

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-08 \_\_\_\_\_

DOCKET NO. UG-08 \_\_\_\_\_

DIRECT TESTIMONY OF

BRIAN J. HIRSCHKORN

REPRESENTING AVISTA CORPORATION

**I. INTRODUCTION**

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

A. My name is Brian J. Hirschorn 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 \$36,617,000, or 10.3%, 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 \$6,587,000, or 3.3%, among the Company's natural gas service schedules. My testimony will also describe the design of the proposed rates within the Company's electric and natural gas service schedules.



1           A.     As part of the Partial Settlement Stipulation (Stipulation) in Docket UE  
2 070804, the Parties agreed to the spread of the electric revenue increase in that Docket on a  
3 uniform percentage basis. Additionally, in the Stipulation, the Company agreed to prepare a  
4 new load study, with the results of the study to be used to allocate costs by service schedule  
5 within the cost of service study. Until the results of the load study are available (late 2009), it  
6 logically follows that any general increase be spread on a uniform percentage basis among its  
7 service schedules.

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

10          A.     The proposed increase for a residential customer using an average of 1,000  
11 kWhs per month is \$6.53 per month, or a 9.2% increase in their electric bill. As part of that  
12 increase, the Company is proposing that the basic/customer charge be increased from \$5.50 to  
13 \$5.75 per month. The present bill for 1,000 kWhs is \$70.76 compared to the proposed level  
14 of \$77.29, including all rate adjustments.

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

17          A.     No. The Company is not proposing any changes to the present rate structures  
18 within the schedules.

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

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

1 **Proposed Natural Gas Increase**

2 **Q. How is the Company proposing to spread the overall natural gas increase**  
 3 **of \$6,584,000, or 3.3%, by service schedule?**

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

5	General Service Schedule 101	3.4%
6	Large General Service Schedule 111	3.0%
7	High Ann. Load Factor – Lg. General Srvc. Sch. 121	4.2%
8	Interruptible Sales Service Schedule 131	1.9%
9	Transportation Service Schedule 146	6.2%*

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

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13 This information is also shown on page 1 of Exhibit No. \_\_\_(BJH-7). The Company utilized the  
 14 results of the natural gas cost of service study, sponsored by Company Witness Knox, as a  
 15 guide in spreading the overall revenue increase to its natural gas service schedules. The  
 16 proposed increase by rate schedule results in rates of return for each schedule being reasonably  
 17 close to the cost of providing service (unity), as shown on page 2 of Exhibit No. \_\_\_(BJH-7).

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

20 A. The increase for a residential customer using an average of 70 therms of gas per  
 21 month would be \$2.84 per month, or 3.3%. A bill for 70 therms per month would increase  
 22 from the present level of \$85.15 to a proposed level of \$87.99, including all present rate  
 23 adjustments. As part of this increase, the Company is proposing an increase in the monthly

1 customer charge of \$0.25 per month, from \$5.50 to \$5.75.

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**III. PROPOSED ELECTRIC REVENUE INCREASE**

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

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

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

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

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

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

13 A. Exhibit No. \_\_\_(BJH-4) contains information regarding the proposed spread of  
14 the electric revenue increase among the service schedules and the proposed changes to the  
15 rates within the schedules. Page 1 shows the proposed general revenue and percentage  
16 increase by rate schedule compared to the present revenue under base tariff rates (excluding  
17 the present power cost (ERM) and DSM rate adjustments), as well as the proposed percentage  
18 increase compared to present revenue under billing rates, including these rate adjustments.  
19 Page 2 shows the present billing rates under each of the rate schedules, the proposed changes  
20 to the rates within the schedules, and the proposed rates after application of the changes.  
21 These pages will be referred to later in my testimony.

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

3           A. Typically, proposed rate spread and rate design information is shown as  
4 compared to revenue and rates under base tariff rates, which exclude other rate adjustments.  
5 However, the percentage change(s) that customers will see on their bills will be based on  
6 present rates including other rate adjustments. The Company believes that it is also important  
7 to provide the information as it will ultimately affect customer bills.

