Ex. T-_____ (RCM-Testimony)
Docket Nos. UE-920433, UE-920499 and UE-921262
Witness: Roland C. Martin

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

PETITION OF PUGET SOUND POWER & LIGHT COMPANY FOR AN ORDER REGARDING THE ACCOUNTING TREATMENT OF RESIDENTIAL EXCHANGE BENEFITS	DOCKET NO. UE-920433
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND POWER & LIGHT COMPANY, Respondent.	DOCKET NO. UE-920499
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND POWER & LIGHT COMPANY, Respondent.	DOCKET NO. UE-921262

TESTIMONY

ROLAND C. MARTIN

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

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MAY 1993

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION
No. UE-920433;-920499; -921262 Ex. T-749

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1 Q. Please state your name and business address.

2 A. My name is Roland C. Martin and my business address is 1300
3 South Evergreen Park Drive S.W., Olympia, Washington 98504.

4

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by the Washington Utilities and Transportation
7 Commission as a Revenue Requirements Specialist 5.

8

9 Q. Would you please describe your educational background and
10 professional experience?

11 A. I received a Bachelor of Science in Business Administration,
12 major in marketing management, from the University of the
13 Philippines in April, 1975. I am also a graduate of the
14 University of Pangasinan where I received a degree of
15 Bachelor of Science in Commerce, major in accounting, in
16 March, 1980. On an ongoing basis, I attend schools on
17 regulation and ratemaking.

18 I have been employed by the Commission since May, 1982.
19 I have performed various phases of accounting and financial
20 analysis of regulated utility and transportation companies
21 both independently and jointly with other specialists,
22 either as a lead or member of a team. I was a member of the
23 Staff audit team that undertook the accounting investigation
24 and review of Washington independent telephone companies'
25 consolidated access charge filings under Cause Nos. U-83-61,

1 et al., and U-85-23, et al. I presented testimony in Cause
2 Nos. U-84-28, U-88-2380-T and UG-900190 concerning
3 Washington Water Power Company's filings for general rate
4 increases. I also testified in Cause No. U-85-32 concerning
5 the general rate increase filing of Continental Telephone
6 Company of the Northwest, Inc. and in Cause No. U-86-02
7 regarding Pacific Power and Light Company's filing for a
8 general rate increase. I have participated in a number of
9 rate proceedings involving Puget Sound Power & Light Company
10 (Puget) including the past energy cost adjustment clause
11 (ECAC) filings, the general rate increase filing in Docket
12 No. U-89-2688-T, the proceeding that dealt with Puget's cost
13 recovery proposals in Docket Nos. UE-901183-T and UE-901184-
14 P and in the Periodic Rate Adjustment Mechanism (PRAM)
15 implementation proceedings in Docket Nos. UE-910626 and
16 UE-920630.
17
18 Q. What is the purpose of your testimony?
19 A. As the lead analyst of the Staff investigation and audit
20 team, I will present the Staff's summary results of the
21 investigation and audit and the recommended level of revenue
22 requirement increase which should be granted to Puget in
23 this general rate case filing. The recommendation is based
24 on findings of the Commission Staff and professional
25 consultants who are also testifying in this docket on behalf

1 of the Commission Staff.

2 My testimony will cover the presentation of pro forma
3 results of operations for ratemaking purposes and the
4 calculation of the required revenue requirement and general
5 rate increase. Further, my testimony will cover numerous
6 ratemaking adjustments to the booked results of operations.
7 Also, I will discuss certain issues related to the PRAM
8 which were identified in the Commission's order in Docket
9 No. UE-920630 including components of base and resource cost
10 categories, and pro forma historical test year concepts and
11 PRAM projections.

12 Finally, I will address the Company's rate moderation
13 proposal.

14

15 SUMMARY RECOMMENDATION

16

17 Q. Please provide a brief summary of Staff's revenue
18 requirement recommendation.

19 A. Staff recommends that a rate reduction should be granted to
20 Puget's customers based on a net retail revenue requirement
21 excess of $1,663,450. This is net of the revenue
22 requirement which is offset by the existing PRAM rates
23 approved in PRAM-2 Docket No. UE-920630 and after allocation
24 of appropriate increases to the firm wholesale customers.
25 This recommendation compares with the Company's filed

1 revenue increase level of $116,770,282.

2 The revenue requirement deficiency was developed using
3 Dr. Lurito's recommended rate of return of 8.91%. This
4 rate, when applied to the pro forma rate base of
5 $1,993,858,856 yields a net operating income requirement of
6 $177,652,824, excluding the 2% "equity kicker." The test
7 year ended June 30, 1992 results of operations, after giving
8 effect to numerous ratemaking adjustments, showed a pro
9 forma net operating income at present rates of $114,354,369,
10 or a deficiency of $63,822,181 at the net operating income
11 level. This net operating income deficiency converts to a
12 revenue requirement level of $101,093,476 which, when offset
13 by annualized PRAM revenues and the allocation to firm
14 resale customers, nets to ($1,663,450).
15
16 Q. What Exhibits have you prepared in support of your
17 testimony?
18 A. The following list contains the various Exhibits presented
19 in support of my testimony:
20 a) Exhibit No.____(RCM-1) - Results of Operations
21 For Ratemaking Purposes
22 b) Exhibit No.____(RCM-2) - Calculation of Revenue
23 Requirement
24 c) Exhibit No.____(RCM-3) - Investor Supplied Working
25 Capital Calculation

1 d) Exhibit No.____(RCM-4) - Production Adjustment
2 e) Exhibit No.____(RCM-5) - Plant Held For Future Use
3 Analysis
4
5 Q. Please identify the individuals who will be testifying for
6 or on behalf of the Commission Staff and the respective
7 topics or issues they cover.
8 A. In addition to the testimony of Mr. Kenneth Elgin, who is
9 the Staff policy witness, the following Staff witnesses will
10 testify on the issues or adjustments listed below:
11
12 Mr. Tho Nguyen: (2.05) Conservation, (2.07) Property Sales,
13 (2.11) Employee Insurance, (2.13) Company Insurance, (2.14)
14 Wage and Salary, (2.15) Investment Plan, (2.16) Retirement
15 Plan, (2.20) Stone Creek, (2.21) Black Creek, (3.02)
16 Property Taxes, (3.03) Montana Corporate Tax, (3.05) Montana
17 Energy Tax, (4.01) Company Car Program and (4.02) Skagit
18 Adjustment.
19 Messrs. Curtis Winterfeld, Staff consultant and Patrick
20 Moast:
21 (2.02) Power Costs, (2.03) Sale/Resale Secondary, (2.04)
22 Temperature Adjustment.
23 Mr. Thomas Schooley: (2.08) Storm Damage, (2.09) Self
24 Insurance, (2.12) SFAS 106, (2.17) Bad Debts, (2.18)
25 Interest on Customer Deposits, (2.23) Pebble Springs, (2.25)

