**Exhibit No. MPP-1T**

**Docket UE-090704/UG-090705**

**Witness: Michael P. Parvinen**

**BEFORE THE WASHINGTON STATE**

**UTILITIES AND TRANSPORTATION COMMISSION**

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| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,**  **Complainant,****v.****PUGET SOUND ENERGY, INC.,**  **Respondent.** | **DOCKET UE-090704****DOCKET UG-090705** |

**TESTIMONY**

**OF**

**MICHAEL P. PARVINEN**

**STAFF OF WASHINGTON UTILITIES AND**

**TRANSPORTATION COMMISSION**

***General Ratemaking Policy; Company Conservation Phase-In Proposal; Company Production Factor Adjustment; Merger Commitment Compliance***

**November 17, 2009**

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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@utc.wa.gov.

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

A. I am employed by the Washington Utilities and Transportation Commission (“Commission”) as the 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 employed by the Commission?**

A. I have been employed by the Commission 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 Commission in the following proceedings:

 Avista Corporation Dockets UE-090134/UG-090135

 Dockets UE-080416/UG-080417

 Dockets UE-050482/UG-050483

 Docket UG-021584

 Docket UE-010395

 Dockets UE-991606/UG-991607

 Puget Sound Energy, Inc. Dockets UE-072300/UG-072301

 Dockets UG-040640/UE-040641

 Dockets UE-011570/UG-011571

 Docket U-89-2688

 Cascade Natural Gas

 Corporation Docket UG-060256

 Docket UG-911246

 Washington Natural Gas

 Company Docket UG-931405

 Docket UG-920840

 The Washington Water

 Power Company Docket UE-900093

 I have also analyzed or assisted in the analyses of numerous other 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. **SCOPE AND SUMMARY OF TESTIMONY**
2. **What is the purpose of your testimony in this proceeding?**
	1. I will address a fundamental ratemaking issue raised by the filing of Puget Sound Energy, Inc. (“PSE” or “the Company”) in this proceeding; namely, the Company’s erroneous application of the definition of a pro forma adjustment and the resulting violation of the matching principle of ratemaking. This discussion supports Staff’s recommendation addressed in my testimony that the Commission should reject the Company’s proposed conservation phase-in adjustment. It also supports many other ratemaking adjustments sponsored by other Staff witnesses for the Company’s electricity and natural gas results of operations.

 I also present the Staff recommendation that the Commission should not apply a power production adjustment in developing the Company’s electricity revenue requirement in this case, given the Company’s updated forecast of reduced electric loads.

 My testimony informs the Commission of the Company’s compliance with relevant commitments ordered by the Commission in the recent merger proceeding, Docket UE-070725.

 Finally, I 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 $5,826,516, or 0.3 percent, and an increase to natural gas revenues of $7,130,348, or 0.6 percent. Staff used the Company’s September 28, 2009 Supplemental Filing as the starting point for the development of these revenue requirement recommendations.

**Q. Can you briefly summarize the main differences between the Company’s proposed *electric* revenue requirement and Staff’s recommended *electric* revenue requirement?**

A. Yes. The total difference is $148 million (Company proposed $154 million minus Staff proposed $6 million). The main differences between Staff and PSE are due to:

 Rate of Return $37 million

 Power Supply Adjustments including O&M 48 million

 Pro forma Maintenance on Plant Additions 26 million

 Mint Farm Deferral Amortization 17 million

 Conservation Adjustment (Revenue Component) 10 million

 Production Adjustment 6 million

 Other Adjustments 4 million

**Q. Can you briefly summarize the main differences between the Company’s proposed *gas* revenue requirement and Staff’s recommended *gas* revenue requirement?**

A. Yes. The total difference is $22 million (Company proposed $29 million minus Staff proposed $7 million). The main differences between Staff and PSE are due to:

Rate of Return $15 million

Properly Applied Pro Forma Definition $4 million

Net Interest to IRS $2 million

Other Adjustments $1 million

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

A. Yes, I have prepared Exhibit No. MPP-2 to assist the Commission in identifying each Staff witness and the particular contested and uncontested adjustments each witness sponsors. Page 1 of the exhibit addresses the Company’s electric results of operations. Page 2 does the same for the gas results of operations.

