

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Petition of PUGET SOUND POWER & LIGHT )  
COMPANY for an Order Regarding the )  
Accounting Treatment of Residential )  
Exchange Benefits )

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Docket No. UE-920433

WASHINGTON UTILITIES AND )  
TRANSPORTATION COMMISSION, )  
Complainant, )

Docket No. UE-920499

v. )

PUGET SOUND POWER & LIGHT COMPANY, )  
Respondent. )

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WASHINGTON UTILITIES AND )  
TRANSPORTATION COMMISSION, )  
Complainant, )

Docket No. UE-921262

v. )

PUGET SOUND POWER & LIGHT COMPANY, )  
Respondent. )

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OPENING BRIEF OF THE FEDERAL EXECUTIVE AGENCIES

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Before the  
PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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The Secretary of Defense, through authorized counsel, on behalf of the consumer interests of all Executive Agencies of the United States hereby files the following opening brief of the Federal Executive Agencies (FEA) on the issues of class cost of service, revenue allocation, rate design, and phase-in.



## I. INTRODUCTION AND RECOMMENDATION

In this case, Puget Sound Power & Light Company (PSP&L) and other parties are recommending the use of class cost of service studies that are inappropriate. The Company's proposed method of allocating production-related fixed and variable costs entitled the "Peak Credit" method is not reflective of how production costs are incurred, is mechanically flawed, does not satisfy the Commission's guidelines for cost of service, is not recognized throughout the utility industry, and assigns far too much of the fixed demand-related costs on a variable or energy-related basis. Furthermore, the Commission Staff is inappropriately recommending that this same method be applied in the classification and the allocation of fixed transmission costs. In addition, the Company has not properly assigned distribution plant between customer and demand-related functions. The Company's class cost of service study, unless it is corrected for the deficiencies described herein, should not be used as a guide in allocating revenue responsibilities to the customer classes on PSP&L's system. Instead, this Commission should initiate an investigation into the most appropriate cost study method for PSP&L.

Absent a reasonable class cost of service study, revenues should be allocated to each customer class on a uniform equal percent basis. This method maintains the current relationships among classes and is the only appropriate revenue allocation method available until a reasonable class cost of service study can be developed to support changing the class revenue relationships.

However, if this Commission approves the use of the "peak credit" method for allocating costs, revenues should be allocated to each customer class so that existing subsidies are reduced by one-third. Subsidies



represent the dollar difference between a class' current revenue assignment and its cost of service revenue assignment. In only this manner will revenues be moved in an orderly fashion toward class cost of service.

With regard to rate design, all demand and energy charges should be increased by the same percentage. This is the only way to maintain existing rate relationships. Absent a reasonable class cost of service study, existing rate relationships should not be altered. Also with regard to rate design, this Commission should not approve the use of an elasticity adjustment. Elasticity adjustments are inaccurate and result in shifting risks from stockholders to ratepayers. Because of these problems, most Commissions throughout the United States do not use elasticity adjustments in designing rates. Additionally, the FEA supports the Company's proposed changes in kvar billing. They are cost-based and should be approved.

FEA supports the Company's proposed rate moderation proposal. A one time 11.6% overall increase is far too great given current economic conditions. It is more appropriate to phase-in this increase in order to mitigate a large one-time increase.

Finally, the Company's proposal to collect PRAM revenues on a per kilowatthour basis is inappropriate and should be rejected. The existing method of collecting PRAM revenues, whereby demand and energy charges are increased by the same percentage, should be maintained.

## II. CLASS COST OF SERVICE STUDY

PSP&L's class cost of service study, and those sponsored by other parties, should be rejected because they contain at least three major flaws which render them inappropriate for cost allocation. First, the Company and other parties are recommending that resource costs be classified and

allocated using the "peak credit" method (Exhibit T-1, Pages 3-4). Second, the Commission Staff (Exhibit T-33, Page 6) and other parties are recommending that transmission fixed cost also be allocated on the basis of the "peak credit" method. Finally, the Company and other parties are recommending that distribution costs be classified as demand-related only. Implementation of these three positions totally disregards the principle of cost allocation thus rendering any class cost of service study using them inappropriate and invalid for revenue allocation.

