

**Exhibit No. \_\_ T (Joint-3T)**  
**Docket Nos. UE-072300/UG-072301**  
**Witnesses: Kevin C. Higgins**  
**David W. Hoff**  
**Donald Schoenbeck**  
**Thomas E. Schooley**  
**Glenn A. Watkins**

**BEFORE THE WASHINGTON 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 C. HIGGINS, DAVID W. HOFF, DONALD  
SCHOENBECK, THOMAS E. SCHOOLEY, AND GLENN A. WATKINS**

**ELECTRIC RATE SPREAD AND ELECTRIC RATE DESIGN**

**August 12, 2008**

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1 I. INTRODUCTION AND PURPOSE OF JOINT TESTIMONY

2  
3 Qualifications of David W. Hoff

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

5 A. My name is David W. Hoff and I am appearing on behalf of Puget Sound Energy,  
6 Inc. ("PSE"). My qualifications are presented in Exhibit No. \_\_ (DWH-2).

7  
8 Qualifications of Kevin C. Higgins

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

10 A. My name is Kevin C. Higgins and I am appearing on behalf of The Kroger Co.  
11 ("Kroger"). My qualifications are presented in Exhibit No. \_\_ (KCH-1T).

12  
13 Qualifications of Donald Schoenbeck

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

15 A. My name is Donald Schoenbeck and I am appearing on behalf of Industrial  
16 Customers of Northwest Utilities ("ICNU"). My qualifications are presented in  
17 Exhibit No. \_\_ (DWS-2).

18  
19 Qualifications of Thomas E. Schooley

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

21 A. My name is Thomas E. Schooley and I am appearing on behalf of Commission Staff.  
22 My qualifications are presented in Exhibit No. \_\_ (TES-1T).

Qualifications of Glenn A. Watkins

1  
2 **Q. Please state your name and the party for whom you are appearing.**

3 A. My name is Glenn A. Watkins and I am appearing on behalf of Public Counsel. My  
4 qualifications are presented in Exhibit No. \_\_ (GAW-2).  
5

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

7 A. The purpose of this Joint Testimony is to present the common recommendation of  
8 PSE, Staff, Public Counsel, The Energy Project, Kroger and the ICNU (hereinafter  
9 collectively referred to as "Joint Parties") on the topics of electric rate spread and  
10 electric rate design, all as contained in the Multiparty Settlement Re: Electric Rate  
11 Spread and Electric Rate Design, filed with the Commission on August 12, 2008.

12 Page 1 of the Attachment to the Multiparty Settlement shows the agreed-upon  
13 rate spread recommendation of the Joint Parties using a Baseline revenue increase  
14 equal to PSE's rebuttal proposal of \$165,100,000, and illustrating the results of a  
15 final revenue requirement increase using a hypothetical amount of \$130,000,000.  
16 The Joint Parties recognize the Commission-ordered electric revenue increase in this  
17 proceeding may be a different amount. This value was chosen simply to show the  
18 workings of our rate spread recommendation.

19 Page 2 of the Attachment to the Multiparty Settlement shows a summary of  
20 the agreed upon rate design recommendation of the Joint Parties.  
21

1                   **II.     JOINT TESTIMONY ON ELECTRIC 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 PSE’s customer classes.  
6           Rate spread should recognize that rates must be just and reasonable and not cause  
7           undue discrimination. To this end, revenue responsibility for any class should be  
8           informed by the cost to serve the class. However, the Commission has often stated  
9           that factors in addition to cost weigh in the rate spread decision, including the  
10          appearance of fairness, perceptions of equity, and economic conditions in the service  
11          territory, gradualism, and stability.

12

13   **Q.     Please describe the rate spread proposal in the Multiparty Settlement.**

14   A.     The Multiparty Settlement assigns a share of the PSE revenue requirement to each  
15          rate schedule based on a rate spread that is derived using PSE’s proposed revenue  
16          increase of \$165.1 million as a baseline. These respective shares of the revenue  
17          requirement (or “revenue allocation factors”) are then used to apportion any rate  
18          increase of a differing amount, although this approach would not apply to Schedules  
19          40 and 449. For Schedule 449, no rate change is proposed under any overall revenue  
20          increase scenario, while the Schedule 40 rates will be derived in accordance with the  
21          calculated rate methodology as proposed by PSE in its direct case and discussed  
22          below.

