

Exhibit No. __ T (RCM-1T)
Dockets UE-072300/
UG-072301/UE-080064
Witness: Roland C. Martin

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**DOCKET UE-072300
DOCKET UG-072301
(Consolidated)**

DOCKET UG-080064

TESTIMONY OF

ROLAND C. MARTIN

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Ratemaking Adjustments and PCORC Modifications

May 30, 2008

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1 I. INTRODUCTION

2

3 **Q. Please state your name and business address.**

4 A. I am Roland C. Martin. My business address is The Richard Hemstad Building, 1300
5 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504. My e-mail
6 address is rmartin@utc.wa.gov.

7

8 **Q. By whom are you employed and in what capacity?**

9 A. I am employed by the Washington Utilities and Transportation Commission ("UTC")
10 as a Regulatory Analyst.

11

12 **Q. How long have you been employed by the UTC?**

13 A. I have been employed by the UTC since 1982.

14

15 **Q. Would you please state your educational and professional background?**

16 A. I graduated from the University of the Philippines in 1975, receiving a Bachelor of
17 Arts in Business Administration with a major in marketing management. I also
18 received a degree of Bachelor of Science in Commerce, with a major in accounting,
19 from University of Pangasinan in 1980. On an ongoing basis, I attend classes on
20 regulation and ratemaking.

21 During my employment at the UTC, I have performed accounting and
22 financial analysis of regulated utility and transportation companies either as lead or
23 as member of a team. I have testified in several general rate cases and have

1 presented Staff recommendations on accounting and revenue requirement issues
2 during open meetings. I have reviewed numerous other regulatory filings, including
3 mergers and acquisitions, petitions for declaratory orders and waivers of rules,
4 accounting petitions, transfers of property, periodic cost adjustments, tariff rider and
5 tracker mechanisms, power costs only rate cases, and periodic compliance reports. I
6 have also served as the UTC accounting advisor.

8 II. SCOPE OF TESTIMONY

9
10 **Q. What is the purpose of your testimony in this proceeding?**

11 **A.** I present certain ratemaking adjustments to the electric and gas results of operations
12 of Puget Sound Energy, Inc. ("PSE" or "the Company"). These adjustments are
13 included in Staff witness Mr. Weinman's Exhibit No. ___ (WHW-2) and Exhibit No.
14 ___ (WHW-5).

15 I also present for UTC approval certain modifications to the Power Cost Only
16 Rate Case ("PCORC") mechanism to improve and standardize the PCORC process.

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III. RATEMAKING ADJUSTMENTS

A. Electric Ratemaking Adjustments

Q. Turning to the restating and pro forma adjustments, please indicate which electric operations adjustments that you reviewed are uncontested by Staff.

A. The following adjustments as revised by the Company in its Supplemental Testimony and Exhibits filed April 14, 2008 are uncontested by Staff:

- Adjustment 11.19, Interest on Customer Deposits
- Adjustment 11.22, Deferred Gains & Losses
- Adjustment 11.30, Amortization of Goldendale Fixed Cost Recovery

Q. Please indicate which electric operations adjustments that you reviewed are contested by Staff.

A. The following adjustments as revised by PSE in its Supplemental Testimony and Exhibits filed April 14, 2008 are contested by Staff:

- Adjustment 11.03, Power Costs
- Adjustment 11.14, Miscellaneous Expense & Revenue
- Adjustment 11.35, Revised Production Adjustment

Q. Please explain the purpose of contested Adjustment 11.03, Revised Power Costs.

A. This adjustment pro forms power costs to the rate year level (October 2008 through November 2009) for purposes of calculating the revenue requirement in this proceeding and establishing a new Power Cost Adjustment (“PCA”) mechanism

1 baseline rate. The rate year power costs are then factored back to the test year
2 through the "production factor", which is the ratio of the test period delivered load to
3 the rate year delivered load. Application of the production factor to power costs
4 developed at rate year levels is necessary to align and match the pro forma adjusted
5 historical costs in the test year ended June 30, 2007 results of operations. Staff
6 witness Mr. Buckley is responsible for explaining the reasons why Staff and
7 Company adjustments differ.