**A. The Company's "Peak Credit" Method for Allocating Resource Costs is Inappropriate and Should be Rejected**

The Company and other parties are recommending that resource costs be allocated on what the Company calls the "peak credit" method. Under this method, the current 30-year levelized fixed cost of a peaking unit is compared to the 30-year levelized cost of a base load combined cycle unit. The percentage that the 30-year levelized cost of the peaking unit represents of the 30-year levelized cost of a base load unit becomes the percentage of total resource costs that is classified as demand-related and allocated on a peak demand basis. The remaining resource costs are then classified as energy-related and allocated on an energy basis. According to the Company's calculation, only 16% of all resource costs are classified as demand-related and allocated on a demand basis and the remaining 84% of all resource costs are classified as energy-related and allocated on an energy basis (Exhibit T-41, Page 3).

This method is arbitrary, does not reflect cost causation, is mechanically flawed, does not satisfy the Commission's cost of service requirements, and is not generally recognized in the utility industry and therefore should be rejected. We will discuss these weaknesses below.

This method is arbitrary because in the calculation of the 30-year levelized cost of the peaker, the Company arbitrarily includes only 50% of the fixed capital and fixed O&M cost. The Company has provided no evidence demonstrating why it is appropriate only to include 50% of these costs. If these costs were not discounted by 50%, the "peak credit" method would result in 25% of the resource costs being allocated on demand-basis instead of 16% (Exhibit T-41, Page 4). Intervenor Washington Industrial Consumers for Fair Utility Rates (WICFUR) agrees (Exhibit T-73, Page 6).

The method is not cost-based because it does not reflect how costs are incurred on a utility system. First, for PSP&L, much of the resource costs are purchase power costs. In the decision to purchase power rather than construct capacity, there is no comparison made between the cost of a peaking unit and the cost of a base load unit. It is simple long-term economics that dictate the most appropriate choice between purchasing power or building the lowest cost capacity. Second, with regard to the capacity that PSP&L actually constructs, the "peak credit" method merely compares the current day costs of a peaker versus current day costs of a base load unit. Under this method, the amount of resource costs which are allocated on an energy (versus a demand) basis is not at all sensitive to a utility's load factor or resource mix. A utility with a higher system load factor should have more base resource costs than a utility with a low system load factor. The "peak credit" method will not recognize this fact. Therefore, it is not cost-based (Exhibit T-41, Page 5 and Tr. Page 1579).

The method is mechanically flawed because it double-counts the amount of capacity which is allocated on an energy basis. The intent of the "peak credit" method is to allocate "base" resource cost on an energy basis (arguing that base plant serves energy needs) and "peak" resource

cost on a peak demand basis (based on its assumption that peak plant serves the peak needs above the energy needs served by base plant). If this method were to truly reflect the concept that combustion turbines are used to serve peaking load above that served by the base generation plant, then the portion of resource cost allocated on a demand basis should be allocated on the basis of the peak demands above the average demands, and not on the basis of total peak demands as the Company has done in its cost of service study. Peak demands above average demands are called "excess" demands. This term and concept is well recognized in the utility industry in one of the more uniformly accepted cost of service methodologies, known as the "average and excess demand" method. The Company's method does not calculate the "excess" demands but merely allocates what is supposed to be the peaking capacity portion of the resource cost on total peak demands. This is inappropriate (Exhibit T-41, Page 5).

