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August 18, 2011

David W. Danner, Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Dr. SW
P. O. Box 47250
Olympia, Washington 98504-7250

RE: *Puget Sound Energy Pipeline Integrity Program*, Docket UE-110723 and
Puget Sound Energy 2011 General Rate Case, Dockets UE-111048 and UG-111049
(Consolidated)

Dear Mr. Danner:

Enclosed for filing in the above-referenced docket are the original and eighteen (18) copies of the Joint Motion to Consolidate of Commission Staff, Public Counsel and the Northwest Industrial Gas Users and Certificate of Service.

Sincerely,

ROBERT D. CEDARBAUM
Assistant Attorney General

RDC:klg
Enclosures
cc: Parties

BEFORE THE WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION
COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

DOCKET UG-110723

WASHINGTON UTILITIES AND
TRANSPORTATION
COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

DOCKETS UE-111048
and UG-111049 (*consolidated*)

JOINT MOTION TO
CONSOLIDATE OF
COMMISSION STAFF, PUBLIC
COUNSEL AND THE
NORTHWEST INDUSTRIAL
GAS USERS

I. INTRODUCTION

1 The Staff of the Washington Utilities and Transportation Commission (Staff), the Public Counsel Section of the Washington Attorney General's Office (Public Counsel), and the Northwest Industrial Gas Users (NWIGU) (collectively Joint Movants) jointly move to consolidate Puget Sound Energy, Inc.'s (PSE) 2011 general rate case (Rate Case)¹ and its Pipeline Integrity Program tariff proceeding (Pipeline Tracker).²

¹ Dockets UE-111048 and UG-111049.

² Docket UE-110723.

2 Staff has polled all the parties to the Rate Case. Only PSE objects to consolidation. The Energy Project, Kroger, and Nucor Steel Seattle all support consolidation. The NW Energy Coalition, the Industrial Customers of Northwest Utilities, the Federal Executive Agencies, and Cost Management Services neither oppose nor support consolidation.

II. MEMORANDUM

A. Applicable Legal Standard for Consolidation

3 The Commission has discretion to consolidate two or more proceedings “in which the facts or principles of law are related.”³ The common issues in the Rate Case and the Pipeline Tracker satisfy the standard for consolidation. In addition, consolidation is necessary to help ensure PSE’s rates are fair, just, reasonable, and sufficient, and to promote judicial efficiency.

B. The Rate Case and the Pipeline Tracker Present Related and Overlapping Issues

1. Common Issues of Fact

4 Natural Gas Distribution Infrastructure Maintenance and Replacement Costs. Both cases present related factual issues regarding PSE’s gas distribution infrastructure. Certainly as a threshold matter, the recovery of costs for investment in utility infrastructure is a core issue in every rate case, as is the prudence of those investments. The Rate Case is no different. For example, the direct testimony of PSE witness Sue McClain specifically addresses gas infrastructure, including the size and age of PSE’s gas delivery infrastructure,⁴ the maintenance and replacement of natural gas infrastructure,⁵ leakage, specific pipe

³ WAC 480-07-320.

⁴ Exh. No. SML1-T, p. 20:3 *et seq.*

⁵ *Id.*, p. 22:3 -- p. 25:7.

inventory,⁶ and safety and reliability questions.⁷ The Pipeline Tracker proposal raises essentially identical issues regarding the condition, maintenance, replacement, safety, and cost recovery of the same PSE gas infrastructure.⁸ It makes sense to consider all these issues at the same time in one proceeding. Some level of pipeline integrity costs will need to be recovered regardless of whether the Pipeline Tracker is approved.

5 Consolidation also allows the consideration of any appropriate pro forma adjustment for pipeline integrity costs in the Rate Case. This would be difficult with separate proceedings. Even if the Pipeline Tracker is ultimately approved, consolidation will ensure a smooth and non-duplicative transition between base rate recovery and tracker recovery.

6 O&M Reduction. One issue to be considered in the Pipeline Tracker proposal is the extent to which, if accelerated pipeline replacement does occur, operations and maintenance cost for PSE would be reduced through reduced leakages and damage prevention costs. Determination of and recovery for O&M expense is a Rate Case issue as well. These issues should be considered together.

