

EXHIBIT NO. __ (KCH-1T)
DOCKET NOS. UE-090704/UG-090705
2009 PSE GENERAL RATE CASE
WITNESS: KEVIN C. HIGGINS

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
(Consolidated)

PREFILED RESPONSE TESTIMONY OF
KEVIN C. HIGGINS
ON BEHALF OF NUCOR STEEL SEATTLE, INC.

November 17, 2009

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1 **PREFILED RESPONSE TESTIMONY OF KEVIN C. HIGGINS**

2
3 **Introduction**

4 **Q. Please state your name and business address.**

5 A. Kevin C. Higgins, 215 South State Street, Suite 200, Salt Lake City, Utah,
6 84111.

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

8 A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies
9 is a private consulting firm specializing in economic and policy analysis
10 applicable to energy production, transportation, and consumption.

11 **Q. On whose behalf are you testifying in the gas portion of this proceeding, UG-**
12 **090705?**

13 A. My testimony in the gas portion of the proceeding, UG-090705, is being
14 sponsored by Nucor Steel Seattle, Inc. (“Nucor”). Nucor owns and operates a
15 steel mill in Seattle and takes gas transportation service from Puget Sound
16 Energy, Inc. (“PSE”) under Schedule 87T.

17 **Q. Please describe your professional experience and qualifications.**

18 A. My academic background is in economics, and I have completed all
19 coursework and field examinations toward the Ph.D. in Economics at the
20 University of Utah. In addition, I have served on the adjunct faculties of both the
21 University of Utah and Westminster College, where I taught undergraduate and
22 graduate courses in economics. I joined Energy Strategies in 1995, where I assist

1 private and public sector clients in the areas of energy-related economic and
2 policy analysis, including evaluation of electric and gas utility rate matters.

3 Prior to joining Energy Strategies, I held policy positions in state and local
4 government. From 1983 to 1990, I was economist, then assistant director, for the
5 Utah Energy Office, where I helped develop and implement state energy policy.
6 From 1991 to 1994, I was chief of staff to the chairman of the Salt Lake County
7 Commission, where I was responsible for development and implementation of a
8 broad spectrum of public policy at the local government level.

9 **Q. Have you previously testified before this Commission?**

10 A. Yes. I testified in the PSE 2007, 2006 and 2004 general rate cases and
11 participated in the settlement discussions that resulted in partial settlement
12 agreements pertaining to rate spread and rate design issues in those proceedings. I
13 also testified in the interim phase of the PSE 2001 general rate case and
14 participated in the collaborative process that led to the settlement agreement
15 submitted by the parties to that general rate proceeding, which was subsequently
16 approved by the Commission.

17 **Q. Have you participated in any collaborative processes sponsored by the
18 Commission?**

19 A. Yes. On behalf of Nucor, I participated in the 2008 Natural Gas
20 Collaborative that was conducted following the conclusion of PSE's 2007 general
21 rate case.

22 **Q. Have you testified before utility regulatory commissions in other states?**

1 A. Yes. I have testified in more than one hundred twenty proceedings on the
2 subjects of utility rates and regulatory policy before state utility regulators in
3 Alaska, Arizona, Arkansas, Colorado, Georgia, Idaho, Illinois, Indiana, Kansas,
4 Kentucky, Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New
5 York, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas, Utah,
6 Virginia, West Virginia, and Wyoming.

7 A more detailed description of my qualifications is contained in
8 Attachment A, appended to my response testimony.

9

10 **Overview and Recommendations**

11 **Q. What is the purpose of your testimony in the gas proceeding?**

12 A. My testimony addresses the cost-of-service and rate spread for PSE's gas
13 distribution service. I also address rate design for non-residential customers.

14 **Q. Please summarize your conclusions and recommendations.**

15 (1) I have concluded that the gas rate spread proposal put forward by the
16 Company in Column N, page 1, of PSE Exhibit __ (JKP-24) is reasonable.

17 Therefore, I recommend adoption of PSE's proposed rate spread, but without
18 endorsing the Company's cost-of-service method.

19 (2) I also believe that PSE's proposed non-residential rate design is
20 reasonable and recommend its adoption by the Commission.

1 **Gas Cost-of-Service Study and Rate Spread**

2 **Q. Do you have any comments on the gas cost-of-service study presented by PSE**
3 **in this case?**

4 A. Yes. I testified on the subject of gas cost of service in the previous PSE
5 rate case and was critical of the changes PSE had proposed in that case with
6 respect to the allocation of small and medium-diameter distribution mains. I
7 testified that the Company's changes gave an undue weighting to small and
8 medium-diameter mains in the allocation of costs to larger customers. Other
9 parties offered similar criticism.¹ There was also criticism offered in a different
10 direction, namely that the direct assignment of certain costs to large customers the
11 Company's cost-of-service model unduly favored those customers.

12 These issues were discussed in the subsequent Natural Gas Collaborative,
13 but without resolution.

14 In the current case, PSE witness Janet K. Phelps offers a new treatment of
15 small and medium-diameter mains that appears to be an attempt to compromise
16 between those parties, such as myself, who believe that larger customers should
17 not be allocated a significant portion of these costs (because, but for minor
18 exceptions, they do not utilize these facilities) and those parties that wish to
19 allocate a larger portion of these costs to large customers. In addition, Ms. Phelps
20 presents three alternative sets of cost-of-service results: (1) results using the cost-
21 of-service method the Company proposed in the previous rate case; (2) the results
22 of an analysis in which 100 percent of small and medium-diameter mains are
23 included in the allocation of costs to larger customers; and (3) the results of an

1 analysis in which no small and medium-diameter mains are included in the 33%
2 portion of costs that are allocated based on average demand.

3 **Q. What is your assessment of PSE's latest gas cost-of-service proposal and the**
4 **company's proposed rate spread?**

5 A. I appreciate PSE's attempt to find a "middle ground" in this debate;
6 however, I believe the Company's approach continues to give an undue weighting
7 to small and medium-diameter mains in the allocation of costs to larger
8 customers, particularly in comparison to the approaches the Company used prior
9 to the 2007 rate case. However, it is useful that PSE also presented the results
10 from a range of cost-of-service analyses. Taking all of that information into
11 consideration, I have concluded that the gas rate spread proposal put forward by
12 the Company in Column N, page 1, of PSE Exhibit __ (JKP-24) is reasonable.
13 Thus, I recommend adoption of PSE's proposed rate spread, but without
14 endorsing the Company's cost-of-service method.

15 To the extent that the final approved revenue requirement is reduced from
16 the Company's proposal, I recommend that the Company's proposal be
17 apportioned downward.

18
19 **Non-Residential Rate Design**

20 **Q. What has PSE proposed with respect to non-residential rate design?**

21 A. PSE has proposed no major changes to its non-residential rate design in
22 this proceeding. In general, each rate component of a given rate schedule is
23 increased by an equal percentage, with the exception of the demand charge. This

¹ Pre-filed response testimonies of Donald W. Schoenbeck and Stanley Gent.
Prefiled Response Testimony of Kevin C. Higgins

1 charge is identical for all non-residential rate schedules and is proposed to
2 increase by the proposed percentage increase for Schedule 87.

3 **Q. What is your assessment of PSE's proposed non-residential rate design?**

4 A. In my opinion, the proposed rate design is reasonable. I recommend its
5 adoption by the Commission.

6 **Q. Does this conclude your response testimony?**

7 A. Yes, it does.