

EXHIBIT NO. T- (JHS-6)
DOCKET NO. UE-921262
WITNESS: J.H. STORY

**BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION
COMMISSION**

COMPLAINANT

VS.

PUGET SOUND POWER & LIGHT COMPANY

RESPONDENT

SUPPLEMENTAL TESTIMONY

WASHINGTON UTILITIES & TRANSPORTATION COMMISSION UE-921262, -920433, -920499	T-561 ✓
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1 PUGET SOUND POWER & LIGHT COMPANY
2 SUPPLEMENTAL DIRECT TESTIMONY OF JOHN H. STORY

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4 Q. Please state your name and the purpose of your
 supplemental direct testimony.

5 A. My name is John H. Story. The purpose of my supplemental
6 direct testimony is to discuss how historical pro forma
7 test year concepts are reconciled with the projections
8 used under the PRAM, an issue raised in the Commission's
9 PRAM 2 Order (Docket No. UE-920630). As part of this
10 discussion, I explain how rates under decoupling are
11 cost-based. My testimony also advises the Commission on
12 the status of discussions among the parties about the
13 shaping issue litigated in the PRAM 2 proceeding.
14 Finally, my testimony presents the updated number for the
15 Base Cost per customer. An update of the items included
16 within Base Cost under the PRAM results in an increase
17 from \$587.67 to \$629.32.

1 Reconciliation of the PRAM with Historical Test Year
2 Concepts

3 Q. The Commission staff has asked the Company to
4 reconcile the historical pro forma test year
5 concepts with the projections utilized by PRAM. How
6 would you perform this reconciliation?

7 A. There are two different types of "reconciliation" to
8 which staff could be referring: costs and allowed
9 revenues. In my view, no reconciliation of costs is
10 necessary. For revenues, however, some reconciliation is
11 necessary, as discussed below.

12 Q. Why isn't it necessary to reconcile costs?

13 A. Base Cost is calculated using actual historical data, and
14 is simply updated in general rate proceedings to reflect
15 current information on the items included in Base Cost.
16 There are no projections of expenses covered by Base Cost
17 revenues.

18 Resource Cost, for its part, involves projections. These
19 projections are adjusted under the Simple Dispatch Model
20 procedures, as explained by Mr. Lauckhart in his
21 supplemental direct testimony. The pro forma Resource
22 Cost included in this general rate case filing has the
23 best estimate of the loads and resources to be available
24 in the rate year. Because the rate year is the same as

1 the PRAM 3 period, the projection of Resource Cost in the
2 PRAM 3 filing will be the same as included in this
3 proceeding.

4 **Q. What reconciliation is necessary for revenues?**

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6 **A.** A reconciliation of revenues is necessary because the
7 PRAM involves two separate rates: one for billing and
8 one for revenue recognition. For purposes of revenue
9 recognition, the rate is based on customer count and Base
10 Cost per customer (\$587.67 per customer in PRAM 1 and 2,
11 and proposed to be increased to \$629.32 per customer) and
12 not a millage rate on the number of KWHs sold, i.e., the
13 Company's revenues are decoupled from KWH sales. For
14 billing purposes, however, the Company still bills the
15 customer using a millage rate times the KWHs used. This
16 use of different rates for revenue recognition and
17 billing is really the only significant change from
18 traditional ratemaking.

19 Due to the different growth of KWHs and number of
20 customers, a monthly true-up of revenue collected by the
21 KWH sales and the allowed revenue based on customer count
22 is necessary. Once a year under the PRAM procedures,
23 this difference requires a change in the billing rate.
24

1 However, as with traditional ratemaking between general
2 rate cases, under decoupling the rate that determines the
3 revenue allowed is not changing. This is the dollar per
4 customer amount which is examined in a general rate
5 proceeding. It is still based on the Company's costs as
6 determined using an appropriately adjusted test year.

7 **Q. Are there other examples where a true up between**
8 **rates is necessary?**

9 **A.** Yes. A true-up between different rates is not unique to
10 decoupling. Accounting has numerous situations where
11 true ups are required because of use of estimates. An
12 example is the allocation of construction overheads.
13 Labor and other expenses are recorded in an overhead
14 account and work orders are charged a percentage add-on
15 rate which credits this account and is intended to
16 "clear" the account. In theory this rate will clear the
17 overhead charges based on the actual direct charges to
18 the work orders. In reality, the difference between the
19 cleared amounts and the actual charges must be
20 periodically reviewed, and the rate must be changed, to
21 match the costs being charged to the account with the
22 amount being cleared from the account.

1 This is the same principle being used in the PRAM.
2 Periodically, it is necessary to change the billing rate
3 to match the revenue allowed. Similarly, the revenue
4 rate must periodically be reviewed, i.e., the Base Cost
5 must be updated. The principle is simple and should not
6 be made to seem complex.

