

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-07 \_\_\_\_\_

DOCKET NO. UG-07 \_\_\_\_\_

DIRECT TESTIMONY OF

BRIAN J. HIRSCHKORN

REPRESENTING AVISTA CORPORATION

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**I. INTRODUCTION**

**Q. Please state your name, business address and present position with Avista Corporation?**

A. My name is Brian J. Hirschhorn and my business address is 1411 East Mission Avenue, Spokane, Washington. I am presently assigned to the State and Federal Regulation Department as Manager of Pricing.

**Q. Would you briefly describe your duties?**

A. My primary areas of responsibility include electric and gas rate design, customer usage and revenue analysis, and tariff administration.

**Q. Would you briefly describe your educational background?**

A. I am a 1978 graduate of Washington State University with Bachelor degrees in Business Administration and Accounting.

**Q. Have you previously testified before the Commission?**

A. Yes. I have testified before this Commission in several prior rate proceedings as a revenue and rate design witness.

**Q. What is the scope of your testimony in this proceeding?**

A. My testimony in this proceeding will cover the spread of the proposed annual electric revenue increase of \$51,139,000, or 15.8%, among the Company's electric general service schedules. With regard to natural gas service, I will describe the spread of the proposed annual revenue increase of \$4,531,000, or 2.3%, among the Company's natural gas service schedules. My testimony will also describe the design of the proposed rates within the

1 Company’s electric and natural gas service schedules. I am also responsible for the revenue  
 2 normalization adjustments for both electric and natural gas, which I will briefly discuss.

3 **Q. Are you sponsoring any exhibits to be introduced in this proceeding?**

4 A. Yes. I am sponsoring Exhibit Nos.\_\_(BJH-2), \_\_(BJH-3), and \_\_(BJH-4)  
 5 related to the proposed electric increase, and Exhibit Nos.\_\_(BJH-5), \_\_(BJH-6), and \_\_(BJH-  
 6 7) related to the proposed natural gas increase.

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**II. EXECUTIVE SUMMARY**

24 **Proposed Electric Increase**

25 **Q. What is the proposed electric revenue increase in this Case and how is the**  
 26 **Company proposing to spread the increase by rate schedule?**

27 A. The proposed electric increase is \$51,139,000, or 15.8% over present base  
 28 tariff revenue/rates in effect. The proposed increase by rate schedule is as follows:

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1	Residential Service Schedule 1	16.7%
2	General Service Schedules 11 & 12	11.9%
3	Large General Service Schedules 21 & 22	15.3%
4	Extra Large General Service Schedule 25	16.2%
5	Pumping Service Schedules 31 & 32	15.8%
6	Street & Area Lighting Schedules 41-49	12.7%

7 This information is shown in detail on Page 1 of Exhibit No. \_\_ (BJH-4).

8

9 **Q. What is the basis for the proposed increase by rate schedule?**

10 A. The Company used the results of the cost of service study, as sponsored by  
11 Company witness Ms. Knox as a guide in spreading the proposed increase by service (rate)  
12 schedule. The spread of the proposed revenue increase, as shown on page 1 of Exhibit No.  
13 \_\_ (BJH-4), results in moving the relative rates of return for the individual rate schedules  
14 toward unity (1.00). The rates of return for the individual schedules are shown on page 2 of  
15 Exhibit No. \_\_ (BJH-4).

16 **Q. What is the proposed increase for a residential electric customer with**  
17 **average consumption?**

18 A. The proposed increase for a residential customer using an average of 1,000  
19 kWhs per month is \$10.07 per month, or a 17.0% increase in their electric bill. As part of that  
20 increase, the Company is proposing that the basic / customer charge be increased from \$5.50  
21 to \$6.00 per month. The present bill for 1,000 kWhs is \$59.14 compared to the proposed  
22 level of \$69.21, including all present rate adjustments.

1           **Q.    Is the Company proposing any changes to the present rate structures**  
 2 **within its electric service schedules?**

3           A.    No. The Company is not proposing any changes to the present rate structures  
 4 within the schedules. However, the Company is proposing a change to its Extra Large  
 5 General Service Schedule 25 that would limit service under tariff rates. The Company is  
 6 proposing that any single incremental load requirement exceeding 25 megawatts requires a  
 7 special contract for service. This proposed provision is discussed in more detail beginning on  
 8 page 16 of my testimony.

9           **Q.    Where in your Exhibits do you show the proposed changes in rates within**  
 10 **the electric service schedules?**

11          A.    This information is shown in detail on page 3 of Exhibit No. \_\_\_(BJH-4).  
 12

13 **Proposed Natural Gas Increase**

14          **Q.    How is the Company proposing to spread the overall natural gas increase**  
 15 **of \$4,531,000, or 2.3%, by service schedule?**

16          A.    The Company is proposing the following revenue/rate changes by rate schedule:

17	General Service Schedule 101	2.3%
18	Large General Service Schedule 111	1.4%
19	High Annual Load Factor – Lg. General Service Sch. 121	2.3%
20	Interruptible Sales Service Schedule 131	0.5%
21	Transportation Service Schedule 146	1.7%*

22           \*Excludes the cost of gas and pipeline transportation – customers served under  
 23 Transportation Schedule 146 secure their own gas and pipeline transportation.

1 This information is also shown on page 1 of Exhibit No. \_\_\_\_(BJH-7). The proposed  
2 increase by rate schedule results in rates of return for each schedule reasonably close to the cost  
3 of providing service (unity), as shown on page 2 of Exhibit No. \_\_\_\_(BJH-7).