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

10          A. Yes. The Company presently provides electric service under Residential  
11 Service Schedule 1, General Service Schedules 11 and 12, Large General Service Schedules  
12 21 and 22, Extra Large General Service Schedule 25, and Pumping Service Schedules 31 and  
13 32. Additionally, the Company provides Street Lighting Service under Schedules 41-46, and  
14 Area Lighting Service under Schedules 47 and 48. Schedules 12, 22, 32, and 48 exist for  
15 residential and farm service customers who qualify for the "Residential Exchange" program  
16 operated by the Bonneville Power Administration. The rates for these schedules are identical  
17 to the rates for Schedules 11, 21, 31, and 47, respectively, except for the Residential Exchange  
18 rate credit (presently zero). The following table shows the type and number of customers  
19 served in Washington (as of December 31, 2007) under each of the general service schedules:

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	<u>Schedule</u>	<u>Type of Customer</u>	<u>No. of Customers</u>
1			
2	Residential Sch. 1	Residential	199,000
3	General Sch. 11&12	Small Commercial / less than 50 kW	26,800
4	Lge. General Sch. 21&22	Med. - Lge. Comm. & Industrial / over 50 kW	3,300
5	Ex. Lge. General Sch. 25	Lge. Comm. & Industrial / over 3,000 kva	22
6	Pumping Sch. 31&32	Water & Effluent Pumping	2,300
7			

### **Proposed Electric Rate Spread**

9           **Q.     How does the Company propose to spread the total revenue increase**  
10 **request of \$36,617,000 among its various rate schedules?**

11           **A.     The Company is proposing that the requested revenue increase be spread on a**  
12 **uniform percentage basis (10.3% of base tariff rates / 9.2% of billing rates) among its electric**  
13 **service schedules. This information is also shown on page 1 of Exhibit No. \_\_\_(BJH-4).**

14           **Q.     Why is the Company proposing to apply the increase on a uniform**  
15 **percentage basis among its service schedules?**

16           **A.     As part of the Partial Settlement Stipulation (Stipulation) in Docket UE-**  
17 **070804, the Parties agreed to spread the revenue increase in that Docket on a uniform**  
18 **percentage basis, as the Company did not have recent load research data to use in the cost of**  
19 **service study. Additionally, in the Stipulation, the Company agreed to prepare a new load**  
20 **study, with the results of the study to be used to allocate the appropriate costs by service**  
21 **schedule within the cost of service study. As mentioned in Company Witness Knox's**  
22 **testimony, the Company is in the process of implementing this load study. However, as load**



1 data must be gathered for an entire calendar year, results of the study will not be available  
2 until late-2009, at the soonest. Until the results of the load study are available and reflected in  
3 a cost of service study, it logically follows that any general increase be spread on a uniform  
4 percentage basis among its service schedules.

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6 **Proposed Rate Design**

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

9 A. Page 3 of Exhibit No. \_\_\_(BJH-4) shows a comparison of the present and  
10 proposed rates within each of the schedules, which I will describe below. Column (a) shows  
11 the rate/billing components under each of the schedules, column (b) shows the base tariff rates  
12 within each of the schedules, column (c) shows the present rate adjustments applicable under  
13 each schedule, and column (d) shows the present billing rates. Column (e) shows the  
14 proposed general rate increase to the rate components within each of the schedules, column (f)  
15 shows the proposed LIRAP rate adjustment under Schedule 91, column (g) shows the  
16 proposed billing rates and column (h) shows the proposed base tariff rates.

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

19 A. No, it is not.

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

1           A.     Yes. Residential Schedule 1 has a present customer / basic charge of \$5.50 per  
2 month and three energy rate blocks: 0-600 kWhs, 601-1,300 kWhs and over 1,300 kWhs.  
3 The present base tariff rate for the first 600 kWhs per month is 5.409 cents per kWh, 6.293  
4 cents for the next 700 kWhs and 7.377 cents for all kWhs over 1,300.

5           **Q.     How does the Company propose to spread the proposed general revenue**  
6 **increase of \$15,972,000 to Schedule 1?**

7           A.     The Company proposes to increase the monthly customer charge from \$5.50 to  
8 \$5.75, or 4.5%, with the remaining revenue increase recovered through a uniform percentage  
9 increase applied to all energy rates under the schedule, as shown in column (e) on page 3.