1. **A FUNDAMENTAL RATEMAKING ISSUE - PROPER PRO FORMA ADJUSTMENTS**

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

A. The purpose of this portion of my testimony is to identify how the Commission defines “pro forma adjustment”, and to explain appropriate regulatory theory and policy underlying this definition. I then explain how many of the adjustments proposed by PSE in this case are inconsistent with this definition, regulatory theory, and policy. Various other Staff witnesses (Mr. Roland Martin, Ms. Joanna Huang, Mr. Thomas Schooley, Mr. Michael Foisy, and Ms. Kathryn Breda) provide Staff’s analysis of the individual adjustments.

Q. How does the Commission define a “pro forma adjustment?”

A. According to WAC 480-07-510(3)(iii), “Pro forma adjustments" give effect for the test period to all known and measurable changes that are not offset by other factors. A proper pro forma (annualization) adjustment is one that reflects a change to an expense rate rather than the units or level of service to which the rate applies. I provide examples of this concept later in my testimony.

Q. What concepts underlie this definition?

A. There are two basic concepts: the “known and measurable” concept and the “offset by other factors” concept.

**Q. Please explain the “known and measurable” concept.**

 The known and measurable concept requires that an event that causes a change in revenue, expense or rate base must be known to have occurred during or after the historical 12 months of actual results of operations,[[1]](#footnote-1) but the effect of that event will be in place during the 12-month period when rates will likely be in effect.[[2]](#footnote-2) Furthermore, the actual amount of the change must be measurable.

**Q. Please give a simple example of a known and measureable change that meets the definition of a pro forma adjustment.**

A. A classic example is an increase in postage rates that the United States Postal Service has ordered to go into effect by a date certain. This will affect the Company’s cost of mailing utility bills to its customers. This price change is “known” because it is certain to occur and the change in price is known. The price change is “measurable” because the new price can be applied to the test year units of postage in order to calculate the pro forma level of postage expense. The adjustment for the change in postage rates is therefore “known and measurable.”

**Q. Please explain the “offset by other factors” element of a proper pro forma adjustment.**

A. This concept requires that all factors affecting the known and measurable change, in a price, for example, be considered in determining the pro forma level of expense. An offsetting factor is one that “cancels out” or mitigates the impact of the known and measurable event. If offsetting factors are not taken into account, the known and measurable change would be overstated or understated, and a mismatch in the relationship of revenues, expenses, and rate base is created.

**Q. Please provide examples of the “not offset by other factors” concept.**

A. My previous example of a postage rate increase demonstrates the concept. The increase will not affect the number of bills the utility mails out, so there are no offsetting factors.

 Similarly, a union wage increase for certain of the utility’s employees that is called for by a collective bargaining agreement likely would not be offset by other factors, if it would not affect the number of hours worked during the test period.

**Q. Please give an example of an expenditure that would have offsetting factors.**

A. One example occurs when a utility replaces an older piece of equipment with a new, perhaps more efficient piece of equipment. Offsetting factors include gains in efficiency and/or reduced maintenance expense. If the piece of equipment is included in rate base without reflecting these offsetting factors, a mismatch is created.

 The difficulty is identifying and measuring the overall effect of management’s decision to incur an expense or investment on the whole of the utility’s operations. Management has an obligation to operate within the utility’s means, so the incurrence of one cost requires an analysis to control another cost where possible. The only way to truly see all of the impacts of an investment or new expenditure outside the test period is to look at a new test period with the investment or expenditure included, thus maintaining the matching principle.

