

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-111048 and UG-111049
Puget Sound Energy, Inc.'s
2011 General Rate Case**

WUTC STAFF DATA REQUEST NO. 273

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Referring to John Story's rebuttal testimony, Exhibit No. (JHS-18T), page 31, lines 15-20, please provide all citations to Staff testimony and/or briefing in Docket UG-110723 where "Staff argues that the Company's return on equity should be adjusted down if it is allowed to collect an amount through the PIP. . . ."

Response:

On page 3, paragraph 7, of the Joint Motion to Consolidate in Docket UG-110723, Joint Movants represented by WUTC Staff, Public Counsel, and Northwest Industrial Gas Users discuss rate of return as one of the issues also being considered in Puget Sound Energy, Inc.'s ("PSE") general rate case (this proceeding), as follows:

Rate of return. A third area of related facts involves PSE's rate of return. The Pipeline Tracker has the potential to reduce PSE's risk because it will allow accelerated cost recovery of certain pipeline infrastructure between rate cases, and will increase the assurance of cost recovery through the true-up mechanism. At the same time, the Rate Case will consider PSE's appropriate rate of return based on its overall level of risk for all components of its business, including infrastructure cost recovery. That determination requires an examination of the impact, if any, of the Pipeline Tracker on the rate of return.

PSE interprets Joint Movants' reference to imply that the pipeline integrity tracker mechanism could require an adjustment to PSE's rate of return.

Also in Docket UG-110723, on page 2, paragraph 6, of its Initial Brief, WUTC Staff states:

Finally, the Company intends the surcharge to be flexible so that additional programs can be added and a \$25 million annual cap on capital spending can be increased. These changes would require Commission approval, but do not require the consent of Staff or any other interested

party. Thus, the surcharge opens the door to further efforts by PSE to transfer the risk of cost recovery from its owners to ratepayers. It also adds another potentially complex and adversarial tariff process to the multitude of risk-reducing mechanisms already enjoyed by PSE.

PSE interprets this discussion to mean WUTC Staff regards the pipeline surcharge as a risk-reducing tariff to be added to other mechanisms that, in WUTC Staff's view, are already in place in order to shift risk to the customer.

In addition to the implications regarding mechanisms like the Pipeline Integrity Program ("PIP") and its impact on return on equity ("ROE") by various parties explicitly in the PIP proceeding (Docket UG-110723), please refer to page 79, line 16, of the Prefiled Response Testimony of Kenneth Elgin, Exhibit No. ____ (KLE-1T), in this proceeding regarding Fair Rate of Return Attrition:

Q. Do you have any other comments with respect to the Company's presentation on attrition?

A. Yes. First, if the Commission amends its ratemaking practices and establishes rates that guarantee a rate of return, or otherwise develops policies that provide an entitlement to the "authorized" return on equity for any utility, then the ROE should be adjusted downward to reflect this substantial reduction in risk. The Commission has already recognized this principle when it stated that amending its ratemaking policies to implement full decoupling, a mechanism that guarantees revenues or profits, reduces risk and reduces both debt and equity costs.

Second, the Commission should review the utility's capital structure in light of the guaranteed revenue and earnings stream of the utility. The purpose of an equity layer is to provide sufficient operating income or profit margin so the firm has sufficient pre-tax revenue to service debt under adverse earnings scenarios. If the utility is "entitled" to some level of profits, either through decoupling or some other mechanism guaranteeing profits, adverse earnings scenarios are eliminated. Therefore, the amount of equity and profit margin should be reduced accordingly.

As the above references indicate, it appears that it is WUTC Staff's position that the lowering of PSE's return on equity is a valid consequence to initiating a particular tariff or recovery mechanism. In addition to the above, when PSE was presenting its PIP proposal to WUTC Staff, WUTC Staff stated on several occasions that one of its conditions to supporting a pipeline safety tariff would be an adjustment to PSE's return on equity.