

EXHIBIT NO. ____ (JHS-9T)
DOCKET NO. UE-070565
2007 PSE PCORC
WITNESS: JOHN H. STORY

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-070565

**PREFILED SUPPLEMENTAL DIRECT TESTIMONY
(NONCONFIDENTIAL) OF JOHN H. STORY
ON BEHALF OF PUGET SOUND ENERGY, INC.**

MAY 23, 2007

PUGET SOUND ENERGY, INC.

**PREFILED SUPPLEMENTAL DIRECT TESTIMONY
(NONCONFIDENTIAL) OF JOHN H. STORY**

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED SUPPLEMENTAL DIRECT TESTIMONY**
3 **(NONCONFIDENTIAL) OF JOHN H. STORY**

4 **I. INTRODUCTION**

5 **Q. Are you the same John H. Story who provided prefiled direct testimony in**
6 **this Docket on behalf of Puget Sound Energy, Inc. (“PSE” or “the**
7 **Company”)?**

8 A. Yes.

9 **Q. What topics are you covering in your supplemental direct testimony?**

10 A. I present the update to power cost projections discussed by Mr. David E. Mills in
11 his prefiled supplemental direct testimony, Exhibit No. ____ (DEM-7T), as well as
12 an update to several proforma and restating adjustments for new information that
13 has become available to the Company since its original filing of March 20, 2007.

14 These changes to the proforma and restating adjustments result in an adjustment
15 to the Company's revenue deficiency from the \$64,680,804 set forth in PSE's
16 March 20, 2007, filing to \$77,837,215. This is an average 4.43% increase over
17 rates in effect as of January 13, 2007.

II. UPDATE TO REVENUE REQUIREMENT

Q. Please explain Exhibit No. ____ (JHS-10)?

A. Exhibit No. ____ (JHS-10) presents similar information as Exhibit No. ____ (JHS-5) in this Docket, after being updated for the revisions described later in my prefiled supplemental direct testimony. The first column in this exhibit provides the ratebase and production costs from the test year that will be considered in setting the Power Cost Rate. The column, titled "Test Year Actual 12 months ended December 31, 2006", sets forth the ratebase and actual production costs for the test year ended December 2006. The columns to the right of this first column show the impact of the pro forma and restating power cost adjustments PSE is proposing for the pro forma rate year. For the adjustments that have changed since the March 20, 2007 filing, we have marked the columns as "Revised".

Each adjustment is presented in more detail on the succeeding pages referenced in the title of a particular column. The total of the test year amounts plus the pro forma and restating adjustments is shown in the column titled "Adjusted 12 months ended December 31, 2006" on page 2 of Exhibit No. ____ (JHS-10). This column represents the costs included in determining the Power Cost Rate which is then used to calculate the required rate increase. These are the same amounts shown in the first column of Exhibit No. ____ (JHS-11C), "Exhibit A-1 Power Cost Rate".

The work papers supporting the March 20, 2007 adjustments have been

1 previously provided to Commission Staff and intervenors. For each adjustment
2 that is marked "**REVISED**," new workpapers supporting the adjustment have
3 been provided and the individual workpapers have been identified as to whether
4 they have changed from the original filing. The numbers that changed in each
5 adjustment as a result of this supplemental filing have also been presented in bold
6 and italic font.

7 **Q. Have you prepared a reconciliation between the revenue deficiency filed in**
8 **March 2007 and the current revenue deficiency?**

9 A. Yes. The following table shows the impact of each of the proforma and restating
10 adjustments on the March 2007 revenue deficiency.