The "peak credit" method is not in accordance with Commission past Orders on cost of service. In its last order relating to cost of service for PSP&L, the Commission stated that the Company's embedded class cost of service study should use a classification method which recognizes the current cost relationships between base load and peaking facilities (Third Supplemental Order, Docket Nos. U-89-2688-1 and U-89-2955-T, Page 5). While the Company does compare the current costs of a base load facility with the current costs of a peaking facility, it incorrectly concludes that those cost relationships mean that the base load portion of resource costs should be allocated on energy and the peak load portion should be allocated on peak demand. If one is to consider the cost relationships between base and peaking capacity, one must also consider what causes the decision to build base load or peaking load capacity for

purposes of allocation. That decision does depend upon how many hours capacity is required, up to a point, and that point is not 8,760 hours as an energy-based allocation implies.

What causes either base or peaking load capacity to be built is the need to serve the required load at the lowest overall cost. This decision is made based upon use of capacity up to the break-even point between base and peaking capacity (Exhibit T-41, Page 6). The break-even point according to the Company's levelized cost of a base and a peaker is 396 hours (Exhibit T-41, Pages 6-8). Required use of a plant for less than 396 hours means that a peaking plant is more economical. Required use of a plant for more than 396 hours means that a base load plant is more economical. Therefore, if one is to consider the trade-off between base and peaking capacity for purposes of cost allocation, then what causes either base or peaking capacity to be built is all demands within the top 396 hours. In allocating these fixed costs, it is thus appropriate to allocate them on the basis of the top 396 hours of peak demand, instead of 8,760 hours (energy) as the Company has done. Also, it is proper to allocate fuel costs on the basis of all demands within the top 396 hours of peak demand because of the trade-off which is being considered in the capital cost equation. Therefore, if one is to properly follow the Commission guidelines relating to cost of service methodologies, it would be more appropriate to allocate all of the resource costs on the basis of the highest 396 hours of peak demand rather than all 8,760 hours of demand.

Finally, the "peak credit" method is not well recognized in the utility industry. The touchstone for utility cost allocation is the NARUC Cost Allocation Manual. This manual does not discuss the "peak credit"



method as being a well-recognized method in the industry (Exhibit T-41, Page 9).

Public Advocate witness Jim Lazar stated in his testimony that the "peak credit" method is simply a variation of the equivalent peaker method, which is discussed in the NARUC Cost Allocation Manual (Tr. Page 1631). Nothing could be further from the truth. His conclusion that the "peak credit" method is a variation of the equivalent peaker method would be similar to concluding that an energy-based allocation method (which allocates cost on the basis of all 8,760 hours of coincident peak demand) is a variation of the multiple coincident peak method (which allocates cost on the basis of the highest 10 or 20 coincident peak demands in the year). Unlike the Company's "peak credit" method, the equivalent peaker method actually takes into consideration the type and cost of actual installed capacity on a utility system.

The equivalent peaker method first calculates what the total installed capacity cost would be on a utility system if all installed capacity were priced at the cost of a new combustion turbine. That represents the demand-related cost. The difference between the total production investment and this calculated demand-related cost is considered to be energy-related. Thus, the equivalent peaker method considers the actual mix and installed capacity cost on a utility system. It does not merely consider the hypothetical cost of a base versus a peaking unit as the "peak credit" method does. However, even the equivalent peaker method suffers from the same infirmities previously described with the "peak credit" method. That is, it is not cost-based, it is mechanically unsound, and it does not follow cost causation. Furthermore, the regulatory bodies in only

a very few states use the "peak credit" method (Exhibit 42, and Tr. Page 1535).

The "peak credit" method as used by the Company is not an appropriate method for allocating resource costs on a utility system and should be rejected.

**B. The Commission Staff's Recommendation to Classify Transmission Costs on the Basis of the "Peak Credit" Method should be Rejected**

The Commission Staff is recommending that transmission costs also be classified and allocated using the "peak credit" method (Exhibit T-33, Page 6). That is, 84% of transmission costs would be classified as energy-related and allocated on an energy basis and 16% classified as demand-related, and allocated on a demand basis. This is totally inappropriate. First, the purpose of classifying generation cost between demand and energy in the "peak credit" method is to recognize a trade-off between base and peaking capacity. For transmission capacity, there is no consideration of base or peaking capacity. Therefore, there is no trade-off in the consideration of the installation of transmission plant as there is in the consideration for generation plant. Transmission investment is not the same type of investment.

