

Exhibit No. __ T (Joint-4T)
Dockets: UE-072300/UG-072301
Witnesses: Kevin C. Higgins
Donald Schoenbeck
Thomas E. Schooley
Glenn A. Watkins
Stanley Gent
Janet K. Phelps

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, DONALD SCHOENBECK, THOMAS E. SCHOOLEY,
GLENN A. WATKINS, STANLEY GENT, AND
JANET K. PHELPS**

NATURAL GAS RATE SPREAD AND NATURAL GAS RATE DESIGN

AUGUST 18, 2008

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1 **I. INTRODUCTION AND PURPOSE OF JOINT TESTIMONY**

2

3 **Qualifications of Kevin C. Higgins**

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

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

7

8 **Qualifications of Donald Schoenbeck**

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

10 A. My name is Donald Schoenbeck and I am appearing on behalf of Northwest
11 Industrial Gas Users ("NWIGU"). My qualifications are presented in Exhibit No. __
12 (DWS-2).

13

14 **Qualifications of Thomas E. Schooley**

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

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

18

19 **Qualifications of Glenn A. Watkins**

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

21 A. My name is Glenn A. Watkins and I am appearing on behalf of the Public Counsel
22 Section of the Attorney General's Office ("Public Counsel"). My qualifications are
23 presented in Exhibit No. __ (GAW-2).

1 Qualifications of Stanley Gent

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

3 A. My name is Stanley Gent and I am appearing on behalf of Seattle Steam Company.
4 My qualifications are presented in Exhibit No. __ (SG-1T).
5

6 Qualifications of Janet K. Phelps

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

8 A. My name is Janet K. Phelps and I am appearing on behalf of Puget Sound Energy,
9 Inc. ("PSE"). My qualifications are presented in Exhibit No. __ (JKP-2).
10

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

12 A. The purpose of this Joint Testimony is to present the common recommendation of
13 PSE, Staff, Public Counsel, The Energy Project, Seattle Steam Company, Nucor and
14 the NWIGU (hereinafter collectively referred to as the "Parties") on the topics of
15 natural gas rate spread, natural gas rate design and a natural gas cost-of-service
16 collaborative, all as contained in the Partial Settlement Re: Natural Gas Rate Spread
17 and Natural Gas Rate Design, filed with the Commission on August 15, 2008
18 ("Partial Settlement").

19 Pages 1-2 of the Attachment to the Partial Settlement show the agreed-upon
20 rate spread recommendation of the Parties at an assumed revenue increase of
21 \$50,000,000. The Parties recognize the Commission-ordered natural gas revenue
22 increase in this proceeding may be a different amount. This value was chosen
23 simply to show the workings of our rate spread recommendation.

1 Page 3 of the Attachment to the Partial Settlement shows a summary of the
2 agreed upon rate design recommendation of the Parties that is otherwise detailed in
3 the remainder of the Attachment.

4 As stated in that filing, the Partial Settlement replaces and supersedes the
5 Multiparty Settlement on natural gas rate spread and industrial natural gas rate
6 design, filed with the Commission on May 30, 2008. We are pleased to now present
7 for Commission approval an agreement of all parties that have been actively engaged
8 in the issues addressed by our Partial Settlement.

9
10 **II. JOINT TESTIMONY ON NATURAL GAS RATE SPREAD**

11
12 **Q. Please describe rate spread and the policy interests that are important for**
13 **consideration.**

14 **A.** Rate spread allocates the revenue requirement to each of the Company's customer
15 classes. Rate spread should recognize that rates must be just and reasonable and not
16 cause undue discrimination. To this end, revenue responsibility for any class should
17 be informed by the cost to serve the class. However, the Commission has often
18 stated that factors in addition to cost weigh in the rate spread decision, including the
19 appearance of fairness, perceptions of equity, economic conditions in the service
20 territory, gradualism, and stability.

1 **Q. Please describe the rate spread proposal in the Partial Settlement.**

2 A. The Partial Settlement assigns a share of the PSE revenue requirement to each rate
3 schedule based on a rate spread that is derived by first applying various percents of
4 the average increase in margin to each rate class. These relative percentages are
5 found at Column F of page 1 of the Attachment to the Partial Settlement. This
6 calculation leaves a small residual, which is spread to all classes based on the results
7 of the first calculation. The resulting relative percentages, based on an illustrative
8 \$50 million increase, are found at Column S.

9

10 **Q. How does the Partial Settlement treat Residential customers in the rate spread?**

11 A. The Partial Settlement recommends that Residential customers receive an increase
12 that is 98.46% of the system average.

13

14 **Q. How does the Partial Settlement treat large customers?**

15 A. Schedule 86 would experience no rate change. Schedules 41 and 85 would share in
16 the overall increase, each receiving 12.5% of the system average percentage
17 increase, whereas Schedules 87/57 would receive 50% of the system average
18 percentage increase. This compromise among the Parties acknowledges that
19 significant differences exist in the cost of service studies sponsored by various
20 witnesses in this proceeding.

