

CABLE HUSTON BENEDICT HAAGENSEN & LLOYD LLP

**ATTORNEYS AT LAW
SUITE 2000
1001 SW FIFTH AVENUE
PORTLAND, OREGON 97204-1136**

**TELEPHONE (503) 224-3092
FACSIMILE (503) 224-3176**

EDWARD A. FINKLEA
email address: efinklea@chbh.com

November 2, 2004

VIA FEDERAL EXPRESS

Carole J. Washburn
Secretary
Washington Utilities and Transportation Commission
PO Box 47250
1300 S. Evergreen Park Drive, SW
Olympia, WA 98504-7250

Re: **WUTC v. Puget Sound Energy**
Docket Nos. UG-040640 and UE-040641

Dear Ms. Washburn:

Enclosed please find an original and 19 copies of the cross-answering testimony of Don Schoenbeck on behalf of the Northwest Industrial Gas Users (NWIGU) and Cost Management Services. I have enclosed an extra copy of each document to be file-stamped and returned for our records. An electronic copy will be sent to the Records Center on November 3, 2004.

Thank you for your assistance.

Very truly yours,



Edward A. Finklea

EAF/lb
Enclosures
cc: Service List

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION)

Complainant,)

vs.)

PUGET SOUND ENERGY, INC.)

Respondent.)

Docket Nos. UG-040640
UE-040641

CROSS-ANSWERING TESTIMONY OF

DONALD W. SCHOENBECK

ON BEHALF OF

THE NORTHWEST INDUSTRIAL GAS USERS AND

COST MANAGEMENT SERVICES, INC.

November 3, 2004

1 **BEFORE THE**
2 **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**
3 **Docket Nos. UG-040640 and UE-040641**
4 **CROSS-ANSWERING TESTIMONY OF DONALD W. SCHOENBECK**
5 **ON BEHALF OF THE NORTHWEST INDUSTRIAL GAS USERS**
6 **AND COST MANAGEMENT SERVICES, INC.**

7
8 **INTRODUCTION AND SUMMARY**

9 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

10 A. My name is Donald W. Schoenbeck. I am a member of Regulatory & Cogeneration
11 Services, Inc. ("RCS"), a utility rate and economic consulting firm. My business address
12 is 900 Washington Street, Suite 780, Vancouver, WA 98660.

13 **Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.**

14 A. My qualifications were previously submitted in this proceeding as Exhibit _____. (DWS-
15 2).

16 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

17 A. The testimony is on behalf of the Northwest Industrial Gas Users ("NWIGU") and Cost
18 Management Services ("CMS"). NWIGU is a trade association whose members are large
19 industrial customers served by gas utilities and interstate natural gas pipelines throughout
20 the Pacific Northwest, including Puget Sound Energy ("PSE"). CMS markets
21 competitively priced natural gas to industrial and commercial customers, some of which
22 are located within PSE's service territory.

23 **Q. WHAT IS THE PURPOSE FOR YOUR TESTIMONY?**

24 A. I am responding to the direct testimony of Joelle Steward and Jim Russell on behalf of
25 the Washington Utilities and Transportation Commission ("WUTC") Staff and Jim Lazar
26

1 representing the Public Counsel Section of the Attorney General, The Energy Project and
2 A.W.I.S.H.

3 **Q. WHAT TOPICS WILL YOUR TESTIMONY ADDRESS?**

4 A. In this testimony, I will discuss cost-of-service, rate spread and industrial rate design
5 matters.

6 **Q. WUTC STAFF WITNESS RUSSELL RAISES TECHNICAL ISSUES WITH
7 PSE'S COST STUDY. DO YOU AGREE WITH HIS CONCERNS?**

8 A. No. Witness Russell raises concerns over the peak day allocation factor and the
9 classification of distribution mains. I addressed the appropriateness of the Company's
10 peak day demand allocation factor in my prefiled direct testimony. With regard to the
11 classification of distribution mains, PSE's classification of distribution mains as 40
12 percent commodity-related and 60 percent demand-related already assigns a substantial
13 amount of fixed costs as being commodity-related. No further skewing or biasing of this
14 classification value should occur. Mr. Russell describes the analysis he undertook to
15 establish the cost of a minimum size distribution system as 63% of PSE's total
16 distribution main costs. In other words, about 63% of the costs are required to provide
17 gas delivery service to each customer. Based upon this analysis, Mr. Russell makes the
18 incredible conclusion that 63% of distribution mains should be considered commodity-
19 related. I most strongly disagree with this assessment. I believe it is far more logical to
20 conclude that 63% of the distribution main costs should be considered as providing
21 customer access to gas related services. These fixed costs are not related to customer
22 volumes but rather, the number of customer delivery points. Consequently, it would be
23 far more accurate to classify 63% of the distribution main costs as being customer-related
24 and not volumetric-related as asserted by Mr. Russell.