Second, transmission costs are fixed costs (Tr. Page 1535). The allocation of 84% of these costs on the basis of energy implies that the investment in transmission facilities varies depending upon energy usage. Because transmission costs are fixed costs, their investment does not vary with energy usage. To allocate 84% of these costs on the basis of energy sends a signal to the customer that the higher the customer's load factor (the more energy usage), the more fixed transmission cost that customer

will be assigned, even though those costs do not vary on an energy basis (Tr. Pages 1535-1536). It is wrong to send that signal.

Finally, the Company itself states that it plans and designs its transmission system based upon the peak demands imposed on that system, and not energy usage (Exhibit T-2, Page 17). Staff witness Ms. Sorrells is not a transmission planner (Tr. Page 1517). The Company is the transmission planner. It knows the basis upon which transmission costs are incurred. That basis, as stated by the Company is peak demand. It is upon that basis that transmission costs should be classified and allocated.

**C. The Company's Proposal to Allocate 100% of the Distribution Costs on the Basis of Demand is Inappropriate and Should be Rejected**

The Company and other parties are proposing to classify and allocate all distribution plant, with the exception of services and meters, on the basis of noncoincident peak demand (Exhibit T-2, Page 19). This is inappropriate. Even the Company believes that the minimum distribution system approach of classifying distribution plant between customer and demand is more appropriate; but in the "interests of promoting consensus" does not support its use (Exhibit T-2, Page 19).

The classification and allocation of distribution plant should follow cost causation. Distribution plant serves two functions. First, it serves the function of connecting a utility customer to the utility system irrespective of the customer's level of demand. Second, the distribution system must be sized to serve all customer's noncoincident peak demands. Therefore, distribution systems serve both a customer-related function and a demand-related function. The Company has only recognized the demand-related function of the distribution system. The customer-

related function should also be recognized. In a cost of service study, the investment in the distribution system should be split into customer and demand-related components. One method of doing so is the minimum distribution system approach. This approach recognizes that a utility must invest more in a distribution system to serve 100 residential customers with a total noncoincident peak demand of 500 kW than it must invest to serve one commercial or industrial customer with a noncoincident peak demand of 500 kW. Without the use of a minimum distribution system approach, both of these "customer classes" would be assigned the same amount of distribution costs. This is clearly inappropriate. Even Staff witness Sorrells agrees that these two hypothetical customer classes would be assigned the same amount of distribution costs even though the 100 single family homes would require a greater investment in distribution plant (Tr. Pages 1539-1541).

Public Advocate witness Jim Lazar recommends that distribution plant be classified and allocated in the same way as gas distribution plant in a gas class cost of service study. This means that a portion of the distribution plant would be classified and allocated on an energy basis (Bench Request No. 6). This is totally inappropriate. Distribution plant is a fixed cost (Tr. Page 1665). As such, these costs do not vary with the amount of energy that moves through the distribution system. They vary with the level of noncoincident peak demand and the number of customers on the system. To classify these costs and allocate them on an energy basis presents an incorrect price signal to ratepayers. It tells ratepayers that the higher your load factor, the more distribution plant cost you incur and the higher your rates become. This is not how distribution plant cost are incurred and it should not be the price signal that is sent to customers.

The Commission should reject this notion that some portion of distribution plant cost are energy-related and should be allocated on an energy basis.

Therefore, a proper class cost of service study should recognize that there is a customer component of the distribution system as well as a demand component of the system and no energy component. In addition to the Company, Intervenor WICFUR and BOMA also agree (Exhibit T-73, Page 29, Exhibit T-54, Pages 12-16, and Tr. Page 1709).

