EXHIBIT NO. _____ (JB-1T)
DOCKET NO._____
2001 PSE RATE CASE
WITNESS: JULIUS BREITLING

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DIRECT TESTIMONY OF JULIUS BREITLING ON BEHALF OF PUGET SOUND ENERGY, INC.

NOVEMBER 26, 2001

PUGET SOUND ENERGY, INC.

DIRECT TESTIMONY OF JULIUS BREITLING

I. INTRODUCTION

Q: Please state your name and address.

A: My name is Julius Breitling and my address is 74 Sunny Wood Drive, Centerville, Massachusetts 02632.

Q: What is your occupation?

A: I am a self-employed consultant providing depreciation and valuation services, primarily to utilities.

Q: Prior to being self-employed, how were you employed?

A: Prior to being self-employed, I was employed by Coopers & Lybrand L.L.P. (C&L) in its Financial and Advisory Services Group as Director, Utility Depreciation and Valuation. It is now known as PricewaterhouseCoopers.

Q: What kind of organization was C&L?

A: C&L was an international accounting and consulting firm providing a broad range of services to clients in all the principal areas of the world serving business, government, private institutions, investor-owned utilities, municipal and cooperative utilities and public power agencies. Its services to clients range from accounting and auditing to all facets of management and utility consulting.

Q: What were your duties with C&L?

A: I performed valuations and appraisals of utility properties for ad valorem tax, condemnation, damage and insurance claims, mortgage loans, sales, purchases or leases, cost of service and rate cases; also, mortality and depreciation studies to determine service lives, net salvage and depreciation rates for utility and industry

property; and, the issuance of Independent Engineer's Certificates as required by mortgage indentures. I assisted in the design and development of C&L's Depreciation/Valuation Software System (DVS).

Q: Will you please summarize your education and experience?

A: I was awarded a Bachelor's Degree in Mechanical Engineering in 1959 from the City College of New York, and in 1968, I was awarded a Master's Degree in Business Administration from Iona College, in New Rochelle, New York.

From 1959 until 1967, I was employed by the New York State Public Service Commission and served in several bureaus at various levels.

I was promoted to the position of Senior Valuation Engineer in 1963. My responsibilities during my employment with the New York Commission encompassed many phases of utility regulation, including the areas of safety, service, financing, rates, valuation and depreciation. From 1967 through March of 1983, I was employed by Ebasco Services Incorporated and was a Vice President of Ebasco Business Consulting Company, with the exception of two brief periods from January 1969 through April 1970 when I was employed by United Engineers and Constructors as a Senior Engineer and from June 1972 through May 1973 when I was employed by Commonwealth Management Consultants as an Executive Consultant. I was employed by Coopers & Lybrand from April 1983 through April 1994.

Q: What is your professional status?

A: I am a Professional Engineer Licensed in the States of New York, Massachusetts, Texas and Virginia. I also am a Senior Member of the American Society of Appraisers; a Senior Member of the International Real Estate Institute (formerly International Institute of Valuers); a Senior Member of the National Association of Review Appraisers; a Member of the International Right-of-Way Association; a

Senior Member of the Society of Depreciation Professionals; a Member of the American Water Works Association; a Member of the American Gas Association; and Technical Associate of the Depreciation Accounting Committee of the American Gas Association; a Member of the American Society of Mechanical Engineers; a Member of the New York Society of Professional Engineers; and a Member of the National Society of Professional Engineers. A detailed resume of my education and professional experience is included herewith as Exhibit JB-2.

Q: What is the purpose of your testimony in the current proceeding?

A: The purpose of my testimony is to present my recommendations to Puget Sound Energy ("PSE" or "Company") as to the appropriate depreciation rates which it should utilize to depreciate its depreciable electric, gas and common plant in service.

My recommendations as to appropriate depreciation rates are based on studies of the Company's depreciable electric, gas and common plant in service at December 31, 2000.

II. DEPRECIATION STUDY

Q: Were you engaged by PSE to undertake a depreciation study?

A: Yes, I was. PSE authorized me to undertake a depreciation study of its depreciable electric, gas and common plant in service as of December 31, 2000 for presentation and use in this case. The objective of this assignment was to recommend depreciation rates to be utilized by PSE for accounting and ratemaking purposes until another comprehensive study is made.

Q: How did you go about performing this assignment?

A: PSE's predecessor companies previously had depreciation studies made as follows:

(i) Washington Natural Gas Company's last depreciation study was made as of September 30, 1987; and

(ii) Puget Sound Power and Light Company's last depreciation study was made as of December 31, 1991.