8
9 **Q. Please explain the difference between Staff and Company Adjustment 11.14,**
10 **Miscellaneous Expense & Revenue.**

11 A. As explained by Mr. Story starting on page 9, line 10 of his Supplemental Direct
12 Testimony, Exhibit No. __ (JHS-9T), the purpose of the Company's adjustment is to
13 eliminate costs associated with the New York Stock Exchange Filing Fee that will be
14 avoided if the proposed sale in Docket U-072375 is consummated and Puget
15 Energy's stock is no longer traded publicly. Staff's adjustment is larger than PSE's
16 adjustment because Staff eliminates additional costs that will be avoided or
17 significantly decreased if the sale closes.

18
19 **Q. What is the amount of the Company adjustment?**

20 A. PSE's adjustment removes NYSE listing fees booked as an operating expense during
21 the test year in the amount of \$113,416. 65.15%, or \$73,891, is allocated to Electric
22 and 34.15%, or \$39,525, is allocated to Gas, using the four factor allocator.

1 **Q. What additional costs are eliminated by the Staff adjustment?**

2 A. In addition to NYSE fees, Staff removes the following expenses because they will no
3 longer be incurred or will be significantly reduced if the sale is completed:

- 4 • costs of publishing and distributing annual reports to stockholders,
5 (\$298,889);
- 6 • stockholder meeting expenses (\$241,054); and
- 7 • transfer agent and registrar fees, dividend and financial notices, costs of
8 printing and mailing dividend checks, (\$517,947).

9 The total amount of the Staff adjustment is \$1,171,306 with 65.15%, or
10 \$763,106, allocated to Electric, and 34.85%, or \$408,200, allocated to Gas, using the
11 four factor allocator. The Company's responses to Staff Data Request Nos. 5(c) and
12 38 indicate that transfer agent fees include fees related to PSE's preferred stock
13 which will not be eliminated by the sale. Those fees will be re-negotiated after the
14 transaction closes, should that occur. Staff will revise its adjustment for transfer
15 agent fees if and when the Company updates its response to the referenced data
16 requests.

17
18 **Q. Is the Staff adjustment contingent on UTC action in the sale case, Docket U-**
19 **072375?**

20 A. Yes. New rates in this general rate case are expected to be effective in early
21 November 2008. The requested date for an order in the sale docket is the beginning
22 of September 2008. If the UTC approves the proposed sale and the transaction is
23 consummated, Staff's adjustment is necessary to protect ratepayers by removing

1 from the test year expenses the Company will no longer incur. On the other hand,
2 Staff's adjustment is unnecessary should the UTC deny the sale or the applicants
3 terminate their agreement. (The Joint Application filed in Docket U-072375
4 indicates that Puget Energy or Puget Holdings may terminate the agreement if the
5 sale has not been consummated by October 25, 2008.) Staff's adjustment places the
6 UTC in a firm position to determine the appropriate pro forma adjustment for
7 ratemaking purposes.

8
9 **Q. What if even further cost savings materialize from the sale?**

10 A. Staff agrees with the Company's plan to record and track additional costs savings, as
11 stated in PSE's response to Staff Data Request No. 5(b). The Company should defer
12 in FERC Account 254-Other Regulatory Liabilities any identified savings above the
13 level reflected in new rates in this case and accrue interest on the deferred balance at
14 the authorized net of tax rate of return. The appropriate ratemaking treatment of
15 such savings will then be determined in a future proceeding. This is consistent with
16 Commitment 12 of the applicants in Docket U-072375 that: "Any net cost savings
17 that may be achieved by PSE as a result of the Proposed Transaction will be reflected
18 in subsequent rate proceedings, as such savings materialize." PSE proposes to file a
19 report with the UTC in connection with the implementation of this and other
20 commitments, by June 1, 2009 and each June 1 thereafter through June 1, 2013.

21
22 **Q. Please explain the next contested electric adjustment, 11.35 Production**
23 **Adjustment.**

1 A. This adjustment adjusts production-related operation and maintenance expenses,
2 taxes, depreciation, and ratebase using the same production factor used in the
3 Revised Power Cost Adjustment 11.03. This adjustment depends on other
4 ratemaking adjustments that relate to power production. Staff reviewed the
5 production factor and its application to production-related costs and found it to be
6 appropriate. Hence, this adjustment is contested solely due to contested issues
7 affecting production-related costs that are addressed in other adjustments. This
8 adjustment increases net operating income by \$2,866,465 and decreases rate base by
9 \$41,712,757.

