

**EXHIBIT NO. \_\_\_(SPG-1T)  
DOCKET NOS. UE-111048/UG-111049  
2011 PSE GENERAL RATE CASE**

**WITNESSES:**

**KEVIN C. HIGGINS  
JANET K. PHELPS  
DONALD SCHOENBECK  
CHRISTOPHER MICKELSON  
GLENN A. WATKINS**

**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**

**JOINT TESTIMONY OF  
KEVIN C. HIGGINS, CHRISTOPHER T. MICKELSON, JANET K. PHELPS,  
DONALD SCHOENBECK AND GLENN A. WATKINS**

**GAS RATE SPREAD AND GAS RATE DESIGN**

**JANUARY 17, 2012**

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**NATURAL GAS RATE SPREAD AND NATURAL GAS RATE DESIGN**

**I. INTRODUCTION**

**A. Qualifications of Kevin C. Higgins**

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

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

**B. Qualifications of Christopher T. Mickelson**

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

A. My name is Christopher T. Mickelson, and I am appearing on behalf of Commission Staff. My qualifications are presented in Exhibit No. \_\_\_(CTM-1T).

**C. Qualifications of Janet K. Phelps**

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

A. My name is Janet K. Phelps, and I am appearing on behalf of Puget Sound Energy, Inc. (“PSE”). My qualifications are presented in Exhibit No. \_\_\_(JKP-2).

1 **D. Qualifications of Donald Schoenbeck**

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

3 A. My name is Donald Schoenbeck, and I am appearing on behalf of Northwest  
4 Industrial Gas Users (“NWIGU”). My qualifications are presented in Exhibit  
5 No. \_\_\_(DWS-2).

6 **E. Qualifications of Glenn A. Watkins**

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

8 A. My name is Glenn A. Watkins. I am testifying on behalf of the Public Counsel  
9 Section of the Washington Attorney General’s Office (“Public Counsel”). I did  
10 not file direct testimony in this docket, but have analyzed the PSE filing and  
11 testimony of other parties and provided advice to Public Counsel regarding the  
12 gas rate spread and rate design issues.

13 **Q. Please describe your professional qualifications.**

14 A. Except for a six month period during 1987 in which I was employed by Old  
15 Dominion Electric Cooperative as its forecasting and rate economist, I have been  
16 employed by Technical Associates continuously since 1980.

17  
18 During my career at Technical Associates, I have conducted marginal and  
19 embedded cost of service, rate design, cost of capital, and load forecasting studies

1 involving numerous electric, gas, water/wastewater, and telephone utilities, and  
2 have provided expert testimony in Alabama, Arizona, Georgia, Kansas,  
3 Kentucky, Maine, Maryland, Massachusetts, Michigan, New Jersey, North  
4 Carolina, Illinois, Pennsylvania, Vermont, Virginia, South Carolina, Washington,  
5 and West Virginia. I hold an M.B.A and B.S. in economics from Virginia  
6 Commonwealth University. I am a member of several professional organizations  
7 as well as a Certified Rate of Return Analyst. In addition to representing Public  
8 Counsel in several PSE general rate cases, I have also represented Public Counsel  
9 in two recent PacifiCorp and Avista general rate cases relating to issues  
10 concerning class cost of service, class revenue allocations (rate spread), and  
11 residential rate design.

12 **F. Purpose of Joint Testimony**

13 **Q. What is the purpose of this joint testimony?**

14 A. The purpose of this Joint Testimony is to present the common recommendation of  
15 PSE, Staff, Public Counsel, NWIGU, and Nucor (hereinafter collectively referred  
16 to as “Settling Parties”) on the topics of gas rate spread and gas rate design, all as  
17 contained in the Multiparty Settlement Re: Natural Gas Rate Spread and Natural  
18 Gas Rate Design, filed with the Commission on January 17, 2012 (the  
19 “Multiparty Settlement”).

20 The Attachment to the Multiparty Settlement shows the agreed-upon rate spread  
21 recommendation and a summary of the agreed-upon rate design recommendation

1 of the Settling Parties.

2 **II. JOINT TESTIMONY ON NATURAL GAS RATE SPREAD**

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  
9 stated that factors in addition to cost weigh in the rate spread decision, including  
10 the appearance of fairness, perceptions of equity, economic conditions in the  
11 service territory, gradualism, and stability.