Description	Adjustment	Revenue Deficiency (million)
As filed March 20, 2007		\$64.7
Test Year Actual		(.3)
Power Cost	10.01	11.6
Sales for Resale	10.02	2.4
Goldendale	10.04	(.4)
Property Taxes	10.05	(.3)
Montana Energy Tax	10.06	.0
Property Insurance	10.07	(.3)
Wild Horse	10.08	.2
Baker Lake Relicensing	10.09	.2

Production Adjustment	10.11	.0
Updated Revenue Deficiency		\$77.8

Q. Please explain the change to the test year actual dollars.

A. After the March 20, 2007 filing we found three accounts associated with the financial adjustment for Financial Accounting Standards Board Pronouncement No. 143, Asset Retirement Obligations, had been inadvertently picked up in the historical ratebase calculation. We have removed these account balances which lowered historical ratebase by \$2,367,064. In addition, test year actuals reflect a change in property taxes as described in the property taxes section below.

Q. Please explain the changes for each of the proforma and restating adjustments.

A. **Adjustment 10.01, Power Costs**, reflects the natural gas prices and power cost changes discussed in the prefiled supplemental direct testimony of David E. Mills, Exhibit No. ____ (DEM-7T). Operating expense is now decreased by \$37,567,567.

Adjustment 10.02, Sales for Resale, reflects the changes discussed in the prefiled supplemental direct testimony of Mr. David E. Mills and is a result of the AURORA model run reflecting those changes. Net operating income is increased by \$82,582,873 after this update.

Adjustment 10.03, Transmission Income, has not changed since the original filing. Net operating income is increased by \$545,355.

1 **Adjustment 10.04, Goldendale**, actual capital costs through April 30, 2007 plus
2 updated forecast capital expenditures have been used to update the investment for
3 ratebase and the depreciation calculation. Mr. Roger Garratt discusses the capital
4 cost updates in his prefiled supplemental direct testimony, Exhibit No. ____ (RG-
5 20CT). Mr. Garratt also discusses the updated estimates for operating expenses
6 that have been used in calculating the cost for Goldendale. Ratebase has been
7 reduced by \$3,113,597 to \$122,666,901 and operating expenses have been
8 reduced by \$141,469 from the March filing and now increase operating expense
9 by \$29,991,365.

10 **Adjustment 10.05, Property Taxes**, are being updated for the rate year to current
11 levy rates and assessed values instead of the estimated amounts used in the March
12 filing. Test year amounts have decreased by \$50,090 because the revised
13 allocation percentages used to allocate rate year property taxes to production and
14 transmission property are based on updated allocations for the test year. Net
15 operating income is increased \$34,863 by this adjustment after reflecting the new
16 levy rates.

17 **Adjustment 10.06, Montana Energy Tax**, is updated based on the new kilowatt
18 hours being generated at Colstrip using the updated AURORA model. Operating
19 expense is now decreased by \$2,924.

20 **Adjustment 10.07, Property Insurance**, updates estimated property insurance
21 premium amounts to actual since the March filing. The total adjustment now

1 decreases net operating income by \$213,848.

2 **Adjustment 10.08, Wild Horse:** reflects actual capital costs through April 30,
3 2007 plus updated forecast capital expenditures, as discussed by Mr. Roger
4 Garratt in his prefiled supplemental direct testimony, Exhibit No. ____ (RG-20CT),
5 used to update the investment for ratebase and to calculate depreciation.

6 Depreciation expense changed from the March 20, 2007 filing due to the capital
7 investment change and property insurance is corrected for an update to the rate
8 year estimated expense. The increase to ratebase has been increased by
9 \$1,554,183 to \$294,496,074 and operating expenses have been increased by
10 \$42,519 from the March filing and now the total increase to operating expense is
11 \$15,406,975.

12 **Adjustment 10.09, Baker Lake Relicensing,** has the costs associated with the
13 relicensing updated through April 30, 2007 and reflects the expected FERC
14 approval of the new license in the fourth quarter of 2007. Rate base is increased
15 \$29,083,389 and operating expense is increased \$658,492.

16 **Adjustment 10.10, Regulatory Assets and Liabilities,** has not changed from the
17 March 2007 filing. This adjustment reduces ratebase by \$44,993,019 and
18 increases operating expense by \$6,673,724.

