Exhibit No. ___T (JRS-1T)
Docket No. UG-060256
Witness: Joelle R. Steward

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **CASCADE NATURAL GAS CORPORATION,** **Respondent.**	**DOCKET NO. UG-060256**

TESTIMONY OF

JOELLE R. STEWARD

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Natural Gas Decoupling, Rate Spread and Rate Design

August 15, 2006

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Joelle Steward. My business address is 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504. My email address is jsteward@wutc.wa.gov.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission as a Regulatory Analyst.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since October 1999.

Q. Have you prepared an exhibit that states your educational and professional background?

A. Yes, it is Exhibit No. ___ (JRS-2).

II. SCOPE OF TESTIMONY

Q. What is the scope of your testimony?

A. I present Staff's recommendation on Cascade Natural Gas Corporation's (Cascade or the Company) decoupling mechanism, the Conservation Alliance Plan and gas rates.

Q. Have you prepared any exhibits in support of your recommendations?

A. Yes. I have included Exhibit No. ___ (JRS-3), New Customer Use (Cascade Response to Public Counsel Data Request 77).

III. SUMMARY OF TESTIMONY

Q. Please summarize your recommendation on Cascade's proposed gas decoupling mechanism, the Conservation Alliance Plan.

A. I recommend that the Commission reject the gas decoupling mechanism proposed by Cascade and adopt a partial decoupling mechanism that will recover variations in sales that are non-weather related. The partial decoupling mechanism should take into account that new customers have lower than average usage, be limited to three years and have a cap on the level of surcharge that could be imposed each year.

Q. Please summarize your recommendation on natural gas rates.

A. Since Staff's case identifies a revenue requirement decrease of $256,000, to be assigned to rate schedules, I propose no change in class revenues. However, I do recommend revenue-neutral changes in rate design to implement higher basic charges.

IV. DECOUPLING

Q. The Company proposes a decoupling mechanism, which it calls the Conservation Alliance Plan (CAP). Before describing Cascade's proposal, first explain decoupling in general.

A. Decoupling is a regulatory mechanism that separates, or "decouples," a utility's revenues from its sales of energy, in this case natural gas, and "recouples" revenues to some other factor, such as the number of customers. The mechanism gives a utility recovery of deviations in actual revenue from an authorized level of revenue through rate surcharges or credits.[1]

In traditional ratemaking, rates are based on an evaluation in a rate case of costs in a single period, the test year. Future revenues are tied to the rates that are the outcome from this historical look. Utilities are motivated to promote gas sales and find economic efficiency in operations between rate cases in order to increase revenues and profit. Decoupling removes the motivation to promote sales and makes the company indifferent to changes in customer usage. The company is still motivated, however, to find operational efficiencies since cost reductions can increase profit.

In making the company indifferent to changes in customer usage, decoupling removes a utility's disincentive to promote energy efficiency. Under current rate structures, revenues are largely generated through volumetric charges; therefore,

[1] Cascade, like other gas utilities in Washington, has a Purchased Gas Adjustment in which it passes through all gas commodity costs to customers. So, when we refer to a decoupling mechanism for a gas utility, we are talking about only the revenues and costs associated with delivering the gas, which is also referred to as "margin". Also, it is important to note that the delivery-related costs are generally fixed costs, meaning they do not vary with usage or commodity throughput of the system.

reducing energy use may result in lower profits for the utility, and may compromise the ability of the utility to recover its fixed costs. A decoupling mechanism, which restores to the utility the margins "lost" due to customer efficiency, would then allow the utility to pursue energy efficiency without losing profits and make it more likely that it would recover its fixed costs.

Q. Please describe the Company's decoupling proposal.

A. The Conservation Alliance Plan is a decoupling mechanism using a margin revenue-per-customer approach. The Company would calculate a monthly margin-per-customer, for the applicable customer schedules, based on the rates authorized by the Commission in this proceeding and the average number of customers and their weather-normalized consumption in the test year. Each month, the Company would then multiply the margin-per-customer by the actual average number of customers to calculate the target margin revenue. Deviations between the target margin revenue and the actual margin revenue would be deferred. Once a year, this deferral would be incorporated into a surcharge or credit to amortize the balance, which would go into effect coincident to the Purchased Gas Adjustment in November. The Company would also calculate a new margin rate that would be based on the margin per customer from the test year, multiplied by the current number of customers, divided by the weather normalized volumes. This new margin rate and updated volumes and customer count would become the baseline to which actual revenue is compared to calculate the variance in the next year.

