Exhibit No. ___ (JT-1T)
Docket No. UE-032065
Joint Testimony

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-032065**

JOINT TESTIMONY OF
JIM LAZAR, DON SCHOENBECK, AND JOELLE STEWARD

RE: Rate Spread and Rate Design

July 2, 2004

QUALIFICATIONS OF JIM LAZAR

Q: Please state your name and the party for whom you are appearing?

A: My name is Jim Lazar and 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. ___ (JL-2).

QUALIFICATIONS OF DONALD SCHOENBECK

Q: Please state your name and the party for whom you are appearing?

A: My name is Donald Schoenbeck and I am appearing on behalf of the Industrial Customers of Northwest Utilities (ICNU). A statement of my qualifications is found in Exhibit No. ___ (DWS-2).

QUALIFICATIONS OF JOELLE STEWARD

Q: Please state your name and the party for whom you are appearing?

A: My name is Joelle Steward and I am appearing on behalf of Commission Staff. A statement of my qualifications is found in Exhibit No. ___ (JT-2).

JOINT TESTIMONY

Q: What topics are the parties covering in this joint testimony?

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

Q: Please summarize your testimony?

A: For rate spread, we recommend that general service Schedule 24 receive 75 percent of the average percentage increase, or 125 percent of the average decrease, in order to move this schedule closer to parity. All other schedules should receive a uniform percentage adjustment to recover the remaining revenue requirement. For rate design in the event of a rate increase, we recommend that the Commission accept the Company's proposal of applying a higher percentage increase to the fixed and demand charges and lower percentage increases to the energy charges, with a modification to Schedule 48, large power service. We recommend that any increase to Schedule 48 be applied to the demand and load size charges. If there is a rate decrease, we recommend that the reduction be taken out of the energy components in all rate schedules.

RATE SPREAD

Q: How did the Company propose to allocate the revenue increase between classes?

A: As explained in the Direct Testimony of William R. Griffith (Exhibit No. ___ (WRG-1T), at 12, lines 16-18), the Company proposes to allocate the revenue increase on an equal percentage basis to all customer classes. Mr. Griffith states that the Company believes that this method is reasonable because of the long period since the Company's last litigated general rate case in Washington and the many issues in this case. *Id*.

Q: Do you concur with the Company's proposal for allocating the revenue increase to customer classes?

A: Not entirely. If the Commission approves an increase in electric rates, we recommend that Schedule 24, Small General Service, receive an increase equal to 75 percent of the average percentage increase. All other rate schedules should receive a uniform percentage increase that captures the residual revenue requirement increase allowed, which is approximately 104 percent of the average percentage increase. If the Commission approves a decrease in electric rates, likewise, we recommend that Schedule 24 receive a decrease equal to 125 percent

of the average percentage decrease and all other rate schedules receive an equal percentage decrease, which is approximately 96 percent of the average.

Q: Why do you believe this allocation is more appropriate than the method proposed by the Company?

A: We considered the cost of service results, as presented by Company witness David L. Taylor in Exhibit No. ___ (DLT-9), and respectively reviewed and tested by the parties in this joint testimony. The results of the parties' tests to the cost of service model were consistent in showing Schedule 24 to be well above parity. The table[1] below shows the results from the Company's study at the earned rate of return, which we agree is generally reflective of our results for purposes of rate spread. As you can see, Schedule 24 is earning well above the current Washington return on rate base of 6.10 percent.

[1] Source: Exhibit No.___ (DLT-9).

Schedule No.	Customer Class	Return on Rate Base	Rate of Return Index	Revenue to Cost Ratio
16	Residential	5.08%	0.83	97%
24	Small General Service	10.75%	1.76	114%
36	Large General Service	7.27%	1.19	104%
48T	Large Power Service	4.23%	0.69	95%
40	Irrigation	4.28%	0.70	94%
15, 51, 52, 53, 54, 57	Street/Area Lighting	7.13%	1.17	103%
Washington Jurisdiction		6.10%	1.00	100%

Additionally, in PacifiCorp's prior Washington rate case, Docket No. UE-991832, the Commission approved a stipulated rate spread, in which Schedule 24 and the lighting schedules received less than average percentage change increases. This was generally consistent with the cost of service study submitted by the Company in that case. While the current cost of service study shows that the lighting schedules have moved closer to parity (albeit, still above parity), Schedule 24 has moved further from parity. In that prior study, the lighting schedules showed a rate of return index of 2.07, compared to the current study's lighting schedules index of 1.17. Schedule 24 showed a rate of return index of 1.32 in the prior study, compared to 1.76 in the current study, despite receiving a

less than average percentage change increase.[2] This further movement away from parity supports the need for a less than average percentage change allocation for Schedule 24.

