

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-09 \_\_\_\_\_

DOCKET NO. UG-09 \_\_\_\_\_

DIRECT TESTIMONY OF

BRIAN J. HIRSCHKORN

REPRESENTING AVISTA CORPORATION

**I. INTRODUCTION**

1  
2 **Q. Please state your name, business address and present position with Avista**  
3 **Corporation?**

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

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

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

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

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

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

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

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

17 A. My testimony in this proceeding will cover the spread of the proposed annual  
18 electric revenue increase of \$69,762,000, or 17.8%, among the Company's electric general  
19 service schedules. This represents an overall increase of 16.0% in billed rates to customers, as  
20 explained below. With regard to natural gas service, I will describe the spread of the proposed  
21 annual revenue increase of \$4,918,000, or 2.4%<sup>1</sup>, among the Company's natural gas service

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<sup>1</sup> The increase in natural gas base revenue is 2.3%; the increase in billed revenue (including all rate adjustments) is 2.4%

1 schedules. My testimony will also describe the changes to the rates within the Company's  
2 electric and natural gas service schedules.

3 **Q. Are you sponsoring any Exhibits that accompany your testimony?**

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  
6 \_\_\_(BJH-7) related to the proposed natural gas increase.

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## 21 **II. EXECUTIVE SUMMARY**

### 22 **Proposed Electric Increase**

23 **Q. What is the proposed electric revenue increase in this case and how is the**  
24 **Company proposing to spread the total increase by rate schedule?**

25 A. The proposed electric increase is \$69,762,000, or 17.8% over present base  
26 tariff revenue/rates in effect. The proposed general increase over present billing rates,  
27 including all other rate adjustments (ERM, DSM and Residential Exchange), is 16.0%. With  
28 the proposed *decrease* in the present Energy Recovery Mechanism (ERM) surcharge of 7.4%,  
29 the net increase is 8.6% over present billing rates.

30 The proposed general increase of \$69,762,000 has been spread by rate schedule using

1 the present cost of service study results as a guide. The proposed percentage increase by rate  
 2 schedule for the general increase, as well as the net increase after application of the proposed  
 3 ERM decrease, is as follows:

	<u>General Increase</u>	<u>Prop. ERM Decrease</u>	<u>Net Increase</u>
4 Residential Sch. 1	16.7%	-7.5%	9.2%
7 General Srvc. Sch. 11	13.4%	-7.8%	5.6%
8 Lg. Gen. Srvc. Sch. 21	15.9%	-7.3%	8.6%
9 Ex. Lg. Gen. Srvc. Sch. 25	16.3%	-7.1%	9.2%
10 Pumping Srvc. Sch. 31	16.0%	-7.4%	8.6%
11 Street & Area Lgt. Schs.	16.6%	-8.0%	8.6%
12 <b>Overall</b>	<b>16.0%</b>	<b>-7.4%</b>	<b>8.6%</b>

13

14 This information is shown in detail on page 1, of Exhibit No. \_\_\_(BJH-4).

15 **Q. In Docket No. UE-080416, the Company stated that it is performing a new**  
 16 **load research study and that the results will not be available until late 2009/early 2010.**  
 17 **Why is the Company proposing to spread the general increase other than on a uniform**  
 18 **percentage basis without the results of the new load study?**

19 A. As discussed in Company witness Ms. Knox's testimony, the Company  
 20 performed a sensitivity analysis assuming varying results from the current load study. As  
 21 shown on Exhibit No. \_\_\_(TLK-5), the potential results of the load study would not  
 22 significantly change the results of the Company's current cost of service study presented in  
 23 this filing. Given this, the Company believes that it is reasonable to use the present cost of  
 24 service results as a guide to spread the proposed increase.

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

3           A.    The proposed increase for a residential customer using an average of 1,000  
4 kWhs per month is \$6.99 per month, or a 9.2% increase in their electric bill. As part of that  
5 increase, the Company is proposing that the basic/customer charge be increased from \$5.75 to  
6 \$6.00 per month. The present bill for 1,000 kWhs is \$75.94 compared to the proposed level  
7 of \$82.93, including all rate adjustments.

