

EXHIBIT NO. T-_____ (CAK-1)
DOCKET NO. UE-92_____
WITNESS: C.A. KNUTSEN

**BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION
COMMISSION**

COMPLAINANT

VS.

PUGET SOUND POWER & LIGHT COMPANY

RESPONDENT

TESTIMONY

UE-920499

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**PUGET SOUND POWER & LIGHT COMPANY
TESTIMONY OF COREY A. KNUTSEN**

Q. Please state your name, business address and position with Puget Sound Power & Light Company.

A. My name is Corey A. Knutsen, and my business address is 10608 N.E. Fourth Avenue, Bellevue, Washington 98004. I am Vice President Corporate Planning for Puget Power.

Q. Could you please summarize your testimony?

A. Yes. The purpose of my testimony is to describe the background of this proceeding and to define the overall objectives which the Company hopes to achieve by this filing. My testimony also describes the steps taken by the Company to ensure the participation of interested parties in preparing this filing. Finally, I offer the Company's view of how the results of this proceeding could be implemented.

Q. Please summarize your professional and educational experience.

A. My educational experience includes a Bachelor of Electrical Engineering (1972) and Master of Business Administration (1976) from the University of Washington. Prior to joining Puget Power in 1976, I was a research engineer at Battelle Pacific Northwest Laboratories.

1 My work experience at Puget Power includes
2 assignments in financial planning and resource planning.
3 From 1985 through 1987, I was the manager of Puget
4 Power's Demand and Resource Evaluation (DARE) least cost
5 planning project. In 1987 I was named Director,
6 Strategic Planning, where I was responsible for least
7 cost planning and corporate and financial planning for
8 the Company.

9 In 1989, I was elected Vice President Corporate
10 Planning and, in addition to the duties noted above, was
11 given responsibility for the Company budget. In 1991, I
12 assumed responsibility of the Company's information
13 systems and rate departments. In this capacity, I
14 supervise, among other things, the Company's rate
15 filings with the Commission.

16 **Q. Why did the Company commence this rate design
17 proceeding?**

18 **A.** The simple answer is that this filing is responsive to
19 the Commission's direction in Docket Nos. UE-901183-T
20 and UE-901184-P (the "Decoupling Proceeding"), where the
21 Commission ordered the Company no later than April 1992
22 to make a rate design filing that would allow a review
23 of rate spread, rate design and cost allocation issues.
24 (Third Supplemental Order, p. 24.) This answer is only

1 partially responsive, however; the Company is pursuing
2 other objectives as well by submitting this rate design
3 filing.

4 **Q. What other objectives are served by this filing?**

5 A. This case represents another important step on the path
6 of regulatory changes initiated by the Commission to
7 facilitate the implementation of integrated resource
8 planning. These changes include the adoption of the
9 Commission's rule requiring periodic integrated resource
10 plans; the introduction of competitive bidding as a
11 means of acquiring new resources; and a Notice of
12 Inquiry ("NOI") to eliminate barriers to least-cost
13 planning. The process commenced by the NOI ultimately
14 resulted in the Commission's approval of a Periodic Rate
15 Adjustment Mechanism ("PRAM") for the Company, which
16 features the "decoupling" of the Company's allowed
17 revenues from kilowatt-hours. This decoupling
18 introduces a new ingredient into the equilibrium of
19 competing issues associated with rate design. We
20 welcome the opportunity to examine rate design issues in
21 light of this changed regulatory environment, and to
22 suggest new rate design initiatives that may now be
23 appropriate.

1 Q. What sort of new rate design initiatives will the
2 Company be proposing in this proceeding?

3 A. This proceeding presents an opportunity to pursue a
4 number of key objectives, including the following:

5 (1) **Facilitate implementation of integrated resource**
6 **planning.** The Company is proposing rate design
7 changes that are intended to complement its
8 integrated resource planning goal of being able to
9 meet customer's electrical energy needs using the
10 best possible resource combination. For example,
11 interruptible loads are identified in our
12 integrated resource plan as a resource. We are
13 therefore proposing to introduce additional
14 interruptible rate options for our customers to
15 develop this resource further.

16 (2) **Price signals to customers.** A second major
17 objective of this filing is to send a stronger and
18 more accurate price signal to our customers
19 regarding the costs of producing energy. Under the
20 Company's integrated resource planning process,
21 conservation is placed on equal footing with other
22 resources. Rates, in turn, strongly influence our
23 customers' decisions to consume and conserve
24 energy. It is therefore essential that rates be

1 designed in a manner that sends accurate price
2 signals to our customers.

3 (3) **Guidance on the calculation of cost of service.**

4 Another goal of this filing is to obtain direction
5 from the Commission on various issues regarding the
6 calculation of cost of service. We will be
7 presenting a number of issues for the Commission's
8 consideration, and their resolution will provide
9 valuable guidance to the parties on methods to be
10 incorporated in future cost of service analyses.