1 OBC Lease Income, (2.26) Rate Case Expense, (2.27) Non-
2 Recurring/Operating Expenses, (3.01) WA Utility Tax and
3 filing fee, (4.03) Corporate Publications, and (4.04)
4 Vegetation Management.
5 <u>Ms. Diane Sorrells:</u> Rate Spread and Rate Design issues,
6 Prudency of Conservation Expenditures and linkage with PRAM,
7 and DSM Incentives.
8 <u>Ms. Andrea Kelley:</u> Cost Control of Administrative &
9 Operations functions, Incentive Programs, and Organizational
10 Effectiveness Evaluations.
11 <u>Mr. Alan Buckley:</u> Price Elasticity
12 <u>Dr. Richard Lurito, Staff consultant:</u> Cost of Capital,
13 Capital Structure, and Rate of Return.
14
15 Q. What ratemaking adjustments will you be covering in your
16 testimony?
17 A. I will address the following adjustments proposed by the
18 Company: (2.01) General revenues, (2.06) Depreciation and
19 amortization, (2.10) Environmental remediation costs, (2.19)
20 Creston project, (2.22) Small hydro write-offs, (2.24)
21 Working capital including the treatment of BPA residential
22 exchange benefits, (2.28) Production Adjustment, (3.04) Tax
23 benefit on pro forma interest, and (3.06) Federal Income
24 Taxes.
25 In addition, I will discuss a number of adjustments not

1 proposed by the Company in its original filing, namely
2 (4.05) Plant Held for Future Use, and (4.06) Miscellaneous
3 Adjustments.
4
5 RESULTS OF OPERATIONS
6
7 Q. Please describe what has been marked as Exhibit____(RCM-1).
8 A. This Exhibit portrays the Staff's results of operations for
9 ratemaking purposes for the test year ended June 30, 1992.
10 It presents under column 1 of page 1 the test year actual
11 revenues, expenses, and net operating income. The actual
12 results rate base and rate of return, shown under the same
13 column, were calculated by the Company using historic data
14 including components previously authorized or approved in
15 past cases. To the actual result, various restating and pro
16 forma adjustments are proposed (columns 2.01 through 4.06).
17 Each adjustment is explained in detail in the respective
18 testimonies of the assigned Staff witnesses who were earlier
19 identified.
20 With the various adjustments given effect, the pro
21 forma adjusted results of operations at present rates are
22 derived which is shown on page 6, last column. The
23 resulting pro forma net operating income and rate base from
24 this Exhibit comprise two of the elements in the revenue
25 requirement calculation which are reflected in my next

1 Exhibit.

2

3 REVENUE REQUIREMENT CALCULATION

4

5 Q. Please explain what is contained in Exhibit___(RCM-2).

6 A. This Exhibit reflects the derivation of the general revenue

7 requirement deficiency of Puget. Line 1 shows the pro forma

8 rate base after all adjustments. The rate of return shown

9 on line 2 represents the appropriate cost of capital based

10 on Dr. Lurito's findings. Lines 4 and 5 reflect the

11 calculation of the additional 2% "equity kicker" applicable

12 to conservation investments prior to January 1, 1991. Line

13 6 is the sum of lines 3 and 5, representing the amount of

14 rate base return to be covered by net operating income. The

15 amount appearing on line 7 was carried forward from the pro

16 forma results Exhibit which was explained earlier in my

17 testimony. It is the pro forma net operating income for the

18 test year. Line 8 is the difference between lines 6 and 7

19 and represents the net operating income deficiency. The

20 conversion factor shown on line 9 factors the net operating

21 income deficiency to the revenue requirement level shown on

22 line 10.

23 I should note at this point that in the Staff's pro

24 forma results of operations, the annualized impact of the

25 PRAM rates which were granted to the Company in Docket

1 UE-920630 was not taken into account as a ratemaking
2 adjustment. Staff believes that it is more appropriate to
3 reflect the movement of charges currently billed under the
4 PRAM into base rates, after the revenue requirement
5 deficiency has been determined. In this way, one can
6 discern the magnitude of increased revenue requirement over
7 the level produced by base rates approved in the last
8 general rate case in Docket U-89-2688-T. It also recognizes
9 the temporary nature of the approved PRAM 2 rates which are
10 due to expire on September 30, 1993.
11
12 Q. Please proceed with your explanation of Exhibit___(RCM-2).
13 A. The amount shown on line 11 is the allocated amount of the
14 revenue requirement increase to the firm wholesale
15 customers. This allocated amount is designed to produce
16 revenue levels for the firm wholesale class, which will
17 achieve 100% coverage of the revenue requirement for that
18 class. Since the Commission has no jurisdiction over the
19 firm wholesale customer rates, it is necessary to make the
20 imputed increase to avoid subsidy by the retail customers.
21 I based my calculation on the Staff's recommended cost of
22 service results in the rate design case, Docket No.
23 UE-920499, which showed that the firm wholesale class
24 revenues are covering 74% of the Company's required revenue
25 requirement.

1 After deducting the wholesale assigned increase, the
2 remainder on line 12 is the increase required from all
3 retail customers. The amount shown on line 13 is the
4 annualized retail revenue level from PRAM rates which is
5 used to offset the retail revenue requirement increase on
6 line 12. The result is a net decrease in customer's bills
7 in an amount equal to what is shown on the last line of
8 Exhibit____(RCM-2). Overall, this is approximately a 0.16%
9 decrease in revenues over those generated by current rates.
10
11 RATEMAKING ADJUSTMENTS
12
13 Q. Please discuss the adjustments which you address and
14 describe their impacts on the test year results.
15 A. The impacts on revenue, expense, net operating income and
16 rate base are individually reflected in Exhibit____(RCM-1),
17 which will be referred to as "Results of Operations
18 Exhibit." For ease of comparison with the corresponding
19 adjustments proposed by the Company (Exhibit 558, pp. 2-A
20 through 2-E), I have retained the Company's adjustment
21 numbering system to the extent it is practicable.
22 Adjustments under the four series (4.01, 4.02, etc.) are
23 adjustments proposed by Staff and were not proposed by the
24 Company.
25

1 **GENERAL REVENUES (2.01)**

2

3 Q. Please explain the adjustment entitled "General Revenues".

4 A. The main purpose of this adjustment is to remove certain
5 non-general tariff revenues and impacts of the residential
6 exchange credit. Municipal taxes (Schedule 81), irrigation
7 discounts (Schedule 97), and exchange credits (Schedule 94)
8 are items which are tariffed separately. The expense
9 portion of municipal taxes is also part of this adjustment.

