

Exhibit No. __ T (CTM-1T)
Dockets UE-111048/UG-111049
Witness: Christopher T. Mickelson

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**DOCKETS UE-111048
DOCKET UG-111049
(Consolidated)**

TESTIMONY OF

CHRISTOPHER T. MICKELSON

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Natural Gas Revenue Requirements

December 7, 2011

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LIST OF EXHIBITS

Exhibit No. __ (CTM-2) Natural Gas Results of Operations and Revenue Requirement

1 I. INTRODUCTION

2

3 Q. Please state your name and business address.

4 A. My name is Christopher T. Mickelson. My business address is the Richard Hemstad
5 Building, 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia,
6 Washington 98504. My e-mail address is cmickels@utc.wa.gov.

7

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

9 A. I am employed by the Washington Utilities and Transportation Commission
10 (“Commission”) as a Senior Regulatory Analyst in the Energy Section of the
11 Regulatory Services Division. I am responsible, among other duties, for analyzing
12 financial, accounting and rate issues in general rate cases, accounting petitions, and
13 other tariff filings as they pertain to the investor-owned utilities under the
14 jurisdiction of this Commission.

15

16 Q. How long have you been employed by the Commission?

17 A. I have been employed by the Commission since June 2007.

18

19 Q. Would you please state your educational and professional background?

20 A. I graduated from the University of Washington in 2002 receiving a Bachelor of Arts
21 degree in Business Administration with an emphasis in accounting. Since joining the
22 Commission, I have attended several regulatory courses, including the 49th Annual

1 National Association of Regulatory Utility Commissioners Regulatory Studies
2 Program held at Michigan State University in East Lansing, Michigan.

3 I was the lead Staff analyst in numerous tariff applications filed by regulated
4 water, solid waste, and transportation companies. These filings included general rate
5 cases of Murrey's Disposal Company, Inc., Docket TG-090097; American Disposal
6 Company, Inc., Docket TG-090098; Washington Water Service Company, Docket
7 UW-090733; and Waste Management of Washington, Inc., Dockets TG-091933 and
8 TG-101080.

9 I have participated in the development of Commission rules, prepared
10 detailed statistical studies for use by commissioners and other Commission
11 employees, and examined utility and transportation company reports for compliance
12 with Commission regulations. I have also presented Staff recommendations at
13 numerous open public meetings.

14 15 II. SCOPE AND SUMMARY OF TESTIMONY

16
17 **Q. What is the purpose of your testimony?**

18 **A.** The purpose of my testimony is to present Staff's overall recommendation regarding
19 the natural gas revenue requirement of Puget Sound Energy, Inc. ("PSE" or "the
20 Company"). This presentation encompasses Staff's adjustments to the Results of
21 Operations filed by the Company on June 13, 2011, which use a test-year ended
22 December 31, 2010.

23

1 **Q. Do you sponsor any exhibits in support of Staff's recommendations?**

2 A. Yes, I sponsor the following exhibit in support of my testimony:

- 3 • Exhibit No.__(CTM-2), Natural Gas Results of Operations and Revenue
4 Requirement

5

6 **Q. Please summarize Staff's overall natural gas revenue requirement
7 recommendation for these consolidated dockets.**

8 A. Staff has identified a \$1,526,333 (0.1 percent) revenue deficiency for the Company's
9 natural gas service. A revenue increase in that amount will enable the Company to
10 earn a 7.59 percent rate of return, as recommended by Staff witness Kenneth L.
11 Elgin. The Staff revenue requirement increase compares to PSE's proposed increase
12 of \$31,864,884.

13

14 **III. NATURAL GAS REVENUE REQUIREMENT**

15

16 **Q. Have you prepared an exhibit that calculates the revenue requirement
17 supported by Staff?**

18 A. Yes. My Exhibit No.__(CTM-2) applies Staff's revenue requirement model in this
19 case. This is the same model the Company presented in Mr. Stranik's Exhibit
20 No.__(MJS-7). My exhibit incorporates the recommendations of other Staff
21 witnesses who participated in the development of Staff's recommended natural gas
22 revenue requirement increase. I identify each Staff analyst and their areas of
23 responsibility later in this testimony.

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Q. Please describe Exhibit No. __ (CTM-2), Natural Gas Results of Operations and Revenue Requirement.

A. Exhibit No. __ (CTM-2) develops the Staff recommended revenue requirement for the Company's natural gas operations.

Page 1 compares the revenue requirement effects of all adjustments used to determine the respective revenue deficiencies proposed by the Company and Staff. This page serves as a ready reference for identifying Company and Staff adjustments that are either uncontested or contested.

Page 2, the first column entitled "Actual Results of Operations", reflects the test year (January through December 2010) amounts and indicates that PSE earned a total rate of return of 6.18 percent on its natural gas operations in the test period. The second column entitled "Total Adjustments" is the sum of all the restating and pro forma adjustments shown on Pages 3 through 6. The adjustment numbers used in my exhibit, and by all other Staff witnesses, correspond to PSE's presentation in its June 13, 2011, filing. The column entitled "Revenue Requirement Deficiency" shows the impact of Staff's recommended \$1,526,333 natural gas revenue increase, given an overall rate of return of 7.59 percent.

Pages 7 through 31b provide the details for each of the adjustments, while pages 32 through 34 provide the calculations for revenue requirement, pro forma cost of capital, and the conversion factor.

