EXHIBIT NO. ___(WMS-1T)
DOCKET NO. UE-072300/UG-072301
2007 PSE GENERAL RATE CASE
WITNESS: WILLIAM M. STOUT

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 REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF WILLIAM M. STOUT ON BEHALF OF PUGET SOUND ENERGY, INC.

JULY 3, 2008

PUGET SOUND ENERGY, INC.

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF WILLIAM M. STOUT

CONTENTS

I. INTRODUCTION 1

II. ESTIMATION OF NET SALVAGE.....5

III. FINANCIAL REPORTING AND RATEMAKING PRINCIPLES.....9

IV. METHOD OF ALLOCATING NET SALVAGE 12

V. SUMMARY AND CONCLUSION.....23

PUGET SOUND ENERGY, INC.

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF WILLIAM M. STOUT

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is William M. Stout, and my business address is 207 Senate Avenue, Camp Hill, Pennsylvania.

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

A. I am currently Chairman and Chief Executive Officer of Gannett Fleming, Inc. From 1994 to 2007, I was President of the firm's Valuation and Rate Division.

Q. Have you prepared an exhibit describing your education, relevant employment experience, and other professional qualifications?

A. Yes, I have. It is Exhibit No. ___(WMS-2).

Q. What is the subject of your rebuttal testimony?

A. My rebuttal testimony responds to Public Counsel witness Charles King on the subject of net salvage. Within the overall topic of net salvage, I will explain the estimation of future net salvage, the differences between financial and regulatory reporting and ratemaking, the methods of allocating net salvage to each year of an

asset's service life, and the treatment of net salvage used in other jurisdictions and recommended in authoritative texts.

Q. Please summarize your rebuttal testimony with regard to Public Counsel's proposed ratemaking treatment of net salvage.

A. As discussed in more detail below, I disagree with Public Counsel's proposal to replace the traditional straight line method of determining the net salvage component of the annual depreciation accrual rate with a net salvage factor based either on the discounted value of estimated future net salvage or historical net salvage costs experienced during the most recent five-year period. Both of Public Counsel's proposals would fail to generate sufficient allowances to cover the cost of removing plant at the end of its life and would therefore burden future customers with the costs of removing plant used today.

Q. Please explain the concept of a "discounted value accrual" as proposed by Mr. King.

A. The discounted value accrual for net salvage removes inflation and more from the estimated future net salvage, divides this by the average life, and then adds an amount for accretion each year. This approach is also known as sinking fund depreciation. The sum of the accruals based on the discounted value is significantly less than the amount required to retire assets at the end of their lives and relies on the accretion amount to insure complete capital recovery. The amount of accretion grows during the life of the asset and results in a total

expense related to net salvage recovery that is greatest in the final year of service.

There are several flaws in using this approach. First, the backend loading of capital recovery can result in significant shortfalls in the event assets are retired even a few years prior to their estimated service lives. Second, as the accretion component increases every year, the result is an increase in the accrual rate related to net salvage that would not be reflected in rates to customers unless a rate case was filed every year. Third, application of the sinking fund method to group properties is difficult and complex. To apply the method correctly, each vintage should be segregated into groups of equal life in order to correctly calculate the annual factors. Accordingly, there are inherent flaws in this approach, and Public Counsel makes no provision for such potential shortfalls. Further, as noted below, if the service value of the asset is to be adjusted to current price levels, the future net salvage and the historical original cost should both be adjusted.

Q. Please explain the basis for your disagreement with Public Counsel on the method for determining net salvage.

A. As described above, Mr. King has determined the net salvage allowance to be included in PSE's annual depreciation rates based either on (1) the discounted value of estimated future net salvage plus an amount for accretion or (2) the average net salvage experienced during the most recent five-year period, but only when it is greater than the amount determined using Mr. King's first method. The

amount of net salvage that should be included in the annual cost of service and collected from current customers is a portion of the future net salvage related to the current plant in service as a result of allocating these costs in equal amounts, i.e., on a straight line basis, to each year of service rendered by such plant. Accruing net salvage on the basis of a discounted value plus an amount for accretion results in an ever increasing net salvage accrual which is inconsistent with the pattern in which the plant renders service. The use of current net salvage costs is further removed from matching the service value rendered by plant in service as such costs are related to plant that previously rendered service.

