EXHIBIT NO. MJS-12T
DOCKET NOS. UE-090704/UG-090705
2009 PSE GENERAL RATE CASE
WITNESS: MICHAEL J. STRANIK

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UE-090704** **Docket No. UG-090705**

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
MICHAEL J. STRANIK
ON BEHALF OF PUGET SOUND ENERGY, INC.

DECEMBER 17, 2009

PUGET SOUND ENERGY, INC.

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PUGET SOUND ENERGY, INC.

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I. INTRODUCTION

Q. Are you the same Michael J. Stranik who submitted prefiled direct testimony in this proceeding on May 8, 2009 and supplemental prefiled direct testimony in this proceeding on August 3, 2009, each on behalf of Puget Sound Energy, Inc. ("PSE" or "the Company")?

A. Yes.

Q. What is the purpose of your prefiled rebuttal testimony?

A. My testimony discusses the various gas pro forma and restating adjustments that the Company is proposing in rebuttal as well as some common adjustments that relate to both gas and electric operations. First, I present the uncontested adjustments between Commission Staff and the Company and explain why some of the adjustments have different impacts on net operating income ("NOI") and rate base. Then, I will discuss specific natural gas restating and pro forma adjustments proposed by Commission Staff and other parties that the Company feels are inappropriate and explain why the Company disagrees with these proposals.

Additionally, many of the differences between Commission Staff and the Company relate to a new and different interpretation of pro forma adjustment that is being advocated by Commission Staff. PSE disagrees with this new interpretation of pro forma adjustment. Please reference Section III of Mr. John H. Story's prefiled rebuttal testimony for the Company's interpretation of pro forma adjustments, which is consistent with prior Commission orders.

Based on the pro forma and restating adjustments proposed by the Company and presented in Exhibit No. MJS-14, there is a total natural gas revenue deficiency of $28,464,116. If the Company's request for rate relief is approved, this would represent an average 2.3% rate increase.

II. COMPARISON BETWEEN THE COMPANY'S REVENUE DEFICIENCY AND COMMISSION STAFF'S REVENUE DEFICIENCY

A. Have you prepared a reconciliation between the revenue deficiency filed by the Company and the revenue deficiency filed by Commission Staff?

A. Yes. The following table highlights the differences, in millions, between the Company's supplemental filing, the Company's rebuttal filing and the Commission Staff's filing as revised on December 11, 2009.

PSE Supplemental Filing	$ 30.4
Differences by Adjustment vs. Supplemental Filing	
Rate of Return	(0.9)
14.16 Wage Adjustment	(0.5)
14.04 Federal Income Tax	(0.2)
14.13 Reclassification of Customer Deposits to Rate Base	(0.7)
Misc Other	0.4
Total Change from Supplemental Filing	(1.9)
PSE Rebuttal Filing	$ 28.5
Differences by Adjustment vs. Staff	
Rate of Return Actual Operations	(14.0)
14.03 - Net Interest Paid to IRS	(1.8)
14.05 - Tax Benefit of Pro Forma Interest	(0.7)
14.09 - Miscellaneous Operating Expense	(0.7)
14.10 - Property Tax	(1.7)
14.18 - Wage Increase	(0.7)
Other Adjustments +/- $0.5 million	(0.8)
Total Change	$ (20.4)
Commission Staff Revenue Deficiency	
As revised December 11, 2009	$ 8.1

Q. What are the major differences between the Company's gas revenue deficiency and the Commission Staff's gas revenue deficiency?

A. The major differences between the Company and Commission Staff are the cost of equity along with the other differences highlighted in the above table. There are other smaller differences that will be discussed in the relevant pro forma or restating adjustment discussions which occur later in my testimony. As is highlighted in the above table, Commission Staff's $8.1 million revenue deficiency includes an adjustment to reduce the cost of capital by $14.0 million.

Q. Did any other parties have adjustments to the Company's revenue deficiency?

A. Yes. Some of the adjustments proposed by other parties have been included in the Company's final rebuttal revenue deficiency, which I will discuss in the context of the relevant pro forma or restating adjustment. Later in my testimony, I will discuss the adjustments with which the Company disagrees or I will provide a reference to other Company witnesses that have testimony supporting why a particular adjustment is inappropriate.