7 **Q. Commission Staff testified in the last PRAM**
8 **proceeding that rates are no longer cost based. How**
9 **do you explain the difference between that testimony**
10 **and your response that rates are still cost based?**

11 **A.** The difference is based on what has traditionally been
12 called a "rate" under regulation. Traditionally, the
13 rate charged to a customer and the rate used to record
14 revenues were the same. As I explained earlier, under
15 the PRAM this is no longer true. For Base Cost, when the
16 rate being billed to the customer on a KWH basis changes
17 between general rate cases, it does not mean the
18 historical costs used to determine the rate per customer
19 changed. The rate change is caused by the difference in
20 the growth between revenues allowed (based on number of
21 customers) and the amounts collected (based on number of
22 KWHs billed).

23 Just like under traditional ratemaking, once rates are
24 set using a historical test year, the assumption is that

1 the relationship of costs and revenues will continue to
2 match as they did for the test period. In reality this
3 does not happen, as revenues change based on future KWHs
4 and costs change based on customer growth, maintenance
5 requirements, inflation, etc., and not only changes in
6 KWHs.

7 Under the PRAM, as with traditional ratemaking, the
8 change in revenues is assumed to change in relationship
9 to some index. With the PRAM, this index is the number
10 of customers rather than KWHs sold. There was
11 considerable testimony in the Decoupling Proceeding
12 (Docket Nos. UE-901183-T/901184-P) as to whether
13 customers were a good substitute for KWHs when
14 determining how revenues should change. As stated in the
15 Commission's order in that proceeding, it is not
16 surprising that changes in KWHs or changes in number of
17 customers bear little statistical correlation to changes
18 in costs. (Order, p. 10) However, tying revenues to
19 customer count does not have some of the drawbacks that
20 are present when revenues are tied to KWHs, such as lost
21 revenues due to DSM, an incentive to increase sales, or
22 fluctuations due to conditions outside the Company's
23 control.

1 **Shaping of Allowed Revenues**

2 **Q. Would you please explain the term "shaping" as used**
3 **in PRAM proceedings?**

4 **A. Yes. "Shaping" refers to the process of spreading**
5 **allowed revenues across the months within the PRAM**
6 **period. During the PRAM 2 proceeding, an issue regarding**
7 **shaping developed, primarily because the April 30 cut-off**
8 **date does not correspond with the October-September PRAM**
9 **period. The Commission in its PRAM 2 Order encouraged**
10 **the parties to develop a mutually acceptable solution.**

11 **Q. Has the Company met with other parties to try to**
12 **resolve issues related to shaping as directed by the**
13 **Commission in its PRAM 2 Order?**

14 **A. Yes. Although there have been several meetings between**
15 **Commission Staff and the Company, as of the time this**
16 **testimony is being prepared these issues have not been**
17 **resolved. We are hopeful the issues raised by the**
18 **Commission in the PRAM 2 order will be resolved in the**
19 **near future.**

Calculation of Base Cost per Customer

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Q. How was the updated Base Cost per customer of \$629.32 calculated?

A. The Base Cost per customer amount is calculated using the information included in this general rate case filing. The Base Cost consists of the operating income statement and return on rate base after pro forma and restating adjustments from the twelve month test period ended June 30, 1992, less the costs associated with Resource Cost. To state this figure on a per customer basis, these costs are divided by the average number of customers (as defined in the Decoupling Proceeding) for the test period. The calculation of the updated Base Cost dollar per customer amount is shown on Exhibit _____ (JHS-7).

Q. Please explain Exhibit ____ (JHS-7).

A. As discussed by Mr. Sonstelie, this exhibit is calculated in the same manner as the Resource and Base allocation adopted by the Commission in the Decoupling Proceeding. The exhibit consists of two sections: lines 1 through 33 represent adjustments to the operating income statement and lines 35 through 47 are adjustments to rate base.

1 The operating income shown in column 1 of this schedule,
2 titled "Adjusted Year Ended 6/30/92", is the operating
3 income for the test year after all the pro forma and
4 restating adjustments. These are the same amounts as
5 shown on Exhibit ____ (JHS-3), page 2-E.

6 In the operating income statement section, the second
7 column of the schedule allocates the rate increase, and
8 associated taxes, to the appropriate line items. The sum
9 of columns 1 and 2 is provided in column 3. Column 5
10 reallocates the Federal tax effects for the difference
11 between book basis and tax basis for conservation and the
12 Bonneville Exchange power costs. Column 6 is the total
13 of columns 3 and 5. Columns 7 and 8 provide the dollars
14 associated with Resource and Base categories, while
15 columns 9 and 10 provide the same information in a dollar
16 per customer amount.

17 In the rate base section, the production rate base
18 amounts are the same amounts shown on the Production
19 Adjustment, page 2.28, and conservation rate base is
20 shown on page 2.05, of Exhibit ____ (JHS-3). Columns 4
21 and 5 calculate the return and the Federal taxes that are
22 required on the rate base amounts. Column 6 totals
23 columns 3, 4 and 5. Columns 7 through 10 provide the
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1 Resource and Base allocations as presented in the
2 operating income statement section.

3 Q. Does this conclude your supplemental testimony,
4 Mr. Story?

5 A. Yes, it does.
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