

**Exhibit No. \_\_\_\_-T (JOINT-1T)**

**Docket No. UE-070565**

**Witness: Joint**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**DOCKET NO. UE-070565**

**JOINT TESTIMONY OF:**

**TOM DeBOER  
ROLAND C. MARTIN  
STEVE JOHNSON  
DONALD W. SCHOENBECK**

**IN SUPPORT OF SETTLEMENT AGREEMENT**

**July 16, 2007**

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1 I. INTRODUCTION

2 Q. Please state your names, titles, and who you represent in this matter?

3 A. Our names, titles, and representation are as follows:

- 4 • Tom DeBoer, Director, Rates and Regulatory Affairs for Puget Sound  
5 Energy, Inc. ("PSE" or "the Company");  
6 • Roland C. Martin, Regulatory Analyst for Commission Staff ("Staff");  
7 • Steve G. Johnson, Regulatory Analyst for the Office of Public Counsel;  
8 • Donald W. Schoenbeck, Regulatory & Cogeneration Services, Inc.,  
9 consultant for the Industrial Customers of Northwest Utilities ("ICNU").  
10

11 Q. Are you sponsoring joint testimony in support of the Settlement Agreement  
12 filed with this Commission on July 5, 2007?

13 A. Yes. This joint testimony recommends approval by the Commission of the  
14 multiparty Settlement Agreement that was executed by all parties that have actively  
15 engaged in this proceeding: PSE, Commission Staff, the Office of Public Counsel,  
16 and the Industrial Customers of Northwest Utilities (collectively, the "Parties"). The  
17 Company's case and the Settlement Agreement received sufficient scrutiny and the  
18 proposed Settlement is supported by sound analysis and sufficient evidence,  
19 including the testimony and exhibits that were prefiled by PSE on March 20, 2007  
20 and updated on May 23, 2007, and the testimony and exhibits that were prefiled by  
21 Staff and ICNU on June 15, 2007 and by ICNU on June 25, 2007 (including the  
22 errata to ICNU's testimony, filed July 12, 2007). Approval of the Settlement

1 Agreement is in the public interest and will result in rates that are just, fair,  
2 reasonable and sufficient.

3  
4 **Q. Have you provided information pertaining to your educational background and**  
5 **professional experience?**

6 A. Yes. Mr. Schoenbeck's qualifications are provided in Exhibit No. \_\_\_\_ (DWS-2).  
7 Mr. Martin's qualifications are provided in Exhibit No. \_\_\_\_ (RCM-1T).

8 Mr. Johnson has a Bachelor of Science Degree from The Evergreen State  
9 College and a Master of Public Administration from The Evans School at the  
10 University of Washington. He has been employed as a Regulatory Analyst with the  
11 Public Counsel Section of the Washington State Attorney General's Office for two  
12 years. Prior to that employment, he was employed at PSE as a Transmission  
13 Resource Analyst (merchant transmission planning) for approximately two and a half  
14 years including an internship. He has appeared before the Commission in numerous  
15 open public meetings and presented testimony in the following formal proceedings:  
16 *In the Matter of the Joint Application of MidAmerican Energy Holdings Company*  
17 *and PacifiCorp, d/b/a Pacific Power & Light Company, For an Order Authorizing*  
18 *Proposed Transaction, Docket No. UE-051090; In the Matter of the Joint*  
19 *Application of MDU Resources Group, Inc. and Cascade Natural Gas Corporation*  
20 *For an Order Authorizing Proposed Transaction, Docket No. UG-061721; In the*  
21 *Matter of Avista Corporation, d/b/a Avista Utilities, for Continuation of the*  
22 *Company's Energy Recovery Mechanism, Docket No. UE-060181; and In the Matter*  
23 *of the Petition of Avista Corporation, d/b/a Avista Utilities, For An Order*

1        *Authorizing Implementation of Natural Gas Decoupling Mechanism and To Record*  
2        *Accounting Entries Associated With the Mechanism, Docket No. UG-060518.*

3                Mr. DeBoer graduated with honors from the University of Montana in 1985  
4        with a Bachelor of Arts in geology. He received a Master of Science in geology from  
5        Western Washington University in Bellingham, Washington in 1991. He graduated  
6        *magna cum laude* with a Juris Doctorate from Gonzaga University School of Law in  
7        1997. From 1997 to 2005, he was an attorney in private practice, concentrating on  
8        energy and utility law, and representing utilities before the Federal Energy  
9        Regulatory Commission, Bonneville Power Administration and state regulatory  
10       agencies. Mr. DeBoer joined PSE in 2004 as Director of Rates and Regulatory  
11       Affairs. He has extensive experience in the areas of federal and state utility  
12       regulation. Since joining PSE, he has appeared in numerous proceedings before the  
13       Federal Energy Regulatory Commission and has provided oversight in several  
14       matters before the Commission.