11 **Q. Are there other objectives that must be considered in**
12 **designing rates?**

13 **A.** There are many, sometimes conflicting, objectives in
14 designing rates. The Commission in its order in Docket
15 No. U-89-2688-T, the Company's 1989 rate case,
16 identified the following factors considered important in
17 the design and spread of rates. They are:

- 18 • acceptability of rate design to customers,
- 19 • elasticity of demand,
- 20 • perceptions of equity and fairness,
- 21 • rate stability over time, and
- 22 • overall economic circumstances within the region.

23 Third Supplemental Order, p. 73. In addition,
24 interested parties who participated in the collaborative

1 process leading to this rate filing identified
2 objectives which the Company should be pursuing.

3 **Q. What objectives were identified in this process?**

4 A. Our Rate Design Task Force, for its part, stressed
5 **parity**. In other words, it was felt that "each user
6 should pay a fair share of electrical power based on a
7 WUTC approved cost of service to the user's
8 classification". (See Rate Spread Recommendation A of
9 the Rate Design Task Force, Exhibit ___ (DWH-3), p. 12.)
10 This objective is closely related to the equity and
11 fairness factor identified by the Commission, as noted
12 above. The Rate Design Task Force also stressed
13 **gradualism**, or the notion that significant policy
14 changes should be implemented gradually over time to
15 avoid disruptions. (See Rate Spread Recommendation C,
16 Exhibit ___ (DWH-3), p. 13.) This corresponds with the
17 goal of rate stability over time, as set forth in the
18 factors identified by the Commission above.

19 **Q. You mentioned the participation of interested parties in**
20 **the preparation of the Company's filing and in the**
21 **identification of objectives. Please describe the steps**
22 **taken by the Company to ensure participation by**
23 **interested parties.**

24 A. The Commission's order in the Decoupling Proceeding,
which said "the Commission staff and other parties are
encouraged to work with the Company" in the discussion

1 of rate design issues, set a very important tone for the
2 preparation of this filing. In response to this
3 encouragement by the Commission, the Company expanded
4 its public involvement efforts in gathering information
5 for this filing. In particular, the Company formed a
6 Rate Design Collaborative Group (the "Collaborative
7 Group") to focus specifically on rate design issues.
8 The Collaborative Group was made up of intervenors in
9 past rate cases, the Commission staff, and other
10 interested experts who have not typically been involved
11 in past rate proceedings. As described in more detail
12 in Mr. Hoff's testimony, the Collaborative Group was
13 able to reach consensus on a number of issues which were
14 incorporated into the Company's filing.

15 In addition, the Customer Rate Design Task Force
16 (the "Task Force") was developed along the lines of the
17 Company's successful consumer panel program. The Task
18 Force, composed primarily of residential customers, also
19 focused on rate design issues, and worked extensively
20 with the Collaborative Group. Mr. Hoff sponsors an
21 exhibit in his testimony which sets forth a number of
22 recommendations from the Task Force.
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1 Q. Could you briefly describe the Company's presentation in
2 this proceeding?

3 A. Certainly. Our rate design presentation is offered in
4 two parts. First, Ms. Colleen Lynch will present the
5 Company's cost of service study, and will discuss a
6 number of alternative approaches to various issues in
7 connection with the study. These cost of service
8 results, in turn, are incorporated into the testimony of
9 the Company's other witness, Mr. David Hoff, who
10 presents the specific rate design proposals of the
11 Company. In addition to cost of service information,
12 Mr. Hoff's testimony also considers factors such as
13 power supply information, the impact on integrated
14 resource planning, and the pursuit of the other
15 objectives I have identified above.

16 Q. How do you propose that the results from this proceeding
17 be implemented?

18 A. Generally, we recommend that the findings and decision
19 of the Commission in this proceeding be implemented when
20 rates are changed in the Company's next general rate
21 case, ~~which is expected to be filed with the Commission~~ *alh*
22 ~~in November 1992 to take effect in October 1993.~~ This
23 implementation can occur either of two ways. If a
24 Commission decision in this proceeding is issued prior
to the general rate case filing, the Company can reflect

1 the Commission's decision when it prepares its rate
2 filing. Alternatively, this proceeding can be
3 consolidated with the subsequent general rate filing,
4 ~~and the outcome of both proceedings can be put into~~ *all*
5 ~~effect in the fall of 1993.~~

6 Q. Are there any rate proposals which the Company proposes
7 to become effective earlier than the implementation of
the next general rate filing?

8 A. Yes. The various voluntary or optional rates proposed
9 by the Company in this filing can be implemented at any
10 time. In fact, in order to gather as much experience as
11 possible under these proposals, it would be preferable
12 if implementation of the voluntary rates did not await
13 the outcome of the general rate proceeding.

14 Q. Does this conclude your testimony, Mr. Knutsen?

15 A. Yes, it does.
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