10          **Q.     Why is the Company proposing to increase the monthly customer charge**  
11 **from \$5.50 to \$5.75 per month?**

12          A.     A significant portion of the proposed revenue increase reflected in this filing  
13 results from increases in fixed costs that do not vary with customer usage. These costs  
14 include additional investment in electric plant and increased operating costs that will enhance  
15 or maintain the reliability of service to customers. Further, the “customer” costs from the  
16 Company’s cost of service study under present rates (at the overall rate of return) in this filing  
17 are \$8.49 per customer per month, as shown in Exhibit No. \_\_\_(TLK-3), page 3, line 14. These  
18 are fixed costs which include the cost of the meter and service, and the costs associated with  
19 billing and providing customer service. Given the Company’s increase in fixed costs reflected  
20 in this filing, as well as the overall proposed increase of 10.3% to Residential Schedule 1, the  
21 Company believes that the proposed 4.5% increase to the customer charge of \$0.25 per month  
22 is reasonable.

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

2           A.     \$6.02 per month.

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

5           A.     The average monthly usage for a residential customer is approximately 1,000  
6 kWhs. Based on the proposed increase, the average monthly increase would be \$6.48, or  
7 9.2%. The present monthly bill for 1,000 kWhs of usage is \$70.76 and the proposed monthly  
8 bill would be \$77.24, including all rate adjustments.

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

11          A.     Yes. The present rate structure under the schedule includes a monthly  
12 customer charge of \$6.00, an energy rate of 8.579 cents per kWh for all usage under 3,650  
13 kWhs per month, and an energy rate of 8.032 cents per kWh for usage over 3,650 kWhs per  
14 month. There is also a demand charge of \$3.50 per kW for all demand in excess of 20 kW per  
15 month. There is no charge for the first 20 kW of demand.

16          **Q.     How is the Company proposing to apply the proposed general revenue**  
17 **increase of \$3,883,000 to the rates under Schedule 11?**

18          A.     The Company is proposing that the customer charge be increased by \$0.25,  
19 from \$6.00 to \$6.25 per month, and that the demand charge (over 20 kW) be increased \$0.35  
20 per kW, or 10.0%, from \$3.50 to \$3.85. The remaining revenue increase for the Schedule is  
21 proposed to be recovered through a uniform percentage increase applied to the two (block)

1 energy rates. The increase in the first block rate is 0.911 cents per kwh, and is 0.853 cents per  
2 kwh in the second block rate.

3 **Q. Turning to Large General Service Schedule 21, how is the Company**  
4 **proposing to apply the increase of \$11,041,000 to the rates within the schedule?**

5 A. The Company is proposing that the present minimum demand charge (for the  
6 first 50 kW or less) be increased by \$25 per month, from \$250.00 to \$275.00, and the demand  
7 charge for kW over 50 per month be increased by \$0.30 per kW, from \$3.00 to \$3.30. The  
8 remaining revenue increase for the Schedule is proposed to be recovered through a uniform  
9 percentage increase applied to the two (block) energy rates. The proposed increase for the  
10 first 250,000 kWhs used per month under the schedule is 0.592 cents per kWh, and an  
11 increase of 0.529 cents per kWh for usage over 250,000 kWhs per month.

12 **Q. How is the Company proposing to apply the overall increase of \$4,370,000,**  
13 **to Extra Large General Service Schedule 25 to the rates within the Schedule?**

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 \$0.25 per kVa, from \$2.75 to \$3.00. The  
17 remaining revenue increase for the Schedule is proposed to be recovered through a uniform  
18 percentage increase applied to the three (block) energy rates. The proposed energy rate  
19 increase for the first 500,000 kWhs used per month is 0.449 cents per kWh, the increase for  
20 usage from 500,000 through 6,000,000 kWhs per month is 0.404 cents per kWh and the  
21 increase for kwh usage over 6,000,000 per month is 0.390 cents per kwh.

1           **Q. In the Settlement Stipulation in Docket UE-070804, no increase was**  
2 **applied to the demand charges under the Company’s commercial and industrial service**  
3 **schedules (11, 21 and 25). Why is the Company proposing to increase the demand**  
4 **charges under those Schedules in this Case?**

5           A. While the Company agreed not to increase the demand charges under these  
6 Schedules as part of the Stipulation in its last Case, it believes that it is important to increase  
7 the demand charges in this Case, as well as any additional general filings in the future. If  
8 demand charges are not increased at least proportionately with energy charges, customers who  
9 have a poor load factor (high peak demand compared to average energy use) would see a  
10 lower percentage increase in their bill than a comparable customer with a good load factor  
11 (low peak demand compared to average energy use). This result would not send the  
12 appropriate price signal to any of its commercial and industrial customers. Nor would it  
13 reflect the fact that the Company’s demand charges are well below the costs associated with  
14 meeting customers peak demand.