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

10          A.    No. The Company is not proposing any changes to the present rate structures  
11 within its electric schedules.

12          **Q.    Where do you show the proposed changes in rates within the electric service**  
13 **schedules?**

14          A.    This information is shown in detail on page 3 of Exhibit No. \_\_\_(BJH-4).  
15

16           **Proposed Natural Gas Increase**

17          **Q.    How is the Company proposing to spread the overall natural gas increase**  
18 **of \$4,918,000, or 2.4%, by service schedule?**

19          A.    The Company is proposing the following revenue/rate changes by rate  
20 schedule:  
21  
22  
23

1	General Service Schedule 101	2.5%
2	Large General Service Schedule 111	2.0%
3	Ex. Lg. General Service Schedule 121	2.0%
4	Interruptible Sales Service Schedule 131	0.9%
5	Transportation Service Schedule 146	6.8%
6	<b>Overall Increase</b>	<b>2.4%</b>

7

8 This information is also shown on page 1 of Exhibit No. \_\_\_(BJH-7). The Company  
9 utilized the results of the natural gas cost of service study, sponsored by Witness Knox, as a  
10 guide in spreading the overall revenue increase to its natural gas service schedules.

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

13 A. The increase for a residential customer using an average of 70 therms of gas  
14 per month would be \$2.11 per month, or 2.5%. A bill for 70 therms per month would increase  
15 from the present level of \$85.40 to a proposed level of \$87.51, including all present rate  
16 adjustments. As part of this increase, the Company is proposing an increase in the monthly  
17 customer charge of \$0.25 per month, from \$5.75 to \$6.00.

18

19 **III. PROPOSED ELECTRIC REVENUE INCREASE**

20 **Proposed ERM Surcharge Reduction**

21 **Q. Please explain the Company's proposal to adjust the electric ERM**  
22 **surcharge rate when the general rate increase is implemented.**

1           A.     The Company proposes that the current ERM surcharge be reduced to zero at  
2 the time the general rate increase is implemented. The company would file Schedule 93 with  
3 its tariff compliance filing in this Case to reduce the present surcharge rate(s) to zero.

4           **Q.     When does the company project that the ERM deferral balance will be**  
5 **reduced to zero?**

6           A.     The company's power supply forecast, as well as the projected amortization of  
7 the deferral balance, show that the ERM deferral balance will be reduced to zero by January  
8 2010. Regardless of the date of the rate change resulting from this Case, the company would  
9 file Schedule 93 to reduce the surcharge rate(s) to zero coincident with the general rate  
10 change, and any remaining deferral balance would be carried forward for recovery/refund in  
11 the future.

12          **Q.     Would the Company still submit its annual filing during 2009 for review**  
13 **of the ERM deferrals?**

14          A.     Yes. The Company would make its annual filing by April 1, 2009, for the Staff  
15 and other interested parties to review the ERM deferrals and balances.

16

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

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

19          A.     Yes. Exhibit No. \_\_\_(BJH-2) contains a copy of the Company's present  
20 electric tariffs/service schedules.

21          **Q.     Could you please describe what is contained in Exhibit No. \_\_\_(BJH-3)?**

22          A.     Yes. Exhibit No. \_\_\_(BJH-3) contains the proposed electric tariff sheets  
23 incorporating the proposed changes included in this filing.

1           **Q.     What is contained in Exhibit No.\_(BJH-4)?**

2           A.     Exhibit No.\_\_(BJH-4) contains information regarding the proposed spread of  
3     the electric revenue increase among the service schedules and the proposed changes to the  
4     rates within the schedules. Page 1 shows the proposed general revenue and percentage  
5     increase by rate schedule compared to the present revenue under base tariff and billing rates,  
6     as well as the proposed net percentage increase to billed rates/revenue including the proposed  
7     decrease in the ERM surcharge. Page 2 shows the rates of return and the relative rates of  
8     return for each of the schedules before and after application of the proposed general increase.  
9     Page 3 shows the present rates under each of the rate schedules, the proposed changes to the  
10    rates within the schedules (including the proposed ERM surcharge reduction), and the  
11    proposed rates after application of the changes. These pages will be referred to later in my  
12    testimony.