10 The net operating income impact of this adjustment is a
11 decrease of $17,268,396. On the other hand, the Company's
12 corresponding adjustment results in an increase in net
13 operating income of $44,731,519.(Ex. 558, p. 2-A, col.
14 2.01, ln. 32). As I explained earlier in the revenue
15 requirement section of my testimony, the main difference
16 between the Company and Staff positions is the portrayal by
17 the Company of the annualized impact of PRAM-2 rates as a
18 pro forma revenue adjustment. Staff shows the effect of
19 PRAM-2 rates an offset to the calculated revenue
20 requirement.

21

22 **DEPRECIATION/AMORTIZATION (2.06)**

23

24 Q. Please explain the Staff's depreciation and amortization
25 adjustment.

1 A. This adjustment provides the pro forma level for
2 depreciation expenses resulting from the new depreciation
3 study recently completed by the Company. That study was
4 submitted to the Commission and was reviewed by Staff.
5 Staff found the study reasonable after certain revisions
6 were made. The Company has agreed with these revisions.
7
8 Q. Please describe the differences between the adjustment
9 effects reflected in Company Exhibit 558 and the Staff's
10 Results of Operations Exhibit.
11 A. The Company adjustment shows a net operating income increase
12 of $3,835,761 and rate base increase of $2,792,501. (Ex.
13 558, p. 2-A, col. 2.07). Staff adjustment under column 2.06
14 of the Results of Operations Exhibit shows a net operating
15 income increase of $7,242,533 and rate base increase of
16 $2,553,047. Staff does not agree with the Company's
17 proposal to annualize the 1992 accrual for WUTC AFUDC
18 amortization. The proposed adjustment causes a mismatch
19 between test year rate base and expense because the
20 construction work in progress (CWIP) which generated the
21 AFUDC sought to be amortized for the entire test year was
22 not in service or in rate base during the full test period.
23 Also, the proposal is not consistent with the fact that
24 depreciation on plant partially in service during the test
25 year is not annualized.

1 Another reason for the difference between Staff and
2 Company net operating income impacts of the adjustment is
3 Staff's use of updated FIT data. Also, Staff's rate base
4 adjustment properly reflects the effect of deferred taxes
5 while the Company's adjustment did not include the deferred
6 tax reduction. This omission was corrected in the Company's
7 adjustment update provided to Staff in response to Staff
8 Data Request 1085.
9
10 **ENVIRONMENTAL REMEDIATION (2.10)**
11
12 Q. What is the adjustment for environmental remediation?
13 A. The primary purpose of this adjustment is to recognize the
14 recovery of the deferred environmental remediation costs
15 incurred by the Company in its major clean up programs. The
16 deferral of the external costs was done pursuant to the
17 provisions of the Commission's Accounting Order in Docket
18 UE-911476. The Company's proposal is to amortize these
19 costs over a three year period.
20 The Company, in its adjustment, also included removal
21 of prior period costs which were booked during the test
22 year, and adjustment of items booked below the line as
23 operating expenses. (Ex. 558, p. 2.10).
24
25 Q. Please explain the differences and similarities between the

1 Staff and Company adjustments on this issue.
2 A. Staff proposes to allow recovery of the deferred costs under
3 the accounting order over a period of six years instead of
4 three as proposed by Puget. The amortization over a longer
5 period minimizes the impact on the ratepayers while leaving
6 the Company unaffected because of the working capital
7 treatment of the unamortized balance.
8 During the middle of the test year, the Company
9 expensed certain costs of remediation projects which were
10 outside the scope of the Accounting Order. These projects
11 involved service garage clean up, PCB and asbestos
12 remediation and investigative surveys. The costs were
13 previously booked in various balance sheet accounts and not
14 all were incurred during the test year. The Company, in its
15 adjustment shown on page 2.10 of Exhibit 558, removed from
16 test year expenses the amount of $1,531,065 which were
17 incurred prior to the test period. In addition, the Company
18 made an adjustment to increase operating expenses for costs
19 covered by the Commission's Accounting Order which were
20 charged below-the-line. (Ex. 558, p. 2.10, ln.3). Staff's
21 adjustment is similar to the Company's adjustment with
22 respect to this portion.
23 A second difference is an adjustment by Staff to
24 normalize the level of costs booked during the test year in
25 connection with certain non-major clean up programs

1 undertaken by the Company including garage clean up,
2 asbestos removal and PCB contamination remediation. The
3 costs of these programs were not evenly incurred during
4 accounting periods and the test year levels are
5 significantly higher than the amounts prior to or after the
6 test year. For example, costs incurred in connection with
7 the PCB contamination program were $484,200 in 1991,
8 $419,700 in 1992, $752,600 during the test year and zero as
9 of February, 1993. The test year cost level of this
10 specific program was reduced in the Staff adjustment, to the
11 average of 1991 and 1992 cost levels. Other program costs
12 were similarly adjusted based on the average of multi-period
13 expenditures. Staff's normalizing adjustment is necessary
14 to correct the infirmity in the test period results of
15 operations and to reflect a representative level of expense
16 for ratemaking purposes.
17 The effect of Staff's adjustment is to increase net
18 operating income by $1,033,957. This is shown under column
19 2.10 in the Staff's Result of Operations Exhibit.
20
21 **CRESTON (2.19)**
22
23 Q. Please discuss the Creston adjustment.
24 A. This is a proposal by the Company to recover its investment
25 in the Creston project, a planned generating station that

1 did not materialize. The project site was maintained as a
2 resource option under the Regional Power Planning Council's
3 Regional Plan up until the Council determined that the site
4 will not be included as a regional resource option. The
5 project reached preliminary survey, study, investigation,
6 and licensing stages. A site certification agreement
7 between Washington Water Power Company (WWP), the project
8 sponsor, and the Washington State Energy Facility Site
9 Evaluation Council (EFSEC) was executed on February 15,
10 1983. Construction of this project was never begun and the
11 WWP Board of Directors on November 6, 1992 formally canceled
12 this project.
13
14 Q. Does Staff have any concern regarding the cost recovery
15 proposal by the Company?
16 A. Yes. Although Staff found no evidence showing that the
17 Company was imprudent in participating in the project, Staff
18 objects to the proposed amount to be recovered, the period
19 of recovery, and the rate base treatment of the unamortized
20 amount. In regard to the amount to be recovered, Staff
21 objects to inclusion of any AFUDC as part of the recoverable
22 cost. As stated earlier, the project did not reach
23 construction stage. There was no authority granted by this
24 Commission allowing the Company to accrue AFUDC on the
25 incurred preliminary survey and investigation costs. The

1 FERC Uniform System of Accounts, which is prescribed by this
2 Commission, does not allow accrual of AFUDC on such costs.
3 The Washington Water Power Company (WWP), as the project
4 sponsor, did not accrue AFUDC on its investment costs, which
5 were recorded in account 183-Preliminary Survey and
6 Investigation Costs.