In order to address concerns that large deferral balances would accrue during warmer than normal weather, Cascade proposes to reflect 10 percent warmer than normal weather in calculating the annual margin rates. Conceptually, this would result in it being more likely that customers would receive a credit to their bills rather than a surcharge.

The mechanism has two deferral accounts. One deferral tracks changes in margin due to changes in consumption (e.g., conservation). The second deferral tracks changes in margin due to variances from normal weather. The deferrals are combined to calculate one amortization rate per therm, which is filed as a temporary adjustment to the applicable schedules. The proposed mechanism only applies to Residential General Service Rate Schedule 503 and Commercial General Service Rate Schedule 504.

Q. What is your recommendation for this mechanism?

A. I recommend that the mechanism be rejected as proposed by Cascade. Further, I recommend that the Commission adopt, as a pilot, a partial decoupling mechanism that will remove Cascade's disincentive to promote energy conservation by restoring lost margin due to customers' non-weather related changes in usage. This recommendation is consistent with the mechanism I proposed for Puget Sound Energy in Docket UE-060266 and UG-060267.

Q. Please explain how the partial decoupling mechanism that you recommend is different from Cascade's proposed CAP.

A. First, my partial decoupling mechanism defers margin variances based on weather-normalized volumes so it would include only the non-weather related effects that cause changes in usage, such as customer conservation and efficiency improvements.

Second, I make an adjustment for authorized margin for new customers, which recognizes that new customers have below-average usage. This adjustment retains the incentive inherent in the Company's proposed mechanism for the Company to encourage higher efficiency for new customers.

Third, the partial decoupling mechanism would be limited to three years, with a cap on the annual rate change and would retain the rates set in this proceeding as the baseline.

Fourth, the margin rate calculated each year as a result of the deferrals would be based on normal weather rather than 10 percent warmer than normal, as proposed by Cascade.

Fifth, Cascade has to file an energy efficiency program plan and savings target with the Commission within three months of the final order in this case. The plan should identify specific timelines and benchmarks, the achievement of which is required in order to continue the decoupling mechanism.

Q. First, why should sales variations due to weather not be included in the decoupling mechanism?

A. Staff's goal with decoupling is to align ratemaking with the policy goal of encouraging more efficient use of energy and to restore the Company's margin revenue lost from the test year due to conservation. This goal can be accomplished without including variations in weather. Including weather serves a separate purpose of reducing income volatility for the Company, which results in more rate volatility for customers. Staff does not see good cause to shift risk to customers through reduced rate stability by including weather effects in order to increase revenue stability for the Company.

Q. If there is a concern about increased bill volatility for customers, why do you recommend even a partial decoupling mechanism that may also result in bill volatility, albeit at a significantly lower level?

A. In the last three years, Cascade's customers have seen gas costs go up 32 percent.[2] There is no indication that these commodity costs will decline any time soon.

Decoupling is a departure from traditional ratemaking that the Commission shouldn't take lightly. But neither should the Commission take lightly the cost increases that are being passed through to customers. This unprecedented rise in gas costs is sufficient cause for a re-evaluation of the Commission's current ratemaking framework in order ensure that the Commission is serving customers' and society's interests.

[2] The Purchased Gas Adjustments for the last three years were: 0.8 percent increase in November 2003 (Docket UG-031583), 4.9 percent increase in November 2004 (Docket UG-041772) and 26.3 percent increase in November 2005 (Docket UG-051483).

