**Exhibit No. \_\_T (MPP-1T)**

**Dockets UE-072300/**

**UG-072301/UG-080064**

**Witness: Michael P. Parvinen**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,** **Complainant,****v.****PUGET SOUND ENERGY, INC.,** **Respondent.** | **DOCKET UE-072300****DOCKET UG-072301****(*Consolidated)*****DOCKET UG-080064** |

**TESTIMONY OF**

**MICHAEL P. PARVINEN**

**STAFF OF**

**WASHINGTON UTILITIES AND**

**TRANSPORTATION COMMISSION**

**May 30, 2008**

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**I. INTRODUCTION**

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

A. My name is Michael P. Parvinen. My business address is The Richard Hemstad Building, 1300 S. Evergreen Park Dr. S.W., P.O. Box 47250, Olympia, Washington 98504-7250. My e-mail address is mparvine@wutc.wa.gov.

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

A. I am employed by the Washington Utilities and Transportation Commission (“UTC”) as the Acting Assistant Director of Energy. In that capacity I supervise the members of the Energy Section that analyze electricity and natural gas filings and issues. Before my current position, I was a Regulatory Analyst and later the Deputy Assistant Director in the Energy Section.

**Q. How long have you been with this agency?**

A. I have been employed by the UTC since 1987.

**Q.** **What are your educational and professional qualifications?**

A. I graduated from Montana College of Mineral Science and Technology in May of 1986, and received a Bachelor of Science degree in business administration with a major in accounting. I have testified before the UTC in Docket UG-060256 – Cascade Natural Gas Corporation; Dockets UE-050482/UG-050483 – Avista Corporation; Docket UG-040640/UE-040641 – Puget Sound Energy, Inc.; Docket UG-021584 – Avista Corporation; Dockets UE-011570/UG-011571 – Puget Sound Energy, Inc.; Docket UE-010395 – Avista Corporation; Dockets UE-991606/UG-991607 – Avista Corporation; Docket UG-931405 - Washington Natural Gas Company; Docket UG-920840 - Washington Natural Gas Company; Docket UG-911246 - Cascade Natural Gas Corporation; Docket UE-900093 - The Washington Water Power Company; Docket U-89-2688 - Puget Sound Power & Light Company; Docket D-2576 - Bremerton-Kitsap Airporter, Inc.; and Docket U-88-2294-T - Richardson Water Companies. I have also analyzed or assisted in the analyses of numerous other transportation and utility rate filings. I attended the Seventh Annual Western Utility Rate Seminar in 1987, and the 1988 Annual Regulatory Studies Program, sponsored by the National Association of Regulatory Utility Commissioners.

1. **PURPOSE AND SUMMARY OF TESTIMONY**
2. **Please describe the scope of your testimony.**
3. I present Staff’s recommendation regarding the following issues raised by Puget Sound Energy, Inc. (“PSE” or “the Company”) in this proceeding:
4. Whether to continue the companion Power Cost Only Rate Case (“PCORC”) and Power Cost Adjustment (“PCA”) mechanisms?
5. Whether to initiate a rulemaking on the use of a future test year for ratemaking purpose?

I will also present an overview of the other witnesses testifying for Staff in these dockets. That overview indicates that Staff recommends an increase to electric revenues of $106,635,789, or 5.64%, and to gas revenues of $43,458,150, or 4.06%.

1. **POWER COST ONLY RATE CASE AND POWER COST ADJUSTMENT MECHANISM**

**Q. Please explain the purpose of this portion of your testimony.**

A. In the most recent PCORC proceeding in Docket UE-070565, UTC Order 07 approved the parties’ settlement agreement providing for a collaborative review of the PCORC process. Issues to be addressed by the collaborative included the scope and timing of the mechanism, and the form of the mechanism if it is to continue. The collaborative participants included PSE, Staff, Public Counsel and the Industrial Customers of Northwest Utilities (“ICNU”).

 The collaborative participants failed to reach agreement on a revised PCORC, but did agree they could present their specific issues to the UTC for resolution in the pending general rate case. My testimony addresses whether the PCORC should continue. Staff witness Mr. Martin addresses procedural modifications to the form of the PCORC.

