

Exhibit Joint-7T

Dockets UE-072300/UG-072301

Witnesses: John H. Story

Karl R. Karzmar

Michael P. Parvinen

Michael J. Majoros, Jr.

Kevin C. Higgins

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent

DOCKET UE-072300

DOCKET UG-072301

(consolidated)

**JOINT TESTIMONY OF JOHN H. STORY, KARL R. KARZMAR,
MICHAEL P. PARVINEN, KEVIN C. HIGGINS
AND MICHAEL J. MAJOROS, JR.**

SUPPORTING PARTIAL SETTLEMENT REGARDING

ELECTRIC AND NATURAL GAS REVENUE REQUIREMENTS

AUGUST 28, 2008

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1 **I. INTRODUCTION AND PURPOSE OF JOINT TESTIMONY**

2
3 **Qualifications of John H. Story**

4 **Q. Please state your name and the party for whom you are appearing.**

5 A. My name is John H. Story, and I am appearing on behalf of Puget Sound Energy,
6 Inc. ("PSE" or the "Company"). My qualifications are presented in Exhibit JHS-2.

7
8 **Qualifications of Karl Karzmar**

9 **Q. Please state your name and the party for whom you are appearing.**

10 A. My name is Karl Karzmar, and I am appearing on behalf of PSE. My
11 qualifications are presented in Exhibit KRK-2.

12
13 **Qualifications of Michael P. Parvinen**

14 **Q. Please state your name and the party for whom you are appearing.**

15 A. My name is Michael P. Parvinen, and I am appearing on behalf of The Staff of
16 the Washington Utilities and Transportation Commission ("Staff"). My
17 qualifications are presented in Exhibit MPP-1T.

18
19 **Qualifications of Michael J. Majoros, Jr.**

20 **Q. Please state your name and the party for whom you are appearing.**

21 A. My name is Michael J. Majoros, Jr., and I am appearing on behalf of the Public
22 Counsel Section of the Attorney General's Office ("Public Counsel"). My
23 qualifications are presented in Exhibit MJM-2.

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Qualifications of Kevin C. Higgins

Q. Please state your name and the parties for whom you are appearing.

A. My name is Kevin C. Higgins, and I am appearing on behalf of Nucor Steel Seattle, Inc. ("Nucor") on issues pertaining to Docket No. UG-072301 and The Kroger Co. ("Kroger") on issues pertaining to Docket No. UE-072300. My qualifications are presented in Exhibit KCH-1T.

Q. What is the purpose of this Joint Testimony?

A. The purpose of this Joint Testimony is to demonstrate that the Partial Settlement Re: Electric and Natural Gas Revenue Requirements (the "Partial Settlement"), filed August 22, 2008, is consistent with the public interest and should be approved by the Washington Utilities and Transportation Commission ("Commission").

Q. Who are the parties to the Partial Settlement?

A. The Partial Settlement is entered into by PSE; Staff; Public Counsel; the Industrial Customers of Northwest Utilities ("ICNU"); Northwest Industrial Gas Users ("NWIGU"); Seattle Steam Company; The Energy Project; The Kroger Co. ("Kroger"); Federal Executive Agencies ("FEA"); and Nucor Steel Seattle, Inc. ("Nucor") (collectively referred to hereinafter as the "Parties" and each individually as a "Party").

1 **II. BACKGROUND AND SCOPE OF THE UNDERLYING**
2 **DISPUTE**
3

4 **Q. Please describe the filing that gave rise to this proceeding.**

5 A. On December 3, 2007, PSE filed with the Commission revisions to its currently
6 effective Tariff WA U-60, Tariff G, Electric Service, Advice No. 2007-34 and
7 Tariff WN U-2, Gas Service, Advice No. 2007-35. The proposed revisions would
8 affect a general rate increase of \$174.5 million, or 9.50 percent, for electric
9 service and \$56.8 million, or 5.31 percent, for natural gas service. On December
10 12, 2007, the Commission suspended and consolidated the filings. Through
11 supplemental evidence filed April 14, 2008, PSE revised its electric revenue
12 requirement to \$179.7 million and its natural gas revenue requirement to \$58.1
13 million. In rebuttal testimony filed July 3, 2008, PSE further revised its electric
14 revenue requirement to \$165.1 million and its natural gas revenue requirement to
15 \$55.5 million.