**Q. Please explain what you mean by the “matching principle”.**

A. Historical test year ratemaking is premised on the “matching principle” of accounting, where the relationship between revenues, expenses, and rate base is established and maintained. For example, if a company has a plant asset at the beginning of the test year, then all other components (test year revenues and expenses) and their relationship between each other, reflect that plant asset being in place. As a result, all components - revenues, expenses, and rate base - are properly matched.

 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 principle. Pro forma expense adjustments, such as the prior examples related to postage increases or union contract wage increases, are known and measurable with no offsetting factors. Therefore, the matching principle is met and an adjustment is appropriate. On the other hand, pro forma rate base adjustments typically have offsetting factors, so an adjustment is generally not appropriate, especially because the offsetting factors are extremely difficult if not impossible to measure in order to properly match revenues, expenses, and other relationships that constitute the entire business operation.

**Q. Are there other offsetting factors that should be considered?**

A. Yes and this goes directly to the heart of rate making and the use of a historical test period to meet the matching principal. A company does not just invest in new plant or expense items without affecting the overall results of company. In other words, the company makes operating decisions to control costs throughout its operations and the effects of those decisions can only be seen when the “whole picture”, i.e., the company’s entire operations, are reviewed.

 Based on my prior examples of postage and union wage increases, a proper pro forma adjustment adjusts the rate applied to test period units. On the other hand, an adjustment to test period units will create a mismatch in the relationship of revenues, expenses, and rate base for the test period, in violation of the pro forma adjustment definition.

**Q. Is there a concern about regulatory lag?**

A. On an individual asset by asset or expense by expense basis, regulatory lag can be a concern. However, because any expenditure a utility makes should be supported by a rational and prudent management decision, there is inherently a return on, or offset to, such expenditure immediately upon its being placed into service, whether it is an efficiency improvement leading to reduced maintenance expense, fewer outages (reliability), growth in customers (revenues), or a controlled reduction in other operating expenses. If there is no such benefit, the Commission should question why the decision to invest or spend was made.

 Moreover, regulatory lag, to the extent it exists, provides an incentive for the utility to manage its costs in areas it can control, so that it has the opportunity to earn its authorized rate of return. The risk of regulatory lag, if any, is one of many considerations taken into account by investors and reflected in the cost of capital.

**Q. Has the Commission previously addressed this concern of regulatory lag?**

A. Yes. In a recent general rate filing by PSE, the Commission confirmed that regulatory lag is an inherent component of the long-standing historical rate making concept and that it has both positive and negative attributes.[[3]](#footnote-3)

Q. Has the Commission allowed pro forma rate base adjustments in past cases?

A. On occasion, the Commission has approved adjustments that included generating facilities into rates, even though the acquisition occurred after the test period. An example is Coyote Springs (Avista Docket UE-991606). The main reasons for allowing such adjustments were the materiality of the resource acquisition and the fact that offsetting factors were measured through the power supply and production factor adjustments.

 For PSE, the Commission adopted the Power Cost Only Rate Case (“PCORC”) mechanism, and has allowed in general rate cases pro forma adjustments for major plant additions in order to match the in-service date with the start of the recovery of those investments.[[4]](#footnote-4)  Likewise, in the pending case, numerous resources are being included in rate base even though they were not added during the test year or were not present during the test year for the full year.

Q. In this particular filing, is PSE proposing adjustments that violate the definition of a proper pro forma adjustment and the matching principle?

A. Yes. There are many examples where the Company proposes to include estimates or forecasts of future costs that are simply not known and measurable and that violate the matching principle.