4 **Q. What is the proposed monthly increase for a residential natural gas**  
5 **customer with average usage?**

6 A. The increase for a residential customer using an average of 70 therms of gas per  
7 month would be \$1.93 per month, or 2.2%. A bill for 70 therms per month would increase  
8 from the present level of \$88.81 to a proposed level of \$90.74, including all present rate  
9 adjustments.

10  
11 **III. PROPOSED ELECTRIC REVENUE INCREASE**

12 **Revenue Normalization**

13 **Q. Would you please describe the electric "revenue normalization**  
14 **adjustment" which you have referred to?**

15 A. Yes. The electric revenue normalization adjustment represents the difference  
16 between the Company's actual recorded retail revenues during the 2006 test period and retail  
17 revenues on a normalized (pro forma) basis. The total revenue normalization adjustment  
18 decreases Washington net operating income by \$23,000 as shown in column (W) on page 7 of  
19 Exhibit No. \_\_\_\_(EMA-2). The revenue normalization adjustment consists of three primary  
20 components: 1) repricing customer usage (adjusted for any material known and measurable  
21 changes) at present base tariff rates in effect, 2) adjusting customer loads and revenue to a

1 calendar-year basis (unbilled revenue adjustment), and 3) weather normalizing customer usage  
2 and revenue.

3 **Q. In the Commission's Order No. 5 in Docket UE-050482, the Commission**  
4 **directed the Company to examine its weather normalization methodology prior to its**  
5 **next general filing. Has the Company made any revisions to its weather normalization**  
6 **methodology used in prior general rate filings?**

7 A. Yes. The Company has had a series of information exchanges with the  
8 Commission Staff regarding the Company's weather normalization methodology. As a result  
9 of those exchanges, the Company has made a number of significant changes to its  
10 methodology to address the Staff's concerns expressed in the last case. Ms. Knox describes  
11 these changes in more detail in her testimony.

12

13 **Summary of Electric Rate Schedules and Tariffs**

14 **Q. Would you please explain what is contained in Exhibit No. \_\_\_\_(BJH-2)?**

15 A. Exhibit No. \_\_\_\_(BJH-2) is a copy of the present electric service schedules on  
16 file with the Commission as part of the Company's tariff, WN U-28.

17 **Q. Turning now to Exhibit No. \_\_\_\_(BJH-3), would you please state what is**  
18 **contained in that Exhibit?**

19 A. Exhibit No. \_\_\_\_(BJH-3) contains the proposed tariff sheets that are being filed  
20 with the Commission.

21 **Q. Could you please explain what is contained in Exhibit No. \_\_\_\_(BJH-4)?**

1           A.     Exhibit No. \_\_\_(BJH-4) contains information regarding the proposed spread of  
2     the electric revenue increase among the service schedules and the proposed changes to the  
3     rates within the schedules. Page 1 shows the proposed general revenue and percentage  
4     increase by rate schedule compared to the present revenue under base tariff rates (excluding  
5     the present power cost surcharge and other rate adjustments), as well as the proposed  
6     percentage increase compared to present revenue under billing rates, including all rate  
7     adjustments. Page 2 shows the rates of return by rate schedule before and after application of  
8     the proposed general increase, based on the cost of service information presented by Ms.  
9     Knox. Page 3 shows the present billing rates under each of the rate schedules, the proposed  
10    changes to the rates within the schedules, and the proposed rates after application of the  
11    changes. These pages will be referred to later in my testimony.

12           **Q.     Why do you compare the proposed revenue increase(s) to both present**  
13    **revenue under base tariff rates and revenue under present billing rates?**

14           A.     Typically, proposed rate spread and rate design information is shown as  
15    compared to revenue and rates under base tariff rates, which exclude any temporary rate  
16    adjustments, such as the Company's present power cost (ERM) surcharge. However, the  
17    percentage change(s) that customers will see on their bills will be based on present rates  
18    including the present ERM surcharge and other rate adjustments. The Company believes that  
19    it is also important to provide the information as it will ultimately affect customer bills.

20           **Q.     Would you please describe the Company's present rate schedules and the**  
21    **types of electric service offered under each?**



1           A.     Yes. The Company presently provides electric service under Residential  
 2 Service Schedule 1, General Service Schedules 11 and 12, Large General Service Schedules  
 3 21 and 22, Extra Large General Service Schedule 25, and Pumping Service Schedules 31 and  
 4 32. Additionally, the Company provides Street Lighting Service under Schedules 41-46, and  
 5 Area Lighting Service under Schedules 47 and 48. Schedules 12, 22, 32, and 48 exist for  
 6 residential and farm service customers who qualify for the “Residential Exchange” program  
 7 operated by the Bonneville Power Administration. The rates for these schedules are identical  
 8 to the rates for Schedules 11, 21, 31, and 47, respectively, except for the present Residential  
 9 Exchange rate credit of 0.523 cents per kWh, as set forth under Schedule 59 of the Company’s  
 10 tariff. The following table shows the type and number of customers served in Washington (as  
 11 of March 2007) under each of the general service schedules:

<u>Schedule</u>	<u>Type of Customer</u>	<u>No. of Customers</u>
Residential Sch. 1	Residential	196,000
General Sch. 11&12	Small Commercial / less than 50 kW	26,300
Lge. General Sch. 21&22	Med. - Lge. Comm. & Industrial / over 50 kW	3,300
Ex. Lge. General Sch. 25	Lge. Comm. & Industrial / over 3,000 kva	22
Pumping Sch. 31&32	Water & Effluent Pumping	2,200