**D. This Commission should Initiate a  
Separate Docket to Determine the Most  
Appropriate Class Cost of Service Method for PSP&L**

FEA and others have discussed fatal flaws with the Company's and other parties proposed class cost of service study in this case. These fatal flaws make any class cost of service study submitted before this Commission inappropriate for cost assignment and revenue allocation. FEA recommends that the Commission initiate an investigatory docket in order to determine the most appropriate class cost of service study method to use for PSP&L. In that docket, all of the issues raised by parties in this proceeding could be submitted and argued before the Commission in order to arrive at an appropriate resolution to this cost of service study dilemma. Among the issues which should be dealt with in this investigatory docket are:

- (1) If this Commission determines that a proper class cost of service study should consider the trade-off between base and peaking capacity, is it appropriate to allocate all resource costs, including purchase power costs, on this basis?
- (2) In the determination of a class cost of service study, is it appropriate to recognize actual installed capacity costs and mix on a utility system?
- (3) Is it more appropriate to use a well-recognized utility industry cost of service method?

- (4) If one is to use the "peak credit" method for allocating resource costs, should one exclude 50% of the fixed capital and O&M cost associated with the levelized cost of a peaking unit?
- (5) If one is to use the "peak credit" method in classifying and allocating production costs, does this mean that the base load portion of production costs should be allocated on an energy basis?
- (6) If one is to consider the capital trade-off between base and peaking capacity, does that mean that these costs should only be allocated on the basis of the "break-even" number of hours between base and peaking capacity?
- (7) If one is to allocate base resource cost on the basis of energy, under the assumption that base costs serve the energy load, then shouldn't peaking resource costs be allocated on the basis of "excess" demands above the energy load?
- (8) If one is to consider the trade-off between base and peaking capacity in the classification and allocation of fixed costs, should one also consider that trade-off in the fuel cost classification and allocation process?
- (9) What is the most appropriate method for allocating transmission fixed costs?
- (10) Is there a customer component of the distribution system which should be recognized in the classification and allocation of distribution plant?
- (11) Is there an energy-related component of the distribution system which should be recognized in the classification and allocation of distribution plant?

All these questions are complex and interrelated and would be properly dealt with in the context of a special investigation relating to class cost of service.

**E. If the Commission Approves a Class Cost of Service Study Method Based Upon the "Peak Credit" Method, It should Make Certain Modifications to this Method**

If the Commission is to use the "peak credit" method for allocating costs and revenue responsibility for the PSP&L Company rate classes, certain modifications should be made to make this method more cost-based

and logical. FEA's primary recommendation which would make this method more cost-based would be to allocate all resource costs on the basis of all classes' contributions to the peak demands for all hours which represent the "break-even" point between base and peaking capacity. According to the Company's assumptions on base and peaking capacity costs, this would mean that all resource costs should be allocated on the basis of each class' contributions to the top 396 peak demands on PSP&L system. This would include both the fixed and variable resource costs given that this method attempts to consider the trade-off between base and peaking capacity, which includes both the fixed and variable components of that trade-off.

However, if the Commission is not inclined to allocate costs only on the break-even number of hours, there are other adjustments that should be made to the Company's proposed "peak credit" method which would make it more cost-based. First, the Company should not arbitrarily exclude 50% of the fixed capital and O&M cost associated with the peaking unit. If it properly includes these costs, then resource costs should be split between peak and base on the basis of 25% peak and 75% base. Second, the 25% peak-related costs should be allocated on the basis of peak demands above the average demands, or "excess" demands. This means that the average demands for each class should be subtracted from its "peak demand" in order to determine the "excess" demand which should be used to allocate the peak-related costs. Third, fuel costs should be assigned on the same basis as production costs if the trade-off between base and peaking capacity is to be recognized in the cost allocation process.

In addition to the above changes to the "peak credit" method, a proper cost allocation study should consider transmission fixed costs as demand-related and should allocate these costs on the basis of peak

demands. Also, in the classification of distribution plant cost, there should be recognition that a certain portion of the system is required simply to bring service to a customer, and hence is customer-related.