Q. Did you prepare a reconciliation between Public Counsel's revenue deficiency and the Company?

A. No. Public Counsel's witness, Mr. Dittmer, started calculating Public Counsel's revenue deficiency from the Company's *adjusted test year* instead of calculating the adjustment's impact on the *actual test year*. There was insufficient time to reconcile Public Counsel's presentation. Errors in the actual calculation of Public Counsel's adjustments, and differences in whether a cost should be allowed, will be addressed within their respective adjustments.

III. UNCONTESTED GAS ADJUSTMENTS BETWEEN THE COMPANY AND COMMISSION STAFF

Q. Have you prepared exhibits which details the updated restating and pro forma adjustments that the Company is proposing?

A. Yes. Exhibit No. MJS-13 reflects the revised test year rate base and working capital amounts as proposed by Mr. Kermode and Mr. Martin. Exhibit No. MJS-14 is presented in the same format as my Exhibit No. MJS-4, Exhibit No. MJS-9 and Ms. Breda's Exhibit No. KHB-3. Exhibit No. MJS-17 provides an additional overview of all adjustments as to whether they are contested or uncontested and the effect on net operating income, rate base and the contribution to revenue deficiency when comparing the results between the Company and Commission Staff.

Q. Please explain the adjustments where the Company is in agreement with Commission Staff.

A. The adjustments and their impact on Net Operating Income ("NOI") or rate base are as follows:

Adjustment	NOI	Rate Base
Actual Results of Operations	$111,350,201	$1,476,214,962
14.01 Temperature Normalization	(8,781,321)	
14.05 Tax Benefit of Pro Forma Interest	(8,726,982)	
14.06 Depreciation Study	(6,218,349)	(3,109,174)
14.07 Pass-through Revenue and Expense	342,920	
14.08 Bad Debts	454,572	
14.11 Excise Tax & Filing Fee	693,130	
14.13 Interest on Customer Deposits	(30,273)	(6,973,756)
14.14 Rate Case Expense	153,958	
14.15 Deferred Gains/Losses	(313,412)	
14.16 Property and Liability Insurance	234,055	
14.17 Pension Plan	(1,480,293)	
14.21 Incentive Pay	615,785	
14.22 Merger Savings	311,112	
14.23 Fleet Vehicles	696,545	4,077,858

Q. Is this list of uncontested adjustments different from the list of uncontested adjustments that Mr. Parvinen presents in his prefiled response testimony?

A. Mr. Parvinen does not include Adjustment 14.16 Property and Liability Insurance or Adjustment 14.13 Interest on Customer Deposits as uncontested. The Company has adopted the Commission Staff's proposed changes, as is discussed later in my testimony, resulting in these adjustments no longer being contested. Finally, Commission Staff lists Adjustment 14.04 Federal Income Tax as uncontested. In accepting proposals from Public Counsel related to this adjustment, which are described later in my testimony, this adjustment now becomes contested between the Commission Staff and the Company.

Q. Are there uncontested adjustments that have different impacts on rate base or net operating income as calculated by Commission Staff and the Company?

A. Yes. Although the Company and Commission Staff agree as to the methodology used to calculate several adjustments, these adjustments are dependent on other adjustments that are in dispute, such as total rate base and cost of capital. The difference in Adjustment 14.05 Tax Benefit of Pro Forma Interest is strictly the result of the difference between the weighted average cost of debt and rate base.

IV. CONTESTED ADJUSTMENTS

Q. Would you please describe the difference between the Company and other parties on the contested adjustments?

A. The impact on net operating income and rate base for each of the Company adjustments is summarized on pages 14-A through 14-D of Exhibit No. MJS-14. The contested adjustments as reflected in the rebuttal filing and their impact on net operating income and rate base are as follows:

Adjustment	NOI	Rate Base
14.02 Revenue & Expenses	$20,539,623	
14.03 Net Interest due to IRS for SSCM	(1,018,402)	(915,968)
14.04 Federal Income Tax	1,028,039	
14.09 Miscellaneous Operating Expense	444,551	
14.10 Property Taxes	(1,053,408)	
14.12 D&O Insurance	142,454	
14.18 Wage Increase	(1,599,663)	
14.19 Investment Plan	(88,119)	
14.20 Employee Insurance	(505,317)	