Cost-effective energy efficiency may benefit customers and society through lower customer bills, reduced pollution and lower rates. Additionally, a recent study by the American Council for an Energy Efficient Economy suggests that accelerated energy efficiency and renewable energy investment in the Pacific Northwest may help bring down natural gas prices by up to 38 percent.[3]

The social and customer value of removing the disincentive for the utility to promote energy efficiency warrants a pilot for a partial decoupling mechanism. A partial decoupling will allow Cascade to recover the fixed costs that are lost between general rate cases as a result of utility-funded efficiency programs or other customer or state-supported efficiency efforts. Removing this disincentive should spur Cascade into pursuing energy efficiency more aggressively in its service area.

Because we don't take the adoption of decoupling lightly, Staff's proposed mechanism includes precautions to try to balance the Company's interest in recovering fixed costs with the customer's interests that rates continue to be fair, just and reasonable and that efficiency opportunities will be promoted and available to them.

Q. Are there other ways to address recovery of fixed costs lost due to customer conservation or utility-funded efficiency efforts?

A. Yes. As I discussed in my testimony on this issue in the on-going Puget Sound Energy general rate case, Docket UE-060266/UG-060267, this goal could also be

[3] William Prindle, R. Neal Elliott, Anna Shipley, *Impacts of Energy Efficiency and Renewable Energy on Natural Gas Markets in the Pacific West*, American Council for an Energy-Efficient Economy, Report No. E062, http://aceee.org, January 2006.

met through straight fixed/variable rate design or, in part, through a lost revenue adjustment for efficiency programs.

Q. Please explain straight fixed/variable rate design.

A. Straight fixed/variable rate design recovers all fixed costs in a customer charge and all variable costs in a volumetric charge.[4] Most of the margin costs in the delivery charge are fixed costs for the utility. Company witness Mr. Jon Stoltz discusses this alternative in his testimony on pages 23 to 24. If the Company were to recover its fixed costs entirely through the basic charge, the basic charge would be $17 per month, based on current rates. This would be a 325 percent increase over the current basic charge of $4. This level of increase and abrupt shift in rate structure would constitute rate shock for many customers, which, therefore is inadvisable.

Furthermore, such a rate design reduces the potential bill savings a customer could achieve through conservation efforts. Currently, 94 percent of the bill for the average customer is in a volumetric charge. If the customer charge were increased to $17, then only 75 percent of the bill would be in a volumetric charge. The result is that the potential bill savings for a customer are reduced by nearly 20 percent, thus creating another disincentive for efficiency, this time at the customer level.

Overall, any increase in the customer charge should be gradual in light of bill impacts and the interest of maintaining an incentive for customers to pursue more efficient use of gas.

[4] This type of rate design also cuts the Company's risk for weather-related variances in usage, and, therefore, should also be subject to the same compensation for customers that Mr. Parcell proposes for the CAP mechanism.

Q. Please explain the other alternative to partial decoupling, the lost revenue adjustment for energy efficiency programs.

A. This type of mechanism allows the utility to recover the lost margins associated with its efficiency program activities. The lost margins are calculated by multiplying the margin rates by the savings produced by the utility's efficiency programs. There are three chief concerns with this type of mechanism.

First, the calculation can become quite contentious over the measurement of the savings achieved. There is an incentive for the utility to claim more savings than it achieved in order to increase profits. This could be overcome through sophisticated measurement and verification, but that would bring higher costs.

Second, since this mechanism is limited to utility-funded efforts, it leaves a disincentive for the utility to pursue harder-to-measure educational efforts or support other independent efficiency efforts.

Third, it does not remove the utility's incentive to promote use (such as through gas barbecue promotions), since it can still increase profits through additional sales.

Overall, the partial decoupling mechanism I recommend is preferable to the lost revenue adjustment because it is simpler to implement and better aligns the Company's interests with the goal to encourage more efficient use of gas.

Q. Returning to the differences between the partial decoupling mechanism you propose and Cascade's CAP, you propose adjustments for incorporating new customers. Please explain why an adjustment for new customers is necessary.

