

Exhibit No. __ T (WHW-1T)
**Dockets UE-072300/
UG-072301/UG-080064**
Witness: William H. Weinman

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

**v.
PUGET SOUND ENERGY, INC.**

Respondent.

**DOCKET UE-072300
DOCKET UG-072301
(consolidated)**

DOCKET UG-080064

TESTIMONY OF

WILLIAM H. WEINMAN

**STAFF OF THE WASHINGTON UTILITIES
AND TRANSPORTATION COMMISSION**

Electric and Gas Revenue Requirements

Depreciation, Baker River Relicensing and Crystal Mountain Diesel Spill

May 30, 2008

TABLE OF CONTENTS

I. INTRODUCTION 1

II. SCOPE AND SUMMARY OF TESTIMONY 2

III. ELECTRIC REVENUE REQUIREMENT 4

 A. Baker River Relicensing 6

 B. Depreciation 7

 C. Crystal Mountain Diesel Spill 12

IV. GAS REVENUE REQUIREMENT 14

LIST OF EXHIBITS

Exhibit No. __ (WHW-2), Electric Results of Operations and Revenue Requirement

Exhibit No. __ (WHW-3), Coal Additions and Plant Retirements by Year

Exhibit No. __ (WHW-4), Department of Ecology Notice of Penalty Re: Crystal Mountain Diesel Spill of November 2006

Exhibit No. __ (WHW-5), Gas Results of Operations and Revenue Requirement

1 **B. Depreciation**

2

3 **Q. Turning to electric operations Adjustment 11.33, Depreciation Study, please**
4 **describe the reason for the difference between Staff and Company adjustments.**

5 A. Company witness Mr. Clarke performed a depreciation study for the year ending
6 December 31, 2006. He recommends increasing depreciation expense based on his
7 study.

8 In general, I agree with the remaining life and life span concepts used by Mr.
9 Clarke to determine depreciation rates for production plant. I also agree with his net
10 salvage estimates.

11 However, I recommend longer plant lives than Mr. Clarke used for "Steam
12 Production" plant related to the Colstrip generation units and "Other Production"
13 plant related to the Encogen and Fredrickson generation units. The effect of
14 extending the plant lives for these properties changes the Company's proposed
15 increase of \$6,856,000 in pro forma depreciation expense to a decrease of
16 \$5,107,000.

17

18 **Q. Please describe the differences in plant lives used by the Company and Staff for**
19 **the Colstrip, Encogen and Fredrickson generation plants.**

20 A. The plant lives proposed in the Company's study for Colstrip were determined by
21 Company witness, Mr. Jones, Manager of Colstrip Operations and Fuel. Mr. Clarke
22 describes life span techniques in revised Exhibit No. __ (CRC-3), pages II-27
23 through II-29. Page II-24 lists statistical lives for the various plant categories.

1 For the Colstrip steam units, the Company proposes 40 year lives. For Other
2 Production plant, PSE proposes 35 year lives with the exception of Encogen (29
3 years) and Fredrickson (30 years). My depreciation expense adjustment uses 60 year
4 lives for the Colstrip units and 35 year lives for Encogen and Fredrickson.

5
6 **Q. How did you arrive at the 60 year lives for the Colstrip units?**

7 A. I arrived at those lives by comparing Colstrip with other coal-fired steam plants. The
8 Electric Information Administration (“EIA”) compiles official energy statistics for
9 the United States government. EIA gathers data and produces a report called the
10 “Annual Electric Generator Report, Report 860”. This report lists both working and
11 retired electricity generators in the US. Approximately 18,300 generators are
12 included covering utility, private industry and governmental organizations that have
13 installed electric generators. The generators are listed by fuel type: petroleum,
14 natural gas, electricity, coal, renewable and alternative fuel, and nuclear.

15 I used the EIA report to create Exhibit No. __ (WHW-3). My exhibit lists
16 generator additions and retirements by year for generating units 100 Megawatts
17 (Mw) and larger. The exhibit shows coal-fired plants added by year until 1981 and
18 then aggregates coal-fired plants for years 1981 through 2006. The first 100 Mw
19 coal-fired steam production plant was placed into service in 1944. I recorded plant
20 additions by year until 1981 because I would not expect there to be significant
21 retirements for plants less than 25 years old. Line 35 shows there have been no
22 plants retired between 1981 and 2006. Therefore, I believe that plants added

1 between 1944 and 1980 provide a fair perspective on the life dynamics of coal-fired
2 generated steam plants.

3 From 1944-1981, 676 coal-fired plants were placed into service. 352 plants
4 were placed into service between the years 1944 through 1966, *i.e.*, from 60 to 40
5 years ago. During this time, only 12 plants were retired. That is only 3.4 percent of
6 the plants in that category. The retirement ratio for total plants is 1.5 percent.