**Q. Please provide a brief history of the PCORC and PCA.**

A. The PCA and PCORC are companion mechanisms designed to provide for power cost volatility risk mitigation and timely recovery of resource acquisitions, respectively. These mechanisms were approved by the UTC in the Company’s 2001 general rate case in Docket UE-011570. *WUTC v. Puget Sound Energy, Inc*., Docket UE-011570, Twelfth Suppl. Order (June 20, 2002). Since the mechanisms were approved by the UTC the Company has filed 6 PCA deferral period reports and 3 PCORCs.

**Q. Please elaborate on your description of the PCA**.

A. The PCA tracks and defers the difference between the power cost rate component built into customer rates and actual incurred power costs. The Company can only seek recovery of the deferral once an accumulated threshold of $30 million has been reached. To date the threshold has not been exceeded, therefore, customers have seen no rate change as a result of the PCA.

**Q. Please elaborate on your description of the PCORC**.

A. The PCORC allows the Company to file for recovery of resource acquisitions in a more expeditious manner than a general rate case. The mechanism allows PSE to place a resource in rates at the time the resource actually goes into service and provides power to customers. The PCORC is limited to power supply and resource acquisitions, hence narrowing the scope of review and the time necessary for parties to complete their analysis, in comparison to a full general rate case.

**Q. What is Staff’s opinion as to whether the PCORC and PCA should continue in the current forms?**

A. Staff is generally supportive of the continuation of the PCORC with the modifications Mr. Martin proposes. Staff is also generally supportive of the PCA, although Staff witness Mr. Buckley recommends the Company be ordered in its next general rate case to perform a study and propose an alternative PCA design to address the asymmetrical distribution of power supply costs over water years.

**Q. Please elaborate on what you mean by “generally supportive” of the PCORC?**

A. The PCORC mechanism has allowed the Company to file 3 cases since its inception. During the same time frame, PSE has also filed 3 general rate cases. Comparing the time necessary for the Company to prepare and the UTC to complete a general rate case versus a PCORC, rates from PCORCs have gone into effect an average of 7 months earlier than general rate cases. PCORCs are designed currently to be completed within 5 months of the filing and general rate cases within 11 months of filing, hence a time savings of 6 months. This savings in months helps the Company match more closely the in-service date of new resources with retail rates.

**Q. Are there alternatives to the PCORC mechanism?**

A. That depends on the circumstances of a particular resource addition. The Company has filed an accounting petition to defer the costs of resource additions in order to bridge the gap from the in service date of the resource to the date rates from a general rate case go into effect. This occurred in Docket UE-070533 for the Goldendale plant which was acquired with such short notice that the Company could not make a general rate case or PCORC filing in time to match the in-service date with rate recovery. Staff supported the accounting petition due to the opportunistic nature of the acquisition. The variable power supply implications of the acquisition during the deferral period were accounted for in the PCA mechanism. This type of approach subjects customers to fewer increases, but the magnitude of an increase is greater. There may be other resource additions for which similar accounting treatment is appropriate.

**Q. You’ve discussed how Staff is “generally supportive” of the PCORC. Is Staff also supportive of the PCA?**

A. Yes. The original intent of the PCA was to allow for the deferral of power supply costs that differ from what customers are paying in rates. The various dead bands and rate recovery trigger were established to identify a level of risk that the Company could and should absorb around a normal level of fluctuating power supply costs. The PCA is intended to capture any extraordinary changes such as the effects of below normal water runoff and changes in fuel expenses that occur between rate cases. The actual effect of the PCA is that the accumulated deferral balances are negligible primarily because the Company has frequently changed base power supply costs through general rate cases and PCORC filings, and through updates to cost projections within those filings, and because extraordinary events have not occurred.

Nevertheless, the Company is still subject to extreme volatility of power supply costs, such as short term market purchases associated with drought or low water runoff, which would not be recovered or reflected in base rate changes. The mechanism has some merit even though through 6 deferral periods no extraordinary occurrences have caused unaccounted for undue cost pressures.

