

DEPARTMENT OF THE NAVY
OFFICE OF THE GENERAL COUNSEL
NAVAL FACILITIES ENGINEERING COMMAND SOUTHWEST
1455 MARKET STREET, STE 1744
SAN FRANCISCO, CA 94103-1399

IN REPLY REFER TO:

11300
L2759F
July 3, 2008

BY E-MAIL AND FEDERAL EXPRESS OVERNIGHT DELIVERY

Ms. Carole Washburn, Executive Secretary
Washington Utilities and Transportation Commission
Richard Hemstad Building
1300 S. Evergreen Park Drive SW
Olympia, Washington 98504-7250

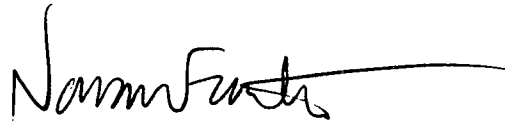
Re: Washington UTC v. Puget Sound Energy, Inc.
Washington Utilities & Transportation Commission
Docket Nos. UE-072300 and UG-072301

Dear Ms. Washburn:

Enclosed please find the original and twelve copies of the
Prefiled Cross-Answering Testimony of Ralph C. Smith on behalf of
the Federal Executive Agencies in the matters referenced above.

Please call me at (415) 503-6994 if you have any
questions.

Yours truly,



NORMAN J. FURUTA
Associate Counsel
(Regulatory Law)

Enclosures: as stated

2008 JUL -3 AM 8:58

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

CERTIFICATE OF SERVICE

I hereby certify that on this 3rd day of July, 2008, I
served a copy of

Prefiled Cross-Answering Testimony of Ralph C. Smith on
Behalf of the Navy Utility Rate and Studies Office and
Federal Executive Agencies

in the above captioned proceeding, via electronic mail and via
Federal Express, for next-day delivery, at San Francisco, CA,
pursuant to WAC 480-07-150(6), to the following:

Robert D. Cedarbaum
WUTC Staff Counsel
1400 S. Evergreen Park Drive SW
Olympia, WA 98504-0128
Tel: (360) 664-1188
Email: bcedarba@utc.wa.gov
jthomps@utc.wa.gov

Sheree Strom Carson
Jason Kuzma
Perkins Coie LLP
10885 NE Fourth Street, Suite 700
Bellevue, WA 98004-5579
Tel: (425) 635-1400
Email: scarson@perkinscoie.com
jkuzma@perkinscoie.com

2008 JUL -3 AM 8:58

I also hereby certify that on this 3rd day of July, 2008, I served a copy of the above-referenced document via electronic mail and by mailing a copy of same via First Class Mail, postage prepaid, at San Francisco, CA, pursuant to WAC 480-07-150(6), to the following:

Simon J. ffitich
Sarah Shifley
Assistant Attorney General
Public Counsel Section
Office of Attorney General
800 Fifth Avenue, Suite 2000
Seattle, WA 98104-3188
Email: simonf@atg.wa.gov
Email: SarahS5@atg.wa.gov

Khojasteh Davoodi
Utility Rates and Studies
Office
1322 Patterson AV SE
Washington Navy Yard, DC
20374-5018
Email:
khojasteh.davoodi@navy.mil

Damon Xenopoulos
Shaun Mohler
Brickfield Burchette Ritts &
Stone
1025 Thomas Jefferson St. NW
8th Floor, West Tower
Washington DC 20007
Email: DEX@BBRSLaw.com
SCM@BBRSLaw.com

Edward A. Finklea
Chad M. Stokes
Cable Huston Benedict
Haagensen & Lloyd
1001 SW Fifth Avenue, Suite
2000
Portland, OR 97204-1136
Email:
efinklea@cablehuston.com
cstokes@cablehuston.com

S. Bradley Van Cleve
Irion Sanger
Davison Van Cleve, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204-2445
Email: BVC@dvclaw.com
IAS@dvclaw.com

Elaine L. Spencer
Graham & Dunn PC
Pier 70
2801 Alaskan Way, #300
Seattle, WA 98121
Email: espencer@grahamdunn.com

Ronald L. Roseman
2011 - 14th Avenue East
Seattle, WA 98112
Email:
ronaldroseman@comcast.net

Mike L. Kurtz / Kurt J. Boehm
Boehm, Kurtz and Lowry
36 East Seventh St., STE 1510
Cincinnati, OH 45202
Email: mkurtz@bkllawfirm.com
Email: Kboehm@bkllawfirm.com

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct to the best of my knowledge.

EXECUTED this 3rd day of July, 2008, at San Francisco, CA.