7 If recovery is allowed, it is inappropriate to include
8 the unamortized balance in the Company's rate base. Unlike
9 the Baker Seismic study which was allowed in rate base by
10 this Commission in Cause No. U-85-53, the Creston project
11 was not required or mandated by federal or state regulatory
12 bodies. Staff recommends no rate base treatment for the
13 balance of recoverable costs. This is consistent with the
14 principle of cost sharing between ratepayers and
15 shareholders; a principle consistent with past Commission
16 decisions on abandoned projects such as Skagit/Hanford and
17 Pebble Springs. I am advised by counsel that denial of
18 ratebase recovery is also consistent with the Supreme Courts
19 decision in <u>Power v. Utilities & Transportation Commission</u>,
20 104 Wn. 2d 798 (1985). Furthermore, the Commission has
21 consistently upheld Staff's proposal to treat preliminary
22 survey and investigation costs as non-operating investments
23 in the calculation of investor supplied working capital
24 allowance. This treatment prevents a return from being
25 earned on the account balance because the working capital

1 allowance that is added as a component of rate base is
2 proportionately reduced by the amount in the Preliminary
3 Survey and Investigation account. Such treatment was
4 approved most recently in Puget's last general rate case in
5 Docket No. U-89-2688-T. In fact, the Company is not raising
6 that as an issue in its working capital allowance
7 calculation in this case.
8
9 Q. You stated that in addition to the cost level and rate base
10 treatment, the Staff adjustment differs from the Company's
11 proposal in terms of the period of amortization. What
12 amortization period is the Company proposing?
13 A. The Company is proposing a five year write-off period. (Ex.
14 558, p. 2.19).
15
16 Q. What is Staff's proposed amortization period?
17 A. Staff recommends that a longer period of recovery is more
18 appropriate considering the magnitude of this general rate
19 case filing. This is based on the same rationale behind the
20 Company's amortization proposal, _i.e._ rate moderation. An
21 amortization period of ten years is consistent with the
22 recovery period for other terminated projects and with the
23 Company's expectations when a loss reserve was provided in
24 Puget's 1990 financial statement.
25 The impact of Staff's adjustment is a net operating

1 income decrease of $309,924 with no adjustment to rate base,
2 as shown under column 2.19 of the Staff's Results of
3 Operations Exhibit. This compares with the Company's
4 proposed net operating income decrease of $786,928 and rate
5 base increase of $3,541,177. (Ex. 558, p. 2-C, col. 2.19).
6
7 **WORKING CAPITAL (2.24)**
8
9 Q. Please describe the adjustment for Working Capital.
10 A. Staff's working capital calculation uses the Balance Sheet
11 approach in determining the level of investor supplied
12 working capital allowance that is added as a component of
13 rate base. The Company uses the same method. (Ex. 558, p.
14 2.24). The Staff's recommended level of working capital
15 allowance is significantly lower than the Company's proposed
16 amount for several reasons. These differences are reflected
17 in the Staff's working capital calculation Exhibit.
18
19 Q. Referring you to what has been marked as Exhibit____(RCM-3),
20 does this document contain the Staff's investor supplied
21 working capital calculation?
22 A. Yes. For comparative purposes, I present the Company's
23 calculation as well. The numbers under the column entitled
24 "Per Company" are identical to figures shown on page 2.24 of
25 Exhibit 558.

1 Q. Please discuss the individual items which account for the
2 Staff and Company differences.
3 A. I will discuss each item in the alphabetical order in which
4 it is noted in my Exhibit.
5
6 A- Dividends declared-Common and Preferred A/C 238: The
7 Company included the average balance of this account as part
8 of invested capital. Staff excluded this account. That
9 exclusion is consistent with the treatment approved in past
10 cases. Dividends declared are available to the Company as
11 zero-cost capital and no return should be allowed. The
12 Company does not pay interest on the dividend liability
13 which is owed to stockholders as of a certain record date.
14 The stockholders of record may no longer be owners of stocks
15 when the dividend payment is made, which normally happens
16 after the record date. The Company claims that it appears
17 there may be some confusion as to how the Company records
18 dividends declared (Ex. T-556, p.24, ln. 19) and that no
19 change has been made in the invested capital in the
20 business. (Ex. T-556, p.25, ln. 2). Staff disagrees with
21 this statement. It is clear that when dividends are
22 declared, a debit to retained earnings and a credit to
23 dividends payable is recorded. This shows that a portion of
24 the invested capital has been set aside and transformed to a
25 short term liability with zero cost. The dividends are the

1 shareholders' return, and the declaration by the Company
2 signifies that the amount of declared dividends is no longer
3 retained earnings but return to the stockholders of record,
4 to do with as they see fit.
5
6 B- BPA Residential Exchange-Account 253.12: This item
7 relates to the Company's petition in Docket No. UE-920433.
8 The Company is proposing to change the treatment of this
9 account which represents the balance of residential exchange
10 benefits received from the Bonneville Power Administration
11 (BPA). In the last general rate case (Docket No. U-89-2688-
12 T), this account was not considered as investor supplied
13 capital. In other words, it represented funds supplied by
14 non-investors which were available to the Company at no
15 cost. After a compliance audit, BPA asked the Company to
16 accrue interest on the exchange credit balance. When
17 interest is demanded on a fund, it ceases to be a cost free
18 fund. Considering this, the treatment in Docket No.
19 UE-920433 of the residential exchange account, in terms of
20 working capital calculation requires reevaluation in this
21 proceeding.
22 On April 17, 1992, the Company filed a petition for an
23 accounting order which provides accrual of interest on the
24 residential exchange balance, deferral of the interest
25 accrued and a determination of the accrued interest in a

1 general rate case. Staff did not recommend approval of the
2 accounting order because of the deferral provision and
3 effects of potential revised treatment of the exchange
4 account in the working capital determination, which is more
5 appropriately evaluated in a general rate case proceeding.