7 Moreover, looking at the dates of the plants that were retired, the earliest
8 retirement was in 2002. If coal-fired steam plants have a service life of only 40
9 years, as proposed by PSE, I would expect to see more retirements of plant in this
10 exhibit. In sum, the EIA data support my proposal to use 60 year lives for the
11 Colstrip steam plants.

12
13 **Q. Does PSE rely on statistical analysis to support the 40 year life for the Colstrip**
14 **units it proposes?**

15 **A.** No. The Company's response to Staff Data Request No. 16 consists of Mr. Clarke's
16 field notes. Those notes indicate the proposed Colstrip lives came from Mr. Jones.
17 Mr. Jones has a considerable amount of testimony regarding various consultants
18 hired to estimate the number of years until the present supply of coal for Colstrip will
19 be exhausted. On pages 12 and 13 of his testimony, Exhibit No. __ (MJH-1T), he
20 indicates their work team has studied conversion modifications for the Colstrip units.

1 **Q. Do you disagree with the test results?**

2 A. I have no reason to question the results of their work efforts, but I believe there will
3 be a technical solution that resolves this issue. It is not unusual to transport coal long
4 distances to fuel existing plants. On page 7 of his testimony, Mr. Jones
5 acknowledges that the team researching replacement coal has discussed building
6 railroad track to the units with Burlington Northern Santa Fe Corporation.

7 Perhaps most important, Mr. Jones does not state that there are no other fuel
8 sources available. There is time to let the Colstrip owners find an alternative. Coal
9 plants are expensive to build but provide base load electricity that PSE needs at a
10 cost substantially below gas turbines or other renewable technologies. Retiring the
11 Colstrip units is unlikely to happen after only 40 years of operations.

12

13 **Q. Are there any other reasons for prescribing 60 years lives for the Colstrip units?**

14 A. Yes. PacifiCorp recently requested a revision of its depreciation rates in Docket No.
15 UE-071795. It proposed a 64 year life for coal-fired steam plants, but agreed to 61
16 years, which was approved by the UTC. *In Re: PacifiCorp*, Docket UE-071795,
17 Order Granting Accounting Petition (April 10, 2008). PacifiCorp owns a portion of
18 the Colstrip units. It appears PacifiCorp engineers do not have an issue with 60
19 years lives for Colstrip and must believe the plants will have a coal supply in the
20 future.

21

22 **Q. Your adjustment also changed the lives for Encogen and Fredrickson. Please**
23 **explain your rationale.**

1 A. In the Other Production Plant category, PSE proposes lives of 29 years for Encogen
2 and 30 years for Fredrickson, while the other units have 35 year lives. There is no
3 reason not to use 35 year lives for all of these plants since they all have similar
4 operating characteristics.

5
6 **Q. The Company's depreciation adjustment has rate base changes while yours
7 does not. Why?**

8 A. The reason there is no rate base effect in my adjustment for both electric and gas
9 operations is that the depreciation rates approved in this proceeding will become
10 effective outside the test period. Pro forma adjustments do not reflect adjustments to
11 rate base. If the Company had proposed adjusting the depreciation rates effective at
12 the beginning of the test period it would be proper to restate rate base. However, it is
13 not proper to pro form the rate base impacts.

14 The Company agrees with this concept in its wage Adjustment 11.25. Wages
15 paid to employees are both expensed and capitalized. PSE's adjustment pro forms
16 the known wage increase to expense, but does not adjust rate base even though a
17 portion of wages were capitalized during the test period.

18
19 **Q. Does this concept apply to all plant?**

20 A. No. An exception is made for the addition of production plant and other significant
21 non-revenue producing plant. The Company is making such large capital additions
22 that pro forming these adjustments allows for the revenue support to become
23 effective during the year the plant is placed into service. Normally, plant has to be

1 placed into service before it is an appropriate cost to include in the revenue
2 requirement calculation.
3

4 **Q. When do you recommend the new depreciation rates become effective?**

5 A. I recommend the new depreciation rates become effective January 1, 2008 for
6 electric and gas operations. Both Avista in Dockets UE-070804 and UG-070805 and
7 PacifiCorp in Docket U-071795 revised their depreciation rates this year and the
8 effective date was the first day of the calendar year, rather than the date rates went
9 into effect. Similar treatment is appropriate for PSE.
10

11 **C. Crystal Mountain Diesel Spill**
12

13 **Q. Turning now to your electric operations Adjustment 11.37, Crystal Mountain**
14 **Diesel Spill, please briefly describe your adjustment.**

15 A. This adjustment does not have a corresponding Company adjustment. PSE caused a
16 diesel oil spill at Crystal Mountain in November 2006. The Company was penalized
17 by the state Department of Ecology ("DOE") and the federal Environmental
18 Protection Agency for its actions that caused the spill, including negligence as
19 determined by DOE.

20 Therefore, Staff removed from the electric results of operations certain
21 expenses related to the spill. The Staff adjustment increases net operating income
22 approximately \$1,580,000.
23