

Exhibit No. ____ (BAL-1T)

Revisions of July 19, 2004

1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED DIRECT TESTIMONY OF BARBARA A. LUSCIER**

3 **I. INTRODUCTION**

4 **Q: Please state your name, business address, and present position with Puget**
5 **Sound Energy.**

6 A: My name is Barbara A. Luscier and I am the Manager of Revenue Requirements at
7 Puget Sound Energy, Inc. ("PSE" or the "Company"). My business address is
8 10885 N.E. Fourth Street, Bellevue, Washington, 98009.

9 **Q: Would you please provide a brief description of your educational and**
10 **business experience?**

11 A: Please see Exhibit No. ___ (BAL-G2).

12 **Q: What topics will you be covering in your testimony?**

13 A: In this portion of my testimony, I will present the calculation of ratebase, working
14 capital, conversion factor and the overall revenue requirement for the natural gas
15 results of operations. I will also explain some of the various adjustments to the
16 results of operations for the current test year and, after taking into account these
17 adjustments, present the natural gas revenue requirement deficiency of
18 \$49,015,476 48,873,560, as shown on Exhibit No. ___ (BAL-G3), including
19 municipal additions, based on the adjusted test period.

1 adjusts actual Federal Income Tax expense to the restated level based on the test
2 year for this case. As our normal tax year ends December 31st, this adjustment
3 recalculates the test year using expenses and tax adjustments for the twelve months
4 ended September 30, 2003 and removes the current tax year estimates from the
5 test period.

6 The effect of this adjustment, shown on Exhibit No. ___ (BAL-G3), page G3-A,
7 column 2.02, is to decrease net operating income by \$1,221,100.

8 **Tax Benefit of Proforma Interest**

9 This proforma adjustment, shown on Exhibit No. ___ (BAL-G3), page G3-A,
10 column 2.03, uses a ratebase method for calculating the tax benefit of proforma
11 interest. As adopted by this Commission in prior rate cases, the customers receive
12 the tax benefit associated with the interest on debt used to support ratebase and
13 construction work in progress that has associated tax deductible interest.

14 The effect of this adjustment is to decrease net operating income by \$6,061,718.

15 **Depreciation and Amortization**

16 Test year depreciation has been restated based on the Average-of-Monthly-
17 Averages using the rates from the depreciation study performed in 2001 and
18 applied in the Company's last general rate case, Docket No. UE-011570 and
19 UG-011571. This restating and proforma adjustment, shown on Exhibit No. ___
20 (BAL-G3), page G3-A, column 2.04, decreases net operating income by \$241,312

1 **Conversion Factor**

2 The conversion factor, shown on Exhibit No. ___ (BAL-G3), page 4.03, is used to
3 adjust the net operating income deficiency by revenue sensitive items and Federal
4 income tax to determine the total revenue requirement. The revenue sensitive
5 items are the Washington State utility tax, Washington WUTC filing fee, municipal
6 additions, and bad debts. The conversion factor used in the revenue requirement
7 calculation, taking into consideration the adjustments discussed earlier, is 59.514
8 59.5137%.

9 **Allocation Methods**

10 Common Utility Plant is that portion of utility operating plant that is used for
11 providing more than one commodity, i.e., both electricity and gas, to customers.
12 Thus, common plant includes costs associated with land, structures, and equipment
13 which are not charged specifically to electric or gas operations because the assets
14 are used jointly by both departments. The Company allocates its common utility
15 plant in determining ratebase by using the four-factor allocation method as
16 authorized in the merger stipulation. Components of the four-factor allocator
17 include the number of customers, direct labor charged to O & M, Transmission
18 and Distribution O & M, and net classified plant (excluding general plant).

19 Common operating costs are those costs that are incurred on behalf of both
20 electricity and gas customers. The Company incurs common costs related to:

1 Customer Accounts Expenses; Customer Service Expenses; Administrative and
2 General Expense; Depreciation/Amortization; Taxes Other Than FIT; and FIT.
3 The most appropriate allocation method is applied consistently to each type of
4 common cost. Allocation methods used include: (1) twelve month customer
5 average; (2) joint meter reading customers; (3) non-production plant; (4) four
6 factor allocator; (5) direct labor; (6) current tax.

7 For purposes of calculating the working capital allowance, the Company applies
8 the most appropriate of the allocation methods to each common balance sheet
9 accounts.

10 Allocation methods used and the calculations thereof are shown on Exhibit No. ____
11 (BAL-G3), page 4.04.

12 **General Rate Increase**

13 This schedule, shown on Exhibit No. ____ (BAL-G3), page 4.05, is a summary of
14 proforma and restated ratebase and net operating income. Based on
15 \$1,064,289,530 invested in ratebase and \$67,892,302 of net operating income, the
16 Company would have a revenue deficiency of \$49,015,476, including municipal
17 additions. This results in an average increase of ~~4.78~~ 4.76%.

18 **Q. Does this conclude your testimony?**

19 **A.** Yes, it does.

20 [BA040870005 / 07771-0089]