The current study updated these previous studies by including the additional years of plant accounting activity through December 31, 2000.

Analyses were made of the Company's historical plant accounting activity which reflected the additions and retirements and plant balances for each account, or subaccount.

The analyses method used to ascertain the Company's historical experience of Average Service Life and Mortality Dispersion is known as the Simulated Plant Record Method of Analysis (SPR). The SPR method of analysis was used for both prior studies noted above. This method of life analysis has been accepted by many regulatory bodies, including this Commission, for the analysis of historical plant accounting activity.

Analyses were also made of Puget Sound's cost of removal and salvage experience to determine the historical net salvage realized for each account, and subaccount. Due to the limited availability of data as a result of the Company's adoption of a new computer system, these studies were limited to three years of data.

Information was obtained from the Company's personnel as to the Company's current plans and programs which could affect my expectations as to appropriate service lives, dispersion patterns, net salvage, and retirement dates for certain properties.

This information was used in making recommendations as to appropriate depreciation rates for the Company's depreciable property. A report containing my

recommendations as to appropriate depreciation rates, and future variations was submitted to PSE.

That report entitled "Puget Sound Energy Depreciation Study of Certain Electric, Gas and Common Plant in Service at December 31, 2000" is included herewith as Exhibit JB-3.

Q: Will you please describe Exhibit JB-3?

A: Yes, I will. Exhibit JB-3 is a report containing my recommendations as to appropriate depreciation rates for certain of the Company's depreciable Electric, Gas and Common Plant in Service at December 31, 2000. The report is comprised of a letter of transmittal, which summarizes the recommendations resulting from the study, and three sections.

Section I contains three schedules which address my recommendations relative to certain of PSE's depreciable Electric, Gas and Common Plant in Service at December 31, 2000. The depreciation rates I recommended were developed by the direct remaining life approach Under this method the surviving original cost of the property in each plant account, or subaccount, as of the study date is adjusted for the expected net salvage to be incurred or realized. From this amount the existing accumulated depreciation is subtracted and the difference is divided by the expected average remaining life.

This is the same method used in the prior studies and accepted by this Commission.

Schedule IA, presents the development of my recommended depreciation rates for PSE's depreciable Electric Plant in Service studied.

Schedule IB, presents the development of my recommended depreciation rates for PSE's depreciable Gas Plant in in Service studied.

Schedule IC, presents the development of my recommended depreciation rates for PSE's depreciable Common Plant in Service studied.

Schedules IIA, IIB and IIC compare my recommended depreciation rates and annual accruals with the Company's current depreciation rates and accruals based on plant in service at December 31, 2000 and displays the difference between the recommended accruals.

Section II contains a discussion of the methods and procedures utilized in making this study.

The third section contains appendices which include a glossary of terms; examples of the SPR and salvage analyses; examples of the calculations of the depreciation requirements; and examples of the calculations of the average remaining life.

Q: What are the definitions of the key terms you used in your report containing your depreciation rate recommendations to PSE?

A: The definitions are as follows:

Depreciation – As applied to depreciable utility plant, means the loss in service value not restored by current maintenance, incurred in the connection with the consumption or prospective retirement of utility plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities.

Service Value – The difference between original cost and net salvage of utility plant.

Net Salvage – The salvage value of property retired less the cost of removal.

Salvage Value – The amount received for property retired, less any expense incurred in connection with the sale or in preparing the property for sale; or, if retained, the amount at which the material recoverable is chargeable to materials and supplies, or other appropriate account.

Cost of Removal – The cost of demolishing, dismantling, tearing down or otherwise removing utility plant, including the cost of transportation and handling incidental thereto.

Service Life – The time between the date utility plant is includible in utility plant in service or utility plant leased to others, and the date of its retirement. If depreciation is accounted for on a production basis rather than on a time basis, then service life should be measured in terms of the appropriate unit of production.

Q: Can you explain these terms in a more simplified manner?

A: Yes. Basically what all these terms boil down to is that the cost of capital assets, adjusted for the net salvage expected at the end of the life of the assets, should be allocated to each accounting period (year) over their lives. The allocation method most commonly used is the Straight Line method. Under this method an equal amount is allocated to each accounting period. When the direct remaining life method is used, then the unrecovered cost of assets, adjusted for the expected net salvage, less the amount previously recovered through depreciation, is allocated over the expected average remaining lives of the assets in each plant account, or subaccount.

Q: Would you please summarize the results of your recommendations?

A: When compared with the depreciation rates currently used by PSE, applied to the depreciable plant in service at December 31, 2000, my recommendations result in the following changes in depreciation accruals.

