Q: Would you state your name and business address?

A: My name is James M. Russell. My business address is 1300 S Evergreen Park Drive SW, Olympia, Washington, 98504.

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

A: I am employed by the Washington Utilities and Transportation Commission as a Policy Research Specialist.

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

A: Approximately 15 years, from June, 1995 to the present.

Q: What are your educational background and work experience at the Commission?

A: I graduated from Washington State University in 1983 receiving a Bachelor of Arts in Business Administration with a major in accounting.

My work for the Commission generally includes financial, accounting, and other analysis of rate filings, special contracts, incentive proposals, and least cost plans. Presently, I am also involved in the Commission's current gas and electric rule making processes.

Q: Have you testified before this Commission?

A: Yes. I have testified in the following formal natural gas proceedings: Docket Nos. U-86-41 and U-87-2126, Northwest Natural Gas Company; Docket Nos. U-88-2380 and UG-901459, Washington Water Power Company; and consolidated Docket Nos. UG-911236, UG-920840, and UG-931405, Washington Natural Gas Company.

Q: What is the purpose of your testimony in this proceeding?

A: I will provide testimony regarding Staff's proposed rate spread and rate design for Avista's gas operations.

RATE SPREAD

Q: Please briefly illustrate your gas rate spread given the staff's revenue requirement of $785,000 and the joint proposal on rate spread.

A: The following revenue increases result from Staff's revenue requirement and equal percent of margin rate spread (excluding Schedules 131 and 148):

Schedule 101	$588,200
Schedule 111	136,400
Schedule 121	15,200
Schedule 146	45,200

Page 1 of Exhibit ___ (JMR-1) illustrates the rate spread calculation consistent with the joint proposal.

RATE DESIGN

Q: Please briefly summarize your general rate design goals for Avista's gas tariffs.

A: Generally, I have three main rate design goals. The first is to keep the breakeven points between Schedules 101, 111, and 121 consistent with Avista's rate design proposal. The second goal is to make Schedule 131, Interruptible Service, more attractive to customers who might qualify. The third goal is to redesign Schedule 146, Transportation Service, to include more rate blocks to better reflect cost recovery from customer's based on their load requirement (similar to Avista's proposal).

Q: Have you prepared an exhibit summarizing your rate design proposal?

A: Yes. Page 2 of Exhibit ___ (JMR-1) is a summary of the current and proposed rate design for each schedule. These rates and resulting revenue have been determined

using Avista's witness Brian Hirschkorn's revenue model, a copy (electronic version) of which has been filed with the Commission.

Q: Please discuss your proposed rate design beginning with Schedule 101, General Service - Firm.

A: I propose that both the basic charge and commodity charge on Schedule 101 be increased by an equal percent of margin basis, consistent with the joint rate spread proposal. This results in a basic charge of $4.10 per month and a commodity charge of $0.40447 per therm.

Q: Please discuss your rate design proposal for schedule 111, Large General Service - Firm.

A: In order to keep the breakeven point between Schedules 101 and 111 at 200 therms, I set the first block at $0.42497 per therm ((200 thms @ $0.40447 + $4.10) / 200 thms). The next two blocks were then increased by an equal number of cents per therm to collect the remaining incremental margin requirement. Based on this proposal the minimum bill and block rates are as follows:

Minimum bill	$84.99 per month
First 200 therms	0.42497 per therm
Next 800 therms	0.36452 per therm
Over 1,000 therms	0.31017 per therm

Q: Please discuss your rate design for Schedule 121, High Annual Load Factor Large General Service - Firm.

A: In order to keep the breakeven point between Schedules 101 and 121 at 500 therms I set the first block rate at $0.41267 per therm. The next two blocks are set at the

second and third blocks of Schedule 111, consistent with Avista's proposal. The forth block rate was designed to collect the remaining incremental margin.

Q: Do you have a concern with the current rate structure/design of Schedule 131, Interruptible Service?

A: Yes, the current rate structure/design on Schedule 131 makes little sense. The current rates (and resulting bill) on Schedule 131 are higher than they are under Schedule 121, a firm service schedule. Currently, there is only one customer taking service on Schedule 131.

Q: What is your rate design proposal for schedule 131?

A: Currently, Schedule 131 is a single block rate schedule ($0.28202 per therm). In order to redesign rates on Schedule 131 so that a customer's bill is lower than it would be under Schedule 121 at all consumption levels, the schedule must be broken into multiple blocks. I propose a four block structure. The block rates must then be set so that the customer receives a discount compared to a bill under Schedule 121. I propose the following rate design for Schedule 131, Interruptible Service:

First 10,000 thrms	$0.31000 per therm
Next 10,000 thms	0.28000 per therm
Next 30,000 thms	0.26000 per therm
Over 50,000 thms	0.25000 per therm

This design results in a discount from Schedule 121 rates ranging from one to seven percent, depending on consumption.

Q: Schedule 131 currently has a minimum annual usage requirement of 250,000 therms and an annual minimum bill of $74,250. What is your proposal with regard to the minimum annual usage, minimum bill, or any other requirement?

A: I propose that the annual minimum usage requirement be reduced to 120,000 therms per year, with an annual minimum bill of $37,200 (120,000 thms @ $0.31000 per therm). I also propose that telemetry equipment be a requirement for any customer taking interruptible service.

Q: Now turning to Schedule 146, transportation service, what is your rate design proposal?

A: I definitely agree with the movement Avista has proposed with regard to its rate design for Schedule 146. The proposed blocking and rate structure more accurately reflect the recovery of costs for customers of different size. However, after considering the rate spread constraints, margins on Schedule 121, other Washington LDC'c transportation rates, and in light of discussions I've had with some of the parties regarding Schedule 146 rate design, I would propose the following blocks and rate levels for Schedule 146:

Basic charge	$200.00 per month
First 20,000 thms	0.07500 per therm
Next 30,000 thms	0.06000 per therm
Next 250,000 thms	0.04230 per therm
Next 200,000 thms	0.03430 per therm
Over 500,000 thms	0.03050 per therm

The first block rate of $0.07500 per therm was set to produce margin revenue close to the margin revenue produced under Schedule 121 at the 20,000 therm level.

Q: Does that conclude your testimony?

A: Yes.