

**EXHIBIT NO. \_\_\_(JHS-15T)  
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 SUPPLEMENTAL  
DIRECT TESTIMONY (NONCONFIDENTIAL) OF  
JOHN H. STORY  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**JULY 7, 2006**

1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED SUPPLEMENTAL**  
3 **DIRECT TESTIMONY (NONCONFIDENTIAL) OF**  
4 **JOHN H. STORY**

5 **Q. Are you the same John H. Story who submitted prefiled direct testimony in**  
6 **this proceeding on February 15, 2006, on behalf of Puget Sound Energy, Inc.**  
7 **("PSE" or "the Company")?**

8 A. Yes.

9 **Q. What topics are you covering in your prefiled supplemental direct testimony?**

10 A. With respect to electric results of operations, I present the calculation of the  
11 adjusted test period taking into consideration the Commission's Order, dated  
12 June 29, 2006, in Docket Nos. UE-050870 and UE-060783. Specifically, I update  
13 my original prefiled direct testimony to reflect the July 1, 2006 update of PSE's  
14 2005 power-cost only rate case ("PCORC") power cost baseline and its impact on  
15 operating revenues.

16 In addition, I present the update to power cost projections discussed by Mr. Mills  
17 in his supplemental testimony, Exhibit No. \_\_\_\_ (DEM-15T), as well as an update to  
18 several proforma and restating adjustments for new information that has become

1 available to the Company regarding costs that the Company had estimated in its  
2 original filing.

3 The result of these changes to the proforma and restating adjustments is to adjust  
4 the Company's revenue deficiency for electric operations from the \$140,908,878  
5 set forth in PSE's February 15, 2006, filing to \$42,927,315, which is an average  
6 2.51% increase over rates in effect as of July 1, 2006.

7 **Q. Would you please explain Exhibit No. \_\_\_(JHS-16)?**

8 A. Exhibit No. \_\_\_(JHS-16) presents the same information as Exhibit No. \_\_\_(JHS-  
9 4), except for revisions resulting from the updated information described in my  
10 prefiled supplemental direct testimony. The first page of Exhibit No. \_\_\_(JHS-  
11 16), Summary page, presents the unadjusted operating electric income statement  
12 and Average-of-the-Monthly-Averages ratebase for the Company as of  
13 September 30, 2005, in the column labeled Actual Results of Operation. The  
14 various line items are then adjusted by the summarized proforma and restating  
15 adjustments, as shown in the third column. This column is the source used to  
16 calculate the revenue deficiency.

17 In the second to last column, the revenue deficiency is added to the adjusted  
18 income statement and the impact on the operating income statement and ratebase  
19 is presented in the final column. The rest of Exhibit No. \_\_\_(JHS-16) is composed  
20 of two sections, described below.

1 Pages 16-A through 16-D of Exhibit No. \_\_\_(JHS-16) present a summary  
2 schedule of all the proforma and restating adjustments. The first column of  
3 numbers, on page 16-A, is the unadjusted net operating income for the year ended  
4 September 30, 2005 (the test year) and the unadjusted ratebase for the same  
5 period. Each column to the right of the first column represents a proforma or  
6 restating adjustment to net operating income or ratebase. Each of these  
7 adjustments has a supporting schedule, which is referenced by the page number  
8 shown in each column title.

9 For each adjustment that is marked "**REVISED**," new workpapers supporting the  
10 adjustment have been provided. The numbers that changed in each adjustment as a  
11 result of this supplemental filing have also been presented in bold and italic font.

12 For the proforma and restating adjustments that have not been revised, the  
13 workpapers for Exhibit No. \_\_\_(JHS-4) are still appropriate for supporting the  
14 equivalent adjustment in Exhibit No. \_\_\_(JHS-16).

15 The second to the last column, shown on page 16-D of the summary schedule,  
16 summarizes all of the adjustments and the final column shows the adjusted test  
17 period results used to calculate the revenue deficiency.

1 **Q. Have you prepared a reconciliation between the revenue deficiency filed in**  
2 **February 2006 and the current revenue deficiency?**

3 A. Yes. The following table shows the impact of each of the proforma and restating  
4 adjustments on the February 2006 revenue deficiency.

<b>Description</b>	<b>Adjustment</b>	<b>Revenue Deficiency</b>
As filed February 15, 2006		\$140,908,878
Temperature Normalization	16.01	(684,481)
Revenues and Expenses	16.02	(96,090,997)
Power Costs	16.03	3,081,645
Federal Income Tax	16.04	592,042
Tax Benefit of Proforma Interest	16.05	(27,410)
Misc. Operating Expense	16.08	(182,433)
Property Taxes	16.09	(2,247,301)
Property Insurance	16.18	418,067
Montana Corporate License Tax	16.23	(84,340)
Wild Horse	16.26	(119,581)
Incentive Plan	16.27	28,569
General Office Relocation	16.28	474,001
Demand Response Program	16.30	(3,141,445)
Production Adjustment	16.32	2,101
Updated Revenue Deficiency		\$42,927,315

1 **Q. Please explain the change to Adjustment 16.01, Temperature Normalization.**

2 A. Changes were made to Adjustment 16.01 as a result of the changes made to  
3 Adjustment 16.02 Revenues and Expenses, discussed below. Net operating  
4 income is now increased by \$7,424,007.