16 A prehearing conference was held on January 14, 2008, at which time the
17 Commission granted petitions to intervene in these dockets of ICNU, Kroger, The
18 Energy Project, NWIGU, Seattle Steam Company, FEA and Nucor. These
19 parties, Staff and Public Counsel conducted extensive discovery on PSE's
20 supporting evidence, and filed response testimony on May 30, 2008.

21
22 **Q. How did this Partial Settlement develop?**

23 A. The Parties participated in settlement conferences during the period July 8-18,
24 2008. At these settlement conferences and over subsequent days, the Parties

1 presented proposals and counter-proposals that eventually resulted in agreement
2 among them to resolve the issues addressed by the Partial Settlement.
3

4 **Q. Do all Parties to the proceeding join in support of the Partial Settlement?**

5 A. Yes. In addition, as the Partial Settlement describes, various sets of Parties have
6 filed for Commission approval several other unopposed agreements regarding:

- 7 • Electric rate spread and rate design;
- 8 • Natural gas rate spread and rate design;
- 9 • Service quality;
- 10 • Meter and billing performance;
- 11 • Low-income energy bill assistance; and
- 12 • Emergency response and storm preparedness

13 Testimony in support of these other agreements has been filed separately and is
14 not duplicated here.
15

16 **III. THE SCOPE OF THE PARTIAL SETTLEMENT AND ITS**
17 **PRINCIPAL ASPECTS**
18

19 **Q. Please briefly describe the main components of the Partial Settlement.**

20 A. This Partial Settlement recommends an increase in electric and natural gas
21 revenue requirements of \$130.2 million and \$49.2 million, respectively. These
22 recommended increases are below those proposed by PSE in its original,
23 supplemental and rebuttal cases. These increases are also based on a return on
24 equity (10.15 percent) that is lower than PSE's currently authorized return on

1 equity (10.4 percent). The proposed effective date for new rates is November 1,
2 2008, which precedes the maximum lawful time limit by only 2 days.

3 The Partial Settlement also includes agreements related to new
4 depreciation rates, the amortization of storm damage costs, the prudence of new
5 resource acquisitions and purchased power agreements, the timing of PSE's next
6 general rate case, and the ability of PSE to further update its power costs for
7 changes in the cost of natural gas.

8 The only controversy that remains among the Parties relates to PSE's
9 Power Cost Only Rate Case mechanism. The continued existence of that
10 mechanism and its form will be litigated at hearing commencing September 3,
11 2008.

12
13 **A. Revenue Requirements**

14 **Q. Please describe how the agreed electric and natural gas revenue**
15 **requirements were determined.**

16 A. The agreed electric and natural gas revenue requirements were determined using
17 the revenue requirements models supporting the Company's rebuttal testimony
18 and exhibits filed July 3, 2008, but with the following agreed adjustments:

19 *Cost of Capital:* The Parties agree to an 8.25% overall cost of capital, and
20 a net of tax cost of capital of 7.00%, calculated as follows:

	Capital %	Cost %	Rate of Return
DEBT	53.97%	6.64%	3.58%
PREFERRED STOCK	0.03%	8.61%	0.00%
EQUITY	46.00%	10.15%	4.67%
TOTAL	100.00%		8.25%
AFTER TAX DEBT (LINE 1 * 65%)	53.97%	4.32%	2.33%
PREFERRED	0.03%	8.61%	0.00%
EQUITY	46.00%	10.15%	4.67%
TOTAL AFTER TAX COST OF CAPITAL	100.00%		7.00%

1
2 *Depreciation:* The Parties agree to the depreciation rates for electric,
3 natural gas and common plant shown in Attachment 1 to the Partial Settlement.
4 The electric depreciation rates have been adjusted from the Company's rebuttal
5 filing to reflect a Colstrip depreciable life of 60 years, as proposed by
6 Commission Staff and Public Counsel.¹ The Parties request that the Commission
7 approve these depreciation rates effective November 1, 2008.

