

**Exhibit No. MDF-1T  
Dockets UE-090704/UG-090705  
Witness: Michael D. Foisy**

**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**

**MICHAEL D. FOISY**

**STAFF**

**OF**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

***Revenue Requirement Adjustments: Miscellaneous Operating Expenses and Property  
Taxes***

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

1 deferral of unrecovered residential exchange benefits”. Also, included within these  
2 adjustments are costs of the Wire Zone Vegetation Management Program and  
3 contractual rent for the Summit Building. Other components move the following  
4 expenses below the line: the Company store which sells items with PSE logos to  
5 employees; airport and hotel parking; and athletic events expenses. None of these  
6 items included in the Miscellaneous Operating Expense are contested by Staff.  
7

8 **Q. Please describe the components of the Miscellaneous Operating Expense**  
9 **adjustments that Staff does contest.**

10 A. Two components that are contested by Staff are the increases in service contract  
11 baseline charges for both transmission and distribution.<sup>2</sup> PSE’s electric adjustment  
12 increases transmission expense by \$23,515 and distribution expense by \$874,539.  
13 The corresponding gas expenses increases are \$3,005 for transmission and \$695,231  
14 for distribution.

15 Company Adjustment 10.14 in total decreases electric expense by \$682,311.  
16 Company Adjustment 9.09 in total decreases gas expense by \$213,943. PSE’s  
17 adjustments increase net operating income (“NOI”) by \$994,791 on the electric side  
18 and \$440,899 on the gas side.  
19

20 **Q. Please explain who the contractor is and the purpose of these service contracts.**

21 A. Quanta/Potelco is the contractor. It provides construction-related services to PSE for  
22 both the electric and gas transmission and distribution systems. Quanta/Potelco’s

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<sup>2</sup> Exhibit No. JHS-10 at 20:14-15 and Exhibit No. MJS-9 at 9:09:10-11.

1 have been affected by a measurable change may be adjusted to recognize the impact  
2 on future revenues or the impact on future costs.

3 In other words, pro forma adjustments are not merely forecasted estimates of  
4 future expenses based on someone's "judgment." Accordingly, because the  
5 Company's service contract baseline charges adjustments are based solely on  
6 management's judgment, they are not "known and measurable" and should be  
7 rejected by the Commission. Unadjusted test year amounts should be used instead,  
8 as Staff proposes. Had the Company and its contractors finalized a service contract  
9 with firm dollar amounts, a pro forma adjustment might be appropriate.

10 Staff witness Parvinen discusses in more detail these issues surrounding the  
11 proper application of a pro forma adjustment.  
12

13 **Q. What effect does Staff's removal of the increases to service contract baseline**  
14 **charges have on net operating income?**

15 A. For PSE's electric operations, Staff's treatment increases net operating income by  
16 \$1,578,527 after income taxes and decreases the overall revenue requirement by  
17 \$2,540,839. My Exhibit No. MDF-2 shows the calculation of ~~these amounts~~ the NOI  
18 increase.

19 For PSE's gas operations, Staff's proposal increases net operating income by  
20 \$1,194,096 ~~\$894,751~~ after income taxes and decreases the overall revenue  
21 requirement by \$1,920,104 ~~\$1,438,759~~. My Exhibit No. MDF-3 shows the  
22 calculation of ~~these amounts~~ the NOI increase.

23 The calculations of my adjustments are also reflected in Exhibit No. KHB-2,  
24 page 2.21 for the electric operations and Exhibit No. KHB-3, page 3.14 for the gas  
25 operations.