1 **Q. Are test year revenues affected by a recent rate increase given the Company?**

2 A. Yes. The Commission approved and adopted a Settlement Agreement for increased
3 rates effective April 1, 2011.¹ As a result, the Company received an additional \$19
4 million to reflect increased costs over the test year ending June 30, 2010.

5 In addition, there is a six-month overlap in test years (January 1, 2010 to June
6 30, 2010) between this current filing and the prior gas general rate case.

7

8 **Q. What conversion factor did you use to calculate the natural gas revenue
9 requirement that Staff recommends?**

10 A. Staff's used a conversion factor of 0.621490 to convert natural gas net operating
11 income to a revenue requirement level that is appropriate. This is the same
12 conversion factor used by PSE.

13 The conversion factor is used to adjust the net operating income deficiency
14 by the revenue sensitive items and Federal income taxes to determine the total
15 revenue requirement. The revenue sensitive items are the Washington State utility
16 tax, the Commission's regulatory fee, and bad debts.

17

18 **A. Uncontested Natural Gas Adjustments**

19

20 **Q. Are any adjustments on Exhibit No. __ (CTM-2) uncontested between Staff and
21 PSE?**

¹ *WUTC v. Puget Sound Energy, Inc.*, Docket UG-101644, Order 04 (March 15, 2011).

1 A. Yes. The following Company adjustments were reviewed by Staff and are
2 uncontested:

- 3 • Adjustment 5.03, Contract Changes
- 4 • Adjustment 6.01, Temperature Normalization
- 5 • Adjustment 6.02, Revenue and Expenses
- 6 • Adjustment 6.03, Pass-Through Revenue & Expense
- 7 • Adjustment 6.08, Injuries and Damages
- 8 • Adjustment 6.09, Bad Debt
- 9 • Adjustment 6.12, Excise Tax and Filing Fee
- 10 • Adjustment 6.14, Interest on Customer Deposits
- 11 • Adjustment 6.16, Deferred Gains and Losses on Property Sales
- 12 • Adjustment 6.17, Property and Liability Insurance
- 13 • Adjustment 6.18, Pension Plan

14
15 **B. Contested Natural Gas Adjustments**

16
17 **Q. Are any adjustments on Exhibit No. __ (CTM-2) contested between Staff and**
18 **PSE?**

19 A. Yes. The following adjustments were reviewed by Staff and are contested, but only
20 to reflect the rate of return recommended by Mr. Elgin:

- 21 • Adjustment 5.01, Water Heater Depreciation
- 22 • Adjustment 5.02, Reclass Bare to Wrapped Steel
- 23 • Adjustment 6.07, General Plant Depreciation

1 In addition, the following adjustments are also contested, as discussed in the cited
2 testimony of each Staff member:

- 3 • Adjustment 6.04, Federal Income Tax – Exhibit No.__(RCM-1T)
- 4 • Adjustment 6.05, Tax Benefit of Pro Forma Interest – Exhibit No.__(CTM-1T)
- 5 • Adjustment 6.06, Miscellaneous Operating Expense – Exhibit No.__(BAE-1T)
- 6 • Adjustment 6.10, Incentive Pay – Exhibit No.__(BAE-1T)
- 7 • Adjustment 6.11, Property Tax – Exhibit No.__(RTA-1T)
- 8 • Adjustment 6.13, Directors and Officers Insurance – Exhibit No.__(BAE-1T)
- 9 • Adjustment 6.15, Rate Case Expenses – Exhibit No.__(RTA-1T)
- 10 • Adjustment 6.19, Wage Increase – Exhibit No.__(BAE-1T)
- 11 • Adjustment 6.20, Investment Plan – Exhibit No.__(BAE-1T)
- 12 • Adjustment 6.21, Employee Insurance – Exhibit No.__(BAE-1T)
- 13 • Adjustment 6.22, Allowance for Working Capital – Exhibit No.__(CTM-1T)

14
15 *1. Adjustment 6.05 – Tax Benefit of Pro Forma Interest*

16
17 **Q. Please describe contested Adjustment 6.05, Tax Benefit of Pro Forma Interest.**

18 A. This pro forma adjustment, shown on Exhibit No.__(CTM-2), page 4 and page 14,
19 assures that customers receive the tax benefit associated with the interest on debt
20 used to support rate base. This is determined by multiplying the restated pro forma
21 rate base times the weighted cost of debt recommended by Mr. Elgin.

1 The effect of this adjustment increases net operating income by \$18,265,630.
2 This amount differs from the Company's amount due to the difference in rate base
3 and weighted cost of debt, but there is no controversy about the method itself.
4

5 **2. Adjustment 6.22 – Allowance for Working Capital**
6

7 **Q. Please describe contested Adjustment 6.22, Allowance for Working Capital.**

8 A. This restating adjustment assures that the funds provided by investors for daily
9 operating expenditures receive a return as part of rate base. This amount differs from
10 the Company's amount, but there is no controversy about the working capital method
11 itself.

12 Staff's adjustment reduces rate base by \$13,011,001, due to two factors.
13 First, Staff implements a correction in the calculation of investor supplied working
14 capital per PSE's response to Staff Data Request No. 91.

15 Second, Staff's adjustment recognizes the Company's net operating loss
16 ("NOL") carry forward in relation to its accrued federal income taxes payable. Staff
17 consultant Ralph C. Smith is responsible for this aspect of the Staff adjustment.

18 Staff's calculation of investor-supplied working capital is shown on Exhibit
19 No. __ (CTM-2), page 6, page 31a and 31b.
20

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

22 A. Yes.
23