15           The Company’s transmission and distribution system is constructed to meet the  
16 collective peak demand of its customers. Additionally, the Company must have adequate  
17 resources available to meet peak demand. If customers reduce their peak demand, it will  
18 reduce the need for additional investment in these facilities and resources. However,  
19 customers need to receive the proper price signal to encourage a reduction in their peak  
20 demand, i.e., higher demand charges.

21           **Q. How does the level of demand costs from the Company’s cost of service**  
22 **study compare to the present demand charges?**

1           A.     The system allocated demand cost from the cost of service study is  
2 approximately \$10 per kilowatt (kW). The present demand charges range from \$2.75-  
3 \$3.50/kW. While the exact level of costs classified as demand-related can be debated, clearly,  
4 the level demand charges is well below demand-related costs.

5           **Q.     How do the Company's demand charges for commercial and industrial**  
6 **customers compare to those of Puget Sound Energy (PSE)?**

7           A.     While PSE has seasonal rate differences across their schedules and the  
8 Company does not, on average, PSE's demand charges appear to be about 100% higher  
9 (double) than those of the Company. While PSE's energy charges are also generally higher  
10 than the Company's, the difference in energy charges appears to be only 10-20%.

11           **Q.     Based on the Company's proposed increase(s) in demand charges, would**  
12 **customers with a poor/low load factor see a higher percentage increase in their bill than**  
13 **those with a good/high load factor?**

14           A.     No. All customers under the schedule would see a similar percentage increase  
15 in their bill, as the proposed percentage increases in the demand charges are similar to the  
16 overall increase proposed for the schedule.

17           **Q.     What changes is the Company proposing to the rates under Pumping**  
18 **Schedule 31 to recover the proposed general revenue increase of \$816,000?**

19           A.     The Company is proposing that the customer charge be increased by \$0.25,  
20 from \$6.00 to \$6.25 per month, with the remaining revenue increase spread on a uniform  
21 percentage basis to the two energy rate blocks under the Schedule. The proposed increase in

1 the first block rate is 0.751 cents per kWh and the increase in the second block rate is 0.535  
2 cents per kwh.

3 **Q. How is the Company proposing to spread the proposed revenue increase of**  
4 **\$534,000 applicable to Street and Area Light schedules, to the rates contained in those**  
5 **schedules (Schedules 41-48)?**

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

9 **Q. In Company witness Kopczynski's testimony, he describes the increase in**  
10 **LIRAP funding proposed by the Company in this Case. Where in your Exhibits do you**  
11 **show the proposed electric revenue and rate increase(s) to support this additional**  
12 **funding?**

13 A. The total proposed revenue increase of \$265,000, as well as the revenue  
14 increase for each rate schedule, is shown in column (h) on page 1 of Exhibit No. \_\_\_(BJH-4).  
15 The proposed increase in the LIRAP rate applicable to each rate schedule is shown in column  
16 (f) on page 2 of Exhibit No. \_\_\_(BJH-4). As stated in Mr. Kopczynski's testimony, the actual  
17 amount of the increase in the electric rates/revenue for LIRAP funding would correspond to  
18 the actual percentage increase in electric revenue approved by the Commission in this Case.

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

21 No.

22

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

2 **Q. Turning now to the Company's proposed natural gas increase, would you**  
3 **please explain what is contained in Exhibit No. \_\_\_(BJH-5), entitled "Present Natural Gas**  
4 **Service Schedules"?**

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

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

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

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

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

15  
16 **Summary of Natural Gas Rate Schedules and Tariffs**

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

19 A. Yes. The Company's present Schedules 101, 111, and 121 offer firm sales  
20 service. Schedule 101 generally applies to residential and small commercial customers who  
21 use less than 200 therms/month. Schedule 111 is generally for customers who consistently use  
22 over 200 therms/month and Schedule 121 is generally for customers who use over 10,000



1 therms/month and have a high annual load factor. Schedule 131 provides interruptible sales  
2 service to customers whose annual requirements exceed 250,000 therms. Schedule 146  
3 provides transportation/distribution service for customer-owned gas for customers whose  
4 annual requirements exceed 250,000 therms. Schedule 148 is a banded-rate transportation  
5 tariff that allows for a negotiated service rate with large customers that have an economic  
6 alternative to taking distribution service from the Company.

