

**Exhibit No. AMCL-1T
Dockets UE-090704/UG-090705
Witness: Ann M. C. LaRue**

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

DOCKET UE-090704

DOCKET UG-090705

TESTIMONY

OF

ANN M. C. LaRUE

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Directors & Officers Insurance Adjustments

November 17, 2009

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EXHIBIT LIST

Exhibit No. AMCL-2 Staff Adjustments 10.17 and 9.12, D&O Insurance

1 I. INTRODUCTION

2
3 **Q. Please state your name and business address.**

4 A. My name is Ann M. C. LaRue. My business address is 1300 S. Evergreen Park
5 Drive S.W., P.O. Box 47250, Olympia, WA 98504. My email address is
6 alarue@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
10 (“Commission”) as a Regulatory Analyst.

11
12 **Q. Would you please describe your educational and professional background?**

13 A. I graduated from Sam Houston State University in Huntsville, Texas with a Bachelor
14 of Business Administration degree in Accounting in 1998 and a Masters of Business
15 Administration degree in 1999. I am licensed in Washington State as a Certified
16 Public Accountant.

17 I began my employment at the Commission in 2007. During my employment
18 at the Commission, I have performed accounting and financial analyses of regulated
19 utility and transportation companies. I have testified in Avista Corporation’s general
20 rate case, Dockets UE-090134, UG-090135, and UG-060518 (consolidated), and in
21 Northwest Natural Gas Company’s general rate case, Docket UG-080546. I was also
22 a member of the Staff team on the following contested cases:

- 23
- Cascade Natural Gas Corporation, Docket UG-061256

- 1 • Puget Sound Energy, Inc., Docket UE-072300
- 2 • PacifiCorp, Docket UE-080220
- 3 • Avista Corporation, Docket UE-080416

4 I have presented Staff recommendations at numerous open public meetings.

5 I attended the 49th Annual National Association of Regulatory Utility
6 Commissioners (NARUC) Regulatory Studies Program held at Michigan State
7 University in East Lansing, Michigan in 2007. I also attended the 29th Annual
8 NARUC Western Rate School in San Diego, California in 2008.

9
10 **II. SCOPE AND SUMMARY OF TESTIMONY**

11
12 **Q. What is the purpose of your testimony in this proceeding?**

13 A. My testimony presents the results of Staff's review of eight ratemaking adjustments
14 proposed by Puget Sound Energy, Inc. ("PSE" or "the Company") related to the
15 Company's electric and natural gas revenue requirements determination.

16
17 **Q. Which Company adjustments that you reviewed are uncontested by Staff?**

18 A. Staff does not contest the following six adjustments, as proposed by PSE and
19 detailed in the direct testimonies of Company witnesses Story and Stranick:

- 20 • Adjustments 10.16 and 9.11, Excise Tax and Filing Fee
- 21 • Adjustments 10.32 and 9.06, Depreciation Study
- 22 • Adjustments 11.03 and 10.03, Conversion Factor

1 **Q. Which Company adjustments that you reviewed are contested by Staff?**

2 A. The following two adjustments, both related to Director and Officer (“D&O”)
3 Insurance, are contested by Staff:

- 4 • Adjustments 10.17 and 9.12, Directors and Officers Insurance

5

6 **Q. Please summarize your recommendation for these contested adjustments.**

7 A. For the contested adjustments identified above, Staff proposes that 50 percent of
8 D&O Insurance be allocated to shareholders.

9

10 **Q. Have you prepared any exhibits in support of your testimony?**

11 A. Yes. I have prepared the following exhibit in support of my testimony:

- 12 • Exhibit No. AMCL-2, Staff Adjustments 10.17 and 9.12, D&O Insurance

13

14 **III. DISCUSSION**

15

16 **Q. Please summarize the Company’s D&O Insurance Adjustments 10.17 and 9.12.**

17 A. The Company’s adjustments to D&O Insurance “removes the portion of Directors
18 and Officers insurance that should be allocated to Company subsidiaries [and] also
19 reflects the current premium for the Directors and Officers insurance as it relates to
20 the Company Directors after the merger.”¹ The Company’s proposal increases net
21 operating income by \$205,413 (electric)² and \$142,454 (gas).³

22

¹ Exhibit No. JHS-1T at 38: 8-9.