21

1 **Q. How is the Contract class treated under the Partial Settlement?**

2 A. The Parties' recommended rate spread assigns one-half the average system
3 percentage increase to the contract class. We realize the actual increase experienced
4 by these customers will be pursuant to their specific contractual provisions.
5 However, the Parties agree to an assignment comparable to the increase that will be
6 experienced by the other large industrial customers for this proceeding.

7
8 **Q. How is the Commercial & Industrial class treated under the Partial Settlement?**

9 A. The Parties' recommend Commercial & Industrial ("C&I") customers receive a
10 margin increase at 142.35% of the average. This class was significantly below parity
11 in all parties' cost of service analyses.

12
13 **Q. How are the Rental customers treated under the Partial Settlement?**

14 A. Water heating rental customers are allocated 100% of the system average increase.

15
16 **Q. Please explain why the Parties believe this rate spread is in the public interest.**

17 A. The rate spread set forth in the Partial Settlement and illustrated in the Attachment to
18 the Partial Settlement acknowledges that there has been considerable controversy in
19 this proceeding regarding the many cost-of-service studies prepared by PSE and the
20 other parties.

21 While there were major differences in cost study results for the non-
22 residential classes, we found some consistent threads we could use to create a fair
23 and reasonable rate spread. All cost studies consistently showed the Residential

1 class near parity, the Rental class substantially below parity, and certain schedules
2 (41, 85, and 86) well above parity.

3 For Schedules 87 and 57, and the Contract class, the cost study results ranged
4 from indicating well above parity to less than parity. The compromise reached by
5 the Parties was to assign one-half the average increase to these classes.

6 Taken together, the Parties believe that the recommended rate spread is in the
7 public interest because it makes every effort to move classes toward parity where
8 there are uniform results indicated by the cost studies submitted in this proceeding
9 while minimizing severe customer impacts. For classes where there were
10 contradictory results indicated by the various cost studies, the parties were able to
11 achieve a compromise reflecting a middle ground.

12 13 III. JOINT TESTIMONY ON NATURAL GAS RATE DESIGN

14
15 **Q. Please describe the importance of rate design.**

16 A. Rate design is the pricing mechanism for the Company to recover its costs. Rate
17 design determines the rates that each individual customer actually pays. As a result,
18 rate design is important for the same reasons that rate spread is important.

19
20 **Q. What policy interests are involved in rate design?**

21 A. There are a variety of interests that need to be addressed. Rates should be designed
22 to correctly reflect costs and to provide for revenue collection within customer
23 classes that is fair and reasonable. Just as important, customers with similar load

1 characteristics and cost of service should be grouped or aggregated onto the same
2 rate schedule. In this proceeding, PSE is attempting to do this with the proposal to
3 phase out Schedule 57.

4
5 **Q. Were these principles applied in order to develop the proposed industrial gas**
6 **rate structures proposed by the Parties?**

7 A. Yes. As set forth in the Partial Settlement, the Parties recommend Schedule 57 be
8 eliminated at the conclusion of this proceeding with the existing terms and
9 conditions of the existing Schedule 57 maintained in the new transportation
10 schedules. Therefore, the settlement for the new Schedules 85T and 87T proposes
11 there be no requirement for fuel exclusivity, or fuel back-up, and there be annual,
12 instead of monthly, minimum bill provisions for Schedules 85 and 87. The Partial
13 Settlement incorporates the same language into both the sales and transportation
14 schedules, and entirely eliminates the current Schedule 57.

15
16 **Q. What is the Parties' recommended rate design for the large industrial gas rates?**

17 A. The Parties' industrial rate design applies the Schedule 87 class average increase to
18 the demand and customer charges for Schedules 85 and 87, recognizing there will
19 now be two customer charges — one for sales service and one for transportation
20 service under each of these schedules. The existing gas procurement charges of
21 Schedule 85 and 87 will remain unchanged and the transportation balancing service
22 charge will be as proposed by PSE in its filing. Any remaining assigned increase

1 will be recovered through an equal percentage increase to all volumetric charges for
2 each rate schedule.

3 The Parties consider the industrial rate design and rate spread to be part of a
4 comprehensive package. Compromises were reached with respect to rate spread
5 with the understanding that the large customer rate design would be on essentially an
6 equal percentage approach as described above. Under this approach, both firm and
7 non-firm service would experience about the same percentage increase within each
8 large customer rate schedule. In addition, rate shock is minimized during this critical
9 time when many customers will be transferred to a different schedule.

10
11 **Q. What is the Parties' recommended rate design for other customer classes?**

12 **A.** The proposed basic charges for all other schedules are summarized below in Table 1:

13 **Table 1: Monthly Basic Charges for Schedules 23, 31, 41 and 86**

Schedule	Basic Charge
23 Residential	\$10.00
31 Commercial & Industrial	\$30.00
31T Commercial & Industrial Transportation	\$330.00
41 Large Volume	\$105.00
41T Large Volume Transportation	\$405.00
86 Limited Interruptible	\$137.50
86T Limited Interruptible Transportation	\$437.50

14
15 Demand charges for Schedules 41 and 86 and their related transportation schedules
16 will be equal to the demand charges for Schedules 85 and 87.

