EXHIBIT NO. ___(JHS-11)
DOCKET NO. UE-06___/UG-06___
2006 PSE GENERAL RATE CASE
WITNESS: JOHN H. STORY

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UE-06____** **Docket No. UG-06____**

TENTH EXHBIT (NONCONFIDENTIAL) TO THE PREFILED DIRECT TESTIMONY OF JOHN H. STORY ON BEHALF OF PUGET SOUND ENERGY, INC.

FEBRUARY 15, 2006

PUGET SOUND ENERGY, INC.

TENTH EXHBIT (NONCONFIDENTIAL) TO THE PREFILED DIRECT TESTIMONY OFJOHN H. STORY

Q. What is the purpose of this exhibit to your prefiled direct testimony?

A. This exhibit to my prefiled direct testimony describes how the Company performed the attrition calculations using the methodology for attrition allowances that has been approved in prior Washington rate cases. The results of this attrition calculation are referenced in my prefiled direct testimony.

Q. Would you please give a general description of how the Company performed the attrition calculations using the methodology for attrition allowances that has been approved in prior Washington rate cases?

A. The Company reviewed prior filings where attrition adjustments were proposed and found that the most common methodology accepted in Washington used trending for revenues and certain costs. There was not a definitive procedure adopted by the Commission in any particular case. However, general guidelines are discussed in the various Commission orders dealing with this topic.

Q. What are some of those general guidelines?

A. The trending methodology is designed to measure the recovery of changing costs under a fixed rate condition. Because it relies on a rate of return measure, any changes in rates or allowed returns need to be eliminated to put the time periods that are being analyzed on an equal basis. The traditional analysis should also cover time periods in which expenditures for capital investment are similar. This is necessary so that the impacts of the capital additions are captured as they impact cost levels. The Commission also stated, in Cause Nos. U-80-25 and U 80-27, that the time periods analyzed should reflect appropriate rate making adjustments. However, several attrition adjustments approved by the Commission did not have these restating and pro forma adjustments reflected for the years used in the trending analysis.

Q. Did the Company apply these general guidelines to its attrition analysis?

A. Yes. I will discuss the electric attrition analysis, and Mr. Karzmar discusses the natural gas attrition analysis.

Application of the traditional method of measuring attrition is a challenge with respect to any analysis of electric operations for PSE because of the PCORC rate changes that have been implemented in the last couple of years in between general rate cases. PSE addressed the impact of the interim rate increases due to PCORC by removing the impact of the PCA revenues and the underlying PCA costs from the attrition analysis. For the trending analysis, the Company used the pro formed and restated income statement and ratebase from the last general rate

case, as allowed, compared to the current pro formed income statement and ratebase as filed in this general rate case. Data for these periods were chosen because they are current and have been adjusted for rate purposes.

Q. Was it necessary to adjust ratebase for new resources that were added under the PCA Mechanism?

A. Yes, in order to remain consistent with the removal of the underlying costs related to the PCA, the Company adjusted rate base for the production plant that is included in the PCA rate. In addition to this adjustment, the Company had to adjust ratebase for "bonus tax depreciation". For the years 2001 through 2004, the Federal government allowed a 50% bonus depreciation to be taken for certain capital expenditures. The bonus depreciation created additional deferred taxes that are a deduction from ratebase. This bonus depreciation is no longer available, so the impact of this additional tax benefit was removed from ratebase before measuring the growth trend for ratebase. After determining the growth trend, we applied the difference in ratebase growth from the two test periods to the non-PCA related ratebase for September 30, 2005 as this would have been the trended value without bonus tax depreciation.

Q. What did the trended attrition analysis for electric operations show?

A. The estimated attrition between the test year and the rate year is an under recovery of approximately $1.7 million net operating income. Exhibit

No. ___(JHS-12) shows the attrition calculation.

Q. Would you please describe Exhibit No. ___(JHS-12)?

A. Yes. Page 1 of this Exhibit shows the income statement and ratebase for the September 30, 2003 and 2005 test periods after adjusting each pro forma and restated test year for its respective rate increase. For the year 2003 the rate increase was the allowed rate increase for that time period, and for 2005 the rate increase is the requested rate increase in the current filing. Each line of the income statement was adjusted by appropriate growth factors to arrive at the rate year equivalent amount for that line item. For example, Sales to Customers, $509,806,957 on line 1, was adjusted by dividing the September 30, 2005 revenues for this item by the delivered load for that period, which is shown at the top of the September 30, 2005 column, 20,339,226,968 kWhs. This average rate was then multiplied by the delivered load for the rate period, 20,522,175,000 kWhs to estimate the rate year revenues of $514,392,587.

Some items were adjusted by the annualized growth rate of the dollar amounts for the September 30, 2003 to September 30, 2005, a two year time period. This annualized growth rate was then used to project the equivalent amount in the rate year which is 2.25 years from the current test period. Line 4 shows this calculation for Other Operating Revenues. The annualized growth rate between September 30, 2003 and September 30, 2005 is 0.048725268. Applying this growth rate to the September 30, 2005 amount for this item results in revenues of

$35,411,730 for the rate year.

Some line items are not adjusted by growth rates as the line item is insignificant or is an item that reflects amortization that does not change between the periods. In these cases, the current test period amounts are carried over to the rate year. Line 2, Sales from Resale - Firm, is an example of this--the revenues are decreasing slightly between the test periods, but the amount of the item in the current test period, $478,623, is insignificant. Line 22, Amortization of Property Loss, is an example of an amortization amount that will not change between the current test period and the rate year.

For each line item that changes, the current tax impact is calculated and the total tax change is added to Line 30, Federal Income Taxes, as shown in the last column on page 1 of this Exhibit. Ratebase is adjusted as shown on Lines 43 and 44 on page 1. The growth rate for electric ratebase since the last general rate case was negative when production ratebase is removed and was still negative after removing the 50% bonus tax discussed earlier for both the 2003 and 2005 test period. This negative annualized growth factor was applied to the September 30, 2005 ratebase to determine the 2007 ratebase amount. The difference between these two ratebase amounts was then applied to the September 30, 2005 ratebase amount before any adjustment for the 50% bonus depreciation. This calculation results in a 2007 estimated ratebase amount of $1,595,512,498 shown on Line 36.

The calculation of the actual attrition was the result of all of the above

calculations. The adjusted ratebase was multiplied by the requested rate of return to determine the net operating income required to earn the rate of return. This amount was then compared to the net operating income shown on page 1, Line 34 of the Exhibit, which is the result of the adjustments that were made to the income statement. The difference shows that there is an under recovery in net operating income of approximately $1.7 million dollars in the rate year, as shown on page 1, Line 39 of the Exhibit.

Q. Please explain page 2 of Exhibit No. ___(JHS-12).

A. Page 2 of this Exhibit shows the pro forma adjusted test period income statement and ratebase for September 30, 2005, after adding the requested revenue increase in this proceeding, and September 30, 2003 after adding in the revenue increase allowed in the 2004 general rate case. The income statement and ratebase for each of these periods is then adjusted for the PCA related costs and ratebase to determine the income statement and ratebase without production related costs or ratebase used on page 1 of this exhibit. Line 43 through Line 45 on this page also shows the adjustment to the non-production related rate base for the 50% bonus depreciation.

[BA060430012]