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

15           A.     Yes. The Company presently provides electric service under Residential  
16    Service Schedule 1, General Service Schedules 11 and 12, Large General Service Schedules  
17    21 and 22, Extra Large General Service Schedules 25 and Pumping Service Schedules 31 and  
18    32. Additionally, the Company provides Street Lighting Service under Schedules 41-46, and  
19    Area Lighting Service under Schedules 47-48. Schedules 12, 22, 32, and 48 exist for  
20    residential and farm service customers who qualify for the Residential Exchange program  
21    operated by the Bonneville Power Administration. The rates for these schedules are identical  
22    to the rates for Schedules 11, 21, 31, and 47, respectively, except for the Residential Exchange  
23    rate credit. The following table shows the type and number of customers served in



1 Washington (as of December, 2008) under each of the service schedules:

2	<u>Schedule</u>	<u>Type of Customer</u>	<u>No. of Customers</u>
3	Residential Sch. 1	Residential	200,097
4	General Sch. 11&12	Sm. Comm./less than 50 kw	26,994
5	Lge. Gen. Sch. 21&22	Med-Lg. Comm. & Ind./over 50 kw	3,320
6	Ex. Lge. Gen. Sch. 25	Lge. Comm. & Ind./over 3,000 kva	22
7	Pumping Sch. 31&32	Water & Effluent Pumping	2,337

8

9 **Proposed Electric Rate Spread**

10 **Q. How does the Company propose to spread the total general revenue**  
 11 **increase request of \$69,762,000 among its various rate schedules?**

12 A. The Company is proposing that the overall requested revenue increase be  
 13 spread on the following basis (also shown is proposed ERM decrease and the resulting net  
 14 increase):

15		<u>General</u>	<u>Prop. ERM</u>	<u>Net</u>
16		<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>
17	Residential Sch. 1	16.7%	-7.5%	9.2%
18	General Srvc. Sch. 11	13.4%	-7.8%	5.6%
19	Lg. Gen. Srvc. Sch. 21	15.9%	-7.3%	8.6%
20	Ex. Lg. Gen. Srvc. Sch. 25	16.3%	-7.1%	9.2%
21	Pumping Srvc. Sch. 31	16.0%	-7.4%	8.6%
22	Street & Area Lgt. Schs.	16.6%	-8.0%	8.6%
23	<b>Overall</b>	<b>16.0%</b>	<b>-7.4%</b>	<b>8.6%</b>

24

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

1           **Q. What rationale did the Company use in developing the proposed general**  
 2 **increase by rate schedule?**

3           A. The Company used the results of the cost of service study (sponsored by Ms.  
 4 Knox) as a guide to spread the general increase, as well as the resulting net increase by  
 5 schedule after application of the proposed decrease in the ERM surcharge. The spread of the  
 6 proposed increase generally results in the rates of return for the various service schedules  
 7 moving closer to the overall rate of return (unity). The table below shows the relative rates of  
 8 return (schedule rate of return divided by overall rate of return) before and after application of  
 9 the proposed general increase, as well as the relative rate of return based on the application of  
 10 the general increase on a uniform percentage basis (16.0%) to all rate schedules:

	Present	Proposed	Equal %
	Relative	Relative	Relative
	<u>ROR</u>	<u>ROR</u>	<u>ROR</u>
14           Residential Sch. 1	0.66	0.79	0.77
15           General Srvc. Sch. 11	2.14	1.67	1.77
16           Lg. Gen. Srvc. Sch. 21	1.44	1.28	1.28
17           Ex. Lg. Gen. Srvc. Sch. 25	0.50	0.73	0.72
18           Pumping Srvc. Sch. 31	0.77	0.82	0.82
19           Street & Area Lgt. Schs.	1.24	1.09	1.07
20 <b>Overall</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>

21           As shown, for those schedules where the present rates are substantially above or below  
 22 the cost of service, the proposed increase generally results in a reasonable movement toward  
 23 unity (1.00).