Q. Please provide examples of Company adjustments that do not meet the definition of a proper pro forma adjustment.

A. The following are examples of gas and electric adjustments proposed by PSE that should be rejected simply because they violate the definition of a proper pro forma adjustment:

 10.02 – 9.02 Revenues & Expenses (Conservation Phase-In Adjustment)

 10.03 Power Costs – Operations and Maintenance Expense Only

 10.06 Hopkins Ridge Infill Project

 10.07 Wild Horse Expansion Project

 10.08 Mint Farm Energy Center

 10.09 Sumas Cogeneration Station

 10.10 Whitehorn Generation Station

 10.11 Baker Hydroelectric Project Relicensing

 10.14 – 9.09 Miscellaneous Operating Expense

 10.15 – 9.10 Property Tax

 10.23 – 9.16 Property & Liability Insurance

 10.25 – 9.18 Wage Increase

 10.26 – 9.19 Investment Plan

 10.33 Fredonia Power Plant

 With the exception of the Conservation Phase-in Adjustment that I discuss, various other Staff members discuss this fundamental flaw in the Company’s presentation and provide the proper calculation of these adjustments in order to meet the pro forma definition.

**Q. Do you have other general concerns with the Company’s case presentation?**

A. Yes. The Company has proposed many adjustments to add additional plant to rate base after the test year. Many components of these adjustments are based simply on estimates or forecasts. The burden then falls on Staff to continuously evaluate updated information. Staff, in this case, has used known, measurable, and verifiable expenditures as of August 1, 2009, to calculate these rate base adjustments and associated expenses. This approach is consistent with Staff’s alternative approach in the current Avista rate case (Docket UE-090134). However, if the Company continually updates the information, Staff does not have the opportunity to reassess the new information.

**Q. Do you have a recommendation for a cut-off date for inclusion of rate base additions?**

A. Yes. I recommend that any rate base addition be based on known and measurable expenditures as of the time the Company makes its filing. This allows Staff full use of the time allowed by statute to evaluate the adjustments without burdening the process and potentially the record.

 Supplemental filings remain a tool available to the Company when new information is available that substantively changes the outcome. Supplemental filings should continue to be evaluated on a case-by-case basis for necessity and burdens on participating parties.

1. **CONSERVATION PHASE-IN ADJUSTMENT**

**Q. Please summarize the Company’s proposed Conservation Phase-In Adjustment.**

A. The conservation phase-in adjustment removes kWh and therm sales from the test year that are intended to represent the amount of conservation that is not captured by the actual sales in the test period.

**Q. What is the load impact of the Conservation Phase-In Adjustment, as proposed by Company witness Piliaris?**

A. The Conservation Phase-In Adjustment reduces test year electric loads by 124 million kWh and test year natural gas loads by 2 million therms. The reductions in test year sales are intended to represent, or annualize, the amount of conservation that is not captured by the actual sales in the test period.

**Q. Does Staff take issue with the Company’s proposed Conservation Phase-In Adjustment?**

A. Yes. This is an example of an adjustment that fails to meet the definition of a proper pro forma adjustment and is, therefore, inappropriate for rate making purposes and should be rejected by the Commission.

**Q. Please elaborate.**

A. The adjustment, as proposed by the Company, is not a proper pro forma adjustment because it pro forms changes in *units* during the test period, rather than a change in the *rate* applied to test period units. This creates a mismatch with the rest of the test period components. A similar error would be to adjust to the end of period number of employees simply because the number grew (or declined) during the test period. It is inappropriate to make such an adjustment because the efficiencies of adding employees are not also properly matched.

 Company witness Piliaris at Exhibit No. JAP-1T, page 20, lines 2-6, quotes a section from *Accounting for Public Utilities* in an effort to support the proposed conservation adjustment. However, he overlooks the following critical language:

 The key ingredient in the annualizing adjustment considerations is the changing level of costs (or revenues) *for the same level of operations*. (Emphasis added.)

The Company’s Conservation Phase-In Adjustment proposes to change the level of operations by changing the level of units (therms and kWh) in direct violation of this quoted passage. A proper annualization (pro forma) adjustment is one that reflects a change to the rate component rather than the units or level of service.

