Exhibit No. T-___(HL-1)
Docket No. UE-92-1262
Witness: Hugh Larkin, Jr.

BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION
COMMISSION

COMPLAINANT

VS.

PUGET SOUND POWER & LIGHT COMPANY

RESPONDENT

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TESTIMONY OF
HUGH LARKIN, JR.
FOR THE
DEPARTMENT OF THE NAVY
ON BEHALF OF THE DEPARTMENT OF DEFENSE
AND ALL OTHER
FEDERAL EXECUTIVE AGENCIES

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. Hugh Larkin, Jr., 15728 Farmington Road, Livonia, Michigan 48154. I am the senior partner in the firm of Larkin & Associates, Certified Public Accountants.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND QUALIFICATIONS IN THE UTILITY REGULATORY FIELD.

A. Appendix I which is attached to this testimony describes my educational background and includes a list of the various rate cases and regulatory matters in which I have participated.

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. I am appearing on behalf of the Department of the Navy representing the consumer interests of the Department of Defense and all other Federal Executive Agencies (DOD).

Q. WHAT WAS YOUR ASSIGNMENT IN THIS CASE?

A. My firm was asked to review the Puget Sound Power & Light Company ("Company" or "Puget") filing in Cause No. UE-921262 and recommend appropriate adjustments to the Company's pro forma case consistent with generally accepted accounting and ratemaking principles.

Q. ARE YOU SPONSORING AN EXHIBIT WHICH CORRESPONDS WITH YOUR PREFILED TESTIMONY?

A. Yes. I am sponsoring Exhibit ___(HL-2), which consists of 35 schedules.

Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY.

A. I am proposing several adjustments to the Company's pro forma operating income statement and to its pro forma rate base. These adjustments reflect proper ratemaking principles as they should be applied to the relevant issues in this case.

Q. DOES YOUR TESTIMONY REFLECT AN EXHAUSTIVE REVIEW OF THE COMPANY'S FILING AND BOOKS AND RECORDS?

A. No, it does not. The adjustments I am recommending reflect only those adjustments which came to my attention during my review and analysis of the following documents:

1. Company testimony, exhibits and filing;
2. Company workpapers;

3. Company responses to discovery questions by parties to this cause;

4. Prior testimony presented before the Washington Utilities and Transportation Commission (WUTC);

5. Prior orders of the WUTC; and

6. Transcripts of the cross examination of certain Puget witnesses.

Q. IS THE TESTIMONY AND EXHIBIT CORRECT TO YOUR BEST KNOWLEDGE AND BELIEF?

A. Yes, they are.

II. <u>REVENUE REQUIREMENTS</u>

Q. WHAT IS THE END RESULT OF THE ADJUSTMENTS YOU ARE RECOMMENDING ON THE COMPANY'S REQUESTED RATE BASE?

A. The Company has requested a revenue increase of $116,773,555. As shown on Schedule 1, the adjustments to operating income and rate base that I am recommending and the adjustment to the Company's return on equity that Dr. Legler is recommending, reduce the Company's revenue increase to $85,691,121.

Q. HAVE YOU PREPARED A SCHEDULE SUMMARIZING THE EFFECTS OF YOUR ADJUSTMENTS ON THE REVENUE REQUIREMENTS OF THE COMPANY?

A. Yes. Schedule 2 summarizes the adjustments I am proposing to the

Company's filing.

Q. WOULD YOU PLEASE DISCUSS SCHEDULE 2.

A. Schedule 2, page 1 summarizes my recommended adjustments to the rate base and operating income statement. The estimated impact on the revenue requirement from each adjustment is shown in Column F.

Schedule 2, page 2, reflects the capital structure that Dr. Legler has used and the cost rates which Dr. Legler is recommending. Based on my recalculation, the overall rate of return is now 9.42%. Dr. Legler's testimony supports the 11.5% return on equity and the other changes which are used in this schedule.

Schedule 2, page 3, shows the gross revenue conversion factor. I have adjusted this for a revised uncollectibles rate.

III. RATE BASE

Plant Held for Future Use

Q. HAVE YOU REVIEWED THE COMPANY'S CLAIM FOR PLANT HELD FOR FUTURE USE?

A. Yes. Puget has included $15,198,916 in rate base for Plant Held for Future Use ("PHFFU"). I should note that Puget has agreed that a number of its PHFFU properties should be removed from rate base.

Q. HAVE YOU REVIEWED PUGET'S DOCUMENTATION FOR EACH PHFFU PROPERTY?

A. Yes. I have reviewed the information Puget provided in response to the discovery requests of DOD and Staff concerning PHFFU.

Q. DO YOU HAVE ANY GENERAL COMMENTS REGARDING PLANT HELD FOR FUTURE USE?

A. Yes. Inclusion of PHFFU in rate base requires ratepayers to pay the Company a return, plus gross-up for income taxes, on property that is not currently providing utility service and which, in most instances, will not provide utility service for many years. Utilizing Puget's requested capital structure and cost rates, I calculate that ratepayers are paying Puget approximately $13.84 in return and tax gross-up for every $100 of PHFFU included in rate base. This estimation used the current federal corporate income tax rate of 34%. The utilization of the higher tax rates which existed in the past or which may be enacted in the future would place an even greater financing cost burden on ratepayers from PHFFU rate base inclusion, because the tax gross-up on the equity return would be greater.

Moreover, some of Puget's PHFFU is never placed into utility service, but is transferred to affiliates or sold to independent parties. While the Commission has required the gains on sales of such property to be flowed through to ratepayers, using an averaging methodology, such gains may be insufficient to offset the many years of financing costs ratepayers have paid to Puget associated with the inclusion in rate base of PHFFU.

I have prepared Schedule 3 to illustrate the annual and cumulative financing costs to ratepayers from including PHFFU in rate base.

Q. PLEASE EXPLAIN SCHEDULE 3.

A. Schedule 3 has been prepared from information provided in Puget's response to Staff data request no. 1279. The Schedule lists Puget's PHFFU items. Excluded from the listing are the items which Puget's response to Staff data request no. 1279 indicates should be removed from rate base. It shows the year when Puget recorded the property in Account 105, Plant Held for Future Use. It also shows Puget's current expected use date for each property, and the approximate number of years in which each property will have remained in rate base as PHFFU, prior to its use. For a number of items, Puget has indicated that an expected use date is "not determinable." As described in the footnote appearing on page 2 of Schedule 3, I have conservatively utilized December 31, 1992 as the cut-off for calculating the financing cost to ratepayers associated with such properties. For certain other properties, Puget's response lists several expected in-service dates. For such properties, in order to estimate the financing cost to ratepayers on Schedule ~~4~~ 3 out of the multiple anticipated use dates expected by Puget, I used 1992, or, if Puget anticipated no use by the end of 1992, I used Puget's most recent expected date after 1992.

As Schedule 3 shows, the financing cost to ratepayers in many instances exceeds the original cost of the property. Indeed, for each property that remains in rate base as unused PHFFU for about 7.2 years or more, ratepayers will pay the Company financing charges that exceed its original cost. As Column 5 of Schedule 3 indicates, ratepayers would pay Puget $22.057 million in conservatively estimated financing cost on $14.446 million of PHFFU prior to the PHFFU being used to provide utility service. The estimated annual financing cost to ratepayers for such PHFFU is about $2 million.

Q. ARE YOU PROPOSING ANY ADJUSTMENTS FOR PHFFU?

A. Yes. I am proposing a series of adjustments to PHFFU.

Q. PLEASE EXPLAIN YOUR FIRST ADJUSTMENT.

A. My first adjustment is shown on Schedule 4. This adjustment removes $994,882 from PHFFU and $6,558 from property taxes for items which should not be included in PHFFU. Puget's responses to Staff data request nos. 1279 and 2499 indicate the Company's agreement that these items should be removed.

Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT.

A. This adjustment is shown on Schedule 5, and removes from rate base the PHFFU items which the Company does not expect will be used within 10 years. Other regulatory commissions require utilities to meet specific criteria for inclusion of PHFFU in rate base, including having specific plans for using each parcel and expectations of using it to provide utility service within a reasonable time frame, such as 10 years. Ratepayers should not be required to pay a return on PHFFU which is not used to provide utility service within a reasonable period. Property which is not expected to be used within 10 years should not receive rate base treatment.

Q. PLEASE EXPLAIN YOUR FINAL ADJUSTMENT FOR PHFFU.

A. This adjustment is shown on Schedule 6 and removes from rate base the remaining balance of PHFFU. As explained above, it is costly to ratepayers to have to pay the utility a return including tax gross-up on PHFFU. As an alternative to rate base inclusion, I would recommend that Puget be allowed to accrue an AFUDC-like carrying charge on such property, which would compensate the Company for financing costs. The carrying charge to be applied would be the Company's authorized overall cost of capital. At the time the property is placed into service, the carrying charges as well as the original cost would be evaluated for rate base inclusion. If the property is sold off prior to becoming plant in service, the accumulated carrying cost would become part of the Company's cost basis to be used in computing the gain or loss.

Q. HAVE OTHER UTILITIES AND REGULATORS FOUND THE ACCRUAL OF CARRYING COSTS ON PHFFU, IN LIEU OF RATE BASE TREATMENT, TO BE ACCEPTABLE?

A. Yes. As an example, in a recent rate case, Metropolitan Edison Company concurred with such treatment, and it was adopted in the Pennsylvania PUC's order in that case.

Q. DOES THIS TREATMENT RESULT IN A MORE EQUITABLE BALANCING OF RATEPAYER AND SHAREHOLDER INTERESTS?

A. Yes, I believe it does. It protects ratepayers from having to pay returns on PHFFU that may never be used to provide utility service, or that remains in rate base, unused in providing utility service for years or even decades. It also recognizes that the utility has a carrying cost associated with such property, and protects the utility by permitting capitalization of such carrying cost. This method also achieves the "matching principle" of charging ratepayers for a utility's investment during the period when that investment is being used to provide utility service.

Q. WHAT IS THE TOTAL IMPACT OF YOUR RECOMMENDED ADJUSTMENTS TO PHFFU?

A. The total impact of my recommended adjustments is to reduce rate base by $15,198,916.

Working Capital

Q. HAVE YOU REVIEWED PUGET'S PROPOSED WORKING CAPITAL ALLOWANCE?

A. Yes. Puget has included in its proposed rate base a claim for operating working capital of $45,628,398. Using a balance sheet approach, Puget calculated investor-supplied working capital of $48,457,020 by subtracting $2,040,617,788 of average operating investments, $84,180,540 of plant not in service (CWIP, Other Work In Progress, and preliminary Surveys), and $126,277,751 of nonoperating investments from $2,299,533,099 of average invested capital. Puget determined that the sum of its average operating and nonoperating investments was $2,166,895,539. Of this amount, it took 2.24% to be the investor-supplied working capital of $48,457,020. Puget assigned 2.24%, or $2,828,622, of working capital to its $126,277,751 nonoperating investments. Puget's $45,628,398 claim for operating working capital was determined by subtracting this nonoperating amount from the total.

Q. DO YOU AGREE WITH PUGET'S CLAIM FOR WORKING CAPITAL?

A. No. There are a number of adjustments which must be made to Puget's claim to derive an appropriate and valid amount of working capital allowance for inclusion in rate base.

Merchandise Inventory

Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR MERCHANDISE INVENTORY.

A. Puget had included in rate base as working capital $15,435 for Merchandise Inventory in Account 155-01. I have removed this for two reasons. First, it does not relate to the provision of utility service and, hence, should not be included in rate base. Second, Puget disposed of its entire merchandise inventory, and, therefore, no longer has any investment in such inventory. As shown on Schedule 7, the working capital component of rate base is reduced by $15,435.

Working Capital - Dividends Declared

Q. HOW HAS PUGET TREATED DIVIDENDS DECLARED FOR WORKING CAPITAL PURPOSES?

A. Puget has treated dividends declared as part of investor-supplied working capital.

Q. IS THAT APPROPRIATE?

A. No, it is not. Such dividends constitute zero-cost capital. They are a source of working capital, not a use of working capital, and, like other zero-cost capital, do not represent a working capital requirement. As stated on pages 43-44 of the Commission's Order in Docket No. U-89-2688, Puget's last rate case:

> The Commission staff excluded dividends declared, contending they constitute zero-cost capital to the company, on which ratepayers should not pay a return. The Commission staff cited prior Commission orders in Cause Nos. U-81-41, U-83-54, and U-79-66. ...
>
> * * *
>
> ... The Commission accepts the Commission staff approach on this adjustment. The Commission staff calculation is consistent with the approach used by the Commission in the past.
>
> As the Commission indicated in its order in Cause U-79-66, dividends declared are available to the company as zero-cost capital and it is not proper that a return be allowed.

Q. WHAT ADJUSTMENT IS NECESSARY?

A. The adjustment to remove declared dividends from working capital is shown on Schedule 8. Puget's proposed working capital component of rate base is reduced by $8,118,272.

<u>ADIT Debit for Environmental Cost Contingency Accrual</u>

Q. WHAT ENVIRONMENTAL COSTS HAS PUGET REFLECTED IN ITS WORKING CAPITAL CLAIM?

A. Puget has included Accumulated Deferred Income Tax (ADIT) debit balances of $41,708 and $322,292 associated with environmental clean-up (Account 190-20) and superfund site clean-up (Account 190-23), respectively, in the working capital component of its proposed rate base.

Additionally, Puget has included in its working capital determination $1,091,191 for test year amounts in Accounts 182-1401 through 182-1610.

Q. DO YOU AGREE WITH PUGET'S PROPOSED TREATMENT OF THESE COSTS?

A. I agree with Puget's proposal to include in working capital the deferred environmental costs which the Company recorded in Account 182. However, I disagree with the inclusion in rate base of the ADIT debit balances Puget recorded in Account 190 for the Company's environmental contingency reserve accrual, which Puget recorded in a below-the-line account.

Q. PLEASE EXPLAIN HOW THESE ACCUMULATED DEFERRED INCOME TAXES AROSE.

A. Puget's response to Staff's Informal Data Request No. 35 states that:

> A loss for environmental costs in the amount of $1,750,000 was reserved below-the-line in December 1991 for book purposes. For the 1991 federal income tax accrual this loss was treated as a book/tax difference and normalized. It was not reflected in the proforma FIT calculation since the book reserve was recorded as a <u>non-operating</u> expense. (Emphasis in original.)

