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July 8, 1993

VIA FEDERAL EXPRESS

Mr. Paul Curl, Secretary
Washington Utilities and Transportation Commission
Chandler Plaza Building
1300 S Evergreen Park Drive SW
Olympia WA 98504

Re: UE-921262, UE-920449, UE-920433
Our File No. 29446\12

Dear Mr. Curl:

Enclosed for filing in the above proceeding are the original and 19 copies of the Opening Brief of Washington Industrial Committee for Fair Utility Rates.

Very truly yours,

DAVIS WRIGHT TREMAINE

Aviva Groner

AG;skr
Enclosures

cc/enc: Service List

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BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

PETITION OF PUGET SOUND POWER & LIGHT COMPANY FOR AN ORDER REGARDING THE ACCOUNTING TREATMENT FOR POSTRETIREMENT EXCHANGE BENEFITS	Docket No. UE-920433
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, vs. PUGET SOUND POWER & LIGHT COMPANY, Respondent,	Docket No. UE-920499
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, vs. PUGET SOUND POWER & LIGHT COMPANY, Respondent,	Docket No. UE-921262

OPENING BRIEF OF WASHINGTON INDUSTRIAL COMMITTEE FOR FAIR UTILITY RATES

I. INTRODUCTION AND SUMMARY

Puget's cost-of-service study and rate design proposals in this proceeding are based on several erroneous factual assumptions and methodologies which affect their accuracy. WICFUR submits this brief in order to focus the Commission's attention on those errors and to provide alternatives which result in rate spread and rate

design that more accurately reflect the principle of cost-causation, the primary goal of Puget's filing.

The issues raised in this brief deal with the appropriate classification and allocation of production, transmission, and distribution costs. Puget's design of the voluntary experimental interruptible rates is also discussed. WICFUR's positions are summarized as follows:

- Puget's Peak Credit Classification Understated the Cost of Providing Capacity.

  Puget's peak credit classification understates the cost of providing capacity (demand) for three reasons. First, Puget arbitrarily discounts the capital and fixed operations and maintenance costs of the peaking resource by 50 percent. Second, Puget erroneously assumes an 80 percent utilization rate for the baseload resource. Third, Puget fails to credit the baseload resource fuel costs to the peaking resource fuel costs. Correcting for these errors results in classifying 31 percent of production costs to demand and 69 percent to energy.

- Puget's Use of the System's Highest 200 Hours and Failure to Make Normalization Adjustment to Actual Loads Experienced During the Test Period.

  Puget improperly uses 200 hours to allocate demand-related costs. Puget also fails to make demand-related normalization adjustments. As a result, Puget's allocation of costs does not accurately distribute costs to the responsible classes.

- The Commission Should Reject Public Counsel's Risk Premium Proposal.

  Public Counsel proposes applying a "risk premium" to each of the classes. Consistent with its past practice, the Commission should reject this proposal both because there is no way to approximate class risk, and because a

risk premium would have the effect of forcing large load classes off of Puget's system resulting in higher residential rates.

- Conservation Pricing.

  To ensure that there are no "winners" or "losers" as a result of conservation programs, the acquisition of conservation must be treated precisely the same as a generating resource through all phases of the ratemaking process. For this proceeding, this must be done by including the conservation savings (both demand and energy) in the assignment factors for allocating costs.

- Transmission Costs.

  Puget's sub-functionalization of transmission costs into generation-related and non-generation-related segments, with the latter classified as demand-related is appropriate and should be approved by the Commission.

- Distribution Costs.

  Puget's distribution system costs--beyond simply the service drop and meter--are affected by the number of customers on Puget's system. Accordingly, the Commission should adopt a "customer component" or an "access component."

- Voluntary Experimental Long-Term Interruptible Tariffs.

  WICFUR supports the proposed voluntary experimental long-term interruptible tariffs for large users. However, the long-term interruptible reservation credit proposed by the Company is inadequate to attract the customers it needs in order to succeed. To more properly reflect the cost (and need) of providing this service and to attract an adequate number of customers to the plan, the credit should be increased to $3.00 per kilowatt month.