Allocating net salvage costs on a straight line basis during the life of the related plant is appropriate and equitable and is in accord with the policy of the vast majority of state utility commissions and authoritative texts. Delaying collection either by the allocation of discounted values or by waiting until such costs are incurred results in a charge to customers that does not match the service value rendered or a charge that is related to plant from which they did not receive service.

Public Counsel believes it is inappropriate to charge ratepayers now for the future costs of removing plant at the time of retirement, and instead proposes these two radical departures from the traditional approach that has been used by PSE and other Washington utilities for decades. Mr. King's support of the proposal to allocate the discounted value of future net salvage is the recent accounting pronouncements of the Financial Accounting Standards Board ("FASB") that

apply to financial reporting as part of Generally Accepted Accounting Principles ("GAAP"). In effect, Mr. King has imposed a standard for financial reporting on the ratemaking process. His support for his proposal to use current levels of net salvage are the policies of one state commission. *See* Exhibit No. ___(CWK-1T), page 31, lines 12-14. Both of these proposals are inappropriate and do not incorporate all the factors that should be considered in ratemaking, particularly the equitable treatment of different generations of customers. Mr. King's proposals suffer from short-term thinking. They are designed to reduce rates for today's customers but do so at the expense of tomorrow's customers. This Commission should reject these radical proposals and continue with the traditional straight line accrual for net salvage.

The remainder of my rebuttal testimony and the rebuttal testimony of Messrs. Clarke and Umbaugh will address the concepts and theories put forth by Mr. King and his criticisms of the traditional approach to accruing for net salvage. I will address both Mr. King's concerns related to the estimation of net salvage and his proposals for allocating net salvage costs.

II. ESTIMATION OF NET SALVAGE

Q. Public Counsel refers to what it calls the "traditional inflated future cost approach" or "TIFCA". Are you familiar with this approach?

A. Yes, I am.

Q. Have you ever heard or read of it referred to as "TIFCA"?

A. Only in testimony from the principals of Snavely King Majoros O'Connor & Lee, Inc.

Q. Public Counsel states that "TIFCA" net salvage studies relate removal costs in current dollars to retirements in historical dollars. Is that correct?

A. Yes, it is. Traditional studies of net salvage use as their statistical bases data that relate the cost of retiring an asset or group of assets to its original cost.

Q. Please describe the statistical bases for PSE's net salvage estimates?

A. The statistical bases for Mr. Clarke's estimates of net salvage were the historical net salvage costs as a percent of the original cost of the retired assets that produced the gross salvage or required the costs to remove. The use of historical indications of net salvage as a percentage of the original cost retired incorporates the change in price level between installation and retirement of assets removed from service in recent years. Application of such percentages to the current plant in service will result in the collection of net salvage costs at a price level that is greater than the price level at the time the current plant in service was installed. However, given the average period between installation and retirement that is reflected in the statistical analysis of net salvage, such application also assumes that there will be substantial improvements in technology, comparable or lesser environmental regulations and a significant reduction in inflation.

Q. How does the use of net salvage percentages that reflect historical indications assume these events?

A. Net salvage percentages are the net salvage costs divided by the original costs of the assets that have been retired and expressed as percentages. Net salvage percentages reflect the retirement of plant that, on average, is significantly younger than the average service life of the plant in service, on an original cost dollar weighted basis.

