EXHIBIT NO. _____ (JGY-1T)
DOCKET NO. UE-040641/UG-040640
WITNESS: JAMES G. YOUNG

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, INC., Respondent.	)	Docket No. UE-040641 Docket No. UG-040640

PREFILED TESTIMONY OF JAMES G. YOUNG
ON BEHALF OF SEATTLE STEAM COMPANY

September 22, 2004

Q: Please state your name, occupation and business address.

A: My name is James G. Young. I am CEO of Seattle Steam Company ("Seattle Steam"), 1440 Puget Sound Plaza, 1325 Fourth Avenue, Seattle, WA 98101.

Q: Have you previously testified before this Commission?

A: Yes, I testified in Docket Nos. UG-920840 and UG-940814.

Q: Please summarize your testimony in this matter.

A: My testimony will address what Seattle Steam believes is the current disparity between the rates applicable to Schedule 57 and all other gas rate schedules of Puget Sound Energy ("PSE") and explain why we believe no increase to Schedule 57 is justified, or indeed the rates for Schedule 57 should be reduced, until such time as Schedule 57 approaches parity with the other rates of PSE.

Q. Please describe your education and professional experience.

A. I graduated from Stanford University in 1963 with a Bachelor of Science in Mechanical Engineering and then in 1967 I received an MBA with majors in Finance and Operations Management from the University of Washington. I joined Seattle Steam as Vice President of Marketing in 1983 and became President in 1987. Prior to that, I was employed by Weyerhaeuser Company in various management capacities in its energy group, containerboard business and business development during the period 1970 to 1983.

Q: Please describe the business of Seattle Steam Company.

A: Seattle Steam operates a steam district heating system serving over 220 customers in the downtown and First Hill areas of Seattle. The predecessors of Seattle Steam were founded in 1893. Through a steam distribution piping network under the streets of Seattle, we serve the space and water heating requirements of many of the office and government buildings in downtown Seattle, as well as hotels, colleges, hospitals and commercial establishments in an area extending from Elliott Bay on the west to Twelfth

Avenue on the east, and from Qwest Field on the south to Virginia Street on the north. Because our business is providing heat, our largest business expense is energy. We are concerned in this proceeding not only with the costs to Seattle Steam, but also with the costs that will affect many of the businesses, institutions and non-profit organizations in downtown Seattle.

Q: Please describe Seattle Steam's plants and their operation.

A: Seattle Steam operates two steam plants, both of which are capable of burning either natural gas or residual (heavy) fuel oil. The plants are located near the waterfront in Seattle. The predominant fuel for our operations is natural gas, but the plants can be quickly switched from burning natural gas to residual fuel oil, as we are required to do a number of times during each winter heating season, when there are capacity restrictions on either Northwest Pipeline's ("NWP's") interstate pipeline or PSE's distribution system. The PSE distribution network that serves Seattle Steam extends north from NWP's South Seattle meter station located southeast of Renton. Our plants are at almost the extreme end of that network. As a result, we are in a position to assist PSE in pressure maintenance on its system by quickly switching from natural gas to residual fuel oil. This situation occurs on average several times each heating season.

Q: Would you explain what you mean by that?

A: Seattle Steam is an interruptible transportation customer of PSE under Schedule 57, which means it receives only gas transportation service, and that service is "interruptible" at PSE's convenience. PSE's ability to deliver gas to its customers is constrained by the size of its network – the size and length of the pipes in the ground – and the amount of demand customers are putting on that network. During periods of peak demand for natural gas, primarily cold spells, when demand for heating peaks, the pipes in PSE's system that Seattle Steam is at the end of are simply not large enough to deliver enough gas to all its customers on that system. As a result, if PSE had to continue delivering gas

to all its customers, the pressure in its gas lines would drop. That could result not only in customers going cold, as insufficient gas was delivered to work their heating systems properly, but also in a dangerous situation, because pilot lights could be extinguished by the drop in pressure. It is on those occasions, upon notice from PSE, that Seattle Steam switches from natural gas to fuel oil, thereby freeing up the "transportation capacity" that PSE otherwise uses to deliver natural gas to Seattle Steam. That helps PSE maintain the pressure in its delivery system, and helps assure that its non-interruptible customers (i.e. residential and small commercial) continue to receive the natural gas they expect.