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

13 A. The Attachment to this Multiparty Settlement shows the Settling Parties' agreed  
14 rate spread expressed as a proportion of the percentage increase in total system  
15 margin. These proportions can be applied to the final revenue requirement  
16 determined by the Commission. The Multiparty Settlement assigns a uniform  
17 percentage rate increase equal to the overall percentage increase to margin  
18 revenues to Schedules 16, 23, 53, 31, 31T, 61, 87 and 87T. For Schedules 41 and  
19 41T, the Multiparty Settlement assigns a percentage increase equal to 50 percent  
20 of the uniform percentage increase assigned to Schedules 16, 23, 53, 31, 31T, 61,

1 87 and 87T. For Schedules 85, 85T, 86, 86T, 71, 72 and 74, the Multiparty  
2 Settlement assigns a percentage increase equal to 25 percent of the uniform  
3 percentage increase assigned to Schedules 16, 23, 53, 31, 31T, 61, 87 and 87T.

4 **Q. Why does the Multiparty Settlement propose a rate increase for Schedules 41**  
5 **and 41T that is 50 percent of the uniform increase?**

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

12 **Q. Why does the Multiparty Settlement propose a rate increase for Schedules**  
13 **85, 85T, 86, 86T, 71, 72 and 74 that is 25 percent of the uniform increase?**

14 A. Cost of service studies were presented by two of the Settling Parties in this  
15 proceeding. For Schedules 85, 85T, 86, 86T, 71, 72 and 74 the combined cost-of-  
16 service evidence indicates that the parity ratios of these rate schedules are  
17 significantly above one and, as a result, these rate schedules are providing  
18 substantially higher rates-of-return at current rates than the system average rate of  
19 return. Therefore, assigning 25 percent of the uniform rate increase to these rate  
20 schedules represents a reasonable balancing of cost-of-service considerations with  
21 other ratemaking principles, such as gradualism.

1 **Q. How does the Multiparty Settlement treat residential customers in the rate**  
2 **spread?**

3 A. Residential customers would receive the uniform rate increase applicable to most  
4 rate schedules.

5 **Q. Please explain why the Settling Parties believe this rate spread is in the**  
6 **public interest.**

7 A. The Settling Parties believe that the rate spread set forth in the Multiparty  
8 Settlement and its Attachment represents a reasonable balancing of the factors  
9 used by the Commission to set rates, including cost-of-service, fairness,  
10 perceptions of equity, economic conditions in the service territory, gradualism,  
11 and rate stability.

12 **III. JOINT TESTIMONY ON NATURAL GAS RATE DESIGN**

13 **Q. Please describe the importance of rate design.**

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

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

18 A. There are a variety of interests that need to be addressed, and there are tradeoffs  
19 between these interests. Rates should be adequate to recover the revenue



1 requirement, be reasonably stable, reflect the costs of providing service, be fair,  
2 send proper price signals, and be relatively simple.

3 **Q. Were these principles considered in order to develop the rate designs**  
4 **proposed by the Settling Parties?**

5 A. Yes, the proposed rate design reflects a balancing of these factors and represents  
6 the different perspectives of the Settling Parties. There are some changes to the  
7 current structure, as presented below, but in general, the rate structure will be  
8 similar to the current structure.

9 **Q. What is the Settling Parties' recommended rate design?**

10 A. The Settling Parties' rate design follows the methods proposed by PSE and  
11 detailed in PSE's direct testimony at Exhibit No. \_\_\_(JKP-1T) and supporting  
12 exhibits, with the following two exceptions.

13 The basic charge for residential service under Schedules 23 and 53 shall be  
14 limited to \$10.50 per month. If application of the uniform percentage increase to  
15 Schedule 23 results in a monthly basic charge equal to or greater than \$10.50, the  
16 monthly basic charge shall be \$10.50 and the volumetric delivery charge shall be  
17 adjusted upward to collect the remainder of the assigned revenue for the  
18 residential class in total. If application of the uniform percentage increase to  
19 Schedule 23 results in a monthly basic charge less than \$10.50, the monthly basic  
20 charge shall be the amount calculated based on the uniform percentage increase.