10

11 **B. Gas Ratemaking Adjustments**

12

13 **Q. Turning to the gas restating and pro forma adjustments, please indicate which**
14 **adjustments that you reviewed are uncontested by Staff.**

15 A. The following adjustments as revised by the Company in its Supplemental
16 Testimony and Exhibits filed on April 14, 2008 are uncontested by Staff:

17 Adjustment 9.13, Interest on Customer Deposits

18 Adjustment 9.15, Deferred Gains & Losses

19

20 **Q. Please indicate which adjustment that you reviewed is contested by Staff.**

21 A. Staff contests Adjustment 9.09, Miscellaneous Operating Expenses for the same
22 reasons explained in the earlier discussion of electric Adjustment 11.14.

23

1 **Q. What are the impacts of the Company and Staff gas operations Adjustments**
2 **9.09?**

3 A. As mentioned earlier, Staff's adjustment reduces test year gas operating expenses by
4 \$408,200. This compares to the Company's corresponding adjustment that reduces
5 test year gas operating expense by \$39,525.

6

7 **IV. POWER COST ONLY RATE CASE MODIFICATIONS**

8

9 **Q. What is the purpose of this portion of your testimony?**

10 A. Mr. Parvinen presents Staff's opinion that the PCORC mechanism should be
11 retained. The purpose of my testimony is to present for UTC approval certain
12 modifications to the PCORC process. These procedural modifications will improve
13 Staff and other parties' ability to review Company filings both when they are made
14 initially and when affected elements of power costs and resources are revised or
15 updated during a proceeding. While most of these modifications may be addressed
16 in the procedural schedules of a particular PCORC, making them standard features
17 will promote administrative efficiency and fairness.

18

19 **Q. Why is this issue being raised in this proceeding?**

20 A. In the most recent PCORC proceeding in Docket UE-070565, UTC Order 07
21 approved and adopted the parties' settlement agreement which provided for a
22 collaborative stakeholder review of the PCORC process. Elements the collaborative
23 was to consider included the scope and timing of the mechanism, and the form of the

1 mechanism if it is to continue. The collaborative participants included PSE, Staff,
2 Public Counsel and the Industrial Customers of Northwest Utilities (“ICNU”). They
3 met for the first time on September 6, 2007 and several occasions thereafter.

4 The collaborative parties failed to reach agreement on a revised PCORC and
5 ended the collaborative with the understanding they could present their specific
6 issues to the UTC for resolution in the pending general rate case.

7
8 **Q. Were you a member of the collaborative for Staff?**

9 A. Yes.

10
11 **Q. Did PSE submit any proposal in the pending case to eliminate or modify the**
12 **PCORC mechanism?**

13 A. No. Company witnesses Ms. Harris and Mr. Story each provided direct testimony
14 supporting the continued existence of the PCORC. However, Ms. Harris appeared to
15 imply that minor changes could be made to the current PCORC. She stated she feels
16 “strongly that the PCORC process continue in something very close to its present
17 form”. Exhibit No. __ (KJH-1HCT) at 20:6-7.

18
19 **Q. Please summarize the modifications to the PCORC process proposed by Staff.**

20 A. Staff proposes the following modifications to improve the PCORC process:

- 21 • The expected procedural schedule should be extended from five months to
22 six months.

- 1 • There can be no overlap of PCORC and general rate case filings except for
2 interim rate relief.
- 3 • PSE will be allowed to update its filing only once between its initial filing
4 and the filing of other parties' response cases. An additional update will be
5 allowed if the UTC determines the update is necessary due to increased gas
6 costs and orders such update as part of the compliance filing.
- 7 • Data request response time will be reduced from ten to five business days at
8 the outset. Any further reduction can be considered in the pre-hearing
9 conference.