Other Company-provided information indicates that Puget's accounting entries were to debit Account 426-62, Other Deductions, and to credit Account 253-53, Other Deferred Credits - Environmental Reserve, for the $1,750,000. Puget's explanation indicates the purpose of this journal entry was to accrue an environmental loss contingency pursuant to Statement of Financial Accounting Standards No. 5 (FAS 5).

A review of Puget's accounting workpapers reveals that the test year balance in Account 253-53 was <u>not</u> used to reduce rate base, but instead was treated as a non-operating item.

Puget's response to DOD-3089 indicates that the ADIT debit balances in Account 190, relating to environmental clean-up and superfund clean up, were associated with the Company's FAS 5 loss contingency accrual for the estimated clean-up and remediation of the Puyallup service garage's hydraulic fluid contamination. Puget's explanation indicates further that, for tax purposes, expenses pertaining to this clean-up effort will be deductible when the requirements of the "all events" test under the Internal Revenue Code have been satisfied.

For tax purposes, under the accrual method of accounting, an expense is deductible only when all events have occurred which fix the fact of liability and the amount can be determined with reasonable certainty. Reserves, set up for anticipated future expenses before all the events fixing the fact of liability have occurred, are not deductible. Apparently, Puget believes that all of the events establishing its liability have not occurred, consequently no tax deduction was reflected for the aforementioned accrued environmental costs.

Q. WHAT RAMIFICATIONS DOES THIS HAVE FOR RATEMAKING?

A. The "all events" test for tax deductibility of accrued expenses is similar to the "known and measurable" test for inclusion of an expense in the ratemaking process. Had Puget not recorded this expense accrual to a below-the-line account, it would be subject to question on the grounds that the cost failed the "known and measurable" test.

Q. HOW SHOULD PUGET'S ADIT DEBIT BALANCES ASSOCIATED WITH ITS FAS 5 CONTINGENCY ACCRUAL BE TREATED FOR RATEMAKING PURPOSES?

A. Puget's debit ADIT balances for such contingency accruals should be excluded from rate base. Ratepayers should not be required to pay Puget a return on these balances. Puget has not reflected the cost-free capital represented by the accrued reserve in Account 253-53 as an offset to cash working capital. Moreover, as soon as the events which would establish Puget's liability occur, Puget would receive a tax deduction, hence no tax-timing difference would exist, and Puget's ADIT balance would disappear.

Q. WHAT ADJUSTMENT IS NECESSARY?

A. Puget's ADIT debit balances in Accounts 190-20 and 190-23, which total $364,000, should be removed from the working capital calculation. Less the recomputed assignment to non-operating capital, the adjustment reduces Puget's claim for working capital by $343,258, as shown on Schedule 9.

ADIT Dr. - Transfer Property at a Loss to Affiliates

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO REMOVE FROM RATE BASE, PUGET'S DEBIT-BALANCE ITEMS IN ACCUMULATED DEFERRED INCOME TAXES ASSOCIATED WITH THE TRANSFER OF PROPERTY AT A LOSS TO AFFILIATES.

A. This adjustment is shown on Schedule 10. It removes from rate base the balances in Accounts 190-13, Materials Management Loss, and Account 190-14, Land Sales. The reason Puget has these ADIT debit balances is because the property was transferred within Puget's affiliated group. Puget is precluded from recognizing the loss as a tax deduction until the property is transferred outside the affiliated group. Ratepayers should not be required to pay a return on such balances. Consequently, I recommend that they be removed from rate base. Schedule 10 shows the necessary adjustment.

Research and Development

Q. HAS PUGET INCLUDED RESEARCH AND DEVELOPMENT COSTS IN RATE BASE?

A. Yes. In its calculation of working capital, Puget included $147,158 of Prepaid EPRI Research Support, which Puget had recorded in Account 165-10. Puget also included in its working capital calculation $101,194 for the net of Accounts 188-01, 188-02 and 188-03, which are R&D contribution and clearing accounts.

Q. IS IT APPROPRIATE TO INCLUDE R&D COST IN RATE BASE?

A. No, it is not. R&D cost is not an investment item, but an expense. Generally accepted accounting principles require that all R&D expenditures be expensed. Apparently, it is Puget's attempt to spread R&D cost to the various months with the annual accounting period which has caused Puget to show a net "investment" in R&D. However, the rationale for expensing R&D costs is that any future financial value stemming from R&D is highly uncertain. Consequently, R&D costs do not represent an asset, and ratepayers should not be required to pay Puget a return on the Company's R&D cost.

Q. WHAT ADJUSTMENT DO YOU RECOMMEND TO RATE BASE?

A. Puget's R&D costs represent a periodic expense and are not a proper rate base item. Such costs should be removed from rate base. On Schedule 11, I have removed Puget's claim for R&D costs from rate base. After the allocation to nonoperating capital, Puget's rate base claim is reduced by $234,201.

FAS 106 Deferral in Rate Base

Q. DO YOU AGREE WITH PUGET'S PROPOSED INCLUSION IN RATE BASE OF DEFERRED FAS 106 ACCRUAL AMOUNTS?

A. No. On page 2.12 of Company Exhibit T-558, Puget proposes to include $1,167,427 in rate base for deferred FAS 106 accrual amounts. As I explain in more detail in a subsequent section of testimony on the FAS 106 accrual and nonpension postretirement benefit costs, Puget's proposed rate base inclusion is improper because (1) the Company has no cash investment in the deferral account since it has not been funded, and (2) there would be an offsetting liability accrual, which Puget has not considered, but which would produce a net rate base impact of zero.

Q. SHOULD PUGET'S ADJUSTMENT BE REJECTED?

A. Yes. Puget's proposed adjustment to add $1,167,427 to rate base for deferred FAS 106 accrual amounts is inappropriate and should be rejected.

Q. HAVE YOU REMOVED PUGET'S PROPOSED ADJUSTMENT?

A. Yes. Schedule 1, page 1, line 10 shows this removal.

<u>Other Accumulated Deferred Income Taxes</u>

Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR ACCUMULATED DEFERRED INCOME TAXES.

A. Puget has included in rate base a number of debit-balance ADIT items, some of which are improper. Schedule 12 removes three items that Puget has included in rate base.

Q. PLEASE DISCUSS PUGET'S DEBIT ADIT BALANCE FOR INTEREST INCOME--COLSTRIP.

A. Puget received interest in 1989 associated with a settlement agreement between the owners of the Colstrip project. For tax purposes, Puget recognized the interest as taxable income in 1989. For book purposes, Puget amortized the interest to income over a three-year period. This timing difference will have completely reversed as of January 1993. Consequently, it does not represent a proper going-forward ADIT balance that should be reflected in rate base.

Q. PLEASE DISCUSS PUGET'S ADIT DEBIT BALANCES ASSOCIATED WITH THE OFFICERS' AND DIRECTORS' SUPPLEMENTAL PENSION PLANS.

A. During October 1991, Puget's Board of Directors approved two new supplemental retirement plans, one for Company officers and one for director level employees. For tax purposes, these are non-qualified plans, and no deduction is allowed until benefit payments are made. For book purposes, Puget accrues an expense pursuant to FAS 87. Consequently, Puget has experienced book-versus-tax timing differences for these supplemental pension plans since 1991, which have led to the ADIT debit balance. It would not be appropriate for the Company to charge ratepayers a rate base return on these nonqualified and unfunded supplemental retirement plans. Puget's response to DOD-3089 agrees that these balances should be removed from rate base.

Storm Damage Cost in Rate Base

Q. HAVE YOU ADJUSTED RATE BASE FOR THE STORM DAMAGE COSTS DEFERRED BY PUGET?

A. Yes. The storm damage reserve account should typically have a credit balance. Due to Puget's recording large amounts of overhead cost and costs not directly assignable to a particular storm into this account, it has grown to a large debit balance during the test year, in excess of $16 million. I reduced the balance for these inappropriate overhead items (discussed later in this testimony), which should not have been charged to a storm damage reserve or deferral account. This produces a credit balance in the storm damage reserve account, which should be reflected as an offset to rate base as shown on Schedule 13. I have also adjusted the associated ADIT balance.

Q. DO YOU HAVE ANY OTHER COMMENTS CONCERNING PUGET'S PROPOSED INCLUSION OF A DEBIT-BALANCE STORM RESERVE ACCOUNT IN RATE BASE?

A. Yes. Aside from the fact, mentioned above, that it is abnormal to have a debit balance in such a reserve account, Puget's proposed balance would begin to decline to zero and resume its normal credit-balance status as the allowance for storm cost is adjusted. The credit entries to this account will be reducing Puget's claimed debit balance. Consequently, Puget's debit balance represents an unusual situation and would not be appropriate for rate base inclusion on a forward-looking basis.

IV. OPERATING INCOME

Weather Normalization - Line Losses

Q. WHEN ADJUSTING FOR THE REVENUE EFFECT OF NORMALIZING TEMPERATURES, THE COMPANY ADJUSTED ITS MWH CHANGE TO REFLECT A LINE LOSS PERCENTAGE OF 7%. HOW DID THE COMPANY DETERMINE THAT THE LINE LOSS PERCENTAGE WAS 7%?

A. The Company was asked how they calculated the 7% line loss percentage in Department of Defense Data Request No. 3093. The Company's response was: "(w)e did not make a specific calculation. We assessed that 7% is typical."

Q. IS THE COMPANY'S USE OF A 7% LINE LOSS APPROPRIATE?

A. No. In response to Staff Informal Data Request No. 2365, the Company provided the percentage of line losses, by year, for the period 1987 through 1992. The percentage of line losses has been declining on an annual basis since 1989 and has not been 7% or greater, on an annual basis, since 1989. In fact, in 1991 and 1992, the years encompassed by the test year, line losses were 6.4% and 6.1%, respectively. Since the percentage of line losses has not been 7% or greater for a number of years, and were, in fact, lower during the two years containing the test year, a lower line loss percentage would be appropriate for determining the effects line losses have on the adjustment for the revenue effect of normalizing temperatures.

Q. WHAT LINE LOSS PERCENTAGE ARE YOU RECOMMENDING BE USED IN DETERMINING THE EFFECT OF LINE LOSSES ON THE ADJUSTMENT FOR THE REVENUE EFFECT OF NORMALIZING TEMPERATURES?

A. A line loss percentage of 6.27% would be appropriate. As can be seen on Schedule 14, page 2 of 2, the percentage of 6.27% was calculated based upon the average of 1991 and 1992 line losses. These years are the most recent complete years and both contain a portion of the test year.

Q. WHAT EFFECT DOES THE REDUCTION IN THE PERCENTAGE OF LINE LOSSES THAT YOU ARE RECOMMENDING HAVE ON THE COMPANY'S ADJUSTMENT?

A. The effects of the reduction in the line loss percentage can be seen on Schedule 14, page 1 of 2. The Company's proforma adjustment for the revenue effect of normalizing temperature was used as the beginning point for the adjustment. The Company's line loss percentage of 7% was replaced with 6.27%. In the schedule, the Company's proposed bad debt rate was replaced with the rate of .0025550, which is discussed next, under the heading "Bad Debt Expense." As can be seen on Schedule 14, page 1 of 2, the adjustment results in an increase in revenues of $235,329 and an increase in pro forma net operating income of $155,318, net of taxes.

Bad Debt Expense

Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR BAD DEBT EXPENSE?

A. Schedule 15 shows my proposed adjustment to decrease pro forma bad debt expense by $417,968. The Company's adjustment for bad debt expense on Exhibit T-558 (JHS-3), page 2.17, is overstated. The Company's proposed adjustment to test year bad debt expense, based on the five year average of the uncollectible write-offs to revenues, inappropriately ignores the lower percentage of bad debts currently being experienced and ignores the declining trend of net write-offs to revenues.

The five-year average does not represent an ongoing level of the percentage of write-offs to revenue. According to pages 13 and 14 of the Direct Testimony of Puget witness Knutsen, the Company has changed its credit practices, which in turn influenced the level of write-offs. According to page Mr. Knutsen's testimony at page 14, the Company has taken the following steps to reduce uncollectibles:

> Formation of the Corporate Credit Dept. centralized the Closed Account Collection function and provided for additional attempts to reach customers with unpaid closing bills before referring that bill to a collection agency.
>
> Automation of active credit system functions in 1989 resulted in improved credit follow up.
>
> Institution of late payment/disconnection visit fee authorized by the Commission in October 1990.

Each of these activities improved the collection of revenues and reduced write-offs as a percentage of revenues.

Q. WHAT PRO FORMA BAD DEBT RATE, OR PERCENT WRITE-OFFS TO REVENUES, ARE YOU RECOMMENDING?

A. The actual test year bad debt rate of 0.25550% should be used in determining the pro forma bad debt adjustment.

Q. HOW DID YOU DETERMINE THE TEST YEAR BAD DEBT RATE?

A. The rate was determined by dividing the net write-offs for the test year of $2,440,007 by test year net revenues of $954,982,226.

Q. HAS THE COMPANY COMMENTED ON WHETHER THE TEST YEAR LEVEL OF UNCOLLECTIBLES TO REVENUES REPRESENTS ONGOING CONDITIONS?

A. Yes. During the cross examination of Mr. Knutsen, this issue was addressed as follows:

> Q. In terms of the test year uncollectibles cost, do you expect the relationship of uncollectibles to net customer of revenues to worsen during the period after the test year?
>
> A. No.
>
> Q. Do you expect it to stabilize?
>
> A. Expect it to be about at this level on sort of a normal basis. If the weather is much colder and the bills are much higher this number could be higher and the reverse of course would be true. But on a normal basis this is likely the level that we will see become stable over the coming years. (Tr. pp. 1307-1308)

These responses indicate that the Company believes that the test year level of uncollectibles will continue and is representative of normal conditions. This supports using the test year ratio of uncollectibles to revenue for purposes of computing the impact of pro forma adjustments.