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

10 A. Schedules 112, 122, and 132 are in place to provide service to customers who at  
11 one time were provided service under Transportation Service Schedule 146. The rates under  
12 these schedules are the same as those under Schedules 111, 121, and 131 respectively, except  
13 for the application of Temporary Gas Rate Adjustment Schedule 155. Schedule 155 is a  
14 temporary rate adjustment used to amortize the deferred gas costs approved by the Commission  
15 in the prior PGA. Transportation service customers are analyzed individually to determine  
16 their appropriate share of deferred gas costs. If those customers switch back to sales service,  
17 the Company continues to analyze those customers individually; otherwise, those customers  
18 would receive gas costs deferrals which are not due them, thus the need for Schedules 112,  
19 122, and 132. There are presently only 8 customers served under these schedules.

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

22 A. As of December 2007, the Company provided service to the following number

1 of customers under each of its schedules:

2

3	<u>Schedule</u>	<u>Type of Customer</u>	<u>No. of Customers</u>
4	General Service 101	Residential & Sm. Commercial	141,000
5	Lg. General Service 111/112	Comm. & Ind. - over 200 therms/mo.	2,250
6	Ex. Lg. Gen. Service 121/122	Comm. & Ind. - over 10,000 therms/mo.	30
7	Interruptible Service 131/132	Interruptible - over 250,000 therms/yr.	1
8	Transportation Service 146	Transportation of Customer-owned Gas	29
9	Banded-Rate Transport. 148	Transportation – Special Contract	5

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11 **Proposed Rate Spread**

12 **Q. How does the Company propose to spread the overall revenue increase of**  
 13 **\$6,587,000, or 3.3%, among its natural gas general service schedules?**

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

15	General Service Schedule 101	3.4%
16	Large General Service Schedules 111 & 112	3.0%
17	High Annual Load Factor – Lg. General Service Sch. 121 & 122	4.2%
18	Interruptible Sales Service Schedules 131 & 132	1.9%
19	Transportation Service Schedule 146	6.2%

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

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

1           A.     No. The proposed increase for Transportation Schedule 146 is not comparable  
2 to the proposed increase (decrease) for the other (sales) service schedules, as Schedule 146  
3 revenue does not include an amount for the cost of gas or pipeline transportation, whereas the  
4 other sales schedules include these costs/revenue. (Transportation customers acquire their own  
5 gas and pipeline transportation.) Including a level of 70.0 cents per therm for the cost of gas  
6 and pipeline transportation, the proposed increase to Schedule 146 rates represents an average  
7 increase of 0.52% in those customers' total gas bill, which is then expressed on a relatively  
8 comparable basis to the proposed increase to the other (sales) service schedules.

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

11           A.     The Company utilized the results of the cost of service study, as sponsored by  
12 Witness Knox, as a guide in developing the proposed rate spread. The proposed spread of the  
13 overall increase results in a relative rate of return for all schedules that is within 10% of unity  
14 (0.90 - 1.10). The relative rate of return is the rate of return for an individual schedule divided  
15 by the overall rate of return for Washington gas operations.

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

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Relative Rates of Return by Service Schedule

	<u>Before Increase</u>	<u>After Increase</u>
Schedule 101:	1.02	1.00
Schedule 111:	0.95	1.00
Schedule 121:	0.60	0.90
Schedule 131:	0.92	1.00
Schedule 146:	1.27	1.10

**Proposed Rate Design**

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

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

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

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

1 the schedule and a minimum load factor requirement of approximately 58%.

2 Interruptible Sales Service Schedule 131 has a four-tier declining-block rate structure  
3 for the first 10,000 therms, the next 15,000 therms, the next 25,000 therms, and usage over  
4 50,000 therms per month. The schedule also has an annual minimum deficiency charge based  
5 on a usage requirement of 250,000 therms per year.