15  
16                **II.       THE SCOPE OF THE UNDERLYING DISPUTE**

17        **Q.       Please describe the Company's filing that gave rise to this proceeding.**

18        A.       PSE commenced this proceeding by filing proposed revisions to its Power Cost Rate  
19        to reflect increases in the Company's overall normalized power supply costs and to  
20        add a new resource to the Power Cost Rate. The filing was a "power cost only rate  
21        case" ("PCORC") under PSE's Power Cost Adjustment ("PCA") Mechanism, which

1 was approved by the Commission in its Twelfth Supplemental Order in Docket Nos.  
2 UE-011570 and UG-011571.

3 PSE's filing proposed to increase electric rates by \$64,680,804, an average  
4 increase of 3.68% from the rates currently in effect, in order to recover additional  
5 power costs that the Company projected it would incur to provide electric service to  
6 its customers during the PCORC rate year: September 1, 2007 through August 31,  
7 2008. PSE submitted prefiled testimony and exhibits in support of its tariff filing.  
8 On May 23, 2007, the Company submitted a revised revenue requirement of  
9 \$77,837,215, an average increase of 4.43% from the rates currently in effect, due  
10 primarily to increases in wholesale market natural gas prices since the time the  
11 Company prepared its original filing. After settlement discussions, the Parties  
12 reached an agreement that resolves all issues in this proceeding.  
13

14 **Q. Did Staff, Public Counsel and ICNU investigate PSE's filing?**

15 A. Yes. They issued numerous data requests and engaged in technical conferences with  
16 Company staff knowledgeable about various aspects of the filing. Commission Staff  
17 also visited the Company's offices several times to conduct additional discovery.  
18

19 **Q. What issues in the filing were disputed by other parties?**

20 A. After conducting discovery on PSE's filing, the other parties generally agreed that the  
21 acquisition of the Goldendale Generating Station (including its related costs) was  
22 prudent and that PSE was facing increased power supply costs that should result in  
23 an increase to its power cost baseline rate. However, they had concerns about several

1 aspects of PSE's proposed costs and adjustments for purposes of determining the  
2 revenue requirement and power cost baseline rate. The other parties also had  
3 concerns about the current administrative processes of the PCORC, such as the  
4 frequency and timing of updates, and whether the current PCORC should be  
5 continued, modified, or replaced. The other parties also took the position that PSE is  
6 not entitled to its updated revenue requirement increase of \$77,837,215.

7  
8 **III. THE SCOPE OF THE SETTLEMENT AND**  
9 **ITS PRINCIPAL ASPECTS**  
10

11 **Q. Please describe the scope of the Settlement Agreement and its principal aspects.**

12 A. The proposed Settlement Agreement is a full settlement of all issues presented in this  
13 proceeding and it has been executed by all parties that were actively engaged in the  
14 proceeding. The text of the proposed Settlement Agreement is largely self  
15 explanatory, thus, we do not repeat each detail here. Generally, the proposed  
16 Settlement Agreement:

- 17 • Sets the level of additional revenue required by PSE at the amount PSE  
18 originally filed, \$64,680,804;
- 19 • Adopts a non-precedential methodology for allocating the rate increase  
20 among PSE's electric customers;
- 21 • Confirms that the Company's acquisition of the Goldendale Generating  
22 Station (including its related costs) and electric portfolio management  
23 activities were prudent, while preserving the right to review PSE's actual  
24 power costs in a PCA prudence review;

- 1           • Removes from power costs the Company's Tenaska Flow-through Tax True-  
2           up Adjustment and Other Power Supply Costs for "San Diego v. Sellers"  
3           litigation expense, without precedent for future cases;
- 4           • Provides for a collaborative that will review the PCORC mechanism and  
5           related subjects; and
- 6           • Mandates a stakeholder review that will consider how all of the Company's  
7           gas assets can be used to maximize benefits for all customers of the  
8           Company.