Q. WHAT WAS THE LEVEL OF WRITE-OFFS TO REVENUE FOR THE YEAR ENDED DECEMBER 31, 1992?

A. According to Puget's response to Record Requisition 531, the 1992 net write-offs as a percentage of net revenues was 0.18644%.

Q. HOW DOES THIS COMPARE WITH YOUR RECOMMENDED PRO FORMA RATE?

A. Puget's actual 1992 uncollectibles rate is even lower than the 0.25550% rate I am recommending. This would indicate that my adjustment to decrease expenses by $417,968 on Schedule 15, may be conservative, because it does not reflect the decline in Puget's uncollectibles rate that has occurred subsequent to the test year.

Q. DOES YOUR PROPOSED ADJUSTMENT TO PUGET'S BAD DEBT EXPENSE RATE HAVE ANY OTHER EFFECTS ON PRO FORMA REVENUE REQUIREMENT?

A. Yes. The bad debt rate portion of the revenue conversion factor needs to be reduced to the 0.25550% bad debt rate that I am recommending. Accordingly, I have used this bad debt rate for determining the overall revenue requirement, as shown on Schedule 1. It is incorporated in the gross revenue conversion factor calculation on Schedule 2, page 3.

<u>Payroll Increase Adjustments</u>

Q. ARE YOU PROPOSING ANY ADJUSTMENTS TO PUGET'S PRO FORMA PAYROLL EXPENSE?

A. Yes. I am proposing adjustments to: (1) correct for Puget's failure to exclude employee bonuses prior to the application of the payroll increase percentage; (2) correct for Puget's use of a 4.5% increase for management, when the Company's response to Staff data request no. 1168 indicates a 1993 increase of 3.0%; and (3) address the fact that, in each year in which Puget has provided data, its actual non-union wage increases have averaged $42,485 less annually than the increases suggested by Puget's merit budget pool. The first two of these adjustments are combined on Schedule 16. The last adjustment is presented on Schedule 17.

Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR PRO FORMA PAYROLL AND PAYROLL TAXES SHOWN ON SCHEDULE 16.

A. This schedule consists of 5 pages. Page 1 summarizes my proposed adjustment. Column A shows Puget's proposed adjustment for pay increases. Column B shows my proposed adjustment. Column C shows the differences between Puget's proposed adjustment and my recommendation. My adjustment reduces Puget's proposed pro forma payroll expense by $581,622 and reduces payroll tax expense by $41,588. This results in an increase in net operating income of $411,319, after income taxes.

Page 2 shows the calculation of my recommended payroll adjustment. Puget failed to remove the employee bonuses, before applying the payroll increase in the filing. On page 2 of Schedule 16, I remove employee bonuses in Column B, prior to applying the wage increase percentage.

Puget's filing also reflects an incorrect wage increase for management. As explained on page 3 of Schedule 16, Puget used a 4.5% pro forma increase for management. I have adjusted this for the 3.0% increase for 1993 specified by the Company in its response to Staff data request no. 1168, which is reproduced for ease of reference as page 4 of this schedule.

Page 5 of Schedule 16 calculates the effective FICA tax rate, which I applied to determine the impact on payroll tax expense resulting from the change to Puget's proposed payroll expense. It is my belief that any impact on state and federal unemployment tax from this payroll adjustment would likely be immaterial; consequently, I only adjusted Puget's FICA tax expense.

Q. PLEASE EXPLAIN THE OTHER ADJUSTMENT TO PRO FORMA

PAYROLL EXPENSE YOU ARE RECOMMENDING, WHICH IS SHOWN ON SCHEDULE 17.

A. In response to DOD-3003, Puget indicated that the total of all merit increases provided to non-union employees cannot exceed the overall merit budget pool. Puget uses the merit budget pool percentage to calculate its pro forma payroll adjustment. This results in overstating the actual wage increase. Puget's response to DOD-3115(b) indicated that the total of the Company's merit increases provided to its non-union employees has been less than the overall merit budget pool in each of the years, 1990, 1991 and 1992. Moreover, Puget has no data for years prior to 1990. Puget's response to DOD-3115(c) and (d) reflected the amount of overstatement in each year. This response is reproduced for ease of reference as page 2 of Schedule 17.

As shown on Schedule 17, page 1, lines 1 through 4, Puget's annual overstatements of non-union increases have averaged $42,485. In other words, Puget's use of its budgeted merit increase would overstate the amount of non-union wage increase by $42,485 annually.

Q. WHAT ADJUSTMENT IS NECESSARY?

A. Each annual non-union pay increase reflected as a pro forma adjustment to the test year should be reduced by this amount. As shown on page 3 of Schedule 16 (discussed above), Puget's, and my, pro forma payroll adjustment for non-union employees effectively adjust the test year for 18-months worth of payroll increases. That is, Puget's test year non-union payroll has been adjusted for 6 months of Puget's budgeted merit increase effective January 1, 1992, and for 12 months of Puget's budgeted merit increase effective January 1, 1993.

Because Puget's budgeted increases have exceeded the actual increases granted by an annual amount averaging $42,485, and because pro forma payroll reflects 18 months of pay increase beyond the test year, an adjustment to reduce pro forma payroll for 18/12ths of the $42,485 average annual overstatement produced by Puget's merit increase procedure is necessary. Accordingly, as shown on Schedule 17, pro forma payroll cost for Puget's non-union employees must be reduced by $63,727 to address and correct for the established propensity of the Company's annual merit increases to overstate actual wage increases. Using Puget's O&M expense factor of 54%, the reduction to pro forma payroll expense is $342,413. Additionally, using the Company's effective FICA rate applicable to non-union payroll of 7.3168% (from Schedule 16, page 5, Column F), payroll tax expense decreases by $2,518. Schedule 17, page 1, shows that this adjustment reduces operating expense by $36,931 and increases net operating income by $24,374.

Payroll - Incentive Bonuses

Q. HAVE YOU MADE ANY ADJUSTMENTS RELATING TO INCENTIVE PAY?

A. Yes, I am proposing two adjustments (1) for a lump-sum distribution to officers and directors, and (2) for Puget's failure to achieve a pay-at-risk goal specified in its Energy Plus program.

Lump Sum Distribution to Officers and Directors

Q. WOULD YOU PLEASE EXPLAIN YOUR ADJUSTMENT?

A. The adjustment being proposed for O&M Payroll Accrued removes a lump sum distribution to officers and directors from operating expense. The Company claims that all executive incentives and bonuses were non-utility expenses and, therefore, were charged to accounts that were below the line. However, Puget's response to Staff data request no. 2408 disclosed that this lump sum distribution to officers and directors of $507,540 was included in the $2,741,809 Employee Bonuses amount, which Puget included in its payroll expense. This amount was exclusive of the Energy Plu$, Performance Plus, Idea Plu$ and the Executive Incentive Programs. Schedule 18 shows the removal of $507,540. Net of the applicable federal income taxes, operating income is increased by $334,976. Unless Puget can clearly demonstrate that it has, in fact, removed the lump sum amount, this adjustment should be made.

Q. WHAT CAUSES YOU TO QUESTION WHETHER PUGET HAS FAILED TO REMOVE THE $507,540?

A. This amount is included in the $2,741,809 Employee Bonus amounts shown on Schedule 16, page 2 of 5, and on Puget's response to Staff data request no. 1046. These amounts are <u>included</u> in the O&M Payroll accrued on Puget workpaper no. 119. This would indicate that the $507,540 <u>remains</u> in Puget's pro forma operating expense, and hence requires an adjustment to exclude this cost, which should not be borne by ratepayers.

<u>Pay-At-Risk - Failure to Achieve Goal</u>

Q. WOULD YOU PLEASE EXPLAIN YOUR ADJUSTMENT TO THE PAY-AT-RISK PRIMARY FUNDING AMOUNT?

A. Puget management achieved 5 of the 6 goals of the Energy Plus portion of the primary funding amount to the pay-at-risk figure. The Board of Directors decided to treat all 6 goals as being met because the Company came within .5% of the target budget. However, this inclusion of the sixth goal is inappropriate for ratemaking purposes and should be removed from operating expenses. Although the Company came close the actual targeted goal, it was not achieved, and, therefore, the corresponding amount should be removed from the primary funding calculation. Schedule 19 shows the adjustment. Operating expense is decreased by $25,299. Net operating income increases by $16,697.

Employee Benefits

Q. ARE YOU PROPOSING AN ADJUSTMENT TO EMPLOYEE INSURANCE EXPENSES?

A. Yes. I am proposing an adjustment to the Company's average monthly contribution for employee insurance.

Q. WOULD YOU PLEASE EXPLAIN THIS ADJUSTMENT?

A. Puget's response to Staff's data request no. 2402 showed how it calculated the average monthly contribution to insurance expense. Puget assumed a 10% increase in the contribution amount to be paid by the Company as of July 1, 1993. This assumption is unsubstantiated, and Puget's proposed expense increase should be removed from test year expense. The assumed 10% increase is not verifiable and does not meet the known and measurable test. Consequently, I have removed the appropriate amount from operating expense in Schedule 20. As can be seen in the schedule, I used the average monthly contribution at July 1, 1992 and reduced Puget's proposed contribution by $43,081. I then annualized the monthly amount and applied the Company's O&M expense factor of 54% and deducted applicable income taxes. O&M expense is decreased by $279,165 and net operating income is increased by $184,249.

FAS 106

Q. HAVE YOU REVIEWED THE COMMISSION'S POLICY STATEMENT ON RATEMAKING AND REGULATORY REPORTING REQUIREMENTS WITH REGARD TO FAS 106?

A. Yes. I have reviewed the Commission's policy statement on Statement of Financial Accounting Standards (FAS) No. 106, dated October 23, 1992 and issued in Docket No. A-921197.

Q. PLEASE BRIEFLY SUMMARIZE YOUR UNDERSTANDING OF THAT POLICY STATEMENT.

A. The Commission's policy statement established the following requirements for utilities with respect to FAS 106 other post employment benefits (OPEB):

- o Utilities are required to demonstrate in a general rate case that the greater expense level of expense associated with FAS 106, required to be recognized for financial reporting purposes, is reasonable, prudently incurred, and determined under conservative assumptions. "Conservative assumptions" means that the lowest reasonable assumptions for the medical cost trend rate and the lowest reasonable cost should be used;
- o The utility must demonstrate that its requested level of FAS 106 expense reflects prudent and safe funding of the entire amount based on tax-free asset transfers and fund income;
- o The utility must demonstrate that there is a benefit to ratepayers, over time, from reflecting the higher FAS 106 expense in rates currently;
- o Prior to a general rate case in which recovery of the higher FAS 106 level of OPEB expense is an issue, the utility may record in a deferred account, for future rate consideration, the difference between the

amount of pay-as-you-go expense and FAS 106 accrual expense;

- The FAS 106 amount must be determined as if the full amount were funded on a fully tax deductible basis;

- In the interim period, prior to rate inclusion, no return shall be earned or accrued on any deferred balance;

- No portion of any deferred balance can be capitalized into plant accounts prior to Commission acceptance of the expense portion in rates;

- The utility must prove that none of its recorded deferral amounts occurred during periods when a utility earned in excess of its last authorized return;

- Permissible deferred amounts would be amortized and recovered through rates over a period not to exceed ten years from the effective date of FAS 106.

Q. ARE YOU ALSO FAMILIAR WITH THE "WHITE PAPER" ON ACCOUNTING FOR POST RETIREMENT BENEFITS OTHER THAN PENSION PREPARED BY THE COMMISSION STAFF?

A. Yes. I have read the Staff's July 1992 "White Paper" report on Accounting for Post Retirement Benefits other than Pension, which presented Staff's research and recommendations on the FAS 106 accrual issue.

Q. YOU MENTIONED THAT THE STAFF'S WHITE PAPER ON FAS 106 WAS DATED JULY 1992 AND THE COMMISSION'S POLICY STATEMENT IN DOCKET NO. A-921197 WAS DATED OCTOBER 23, 1992. HAVE SIGNIFICANT DEVELOPMENTS AFFECTING THE FAS 106 ACCRUAL TO BE REPORTED ON A UTILITY'S FINANCIAL

STATEMENTS OCCURRED SINCE THOSE DATES?

A. Yes. Specifically, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") has issued a consensus view which suggests a phasing-in of the FAS 106 accrual for rate recognition purposes that would support the recognition of a regulatory asset for deferred amounts.

Q. IS THE EITF'S CONSENSUS VIEW IMPORTANT?

A. Yes. I believe the EITF's view is important for a number of reasons.

First, it impacts upon the amount of the FAS 106 accrual <u>expense</u> that a utility is required to recognize for financial reporting purposes. To the extent that a portion of the FAS 106 accrual can be deferred as a regulatory asset, <u>that portion is not recognized as a current expense</u> for financial reporting purposes. The Commission's Policy Statement addresses "the greater expense level of PBOP <u>expense</u>, required to be recognized for financial reporting purposes under FAS 106 ..." (Emphasis supplied.) Paragraph 364 of FAS 106 recognizes that:

> For some rate-regulated enterprises, FASB Statement No. 71, <u>Accounting for the Effects of Certain Types of Regulation</u>, may require that the difference between net periodic postretirement benefit cost as defined in this Statement [FAS 106] and amounts of postretirement benefit cost considered for rate-making purposes be recognized as an asset or liability created by the actions of the regulator. Those actions of the regulator change the timing of recognition of net periodic postretirement benefit cost as an <u>expense</u> ... (Emphasis supplied.)

EITF 92-12 attempts to provide additional guidance concerning under what circumstances the regulatory asset (deferral) treatment will be permitted for financial reporting purposes, which affects the amount of expense that must be reported on the utility's financial statements.

Second, although controversy exists with respect to EITF 92-12[1], it is my belief that the consensus view expressed therein will generally be followed by SEC registered companies and their auditors. That is, a phase-in plan for the FAS 106 accrual would permit deferred costs to be recognized as a regulatory asset on the utility's financial statements, and such treatment would be approved by the utility's auditors and would not be subject to challenge by the SEC.

