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

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.** **Respondent.**	**DOCKET UE-072300** **DOCKET UG-072301** ***(consolidated)*** **DOCKET UG-080064**

TESTIMONY OF

WILLIAM H. WEINMAN

STAFF OF THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Electric and Gas Revenue Requirements

Depreciation, Baker River Relicensing and Crystal Mountain Diesel Spill

May 30, 2008

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LIST OF EXHIBITS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is William H Weinman. My business address is The Richard Hemstad Building, 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504. My e-mail address is wweinman@utc.wa.gov.

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

A. I am employed by the Washington Utilities and Transportation Commission ("UTC") as a Regulatory Analyst.

Q. How long have you been employed by the Commission?

A. I have been employed by the UTC since June 2007. I was also employed by the UTC in a similar position from 1974 to 1978.

Q. Please state your educational and professional background.

A. I graduated from Washington State University in 1971 receiving a Bachelor of Arts in Business Administration with a major in accounting. I am a member of the American Institute of Certified Public Accountants.

My current responsibilities at the UTC generally include financial, accounting, depreciation, and other analyses in general rate cases, other tariff filings and rulemakings involving the investor-owned electric and natural gas utilities regulated by the UTC. Over my career, I have provided expert testimony before the

UTC regarding regulated electric, natural gas and telephone companies. Most recently, I testified on depreciation and pole replacement in Avista's last general rate case, Dockets UE-070804 and UG-070805. I also represented Staff in a settlement with PacifiCorp on depreciation rates and parameters that the UTC adopted in Docket UE-071795. Over the past year, I have analyzed several company petitions for accounting orders.

Between my prior and current employments with the UTC, I worked on regulatory and operational issues for the consulting firm R.W. Beck (1979), Ellensburg Telephone Company (1980-1984), Pacific Telecom, Inc. (1985-2003) and Integra (2004-2007). I testified and was involved with regulatory issues before the Oregon Public Utilities Commission as Vice President and General Manager for Pacific Telecom from 1992 to 2003.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. Please describe the purpose of your testimony.

A. I present Staff's overall recommendations regarding Puget Sound Energy, Inc.'s ("PSE" or "the Company") electric revenue requirement and natural gas revenue requirement. I also present Staff's response to two specific ratemaking adjustments included by PSE. These are: (1) the Company's proposed depreciation adjustment based on a study performed by Company witness Mr. Clarke; and (2) the Company's proposed cost recovery for relicensing the Baker River hydroelectric project.

Finally, I present an adjustment not included by PSE in which I disallow costs related to a diesel oil spill at Crystal Mountain in November 2006.

Other Staff witnesses will address ratemaking adjustments not covered in my testimony. The attachment to my testimony lists these Staff witnesses and the adjustments for which they are responsible. Staff has incorporated the Company's April 14, 2008 Supplemental Testimony and Exhibits.

Q. Please summarize Staff's overall revenue recommendation for PSE's electric and gas operations.

A. Staff recommends that the UTC:

- Increase the Company's electric service revenues by $106,630,627 (5.64 percent) based on an overall rate of return of 8.25%.
- Increase the Company's gas service revenues by $43,458,150 (4.06 percent) based on an overall rate of return of 8.25%.

Q. Do you sponsor any exhibits in this proceeding?

A. Yes, I sponsor the following exhibits:

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

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

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

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

III. ELECTRIC REVENUE REQUIREMENT

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

A. Page 1 of Exhibit No. __ (WHW-2), the first column entitled "Actual Results of Operations," reflects the test year (October 2006 - September 2007) amounts and indicates that PSE earned a total rate of return of 7.90% on its electric operations in the test period. The second column entitled "Total Adjustments" is the sum of all the restating and pro forma adjustments shown on pages 2 through 6. The shaded columns are the adjustments for which Staff disagrees with the Company's corresponding adjustment, as shown in Mr. Story's supplemental Exhibit No. __ (JHS-9T). The column entitled "Revenue Requirement Deficiency" shows the impact of Staff's recommended $106,630,627 electric revenue increase, given the 8.25 percent overall rate of return recommended by Staff witness Mr. Parcell.

Pages 7 through 44 provide the back-up support for each of the restating and pro forma adjustments and the calculation of the revenue excess, overall rate of return, and conversion factor. Staff matched our adjustment numbers to PSE's adjustment numbers for comparison purposes. Staff also includes additional adjustments that do not have corresponding Company adjustments. These are:

Adjustment 11.36, Billing Discounts
Adjustment 11.37, Crystal Mountain Diesel Spill
Adjustment 11.38, Working Capital Disallowance

Q. Turning to the electric operations restating and pro forma adjustments within your area of responsibility, please indicate which adjustments are uncontested as between Staff and PSE.