A. Cascade's gas distribution system continues to grow with new customers being added each year.[5] Under the CAP, the Company would set a target margin revenue level based on multiplying the margin-per-customer from the test year to the current number of customers. By assuming the margin-per-customer from the test year for new customers added in subsequent years, the mechanism would calculate a higher margin deficiency than would have occurred if the Company had annual rate cases to account for declining usage, holding costs constant. This is due to the fact that new customers use less energy than existing customers.

Exhibit No. ___ (JRS-3) is Cascade's response to Public Counsel Data Request 77, which provides the annual average customer usage for customers that were added to the system in the prior year. Table 1 summarizes the data for residential customers, Schedule 503, and compares it to the average annual use for all customers in the relevant year.

Table 1 Residential Schedule 503

Year (fiscal year)	Annual Average Use per Customer *All Customers* (Therms)	Annual Average Use per Customer *New Customers* (Therms)	Difference
	a	b	b – a
2002	766	714	(52)
2003	686	638	(48)
2004	704	637	(67)
2005	673	614	(59)

[5] The medium forecast in Cascade's 2004 Integrated Resource Plan, assumes 2.48 percent annual growth rate in customers system-wide. Over the last three years, the annual growth rate in new residential customers was four percent in Washington.

Q. What treatment do you recommend for new residential customers in your proposed mechanism?

A. I recommend that we take into consideration the lower usage for new residential customers and calculate an authorized margin-per-customer for new residential customers each year, based on rates set in this proceeding. The authorized margin-per-new customer would assume that new residential customers use 50 therms less per year than the average in the test year. Given the data in Table 1, a deduction of 50 therms per year is a reasonable annual assumption for new residential customers. Table 2 below illustrates how this would be applied over the three-year pilot period, based on Cascade's current rates.

Table 2

	Assumed Use Per Customer	**Authorized Margin Per Customer (based on margin rate of $0.22658)**
Test Year Customers	685	$155
New Customers	635	$144

The new customers incorporated in this adjustment are, specifically, the new meter hook-ups. Since the deferrals are based on monthly calculations, the new customer therm deduction would be apportioned across the months by the weather-normalized average usage in the test year.

Q. Why is this adjustment for new residential customers an improvement over the Company's proposed CAP?

A. This adjustment is an improvement over Cascade's proposed mechanism because it sharpens the Company's motivation for encouraging greater efficiency in new construction.

Under a margin-per-customer decoupling mechanism the most profitable new customers have below-average use because the Company gets more incremental revenue per customer than compared to traditional ratemaking. Under traditional ratemaking, if customers have below-average use, then the Company is recovering less margin revenue per customer. Since revenues are based on sales volumes, the most profitable new customers are those with higher use and lower incremental costs. While the line extension policies that calculate a customer allowance based on expected usage are intended to provide some short-term neutrality to the Company, the decoupling provides an added motivation to encourage more energy-efficient new customers.

But with new customer use already known to be below-average, the Company has to make no effort to achieve the incremental margin-per-customer (i.e., the difference between the $144 and $155 per customer). My adjustment attempts to remove the effortless incremental margin that contributes to higher earnings from new customers compared to traditional ratemaking. The adjustment also retains the opportunity for Cascade to pursue incremental margin by encouraging more energy-efficiency in new customers, beyond current levels. New construction contains "lost opportunity" energy-efficiency resources, meaning that it is only feasible at the time

a building is constructed or an appliance is purchased. If the efficiency isn't captured now, then it is lost.

The new customer adjustment is a relatively small part of the mechanism. Recovering lost margin for current customers is the primary driver of decoupling; however, I believe it is appropriate to be consistent in removing the disincentive for the Company to pursue energy efficiency for both existing customers and new customers, which is the intention of this adjustment.