Q: None of the other schedules are at parity in the cost of service study, so why aren't you proposing similar movements toward parity for the other schedules?

A: Because of the high degree of judgment on classification and allocation that goes into a cost of service study, the 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.[3] The general policy of the Commission in rate spread 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 imprecise nature of cost of service studies. This is done with an eye to minimizing any potential severe customer impacts.

[2] See Exhibit 211 in Docket UE-991832 for the cost of service results.

[3] See, for example, commission orders in UE-991832, UG-940034, and U-86-100.

With this in mind, we considered the following factors in formulating our recommendation. First, the gamut of sensitivities run by the parties on the cost of service model all consistently showed that Schedule 24 was above parity and had a revenue to cost ratio exceeding 110 percent as shown by the above table. Second, all of the other schedules, while either above or below parity, were generally showing revenue to cost ratios within the range of 94% to 104%, which we agreed was reasonable. Therefore, while Schedule 24 plainly required an adjustment in rate spread, we sought to minimize the impact on the other schedules. We agreed that an adjustment of 75 percent of the average percentage change, which would bring Schedule 24 to about a 110 percent revenue to cost ratio, was a reasonable approach that balanced these objectives. It moves this class about one-third of the way to parity.

Moreover, it's worth noting that this adjustment moves the customer classes that are below parity (i.e., residential, Schedule 48T-large power service and irrigation) closer to parity by providing a higher percentage change increase. For the two classes that are above parity (i.e., Schedule 36-large general service and area/street lighting), the argument for using rate spread to move them closer to parity is not as compelling or as clear as it is for Schedule 24. In the case of Schedule 36, the Company has proposed changes to the rate schedule

applicability that have not been taken into consideration in the cost of service model. The result of which is that Schedule 36 gains more revenue than volume, thereby moving it slightly closer to parity. The lighting schedules have made significant movement toward parity since the last rate case therefore an equal percentage change is reasonable at this time.

Q: Is there any other compelling reason to give Schedule 24 a less than average percentage increase?

A: Yes. The Company is proposing to modify the applicability of Schedules 24 and 36. Specifically, the Company proposes to eliminate the optional language for general service customers to choose between these schedules. This will result in a migration of approximately 226 customers from Schedule 24 to Schedule 36, and approximately 224 customers from Schedule 36 to Schedule 24. As a result of the differences in rate design between the schedules, the higher load factor customers moving from Schedule 36 to 24 will experience higher bill increases than the lower load factor customers. Giving Schedule 24 a less than average percentage increase will lessen this awkward effect.

RATE DESIGN

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

A: The Company explains, in Exhibit No. ___ (WRG-1T), that its general approach for rate design in this case is to increase the fixed charges and demand charge components and minimize the increase on energy charges. This approach, the Company states, "will more closely reflect cost of service and send proper price signals to customers." (Exhibit No. __ (WRG-1T), at 6, lines 7-8.)

Q: Do you agree with this general approach for rate design in this case?

A: We accept this general approach, with a couple of modifications. The Company's cost of service study supports higher increases to the fixed and demand charges for all customer classes, with the exception of the lighting schedules where equal increases between demand and energy are warranted. The results of sensitivity runs the parties individually performed on cost of service showed a lot of variation on how to allocate increases between demand and energy components. Given this variation, in the end, we agreed to support the Company's approach with a couple of modifications, which are discussed below, if a rate increase is approved. In the event of a rate decrease, we

recommend that the reduction be taken from the energy components with no changes to the fixed or demand charges.

Q: What's the Company's proposal for residential rate design?

A: For the residential rate schedules, the Company proposes to increase the customer charge from $4.50 to $4.75 and to apply the rest of the increase to the energy rate in the second of the two rate blocks (i.e., the tail block). For the residential class, an increase in the demand component is reflected in the tail block rate, which is the block where peak-intensive usage such as space heating and cooling takes place.

Q: Do you believe this is a reasonable approach?