18  
 19 **Proposed Electric Rate Spread**

20           **Q.     How does the Company propose to spread the total revenue increase**  
 21 **request of \$51,139,000 among its various rate schedules?**

1           A.     The Company is proposing the following (base tariff) revenue / rate increase(s)  
2 by service schedule:

3           Proposed Increase by Rate Schedule

4           Residential Service Schedule 1	16.7%
5           General Service Schedules 11 & 12	11.9%
6           Large General Service Schedules 21 & 22	15.3%
7           Extra Large General Service Schedule 25	16.2%
8           Pumping Service Schedules 31 & 32	15.8%
9           Street & Area Lighting Schedules 41-49	12.7%

10

11           This information is also shown on page 1 of Exhibit No. \_\_\_(BJH-4). The proposed  
12 revenue increases shown in the table above compare to an overall revenue increase of 15.6%  
13 over base tariff revenue if applied uniformly to each of the schedules.

14           **Q.     What rationale did the Company use in this proposed spread of the**  
15 **overall general revenue increase to the various service schedules?**

16           A.     The Company utilized the results of the cost of service study, as sponsored by  
17 Ms. Knox, as a guide in developing the proposed rate spread. The primary goal of the  
18 proposed rate spread is to move the rates of return of the individual service schedules closer to  
19 the overall rate of return (unity), so that all customers contribute fairly to the cost of providing  
20 service. The table below shows the relative rates of return by schedule before and after the  
21 proposed increases are applied. The relative rate of return is determined by dividing the rate

1 of return for each schedule by the overall rate of return for the Company's Washington  
 2 electric operations. This information is also shown on page 2 of Exhibit No. \_\_\_(BJH-4).

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4

Relative Rates of Return by Service Schedule

5

Before Increase    After Increase

6

Residential Service Schedule 1	0.66	0.79
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General Service Schedules 11 & 12	1.90	1.53
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Large General Service Schedules 21 & 22	1.44	1.29
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9

Extra Large General Service Schedule 25	0.65	0.80
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Pumping Service Schedules 31 & 32	0.81	0.87
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11

Street & Area Lighting Schedules 41-48	1.50	1.25
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13           Application of the proposed revenue increase by schedule results in a significant  
 14 movement toward unity (1.00) for all schedules.

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**Q.    In prior filings, the Company has typically proposed a proportionate  
 movement toward unity (one-third, for example) for all schedules. Why isn't the  
 Company proposing a proportionate movement toward unity in this filing?**

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A.    A strict application of a one-third or other proportionate movement toward  
 unity in this filing resulted in proposed increases by schedule that did not make perfect sense,  
 i.e., some schedules with a higher relative rate of return (prior to the increase) would receive a  
 larger percentage increase than one with a lower relative rate of return in order to result in a  
 one-third movement. This appears to be caused by two schedules, Residential Schedule 1 and

1 Extra Large General Service Schedule 25, not covering their allocated amount of interest  
2 expense under present rates, and thus providing a negative income before interest and taxes,  
3 resulting in negative federal income tax (FIT). This issue is corrected under the proposed  
4 rates, as all schedules more than cover allocated interest expense and total FIT is allocated  
5 based on the proposed taxable income for each schedule.

6 The Company tried to strike a reasonable balance between the proposed percentage  
7 increase by schedule and a reasonable movement toward unity. Under the Company's  
8 proposed rate spread, those schedules that are less than unity under present rates receive an  
9 increase higher than the average, and those schedules that exceed unity receive an increase  
10 less than the average. While the proposed increases do not result in a precisely proportionate  
11 movement toward unity among all the schedules, the general movement in the relative rate of  
12 return is between one-third and one-half toward unity.

13

14 **Proposed Rate Design**

15 **Q. Where in your Exhibits do you show a comparison of the present and**  
16 **proposed rates within each of the Company's electric service schedules?**

17 A. Page 3 of Exhibit No. \_\_\_(BJH-4) shows a comparison of the present and  
18 proposed rates within each of the schedules, which I will describe below. Column (a) shows  
19 the rate/ billing components under each of the schedules, column (b) shows the base tariff  
20 rates within each of the schedules, column (c) shows the present rate adjustments (additions  
21 and credits) applicable under each schedule, and column (d) shows the present billing rates.  
22 Column (e) shows the proposed general rate increase to the rate components within each of

1 the schedules, column (f) shows the proposed billing rates and column (g) shows the proposed  
2 base tariff rates.

3 **Q. Is the Company proposing any changes to the existing rate structures**  
4 **within its rate schedules?**

5 A. No.

6 **Q. Turning to Residential Service Schedule 1, could you please describe the**  
7 **present rate structure under this schedule?**

8 A. Yes. Residential Schedule 1 has a present customer / basic charge of \$5.50 per  
9 month and three energy rate blocks: 0-600 kWhs, 601-1,300 kWhs and over 1,300 kWhs.  
10 The present base tariff rate for the first 600 kWhs per month is 4.905 cents per kWh, 5.706  
11 cents for the next 700 kWhs and 6.689 cents for all kWhs over 1,300.

12 **Q. How does the Company propose to spread the proposed general revenue**  
13 **increase of \$23,496,000, or 16.7%, to Schedule 1?**

14 A. The Company proposes to increase the monthly customer charge from \$5.50 to  
15 \$6.00, or approximately 9%, with the remaining revenue requirement recovered through a  
16 uniform per kWh increase of 0.957 cents applied to all energy rates under the schedule, as  
17 shown in column (e) on page 3.