For example, the age of Gas Services, Account 380, retired during the period 2004 through 2006, ranged from 0 to 41 years, with a dollar weighted average age that was most likely less than 20 years. The average net salvage percentage related to these retirements was negative 71 percent. In other words, after less than 20 years in service, the plant was retired and the cost to remove the plant was 71 percent of the cost to install the same plant. Costs to remove the plant are affected by inflation, technological changes and other factors. The estimate of negative 75 percent net salvage after 40 years of service, a period more than twice as long as the likely average age of the 2004–2006 retirements, is probably inadequate unless there is a reduction of inflation or improvements in technology that reduce the overall effort required to remove plant.

The future retirements of the total current gas services in service will have an average age that actually exceeds the average life. Thus, the average age of future retirements of the plant in service today will be over twice as long as the average

age of the plant retired during the period 2004-2006. For retirements at such ages to experience net salvage that is only negative 75 percent of the cost to install, there will have to be a reduction in the rate of inflation adjusted for technological improvements. If the annual rate of inflation adjusted for technological improvements that occurred between the installation and retirement of plant retired during the period 2004–2006 occurred over a period that is twice as long, the net salvage cost would be much greater as a percentage of the original cost of the plant retired.

Q. What is the practical implication of the assumption that a future rate of inflation adjusted for technological improvements will be less than the historical rate?

A. The practical implication of this assumption, as reflected in PSE's estimates of net salvage percentages, is that the resulting net salvage accruals are most likely inadequate to recover the total net salvage costs over the entire life cycle of the plant currently in service.

Q. Is this the case with the amount of salvage costs estimate by PSE?

A. Yes, I believe so. Mr. Clarke's salvage estimates will almost certainly result in the recovery of less, not more, net salvage than the actual costs incurred.

Q. Have you compared Mr. Clarke's estimates of net salvage with the typical levels of net salvage used in the industry?

A. Yes. Mr. Clarke's estimates of net salvage for production plant and for mass property are comparable or less negative than the typical levels of net salvage in the electric and gas industries. Further, I would note that Mr. King used Mr. Clarke's estimates in developing his discounted value net salvage accruals.

III. FINANCIAL REPORTING AND RATEMAKING PRINCIPLES

Q. Where are the principles of the traditional net salvage approach outlined?

A. The Uniform System of Accounts outlines the principles for determining net salvage accruals. The Uniform System of Accounts defines depreciation as "the loss in service value not restored by current maintenance incurred in connection with the consumption or prospective retirement of property in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance." The operative words in this definition are "*service value*". The Uniform System of Accounts goes on to define service value as "the difference between the original cost and the net salvage value of the utility plant", not as just the original cost. The service value rendered by an asset, i.e., depreciation, must reflect both its original cost and its net salvage.

Q. Does the Uniform System of Accounts also address the manner in which depreciation is to be recognized?

A. Yes, it does. The Uniform System of Accounts requires that depreciation be recognized through accrual accounting. That is, the service value of an asset must be accrued during the life of the asset. Because net salvage is a part of the service value, it must be accrued during the life of the related asset in order to comply with the Uniform System of Accounts.

Q. Why should ratemaking follow the procedure outlined in the Uniform System of Accounts?

A. The Uniform System of Accounts was developed for public utilities and adopted by regulatory commissions to provide useful information for regulatory reporting and ratemaking purposes. This cannot be said of GAAP. In particular, the definition of depreciation used in the Uniform System of Accounts resulted from court orders involving public utility rates. That is, it reflects the courts' view of public utility depreciation. It considers issues such as customer equity and matching that are no longer reflected in GAAP.