Incorporating the above recommendations into a cost-of-service analysis, as shown by the following table, indicates that only the

Residential and Resale classes have a revenue to cost ratio ("parity ratio") less than 100 percent. All other classes are paying more than their fair share of revenue.

Comparison of Class Cost-of-Service Studies Ratio of Revenue to Cost Responsibility

Voltage Class	Puget COSS	WICFUR-Excluding Min. Dist. Sys.	WICFUR-Including Min. Dist. Sys.
Residential	97%	87%	84%
Secondary: Small	109%	123%	122%
Medium	115%	130%	146%
Large	113%	130%	145%
Primary	91%	108%	118%
High Voltage	86%	105%	105%
Lighting	134%	144%	146%
Resale	75%	92%	99%

Finally, WICFUR concurs with Puget's proposal to move all classes gradually toward cost-of-service. However, this gradual movement must be based upon the correction of the errors and oversights contained in Puget's study. The following table compares the class percentage increases resulting from WICFUR's recommendations (using Puget's full rate request) and Puget's proposal:

Rate Spread Comparison
Percentage Increases

Voltage Class	Puget Proposal	WICFUR Recommendation	Difference
Residential	12.7%	17.7%	5.0%
Secondary: Small	8.4%	4.1%	(4.3)%
Medium	6.6%	2.6%	(4.0)%
Large	7.3%	3.1%	(4.2)%
Primary	15.3%	8.4%	(6.9)%
High Voltage	17.4%	8.9%	(8.5)%
Lighting	1.8%	(0.3)%	(2.1)%
Resale	25.1%	14.8%	(10.3)%
Total	11.5%	11.5%	0.0%

II. ARGUMENT

A. Puget's Peak Credit Classification is Flawed for Three Reasons.

Puget has employed the peak credit method to classify production-related costs. This method analyzes the current cost of two different resources in order to ascertain the cost of supplying capacity (peak demand) and energy. Ex. No. T-76 p. 6. The first resource is the "peaking" resource and represents the cost of supplying capacity. The second resource is the "baseload" resource, which can be utilized to provide both capacity and energy. The portion of the cost of the baseload resource that exceeds the peaking resource is considered energy-related, while the remainder is considered capacity or demand-related. This cost relationship captures the relationship between the costs of

capacity and energy, and classifies the Company's existing generating costs into demand and energy components. Ex. No. T-76 pgs. 6-7.

In this case, Puget used a simple cycle combustion turbine (CT) as the peaking resource. Puget used a combined cycle combustion turbine (CCCT) as the baseload resource. Ex. No. T-8 pgs. 10-11. Under Puget's peak credit calculation, Puget proposes that 17 percent of the production-related costs be classified to demand and the remaining 83 percent be classified to energy. Ex. No. T-2 p. 15. There are three aspects of Puget's peak credit calculation which are in error.

1. Puget Has Arbitrarily Discounted the Capital and Fixed Operations and Maintenance of the CT by Fifty Percent.

Puget has arbitrarily used only 50 percent of the capital and fixed operations and maintenance cost of the CT as the proxy for the cost of providing capacity. Ex. No. T-76 p. 7. Puget's witness, Mr. Hoff, admitted that he did not do any analysis in arriving at the 50 percent figure. TR 196, Lines 12-15. Nor was he aware of the considerations relied on by Puget's power planners in arriving at the 50 percent figure. Rather, Mr. Hoff concedes that the power planners "[j]ust verbally. . . basically say that it should be about halfway between this and this. There's a whole lot of things that are involved in this, and so that's what it should be." Ex. No. 18 p. 37, lines 8-11. Thus, Puget's decision to classify only 50 percent of the CT costs as demand-related is not satisfactorily justified.

The use of one-half of the CT's costs frustrates the aim of the peak credit calculation and results in an over-classification of production costs to energy. The peak credit calculation requires recognition of the full cost of the peaking resource in determining the cost of capacity, since only then can the capacity and energy components be accurately separated.