25 **Q. DO YOU HAVE ANY RESPONSE TO STAFF WITNESS STEWARD'S
26 RECOMMENDATION ON HOW ANY RATE INCREASE FOR GAS**

1 **DISTRIBUTION OPERATIONS SHOULD BE SPREAD TO PUGET’S VARIOUS**
2 **CUSTOMER CLASSES?**

3 A. Yes. I applaud Ms. Steward for recognizing that the current rate disparities that exist
4 among Puget’s gas distribution rates should be addressed by this Commission. However,
5 I disagree with Ms. Steward’s recommendation that despite the severe disparities shown
6 in Puget’s cost study that Schedule 57 customers should still receive 25 percent of the
7 average rate increase found to be justified in this proceeding.

8 **Q. WHY DO YOU DISAGREE WITH ALLOCATING 25 PERCENT OF THE**
9 **AVERAGE INCREASE TO SCHEDULE 57 CUSTOMERS?**

10 A. Even if only 25 percent of the average increase in this proceeding is allocated to Schedule
11 57, PSE’s transportation customers will continue paying substantially more than an
12 appropriate cost-of-service justified rate for the natural gas transportation service they
13 acquire from PSE. Schedule 57 customers are paying 170 percent of a cost justified rate.
14 That level of rate disparity is so severe that it requires the Commission to act as quickly
15 as possible to move Schedule 57 toward parity.

16 **Q. WHY DO YOU CONSIDER THESE RATE DISPARITIES TO BE SO SEVERE**
17 **AS TO REQUIRE MORE AGGRESSIVE ACTION THAN THAT**
18 **RECOMMENDED BY MS. STEWARD?**

19 A. Both the size of the remaining disparities and the length of time it would take to eliminate
20 those disparities are the reasons I urge the Commission to order no increase for Schedule
21 57. My recommendation of no increase for Schedule 57 transporters still leaves that class
22 of Puget’s customers paying far more than rate levels that can be justified by the results
23 of Puget’s cost-of-service study. Thus, even my recommendation does not eliminate the
24 existing rate disparities, but it does make significant movement toward rate parity by not
25 allocating any share of an increase in this case. If my recommendation is adopted by the
26 Commission rather than Ms Steward’s, Schedule 57 rates will have made measurable

1 progress toward eliminating the rate disparities, while under Staff's recommendation the
2 movement toward parity is extremely minor.

3 **Q. HOW LARGE A PERCENT REDUCTION IN SCHEDULE 57 RATES WOULD**
4 **BE NEEDED TO COMPLETELY ELIMINATE THE RATE DISPARITIES?**

5 A. A one time rate reduction of approximately 68 percent would be needed to both grant
6 PSE its sought after rate increase of \$47.3 million and eliminate completely the
7 disparities that exist in Puget's rate structure that causes Schedule 57 transporters to
8 currently pay far more than cost-justified rates. Even if PSE was granted no overall
9 increase in its gas distribution rates, Schedule 57 would need a one-time reduction of 71
10 percent to bring that rate in line with cost of service. One-time reductions of that
11 magnitude would be cost justified and completely appropriate under the circumstances. I
12 recommend "no increase" rather than an immediate 68 to 71 percent reduction in
13 recognition of the traditional reluctance of some state commissions to lower some rates
14 when other rates are increasing. These concerns are usually addressed as favoring
15 gradualism and avoiding rate shocks as existing rate disparities are eliminated.
16 Gradualism, however, should not become an excuse for ignoring severe rate disparities.
17 Rate decreases for Schedule 57 are fully justified by the results of the cost study.