1 The demand charge for Schedules 41, 41T, 85, 85T, 86, 86T, 87 and 87T shall be  
2 calculated based on the percentage increase to Schedules 85 and 85T, instead of  
3 based on the percentage increase to Schedules 87 and 87T as originally proposed  
4 by PSE. The demand charge shall be the same for all of these schedules. For  
5 each of these schedules, the percentage increase to the basic charge and  
6 volumetric rates will be adjusted proportionally to ensure the assigned revenue is  
7 recovered for the schedule in total.

8 The rate design agreement includes minimum volume requirements for Schedules  
9 41, 41T, 85 and 85T consistent with those proposed by PSE in its prefiled direct  
10 testimony, which no party opposed.

11 The rate design agreement is also summarized in the Attachment to the Multiparty  
12 Settlement.

13 **IV. INDIVIDUAL STATEMENTS OF SUPPORT FOR THE**  
14 **MULTIPARTY SETTLEMENT**

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

16 A. Regarding rate spread, a major interest of PSE is that the allocation to rate classes  
17 is seen by our customers as fair and reasonable. The acceptance of this  
18 recommendation by a majority of the parties to this case is a good indication that  
19 this interest has been served. Regarding rate design, the changes from current  
20 practice are limited and reasonable.

1 **Q. Please explain why the Multiparty Settlement satisfies the interests of**  
2 **Commission Staff.**

3 A. Staff is pleased that the Settling Parties were able to reach agreement on rate  
4 spread and rate design. Staff believes that the rate spread set forth in the  
5 Multiparty Settlement represents a reasonable balancing of the factors used by the  
6 Commission to set rates, including cost-of-service, fairness, perceptions of equity,  
7 economic conditions in the service territory, gradualism, and rate stability.

8 Although PSE's cost of service study and rate spread did not receive endorsement  
9 by all of the Settling Parties in the present case, the compromise reached by the  
10 Settling Parties is similar to PSE's original proposal and, in Staff's opinion, is fair  
11 and reasonable.

12 The agreement on natural gas rate design applies an increase to all schedules, puts  
13 a limit on the residential customer base charge at \$10.50 per month, and for the  
14 commercial and industrial affected schedules the demand charge will be set at the  
15 same rate. Staff accepts this rate design as fair and reasonable for settlement  
16 purposes.

17  
18 **Q. Please explain why the Multiparty Settlement satisfies the interest of Public**  
19 **Counsel.**

20 A. Public Counsel witness Watkins recognizes the diverse interests of the various  
21 parties and stakeholders in this proceeding. This diversity is particularly evident

1 in the area of class revenue responsibility. The Multiparty Settlement represents  
2 compromises made by all interests and provides for the allocation of any overall  
3 authorized increase that is fair and reasonable to the Company and all  
4 jurisdictional ratepayers including residential and small business customers.

5 **Q. Please explain why the Multiparty Settlement satisfies the interests of**  
6 **NWIGU.**

7 A. Rate spread and rate design are critical elements for NWIGU. While the signing  
8 parties may each hold different positions on the cost of serving the various  
9 customer classes, NWIGU firmly believed working with all the parties to achieve  
10 a settlement in these areas was absolutely necessary. For NWIGU, it presents a  
11 fair distribution of revenue responsibility to the various customer classes given  
12 the cost-of-service positions articulated by the settlement parties. With regard to  
13 rate design, the Multiparty Settlement maintains the same demand charge  
14 applicable to all sales and transportation customers served under Rate Schedules  
15 41, 41T, 85, 85T, 86, 86T, 87 and 87T. This rate design along with the new  
16 minimum volume requirement for Rate Schedules 41, 41T, 85, and 85T were  
17 critical to NWIGU for properly reflecting cost of service considerations within  
18 the specific design of these tariffs. The Multiparty Settlement has a very broad  
19 range of support. For these reasons, the Multiparty Settlement is in the public  
20 interest and fully supported by NWIGU. NWIGU recommend the Commission  
21 approve the Multiparty Settlement.

1 **Q. Please explain why the Multiparty Settlement satisfies the interests of Nucor.**

2 A. The Multiparty Settlement provides a reasonable apportionment of revenue  
3 responsibility among customer classes, given the range of results produced by the  
4 cost-of-service studies that were presented in this case. The rate design for large  
5 customers is also reasonable, as the demand charge will continue to be equalized  
6 across all demand-billed rate schedules. This consistency will provide for rational  
7 transitions between rate schedules, which is a characteristic of sound rate design.

8 **V. CONCLUSION**

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

10 A. Yes.