8 *Storm Damage:* The Parties agree to amortize the December 13, 2006
9 "Hanukkah Eve" wind storm cost over 10 years, as proposed by FEA.² The
10 Parties further agree to continue the Catastrophic Storm Loss Deferral
11 Mechanism, as proposed by the Company.³ The Parties propose that the new \$8
12 million threshold level established therein for Institute of Electrical and
13 Electronics Engineers related storm deferrals should commence with the calendar
14 year 2009.

¹Exhibit WHW-1T at 7-10 (Testimony of William H. Weinman) and Exhibit CWK-1T at 8-12 (Testimony of Charles W. King).

²Exhibit RCS-1T at 3-11 (Testimony of Ralph C. Smith).

³Exhibit JHS-1CT at 45-47 (Testimony of John H. Story).

1 Attachment 2 to the Partial Settlement shows PSE's adjusted results of
2 electric operations and rate of return on electric rate base, for ratemaking
3 purposes, as agreed upon by the Parties for these dockets. This revenue
4 requirement includes the adjustment to electric revenues recommended in the
5 Partial Settlement Re: Service Quality, Meter and Billing Performance, and Low
6 Income Bill Assistance, filed August 20, 2008 for Commission approval.

7 Attachment 3 to the Partial Settlement shows PSE's adjusted results of
8 natural gas operations and rate of return on natural gas rate base, for ratemaking
9 purposes, as agreed upon by the Parties for these dockets. This revenue
10 deficiency also includes the adjustment to natural gas revenues recommended in
11 the Partial Settlement Re: Service Quality, Meter and Billing Performance, and
12 Low Income Bill Assistance.

13
14 **B. Next General Rate Case Filing**

15 **Q. Does the Partial Settlement delay the timing of when PSE could file its next**
16 **general rate case?**

17 A. Yes. The Company agrees that it will not file a general rate case prior to April 1,
18 2009.

19
20 **C. New Resources**

21 **Q. Does the Partial Settlement resolve the issue of rate recovery of new**
22 **resources and purchased power agreements?**

1 A. Yes. The Parties agree that the following new resources and purchased power
2 agreements (“PPAs”), as set forth in the Company's direct and rebuttal testimony,⁴
3 were prudently acquired and that the associated costs are reasonable and should
4 be approved by the Commission for rate recovery:

- 5 • Whitehorn Units 2 and 3, a pair of simple cycle combustion turbines with
6 a total capacity of 150 MW.
- 7 • Sumas natural gas fired combined cycle combustion turbine and an
8 interest in the natural gas pipeline that serves the facility. This unit has a
9 total capacity of approximately 125 MW.
- 10 • Addition of 7.2 MW of wind capacity at the PSE-owned Hopkins Ridge
11 Wind Facility (“the Hopkins Ridge Infill”).
- 12 • A two-year extension to the full requirements PPA with Powerex to PSE’s
13 Point Roberts load.
- 14 • A 20-year power purchase with PPM Energy for 50 MW of the 221-MW
15 Klondike III wind project.
- 16 • An approximate four-year PPA with Lehman Commodity Services Group
17 for 50 MW of replacement energy due to the Sumas PPA default.
- 18 • An approximate four-year PPA with Sempra Energy Trading Company for
19 the balance of the energy replacement necessitated by the Sumas PPA
20 default.
- 21 • A four-year winter on-peak power purchase for 150 MW.

