

**EXHIBIT NO. \_\_\_(TAD-4T)  
DOCKET NO. UG-110723  
WITNESS: TOM DE BOER**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket No. UG-110723**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF  
TOM DE BOER  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**NOVEMBER 8, 2011**

**PUGET SOUND ENERGY, INC.**  
**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**  
**TOM DE BOER**

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**  
3 **TOM DE BOER**

4 **I. INTRODUCTION**

5 **Q. Are you the same Tom De Boer who submitted prefiled direct testimony in**  
6 **this proceeding on September 2, 2011 on behalf of Puget Sound Energy, Inc.**  
7 **("PSE")?**

8 A. Yes.

9 **Q. Please summarize the purpose of your rebuttal testimony.**

10 A. My prefiled direct testimony, Exhibit No. \_\_\_\_ (TAD-1T), provided a general  
11 overview of the reasons PSE proposed the Pipeline Integrity Program ("PIP").  
12 My rebuttal testimony responds to the following testimony of the several parties  
13 opposing PSE's proposal:

- 14 1. Mark Vasconi, witness for the Staff of the Washington Utilities and  
15 Transportation Commission ("Staff");
- 16 2. Donald W. Schoenbeck, witness for the Northwest Industrial Gas Users (or  
17 "NWIGU"); and
- 18 3. Andrea C. Crane, witness for the Public Counsel section of the Washington  
19 State Attorney General's Office ("Public Counsel").

20 **Q. What is your overall reaction to the response testimony filed by Staff, Public**  
21 **Counsel and the Northwest Industrial Gas Users?**

1 A. The testimonies of Staff, Public Counsel and NWIGU are very similar in their  
2 arguments opposing PSE's proposal. The overarching theme of their testimonies  
3 appears to be that there is no customer benefit to the proposal. Underpinning this  
4 theme are arguments that PSE's system is currently safe and the traditional  
5 methodology of cost recovery in a general rate case is working just fine so there is  
6 no need for the PIP.

7 However, none of these arguments have raised any barriers that would prevent the  
8 Commission from approving the PIP. The Commission has authorized, and can  
9 authorize, single-issue rate making if it determines such mechanisms are  
10 appropriate. The documented history of safety concerns with older plastic pipe,  
11 wrapped steel mains and wrapped steel services justifies a mechanism that will  
12 remove barriers to allow for more rapid replacement of these higher risk gas  
13 facilities. Contrary to the testimony of other parties, traditional ratemaking will  
14 not encourage the accelerated pipeline replacement that is possible under the PIP.  
15 Finally, other than unsupported assertions, the testimonies do not demonstrate that  
16 customers will not benefit from this accelerated replacement of pipeline that has  
17 been identified to be at higher risk for failure.

18 The Company proposed the PIP, in collaboration with Pipeline Safety Staff, in an  
19 attempt to raise the bar on safety and had hoped that other parties would recognize  
20 the benefits of the proposal. While the parties have raised many arguments in  
21 opposition of the proposal, in the final analysis, this is a policy decision for the  
22 Commission. Given the evidence of increased failure of certain types of aging

1 pipe, the basic question is—should a tariff be put in place that provides for  
2 accelerated replacement of larger segments of pipe that are at a higher risk for  
3 failure? The incremental cost to customers is small—approximately 16 cents per  
4 month for the typical residential customer for the current PIP year—yet the  
5 benefits resulting from this accelerated replacement are significant.

6 **Q. Do you agree with the arguments offered by the parties in their response**  
7 **testimonies?**

8 A. Only in small part. It appears that the only area of agreement between the  
9 Company and the parties in this proceeding is that PSE’s gas system is safe. PSE  
10 disagrees that customers will not benefit from implementing the proposal and  
11 disagrees that the business as usual recovery in a general rate case methodology is  
12 adequate to provide for accelerated replacement of higher risk facilities.

13 **Q. If you agree that the gas system is already safe, why does PSE need the PIP?**

14 A. While we agree that the system is safe, that does not mean the system couldn’t be  
15 safer. As I noted in my direct testimony, “safety is not a single point but a  
16 continuum.” There are almost always ways to improve upon the safety of  
17 otherwise safe condition. Driving a car offers an illustrative example of this  
18 point. Experts (and common sense) recommend keeping a safe distance between  
19 your car and the car ahead of you when driving. A common recommendation of a  
20 safe distance is to maintain a three second gap between when the car ahead passes  
21 a stationary object along the road and when your car passes the same point. This  
22 distance is considered safe under normal conditions and allows for reaction to the

1 car ahead. However, you can be safer by allowing more reaction time – say  
2 increasing this distance to five seconds or even greater. Three seconds is safe –  
3 five seconds is safer. By increasing this reaction time you cannot quantify how  
4 much safer you are, but you know intuitively that it is safer. The same holds true  
5 for PSE’s gas system. PSE analyzes the integrity of its system and completes the  
6 work needed to ensure the system is safe. However, accelerated replacement of  
7 pipe that is higher risk will make an already safe system, safer.