7 Rate of return. A third area of related facts involves PSE's rate of return. The Pipeline Tracker has the potential to reduce PSE's risk because it will allow accelerated cost recovery of certain pipeline infrastructure between rate cases, and will increase the assurance of cost recovery through the true-up mechanism. At the same time, the Rate Case will consider PSE's appropriate rate of return based on its overall level of risk for all

⁶ *Id.*, p. 22:12-- p. 23:10.

⁷ *Id.*, p. 23:11-- p. 24:6 (including discussion of federal Distribution Integrity Management Program (DIMP) requirements).

⁸ *See, e.g.*, PSE Advice Letter No. 2011-12, p. 1 ("tariff intended to enhance pipeline safety by providing for the timely recovery of the Company's investment in new plant to implement certain reliability, integrity, and safety programs [.]")

components of its business, including infrastructure cost recovery. That determination requires an examination of the impact, if any, of the Pipeline Tracker on the rate of return.

8 A second facet of the rate of return issue is the inclusion of a rate of return component in the Pipeline Tracker proposal. Again, an analysis of the effect of this proposal cannot be done in isolation from the other rate of return issues in both cases.

9 Financial issues. Common financial issues are also present. In order to establish the existence of “extraordinary circumstances” that would justify single-issue ratemaking, as embodied in the Pipeline Tracker, PSE has the burden to make a “clear and convincing showing that the Company will be denied any reasonable opportunity to earn its authorized rate of return without extraordinary relief.”⁹ In the Rate Case docket PSE will present evidence on the same issue, to wit: to what extent is PSE currently under-recovering its costs such that it requires the rate relief requested.

2. **Related Legal Issue**

10 One of the issues raised by the Pipeline Tracker is whether it constitutes impermissible single-issue or piecemeal ratemaking. In order to resolve this issue, the Commission will need to review the operation of the “matching principle” and the extent to which it would be distorted by adoption of the Pipeline Tracker. Because the application of the “matching principle” involves a review of all revenues, costs, and rate base, by necessity it is also applied in the Rate Case. This intertwined legal and factual determination is best made on a consolidated record.

⁹ *WUTC v. PSE*, Dockets UE-060266 and UG-060267, Order 08, ¶ 39 (PSE 2006 GRC).

In addition, PSE makes other tracker proposals in the case, one relating to federal income tax losses,¹⁰ and the other a Conservation Savings Adjustment proposal.¹¹ These will also involve application of the general rule against single issue ratemaking. Since both dockets raise this issue, the propriety and need for PSE to have two or three new single issue ratemaking mechanisms should be considered together in the context of the pending general rate case.

C. Procedural and Judicial Efficiency Benefits of Consolidation

1. Need for an evidentiary hearing

11 By itself, the Pipeline Tracker raises factual and policy questions that are best addressed through testimony and an evidentiary hearing. The legal standard established by the Commission requiring PSE to establish “extraordinary circumstances” for an exception to the general rule against single-issue ratemaking is quintessentially the type of question which demands a full record, after an adequate opportunity for gathering and presentation of evidence, and the testing of the evidence by discovery and cross examination at a hearing.

12 The PSE Rate Case already pending presents an administratively convenient vehicle for consideration of the Pipeline Tracker proposal in an evidentiary hearing format. If the cases are consolidated, the Joint Movants would ask the Commission to set a date for PSE to file its direct testimony in support of the Pipeline Tracker with sufficient time for all other parties to respond in their Rate Case testimony that is already scheduled for December 7, 2011. Consolidation is also advantageous given the proliferation of many other adjudication dockets currently before the Commission.¹²

¹⁰ See Exh. No. JHS-1T at p. 62:9 – p. 65:14.

¹¹ See Exh. No. TAD-1T.