24           **Q. Looking at the results in the table above, it appears that the relative rates of**

1 **return aren't substantially different under the Company's proposed rate spread**  
2 **compared to a uniform percentage application. Why isn't the Company just proposing**  
3 **to spread the general increase on a uniform percentage basis to the rate schedules?**

4 A. As shown in the table above, the rates for General Service Schedule 11 are  
5 substantially above the cost of providing service. Even though a uniform percentage spread of  
6 the general increase results in a considerable movement toward unity for most of the  
7 schedules, the Company believes it is appropriate to apply a smaller percentage increase to  
8 Schedule 11 than the other schedules in order to reflect the cost of service results.

9 **Q. Can you more fully describe how the Company arrived at the proposed**  
10 **general increase percentage for each schedule?**

11 A. Yes. The Company started with a spread of the proposed general increase that,  
12 when netted with the proposed ERM decrease, resulted in a net increase of 8.6% to all service  
13 schedules. While the ERM surcharge was based on a uniform percentage increase across the  
14 schedules, the rate has not changed since January 2006, and the elimination of the surcharge  
15 applied to present billing determinants and rates results in a slightly different percentage  
16 reduction by rate schedule.

17 As described above, the Company believes a smaller overall increase (5.6%) is  
18 appropriate for General Service 11 based on the results of the cost of service study. The  
19 revenue shortfall created by applying this smaller increase to Schedule 11 was spread to  
20 Residential Schedule 1 and Extra Large General Schedule 25, whose relative rates of return  
21 are the lowest among the schedules. The resulting net percentage increase is 9.2% for  
22 Schedules 1 and 25, 5.6% for Schedule 11, and 8.6% for the other service schedules.

23 **Q. In Docket No. UE-080416, the Company stated that it is performing a load**

1 **research study and that the results will not be available until late 2009/early 2010. Why**  
2 **is the Company proposing to spread the general increase other than on a uniform**  
3 **percentage basis without the results of the new load study?**

4 A. While a load study is currently underway, the results of the study will not be  
5 available until late 2009/early 2010. The Company has performed a sensitivity analysis of its  
6 cost of service study results under several different outcomes of the load study, based on  
7 varying assumptions. As shown on Exhibit No.\_\_(TLK-5), and described in Ms. Knox's  
8 testimony, the outcome of the load study currently underway should not materially change the  
9 results of the Company's present cost of service study, i.e., those schedules whose rate of  
10 return is considerably less than the overall rate of return would continue to be less, and those  
11 schedules whose rate of return is considerably above the overall rate of return would continue  
12 to be above. Given the results of this analysis, the Company felt that it was reasonable to  
13 utilize the results of the Company's present cost of service study in this proceeding.

14

15 **Proposed Rate Design**

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

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

1 (g) shows the proposed billing rates and column (h) shows the proposed base tariff rates.

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

4 A. No, it is not.

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

7 A. Yes. Residential Schedule 1 has a present customer / basic charge of \$5.75 per  
8 month and three energy rate blocks: 0-600 kWhs, 601-1,300 kWhs and over 1,300 kWhs.  
9 The present base tariff rate for the first 600 kWhs per month is 5.926 cents per kWh, 6.895  
10 cents per kWh for the next 700 kWhs and 8.083 cents for all kWhs over 1,300.

11 **Q. How does the Company propose to spread the proposed general revenue**  
12 **increase of \$31,647,000 to Schedule 1?**

13 A. The Company proposes to increase the monthly customer charge from \$5.75 to  
14 \$6.00, or 4.3%. The proposed increase to the energy rate for the first block is 1.134  
15 cents/kWh, 1.320 cents per kWh for the second block and 1.779 cents per kWh for the tail-  
16 block. The proposed rates for the first and second block rates reflect a 19.1% increase, and  
17 the proposed rate for the third- tail-block reflects a 22.0% increase. The net increase in the  
18 rates after applying the proposed ERM decrease is 0.688, 0.652 and 0.841 cents per kWh,  
19 respectively.

