

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

DOCKET NO. UG-110723

DIRECT TESTIMONY OF ANDREA C. CRANE (ACC-1T)

ON BEHALF OF

PUBLIC COUNSEL

OCTOBER 25, 2011

DIRECT TESTIMONY OF ANDREA C. CRANE (ACC-1T)
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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Andrea C. Crane and my business address is 90 Grove Street, Suite
4 211, Ridgefield, Connecticut 06877 (Mailing Address: PO Box 810, Georgetown,
5 Connecticut 06829).

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

7 A. I am President of The Columbia Group, Inc., a financial consulting firm that
8 specializes in utility regulation. In this capacity, I analyze rate filings, prepare
9 expert testimony, and undertake various studies relating to utility rates and
10 regulatory policy. I have held several positions of increasing responsibility since I
11 joined The Columbia Group, Inc., in January 1989.

12 **Q. Please summarize your professional experience in the utility industry.**

13 A. Prior to my association with The Columbia Group, Inc., I held the position of
14 Economic Policy and Analysis Staff Manager for GTE Service Corporation, from
15 December 1987 to January 1989. From June 1982 to September 1987, I was
16 employed by various Bell Atlantic (now Verizon) subsidiaries. While at Bell
17 Atlantic, I held assignments in the Product Management, Treasury, and
18 Regulatory Departments.

19

1 **Q. On whose behalf are you testifying?**

2 A. I am testifying on behalf of the Public Counsel Section of the Washington
3 Attorney General’s Office (“Public Counsel”).

4 **Q. Have you previously testified in regulatory proceedings?**

5 A. Yes, since joining The Columbia Group, Inc., I have testified in over 350
6 regulatory proceedings in the states of Arizona, Arkansas, Connecticut, Delaware,
7 Hawaii, Kansas, Kentucky, Maryland, New Jersey, New Mexico, New York,
8 Oklahoma, Pennsylvania, Rhode Island, South Carolina, Vermont, West Virginia
9 and the District of Columbia. These proceedings involved electric, gas, water,
10 wastewater, telephone, solid waste, cable television, and navigation utilities. A
11 list of dockets in which I have filed testimony since January 2008 is included in
12 Exhibit No. ACC-2.

13 **Q. What is your educational background?**

14 A. I received a Master of Business Administration degree, with a concentration in
15 Finance, from Temple University in Philadelphia, Pennsylvania. My
16 undergraduate degree is a B.A. in Chemistry from Temple University.

17 **II. SUMMARY OF CONCLUSIONS**

18 **Q. What are your conclusions concerning Puget Sound Energy, Inc.’s (“PSE” or
19 “Company”) proposed Pipeline Integrity Program (“PIP”)?**

20 A. Based on my analysis of the Company’s filing and other documentation in this
21

1 case, my conclusions are as follows:

2 • Pipeline integrity is a basic responsibility of any natural gas utility
3 company, pursuant to its obligation to provide safe and reliable utility
4 service.

5 • The Company's PIP is a proposal for accelerated recovery of pipeline
6 replacement costs, and not a proposal to accelerate replacements to meet
7 identified needs.

8 • The Company has not demonstrated that there are any safety concerns
9 with its current system that would require adoption of the PIP.

10 • The Company has not demonstrated that any change from the traditional
11 method of recovering pipeline replacement costs is either necessary or
12 desirable.

13 • The Company's proposal would dilute its responsibility for managing its
14 pipeline replacement activities.

15 • The Company has not shown that there are any net benefits to ratepayers
16 of its proposed PIP.

17 • The proposed PIP would reduce shareholder risk, transfer risk from
18 shareholders to ratepayers, and increase shareholders' return on equity.

19 • The Company's proposal results in single-issue ratemaking and has not
20 been justified on either financial or operational grounds.

21 • The Company's proposed PIP should be rejected by the Commission.

22

1 **III. DISCUSSION OF THE ISSUES**

2 **A. Summary of the PIP Proposal**

3 **Q. Please provide a brief summary of the Company’s proposal.**

4 A. On April 26, 2011, PSE filed tariff sheets with the Washington Utilities and
5 Transportation Commission (“Commission”) seeking to implement a PIP and an
6 associated recovery surcharge. The Commission subsequently established a
7 procedural schedule to address the issues raised in the Company’s filing.
8 Pursuant to the procedural schedule, on September 2, 2011, PSE filed the
9 testimony of John H. Story, Duane A. Henderson, and Tom De Boer in support of
10 the proposed PIP.

11 As described in the Company’s testimony, PSE is proposing to implement
12 a program to accelerate the recovery of costs associated with certain pipeline
13 replacement programs through a surcharge mechanism. Specifically, the
14 Company is seeking to accelerate the recovery of investments associated with the
15 replacement of wrapped steel services, wrapped steel mains and older
16 polyethylene (“PE”) pipe through a new PIP surcharge.¹ Mr. Story testified that
17 most of the infrastructure to be replaced went into service prior to 1985.²

18

¹ PSE initially proposed to include bare steel replacements in its PIP but the Company subsequently modified its proposal and eliminated bare steel main replacements from the PIP.

² Exhibit No. JHT-1T, p. 2, lines 5-9.

1 **Q. How much is the Company proposing to recover from ratepayers in the first**
2 **year of the PIP?**

3 A. PSE is proposing to implement initial rates that will generate additional annual
4 revenues of \$1,906,869. PSE proposed that its PIP rate go into effect on
5 November 1, 2011, and remain in effect for one year. The Company's proposal
6 for the initial PIP Rate Year includes the revenue requirement associated with
7 actual investment from July 1, 2010 through July 31, 2011 and a forecast of
8 expenditures from August 1, 2011, through October 31, 2012, as shown below:

9 **Table 1 – Plant Included in Initial PIP Rate³**

| PIP Rate Year | Wrapped Steel Services | Wrapped Steel Mains | Older Polyethylene Plastic Pipe | Total |
|--------------------------------------|------------------------|---------------------|---------------------------------|--------------|
| Nov. 1, 2011- October 31, 2012 | \$4,611,079 | \$5,719,728 | \$6,107,852 | \$16,438,660 |

10
11 **Q. How does the Company propose to calculate the annual PIP revenue**
12 **requirement?**

13 A. PSE is seeking to recover a return, at its currently authorized rate of 8.10%, on the
14 net investment of \$16.4 million relating to replacements through October 31,
15 2012. Net investment includes gross plant additions, adjusted for accumulated
16 depreciation and deferred income taxes. In addition, PSE seeks to accelerate
17 recovery of depreciation expense associated with its investment. Thus, PSE is
18 proposing to recover both a return *of* this investment and a return *on* this

19

³ Exhibit No. JHS-4.

