EXHIBIT NO. ___(JHS-1T)
DOCKET NO. UE-082128
WITNESS: JOHN H. STORY

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of **PUGET SOUND ENERGY, INC**. For a Determination of Emissions Compliance and Proposed Accounting Treatment For the Mint Farm Energy Center; or, Alternatively For an Accounting Order	**Docket No. UE-082128**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
JOHN H. STORY
ON BEHALF OF PUGET SOUND ENERGY, INC.

FEBRUARY 13, 2009

PUGET SOUND ENERGY, INC.

PRE-FILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF JOHN STORY

Q. Please state your name, business address, and position with Puget Sound Energy, Inc.

A. My name is John Story. My business address is 10885 NE Fourth Street, Bellevue, WA 98004. I am the Director Cost and Regulation for Puget Sound Energy, Inc. ("PSE" or "the Company").

Q. Have you prepared an exhibit describing your education, relevant employment experience, and other professional qualifications?

A. Yes, I have. It is Exhibit No. ___(JHS-2).

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

A. My testimony describes the accounting deferral methodology that the Company requests in its Petition for an Emissions Performance Determination and Approving Accounting Treatment for the Mint Farm Energy Center ("Mint Farm"), filed November 25, 2008.

Q. Would you please describe the deferral methodology that the Company is requesting?

A. Yes. The deferral of costs includes both the fixed and variable costs associated with Mint Farm as defined under the Company's Power Cost Adjustment Mechanism ("PCA"). The fixed cost component of the deferral includes nonfuel operation and maintenance expense, depreciation, taxes and cost of capital invested in rate base associated with Mint Farm. Upon Commission approval of the accounting deferral associated with these costs, the costs will be booked as a regulatory asset in account 182.3, Other Regulatory Assets. Until Commission approval is received, the deferred fixed costs are being booked in account 186, Miscellaneous Deferred Debits, and an offsetting credit is being booked to the appropriate FERC income statement account. The Company started booking this deferral commencing with the plant acquisition date of December 5, 2008, pursuant to RCW 80.80.060(6), and proposes to end the deferral process with the effective date of new rates going into effect at the time of a Commission's order in the Company's next rate proceeding.

Q. How is the Company determining the fixed costs to defer for Mint Farm?

A. The Company is using the PCA definition of fixed costs to determine the amount to be deferred. PSE is deferring the actual depreciation and acquisition adjustment amortization that is being recorded plus the actual non-fuel operating and maintenance costs. To determine the capital costs associated with the plant the average investment for the December 2008 through November 2009 was calculated. The Company's net of tax rate of return was applied to this investment and then 1/12th of this amount, adjusted for income taxes, was allocated to December 2008. The amount deferred to account 186 was 26/31 of this December calculated amount to reflect the December 5, 2008 purchase date.

Q. How is the Company determining the variable power costs associated with Mint Farm?

A. As with the fixed cost component of the deferral, the Company is using the PCA definition of variable costs to determine the actual costs to be deferred for Mint Farm. PSE's PCA mechanism definition of variable power costs includes fuel and transportation costs. However, even though the PCA treats transportation costs as a variable cost, when a resource such as Mint Farm is added to the Company's portfolio, the transportation costs are actually a fixed cost because they are required to be paid whether the plant generates power or not. This can cause the variable cost per MWh to be quite high when the plant runs at low volume.

Q. Does the PCA restrict the recovery of fixed and variable costs for new resources prior to the resource being included in rates?

A. Yes. Exhibit G, which was called Schedule G in the Company's November 25, 2008 petition filing, limits recovery of new resources to the variable costs that do not exceed the Baseline Power Cost Rate, as determined in the Company's most recent rate case. The Baseline Power Cost Rate is the total cost of all the fixed and variable costs allowed for recovery in the most recent rate case divided by the delivered load used to set rates. Because Exhibit G does not even address fixed costs, these costs would not be considered for recovery under the PCA mechanism prior to being included in rates.

Q. Why has the Company requested that Exhibit G under the PCA mechanism not be applied to Mint Farm?

A. This is required so that the Company can defer both the fixed and variable costs associated with Mint Farm, as allowed by RCW 80.80.060(6), until the resolution of its next rate case.

Q. Are there costs being recovered in the Company's current rates that will not be incurred due to Mint Farm being added to PSE's portfolio?

A. There are costs for market power in current rates; however, the revenues built into rates to cover such costs will not cover the costs related to Mint Farm. When a new resource is added to the portfolio, it is front-end loaded in that the costs associated with the new plant are more expensive in the first years due to the amount of ratebase that is being added. In addition, the cost of operating a new gas resource can be higher than the average baseline rate that is built into rates.

Q. Why does it matter that the cost of operating a new gas resource can be higher than the average baseline rate?

A. In the PCA true-up, the Company can only include PCA variable costs up to the current baseline rate; any variable costs in excess of the baseline rate are ignored for PCA true-up purposes. This causes a mismatch as the actual market cost of power is reduced by amount of power that no longer has to be purchased which can be greater than the baseline rate.