20 **Q. Why is the Company proposing to increase the monthly customer charge**  
21 **from \$5.75 to \$6.00 per month?**

22 A. A substantial portion of the Company's costs are fixed and do not vary with the  
23 amount of energy used by customers. As reflected in this filing, the cost of operating and

1 maintaining our electric system is increasing and the Company has been providing this  
2 message to customers. The Company believes it is important that rates at least partially reflect  
3 these increasing costs and allow the Company a more reasonable opportunity to recover some  
4 of these costs. However, the Company also understands the controversial nature of residential  
5 “customer charges” and is proposing only a relatively modest increase in the charge.

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

8 A. The average monthly usage for a residential customer is 1,000 kWhs. Based  
9 on the proposed increase, including the proposed reduction in the ERM surcharge, the average  
10 monthly increase would be \$6.99, or 9.2%. The present monthly bill for 1,000 kWhs of usage  
11 is \$75.94 and the proposed monthly bill would be \$82.93, including all rate adjustments.

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

14 A. Yes. The present rate structure under the schedule includes a monthly  
15 customer charge of \$6.25, an energy rate of 9.385 cents per kWh for all usage under 3,650  
16 kWhs per month, and an energy rate of 8.787 cents per kWh for usage over 3,650 kWhs per  
17 month. There is also a demand charge of \$3.85 per kW for all demand in excess of 20 kW per  
18 month. There is no charge for the first 20 kW of demand.

19 **Q. How is the Company proposing to apply the proposed general revenue**  
20 **increase of \$6,264,000 to the rates under Schedule 11?**

21 A. The Company is proposing that the customer charge be increased by \$0.50,  
22 from \$6.25 to \$6.75 per month, and that the demand charge (over 20 kW) be increased \$0.40  
23 per kW, from \$3.85 to \$4.25. The remaining revenue increase for the schedule is proposed to

1 be recovered through a uniform percentage increase of 15.4% applied to the two (block)  
2 energy rates. The increase in the first block rate is 1.448 cents per kWh, and is 1.355 cents per  
3 kWh in the second block rate. The net increase in the rates after applying the proposed ERM  
4 decrease is 0.581 and 0.488 cents per kWh, respectively.

5 **Q. Turning to Large General Service Schedule 21, could you please describe**  
6 **the present rate structure under that schedule and how the Company is proposing to**  
7 **apply the increase of \$20,956,000 to the rates within the schedule?**

8 A. Large General Service Schedule 21 consists of a minimum monthly charge of  
9 \$275.00 for the first 50 kW or less, a demand charge of \$3.30 per kW for monthly demand in  
10 excess of 50 kW, and a two-block energy rate(s): 6.233 cents per kWh for the first 250,000  
11 kWhs per month and 5.570 cents per kWh for all usage in excess of 250,000 kWhs.

12 The Company is proposing that the present minimum demand charge (for the first 50  
13 kW or less) be increased by \$25 per month, from \$275.00 to \$300.00, and the demand charge  
14 for kW over 50 per month be increased by \$0.70 per kW, from \$3.30 to \$4.00. The remaining  
15 revenue increase for the schedule is proposed to be recovered through a uniform percentage  
16 increase of 18.4% applied to the two (block) energy rates. The proposed increase for the first  
17 250,000 kWhs used per month under the schedule is 1.147 cents per kWh, and an increase of  
18 1.025 cents per kWh for usage over 250,000 kWhs per month. The net increase in the rates  
19 after applying the proposed ERM decrease is 0.543 and 0.421 cents per kWh, respectively.

20 **Q. Turning to Extra Large General Service Schedule 25, could you please**  
21 **describe the present rate structure under that schedule and how the Company is**  
22 **proposing to apply the increase of \$8,318,000 to the rates within the schedule?**

23 A. Extra Large General Service Schedule 25 consists of a minimum monthly charge

1 of \$10,000.00 for the first 3,000 kVa or less, a demand charge of \$3.00 per kVa for monthly  
2 demand in excess of 3,000 kVa, and a three-block energy rate(s): 4.833 cents per kWh for the  
3 first 500,000 kWhs per month, 4.348 cents per kWh for the next 5.5 million kWhs and 4.117  
4 cents per kWh for all usage in excess of 6 million kWhs.