1 investment between general rate cases. The proposed mechanism would apply the
2 most recently approved, net-of-tax rate of return from its last general rate case to
3 the net investment rate base. The Company's request is based on the average of
4 the monthly averages for rate base and depreciation expense for the PIP Rate
5 Year. PSE proposes that its net-of-tax rate of return and depreciation expense be
6 recalculated whenever the rate of return or depreciation rates change as a result of
7 a new general rate case. PSE's proposed PIP revenue requirement also includes
8 adjustments to gross up the amount collected to reflect income taxes and revenue
9 taxes. In addition, the Company's proposal includes an annual true-up mechanism
10 for over/under recoveries. The Company is proposing that annual expenditures
11 subject to the PIP would be capped at \$25 million.

12 **Q. How is the Company's incremental revenue requirement allocated among**
13 **rate classes?**

14 A. PSE is proposing that its incremental revenue deficiency be allocated among rates
15 classes based on the allocations for mains and service piping filed by PSE in its
16 class cost of service study in Docket No. UG-101644.

17 **B. Pipeline Integrity Obligations**

18 **Q. How does PSE define "pipeline integrity management"?**

19 A. According to Mr. Henderson's testimony,

20 "Pipeline integrity management is a comprehensive approach
21 undertaken by a pipeline owner/operator to ensure the physical
22 integrity and safety of its gas distribution system. There are many
23 facets of pipeline integrity management. These include ensuring
24 new pipe installations are designed and constructed to current
25 standards, performing maintenance on existing pipelines,
26 surveying for and repairing pipeline leaks, taking steps to prevent

1 third party damage, providing corrosion control for wrapped steel
2 pipelines, and replacing pipe that has demonstrated integrity
3 issues.”⁴

4 **Q. Is pipeline integrity management a new concept?**

5 A. No, of course not. Pipeline integrity management is an integral part of managing
6 any natural gas utility. The regulatory compact provides that in exchange for
7 being allowed to operate as a monopoly, a utility will provide safe and reliable
8 utility service at reasonable rates. The requirement to provide safe and reliable
9 service is a cornerstone of the utility’s responsibilities. Thus, the concept of
10 replacing pipe, when required, is not new or novel. Rather, this is a fundamental
11 obligation of any natural gas company.

12 **Q. Has the Company’s obligation with regard to pipeline integrity management**
13 **changed over the years?**

14 A. No, it has not. While there have been changes in certain regulations with regard
15 to pipeline integrity issues and documentation, the utility has always had, and
16 continues to have, an obligation to operate its business safely. This has not
17 changed. Rules issued in December 2009 by the Pipeline and Hazardous Materials
18 Safety Administration (“PHMSA”) required gas companies to develop and
19 implement a Distribution Integrity Management Program (“DIMP”) by August 2,
20 2011. However, while this requirement mandated that a process be formalized, the
21 process itself was in place, or should have been, at all natural gas utilities. As
22 stated in Mr. Henderson’s testimony, “DIMP requires an operator to: understand
23

⁴ Exhibit No. DAH-1T, p. 2, lines 6-13.

1 the threats to its system; mitigate risks; measure performance; and adjust its
2 mitigative measures as necessary based on performance.”⁵ These are actions that
3 any prudent and well-run utility would have employed, even in the absence of a
4 formalized DIMP. Indeed, Mr. Henderson also testified that, “Prior to the DIMP
5 rule, PSE historically embraced risk management methodologies comparable to
6 DIMP...DIMP formalizes many of PSE’s existing practices.”⁶ Furthermore, Mr.
7 Henderson testified, “DIMP does not specify when risks must be mitigated or
8 how risks are mitigated.”⁷ Finally, the Company acknowledges that all of the
9 activities associated with pipeline integrity “had been performed for many years”
10 prior to the issuance of the DIMP regulations in December 2009.⁸

11 **C. History of Pipeline Replacements**

12 **Q. In the past, has PSE undertaken pipe replacement programs when**
13 **necessary?**

14 **A.** Yes, it has. PSE or its natural gas company predecessor, Washington Natural Gas,
15 have monitored its gas pipelines and taken action, when necessary, to replace
16 pipe. Several major replacement programs have been required by the Commission
17 after investigations of the system. For example, in 1992, Washington Natural Gas
18 initiated a replacement of all of its cast iron pipe.⁹ This program was completed in

⁵ Exhibit No. DAH-1T, p. 2, lines 19-21.

⁶ Exhibit No. DAH-1T, p. 3, lines 1-7.

⁷ Exhibit No. DAH-1T, p. 16, lines 13-14.

⁸ PSE Response to Public Counsel Data Request No. 2.

⁹ *Washington Utilities and Transportation Commission v. Washington Natural Gas Co.*, Docket No. UG-920487, Settlement and Operating Agreement.

1 2007. Over this period, PSE replaced approximately 300 miles of cast iron pipe at
2 a cost of approximately \$81.2 million.¹⁰

3 The Company has also implemented a bare steel replacement program to
4 replace all of its bare steel and wrought iron pipe.¹¹ This program is expected to
5 be completed by December 31, 2014. As noted in Mr. Henderson's testimony,
6 "this type of pipe has the highest number of leaks per mile...."¹² Thus, the
7 Company is already addressing the most serious cause of leaks in its system, i.e.,
8 bare steel mains, independently of the proposed PIP.

9 In fact, in addition to the bare steel main replacement program that is
10 currently underway, PSE has already initiated programs related to the replacement
11 of all of the pipe that is the subject of the PIP: wrapped steel services, wrapped
12 steel mains, and older PE pipe. Thus, these programs will be undertaken and
13 completed by PSE, regardless of whether or not an accelerated recovery
14 mechanism is approved.

15 **Q. Please comment on the wrapped steel services replacement program.**

16 A. The Wrapped Steel Service Assessment Program ("WSSAP") was initiated in
17 2006.¹³ The program uses a risk model to categorize the Company's wrapped
18 steel service lines into one of four categories. Following are the categories and
19 the number and percentage of service lines in each category, based on results for
20

¹⁰ PSE Response to Public Counsel Data Request No. 4.

¹¹ This program is the result of a formal complaint by the Commission. *Washington Utilities and Transportation Commission v. PSE, Inc.*, Dockets PG-030080, 030128, Order 02 Sustaining Complaint; Approving and Adopting Settlement Agreement.

