

1 **Q. What is the purpose of this joint testimony?**

2 A. The purpose of this testimony is to set forth the joint position of the WUTC Staff,  
3 Public Counsel, and the Northwest Industrial Gas Users (NWIGU) on the subject of  
4 the spread of any allowed increase or decrease in natural gas rates between the classes.

5 **Q. What agreement have the three parties reached?**

6 A. We agree that any increase in natural gas rates allowed as a result of this proceeding  
7 should be spread among the classes other than Schedules 131 and 148 on an equal  
8 percentage of margin basis. Under this agreement, any increase or decrease will be  
9 spread as shown on the attached Exhibit \_\_\_\_ (Joint-Gas 1), labeled “Joint Position on  
10 Natural Gas Rate Spread.” This exhibit sets forth numerical examples of this  
11 agreement showing the effect of three different levels of potential increase in natural  
12 gas rates, a zero or insignificant change in rates with the current spread remaining  
13 unchanged, and three levels of potential decrease in gas rates.

14 **Q. Do the parties support the cost of service studies prepared by Ms. Knox and used  
15 by Mr. Hirschhorn in preparing his testimony and exhibits?**

16 A. Not necessarily. Each of the three parties has prepared a one-paragraph statement on  
17 the natural gas cost of service study, contained in this testimony, and as part of this  
18 agreement has waived any additional testimony on the issue. While we do not agree  
19 on the methodology or accuracy of the results of the cost of service study, we have  
20 reached agreement on a fair spread of the revenue requirement between classes. This  
21 is based upon the totality of our analysis and the expectations that each of the parties

1 has as to what action the Commission would take if each party presented complete  
2 testimony on the subject.

3 **Q. What is the principal reason for this joint testimony?**

4 A. All of the customer classes fall into a very narrow range with respect to the ratio of  
5 revenue at current rates to the revenue requirement to produce the current system  
6 average rate of return. In previous proceedings, the Commission has relied on these  
7 “revenue to cost ratios” in spreading rates, and found that when classes are within a  
8 range of 90% to 110% those classes should receive a system average increase.

9 **Q. What is the reason for exempting Schedules 131 and 148 from the uniform  
10 percentage increase?**

11 A. Schedule 131 is an interruptible schedule and as currently designed it is more  
12 expensive than firm service for the same customers on Schedule 121. We agree that  
13 this uneconomic feature should not be exacerbated. There is only one customer on this  
14 schedule, and exempting this schedule has an immaterial effect on the remaining  
15 schedules. Schedule 148 customers are all served under special contracts approved by  
16 the Commission. We agree that the time to review the adequacy of Schedule 148 rates  
17 is when these special contracts expire and new contracts are contemplated.

18 **Q. By agreeing on this rate spread, are the parties agreeing that the cost of service  
19 study is an accurate presentation of the cost of serving different classes of  
20 customers?**

21 A. No, we recommend that the Commission adopt this recommendation without

1 “approving” the Company’s cost of service study. Each of the parties has a different  
2 perspective on the cost of service study. We agree that the results are within a narrow  
3 range of reasonableness and that rates should be adjusted by an equal percentage of  
4 margin.

5 **Q. What is the position of WUTC Staff on the gas cost of service study?**

6 A. (By Mr. Russell): Staff has analyzed the company’s cost of service study and finds that  
7 it is generally consistent with prior Commission decisions. However, we do have  
8 concerns about the Company’s allocation of demonstration and selling expenses and  
9 how some administrative and general costs are allocated. After using what we feel to  
10 be a better allocator for demonstration and selling expenses and inputting the Staff’s  
11 proforma results of operations into the cost of service study we feel that the results  
12 generally support the equal percent of margin rate spread as described in this joint  
13 proposal.

14 **Q. What is the position of Public Counsel on the gas cost of service study?**

15 A. (By Mr. Lazar): The gas cost of service study appears to be consistent with previous  
16 Commission direction. We have concerns about two elements. First, the study is  
17 based on monthly meter reading and billing. If these expenses are reduced, the  
18 Schedule 101 revenue to cost ratio rises to 100%, providing even greater support for  
19 this settlement. Second, the categorization of about one-third of total distribution  
20 investment in the “services” category appears unusually large, and may inappropriately

1 shift costs to Schedule 101. We would expect to examine this issue in a future  
2 proceeding.

3 **Q. What is the position of NWIGU on the gas cost of service study?**

4 A. (By Mr. Schoenbeck): NWIGU does not believe the cost study submitted by the  
5 Company accurately portrays the cost of service to the various customer classes.  
6 However, in recognition of prior Commission decisions addressing cost of service  
7 matters, NWIGU is willing to be a party to this rate spread proposal so our attention  
8 may be focused on the design of Schedules 121 and 146.

9 **Q. Please summarize the decision you collectively recommend the Commission**  
10 **adopt.**

11 A. The Commission should specify that it is NOT accepting the results of any particular  
12 cost of service study in this proceeding, and should order that any allowed increase or  
13 decrease be applied to the classes in the manner set forth in Exhibit \_\_\_ (Joint-Gas-1).

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

15 A. Yes.