Exhibit No. ___T (JT-1T)
Docket No. UE-050684
Joint Testimony of Joelle Steward, Kathryn Iverson and Jim Lazar

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PACIFICORP d/b/a Pacific Power & Light Company,** **Respondent.**	**DOCKET NO. UE-050684**

JOINT TESTIMONY OF JOELLE STEWARD, KATHRYN IVERSON AND JIM LAZAR

RE: Rate Spread and Rate Design

November 3, 2005

I. INTRODUCTION

JOELLE STEWARD

Q. Please state your name, position, business address and the party for whom you are appearing.

A. My name is Joelle Steward. I am employed by the Washington Utilities and Transportation Commission as a Regulatory Analyst. My business address is 1300 S. Evergreen Park Drive S.W., Olympic, 98504-7250. My email address is jsteward@wutc.wa.gov. I am appearing on behalf of Commission Staff. A statement of my qualifications is found in Exhibit No. ___ (JT-2).

KATHRYN IVERSON

Q. Please state your name, position, business address and the party for whom you are appearing.

A. My name is Kathryn Iverson. I am employed by Brubaker & Associates, Inc. as an Associate. My business address is 17244 W. Cordova Ct., Surprise, Arizona, 85387. My email address is kiverson@consultbai.com. I am appearing on behalf of the Industrial Customers of Northwest Utilities (ICNU). A statement of my qualifications is found in Exhibit No. ___ (JT-3).

JIM LAZAR

Q. Please state your name, position, business address and the party for whom you are appearing.

A. My name is Jim Lazar. I am a self-employed consulting economist. My business address is 1063 Capitol Way S. #202, Olympia, Washington 98501. I am appearing on behalf of the Public Counsel Section of the Washington State Attorney General's Office. A statement of my qualifications is found in Exhibit No. ___ (JT-4).

Q. What topics are you covering in this joint testimony?

A. This joint testimony covers the topics of rate spread and rate design.

II. SUMMARY OF RECOMMENDATIONS

Q. Please summarize your recommendations on rate spread and rate design.

A. For rate spread, if the Commission approves a rate increase, we recommend that Small General Service, Schedule 24, receive 75 percent of the average percentage increase and Large General Service under 1000 kW, Schedule 36,

receive the average percentage increase. All other schedules should receive a uniform percentage increase to recover the remaining revenue requirement.

If the Commission approves a decrease in rates, we recommend that all schedules receive a uniform percentage decrease.

For rate design, we recommend that the Commission accept the Company's proposed rate designs, adjusted proportionally for the approved revenue requirement.

III. DISCUSSION

A. Rate Spread Issues

Q. What is rate spread?

A. Rate spread is how a utility recovers a revenue increase (or decrease) among customer classes. For example, a utility could recover an increase as an equal percentage across customer classes, or it could recover a higher proportion of an increase from certain classes, and less from other classes. Issues that we take into consideration for rate spread include parity, gradualism, rate stability, equity and fairness.

Q. How does the Company propose to allocate its requested 17.9% revenue increase among customer classes?

A. As explained in the Direct Testimony of William R. Griffith, Exhibit No. ___T (WRG-1T), page 2, lines 10-13, the Company proposes to allocate the revenue increase on an equal percentage basis to all customer classes except General Service Schedules 24 and 36, which would receive 75 percent of the average increase. Mr. Griffith states that a smaller increase to these general service schedules more accurately reflects their cost of service.

Q. Assuming the Commission grants a rate increase in this case, do you concur with the Company's proposal for allocating the revenue increase to customer classes?

A. Not entirely. We propose to modify Mr. Griffith's proposal. We agree with Mr. Griffith's testimony that Schedule 24, Small General Service, should receive an increase equal to 75 percent of the average percentage increase. However, we recommend that Schedule 36, Large General Service under 1000 kW, receive the average percentage increase rather than 75 percent of the average, as proposed by the Company. All other rate schedules should receive a uniform percentage increase that captures the residual revenue

requirement increase, which is approximately 106 percent of the average percentage increase.

Table 1 below is an example of the joint parties' proposed allocation by customer class compared to the Company's proposal, using the Company's proposed revenue increase of $39.2 million as the basis for comparison.

Table 1 – Rate Spread Example

Schedule No.	Customer Class	Company Proposal	Joint Parties' Proposal
16	Residential	20.3%	18.9%
24	Small General Service	13.4%	13.4%
36	Large Gen Service < 1000 kW	13.4%	17.9%
48T	Large Gen Service > 1000 kW	20.3%	18.9%
40	Irrigation	20.3%	18.9%
15, 51–54, 57	Street/Area Lighting	20.3%	18.9%
Proposed Revenue Increase		17.9%	17.9%

Q. Why is this allocation method more appropriate than the method proposed by the Company?

A. We considered the cost of service results presented by Company witness David L. Taylor in Exhibit No. ___ (DLT-7), as reviewed and tested by the parties. The results of the parties' tests to the Company's cost of service model were consistent in showing Schedule 24 and Schedule 36 to be above parity, but to different degrees.