18 **Q. HOW DID YOU BALANCE THE GRADUALISM CONCERNS WITH THE**
19 **CONCERN FOR ELIMINATING THE DISPARITIES?**

20 A. The level of increases I am recommending were derived from targeting a one-third
21 movement toward cost-based rate levels for all schedules, while retaining an upper limit
22 that no class receive more than 150% of the average increase. In my opinion, at a
23 minimum no increase should be allocated to Schedule 57 customers in any general rate
24 proceeding filed by Puget until such time as Schedule 57 is brought into parity with other
25 rate schedules. My recommendation balances gradualism with the important ratemaking
26 goals of basing utility rates on cost-of-service and avoiding cross-subsidies among rate

1 classes.

2 While WUTC Staff's position is a small step in the right direction, it is far too
3 small to step. Although an improvement on what was filed by Puget, it falls short of
4 what this Commission should adopt in order to start the process of properly aligning
5 Puget's rates with the results of its cost study. As long as no class receives more than
6 150% of the average increase, the method I am recommending would avoid rate shocks
7 for any customer class while the disparities are eliminated.

8 **Q. MR. LAZAR CLAIMS THAT PSE'S COST STUDY IS INCORRECT BECAUSE**
9 **OF HOW COSTS WERE ALLOCATED AT PEAK. DO YOU AGREE WITH**
10 **MR. LAZAR'S CRITIQUE OF PSE'S COST STUDY?**

11 A. No. The Company's peak demand allocation factor in this case is based upon truly a
12 peak-like weather experience using the five highest peaks experienced during the most
13 recent heating season. All five days are within the period of December 29, 2003 through
14 January 6, 2004. Contrary to Mr. Lazar's assertion, they are not from a single day.
15 (Lazar at 35.) Since the Company is using a recent actual experience, it is the most
16 appropriate to use to develop peak allocators. Earlier years had much warmer weather
17 conditions and thus render these earlier years unrepresentative and inappropriate for
18 assigning peaking costs to the customer classes. I explained the technical reasons for
19 using the five days in the winter of 2003-4 in my Direct Testimony.

20 **Q. MR. LAZAR CLAIMS THAT PSE'S PEAK DEMAND ALLOCATOR IS**
21 **INCONSISTENT WITH PRIOR COMMISSION PRECEDENT. DO YOU**
22 **AGREE WITH HIS ASSERTION?**

23 A. No. The five days during the winter of 2003-04 are the most accurate for determining
24 PSE's peak demand. There is no reason to use old data from various past winters when
25 the 2003-04 experience is so recent, and so accurate a portrayal of the peak usage by
26 PSE's current classes of gas customers.

1 **Q. MR. LAZAR CONTENDS THAT SCHEDULE 57 SHOULD RECEIVE THE**
2 **AVERAGE RATE INCREASE GRANTED IN THIS CASE. WHAT IS YOUR**
3 **RESPONSE TO MR. LAZAR'S RECOMMENDED RATE SPREAD?**

4 A. Even if we were to accept Mr. Lazar's errors regarding allocation of peak day costs, the
5 resulting cost study shows that Schedule 57 needs a rate reduction of over 40 percent to
6 bring it in line with cost of service. (JL-1T, p. 36). Mr. Lazar has failed to offer any
7 cost-of-service justification for Schedule 57 receiving any portion of a gas rate increase
8 in the proceeding. Whether Schedule 57 is paying 170 percent of a cost justified rate or
9 143 percent of a cost justified rate, a remedy is still necessary. That schedule should
10 receive no increase as a result of this proceeding.

11 **Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?**

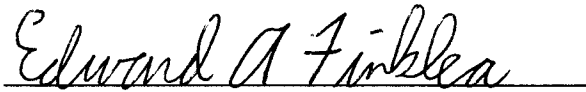
12 A. Yes.

13
14
15
16
17
18
19
20
21
22
23
24
25
26

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing document upon all parties of record in these proceedings by mailing a copy properly addressed with first class postage prepaid. Electronic copies will be e-mailed to all parties of record on November 3, 2004.

Dated in Portland this 2nd day of November, 2004.



Edward A. Finklea
Chad M. Stokes
Cable Huston Benedict Haagensen & Lloyd
LLP
Portland, OR 97204
Telephone: (503) 224-3092
Facsimile: (503) 224-3176
E-mail: efinklea@chbh.com
cstokes@chbh.com
Of Attorneys for the Northwest Industrial
Gas Users