

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND	)	
TRANSPORTATION COMMISSION,	)	
	)	
Complainant,	)	Dockets UE-121697 and UG-121705
	)	<i>(Consolidated)</i>
v.	)	
	)	
PUGET SOUND ENERGY, INC.,	)	Dockets UE-130137 and UG-130138
	)	<i>(Consolidated)</i>
	)	
Respondent.	)	
_____	)	

**SUPPLEMENTAL TESTIMONY OF MICHAEL P. GORMAN**  
**ON BEHALF OF**  
**THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

**May 7, 2013**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,  
3 Chesterfield, MO 63017.

4 **Q. ARE YOU THE SAME MICHAEL P. GORMAN WHO PREVIOUSLY FILED**  
5 **TESTIMONY IN THIS PROCEEDING?**

6 **A.** Yes. On April 26, 2013, I filed response testimony on behalf of the Industrial  
7 Customers of Northwest Utilities (“ICNU”).

8 **Q. WHAT IS THE SUBJECT OF YOUR SUPPLEMENTAL TESTIMONY IN**  
9 **THIS CASE?**

10 **A.** I will comment on Puget Sound Energy, Inc.’s (“PSE” or the “Company”) electric  
11 accounting report filed on April 30, 2013, and describe how that impacts, changes or  
12 supports my testimony filed on April 26, 2013. PSE’s report states that for calendar  
13 year 2012, electric operations produced an overall rate of return of 7.14%, and a return  
14 on common equity of 8.11%. The Company concludes that 2012 results produce a  
15 lower rate of return (7.14%) than it was previously authorized (7.8%).

16 **Q. IS THE COMPANY’S ELECTRIC ACCOUNTING REPORT USEFUL FOR**  
17 **ASSESSING WHETHER OR NOT ITS EXPEDITED RATE FILING (“ERF”)**  
18 **CLAIMED REVENUE DEFICIENCY OF \$32.2 MILLION IS APPROPRIATE?**

19 **A.** Yes. However, this report, like its FERC Form 1 for end-of-year 2012, shows that the  
20 Company’s request for an ERF and an increase in rates without a thorough  
21 investigation of its cost of service is unwarranted.

22 Based on appropriate ratemaking adjustments, and reflecting known and  
23 measurable changes to the rates that took place in 2012, modifications to the electric  
24 accounting report continue to show that it is not a certainty that PSE’s rates are not

1 already sufficient. Specifically, I recommend the following ratemaking adjustments  
2 and normalization adjustments to the 2012 data contained in the PSE reports:

- 3 1. I propose to adjust the capital structure cost of short-term debt from 6.49%  
4 to the last approved cost of short-term debt of 2.68%.
- 5 2. I recommend adjusting the Company's capital structure to reflect its actual  
6 amount of common stock capital, rather than the adjusted amount of  
7 common stock capital PSE is including in its reports. This reduces the  
8 common equity ratio of total capital from 48.3% as used by the Company  
9 down to approximately 46.14%.
- 10 3. I also recommend the Commission reduce PSE's authorized return on  
11 equity to 9.3% from 9.8%. This was outlined in my direct testimony.
- 12 4. As shown on the attached Exhibit No.\_\_(MPG-24), using the average  
13 monthly amount from PSE's electric accounting report, the capital  
14 structure, embedded cost and overall rate of return is 7.59%.
- 15 5. The revenue deficiency with an overall rate of return of 7.59% and earned  
16 return of 7.14% is approximately \$35.95 million. However, this revenue  
17 deficiency should be offset by an adjustment to reflect a full year of the  
18 rate increase approved for PSE in its 2011 rate case, that went into effect  
19 around May 2012.
- 20 6. In May 2012, the Washington Commission approved a rate settlement for  
21 PSE's electric rates which increased its revenues by \$63.3 million, or 3.2%  
22 on an annual basis. That rate increase went into effect on May 14, 2012.

23 **Q. WHAT IS THE APPROXIMATE REVENUE DEFICIENCY, IF ANY, FOR**  
24 **PSE BASED ON 2012 DATA?**

25 **A.** At a minimum, the gross revenue deficiency of \$35.95 million should be adjusted for a  
26 full year of the 2012 revenue increase. The \$63.3 million approved in the 2011 rate  
27 case represents about \$5.3 million more revenue per month. Since it went into effect  
28 in mid-May, there is approximately four and a half months of this rate increase that  
29 was not reflected in revenue in 2012. This will increase 2012 by approximately  
30 \$23.85 million if the 2011 rate change was in effect for a full year. Hence,  
31 \$35.95 million without the adjustment offset by \$23.85 million would indicate a

1 maximum electric revenue deficiency of \$12.1 million. This adjusted revenue  
2 deficiency is very close to that which I offered in my direct testimony.

3 **Q. WHY DO YOU PROPOSE TO ADJUST THE COST OF SHORT-TERM DEBT**  
4 **INCLUDED IN THE 2012 ELECTRIC RATE REPORT?**

5 **A.** As shown on page 2 of the report, PSE included the cost of short-term debt as 6.49%.  
6 This is in significant contrast to the 2.68% cost of debt last approved in PSE's rate  
7 order. Short-term debt costs have only changed marginally since the 2011 report, and  
8 therefore, no change in cost of debt should be approved in this case.

9 **Q. WHY DO YOU PROPOSE A CHANGE IN THE CAPITAL STRUCTURE**  
10 **BASED ON WHAT PSE FILED IN ITS ELECTRIC REPORT?**

11 **A.** My proposed capital structure reflects its actual reported balance of common equity  
12 with no adjustments. In contrast, PSE's capital structure is based on more common  
13 equity than it actually recorded on its financial statements, and therefore it does not  
14 reflect its actual amount of common equity supporting its investment in utility plant  
15 and equipment.

16 **Q. DOES THIS COMPLETE YOUR SUPPLEMENTAL TESTIMONY?**

17 **A.** Yes.