A: Yes. We recommend increasing the customer charge to $4.75 if a rate increase is granted. The proposed 5 percent increase to the customer charge is a reasonable move in the direction of recovering the costs for meters, service drops, meter reading, billing, and customer service in the customer charge. (For comparison purposes, Avista Utility's electric residential customer charge is $5.00 and Puget Sound Energy's is $5.50.) Because an increased customer charge disproportionally affects customers with small consumption, applying the

remaining class revenue increase to the tail block is a reasonable approach at this time. In the event of a rate decrease, the reduction should be taken from the first energy block, not the customer charge or tail block. In future rate cases, the Commission should look more closely at the differential between embedded costs of power and marginal costs when designing the rates in each block, in order to send the proper price signals to customers. With the uncertainty surrounding the jurisdictional allocations in the current case, we do not have the confidence to properly analyze the differential at this time.

Q: What is the Company's rate design proposal for the general service rate schedules?

A: For the general service rates, Schedules 24 and 36, the Company proposes to apply a higher percentage increase to the demand and load size charges and lower percentage increases to the energy charges. The Company also proposes to eliminate the optional language for applicability in Schedule 36, as previously noted, and make it applicable for all customers with loads greater than 100 kW and less than 1000 kW. The Company intends to automatically migrate customers whose loads exceed 100 kW more than once during the proceeding 12-month period. The Company argues this change in applicability is appropriate

because 1) it ensures that customers with similar load characteristics are served under the same schedule; 2) it eliminates ambiguity over rate schedule applicability; and 3) it is more responsive to changes in customer usage characteristics. Moreover, this change would make the general service schedules consistent with PacifiCorp's Oregon, Utah, and California jurisdictions, wherein there are no optional general service rate schedules.

Q: Do you believe the Company's proposals for general service rate design are reasonable?

A: Yes. In the event of an increase, we recommend that the Commission adopt the rate design proposed by the Company, proportionally reduced to reflect the approved revenue requirement. The elimination of the optional language in Schedule 36 and the automatic migration language is reasonable for the reasons stated.

Q: What is the Company's rate design proposal for Schedule 48T?

A: For larger general service Schedule 48T, the Company proposes to apply a higher percentage increase to the load size and demand charges and a lower percentage increase to the energy charges.

Q: Do you agree with this proposal?

A: No. We recommend that all of the increase be applied to the load size and demand charges and the energy charge remain the same. After correcting the Company's cost-of-service model to more accurately calculate per unit cost data, a range of sensitivities were performed. These resulted in cost-based energy rates of 2.7 to 3.1 cents per kilowatt-hour for Schedule 48T. Since the existing charge is 3.055 cents per kilowatt-hour—the high end of the range-- it is appropriate to maintain the energy charge at its current level. Accordingly, any increase assigned to this class should be recovered from applying an equal percentage increase to the other rate schedule charges. The effect of this change will encourage the lower load factor customers on the schedule to improve their load factor efficiency.

Q: What are the Company's rate design proposals for the irrigation and lighting schedules?

A: For the Agricultural Pumping Service Schedule 40, the Company similarly proposes to apply a higher percentage increase to the load size charges and a smaller increase to the energy charges. For the lighting schedules, the Company

proposes increasing the fixed lamp charges and the energy charges by an equal percentage.

Q: Are these reasonable proposals?

A: Yes, they are reasonable. Again, we recommend that the final rates be designed to proportionally reflect the Company's proposed rates.

Q: What is your recommendation on the Company's proposal for allocating the Aquila Hydro Hedge in proposed Schedule 96?

A: As discussed in the testimony of Mr. Buckley, on behalf of Commission Staff, and Randy Falkenburg on behalf of ICNU, the parties propose to remove the annual cost of the Aquila Hydro Hedge from the Washington allocated net power cost; therefore we recommend that the Commission not adopt the proposed Schedule 96. However, if the Commission decides that the Company's proposal to pass through the hedge credit on customer bills is appropriate, then an equal percentage reduction for each customer class, as proposed by the Company, is reasonable.

Q: Are there other considerations that might be relevant to the level of increase the Commission may grant?

A: Yes. The ultimate interest of customers is the final bill, with the inclusion of all surcharges and credits. The monthly billing comparisons in Exhibit No. __ (WRG-5) incorporate all surcharges and credits, with the exception of taxes. However it's worth noting that the merger credit and the Centralia credit are set to expire December 31, 2004, and December 31, 2005, respectively. The expiration of the merger credit will result in a bill increase of 1.7 percent for all customers. The expiration of the Centralia credit will result in an increase of 2.8 percent for all customers. The Company's cash receipts will increase as a result of these expiring customer credits.

Q: Does this conclude your joint testimony?

A: Yes.