

**EXHIBIT NO. SPE-1T
DOCKET NOS. UE-090704/UG-090705
2009 PSE GENERAL RATE CASE
WITNESSES: KEVIN C. HIGGINS
JANET K. PHELPS
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 No. UE-090704
Docket No. UG-090705**

**JOINT TESTIMONY OF
KEVIN C. HIGGINS, JANET K. PHELPS, DONALD SCHOENBECK,
THOMAS E. SCHOOLEY, AND GLENN A. WATKINS**

ELECTRIC RATE SPREAD AND ELECTRIC RATE DESIGN

JANUARY 15, 2010

**JOINT TESTIMONY OF
KEVIN C. HIGGINS, JANET K. PHELPS, DONALD SCHOENBECK,
THOMAS E. SCHOOLEY, AND GLENN A. WATKINS**

ELECTRIC RATE SPREAD AND ELECTRIC RATE DESIGN

CONTENTS

| | | |
|------|---|---|
| I. | INTRODUCTION | 1 |
| A. | Qualifications of Kevin C. Higgins | 1 |
| B. | Qualifications of Janet K. Phelps..... | 1 |
| C. | Qualifications of Donald Schoenbeck | 1 |
| D. | Qualifications of Thomas E. Schooley | 2 |
| E. | Qualifications of Glenn A. Watkins..... | 2 |
| F. | Purpose of Joint Testimony | 2 |
| II. | JOINT TESTIMONY ON ELECTRIC RATE SPREAD..... | 3 |
| III. | JOINT TESTIMONY ON ELECTRIC RATE DESIGN | 5 |
| IV. | INDIVIDUAL STATEMENTS OF SUPPORT FOR THE MULTIPARTY SETTLEMENT | 6 |
| V. | CONCLUSION..... | 9 |

1 **D. Qualifications of Thomas E. Schooley**

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

3 A. My name is Thomas E. Schooley, and I am appearing on behalf of Commission
4 Staff. My qualifications are presented in Exhibit No. TES-1T.

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

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

7 A. My name is Glenn A. Watkins, and I am appearing on behalf of Public Counsel.
8 My qualifications are presented in Exhibit No. GAW-2.

9 **F. Purpose of Joint Testimony**

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

11 A. The purpose of this Joint Testimony is to present the common recommendation of
12 PSE, Staff, Public Counsel, ICNU, and Kroger (hereinafter collectively referred
13 to as “Settling Parties”) on the topics of electric rate spread and electric rate
14 design, all as contained in the Multiparty Settlement Re: Electric Rate Spread and
15 Electric Rate Design, filed with the Commission on January 15, 2010 (the
16 “Multiparty Settlement”).

17 Page 1 of the Attachment to the Multiparty Settlement shows the agreed-upon rate
18 spread recommendation of the Settling Parties illustrating the results of a final

1 revenue requirement increase using a hypothetical amount of \$113 million, called
2 the baseline increase. The Settling Parties recognize the Commission-ordered
3 electric revenue increase in this proceeding may be a different amount. This
4 value was chosen simply to show the workings of our rate spread
5 recommendation.

6 Page 2 of the Attachment to the Multiparty Settlement shows a summary of the
7 agreed upon rate design recommendation of the Settling Parties.

8 II. JOINT TESTIMONY ON ELECTRIC RATE SPREAD

9 **Q. Please describe rate spread and the policy interests that are important for**
10 **consideration.**

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

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

19 A. For Schedule 40, rates will be derived in accordance with the calculated rate
20 methodology as proposed by PSE in its direct case and discussed below.

1 The Multiparty Settlement assigns a uniform percentage rate increase to
2 Schedules 5, 7, 24, 26, 31, 35, 43, 46, 49, 50-59, 448, and 449. At the baseline
3 increase, this is a 5.83% percent increase.

4 For Schedules 25 and 29, the Multiparty Settlement assigns a rate increase equal
5 to 75 percent of the uniform percentage rate increase assigned to the other rate
6 schedules, or 4.37% percent given the baseline increase.

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

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

14 **Q. Why does the Multiparty Settlement propose a rate increase for Schedule 25
15 that is 75 percent of the rate increase for most other rate schedules?**

16 A. The cost-of-service evidence indicates that the parity ratio of this rate schedule is
17 significantly above one and, as a result, this rate schedule is providing
18 substantially higher rates-of-return at current rates than the system average rate of
19 return. Therefore, assigning 75 percent of the uniform rate increase to this rate
20 schedule represents a reasonable balancing of cost-of-service considerations with

1 other ratemaking principles, such as gradualism.