Rate Base & Working Capital pages 3 and 4 of Exhibit Nos. MJS-13 and JHS-15

Commission Staff and the Company are in agreement on three proposed changes to electric and gas rate base and working capital. These proposed changes are to:

1. reclassify certain balance sheet accounts related to the Crystal Mountain oil spill from working capital to non-operating investment;

2. include combined Construction Work In Progress ("CWIP") balances in the calculation of both the electric and gas working capital ratios. Previously only electric CWIP had been included for the electric ratio and only gas CWIP had been included in the gas ratio. This change allows for consistent treatment between electric and gas in the working capital.

3. transfer gas customer deposits from working capital to rate base and operating investment. This change makes the gas and electric rate base calculation comparable to each other for customer deposits.

PSE believes it is appropriate to make all three changes within the calculation of the test year rate base in pages 3 and 4 for each of Exhibit Nos. MJS-13 and JHS-15. Commission Staff reflects the change in rate base due to gas customers' deposits in the Interest on Customer Deposits Adjustment. PSE has accepted this presentation for ease of comparison. PSE and Commission Staff agree on rate base and working capital changes.

Revenue & Expenses, Adjustment 14.02

Commission Staff witness, Mr. Schooley, removes the Conservation Phase-In

Adjustment from the Revenue and Expense Adjustment based on the premise that the calculation of the conservation savings is not rigorous enough and the adjustment does not meet the standard of a pro forma adjustment. Public Counsel witness, Mr. Dittmer, also removes the Conservation Phase-In Adjustment from the calculation of the Company's Revenue and Expense Adjustment and claims the adjustment does not meet the standard of a pro forma adjustment.

Q. Do you agree with parties' proposals to remove the Conservation Phase-In Adjustment?

A. No. In their prefiled rebuttal testimony, Mr. Story and Mr. Piliaris address why the Conservation Phase-In Adjustment to the test year should be approved by the Commission. *See* Exhibit No. JHS-14T and Exhibit No. JAP-5T.

Q. Are there other Company adjustments impacted by the Conservation Phase-In Adjustment for gas?

A. No. The only adjustment affected by the Conservation Phase-In Adjustment for gas is Adjustment 14.02, Revenues and Expenses. The impact of gas conservation is a decrease in net operating income of $379,500 resulting in revenue requirement deficiency of $610,236.

Q. Are there any other differences between the Company's and other parties' proposals for the Revenue & Expenses adjustment?

A. Yes. Mr. Dittmer's Exhibit No. JRD-3C, page 1 of 21 – Schedule A-Gas, reflects the Company's revenue requirement using the Company's original filing adjusted for the change to cost of capital made in the Company's September 28, 2009 supplemental filing. This incorrect presentation ignores the August 3, 2009 gas supplemental filing which contained a correction to remove $3.2 million of Everett Delta leased revenues. Mr. Dittmer makes no mention of its exclusion from his results, as it is only evident when comparing Mr. Dittmer's Exhibit No. JRD-3C to Exhibit No. MJS-9 Summary page. Please refer to my prefiled supplemental direct testimony, Exhibit No. MJS-8T, for a description of the Everett Delta correction.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

<u>Net Interest Due to IRS, Exhibit Nos. MJS-14 page 14.03 and JHS-16 page 16.36</u>

Commission Staff removes the recovery of interest paid to the Internal Revenue Service ("IRS") in connection with the tax benefits from a simplified service cost method of accounting for tax purposes that was subsequently disallowed by the IRS. Under a settlement with the IRS, PSE was required to pay interest on back taxes net of tax refunds.

Mr. Marcelia discusses this adjustment and why it should be approved by the Commission in his prefiled rebuttal testimony, Exhibit No. MRM-4T.