¹² Exhibit No. DAH-1T, p. 4, lines 11-12.

¹³ This program was the result of the settlement of a Commission complaint. *WUTC v. PSE, Inc.*, Docket No. PG-041624, Order No. 07, Order Approving Settlement Agreement; Order 09.

1 the 2010 model:

2 **Table 2 – Wrapped Steel Service Line Categories¹⁴**

| Priority | Scheduled | Increased Leak Survey | Standard Mitigation | Total |
|--------------|----------------|-----------------------|---------------------|--------|
| 91 (0.1%) | 303 (0.33%) | 22,731 (25.04%) | 67,658 (74.53%) | 90,783 |

3
4 From 2007-2010, the Company spent \$26.8 million on replacement of
5 wrapped steel services.¹⁵ Moreover, the Company's current capital projections
6 include spending of up to \$2 million annually for the next five years.¹⁶ PSE has
7 not determined how many wrapped steel services in total require remediation.
8 Since the program began, PSE has remediated more than 9,000 services.¹⁷ Thus,
9 given the significant work that has already been done, and the small number of
10 services that are identified as priority or scheduled replacements, it appears that
11 the Company has the WSSAP well in hand. The Company performed inspections
12 on over 1,000 services in the lower risk categories and found that much of this
13 remaining service piping "is in good condition and will continue to reliably and
14 safely provide natural gas service for many years."¹⁸ Mr. Henderson stated that
15 "PSE will also continue to monitor the performance of the remaining WSSAP
16 services lines to confirm whether the current actions are sufficiently mitigating
17 the risks or whether additional actions such as increased leak survey and/or

¹⁴ Number per category from Exhibit No. DAH-1T, page 5.

¹⁵ PSE Response to Public Counsel Data Request No. 5.

¹⁶ Exhibit No. DAH-1T, page 10.

¹⁷ Exhibit No. DAH-1T, page 5, line 14.

¹⁸ Exhibit No. DAH-1T, p. 6, lines 5-6.

1 additional replacements are warranted.”¹⁹ Thus, at this time, there is no showing
2 that the Company’s current replacement program for wrapped steel services is
3 inadequate or that more aggressive mediation is necessary.

4 **Q. Please comment on the wrapped steel main assessment program.**

5 A. The wrapped steel main assessment program was initiated in 2010 to evaluate pre-
6 1992 wrapped steel mains and to identify appropriate mitigation measures. The
7 mains that are adjacent to the WSSAP services in the top two priority categories
8 are reviewed to determine if replacement is necessary. Other wrapped steel mains
9 are also evaluated for replacement. According to Mr. Henderson’s testimony,
10 “The majority of the wrapped steel mains are performing very well and we expect
11 they will continue to reliably provide gas service for years to come.”²⁰ The
12 Company’s analysis did identify some mains that require replacement due to
13 leaking or other conditions. In 2010, the Company replaced approximately one
14 mile of wrapped steel mains and associated services. PSE is targeting replacement
15 of 3.5 miles of wrapped steel mains in 2011 and four miles in 2012.²¹ The
16 Company has not determined the total number or length of wrapped steel mains
17 that need to be remediated. Instead, PSE states that identification of such mains is
18 “an ongoing effort.”²² PSE is projecting expenditures of \$3.7 million to \$5.3
19 million annually from 2011 through 2015 to replace wrapped steel mains.²³

¹⁹ Exhibit No. DAH-1T, p. 6, lines 12-15.

²⁰ Exhibit No. DAH-1T, p. 7, lines 6-7.

²¹ Exhibit No. DAH-1T, p. 7, lines 12-15.

²² Exhibit No. DAH-1T, p. 8, lines 3-4.

²³ Exhibit No. DAH-1T, p. 10.

1 **Q. Please comment on the older PE pipe program.**

2 A. This program was initiated to replace pre-1986 PE pipe, especially pipe that was
3 manufactured from pipe resin that is inferior to newer resins and which therefore
4 has exhibited a higher failure rate. According to Mr. Henderson's testimony, the
5 HDPE DuPont pipe is the most susceptible to failures.²⁴ PSE developed a risk
6 model in 2009 to prioritize the DuPont pipe based on the likelihood of failure. In
7 2010, the Company replaced two miles of pipe and expects to replace four miles
8 in 2011. The Company indicated that it will continue to evaluate over 100
9 additional segments of pipe comprising more than 98 miles. The Company
10 believes that there is approximately 1,000 miles of HDPE DuPont pipe in its
11 system. PSE is in the process of implementing a Geographic Information System
12 ("GIS") that should improve the Company's ability to locate and track pipe
13 locations.²⁵ From 2011 to 2015, the Company is currently projecting
14 expenditures of \$4.2 million to \$5.6 million per year for older PE pipe
15 replacements.²⁶

16 **D. Analysis of the PIP Proposal**

17 **Q. Is the proposed PIP an accelerated replacement program or an accelerated**
18 **recovery program?**

19 A. As currently structured, the proposed program is clearly an accelerated *recovery*
20 program. The letter filed with the proposed tariff on July 14, 2011, states that the

²⁴ Exhibit No. DAH-1T, p. 8, lines 14-15.

²⁵ Exhibit No. DAH-1T, p. 9, lines 11-12.

²⁶ Exhibit No. DAH-1T, p. 10.

1 program includes only incremental investment.²⁷ The Company has defined
2 “incremental investment” as any investment that is not currently reflected in rate
3 base. However, the PIP, at least as currently designed, does not include
4 replacement of any additional plant over and above that which is already planned
5 for in PSE’s capital budget. While the Company quantified expected expenditures
6 from 2011-2015, PSE indicated that these estimates “do not reflect the additional
7 pipe PSE expects to replace if the PIP tariff is approved.”²⁸ To date, PSE has
8 failed to quantify any incremental “additional pipe” that would be replaced if the
9 PIP tariff is approved, or to identify what segments would be replaced pursuant to
10 the PIP that would not otherwise be replaced.

11 Instead, as currently proposed, the PIP is simply an alternative cost
12 recovery mechanism—one that will require ratepayers to pay for certain costs
13 earlier than they would under traditional ratemaking. The Company’s proposal
14 includes all plant additions from July 2010 through July 2011 and all
15 replacements *currently budgeted* from August 2011 through October 2012.²⁹
16 Thus, the Company has not provided any evidence that the PIP will accelerate
17 replacements, although it will significantly accelerate the recovery of that
18 investment by shareholders.