Q: When and how does Seattle Steam resume receiving natural gas from PSE?

A: When the demand on PSE's system is reduced to the point that Seattle Steam can resume using gas without any of PSE's other customers experiencing a drop in pressure, Seattle Steam switches back from fuel oil to natural gas, upon notice from PSE.

Q: Are there similarities between the design and cost of facilities to serve PSE's natural gas customers and the design and cost of facilities to serve Seattle Steam's customers?

A: Yes. Both systems deliver energy in a vapor form by pipeline.

Q: Based on your experience as an engineer and as an executive of Seattle Steam, what impact does having an interruptible customer in a situation such as Seattle Steam have on PSE's cost of delivering natural gas to PSE's customers?

A: Looking at the cost of delivering natural gas ("transportation" as that term is used in PSE's rates), one of the highest marginal costs of providing service is the cost of facilities to meet peak demand and serving new demand in an area where the existing infrastructure is at its capacity. When a system is at capacity, the primary way of expanding capacity would be to add new larger pipe to the existing network of pipes. Thus it would be extremely expensive for PSE to meet the peak demand, or serve the needs of additional customers along its existing network, but for the existence of major

interruptible customers such as Seattle Steam. Because we can switch to another fuel source, we can free up significant capacity for PSE during peak periods. Indeed, we only use PSE's system during periods when it has excess capacity that would otherwise go unused, and being unused would produce no revenue. As a result, Seattle Steam generally provides significant revenue to the company at comparatively low marginal cost.

Q: What is Seattle Steam's position in this case?

A: We think both the current rates for Schedule 57 and the proposed rate increase for Schedule 57 fail to meet the criteria of being "fair, just and reasonable" when compared to the other rate schedules of PSE. We do not believe Schedule 57 should receive any increase, and indeed believe it should be decreased, until such time as Schedule 57 more closely approximates parity with other classes of PSE customers.

Q: Can you address specifically where you take issue with the testimony of PSE witnesses?

A: The testimony of James A. Heidell explains that the company's objectives in their rate design are to (1) have customers pay their fair share of costs as guided by cost of service; (2) reduce cross subsidization between different customer classes; (3) provide the Company with a reasonable opportunity to recover its revenue requirement; and (4) mitigate rate shock. Prefiled Direct Testimony of James A. Heidell, Exh. No. __ (JAH-1T) page 2. In answer to the question at line 4, page 25 (revised 7/19/04), of his prefiled testimony, however, Mr. Heidell shows that although the parity ratio for Schedule 57 was the highest of any rate schedule (171%), and thus Schedule 57 should have had the lowest increase, PSE has instead proposed a significant increase for Schedule 57. Exhibit No. __ (JAH-8) page 6 of 7 (Revised 7/19/04) shows that PSE is proposing an 11.705 percent increase for Schedule 57. In other words, the proposed increase for Schedule 57 is the exact opposite of what his testimony claims were the

guiding principles of the proposed rate spread. Exhibit No. ___ (CEP-3), page 3, shows the "Realized Rate of Return on Net Investment" for each of the rate schedules. The "parity ratio," the current percentage return on net investment, and the proposed ratio of revenue to revenue requirement after the proposed increases are implemented, as shown by PSE's prefiled direct testimony, are as follows:

Schedule	Parity Ratio[1]	% Return on Net Investment[2]	Proposed Revenue as a Percentage of Required Revenue[3]
57: Transportation	171%	15.97%	160%
41: Commercial/Industrial Sales Large	131%	10.68%	101%
31, 36, 51, 61:	119%	9.18%	117%
86: Interruptible Sales – Limited	98%	6.39%	106%
System Total average	100%	6.38%	100%
23: Residential	95%	5.68%	98%
85: Interruptible Sales – General	80%	3.62%	69%
87: Interruptible Sales – Non-exclusive	51%	-2.25%	69%

As can be seen from the table, the proposed increase for Schedule 57 would result in having Schedule 57 continuing to provide the highest "Proposed Revenue as a Percentage of Required Revenue," doing very little to advance the concept espoused by Mr. Heidell in his testimony at page 2 that objectives should include "1) having customers pay their fair share of costs guided by cost of service; and 2) reducing cross subsidization between different customer classes." Exh. No. ____ (JAH-1T), Page 2 of 31.