**Q. Are there other reasons for the Commission to reject the Conservation Phase-In proposal?**

1. Yes. The adjustment also fails to properly account for all offsetting factors. To the extent conservation results in a reduction in loads throughout the test year, the Company did adjust revenues to annualize those effects along with a corresponding power cost reduction. The mismatch occurs, however, because other offsetting factors that occurred during the test year as a result of decreased load are not recognized in the Company’s adjustment. It is unclear how the Company adjusted its operations as a result of decreasing loads. Questions arise as to what measures the Company employed to offset the reduction in loads. Did the Company reduce costs such as labor or maintenance because it could no longer maintain current expense levels with reduced loads and revenues?

 These decisions are ignored in the Company’s adjustment and, therefore, it is not appropriate to annualize the effects of conservation on loads. To the extent the decisions were made they are embedded in the test period and are properly matched with the reduced loads that did occur during the test year.

**Q. Did Staff consider other factors in reaching its recommendation that the Commission reject the Company’s proposed Conservation Phase-In Adjustment?**

A. Yes. Staff considered the need for the adjustment and the Company’s method of calculating the adjustment.

### Q. Is the conservation phase-in adjustment necessary?

A. No. As Company witness Piliaris says in Exhibit No. JAP-1T, page 20, line 18, annualizing adjustments should capture significant changes in usage patterns of existing customers. In its response to Staff Data Request No. 190, the Company states that changes in usage patterns from conservation only changed the revenue requirement “one-fourth of one percent,” which was not a big enough change to require re-running the cost of service study.

**Q. Isn’t it correct, though, that conservation does reduce electricity and natural gas consumption?**

A. Yes. Conservation savings are made up of thousands of individual installations of energy efficient equipment for which the Company pays customers. These individual installations occur over the course of a year.

 However, even though these installations reduce the kWh and therms sold by the Company, the reduction assumed by the Company’s proposal is flawed. The proposal uses the rebate date to spread the installations among the twelve months of the test period. This approach does not address the hourly load shape of conservation savings. This is important because, while replacing a furnace provides energy savings during the heating season, replacing a water heater provides savings all year long.

### Q. Are the Company’s estimates of energy savings rigorous enough for rate making purposes?

A. No. The Company’s estimates of energy savings are not rigorous enough for rate making. Each individual installation of energy efficient equipment has specific energy savings estimates associated with it. The specific energy savings estimates come from several places (the Regional Technical Forum and PSE’s engineering calculations, among others) and the estimates are routinely used for program planning and for calculations of cost-effectiveness of particular measures. However, the estimates do not represent what actually happened after the installation. In order to have savings values that meet the “known and measurable” standard for ratemaking, the Company must have its energy savings independently verified and evaluated. This must include post-installation analysis.

**Q. Are there any other factors that support Staff’s recommendation that the Commission should reject the Company’s Conservation Phase-In Adjustment?**

A. Yes. At Exhibit No. JAP-1T, page 22, Company witness Piliaris refers to Washington State law and policy guidance on the importance of removing the Company’s disincentive to invest in conservation. However, he makes no mention of the Commission’s order in Docket UE-060266 which established a Conservation Incentive Mechanism for PSE for exactly that purpose.[[5]](#footnote-5)

 He also fails to mention that the Conservation Incentive Mechanism provided $4 million in additional revenue to the Company last year alone.[[6]](#footnote-6) This just illustrates that the reward contained in the Conservation Incentive Mechanism outweighs any estimates of lost revenue.

**Q. What is the effect of eliminating the Conservation Phase-In Adjustment, as Staff recommends?**

A. PSE’s Response to Staff Data Request 139 compares Exhibit No. JHS-4 with the Conservation Phase-In adjustment to the same exhibit without that adjustment. The net effect of the increase to revenues and the increase to net power cost shows that eliminating the adjustment increases net operating income by $2,634,571 for electric operations.[[7]](#footnote-7)  For gas operations, eliminating the adjustment increases net operating income $379,567.[[8]](#footnote-8)  These amounts are reflected in Exhibit No. KHB-2,[[9]](#footnote-9) page 2.9, and Exhibit No. KHB-3, page 3.7, respectively.