19 Not only does the proposed PIP accelerate recovery of costs that would
20 not otherwise be recoverable outside a general rate case, but the Company’s
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²⁷ Exhibit No. JHS-3, p. 1.

²⁸ Exhibit No. DAH-1T, p. 10, lines 6-8.

²⁹ PSE Response to Public Counsel Data Request No. 27.

1 proposal also further accelerates recovery by requiring ratepayers to pay for
2 projected as well as actual expenditures. According to the tariff provided, the rate
3 adjustment would be based “on forecasted expense and investment activity
4 through October 31 of the upcoming program period....”³⁰ Thus, each year, on
5 November 1, ratepayers would be required to begin to pay for plant that is not yet
6 in-service and which will not be in-service until, on average, six months later.

7 Moreover, it appears that PSE is proposing to revise its PIP tariff
8 whenever there is a change in the underlying rate of return or depreciation rates
9 resulting from a general rate case. Therefore, under the Company’s proposal,
10 ratepayers could potentially face multiple rate adjustments per year relating to
11 acceleration of cost recovery for pipeline replacements.

12 **Q. Has the Company indicated that the final amounts to be spent on the PIP will**
13 **be determined annually in a collaborative working group process?**

14 A. Yes, it did. PSE proposes that many of the details of the PIP, including the level
15 of annual expenditures and the specific replacements to be made, be determined
16 by a collaborative working group consisting of company representatives and
17 representatives from other interested parties, including Staff. However, it is
18 unclear if there is a need for a collaborative since there is no evidence to suggest
19 that any increase over currently projected expenditures is either necessary or
20 desirable.

21

³⁰ Exhibit No. JHS-3, p. 3.

1 **Q. Does the Company already have programs in place to address necessary**
2 **replacements to its infrastructure?**

3 A. Yes, it does. The Company has shown that it can and will replace pipe, as
4 necessary, as evidenced by the programs to replace cast iron mains and bare steel
5 mains. Both of these replacement programs were funded, or are being funded,
6 under the current regulatory mechanism.

7 Moreover, since the vast majority of current failures involve bare steel
8 pipe, the Company already has a comprehensive program in place to address the
9 most serious problems. As shown in the 2010 Continuing Surveillance Annual
10 Report (“Annual Report”), the vast majority of leaks in the system involve bare
11 steel mains.³¹ Bare steel is more than four times as likely to leak than other
12 materials. Therefore, the current bare steel main replacement program is already
13 addressing a primary source of leaks. This report also shows that most new leaks
14 found each year are categorized as Grade C leaks, which is the lowest priority
15 category.³² Grade C leaks are non-hazardous at the time of detection and are
16 expected to remain non-hazardous. In addition, it is important to note that from
17 2006 to 2010, 54% of all leaks were caused by third party excavation damage, and
18 not by inherent pipe failure.³³ Therefore, even an aggressive pipe replacement
19 program would have a limited impact on the Company’s failure rate.

20 In addition to the bare steel main program that is currently underway, PSE
21

³¹ PSE Response to Public Counsel Data Request No. 15, Attachment H, p. 8.

³² PSE Response to Public Counsel Data Request No. 15, Attachment H, p. 20.

³³ PSE Response to Public Counsel Data Request No. 15, Attachment H, p. 9.

1 has already initiated programs to address failures in the three areas that are
2 proposed for the PIP—wrapped steel services, wrapped steel mains, and older PE
3 pipe—again all within the current regulatory framework. Thus, PSE has clearly
4 demonstrated that it has the operational and financial resources within the
5 traditional ratemaking system to undertake pipeline replacement initiatives that
6 are necessary for the continued safe and reliable operation of the natural gas
7 system.

8 **Q. Would the PIP change the process currently used by PSE to prioritize**
9 **pipeline replacements?**

10 A. PSE acknowledges that, if the PIP is approved, its current risk model profiling
11 would “generally remain the same with the exception of the budgeting process.”³⁴
12 However, the Company states that the benefit of the PIP is that it will provide “for
13 the timely recovery of the additional investments necessary to implement
14 expanded and accelerated pipe replacement programs.”³⁵ The Company claims
15 that with the PIP, it would no longer have to concentrate on areas “of the highest
16 risk” and therefore could expand its efforts to replace pipe, resulting in “enhanced
17 safety of the system.”³⁶ However, PSE has not proposed any metrics for
18 evaluating safety enhancements or for determining when such enhancements
19 should be undertaken. My concern is that the PIP could reduce the Company’s
20 incentive to replace pipe based on identified need, and instead could provide an
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³⁴ Exhibit No. DAH-1T, p. 14, lines 2-3.

³⁵ Exhibit No. DAH-1T, p. 11, lines 9-11.

³⁶ Exhibit No. DAH-1T, p. 11, lines 20-21.

1 incentive to spend up to a pre-approved, arbitrary allowance, knowing that
2 shareholders will earn a return on any such expenditures and that recovery of such
3 expenditures is guaranteed.

4 **Q. What impact would the PIP have on the Company's budgeting process?**

5 A. Mr. Henderson states that,

6 With the PIP review process, pipeline replacement funding that is
7 included in the program would not have to compete in the PSE
8 budget process for funding with all the other customer and
9 business needs but would be determined by mutually agreed risk
10 reduction objectives and by resource availability. This will benefit
11 customers by enhancing safety through proactive replacement of
12 pipe.³⁷

13 Mr. Henderson's statement is extremely unrealistic and is contrary to the
14 economic realities of utility financing. He suggests that because the PIP will be
15 recovered through a surcharge, instead of through base rates, that it can somehow
16 be excluded from the budgeting process. While the PIP will allow the Company
17 to begin recovery of these costs sooner, PSE will still need to finance these
18 expenditures in the traditional manner, i.e., with debt or equity. Moreover, in
19 financing these expenditures, the PIP will compete with all of the other needs of
20 the utility for capital. Thus, the fact that recovery of these costs will begin sooner,
21 while a financial benefit to shareholders, will not eliminate the need for the
22 Company to consider all of its financing requirements when allocating capital.

23 More importantly, Mr. Henderson's statement overlooks the other side of
24 the equation, i.e., the impact on ratepayers. He ignores the fact that the annual
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³⁷ Exhibit No. DAH-1T, p. 14, lines 15-20.

1 PIP expenditure level agreed to by PSE, Staff, and other stakeholders will result
2 in a revenue requirement that will have to be paid for by ratepayers. Moreover,
3 ratepayers do not care what process is used to budget for these expenditures.
4 Ratepayers care whether (a) the expenditure is necessary, (b) the costs of that
5 expenditure are reasonable, and (c) the utility system is safe. On all points,
6 ratepayers are worse off under the PIP because they would pay higher rates than
7 they would under a traditional ratemaking approach, they would be required to
8 begin payment earlier, and there is no showing of a safety problem that needs to
9 be addressed or requirement that safety be improved as an outcome.