18 **Q. Why is the Company proposing to increase the monthly customer charge**  
19 **from \$5.50 to \$6.00 per month?**

20 A. A significant portion of the proposed revenue increase reflected in this filing  
21 results from increases in fixed costs that do not vary with customer usage. These costs  
22 include additional investment in electric plant and increased operating costs that will enhance

1 or maintain the reliability of service to customers. Further, the “customer” costs from the  
2 Company’s cost of service study under present rates (at the overall rate of return) in this filing  
3 are \$8.18 per customer per month, as shown in Exhibit No. \_\_ (TLK-3), page 3, line 14. These  
4 are fixed costs which include the cost of the meter and service, and the costs associated with  
5 billing and providing customer service. Given the Company’s increase in fixed costs reflected  
6 in this filing, as well as the overall proposed increase of 16.7% to Residential Schedule 1, the  
7 Company believes that the proposed 9% increase to the customer charge of \$0.50 per month is  
8 reasonable.

9 **Q. What is Puget Sound Energy’s current residential customer charge?**

10 A. \$6.02 per month.

11 **Q. What is the average monthly electric usage for a residential customer, and**  
12 **what is the effect of the proposed increase on a customer’s bill?**

13 A. The average monthly usage for a residential customer is approximately 1,000  
14 kWhs. Based on the proposed increase, the average monthly increase would be \$10.07, or  
15 17.0%. The present monthly bill for 1,000 kWhs of usage is \$59.14 and the proposed monthly  
16 bill would be \$69.21, including all rate adjustments.

17 **Q. Turning to General Service Schedule 11, could you please describe the**  
18 **present rate structure and rates under that schedule?**

19 A. Yes. The present rate structure under the schedule includes a monthly  
20 customer charge of \$6.00, an energy rate of 7.795 cents per kWh for all usage under 3,650  
21 kWhs per month, and an energy rate of 7.300 cents per kWh for usage over 3,650 kWhs per

1 month. There is also a demand charge of \$3.50 per kW for all demand in excess of 20 kW per  
2 month. There is no charge for the first 20 kW of demand.

3 **Q. How is the Company proposing to apply the proposed general revenue**  
4 **increase of \$4,002,000, or 11.9%, to the rates under Schedule 11?**

5 A. The Company is proposing that the customer charge be increased by \$0.50,  
6 from \$6.00 to \$6.50 per month, and that the demand charge (over 20 kW) be increased \$0.50  
7 per kW, from \$3.50 to \$4.00. The remaining revenue increase for the schedule is proposed to  
8 be recovered through an increase of 0.978 cents per kWh in the first block rate and an increase  
9 of 0.735 cents per kWh in the tail-block rate. The increase in the second block rate is 75% of  
10 the increase (cents per kWh) in the first block rate.

11 **Q. What is the Company's rationale for the difference in the increase to the**  
12 **energy rates?**

13 A. In Docket No. UE-050482, the Commission approved adding an energy block  
14 to General Service Schedules 11, 21 and 25, resulting in those schedules moving from a single  
15 energy rate for all usage to two usage blocks with a lower tail-block rate. These rate design  
16 changes have begun to reduce the substantial rate difference between the schedules and better  
17 reflect the cost of providing service to customers within those schedules. By applying a  
18 slightly lesser increase to the tail-block rate(s) in this filing, the Company will continue to  
19 reduce the rate difference between the schedules.

20 **Q. Is the Company proposing a similar method of increase in the energy rates**  
21 **for Schedules 21 and 25, as well?**

1           A.     Yes. The proposed increase in the tail-block energy rate is 75% of the increase  
2 (cents per kWh) in the first block rate.

3           **Q.     Turning to Large General Service Schedule 21, how is the Company**  
4 **proposing to apply the increase of \$14,996,000, or 15.3%, to the rates within the**  
5 **schedule?**

6           A.     The Company is proposing that the present minimum demand charge (for the  
7 first 50 kW or less) be increased by \$25 per month, from \$250.00 to \$275.00, and the demand  
8 charge for kW over 50 per month be increased by \$0.50 per kW, from \$3.00 to \$3.50. The  
9 proposed energy rate increase for the first 250,000 kWhs used per month under the schedule is  
10 0.822 cents per kWh, and an increase of 0.618 cents per kWh for usage over 250,000 per  
11 month.

12           **Q.     How is the Company proposing the overall increase of \$6,301,000, or**  
13 **16.2% to Extra Large General Service Schedule 25?**

14           A.     The Company is proposing that the present minimum demand charge under the  
15 schedule be increased by \$1,000 per month, from \$9,000 to \$10,000, and the demand charge  
16 for kVa over 3,000 per month be increased by \$0.50 per kVa, from \$2.75 to \$3.25. The  
17 proposed energy rate increase for the first 500,000 kWhs used per month is 0.736 cents per  
18 kWh, and the increase for kWh usage over 500,000 per month is 0.552 cents per kWh.

19           **Q.     What changes does the Company propose to the rates under Pumping**  
20 **Schedule 31 to recover the proposed general revenue increase of \$1,076,000, or 15.8%?**



1           A.     The Company is proposing that the customer charge be increased by \$0.50,  
2     from \$6.00 to \$6.50 per month, and an equal cents per kWh increase of 0.846 to the present  
3     energy blocks under the schedule.