Federal Income Tax 14.04

Public Counsel proposes to eliminate the lost deduction for non-tax deductible executive compensation over $1,000,000 under section 162(m) of the Internal Revenue Code ("IRC"). The Company agrees to the change proposed by Public Counsel, as section 162(m) of the IRC no longer applies to PSE now that it is a private company. Please refer to the prefiled rebuttal testimony of Mr. Marcelia Exhibit No. MRM-4T for a discussion of section 162(m) of the IRC. Commission Staff makes no such adjustment. Accordingly, PSE and Commission Staff are no longer in agreement as the impact to net operating income for this adjustment.

Tax Benefit of Pro forma Interest, Adjustment 14.05

This adjustment was listed as uncontested by Commission Staff and Public Counsel, and the Company agrees to the methodology used in the calculation. The only difference among the parties is the proposed rate base and weighted cost of interest, which are used in the calculation of the Tax Benefit of Pro forma Interest Adjustment. This adjustment will change based on the final rate base and weighted cost of interest determined in this proceeding.

<u>Miscellaneous Operating Expenses and Rate Base, Adjustment 14.09</u>

Q. Please explain the differences between the Company's supplemental filing and rebuttal filing for this adjustment.

A. The Company's rebuttal adjustment includes one update to remove from net operating income merger related costs of ($1,003) charged to advertising expense that should have been charged below the line. The need for this adjustment was communicated to all parties in PSE's Response to Public Counsel Data Request No. 473 dated October 30, 2009. Neither Commission Staff nor Public Counsel makes such an adjustment to gas operations.

Q. Please discuss the additional differences between the Commission Staff and the Company in calculating this adjustment.

A. There are two differences between the Company and Commission Staff. Commission Staff removed the Company's service provider contract increases for transmission and distribution of $3,005 and $695,231, respectively. Mr. Valdman, in his prefiled rebuttal testimony, Exhibit No. BAV-10T, discusses why these contract changes are known and measurable and should be included as a pro forma adjustment in this proceeding.

Q. Did any other parties have additional proposed changes to the Miscellaneous Operating Expense Adjustment?

A. Yes, Public Counsel witness, Mr. Dittmer, also removed the service provider contract increases for transmission and distribution expense for the same reason as Commission Staff.

Q. Are there other adjustments proposed by any party that were not part of the Company's original or supplemental filing?

A. Yes, Public Counsel witness, Mr. Dittmer, removed costs associated with the Company airplane and replaced them with estimated alternative transportation costs. Mr. Dittmer also proposes to adjust Injuries and Damages based on a three-year average due to a spike in costs for 2008.

Q. Do you agree with the removal of Company airplane expenses from electric and gas operating expenses?

A. No. The airplane is a useful and necessary transportation asset that is used for business purposes and provides efficiencies and productivity benefits to the Company.

Q. Please describe PSE's aircraft and how it is used for business purposes?

A. PSE's airplane is an eight passenger Beechcraft KingAir turboprop aircraft that was purchased in 1986 and has been in continuous service since its purchase. It is used only for corporate business. Exhibit No. MJS-18 provides pictures of the airplane, operational statistics for use during the test year and general benefits provided by the airplane.

The airplane provides value to the customers and the Company by allowing quick and safe access to the Company’s generating resources. These resources have diverse locations in eastern Washington, southern Washington and Colstrip, Montana, all of which have limited commercial flight service available. Without the airplane, travel to Colstrip would take an extra day of travel plus additional expense for rental cars and overnight lodging.

The PSE airplane is a useful business tool that offers scheduling flexibility, minimizes travel time, and provides a secure work environment en route that allows PSE employees to maximize their productivity while traveling. For example, there were 51 trips flown to Walla Walla for construction oversight, with an average of four passengers per flight.

Q. Why do you disagree with the Mr. Dittmer's adjustment for the airplane?

A. Mr. Dittmer argues that he has priced out alternative transportation for employees and directors. However, Mr. Dittmer does not price out the loss of productivity by employees having to wait for plane flights or the additional hours or days required for travel that can result when relying on commercial airlines' flight schedules—particularly to remote locations. Of the 110 trips or 214 legs flown in 2008 by PSE’s airplane, only 5% of the flights were within PSE’s service territory and 86% of the flights required no overnight stay. Mr. Dittmer assumes that these trips can also be accomplished in one day using commercial travel or by driving. This is not a proper assumption. PSE’s airplane flies to several locations where commercial flights are not available or the flight schedules are inconvenient and would require overnight stays.