(i) For Electric Plant: A decrease of $7,227,207; or 0.20% of the $3,695,703,280 plant in service studied.

(ii) For Gas Plant: An increase of $794,419; or 0.06% of the $1,332,153,745 plant in service studied.

(iii) For Common Plant: An increase of $1,089,521; or 1.06% of the $102,992,999 plant in service studied.

Q: Are there any variations in your recommendations that you would like to bring to the attention of the WUTC?

A: Yes, there are two.

Q: What are those variations?

A: The variations relate to two Gas Plant accounts.

(i) Account 376.1 Mains – Cast Iron and

(ii) Account 376.3 Mains – Bare Steel

Q: Will you please explain those variations?

A: Yes, I will. For those accounts PSE was required to establish a plan to retire and replace those Mains. PSE's plan was to replace the Cast Iron Mains in Account 376.1 by the year 2007, in accordance with the Settlement and Operating Agreement Order in Docket No. UG-92087. It was also required to submit a plan for the Bare Steel Mains in Account 376.3.

I have been advised that PSE has proposed to retire and replace the Bare Steel Mains in Account 376.3 by 2017. Therefore, I recommend that each year PSE recompute the depreciation rates for these sub-accounts over a declining remaining life, using the methodology in my report. That is, for Account 376.1 the depreciation rate for 2002 should be based on a 6-year remaining life; for 2003 the depreciation rate should be calculated based on a 5-year remaining life; and so on. For account 376.3 the depreciation rate for 2002 should be based on a 16-year

remaining life; for 2003 the depreciation rate should be calculated based on a 15-year remaining life; and so on.

Q: Why have you made that recommendation?

A: I have made that recommendation to assure that the original cost of the property in these accounts, adjusted for the net salvage, is fully recovered, no more, no less, by the end of the planned period for the retirement and replacement of those mains.

Q: Does this conclude your prepared testimony?

A: Yes, it does.

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PUGET SOUND ENERGY, INC.

PROFESSIONAL QUALIFICATIONS OF JULIUS BREITLING

EXPERIENCE

1994-PRESENT Self Employed Consultant.

Providing: (1) Valuations and appraisals of utility property for various purposes, including property tax, condemnation, sales, purchases or leases, damage and insurance claims, mortgage loans, fair value for cost of service and rates cases. (2) Depreciation studies. (3) Expert testimony. Also, the Licensing of Depreciation/Valuation-Projection PC System Software through "Depreciation Valuation Services International Inc." a wholly owned company.

1983-1994 Coopers & Lybrand (C&L): Director Utility Depreciation and Valuation.

Responsibilities included direction and supervision of valuations and appraisals of utility properties for property taxes, condemnation, damage and insurance claims, mortgage loans, sales, purchases or leases, cost of service and rate cases; establishment of property record systems; issuance of Independent Engineer's Certificates; conduct and review of mortality and net salvage analyses for depreciation studies to determine service lives and net salvage rates and recommend appropriate depreciation rates for utility property including electric, gas and telephone companies in the United States and Canada; assistance with preparation for formal litigation and providing testimony as an expert witness.

Additional responsibilities included; specification for the design and enhancements to C&L's personal computer Depreciation/Valuation Software System (DVS) and user manual; negotiations with Atomic Energy of Canada Limited (AECL) for C&L's exclusive right to market AECL's nuclear generating decommissioning and fossil fueled generating plant demolition cost estimating software programs, as well as nuclear plant decommissioning and fossil plant demolition cost estimating services throughout the United States; the preparation of educational materials and the presentation of seminars on the subjects of plant accounting, depreciation, valuation, nuclear plant decommissioning and fossil plant demolition cost estimating, nationally and internationally.

1973-1983 Ebasco Business Consulting Company: Successively as Senior Consultant,
1970-1972 Principal Consultant, Director, and Vice President.
1967-1968

Responsibilities included depreciation studies for electric, gas and railroad companies; valuations and appraisals of industrial and utility properties for various purposes, including property tax, condemnation, sales, purchases or leases, damage and insurance claims, mortgage loans, cost of service and rate cases; establishment of property record systems; issuance of Independent Engineer's Certificates; and, providing expert testimony, nationally and internationally.

Additional responsibilities included direction and supervision of financial feasibility studies, rate of return studies, publication of "Analysis of Public Utility Financing" (APUF), strategic planning, tax accounting services, investment tax credit analysis; preparation, review and audit of utilities' federal and state income tax returns and other related tax matters.

1972-1973 Commonwealth Management Consultants: Executive Consultant.