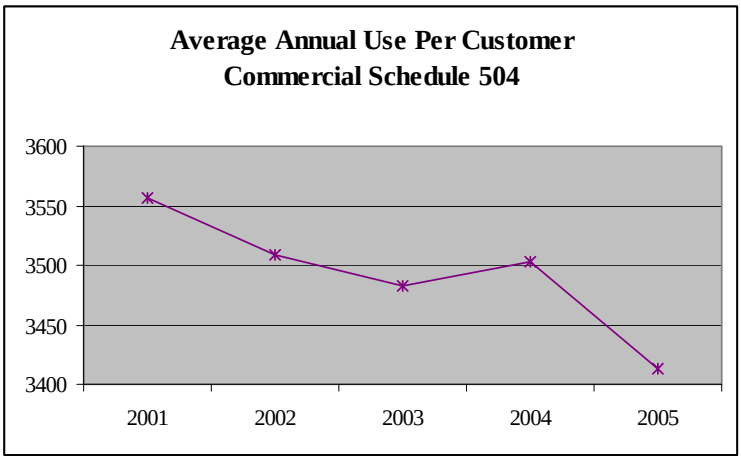
Q. Do you recommend a similar type of adjustment for new customers in Schedule 504?

A. No. Table 3 compares the average use of new Schedule 504 customer to the average use of all Schedule 504 customers, based on the data shown in Exhibit No. ___ (JRS-3).

Table 3 Commercial Schedule 504

Year (fiscal year)	Annual Average Use per Customer *All Customers* (Therms)	Annual Average Use per Customer *New Customers* (Therms)	Difference
	A	b	b – a
2002	3578	3,872	294
2003	3283	3,970	687
2004	3448	4,157	709
2005	3322	4,375	1,053

Interestingly, new customers in this schedule do not, on average, have smaller usage than existing customers, although this class is experiencing declining use per customer overall. The graph below shows the change in average use per customer, on a weather-normalized basis.



Based on this data, I recommend that the decoupling mechanism incorporate new customers based on the margin-per-customer set in the test year, as proposed by the Company.

Q. The third difference between your partial decoupling proposal and Cascade's proposed CAP is that you propose the mechanism as a three-year pilot with a cap on the surcharge level, and use of the baseline set in this proceeding for the duration of the pilot. First, please explain why the mechanism should be a pilot.

A. Since this is a new mechanism, we should treat it as a pilot in order to allow for further study and evaluation of its various components before it can be reauthorized. Some of the questions that should be followed in the course of the pilot period:

- What other core customer classes belong in the mechanism?
- Is there better data to use in making the new customer adjustment?
- How well does the mechanism remove Cascade's disincentive to promote energy efficiency?
- What would the bill impacts have been if weather was included?

- Was there any discernable effect on service quality due to the existence of the mechanism?

The interested parties, along with Cascade and Commission Staff, should work together in the early stages of the mechanism to develop a comprehensive list of areas for further study, monitoring and evaluation. I recommend that the Company file a plan for reporting and evaluation within six months of the final order issued in this proceeding, after consultations with interested parties.

Q. Why should the mechanism be limited to three years?

A. First, for a pilot, three years is a reasonable amount of time to study the initial effects of a decoupling mechanism. Three years provides at least two full years of implementation, while in the third year the mechanism can be evaluated for continued implementation.

Second, decoupling addresses the level of revenue the Company is recovering each year, based on what was authorized in a rate case. Decoupling does not address the costs the Company is incurring each year. In a rate case, the Commission examines what costs are incurred to serve customers overall and at the customer class level. While decoupling provides the utility with the variances between actual and authorized *revenues*, it does not provide for any variances between actual and authorized *costs*.

If a decoupling mechanism is allowed to go on too long without a rate case, we risk violating the cost-based principle of regulation by creating a potential mismatch between current costs and rates. A revenue requirement is based on a

snapshot in time regarding revenues, expenses, rate base, customers, and usage. The proposed mechanism locks in the revenue (margin) from the last rate case, but costs may change on the whole through operational efficiencies or as incurred by different customer classes. Therefore, any approved mechanism should then be in place for only a relatively short period of time to minimize any potential mismatch of revenues and costs over time. I recommend that the mechanism expire after three years, with renewal only through a general rate case.