The only apparent basis for Puget's decision to use less than the full cost of the CT appears to be that a CT can be used for purposes other than providing just capacity which can be said of any resource. All resources simultaneously provide both capacity and energy. The point of the peak credit method, however, is to determine what portions of the cost of Puget's production resources are attributable to energy and which to capacity. In this case, Puget's planning criteria should be used. Puget's planning criteria designate CT's as the resource for meeting peaking requirements.[1] Thus, the full cost of the CT should be used in the peak credit classification.

Another reason to use the entire cost of the CT is that long-term peak capacity cannot be provided at only one-half the cost of a CT. This fact is recognized by Puget in its avoided cost calculations. In calculating its avoided cost, Puget included the total cost of operating the CT in determining the capacity-related component. Ex. T-73 p. 7, lines 23-26. This same concept should be consistently employed in determining the capacity/energy split

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[1] In the past, Puget Power has constructed simple cycle combustion turbines to meet peaking requirements and this option appears to still be the lowest cost for new utility-developed capacity. Puget Integrated Resource Plan 1992-1993. (Appendix E, page E-10, emphasis added).

for use in Puget's class cost-of-service study.

2. Puget Makes Unsubstantiated Assumptions About the Utilization Rate of the Baseload Resource.

In its peak credit calculation, Puget makes unsubstantiated assumptions about the utilization of the baseload resource. Puget has assumed the CCCT would run 80 percent of the time to provide both capacity and energy, but provides no basis for this assumption. Ex. T-73 p. 8, lines 11-13. WICFUR proposes a utilization factor based on the native system load characteristics (load factor) that Puget must serve. WICFUR's proposed utilization factor is based on quantifiable system demand while Puget's figure is based on guess-work. The system load factor approach is used by other utilities, including the Bonneville Power Administration ("Bonneville"). As applied to Puget, the utilization factor would be about 54%--almost the exact figure employed by Bonneville. The Commission should adopt the system load factor approach since it more accurately reflects Puget's actual utilization rate.

For the CT, Puget has estimated 200 hours of operation to provide peak capacity. Ex. T-73 p. 9, lines 2-5. WICFUR agrees that 200 hours is an appropriate utilization rate since it is consistent with the theoretical view that the resource will be used at a minimal level required to provide peak capacity. Based on Puget's planning documents, peaking resources are planned to run only 200 hours to provide capacity. Given Puget's sharp, short system peak, this is an appropriate utilization level for the peak credit calculation.

3. Puget Failed to Credit the Fuel Costs of Running the CCCT to the Costs of Running the CT.

Puget's calculation does not correctly capture the energy-related fuel component of the CT. As previously mentioned, the capacity-related fuel component of the CT is measured by the cost premium above the fuel cost of operating the CCCT. Thus, to determine the cost premium, i.e., the capacity-related component of running the CT, the CCCT fuel cost must be "credited" to the CT side of the equation. Puget failed to do this. This error should be corrected by appropriately crediting the CT cost with the CCCT fuel costs.

B. Puget's Allocation of Demand-Related Costs is Flawed Both Because it Uses the System's Top 200 Hours and Because No Capacity-Related Weather Normalization Was Made.

1. Puget Improperly Uses the Highest 200 Hours to Allocate Peak Demand-Related Costs.

Puget uses the highest 200 hours to allocate demand-related costs, apparently under the belief that the number of hours that the CT is utilized, i.e., 200 hours, must also be used in allocating those costs. This is not the case. The function of allocating costs is distinct from the function of simply determining the costs associated with a given resource. The full 200 hours that the CT is utilized can be used to quantify the capacity-related costs. Only the actual system peak hours, on the other hand, should be used to allocate those costs to customer classes. The 200 hours of CT operation are not the equivalent of Puget's peak demand. Nevertheless, Ms. Lynch states:

> "In our view, using 200 hours better matches the allocation factor with planning criteria actually used by the Company."

Ex. No. T-2 p. 27 lines 8-10. What Ms. Lynch fails to recognize is that symmetry has nothing to do with calculating two distinct variables -- what are the costs? and how should these costs be allocated to reflect cost responsibility?

