

EXHIBIT NO. T- _____ (CEL-1)
DOCKET NO. UE-92 _____
WITNESS: C.E. LYNCH

**BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION
COMMISSION**

COMPLAINANT

VS.

PUGET SOUND POWER & LIGHT COMPANY

RESPONDENT

TESTIMONY

WASHINGTON UTILITIES & TRANSPORTATION COMMISSION
UE-921262; -920433; T-563 ✓
-920499

1 study in this proceeding reflects the results from this
2 test period--the 12 months ended June 30, 1992--and the
3 revenue requirement in this proceeding.

4
5 **Q. How is your testimony organized?**

6 A. I begin with a brief description of the Company's
7 principal recommendations regarding cost of service.
8 These concepts are discussed more fully in the testimony
9 in the rate design case. I then summarize the
10 application of these concepts in this case. Next, I
11 present the Company's proposed cost of service by class.
12 Finally, I present the specific cost of service results
13 used by Mr. Hoff in his rate spread and rate design
14 proposals.

15
16 **Q. Please state your educational background and professional
experience.**

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18 A. I graduated from Eastern Washington University in 1979
19 with a Bachelor of Science degree in Economics and
20 Mathematics. Thereafter, I was employed by Washington
21 Public Power Supply System as a Cost Engineer at the
22 Hanford construction site. Beginning in 1981, I was
23 employed by Pacific Power & Light Company in the position
24 of Research Analyst in the rate department. Since 1983,

1 I have been employed by Puget Sound Power & Light Company
2 in various positions in the rate department. In my
3 current position as Manager of Pricing I am responsible
4 for the development of both cost of service and rate
5 design analyses.

6
7 **THE COMPANY'S COST OF SERVICE STUDY**

8 **Q. Could you please summarize the principal cost of service**
9 **recommendations proposed by the Company in the rate**
10 **design case?**

11 **A. Yes. The following is an excerpt from my testimony**
12 **(Ex. T-1, pp. 3-4) in the rate design case which**
13 **summarizes the Company's cost of service recommendations:**

- 14 • All parties should use the same model framework for
15 making cost of service presentations.
- 16 • The peak credit method should be used to classify
17 production plant between demand and energy.
- 18 • Forward-looking relationships should be used in the
19 embedded cost of service study to provide better
20 price signals to customers.
- 21 • Conservation costs should be treated as a resource
22 cost.
- 23
- 24

- 1 • Cost of service, as it is approved by the Commission
2 in this case, should be a major factor, along with
3 parity guidelines, in rate spread considerations.
4
5 • The basic customer concept should be the basis for
6 classifying distribution plant between demand and
7 customer.
8
9 • The fully distributed customer-related cost of
10 service resulting from applying the basic customer
11 method should be recovered through a basic charge
 for those tariffs with a basic charge component.

12
13 As noted above, the Company's filing in this case
14 incorporates these principal cost of service
15 recommendations.

16 **Q. Please summarize how these recommendations are reflected**
17 **in the Company's cost of service in this case.**

18 **A. These recommendations are reflected in the cost of**
19 **service study in this case as follows:**

- 20
21 • The Company prepared the proposed cost of service
22 using the same pc-based cost of service framework as
23 in the rate design case.
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- A peak credit factor of 16% demand and 84% energy was used to classify all production plant between demand and energy. Demand related costs were allocated across customer classes based on the contribution to the top 200 hours of system peak demand for each class.
 - Forward looking relationships, such as the peak credit factor, the transmission plant classification factor, the meter reading and meter investment allocation factors, were used throughout the study.
 - Conservation costs were classified and allocated using the peak credit factor. As in the case of production costs, the demand-related conservation costs were allocated across customer classes based on their contribution to the system's top 200 hours of peak demand.
 - Cost of service results, including the overall parity ratios by class, were used by Mr. Hoff in his rate spread and rate design decisions.
 - Within the functional category for distribution, the basic customer concept was used to classify costs

1 between demand and customer. This then served as
2 the basis for the cost-based basic charge.
3

4 **Q. Could you please summarize the functionalization,
5 classification and allocation methods used in the
6 Company's cost of service study?**

7 **A. Yes. Page 1 of Exhibit ____ (CEL-2) is a chart which
8 shows the approach followed by the Company for its cost
9 of service study. This chart shows the major functional
10 categories used in the study along with the corresponding
11 classification and allocation methods used for each.
12 Pages 2 and 3 of Exhibit ____ (CEL-2) show the calculation
13 of the peak credit factor. As noted on page 1 of this
14 exhibit, the peak credit method was used to classify
15 production costs and generation-related transmission
16 costs between demand and energy. Pages 4-8 show the
17 calculation of the demand, energy and customer allocation
18 factors used in the proposed study.**

19 **RESULTS OF THE COST OF SERVICE STUDY**

20 **Q. What are the results of applying these cost of service
21 concepts to the revenue requirement proposed in this
22 case?**

23 **A. The results are shown in Exhibit ____ (CEL-3).**
24

1 Summary 1 of Exhibit _____ (CEL-3) shows a class level
2 income statement for each class considered in the cost
3 study. The last line of this summary shows the realized
4 rate of return for each class of customer based on its
5 allocated operating expense, income and rate base.

6
7 Summary 2 relates operating revenue to revenue
8 requirement for each class of customer. This schedule
9 shows the parity level of each class vis-a-vis all other
10 classes. This report serves as the basis for the cost-
11 based rate spread decisions described later by Mr. Hoff
12 in his testimony.

13 Schedules A through D detail the functionalization,
14 classification and allocation of revenue, expense, and
15 rate base items, by cost account ID, to the customer
16 classes. Also shown are the allocation techniques used
17 in our cost of service study.

18
19 **SPECIFIC COST OF SERVICE RESULTS USED FOR RATE DESIGN**

20 **Q. Please describe what is contained in Exhibit ____ (CEL-4).**

21
22 **A. Exhibit ____ (CEL-4) shows the specific cost of service**
23 **results Mr. Hoff uses as the starting point for the**
24 **Company's rate spread and rate design recommendations.**

1 Again, these methods are the same as the methods and
2 concepts proposed by the Company in the rate design case
3 and as discussed in detail in the testimony of that
4 docket. Pages 1-2 show the cost based basic charge by
5 class. Pages 3-5 show the summary of demand, energy, and
6 customer cost of service.

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8 **BIFURCATION OF COST OF SERVICE BY CLASS**

9 **Q. Have you prepared an exhibit showing the identification**
10 **of base and resource costs by class?**

11 **A. Yes. It is included on page 1 of Exhibit 5 in the rate**
12 **design case. This calculation was performed in response**
13 **to the Commission's direction in the Decoupling**
14 **Proceeding (Docket Nos. UE-901183-T and UE-901184-P,**
15 **Third Supplemental Order, p. 25).**

16
17 **Q. Does this complete your testimony, Ms. Lynch?**

18 **A. Yes.**
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