⁴Exhibit KJH-1HCT at 23-24 and Exhibit KJH-9CT at 23-24 (Testimony of Kimberly J. Harris); *See also* Exhibit RG-1HCT at 31-97 and Exhibit RG-55CT at 2-6 (Testimony of Roger Garratt) for full descriptions of the new resources and PPAs.

- A three and one-half year Locational Exchange Agreement with TransAlta Energy Marketing (US), Inc.

In reaching this agreement, the Parties applied the standard the Commission has applied traditionally to assess the prudence of power supply acquisitions in rate proceedings. *WUTC v. Puget Sound Energy, Inc.*, Order No. 12 at ¶ 19, Docket 031725 (April 7, 2004); *WUTC v. Puget Sound Power & Light Co.*, 19th Supplemental Order, Docket UE-921262, *et al.*, (September 27, 1994).

D. Power Cost Adjustment (“PCA”) Mechanism

Q. Please explain the Parties’ agreement regarding PSE’s power cost adjustment mechanism.

A. The Parties agree to the Power Cost Rate shown in confidential Attachment 4 to the Partial Settlement. Moreover, given the concerns expressed by Staff,⁵ PSE agrees to study the efficacy of the PCA sharing bands and, if warranted, propose modifications to the bands in its next general rate case. The Company will complete this review by December 31, 2008 and will share the results and underlying documentation with all interested parties including Staff, Public Counsel and ICNU.

E. Effective Date of New Rates

Q. What is the proposed effective date for new rates recommended by the Parties?

⁵Exhibit APB-1T (Testimony of Alan Buckley).

1 A. The Parties recommend an effective date of November 1, 2008 for new rates in
2 these dockets.

3

4 **F. Gas Cost Update**

5 **Q. Please explain the provision of the Partial Settlement related to gas cost
6 updates.**

7 A. The Company's supplemental filing on April 14, 2008 updated natural gas cost
8 and related power cost items. The Parties agree that no further update should be
9 ordered by the Commission as part of a compliance filing, or otherwise, in these
10 dockets.

11

12 **G. Future Rate Period**

13 **Q. The Company's original filing asked the Commission to conduct a technical
14 conference on the use of a future test period for ratemaking purposes.⁶ What
15 is the status of that request in the Partial Settlement?**

16 A. The Company agrees to withdraw its request for a technical conference on this
17 subject.

18

19 **Q. Please explain why the Partial Settlement regarding electric and natural gas
20 revenue requirements is in the public interest.**

21 A. The Partial Settlement provides a compromise of the Parties' positions on revenue
22 requirements and depreciation methodology that were contested in these dockets.
23 It provides additional rate relief for customers by amortizing the Hanukkah Eve

⁶That request was made in Exhibit EMM-1CT at 30 (Testimony of Eric M. Markell).

1 Storm costs over ten years, rather than the six years proposed by the Company. It
2 allows customers some delay in filing of the next general rate case by the
3 Company's commitment not to file another general rate case before April 1, 2009.
4 The Partial Settlement allows for rate recovery of the new resources presented in
5 the dockets so that the Company can begin earning a return on resources that are
6 important in providing power to customers. It resolves all outstanding issues in
7 these dockets other than the issue of whether the PCORC should continue, and if
8 it does continue, in what form.
9

10 **IV. INDIVIDUAL STATEMENTS OF SUPPORT FOR THE**
11 **PARTIAL SETTLEMENT RE: THE ELECTRIC AND NATURAL**
12 **GAS REVENUE REQUIREMENTS**
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15 **Q. Please explain why the Partial Settlement satisfies the interests of PSE.**

16 A. PSE believes the Partial Settlement reflects a fair and reasonable compromise of
17 several significant issues in this proceeding regarding cost of capital, depreciation
18 and storm damage costs. The Company is pleased that the other Parties to the
19 filing have found the work that the Company has been doing in adding new
20 resources to its portfolio and strengthening its infrastructure is prudent and
21 beneficial for the customers. In order to reach a compromise acceptable to all
22 parties, PSE has agreed, for purposes of this case only, not to seek a further
23 update in natural gas costs and related power costs as part of its compliance filing.
24 Such an update has been ordered by the Commission in recent cases, and PSE
25 continues to support such updates in the future to allow for a more accurate

1 projection of rate year gas prices. PSE believes that the Partial Settlement will
2 result in rates, terms, and conditions of service that are fair, just, reasonable, and
3 sufficient, and that the Partial Settlement is good for the Company, its customers,
4 and its shareholders.