Third, the Commission's Policy Statement, issued prior to EITF 92-12, had indicated that permissible deferred amounts of a utility's FAS 106 accrual

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[1] Controversy exists with respect to whether the EITF 92-12 consensus guideline falls within the scope of the EITF's authority. Others have voiced concern that the EITF under-represents FASB constituent groups, and that its procedures violate FASB due process requirements in the interest of expediency. The EITF lacks formal authority to promulgate accounting standards, yet many view its consensus views as de facto GAAP for public companies. Standard-setting authority rests with the FASB and the Securities and Exchange Commission; however, their acceptance of an EITF consensus can result in a de facto standard. The SEC's Chief Accountant, for example, has indicated that he would challenge registrant accounting that differs from an EITF consensus because the consensus would represent the best thinking on areas for which there are no specific standards. In the hierarchy of GAAP (as delineated in Statement of Auditing Standards no. 43), "other accounting literature" including the minutes of the EITF meetings (level (c) authority) cannot overrule first level authority, "standards enforceable under Rule 203 of the AICPA Code of Professional Ethics," which includes FASB Statements. Concerning the recording a regulatory asset by a public utility, existing Standards include FAS 71 and paragraph 364 of FAS 106 address this already, and it would not be within the purview of the EITF to issue a contradictory consensus view. The EITF could elaborate upon but cannot contradict such existing authority.

would be amortized and recovered through rates over a period not to exceed ten years from the effective date of FAS 106. Given that EITF 92-12 would now permit phasing-in of FAS 106 accruals over a 5-year period with subsequent rate recognition of deferred amounts over the next 15 years (i.e., years 6 through 20), I recommend that the Commission consider use of this recovery period for FAS 106 deferrals.

Finally, although following the phase-in suggested for FAS 106 accruals articulated in the EITF's consensus view is not mandatory for ratemaking purposes, it would provide a method of mitigating the impact on current ratepayers of changing from pay-as-you-go to accrual accounting for a utility's OPEB cost in a manner that would not adversely impact the utility's financial statements.

Q. HAS THE COMPANY INDICATED THAT IT VIEWS AVOIDING ANY NEGATIVE FINANCIAL IMPACT ASSOCIATED WITH THE IMPLEMENTATION OF FAS 106 AS IMPORTANT?

A. Yes. For example, Company witness Story's direct testimony at page 35 asserts that calculating OPEB cost pursuant to FAS 106 would provide the following benefit:

> It would allow accounting for ratemaking purposes to follow the required treatment for financial reporting purposes, and thereby avoid any negative financial impact associated with implementation of SFAS 106.

Q. WOULD UTILIZATION OF THE PHASE-IN SUGGESTED BY EITF 92-12 PRODUCE THIS SAME "BENEFIT"?

A. Yes. Using the phase-in suggested in EITF 92-12 would avoid any negative impact for financial reporting because amounts deferred for rate recognition would receive regulatory asset treatment.

Q. HAVE YOU ATTACHED TO YOUR TESTIMONY A COPY OF EITF 92-12, WHICH STATES THE EITF'S CONSENSUS POSITION CONCERNING THE RECOGNITION OF A REGULATORY ASSET FOR FAS 106 ACCRUAL AMOUNTS THAT ARE DEFERRED PURSUANT TO A REGULATOR'S PLAN TO PHASE-IN RECOGNITION OF FAS 106 FOR RATEMAKING PURPOSES?

A. Yes. It is attached as Schedule 22.

Q. HOW HAS THE COMPANY PROPOSED THAT OPEB BE RECOGNIZED IN THIS RATE PROCEEDING?

A. Puget had its actuary estimate the FAS 106 accrual expense for OPEBs under three scenarios for the period 1992 through 2011. This is shown on page 110 of the Company's workpapers. Puget selected the accrual under "scenario 3" (accrual with funding). This produced accrual amounts of $3.568 million for 1992 and $3.536 million for 1993. Puget indicated that 54% of the accrual amount would be allocated to O&M expense accounts. Accordingly, Puget has proposed an annual expense of $1,926,720. The

Company calculated this by multiplying the $3.568 million 1992 accrual amount by the 54% O&M expense factor.

During the test year, Puget recorded OPEB cost of $1,838,479, based upon benefit payments. Of this, Puget recorded $992,601, or about 54%, as operating expense. Puget has proposed a pro forma adjustment to increase operating expense by $934,119, which represents the excess of the accrual expense over the expense recorded in the test year.

Additionally, the Company proposes charging ratepayers for a return on "previously deferred amounts" of $1,167,427 which Puget proposes to include in rate base, based upon the full amount of the Company's FAS 106 rate year accrual expense.

Q. HAS THE COMPANY INDICATED THAT IT WOULD UPDATE THE FAS 106 AMOUNT PRESENTED IN ITS FILING?

A. Yes. Puget witness Story's testimony at page 34 indicates the Company's intention to update the amount "to more current data during the course of this proceeding." Puget's response to Staff data request no. 2466 indicates that updating calculations for Company accounting workpapers 138 and 140 would be provided with the response to Staff data request no. 1085. The response to Staff data request no. 1085 provided to me contained no updating information, just a statement by Puget that updated exhibits, workpapers, and supporting documentation would be provided as they become available. To my knowledge, Puget has not yet filed such updates and support. Consequently, I am basing my adjustments upon Puget's filed exhibits.

Q. DO YOU AGREE WITH PUGET'S PROPOSED PRO FORMA ADJUSTMENT FOR INCLUSION OF DEFERRED FAS 106 ACCRUAL AMOUNTS IN RATE BASE?

A. No, I do not. Puget has not demonstrated that is has any investment in deferred FAS 106 accrual amounts which requires a return through rate base inclusion. The Commission's Policy Statement from Docket No. A-921197 addresses the amortization of prudently incurred cost to be included in rates, but does not appear to authorize rate base treatment for such deferrals. In fact, the Policy Statement clearly prohibits rate base treatment prior to approval of the expense in rates. Moreover, the recording of the FAS 106 accrual involves recognizing a liability account, which represents cost-free capital that would offset deferred accrual amounts. The liability account is credited and the expense account debited for the FAS 106 accruals. To the extent that amounts are transferred from expense to a deferral account, such deferrals would be offset by the existence of the liability, thus there is no justification for a rate base amount for FAS 106 deferral at this time.

Q. PLEASE DISCUSS THE FUNDING STATUS OF PUGET'S OPEB.

A. As of December 31, 1992, Puget had accumulated $5.730 million in plan assets for postretirement life insurance benefits. Puget has been funding postretirement medical benefits on a pay-as-you-go basis. As of December 31, 1992, Puget has not prefunded such benefits. The Company indicated that it will fund its OPEB cost based on the amounts recognized for ratemaking purposes.

Q. HAS PUGET INDICATED THE TYPES OF FUNDING IT INTENDS TO USE?

A. Yes. Puget has indicated that the Company intends to use external funding, specifically, a collectively-bargained Voluntary Employee Benefit Association ("VEBA") trust pursuant to Section 501(c)(9) of the Internal Revenue Code for union employees, and a 401(h) account for management employees.

Q. PLEASE DISCUSS BRIEFLY THE TAX RAMIFICATIONS OF VEBA FUNDING.

A. A collectively bargained VEBA under IRC §501(c)(9) is a funding method which has additional tax advantages, including:

- Contributions to the VEBA trust and benefits to participants are not taxable;
- Earnings on trust assets are not taxable;
- The benefits are not taxable when received by their retirees; and
- Medical inflation can be considered in establishing the funding level.

The establishment of such a VEBA must be the result of arms-length collective bargaining, and the funding vehicle must cover at least 90% of the employees eligible to receive benefits. A collectively-bargained VEBA (and a §401(h) plan[2]) are considered to be the most tax-advantaged funding vehicles available to prefund postretirement benefits under current tax code limitations.

In contrast, other forms of funding lack one or more of the tax advantages of the §401(h) plan or collectively-bargained VEBA and, as such, represent uneconomic forms of prefunding. For example, the §501(c)(9) VEBA, which could be used to fund benefits for employees who are not subject to collective bargaining, has the following attributes:

- Contributions to the VEBA trust and benefits to participants are not taxable;
- Earnings on trust assets are taxable;
- The benefits are not taxable when received by the retirees; and
- Medical inflation cannot be considered in establishing the funding level.

[2]A company cannot use an IRC 401(h) plan if its pension plan is fully funded to the point where no tax-deductible pension contributions would be permitted. The tax deduction for 401(h) plan contribution is tied to the amount of allowable tax-deductible pension contribution. Consequently, companies with fully funded pension plans typically cannot use 401(h) accounts to prefund their OPEBs. It appears that Puget could utilize a 401(h) account to prefund a portion of its OPEB cost.

Clearly, the non collectively-bargained VEBA is not as favorable as its collectively-bargained counterpart. Federal tax-exempt investments, such as municipal bonds, could be employed to offset the taxable-earnings characteristic of noncollectively-bargained VEBAs. Employing municipal bonds and other such tax-free investments, nevertheless, would produce substantially lower after-tax returns than could be earned through a §401(h) plan or a collectively-bargained VEBA.

Q. PLEASE DISCUSS HOW THE TAX-DEDUCTIBILITY OF FUND CONTRIBUTIONS AND TAXATION OF FUND EARNINGS AFFECT THE COST OF POSTRETIREMENT BENEFIT PREFUNDING.

A. The lack of tax benefits increases the cost. The §401(h) plans and the collectively bargained VEBAs both provide for the tax-deduction of prefunding contributions and for tax-free accumulation of trust fund earnings; as such, these represent the preferred vehicles for pre-funding. Contributions to non-collectively bargained VEBAs are tax-deductible, but the earnings are subject to taxation. Funding amounts could be invested in, for example, municipal bonds, to produce tax-free income, but this comes at a sacrifice in after-tax return, in comparison to the 401(h) and collectively bargained VEBA. Thus, the non-collectively-bargained VEBA and other less tax-advantaged funding vehicles described above are more costly and should be avoided.

The Financial Executive's Tax Guide to Retiree Medical Benefits has concluded that the 401(h) and collectively bargained VEBA provide the employer savings over pay-as-you-go, but that:

> If the VEBA's earnings are not tax-sheltered, it provides no advantage over pay-as-you-go; it gives an earlier but correspondingly smaller tax deduction. (Salomon Brothers The Financial Executive's Guide to Retiree Medical Benefits, p.21)

This Guide also concludes that:

> A decision among the funding vehicles should also reflect any view that the company may have about its future tax rates. An expectation of increasing tax rates would favor pay-as-you-go, which defers the tax deductions to a time when they may be more valuable. (Id.)

Q. HAS PUGET DEMONSTRATED THAT THERE IS A BENEFIT TO RATEPAYERS, OVER TIME, FROM REFLECTING THE HIGHER FAS 106 EXPENSE IN RATES CURRENTLY?

A. No. Information provided by Puget in response to record requisition no. 550 indicates a net present value detriment to ratepayers over the period covered by the Company's projections. Puget's response indicates that the present value of the Company's proposed FAS 106 accruals, with funding, for the years 1993 through 2012 exceeds the comparable pay-as-you-go present value by $5.530 million, or 27%. In other words, ratepayers would be disadvantaged by $5.530 million on a present value basis through 2012, the entire 20-year period covered by Puget's projections.

Q. DO YOU CONSIDER THE PAY-AS-YOU-GO METHOD TO BE A VALID

METHOD OF RECOGNIZING OPEB COST FOR REGULATORY PURPOSES?

A. Yes. Pay-as-you-go has been employed for OPEB cost recognition purposes consistently in the past. It provides the lowest cost to ratepayers currently and for the next several years, and places the maximum pressure on the utility's management to take steps to control OPEB costs. Continuing pay-as-you-go would provide a consistent method for rate recognition of OPEB costs for all ratepayers for all periods.

Q. IF THE COMMISSION FOUND THAT PUGET FAILED TO MEET THE REQUIREMENTS STATED IN ITS POLICY STATEMENT ON FAS 106 AND DECIDED TO CONTINUE THE USE OF PAY-AS-YOU-GO FOR REGULATORY PURPOSES IN THIS CASE, WHAT ADJUSTMENT WOULD BE NECESSARY?

A. Puget's proposed pro forma adjustment for the FAS 106 accrual would be rejected in its entirety. This would reduce pro forma operating expense by $934,119 and would increase net income after income taxes by $616,519.

Q. PLEASE EXPLAIN WHY YOU ARE PROPOSING AN ALTERNATIVE TO THE USE OF THE PAY-AS-YOU-GO METHOD IN THIS CASE.

A. I have recommended continuation of pay-as-you-go in other jurisdictions, and believe continuation of that method may well represent the fairest method and provide the best protection to ratepayers against having to overpay for utilities' OPEBs. I have, however, reviewed the Commission's Policy Statement concerning FAS 106 and the Company's evidence presented in this case. Consequently, in this case, I am recommending another alternative for the Commission's consideration that would mitigate the impact of this <u>accounting</u> change upon Puget's captive ratepayers.

Q. PUGET CLAIMS THAT UTILIZING FAS 106 FOR RATEMAKING PURPOSES WOULD ALLOW UTILITY RATES TO REFLECT THE "TRUE" COSTS OF SERVICE PROVIDED BY THE COMPANY'S WORKFORCE. DO YOU AGREE?

A. No. If the concept is that current ratepayers should pay for the cost of the service being provided by the utility's employees in the current period, the FAS 106 accrual fails to achieve this. The Service Cost component of FAS 106 accrual represents the cost of utility employees' service attributed to the current period; hence, that component, if subject to accurate measurement, would represent the true current cost of service. However, the Service Cost is typically only a small portion of the total FAS 106 accrual. <u>Most of the accrual relates to transitional costs</u>, including the Transition Obligation and interest on it. For example, Puget's disclosure of net periodic postretirement benefit cost for 1992 shows an Interest Cost of $2.313 million and transition obligation amortization of $1.144 million, which together comprise 99% of the Company's net periodic postretirement benefit cost under the FAS 106 accrual method for 1992 of $3.488 million.

Q. DOES THE COMPANY AGREE THAT ITS FAS 106 TRANSITION OBLIGATION AT JANUARY 1, 1993 RELATE ENTIRELY TO LIABILITIES WHICH HAVE BEEN INCURRED PRIOR TO THAT DATE?