FEA's primary position, however, is that the Commission should initiate an investigation into the most appropriate class cost of service study method which should be used for PSP&L (Exhibit 41, Pages 9-10).

### III. REVENUE ALLOCATION

**A. Absent a Reasonable Class Cost of Service Study, Any Revenue Increase Authorized by this Commission should be Allocated to Each Customer Class on a Uniform Percentage Basis**

FEA's primary position is that no party has presented a proper class cost of service study in this proceeding. Absent such a presentation, class revenue responsibility should not be modified. Therefore, any increase in this case should be allocated to each customer class on a uniform percentage, pending development of a reasonable class cost of service study (Exhibit T-41, Page 12).

**B. If the Commission Approves the Use of the "Peak Credit" Method as Set Forth by PSP&L, the Revenue Increase should be Allocated so that Subsidies are Reduced by 1/3**

The term "subsidy" represents the difference between a class' current revenues and a class' cost of service. A negative subsidy means that a class is paying rates below cost and a positive subsidy means that a class is paying rates above cost. Subsidy is the only true measure of the relationship between rates and cost.

If the Commission approves the "peak credit" method for cost allocation, then revenues should be allocated to each class in a way that reduces subsidies by one-third (Exhibit T-41, Page 12). This represents



a movement toward cost while at the same time considering rate impact to each customer class. The Company's proposed revenue allocation does not reduce subsidies by one-third and, hence, is not a movement towards cost of service. In fact, for the residential class, the Company's proposed revenue allocation actually moves rates further from costs, i.e., the residential subsidy increase (Exhibit 42, Schedule 2).

Public Counsel witness Jim Lazar has presented a revenue allocation which must be rejected because it is irresponsible. Mr. Lazar's proposal would result in an increase to the high voltage class of 67% (Tr. Page 1609). As a further demonstration of the irresponsible nature of his proposal, Mr. Lazar stated that he does not even consider this 67% increase excessive (Tr. Page 1670). The Commission must reject this proposal.

Public Counsel witness Lazar also recommended that revenues be allocated to the various customer classes not only by looking at the system-wide rate of return, but also by making a subjective evaluation of the risk of each class. What he is suggesting is that those classes that he feels are riskier to a utility should produce a higher rate of return than those classes that are presumed to be less risky. Mr. Lazar has assumed that the larger high load factor customer classes are more risky than the other classes. This is totally inappropriate for several reasons. First, it makes no sense to further increase rates to those classes that are presumed to be more risky than the other classes because this makes these classes even more risky and more likely to leave the system than prior to those rates being increased. Second, and more important, Mr. Lazar is unable to identify any studies where there was a verifiable conclusion that the large customer classes were riskier to serve than other

customer classes. Even Mr. Lazar himself conducted a study, which he started in 1982, in which his result of comparing risk with the amount of industrial load was "inconclusive" (Tr. Pages 1665-1666). Finally, Mr. Lazar was unable to provide any regulatory jurisdictions which made a risk adjustment to classes (Tr. Page 1611).

This Commission should not adopt Mr. Lazar's illogical and unsupported proposition that the large industrial rate classes should pay higher than cost-based rates because they are more risky.

#### IV. RATE DESIGN

##### **A. Rates should be Designed in this Case by Increasing All Demand and Energy Charges by the Same Percentage**

Because it is FEA's position that a reasonable class cost of service study has not been presented in this case, revenue collection between demand and energy charges should not be altered. Until a reasonable cost of service study can be used as a guide for both revenue allocation and rate design, the rates charged to each customer class should be increased by a uniform percentage. To do anything different would alter the revenue collection among customers within each customer class. This should only be done after proper cost considerations. These considerations are not present in this case (Exhibit T-41, Pages 2-3).

However, FEA does support the Company's proposed kvar billing charge. It is cost-based and should be approved (Exhibit T-41, Page 13).