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

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

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

8 A. The Settling Parties believe that the rate spread set forth in the Multiparty
9 Settlement and illustrated on page 1 of its Attachment represents a reasonable
10 balancing of the factors used by the Commission to set rates, including cost-of-
11 service, fairness, perceptions of equity, economic conditions in the service
12 territory, gradualism, and rate stability.

13 **III. JOINT TESTIMONY ON ELECTRIC RATE DESIGN**

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

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

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

19 A. There are a variety of interests that need to be addressed. Rates should be

1 designed to correctly reflect costs and to provide for revenue collection within
2 customer classes that is fair and reasonable.

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

5 A. Yes. In general, the rate structure will be similar to the current structure.

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

7 A. The Settling Parties' rate design follows the methods proposed by PSE and
8 detailed in the Prefiled Direct Testimony of Mr. David W. Hoff, Exhibit
9 No. DWH-1T, the Rebuttal Testimony of Ms. Janet K. Phelps, Exhibit No. JKP-
10 25T and supporting exhibits, except for the one phase basic charge for residential
11 service under Schedule 7. The rate design for Schedule 26 will follow the method
12 agreed to by PSE in Exhibit No. JKP-25T. The one phase basic charge for
13 residential service under Schedule 7 shall increase from \$7.00 to \$7.25. The rate
14 design agreement is summarized in the Attachment, page 2.

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

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

18 A. Regarding rate spread, a major interest of PSE is that the allocation to rate classes
19 is seen by our customers as fair and reasonable. The acceptance of this
20 recommendation by a majority of the parties to this case is a good indication that

1 this interest has been served. Regarding rate design, the proposed settlement
2 produces no major change from current practice.

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

5 A. The rate spread agreed upon by all the Settling Parties allocates revenues equally
6 to all schedules except Schedule 25, which receives a slight reduction to 75
7 percent of the average. Under PSE's cost of service study, Schedule 25 is the rate
8 schedule that exceeds parity by the greatest amount (Exhibit No. JKP-27). This
9 indicates that a less than average increase is fair for those customers. Staff agrees
10 with this outcome.

11 The rate design agreement increases the residential customer charge to \$7.25 per
12 month with all other rate schedules' components increased by each schedule's
13 given percent increase. Staff finds the resulting rate design reasonable and fair.

14 **Q. Please explain why the Multiparty Settlement satisfies the interest of Public**
15 **Counsel.**

16 A. Public Counsel witness Mr. Watkins recognizes the diverse interests of the
17 various parties and stakeholders in this proceeding. This diversity is particularly
18 evident in the area of class revenue responsibility. The Multiparty Settlement
19 represents compromises made by all interests and provides for an allocation of
20 any overall authorized increase that is fair and reasonable to PSE and all

1 jurisdictional ratepayers, including residential and small business customers.

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

3 A. Rate spread and rate design are critical elements for ICNU. The record in this
4 proceeding presents a wide variety of positions with regard to cost-of-service and
5 rate design; hence, ICNU firmly believed working with the all parties to achieve a
6 settlement in these areas was extremely important. The Multiparty Settlement is
7 supported by a majority of the parties in this proceeding; and, it is not opposed by
8 any party. As a result, the Multiparty Settlement has a very broad range of
9 support. For ICNU, the Multiparty Settlement presents a reasonable distribution
10 of revenue responsibility. For these reasons, the Multiparty Settlement is in the
11 public interest and fully supported by ICNU.

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

14 A. Kroger believes the rate spread approach in the Multiparty Settlement is equitable
15 because it appropriately balances considerations of cost causation and gradualism,
16 as evidenced by the adoption of a below-average percentage increase for
17 Schedule 25. Kroger believes the rate design in the Multiparty Settlement
18 reasonably aligns rate components with customer-related, demand-related, and
19 energy-related costs for the rate schedules under which Kroger takes service.
20 Taken together, the Multiparty Settlement produces a rate spread and rate design
21 that is in the public interest.

V. CONCLUSION

1

2 Q. Does this conclude your joint testimony?

3 A. Yes.