A. Yes, as exhibited in its response to DOD-3111(d).

Q. OVER WHAT PERIOD IS PUGET PROPOSING TO AMORTIZE THE FAS 106 TRANSITION OBLIGATION?

A. Puget proposes amortizing this over 20 years.

Q. HAS PUGET INDICATED OVER WHAT PERIOD IT EXPECTS ITS FAS 106 TRANSITION OBLIGATION WILL BE PAID?

A. Yes. Puget's response to DOD-3111 states that "[t]he transition obligation is projected to be paid over the next 90 years."

Q. OVER WHAT PERIOD DOES PUGET PROPOSE TO AMORTIZE ANY DEFERRALS ASSOCIATED WITH FAS 106 ACCRUALS?

A. Puget proposes to amortize such deferrals over 5 years.

Q. DO YOU AGREE WITH THIS PROPOSED RECOVERY PERIOD?

A. No. A five-year recovery period for deferrals of FAS 106 cost would be too short. The Commission's Policy Statement, which was issued prior to the issuance of EITF 92-12, suggested a 10-year amortization period for deferrals. EITF 92-12 suggests a 20-year deferral and recovery period, consisting of 5 years of deferral and recovery of deferred amounts during the subsequent 15 years.

Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO PUGET'S FAS 106 ACCRUAL?

A. I am proposing an adjustment to the amount of OPEB cost Puget has requested be charged to ratepayers in this case to reflect the phase-in of FAS 106 accounting for ratemaking purposes, in accordance with EITF's consensus position.

Q. PLEASE DISCUSS HOW YOUR PROPOSAL CONFORMS WITH THE EMERGING ISSUES TASK FORCE'S "CONSENSUS" VIEW REGARDING PHASING-IN TO THE FAS 106 ACCRUAL METHOD FOR RATEMAKING PURPOSES.

A. As mentioned, the consensus issued by the EITF in January 1993, suggests that phasing-in to full FAS 106 accrual recognition for ratemaking purposes over a five-year period, with subsequent rate recognition in years 6 through 20 of deferred amounts, would be appropriate and would support the recognition of a "regulatory asset" for a utility's deferred FAS 106 accrual amounts that are not recovered currently through rates. Use of such a "phase-in" approach would be entirely consistent with generally accepted accounting for regulated companies and would substantially reduce the amount of the FAS 106 accrual to be charged to monopoly service ratepayers in 1993. Essentially, this phase-in approach permits charging ratepayers in 1993 with the pay-as-you-go amount plus 20% of the difference between the pay-as-you-go amount and the FAS 106 accrual amount. The balance of the FAS 106 accrual would be deferred, for subsequent recovery in years 6 through 20 of the phase-in period. The calculation of this adjustment is presented on Schedule 21.

Q. PLEASE EXPLAIN SCHEDULE 21.

A. Schedule 21 consists of 2 pages. Page 1 shows the calculation of the pro forma adjustment for the test year. Under the EITF 92-12 phase-in approach, the total expense to Puget for OPEBs to be recognized would be $1.202 million, as shown on line 3. This is $725,000 less than Puget's proposed expense.

Schedule 21, page 2, in Column B, lists the FAS 106 accrual amounts provided by the Company in response to record requisition no. 550 for the years 1993 through 2012. Column C lists the corresponding pay-as-you-go amounts for each year, 1993 through 1997. Column D shows the excess of the FAS 106 accrual amounts over the pay-as-you-go amounts for each year. Column E shows the FAS 106 phase-in percentages, and Column F shows the corresponding phase-in amounts for each year. The phase-in amounts represent the amount of the FAS 106 accrual in excess of the pay-as-you-go cost which would be recognized for regulatory purposes in each year.

Column G, lines 1 through 5, present the amounts for each year of the FAS 106 accrual that would be deferred for future recognition. Column G, lines 6 through 20, show the amounts of deferral amortization in each year. Column G presents the annual amount of recovery for years 6 through 20 of the EITF 92-12 phase-in. The regulatory asset amount existing at December 31, 1997, is divided by the 15-year recovery period to determine the annual recovery amount. The annual recovery amount for years 6 through 20 would be added to the FAS 106 accrual. That sum would provide the annual amount of FAS 106 cost to be recognized for regulatory purposes each year during the remainder of the phase-in.

Column H presents the amount of OPEB cost recognition for each period. Column I uses Puget's 54% expense factor to estimate the annual expense recognition for each year. Column J shows the regulatory asset amounts for each year. These regulatory asset amounts represent an accumulation of the annual FAS 106 deferral amounts.

In summary, based upon the projections provided by the Company, page 2 of Schedule 21 shows the amount of OPEB expense Puget would recognize for regulatory purposes during each year of the period covered by the EITF 92-12 phase-in. For each year the schedule uses the 54% expense factor from the Company's filing. Such calculations illustrate how Puget's OPEB cost would be recognized during the period covered by the EITF 92-12 phase-in.

Obviously, Puget's actual amounts would be substituted for the projections. Additionally, the Commission would retain responsibility and oversight concerning the prudence and reasonableness of the Company's OPEB cost, and the Company would retain the burden of proof to meet these requirements.

Q. IS A RETURN REQUIRED ON THE DEFERRED FAS 106 ACCRUAL AMOUNTS, WHICH WOULD BE RECORDED BY PUGET AS A REGULATORY ASSET?

A. No. No return is required, nor would granting a return on the regulatory asset be appropriate. Puget would not have funded any amounts associated with the regulatory asset. Puget would not have made any cash outlay. Moreover, Puget would have recognized a corresponding OPEB liability account on its balance sheet. That liability represents a full offset to the regulatory asset. Neither the regulatory asset, nor the OPEB liability which corresponds with that asset represent rate base items. Or, viewed another way, such items would net to zero.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATION.

A. The Commission can mitigate the impact on ratepayers of this accounting change, and avoid any adverse impact on the utility's financial statements, by utilizing the phase-in method suggested in EITF 92-12. Implementation of this procedure will enable Puget to record a regulatory asset for deferred

FAS 106 amounts. Under the phase-in method, the pro forma amount of OPEB expense recognition for the test year is $1.202 million, as shown on Schedule 21, page 1. This results in a $725,000 reduction in the Company's proposed OPEB expense.

<u>Directors and Officers Liability Insurance</u>

Q. HOW MUCH IS THE COMPANY REQUESTING FOR OFFICERS AND DIRECTORS LIABILITY INSURANCE?

A. On a pro forma basis, Puget has included $693,750 on an annual basis for Directors and Officers (D&O) liability insurance.

Q. SHOULD PUGET BE ALLOWED TO RECOVER THE TOTAL COST OF THE D&O LIABILITY INSURANCE FROM RATEPAYERS?

A. No. The coverage benefits Puget's shareholders just as much as, if not more than, it benefits the ratepayers. The purpose of D&O liability insurance is to protect the Company's directors and officers in the event that there are lawsuits. These potential lawsuits likely would be initiated by the Company's shareholders, not its ratepayers. Therefore, shareholders should equally share the burden of this insurance cost. Indeed, if shareholders are suing either Company management or the board of directors, there is a question as to what ratepayer interests are being served. Puget should not be allowed to include 100% of the costs above-the-line.

Q. ARE THERE ANY OTHER REASONS THAT WOULD WARRANT REASSIGNING A PORTION OF THE COMPANY'S D&O LIABILITY INSURANCE EXPENSE BELOW-THE-LINE?

A. Yes. Puget's D&O liability insurance also covers Puget's subsidiaries. In response to Staff data request no. 2329(b) the Company stated that "(t)here is no additional premium charged for adding the subsidiaries to the Puget policies nor would there be any reduction in the premium if the subsidiaries were removed from the policies." However, the insurance covers, and hence benefits, the Company's subsidiaries, so they should also bear part of the costs. It is unfair for Puget's ratepayers to fund the entire cost of the D&O policy when such insurance also benefits Puget's subsidiaries.

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING?

A. I am recommending that 50% of the cost of the Directors and Officers liability insurance be allocated below-the-line. As can be seen on Schedule 23, this results in a $346,875 reduction to expense.

<u>Environmental Remediation</u>

Q. THE COMPANY HAS MADE AN ADJUSTMENT WHICH AMORTIZES DEFERRED ENVIRONMENTAL COSTS OVER A THREE YEAR PERIOD. PLEASE DISCUSS THIS ADJUSTMENT.

A. In its Order in Docket No. UE-911476, the Commission allowed the Company to defer amounts paid to outside vendors and contractors for certain environmental remediation programs for recovery in future rate proceedings. In this proceeding, the Company is requesting that the balance of these deferred environmental costs, totaling $5,881,944 at the end of the test year, be amortized over three years. This results in an annual amortization expense of $1,960,648.

Q. IS IT APPROPRIATE FOR THE COMPANY TO BEGIN TO INCLUDE THESE AMOUNTS IN RATES IN THE CURRENT PROCEEDING?

A. No. The Company should continue to defer the environmental costs paid to outside vendors and contractors until a future rate proceeding in which its liability for such costs and the extent of insurance reimbursement is known.

Q. WHY SHOULD THE COMPANY CONTINUE TO DEFER THESE AMOUNTS?

A. According to the Commission's Order in Docket No. UE-911476, Page 5, section (d), the deferred costs are subject to certain conditions, one of which states as follows:

> Deferred costs will be reduced by any insurance proceeds or payments from other responsible parties recovered by Petitioner in respect of such costs.

Q. HAS THE COMPANY RECEIVED ANY INSURANCE PROCEEDS OR PAYMENTS FROM OTHER RESPONSIBLE PARTIES FOR COSTS THAT IT IS ATTEMPTING TO AMORTIZE IN THIS PROCEEDING?

A. Yes. In response to Staff data request no. 2332(c), (Exhibit T-630) the Company states that it has recovered from insurers some amounts for costs incurred. Such recoveries total $901,129. Record Requisition #541 asked the Company to "...provide the estimated insurance recoveries in subsection (b) of section (c) of Exhibit 630." The Company responded, in part, as follows:

> The Company believes it is entitled to complete recovery of the costs it incurs, and the estimates reflect this position unless indicated otherwise in the detail below...
>
> The following estimated insurance recoveries are equal to the projected costs for the sites indicated.
>
> Coal Creek - $900,000
>
> Electron - $3,300,000
>
> Underground Tanks - $2,600,000

As is demonstrated above, the Company is estimating it will receive full insurance recoveries for some of the projects and stated its belief that it is entitled to complete insurance recovery of all the costs it incurs for the environmental remediation projects.

Q. IS THE COMPANY CURRENTLY PURSUING INSURANCE RECOVERY FOR ITS ENVIRONMENTAL REMEDIATION COSTS?

A. Yes. In its response, stated-above, the Company indicated it is pursuing the recovery of such costs from insurance companies. Puget has been meeting with the attorneys from several of the companies to discuss potential settlements, and has filed and is participating in several law suits. The Company also states that it intends to pursue recovery in instances where the "...insurance carriers have taken the position that cleanup costs which occur on the insured's own property are not covered by the policies." In summary, the Company is aggressively attempting to recover its environmental remediation costs from insurance companies and other responsible entities.

Q. WHO IS FUNDING THE LITIGATION COSTS?

A. Puget's ratepayers are funding these litigation costs. As part of the Order in Docket No. UE-911476, the Commission stated that legal costs associated with Puget's environmental remediation would be expensed as incurred. Since the Company's ratepayers are funding the litigation costs, they should receive the benefits that will result from the litigation.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S PROPOSED AMORTIZATION OF THE DEFERRED ENVIRONMENTAL REMEDIATION COSTS?

A. Considering the insurance recoveries being pursued and the Company's recovery expectations, it would be premature to charge ratepayers for such costs. If Puget can recover these costs from other parties, such as insurance companies, reimbursement from ratepayers would be inappropriate.

Consequently, I recommend that the Company's amortization claim, for $1,960,648 in pro forma expense, be rejected. As previously mentioned, the Company is aggressively pursuing the recovery of the total environmental remediation costs from various insurance companies. It would be inappropriate to allow the Company to recover these expenses in rates when they are likely to recover a large proportion, if not all, of the expenses from the insurance companies. Because ratepayers fund insurance expense and Puget's litigation costs, they should receive the benefit resulting from the insurance coverage. The adjustment is shown on Schedule 24. Expenses decrease by $1,960,648, and net operating income (after taxes) increases by $1,294,028.

Q. WHAT IF THE COMPANY DOES NOT RECOVER ITS FULL ENVIRONMENTAL REMEDIATION COSTS FOR OUTSIDE VENDORS AND CONTRACTORS FROM INSURANCE COMPANIES?

A. I recommend that the environmental remediation costs for outside vendors and contractors continue to be deferred until the actual insurance recoveries are received. The difference between the deferred amounts and the amounts actually recovered from insurance companies could then be included for recovery from the Company's ratepayers in a future rate proceeding.

Q. HAVE YOU ALLOWED THE ENVIRONMENTAL REMEDIATION COSTS

PUGET HAS INCURRED TO BE INCLUDED IN WORKING CAPITAL?

A. Yes. As discussed elsewhere in this testimony, such costs remain in working capital, where the Company can earn a return. Consequently, ratepayers are also funding Puget's financing cost for these expenditures.

Storm Damage

Q. WHAT AMOUNT OF REVENUE REQUIREMENT IS THE COMPANY REQUESTING IN THIS PROCEEDING FOR STORM DAMAGE COST?

A. Puget is requesting about $9.68 million in revenue requirements for storm damage cost in this proceeding. Puget has requested an annual expense allowance of $8.068 million for storm damage cost. It has also requested inclusion in rate base of $14.6 million of storm damage cost recorded in Account 1821000. Net of deferred taxes for storm damage charge-offs in Account 2831200, Puget's rate base claim amounts to $9.026 million. Schedule 25 shows that these components of Puget's rate filing equate to a revenue requirement claim of about $9.68 million.

Q. HOW DID PUGET DEVELOP ITS ANNUAL EXPENSE ALLOWANCE CLAIM FOR STORM DAMAGE COST?

A. Puget used a four-year average for the period ending June 30, 1992. This produced a storm damage expense claim of $6.693 million. Additionally, Puget is requesting $1.375 million for additional amortization of its debit balance of deferred storm damage cost.