Other utilities properly distinguish these two independent functions of the peak credit calculation. For example, Bonneville allocates costs based on the twelve monthly coincident peaks but employs a 1 percent utilization factor for the peaking resource. Similarly, when Pacific Power & Light Company ("PP&L") uses a CT in its peak credit calculation, it assumed a 1 percent to 3 percent capacity factor and allocated demand costs based on only the three highest system hours. Ex. T-73 p. 10, lines 6-11. In both cases the utility uses different figures for utilization and allocation, recognizing that the each of the factors has a distinct function.

The top 200 hours do not fairly represent the peak demands that occur in a typical winter peak, nor do they coincide with Puget's planning criteria. In the past, Puget has used the top 12 hours, an appropriate peak period. In fact, in this cost-of-service study, Puget uses 12 hours for allocating non-coincident peak demand. TR 130, lines 2-7. By using 200 hours instead of 12, the peaks of the highest load factor classes are averaged down by lower load factor classes whose peaks are more constant. TR-87, lines 16-25. The result is a shift is costs from the class which is responsible for the peak onto other classes. As explained by

Ms. Lynch:

> What happens is that by adding more hours in the calculation of this factor, you tend to dampen -- those classes' peaks tend to dampen those classes which are more on peak. You tend -- it's the effect of averaging, if you will, and you -- for example, the lower load factor customers tend to be -- when our peak occurs, their peak tends to be higher than the better load factor customers whose peak is relatively level and is not changed so much by throwing more numbers into the averaging equation.

TR 87, lines 16-25. The use of the top 200 hours, therefore, does not accurately reflect class responsibility of true peak demand but instead dilutes peak demand and shifts costs away from the responsible classes.

The use of the highest 200 hours is also not consistent with Puget's planning criteria. Puget's planning criteria projects a peak of 4,942 MW for 1992/1993, and a peak of 5,111 MW for 1993/1994. Yet the top 200 coincident peak hours of the test year only total 3,608 MW. Ex. T-73 p. 14, lines 10-21. Thus, the 200 hours Puget is using for cost allocation only comes to 70-73 percent of the peak demand projected in its planning criteria. This large disparity is further evidence that Puget's proposed 200 hours do not accurately capture the peak demand for the period the rates are to be in effect.

The inappropriateness of the top 200 hours is also illustrated by the following uncontested facts:

- The actual peak of the test year is almost 800 MW less than the peak of the prior year (1991/1992), even though

Puget had 25,000 fewer customers in the prior year. Ex. T-73 p. 17, lines 6-10.

- Over half of the top 200 load hours of the test year were at least 1,200 MW below the prior year's peak. Ex. T-73 p. 17, lines 17-19.
- For just one ten-day period in the prior year, 68 hours were higher than the peak of the test year. Ex. T-73 p. 17, lines 21-23.
- When the test year and the prior year's peaks are averaged, the prior year was at least 600 MW above the test year. Ex. T-73 p. 17, lines 25-26.
- The top 200 hours of the test year spanned a six month period. Ex. T-73 p. 16, Table 3.
- The highest actual load for the test period was only 3,830 MW, over 1,000 MW below Puget's planning forecast. Ex. T-73 p. 14, lines 19-21.

These uncontested facts demonstrate that using the top 200 hours do not capture Puget's true peak demand.

The only way to accurately assign capacity-related costs to those responsible is to have the cost allocation method mirror the planning criteria used to establish the capacity requirements. To do this, WICFUR recommends that only those days which come within 95 percent of the actual peak which occurred on January 7, 1992, be used for allocating costs. Specifically, only two days had peaks within 95 percent of the peak experienced on January 7, 1992. Those two days were December 16, 1991, and December 17,

1991. Ex. T-73 p. 20, lines 20-22. Accordingly, the class contributions for these three days (January 1, 1992, December 16, and 17, 1991) should be used for assigning peak cost responsibility. Puget concedes that the 95 percent "method would do a better job of capturing the peak contributors" since the allocation more closely approximates the sharp short system peak used for determining capacity needs. Ex. No. T-76 p. 15.