8 **Q. Do you agree with Public Counsel that the Company's obligation with regard**  
9 **to pipeline integrity management has not changed over the years?**

10 A. No, clearly the landscape has changed. First, while it is true that PSE has always  
11 had an obligation to operate its business safely, there are more requirements being  
12 placed on natural gas companies such as PSE by the Pipeline and Hazardous  
13 Materials Safety Administration ("PHMSA") as described by Mr. Henderson in  
14 his direct and rebuttal testimonies.

15 Second, several recent pipeline explosions in San Bruno, California and in  
16 Pennsylvania (both in Philadelphia and Allentown), resulting in 14 deaths and  
17 destroying or damaging 66 homes, has prompted a hard look at the nation’s  
18 pipeline infrastructure at both the federal and state levels.

19 As a result of these and other pipeline incidents, the federal agencies charged with  
20 pipeline safety intensified efforts to address the nation’s aging pipeline  
21 infrastructure. On April 4, 2011, U.S. Transportation Secretary Ray LaHood  
22 announced a Pipeline Safety Action Plan. The press release and Action Plan are

1 provided in Exhibit No. \_\_\_\_ (TAD-5). In the Action Plan, Secretary LaHood  
2 noted that states are “responsible for the inspection and enforcement of state  
3 pipeline safety laws for the natural gas pipeline systems within their respective  
4 states” and issued a “Call to Action” to “accelerate rehabilitation, repair, and  
5 replacement programs” for the highest risk infrastructure. *See* Exhibit No. \_\_\_\_  
6 (TAD-5).

7 As part of this federal effort, on June 16, 2011, in testimony focused on pipeline  
8 safety before the Subcommittee on Energy and Power, Committee on Energy and  
9 Commerce, U.S. House of Representatives, Cynthia L. Quarterman,  
10 Administrator of PHMSA “specifically call[ed] upon State Public Utility  
11 Commissions to establish cost recovery mechanisms that effectively address  
12 infrastructure replacement costs.” *See* Exhibit No. \_\_\_\_ (TAD-6) at p. 4. This  
13 testimony reiterated an earlier request by Administrator Quarterman in a letter  
14 sent to state utility commissions on March 31, 2011 urging each state to “review  
15 your State’s current replacement plans for the highest risk pipelines . . . and  
16 consider what would be necessary to accelerate these plans.” *See* Exhibit No. \_\_\_\_  
17 (TAD-7). For Public Counsel to claim nothing has changed is simply ignoring the  
18 factual reality.

19 **Q. Have other states established infrastructure replacement mechanisms?**

20 A. Yes. As noted in my direct testimony, nineteen states have allowed such  
21 mechanisms, including several states that have encouraged these mechanisms in  
22 legislation. Thus, far from being a “novel” mechanism as claimed by NWIGU

1 witness Mr. Schoenbeck, infrastructure cost recovery mechanisms are common  
2 and expanding. A full list of states having programs to address pipeline  
3 replacement can be found on the Pipeline Safety Awareness website sponsored by  
4 the U.S. Department of Transportation and PHMSA.<sup>1</sup> This website lists twenty-  
5 eight states where state commissions have approved programs to address pipeline  
6 replacement, where proposals are pending, or where legislation exists that would  
7 enable a utility to propose such a mechanism for approval.

8 **II. RESPONSE TO SPECIFIC ISSUES RAISED BY OTHER**  
9 **PARTIES**

10 **Q. How do you respond to Mr. Vasconi's conclusion that the PIP is not**  
11 **necessary for PSE to meet its public service obligation to "furnish and supply**  
12 **such service, instrumentalities and facilities as shall be safe, adequate and**  
13 **efficient, and in all respects just and reasonable?"**

14 **A.** I agree that the PIP is not necessary to maintain a system that meets the minimum  
15 safety requirements. However, while it is true that PSE's current pipeline safety  
16 system falls within an acceptable band of safety, given the evidence of a higher  
17 risk of failing plastic pipe, it is *reasonable* for the Commission to step out of its  
18 traditional ratemaking and pipeline safety method of operation and institute the  
19 PIP to encourage accelerated replacement of this pipe to enhance the safety of  
20 PSE's system. Mr. Lykken testified that the vulnerability of older plastic pipe to

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<sup>1</sup> The list of states on the Pipeline Safety Awareness website can be accessed at:  
<http://opsweb.phmsa.dot.gov/pipelineforum/pipeline-systems/state-pipeline-system/state-replacement-programs/>.