Norman J. Furuta
Naval Facilities Engineering
Command

**EXHIBIT NO. ___(RCS-2T)
DOCKET NO. UE-072300/UG-072301
2007 PSE GENERAL RATE CASE
WITNESS: RALPH C. SMITH**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-072300
Docket No. UG-072301**

**PREFILED
CROSS-ANSWERING TESTIMONY OF
RALPH C. SMITH
ON BEHALF OF
THE NAVY UTILITY RATE AND STUDIES OFFICE
AND FEDERAL EXECUTIVE AGENCIES**

July 3, 2008

2008 JUL -3 AM 8:58

1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED CROSS-ANSWERING TESTIMONY**
3 **OF**
4 **RALPH C. SMITH**

5
6 **I. INTRODUCTION**

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

8 **A.** Ralph C. Smith, 15728 Farmington Road, Livonia, Michigan 48154.

9
10 **Q. Are you the same Ralph C. Smith who filed direct testimony on behalf of the**
11 **FEA?**

12 **A.** Yes. My firm is under contract with the Navy Utility Rate and Studies Office
13 (URASO) to perform utility revenue requirement studies on behalf of the
14 consumer interests of the Navy and all other Federal Executive Agencies (FEA). I
15 filed direct testimony in this proceeding on behalf of the FEA.

16
17 **Q. Please describe the tasks you performed related to your cross-answering**
18 **testimony in this case.**

1 A. We reviewed the Company's testimony, exhibits and workpapers, issued
2 information requests, and analyzed PSE's responses to them. We reviewed and
3 analyzed data (1) to obtain an understanding of the Puget Sound Energy's ("PSE,"
4 "Puget" or "Company") rate filing package as it relates to the selected issues in the
5 Company's proposed rate increase and (2) to formulate an opinion concerning the
6 reasonableness of the Company's proposals on those selected issues. In
7 conjunction with the preparation of cross-answering testimony, I selectively
8 reviewed the testimony filed by Staff, the Public Counsel and intervenors such as
9 the Industrial Customers of Northwest Utilities ("ICNU").
10

11 **Q. What issues will you be addressing in your cross-answering testimony?**

12 A. My cross-answering testimony responds to the recommendations concerning
13 storm damage cost amortization periods presented in the direct testimony of Staff
14 witness Danny Kermode.
15

16 **Q. With respect to the cost of catastrophic storm damage, what did Staff witness**
17 **Kermode recommend?**

18 A. With respect to the cost of catastrophic storm damage, excluding expenses related
19 to the extraordinary December 2006 windstorm, Mr. Kermode proposes using a 4-
20 year amortization of catastrophic storm expenses that differs from the 3-year

1 period proposed by PSE. At page 15 of his direct testimony, he states that: "A
2 four-year period would mitigate the rate impact of the catastrophic storms, while
3 allowing recovery over a two-year rate case cycle. The use of a three-year
4 recovery could result in a mis-match of recovery to rate filings." I agree with Mr.
5 Kermode's recommendation concerning the amortization period for the cost of
6 these other catastrophic storms. I have revised FEA's storm cost amortization
7 adjustment accordingly, to use a four-year amortization period for the cost of the
8 catastrophic storms other than the December 2006 storm.

9
10 **Q. With respect to the cost of the extremely catastrophic December 2006 storm**
11 **what did Staff witness Kermode recommend?**

12 A. He accepted the six-year amortization period for the extremely costly December
13 2006 wind storm that PSE had proposed. At page 15, lines 1-2, Mr. Kermode's
14 direct testimony states that: "The six-year amortization period mitigates the rate
15 impact of ... that storm's extraordinary cost."

16
17 **Q. Do you agree with Staff's (and PSE's) proposed six-year amortization for the**
18 **extraordinary cost of the December 2006 storm?**

1 A. No. I recommend that the adjusted \$79.8 million cost related to the extremely
2 catastrophic December 2006 wind storm be amortized over 10 years, rather than
3 PSE's proposed six years. The reasons for my recommendations, as stated in my
4 direct testimony, are described below:

5 1) Using a longer amortization period for this extremely costly storm will help
6 ameliorate the rate impacts.

7 2) Using a longer amortization period is better correlated with the infrequent
8 experience of storms as devastating and costly as the extraordinary December 13,
9 2006 wind storm.

10 As explained in my direct testimony, the use of a 10-year recovery period, in
11 essence, treats PSE's cost related to the "once-per-century" Hanukkah Eve Storm
12 as a "once-per-decade" event for ratemaking purposes. A period longer than ten
13 years could be justified, based on the historic infrequency of storms of such
14 extraordinary devastation, and the observations discussed in my direct testimony
15 concerning this issue.