In addition, we considered other factors, including gradualism, economic conditions in the service territory, perceptions of fairness and equity, and relative load growth between customer classes. The Commission has consistently held that factors other than cost of service should be considered in setting rates.

Q. What does "parity" mean in this context?

A. "Parity" means that a class is fairly contributing revenues to cover the cost to serve that class. There are two ways to measure parity. One way is to look at the rate of return the customer class is earning in comparison to the utility's overall rate of return. If a customer class were earning a return equal to the system return, then it would have a return index of 1.0, and be contributing proportionately to the utility's rate of return and be at parity (often called "unity"). On the other hand, if a return index is above or below 1.0 then the class is not contributing proportionately and may be over-earning or under-earning, respectively.

Table 2 below shows each class's earned rate of return in this case, based on the Company's cost study. As you can see, Schedule 24 is contributing 71 percent more in earnings than PacifiCorp's estimate of its current Washington overall earned return on rate base of 4.97 percent.

Schedule 36 is also contributing earnings in excess of the average return, but at half the level of Schedule 24.

The other way to measure parity is to look at the revenue to cost ratio, also presented in Table 2. This is a ratio of class revenue at current rates to the cost to serve that class, based on the cost study. A class that is contributing revenue equal to the Company's cost to serve that class would have a revenue to cost ratio of 100 percent. Table 2 shows that Schedules 24 and 36 are contributing more revenues than the costs allocated to them, but again, with Schedule 36 at 50 percent less than Schedule 24.

Table 2 – Customer Class Parity

Schedule No.	Customer Class	Return on Rate Base	Rate of Return Index	Revenue to Cost Ratio
16	Residential	4.24%	0.85	98%
24	Small General Service	8.49%	1.71	110%
36	Large General Service	6.65%	1.34	105%
48T	Large Power Service	2.71%	0.55	94%
40	Irrigation	4.53%	0.91	99%
15, 51- 54, 57	Street/Area Lighting	1.75%	0.35	91%
Washington Jurisdiction		4.97%	1.00	100%

Q. What conclusions are appropriate to draw from this evidence?

A. Schedules 24 and 36 deserve smaller increases than the other schedules; however, they do not warrant equal treatment in rate spread as proposed by PacifiCorp. Schedule 36 is within a reasonable proximity to parity, so the

average increase is reasonable. The remaining rate schedules are below parity, and therefore should receive above-average increases. The joint parties' proposed rate spread allows for movement towards parity for the classes that are farthest from parity.

Q. None of the other schedules are at parity in the cost of service study, so why aren't you proposing divergent percentage increases for the other schedules based on their relative position from full parity?

A. There is a high degree of judgment on classification and allocation of costs in a cost of service study, and the underlying statistical studies are only precise within limits. Consequently, the study results do not generally lend themselves to a mechanical application. Indeed, the Commission has in the past guarded against mechanically applying the results of cost of service studies, and has taken into consideration other pertinent factors such as customer impact and economic conditions in the service area.[1]

The Commission's general policy on rate spread issues has been to make gradual movements toward parity (*e.g.*, one-third toward parity) for those classes falling outside of a "range of reasonableness," which reflects the

[1] See, for example: *WUTC v. Cascade Natural Gas,* Cause No. U-86-100, Fourth Supplemental Order (May 21, 1987), page 12; *WUTC v. Washington Natural Gas,* Docket Nos. UG-940034/UG-940814, Fifth

imprecise nature of cost of service studies. This is done with an eye to minimizing any potential severe customer impacts. The joint parties took all this into consideration in formulating our proposal.

Q. What is the appropriate rate spread in the event the Commission approves a revenue decrease?

A. We recommend that, for simplicity, the decrease be applied equally across customer classes.

B. Rate Design

Q. What is rate design?

A. Rate design is the structure in which a utility recovers the costs to serve a customer class using different billings components such as fixed customer charges, energy rates and demand rates. As with rate spread, we strive to have the rate structure and the rate components reflect the cost to serve that class in order to send a proper price signal to customers.

Supplemental Order (April 11, 1995), page 17; *WUTC v. PacifiCorp*, Docket No. UE-001832, Third Supplemental Order (August 9, 2000), page 10.

Q. Please summarize the Company's rate design proposals.

A. The Company's general approach to general service rate design in this case is to apply larger increases to the fixed charges and demand charge components, and smaller increases to energy charges. For the residential class, the Company has proposed an emphasis on the second block of energy consumption. According to Company witness Mr. Griffith, this approach "reflect[s] cost of service results in order to send proper price signals to customers while recovering the proposed revenue requirement." *Exhibit No. ___T (WRG-1T), page 4, line 10-12.*

Q. Is this general approach for rate design appropriate?

A. Yes. We recommend the Commission adopt the rate design proposed by the Company, with all billing components adjusted (up or down) proportionally in the manner proposed by the Company to reflect the approved revenue requirement. We agree with Mr. Griffith that the Company's proposed rate design is consistent with the Company's cost of service results.

Q. Does this conclude your joint testimony?

A. Yes.