Q. Do you agree with Public Counsel that Financial Accounting Standard ("FAS") No. 143 applies to this proceeding?

A. No. The recent accounting pronouncements stated in FAS 143 do not affect the regulatory policies of this Commission and do not prescribe depreciation

methodologies for a regulated utility such as PSE. Therefore, FAS 143 does not apply to ratemaking in general, nor to this proceeding in particular**.**

Generally Accepted Accounting Principles, as embodied in the statements of the FASB, have in recent years moved away from the matching principle in favor of an asset and liability based approach. While this movement may improve a potential investor's ability to ascertain a company's financial condition, compliance with such standards for ratemaking purposes would violate principles of customer equity. Further, FAS 143 requires a legal obligation to retire plant before it can be recognized as a liability. In utility operations, a utility may not have a legal obligation to remove plant, but it nevertheless does so on a regular basis and will continue to do so in the future.

Q. Does the Federal Energy Regulatory Commission's ("FERC") Order No. 631 have any impact on this proceeding?

A. Not really. FERC Order No. 631 modified the Uniform System of Accounts to allow utilities to record the entries required for financial reporting by FAS 143 on the books maintained for regulatory accounting. FERC specifically stated that the order did not affect existing tariffs. The order simply provides the accounting structure that enables the identification of amounts for use in financial statements and those for use in ratemaking proceedings. The intent and implementation of FAS 143 and FERC Order No. 631 will be addressed by Mr. Jan Umbaugh in Exhibit No. ___(JAU-1T).

Q. Is there a need for the Commission to specifically recognize a regulatory liability for regulatory and ratemaking purposes?

A. No, there is not. As I stated above, FAS 143 is a financial accounting standard. There is no need to recognize a financial accounting entry for ratemaking purposes.

IV. METHOD OF ALLOCATING NET SALVAGE

Q. Do you agree with Mr. King's statement, "The TIFCA procedure charges ratepayers now for the nominal dollar cost of removing plant at the time of its retirement"?

A. I agree that the intent of the TIFCA procedure is to charge ratepayers for the nominal dollar cost, although for the reasons already described, the procedure usually understates the dollars to be charged.

Q. Is it appropriate to ask current customers to pay for future costs of plant removal at a price level that is greater than today's price level?

A. Yes. The future cost to remove an item of plant is part of the service value that it renders to current customers, and a ratable portion of such cost should be recovered from these customers. That is the definition of depreciation, i.e., the loss in service value during a specific period. As these future costs are recovered from current customers, they are deducted from rate base. This reduction in the amount on which the utility is entitled to earn a fair return, in effect, represents an

amount on which the customer earns a return. That is, as customers provide for the future cost of removal, they effectively receive a return on such amounts. This is fair compensation for making payment prior to the cost incurrence by the utility. Further, by charging customers for these costs during the life of the plant, the customers that benefit from the plant (consume its service value) are the ones that pay for such service. Customers paying today for future costs of removal and, in effect, receiving a return on such payments, is no different than the utility recovering today amounts that it invested many years ago, but on which it earned a return until the amount was recovered from customers.

Q. Do you agree with Mr. King's statement that PSE's method for accruing net salvage does not adequately recognize the time value of money?

A. No, I do not. Although the amount that PSE proposes to collect from customers for future net salvage costs is greater than the present values of such costs, the amount that PSE proposes to collect from customers for historic original cost is far less than the present value of such original cost, i.e., a trended original cost. If net salvage accruals should be limited to the present value of future net salvage expenditures, then the portion of depreciation expense related to the recovery of original cost should be increased to the present value of the historic plant additions. The amount for recovery of original cost is far less than a ratable portion of the present value of the original cost. Equity considerations require that customers pay for the service value (original cost less net salvage) of the plant from which they receive service. The fact that this results in accruals for net

salvage that are greater than the present value of such costs is fair and balanced with the utility's accrual of original costs that are substantially less than the present value of such costs.

Q. Do you agree with Mr. King that the time value of money is greater for ratepayers than for PSE?

A. No, I do not. First, I disagree with Mr. King's use of PSE's short-term borrowing rate as the basis for its time value of money. We are discussing the impact of accruals on rate base, a rate base on which PSE earns a fair rate of return. The fair rate of return, similar to the 8.4 percent that Mr. King used to discount future net salvage costs, is the appropriate time value of money for PSE related to capital recovery, not its short-term borrowing rate.