4           **Q.     How is the Company proposing to spread the general revenue increase of**  
5     **\$600,000, or 12.7%, applicable to Street and Area Light schedules, to the rates contained**  
6     **in those schedules (Schedules 41-48)?**

7           A.     The Company proposes to increase all present street and area light rates on an  
8     equal percentage basis (12.7%). The resulting (base tariff) rates are shown in the proposed  
9     tariffs for those schedules, contained in Exhibit No. \_\_\_(BJH-3).

10

11     **Other Tariff Changes**

12           **Q.     Are you proposing any other changes to the Company's electric service**  
13     **tariffs?**

14           A.     Yes. The Company is proposing to add language under Extra Large General  
15     Service Schedule 25 that would require the customer to execute a special contract for service  
16     of a new / incremental load requirement of 25 megawatts or greater. Specifically, under the  
17     “Special Terms and Conditions” section of the tariff, the proposed language states: “A new or  
18     existing customer with an incremental electric demand requirement of 25,000 kVa or greater  
19     must execute a special contract for service, wherein the rates, terms and conditions for service  
20     may be different than those set forth under this schedule. The special contract will be subject  
21     to approval by the Washington Utilities and Transportation Commission (WUTC), and if the

1 Company and the Customer cannot agree on the rates, terms and conditions of service, the  
2 matter will be brought before the WUTC for resolution.”

3 **Q. What is the Company’s rationale for this proposed provision?**

4 A. Under the present Schedule 25 tariff, there is no provision limiting service at  
5 the rates set forth under this schedule. A customer with a new load requirement of 25, 50, or  
6 even 100 megawatts could request, and perhaps demand, service at Schedule 25 rates. This  
7 provision would allow the Company and the Commission to at least consider the incremental  
8 costs required to provide the requested service.

9 The incremental cost associated with serving a new load of 25 megawatts or more is  
10 substantial. An incremental load requirement of this size is equivalent to the average annual  
11 load growth on the Company’s entire electric system. The projected cost of new generating  
12 resources continues to escalate while new resource options become more limited. The annual  
13 revenue requirement (deficiency) resulting from serving a new 25 megawatt load at present  
14 Schedule 25 rates is approximately \$4 million if the incremental cost of energy is \$60 per  
15 megawatt-hour. This annual revenue requirement grows to over \$8 million if the incremental  
16 cost is \$90 per megawatt-hour.

17 **Q. Does the Company have a similar provision in its Idaho tariff?**

18 A. Yes, however, the provision in the Idaho Schedule 25 tariff states that  
19 customers whose total demand requirement exceeds 25,000 kVa may be served under a  
20 special contract. This provision has been in effect in Idaho since 1992. The only customer the  
21 Company serves in Idaho that exceeds this level is Potlatch Corp. The Company utilized this  
22 provision to negotiate a special contract with Potlatch that was effective from 1992-2001.

1           **Q. Does the Company know of any existing or potential customers that this**  
2 **provision would be applicable to?**

3           A. No.

4           **Q. Why isn't the Company proposing specific service rates or a banded-rate**  
5 **associated with this incremental load provision?**

6           A. The rates for service to an incremental load of this size should consider all of  
7 the specific load characteristics unique to that customer/load that could have a substantial  
8 effect on the cost of service. These factors would include estimated energy usage and peak  
9 demand by month, day and hour, potential interruptibility, and distribution facility  
10 requirements, etc.

11           **Q. Even though there are no specific rates associated with the proposed**  
12 **provision, could the provision itself be considered "unduly discriminatory" when the**  
13 **Company is already serving customers whose load requirements exceed 25 megawatts**  
14 **(25,000 kVa)?**

15           A. I don't believe so. The provision states that, "the rates for service may be  
16 different than those set forth under this Schedule". The provision does not state that the rates  
17 will be different. If the Company were to be presented with a new large load over 25,000  
18 kVa, there would be opportunity to determine whether the characteristics of the new load  
19 warranted service rates other than those set forth under Schedule 25. Any special contract  
20 proposed under this provision would be subject to Commission review to determine if the  
21 rates for service are fair, just, reasonable and sufficient, and are not unduly discriminatory.



1 **please explain what is contained in Exhibit No. \_\_\_\_(BJH-5), entitled "Present Natural Gas**  
2 **Service Schedules"?**

3 A. Yes. Exhibit No. \_\_\_\_(BJH-5) is a copy of the present rates for the Company's  
4 natural gas general service tariffs as part of this filing.

5 **Q. Please explain what is contained in Exhibit No. \_\_\_\_(BJH-6)?**

6 A. This Exhibit, entitled "Proposed Gas Rates," contains the proposed gas rates  
7 and schedules which are being filed with the Commission as a part of our revised tariff, WN  
8 U-29.

9 **Q. Would you please describe what is contained in Exhibit No. \_\_\_\_(BJH-7)?**

10 A. Yes. Exhibit No. \_\_\_\_(BJH-7) contains supplemental information regarding the  
11 spread of the proposed gas revenue increase to the Company's service schedules and the  
12 proposed rates within the schedules, which I will refer to later in my testimony.

