

**EXHIBIT NO. SPG-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**

GAS RATE SPREAD AND GAS RATE DESIGN

JANUARY 15, 2010

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

NATURAL GAS RATE SPREAD AND NATURAL GAS RATE DESIGN

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

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

5 **I. INTRODUCTION**

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

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

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

10 **B. Qualifications of Janet K. Phelps**

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

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

14 **C. Qualifications of Donald Schoenbeck**

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

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

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, NWIGU, Nucor, and Seattle Steam (hereinafter
13 collectively referred to as “Settling Parties”) on the topics of gas rate spread and
14 gas rate design, all as contained in the Multiparty Settlement Re: Natural Gas
15 Rate Spread and Natural Gas Rate Design, filed with the Commission on
16 January 15, 2010 (the “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 \$28 million. The
2 Settling Parties recognize the Commission-ordered gas revenue increase in this
3 proceeding may be a different amount. This value was chosen simply to show the
4 workings of our rate spread recommendation.

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

7 II. JOINT TESTIMONY ON NATURAL GAS RATE SPREAD

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

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

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

18 A. The Multiparty Settlement assigns a share of the PSE revenue requirement to each
19 rate schedule based on a rate spread that is derived using a hypothetical increase
20 of \$28 million as a baseline. These respective shares of the revenue requirement

1 are then used to apportion any rate increase of a differing amount.

2 At the baseline revenue requirement, the Multiparty Settlement assigns a uniform
3 percentage rate increase of 7.4 percent to Schedules 16, 23, 31, 61, 53, 71, 72, and
4 74.

5 For Schedules 41 and 41T, the Multiparty Settlement assigns a rate increase equal
6 to 75 percent of the uniform percentage rate increase assigned to Schedules 16,
7 23, 31, 61, 53, 71, 72, and 74, or 5.5 percent.

8 For Schedules 85, 85T, 86, 86T, 87, and 87T, the Multiparty Settlement assigns a
9 rate increase equal to 50 percent of the uniform percentage rate increase assigned
10 to Schedules 16, 23, 31, 61, 53, 71, 72, and 74, or 3.7 percent.

11 **Q. Why does the Multiparty Settlement propose a rate increase for Schedules 41**
12 **and 41T that is 75 percent of the baseline rate increase for Schedules 16, 23,**
13 **31, 61, 53, 71, 72, and 74?**

14 A. The cost-of-service evidence indicates that the parity ratios of these rate schedules
15 are significantly above one and, as a result, these rate schedules are providing
16 substantially higher rates-of-return at current rates than the system average rate of
17 return. Therefore, assigning 75 percent of the uniform rate increase to these rate
18 schedules represents a reasonable balancing of cost-of-service considerations with
19 other ratemaking principles, such as gradualism.

1 **Q. Why does the Multiparty Settlement propose a rate increase for**
2 **Schedules 85, 85T, 86, 86T, 87, and 87T that is 50 percent of the overall**
3 **increase for Schedules 16, 23, 31, 61, 53, 71, 72, and 74?**

4 A. For Schedules 85, 85T, 86 and 86T the cost-of-service evidence indicates that the
5 parity ratios of these rate schedules are significantly above one and, as a result,
6 these rate schedules are providing substantially higher rates-of-return at current
7 rates than the system average rate of return. Therefore, assigning 50 percent of
8 the uniform rate increase to these rate schedules represents a reasonable balancing
9 of cost-of-service considerations with other ratemaking principles, such as
10 gradualism.

11 Different cost-of-service studies have been presented by various Settling Parties,
12 and for Schedules 87 and 87T the cost-of-service results vary between the Settling
13 Parties. Assigning 50 percent of the uniform rate increase to these rate schedules
14 represents a compromise among the Settling Parties.

15 **Q. How does the Multiparty Settlement treat residential customers in the rate**
16 **spread?**

17 A. Residential customers would receive the uniform rate increase applicable to most
18 rate schedules.

1 **Q. Under the Multiparty Settlement, how are rates spread if the final revenue**
2 **requirement approved by the Commission is less than the \$28 million used in**
3 **the baseline?**

4 A. The percentages of the uniform increase described above would be applied to the
5 final increase approved by the Commission.

6 As noted above, for illustrative purposes the Settling Parties present on page 1 of
7 the Attachment to the Multiparty Settlement the results of a final revenue
8 requirement increase using a hypothetical amount of \$28 million.

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

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

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

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

18 A. Rate design is the pricing mechanism for PSE to recover its costs. Rate design
19 determines the rates that each individual customer actually pays. As a result, rate

1 design is important for the same reasons that rate spread is important.

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

3 A. There are a variety of interests that need to be addressed. Rates should be
4 designed to correctly reflect costs and to provide for revenue collection within
5 customer classes that is fair and reasonable.

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

8 A. Yes. In general, the rate structure will be 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 the Prefiled Direct Testimony of Ms. Janet K. Phelps, Exhibit
12 No. JKP-1T and supporting exhibits, except for residential service under
13 Schedules 23 and 53. Under the agreement, the basic charge for residential
14 service under Schedules 23 and 53 shall remain at \$10.00 per month. The rate
15 design agreement is summarized in the Attachment, page 2

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

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

19 A. Regarding rate spread, a major interest of PSE is that the allocation to rate classes

1 is seen by our customers as fair and reasonable. The acceptance of this
2 recommendation by a majority of the parties to this case is a good indication that
3 this interest has been served. Regarding rate design, the proposed settlement
4 produces no major change from current practice.

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

7 A. Staff is pleased that the Settling Parties were able to reach agreement on rate
8 spread and rate design. Rate spread was a contentious issue in the 2007 general
9 rate case, which gave rise to a series of meetings with the goal of reaching
10 consensus on the allocation of costs to PSE gas rate schedules. While consensus
11 did not occur, the talks did lead to a better understanding by all on the issues
12 involved. Although PSE's cost of service study did not receive endorsement by
13 all of the Settling Parties in the present case, PSE's proposed rate spread did
14 achieve a measure of acceptance. The compromise reached by the Settling Parties
15 is similar to PSE's original proposal and, in Staff's opinion, is fair and reasonable.

16 The agreement on natural gas rate design maintains the residential customer
17 charge at \$10.00 per month and increases the industrial demand charge for each
18 affected schedule by the percent increase of Schedule 87 or about 3.7 percent
19 (based on the example of a \$28 million revenue increase.) Staff accepts this rate
20 design as fair and reasonable for settlement purposes.

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

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

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

11 A. Rate spread and rate design are critical elements for NWIGU. As the record in
12 this proceeding presents a wide variety of positions with regard to cost-of-service
13 and rate design, NWIGU firmly believed working with the all parties to achieve a
14 settlement in these areas was absolutely necessary. The Multiparty Settlement
15 has a very broad range of support. For NWIGU, it presents a fair distribution of
16 revenue responsibility and it maintains the pricing relationships of the recently
17 restructured large user tariffs. For these reasons, the Multiparty Settlement is in
18 the public interest and fully supported by NWIGU.

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

20 A. The Multiparty Settlement provides a reasonable apportionment of revenue
21 responsibility among customer classes, given the range of results produced by the

1 various cost of service studies that were presented in this case. The rate design
2 for large customers is also reasonable in that it provides for a proportionate
3 increase in all rate components for Schedules 85, 86, and 87, which produces
4 consistent rate impacts across all customers on these rate schedules. Further, the
5 demand charge for large customers will continue to be equalized. This
6 consistency will provide for rational transitions between rate schedules, which is a
7 characteristic of sound rate design.

8 **V. CONCLUSION**

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

10 **A. Yes.**