Additionally, as discussed in more detail below, a weather normalization must be made to take into account the unusually mild temperatures experienced during the test year. For the three days that come within the 95 percent peak, the low temperatures were 25, 20 and 29 degrees Fahrenheit. Applying Puget's peak load to a temperature relationship of 40 MW per degree Fahrenheit results in a peak normalization adjustment of 620 MW. Ex. T-73 p. 21, lines 3-5. Last, a similar adjustment to the <u>non</u>-coincident allocation factor must also be made since it is reasonable to assume that the resulting contribution to the coincident peak will also be the class' non-coincident demand. Accordingly, Puget's proposed non-coincident demand for the residential class should be similarly adjusted.

If the Commission adopts WICFUR's adjustments to Puget's peak credit calculation, the classification of production costs would be 31 percent to demand, and 69 percent to energy. Notably, this classification comes within two percentage points of Puget's avoided cost calculation. Puget's avoided costs classifies 29 percent of the production-related costs to demand and the remaining

71 percernt to energy, values very close to WICFUR's 31 percent/69 percent calculation. Ex. T-73 p. 11, lines 1-5.

2. Puget Failed to Make Weather-Related Normalization Adjustments.

Puget experienced a very mild winter peak season during the test year. Ex. No. T-76 p. 6. Puget has, therefore, proposed numerous upward pro forma and normalization adjustments in order for the test period to be representative of the costs that would be expected to occur during the time the proposed rates would be in effect. These adjustments include a substantial restatement of power-related expenses and a weather normalization adjustment.

Puget originally proposed to allocate both energy and capacity-related costs based on the actual low test year loads, without a weather normalization adjustment. WICFUR's witness, Mr. Schoenbeck, however, properly pointed out that the use of non-normalized peak figures, when coupled with a 200 hour demand allocation factor, results in a shift of almost $5.0 million in costs from the weather-sensitive residential class to other classes. Ex. T-73 p. 13, lines 6-10. In response, Puget revised its cost allocation with regard to the energy component, but failed to make a similar adjustment to the capacity component. TR 1843, lines 5-11.

Thus, Puget has not made the full and necessary normalization adjustments and, as a result, the capacity-related costs are shifted from the residential class to other classes. This is so because the residential class, a weather sensitive class, did

not incur the load that it would have under normal winter peak conditions. Unlike the load profiles of other classes, a mild winter substantially reduces the peak demand of the residential class. Thus, by using unadjusted peak figures for capacity-related allocation purposes, and then using normalized figures for revenue requirement purposes, Puget's class cost allocation distorts the proper assignment of costs.

C. The Commission Should Reject Public Counsel's proposed Risk Allocation Factor

Public Counsel's witness, Mr. Lazar, advocates a risk premium for large customer classes. The Commission has previously addressed risk premiums and has squarely rejected the concept, recognizing that "[a]s class revenues are subject to the effect of many variables, they do not constitute an accurate risk measure." Washington Water Power Company, Fourth Supplemental Order on Petition for Interim Rate Increase, U-83-26, p. 31 (October 17, 1993). Indeed, Mr. Lazar admits that his own study on the risk posed by large customer classes is "inconclusive." TR 1666, lines 13-15. Mr. Lazar also concedes that increasing the rates of large customer classes actually <u>increases</u> the risk of their leaving Puget's system which would then drive up residential rates. TR 1667-1668. Nevertheless, Mr. Lazar advocates a risk premium that would increase high voltage class rates by 67 percent. Based on the record in this proceeding, the Commission should once again reject the concept of risk premium as theoretically flawed and factually unsupportable.

D. Conservation Pricing

The Collaborative Rate Design Group agreed that conservation should be treated in way that is consistent with generation or supply-side resources. Ex. T-73 p. 22, lines 8-12. Nevertheless, Puget has not treated the acquisition of conservation resources in the same manner as supply-side resources, and has, thereby, created "winners" and "losers" in the assignment of cost responsibility to the various customer classes.