1. **FUTURE TEST YEAR RULEMAKING**

**Q. At page 31 of his direct testimony, Exhibit No. \_\_ (EMM-1CT), Company witness Mr. Markell asks the UTC to initiate a rulemaking to consider adopting a forward-looking test year when setting rates for utilities in this state. What is Staff’s response to his request?**

A. Staff disagrees with Mr. Markell and recommends that the UTC reject his request.

**Q. Please elaborate.**

A. Historical test year ratemaking is premised on the “matching principal” where the relationship of revenues, expenses, and rate base are known and based on each other. For example, if a company were to replace an item of plant, the replacement could have other effects such as reducing maintenance expense and increasing revenues if the system is made more reliable. These impacts are imbedded in the historical test year results. Pro forma adjustments are made to the test year for known and measurable changes with no offsetting effects, thus, maintaining the historical test year matching principal. This link or matching of a company’s revenues, expenses, and rate base is lost with the use of a future test year, which is budget driven and is based on projections of costs and expenses made internally by a company’s divisions or departments.

**Q. How does Staff address the Company’s concern that regulatory lag is the main reason to consider future test year rate making?**

A. Regulatory lag is an important element of the historical, test-year rate making process. Regulatory lag, to the extent it exists, creates an incentive for the Company to manage its costs in areas it can control, such that it has the opportunity to earn its authorized rate of return. The risk of regulatory lag is accounted for in the return on equity as returns are established under the existing regulatory framework that has existed for many years.

**Q. Has the UTC previously addressed the Company’s concerns about regulatory lag?**

A. Yes, in the Company’s last general rate filing, the UTC affirmed that regulatory lag is an inherent component of the long-standing historical rate making concept and that it has both positive and negative attributes. *WUTC v. Puget Sound Energy, Inc*., Dockets UE-060266 and UG-060267, Order 08 at ¶37 and footnote 24 (January 5, 2007).

1. **OTHER STAFF WITNESSES**
2. **Please list the other Staff witnesses and their general area of responsibility in this proceeding.**
3. The following witnesses present testimony on behalf of Staff in this proceeding:

**Alan P. Buckley** testifies to the appropriate level of power supply costs that should be included in rates. He also recommends a process for the UTC to reexamine the Company’s PCA in the next general rate case.

**Joanna Huang** presents several Staff recommended ratemaking adjustments included in Mr. Weinman’s summary exhibits. One of her adjustments is related to Incentive Pay. She also discusses the issue of executive compensation.

**Danny P. Kermode** presents several Staff recommended ratemaking adjustments included in Mr. Weinman’s summary exhibits. He provides the Staff calculation on Investor Supplied Working Capital. He also supports Staff’s recommendation on the recovery of storm damage costs.

**Douglas E. Kilpatrick** presents Staff’s recommendation on several generation resource acquisitions and power purchase agreements for which the Company seeks a prudence determination and rate recovery. His testimony explains why the UTC should approve the Company’s request. Mr. Kilpatrick also addresses PSE’s response to the Hanukkah Eve Storm of 2006. He makes several recommendations in that area.

**Roger Kouchi** addresses several aspects of the Company’s Service Quality Index and recommends modifications in four areas.

**Roland C. Martin** presents several Staff recommended ratemaking adjustments included in Mr. Weinman’s summary exhibits. He also presents modifications to the PCORC process that Staff recommends for adoption by the UTC.

**David C. Parcell** provides Staff’s recommendation on the cost of capital to be used for ratemaking purposes. His overall recommendation is 8.25 percent, which is based on a 10 percent return on equity and the capital structure and other cost rates proposed by PSE.

**Thomas E. Schooley** presents Staff’s recommendation on cost of service, rate spread and rate design. Mr. Schooley also supports an adjustment to gas and electric revenues and working capital to address ongoing and increasing meter malfunctions and related billing errors.

**William H. Weinman** presents Staff’s recommended revenue requirement for both the electric and natural gas operations. His summary exhibits show that Staff recommends an increase to electric revenues of $106,635,789, or 5.64%, and to gas revenues of $43,458,150, or 4.06%. He also testifies on ratemaking adjustments addressing depreciation (where he responds to Company witness Mr. Clarke), Baker River hydroelectric relicensing, and a diesel oil spill at Crystal Mountain in 2006.

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

1. Yes it does.