Regarding travel to Portland, Mr. Dittmer does not factor in the three-hour drive time each way versus an hour for a flight each way on PSE's airplane. Moreover, 22% of PSE's airplane flights were to destinations not served by commercial airlines, such as Colstrip, Montana and Goldendale, Washington. Mr. Dittmer suggests that PSE could charter an aircraft to these locations that are in excess of a four-hour drive. Again Mr. Dittmer ignores the loss of productivity and flexibility that the Company airplane provides for getting employees to these remote sites.

Mr. Dittmer also assumes that PSE could use its fleet vehicles without an increase in the number of vehicles or without the need for employees to use their personal vehicles. The IRS reimbursement rate used by Mr. Dittmer is only an approximate cost reimbursement rate for variable costs associated with a vehicle and does not cover depreciation or maintenance. There are also additional costs to employees not considered by Mr. Dittmer. These costs would be in the form of business insurance to cover their vehicle for business use which would need to be reimbursed by the Company in order to encourage proper risk mitigation for its employees for shifting business obligations onto personal assets.

Q. Can you provide an example of where there would be lost productivity for employees and why lost productivity is not overstated as suggested by Mr. Dittmer?

A. Yes. For instance, if an employee were to drive from Seattle to Portland, the trip time is approximately three hours without any delays for freeway traffic interruptions or rush hour traffic. A trip on the Company airplane would be approximately one hour, a savings of approximately two hours per employee. Additional productivity losses would occur for the start time of the meetings. For instance, if the meetings were to start at 8:00 am, it would be a safety concern to have an employee leave on a long driving trip in the early morning hours. Therefore, overnight lodging would likely be required, which increases the costs of driving trips. Another alternative would be commercial flights when available; however, airport parking, security and lack of employees being able to discuss business actions during travel would also impact the employees' productivity.

Q. Is the Company airplane only used to transport employees to meetings?

A. No. The Company airplane is also used on a monthly basis to perform snow level survey flights in the Cascade Mountains. This data is used to efficiently manage PSE’s Upper and Lower Baker hydro operations. Mr. Dittmer did not include costs to charter an aircraft to perform monthly snow level surveys in his analysis of the airplane's value.

Q. Is Mr. Dittmer's testimony correct in his reference to three flights that did not add value to the ratepayer?

A. No. The three flights that he mentions were not charged to utility operations in the test year. The trip to attend the Montana Governors Cup event was for representing PSE's business interest in Montana related to PSE's Colstrip facilities and charged to FERC Account 426.5 which is non-utility costs. The Whidbey Examiner board meeting was to transport Mr. Reynolds to Port Townsend to attend an editorial board meeting of the local newspaper and was charged to FERC Account 426.5. The trip on January 4, 2009 was to pick-up Mr. Markell, who was on vacation, at Thermal, California and fly him to Seattle so he could participate in corporate merger related meetings. Puget Energy was charged for this flight and it was not charged to utility operations. The non-utility FERC accounts charged for each of these flights were all clearly marked in the log book and should have been obvious to Mr. Dittmer even considering the "quick" review Mr. Dittmer indicates he performed. See attached Exhibit MJS-19 for the related flight logs.

Q. Do you agree with the three-year average calculation for the Injuries and Damages that Mr. Dittmer proposes as part of Miscellaneous Operating Expenses for electric and gas operations?

A. No. Mr. Dittmer adjusts the Company's historical test year results for Account 926, Injuries and Damages by using a three-year average of costs charged to this account. He states that the Injuries and Damages expense has a "significant" spike in 2008 and a three-year average is more appropriate for setting expense recovery. However, he fails to explain why three years is an appropriate number over which to average these costs, or what might be the driver of the "significant" increase.