Load growth can be addressed in one of two ways. The first is by generation. The second is by conservation. The cost of generation should be borne equally in uniformly higher rates and equitably distributed among customers. The equity of recovering conservation costs, on the other hand, depends on how a utility passes the costs to its customers. There are two ways to pass costs of conservation onto customers. One way is to collect the costs equally from all customers. While this approach may be equitable in the generation context, it is not equitable in the conservation context because it creates a class of "winners" and "losers." The winners are those who receive conservation measures and thereby are able to substantially reduce their Kwh consumption. Thus, the winners, although paying a slightly higher rate, nevertheless see their overall bill lowered by virtue of their reduced consumption. The losers, on the other hand, have their rates increased without any benefit of a decrease in their Kwh consumption. In fact, the losers would have been better off if the utility had opted for generation since generation may have resulted

in an overall smaller increase in their bills. The result is that the losers pay for the benefits received by the conservation recipients.

The way to avoid winners and losers is to treat conservation costs as if they were generation or supply-side resources. In this way, recovery of conservation costs are more equitably allocated to the class receiving the benefits of conservation. Those who receive conservation benefits pay not only for their reduced kWh consumption but also for the kWh they have saved because of the conservation. The result is that both the recipients and the non-participants of the conservation program pay their fair share of the conservation costs.

Puget concedes that "class level adjustments to reflect imputed benefits of conservation would be appropriate." Ex. No. T-76 p. 17. Despite this, Puget proposes recovery of conservation costs uniformly from all customers solely on the grounds that it has insufficient data to make the necessary adjustments. Consequently, Puget has created a class of losers who are forced to shoulder the burden of Puget's conservation investment and a class of winners who received the benefit of the conservation investment (reduced power bills) at no cost. Specifically, Puget's approach assigns less than 50 percent of Puget's $164.3 million conservation investment to the residential class, even though this class has been the direct beneficiary of the vast majority of these programs. Ex. T-73 p. 26, lines 9-15.

Puget's justification for its position rests solely on the grounds that it does not have the data for a precise allocation. In other words, Puget adopts the position that it is better to employ a theory of allocation that it concedes is erroneous, than to approximate allocation costs under a theoretically correct approach, i.e., that it is better to be precisely wrong than approximately right. The Commission should adopt WICFUR's recommendation in recognition that, unlike Puget's approach, it approximates true cost responsibility.

Using WICFUR's proposed allocation method, Mr. Schoenbeck has calculated the class costs with data supplied by Puget detailing the capacity and energy saved as a result of conservation. To treat conservation costs exactly like a generating resource, conserved energy and demand should be figured into all cost allocation factors of the cost-of-service study. The results of WICFUR's recommendation, including normalization of the allocation factor for consistency with revenue requirement, are set forth in the following tables.

Coincident Demand Allocation Factor Comparison
Puget Proposal v. WICFUR Recommendations

Class	Puget 200 Hours (MW)	200 Hour Allocation Factor (%)	Conserved and Normalized Demand (MW)	Conserved and Normalized Allocation Factor (%)	Difference (%)
Residential	2,081	57.7%	3,441	65.8%	8.1%
General Service: Secondary	904	25.1	1,075	20.5	(4.6)
Primary	255	7.1	326	6.2	(0.9)
High Voltage	344	9.5	364	7.0	(2.5)
Lighting	8	0.2	10	0.2	0.0
Firm Resale	16	0.4	17	0.3	(0.1)
Total:	3,608	100.0%	4,832	100.0%	--

Energy Allocation Factor Comparison
Puget Proposal v. WICFUR Recommendations

Class	Actual Energy (gWh)	Actual Allocation Factor (%)	Conserved and Normalized Energy (Gwh)	Conserved and Normalized Allocation Factor (%)	Difference (%)
Residential	8,941	46.7%	10,159	49.0%	2.3%
General Service: Secondary	5,695	29.8	5,990	28.9	(0.9)
Primary	1,521	7.9	1,551	7.5	(0.4)
High Voltage	2,798	14.6	2,856	13.7	(0.9)
Lighting	64	0.3	64	0.3	0.0
Firm Resale	126	0.7	126	0.6	(0.1)
Total:	19,145	100.0%	20,746	100.0%	--