13

14 **Revenue Normalization Adjustment**

15 **Q. Could you please describe the "revenue normalization adjustment"**  
16 **applicable to natural gas sales?**

17 A. Yes. The gas revenue normalization adjustment is similar to the electric  
18 adjustment and represents the difference between the Company's actual revenues during the  
19 2006 test period and revenues based on normalizing and pro forma adjustments. The  
20 adjustment includes the repricing of pro forma sales and transportation volumes at present  
21 rates using pro forma sales volumes that have been adjusted for unbilled revenue, abnormal  
22 weather, and any material customer load or schedule changes. The rates used exclude: 1)

1 Temporary Gas Rate Adjustment Schedule 155, which reflects the approved amortization rate  
2 for deferred gas costs approved in the Company's last PGA filing, and 2) DSM rider  
3 adjustment Schedule 191.

4 **Q: Does the Revenue Normalization Adjustment contain a component**  
5 **reflecting normalized gas costs?**

6 A: Yes. Purchase gas costs are normalized using the gas costs approved by the  
7 Commission in Docket No. UG-061531, the Company's 2006 PGA filing, as set forth under  
8 Schedule 156. Those gas costs are then applied to the pro forma retail sales volumes so that  
9 there is a matching of revenues and gas costs.

10 The total net amount of the revenue normalization, which includes the purchase gas  
11 cost adjustment, is an increase of \$686,000 on a net operating income basis, as shown in  
12 column (h), page 5 of Exhibit No. \_\_\_(EMA-3).

13

14 **Summary of Natural Gas Rate Schedules and Tariffs**

15 **Q. Would you please review the Company's present rate schedules and the**  
16 **types of gas service offered under each?**

17 A. Yes. The Company's present Schedules 101, 111, and 121 offer firm sales  
18 service. Schedule 101 generally applies to residential and small commercial customers who  
19 use less than 200 therms/month. Schedule 111 is generally for customers who consistently use  
20 over 200 therms/month and Schedule 121 is generally for customers who use over 10,000  
21 therms/month and have a high annual load factor. Schedule 131 provides interruptible sales  
22 service to customers whose annual requirements exceed 250,000 therms. Schedule 146

1 provides transportation/distribution service for customer-owned gas for customers whose  
2 annual requirements exceed 250,000 therms. Schedule 148 is a banded-rate transportation  
3 tariff that allows for a negotiated service rate with large customers that have an economic  
4 alternative to taking distribution service from the Company.

5 **Q. The Company also has rate Schedules 112, 122, and 132 on file with the**  
6 **Commission. Could you please explain which customers are eligible for service under**  
7 **these schedules?**

8 A. Schedules 112, 122, and 132 are in place to provide service to customers who at  
9 one time were provided service under Transportation Service Schedule 146. The rates under  
10 these schedules are the same as those under Schedules 111, 121, and 131 respectively, except  
11 for the application of Temporary Gas Rate Adjustment Schedule 155. Schedule 155 is a  
12 temporary rate adjustment used to amortize the deferred gas costs approved by the Commission  
13 in the prior PGA. Transportation service customers are analyzed individually to determine  
14 their appropriate share of deferred gas costs. If those customers switch back to sales service,  
15 the Company continues to analyze those customers individually; otherwise, those customers  
16 would receive gas costs deferrals which are not due them, thus the need for Schedules 112,  
17 122, and 132. There are presently only 8 customers served under these schedules.

18 **Q. How many customers does the Company serve under each of its natural gas**  
19 **rate schedules?**

20 A. As of March 2007, the Company provided service to the following number of  
21 customers under each of its schedules:

22

<u>Schedule</u>	<u>Type of Customer</u>	<u>No. of Customers</u>
General Service 101	Residential & Sm. Commercial	139,000
Lg. General Service 111/112	Comm. & Ind. - over 200 therms/mo.	2,250
Ex. Lg. Gen. Service 121/122	Comm. & Ind. - over 10,000 therms/mo.	33
Interruptible Service 131/132	Interruptible - over 250,000 therms/yr.	1
Transportation Service 146	Transportation of Customer-owned Gas	28
Banded-Rate Transport. 148	Transportation – Special Contract	5

**Proposed Rate Spread**

**Q. How does the Company propose to spread the overall revenue increase of \$4,531,000, or 2.3%, among its general service schedules?**

A. The Company is proposing the following revenue/rate changes by rate schedule:

General Service Schedule 101	2.3%
Large General Service Schedules 111 & 112	1.4%
High Annual Load Factor – Lg. General Service Sch. 121 & 122	2.3%
Interruptible Sales Service Schedules 131 & 132	0.5%
Transportation Service Schedule 146	1.7%

This information is also shown on page 1 of Exhibit No. \_\_ (BJH-7).

**Q. Is the proposed increase for Transportation Schedule 146 comparable to the increase (decrease) for the other service schedules?**

A. No. The proposed increase for Transportation Schedule 146 is not comparable to the proposed increase (decrease) for the other (sales) service schedules, as Schedule 146



1 revenue does not include an amount for the cost of gas or pipeline transportation, whereas the  
2 other sales schedules include those costs/revenue. (Transportation customers acquire their own  
3 gas and pipeline transportation.) Including a level of 70.0 cents per therm for the cost of gas  
4 and pipeline transportation, the proposed increase to Schedule 146 rates represents an average  
5 increase of 0.14% in those customers' total gas bill, which is then expressed on a relatively  
6 comparable basis to the proposed increase to the other (sales) service schedules.

7 **Q. What rationale did the Company use in its proposed spread of the overall**  
8 **revenue increase to the various rate schedules?**

9 A. The Company again utilized the results of the cost of service study, as  
10 sponsored by Ms. Knox, as a guide in developing the proposed rate spread. The proposed  
11 spread of the overall increase results in a relative rate of return for all schedules that is within  
12 10% of unity (0.90 - 1.10).