A. The following adjustments are uncontested as between Staff and PSE:

Adjustment 11.01, Temperature Normalization
Adjustment 11.06, Hopkins Ridge Wind Infill
Adjustment 11.07, Wild Horse
Adjustment 11.08, Goldendale
Adjustment 11.09, Sumas
Adjustment 11.10, Whitehorn
Adjustment 11.16,Excise Tax and Filing Fee
Adjustment 11.32, Regulatory Assets & Liabilities
Adjustment 11.34, Skagit Facility

Q. Please indicate which electric operations adjustments within your area of responsibility are contested as between Staff and PSE.

A. The following adjustments are contested as between Staff and PSE:

Adjustment 11.11, Baker Relicense
Adjustment 11.33, Depreciation Study

Moreover, I present Adjustment 11.37, Crystal Mountain Diesel Spill, which I indicated earlier has no corresponding Company adjustment at this time.

Q. Do you agree with the Company's electric conversion factor of .6213371?

A. Yes, the conversion factor used to convert electric net operating income to a revenue requirement level is appropriate and is not an issue.

A. Baker River Relicensing

Q. Please describe the reason for the difference between Staff and PSE for electric operations Adjustment 11.11, Baker Relicense.

A. PSE's adjustment pro forms amortization expense and includes in rate base the net unamortized balance of the costs associated with re-licensing the Baker River hydroelectric project. Staff does not question the prudence of the project relicensing.

However, Staff does oppose the Company's adjustment because the Federal Energy Regulatory Commission ("FERC") has yet to issue an order granting the license renewal and it is unknown whether FERC will do so by the time rates from this proceeding go into effect. Therefore, PSE's adjustment is inappropriate because it presumes that the costs will be closed to plant in service with amortization starting in August 2008 and continuing over the license renewal period.

If the Company does receive the Baker license renewal before a UTC order is issued in this case, it would be appropriate to include this pro forma adjustment in the results of operations. If PSE does not receive relicensing, it should account for the costs as Construction Work in Progress until the project is relicensed. That is the treatment applied currently by the Company.

B. Depreciation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. Do you disagree with the test results?

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

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

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

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

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

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

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

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

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

Q. Does this concept apply to all plant?

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

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

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

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

C. Crystal Mountain Diesel Spill

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

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

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

Q. Please elaborate on why you adjusted test year expenses related to the diesel spill.

A. On November 2, 2006 power was disrupted to the Crystal Mountain area requiring the emergency generator to engage. After normal power was restored the transfer pump continued to run causing 18,000 gallons of diesel to be discharged to the environment. These types of events are extraordinary and are not experienced every year. Therefore, I removed all of the expense from the test period, rather than analyzing the frequency of occurrence and pro-rating only a portion of the expense to the test period.

Q. What is the reason for disallowing the entire expense?

A. Exhibit No. __ (WHW-4) is the Notice of Penalty issued by DOE on April 15, 2008. Page 3 of the exhibit explains PSE actions that led to the spill stating "The following supports a determination of a negligent oil spill: . . . ". DOE concluded a Company technician improperly wired the circuit causing the controls to the fuel pumps to fail. I am unaware of any appeal of DOE's decision by the Company.

Working with electricity is one of PSE's core business operations. I would expect a Company technician to be well trained to work on any electrical equipment assigned to that employee. Rate payers should not reimburse PSE for expenses that arise from an employee's negligent performance of essential duties.

Q. How did you determine the amount to be disallowed?

A. The Company's insurance policy has a $2,000,000 deductible. The policy does not cover employee expenses or legal fees. In response to Staff Data Request No. 178, PSE stated that $158,844 was spent on legal fees related to the spill. The Company's response to informal Staff Data Request No. 6 in Docket UE-070724 indicates that PSE recorded $278,931 in the Employee-Other account for hotel bills during the spill. My adjustment removes both of these expenses and the insurance deductable.

IV. GAS REVENUE REQUIREMENT

Q. Please briefly describe your Exhibit No. __ (WHW-5), Gas Results of Operations and Revenue Requirement.

A. Page 1 of Exhibit___(WHW-5), the first column entitled "Actual Results of Operations", reflects the test year (October 2006- September 2007) amounts and indicates that PSE earned a total rate of return of 7.69% on its gas operations in the test period. The second column, entitled "Total Adjustments" is the sum of all the restating and pro forma adjustments shown on pages 2 through 5. The column entitled "Revenue Requirement Deficiency" shows the impact of Staff's recommended $43,458,150 revenue increase, given the overall rate of return requirement of 8.25% recommended by Mr. Parcell.