E. Classification and Allocation of Transmission Costs

WICFUR agrees with Puget's classification and allocation of transmission costs. The Company has segmented the transmission plant into two categories: (1) generation-related (30 percent); and (2) non-generation-related (70 percent). The generation segment is classified using the peak credit approach. Using the predominance method, the non-generation portion is classified 100 percent to demand and allocated based on the coincident demand allocation factor. TR 114, lines 16-20; TR 125, lines 3-5. These two sub-functions capture the two major uses of Puget's transmission system: (1) to integrate the generating resources into the load area; and (2) to provide a sufficient network of capacity to maintain a reliable system even under unexpected or forced outage situations.

Nevertheless, several parties have criticized Puget's allocation of non-generation transmission costs to demand, arguing that some of the load carried by the non-generation transmission costs is energy-related. These parties miss the point. Obviously some energy-related load is carried in the non-generation transmission plant. However, under the "predominance method," classifications of transmission costs to demand is based on the recognition that the decision to build transmission lines, and the size of the lines, is driven by the demand-related consideration of anticipated peak loads. TR 70-71. As stated by Ms. Lynch in her testimony:

> "According to the Company's transmission system engineers, the principle reason the Company is investing in transmission plant is

> in response to peak loads. In other words, the system's peak demands are the primary consideration when analyzing the need for new transmission plant."

Ex. No. T-2 p. 17.

Allocating 100 percent of non-generation transmission costs to demand is also consistent with the forward-looking approach Puget has adopted in this proceeding. As noted by Ms. Lynch

> "for purposes of a forward-looking marginal cost study, investment in transmission system is generally assumed to be driven by increments in system peak load. Our treatment of non-generation related costs is consistent with that premise, as it is reflective of marginal cost and forward looking concepts."

Ex. No. T-76 p. 9. Accordingly, under both the "predominance method" and under the forward-looking approach used in this proceeding, non-generation transmission plant is appropriately classified 100 percent to demand.

F. Classification of Distribution Costs

Puget has classified distribution costs based on the basic customer method. Ex. No. T-2 p. 18 lines 10-13. Under this approach, only the costs of services and meters are classified as customer-related (16 percent). All other costs--about 84 percent--are classified to demand. The assumption that only services and meters are customer-related ignores the fact that a more extensive distribution system is required to physically attach and maintain service to a multitude of small customers as compared to larger customers of the same total electric requirements. Also, additional investment is needed to serve Puget's ever-expanding customer

base. Adding one or two customers may not make a noticeable difference. But Puget adds 25,000 customers per year, which makes a significant difference. Even Staff's witness, Ms. Sorrells, conceded that the proportionate number of customers in a class relative to other classes affects distribution costs. TR 1539-40. This is precisely why a proper cost-of-service study should recognize that a "customer component" or "access component" of the distribution system goes far beyond the meter and service drop.

Public Counsel's witness, Mr. Lazar, advocates allocation of distribution costs based on guidelines used in natural gas local distribution company ("LDC") cost studies. Mr. Lazar's approach is flawed for several reasons. First, his approach only considers one aspect of assigning distribution investment costs. Specifically, he proposes using the classification of these costs into peak, non-coincident peak and energy components, but then does not follow through and also use the allocation factors typically used by LDC's. Gas cost-of-service studies reflect a more peak-like condition for both the coincident and non-coincident allocation factors ("design day"). Mr. Lazar, on the other hand, uses 200 hours for allocation purposes. As a result, his proposal mixes apples with oranges and is of little value.

G. Cost-of-Service Results and Rate Spread Recommendation

WICFUR has quantified class cost responsibility based on the following recommendations:

1. Puget's credit classification demand/energy split is changed from 16 percent/84 percent to 31 percent/69 percent,

2. The demand and energy allocation factors are normalized to be consistent with Puget's revenue requirement normalization adjustments, and

3. The demand and energy allocation factors are also adjusted for the conservation savings Puget has achieved.

The following table represents the parity ratios under Puget's study and under WICFUR's study.