1           At the baseline revenue requirement, the Multiparty Settlement assigns a  
2 uniform percentage rate increase of 10.36 percent to Schedules 7, 24, 31, 35, 43, 46,  
3 49, 50-59, and Firm Resale. For Schedules 25, 26 and 29, the Multiparty Settlement  
4 assigns a rate increase equal to 50 percent of the uniform percentage rate increase  
5 assigned to the other rate schedules, or 5.18 percent.

6  
7 **Q. How are Schedule 40 rates determined?**

8 A. Schedule 40 rates will be determined in accordance with the formula rate  
9 methodology as proposed by PSE in its direct case. Under this approach, Schedule  
10 40 rates for power supply (generation and transmission) are set equal to the Schedule  
11 49 High Voltage charges (adjusted for power factor and losses). In addition,  
12 delivery-related charges are derived based upon customer specific costs of PSE's  
13 distribution facilities used to directly provide delivery services to the Schedule 40  
14 customers.

15  
16 **Q. Why does the Multiparty Settlement propose no rate change for Schedule 449?**

17 A. The Joint Parties recognize that this class is currently providing adequate revenue to  
18 PSE. The Joint Parties have agreed for settlement purposes that assigning no  
19 increase to this class was a reasonable and equitable outcome given the cost-of-  
20 service evidence in this proceeding.

1 **Q. Why does the Multiparty Agreement propose a baseline rate increase for**  
2 **Schedules 25, 26 and 29 that is 50 percent of the baseline rate increase for most**  
3 **other rate schedules?**

4 A. The cost-of-service evidence indicates that the parity ratios of these three rate  
5 schedules are significantly above one and, as a result, these rate schedules are  
6 providing substantially higher rates-of-return at current rates than the system average  
7 rate of return. Therefore, assigning 50 percent of the uniform rate increase to these  
8 rate schedules in the baseline case represents a reasonable balancing of cost-of-  
9 service considerations with other ratemaking principles, such as gradualism.

10

11 **Q. How does the Multiparty Settlement treat Residential customers in the rate**  
12 **spread?**

13 A. Residential customers would receive the uniform rate increase applicable to most  
14 rate schedules.

15

16 **Q. Under the Multiparty Settlement, how are rates spread if the final revenue**  
17 **requirement approved by the Commission is less than that of the \$165.1 million**  
18 **requested by PSE in its rebuttal filing?**

19 A. For a smaller revenue requirement, the revenue allocation factors developed in the  
20 baseline case would be applied to the final revenue requirement once that final  
21 revenue requirement has been reduced by the revenue requirement attributed to  
22 Schedules 40 and 449. For example, the revenue allocation factor for Residential  
23 customers in the baseline case is 55.58 percent. This means that the application of

1 the rate spread agreement would assign to Residential customers 55.58 percent of  
2 PSE's revenue requirement after the revenue attributed to Schedules 40 and 449 is  
3 subtracted. If the final revenue requirement is increased by, say, \$130 million to  
4 approximately \$ 1.968 billion and the revenues attributed to Schedules 40 and 449  
5 are \$41 million and \$9 million respectively, then Residential customers would be  
6 apportioned 55.58 percent of \$1.918 billion, the revenue requirement after the  
7 revenue attributed to Schedules 40 and 449 is subtracted. The application of each  
8 affected rate schedule's revenue allocation factor to the revenue requirement in this  
9 manner would determine its rate change.

10 As noted above, for illustrative purposes the Joint Parties present on page 1  
11 of the Attachment to the Multiparty Settlement the results of a final revenue  
12 requirement increase using a hypothetical amount of \$130,000,000.

13  
14 **Q. What is the merit of using revenue allocation factors to spread the final rate  
15 increase if it is smaller than the baseline increase?**

16 **A.** In developing the proposed rate spread at the baseline increase, the Joint Parties  
17 considered the various cost-of-service evidence in this case, fairness and equity,  
18 economic conditions in the service territory, gradualism, and rate stability. If the  
19 final revenue increase is less than proposed by PSE, the use of revenue allocation  
20 factors to determine the spread of rates will preserve (approximately) the differences  
21 among the rate changes for each rate schedule that was developed in the baseline  
22 case.