Q: Have you prepared a graphic to show the before and after effects of the proposed increases on the ratio between the revenue produced by each class of customers and the revenue required of each class of customers?

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[1] As shown by Exh. No. __(JAH-1T), page 25 of 31(revised 7/19/04).

[2] As shown by Exh. No. __(CEP-3), page 3.

[3] "Calculated total" revenues from Exh. No. ___ (JAH-8) pages 2-6 (revised 7/19/04) divided by "Revenue Required from Rates," line 13 from Exh. No. ___ (CEP-3) page 4.

A: Yes. Attached as Exhibit No. ___(JGY-2) is a chart showing the first and third columns of the chart above.

Q: How did this disparity come into being?

A: In the settlement of PSE's 2002 General Rate Case (Docket Nos. UE-011570 and UG-011571), the Schedule 57 transportation service unit commodity charges and the delivery charge component of Schedule 87 sales service were set at identical levels, block by block. Because it was part of a settlement, the Commission has not been asked to specifically determine whether this approach meets the standard of being "fair, just and reasonable." The historical result was an outcome that in Seattle Steam's opinion fails to meet the test of having Schedule 57 rates be "fair, just and reasonable" when compared to the rates charged to other rate payers. In this proceeding, as shown on Exhibit No. ___ (JAH-8), page 6 of 7 (revised 7/19/04), PSE is simply continuing the historically unfair rates by proposing an identical rate increase for Schedule 87 and Schedule 57, although its cost of service study shows that Schedule 57 is far above "parity," with a 15.97% Return, and Schedule 87 is far below "parity," with a negative 2.25% return in paying the actual cost of service.

Q: What is the difference between Schedule 57 and Schedule 87 ?

A. Schedule 57 customers buy only interruptible transportation service from PSE. Seattle Steam, like other Schedule 57 customers, independently buys its natural gas, and has it delivered to the PSE network, through NWP. Schedule 87 customers are also generally industrial customers, but they buy in a package both their natural gas from PSE, as well as buying interruptible transportation service from PSE.

Q: Why is it unfair or unreasonable to fix the cost of interruptible transportation service at the same rate for Schedule 57 and Schedule 87 customers, as PSE has proposed?

A: In effect, it requires Schedule 57 customers to subsidize not only Schedule 87 customers, but the remainder of PSE's customer base as well. That violates the basic principles that PSE's witnesses claim to be implementing in their rate design, of having customers pay their fair share of costs as guided by cost of service, and reducing cross subsidization between different customer classes. Exh. No. __ (JAH-1T), page 2 of 31. We recognize that PSE also has goals of providing the Company with a reasonable opportunity to recover its revenue requirement and mitigating rate shock. But, neither of those goals, in our opinion, justifies continuing the disparity that is proposed here. The effort appears to specifically have Schedule 57 subsidize Schedule 87. We surmise that the objective in doing that is to discourage Schedule 87 customers from switching to Schedule 57. There is no basis, however, for discriminating against Schedule 57 customers in order to achieve that objective.

Q: What do you believe would be the proper treatment of Schedule 57?

A: At the very least, it should receive no increase until such time as Schedule 57 approaches parity with other customers. In fact, Schedule 57 should probably receive a rate decrease. The key principle the Commission should establish, however, is that until such time as Schedule 57 approaches parity with other rate schedules, the movement should be towards parity, not simply a slowing of the move away from parity, as PSE has proposed.

Q: Does this conclude your testimony?

A: Yes.