13 Page 2 of Exhibit No.\_\_(BJH-7) shows the rates of return for each of the  
14 Company's gas schedules before and after application of the proposed increases.  
15 Column (d) shows the relative rates of return under present rates and column (f)  
16 shows the relative rates of return under proposed rates. The relative rates of return  
17 before and after application of the proposed increases by schedule are as follows:

18  
19  
20  
21  
22

1           Relative Rates of Return by Service Schedule

2		<u>Before Increase</u>	<u>After Increase</u>
3	Schedule 101:	0.98	0.99
4	Schedule 111:	1.08	1.04
5	Schedule 121:	0.69	0.90
6	Schedule 131:	1.17	1.08
7	Schedule 146:	1.29	1.10

8

9           Proposed Rate Design

10           **Q.     Could you please explain what is shown on Page 3 of Exhibit No. \_\_ (BJH-**  
 11 **7)?**

12           A.     Yes. Page 3 of Exhibit No. \_\_ (BJH-7) shows a comparison of the present and  
 13 proposed rates within each of the Company's gas service schedules.

14           **Q.     Could you please explain the present rate design within each of the**  
 15 **Company's gas service schedules?**

16           A.     Yes. General Service Schedule 101 generally applies to residential and small  
 17 commercial customers who use less than 200 therms/month. The schedule contains a single  
 18 rate per therm for all gas usage and a monthly customer/basic charge.

19           Large General Service Schedule 111 has a three-tier declining-block rate structure and  
 20 is generally for customers who consistently use over 200 therms/month. The schedule consists  
 21 of a monthly minimum charge plus a usage charge for the first 200 therms or less, and block  
 22 rates for 201-1,000 therms/month and usage over 1,000 therms/month.

1           Extra Large General Service Schedule 121 has a five-tier declining-block rate structure  
2           with a monthly minimum charge plus a usage charge for the first 500 therms or less, and block  
3           rates for the next 500 therms, the next 9,000 therms, the next 15,000 therms, and usage over  
4           25,000 therms/month. There is also an annual minimum requirement of 60,000 therms under  
5           the schedule and a minimum load factor requirement of approximately 58%.

6           Interruptible Sales Service Schedule 131 has a four-tier declining-block rate structure  
7           for the first 10,000 therms, the next 15,000 therms, the next 25,000 therms, and usage over  
8           50,000 therms per month. The schedule also has an annual minimum deficiency charge based  
9           on a usage requirement of 250,000 therms per year.

10           Transportation Service Schedule 146 contains a \$200 per month customer charge and a  
11           five-tier declining-block rate structure for the first 20,000 therms, the next 30,000 therms, the  
12           next 250,000 therms, the next 200,000 therms, and usage over 500,000 therms per month. The  
13           schedule also has an annual minimum deficiency charge based on a usage requirement of  
14           250,000 therms per year.

15           **Q.    Is the Company proposing any changes to the present rate structures**  
16           **contained in its gas service schedules?**

17           A.    No, it is not.

18           **Q.    Where in your Exhibits do you show the present and proposed rates for the**  
19           **Company's natural gas service schedules?**

20           A.    Page 3 of Exhibit No.\_\_(BJH-7) shows the present and proposed rates under  
21           each of the rate schedules, including all present rate adjustments (adders). Column (b) on that  
22           page shows the proposed changes to the rates contained in each of the schedules.

1           **Q.     You stated earlier in your testimony that the Company is proposing an**  
2 **overall increase of 2.3% to the rates of General Service Schedule 101. Is the Company**  
3 **proposing an increase to the present basic/customer charge of \$5.50/month under the**  
4 **schedule?**

5           A.     Yes. The Company is proposing to increase the basic/customer charge from  
6 \$5.50 to \$6.00 per month.

7           **Q.     What is the level of customer-related costs for a Schedule 101 customer**  
8 **from the Company's cost of service study?**

9           A.     The total customer-related cost is \$12.79 per customer per month.

10          **Q.     What is the proposed increase to the rate per therm under Schedule 101 in**  
11 **order to achieve the proposed revenue increase?**

12          A.     The proposed increase to the energy rate under the schedule is 2.049 cents per  
13 therm, as shown in column (b), page 3 of Exhibit No.\_\_(BJH-7).

14          **Q.     What would be the increase in the typical residential customer's bill based**  
15 **on the Company's proposed increase for Schedule 101?**

16          A.     The increase for a residential customer using an average of 70 therms of gas per  
17 month would be \$1.93 per month, or 2.2%. A bill for 70 therms per month would increase  
18 from the present level of \$88.81 to a proposed level of \$90.74, including all present rate  
19 adjustments.

20          **Q.     Could you please explain the proposed changes in the rates for Large and**  
21 **Extra Large General Service Schedules 111 and 121?**

22          A.     The present rates for Schedules 101, 111, and 121 provide a clear distinction for

1 customer placement: customers who use less than 200 therms/month should be placed on  
2 Schedule 101, customers who use between 200 and 10,000 therms per month should be placed  
3 on Schedule 111, and only those customers who generally use over 10,000 therms per month  
4 should be placed on Schedule 121. Not only do the rates provide guidance for customer  
5 schedule placement, they provide a reasonable classification of customers for analyzing the  
6 costs of providing service.