Second, the time value of money for residential customers is largely driven by their home mortgages, not credit card debt or non-revolving loans such as auto loans. According to the Federal Reserve Statistical Release, D.3 Debt Outstanding by Sector (June 5, 2008), $10.61 trillion out of the total $13.96 trillion of household debt, or 76%, is related to home mortgages. Further, mortgage interest is deductible and should be considered on an after-tax basis. Assuming a 28% marginal rate and the 30-year mortgage rate of 5.92% cited by Mr. King, this would equate to a time value of money of 4.26%. Although there are higher rate mortgages and the rates for revolving and non-revolving loans applicable to the other 24% of debt are also higher, they are not so high as to

result in a weighted time value of money for residential customers in excess of 8.4%.

Mr. King states that customers would be indifferent if their time value of money was equal to PSE's. Since the time value of money to ratepayers is less than the time value of money to PSE, ratepayers are more than adequately compensated for the use of their money.

Q. Turning to Mr. King's proposal to use the five-year average of net salvage for certain accounts, are the current net salvage accruals always greater than the current average removal cost expenditures?

A. Current net salvage accruals are usually greater than the current average removal cost expenditures because the accruals represent costs at retirement. However, in this proceeding, the average removal cost expenditures for electric plant exceed Mr. Clarke's proposed accruals. The reverse is true in this proceeding for gas plant.

Q. Why are PSE's net salvage accruals for gas plant so much greater than the current removal cost expenditures?

A. The difference in price level, as described above, is part of the difference. Another significant difference is that the current experience is related to plant retirements that largely come from an older plant base that was constructed to serve fewer customers, whereas the current net salvage accruals relate to the plant

presently in service that serves a much larger customer base.

Q. Why is it more appropriate and equitable to recognize net salvage costs during the life of the related plant?

A. The net salvage cost of an item of plant is a part of its service value and, therefore, it is a part of the item's cost of providing service. The cost of the item providing service should be collected from the customers that receive the service. Thus, an allocable portion of the net salvage cost should be recovered each year from the customers receiving the value of the service rendered by the item of plant in the same way that an allocable portion of the item's original cost is recovered from such customers each year. This approach is equitable because customers are responsible for the costs of plant that provide service to them. This is also a sound ratemaking principle.

In contrast, basing net salvage on current costs recovers this entire element of an item's cost of service from customers who either did not receive service from the item or, if the customer has received service from the Company for a number of years, received only a portion of the item's service value. This is not equitable and violates the principle that customers should pay the costs of the plant that provides service to them.

Q. Do authoritative texts on depreciation support Mr. King's proposals related to net salvage?

A. I am not aware of any authoritative text on the subject of depreciation that supports Public Counsel's proposals to accrue on the basis of discounted costs or to expense net salvage costs. The two depreciation texts most often cited by depreciation experts support the allocation of service value to the periods during which an asset renders service, as proposed by PSE. Public Utility Depreciation Practices[1] states:

> Closely associated with this reasoning are the accounting principles that revenues be matched with costs and the regulatory principle that utility customers who benefit from the consumption of plant pay for the cost of that plant, no more, no less. The application of the latter principle also requires that the estimated cost of removal of plant be recovered over its life.

Depreciation Systems, another widely accepted text, states the concept in this manner:

> The matching principle specifies that all costs incurred to produce a service should be matched against the revenue produced. Estimated future costs of retiring of an asset currently in service must be accrued and allocated as part of the current expenses.[2]

Public Utility Depreciation Practices also addresses the method of allocating the service value to each year of service:

---

[1] National Association of Regulatory Utility Commissioners, Public Utility Depreciation Practices 157 (1996).

[2] Frank K. Wolf and W. Chester Fitch, Depreciation Systems 7 (Iowa State Univ. Press (1994).