10 The Company states that the PIP will eliminate the need for pipeline
11 replacement funding “to compete in the PSE budget process for funding with all
12 the other customer and business needs...”³⁸ While PSE suggests that this is a
13 beneficial outcome, I strongly disagree. At the present time, PSE must manage its
14 business in such a way as to provide safe and reliable utility service at reasonable
15 rates. Part of managing that business is evaluating the costs of providing safe and
16 reliable utility service and prioritizing those costs. A significant and integral
17 component of utility service, i.e., pipeline replacement, should not be viewed in
18 isolation.

19 To give the Commission an extreme example, suppose that the Company
20 has limited funds. It can choose to either replace leaking pipe or give its
21 executives a bonus. If funds are finite, PSE must prioritize its options and
22

³⁸ Exhibit No. DAH-1T, p. 14, lines 17-18.

1 presumably would replace the pipe. If, however, PSE believes that these two
2 budgeting processes can be viewed independently, then the Company will have
3 much less incentive to choose the most prudent course of action and, in my
4 example, forego executive bonuses. Thus, isolating the budgeting process could
5 reduce PSE's incentive to make prudent choices about other areas of its business.

6 **Q. Could isolating the budgeting process also reduce PSE's incentive to make**
7 **prudent choices about its pipe replacement program?**

8 A. Yes, it could. Isolating the budgeting of the pipeline replacement program from
9 the budgeting of other expenditures could also weaken the Company's incentive
10 to make prudent management decisions about pipeline replacements. Under the
11 present regulatory mechanism, PSE has to prioritize not only its total
12 expenditures, but also the expenditures earmarked for pipeline replacement.
13 Therefore, the Company must make choices about how much to spend and how to
14 spend it, while meeting its mandate to provide safe and reliable utility service. In
15 order to meet this mandate in a cost effective manner, PSE has implemented a risk
16 modeling approach and other means to assign its pipe to various categories
17 depending on the need for replacement. If the Company believes that its
18 replacement decisions can somehow be separated from its budgeting process, PSE
19 will have much less incentive to prioritize. Instead of replacing pipe that has a
20 high likelihood of failure, PSE may be more inclined to replace pipe in the lower
21 priority categories more rapidly, resulting in unnecessary replacements and higher
22 rates for ratepayers. The process to determine which pipe should be replaced
23 would likely become less defined, since there would be less incentive to prioritize

1 funds earmarked for replacements. PSE suggests that the PIP would allow the
2 Company to replace not only failing pipe, but pipe throughout entire
3 neighborhoods.³⁹ Wholesale pipe replacement, however, may not be necessary,
4 cost-effective, or prudent. Unfortunately, PSE again fails to consider that
5 expanding replacements may be more convenient for neighborhoods, but it may
6 not be in the best interest of ratepayers.

7 **Q. Does the collaborative process envisioned by PSE have the potential to dilute**
8 **the Company's responsibility relating to pipeline replacement?**

9 A. Yes, it does. In PSE's Response to Public Counsel Motion for Modification of
10 Schedule, PSE indicated that,

11 Several of the 'factual matters' that Public Counsel claims remain
12 at issue are matters that will be addressed on an annual basis by
13 stakeholders who participate in the collaborative process described
14 in the PIP filing...the plant investments to be included in the PIP
15 each year will be reviewed by the stakeholder group during their
16 August meetings, and the stakeholders will have an opportunity to
17 provide input into the process of determining what investments
18 should be included in the PIP on an annual basis. Similarly, Public
19 Counsel cites as factual matters 'the alleged safety benefits for
20 customers' and 'the impact of the PIP on customer rates.' These,
21 too, are factors that the stakeholders will weigh each August as
22 they review PSE's proposed pipe replacements and consider the
23 safety benefits in comparison to the impact on customer rates.⁴⁰

24 According to the Company, the stakeholder group is going to determine
25 which plant investments should be included in the replacement program, the
26 customers benefits associated with any such investment, and the impact on
27 customer rates. These are fundamental management decisions that should remain

³⁹ Exhibit No. DAH-1T, page 15, lines 1-13.

⁴⁰ PSE Response To Public Counsel Motion For Modification of Schedule, September 27, 2011, p. 3.

1 the responsibility of PSE. The Company's heavy reliance on a collaborative
2 process interjects Staff, and potentially other intervenors, into a management role
3 for pipeline replacement issues, a role that it is inappropriate for Staff and other
4 third parties to assume. It is the Company's obligation to operate its system
5 safely and to make the improvements necessary to meet that obligation. It is also
6 the Company's responsibility to budget for, and operate, its utility business, and
7 to seek rate relief through a general rate case if rates are inadequate at any time.
8 While the collaborative process sounds appealing, it blurs the management
9 responsibility for pipeline replacement by involving an informal group of
10 stakeholders.

11 **Q. Do you have other concerns about the collaborative process envisioned by**
12 **PSE?**

13 A. Yes, I do. Given the limited time, resources, and expertise of other parties, the
14 collaboration process could become an opportunity for the Company to have its
15 proposals rubber-stamped, while shifting responsibility for management of
16 pipeline replacement issues to other parties. In addition, the Company states that
17 if stakeholders do not believe that the planned expenditures are reasonable, then
18 these stakeholders can file comments each year with the Commission. However,
19 PSE does not provide a process for responding to these comments or for
20 otherwise handling disputes that may arise. Hence, there are several process
21 issues that have not been adequately addressed by PSE.

22

1 **Q. Does the Company’s proposed program include ratepayer protections?**

2 A. The Company’s proposed PIP does include some limited protections for
3 ratepayers, including an annual program cap of \$25 million and a termination date
4 of October 31, 2016, unless extended by the Commission. In addition, it provides
5 that capital expenditures that exceed the annual approved program year amount
6 by greater than 10% will not be included without separate Commission approval.
7 While the \$25 million cap may appear to be a mechanism to protect ratepayers, in
8 reality the cap is a mechanism that effectively pre-approves rate increases of \$2
9 million to \$3 million per year for the next several years. Moreover, these rate
10 increases would be cumulative, so by 2016 ratepayers could be burdened with \$10
11 million to \$15 million of additional rate increases.