6 The Company is proposing to treat the residential
7 exchange account as short term debt or part of invested
8 capital to calculate the working capital allowance. Also,
9 it was added to the debt component of the Company proposed
10 capital structure. (Ex. T-556, p. 24, ln. 4-7).

11 Staff does not accept the Company's proposal because
12 the cost burden for the ratepayers under that proposal is
13 greater than the cost to the Company. By including the
14 average balance of the exchange credit in the invested
15 capital portion of the working capital calculation, the
16 allowance for working capital is proportionately increased.
17 An increase in the working capital allowance increases total
18 rate base, and the Company will be collecting from the
19 ratepayers a full return equal to whatever rate of return is
20 authorized in this case. On the other hand, the Company
21 will accrue interest on the balances in the residential
22 exchange account at a rate equal to the Company's short term
23 debt rate. Due to rounding errors, I note that the exchange
24 credit does not change the Company's proposed capital
25 structure. (Response to Deposition Request No. 12).

1 Q. Would you please explain Staff's proposed treatment for this
2 source of funds?
3 A. Staff's recommendation is to treat such account balances as
4 a direct rate base reduction, similar to the treatment of
5 customer deposits, and to include as operating expense the
6 interest on the average account balance at a rate equal to
7 the short term debt rate proposed by Staff. Staff believes
8 that this is a more reasonable treatment than the Company's
9 proposal because the full amount of the residential exchange
10 balance is applied directly to the investment which is
11 providing service to the ratepayers and not to any other
12 non-operating or non-utility investments. In addition, the
13 ratepayers who will be benefited will be paying the actual
14 cost as part of the operating expense in rates.
15
16 Q. Due to the complex nature of this adjustment and its
17 treatment for rate purposes, are there any other methods to
18 account for this source of funds?
19 A. Yes there are two other acceptable alternatives. The second
20 method of treating the exchange account is to exclude the
21 balance from the investor supplied working capital allowance
22 calculation. The total rate base impact is similar to the
23 first alternative and is the same treatment approved in
24 prior rate cases. The only difference in this case in
25 comparison with the last rate case, is that the exchange

1 account funds are no longer considered to be zero cost
2 capital because BPA now requires a return. Therefore, it is
3 necessary to account for the required interest cost on the
4 balance. The problem with this method is that there is no
5 assurance that the funds will be fully utilized for
6 operating purposes. Since the balance of undistributed
7 exchange credit is being used to fund total company
8 operations, it will be necessary under this alternative to
9 allocate the interest expense between utility and non-
10 utility in a manner similar to the allocation of working
11 capital as depicted in the Staff's working capital Exhibit.
12 The final alternative we are not proposing is to modify
13 the Company proposal in such a way that a portion of the
14 investor supplied working capital equal to the average
15 residential exchange account balance is allocated 100% to
16 non-operating. Under this alternative, the assumption is
17 that all the funds are used for purposes other than electric
18 operations and are available to the Company. Therefore, the
19 Company, not the ratepayers, should pay the interest on
20 those funds. This treatment is fair to both ratepayers and
21 the Company because the ratepayers will not pay for the cost
22 of funds from which they will not be receiving a benefit.
23 It recognizes that the Company benefits from the use of
24 these funds. The uncertainty of where the funds will be
25 used is eliminated. The Company, which has control over the

1 undistributed amount, will be able to use it under the
2 assumed use, i.e. for non-operating purposes, and
3 accordingly will be liable for the cost of the funds. This
4 is a viable alternative considering the fact that "the
5 Company has consistently taken the position in discussions
6 with BPA that 'benefits' under the residential exchange
7 program "has or have" never previously been defined to
8 include interest earnings which may be imputed on account
9 balances which accumulate before benefits are passed through
10 to customers. The Company therefore disputes BPA's finding
11 that it is not in 'full compliance' with the requirements of
12 the residential exchange program." (Footnote, p.4, Puget
13 Petition for an Order Regarding Accounting Treatment of
14 Residential Exchange Benefits, Docket No. UE-920433) Under
15 the Staff's third alternative proposal, the ratepayers are
16 isolated from the conflict of positions between BPA and
17 Puget concerning the terms of their residential exchange
18 agreement.
19
20 C- Federal Income Tax-Puget Western, Inc., A/C 236.02: The
21 amount in this account represents the average balance of a
22 liability to a subsidiary. The account was not properly
23 debited when the liability was paid. The Staff adjustment
24 to increase the subsidiary investment balance has been
25 reflected by the Company in its updated working capital

1 calculation provided to Staff as a supplemental response to
2 Staff Data Request 1085.
3
4 D- Other Work in Progress, A/C 186.01/185.01: The Company
5 in its working capital calculation (Ex. 558, p. 2.24)
6 subtracted from non-operating investments certain utility
7 and remedial costs included under the subject accounts.
8 Some of these items are related to remediation programs
9 covered under the Accounting Order in Docket No. UE-911476.
10 However, major portions of the items excluded by the Company
11 in its proposal pertain to costs of ongoing programs which
12 were expensed at the end of 1991. Staff, in this
13 adjustment, treats the balance of those particular ongoing
14 program expenses in the non-operating investment category.
15 This is proper because to treat otherwise would allow the
16 Company to earn on prior and test period operating expenses.
17
18 E- Plant Held For Future Use, A/C 105: This adjustment
19 removes the average balance of certain plant held for future
20 use from operating investment to be treated for purposes of
21 the working capital calculation as non-operating investment.
22 This is consistent with a separate adjustment in which Staff
23 is proposing to exclude from rate base certain costs of
24 properties booked in the future use plant account. This is
25 discussed in detail later in my testimony.