Q. Does the Company's proposed deferral include an offset for market costs built into rates?

A. Yes. Mint Farm would have reduced the forecast market power costs built into rates if the plant had been available when setting current rates. Now that the plant is in the portfolio, actual market purchases will be lower by the amount of power being generated by Mint Farm.

PSE proposes to use the estimated cost of these foregone market purchases to replace the actual PCA defined variable costs for the actual run times of Mint Farm. The price of the market power that will be used is the price that was included in PSE's 2007 general rate case rebuttal filing, dated July 3, 2008.

The offset would be calculated using the estimated price for purchased power costs included in current rates, multiplied by the actual generation from Mint Farm over the deferral period. This calculated amount would be reflected as a credit to the

186 deferral account and a charge to Account 555, Purchased Power. The charge to Account 555 will be included in the monthly PCA true-up calculation as a power cost.

This approach for deferring the variable costs, plus recognizing the offsetting credit for market purchases avoided, is based on just the opposite logic used when new resources are acquired and put into rates. When a new resource is put into rates the baseline rate is increased by the PCA variable costs and fixed costs (return on plant, fixed O&M, fuel, gas transportation and wheeling) for the new resource and reduced by avoided market purchases or increased market power sales. This deferral accounting removes the costs associated with Mint Farm and puts back the estimated purchase power cost. This provides the customer an offset to the deferred variable costs for the amount of the market power purchases built into current rates that will be replaced by Mint Farm during the deferral period and restates the income statement so that Mint Farm is removed from power costs.

Q. Is the Company proposing to make any other calculations that would be applied to the Mint Farm deferral?

A. Yes, PSE proposes to apply a credit to any variable costs deferred, net of the market power credit explained above, if the Company over-collects power costs under the PCA true-up mechanism. This credit provides a benefit to customers that would not otherwise be available, and that is not required under RCW 80.80. The Company also proposes to book interest on the deferral at the Company's net of tax rate of return.

Q. Please explain how the deferral for over-collection of power costs will be calculated.

A. In addition to the credit associated with market power, the Company also proposes that the deferral of net variable costs, explained above, be offset by any over-recovery of power costs calculated under the PCA true-up mechanism. This credit will be determined prior to the implementation of the first $20 million band for over-recovery being allocated to the Company. This credit is calculated by tracking the total over-and under-recovery of power costs from the date of acquisition until Mint Farm is included in rates, and if that balance shows an over-recovery of power costs, that amount would be credited to the 186 deferral account up to the amount of deferred net variable costs associated with Mint Farm. The offsetting charge would be recognized in a FERC 407 account. If there were still an over collection of power costs in excess of the total net deferred variable costs this over-collection would then be subject to the normal PCA sharing bands starting with the first $20 million band for over-recovery being allocated to the Company. An example of how this portion of the credit mechanism would work, assuming (1) an under collection of power costs and (2) an over collection of power costs during the deferral period, is attached as Exhibit No. ___(JHS-3). This is substantially the same as Exhibit D to the Company's Petition.

Q. Would you please explain the interest accrual on the deferred amounts that is proposed by the Company?

A. Yes. PSE proposes to accrue interest on such deferred amounts in account 186 at PSE's authorized net of tax rate of return for the period, seven percent (7%), pursuant to the Partial Settlement Re: Electric and Natural Gas Revenue Requirements and Order 12 in the Company's most recent general rate case, Docket UE-072300 *et al.*, commencing with the initial recognition of deferred costs and ending with the effective date of new rates going into effect as a result of the Commission's order in the Company's next rate proceeding. This recovery of interest cost is required because the Company has obtained the funds from debt and equity investors to cover the expenditures that have been deferred. Because the recovery of the deferred costs will be in the future, the interest deferral makes the Company whole for the cost of the funds used to buy and operate the plant prior to it being included in rates. The net of tax rate of return is used so that the customer receives the tax benefit of the interest deduction included in the rate of return.

Q. Is the Company proposing an amortization schedule for the costs that are deferred?

A. Yes, in the Company’s Petition, PSE proposes that such deferred amounts, plus accrued interest, should be amortized over three years, which is the time period deferred costs related to PSE’s Goldendale plant are being amortized, or over an appropriate time to be determined in the next rate proceeding.

Q. Why did the Company request Commission approval to defer costs associated with Mint Farm if RCW 80.80.060 allows such deferral?

A. There were several reasons. At the time the Company filed the Petition there had been no other filing for deferral of costs under RCW 80.80.060, and there were no rules issued as to how these plants' costs would be considered for deferral. Further, the amount of Mint Farm's deferral is projected to be fairly large. Considering these issues, PSE determined that there may be some doubt as to whether the Company's auditors would have comfort with an automatic deferral as allowed under the statute. Since filing its Petition, however, the Company and its auditors have become more comfortable that the proposed deferral is consistent with, and authorized by, RCW 80.80.060.

Q. Does that conclude your testimony?

A. Yes, it does.