5 The Company is proposing that the present minimum demand charge under the  
6 schedule be increased by \$1,000 per month, from \$10,000 to \$11,000, and the demand charge  
7 for kVa over 3,000 per month be increased by \$0.75 per kVa, from \$3.00 to \$3.75. The  
8 remaining revenue increase for the schedule is proposed to be recovered through a uniform  
9 percentage increase of 17.8% applied to the three (block) energy rates. The proposed energy  
10 rate increase for the first 500,000 kWhs used per month is 0.858 cents per kWh, 0.772 cents  
11 per kWh for the next 5.5 million, and 0.731 cents per kWh for all usage over 6 million kWhs  
12 per month. The net increase in the rates after applying the proposed ERM decrease is 0.471,  
13 0.385 and 0.344 cents per kWh, respectively.

14 **Q. What changes is the Company proposing to the rates under Pumping**  
15 **Schedule 31 to recover the proposed general revenue increase of \$1,517,000?**

16 A. The Company is proposing that the customer charge be increased by \$0.50,  
17 from \$6.25 to \$6.75 per month, with the remaining revenue increase spread on a uniform  
18 percentage increase of 18.1% to the two energy rate blocks under the schedule. The proposed  
19 increase in the first block rate is 1.422 cents per kWh and the increase in the second block rate  
20 is 1.015 cents per kWh. The net increase in the rates after applying the proposed ERM  
21 decrease is 0.888 and 0.481 cents per kWh, respectively.

22 **Q. How is the Company proposing to spread the proposed revenue increase of**  
23 **\$1,061,000 applicable to Street and Area Light schedules, to the rates contained in those**



1 **schedules (Schedules 41-48)?**

2 A. The Company proposes to increase present street and area light (base) rates on  
3 a uniform percentage basis. When the general percentage increase is combined with the  
4 proposed ERM surcharge decrease for each schedule, the net proposed increase for all lighting  
5 rates is 8.6%. The (base tariff) rates are shown in the proposed tariffs for those schedules,  
6 contained in Exhibit No. \_\_\_(BJH-2).

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

9 A. No.

10

11 **IV. PROPOSED NATURAL GAS REVENUE INCREASE**

12 **Q. Could you please explain what is contained in Exhibit No. \_\_\_(BJH-5)?**

13 A. Yes. Exhibit No. \_\_\_(BJH-5) contains a copy of the Company's present natural  
14 gas tariffs presently on file with the Commission.

15 **Q. Could you please describe what is contained in Exhibit No. \_\_\_(BJH-6)?**

16 A. Yes. Exhibit No. \_\_\_(BJH-6) contains the proposed natural gas tariff sheets  
17 incorporating the proposed changes included in this filing.

18 **Q. Could you please explain what is contained in Exhibit No. \_\_\_(BJH-7)?**

19 A. Yes. Exhibit No. \_\_\_(BJH-7) contains information regarding the proposed  
20 spread of the natural gas revenue increase among the service schedules and the proposed  
21 changes to the rates within the schedules. Page 1 shows the proposed general revenue and  
22 percentage increase by rate schedule. Page 2 shows the rates of return and the relative rates of  
23 return for each of the schedules before and after the proposed increases. Page 3 shows the

1 present rates under each of the rate schedules, the proposed changes to the rates within the  
2 schedules, and the proposed rates after application of the changes. These pages will be  
3 referred to later in my testimony.

4  
5 **Summary of Natural Gas Rate Schedules and Tariffs**

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

8 A. Yes. The Company's present Schedules 101 and 111 offer firm sales service.  
9 Schedule 101 generally applies to residential and small commercial customers who use less  
10 than 200 therms/month. Schedule 111 is generally for customers who consistently use over  
11 200 therms/month and Schedule 121 is generally for customers who use over 10,000  
12 therms/month and have a high annual load factor. Schedule 131 provides interruptible sales  
13 service to customers whose annual requirements exceed 250,000 therms. Schedule 146  
14 provides transportation/distribution service for customer-owned gas for customers whose  
15 annual requirements exceed 250,000 therms. Schedule 148 is a banded-rate transportation  
16 tariff that allows for a negotiated service rate with large customers that have an economic  
17 alternative to taking distribution service from the Company.