> The straight-line method is almost universally used in the utility rate making process…Interest methods, such as the sinking fund method, are no longer in general use.[3]

Q. Regarding Public Counsel's use of a 5-year historical average approach to calculating net salvage accrual, are you aware of other state commissions that have approved a 5-year net salvage approach?

A. The Pennsylvania Public Utility Commission uses the 5-year net salvage amortization pursuant to a 1962 court order interpreting and applying unique Pennsylvania law. The Kentucky Public Service Commission used it for two small electric cooperatives that did not maintain detailed records of cost of removal and gross salvage by account. In other Kentucky cases, where the utility maintains detailed records of net salvage as PSE does, the traditional methodology that Mr. Clarke used is adopted. The Board of Public Utilities of the State of New Jersey and the Georgia Public Service Commission have also used the expensing or five-year amortization approach.

Q. Have any states adopted the discounted value accrual for net salvage?

A. Yes. The Maryland Public Service Commission in its Order No. 81517 in a case involving Potomac Electric Power Company adopted a discounted net salvage accrual, referring to it as the Present Value Method. The Commission's rationale was that ratepayers pay for net salvage in real dollars. As already stated, given the effective return provided to ratepayers for payments of net salvage in advance

[3] Public Utility Depreciation Practices, supra note 1, at 61.

and the recovery of original cost in nominal—not real—dollars, I disagree with the rationale of the Maryland PSC.

Q. Please explain how most states treat negative net salvage when determining annual depreciation rates.

A. To the best of my knowledge, the 45 state utility commissions not mentioned above each use the traditional method of accruing negative net salvage on a straight line basis to determine appropriate depreciation rates, which is consistent with PSE's approach in this case.

In fact, the Missouri Public Service Commission, the Indiana Utility Regulatory Commission, and the California Public Utilities Commission all recently affirmed the use of the traditional straight line accrual of net salvage during the life of the related property.

Q. Please describe how the Missouri Commission recently dealt with the issue of net salvage?

A. The Missouri Public Service Commission has been dealing with the issue of net salvage for a number of years. It had originally adopted the expensing approach in a few cases while continuing to adopt the traditional straight line accrual method in another case. Laclede Gas Company appealed its case in which the Commission effectively adopted the expensing approach. The order was remanded to the Commission by the courts. During the remand proceeding, the

Commission accepted additional evidence on the subject of net salvage. In its final order, the Commission concluded,

> The Commission finds that the fundamental goal of depreciation accounting is to allocate the full cost of an asset, including its net salvage cost, over its economic or service life so that utility customers will be charged for the cost of the asset in proportion to the benefit they receive from its consumption. The Commission further finds that the method utilized by Laclede is consistent with that fundamental goal.[4]

Q. What conclusions did the Indiana Commission reach in its recent rulings on this subject?

A. As described more fully in Mr. Clarke's rebuttal testimony, the Indiana Utility Regulatory Commission considered the net salvage issue in its 2004 order involving PSI Energy. It dealt with net salvage related both to production plant and to delivery assets, i.e., transmission and distribution plant. The Commission's conclusions regarding the appropriate recognition of net salvage for both types of facilities are as follows:

> The next issue is the timing of the collection of such costs. The parties did not disagree that dismantling costs are a part of the cost of current facilities providing current service. They disagreed as to the timing of the collection of such costs and their amount. This Commission can either find that current customers should pay a share of dismantling costs, which will not be incurred for a number of years, or, in the alternative, conclude that these costs should be passed on to a future generation of customers. This Commission does not believe that the latter alternative constitutes sound regulatory policy, or is based on sound ratemaking principles.

---

[4] In re Laclede Gas Co., Missouri P.S.C., Case No. GR-99-315 (Jan. 11, 2005), 2005 WL 65953 at *5.