12 I am similarly skeptical about the offer of a termination date for the PIP,
13 “unless specifically extended by the Commission.” While such dates are often
14 proposed by utilities as a way to introduce new regulatory mechanism, the fact is
15 utilities rarely volunteer to terminate a surcharge mechanism once such a
16 mechanism was approved. The Commission can be relatively certain that if it
17 approves the PIP, the Company will fight to maintain the accelerated recovery
18 mechanism once it reaches the “termination” date.

19 **Q. Has the Company proposed a measurement and evaluation method to**
20 **evaluate the PIP, in the event that it is adopted?**

21 A. No, it has not. This is another failure of the Company’s proposal. As stated by
22 Mr. Henderson, “DIMP requires an operator to ...measure performance, and adjust

1 mitigative measures as necessary based on performance.”⁴¹ But no measurement
2 or performance standards have been proposed by PSE. There is no benchmark for
3 how the parties or the Commission should evaluate the effectiveness of the
4 program during its term or when it nears its proposed termination date of October
5 31, 2016. Failure to propose a benchmark to measure improvement lends further
6 support to my conclusion that the PIP is more about accelerated cost recovery
7 than accelerated replacement of utility infrastructure.

8 **E. Revenue and Risk Issues**

9 **Q. Please comment on Mr. Henderson’s statement on page 17 of Exhibit No.**
10 **DAH-1T that “there is no new revenue associated with this investment in**
11 **replacement piping.”**

12 **A.** Mr. Henderson’s statement is incorrect. While the replacement program will not,
13 of itself, result in additional customers or additional usage by existing customers,
14 “new revenue” is generated by every new project recovered from ratepayers.⁴²
15 This is because two of the major components of a utility’s revenue requirement
16 are return on investment and depreciation. Both of these components increase
17 with every dollar of capital invested in the Company. Thus, it is not accurate to
18 state that no new revenue will be generated by the program. Moreover, under the
19 Company’s proposal, ratepayers will begin to pay this revenue sooner. This is
20 because under a traditional ratemaking approach, the Company would not begin

⁴¹ Exhibit No. DAH-1T, p. 16, lines 14-16.

⁴² Mr. Henderson states that in certain areas, some pipe may be replaced with larger pipe, thus increasing capacity. Assuming that this additional capacity is utilized, then the PIP could, in fact, result in increased customers and/or usage. Exhibit No. DAH-1T, p. 17, lines 18-20.

1 to recover incremental return and depreciation expense until its next general rate
2 case. However, under the PIP, this recovery will begin prior to the expenditures
3 even having been made.

4 **Q. Has PSE undertaken a cost/benefit analysis to determine if ratepayers would**
5 **benefit from an accelerated recovery mechanism?**

6 A. No, it has not. PSE confirmed in discovery that the Company has not conducted
7 any cost/benefit analysis.⁴³ In that response, the Company explained away its
8 failure to undertake a cost/benefit analysis by again shifting responsibility to the
9 collaborative process through which stakeholders can “annually review the scope
10 of pipeline replacement initiatives, determine mutually agreeable risk reduction
11 objectives, and establish which pipe segments should be replaced in the following
12 year.”⁴⁴ Presumably, PSE believes that this stakeholder process eliminates the
13 need for the Company to justify the PIP program prior to receiving Commission
14 approval. PSE is requesting that the PIP be approved without any evidence that
15 the benefits to ratepayers will exceed the incremental costs. The Company should
16 be required to justify its proposal before receiving Commission approval, not
17 afterwards.

18 **Q. How does accelerated recovery impact ratepayers?**

19 A. Pursuant to current ratemaking methodology, plant additions are only included in
20 rate base, and therefore in utility rates, once the plant is completed and placed into

⁴³ PSE Response to Public Counsel Data Request No. 9.

⁴⁴ PSE Response to Public Counsel Data Request No. 9.

1 service. Between general rate cases, plant that is booked to utility plant-in-service
2 is not reflected in utility rates until the Company's next general rate case.

3 However, under the Company's proposal, ratepayers will bear higher costs
4 sooner. As a result of the PIP, ratepayers will pay an additional surcharge each
5 year, beginning November 1. Moreover, these charges will include not only plant
6 that has been completed to date, but also plant that is projected to be completed
7 over the upcoming twelve months. From a financial perspective, these are serious
8 detriments to ratepayers.

9 **Q. Does the Company claim that there will be any cost savings resulting from**
10 **the PIP?**

11 A. No, it does not. Mr. Henderson states that "[t]here should be minimal if any
12 impact on PSE's operations and maintenance expenses as a result of the PIP."⁴⁵
13 Thus, the Company has not demonstrated that there are any cost savings that
14 would provide a net benefit to ratepayers if the PIP is adopted. On the other hand,
15 if cost savings are realized, these costs savings will not be available to offset PIP
16 costs, but will be retained by shareholders in between general rate cases, to the
17 detriment of ratepayers and in violation of the matching principle.

18 **Q. What is the impact on shareholders of the Company's proposed PIP?**

19 A. Contrary to economic theory and good ratemaking practice, the proposed PIP will
20 increase shareholder return while significantly reducing risk. Shareholder return is
21 directly proportional to the amount of investment made by the utility. Since
22

⁴⁵ Exhibit No. DAH-1T, p. 19, lines 3-4.

1 shareholders benefit from every investment dollar that is spent by a utility, the
2 proposed PIP will increase overall return to shareholders and accelerate recovery
3 of that return.

4 The PIP will reduce shareholder risk, in two ways. First, since the PIP
5 will accelerate recovery, shareholders will receive a return on this investment, and
6 recovery of associated depreciation, outside of and prior to a general rate case.
7 Second, given the true-up mechanism included in the PIP, recovery *of* and *on* this
8 investment is guaranteed. Under traditional ratemaking, shareholders are awarded
9 a risk-adjusted return on equity and given the opportunity, but not a guarantee, to
10 earn this return. This guarantee results from the fact that any shortfalls would be
11 charged to ratepayers in a subsequent period. The PIP effectively eliminates all
12 shareholder risk involving these pipeline replacement projects.

- 13 **Q. What impact does the Company's proposal have on shareholder return?**
- 14 A. As stated earlier, PSE is proposing that the return authorized in the most recent
15 general rate case be used to calculate the PIP tariff rate. However, since this return
16 will be accelerated, the impact to shareholders is an increase in the earned return
17 on equity between general rate cases. In response to discovery, the Company
18 indicated that its earned return on equity would actually increase by
19 approximately 28 basis points if the Company's program is approved.⁴⁶ Thus, the
20 PIP provides exactly the wrong movement in return on equity that one would
21 expect, given the significant reduction in shareholder risk. In spite of the fact that

⁴⁶ PSE Response to Staff Data Request No. 23.