16
17 **Q. Please explain how your recommendation of a 10-year period better mitigates**
18 **the impact on ratepayers than PSE's proposed period of only six years,**
19 **which Staff witness Kermode accepted, particularly coupled with your**

1 **acceptance of Staff's recommendation to amortize the other catastrophic**
2 **storm costs over a four-year period.**

3 A. The annual allowance for catastrophic storm costs of \$15.1 million under my
4 recommendation better mitigates the impact on ratepayers than PSE's proposed
5 annual allowance of \$22.8 million. Using a 10-year amortization period produces
6 an annual amortization amount for the Hanukkah Eve Storm of approximately
7 \$8.0 million. In addition to the \$7.1 million annual expense for the other
8 "catastrophic" storm cost amortization over the four-year period recommended by
9 Staff witness Kermode, this produces an annual allowance for catastrophic storm
10 costs of \$15.1 million. This allowance is approximately 3 times higher (i.e.,
11 approximately 297% higher) than PSE's test year recorded catastrophic storm
12 amortization of \$3.8 million.

13
14 **Q. What adjustment to PSE's proposed operating expenses and net operating**
15 **income results from your recommendations concerning storm cost?**

16 A. As shown on Exhibit __ (RCS-3r), my recommendations concerning storm cost
17 decrease annual amortization expense by \$7.7 million and increase PSE's
18 proposed net operating income by \$5.0 million.

1 Q. Does that conclude your cross-answering testimony?

2 A. Yes, it does.

**PUGET SOUND ENERGY-ELECTRIC
 STORM DAMAGE
 FOR THE 12ME TWELVE MONTHS ENDED SEPTEMBER 30, 2007
 2007 GENERAL RATE CASE**

LINE NO.	DESCRIPTION	Transmission	Distribution	Total	Puget AMOUNT	FEA Proposed Amount	FEA Adjustment
1	NORMAL STORMS						
2	ACTUAL O&M:						
3	TWELVE MONTHS ENDED 9/30/02	\$ (4,894)	\$ 6,583,315	\$ 6,578,420			
4	TWELVE MONTHS ENDED 9/30/03	\$ 6,615	\$ 5,325,797	\$ 5,332,412			
5	TWELVE MONTHS ENDED 9/30/04	\$ 202,197	\$ 12,062,138	\$ 12,264,335			
6	TWELVE MONTHS ENDED 9/30/05	\$ 50,866	\$ 1,947,137	\$ 1,998,004			
7	TWELVE MONTHS ENDED 9/30/06	\$ 417,714	\$ 10,336,885	\$ 10,754,599			
8	TWELVE MONTHS ENDED 9/30/07	\$ 495,730	\$ 10,500,628	\$ 10,996,358			
9	TOTAL NORMAL STORMS	\$ 1,168,228	\$ 46,755,899	\$ 47,924,127			
10							
11	SIX-YEAR AVERAGE STORM EXPENSE FOR RATE YEAR (LINE 9 / 6 YEARS)	\$ 194,705	\$ 7,792,650	\$ 7,987,354		\$ 7,987,354	\$ -
12							
13	CHARGED TO EXPENSE 12 MONTH ENDED 9/30/07:						
14	STORM DAMAGE EXPENSE (LINE 8)	\$ 495,730	\$ 10,500,628	\$ 10,996,358		\$ 10,996,358	\$ -
15							
16	INCREASE (DECREASE) OPERATING EXPENSE (LINE 11-LINE 14)	\$ (301,025)	\$ (2,707,978)	\$ (3,009,003)		\$ (3,009,003)	\$ -
17							
18							
19							
20	CATASTROPHIC STORMS						
21	DEFERRED BALANCES FOR 3 YEAR AMORTIZATION AT START OF RATE YEAR (11/1/08):						
22	12/4/03 WINDSTORM		3,313,916				
23	2006 STORM DAMAGE (EXCL 12/13/07 WIND STORM)		24,436,289				
24	2007 STORM DAMAGE		781,320				
25	TOTAL (LINE 22 + LINE 23 + LINE 24)		28,531,525				
26	ANNUAL AMORTIZATION (LINE 25 / 3 YEARS [PSE] AND 4 YEARS [FEA REVISED])	\$ 9,510,508					
27							
28	DEFERRED BALANCES FOR 6 YEAR AMORTIZATION AT START OF RATE YEAR (11/1/08):						
29	12/13/06 WIND STORM		79,849,846				
30	TOTAL (LINE 30)		79,849,846				
31	ANNUAL AMORTIZATION (LINE 31 / 6 YEARS)	\$ 13,308,308					
32	TOTAL RATE YEAR AMORTIZATION (LINE 26 + LINE 32)	\$ 22,818,816					
33	LESS CATASTROPHIC STORM AMORT AS (9/30/07)	\$ 3,843,257					
34	INCREASE (DECREASE) OPERATING EXPENSE (LINE 26 + LINE 32 - LINE 34)	\$ 18,975,558					
35							
36	TOTAL INCREASE (DECREASE) OPERATING EXPENSE (LINE 16 + LINE 36)	\$ 15,966,555					
37							
38	INCREASE (DECREASE) FIT @ 35% (LINE 38 X 35%)	\$ (5,588,294)					
39							
40	INCREASE (DECREASE) NOI	\$ (10,378,261)					
41							
42							

(Note) Amounts presented in bold italic type have changed since the December 3, 2007 original filing.