

**Exhibit No. KHB-1TC
Dockets UE-090704/UG-090705
Witness: Kathryn H. Breda
CONFIDENTIAL VERSION**

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**DOCKET UE-090704
DOCKET UG-090705
(Consolidated)**

TESTIMONY OF

KATHRYN H. BREDA

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

***Electric and Natural Gas Revenue Requirements; Company Accounting Proposal For
Major Maintenance Activities; Ratemaking Adjustments for Power Cost O&M, and Major
Plant Additions***

**November 17, 2009
Revised December 11, 2009**

CONFIDENTIAL PER PROTECTIVE ORDER

1 In Section V of my testimony, I present the Staff recommendation that the
2 Commission reject the Company's proposed changes in accounting for planned
3 major maintenance activities.

4 In Section VI, I sponsor several ratemaking adjustments recommended by
5 Staff to develop the Company's electric revenue requirement. These adjustments
6 address: 1) the operation and maintenance expense portion of Adjustment 10.03,
7 Power Costs; and 2) major plant additions such as the Mint Farm Energy Center and
8 the expansion of the Wild Horse Wind Farm.

9
10 **Q. Please summarize Staff's overall revenue requirement recommendation in these**
11 **consolidated electric and natural gas dockets.**

12 A. Staff recommends that the Commission:

- 13 1. Increase the Company's electric service revenues by ~~\$5,826,516~~ \$7,238,781,
14 or 0.36 percent, based on the overall rate of return of ~~7.89~~ 7.91 percent
15 recommended by Staff witness Parcell.
- 16 2. Increase the Company's gas service revenues by ~~\$7,130,348~~ \$7,926,564, or
17 0.65 percent, based on the same overall rate of return of ~~7.89~~ 7.91 percent.

18
19 **Q. Do you sponsor any exhibits in support of your recommendations?**

20 A. Yes, I sponsor the following exhibits in support of my testimony:

- 21 • Exhibit No. KHB-2, Electric Results of Operations and Revenue
22 Requirement

1 shows the impact of Staff's recommended ~~\$5,826,516~~ \$7,238,781 electric revenue
2 increase, given the ~~7.89~~ 7.91 percent overall rate of return recommended by Staff witness
3 Parcell.

4
5 **Q. Are you responsible for all of the adjustments shown on Exhibit No. KHB-2?**

6 A. No. On page 1 Exhibit No. MPP-2, Staff witness Parvinen lists each Staff witness
7 and the contested and uncontested adjustments for which each witness is responsible.

8
9 **Q. Did you review any adjustments on Exhibit No. KHB-2 that are uncontested as**
10 **between Staff and PSE?**

11 A. Yes. I sponsor Adjustment 10.13, Bad Debts, which is uncontested.

12
13 **Q. Please list the adjustments on Exhibit No. KHB-2 that you sponsor that are**
14 **contested as between Staff and the Company.**

15 A. I sponsor the following contested adjustments, as discussed in Section VI of my
16 testimony:

17 Adjustment 10.03, Power Cost – Operations and Maintenance Expenses Only
18 Adjustment 10.06, Hopkins Ridge Infill Project
19 Adjustment 10.07, Wild Horse Expansion Project*
20 Adjustment 10.08, Mint Farm Energy Center*
21 Adjustment 10.09, Sumas Cogeneration Station
22 Adjustment 10.10, Whitehorn Generating Station
23 Adjustment 10.11, Baker Hydroelectric Project Relicensing
24 Adjustment 10.31, Regulatory Assets
25 Adjustment 10.33, Fredonia Power Plant*

26
27 * Staff does not contest the prudence of these new generation resource
28 additions, as explained by Staff witness Nightingale. Staff's challenge to
29 these adjustments stems from other accounting issues that I explain in Section
30 VI of my testimony.

1 **Q. Does Staff agree with the Company’s electric conversion factor of 0.621262?**

2 A. Yes, the conversion factor used to convert electric net operating income to a
3 revenue requirement level is appropriate and is not an issue.
4

5 **IV. GAS REVENUE REQUIREMENT**
6

7 **Q. Please describe Exhibit No. KHB-3, Gas Results of Operations and Revenue**
8 **Requirement.**

9 A. Exhibit No. KHB-3 develops the Staff recommended increase in revenue for the
10 Company’s gas operations. Page 1 of Exhibit No. KHB-3, the first column entitled
11 “Actual Results of Operations”, reflects the test year (January through December
12 2008) amounts and indicates that PSE earned a total rate of return of 7.55 percent on
13 its gas operations in the test period. The second column, entitled “Total
14 Adjustments” is the sum of all the restating and pro forma adjustments shown on
15 pages 3.2 through 3.5. The adjustment numbers correspond to PSE’s presentation in
16 its supplemental filing dated September 28, 2009. The column entitled “Revenue
17 Requirement Deficiency” shows the impact of Staff’s recommended \$7,130,348
18 \$7,926,564 revenue increase, given the overall rate of return requirement of ~~7.89~~
19 7.91 percent recommended by Mr. Parcell.
20