Comparison of Class Cost-of-Service Studies
Ratio of Revenue to Cost Responsibility

Voltage Class	Puget COSS	WICFUR-Excluding Min. Dist. Sys.	WICFUR-Including Min. Dist. Sys.
Residential	97%	87%	84%
Secondary: Small	109%	123%	122%
Medium	115%	130%	146%
Large	113%	130%	145%
Primary	91%	108%	118%
High Voltage	86%	105%	105%
Lighting	134%	144%	146%
Resale	75%	92%	99%

As indicated by the table, correcting for the inappropriate classification and allocation techniques contained in Puget's study results in a substantial difference in class cost responsibility. Under Puget's study, four classes (Residential, Primary, High Voltage and Resale) all have parity ratios less than 100 percent, which implies that the revenues collected from these classes are inadequate to compensate Puget for the costs incurred in providing services to these classes. Contrary to the results of Puget's

erroneously calculated cost-of-service study, WICFUR's study shows that only two classes (Residential and Resale) have revenues that are insufficient to cover Puget's cost of providing service. All remaining classes are covering more than their fair share of revenues to cost responsibility.

WICFUR supports Puget's proposal of moving only one-third of the way parity in this proceeding. Based on Puget's full increase request, the following table illustrates %age increases resulting from moving one-third of the way parity. For comparison purposes, Puget's proposed rate spread is also present.

Rate Spread Comparison
%age Increases

Voltage Class	Puget Proposal	WICFUR Recommendation	Difference
Residential	12.7%	17.7%	5.0%
Secondary: Small	8.4%	4.1%	(4.3)%
Medium	6.6%	2.6%	(4.0)%
Large	7.3%	3.1%	(4.2)%
Primary	15.3%	8.4%	(6.9)%
High Voltage	17.4%	8.9%	(8.5)%
Lighting	1.8%	(0.3)%	(2.1)%
Resale	25.1%	14.8%	(10.3)%
Total	11.5%	11.5%	0.0%

H. Rate Design

WICFUR supports experimental tariffs and a re-designing of industrial rate schedules. WICFUR also supports movement toward cost based rate designs, including seasonally differentiating demand charges and reflecting greater seasonality in the energy charges. Additionally, the company's proposals to offer new interruptible and optional tariffs on a limited or experimental basis is appropriate until several years of experience is gained under these rate structures. Unfortunately, Puget's interruptible rate proposal is likely to fail since the proposed rate is too low to attract the number of customers it needs to succeed. Specifically, the long-term interruptible reservation credit being offered ($1.25 per kilowatt per month of interruptible demand) is only about 20 percent of the long-term fixed cost portion of providing firm capacity (about $15.00/kW-year v. $72/kW-year). Consequently, it is likely to be inadequate to attract any significant interruptible load, which is unfortunate since Puget's revenue requirement filing suggests the need for an additional 400 MW of capacity.

An appropriate interruptible reservation credit for a long-term commitment must reflect the fixed costs of resources standing by to provide capacity. Based on WICFUR's peak credit determination, Puget's long-term fixed levelized cost of providing capacity is $72/kW-year. Therefore, WICFUR recommends that at least one-half of this value--$36/kW-year or $3.00/kW-month be offered under the new tariffs.

III. CONCLUSION

For the foregoing reasons, WICFUR recommends the following rate spread:

Voltage Class	Puget Proposal	WICFUR Recommendation	Difference
Residential	12.7%	17.7%	5.0%
Secondary:			
Small	8.4%	4.1%	(4.3)%
Medium	6.6%	2.6%	(4.0)%
Large	7.3%	3.1%	(4.2)%
Primary	15.3%	8.4%	(6.9)%
High Voltage	17.4%	8.9%	(8.5)%
Lighting	1.8%	(0.3)%	(2.1)%
Resale	25.1%	14.8%	(10.3)%
Total	11.5%	11.5%	0.0%

Also, in order for the voluntary, experimental interruptible tariffs to succeed the rate should be increased to $3.00/kW-month.

DATED this 8th day of July, 1993.

Respectfully Submitted,

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CERTIFICATE OF SERVICE

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DATED this 8th day of July, 1993.

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