1 the PIP will reduce shareholder risk, the Company has not proposed any reduction
2 to the cost of equity to be paid by ratepayers.

3 **Q. Would impact does the Company's proposal have on ratepayer risk?**

4 A. The Company's proposed mechanism would shift risk from shareholders, where it
5 properly belongs, to ratepayers without any commensurate reduction in the
6 Company's return on equity. Ratepayer risk increases because under the
7 Company's proposal, recovery of pipeline replacement costs from ratepayers
8 would be accelerated. Moreover, ratepayers would be charged not only costs for
9 completed plant, but also costs for projected plant additions that may never be
10 completed, or that may not be completed in a timely manner.

11 Ratepayers would also bear the risk of rate uncertainty. Ratepayers are
12 already faced with general rate cases increases virtually every year. Adopting a
13 PIP would result in at least one additional rate change each year, and perhaps two
14 if the PIP was changed within the year to reflect updated return and depreciation
15 rates resulting from a new general rate case. The customers of PSE have already
16 faced significant rate increases over the last ten years. These constant rate changes
17 make it difficult for customers to anticipate their charges for natural gas or to
18 assess the accuracy of their bills. Rate stability can be especially important to
19 residential and small commercial customers. Adoption of the PIP also puts the
20 Commission in the position of pre-approving rate increases via surcharges without
21 knowing the magnitude of those increases. The Commission has not examined
22 important issues such as gradualism, rate stability, and the avoidance of rate

1 shock, all of which increase risk to ratepayers and should be thoroughly explored
2 prior to implementing the adjustment mechanism proposed by PSE.

3 **Q. Are there other detriments to ratepayers resulting from the PIP?**

4 A. Yes. Permitting these costs to be recovered between general rate cases will reduce
5 the Company's incentive to control and manage them. If the Company is required
6 to file a general rate case to recover its costs, it is likely to work harder to keep
7 costs down between general rate cases by investing in the most cost-efficient
8 projects and by managing construction of such projects effectively. It will also
9 have a greater incentive to control costs in other areas of its business. This
10 incentive is eliminated if cost recovery is accelerated and guaranteed by the
11 Commission. As discussed below, the Company's proposal also results in single-
12 issue ratemaking, which provides a further disincentive for PSE to efficiently
13 manage and control its overall costs, since it provides for guaranteed recovery of
14 PIP costs without consideration of overall costs or and earnings.

15 Given that the Company files a rate case nearly every year, shareholders
16 already begin to recover the revenue requirement associated with pipe
17 replacement costs in a timely manner. The proposed PIP might provide some
18 benefit to ratepayers if the Company was proposing a multi-year moratorium on
19 general rate cases. Since the Company is not proposing any such moratorium, the
20 PIP will only shift risk from shareholders to ratepayers, weaken the Company's
21 incentive to control costs, and increase rate uncertainty without any
22 commensurate benefit to ratepayers.

23

1 **F. Single-Issue Ratemaking**

2 **Q. What are your concerns regarding single-issue ratemaking?**

3 A. The Company's proposal clearly constitutes single issue ratemaking since it
4 proposes to increase rates for one component of the ratemaking equation without
5 consideration of the overall revenue requirement or revenue levels being earned
6 by PSE. Single-issue ratemaking violates the regulatory principle that all
7 components of a utility's ratemaking equation be considered when new rate are
8 established. The PIP would permit PSE to impose increases each year on captive
9 customers without regard for other ratemaking components. Mr. De Boer states
10 that single issue ratemaking is not a problem, since the Commission has approved
11 single-issue ratemaking for other types of expenditures.⁴⁷ This is undoubtedly
12 true. However, while those other issues may have justified deviation from good
13 ratemaking practice, the current proposal does not.

14 The Commission has repeatedly indicated that it will not approve
15 ratemaking schemes involving single-issue ratemaking unless there is an
16 extraordinary and compelling reason to do so. For example, in denying the
17 Company's request for a tracking mechanism for depreciation expense, the
18 Commission found that,

19 It requires extraordinary circumstances to support a departure from
20 fundamental ratemaking principles. In prior cases, the Commission
21 has required 'a clear and convincing showing that the Company
22 will be denied any reasonable opportunity to earn its authorized
23 rate of return without extraordinary relief.'⁴⁸

⁴⁷ Exhibit No. TAD-1T, p.7, lines 18-20.

⁴⁸ PSE 2006 GRC, Docket Nos. UE-060266 and UG-060267, Order 08, Paragraph 39.

1 The need to provide safe and reliable service is not an extraordinary
2 circumstance, nor is it a new circumstance. Rather, this requirement is a basic
3 tenet of monopoly utility service. Mr. De Boer is correct that the Commission has
4 adopted single-issue ratemaking in the past under certain circumstances.
5 However, single-issue ratemaking has generally been considered an extraordinary
6 ratemaking treatment used to resolve a specific and well-defined problem.
7 Single-issue ratemaking should be limited to instances where there are
8 extraordinary operational issues or financial concerns that warrant deviation from
9 the traditional ratemaking methodology.

10 **Q. Are there extraordinary operational or financial issues in this case that**
11 **would justify single-issue ratemaking?**

12 A. No, there are not. There are no safety or other issues in this case that would justify
13 single-issue ratemaking from an operational perspective. There is no evidence that
14 the utility system is unsafe, or is on the verge of becoming unsafe. In fact, the
15 Company acknowledges that it has taken appropriate steps over the past years to
16 ensure the safety of its system and to replace pipe, as necessary. This is evidenced
17 by the completion of its cast iron pipe replacement program and by the current
18 bare steel replacement program, neither of which required an accelerated recovery
19 mechanism. The ongoing wrapped steel service replacement program has also
20 been undertaken without an accelerated recovery mechanism.

21 Moreover, the Company has not demonstrated that its financial condition
22 warrants an accelerated recovery mechanism. There is no evidence that PSE has
23 had difficulty attracting the capital necessary to make the improvements that have

1 been made to date. I understand the Company indicated that one of the primary
2 benefits of its acquisition by Puget Holdings, LLC was that the acquisition would
3 provide access to new capital. The new owners indicated that they would “invest
4 heavily, even where the benefits only accrue at some point in the future, as
5 opposed to next quarter’s earnings per share or dividend.”⁴⁹ Now, less than three
6 years after the acquisition, the Company is proposing a new accelerated recovery
7 mechanism, one that will result in millions of dollars of new charges to
8 ratepayers, in order to finance its infrastructure.

