

Exhibit No. ___ T (MV-1T)
Docket UG-110723
Witness: Mark Vasconi

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION
COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

DOCKET UG-110723

TESTIMONY OF

Mark Vasconi

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

October 25, 2011

1 I. INTRODUCTION AND SUMMARY

2

3 Q. Please state your name and business address.

4 A. My name is Mark J. Vasconi. My business address is the Richard Hemstad Building,
5 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504.

6

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

8 A. I am employed by the Washington Utilities and Transportation Commission as the
9 Acting Director of Regulatory Services. I have held that position since December,
10 2010.

11

12 Q. Please generally describe your duties as the Acting Director of Regulatory
13 Services.

14 A. I supervise all of the Commission's professional staff involved with the economic
15 regulation of telecommunications, energy, water, and solid waste companies subject
16 to the Commission's jurisdiction. I am involved with setting policy for Regulatory
17 Services' recommendations to the Commission for tariff and other filings made by
18 those companies.

19

20 Q. Have you prepared an exhibit describing you educational and professional
21 background.

22 A. Yes. My educational and professional qualifications are shown in Exhibit No. ___
23 (MJV-2).

1

2 **Q. What is the purpose of your testimony?**

3 A. The purpose of my testimony is to present Staff's recommendation regarding the
4 natural gas Pipeline Integrity Program ("PIP") tariff proposed by Puget Sound
5 Energy, Inc. ("PSE" or the "Company").

6

7 **Q. Please describe the PIP, as proposed by the Company.**

8 A. PSE filed the PIP on April 26, 2011 as a new tariff (Schedule 134) designed to
9 accelerate the recovery of pipeline replacement investments between general rate
10 cases. PSE showed annual investments in pipeline replacement of at least \$27.8
11 million since 2008 and in 2011 PSE budgeted \$34.2 million for pipeline
12 replacement.¹ These investments are driven in part by Commission required
13 replacements of bare steel pipes and in part by federal requirements that all natural
14 gas distribution companies develop a Distribution Integrity Management Plan
15 ("DIMP"). The Commission suspended the tariff on July 15, 2011 after the
16 Company amended its proposal to remove bare steel pipe.

17 The PIP is now a single issue tariff dedicated to providing an immediate
18 return of and on investments that replace three types of natural gas pipe: wrapped
19 steel services, wrapped steel mains and older Polyethylene Pipe ("Older PE"). As
20 proposed, the tariff would be in effect through October 2016, unless extended by the
21 Commission. PSE would be allowed to recover up to \$25 million in pipe
22 replacement costs per year, unless the Commission approves a higher amount.² The

¹ Exhibit No. ___ (DAH-1T) at 10:9-10.

² Exhibit No. ___ (JHS-9).

1 Company proposes an annual consultative process with interested parties to
2 determine the pipeline eligible for cost recovery.

3
4 **Q. Please summarize Staff's recommendation regarding the PIP.**

5 A. The Commission should reject the PIP for several reasons. First, the Company states
6 that its pipeline system is safe³ and does not claim that the PIP is necessary for its
7 pipeline system to remain safe and reliable. Nor does the Company claim it is
8 financially unable to fund pipeline replacement without the PIP. In fact, starting in
9 2008, PSE has invested over \$25 million annually in pipeline replacement without
10 this tariff.⁴ Thus, the PIP is not necessary for PSE to meet its public service
11 obligation to "...furnish and supply such service, instrumentalities and facilities as
12 shall be safe, adequate and efficient, and in all respects just and reasonable."⁵

13 The Company does claim that the PIP will promote a more proactive
14 approach to pipeline integrity by encouraging more investment that will enhance the
15 safety and reliability of its natural gas pipeline system.⁶ However, PSE does not
16 specify how much remediation will be required for each type of pipe covered by the
17 PIP. Therefore, it is not known how or at what cost to ratepayers the PIP will expand
18 the amount of pipe to be replaced or if the tariff will cause replacements to be done
19 faster.

20 Third, if the goal is to enhance pipeline system safety and reliability, the plan
21 should be designed to encourage spending above and beyond investment that has

³ Exhibit No. __ (TAD-1T) at 4:12-13.

⁴ Exhibit No. __ (DAH-1T) at 10, Table entitled "Pipeline Replacement Program Capital Costs in Dollars".

⁵ RCW 80.28.010(2).

⁶ Exhibit No. __ (TAD-1T) at 2:18.