1 premature cracking represents a serious hazard to public safety and that operators  
2 in other states have replaced thousands of miles of higher-risk plastic pipe. Thus,  
3 while PSE's system currently falls within a band of safety, pipeline safety and  
4 integrity can be enhanced by setting in place a recovery system designed to  
5 encourage accelerated replacement of higher risk pipe. Moreover, as Mr.  
6 Henderson testified, the PIP will allow PSE to more *efficiently* replace pipe that  
7 needs to be replaced. Putting in place a regulatory mechanism like the PIP is well  
8 within the statutory mandate for PSE to provide service that is "safe, adequate and  
9 efficient and in all respects just and reasonable."

10 **Q. Parties allege the filing does not adequately define what "speculative**  
11 **expenditures" will be made and that the "lack of specific planning around**  
12 **scope, cost and timing of pipeline replacement is a significant deficiency." Do**  
13 **you agree?**

14 A. No. The filing details the costs that will be included in the first year and then  
15 proposes an annual process to determine what work will be done in subsequent  
16 years. PSE envisions it will work with Commission Pipeline Safety Staff to  
17 develop subsequent year programs and then discuss the proposal with interested  
18 parties prior to each annual filing. While these parties spin the lack of specificity  
19 as a deficiency, in fact the program was designed to allow a review process each  
20 year to develop the scope of the program for the following year. In addition, it  
21 provides a process to review the programs after the fact as part of the annual true-  
22 up process.

1 While it is possible that the parties may not all agree on the program ultimately  
2 filed by PSE, interested parties will actually have more opportunity for input and  
3 will have a filing before the Commission to make their views known. For  
4 example, NW Natural Gas Company has had a similar process (stakeholder  
5 process to review projects) since at least 2001 and it is my understanding there  
6 have been no significant disputes over the scope of the program. By analogy,  
7 PSE's Conservation Resource Advisory Group ("CRAG") process has operated  
8 for many years dealing with complicated issues, and generally there have been  
9 very few significant disputes over the years.

10 If, after collaboration, parties do not agree with the amount of pipeline  
11 replacement proposed in PSE's PIP filing, parties will have the opportunity to  
12 submit comments in response to the tariff filing, as with any other tariff filing.  
13 The Commission can consider written comments and those made orally at the  
14 open meeting and make a decision on the tariff based on the filing and parties'  
15 comments. In addition, the parties will have an opportunity to review the work  
16 that was done over the year in the following year's true-up filing.

17 **Q. Has recovery of the cost to replace aging facilities been accomplished**  
18 **successfully using existing rate making procedures, as claimed by Mr.**  
19 **Vasconi?**

20 A. PSE has never claimed it has not recovered the costs to replace these facilities  
21 eventually in a rate proceeding. Mr. Vasconi's argument misses the point of the  
22 filing. The PIP is designed to provide a limited mechanism of cost recovery to

1 facilitate the acceleration of replacement that may not otherwise happen under the  
2 Commission's traditional ratemaking principles.

3 **Q. Do you agree with concerns expressed by other parties that the collaborative**  
4 **process planned for the PIP removes PSE's responsibility for pipeline safety**  
5 **decision, will result in a rubber stamp approval of pipe replacement, and will**  
6 **guarantee open-ended cost recovery of accelerated pipeline remediation?**

7 A. No. To the contrary, the PIP provides a way for parties to have more visibility  
8 into PSE's programs. The fact that the collaborative process leads to a program  
9 does not change the fact that PSE always has and will continue to be solely  
10 responsible for the operation and safety of its system. This process is analogous  
11 to the CRAG process for conservation programs. The fact that PSE works with  
12 the CRAG to develop its programs has never resulted in PSE being less  
13 responsible for its electric conservation programs. There is no reason to think the  
14 parties will rubber stamp pipeline safety replacement projects under the PIP  
15 anymore than they rubberstamp pipeline replacement projects and expenditures in  
16 current rate cases. Further, the PIP is subject to Commission approval each year.  
17 There is no guarantee of open-ended cost recovery of accelerated pipeline  
18 remediation.

19 **Q. Do you agree with the premise that because PSE has funded pipeline**  
20 **replacements in the past, the PIP is not necessary?**

21 A. I agree that these programs have been ongoing and will continue if the PIP is not  
22 approved. However, that argument completely misses the point of the proposal.

1 The question is not whether this pipe will be replaced, but when and how. As Mr.  
2 Lykken and Mr. Henderson testify, there is more work to be done in terms of pipe  
3 replacement despite PSE's significant efforts over the past decade. Other states  
4 and industry groups recognize this need and have encouraged the acceleration of  
5 replacement of vulnerable pipe.