5 PSE recommends approval of the Partial Settlement Re: Electric and
6 Natural Gas Revenue Requirements.

7
8 **Q. Please explain why the Partial Settlement satisfies the interests of Staff.**

9 A. Staff supports the Partial Settlement on electric and natural gas revenue
10 requirements because, on the whole, Staff is satisfied that the agreement provides
11 a fair and reasonable outcome that is in the public interest and that will result in
12 rates that are fair, just, reasonable and sufficient. Of particular importance from
13 Staff's perspective, the Partial Settlement recommends: (1) a significant
14 reduction in the authorized return on equity from 10.4 percent to 10.15 percent;
15 and (2) no further updates for power supply fuel costs, thus, allowing volatility in
16 the current gas markets to flow within the parameters of the Power Cost
17 Adjustment mechanism.

18 It is also important to Staff that all Parties in these dockets are willing to
19 support the Partial Settlement. This demonstrates that the Partial Settlement fairly
20 and reasonably takes into account the diverse interests represented in this case.

21 Staff recommends approval of the Partial Settlement Re: Electric and
22 Natural Gas Revenue Requirements.

1 Q. Please explain why the Partial Settlement satisfies the interest of Public
2 Counsel.

3 A. Public Counsel supports the Partial Settlement on the Electric and Natural Gas
4 Revenue Requirements as a reasonable resolution of the disputed revenue
5 requirement issues in this case. Public Counsel identified a number of areas
6 where it believed the PSE rate request was excessive. Although the settlement
7 does not adopt specific adjustments on most issues, the reduction in gas and
8 electric revenues agreed to addresses in an overall manner Public Counsel's
9 concerns that the request was not justified in a number of areas. Based on the
10 record presented, Public Counsel believes the revenue requirement increase
11 agreed to represents a fair compromise of disputed issues.

12 Public Counsel is pleased with the adoption of the depreciation adjustment
13 recommended for Colstrip. Other aspects of the settlement which are beneficial
14 for consumers include the agreement to a short postponement of the filing of the
15 next rate case and the withdrawal of the future test period proposal. An important
16 component of the settlement for Public Counsel is the reduction of the authorized
17 return on equity ("ROE") to 10.15 percent from the current level of 10.4 percent.
18 While PSE had asked to increase the ROE, Public Counsel presented testimony
19 using both traditional cost of capital analysis and alternative comparators that
20 indicated that a reduction was consistent with the current investor expectations in
21 the market.

22 Finally, the agreement not to include a further gas cost update is in the
23 public interest. Public Counsel has had a general concern about the practice of

1 updating costs during rate cases, both on procedural grounds, and because of the
2 unclear relationship of such updates to the operation of the PCA. This settlement
3 avoids those problems for this case and fixes the revenue requirement, rather than
4 leaving it open-ended, subject to a later update.

5
6 **Q. Please explain why the Partial Settlement satisfies the interests of Nucor and**
7 **Kroger.**

8 A. Nucor and Kroger support the Partial Settlement because it provides a reasonable
9 resolution of the revenue requirement issues in this case, taking into account the
10 arguments presented by the various parties in the case that addressed gas and
11 electric revenue requirements. Nucor and Kroger each believe the Partial
12 Settlement produces a result that is in the public interest.

13
14 **IV. CONCLUSION**

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16 **Q. Does this conclude your joint testimony?**

17 A. Yes.