1 already been planned and budgeted. The Company's proposal, however, would
2 recover "incremental" pipeline remediation expenditures, defined as the difference
3 between a projected plant balance and the plant balance at the end of the last test
4 year.⁷ While this methodology will accelerate recovery of and return on investment
5 in pipe remediation, absent a remediation plan it does not guarantee accelerated
6 replacement.

7 Fourth, over the past ten years, the scope of PSE's pipeline integrity efforts
8 has expanded with cost recovery of associated investments accomplished via existing
9 rate making procedures. For example, in Docket UG-101644, a recent general rate
10 case limited to PSE's natural gas rates, PSE indicated that the replacement of aged
11 infrastructure was a major reason for the requested increases. The Company was
12 allowed rate increases on an expedited basis through approval of a settlement. Staff
13 is, thus, unconvinced that a new "single issue" cost recovery mechanism such as the
14 PIP is justified when recovery of the cost to replace aging facilities has been
15 accomplished successfully using rate making methodologies historically employed
16 by the Commission.

17

⁷ Exhibit No. ___ (JHS-1T) at 4:3. For example, if the plant balance used to determine rates in the last test year was \$5 million and was projected to grow to \$6 million by the end of rate year following the PIP filing, recovery of and return on the additional \$1 million would be recovered by the PIP. This methodology also raises an issue as to whether the PIP proposal must be rejected under RCW 80.04.250 because it would allow recovery of investment that is not "used and useful". This is a legal issue that counsel will address in closing briefs.

1
2
3 **II. DISCUSSION**

4 **Q. One of the reasons why Staff recommends the Commission reject the PIP is that**
5 **PSE has not estimated the amount of remediation the gas distribution system**
6 **requires. Please elaborate.**

7 A. Mr. Henderson discusses PSE's gas pipeline integrity programs, as well as how
8 monies collected through the PIP would impact PSE's pipeline replacement program.
9 He indicates that the PIP would be targeted to support the replacement programs of
10 three particular types of pipeline infrastructure: wrapped steel services, wrapped
11 steel mains and Older PE.

12 However, there is no specificity to his statements and he indicates that PSE
13 has not estimated how much remediation is required for these three kinds of pipe.⁸
14 Instead, PSE is still gathering information, monitoring performance, and, in the case
15 of Older PE, implementing a geographic information system to better understand the
16 inventory and location of the pipe.⁹ Without estimates of the amount of pipe needing
17 remediation, or a time horizon over which remediation will take place, there is no
18 baseline against which to judge if efforts funded by the PIP will actually result in
19 accelerated pipeline replacement. While Mr. Henderson claims that approval of the
20 PIP will enhance the safety and reliability of the pipeline system and provide more
21 flexibility in planning and implementing replacement of aging infrastructure,¹⁰ there
22 are no estimates of how much replacement is necessary to achieve those goals, how
much it might cost ratepayers, or a schedule of when remediation efforts will be

⁸ Exhibit No. __ (DAH-1T) at 6-9.

⁹ Exhibit No. __ (DAH-1T) at 6-9.

¹⁰ Exhibit No. __ (DAH-1T) at 16:3-5.

1 finished. This lack of specific planning around scope, cost and timing of pipeline
2 replacement is a significant deficiency in the Company's proposal that warrants its
3 rejection by the Commission.
4

5 **Q. The Company states that it will consult annually with interested parties to**
6 **determine the pipeline costs eligible for recovery through the PIP. Why doesn't**
7 **this process address the flaw regarding the lack of specific planning and timing**
8 **of pipeline replacement?**

9 A. The consultation process envisioned by the Company actually highlights the open-
10 ended nature of the PIP. In essence, the Company is asking the Commission to
11 approve a tariff that will guarantee accelerated cost recovery of pipeline remediation
12 that has not been determined with specificity as to scope and cost.

13 Moreover, PSE does not address what happens if the parties are unable to
14 agree on eligible investments, which, given the highly complex nature of the subject
15 matter, is well within the realm of possibility. Presumably the issue would need to
16 be litigated before the Commission in a prudence review of the pipeline the
17 Company believes is appropriate for replacement, but which other parties may
18 dispute. This is not an efficient or productive process, especially given the frequency
19 of general rate cases and other tariff filings submitted by the Company.
20

21 **Q. You stated earlier that the PIP funds incremental expenditures during the rate**
22 **year as compared to the test year. Please explain further.**

1 A. Mr. Story states that the revenue deficiency captured through the PIP is determined
2 as follows:

3 To summarize the calculation, the revenue deficiency for PIP is based on
4 incremental investment in the approved programs through the rate year. The
5 new incremental investment is the new investment in PIP plant that will be
6 put into service from the end of the most recent test year used to change the
7 general rate tariff schedules for natural gas through the PIP rate year. The
8 current filing, the incremental investment is from the period July 1, 2010
9 through October 31, 2012, with the PIP rate year November 2011 through
10 October 2012.¹¹