If the Commission determines that there is a reasoned basis for using a three-year average for this account, then this account should be adjusted to a three year average from this point forward. To arbitrarily pick and choose accounts to average over a specified period when they are higher than average, while using actual account balances for the test year when they are lower than average, is both arbitrary and unreasonable. The Commission should reject this adjustment.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

<u>Property Tax, Exhibit Nos. MJS-14 page 14.09 and JHS-16 page 16.15</u>

Prior to filing its rebuttal testimony, the Company was successful in having the property values adjusted downward from what has been previously assessed by the Department of Revenue. Actual system ratios were also received from the Department of Revenue and were used in the Company's rebuttal calculation. Mr. Marcelia discusses property taxes in his prefiled rebuttal testimony Exhibit

No. MRM-4T. Among the issues he discusses is an explanation of how property taxes are estimated for both financial reporting and rate proceedings. He discusses the impacts on the determination of property taxes for a reduction in property valuation and system ratios and the need for the recalibration of the levy rates when this occurs. Finally, he explains why the Company's adjustment is appropriate to use in setting property tax rates to be included in rates. Mr. Marcelia also discusses why Commission Staff's adjustment, proposed by Mr. Foisy, and Public Counsel's adjustment, proposed by Mr. Dittmer, should not be accepted.

The Company's rebuttal adjustment reflects the reduction in property values and actual system ratios discussed by Mr. Marcelia. The Company's rebuttal property tax adjustment for electric, Exhibit No. JHS-16 page 16.15, has also been corrected for an inadvertent error that was included in the prefiled direct testimony and exhibits. The Company included the property tax expense associated with new resources on each resource adjustment. Both the original property tax adjustment and the resource adjustments adjusted the test year expense property tax amount, which had the impact of adjusting the test year twice. The electric rebuttal property tax adjustment has been corrected for this error.

<u>Director & Officers Insurance, Exhibit Nos. MJS-14 page 14.12 and JHS-16 page 16.17</u>

Public Counsel and Commission Staff argue that the Director and Officers Insurance costs should be shared equally between ratepayers and shareholders, because both parties benefit from such insurance coverage as it facilitates the retention of directors and officers. The Company has calculated this adjustment in the same manner that has been accepted in prior proceedings by the Commission. This calculation allocates a portion of this insurance to subsidiaries and accomplishes the sharing that the Commission has previously approved. The Company adjustment is not contested by other parties. Public Counsel and Commission Staff adjustment should be rejected.

<u>Interest on Customer Deposits, Exhibit Nos. MJS-14 page 14.13 and JHS-16 page 16.19</u>

Commission Staff proposes the reclassification of the Gas Customer Deposit Account from working capital to rate base. This would make the gas account consistent with the Electric Customer Deposit Account.

Q. Does the Company agree with Commission Staff's proposal to reclassify the Gas Customer Deposit Account from working capital to rate base?

A. Yes. The Company agrees to the change proposed by Commission Staff as filed December 11, 2009. However, PSE still believes this adjustment should have been handled by adjusting the calculation of test year rate base. Please refer to my earlier discussion regarding the reclassification in the Rate Base & Working Capital.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

<u>Property & Liability Insurance, Exhibit Nos. MJS-14 page 14.16 and JHS-16 page 16.23</u>

In rebuttal, the Company has updated the estimated premiums used in the Company's supplemental filing to actual known amounts. The Company and Commission Staff are in agreement with the rebuttal update.

Q. Are there any other parties opposed to the Property & Liability Adjustment?

A. Yes. Even though this adjustment represents a known and measurable change, Public Counsel opposes this adjustment since it is outside the test year. Mr. Dittmer speculates the costs could be offset by possible efficiency offsets that are neither quantified nor explained as to how they relate to this adjustment. Public Counsel's adjustment should be disallowed.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

<u>Pension Plan, Exhibit Nos. MJS-14 page 14.17 and JHS-16 page 16.24</u>

This adjustment is uncontested between the Company and Commission Staff.

Q. Do any other parties propose changes to the Pension Plan adjustment?

A. Public Counsel removes the actual cash contributions of $18.4 million made to the qualified plan from the calculation of the restated amount. Public Counsel uses a four-year average based on the historical period from December 2005 through December 2008. Additionally, Public Counsel completely removes the cost of the SERP plan.

FEA uses the four-year average of accounting expense for the period December 2005 through December 2008. FEA completely eliminates the test year cost of the SERP plan.

FEA's proposal to use accounting expense as the method to calculate the pension cost has been addressed by the Commission in Docket No. U89-2688T.