##### **B. The Commission should Reject PSP&L's Proposed Elasticity Adjustment**

In its rate design, the Company alters the billing units between present and proposed rate calculations to reflect an elasticity adjustment. This results in fewer billing units at proposed rates than at present

rates, and produces higher proposed rates. The Commission should reject this adjustment. Elasticity adjustments in the utility industry are subject to a great deal of criticism. First, they are highly inaccurate. It is difficult, if not impossible, to project how a customer's usage will change based upon higher or lower rates. This is exactly what an elasticity adjustment tries to capture.

Second, the use of an elasticity adjustment increases the likelihood of overrecovering from ratepayers. As a result, elasticity adjustments are generally felt to shift risk from the utility stockholders to the utility ratepayers. The Commission should protect against this.

Finally, most Commissions throughout the United States have rejected the use of these adjustments for rate-making. This Commission should also reject the use of this adjustment (Exhibit T-41, Pages 13-14).

#### **V. OTHER ISSUES**

##### **A. The Company's Proposed Rate Moderation Proposal should be Approved**

In its direct testimony, the Company suggests that the one-time 11.6% overall increase as proposed by the Company would be too hard on ratepayers. FEA agrees. As a result, the Company is proposing to phase-in this increase. FEA also agrees with this. Current economic conditions would make a one-time 11.6% increase in total, with potentially varying increases to the customer classes, far too great. A phase-in proposal would be the preferred alternative in this case (Exhibit T-41, Page 14).

**B. The Company's Proposal to Charge the Periodic Rate Adjustment Mechanisms (PRAM) on a Per kWh Basis should be Rejected**

In its initial filing, the Company stated that it will ask the Commission to eliminate the demand portion of the periodic rate adjustment mechanism (PRAM) and charge all PRAM increases on a per kWh basis. This is inappropriate. To do this would alter the revenue/cost relationships not only among classes, but also within classes. Current rate relationships should not be altered unless there is cost-based evidence supporting the same. In a PRAM proceeding, cost-based evidence is not present. Therefore, the existing mechanism whereby all charges are increased by an equal percentage should be maintained. This is the only mechanism that does not alter current rate relationships (Exhibit T-41, Pages 14-15).

**VI. CONCLUSION**

For the reasons stated above, FEA urges this Commission to reject any class cost of service study recommending the use of the "peak credit" method for classifying and allocating production and/or transmission plant, and any study which fails to recognize a customer-related component of the distribution system. However, if a cost study is to be used in this proceeding for revenue allocation, the "peak credit" method should be modified to eliminate some of the fundamental problems discussed previously. For example, transmission costs should be allocated on the basis of peak demand, and distribution cost should be classified between customers and demand-related components. FEA's primary recommendation is that this Commission initiate an investigation into the most appropriate class cost of service study method for PSP&L.

Absent a reasonable class cost of service study, revenues should be allocated to each customer class on a uniform percent increase basis. If a class cost of service study is used, revenues should be allocated so that current subsidies are reduced by one-third.

In this proceeding, rates should be designed by increasing all demand and energy blocks by the same percentage. This keeps the existing rate relationships intact. Also, this Commission should reject the use of any elasticity adjustment in this case.

FEA supports the concept of a phase-in in this rate case. This would help mitigate a large one-time increase to all customer classes.

Finally, the existing method of collecting PRAM increases through rates, whereby all charges are increased by a uniform percent, should be continued.

DATED: July 9, 1993

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**CERTIFICATE OF SERVICE**

I hereby certify that I have on this day served the foregoing Opening Brief on Rate Design on behalf of the Department of the Navy and all other Federal Executive Agencies upon all parties of record in Docket Nos. UE-921262, UE-920499 and 920433, as identified on the attached service list, by mailing a copy thereof, properly addressed with postage prepaid, through the United States mail.

Dated at San Bruno, California, this 9th day of July 1993.



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