Responsible for all utility property valuations and appraisals for insurance claims, sales or purchases, cost of service and rate cases; utility depreciation studies to determine service lives, net salvage and depreciation rates.

1969-1970 Jackson & Moreland Division-United Engineers & Constructors: Senior Engineer and Project Manager.

Responsible for valuations and appraisals of utility property for sales, purchase, cost of service and rate cases; depreciation studies to determine service lives and net salvage for utility property; engineering economic studies; financial feasibility studies; issuance of Independent Engineer's Certificates of maintenance and condition as required by Mortgage Indentures of Trust.

1959-1967 New York State Public Service Commission: Successively as Junior Engineer, Assistant Valuation Engineer, Senior Valuation Engineer.

Responsible for utility property valuation studies to determine original cost, depreciation, use, usefulness and adequacy of plant; engineering economic studies; weather normalization studies; cost-of-service studies; mortality and net salvage studies; and other technical analyses relating to utility property construction costs, operating costs and expenses and their classification in accordance with the Uniform System of Accounts. Responding to customer complaints filed with the Commission and meter testing. Field observations and examinations of construction work in progress and analyses of contracts. Investigation into various phases of utility operations such as rate matters,

utility financing, mergers, consolidations and property transfers. Examination and analyses of exhibits submitted by utilities and preparation of exhibits submitted by the Commission staff at formal hearings relating to the above matters for electric, gas and water companies.

EDUCATION

City College of New York, BSME (Mechanical Engineering)
Iona College, New Rochelle, MBA (Management Science)

LICENSES

Professional Engineer – Licensed in the States of New York, Massachusetts, Texas and Virginia.

HONORS

Listed in "Who's Who in Finance and Industry" – 22nd Edition, 1981/1982.
Listed in "Who's Who in the World" – 6th Edition, 1982/1983.

PROFESSIONAL ASSOCIATIONS

Senior Member – American Society of Appraisers – ASA
Senior Member – Society of Depreciation Professionals
Senior Member – International Real Estate Institute – SCV
Senior Member – National Association of Review Appraisers – CRA
Member – American Gas Association – Depreciation Committee
Member – National Society of Professional Engineers
Member – New York Society of Professional Engineers
Member – International Right-of-Way Association (Retired)
Member – American Water Works Association

PUBLICATIONS/PRESENTATIONS

"The Substitute Plant Method of Valuation: An Economic Approach to Fair Value Determination" – PUBLIC UTILITIES FORTNIGHTLY, May 20, 1976.

"Inflation Accounting" Presented at Ebasco's Forty-Seventh Annual Executive Conference, October 1976.

"Rate Base and Depreciation" Presented at Ebasco's Texas Rate Regulatory Workshop, January 1977.

"Cash-flow Improvement Through More Equitable Depreciation Methods" – PUBLIC UTILITIES FORTNIGHTLY, September 1, 1977.

"Capital Recovery – A Consultant's Comments"-Texas Telephone Association, Capital Recovery Seminar, June 1981.

Presentations to regional utility associations, 1987-Present:

Missouri Valley Electric Association
Southern Gas Association
Electric Council of New England

Various technical reports and papers presented to the joint AGA-EEI Depreciation Accounting Committee and the AGA Depreciation Committee, 1977-Present.

TESTIMONY

Courts:

Superior Court of Marion County, Indiana
Supreme Court of the State of New York, Albany County
Supreme Court of the State of New York, Rockland County
Supreme Court of the State of New York, Suffolk County
Supreme Court of the State of New York, Chautauqua County

Regulatory Commissions:

Alberta Public Utilities Board, Canada
Arkansas Public Service Commission
Dallas Public Utilities Department, Dallas, Texas
District of Columbia Public Service Commission
Federal Energy Regulatory Commission
Kansas State Corporation Commission
Kentucky Public Service Commission
Maine Public Utilities Commission
Maryland Public Service Commission
Michigan Public Service Commission
Nevada Public Service Commission
New Jersey Board of Regulatory Commissioners
New Mexico Public Service Commission
New York Public Service Commission
North Carolina Utilities Commission
Ohio Public Utilities Commission
Oklahoma Corporation Commission
Ontario Energy Board, Canada
Pennsylvania Public Utility Commission
Rhode Island Public Utilities Commission

Texas Public Utility Commission
Virginia State Corporation Commission
Virgin Islands Public Service Commission

Other Agencies:

Indiana State Board of Tax Commissioners
Floyd County, Indiana Board of Review
Jefferson County, Indiana Board of Review
Town of Tonawanda, Erie County, New York Board of Assessment Review

[BA013240085]

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