7 The Company's proposed rates for Schedules 111 and 121 will maintain the rate  
8 structure within the schedules and continue to provide guidance for appropriate schedule  
9 placement for customers and a reasonable classification for cost analysis. The proposed  
10 increase to the minimum charge for Schedule 111 (for 200 therms or less) of \$4.60 per month  
11 is the sum of the customer charge increase of 50 cents plus the proposed increase to the  
12 Schedule 101 rate per therm of 2.049 cents multiplied by 200 therms. This methodology  
13 maintains the present relationship between the schedules, and will minimize customer shifting.  
14 The remaining proposed revenue increase for Schedule 111 was then spread on an equal cents  
15 per therm basis of 1.293 cents to the remaining two rate blocks under the schedule, resulting in  
16 an overall revenue increase of 1.4% for the schedule.

17 For Schedule 121, the increase in the minimum charge (for 500 therms or less) of  
18 \$10.75 is the sum of the customer charge increase of 50 cents plus the proposed increase in the  
19 Schedule 101 rate per therm multiplied by 500 therms. The second and third block rates were  
20 increased to be equal to the corresponding block rates under Schedule 111. Again, this  
21 methodology will maintain the relationship between the schedules and will minimize customer  
22 shifting. The proposed increase to the fourth and fifth blocks under the schedule is 1.94 cents

1 per them, resulting in the overall proposed revenue increase of 2.3% for Schedule 121.

2 **Q. How is the Company proposing to spread the proposed increase of 0.5% to**  
3 **the rates under Interruptible Schedule 131?**

4 A. The Company proposes to increase the present four block rates under the  
5 schedule by a uniform percentage increase of 0.5%.

6 **Q. How is the Company proposing to spread the overall proposed increase of**  
7 **1.7% to the rates within Transportation Schedule 146?**

8 A. The Company is proposing to spread the increase on a uniform percentage basis  
9 to each of the present five block rates under the schedule. Therefore, all customers served  
10 under the schedule will receive a similar increase, on a percentage basis. The proposed  
11 increase to each of the block rates, as well as the present and proposed rates, are shown at the  
12 bottom of page 3 of Exhibit No.\_\_(BJH-7).

13

14 **Recall of Jackson Prairie Capacity Release**

15 **Q. In Company witness Ms. Andrews' testimony, she briefly describes an**  
16 **adjustment that decreases the Company's 2006 gas revenues resulting from a recall of**  
17 **Jackson Prairie capacity. Could you provide more information regarding this**  
18 **adjustment?**

19 A. Yes. In 1990, the Company released a portion of its underground storage  
20 capacity at Jackson Prairie to Cascade Natural Gas. The release was for 4.8 million therms of  
21 seasonal storage capacity for an annual payment from Cascade of \$649,446 of which  
22 \$478,000 represents Washington customers' share. The revenue from this storage release was

1 included in the Company's general rates in 1998. Between 1990 and 1998, the revenue  
2 flowed through to customers in the PGA. The release agreement operated on a year-to-year  
3 basis, with a one-year prior notice cancellation provision. On May 1, 2007, the Company will  
4 receive this storage capacity back and will no longer receive the revenue from Cascade.  
5 Therefore, the adjustment removes this other operating revenue from general rates.

6 **Q. What are the estimated benefits to the Company's customers of having**  
7 **this storage capacity back?**

8 A. The Company will be able to purchase additional lower priced gas during the  
9 non-winter months, inject those volumes into storage, and withdraw those volumes during the  
10 winter months to avoid purchasing a corresponding amount of higher priced gas during those  
11 months. The estimated difference, or "spread," between summer and winter prices averages  
12 approximately 21 cents per therm (\$2.10 per decatherm) over the next three years, while the  
13 revenue that would have been received from Cascade is 13.5 cents per therm (\$1.35 per  
14 decatherm). While this differential based on estimated seasonal prices would result in a total  
15 incremental system benefit of \$360,000 annually, the Company has the flexibility to withdraw  
16 gas during periods of winter price "run-ups," potentially increasing this estimated benefit.

17 **Q. How will the Company's customers receive the actual financial benefits**  
18 **associated with this additional storage capacity?**

19 A. The actual benefits will be reflected in customer rates in the Company's annual  
20 PGA filing.

21 **Q. Does the recall of this storage capacity have any other benefits associated**  
22 **with it?**

1           A.     Yes. This storage capacity has 150,000 therms per day of firm pipeline  
2 transportation directly tied to it that allows the Company to deliver that amount of gas from  
3 Jackson Prairie to its system (WA and ID) up to 32 days per year (4.8 million therms of  
4 storage capacity). The charge for this firm transportation capacity is prorated based on the  
5 number of days that it can be utilized; therefore, the reservation charge associated with this  
6 capacity is only about one-twelfth of the charge associated with year-round pipeline capacity.  
7 Having this additional pipeline capacity available will extend the Company's ability to meet  
8 estimated peak-day requirements an additional one to two years in the future.

9           **Q.     You stated that the Company will receive this storage capacity back on**  
10 **May 1, 2007, at which time the Company will no longer receive revenue from Cascade.**  
11 **As customers will continue to receive that revenue through general rates until the**  
12 **resolution of this case, how does the Company intend to reconcile the effect of this**  
13 **timing difference?**

14           A.     The Company will increase deferred gas costs by \$39,833 monthly beginning  
15 in May until new general rates become effective. The Company has discussed this with the  
16 Commission Staff and they have indicated that they support this process.

17           **Q.     Does that complete your pre-filed direct testimony?**

18           A.     Yes, it does.

19