> This adjustment pro forms into test year expenses an amount for the average of the latest four years of actual contributions to the employees' pension plan. The company and the Commission staff agreed on this adjustment, basing their calculations on a four-year average. Public Counsel on brief adopted the Commission staff's figures.

> Intervenor FEA opposed the company adjustment and recommended the pension expense be set at zero. FEA witness Mr. Larkin noted that the company has not made a pension fund contribution in 1988 or 1989. Because the market value of the pension assets is sufficiently high, Mr. Larkin concluded it was unlikely the company would make a contribution in 1990 or for several years thereafter.
>
> The Commission accepts the adjustment made by the company and the Commission staff. Basing the adjustment on a four-year average of actual contributions provides stability in this expense. Basing the adjustment solely on projections of rate year contributions is less desirable.[1]

Mr. Hunt discusses in his rebuttal testimony, Exhibit No. ___(TMH-9T), why the contributions to the pension plan are reasonable and should be recoverable. Mr. Hunt also discusses in his rebuttal testimony the Company's SERP and how this plan benefits customers. The Commission should deny these proposed adjustments. Commission Staff and the Company have calculated the adjustments in a manner consistent with, and accepted in, prior cases.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

Wage Increase, Exhibit Nos. MJS-14 page 14.18 and JHS-16 page 16.25

Ms. Huang of Commission Staff proposes to remove all non-contractual union wage increases as not known and measurable increases. Also included in her

[1] Order page 41.

adjustment is the removal of all non-represented wage increases after the March 2009 annual increase for the same reason. In addition, Ms. Huang makes the statement that there is a double count in the wage increase for IBEW and removes the January 2010 annual increase. The end result is to remove wage increases after the March 2009 annual increases for IBEW and non-union and after the October 2009 annual increase for UA.

Mr. Dittmer, in his prefiled testimony, rejects all annual wage increases including contractual obligations after March 1, 2009. Public Counsel takes the position that these adjustments are not proper pro forma known and measurable adjustments and claim they are offset by productivity gains realized elsewhere by the Company.

Additionally, the overview of the increases included by the Company that Mr. Dittmer presents on page 45 of his prefiled response testimony contains some errors. Mr. Dittmer indicates that PSE's adjustment contains an annual increase for IBEW effective January 1, 2009. No such increase was included in PSE's adjustment. PSE had included an annual increase for IBEW effective January 1, 2011. This annual increase is not referenced in Mr. Dittmer's overview. Also, Mr. Dittmer states, the annual wage increase for IBEW effective January 1, 2010 is an estimate, however, it is the actual increase per the signed contract. Finally, the description of his changes does not match the results within his workpapers for the wage increase. His testimony indicates that he rejects the wage increase for UA effective October 2009 but the increase was actually included in the calculation of the adjustment that Public Counsel makes to the wage increase. It should be noted that Public Counsel combined the wage increase and investment plan, which serves to mask that the UA increases proposed by Commission Staff and Public Counsel are the same, despite Mr. Dittmer's testimony which suggests differently.

Q. Please explain the differences between the Company's supplemental filing and rebuttal filing for this adjustment.

A. With respect to represented employees, the Company agrees with Commission Staff that only contractual increases should be used in this calculation, however, both Commission Staff and Public Counsel are in error about the IBEW wage increase in January 1, 2010. This is a contractual increase for the IBEW and is the last increase in their current contract. The Company has included this increase in its calculation of the wage increase for this group. Please see the excerpt from page 50 of the current IBEW contract listing the increases by time period in Exhibit No. MJS-20, page 3.

The Company has also included a non-represented wage increase for March 2010, the timing of which coincides with the last contractual union increase. The Company has changed the originally filed 3.50% increase for the non-represented group to 3.00%, which is equal to the contractual increase given to IBEW represented employees.

Please reference Exhibit No. MJS-20 for Summary of Wage Rate Increase

Page 1 – Summary of PSE's Effective Wage Increase

Page 2 – Summary of Parties Wage Rate Increase Assumption

Page 3 – Excerpt from IBEW contract indicting wage increase in January 2010

Investment Plan, Exhibit Nos. MJS-14 page 14.19 and JHS-16 page 16.26

Updates to the Investment Plan made by the Company in rebuttal are directly related to changes made in the wage increase adjustments. Accordingly, the differences between the parties in the investment plan adjustments are directly related to the differences in the wage increase adjustments discussed above.

