Exhibit No. RCM-1T
Dockets UE-090704 and UG-090705
Witness: Roland C. Martin

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

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

TESTIMONY OF

ROLAND C. MARTIN

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Revenue Requirement Adjustments, Mint Farm Deferral

November 17, 2009
Revised December 11, 2009

EXHIBIT LIST

~~Exhibit No. RCM-2, Interest on Customer Deposits–Rate Base Impacts~~

Exhibit No. RCM-~~3~~2, Analysis of Net Benefit Related to SSCM Deductions and Repayments

Q. Do you present any adjustment for which there is no Company counterpart?

A. Yes. Staff's proposed Adjustment 10.38, Amortization of Wild Horse Deferred Costs, has no Company counterpart and should be accepted for reasons I discuss later in this testimony.

Q. Please summarize Staff's recommendation regarding the deferral of Mint Farm costs.

A. Staff recommends that the Company's proposed deferral methodology should be approved by the Commission, except for the following elements of the proposal:

1. The Company's request to modify the Power Cost Adjustment ("PCA") mechanism by suspending Exhibit G of the PCA as to Mint Farm costs should be rejected.
2. The Company's proposal to apply a 7 percent net of tax interest rate to the deferred amounts should be rejected. Instead, no interest rate should be applied.
3. The Company's proposal to amortize Mint Farm deferred costs over three years should be rejected. Instead, a 15-year amortization period should be used.

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

A. Yes, I have prepared the following exhibits in support of my testimony:

- ~~Exhibit No. RCM-2, Interest on Customer Deposits- Rate Base Impacts~~

- Exhibit No. RCM-~~3~~2, Analysis of Net Benefit Related to SSCM Deductions and Repayments

III. DISCUSSION

A. Uncontested Ratemaking Adjustments

Q. Please briefly describe the adjustments that you determined to be uncontested.

A. Adjustments 10.29 and 9.22, Merger Savings, remove from the test year electric and gas results of operations certain expenses that will no longer be incurred during the rate year due to the merger with Puget Holdings LLC. These savings are allocated between the electric and gas operations, as detailed by PSE witness Stranik in Exhibit No. MJS-1T at page 27.

Adjustment 10.30, Storm Damage, reflects in the electric results of operations the appropriate storm damage expenses in accordance with prior rate case determinations. Company witness Story details this adjustment in Exhibit No. JHS-1T at pages 48 and 49.

Q. You listed as uncontested Adjustment 10.31, Regulatory Assets & Liabilities involving the White River Project regulatory assets. Is this a new deferred item that PSE added since the last general rate case?

A. Yes.

Q. Does Staff contest the entirety of Adjustments 10.19 and 9.13, as proposed by PSE?

A. No. Staff does not contest the interest expense adjustment, but disagrees with PSE's disparate application of the average balances of customer deposits to reduce rate base for the gas versus electric operations.

Q. Please explain Staff's position in more detail.

A. For its electric operations, PSE treats the customer deposit balance as a direct offset to rate base.

In contrast, the gas treatment proposed by PSE uses the customer deposit balance to offset the total investor supplied working capital allowance that is allocated to gas, electric, and non-operating categories. This treatment unfairly denies gas ratepayers, who pay all the gas interest expense, the full benefit of a direct rate base reduction, and unreasonably provides electric and unregulated operations a portion of the benefits from the gas customer deposits.

Staff's proposed adjustments correct this unfairness by treating the gas customer deposit balance as direct gas rate base reduction in identical fashion with the electric treatment. The impacts of the direct reduction in gas rate base is $6,973,756 and is reflected on Exhibit No. KHB-3, page 3.18 for PSE's gas operations. The change in treatment of the gas customer deposit balance also affects the level of the allocated electric, gas, and non-operating working capital allowance which is addressed by Staff witness Kermode in his testimony and exhibits. ~~Staff's adjustments are a net reduction in gas rate base of $5,344,758 and a net increase in electric rate base of $4,846,474.~~

~~**Q. Have you prepared an exhibit showing Staff's calculation of the customer deposit adjustments to rate base for the electric and gas operations?**~~

~~A. Yes. Exhibit No. RCM-2 calculates the rate base impacts of Staff's proposed customer deposit Adjustments 10.19 and 9.13. Staff's adjustments are also reflected on Exhibit No. KHB-2, page 2.26 for PSE's electric operations and Exhibit No. KHB-3, page 3.18 for PSE's gas operations.~~

2. Adjustment 10.31, Regulatory Assets & Liabilities Adjustment (Westcoast Pipeline)

Q. Please explain contested Adjustment 10.31, Regulatory Assets & Liabilities Adjustment (Westcoast Pipeline).

A. This adjustment relates to a regulatory credit of $3.5 million received by the Company from FB Energy Canada Corporation (FB Energy) for PSE's assumption of contracted transportation capacity on West Coast Pipeline. The purpose of the Company's adjustment is to recognize the rate year average balance of the credit as a rate base reduction and the associated amortization. PSE began amortizing the credit on November 1, 2009, the effective date of the assumption of the pipeline capacity. PSE will continue the amortization over the remaining 9-year term of the contract.

PSE received the payment on October 24, 2008, the day after all transactions necessary to complete the capacity release were completed. Staff does not contest the amortization of the credit beginning November 1, 2009. However, Staff does contest using November 1, 2009 as the date for including the credit as an offset to regulatory assets. It is more appropriate to recognize the credit to regulatory assets on the day of receipt of the payment (October 24, 2008).