Q. IS THE USE OF A FOUR-YEAR AVERAGE FOR STORM COST CONSISTENT WITH PRIOR PUGET RATE CASES?

A. Yes. The use of a four-year average appears to be consistent with prior Puget rate cases.

Q. PRIOR TO USING A FOUR-YEAR AVERAGE FOR STORM COST, WHAT PERIOD WAS USED TO NORMALIZE THAT COST?

A. Puget has indicated that a six-year period had been used.

Q. DO YOU HAVE ANY CONCERNS REGARDING THE CONTINUED USE OF A FOUR-YEAR AVERAGE?

A. Yes. If Puget's recorded storm costs are accepted at face value, the amounts are substantially higher than in prior cases. This may indicate that the use of an average longer than four years would be more appropriate for use in this case to determine a normal level of storm damage expense for inclusion in rates.

Q. HOW DOES THE AMOUNT OF PUGET'S CLAIM IN THIS PROCEEDING COMPARE WITH ITS STORM DAMAGE COST CLAIMS IN PRIOR CASES?

A. Puget's claim of $8.068 million substantially exceeds the amounts of annual storm damage cost allowances included in rates in prior cases, including the $2.038 million from Docket No. U-82-38, the $2.712 million from Docket No.

U-83-54, the $2.422 million from Docket No. U-85-53, and the $1.633 million from Docket No. U-89-2688-T. Specifically, Puget's claim in this case is 197% higher than the $2.712 million amount from Docket No. U-83-54, and is 394% higher than the $1.633 million from Docket No. U-89-2688-T, Puget's most recent rate case.

Q. WHY IS PUGET'S CLAIM IN THIS CASE SO MUCH HIGHER THAN IN PRIOR CASES?

A. Puget's claim appears to be so much higher in this case because of the large amounts of cost, including substantial amounts of overheads, the Company recorded as storm damage cost, in 1990 and 1991. Schedule 26, page 1, lists Puget's annual storm damage cost for each year during the period 1979 through 1991, i.e., for the calendar years for which information has been made available. Average storm damage cost is $3.410 million. In comparison, Puget's recorded storm damage cost for 1990 and 1991 is $9.146 million and $12.297 million respectively.

Schedule 26, page 2, shows annual storm damage cost graphically for each year, for the 13-year average, and for a four-year moving average.

Q. WHAT DETAILS HAS PUGET PROVIDED CONCERNING THE AMOUNT OF ITS CLAIMED STORM DAMAGE COST?

A. In response to Staff Informal Data Request No. 1087, Puget provided details for 19 work orders from the period July 1988 through June 1992 under which it recorded storm damage cost. Costs accumulated under these work orders totaled $25,102,613. During this period, Puget also recorded insurance reimbursements totaling $8.68 million for two of the storms, which reduced the Company's recorded storm cost.

Q. DOES PUGET'S CLAIM FOR STORM DAMAGE COST ALSO INCLUDE NON-WORK ORDER COSTS?

A. Yes. The Company added $10.35 million for non-work order charges, which brought Puget's net charges to the storm reserve account to $26.772 million for this four-year period.

Q. PLEASE DESCRIBE THE INSURANCE REIMBURSEMENTS FOR STORM DAMAGE COST THAT PUGET RECEIVED.

A. Puget's response to Staff Informal Data Request 1087(i) describes these. Puget recorded storm costs under three work orders for an "Artic Express" storm which occurred in December 1990 and January 1991. Puget recorded $16,270,368 for this storm under work orders 9011625, 9011626, and 9100368. Puget explains that its storm damage carried a $3 million deductible at the time of these storms. For this storm, Puget received insurance proceeds of $8.4 million. Puget's response states that "[t]he insurance carrier, per the terms of the policy, did not reimburse the company for overheads deemed to represent fixed costs." Utilizing the

$16,270,368 costs Puget recorded under the three work orders, less the $3 million deductible, and less the $8.4 million proceeds, suggests that $4,870,368 relates to overheads deemed to be fixed costs, which the insurer refused to reimburse.

In work order 9101030, Puget recorded storm damage cost of $3,496,144 associated with a November 1991 wind storm. Puget received insurance proceeds of $279,852 for this storm. Subtracting these insurance proceeds and the $3 million deductible from the Company's recorded cost for this storm suggests that $216,292 of such cost related to overheads deemed to be fixed costs, which the insurer refused to reimburse.

Q. DO YOU HAVE ANY COMMENTS CONCERNING THE INSURANCE REIMBURSEMENTS AND THE INSURANCE COMPANY'S REFUSAL TO REIMBURSE PUGET FOR OVERHEADS?

A. Yes. Puget's insurance company found that some of the overhead costs Puget had been recording as storm damage were not truly incremental storm damage costs that required reimbursement. Rather, such costs were "fixed" in the sense that Puget would have incurred such cost in the absence of the storm. Puget's recording of such overheads and other costs in the storm cost reserve may represent an attempt to defer ordinary operating expenses, which occur between rate cases, for later attempted recovery from ratepayers. Moreover, allowing Puget to include in rate base ordinary operating expense which the Company has deferred as "storm damage" between rate cases would not be appropriate. Ratepayers should not be required to provide Puget a return on ordinary costs which Puget would have incurred with or without a storm. Only incremental costs that have been directly caused by the storm, should be recorded in the storm reserve account. Ordinary operating expenses and indirect costs, including overheads, should not be permitted deferral treatment.

Q. HAVE YOU EXAMINED THE TYPES OF COSTS WHICH PUGET RECORDED AS STORM DAMAGE UNDER THE 19 WORK ORDERS?

A. Yes. I have summarized these costs on Schedule 27. As can be seen, Puget's recorded storm costs include items such as labor cost (straight-time and overtime), contractor costs, miscellaneous employee expenses, and other miscellaneous expenses as "direct" costs. Additionally, Puget's recorded storm damage includes other indirect costs, including transportation expense and overheads.

Q. WHAT ADJUSTMENT ARE YOU PROPOSING?

A. As shown on Schedule 28, I have adjusted Puget's storm damage claim in the following manner. I removed Puget's work order costs which do not appear to be incremental to or directly caused by the storms, including ordinary payroll costs and indirect overhead costs. I have also excluded the other indirect costs -- i.e., the non-work order costs -- which Puget cannot attribute to a particular storm. After making these adjustments, I averaged the remaining costs over a four-year period, and determined an annual amortization amount of $2.9 million.

I added the non-incremental costs incurred during the test year, since these would represent ordinary operating expenses. I also allocated Puget's non-work order overhead costs proportionately to the work order costs. Where such overhead costs were allocated to test-year storms, I have reflected such costs as ordinary operating expenses.

Q. HAS THE COMPANY INDICATED WHAT LEVEL OF ANNUAL STORM COST IT WOULD CONSIDER "NORMAL"?

A. Yes. Puget has indicated that it would view annual storm cost of about $4 million as being normal.

Q. HOW DOES YOUR RECOMMENDED LEVEL OF STORM COST COMPARE WITH WHAT PUGET STATES WOULD BE A "NORMAL" ANNUAL LEVEL OF SUCH COST?

A. I am recommending an annual allowance of $6,573,954, as shown on Schedule 28. This is about 64% higher that the $4 million Puget views as a normal annual level. It includes about $2.9 million of incremental storm cost amortization and $3.67 million restoration of test year overheads and non-incremental cost. The $2.9 million amortization is in line with Puget's storm cost allowances from prior rate cases.

Edison Electric Institute Dues

Q. WHAT AMOUNT HAS THE COMPANY INCLUDED IN ITS RATE INCREASE REQUEST FOR EDISON ELECTRIC INSTITUTE DUES?

A. The Company's request includes $311,925 for Edison Electric Institute (EEI) dues. This consists of total dues of $315,714, less 1.2% that the Company claims is related to lobbying activities.

Q. SHOULD THE ENTIRE AMOUNT OF EEI EXPENSE THAT THE COMPANY IS CLAIMING BE CHARGED TO RATEPAYERS?

A. No, not without an additional adjustment. The percentage of EEI dues that are expended for legislative advocacy is actually 14.05%, rather than the 1.2% claimed by the Company. Also, a significant portion of the dues for EEI's "regular activities" are expended for other disallowable activities such as regulatory advocacy, institutional advertising, contributions and other activities which promote the electric utility industry's position on controversial issues or which have no direct benefit to ratepayers. The costs for these activities should not be passed on to ratepayers.

Q. PLEASE DISCUSS THE DISALLOWABLE ACTIVITIES.

A. Schedule 29, pages 2 through 8 are pages taken directly from the National Association of Regulatory Utilities Commissioners (NARUC) Audit Report on the Expenditures of the Edison Electric Institute dated March, 1992. These pages describe the types of activities that are included in each of the expense categories that I am recommending for disallowance.

Q. WHAT SPECIFIC ADJUSTMENTS HAVE YOU MADE TO EEI DUES?

A. As can be seen on Schedule 29, I am recommending the disallowance of 27.71% of Puget's regular EEI dues.

Q. HOW DID YOU DETERMINE YOUR PERCENTAGE DISALLOWANCE?

A. I have reviewed the National Association of Regulatory Utilities Commissioners (NARUC) Audit Report on the Expenditures of the Edison Electric Institute dated March, 1992. This report covers EEI expenditures for the 12 month period ended December 31, 1990 and identifies the activities which EEI dues fund and the annual expenditures for each functional area. Schedule 29 itemizes the percentage of EEI annual dues for expenditures which are inappropriate in rates. The exclusion of 27.71% of EEI dues, rather than the Company's proposed exclusion of only 1.2%, results in a reduction in pro forma expense of $83,695.

Q. HAS THE COMPANY INCURRED ANY OTHER EXPENSES IN THE TEST YEAR RELATED TO THE EDISON ELECTRIC INSTITUTE?

A. Yes. Puget incurred expense in the test year for payments to the EEI Media Communications Fund.

Q. SHOULD THE RATEPAYERS BEAR THE COSTS OF THE EEI MEDIA COMMUNICATIONS FUND?

A. Not entirely. While some of the activities performed in relation to the EEI Media Communications fund do benefit ratepayers, most do not. As can be seen on Schedule 30, 84.44% of the expenditures incurred by the EEI Media Communications Fund relate to promoting consumption and institutional advertising. It is inappropriate for ratepayers to support these programs, which provide them no direct benefit.

Q. HAS THE COMPANY REMOVED ANY PORTION OF THE EEI COMMUNICATIONS FUND PAYMENTS FROM THE TEST YEAR?

A. Yes. Puget removed $76,477, which equates to 55% of the payments.

Q. ARE YOU RECOMMENDING AN ADDITIONAL ADJUSTMENT?

A. Yes. As can be seen on Schedule 30, line 5, an additional $40,940 should be removed from the test year expense in order to exclude the 84.44% of Media Communication Fund expenditures that support institutional advertising and promote consumption.

<u>Other Membership Dues</u>

Q. HAS THE COMPANY INCLUDED IN TEST YEAR EXPENSE ANY DUES FOR ASSOCIATIONS OTHER THAN EEI?

A. Yes. The Company has memberships in a large number of organizations and associations. I am not taking issue with Puget's attempt to charge ratepayers for many of these, however, a number of the organizations serve no benefit to the Company's ratepayers and, therefore, should be disallowed.

Q. HOW DID YOU DETERMINE WHICH MEMBERSHIP DUES SHOULD BE DISALLOWED FOR RATEMAKING PURPOSES?

A. In response to Staff data request no. 2453, the Company provided the mission statements and/or organizational goals for the organizations for which Puget included dues expenses in the test year. Some of the organizations appear to serve mainly legislative or lobbying functions.

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING FOR PUGET'S TEST YEAR ORGANIZATIONAL DUES?

A. I am recommending the removal of $41,953 of the test year expense for membership dues. Schedule 31 itemizes the membership dues which comprise this adjustment. The schedule also describes the mission or purpose of each of the organizations that I am recommending for disallowance.

<u>Research and Development</u>.

Q. WHAT IS THE PURPOSE OF YOUR ADJUSTMENT ON SCHEDULE 32, WHICH REMOVES $687,490 FROM TEST YEAR EXPENSE FOR RESEARCH AND DEVELOPMENT COSTS?

A. The test year contains expenses for Electric Power Research Institute ("EPRI") dues, a 20% EPRI dues hold-back for local research of $900,510 and $687,490 for additional in-house research and development (R&D) expenditures beyond the EPRI hold-back amount. The adjustment on Schedule 32 removes the amount of Puget's internal R&D expenditures that exceed the 20% EPRI hold-back amount.

Q. WHAT IS THE 20% EPRI DUES HOLD-BACK?

A. EPRI conducts R&D for the electric utility industry. As part of the calculation in determining each utility's annual EPRI dues payment, the utility is authorized to deduct 20% of its calculated EPRI dues payment for local and regional research and development projects.

Q. HOW MUCH DOES THE COMPANY PAY ON AN ANNUAL BASIS FOR EPRI DUES?

A. Puget's EPRI membership dues for 1991 and 1992 were $3,531,592 and $3,672,856, respectively. These funds go predominantly towards research projects conducted on behalf of the electric utility industry. The test year contains over $3.5 million for EPRI membership dues, $900,510 for the 20% EPRI local research hold-back and $687,490 for additional in-house research and development. The ratepayer is being asked to fund this total amount, which exceeds $4.5 million.

Q. WHY ARE YOU RECOMMENDING THAT $687,490 OF PUGET'S IN-HOUSE RESEARCH AND DEVELOPMENT COSTS BE REMOVED FROM TEST YEAR EXPENSE?

A. The ratepayers are being asked to fund over $4.5 million in research related costs. The total EPRI dues and 20% EPRI local research hold-back should be sufficient for Puget's research and development needs. Puget should be required to prove that the additional in-house R&D expenditures beyond the 20% EPRI hold-back amount are truly necessary, reasonable and will produce a definite benefit to the Company's ratepayers.

Q. PLEASE GIVE SOME EXAMPLES OF PUGET'S IN-HOUSE RESEARCH PROJECTS.

A. In response to DOD-3028, the Company provided a description of each of the in-house R&D studies it conducted during the test year, along with the associated cost. Descriptions of a few of the projects in which the benefit to Puget's ratepayers would appear to be remote at best follow:

- Electric Transportation project. This project is to "(m)onitor Puget Power's electric vehicle, assist Western Washington University in design of Viking XXI hybrid electric vehicle, and keep up with electric vehicle technology." The project cost was $56,152.

