

1 **PUGET SOUND ENERGY, INC.**

2 **Rebuttal Testimony of John H. Story**

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4 **Q. Please state your name and the purpose of your testimony.**

5 A. My name is John H. Story. I earlier provided direct testimony in this
6 proceeding. My rebuttal testimony discusses how customers will receive
7 benefits from the sale of Colstrip. Among other things, I address how the
8 analytical model used in PSE's direct case illustrates the sale is beneficial
9 under several scenarios. My testimony also describes PSE's willingness to
10 accept Mr. Martin's proposal regarding environmental remediation costs.

11 **Q. Please summarize how customers are receiving benefits now as a**
12 **consequence of the merger rate plan.**

13 A. Customers have enjoyed lower, relatively stable electric rates, while PSE has
14 had to cover its increasing costs by finding more cost savings than were
15 originally anticipated. Residential customers are benefiting from having PSE
16 fund the residential exchange credit at an amount that far exceeds the benefit
17 received from BPA.

18 **Q. Do you agree with Mr. Elgin's statement that anticipated power stretch**
19 **savings did not include selling or restructuring Colstrip?**

20 A. No. The Company stated during the merger proceedings that these cost savings
21 had not been identified, *i.e.*, they were stretch goals that we would have to find
22 and implement in order to meet financial goals without any general rate
23 increases. The proposed cost savings did not identify any specific resource or
24 power source, Colstrip or otherwise.

1 **Q. Have Commission Staff and Public Council’s witnesses misinterpreted**
2 **PSE’s cost analysis?**

3 A. Yes. The assumption variations in the model runs are simply meant to provide
4 information about the risk associated with keeping or selling Colstrip. Instead
5 of considering all scenarios, Staff and Public Counsel have latched onto a
6 single scenario (the “base case”) and treat that scenario as the definitive
7 statement of what our costs would be if we kept or sold Colstrip.

8 **Q. Why didn’t you extend the analysis beyond 2018?**

9 A. The analysis becomes fairly speculative when we start looking at the later
10 years. Moreover, assumptions would have to be made about replacement coal
11 contracts and capital additions that would be required to extend the life of the
12 plant.

13 **Q. Is Mr. Lazar’s adjustment of the discount rate appropriate?**

14 A. No. We used 7.69% to discount the future costs because this is PSE’s
15 authorized after tax rate of return. We are not endorsing this rate as the correct
16 discount rate to use. As an example, the true rate the customer pays is the
17 before tax rate of return (which is 11.83%, ignoring revenue sensitive items).

18 **Q. Have you restated the Company’s analyses for any of the quantifiable**
19 **factors discussed by Commission Staff and Public Counsel?**

20 A. Yes, in three ways. First, we adjusted the recovery of plant decommissioning
21 and true-up of depreciation to begin in 2002. Second, we changed the discount
22 rate to one that reflects the current customer cost of utility assets. The final
23 adjustment was to include the change in Montana taxes. The impact of these
24 adjustments is set forth in Exhibit No. ___(JHS-6).

1 **Q. Why did you make these adjustments?**

2 A. We have made these adjustments, which are reasonable based on comments
3 made by the opposition cases, to illustrate that there are many ways to analyze
4 future information. The results of these two analyses are additional indicators
5 that customers will be better off for at least 12 years after the end of the rate
6 plan period (even using Mr. Lazar's method of measuring benefits between
7 PSE and the customers).

8 **Q. Did the Company make any other adjustments to the analyses?**

9 A. Yes. We made one change to the above analysis which was to include the
10 impact of a CO2 tax. The tax rate we used is the lower end of the range for this
11 type tax as set forth by the Northwest Power Planning Council in the Draft
12 Fourth Northwest Conservation and Electric Power Plan. Under this scenario
13 the customer is harmed throughout the entire analysis period if the Commission
14 rejects the proposed sale. *See* Exhibit No. ___(JHS-6).

15 **Q. Would PSE's opinion have differed if it had known about the Montana tax
16 law change discussed by Mr. Lazar?**

17 A. No. This change was signed into law in May 1999 and is a current cost
18 reduction that could just as easily be increased. Mr. Lazar focuses on the
19 quantification of the decrease, but how the decrease was calculated by the
20 Montana legislature is equally important. Under the new law, there is a 50%
21 decrease in property tax on generation facilities and a new .15 mill wholesale
22 energy transaction tax. We would expect the net tax decrease for PSE to be
23 \$3,639,000 based on just these changes. But the actual net decrease is only
24 \$2,340,000.