19 **Adjustment 10.11, Production Adjustment,** is being corrected to reflect the
20 update on the adjustments discussed above. In addition, three Excel cell
21 references in the revenue model have been corrected so that the appropriate

1 proforma amounts proposed for Wild Horse in the rate year are being picked up.

2 This line reference correction was provided by Commission Staff during their
3 audit work and decreases operating expense by \$35,355. This total adjustment
4 now decreases ratebase \$35,314,698 and operating expense by \$3,552,526.

5 **Adjustment 10.12, Hedging Line of Credit**, has not changed from the March
6 2007 filing, which increased operating expense \$308,050.

7 **Adjustment 10.13, Tenaska Tax Flow Through Tax True-up**, has not changed
8 from the March 2007 filing, which increased operating expense \$4,283,296.

9 **Adjustment 10.14, Temperature Normalization**, has not changed from the
10 March 2007 filing.

11 **Adjustment 10.15, Conversion Factor**, has been corrected to reflect the increase
12 in the WUTC filing fee from .19%, which was used in the March 2007 filing, to
13 .20%. This change impacts the adjustment for revenue sensitive items and
14 changed that factor from .9559744 to .9548744.

15 **Q. Have you prepared a new exhibit that calculates the baseline rate for the**
16 **PCA that reflects the changes to the fixed and variable power costs described**
17 **earlier?**

18 A. Exhibit No. ____ (JHS-11C) is equivalent to Exhibit No. ____ (JHS-6C) but reflects
19 the updates discussed above which are prepared in the same manner as Exhibit A
20 to the PCA Settlement. *See* Exhibit No. ____ (JHS-4) at page 15. On the first page

1 of Exhibit No. ____ (JHS-11C), the costs have been allocated in the same manner
2 as discussed in the PCA Settlement Agreement, between fixed and variable costs.
3 Following the same methodology set forth in Exhibit A to the PCA Settlement,
4 this result is then divided by the test year delivered load to calculate the new
5 Power Cost Rate of \$60.204 per MWh, before the adjustment for the Tenaska
6 flow through taxes. This would be the Power Cost Rate used in tracking the PCA
7 periods following this proceeding.

8 **Q. Please explain the remaining pages included in Exhibit No. ____ (JHS-11C).**

9 A. The remaining pages of Exhibit No. ____ (JHS-11C) are equivalent to the exhibits
10 A-2 through D included in the PCA Settlement and have been updated to reflect
11 the changes in power costs presented by the Company. In the upper left hand
12 corner of each of these pages is the reference to the exhibit being replaced in the
13 PCA.

14 **Q. Please explain how the Company calculated the rate increase required after**
15 **taking into consideration the pro forma and restating adjustments.**

16 A. As the Company is only requesting that a portion of its rates be adjusted using the
17 power cost only rate filing, we have calculated the required change in rates using
18 the difference between the Power Cost Rate currently being used and the proposed
19 Power Cost Rate after the Adjustment of Power Cost Rate discussed in my
20 prefiled direct testimony, Exhibit No. ____ (JHS-01T), page 19 and the adjustments
21 discussed in my prefiled supplemental testimony. This calculation is shown in

1 Exhibit No. ____ (JHS-12) and, as shown on line 16 of that exhibit, the new rate is
2 \$63.262 per MWh, after the adjustment for flow through taxes on Tenaska, versus
3 the current rate of \$59.583. The difference between these two rates is multiplied
4 by the normalized delivered load for the test period. The result of this calculation
5 is the requested change in revenue deficiency of \$77,837,215 after revenue
6 sensitive items. This change in rates results in an average increase of
7 approximately 4.43%. Mr. Hoff discusses how this revenue deficiency impacts
8 each of the customer classes in his prefiled supplemental testimony.

9 **III. CONCLUSION**

10 **Q. Does that conclude your prefiled supplemental direct testimony?**

11 **A.** Yes, it does.

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