- Virtual Reality project. This project's purpose was to "(c)onduct a scoping study to determine if there were possible electric utility uses for virtual reality technology." The project cost was $1,589.

- Statistical Signal Processing study. This project description is "(u)sing Baysian Statistics refine and demonstrate digital demodulation techniques for AM and FM signals. Test fabricated chip and finalize patent." The project cost was $50,182.

Bank Fees -- Fees Paid to Agents

Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR BANK FEES PAID TO AGENTS.

A. Puget had included in test year expense $54,570 for bank fees paid to agents. Puget records these fees in Account 930-81, Miscellaneous General Expense - Other Agents. In the two 12-month periods preceding the test year, Puget's comparable fees were running at a $20,000 annual level. Comparable fees for July 1 through December 31, 1992 were $15,000. Puget's response to DOD-1889 indicated that the high level of test year fees was attributable to two credit agreements which overlapped a time period encompassed in the test year. Puget's response to DOD-1889(b) agrees that $30,000 would be an appropriate estimate of annual agent fees for its current agreements. On Schedule 33, I have reduced test year expense by $24,570 to reflect this ongoing level of agent fees.

Miscellaneous Expense Adjustment

Q. PLEASE EXPLAIN YOUR ADJUSTMENT ON SCHEDULE 34 TO REDUCE EXPENSE BY $19,000.

A. Several inappropriate expenses were recorded above-the-line in the test year, which the Company did not remove in the filing. Many items on Puget's executive expense reports were for expenses for several Company officers' involvement in community leadership roles, to enhance the Company's image in the community. These public relations and charitable organization activities should not be charged to ratepayers. Another expense that is inappropriate for inclusion in rates is Puget's subsidization of employee activities. Puget subsidized $14,000 in the test year for employee activities such as water raft trips, golfing and bowling tournaments. There is no direct benefit to Puget's ratepayers for either of these expense categories, therefore, the amounts should be removed from the test year.

<u>Consolidated Tax Savings Adjustment</u>

Q. DOES PUGET PARTICIPATE IN A CONSOLIDATED FEDERAL INCOME TAX RETURN WITH AFFILIATES?

A. Yes. Puget participates in a consolidated Federal income tax return with its subsidiaries, thereby achieving consolidated income tax savings.

Q. SHOULD AN ADJUSTMENT BE MADE TO REFLECT THE IMPACT OF SUCH TAX SAVINGS?

A. It appears that an adjustment to reflect Puget's share of the consolidated tax savings would be appropriate.

Q. HAVE YOU QUANTIFIED THE NECESSARY INFORMATION?

A. Not at this time. Puget's first response to DOD-1871 claimed that identifying the tax losses contributed to the consolidated return to each subsidiary is confidential and omitted this information, which is necessary to compute the adjustment. Puget has recently provided such information;

consequently, once I complete my analysis, I may be proposing a consolidated tax savings adjustment in supplemental testimony.

Interest Synchronization Adjustment

Q. PLEASE EXPLAIN THE INTEREST SYNCHRONIZATION ADJUSTMENT.

A. The rate base that I am recommending is lower than that proposed by the Company. Consequently, the amount of interest which supports that level of capital is less than the comparable amount reflected in the Company's case. This means that the amount of interest deductible for ratemaking purposes resulting from my recommendations is less than the amount reflected in the Company's income tax calculation.

The interest synchronization adjustment synchronizes the level of rate base recommended with the amount of interest reflected in the tax calculation. The rate base from Puget's filing is shown on Schedule 35, line 1. To that, I added the deductible CWIP. This is the amount of CWIP which accrues AFUDC and the interest expense associated with AFUDC. Such CWIP should be reflected in the tax calculation since it is the Commission's policy to flow through all tax benefits which are not prohibited by law from that treatment. On line 3, I have reflected my adjustment to rate base.

The total of adjusted rate base and CWIP is shown on Schedule 35, line 4. Synchronized interest on line 6 is calculated by multiplying the amount on line 4 by the weighted cost of debt on line 5. On line 7, I deducted the interest expense reflected in Puget's filing. The net reduction to interest is shown on line 8. The increase to income tax expense appears on line 10. This amount is carried forward to Schedule 2 and is used in determining the net operating income of the Company.

V. COMPANY UPDATES AND CORRECTIONS

Q. ARE YOU AWARE THAT THE COMPANY HAS INDICATED ITS INTENTION TO UPDATE AND/OR CORRECT A NUMBER OF THE ADJUSTMENTS CONTAINED IN ITS ORIGINAL FILING?

A. Yes. Puget provided a supplemental response to Staff data request no. 1085 showing updates and true-ups which the Company intends to make. This supplemental response was provided to me after the foregoing testimony had been finalized. A preliminary review indicates that Puget's revisions will impact some of the adjustments I am recommending. Consequently, it is my intention to address these Company revisions in supplemental testimony.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does, with the understanding of the need for supplementation to address the consolidated tax savings adjustment and Puget's updates and corrections, as discussed above.

APPENDIX I

QUALIFICATIONS OF HUGH LARKIN, JR.

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant and a partner in the firm of Larkin & Associates, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated from Michigan State University in 1960. During 1961 and 1962, I fulfilled my military obligations as an officer in the United States Army.

In 1963 I was employed by the certified public accounting firm of Peat, Marwick, Mitchell & Co., as a junior accountant. I became a certified public accountant in 1966.

In 1968 I was promoted to the supervisory level at Peat, Marwick, Mitchell & Co. As such, my duties included the direction and review of audits of various types of business organizations, including manufacturing, service, sales and regulated companies.

Through my education and auditing experience of manufacturing operations, I obtained an extensive background of theoretical and practical cost accounting.

I have audited companies having job cost systems and those having process cost systems, utilizing both historical and standard costs.

I have a working knowledge of cost control, budgets and reports, the accumulation of overheads and the application of same to products on the various recognized methods.

Additionally, I designed and installed a job cost system for an automotive parts manufacturer.

I gained experience in the audit of regulated companies as the supervisor in charge of all railroad audits for the Detroit office of Peat, Marwick, including audits of the Detroit, Toledo and Ironton Railroad, the Ann Arbor Railroad, and portions of the Penn Central Railroad Company. In 1967, I was the supervisory senior accountant in charge of the audit of the Michigan State Highway Department, for which Peat, Marwick was employed by the State Auditor General and the Attorney General.

In October of 1969, I left Peat, Marwick to become a partner in the public accounting firm of Tischler & Lipson of Detroit. In April of 1970, I left the latter firm to form the certified public accounting firm of Larkin, Chapski & Company. In September 1982 I re-organized the firm into Larkin & Associates, a certified public accounting firm. The firm of Larkin & Associates performs a wide variety of auditing and accounting services, but concentrates in the area of utility regulation and ratemaking. I am a member of the Michigan Association of Certified Public Accountants and the American Institute of Certified Public Accountants. I testified before the Michigan Public Service Commission and in other states in the following cases:

U-3749	Consumers Power Company - Electric Michigan Public Service Commission
U-3910	Detroit Edison Company Michigan Public Service Commission
U-4331	Consumers Power Company - Gas Michigan Public Service Commission
U-4332	Consumers Power Company - Electric Michigan Public Service Commission
U-4293	Michigan Bell Telephone Company Michigan Public Service Commission
U-4498	Michigan Consolidated Gas sale to Consumers Power Company Michigan Public Service Commission
U-4576	Consumers Power Company - Electric Michigan Public Service Commission

U-4575	Michigan Bell Telephone Company Michigan Public Service Commission
U-4331R	Consumers Power Company - Gas - Rehearing Michigan Public Service Commission
6813	Chesapeake and Potomac Telephone Company of Maryland, Public Service Commission, State of Maryland
Formal Case No. 2090	New England Telephone and Telegraph Co. State of Maine Public Utilities Commission
Dockets 574, 575, 576	Sierra Pacific Power Company, Public Service Commission, State of Nevada
U-5131	Michigan Power Company Michigan Public Service Commission
U-5125	Michigan Bell Telephone Company Michigan Public Service Commission
R-4840 & U-4621	Consumers Power Company Michigan Public Service Commission
U-4835	Hickory Telephone Company Michigan Public Service Commission
36626	Sierra Pacific Power Company v. Public Service Commission, et al, First Judicial District Court of the State of Nevada
American Arbitration Assoc.	City of Wyoming v. General Electric Cable TV
760842-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
U-5331	Consumers Power Company Michigan Public Service Commission
U-5125R	Michigan Bell Telephone Company Michigan Public Service Commission

770491-TP	Winter Park Telephone Company, Florida Public Service Commission
77-554-EL-AIR	Ohio Edison Co., Public Utility Commission of Ohio
78-284-EL-AEM	Dayton Power and Light Co., Public Utility Commission of Ohio
0R78-1	Trans Alaska Pipeline, Federal Energy Regulatory Commission (FERC)
78-622-EL-FAC	Ohio Edison Co., Public Utility Commission of Ohio
U-5732	Consumers Power Company - Gas, Michigan Public Service Commission
77-1249-EL-AIR, et al	Ohio Edison Co., Public Utility Commission of Ohio
78-677-EL-AIR	Cleveland Electric Illuminating Co., Public Utility Commission of Ohio
U-5979	Consumers Power Company, Michigan Public Service Commission
790084-TP	General Telephone Company of Florida, Florida Public Service Commission
79-11-EL-AIR	Cincinnati Gas and Electric Co., Public Utilities Commission of Ohio
790316-WS	Jacksonville Suburban Utilities Corp., Florida Public Service Commission
790317-WS	Southern Utility Company, Florida Public Service Commission
U-1345	Arizona Public Service Company, Arizona Corporation Commission
79-537-EL-AIR	Cleveland Electric Illuminating Co., Public Utilities Commission of Ohio

800011-EU	Tampa Electric Company, Florida Public Service Commission
800001-EU	Gulf Power Company, Florida Public Service Commission
U-5979-R	Consumers Power Company, Michigan Public Service Commission
800119-EU	Florida Power Corporation, Florida Public Service Commission
810035-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
800367-WS	General Development Utilities, Inc., Port Malabar, Florida Public Service Commission
TR-81-208**	Southwestern Bell Telephone Company, Missouri Public Service Commission **Issues Stipulated
810095-TP	General Telephone Company of Florida, Florida Public Service Commission
U-6794	Michigan Consolidated Gas Company, 16 refunds Michigan Public Service Commission
U-6798	Cogeneration and Small Power Production -PURPA, Michigan Public Service Commission
810136-EU	Gulf Power Company, Florida Public Service Commission
E-002/GR-81-342	Northern State Power Company Minnesota Public Utilities Commission
820001-EU	General Investigation of Fuel Cost Recovery Clauses, Florida Public Service Commission
810210-TP	Florida Telephone Corporation, Florida Public Service Commission

810211-TP	United Telephone Co. of Florida, Florida Public Service Commission
810251-TP	Quincy Telephone Company, Florida Public Service Commission
810252-TP	Orange City Telephone Company, Florida Public Service Commission
8400	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-6949	Detroit Edison Company - Partial and Immediate Rate Increase Michigan Public Service Commission
18328	Alabama Gas Corporation, Alabama Public Service Commission
U-6949	Detroit Edison Company - Final Rate Recommendation Michigan Public Service Commission
820007-EU	Tampa Electric Company, Florida Public Service Commission
820097-EU	Florida Power & Light Company, Florida Public Service Commission
820150-EU	Gulf Power Company, Florida Public Service Commission
18416	Alabama Power Company, Public Service Commission of Alabama
820100-EU	Florida Power Corporation, Florida Public Service Commission
U-7236	Detroit Edison-Burlington Northern Refund - Michigan Public Service Commission
U-6633-R	Detroit Edison - MRCS Program, Michigan Public Service Commission

U-6797-R	Consumers Power Company - MRCS Program, Michigan Public Service Commission
82-267-EFC	Dayton Power & Light Company, Public Utility Commission of Ohio
U-5510-R	Consumers Power Company - Energy Conservation Finance Program, Michigan Public Service Commission
82-240-E	South Carolina Electric & Gas Company, South Carolina Public Service Commission
8624	Kentucky Utilities, Kentucky Public Service Commission
8648	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-7065	The Detroit Edison Company (Fermi II), Michigan Public Service Commission
U-7350	Generic Working Capital Requirements, Michigan Public Service Commission
820294-TP	Southern Bell Telephone Company, Florida Public Service Commission
Order RH-1-83	Westcoast Gas Transmission Company, Ltd., Canadian National Energy Board
8738	Columbia Gas of Kentucky, Inc., Kentucky Public Service Commission
82-168-EL-EFC	Cleveland Electric Illuminating Company, Public Utility Commission of Ohio
6714	Michigan Consolidated Gas Company Phase II, Michigan Public Service Commission
82-165-EL-EFC	Toledo Edison Company, Public Utility Commission of Ohio

830012-EU	Tampa Electric Company, Florida Public Service Commission
ER-83-206**	Arkansas Power & Light Company, Missouri Public Service Commission **Issues Stipulated
U-4758	The Detroit Edison Company - (Refunds), Michigan Public Service Commission
8836	Kentucky American Water Company, Kentucky Public Service Commission
8839	Western Kentucky Gas Company, Kentucky Public Service Commission
83-07-15	Connecticut Light & Power Company, Department of Utility Control State of Connecticut
81-0485-WS	Palm Coast Utility Corporation, Florida Public Service Commission
U-7650	Consumers Power Company - (Partial and Immediate), Michigan Public Service Commission
83-662**	Continental Telephone Company, Nevada Public Service Commission **Issues Stipulated
U-7650	Consumers Power Company - Final Michigan Public Service Commission
U-6488-R	Detroit Edison Co. (FAC & PIPAC Reconciliation), Michigan Public Service Commission
Docket No. 15684	Louisiana Power & Light Company, Public Service Commission of the State of Louisiana
U-7650 Reopened	Consumers Power Company (Reopened Hearings) Michigan Public Service Commission
38-1039**	CP National Telephone Corporation Nevada Public Service Commission **Issues Stipulated