9  
10       **IV.    THE SETTLEMENT SATISFIES THE PARTIES' INTERESTS**  
11       **AND THE PUBLIC INTEREST**  
12

13   **Q.    Why does the Settlement Agreement satisfy the interests of PSE?**

14   A.    The new power cost baseline rate that is proposed to go into effect on September 1,  
15       2007, will provide immediate assistance to the Company in better matching its  
16       revenues to the power costs it incurs to provide service to its electric customers. The  
17       Settlement Agreement provides a reasonable value for a baseline rate in this case and  
18       allows the Company to focus on operations rather than litigation. The Settlement  
19       Agreement also allows PSE to place the Goldendale Generating Station into ratebase  
20       and begin recovering on this asset, which is already operating and benefiting  
21       customers.

22               The revenue requirement proposed in the Settlement Agreement excludes  
23       Adjustment 13 - Tenaska Flow-through Tax True-up and "San Diego v. Sellers"  
24       litigation costs, which were included in PSE's original proposal. Although PSE  
25       proposed to include these power costs, it believes excluding them from this



1 proceeding nonetheless satisfies the interests of the Company because these costs are  
2 removed from the determination of revenue deficiency in this proceeding only, for  
3 settlement purposes. The Tenaska Flow-through Tax True-up and "San Diego v.  
4 Sellers" litigation costs, as well as other power costs, remain available for  
5 consideration in PSE's next general rate case.

6 The Settlement Agreement's rate design differs from PSE's proposal in that no  
7 increase will be allocated to Schedule 40. While PSE's view and analysis of the  
8 current Schedule 40 rate allocation, and history of that rate allocation, differ from  
9 ICNU's view and analysis, for purposes of this settlement PSE agrees not to allocate  
10 an increase to Schedule 40. The Settlement Agreement specifies that the proposed  
11 rate design shall be limited to this proceeding and shall not set a precedent for future  
12 cases. In fact, the Settlement Agreement states that the revenue allocation and rate  
13 design established in PSE's most recent general rate case shall be applied to  
14 subsequent PCORCs.

15 PSE supports the joint proposal to review the scope and timing of the  
16 PCORC mechanism in the form of a PCORC Collaborative. This proposal is in the  
17 Company's interest because it represents an opportunity to improve and streamline  
18 the PCORC process so that future PCORC proceedings may proceed more  
19 expeditiously and with fewer areas of disagreement amongst the parties.

20  
21 **Q. Why does the Settlement Agreement satisfy the interests of Commission Staff?**

22 **A.** In Staff's opinion, the Settlement Agreement strikes a reasonable balance between  
23 customer rate impacts and the anticipated power cost increases that PSE faces in the

1 near future. The agreed revenue increase of \$64.7 million reflects Staff's proposal to  
2 exclude certain costs from the revenue requirement determination, and, while  
3 significant, still represents a lower level than Staff's direct case recommendation and  
4 the Company's updated proposal. Although it is not certain what natural gas fuel  
5 costs will be actually incurred in the rate year, higher fuel costs, if experienced, may  
6 ultimately be reflected in customers' rates either as a surcharge to amortize future  
7 PCA under-recoveries or as an increment in future PCA baseline rates. Furthermore,  
8 Staff notes that the requirement for the Company to file a general rate case within  
9 three months of the effective date of a rate increase from this proceeding has been  
10 waived by the Commission, with the condition that there will not be another PCORC  
11 filing before the conclusion of the next general rate case. Thus, customers will be  
12 insulated from the potential for additional rate increases that could otherwise occur  
13 sooner.

14 Finally, the establishment of a collaborative to examine and review several  
15 aspects of the PCORC process, and related subjects, provides an opportunity for the  
16 parties to address for their mutual benefit concerns about that mechanism. With a  
17 less adversarial collaborative setting, Staff believes that constructive results will  
18 ensue that will streamline, modify, or replace the current power cost recovery  
19 mechanisms.