11
12 Thus, the amount recovered through the PIP is the amount of additional investment
13 in plant planned, but not yet spent, for the rate year over and above the plant balance
14 used to determine rates in the last test year period, which, in this case, is the year
15 ended June 30, 2010. As shown in Exhibit No. __ (JHS-4), additions to gross plant
16 balances (*i.e.*, plant balances before depreciation and tax adjustments) from July
17 2010 through October 2012 across all three categories of pipe total \$16,438,660 and
18 result in a revenue deficiency for pipeline replacement of \$1,906,869.

19
20 **Q. Why do you object to this approach?**

21 A. While this approach captures additions to plant investment, the investment addition
22 of \$16.4 million is already part of currently planned expenditures. Since the
23 expenditures of \$16.4 million are already planned, these additional investments are
24 contemplated with or without the PIP. No additional mechanism is necessary to
25 encourage the Company to make these investments.

26

¹¹ Exhibit No. __ (JHS-1T) at 4.

1 **Q. Can you provide an example of this point?**

2 A. Yes. Mr. Henderson indicates that the 2010 risk model determined that 91 Wrapped
3 Steel Service lines require "Priority Replacement" while another 303 lines require
4 "Scheduled Replacement".¹² In response to Staff Data Request 3, PSE indicates that
5 the Projected Plant Balances found in Mr. Story's Exhibit Nos. (JHS-5), (JHS-6) and
6 (JHS-7) include \$1.8 million for WSSAP service replacements in 2011. Thus,
7 investments that have already been planned, such as WASSP Priority and Scheduled
8 replacements, have been used to develop the revenue deficiency that would be
9 recovered via the PIP.

10 Therefore, it is unsubstantiated that the PIP will cause more pipes to be
11 replaced faster than what is in PSE's the current plan. Moreover, as a result of the
12 accounting treatment of investment in WASSP replacements, PIP revenues will be
13 used to support efforts already in PSE's pipeline investment plan, thereby insuring
14 that recovery on currently planned investments is secured sooner than if recovery
15 was via a general rate case. In Staff's view, while the PIP will accelerate PSE's
16 recovery of the specific revenue requirement associated with pipeline remediation,
17 there is no certainty that PIP will accelerate pipeline replacements. Thus, there has
18 been no showing that ratepayers will benefit from the revenues they contribute on an
19 expedited basis.

20

¹² Exhibit No. __ (DAH-1T) at 5:10-11.

1 **Q. Has PSE expanded its pipeline integrity efforts in the past ten years?**

2 A. Yes. Mr. Henderson states that PSE has dramatically increased its investments in
3 pipeline integrity efforts over the past decade.¹³ Specifically, PSE has replaced all
4 cast iron pipes, expedited the replacement of bare steel pipe, and developed a risk
5 and remediation methodology among other efforts to increase the scope of PSE's
6 efforts. The DIMP is a federal mandate to prioritize pipelines with high leak
7 histories or potential and to remediate those problem areas. Future replacement
8 projects will be guided by this plan. The efforts undertaken by PSE over the past
9 decade to expand the scope of its pipeline integrity efforts are laudatory, but they
10 have all been accomplished without a separate tariff mechanism and have, instead,
11 been supported through rates determined as part of a general rate cases.

12
13 **Q. Hasn't PSE recently completed a general rate case focused on the recovery of
14 costs to provide natural gas service?**

15 A. Yes. In Docket UG-101644, PSE's last natural gas general rate case, PSE witness
16 Ms. Susan McLain indicated that natural gas service costs have increased due to a
17 number of requirements, including pipeline safety requirements.¹⁴ She also indicated
18 that investment to comply with Federal and State mandates have increased from \$21
19 million in 2005 to \$58 million in 2009, with the expectation that the Company will
20 continue to expend high levels of capital funding to meet infrastructure
21 investments.¹⁵ This rate case was filed on October 1, 2010 using a test year ending
22 June 30, 2010. A settlement approved by the Commission saw rates go into effect on

¹³ Exhibit No. __ (DAH-1T) at 3:13-4:4.

¹⁴ Exhibit No. __ (SML-1T) at 3 (Docket UG-101644).

¹⁵ Exhibit No. __ (SML-1T) at 14-15 (Docket UG-101644).