1 F- Depreciation Reserve, A/C 108: The average amount of
2 this item of adjustment represents the remediation program
3 costs which were reclassified to deferred and expense
4 accounts under the Commission's Accounting Order. The same
5 amount is adjusted from the depreciation reserve in rate
6 base.
7
8 G- Extraordinary Property Loss, A/C 182.10/182.11: This
9 adjustment reclassifies the balance of storm and property
10 damage reserve deficits for which Staff is not recommending
11 recovery. For the working capital calculation, the balances
12 were treated by Staff as offsets to invested capital to
13 avoid items proposed for write-off from earning a return.
14 The storm and property damage reserve adjustments are
15 discussed under adjustments 2.08 and 2.09, respectively.
16
17 Q. What is the impact of Staff's working capital adjustment?
18 A. As shown in column 2.24 of the Staff's Results of Operations
19 Exhibit, the interest expense related to the residential
20 exchange balance decreases net operating income by $250,020
21 and rate base is reduced by a net amount of $3,165,384.
22
23 **SMALL HYDRO WRITE-OFFS (2.22)**
24
25 Q. Please discuss the Small Hydro Write-offs adjustment in

1 column 2.22 of Staff's Results of Operations Exhibit.
2 A. This is a proposal by the Company to recover, over a five
3 year period, its costs related to five abandoned hydro
4 projects: Black Creek-Suiattle River, Straight Creek,
5 Finney Creek, Swift Creek, and Galbraith Creek. (Ex. T-556,
6 p.21)
7 In line with the Company's hydro development program,
8 Puget acquired Hydro Energy Development Corporation (HEDC)
9 in November 1988, a Company which, through itself or
10 subsidiaries, controlled preliminary permits to 48 small
11 hydro projects in Western Washington. After a period of
12 time, the initial list of projects was reduced to 14, then
13 subsequently to 12. In addition to the initial 48 projects,
14 HEDC secured preliminary permits for six new projects. In
15 March 1990, rights for four new projects were acquired.
16 (Company response to Staff Data Request 66).
17
18 Q. Please explain why there are no figures appearing under
19 column 2.22 of Staff's Results of Operations Exhibit?
20 A. Staff is not recommending approval of the Company's proposal
21 in this case. Because of the uncertainty of benefits
22 accruing to the ratepayers, it is inappropriate to allow the
23 Company any advance recovery of its small hydro development
24 program costs. It is not definite at this time how many
25 projects will ultimately reach full development and provide

1 electric service. Furthermore, it is not certain whether
2 the resulting energy would turn out to be cost effective.
3 Therefore, Staff recommends that hydro projects pursued by
4 the Company through its subsidiaries, if ultimately
5 developed, should be acquired through the competitive
6 bidding process set forth in chapter 480-107 WAC. Under
7 this scenario, the cost of these resources would be
8 considered purchased power expense and flow through the
9 Simplified Dispatch Model (SDM). Mr. Patrick Moast
10 discusses this in his testimony.
11
12 Q. Should the Commission find it appropriate to permit a write-
13 off or amortization of costs of the abandoned hydro projects
14 in this case, what amount should be allowed?
15 A. The costs proposed for recovery should be adjusted for
16 certain specific items. The allowable costs should be
17 recovered over a period of ten years instead of the five
18 year recovery period proposed by the Company; and the
19 investment balance should not be included in rate base, as
20 proposed by Puget. (See Ex. 558, p. 2.22) A ten year
21 recovery period and rate base exclusion for the investment
22 balance are also appropriate treatments for these failed
23 projects for the same reasons as stated in my discussion
24 regarding the Creston project.
25 Out of the $485,542 total cost proposed to be recovered

1 by the Company, five cost elements amounting to $190,444
2 should be excluded.

3 First, $32,930 of capitalized interest should not be
4 allowed because the projects were at the preliminary survey
5 and investigation stage and never reached construction. The
6 system of accounts for regulated utilities does not provide
7 for capitalization of interest on such costs.

8 Second, under the FERC Uniform System of Accounts
9 (USOA), if no construction results and if the work is
10 abandoned, the survey and investigation costs should be
11 expensed. (18 CFR Part 101 Account 183 (1992)). The permit
12 for the Galbraith Creek project was surrendered in March,
13 1991, which is prior to the test year. The $21,135 cost
14 associated with that project should have been expensed at
15 that time.

16 Third, the $64,769.87 in expenditures associated with
17 two projects which were abandoned in April, 1990, were
18 allocated to the Black Creek-Suiattle and Straight Creek
19 projects. This Commission did not authorize or approve such
20 treatment. In fact, even the Company states that this
21 allocation treatment would require Commission approval prior
22 to its use for financial accounting and ratemaking purposes.
23 (Ex. T-556, p. 21, ln. 18)

24 Fourth, costs continued to be allocated to the
25 terminated projects although their permits were already

1 surrendered. The amount of $36,312 representing post-
2 surrender date charges should not be considered in the
3 determination of the amount to be amortized.
4 Finally, the Company did not present any justification
5 or explanation on justness, fairness or reasonableness of
6 the fifteen percent markup on vendor charges. The net
7 amount of $32,296.49 representing the 15% adder included in
8 the proposed cost for recovery should be excluded.
9
10 **PRODUCTION ADJUSTMENT (2.28):**
11
12 Q. Please describe the production adjustment shown under column
13 2.28 of Staff's Results of Operations Exhibit.
14 A. The purpose of this adjustment is to prorate production
15 costs, excluding those included within the power supply
16 adjustments, for the difference in load between the test
17 year and the rate year. Power supply expenses are not
18 included in this adjustment because similar treatment has
19 already been accorded them in the pro forma power supply
20 calculation.
21
22 Q. Referring you to what has been marked as Exhibit No.___(RCM-
23 4), does this document contain the Staff calculation of the
24 production adjustment?
25 A. Yes. It is similar in format to the Company's calculation

1 as shown on page 2.28 of Exhibit 558. The expense and rate
2 base items adjusted by the production factor are listed in
3 this Exhibit.
4
5 Q. What is the impact of Staff's production adjustment on the
6 results of operations?
7 A. The impact of this adjustment is an increase in net
8 operating income of $1,764,961 and a decrease to rate base
9 of $39,979,318 as shown in column 2.28 of the Staff Results
10 of Operations Exhibit.
11
12 **PRO FORMA INTEREST 3.04**
13
14 Q. Please explain the pro forma interest adjustment reflected
15 under column 3.04 of the Staff Results of Operations
16 Exhibit.
17 A. The pro forma interest adjustment proforms the impact of
18 interest expense on federal income taxes. Staff's
19 adjustment differs from the Company's calculation portrayed
20 on page 3.04 of Exhibit 558 because of two factors: 1)
21 level of pro forma rate base (line 1) and 2) weighted cost
22 of debt (line 5). Staff's pro forma rate base includes the
23 effect of all ratemaking adjustments included in the Staff's
24 Results of Operations Exhibit. The weighted cost of debt
25 used by Staff in its pro forma interest adjustment is the

1 cost rate recommended by Dr. Lurito.

2 The effect of this adjustment is to decrease net
3 operating income by $7,001,814 as shown under column 3.04 of
4 Staff's Results of Operations Exhibit.