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

21 A. Schedules 112, 122 and 132 are in place to provide service to customers who at  
22 one time were provided service under Transportation Service Schedule 146. The rates under  
23 these schedules are the same as those under Schedules 111, 121 and 131 respectively, except

1 for the application of Temporary Gas Rate Adjustment Schedule 155. Schedule 155 is a  
 2 temporary rate adjustment used to amortize the deferred gas costs approved by the  
 3 Commission in the prior PGA. Because of their size, transportation service customers are  
 4 analyzed individually to determine their appropriate share of deferred gas costs. If those  
 5 customers switch back to sales service, the Company continues to analyze those customers  
 6 individually; otherwise, those customers would receive gas costs deferrals which are not due  
 7 them, thus the need for Schedules 112, 122 and 132. There are presently only ten customers  
 8 served under these schedules.

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

11 A. As of December 2008, the Company provided service to the following number  
 12 of customers under each of its schedules:

14	<u>Schedule</u>	<u>No. of Customers</u>
15	General Service Sch. 101	141,883
16	Lg. General Service Sch. 111	2,258
17	Ex. Lg. General Service Sch. 121	31
18	Interruptible Service Sch. 131	1
19	Transportation Service Sch. 146	32

20

21

22

23

1           **Proposed Rate Spread**

2           **Q.     How does the Company propose to spread the overall revenue increase of**  
 3 **\$4,918,000, or 2.4%, among its natural gas general service schedules?**

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

6	General Service Sch. 101	2.5%
7	Lg. General Service Sch. 111	2.0%
8	Ex. Lg. General Service Schedule 121	2.0%
9	Interruptible Sales Service Schedule 131	0.9%
10	Transportation Service Schedule 146	6.8%

11

12           **Q.     Is the proposed increase for Transportation Schedule 146 comparable to**  
 13 **the increase for the other service schedules?**

14           A.     No. The proposed increase for Transportation Schedule 146 is not comparable  
 15 to the proposed increases for the other (sales) service schedules, as Schedule 146 revenue does  
 16 not include an amount for the cost of gas or pipeline transportation, whereas the other sales  
 17 schedules include these costs/revenue. (Transportation customers acquire their own gas and  
 18 pipeline transportation.) Including a conservative level of 50.0 cents per therm for the cost of  
 19 gas and pipeline transportation, the proposed increase to Schedule 146 rates represents an  
 20 average increase of 0.8% in those customers' total gas bill, which is then expressed on a  
 21 relatively comparable basis to the proposed increase (decrease) to the other (sales) service  
 22 schedules, and the overall proposed increase of 2.3%.

23

1           **Q.     What information did the Company use to develop the proposed spread of**  
 2 **the overall increase to the various rate schedules?**

3           A.     The Company utilized the results of the cost of service study, as sponsored by  
 4 Ms. Knox, as a guide in developing the proposed rate spread. The relative rates of return  
 5 before and after application of the proposed increases by schedule are as follows:

	<u>Relative Rates of Return by Service Schedule</u>	
	<u>Before Increase</u>	<u>After Increase</u>
8           Schedule 101	1.00	1.00
9           Schedule 111	0.98	1.00
10          Schedule 121	0.93	1.00
11          Schedule 131	1.03	1.00
12          Schedule 146	1.15	1.10

13

14 Page 2 of Exhibit No. \_\_\_(BJH-7) shows this information in more detail.

15

16 **Proposed Rate Design**

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

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

22           Large General Service Schedule 111 has a three-tier declining-block rate structure and  
 23 is generally for customers who consistently use over 200 therms/month. The Schedule

1 consists of a monthly minimum charge plus a usage charge for the first 200 therms or less, and  
2 block rates for 201-1,000 therms/month, and over 1,000 therms/month.

3 Extra Large General Service Schedule 121 has a five-tier declining-block rate structure  
4 with a monthly minimum charge plus a usage charge for the first 500 therms or less, and block  
5 rates for the next 500 therms, the next 9,000 therms, the next 15,000 therms, and usage over  
6 25,000 therms/month. There is also an annual minimum requirement of 60,000 therms under  
7 the schedule and a minimum load factor requirement of approximately 58%.