> Current customers are receiving service from PSI's generation facilities. A part of the costs of those facilities is dismantlement upon retirement. Therefore, we do not believe it would be appropriate for the Company to backload the dismantlement costs for future ratepayers to pay when the facilities associated with these costs are providing service to current customers. Rather, we find it is appropriate that these costs be shared by all customers that received service from PSI's generation facilities. Accordingly, this Commission finds that dismantlement costs are properly included in determining the depreciation rates approved in this cause.
>
> We believe that there is a sound basis for the traditional approach on this issue that is utilized by a majority of states. Utilizing historical averages as an item to be expensed to current customers means that these customers will be paying for salvage costs at levels that may not be sufficient. That means that the next generation of customers will be paying for salvage costs related to facilities from which they may never have received service. The use of best estimates of future salvage costs addresses this inequity. Moreover, use of historical averages for dismantling costs does not take into account the current configuration of PSI's system with regard to its production, transmission, distribution and general facilities. Facilities in service 40-50 years ago did not take into account the significantly enhanced customer base that PSI now serves, nor the current configuration of PSI's facilities that serve these customers. It seems appropriate to utilize best cost estimates for net salvage values taking into account specific facilities now serving PSI's customers in developing depreciation rates that today's customers should pay. Accordingly, we find that the use of historical averages for net salvage values with regard to transmission, distribution and general plant for the purpose of expensing them outside the context of the depreciation determination should be, and hereby is, rejected.[5]

Q. How did the California commission deal with proposals to change from the traditional straight line accrual method?

A. The California Public Utilities Commission has rejected both the discounted value

approach and the amortization of historic net salvage approach in cases involving Southern California Edison Company, Pacific Gas & Electric Company, San Diego Gas & Electric Company, and Southern California Gas Company. In these proceedings, The Utility Reform Network ("TURN") proposed both the amortization of net salvage and the use of discounted net salvage accruals. In the most recent case, A.06-12-009, et al, involving San Diego and Southern California Gas, the Administrative Law Judge in his draft decision for the Commission stated the following:

> Although there is a settlement of revenue requirement, under the settlement rules, the outcome is not a precedent for the future. (Rule 12.5.) Nevertheless, we can review several issues that were extensively litigated prior to the settlement and make certain findings. We find, as discussed below, intervening parties were not persuasive here, and have also failed to persuade the Commission in other recent proceedings, that the current depreciation practices are unreasonable or incorrect. In particular, TURN and UCAN argue applicants incorrectly calculate and recover the negative net salvage values. We reject these arguments, as we discuss further below.
>
> The alternative methodology proposed by TURN was also rejected in the most recent Pacific Gas & Electric Company (PG&E) and Southern California Edison Company (SCE) GRCs. We therefore deny with prejudice the recommendations of DRA, TURN, and UCAN on depreciation and net salvage. The purpose of this denial is to avoid an unnecessary repetition in subsequent proceedings. Any party that raises these issues again should have new analysis and new arguments which may persuade us, unlike the arguments raised here or in other recent rate proceedings.[6]

---

[5] In re PSE Energy, Inc., 234 P.U.R. 4th 1, 65–66 (Ind. U.R.C. 2004)

[6] In re San Diego Gas and Electric Co., et. al., Case No. A.06-12-009, 21–22 (May 22, 2007).

Q. How has this Commission treated net salvage?

A. The Washington Utilities & Transportation Commission has consistently used the traditional straight line accrual of net salvage.

V. SUMMARY AND CONCLUSION

Q. Please summarize your rebuttal testimony.

A. Both of Public Counsel's net salvage proposals should be rejected. Its attempt to substitute financial accounting standards for sound and tested ratemaking policies is unreasonable. Depreciation is the loss in service value, and service value is the original cost less net salvage. Depreciation, including both the original cost and net salvage, should be recognized ratably on a straight line basis during the life of the related asset.

The traditional approach to estimating future net salvage used by PSE is appropriate and results in estimates of net salvage that actually may understate future net salvage costs.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.