¹² General rate cases are pending currently for Avista (Dockets UE-110876 and UG-110877) and PacifiCorp (Docket UE-111190). Also pending are cases involving PacifiCorp RECs (Docket UE-100749),

13 The concern that consolidation can bury an important issue amongst many rate case issues is a legitimate one if care is not taken. However, the Commission has a track record of considering major proposals thoroughly and thoughtfully in the context of general rate cases. Examples include the Commission's consideration of PSE's depreciation tracker proposal in its 2006 rate case,¹³ the extension of the Avista decoupling pilot in the Avista 2009 rate case,¹⁴ and the consideration in the PacifiCorp 2005 rate case of PCA, decoupling, and multi-state allocation proposals.¹⁵ With direction and strong interest from the Commission and the Administrative Law Judge, the parties can structure their presentations in testimony and at hearing to maintain focus on the major issues. The Commission's interest in the Pipeline Tracker proposal can be accommodated in the Rate Case proceeding without diluting its importance.

2. PSE has the burden of proof and has not shown any urgent need for an expedited decision in this matter.

14 PSE has shown no urgent need to receive a decision on the Pipeline Tracker on a shorter timeline than the Rate Case. PSE has the burden of proof to justify its Pipeline Tracker proposal, pursuant to RCW 80.04.130(4). Notwithstanding this requirement, the Company has yet to place any testimony before the Commission in support of its proposal, even though it had the ability to do so with its initial tariff filing.

15 PSE also could have, but has expressly chosen not to present this matter as part of its Rate Case with supporting testimony and exhibits. Nor has PSE argued that there is an urgent or exigent need for the Pipeline Tracker to be approved by any particular early date,

Northwest Natural Gas (Docket UG-111233 re Encana), and a complaint by Integra and several other CLECs against Qwest and Century Link (Docket UT-111254).

¹³ PSE 2006 GRC, ¶¶ 35-42.

¹⁴ *WUTC v. Avista Corp.*, Dockets UE-090134, UG-090135, UG-060518 (consolidated), Order 10, ¶¶ 236-309.

¹⁵ *WUTC v. PacifiCorp d/b/a Pacific Power & Light*, Dockets UE-050684, UE-050412, Order 03.

either on financial or operational safety grounds. Rather, it has voluntarily chosen a procedural path that has created delay in consideration of the Pipeline Tracker and cannot now be heard to argue that consolidation would interfere with expedited review. Other parties should not be prejudiced by a cursory or unduly expedited process, given PSE's choice to proceed outside the Rate Case without filing supporting evidence or testimony to date.

D. Approval of the Pipeline Tracker may set important precedent for other utilities the Commission regulates

16 The Pipeline Tracker is a proposal of first impression for the Commission. Its decision on the proposal is likely to set important precedent for other energy utilities the Commission regulates.

17 Therefore, the Commission should carefully consider the proposal, along with all other parties' opposing and supporting positions. Consolidation of the Pipeline Tracker with the Rate Case will allow the Commission to do so on a full evidentiary record that addresses all related issues of fact, law and policy without prejudice to PSE or any other party.

III. CONCLUSION

18 For the foregoing reasons, the Joint Movants respectfully request that the Commission exercise its discretion to consolidate PSE's Rate Case and Pipeline Tracker for

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hearing. The cases share related issues of fact, law, and policy. Consolidation would be also beneficial in terms of judicial and administrative efficiency.

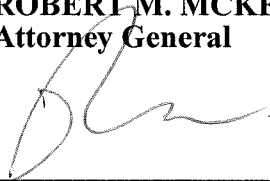
Dated this 18th day of August 2011.

NWIGU

*per email
attached*


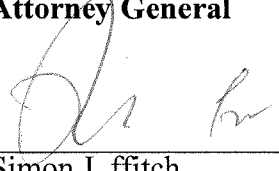
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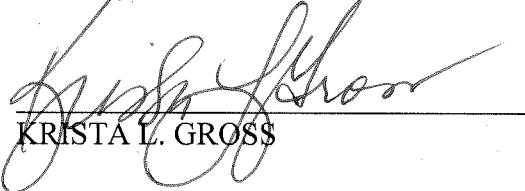
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attached*


Simon J. Fitch
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Dockets UE-111048/UG-111049
CERTIFICATE OF SERVICE

I hereby certify that I have this day served the attached Joint Motion to Consolidate upon the persons and entities listed on the Service List below via e-mail and by depositing a copy of said document in the United States mail, addressed as shown on said Service List, with first class postage prepaid.

DATED at Olympia, Washington this 18th day of August 2011.



KRISTA L. GROSS

HC=Highly Confidential

C=Confidential

NC=Non-Confidential

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