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

12 Transportation Service Schedule 146 contains a \$200 per month customer charge and a  
13 five-tier declining-block rate structure for the first 20,000 therms, the next 30,000 therms, the  
14 next 250,000 therms, the next 200,000 therms, and usage over 500,000 therms per month. The  
15 schedule also has an annual minimum deficiency charge based on a usage requirement of  
16 250,000 therms per year.

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

19 A. No, it is not.

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

22 A. Page 3 of Exhibit No. \_\_\_(BJH-7) shows the present and proposed rates under  
23 each of the rate schedules, including all present rate adjustments (adders). Column (e) on that

1 page shows the proposed changes to the rates contained in each of the schedules.

2 **Q. You stated earlier in your testimony that the Company is proposing an**  
3 **overall increase of 2.5% to the rates of General Service Schedule 101. Is the Company**  
4 **proposing an increase to the present basic/customer charge of \$5.75/month under the**  
5 **schedule?**

6 A. Yes. The Company is proposing to increase the basic/customer charge from  
7 \$5.75 to \$6.00 per month.

8 **Q. Why is the Company proposing an increase to the basic charge?**

9 A. The Company believes that the customer/basic charge should recover a  
10 reasonable portion of the fixed costs of providing service. The average monthly fixed cost for  
11 Schedule 101 customers associated only with the meter, service line, meter reading and billing  
12 is \$8.07.

13 **Q. What is the proposed increase to the rate per therm under Schedule 101 in**  
14 **order to achieve the total proposed revenue increase for the Schedule?**

15 A. The proposed increase to the energy rate under the schedule is 2.663 cents per  
16 therm, as shown in column (e), page 3 of Exhibit No. \_\_\_(BJH-7).

17 **Q. What would be the increase in a residential customer's bill with average**  
18 **usage based on the proposed increase for Schedule 101?**

19 A. The increase for a residential customer using an average of 70 therms of gas  
20 per month would be \$2.11 per month, or 2.5%. A bill for 70 therms per month would increase  
21 from the present level of \$85.40 to a proposed level of \$87.51, including all present rate  
22 adjustments.

23

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

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

10          The Company's proposed rates for Schedules 111 and 121 will maintain the rate  
11          structure within the schedules and continue to provide guidance for appropriate schedule  
12          placement for customers and a reasonable classification for cost analysis. The proposed  
13          increase to the minimum charge for Schedule 111 (for 200 therms or less) of \$5.59 per month  
14          is the sum of the customer charge increase of 25 cents plus the proposed increase to the  
15          Schedule 101 rate per therm of 2.663 cents multiplied by 200 therms. This methodology  
16          maintains the present relationship between the schedules, and will minimize customer shifting.  
17          The remaining proposed revenue increase for Schedule 111 was then spread on a uniform  
18          percentage increase of 1.9% to the remaining two rate blocks under the Schedule, resulting in  
19          an overall revenue increase of 2.0% for the Schedule.

20          For Schedule 121, the increase in the minimum charge (for 500 therms or less) of  
21          \$13.57 is the sum of the customer charge increase of 25 cents plus the proposed increase in the  
22          Schedule 101 rate per therm multiplied by 500 therms. The second and third block rates were  
23          increased by a uniform percentage of 2.3% to maintain consistency between the rates for



1 Schedules 111 and 121. The fourth and fifth block rates were increased by a uniform  
2 percentage of 1.5%, resulting in an overall revenue increase of 2.0% for the Schedule.

3 **Q. How is the Company proposing to spread the proposed increase of \$5,000**  
4 **to the rates under Interruptible Schedule 131?**

5 A. The Company proposes to increase the present four block rates under the  
6 schedule by a uniform percentage increase of 0.8%.

7 **Q. How is the Company proposing to spread the overall proposed increase of**  
8 **6.8% to the rates within Transportation Schedule 146?**

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

14 **Q. Is the Company proposing any other changes to its natural gas service**  
15 **schedules?**

16 A. No, it is not.

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

18 A. Yes, it does.