

BEFORE THE

WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**DOCKET NOS. UE-011570
UG-011571**

DIRECT TESTIMONY

OF

JIM DITTMER

ON BEHALF OF

THE PUBLIC COUNSEL SECTION OF

THE WASHINGTON STATE ATTORNEY GENERAL'S OFFICE

ELECTRIC REVENUE REQUIREMENT

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2

INTRODUCTION / SUMMARY

3 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

4 A. My name is James R. Dittmer. My business address is 740 Northwest Blue Parkway,
5 Suite 204, Lee's Summit, Missouri 64086.

6 **Q. BY WHOM ARE YOU EMPLOYED?**

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8 A. I am a Senior Regulatory Consultant with the firm of Utilitech, Inc., a consulting firm
9 engaged primarily in utility rate work. The firm's engagements include review of
10 utility rate applications on behalf of various federal, state and municipal governmental
11 agencies as well as industrial groups. In addition to utility intervention work, the firm
12 has been engaged to perform special studies for use in utility contract negotiations.

13 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

14 A. Utilitech, Inc. has been retained by the Attorney General of Washington, Public
15 Counsel Section ("hereinafter Public Counsel") to review certain revenue requirement
16 issue areas underlying or supporting Puget Sound Energy's (hereinafter "PSE" or
17 "Company") electric and gas general rate case filed in November 2001. Thus, my
18 testimony is being presented on behalf of the Public Counsel Section of the Washington
19 Attorney General's Office.

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21 **Q. WHAT IS THE PURPOSE OF THE TESTIMONY BEING PRESENTED ON**
22 **BEHALF OF PUBLIC COUNSEL?**

23 A. The purpose of my testimony is to support the overall retail electric revenue increase
24 agreed to by Public Counsel, PSE, the WUTC Staff as well as various intervenors
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1 within the Revenue Requirement Stipulation . At this point I should note that my
2 analyses and inquiries focused on what is typically considered “accounting issue” areas.
3 Other Public Counsel consultants and technical staff addressed other issue areas such as
4 cost of capital, power supply/production cost adjustment (“PCA”) and class cost of
5 service/rate design. Based upon review and analysis undertaken in this engagement, I
6 believe the agreed upon \$58.8 million electric increase is fair to both Company
7 shareholders and ratepayers, results in just and reasonable rates, and therefore is in the
8 public interest. Below I discuss what I consider to be an equitable resolution of issue
9 areas for which I was primarily responsible for reviewing. Additionally, I have
10 conferred with other Public Counsel consultants regarding other revenue requirement
11 issue areas. I am informed by them that other areas of the Stipulation and Agreement
12 for which they were responsible for analyzing are also believed to be fair and
13 reasonable.
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16 **QUALIFICATIONS**

17 **Q. BEFORE DISCUSSING IN GREATER DETAIL THE BASIS FOR YOUR**
18 **SUPPORT FOR THE REVENUE REQUIREMENT AGREEMENT, PLEASE**
19 **STATE YOUR EDUCATIONAL BACKGROUND?**

20 A. I graduated from the University of Missouri - Columbia, with a Bachelor of Science
21 Degree in Business Administration, with an Accounting Major, in 1975. I hold a
22 Certified Public Accountant Certificate in the State of Missouri. I am a member of the
23 American Institute of Certified Public Accountants, and the Missouri Society of
24 Certified Public Accountants.
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1 **Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.**

