**Exhibit No. DPK-4T**

**Dockets UE-090704/UG-090705**

**Witness: Danny P. Kermode**

**BEFORE THE WASHINGTON 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**  **(*Consolidated)*** |
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**Supplemental rESPONSE TESTIMONY OF**

**DANNY P. KERMODE**

**STAFF OF**

**WASHINGTON UTILITIES AND**

**TRANSPORTATION COMMISSION**

***Investor-Supplied Working Capital***

**December 11, 2009**

# I. INTRODUCTION

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

A. My name is Danny P. Kermode. My business address is the Richard Hemstad Building, 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504. My email address is dkermode@utc.wa.gov.

**Q. Have you previously offered testimony in this proceeding?**

A. Yes. I submitted response testimony as part of the Staff case filed with the Commission on November 17, 2009. That testimony adjusted the beginning amounts for investor-supplied working capital in the “Actual Results of Operations” columns of Exhibit No. KHB-2, page 2.1, Line 40 and Exhibit No. KHB-3, page 3.1, line 37, for the Company’s electric and natural gas operations, respectively. That testimony is not modified by this supplemental testimony.

**Q. What is the purpose of your supplemental testimony?**

A. My original response testimony did not include the impacts on investor-supplied working capital of Staff witness Roland Martin’s Adjustment 9.13 regarding gas customer deposits.[[1]](#footnote-1) Those impacts were, instead, reflected in Mr. Martin’s adjustment itself.

My supplemental testimony revises that presentation by including in the Company’s Actual Results of Operations the combined effects on investor-supplied working capital of all of the adjustments that Mr. Martin and I propose. Both Mr. Martin and I revise our exhibits to incorporate that new presentation, as does Staff witness Kathryn Breda in Exhibit Nos. KHB-2 and KHB-3. In doing so, minor corrections to the Staff calculation of investor-supplied working capital are achieved, and the Staff and Company presentations on investor-supplied working capital become consistent.

**Q. Please briefly describe Mr. Martin’s proposed adjustment for gas customer deposits.**

A. Mr. Martin proposes to reduce natural gas rate base by the amount of PSE’s gas customer deposits, or $6.97 million, while including customer deposit interest expense as a recoverable expense for ratemaking.

**Q. What is the affect of Mr. Martin’s adjustment on total investor-supplied working capital?**

A. In addition to directly reducing rate base by $6.97 million, Mr. Martin’s adjustment reduces the total average operating investment in the Company’s gas operations by the same amount. This results in a corresponding increase of $6.97 million in total investor-supplied working capital.

**Q. Does Mr. Martin’s adjustment also impact the allocation of total working capital to PSE’s operating and non-operating segments?**

A. Yes. Although the increase in working capital is related exclusively to the gas segment, the effect of the decrease of total average operating investment slightly increases the gas working capital ratio. As a result, portions of the $6.97 million increase in total working capital are also allocated to PSE’s electric and non-operating segments.

**Q. Please explain how you include in the Staff presentation the working capital impact of Mr. Martin’s gas customer deposit adjustment.**

A. The working capital impact of Mr. Martin’s gas customer deposit adjustment is reflected in the “Actual Results of Operations” columns, rather than in Adjustments 9.13 and 10.19, as originally proposed. This revision makes Staff’s approach consistent with the Company’s method of presenting working capital.[[2]](#footnote-2)

**Q. Have you prepared revised exhibits reflecting this new presentation?**

A. Yes. I have prepared:

* Revised Exhibit No. DPK-2, Computation of Total Investor-Supplied Working Capital; and
* Revised Exhibit No. DPK-3, Allocation of Total Investor-Supplied Working Capital.

**Q. Please explain revised Exhibit No. DPK-2.**

A. Revised Exhibit No. DPK-2 is the schedule that shows the calculation of total investor-supplied working capital. The revised exhibit includes on line 44 a $6.97 million reduction to the total average operating investment for PSE’s gas segment. This additional adjustment results in a net increase to total investor-supplied working capital of $115,082.

**Q. Please discuss your revised Exhibit No. DPK-3.**

A. Revised Exhibit No. DPK-3 allocates total investor-supplied working capital to PSE’s electric, gas and non-operating segments. Total investor-supplied working capital, shown on line 2, includes the deduction of $6.97 million in total average operating investment – gas, reflected in revised Exhibit No. DPK-2.

**Q. What is the combined effect of including all Staff working capital adjustments in the electric and gas “Actual Results of Operations” columns?**

A. The result is an electric working capital of $132.6 million and a gas working capital of $53 million. These amounts correspond to PSE’s electric and gas working capital of $130.7 million and $51.1 million, respectively. The revised exhibits correct minor errors in calculation, but, largely, are more a realignment of Staff numbers to provide consistency with the Company’s filing and to improve clarity of the adjustment.

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

A. Yes.

1. Exhibit No. RCM-1T at 7. [↑](#footnote-ref-1)
2. See Exhibit No. JHS-10, pages 1 and 2, and Exhibit No. MJS-9 at Summary page and page 9-A. [↑](#footnote-ref-2)