17 The procurement charge for Schedule 86 sales will remain at its current level
18 of \$0.00650 per therm. The balancing charge for Schedule 86T will be \$0.00070 per
19 therm as proposed by PSE, consistent with Schedules 85T and 87T.

1 The rate design agreement is summarized on page 2 of the Attachment to the
2 Partial Settlement and detailed in the remaining pages of the Attachment.

3
4 **IV. JOINT TESTIMONY ON NATURAL GAS COST-OF-SERVICE**
5 **COLLABORATIVE**
6

7 **Q. Are there any other matters where the Parties have reached a consensus?**

8 A. Yes. The Parties agreed that a gas cost-of-service collaborative should be held
9 among all parties to openly discuss natural gas cost-of-service, rate spread and rate
10 design concepts prior to PSE filing its next general rate case. The Parties agreed that
11 use of an independent outside expert retained by PSE would facilitate such a
12 discussion and effort. The Partial Settlement provides that collaborative participants
13 can provide input to PSE in its selection of the outside expert.

14 The Parties recognize that the collaborative may not reach an agreed result.
15 The Partial Settlement states that any disagreement can be brought before the
16 Commission for resolution in the Company's next general rate case.

17
18 **V. INDIVIDUAL STATEMENTS OF SUPPORT FOR THE**
19 **PARTIAL SETTLEMENT**
20

21 **Q. Please explain why the Partial Settlement satisfies the interests of Staff.**

22 A. Staff considered the four cost-of-service models presented in this proceeding to
23 support the various revenue allocation and rate design proposals. While the results
24 of certain models offered nearly opposite opinions of fair revenue allocations, the
25 few areas of agreement led to compromises by the Parties. Staff supports these

1 compromises as a fair and reasonable end result. Equitable outcomes are achieved
2 by no schedule receiving a decrease while others receive increases, and the
3 acceptance of some parties to receive an increase even though rate decreases were
4 indicated by their own cost studies.

5 The rate design for the industrial schedules maintains proportionate increases
6 to the rate components, which promotes fairness to the customers transitioning to the
7 new transportation schedules from Schedule 57.

8 Finally, the various cost of service studies indicate a substantial difference of opinion
9 on how customers use PSE's gas system. A collaborative effort to reach a common
10 understanding of the system may reduce the need for contentious litigation in future
11 rate cases. This is a laudable goal and Staff supports that effort.

12
13 **Q. Please explain why the Partial Settlement satisfies the interests of NWIGU.**

14 **A.** Rate spread and rate design are critical elements for NWIGU. As the record in this
15 proceeding presents a wide variety of positions with regard to cost-of-service and
16 rate design, NWIGU firmly believed working with the all parties to achieve a
17 settlement in these areas was absolutely necessary. The Partial Settlement has a very
18 broad range of support. For NWIGU, it presents a fair distribution of revenue
19 responsibility, a major step in the restructuring of large user tariffs with regard to
20 prices, terms and conditions, and it calls for a collaborative to hopefully lead to more
21 efficient proceedings in the future. For all these reasons, this settlement is in the
22 public interest and fully supported by NWIGU.

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

3 A. Public Counsel witness Glenn 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 Partial 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 the Company and all jurisdictional
8 ratepayers including residential and small business customers.

9
10 **Q. Please explain why the Partial Settlement satisfies the interests of Nucor.**

11 A. The Partial Settlement provides a reasonable apportionment of revenue responsibility
12 among customer classes, given the range of results produced by differing cost of
13 service studies. Similarly, the industrial rate design, which provides substantially the
14 same percentage increase for firm service and non-firm service, represents a
15 reasonable compromise in light of the rate spread agreement.

16
17 **Q. Please explain why the Partial Settlement satisfies the interests of Seattle Steam**
18 **Company.**

19 A. As other parties have said, the record in this proceeding showed a wide disparity in
20 the positions of the parties, both with regard to cost of service, rate spread and rate
21 design. As with any settlement, the compromise that the Parties are proposing is not
22 entirely satisfactory to any of the parties. Seattle Steam believes, however, that the
23 collaborative that the Parties are proposing provides the best forum for resolving

1 those issues in a manner that fully considers all parties positions and interests. Thus
2 Seattle Steam believes it is likely that the best long-term resolution of the contested
3 interests would be achieved by allowing the parties to work together to resolve them
4 rather than forcing the Commission to resolve the divergent positions regarding cost
5 of service, rate spread and rate design that have been expressed in this proceeding.
6

7 **Q. Please explain why the Partial Settlement satisfies the interests of PSE.**

8 A. The collaborative proposed in the Partial Settlement provides a forum for addressing
9 the conflicting views on cost of service analysis presented in this proceeding. The
10 proposed increases to the basic charges and demand charges provide movement
11 toward fixed cost recovery through fixed charges. The acceptance of the new
12 transportation schedules and the elimination of Schedules 36 and 51 allow PSE to
13 treat its customers more fairly by providing consistent prices for services provided.
14 The proposed rate spread represents a compromise among divergent interests while
15 moving certain classes closer to parity.
16

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

18 A. Yes.