2 A. Subsequent to graduation from the University of Missouri, I accepted a position as
3 auditor for the Missouri Public Service Commission. In 1978, I was promoted to
4 Accounting Manager of the Kansas City Office of the Commission Staff. In that
5 position, I was responsible for all utility audits performed in the western third of the
6 State of Missouri. During my service with the Missouri Public Service Commission, I
7 was involved in the audits of numerous electric, gas, water and sewer utility companies.
8 Additionally, I was involved in numerous fuel adjustment clause audits, and played an
9 active part in the formulation and implementation of accounting staff policies with
10 regard to rate case audits and accounting issue presentations in Missouri. In 1979, I left
11 the Missouri Public Service Commission to start my own consulting business. From
12 1979 through 1985 I practiced as an independent regulatory utility consultant. In 1985,
13 Dittmer, Brosch and Associates was organized. Dittmer, Brosch and Associates, Inc.
14 changed its name to Utilitech, Inc in 1992.
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18 My professional experience since leaving the Missouri Public Service Commission has
19 consisted primarily with issues associated with utility rate, contract and acquisition
20 matters. For the past twenty-two years, I have appeared on behalf of clients in utility
21 rate proceedings before various federal and state regulatory agencies. In representing
22 those clients, I performed revenue requirement studies for electric, gas, water and sewer
23 utilities and testified as an expert witness on a variety of rate matters. As a consultant, I
24 have filed testimony on behalf of industrial consumers, consumer groups, the Missouri
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1 Office of the Public Counsel, the Missouri Public Service Commission Staff, the
2 Indiana Utility Consumer Counselor, the Mississippi Public Service Commission Staff,
3 the Arizona Corporation Commission Staff, the Arizona Residential Utility Consumer
4 Office, the Nevada Office of the Consumer Advocate, the Washington Attorney
5 General's Office, the Hawaii Consumer Advocate's Staff, the Oklahoma Attorney
6 General's Office, the West Virginia Public Service Commission Consumer Advocate's
7 Staff, municipalities and the Federal government before regulatory agencies in the
8 states of Arizona, Michigan, Missouri, Ohio, Florida, Colorado, Hawaii, Kansas,
9 Mississippi, New Mexico, Nevada, New York, West Virginia, Washington and Indiana,
10 as well as the Federal Energy Regulatory Commission.
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13 **DISPOSITION OF ISSUES OF PARTICULAR IMPORTANCE TO**
14 **THE PUBLIC COUNSEL**

15 **Q. PLEASE DISCUSS THE ISSUE AREAS THAT WERE OF PARTICULAR**
16 **INTEREST TO YOU AND THE PUBLIC COUNSEL BY THE TIME THE**
17 **REVENUE REQUIREMENT SETTLEMENT DISCUSSIONS BEGAN.**

18 **A.** When revenue requirement settlement discussions started on May 16, 2002, Public
19 Counsel had the following significant concerns:

- 20 • Automatic metering reading costs appeared overstated given savings
21 claimed in initial feasibility studies.
- 22 • Customer Information System software costs appeared overstated – at
23 least on a proforma basis. This issue was further highlighted by the fact
24 that the software costs at issue were developed by ConneXt – an affiliate
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1 of PSE. Further complicating the issue was the fact that ConneXt was
2 sold to an independent third party immediately following the test year at
3 a gain.

- 4 • The cost of implementing, marketing and administrating time-of-use
5 (“TOU”) rates and the proposed Personal Energy Management (“PEM”)
6 program included within the Company’s originally proposed total
7 company cost-of-service were very significant (i.e., over \$17 million for
8 electric retail alone). Public Counsel had a concern that the program
9 was not cost justified, and further, that under the Company’s proposal
10 even customers who were not participating in, or benefiting from, the
11 programs would, nonetheless, be required to pay for such services.
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- 13 • The level of “ongoing” non-catastrophic as well as the amortization of
14 “catastrophic” storm damage expense appeared excessive.
15
- 16 • Negative pension cost reflected during the test year had been
17 “proformed” by the Company to “zero” for cost of service development
18 purposes.
19
- 20 • Anticipated savings from a significant “outsourcing” program had not
21 been reflected within the Company’s proposed adjusted total company
22 electric cost of service.
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- 1 • A reasonable level of short-term debt at a reasonable short-term debt
2 rate had not been included within the Company’s proposed capital
3 structure.

4 With the listing of the specific issue areas above which Public Counsel identified as
5 being of particular interest, I do not mean to suggest that the WUTC Staff or other
6 Intervenors were not looking into or otherwise concerned about such costs. Nor do I
7 mean to imply that the Public Counsel did not have an interest in other issues which
8 were being explored by the WUTC Staff and other Intervenors. Rather, I am simply
9 highlighting some of the major issues that had been prioritized by Public Counsel to be
10 of particular interest at the time settlement negotiations commenced.