9 Nor has PSE demonstrated that its financial integrity would be jeopardized
10 if the PIP is rejected by the Commission. PSE has not provided any evidence that
11 it will have difficulty attracting capital if the PIP is not approved. The Company
12 has regularly and frequently filed for rate increases and there is no indication that
13 it will not continue to do so if the PIP tracker is approved. In short, there is no
14 evidence that either operational issues or financial issues necessitate
15 implementation of a new accelerated recovery mechanism for pipeline
16 replacements.

17 **Q. Please comment on Mr. De Boer’s testimony, Exhibit No. TAD-1T, at**
18 **page 5 that more than 40 utilities in 19 states have special rate mechanisms to**
19 **recover their replacement infrastructure.**

20 A. I agree with Mr. De Boer that the use of single-issue ratemaking is expanding. In
21

⁴⁹ PSE Sale, Docket No. U-072375, Exhibit No. CJL-8HCT, p. 11, line 20- p.12, line 1.

1 an attempt to shift risk from ratepayers to shareholders, utilities are becoming
2 more aggressive in attempting to establish surcharges that result in dollar-for-
3 dollar recovery of various expenditures. However, I caution the Commission to
4 view lists of other states that have adopted replacement infrastructure clauses with
5 caution.

6 For example, several of the utilities referenced in Mr. De Boer's testimony
7 are in New Jersey. Infrastructure replacement surcharges in that state were
8 implemented as an economic stimulus package with a focus on job creation,
9 implemented as a directive by the former governor.⁵⁰ Neither the utilities nor the
10 Board of Public Utilities had the option of rejecting these programs. Other
11 surcharges referenced by Mr. De Boer are the result of legislative mandates that
12 restrict the actions of regulators.⁵¹ Thus, the existence of surcharges in other states
13 should be viewed cautiously by regulators.

14 **Q. Does the adoption of special rate mechanisms in other states necessarily**
15 **reflect good public policy?**

16 A. No, it does not. What began for most utilities as a mechanism to recover volatile
17 fuel costs in the 1970s, has expanded to include recovery of not only certain
18 operating expenses but also recovery of capital costs, including cost of equity.

⁵⁰ Governor Corzine announced his "Economic Stimulus Plan" on October 16, 2008. In his address to the Joint Session of the New Jersey Legislature, he said, "I have instructed all commissioners, most particularly the commissioners and directors of the Department of Transportation, New Jersey Transit, the Toll Authorities, the Schools Development Authority, the Board of Public Utilities and the Department of Environmental Protection, to accelerate where feasible all currently funded capital spending projects." Available at: http://slic.njstatelib.org/slic_files/digidocs/901/g52/corzine/Corzine2008%20-%20economic%20stimulus%20plan.pdf

⁵¹ For example, the programs authorized by the Kansas Gas Safety and Reliability Policy Act, per Exhibit TAD-3, page 7.

1 Moreover, the proliferation of these mechanisms seems to have accelerated over
2 the past few years, as the economy has weakened and companies have attempted
3 to further insulate their income from volatility. Even though shareholders receive
4 a generous risk-adjusted return on equity award, utilities have become even more
5 aggressive in seeking to transfer that risk from shareholders to ratepayers, without
6 any commensurate reduction in return on equity. The basic principles of risk and
7 reward, as well as providing incentives for effective management, are being
8 eroded by tracker mechanisms that relieve the utility from risk and uncertainty. In
9 this case, it is not only financial risk that is being transferred but operational risk
10 as well, since the Company proposes to have stakeholders collaborate in
11 determining the operational and financial details of the pipeline replacement
12 program prior to each year's filing.

13 **IV. CONCLUSIONS**

14 **Q. Has the Company justified its request for an accelerated recovery program?**

15 A. No, it has not. A fundamental flaw in the Company's proposal is that it is seeking
16 Commission approval for a program that has not been clearly defined, or
17 quantified, by the Company. While the Company may be required to undertake
18 pipe replacements over the next few years, such replacements are a normal and
19 integral part of the natural gas utility business. This investment should be handled
20 like any other investment that is required to provide safe and reliable utility
21 service and recovered through a general rate case proceeding. Between general
22 rate cases, the risk of recovery should be on shareholders, who are given a
23 premium return on equity for taking on such risk. The Company does not begin

1 to recover other types of investment until it files for new general rates, and
2 investment in replacement projects should be given the same regulatory treatment.

3 Requiring the Company to recover these costs in a general rate case also
4 provides a better forum for the Public Counsel, Staff, and other interveners to
5 review these costs and to determine whether the costs are just and reasonable.
6 While the Company states that parties will have the ability to review these costs in
7 the annual collaboration meetings and true-up filings, the reality is that such
8 proceedings would be conducted in a relatively short period of time and many
9 interveners do not have the resources to undertake a comprehensive review
10 outside of a general rate case. Furthermore, the Company has not identified any
11 safety, operational, or financial issues in this case to justify a deviation from
12 traditional ratemaking practice with regard to cost recovery.

13 **Q. If the PIP is not approved, will the Company continue to operate a safe**
14 **natural gas system?**

15 A. Yes, it will. The Company stated, “If the PIP is not approved, PSE will continue
16 to invest in pipeline replacement programs at a level that is supported in PSE’s
17 internal budgeting process and continue to maintain system integrity per the
18 existing integrity management program.”⁵² While PSE goes on to state that in the
19 absence of the PIP, it will take longer for PSE to replace “pipes identified as
20 strong candidates for replacement,” according to the information provided by
21 PSE, the current system appears to be working well.

22

⁵² Exhibit No. DAH-1T, page 18, lines 14-19.

1 **Q. Given your concerns with the PIP, what do you recommend?**

2 A. I recommend that the Commission reject the Company's proposal to accelerate
3 recovery of its pipeline replacement costs. The PIP results in single-issue
4 ratemaking, provides a disincentive for utility management to control costs, and
5 shifts risk from shareholders to ratepayers. Given the frequency with which PSE
6 files general rate cases, the PIP will only put a further (and unnecessary) financial
7 burden on ratepayers. Investment in replacement projects should be treated no
8 differently from other investment that is necessary to provide safe and adequate
9 utility service, and should be recovered only through a general rate case where all
10 parties can undertake a thorough review of the costs. Accordingly, the Company's
11 request for the PIP should be denied.

12 **Q. Does this complete your testimony?**

13 A. Yes, it does.