1. **LOAD FORECAST AND POWER PRODUCTION FACTOR ADJUSTMENT**

**Q. What is the Production Factor adjustment?**

A. The Production Factor adjustment has been used since at least the mid-1970s. It was put into place as an offsetting factor to the pro forma power supply adjustment and other pro forma adjustments that allowed new resources added after the test year to be included in the rate base calculation. As new resources were pro formed in rate cases in order to meet increasing loads, pro forma power supply expenses were calculated at expected load levels in the rate year. So, in order for the Company to recover these power supply expenses and production/transmission investment and related expenses during the rate year, a growth rate or per unit rate was calculated and applied to test period loads. This treatment maintained the matching principal and yet provided recovery of costs associated with future loads.

**Q. What is Staff’s position in regards to the Production Factor Adjustment in this case?**

A. Ever since the 1970s when the adjustment was first used, the Company has been in a growth mode with continued expectations to meet that growth. Now, however, for the first time since the adjustment was used, the Company is forecasting a reduction in loads during the rate year from the test year. The Company’s September 28, 2009, supplemental filing includes a significant reduction in forecasted rate year electric loads. Rate year loads were reduced by 932,382 MWhs or about 106 average MWs, as compared to PSE’s initial filing. This represents an approximate 3.9 percent reduction in loads, as compared to the initial filing. Exhibit No. DEG-9T.

 Under these conditions, Staff recommends that the Production Factor adjustment be eliminated in developing the Company’s electric revenue requirement. The adjustment is not appropriate when loads are projected to decrease from test period levels.

**Q. Please explain why it is not appropriate to use the Production Factor adjustment when a load reduction is expected to occur?**

A. Simply put, the adjustment shifts the risk of reduced loads from the Company to its customers. It removes the incentive and obligation of the Company to control costs and mitigate the impacts of reduced loads on its financial performance.

 The Company proposes a reduction in loads, but does not lay out a plan for how it will manage costs and mitigate the effects of the reduced load. Instead, it simply proposes to adjust loads to compensate itself for the financial consequences of projected reduced loads and the effects those reductions may have on revenues.

**Q. Isn’t Staff’s proposal one-sided or non-symmetrical?**

A. No. The adjustment was never contemplated to be an attrition offset for projected load reductions due to reduced economic activity. The adjustment was designed as an offset to the pro forma rate base calculation where new production rate base was added outside of the test year to serve increasing loads. If the Company believes that there is attrition mismatch between test period revenue, expenses, and rate base, it should have supported the adjustment with an attrition analysis in its direct case. It is improper to use the production property adjustment as a “backdoor” means to a proper attrition analysis.

1. **STATUS OF MERGER COMMITMENTS**

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

A. Commission Order 08 in the merger, Docket U-072375, contains a total of 63 commitments, as well as 15 transactional conditions placed on the Company. On April 1, 2009, the Company submitted a status report on its compliance with the commitments, as required by Commitment No. 32.

 In this rate case only Commitments 21, 24, and 61 require direct analysis. Many other commitments confirmed existing requirements for Company responsiveness during discovery and examination of records by the parties. Staff is satisfied in this case with the Company’s behavior in those general areas involving the provision of requested information and access to records.

**Q. Please explain merger Commitments 21, 24 and 61, and describe how each is addressed in this case?**

A. Commitment 21 relates to removing costs and fees associated with the merger from rates. This item is addressed in the testimony of Company witness Stranik and Staff witness Martin. Both witnesses agree to gas and electric ratemaking adjustments that remove from rates, costs and fees associated with the merger.

 Commitment 24 relates to an evaluation of debt to assure that capital costs would be no higher than if the merger had not occurred. This analysis is inherent in the use of a comparable company group by Company and Staff cost of capital witnesses when determining the cost of equity for PSE. Staff has also viewed the Company’s presentation with respect to PSE’s cost of debt. Staff is satisfied that in this case there is no adverse impact on customers with respect to PSE’s cost of debt.

