

**Exhibit No. MPP-1T
Docket UE-090704/UG-090705
Witness: Michael P. Parvinen**

**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 P. PARVINEN

**STAFF OF WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

***General Ratemaking Policy; Company Conservation Phase-In Proposal; Company
Production Factor Adjustment; Merger Commitment Compliance***

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

1 recommendation addressed in my testimony that the Commission should reject the
2 Company's proposed conservation phase-in adjustment. It also supports many other
3 ratemaking adjustments sponsored by other Staff witnesses for the Company's
4 electricity and natural gas results of operations.

5 I also present the Staff recommendation that the Commission should not
6 apply a power production adjustment in developing the Company's electricity
7 revenue requirement in this case, given the Company's updated forecast of reduced
8 electric loads.

9 My testimony informs the Commission of the Company's compliance with
10 relevant commitments ordered by the Commission in the recent merger proceeding,
11 Docket UE-070725.

12 Finally, I present an overview of the other witnesses testifying for Staff in
13 these dockets. That overview indicates that Staff recommends an increase to electric
14 revenues of ~~\$5,826,516~~ \$7,238,781, or ~~0.3~~ 0.4 percent, and an increase to natural gas
15 revenues of ~~\$7,130,348~~ \$7,926,564, or ~~0.6~~ 0.7 percent. Staff used the Company's
16 September 28, 2009 Supplemental Filing as the starting point for the development of
17 these revenue requirement recommendations.

18
19 **Q. Can you briefly summarize the main differences between the Company's**
20 **proposed *electric* revenue requirement and Staff's recommended *electric***
21 **revenue requirement?**

22 A. Yes. The total difference is ~~\$148~~ \$147 million (Company proposed \$154 million minus
23 Staff proposed ~~\$6~~ \$7 million). The main differences between Staff and PSE are due to:

1	Rate of Return	\$37 million
2	Power Supply Adjustments including O&M	48 million
3	Pro forma Maintenance on Plant Additions	26 million
4	Mint Farm Deferral Amortization	17 million
5	Conservation Adjustment (Revenue Component)	10 million
6	Production Adjustment	6 million
7	Other Adjustments	4 million
8		

9 **Q. Can you briefly summarize the main differences between the Company's**
10 **proposed gas revenue requirement and Staff's recommended gas revenue**
11 **requirement?**

12 A. Yes. The total difference is ~~\$22~~ \$21 million (Company proposed \$29 million minus
13 Staff proposed \$7 \$8 million). The main differences between Staff and PSE are due
14 to:

15	Rate of Return	\$15 million
16	Properly Applied Pro Forma Definition	\$4 million
17	Net Interest to IRS	\$2 million
18	Other Adjustments	\$1 million
19		

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

21 A. Yes, I have prepared Exhibit No. MPP-2 to assist the Commission in identifying
22 each Staff witness and the particular contested and uncontested adjustments each
23 witness sponsors. Page 1 of the exhibit addresses the Company's electric results of
24 operations. Page 2 does the same for the gas results of operations.

25
26 **III. A FUNDAMENTAL RATEMAKING ISSUE - PROPER PRO FORMA**
27 **ADJUSTMENTS**
28

29 **Q. Please explain the purpose of this portion of your testimony.**

30 A. The purpose of this portion of my testimony is to identify how the Commission
31 defines "pro forma adjustment", and to explain appropriate regulatory theory and

1 **David C. Parcell** provides Staff's recommendation on the cost of capital to be
2 used for ratemaking purposes. His overall rate of return recommendation is ~~7.89~~
3 7.91 percent, which is based on a 10 percent return on equity and a capital
4 structure containing 45 percent common equity.

5
6 **Q. Does this conclude your testimony?**

7 **A.** Yes, it does.
8