Employee Insurance, Exhibit Nos. MJS-14 page 14.20 and JHS-16 page 16.27

In its rebuttal filing, the Company has updated the employee counts from 2,586 to 2,613 and changed the 2010 flex credit increase to the contractual known amount of 4.75% that was negotiated after the initial filing of this case, instead of the estimated amount of 8% used in the Company's initial filing. The original employee counts included in this adjustment were based on a system report that was run at the start of each month in 2008 for employees who were active and enrolled in a medical coverage choice at the date the report was run. As a consequence of new employees having 30 days to sign up for coverage, new employees electing coverage any time after the beginning of the month were not included in the employee count for that month. These updates were provided to all parties in PSE's Response to Public Council Data Request No. 319 dated August 17, 2009.

Q. Please discuss the differences between the Commission Staff and the Company in calculating this adjustment.

A. There is one difference between the Company and Commission Staff. Commission Staff updated annual flex credits for the contractual change but did not update the employee counts.

Q. Did any other parties have any adjustments for Employee Insurance?

A. Yes, Public Counsel witness, Mr. Dittmer, updated employee counts, but excluded any increase in flex credits for 2010. Mr. Dittmer proposes to exclude the 2010 contractual amount as he feels there are expected "offsets" in the form of efficiency gains or deflation for other cost of service components. Mr. Dittmer does not identify what these savings are or how they relate to this pro forma adjustment. The Company's adjustment reflects all the known and measurable updates for this adjustment and should be accepted by the Commission.

Q. Does this complete your discussion of pro forma and restating adjustments?

A. Yes.

V. REVENUE DEFICIENCY

Q. Would you please explain Exhibit No. MJS-15?

A. Exhibit No. MJS-15 presents the calculation of the revenue deficiency based on the pro forma and restating adjustments proposed by the Company and that were discussed above. As shown on page 1 of Exhibit No. MJS-15, based on $1,469,293,922 invested in rate base and $107,188,406 of net operating income, the Company would have a gas revenue deficiency of $28,464,116.

Cost of Capital

This schedule, shown on page 2 of Exhibit No. MJS-15, reflects the Company's proposed capital structure for this proceeding and the associated costs for each capital category. The capital structure and costs are presented in the prefiled rebuttal testimony of Mr. Donald Gaines, Exhibit No. DEG-11HCT. The rate of return is 8.50%.

Conversion Factor

The conversion factor, shown on page 3 of Exhibit No. MJS-15, is used to adjust the net operating income deficiency by revenue sensitive items and federal income tax to determine the total revenue requirement. The revenue sensitive items are the Washington State utility tax, WUTC filing fee, and bad debts. The conversion factor used in the revenue requirement calculation, taking into consideration the adjustments discussed earlier, is 62.1891% and is uncontested.

VI. UNIT COST ANALYSIS

Q. Has PSE updated its unit cost analysis?

A. Yes. PSE has updated its unit cost analysis. Exhibit No. MJS-15 presents the calculation of the revenue deficiency based on the pro forma and restating adjustments proposed by the Company and that were discussed above. As shown on page 1 of Exhibit No. MJS-15, based on $1,469,293,922 invested in rate base and $107,188,406 of net operating income, the Company would have a gas revenue deficiency of $28,464,116.

Exhibit No. MJS-16 is an updated unit cost analysis. A unit costs analysis consists of the major categories of the income statement and rate base that have been pro formed and restated for each of the test periods for this general rate proceeding and the last general rate proceeding. The major categories of the income statement are then divided by the delivered load for the appropriate test period. This calculation determines the major categories' unit cost for that particular period. The differences between the current period and prior period unit costs are then multiplied by the delivered load for the current regulatory period. This product determines how much that major category has increased or decreased in cost since the last regulatory period taking into consideration load growth and its associated revenue growth. This Exhibit is presented for informational purposes.

VII. CONCLUSION

Q. Does that conclude your prefiled rebuttal testimony?

A. Yes.