1 The reason for this less than expected decrease is that the sale raised the
2 taxable value of the generation plant. The decrease in tax revenues is to be
3 made up out of the State general fund, but if the general fund cannot make-up
4 the difference, counties and municipalities will look for other sources of
5 revenue (which would include taxing of properties of out of state owners). We
6 have not tried to quantify this unknown variable in the analysis provided to Mr.
7 Lazar.

8 **Q. Please respond to Mr. Martin's proposal regarding environmental costs.**

9 A. One of Mr. Martin's proposals is that the environmental costs associated with
10 Colstrip be treated in the same manner as the environmental remediation costs
11 in Docket No. UE-911476. That docket was a request for accounting treatment
12 for remediation costs for specific sites. The order states: "For costs incurred
13 by the Company after the date of this Order in connection with its
14 environmental remediation program, as such program is identified in the
15 Petition, the Company is authorized to defer such costs for recovery in rates in
16 future rate proceedings."

17 PSE does not object to this treatment for Colstrip environmental costs, but the
18 above-referenced docket is for specific sites. If the Commission decides this
19 treatment of environmental costs is appropriate, PSE requests that the
20 Commission include as part of its order language specifying that the Colstrip
21 environmental costs are to be treated in the same manner as the sites identified
22 in the above-referenced docket. This is required for PSE to recognize the
23 deferral accounting for financial accounting purposes. Exhibit No. __ (JHS-7)
24 shows that the gain for Colstrip, excluding the environmental costs, would
25 increase to \$41,908,545.

1 **Q. Does Exhibit No. ____ (JHS-7) include any other changes in the gain**
2 **calculation?**

3 A. Yes. The plant balances are based on March 31, 1999, book balances instead
4 of December 31, 1998 book balances. As the close of the sale is now expected
5 to be September 1, 1999, we have also adjusted the estimated depreciation
6 reserve to reflect two additional months of depreciation. The effect of these
7 changes adjusts the original gain calculation to \$40,091,449.

8 **Q. Both Public Counsel and Commission Staff refer to the methodology that**
9 **Puget Power was ordered to follow for property sales. Does that**
10 **methodology apply to this transaction?**

11 A. No. The methodology only applies to sales of real property. The opposition
12 testimony on this point is misleading. Although the Commission first
13 considered property sales in U-85-53, the Commission did not order an
14 adjustment at that time because it did not have sufficient information to assign
15 a specific dollar value based on the record in that case. Commission Staff was
16 ordered to review the issue in the next general rate case and to propose an
17 adjustment – which they did. The Commission accepted this adjustment and
18 the Company asked for reconsideration. After the Commission denied
19 reconsideration, the Company appealed. During the pendency of the appeal,
20 Public Counsel, Commission Staff and the Company reached a settlement.
21 This settlement agreement was accepted by the Commission in 1992 and was a
22 result of property sales treatment in Docket No. U-89-2688-T. This agreement
23 was specifically limited to non-depreciable real property.

24 **Q. Why is PSE's requested accounting treatment appropriate?**

25 A. Colstrip is an operating unit and is thus accounted for under electric plant
26 instruction 5 in the FERC regulations. Under this instruction when an

1 operating unit is purchased or sold, the original plant balances are credited with
2 the offsetting debit entry being made to account 102. Salvage or proceeds from
3 the sale are then credited to account 102. The instructions state the net debit or
4 credit in account 102 is cleared to either account 421.1, Gain on Disposition of
5 Property, or account 421.2, Loss on Disposition of Property, unless otherwise
6 ordered by the Commission. These 400 level accounts are other operating
7 accounts that are normally outside the range of accounts used for setting
8 electric rates. This is the proposed accounting PSE has suggested for Colstrip,
9 but we have recommended that the credit to account 421.1 be treated as a pro
10 forma adjustment in any future rate proceedings during the requested five-year
11 amortization period.

12 **Q. Does this conclude your testimony, Mr. Story?**

13 A. Yes.