

**EXHIBIT NO. ___(SML-7T)
DOCKET NO. UE-060266/UG-060267
2006 PSE GENERAL RATE CASE
WITNESS: SUSAN MCLAIN**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-060266
Docket No. UG-060267**

**PREFILED SUR-SURREBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
SUSAN MCLAIN
ON BEHALF OF PUGET SOUND ENERGY, INC.**

SEPTEMBER 12, 2006

1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED SUR-SURREBUTTAL TESTIMONY**
3 **(NONCONFIDENTIAL) OF SUSAN MCLAIN**

4 **Q. Are you the same Susan McLain who submitted prefiled direct testimony in**
5 **this proceeding on February 15, 2006, and prefiled rebuttal testimony in this**
6 **proceeding on August 23, 2006, each on behalf of Puget Sound Energy, Inc.**
7 **("PSE" or "the Company")?**

8 A. Yes.

9 **Q. What is the purpose of your prefiled sur-surrebuttal testimony?**

10 A. My prefiled sur-surrebuttal testimony responds to several statements made in the
11 prefiled surrebuttal testimony of Mr. James M. Russell of the Commission Staff
12 regarding PSE's proposal for post-test period plant additions as an alternative to a
13 depreciation tracker, Exhibit No. ____ (JMR-7T).

14 **Q. Mr. Russell claims that there is "no way to verify, at this late stage of the**
15 **proceeding (or ever), that the projects included in the proposal are in fact**
16 **pure non-revenue producing and non-expense reducing rate base**
17 **additions."¹ Do you agree?**

18 A. No. The Company provided detailed workpapers supporting its proposal with my

¹ Exhibit No. ____ (JMR-7T) at page 2, lines 14-16.

1 rebuttal testimony and the rebuttal testimony of Mr. John Story. Additionally, as
2 Mr. Story states in his sur-surrebuttal testimony, Exhibit No. ____ (JHS-26T), there
3 is no need to individually investigate every single project at issue, as that is not
4 how Commission Staff verification of a Company filing would typically proceed.
5 Commission Staff is in a position to state whether it agrees with the underlying
6 method applied by the Company and could have, and could in the future,
7 investigate the details by reviewing the details of a sample of the jobs that are
8 included within the adjustment.

9 I would also like to note that the workpapers provided with my rebuttal testimony
10 do not set forth 20,000 projects, as Mr. Russell claims at page 4 of his surrebuttal
11 testimony. There are approximately 20,000 lines contained in the workpaper,
12 which was a detailed listing of the FERC settlements by order to PSE's fixed
13 assets system. The number of individual orders included in the alternative
14 proposal is fewer and totals approximately 6,300 orders.

15 The orders included in the proposal were selected according to a methodical
16 process that first identified all transmission and distribution ("T&D") capital
17 infrastructure orders placed in service during the time period October 2005
18 through June 2006, and then removed orders such as those associated with the
19 following:

- 20 • Order category of new customer construction,
- 21 • Non-new customer construction orders completed for specifically
22 identified customers, and

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- Orders containing incomplete data, such as orders where there was no offsetting retirement closed to plant.

The following order types remained, and were then included in PSE’s proposal:

- CED1 (Electric Distribution),
- CGD1 (Gas Transmission and Distribution (T&D)),
- CET1 (Electric Transmission/High Voltage Distribution),
- CED3 (Electric T&D Retirements), and
- CGD3 (Gas T&D Retirements).

Q. What is your response to Mr. Russell's assertion that "non-revenue producing and non-expense reducing investments are made every year as part of the normal course of business"?²

A. I agree that PSE makes such investments every year. My direct and rebuttal testimonies, as well as the testimonies of Mr. Valdman and Mr. Story, emphasized the magnitude of such investments. We also emphasized that the lag on recovery of these investments is a financial burden to the Company which is threatening our ability to continue such investments at the pace we feel is most ideal for maintaining system reliability.

In addition, Mr. Russell's statement ignores the testimony I submitted showing that PSE's investments in recent years and the investments we have been planning

² Exhibit No. ___(JMR-7T) at page 2, lines 17-18; *see also id.* at page 5, lines 4-5.