1 April 1, 2011. Thus, the case was concluded within six months of being filed, with
2 new rates in effect only nine months after the end of the test year. Staff and
3 stakeholders can and do work collaboratively to maintain fair and sufficient rates for
4 the regulated utilities.

5
6 **Q. Doesn't PSE also have a pending general rate case addressing natural gas**
7 **service?**

8 A. Yes. Docket UG-111049 is a pending general rate case focused on natural gas
9 services. The Company's costs to replace aging pipeline infrastructure will be
10 addressed in that proceeding.

11
12 **Q. Has PSE ever indicated that the PIP is required because cost recovery of**
13 **natural gas pipe replacement has been disallowed previously by the**
14 **Commission?**

15 A. No. In response to Public Counsel Data Request 36, PSE acknowledges that it is not
16 aware of any order of the Commission that disallowed recovery of natural gas pipe
17 costs.

18
19 **Q. Has PSE indicated that it does not have the financial ability to fund pipe**
20 **replacements without the guarantee of accelerated cost recovery under the PIP?**

21 A. No. Additional investment in pipeline integrity and pipeline replacement has
22 increased over the past decade without a separate tracker.¹⁶ PSE's current pipeline

¹⁶ Exhibit No. __ (DAH-1T) at 3-4 and 10.

1 investment plans include over \$30 million in 2011 with greater amounts in the next
2 couple years where the bulk of those dollars are for bare steel pipe replacements.¹⁷

3 On the other hand, in the pending general rate case the Company claims that
4 it has under-earned relative to its authorized return on equity and that rate relief
5 should recognize that state of affairs. Staff will address the merits of those assertions
6 in the general rate case. I mention it here only to emphasize that, if the PIP is
7 intended to address the Company's financial concerns, those claims should be
8 addressed in a general rate case, as they always have been addressed. In that way, all
9 relevant factors can best be addressed holistically in one proceeding, including what
10 is a fair return for the investments PSE makes to serve the public. Piecemeal
11 ratemaking, like the PIP that separates the costs of one activity such as pipeline
12 replacement from other costs and revenues, constitutes "single issue ratemaking"
13 which has generally been disfavored by the Commission. In *WUTC vs. Puget Sound*
14 *Energy, Inc.*, Docket Nos. UE-060266 and UG-060267, the Commission stated the
15 following:

16 In particular, we disfavor and typically avoid single-issue ratemaking and we
17 are careful to preserve so far as is reasonable the "matching principle" that
18 relies on our consideration of all revenues, costs and adjustments in the
19 context of a test year with a definite ending date.¹⁸

20
21 A general rate proceeding provides a complete examination of all costs and revenues
22 so that any cost savings or revenue shifts can be examined.

23

¹⁷ Exhibit No. ___ (DAH-1T) at 10:9-10.

¹⁸ Order 08 at ¶37.

1 **Q. Does Staff have any final concerns that warrant rejection of the PIP?**

2 A. Yes. Staff is concerned with the advent of yet another annual filing of a complex
3 tariff. In addition to annual general rate cases, PSE's filings include annual power
4 cost adjustments, annual purchased gas adjustments, annual conservation tariff
5 filings (filed in three separate steps), plus potential filings concerning renewable
6 energy credits and grants. Staff is not proposing any changes to current tariff
7 programs, but is mindful of the costs of processing multiple programs.

8

9 **Q. Please summarize your testimony.**

10 A. The Commission should reject the PIP for various reasons. First, the PIP is not
11 necessary for PSE to satisfy its public service obligation to provide safe, adequate
12 and efficient service. Second, PSE has also failed to indicate how much pipeline
13 remediation is necessary. Thus the scale of the effort required, or the timeline, or
14 cost needed to accomplish pipeline replacements is unknown. Third, while
15 additional planned investment in pipeline infrastructure would be recovered through
16 the PIP, the PIP will not increase pipeline investment or hasten pipeline replacement
17 over what is already planned. Fourth, general rate cases have traditionally been the
18 manner in which pipeline investment has been recovered and there is no reason to
19 substitute that approach with a separate, uniquely tailored mechanism. PIP would
20 clearly allow PSE to more quickly recover its investment and the costs associated
21 with pipeline replacement, but that is a financial benefit to PSE that does not
22 necessarily result in any operational benefit for the public. Last, PIP is single issue
23 ratemaking that violates the matching principal and does not allow for a unified

1 examination of costs and revenues across the whole natural gas system, thereby not
2 allowing for an assessment of any savings that might stem from investments in
3 pipeline replacement.

4

5 **Q. Does that conclude your testimony?**

6 **A. Yes it does.**

7

8