 Finally, Commitment 61 relates to the Company filing and supporting Schedule 40 based on the current rate methodology. The Company has proposed this in its direct case. Staff witness Schooley confirms that treatment in his testimony.

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:

**Kathryn H. Breda** presents Staff’s recommended revenue requirement for both the electric and natural gas operations. She also presents Staff’s recommendation that the Commission should reject the Company’s proposed accounting for planned major maintenance. She sponsors several ratemaking adjustments that I list in my Exhibit No. MPP-2.

**Alan P. Buckley** testifies jointly with Donald W. Schoenbeck to the appropriate level of power supply costs that should be included in rates, including adjustments for gas price update, contract update, water filtering, retail load, hydro filtering, Colstrip availability, and WNP-3.

**Thomas Schooley** presents Staff’s recommendations regarding electric and natural gas cost of service studies, rate spread and rate design. He also addresses several ratemaking adjustments that I list in my Exhibit No. MPP-2. Lastly, he summarizes the Company’s progress in resolving meter problems, as addressed in the last general rate case.

**Joanna Huang, Ann M. C. LaRue, Danny Kermode,** **and** **Mike Foisy** all present Staff’s recommendations on various electric and natural gas ratemaking adjustments. Their individual adjustments are listed in my Exhibit No. MPP-2.

**Roland Martin** is also part of the Staff revenue requirement team. His adjustments are listed on my Exhibit No. MPP-2. He also presents Staff’s deferred accounting recommendation for Mint Farm.

**Vanda Novak** presents Staff’s analysis of the temperature normalization adjustments for both electric and natural gas results of operations.

**David Nightingale** testifies to the prudence of PSE’s acquisition of new generation resources (Fredonia Unit 3 and 4 and Mint Farm) and four new power purchase agreements. He also addresses issues regarding deferred accounting availability for Mint Farm, and Mint Farm and Sumas compliance with greenhouse gas emissions performance standards.

**David C. Parcell** provides Staff’s recommendation on the cost of capital to be used for ratemaking purposes. His overall rate of return recommendation is 7.89 percent, which is based on a 10 percent return on equity and a capital structure containing 45 percent common equity.

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

1. Yes, it does.
1. This is also known as the “test year,” “test period” or “historical test year.” [↑](#footnote-ref-1)
2. This is also known as the “rate year.” [↑](#footnote-ref-2)
3. *WUTC v. Puget Sound Energy, Inc*., Dockets UE-060266 and UG-060267, Order 08 at ¶37 and footnote 24 (January 5, 2007). [↑](#footnote-ref-3)
4. Fredrickson 1 (Docket UE-031725); Hopkins Ridge (Docket UE-050870); Wild Horse (Docket UE-060266); Goldendale (Docket UE-070565); and Whitehorn and Sumas (Docket UE-072300). [↑](#footnote-ref-4)
5. *WUTC v. Puget Sound Energy, Inc*., Dockets UE-060266 and UG-060267, Order 08 at ¶¶ 145-58 (January 5, 2007). [↑](#footnote-ref-5)
6. PSE Response to Staff Data Request No. 87, Attachment G, Page 2. [↑](#footnote-ref-6)
7. PSE Response to Staff Data Request 139, Attachment C, Adjustments 2 and 3, compared to Exhibit No. JHS-4 at 4.02 and 4.03. [↑](#footnote-ref-7)
8. PSE Response to Staff Data Request 139, Attachment A, Adjustment 2 compared, to Exhibit No. MJS-9 at 9.02. [↑](#footnote-ref-8)
9. Staff’s Adjustment 10.02 directly adds back the revenues removed in Exhibit No. JHS-10 at 10.02. The increase to power costs are implicit in Staff’s Adjustment 10.03. [↑](#footnote-ref-9)