5

6 **FEDERAL INCOME TAX (3.06)**

7

8 Q. Please explain the next adjustment for federal income taxes.

9 A. This adjustment attempts to true up the federal income tax
10 expense to account for the revenues and expenses during the
11 test year. The federal income tax per books was based on
12 1991 and 1992 tax accruals. The Staff federal tax
13 adjustment impact is a decrease on net operating income of
14 $10,714,201 and is shown under column 3.06 of Staff's
15 Results of Operations Exhibit. This is different from the
16 $10,916,541 amount shown by the Company on page 2-E of
17 Exhibit 558. The difference is due to Staff's use of the
18 revised calculation of the adjustment based on data from the
19 Company's final 1991 tax return and the 1992 year-end tax
20 accrual, which were provided in the Company's response to
21 Staff Data Request No. 1296(g).

22

23 **FUTURE USE PLANT (4.05)**

24

25 Q. Please explain the future use plant adjustment.

1 A. This is an adjustment proposed by Staff. The purpose of
2 this adjustment is to remove from rate base certain items of
3 property which were booked in FERC account 105-Plant Held
4 For Future Use. Based on Staff's analysis and review of the
5 items included in that account, the ratepayers should not
6 continue to pay in rates a return on the cost of specific
7 properties which are either surplus properties or do not
8 meet the criteria for inclusion in Account 105.
9
10 Q. Please describe the document marked as Exhibit ____(RCM-5).
11 A. This document contains Staff's analysis of the properties
12 booked in the future use plant account. The first two pages
13 reflect an itemized listing of the properties with their
14 respective book values, original dates when they were booked
15 in Account 105, and the expected dates when they will be
16 placed in service. On the last page of the Exhibit, I have
17 segregated from the full list of properties the items which
18 are proposed to be removed from rate base including
19 explanations as to why they should be excluded. The
20 calculation of the adjustment and the impacts on rate base
21 and net operating income also appear on the last page of the
22 Exhibit.
23
24 Q. Please summarize the results of the Staff analysis depicted
25 in that Exhibit.

1 A. As shown on the last page of the Exhibit, the properties
2 segregated from the full list were classified into four
3 groups (A,B,C and D). According to information which was
4 provided in response to Staff inquiry, the Company reviewed
5 and determined that 16 items of property should be removed
6 from the future use plant account. These 16 properties fall
7 under category A in the analysis shown in Exhibit ____(RCM-
8 5). In response to Staff's request for updated data
9 regarding Company adjustments which contained estimates, the
10 Company included an adjustment to remove the 16 properties
11 from rate base and the associated property taxes from
12 expense. I believe these items are uncontested.
13 Group B properties in the Staff analysis include five
14 plant held for future use with indeterminable in-service
15 dates. These properties do not qualify for inclusion in
16 Account 105 of the Uniform System of Accounts which provides
17 for inclusion of plant with definite plan of use. Without a
18 definite date of use, the plan becomes indefinite. The
19 ratepayers should not be burdened with this uncertainty.
20 Group C includes 13 properties which have been sitting
21 in the future use plant account for more than 20 years.
22 Staff believes that the ratepayers, who have been supporting
23 these properties in rate base and have been paying the
24 associated taxes without getting any service or benefit,
25 should be "given a break". Twenty years and counting is too

1 long a time to wait and see if the Company's visions of
2 future usefulness will ever materialize. Staff recommends
3 that the Commission enunciate a policy of a 20 (or less)
4 year maximum benchmark holding period for properties in
5 Account 105.

6 Group D constitutes the last set of properties proposed
7 to be excluded from rate base. These are four properties
8 which are not certain of becoming used and useful in
9 providing service because their plans were rendered
10 indefinite due to specific circumstances as stated in the
11 Staff's future use plant analysis Exhibit ___ (RCM-5).

12 Staff notes that the properties in groups B,C and D
13 have a book value of $3,134,156 and current assessed value
14 of $3,165,907. From the time they were originally booked in
15 Account 105 and included in rate base through December,
16 1992, the ratepayers have paid in rates a cumulative rate of
17 return amount (uncompounded) of $3,702,240, and this figure
18 excludes property taxes.

19 The effect of Staff's future use plant adjustment is to
20 reduce rate base by $4,129,038 and increase net operating
21 income by $28,653 as shown in column (4.05) in Staff's
22 Results of Operations Exhibit____ (RCM-1).

23

24 **MISCELLANEOUS ADJUSTMENTS (4.06)**

25

1 Q. Please discuss the miscellaneous adjustments to the results
2 of operations proposed by Staff.
3 A. These are restating and pro forma adjustments to the test
4 period results of operations which Staff believes to be
5 appropriate for ratemaking purposes.
6
7 <u>1) Outside Services Employed</u> - This adjustment reclassifies
8 certain costs for legal services which were booked as
9 operating expenses in Account 923 to a below-the-line
10 account (426.4- Expenditures for certain civic, political
11 and related activities). The following legal services with
12 the corresponding costs are proposed to be classified as
13 nonoperating:
14 a) Services including consultation with the Company,
15 analysis of legislative bills and proposed amendments.
16 Cost: $51,080.
17 b) Costs incurred for participants in the Colstrip project
18 relating to a suit filed to prevent the taxation of a BPA
19 transmission line by the State of Montana. Cost: $22,411.
20 c) Legal services to review drafts of legislation, and
21 discussions and meetings on Capitol Hill. Cost: $14,615.
22
23 <u>2) Nintendo/Tanner</u> - This item of adjustment is a
24 quantification of the proposal discussed by Mr. Elgin in his
25 testimony in connection with the case involving Puget and

1 Tanner Electric Co-op regarding electric service to Nintendo
2 of America, Inc. This non-recurring expense adjustment
3 removes from test year operations $121,567 of legal fees and
4 litigation costs which were booked in Account 923 during the
5 test year.
6
7 <u>3) Account 930.24 Miscellaneous General Expenses</u> - The
8 adjustment in this item removes from operating expenses
9 certain fees and disbursements made during the test year for
10 a consultant who was asked to assist the 4th Corner
11 Development Group in its job of working with companies who
12 may potentially locate in the Whatcom, Skagit and Island
13 County area. Staff believes that it is not fair for the
14 ratepayers to pay this cost and that the beneficiaries of
15 the professional assistance should bear the cost.
16 Significantly, in response to Staff Data Request 2451, the
17 Company itself stated that it is not the policy of Puget to
18 hire consultants to be assigned to economic development
19 groups similar to the 4th Corner Development group.
20 Another component of this item of adjustment is a
21 contribution by Puget to Washington State University's
22 engineering programs. This is a laudable gesture made by
23 the Company's management but Staff believes that this
24 donation is not a necessary cost of providing electric
25 service. It is the shareholders who benefit from the