Q. Why do you propose a cap on any surcharge and what should the cap be?

A. There should be a cap on any surcharge in order to provide customers with some certainty as to the rate impacts this mechanism could produce. I propose to set the cap for residential customers at 1.50 percent of total class revenue and 0.50 percent for the commercial schedules. These levels should allow the Company to fully recover its lost margin deferrals due to non-weather related changes in consumption, while also giving customers some assurance that the mechanism will not result in wild rate swings. It also gives customers some assurance that the mechanism is not going to significantly reduce their benefit of a lower bill for undertaking energy efficiency improvements. Setting the cap lower could result in not fully removing the Company's disincentive for pursuing energy efficiency.

Q. Please explain why you propose to use the baseline set in this proceeding and how this differs from the Company's proposal.

A. The Company's mechanism sets a new margin rate and baseline each year based on the current weather-normalized sales volumes and customer counts. This margin rate and baseline then becomes the basis for calculating the variances from actual revenue in the next year. The result is smaller deferral balances but more revenue from the higher margin rate. I propose to retain the rate and baseline set in this proceeding as the basis of comparison for determining the variance of authorized revenue from actual revenue for the three-year pilot period. The difference between actual and authorized revenues would be entirely absorbed in the deferral. This change has little to no effect on the overall bill impacts to customers under the mechanism. It is however, a little easier to administer and understand. It also makes it clear that the margin rate that is in effect at the end of the pilot is the rate set in this proceeding.

Q. The fourth difference between your proposed mechanism and the Company's CAP, is that you recommend that the margin rate calculated to recover the deferrals each year be based on normalized weather, rather than 10 percent warmer than normal as proposed by Cascade. Please explain.

A. By assuming warmer than normal weather, the Company's intention was to minimize surcharges to customers for the deferral balances that may accrue as a result of weather variations. Since my proposed partial decoupling mechanism

excludes weather, I also recommend that this feature be removed. The amortization of the conservation deferral balance should be based on projected normal weather.

Q. Lastly, you recommend that Commission require the Company to file an energy efficiency plan and targets within three months of the final order in this proceeding. Please discuss this recommendation.

A. Cascade has contracted with a consultant to prepare an assessment of the energy efficiency program potential in its service area in Washington. This report is expected to be completed in the fall. It should provide a reasonable foundation for developing a conservation plan and savings targets. The Company been working on a similar study for its Oregon service area has contracted with the Energy Trust of Oregon to implement energy-efficiency programs in that state.

The Company should work with interested parties in developing the conservation plan. Details that should be included in the plan are timelines for issuing requests for proposals for third-party contractors of programs and for program implementation. Annual benchmarks for program achievement should also be included. The Company would need to meet these benchmarks each year in order to recover any deferral balance from the mechanism.

In Washington, the Company currently provides incentives for high efficiency furnaces and water heaters to residential customers, high efficiency equipment and insulation for commercial and industrial customers, and weatherization for low-income customers. The commercial and low-income programs went into effect last fall. The Company began implementing all of these

programs after evaluating their feasibility in its integrated resource plan. Refinements to these programs may also be included in the conservation plan.

Q. Does this complete your discussion of decoupling?

A. Yes.

V. NATURAL GAS RATES

Q. What is your recommendation for rates?

A. In Mr. Parvinen's testimony, he identifies a revenue requirement decrease of $256,000, to be assigned to rate schedules. Since this decrease would have minimal impact on rates, Staff recommends no change in revenue for the classes. However, I will address the Company's rate spread and rate design proposals and recommend revenue-neutral changes in rate design.

Q. Is the Company's rate spread proposal reasonable?

A. No. The Company, in the testimony of Mr. Stoltz, proposed a rate spread that achieves an equal rate of return from all classes, based on the Company's cost of service study. (Exhibit No. ___ (JTS-9), Schedule 3, page 2.) This methodology produces considerable differences in percentage increases and decreases between classes. The differences range from a 109 percent *decrease* in margin revenue for Compressed Natural Gas, Schedule 112, to a 43 percent *increase* in margin revenue for Gas Air Conditioning, Schedule 541.

Mr. Stoltz also presented an alternative rate spread based on an equal percentage increase to all classes. (Exhibit No. ___ (JTS), Schedule 3, page 1.)

