EXHIBIT NO. ___(JHS-1T)
DOCKET NO. UE-060266/UG-060267
2006 PSE GENERAL RATE CASE
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-060266** **Docket No. UG-060267**

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

REVISED JUNE 7, 2006

continues to collect only the $27.94 level of costs in its rates rather than the $347.62 that is needed.

As this example shows, the time period from the in-service date for a particular piece of plant to its retirement date determines the inflationary impact of the replacement and affects the measure of attrition that this plant replacement will have on earnings. Current annual inflation levels need not be high for the costs of such new investments to significantly outpace the costs of the original infrastructure that are embedded in rates.

While the dollar amounts in the above example are small for one pole, the total impact of all of the Company's infrastructure investments over the course of a year or two can be very significant. This is a particular concern for the Company at the present time because of the large and growing capital investments the Company must make in its electric and gas system infrastructure. As discussed by Ms. McLain, the capital expenditures required of the Company for infrastructure replacement and growth will be much higher over the next two years than the capital expenditures the Company has made over the last two years. The increased capital expenditures for electric transmission and distribution for 2006 and 2007 are approximately $~~157.1~~ 155.9 million and $~~222.8~~ 220.9 million, respectively. This is significantly higher than the $90.4~~1~~ invested in 2003 or the $~~121.2~~ 119.9 million invested in 2004 and is ~~equal~~ equivalent to or greater ~~then~~ than the $~~158.6~~ 159.9 invested in 2005.

Q. How much of the difference in ratebase growth is attributable to transmission and distribution system growth?

A. Electric transmission and distribution plant in-service is expected to grow by $434 million by December 31, 2007. The average of monthly average 2007 associated with new transmission and distribution plant after September 30, 2005 would be $318.5 million and the actual growth on ratebase would be approximately $155.3 million after deducting for the change in accumulated depreciation and deferred taxes associated with electric transmission and distribution plant. As discussed by Ms. McLain, the increased capital expenditures for electric transmission and distribution for 2006 and 2007 are approximately $~~157.1~~ 159.9 million and $~~222.8~~ 220.9 million, respectively. This is significantly higher than the $90.4~~1~~ invested in 2003 or the $~~121.2~~ 119.9 million invested in 2004 and is ~~equal~~ equivalent to or greater ~~then~~ than the $~~158.6~~ 159.9 invested in 2005.

C. PSE's Proposed Depreciation Tracker

1. Overview

Q. Why is the Company proposing a Depreciation Tracker mechanism in this case?

A. The Company's proposed Depreciation Tracker mechanism is designed to directly address a major cause of the attrition that is facing the Company at the present