Pages 6 through 28 provide the back-up support for each of the restating or pro forma adjustments and the calculation of the revenue deficiency, overall rate of return, and conversion factor. For ease of comparison, Staff replicated PSE's

numbering scheme from the supplemental exhibits filed April 14, 2008. The shaded adjustments on pages 2 through 5 indicate disagreement with the corresponding adjustment in Mr. Karzmar's Exhibit Nos. __ (KRK-8) and __ (KRK-9). Staff also includes Adjustment 9.23, Working Capital Disallowance that has no corresponding Company adjustment.

Q. Turning to the restating and pro forma adjustments within your area of responsibility, please indicate which natural gas operations adjustments are uncontested as between Staff and the Company.

A. The following adjustments are uncontested as between Staff and PSE:

Adjustment 9.01, Temp Normalization
Adjustment 9.03, Everett Delta Pipeline
Adjustment 9.11, Excise Tax & Filing Fees

Q. Please indicate which natural gas operations adjustment within your area of responsibility is contested as between Staff and the Company.

A. Adjustment 9.06, Depreciation Study is the only gas operations contested adjustment within my area of responsibility.

Q. Please explain the reason for the difference between Staff and Company gas depreciation adjustments.

A. Staff does not take issue with the rates or lives proposed by the Company. Staff, however, does eliminate the adjustment to rate base because this is a pro forma adjustment. This issue was discussed earlier in Section III of my testimony.

Again, PSE acknowledges the validity of excluding rate base effects in its wage Adjustment, 9.18. That adjustment recognizes test year expenses, but excludes wages that were capitalized during the test period.

Q. Does Staff agree with the Company's .62193 gas conversion factor?

A. Staff agrees it is the appropriate factor for converting NOI to revenues.

Q. Does this conclude your testimony?

A. Yes, it does.

PUGET SOUND ENERGY
LIST OF ADJUSTMENTS BY STAFF WITNESS
CONTESTED ADJUSTMENTS IN BOLD

WITNESS: **WILLIAM WEINMAN**

ELECTRIC:
11.01 Temperature Normalization
11.06 Hopkins Ridge Wind Infill
11.07 Wild Horse
11.08 Goldendale
11.09 Sumas
11.10 Whitehorn
11.11 Baker Relicense
11.16 Excise Tax
11.32 Regulatory Assets & Liab
11.33 Depreciation Study
11.34 Skagit Facility
11.37 Crystal Mtn Diesel Spill

GAS:
9.01 Temperature Normalization
9.03 Everett Delta Pipeline
9.06 Depreciation Study
9.11 Excise Tax

WITNESS: **ROLAND MARTIN**

ELECTRIC:
11.14 Mis Exp & Rev
11.19 Interest on Cust Deposits
11.22 Deferred Gains & Losses
11.30 Amort of Goldendale Fixed Cost Recovery
11.35 Production Adj

GAS:
9.09 Misc Operating Exp
9.13 Interest on Cust Deposits
9.15 Deferred Gains & Losses

WITNESS: **THOMAS SCHOOLEY**

ELECTRIC:
11.23 Property & Liab Insurance
11.36 Billing Discounts
11.39 Working Capital Disallowance

GAS:
9.16 Property & Liab Insurance
9.22 Billing Discounts
9.23 Working Capital Disallowance

WITNESS: **ALAN BUCKLEY**

ELECTRIC:
11.03 Power Costs

WITNESS: **DANNY KERMODE**

ELECTRIC:
11.02 Genral Revenues
11.04 Federal Income Tax
11.05 Pro forma Tax Benefit
11.15 Property Taxes
11.18 Montana Electric Energy Tax
11.20 SFAS 133
11.24 Pension Plan
11.29 Montana Corp Tax
11.31 Storm Damage
11.38 Working Capital Disallowance

GAS:
9.02 Revenue & Purchased Gas
9.04 Federal Income Tax
9.05 Pro forma Tax Benefit
9.07 Pass through Rev & Exp
9.10 Property Taxes
9.17 Pension Plan
9.23 Working Capital Disallowance

WITNESS: **JOANNA HUANG**

ELECTRIC:
11.12 Pass through Rev & Exp
11.13 Bad Debts
11.17 D&O Insurance
11.21 Rate Case Exp
11.25 Wage Increase
11.26 Investment Plan
11.27 Employee Insurance
11.28 Incentive Pay

GAS:
9.08 Bad Debts
9.12 D&O Insurance
9.14 Rate Case Expense
9.18 Wage Increase
9.19 Investment Plan
9.20 Employee Insurance
9.21 Incentive Pay