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

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

13 A. No, it is not.

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

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

19 **Q. You stated earlier in your testimony that the Company is proposing an**  
20 **overall increase of 3.4% to the rates of General Service Schedule 101. Is the Company**  
21 **proposing an increase to the present basic/customer charge of \$5.50/month under the**  
22 **schedule?**

1           A.     Yes. The Company is proposing to increase the basic/customer charge from  
2     \$5.50 to \$5.75 per month.

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

5           A.     The total customer-related cost is \$12.32 per customer per month.

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

8           A.     The proposed increase to the energy rate under the schedule is 3.668 cents per  
9     therm, as shown in column (b), page 3 of Exhibit No.\_\_(BJH-7).

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

12          A.     The increase for a residential customer using an average of 70 therms of gas per  
13     month would be \$2.84 per month, or 3.3%. A bill for 70 therms per month would increase  
14     from the present level of \$85.15 to a proposed level of \$87.99, including all present rate  
15     adjustments.

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

18          A.     The present rates for Schedules 101, 111, and 121 provide a clear distinction for  
19     customer placement: customers who use less than 200 therms/month should be placed on  
20     Schedule 101, customers who use between 200 and 10,000 therms per month should be placed  
21     on Schedule 111, and only those customers who generally use over 10,000 therms per month  
22     should be placed on Schedule 121. Not only do the rates provide guidance for customer

1 schedule placement, they provide a reasonable classification of customers for analyzing the  
2 costs of providing service.

3 The Company's proposed rates for Schedules 111 and 121 will maintain the rate  
4 structure within the schedules and continue to provide guidance for appropriate schedule  
5 placement for customers and a reasonable classification for cost analysis. The proposed  
6 increase to the minimum charge for Schedule 111 (for 200 therms or less) of \$7.59 per month  
7 is the sum of the customer charge increase of 25 cents plus the proposed increase to the  
8 Schedule 101 rate per therm of 3.668 cents multiplied by 200 therms. This methodology  
9 maintains the present relationship between the schedules, and will minimize customer shifting.  
10 The remaining proposed revenue increase for Schedule 111 was then spread on a uniform  
11 percentage increase of 2.9% to the remaining two rate blocks under the schedule, resulting in  
12 an overall revenue increase of 3.0% for the schedule.

13 For Schedule 121, the increase in the minimum charge (for 500 therms or less) of  
14 \$18.59 is the sum of the customer charge increase of 25 cents plus the proposed increase in the  
15 Schedule 101 rate per therm multiplied by 500 therms. The second through fifth block rates  
16 were increased by a uniform percentage of approximately 4.2%. The resulting proposed rates  
17 maintain the present relationship between the schedules and will minimize customer shifting.

18 **Q. How is the Company proposing to spread the proposed increase of 1.9% to**  
19 **the rates under Interruptible Schedule 131?**

20 A. The Company proposes to increase the present four block rates under the  
21 schedule by a uniform percentage increase of 1.9%.

22 **Q. How is the Company proposing to spread the overall proposed increase of**

1 **6.2% to the rates within Transportation Schedule 146?**

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

7 **Q. Where in your Exhibits do you show the proposed natural gas revenue**  
8 **and rate increase(s) to support the additional proposed LIRAP funding?**

9 A. The total proposed natural gas increase of \$44,000 to support LIRAP funding,  
10 as well as the revenue increase for each rate schedule, is shown in column (h) on page 1 of  
11 Exhibit No. \_\_\_(BJH-7). The proposed increase in the LIRAP rate applicable to each rate  
12 schedule is shown in column (f) on page 3 of Exhibit No. \_\_\_(BJH-7). Again, the actual  
13 amount of the increase in the natural gas rates/revenue for LIRAP funding would correspond  
14 to the actual percentage increase in natural gas revenue approved by the Commission in this  
15 Case.

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

18 A. Yes, but only one. Under Large General Service Schedule 121, the annual  
19 minimum deficiency charge is calculated using the tariff rate, which includes natural gas  
20 commodity and pipeline transportation costs. As the customer has not used any gas associated  
21 with the deficiency, it does not seem appropriate to bill them for these costs. Therefore, the  
22 Company proposes that the deficiency charge be calculated using the (third-block) margin as



1    opposed to the entire third-block rate under the present Schedule. This proposed change is  
2    consistent with the annual deficiency charges under Interruptible Service Schedule 131 and  
3    Transportation Service Schedule 146.

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

5           **A.    Yes, it does.**

6