10
11 **Q. Please explain the need to extend the PCORC procedural schedule to six**
12 **months.**

13 A. Under the settlement terms adopted by the UTC in PSE Docket No. UE-011570, the
14 case that created the PCORC, the contemplated review period by Staff and other
15 parties is no more than four months, with the UTC's order expected 30 days
16 thereafter, for a total case process time of five months. Therefore, under the current
17 scheme Staff, Public Counsel and intervener response cases must be filed well before
18 the end of the four month review period. Filing and review of the Company's
19 rebuttal case, hearings and post-hearing briefs also must be accelerated.

20 This abbreviated period to review and conclude a PCORC is inadequate to
21 fully analyze and determine rate recovery of the costs involved. This is especially
22 true since the mechanism addresses not only the revenue requirement and prudence
23 of new resources, but also other production-related fixed and variable expenditures

1 such as fuel expenses, purchased power, wheeling, regulatory assets, depreciation
2 and amortization, and property and energy taxes, among others.

3 Extending the PCORC process to 6 months will help alleviate these time
4 constraints. This is critical since the magnitude of the revenue requirement
5 considered in a PCORC is significant relative to the total revenue requirement of the
6 Company.

7
8 **Q. Can you illustrate the relative significance of the portion of total revenue**
9 **requirement addressed in a PCORC?**

10 A. Yes. For illustrative purposes, the Company's total electric revenue requirement is
11 approximately \$2 billion, as shown in Mr. Story's Exhibit No. __ (JHS-11),
12 Summary. Of this total, the power and production-related revenue requirement, if
13 filed as a separate PCORC filing, would be approximately \$1.4 billion, as shown in
14 Exhibit No. __ (JHS-13C), Page 13.01, or over one half of the Company's total
15 electric revenue requirement.

16
17 **Q. Please discuss the next PCORC process modification proposed by Staff.**

18 A. Staff recommends that the UTC amend the PCORC to prohibit the Company from
19 having a PCORC on file during the pendency of any general rate case. If, during the
20 course of a PCORC, the Company can prove adverse financial conditions that meet
21 the UTC's standards for interim rate relief, PSE may still seek such relief.

1 **Q. Please explain the reason for this proposal.**

2 A. The overlap of PCORCs and general rate cases that is currently allowed unfairly
3 burdens and complicates Staff's review. It also shortens the interval between rate
4 changes that is already compressed. Staff's proposal simplifies the review process
5 for both general rate cases and PCORCs, and reduces ratepayer confusion and rate
6 shock.

7 It also allows the UTC and the parties to focus their attention on one case in a
8 way that cannot be done if two filings are pending at the same time. As Mr. Buckley
9 states in his testimony, it is difficult and time-consuming to review power cost model
10 inputs and outputs especially if revisions are made during a proceeding. It is
11 expected that PSE will continue to file for rate relief because of increasing demand
12 and attendant acquisitions of resources. This means ratepayers may still experience
13 frequent rate increases. Avoiding filing overlaps will somewhat lessen the rate shock
14 impact on customers and also improves other parties ability to review the
15 complexities of a power supply case.

16
17 **Q. Please discuss the next PCORC process modification proposed by Staff.**

18 A. Staff recommends that PSE be allowed only one update between its initial filing and
19 the filing of Staff, Public Counsel, and intervenor response cases. The current
20 process does not prohibit more than one revision during the course of an already
21 abbreviated proceeding. This poses a significant challenge to Staff and other parties
22 to assess a "moving target" and causes speculation of what ultimately will be PSE's
23 case.

1 However, volatility of natural gas prices should be addressed. Therefore,
2 Staff's proposal allows an additional update when the UTC determines it is
3 necessary as part of the compliance filing.
4

5 **Q. Turning now to the last PCORC process modification proposed by Staff, please**
6 **explain why it is necessary to shorten the discovery response period to five**
7 **business days.**

8 A. The parties often request the UTC to shorten the data request response period during
9 prehearing conferences. Therefore, it makes sense to make this a standard feature of
10 the PCORC process. This is consistent with the compressed case schedule of a
11 PCORC. This provision does not preclude a request for a reasonable extension of a
12 deadline, consistent with current practice when a timely response cannot be made
13 despite a party's best efforts. It also does not preclude shortening the response time
14 even further at the prehearing conference.
15

16 **Q. Does this conclude your testimony?**

17 A. Yes, it does
18
19