12 **Q. PLEASE DISCUSS HOW THE ABOVE DESCRIBED ISSUE AREAS WERE**
13 **ULTIMATELY RESOLVED TO PUBLIC COUNSEL’S SATISFACTION IN**
14 **SETTLEMENT NEGOTIATIONS.**

15 A. Taking the issues noted above one by one, the Company has agreed to remove its
16 proforma adjustment to increase test year expenses for meter reading costs. The impact
17 of the removal of increased automatic meter reading cost was to reduce proforma
18 electric operating expense and electric revenue requirements by approximately \$3.8
19 million.

20 Regarding the Customer Information System (“CIS”) software costs, the Company
21 agreed to eliminate its adjustment increasing test year expenses for costs to be paid to
22 ConneXt and ConneXt’s new owner Alliance Data System. The elimination of the
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1 Company's proposed increase in test year CIS software costs had the impact of
2 reducing electric revenue requirements by approximately \$2.1 million.

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4 On the "outsourcing" issue, Staff and the Company had resolved that an equitable
5 outcome of the "outsourcing" issue would be achieved if the Company agreed to
6 withdraw or reverse its wage and benefits annualization adjustments. I note that the
7 impact of "reversing" or "eliminating" the Company's adjustments annualizing
8 employee wage and benefits was to reduce the Company's electric revenue requirement
9 by approximately \$7.1 million. I support that resolution as a reasonable compromise of
10 our outsourcing concerns.
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13 Regarding the PEM/TOU costs reflected within the Company's electric revenue
14 requirement request, the Company agreed to remove all \$17 million of costs from the
15 development of base rates that would be applicable to non-TOU customers. Part of the
16 PEM/TOU costs will be recoverable from participating TOU customers through an
17 incremental monthly customer charge and an incremental energy charge. Additionally,
18 a portion of the PEM/TOU costs will be recovered through the Conservation Rider.
19 Public Counsel believes this is an equitable resolution of this issue. To the extent such
20 service is provided and such costs are incurred, the costs will largely be passed onto
21 willing participants who would be the intended beneficiaries of such service or
22 program.
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1 Regarding storm damage expense, PSE agreed to lower its proposed level of
2 catastrophic storm damage amortization from its requested amount of nearly \$8.0
3 million annually down to an annual level of \$6.0 million. Public Counsel views the
4 lower amortization amount to be a reasonable resolution of the issue.
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7 Regarding the “negative” pension costs which PSE “reversed” or proformed to “zero”
8 for cost of service development, ultimately PSE convinced Public Counsel that such
9 approach was consistent with past WUTC precedent. However, PSE ultimately agreed
10 to eliminate a “Pension Asset” that was included within its rate base development that
11 arose solely as a result of “negative” pension expense being reflected in the test year as
12 well as prior years. Elimination of the Pension Asset from rate base had the effect of
13 reducing electric investment by approximately \$15.5 million and electric revenue
14 requirement by approximately \$1.75 million. Again, Public Counsel viewed this to be a
15 reasonable resolution to this issue area.
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17 Regarding the level of, and rate for, short term debt in the capital structure, Public
18 Counsel, WUTC Staff and PSE agreed to include 5.83% of short term debt in the
19 capital structure at an agreed upon short term debt rate of 4.63%%. On this last issue, I
20 should note and emphasize that this agreement was reviewed and endorsed by Public
21 Counsel witness Mr. Stephen Hill.
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23 **Q. PLEASE SUMMARIZE YOUR TESTIMONY REGARDING THE TOTAL**
24 **ELECTRIC INCREASE WHICH THE PARTIES HAVE AGREED TO.**
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A. As discussed above, with regard to the issues that I was responsible for investigating, I believe the settlement results in a reasonable resolution. Further, I have been in contact with Mr. Simon ffitch of Public Counsel, as well as Public Counsel co-consultants Jim Lazar and Stephen Hill regarding other issues considered in the total electric revenue requirement development. All are in agreement that the resolution of the piece parts as well as the “bottom line” total of the revenue requirement settlement are reasonable and fair to shareholders and ratepayers. Accordingly, Public Counsel believes the settlement is in the public interest and should be adopted without modification by this Commission.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.