83-1226	Sierra Pacific Power Company (Re application to form holding company), Nevada Public Service Commission
U-7395 & U-7397	Campaign Ballot Proposals Michigan Public Service Commission
820013-WS	Seacoast Utilities Florida Public Service Commission
U-7660	Detroit Edison Company Michigan Public Service Commission
U-7802	Michigan Gas Utilities Company Michigan Public Service Commission
830465-EI	Florida Power & Light Company Florida Public Service Commission
U-7777	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7779	Consumers Power Company Michigan Public Service Commission
U-7480-R	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7488-R	Consumers Power Company - Gas Michigan Public Service Commission
U-7484-R	Michigan Gas Utilities Company Michigan Public Service Commission
U-7550-R	Detroit Edison Company Michigan Public Service Commission
U-7477-R	Indiana & Michigan Electric Company Michigan Public Service Commission
U-7512-R	Consumers Power Company - Electric Michigan Public Service Commission

18978	Continental Telephone Company of the South - Alabama, Alabama Public Service Commission
9003	Columbia Gas of Kentucky, Inc. Kentucky Public Service Commission
R-842583	Duquesne Light Company Pennsylvania Public Utility Commission
9006*	Big Rivers Electric Corporation Kentucky Public Service Commission *Company withdrew filing
U-7830	Consumers Power Company - Electric (Partial and Immediate) Michigan Public Service Commission
7675	Consumers Power Company - Customer Refunds Michigan Public Service Commission
5779	Houston Lighting & Power Company Texas Public Utility Commission
U-7830	Consumers Power Company - Electric - "Financial Stabilization" Michigan Public Service Commission
U-4620	Mississippi Power & Light Company (Interim) Mississippi Public Service Commission
U-16091	Louisiana Power & Light Company Louisiana Public Service Commission
9163	Big Rivers Electric Corporation Kentucky Public Service Commission
U-7830	Consumers Power Company - Electric - (Final) Michigan Public Service Commission
U-4620	Mississippi Power & Light Company - (Final) Mississippi Public Service Commission
76-18788AA & 76-18793AA	Detroit Edison (Refund - Appeal of U-4807) Ingham County Circuit Court Michigan Public Service Commission

U-6633-R	Detroit Edison (MRCS Program Reconciliation) Michigan Public Service Commission
19297	Continental Telephone Company of the South - Alabama, Alabama Public Service Commission
9283	Kentucky American Water Company Kentucky Public Service Commission
850050-EI	Tampa Electric Company Florida Public Service Commission
R-850021	Duquesne Light Company Pennsylvania Public Service Commission
TR-85-179**	United Telephone Company of Missouri Missouri Public Service Commission
6350	El Paso Electric Company The Public Utility Board of the City of El Paso
6350	El Paso Electric Company Public Utility Commission of Texas
85-53476AA & 85-534855AA	Detroit Edison-refund-Appeal of U-4758 Ingham County Circuit Court Michigan Public Service Commission
U-8091/ U-8239	Consumers Power Company-Gas Michigan Public Service Commission
9230	Leslie County Telephone Company, Inc. Kentucky Public Service Commission
85-212	Central Maine Power Company Maine Public Service Commission
850782-EI & 850783-EI	Florida Power & Light Company Florida Public Service Commission
ER-85646001 & ER-85647001	New England Power Company Federal Energy Regulatory Commission

Civil Action * No. 2:85-0652	Allegheny & Western Energy Corporation, Plaintiff, - against - The Columbia Gas System, Inc., Defendant
Docket No. 850031-WS	Orange Osceola Utilities, Inc. Before the Florida Public Service Commission
Docket No. 840419-SU	Florida Cities Water Company South Ft. Myers Sewer Operations Before the Florida Public Service Commission
R-860378	Duquesne Light Company Pennsylvania Public Service Commission
R-850267	Pennsylvania Power Company Pennsylvania Public Service Commission
R-860378	Duquesne Light Company - Surrebuttal Testimony - OCA Statement No. 2D Pennsylvania Public Service Commission
Docket No. 850151	Marco Island Utility Company Before the Florida Public Service Commission
Docket No. 7195 (Interim)	Gulf States Utilities Company Public Utility Commission of Texas
R-850267 Reopened	Pennsylvania Power Company Pennsylvania Public Service Commission
Docket No. 87-01-03	Connecticut Natural Gas Corporation Connecticut Department of Public Utility Control
Docket No. 5740	Hawaiian Electric Company Hawaii Public Utilities Commission
1345-85-367	Arizona Public Service Company Arizona Corporation Commission
Docket 011 No. 86-11-019	Tax Reform Act of 1986 - California Generic California Public Utilities Commission

Case No. 29484	Long Island Lighting Company New York Department of Public Service
Docket No. 7460	El Paso Electric Company Public Utility Commission of Texas
Docket No. 870092-WS*	Citrus Springs Utilities Before the Florida Public Service Commission
Case No. 9892	Dickerson Lumber EP Company - Complainant vs. Farmers Rural Electric Cooperative and East Kentucky Power Cooperative - Defendants Before the Kentucky Public Service Commission
Docket No. 3673-U	Georgia Power Company Before the Georgia Public Service Commission
Docket No. U-8747	Anchorage Water and Wastewater Utility Report on Management Audit
Docket No. 861564-WS	Century Utilities Before the Florida Public Service Commission
Docket No. FA86-19-001	Systems Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. 870347-TI	AT&T Communications of the Southern States, Inc. Florida Public Service Commission
Docket No. 870980-WS	St. Augustine Shores Utilities Inc. Florida Public Service Commission
Docket No. 870654-WS*	North Naples Utilities, Inc. Florida Public Service Commission
Docket No. 870853	Pennsylvania Gas & Water Company Pennsylvania Public Utility Commission
Civil Action* No. 87-0446-R	Reynolds Metals Company, Plaintiff, v. The Columbia Gas System, Inc., Commonwealth Gas Services, Inc., Commonwealth Gas Pipeline Corporation, Columbia Gas Transmission Corporation, Columbia Gulf Transmission

	Company, Defendants - In the United States District Court for the Eastern District of Virginia Richmond Division
Docket No. E-2, Sub 537	Carolina Power & Light Company North Carolina Utilities Commission
Case No. U-7830	Consumers Power Company - Step 2 Reopened Michigan Public Service Commission
Docket No. 880069-TL	Southern Bell Telephone & Telegraph Florida Public Service Commission
Case No. U-7830	Consumers Power Company - Step 3B Michigan Public Service Commission
Docket No. 880355-EI	Florida Power & Light Company Florida Public Service Commission
Docket No. 880360-EI	Gulf Power Company Florida Public Service Commission
Docket No. FA86-19-002	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket Nos. 83-0537-Remand & 84-0555-Remand	Commonwealth Edison Company Illinois Commerce Commission
Docket Nos. 83-0537-Remand & 84-0555-Remand	Commonwealth Edison Company - Surrebuttal Illinois Commerce Commission
Docket No. 880537-SU	Key Haven Utility Corporation Florida Public Service Commission
Docket No. 881167-EI***	Gulf Power Company Florida Public Service Commission
Docket No. 881503-WS	Poinciana Utilities, Inc. Florida Public Service Commission

Cause No. U-89-2688-T	Puget Sound Power & Light Company Washington Utilities & Transportation Committee
Docket No. 89-68	Central Maine Power Company Maine Public Utilities Commission
Docket No. 861190-PU	Proposal to Amend Rule 25-14.003, F.A.C. Florida Public Service Commission
Docket No. 89-08-11	The United Illuminating Company State of Connecticut, Department of Public Utility Control
Docket No. R-891364	The Philadelphia Electric Company Pennsylvania Public Utility Commission
Formal Case No. 889	Potomac Electric Power Company Public Service Company of the District of Columbia
Case No. 88/546*	Niagara Mohawk Power Corporation, et al Plaintiffs, v. Gulf+Western, Inc. et al, defendants (In the Supreme Court County of Onondaga, State of New York)
Case No. 87-11628*	Duquesne Light Company, et al, plaintiffs, against Gulf + Western, Inc. et al, defendants (In the Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division)
Case No. 89-640-G-42T*	Mountaineer Gas Company West Virginia Public Service Commission
Docket No. 890319-EI	Florida Power & Light Company Florida Public Service Commission
Docket No. EM-89110888	Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 891345-EI	Gulf Power Company Florida Public Service Commission
BPU Docket No. ER 8811 0912J	Jersey Central Power & Light Company Board of Public Utilities Commissioners

Docket No. 6531	Hawaiian Electric Company Hawaii Public Utilities Commissioners
Docket No. 890509-WU	Florida Cities Water Company, Golden Gate Division Florida Public Service Commission
Docket No. 880069-TL	Southern Bell Telephone Company Florida Public Service Commission
Docket Nos. F-3848, F-3849, and F-3850	Northwestern Bell Telephone Company South Dakota Public Utilities Commission
Docket Nos. ER89-* 678-000 & EL90-16-000	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. 5428	Green Mountain Power Corporation Vermont Department of Public Service
Docket No. 90-10	Artesian Water Company, Inc. Delaware Public Service Commission
Case No. 90-243-E-42T*	Wheeling Power Company West Virginia Public Service Commission
Docket No. 900329-WS	Southern States Utilities, Inc. Florida Public Service Commission
Docket Nos. ER89-* 678-000 & EL90-16-000	System Energy Resources, Inc. (Surrebuttal) Federal Energy Regulatory Commission
Application No. 90-12-018	Southern California Edison Company California Public Utilities Commission
Docket No. 90-0127	Central Illinois Lighting Company Illinois Commerce Commission
Docket No. FA-89-28-000	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. U-1551-90-322	Southwest Gas Corporation Before the Arizona Corporation Commission

Docket No. R-911966	Pennsylvania Gas & Water Company The Pennsylvania Public Utility Commission
Docket No. 176-717-U	United Cities Gas Company Kansas Corporation Commission
Docket No. 860001-EI-G	Florida Power Corporation Florida Public Service Commission
Docket No. 6720-TI-102	Wisconsin Bell, Inc. Wisconsin Citizens' Utility Board
(No Docket No.)	Southern Union Gas Company Before the Public Utility Regulation Board of the City of El Paso
Docket No. 6998	Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii
Docket No. TC91-040A	In the Matter of the Investigation into the Adoption of a Uniform Access Methodology Before the Public Utilities Commission of the State of South Dakota
Docket Nos. 911030-WS & 911067-WS	General Development Utilities, Inc. Before the Florida Public Service Commission
Docket No. 910890-EI	Florida Power Corporation Before the Florida Public Service Commission
Docket No. 910890-EI	Florida Power Corporation, Supplemental Before the Florida Public Service Commission
Case No. 3L-74159	Idaho Power Company, an Idaho corporation In the District Court of the Fourth Judicial District of the State of Idaho, In and For the County of Ada - Magistrate Division
Cause No. 39353*	Indiana Gas Company Before the Indiana Utility Regulatory Commission
Docket No. 90-0169 (Remand)	Commonwealth Edison Company Before the Illinois Commerce Commission

Docket No. 92-06-05	The United Illuminating Company State of Connecticut, Department of Public Utility Control
Cause No. 39498	PSI Energy, Inc. Before the State of Indiana - Indiana Utility Regulatory Commission
Cause No. 39498	PSI Energy, Inc. - Surrebuttal testimony Before the State of Indiana - Indiana Utility Regulatory Commission
Docket No. 7287	Public Utilities Commission - Instituting a Proceeding to Examine the Gross-up of CIAC Before the Public Utilities Commission of the State of Hawaii
Docket No. 92-227-TC	US West Communications, Inc. Before the State Corporation Commission of the State of New Mexico
Docket No. 92-47	Diamond State Telephone Company Before the Public Service Commission of the State of Delaware
Docket Nos. 920733-WS & 920734-WS	General Development Utilities, Inc. Before the Florida Public Service Commission
Docket No. 92-11-11	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control

*Case Settled
**Issues Stipulated
***Company withdrew case

Additionally, I performed an investigation and analysis of Michigan Consolidated Gas Company and participated in the discussion which led to the settlement of Michigan Consolidated rate case which was culminated in Rate Order U-4166.

From April 28, 1975, to March 15, 1976, I was under contract to the Michigan House of Representatives as Technical Staff Director of a Special House Committee to study and evaluate the effectiveness of the Michigan Public Service Commission and the rates and service of public utilities. As Technical Staff Director, I supervised personnel loaned to the Committee from the State Auditor General's Office. The reports to that Committee prepared by myself and Allen Briggs, an attorney, to revise utility regulation, were adopted in virtually all material respects in its final report and recommendations and served as a basis of numerous bills introduced in the 1976 and 1977 sessions of the legislature. The Staff of the Committee, under my direction, investigated and reported to the Committee on numerous regulatory issues, including ratepayer participation in utility regulation, fuel cost adjustment clauses, purchased gas adjustment clauses, comparative electric, gas and telephone rates, treatment of subsidiaries of utilities in ratemaking, research and planning capabilities of the Michigan Public Service Commission, utility advertising, regulatory oversight of utility management, deferred taxes in ratemaking and the organizational structure and functions of the Michigan Public Service Commission.

In the course of my work as a certified public accountant, I advise clients concerning the obtaining of capital funds, and have worked with banking institutions in obtaining loans. I have participated in negotiating the sale and purchase of businesses for clients, in connection with which I have valued the physical assets of various business firms, and also determined the value of present and future earnings measured by market rates of return. I have participated in acquisition audits on behalf of large national companies interested in acquiring smaller companies.

My testimony in utility rate cases has been sponsored by state Attorney Generals, groups of municipalities, a district attorney, Peoples' Counsel, Public Counsel, a ratepayers' committee, and I have also worked as a Staff Consultant to the Arizona Corporation Commission.

In November 1985, with two members of the firm, I presented a seminar on utility accounting for the Legal Services Regional Utilities Task Force in Atlanta, Georgia.

In September, 1988, with two members of the firm, I presented a seminar on utility accounting for the Office of Consumer Advocate, Attorney General's Office, State of Pennsylvania. Individuals from that division as well as Commission Staff members attended.