6 The proactive pipeline replacement model proposed under the PIP differs from  
7 the reactive, compliance driven pipeline replacement PSE has undertaken in the  
8 past. Traditional ratemaking encourages the Company to replace pipe that is  
9 necessary to maintain a safe system—no more and no less. In contrast, the PIP is  
10 designed to respond to nationwide concerns that there is a significant amount of  
11 older plastic pipe that is more prone to failure and should be identified and  
12 replaced. The PIP provides an incentive for PSE to accelerate the replacement of  
13 this pipe, faster than it would have been replaced under traditional ratemaking and  
14 pipeline safety regulatory schemes. The result is a safer system that benefits  
15 customers and the communities in which they live.

16 PSE is faced with potentially decades-long replacement of plastic pipe and  
17 wrapped steel mains and services. PSE can make these replacements gradually, at  
18 a pace that meets pipeline safety standards. However, the point of the PIP  
19 proposal is to accelerate the replacement not merely maintain the pace.

20 **Q. How do you respond to Commission Staff's concern that the PIP will be just**  
21 **another annual filing of a complex tariff?**

1 A. While it is certainly true the PIP will be another filing that Staff will need to  
2 address, I disagree that it is a “complex” filing. Moreover, it provides Staff and  
3 others an opportunity to participate and advocate for work they would like to see  
4 done and look in detail at the projects in small bites rather than a general rate  
5 case.

6 **Q. Do you agree that ratepayers are worse off under the PIP than they would be**  
7 **under a traditional ratemaking approach?**

8 A. Absolutely not. In reaching the conclusion that customers are worse off under the  
9 PIP, Ms. Crane assumes that the only way to measure customer benefits is by the  
10 rates they pay. PSE believes that customers understand the benefits of enhanced  
11 pipeline integrity and safety and are willing to pay a few cents more per month on  
12 average for accelerated replacement of pipe.

13 **Q. Some parties argue that the PIP will increase shareholder return while**  
14 **significantly reducing risk and that the PIP provides exactly the wrong**  
15 **movement in return on equity. Do you agree?**

16 A. No. The PIP does not increase PSE's authorized return on equity, but provides  
17 PSE an opportunity to avoid exacerbating the chasm between its authorized return  
18 and its actual return on equity while accelerating replacement of higher risk pipe.

19 **Q. How do you respond to concerns that the PIP should not be approved**  
20 **because it is single-issue ratemaking and there are no extraordinary**  
21 **circumstances justifying single-issue ratemaking?**

1 A. PSE does not agree that there must be extraordinary circumstances in order for the  
2 Commission to approve the PIP. WAC 480-07-505(2)(a) recognizes that the  
3 Commission can authorize periodic rate adjustments, such as those that would  
4 occur under the PIP, and the Commission has authorized such mechanisms in the  
5 past. Moreover, in the Final Order in PSE's 2006 general rate case the  
6 Commission noted that recovery of infrastructure replacement could be  
7 undertaken outside of a general rate case.<sup>2</sup>

8 That said, there is ample evidence that extraordinary circumstances exist. As I  
9 previously discussed, there is a nationally-recognized need to accelerate the  
10 replacement of pipe that is prone to failure and is pervasive throughout the natural  
11 gas delivery system in this country. The United States Department of  
12 Transportation, the PHMSA, and others are calling for accelerated replacement of  
13 this pipe and asking state utility commissions to establish mechanisms that  
14 encourage proactive replacement of pipeline.

15 **Q. Several parties argue that PSE is spending sufficiently on these programs so**  
16 **no further incentive is needed. How do you respond?**

17 A. While PSE has budgeted to spend \$34.2 million on pipe replacement programs in  
18 2011, 72 percent or \$24.7 million of the \$34.2 million is being spent on the bare  
19 steel replacement program, which is not a part of the PIP tariff, and only 28  
20 percent is being spent on the programs included in the PIP. The bare steel

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<sup>2</sup> See *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-060266 & UG-060267, Order 08 (January 5, 2007) ¶ 51.

1 program is scheduled to be completed by December 31, 2014 pursuant to a  
2 commission order. This leaves very little funding during this time period for the  
3 other programs that are not under order. It is exactly this situation that prompted  
4 PSE and Commission Pipeline Safety Staff to begin discussions about the PIP.  
5 The PIP is a way to move forward collaboratively on addressing situations that  
6 would be difficult to prove are unsafe but that all agree could be safer if addressed  
7 sooner than the integrity management process might require.

### 8 III. CONCLUSION

9 **Q. Does this conclude your testimony?**

10 **A. Yes, it does.**