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

3 A. The Joint Parties believe that the rate spread set forth in the Multiparty Settlement  
4 and illustrated on page 1 of its Attachment represents a reasonable balancing of the  
5 factors used by the Commission to set rates, including cost-of-service, fairness,  
6 perceptions of equity, economic conditions in the service territory, gradualism, and  
7 rate stability.

8  
9 **III. JOINT TESTIMONY ON ELECTRIC RATE DESIGN**

10  
11 **Q. Please describe the importance of rate design.**

12 A. Rate design is the pricing mechanism for PSE to recover its costs. Rate design  
13 determines the rates that each individual customer actually pays. As a result, rate  
14 design is important for the same reasons that rate spread is important.

15  
16 **Q. What public interest factors are involved in rate design?**

17 A. There are a variety of interests that need to be addressed. Rates should be designed  
18 to correctly reflect intra-class costs incidence and to provide for revenue collection  
19 within customer classes that is fair and reasonable.

20

1 **Q. Were these principles applied in order to develop the rate designs proposed by**  
2 **the Joint Parties?**

3 A. Yes. As set forth in the Multiparty Settlement, the Joint Parties recommend that, for  
4 settlement purposes, basic charges and demand rates be increased by amounts greater  
5 than the average increase.  
6

7 **Q. What is the Joint Parties' recommended rate design?**

8 A. The Joint Parties' rate design follows the methods proposed by PSE and detailed in  
9 Mr. Hoff's direct testimony at Exhibit No. \_\_ (DWH-5), except for the basic charges.  
10 The recommendations are detailed in the Attachment to the Multiparty Settlement  
11 and are summarized on page 2 of that Attachment. The recommended non-  
12 residential basic charges are increased by approximately one-half of the amount  
13 proposed by PSE. The Joint Parties recommend the residential customer charge be  
14 set at \$7.00 per month.  
15

16 **IV. INDIVIDUAL STATEMENTS OF SUPPORT FOR THE**  
17 **MULTIPARTY SETTLEMENT**  
18

19 **Q. Please explain why the Multiparty Settlement satisfies the interests of PSE.**

20 A. Regarding rate spread, a major interest of PSE is that the allocation to rate classes is  
21 seen by our customers as fair and reasonable. The acceptance of this  
22 recommendation by a majority of the parties to this case is a very good indication  
23 that this interest has been served. Regarding rate design, one of PSE's main

1 concerns is to match as close as possible revenues with costs. This settlement makes  
2 significant progress in the reduction of rate disparities, as calculated by PSE.

3  
4 **Q. Please explain why the Multiparty Settlement satisfies the interests of Staff.**

5 A. Staff agrees with the revenue allocations to the rate schedules and finds that the  
6 percentage increase to each schedule is fair and reasonable. The proposed rate  
7 design shows a good measure of movement towards recovering fixed costs through  
8 the fixed price. Staff appreciates the difficulty each party faced in finding an  
9 acceptable solution given the difference of opinion concerning cost-of-service,  
10 revenue allocation, and rate design. Overall Staff considers this settlement a  
11 balanced compromise and recommends its approval by the Commission.

12  
13 **Q. Please explain why the Multiparty Settlement satisfies the interests of ICNU.**

14 A. Rate spread and rate design are critical elements for ICNU. As the record in this  
15 proceeding presents a wide variety of positions with regard to cost-of-service and  
16 rate design, ICNU firmly believed working with the all parties to achieve a  
17 settlement in these areas was extremely important. The Multiparty Settlement is  
18 endorsed by virtually all parties therefore it has a very broad range of support. For  
19 ICNU, it presents a reasonable distribution of revenue responsibility. For all these  
20 reasons, this settlement is in the public interest and fully supported by ICNU.

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

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

9  
10 **Q. Please explain why the Multiparty Settlement satisfies the interests of Kroger.**

11 A. Kroger believes the rate spread approach in the Multiparty Settlement is equitable  
12 because it appropriately balances considerations of cost causation and gradualism,  
13 producing a result that is in the public interest. Kroger believes the rate design in the  
14 Multiparty Settlement reasonably aligns rate components with customer-related,  
15 demand-related, and energy-related costs for the rate schedules under which Kroger  
16 takes service. Kroger fully supports adoption of the Multiparty Settlement.

17  
18 **Q. Does this conclude your joint testimony?**

19 A. Yes.