² Exhibit No. JHS-10 at 23.

³ Exhibit No. MJS-9 at 9.12.

1 **Q. Did you review the calculations of PSE's D&O Insurance adjustments?**

2 A. Yes. I reviewed D&O Insurance for the total Company including PSE's allocations
3 both to its subsidiaries and to its electric and gas operations. My review
4 corroborated the Company's allocations. However, Staff believes that the costs of
5 D&O Insurance should be shared equally between ratepayers and shareholders.

6
7 **Q. Please explain your rationale for sharing the cost of D&O Insurance equally**
8 **between ratepayers and shareholders.**

9 A. D&O Insurance financially protects corporate directors and officers when legal
10 claims are brought against them while performing their corporate duties. D&O
11 Insurance is a necessary cost of doing business and it provides benefits to both
12 ratepayers and shareholders. Ratepayers should bear some of the cost of this
13 insurance, as they benefit from it, but shareholders also benefit from D&O Insurance
14 and should therefore bear some of the costs, as well.

15
16 **Q. Is there precedent for allocating some of the cost of D&O Insurance to**
17 **shareholders?**

18 A. Yes. Other jurisdictions have held that the sharing of D&O Insurance is appropriate.
19 In 1996, the California Public Utilities Commission stated, "we are funding half of
20 the [D&O Insurance] premium with ratepayer funds. However, to the extent that
21 shareholders also benefit from this insurance coverage, they should also share in the
22 expense."⁴ In 2005, the Arkansas Public Service Commission held that "the expense

⁴ *Re Southern California Edison Co.*, 64 CPUC 2d 241, 1996 WL 33178 (Cal. P.U.C.), at 75.

1 for D&O insurance should be shared on a 50-50 basis between shareholders and
2 ratepayers.”⁵

3 In 1991, The Connecticut Department of Public Utility Control held that
4 “such [D&O Insurance] coverage benefits shareholders as well as ratepayers and ...
5 that the costs should be borne equally between shareholders and ratepayers.”⁶

6 Fifteen years later, the Connecticut Department of Public Utility Control reaffirmed
7 that “shareholders should bear the weight of their decisions in appointing directors
8 (who appoint the officers of the Company). Accordingly, the Department allows ...
9 approximately ¼ of the total company [D&O Insurance] expense to be collected in
10 rates as the customers’ responsibility.”⁷ This resulted in shareholders paying 75
11 percent of the cost of D&O Insurance.

12 By contrast, Staff’s recommended adjustments would split the cost 50-50
13 between ratepayers and shareholders, consistent with the California, Arkansas, and
14 prior Connecticut commission decisions.

15

⁵ *Re CenterPoint Arkla, a Division of CenterPoint Energy Resources Corp.*, 245 P.U.R. 4th 384, 2005 WL 3354346 (Ark. P.S.C.), at 409.

⁶ *Re Connecticut Light and Power Co.*, 124 P.U.R. 4th 532, 1991 WL 501760 (Conn. D.P.U.C.), at 560.

⁷ *Re The United Illuminating Co.*, 246 P.U.R. 4th 357, 2006 WL 316835 (Conn. D.P.U.C.), at 403.

1 **Q. What are the effects of your D&O Insurance adjustments?**

2 A. Staff's adjustments reduce D&O Insurance expense by \$470,485 (electric) and
3 \$326,284 (gas). This increases net income after taxes by \$305,815 for the
4 Company's electric operations and \$212,085 for its gas operations. This is a
5 decrease in electric and gas revenue requirement of \$492,248 and \$341,032,
6 respectively. The calculations of these amounts appear in Exhibit No. AMCL-2.

7 The calculations of these amounts also appear in Exhibit No. KHB-2, page
8 2.4 and Exhibit No. KHB-3, page 3.3, for the electric and gas operations,
9 respectively.

10

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

12 A. Yes, it does.