1 Staff's Adjustment 10.07 decreases net operating income by \$3,289,703 and
2 increases rate base by ~~\$63,260,836~~ \$66,346,062. The calculation of this adjustment
3 is shown on my Exhibit No. KHB-2, page 2.14.
4

5 **3. Adjustment 10.08, Mint Farm Energy Center**
6

7 **Q. Please summarize the Company's Adjustment 10.08, Mint Farm Energy**
8 **Center.**

9 A. This pro forma adjustment presents the Company's forecast of the Mint Farm Energy
10 Center through the rate year. This facility was purchased by PSE on December 5,
11 2008 and included in the test year. The Company forecast plant additions through
12 December 2009 and applied them to the rate year. In addition, rate year forecasts
13 were used for O&M expense, property tax and property insurance. Projections for
14 fuel and wheeling were also included.
15

16 **Q. Please summarize Staff's proposed Adjustment 10.08, Mint Farm Energy**
17 **Center.**

18 A. Consistent with all Staff pro forma adjustments for plant additions, Staff has
19 eliminated all forecasts, budgets and projections. Actual dollars through August
20 2009 are used, instead. O&M forecasts were replaced with annualized August 2009
21 expense. Projections for property tax were removed because they are not known and
22 measurable. Property insurance was updated to the latest premium information.

1 Staff's proposed adjustment decreases net operating income by ~~\$46,387,881~~
2 \$46,408,340 and increases rate base by \$217,569,921. The calculation of this
3 adjustment is shown on my Exhibit No. KHB-2, page 2.15.
4

5 **4. Adjustment 10.09, Sumas Cogeneration Station**
6

7 **Q. Please summarize the Company's Adjustment 10.09, Sumas Cogeneration**
8 **Station.**

9 A. The Sumas Cogeneration Station was placed in service on July 25, 2008. The
10 Company's adjustment includes actual plant balances through February 2009,
11 adjusted through the rate year for accumulated depreciation and amortization, and
12 accumulated deferred taxes. Fuel costs and forecasts for O&M expense are included
13 by PSE in Adjustment 10.03, Power Costs, and have been addressed previously in
14 this testimony. Property tax and insurance premiums were projected by PSE through
15 the rate year.
16

17 **Q. Please summarize Staff's proposed Adjustment 10.09, Sumas Cogeneration**
18 **Station.**

19 A. Once again, Staff has eliminated all forecasts, budgets and projections consistent
20 with all pro forma adjustments for plant additions. Again, Staff uses actual dollars
21 through August 2009 for this adjustment. Projections for property tax were removed
22 and property insurance was updated to the latest premium information.

1 Staff's proposed adjustment decreases net operating income by \$593,802
2 \$594,207 and increases rate base by ~~\$7,583,822~~ \$8,753,305. The calculation of this
3 adjustment is shown on my Exhibit No. KHB-2, page 2.16.
4

5 **5. Adjustment 10.10, Whitehorn Generating Station**
6

7 **Q. Please summarize the Company's Adjustment 10.10, Whitehorn Generating**
8 **Station.**

9 A. In February 2009, PSE acquired the Whitehorn Generating Station. The Company's
10 adjustment includes the purchase transaction based on February 2009, adjusted
11 through the rate year for accumulated depreciation and amortization, and
12 accumulated deferred taxes. Fuel costs and forecasts for O&M expense are included
13 in Adjustment 10.03, Power Costs, and have been addressed previously in this
14 testimony. Property tax and insurance premiums were projected through the rate
15 year by the Company.
16

17 **Q. Please summarize Staff's proposed Adjustment 10.10, Whitehorn Generating**
18 **Station.**

19 A. Consistent with all pro forma adjustments for plant additions, Staff has eliminated all
20 forecasts and budgets, and included actual dollars through August 2009.

1 Staff's proposed adjustment decreases net operating income by ~~\$2,025,047~~
2 \$2,025,045 and increases rate base by ~~\$16,776,280~~ \$17,953,824. The calculation of
3 this adjustment is shown on my Exhibit No. KHB-2, page 2.17.
4

5 **6. Adjustment 10.11, Baker Hydroelectric Project License**
6

7 **Q. Please summarize the Company's Adjustment 10.11, Baker Hydroelectric**
8 **Project License.**

9 A. The Company includes a pro forma adjustment for the cost of obtaining a new
10 license for the Baker Hydroelectric Project. PSE used the actual balance capitalized
11 in rate base as of February 2009, adjusted through the rate year for accumulated
12 depreciation and amortization, and accumulated deferred taxes. Projected expenses
13 through the rate year were included in Adjustment 10.03, Power costs.
14

15 **Q. Please summarize Staff's proposed Adjustment 10.11, Baker Hydroelectric**
16 **Project License.**

17 A. Staff has included only known and measurable adjustments based on August 2009.

18 Staff's proposed adjustment decreases net operating income by \$855,481 and
19 increases rate base by ~~\$33,112,870~~ \$31,658,646. The calculation of this adjustment
20 is shown on my Exhibit No. KHB-2, page 2.18.
21