0%
14	Non-Exclusive Interruptible	87,87T	87%	150%	\$702	12.0%
15	Rentals		197%	0%	\$0	0.0%
16	<u>Contracts</u>		<u>73%</u>		<u>\$81</u>	<u>4.9%</u>
17	Subtotal Revenue from Rates				\$31,865	7.6%
18	<u>Other Revenue</u>				<u>\$0</u>	<u>0.0%</u>
19	Total Sales				\$31,865	7.5%

20 **Q. What modification do you recommend to PSE's proposed rate spread?**

21 A. PSE recommends that rate schedules within the range of 90% to 110% of
 22 parity receive the system average increase; for the non-contract rate schedule
 23 below this range, Schedule 87/87T, PSE recommends that an increase of 150% of
 24 the average retail increase be applied. My modification is to reduce this metric to
 25 125% of the average retail increase, still the largest percentage increase of any
 26 class of service. The parity percentage of this rate schedule lies just outside the
 27 uniform increase range of 90% to 110% proposed by PSE. Therefore, a more
 28 modest relative increase is justified. Moreover, setting the increase to 125% of
 29 average is comparable to PSE's proposed treatment for similarly-situated
 30 customers in its proposed electric rate spread.

1 My proposed rate spread is presented in Nucor Exhibit No. __ (KCH-2),
 2 and is summarized in Table KCH-2, below. Note that because of the relatively
 3 small size of Schedule 87/ 87T, my proposed change to PSE's spread does not
 4 impact the percentage increase to any other rate schedule to within a decimal
 5 point.

6 To the extent that the final approved revenue requirement is reduced from
 7 the Company's proposal, I recommend that the rate spread presented in Table
 8 KCH-2 be apportioned downward.

9 **Table KCH-2**

10 **Nucor Proposed Rate Spread @ PSE Proposed Revenue Increase**

11			12	13	14	15
	<u>Rate Class</u>	<u>Schedule</u>	<u>Current Parity Percent</u>	<u>Percent of Uniform Increase</u>	<u>Proposed Increase (\$000s)</u>	<u>Percent Increase</u>
16	Residential	16,23,53	98%	100%	\$23,256	8.0%
17	Commercial & Industrial	31,31T,61	96%	100%	\$6,865	8.0%
18	Large Volume	41,41T	124%	50%	\$731	4.0%
19	Interruptible	85,85T	121%	50%	\$344	4.0%
20	Limited Interruptible	86,86T	157%	0%	\$0	0.0%
21	Non-Exclusive Interruptible	87,87T	87%	125%	\$587	10.1%
22	Rentals		197%	0%	\$0	0.0%
23	<u>Contracts</u>		<u>73%</u>		<u>\$81</u>	<u>4.9%</u>
24	Subtotal Revenue from Rates				\$31,865	7.6%
25	<u>Other Revenue</u>				<u>\$0</u>	<u>0.0%</u>
26	Total Sales				\$31,865	7.5%

1 **Non-Residential Rate Design**

2 **Q. What has PSE proposed with respect to non-residential rate design?**

3 A. Aside from proposing certain minimum volume requirements, PSE has
4 proposed no major changes to its non-residential rate design in this proceeding.
5 In general, each rate component of a given rate schedule is increased by an equal
6 percentage, with the exception of the demand charge. This charge is identical for
7 all non-residential rate schedules and is proposed to increase by the proposed
8 percentage increase for Schedule 87.

9 **Q. What is your assessment of PSE's proposed non-residential rate design?**

10 A. I neither endorse nor oppose PSE's proposed minimum volume
11 requirements. In all other respects, subject to my modest proposed rate spread
12 modification, I believe the proposed rate design is reasonable. I recommend its
13 adoption by the Commission.

14

15 **Conservation Savings Adjustment Rate**

16 **Q. Have you reviewed PSE's proposal for a Conservation Savings Adjustment**
17 **rate?**

18 A. Yes. This proposal is described in the direct testimony of Jon A. Piliaris.
19 PSE's proposal is structured to recover "lost margins" margins attributable to the
20 Company's energy conservation programs. Appropriately, however, the proposal
21 does not apply to PSE's gas transportation customers.

22

1 **Q. Do you have any comments on PSE's proposal for a Conservation Savings**
2 **Adjustment rate for gas customers?**

3 A. Yes. My specific critique of PSE's proposed Conservation Savings
4 Adjustment rate is filed in separate testimony in the electric docket on behalf of
5 The Kroger Co. With respect to the gas docket, I support PSE's proposal to
6 exclude gas transportation customers from the mechanism. These customers
7 purchase their energy supplies independently of PSE and should not be included
8 in the utility's program or adjustment rate.

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

10 A. Yes, it does.

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WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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TRANSPORTATION COMMISSION,

Complainant,

Docket No. UE-111048
Docket No. UG-111049

v.

PUGET SOUND ENERGY, INC.,

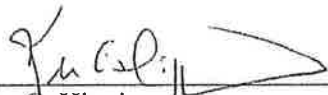
Respondent.

AFFIDAVIT OF KEVIN C. HIGGINS

STATE OF UTAH)
)
COUNTY OF SALT LAKE)

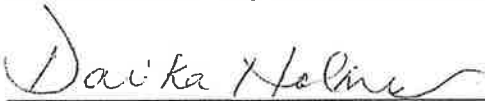
Kevin C. Higgins, being first duly sworn, deposes and states that:

1. He is a Principal with Energy Strategies, L.L.C., in Salt Lake City, Utah;
2. He is the witnesses who sponsors the testimony entitled "Prefiled Response Testimony of Kevin C. Higgins";
3. Said testimony was prepared by him;
4. If inquiries were made as to the facts in said testimony and exhibits he would respond as therein set forth; and
5. The aforesaid testimony and exhibits are true and correct to the best of his knowledge, information and belief.



Kevin C. Higgins

Subscribed and sworn to or affirmed before me this 6th day of December, 2011, by Kevin C. Higgins.



Notary Public

My Commission Expires: 2/7/2015