20  
21 **Q. Why does the Settlement Agreement satisfy the interests of ICNU?**

22 **A.** The Settlement Agreement provides a number of benefits from ICNU's perspective.  
23 First, the collaborative efforts that will be established to review PSE's utilization of

1 its gas assets and the PCORC process are particularly important to ICNU. These  
2 forums will allow the parties to evaluate important structural issues related to setting  
3 PSE's rates outside the context of a litigated rate proceeding. There is disagreement  
4 among the parties regarding the appropriate scope of PCORC proceedings. From  
5 ICNU's perspective, the opportunity to discuss whether the PCORC process should  
6 continue and, if so, the scope and timing of future PCORCs, is important to  
7 customers. In addition, as PSE has added additional gas-fired generation in recent  
8 years, ICNU has been increasingly concerned that the Company needs to optimize its  
9 gas assets for the benefit of both electric and natural gas customers. The Settlement  
10 Agreement provides a process to address these important issues. Second, the revenue  
11 allocation provisions help to mitigate an aberration in the cost allocation for the  
12 Schedule 40 rate class. Schedule 40 is a campus rate that was designed to directly  
13 assign distribution costs while allocating generation and transmission costs based on  
14 the high-voltage rate, adjusted for parity and losses. Current Schedule 40 rates depart  
15 significantly from that goal. By allocating none of the PCORC rate increase to  
16 Schedule 40 customers, the Settlement Agreement moves Schedule 40 rates toward  
17 this goal and mitigates the rate disparity for customers on Schedule 40.

18  
19 **Q. Why does the Settlement Agreement satisfy the interests of Public Counsel?**

20 **A.** Public Counsel finds that the level of the power costs agreed to in this settlement set  
21 a reasonable base for authorized power costs until the conclusion of the next general  
22 rate case. The agreed power costs are at the same level as those in the Company's  
23 original filed testimony

1           An important component of the settlement for Public Counsel is the  
2           establishment of a collaborative to review the PCORC mechanism. There are a  
3           number of significant PCORC issues that need to be examined including: whether  
4           the PCORC should continue; if so, what the proper design of the PCORC should be;  
5           what issues are proper for resolution in a PCORC; and, what procedures should  
6           apply in a PCORC proceeding. It is appropriate that the collaborative is specifically  
7           targeted to questions of the PCORC and the issues it affects.

8           Another key component of the settlement for Public Counsel is the agreement  
9           that, in the future, revenue allocation and rate design will not be a matter to be  
10          litigated or otherwise modified in the PCORC docket. Instead, the PCORC will use  
11          the revenue allocation and rate design approved in the prior general rate case. This  
12          will allow parties to focus their resources on the power cost issues. The settlement  
13          also clarifies that the revenue allocation adopted in this settlement is for purposes of  
14          compromise and is not precedential in future general rate cases.

15          For the reasons stated below, Public Counsel agrees that the acquisition of the  
16          Goldendale Generation Station was prudent and provides a benefit to Washington  
17          ratepayers.

18  
19   **Q.    Why does the Settlement Agreement satisfy the public interest?**

20   **A.    The proposed Settlement Agreement satisfies the public interest because it will result**  
21          in rates that are fair, just, reasonable and sufficient. The revenue allocation  
22          recommended for this proceeding represents a non-precedential compromise that  
23          recognizes movement toward customer class cost of service, but allows Parties to

1 propose alternative revenue allocation approaches in the next general rate case. The  
2 agreement by the parties to apply in all subsequent PCORCs the revenue allocation  
3 and rate design approved by the Commission in the then most recent general rate  
4 case, eliminates a potential area of contention among interested parties that could  
5 possibly complicate the PCORC process.

6 The approval of PSE's Goldendale acquisition (including its related costs) and  
7 activities undertaken to manage the Company's electric portfolio is also in the public  
8 interest. The addition of this new generating facility to PSE's electric portfolio is  
9 expected to remove some volatility from power costs over the life of the project by  
10 reducing PSE's exposure to fuel-price and wholesale-market-price risks. Such  
11 approval encourages the Company to continue its resource acquisition and  
12 management efforts on behalf of its customers. The Settlement Agreement, however,  
13 ensures that PSE's actual power costs will undergo a prudence review as provided by  
14 Paragraph 4 of the PCA agreement approved by the Commission in Docket Nos. UE-  
15 011570 and UG-011571.

16  
17 **Q. Does this conclude your joint testimony?**

18 **A. Yes.**  
19