Neither of these rate spreads is acceptable. The equal return proposal results in extreme differences between rate schedules, which would be very confusing for customers and mechanically applies the cost of service study. On the flip side, the equal percentage proposal provides no regard for the results of the cost study. A rate spread that offers a middle ground between these two would be appropriate, one that takes the cost study into consideration and strives to move classes toward their cost to serve but with more less extreme differences between classes.

Q. What is the role of the cost of service study in rate spread?

A. Cost studies are an important guide in allocating and designing rates, but they contain a fair amount of judgment on classification and allocation and thus should not be mechanically applied. The Commission has reiterated this on several occasions. Rate responsibility for any class should be informed by the cost to serve the class, and, therefore, a cost of service study is an important consideration in spreading a revenue increase. However, the Commission has often stated that factors in addition to cost weigh in the rate spread decision, including the appearance of fairness, economic conditions in the service area and rate stability.

Q. Do you have a specific recommendation for rate spread if an increase is authorized?

A. Yes. I recommend that the revenue to cost ratios from Mr. Mariam's cost of service study be used as a guide for allocating any increase across classes. Mr. Mariam presents these ratios in Table 1 in his testimony. If the ratio is below one, then the revenue from the class is not recovering the cost of serving it, and it is considered below parity. If the ratio exceeds one, then the revenues from the class exceed the costs to serve it, and it is considered above parity. Classes below parity should receive a higher than average percentage increase than classes above parity, in order to move classes toward their costs to serve. Table 4 presents my recommended percent of average increases that should be applied to each class. For example, if the margin increase is five percent, the residential class would receive an above-average increase of 7.5 percent.

Table 4

Customer Class	Schedule	Percent of Average Increase
Residential	503	125%
Res/Com Dry-out	502	75%
Res/Com Air Conditioning	541	125%
Commercial General	504	100%
Com/Ind Large Volume	511	50%
Compressed Natural Gas	512	25%
Industrial Firm General	505	110%
Interruptible General	570	50%
Interruptible Institutional	577	50%
Transportation	663	0%
Transportation Large Vol	664	75%

Q. You stated that you recommend some revenue-neutral changes in rate design, despite not allocating any increase in revenue requirement. Please explain why this is reasonable.

A. The Company's delivery rates have not changed in nearly a decade. Some gradual movements in rate design to better reflect the cost study are appropriate. I propose an increase in basic charges to better reflect the fixed cost nature of the system. The margin delivery rates would decrease to reflect the increased revenue from the higher basic charges. Making these changes now, without applying an additional revenue increase, minimizes the bill impacts.

Q. What did the Company propose for rate design?

A. Cascade proposed several changes in rate design. Cascade:

- Increased the residential basic charge to $10, for the winter months of October through March. In the other months, customers would continue to pay the current basic charge of $4;
- Doubled the monthly basic charges in all other core rate schedules;
- Flattened the blocks on Schedules 504, 505, 511;
- Proposed an option for transportation customers on Schedules 663 and 664 to select a firm level of distribution service.

Q. Do you agree with the Company's proposals for rate design?

A. Not entirely. I do agree that the increase in the monthly basic charges for all schedules other than residential Schedule 503 and commercial Schedule 504 is reasonable. Currently, the basic charges for these other schedules are well below other companies' basic charges for similar schedules. I also agree that the Company's proposal for flattening the blocks on Schedule 504, 505 and 511 is reasonable.

The Company's proposal for seasonal basic charges and rates for residential customers is confusing and unnecessary. For simplicity, I recommend one basic charge applied year-round. Also, the large basic charge increases for Schedules 503 and 504 would have adverse impacts on small customers. I recommend a smaller increase in the basic charges for these schedules. For the residential class, I recommend a basic charge increase of $1.50 to $5.50, to be applied year-round. For Schedule 504, I recommend a basic charge increase of $3 to $10.

I also do not support the Company's proposal to create an option for firm service for transportation customers at this time. The Company has not demonstrated that this is an option transportation customers desire, and, therefore, the assumptions made in calculating the rate are circumspect.

Q. Does this complete your discussion of rates?

A. Yes.

Q. Does this conclude your testimony?

A. Yes.