1 to make for the next several years have been increasing. In this sense, these
2 investments have not been "normal course of business" but rather are placing
3 increasing financial strain on the Company.

4 **Q. Mr. Russell asserts that "Puget's proposal unfairly includes capacity**
5 **additions."³ Do you agree?**

6 A. No. There is nothing "unfair" about the capacity additions that are included in
7 PSE's alternative proposal. Mr. Russell seems to be suggesting by making this
8 statement that such additions will result in increased revenues to PSE from new
9 customers who are served using such capacity. This is an incorrect assumption.

10 The orders included in the "Increased Capacity" category shown in my Exhibit
11 No. ___(SML-6) are not associated with specific new customers that are expected
12 to be served or revenues that are expected to be received in the near term (such as
13 during the rate year or even in the next several years). Instead, the type of orders
14 included in the category are long-term, backbone strengthening efforts intended to
15 ensure that PSE will be able to continue to adequately serve its load in the long
16 run.

17 For example, if a city is undertaking a project that calls for opening up the right of
18 way, PSE may take the opportunity to "piggyback" on that roadwork by adding to
19 the capacity of its system by installing a larger diameter gas main and/or electrical

³ Exhibit No. ___(JMR-7T) at page 3, lines 5-6.

1 conduit for future use. PSE also undertakes on an ongoing basis and is increasing
2 its investments in items such as transmission line upgrades (such as the Bothell
3 Sammamish project mentioned in my prefiled direct testimony,⁴ natural gas main
4 uprates, installation of natural gas supply pipelines and electrical substations. In
5 each case, these projects are not attributed to a specific customer or identified new
6 customer construction activities. If the Company were to wait until a specific
7 customer were identified that caused an overload on the system (and therefore the
8 immediate need to install facilities to alleviate the overload), it is unlikely the
9 Company could construct the needed upgrade in time to serve the new customer
10 (i.e., adding a new substation often takes years of permitting before construction
11 can take place). If the Company were to take this approach, existing customers
12 would suffer and likely experience outages or limited ability to reliably serve new
13 load since the system could be compromised by operating at levels above its
14 intended design.

15 Since transmission and distribution investments are expected to serve customers
16 for many decades, and may require long lead times for permitting, it does not
17 make sense to wait until the point in time that revenues are known or immediately
18 anticipated before adding such capacity.

⁴ See Exhibit No. ____ (SML-1CT) at page 35.

1 **Q. Do you agree that "PSE included 'non-revenue producing' capital**
2 **investments which are expense reducing"⁵ in its proposed alternative**
3 **adjustment?**

4 A. No. It is difficult to understand how Mr. Russell reaches that conclusion because
5 he does not explain it or point to any specific example from the referenced
6 workpaper. As stated in my prefiled rebuttal testimony, increased investments in
7 transmission and distribution system plant may help reduce the pace at and extent
8 to which future operations and maintenance expenses increase, but they do not
9 typically reduce such expenses over current or planned levels.⁶

10 **Q. Is it the Company's position that the assessment of whether plant**
11 **investments are non-revenue producing or non-expense reducing is not black**
12 **and white" as stated by Mr. Russell?⁷**

13 A. With respect to whether such investments are "non-expense reducing", we believe
14 it is clear that the plant investments included in PSE's alternative proposal do not
15 reduce expenses over historic levels, as stated above and in my rebuttal testimony.
16 Instead, such investments may help control cost increases but may also increase
17 expenses as the size of the system that is being maintained increases.

⁵ Exhibit No. ____ (JMR-7T) at page 3, lines 10-12.

⁶ See Exhibit No. ____ (SML-5T) at pages 5 and 6.

⁷ See Exhibit No. ____ (JMR-7T) at page 4, lines 1-2.

1 With respect to whether such investments are "non-revenue producing", I agree
2 that there is some gray area as to where the line should be drawn. However, in
3 developing its proposed alternative, the Company excluded from its requested
4 adjustment approximately \$87 million of investments that are or could be revenue
5 producing. In other words, PSE did not include in its requested adjustment
6 investments that fall within the gray area that Mr. Russell appears to be concerned
7 about.

8 **Q. Does that conclude your prefiled sur-surrebuttal testimony?**

9 A. Yes, it does.