1 goodwill and enhanced image of the Company, not the
2 ratepayers. Also, ratepayers should be able to decide to
3 whom they want to donate - it should not be done through the
4 utility bill. Therefore, it is fair that shareholders
5 shoulder the cost.
6 The amount of this third adjustment to operating
7 expense is $31,500.
8
9 <u>4) Public Utility Tax</u> - The purpose of this adjustment is to
10 reflect in the test year results the benefits or credits
11 arising from higher conservation expenditure deductions
12 which the Company is able to claim for public utility tax
13 purposes. Since the Company is proposing to add to rate
14 base conservation expenditures incurred up to April, 1993,
15 it is appropriate to adjust the test year tax based on the
16 level of deductions associated with conservation
17 expenditures for the twelve months ending April 1993. This
18 adjustment is fair and reasonable because proper matching of
19 costs and benefits is achieved.
20 The adjustment was calculated using eleven months of
21 actual and one month of estimated data for the year ended
22 April, 1993. This will be updated when the actual
23 expenditures for April, 1993 become available.
24 The amount of this adjustment to other taxes expense is
25 $294,318.

1 Q. What is the combined impact of the miscellaneous adjustment
2 on the Staff's Results of Operations Exhibit?
3 A. The effect of Staff's miscellaneous adjustment is an
4 increase in net operating income of $318,447.
5
6 PRAM EVALUATION
7
8 Q. You stated earlier in your testimony that you will address
9 certain issues related to the PRAM. Please list the issues
10 you discuss.
11 A. The issues I discuss are Base/Resource Cost Allocation and
12 reconciliation of pro forma results with PRAM projections.
13 The first issue which I will offer my comments on is
14 the division of the Company's total revenue requirements
15 into base cost and resource cost categories. The
16 classification of costs into these two categories under the
17 current mechanism is not based on rational principles.
18 Staff recommends that the present costs classification
19 be revised by adopting the modifications which Staff
20 proposed in Docket No. UE-901184-P. This proposal provides
21 that resource costs be composed of power supply and power
22 production related costs. In addition, costs incurred in
23 connection with planned but failed construction or
24 acquisition of power resources should be included in the
25 resource category. All non-resource costs would be in the

1 base category. This division of total revenue requirement
2 provides an underlying rational principle to the
3 categorization and eliminates the inconsistencies brought by
4 arbitrary classification which occurred under the existing
5 mechanism. The cost elements adjusted by the production
6 factor in this case are already identified and defined in
7 this general rate case (See Staff's ratemaking adjustments
8 (2.02) Power Costs, (2.03) Sale/Resale Secondary and (2.28)
9 Production Adjustment, sponsored by witnesses Winterfeld and
10 Moast).

11 The amortization costs of abandoned or aborted projects
12 are properly classified as resource costs primarily because
13 of the reason they were incurred, i.e. to acquire resources.
14 The prescribed method of recovery for these costs further
15 supports their classification in the resource category. As
16 stated earlier in my discussion of the Creston adjustment
17 (2.19) and Small Hydro Write-offs (2.22), Commission
18 decisions on failed projects such as Skagit/Hanford were
19 premised on the principle of cost sharing between ratepayers
20 and shareholders. This cost sharing is achieved by allowing
21 the Company to recover the cost of investment without rate
22 base treatment of the unamortized balance of the investment.
23 Staff believes that the cost sharing intent is defeated by
24 placing the amortization costs in the base category.
25 Recognition of the cost decrease when a project is fully

1 amortized, as in the case of the Pebble Springs adjustment
2 made in PRAM-2 (Docket No. UE-920630), is not sufficient to
3 fully achieve the cost sharing objective. The ratepayers
4 are disadvantaged if the amortization costs are allowed to
5 grow in the base category. They are, in effect, made to pay
6 more than their mandated share if such costs are not moved
7 to the resource category.

8 If the Company perceives that the Staff's recommended
9 base and resource division does not provide enough revenue
10 stream to achieve authorized return, there is already a
11 feature in the PRAM which was designed to address such a
12 concern. The multiplier in the decoupling mechanism can be
13 activated or adjusted on a prospective basis depending on
14 factual historic experience and retrospective analysis.

15 In summary, the recommended classification of total
16 revenue requirement between base and resource categories
17 provides consistency, makes the two categories accurate, and
18 the mechanism principled.

19

20 Q. Turning now to the next PRAM evaluation issue, what are your
21 comments regarding reconciliation of historical pro forma
22 test year concepts with PRAM projections?

23 A. When I testified in the last PRAM proceeding, it was my
24 belief that the concepts underlying these two ratemaking
25 methods are conflicting and irreconcilable. That is still

1 my belief. The traditional method sets rates based on
2 prospective relationships between historical revenues,
3 expenses, and rate base, while the PRAM is based on
4 projected absolute amounts of revenues without a link to the
5 costs which are supposed to be covered by such revenue
6 levels. As explained by Mr. Kenneth Elgin in his testimony,
7 adjustment to rates without reexamining the relationships
8 established in the general rate case results in a missing
9 link between rates and costs.
10 One way to resolve the conflict is to completely
11 restructure the PRAM and set rates based on prospective
12 relationships of projected revenues, expenses and rate base.
13 However, this is not an improvement on the traditional
14 ratemaking method. The conflict in concepts between the two
15 ratemaking methods is an element that will remain and will
16 have to be accounted for in other areas, such as risk
17 compensation as discussed in detail by Mr. Kenneth Elgin in
18 his testimony.
19
20 **COMPANY'S RATE MODERATION PROPOSAL**
21
22 Q. What is Staff's position with regard to the Company's rate
23 moderation proposal?
24 A. Staff does not support the Company's rate moderation
25 proposal. Considering the rate decrease proposed by Staff,

1 the revenue deferral plan proposed by the Company will not
2 be necessary. Furthermore, the Company's proposal is
3 inconsistent with the deferral plan which was approved in
4 PRAM 2 (Docket No. UE-920630) because under the proposal in
5 this case, interest is accrued on the deferred amount
6 although the recovery collection period occurs within two
7 years, similar to the PRAM 2 plan. Finally, the rate
8 moderation proposal will add to the complexity of the
9 already complicated deferred accounting process under the
10 PRAM. The customers will have more difficulty understanding
11 their bills if the Company's proposal is adopted,
12 considering the uncertainties of future levels of PRAM
13 deferrals.
14
15 Q. Does this conclude your testimony in this proceeding?
16 A. Yes.
17