5 **Q. Please continue your explanation of changes for the remaining adjustments.**

6 A. **Adjustment 16.02, Revenues and Expenses:** In the February 15, 2006, filing,  
7 the Company did not file Schedule 95 as this Schedule was to be updated in May,  
8 2006, to reflect power cost changes associated with the July through December  
9 2006 time period, in compliance with the order approving the all-party settlement  
10 in the 2005 PCORC case, Docket No. UE-050870. On June 29, 2006, the  
11 Commission issued its Order in Docket Nos. UE-050870 and UE-060783  
12 accepting the changes to Schedule 95 that reflected these power cost updates, with  
13 an effective date of July 1, 2006.

14 As discussed in the prefiled direct testimony of David W. Hoff, Exhibit  
15 No. \_\_\_(DWH-1T), the Schedule 95 rate will be adjusted to zero at the time the  
16 new rates from this proceeding go into effect and the general tariffs will reflect the  
17 revenues associated with the Schedule 95 that was effective July 1, 2006. The  
18 Revenue and Expense adjustment reflects this change in Schedule 95 and moves  
19 the revenues associated with Schedule 95 to the general rate tariffs.

1 After applying the new Schedule 95 rate to the test year loads, the impact of this  
2 Adjustment 16.02 is to increase net operating income by \$218,387,755.

3 **Adjustment 16.03, Power Costs**, reflects the changes discussed in the prefiled  
4 supplemental direct testimony of David E. Mills, Exhibit No. \_\_\_(DEM-15T).

5 These changes will also impact the Power Cost Baseline rate, and I will present the  
6 impacts on that schedule later in my testimony. Net operating income is now  
7 decreased by \$196,237,595.

8 **Adjustment 16.04, Federal Income Taxes**, is being adjusted for a production tax  
9 deduction that the Company had included in its February filing. It has now been  
10 determined that the Company will not be able to take advantage of this new tax  
11 deduction during the rate year. Under the formula used to determine this  
12 deduction, the Company will have a tax loss associated with production  
13 operations. Net operating income is increased by \$4,185,813 after this correction.

14 **Adjustment 16.05, Tax Benefit of Pro Forma Interest**, has changed solely based  
15 on changes made to other adjustments discussed in this prefiled supplemental  
16 direct testimony. Net operating income is decreased by \$2,425,414.

17 **Adjustment 16.08, Miscellaneous Operating Expenses**, corrects the February  
18 filing for several items. The first change was to remove the New York Stock  
19 Exchange Fee adjustment because this change in rate only applies to new stock  
20 issues. The second adjustment is to adjust the Baker Lake relicensing costs to the

1 current balance as of May 31, 2006. The last adjustment is to remove an item that  
2 had been charged to operating expenses that should have been reported below the  
3 line or as non-operating expenses. Ratebase is now increased by \$28,842,487 and  
4 net operating income is decreased by \$2,895,497 for this adjustment.

5 **Adjustment 16.09, Property Taxes**, is being updated to current levy rates instead  
6 of the estimated rates used in the February filing. Net operating income is  
7 increased \$383,183 by this adjustment after reflecting the new levy rates.

8 **Adjustment 16.18, Property Insurance**, updates this estimated premium  
9 amounts to actual since the February filing. This adjustment now decreases net  
10 operating income by \$288,833.

11 **Adjustment 16.23, Montana Corporate License Tax**, has changed to include  
12 actual 2005 amounts used in determining the combined taxable income attributable  
13 to the test period. Changes made to other adjustments discussed in my  
14 supplemental testimony also have an impact on this adjustment which now  
15 decreases net operating income by \$187,009.

16 **Adjustment 16.26, Wild Horse**, corrects the revenue requirement for a difference  
17 between my original adjustment and the correct cost of this new facility as  
18 discussed in the prefiled direct testimony of Roger Garratt, Exhibit No. \_\_\_(RG-  
19 1HCT). The correct ratebase impact of this adjustment is \$354,743,696 and the  
20 net operating income decrease is \$22,163,981.



1           **Adjustment 16.27, Incentive Plan**, updates the 2005 plan payout to actual. The  
2 adjustment now increases net operating income by \$690,180.

3           **Adjustment 16.28, General Office Relocation**, is being corrected to reflect the  
4 lease cost associated with the rate year, 2007. In the February filing, the lease cost  
5 for 2006 had been mistakenly included in the adjustment. This adjustment now  
6 decreases net operating income by \$1,644,955.

7           **Adjustment 16.30, Demand Response Program**, is being corrected to reflect an  
8 agreement reached with other parties to this proceeding to collect this type of cost  
9 in Schedule 120. The impact of this adjustment is now zero to net operating  
10 income.

11           **Adjustment 16.32, Production Adjustment**, is being corrected for the impact of  
12 the above changes because they reflect adjustments to production ratebase and  
13 production operating and maintenance expenses. This adjustment now lowers  
14 ratebase by \$11,076,476 and increases net operating income by \$819,106.

15 **Q.     Please explain Exhibit No. \_\_\_(JHS-17).**

16 A.     Exhibit No. \_\_\_(JHS-17) calculates the revenue deficiency after applying the  
17 proforma and restating adjustments to the actual test year net operating income  
18 and ratebase. This schedule shows the test period proforma and restated ratebase,  
19 line 1, and net operating income, line 6. Based on \$2,974,444,445 invested in

1 ratebase, an 8.76% rate of return and \$233,914,915 of net operating income, the  
2 Company would have a retail revenue deficiency of \$42,927,315.

3 **Q. How do the adjustments that you have discussed in this supplemental**  
4 **testimony impact the Power Cost Adjustment ("PCA") Mechanism?**

5 A. As discussed in my prefiled direct testimony, Exhibit No. \_\_\_(JHS-1T), starting on  
6 page 46, the PCA baseline rate is adjusted for both changes in the variable and  
7 fixed costs associated with power costs. As the adjustments discussed earlier  
8 change both of these components of the baseline rate, a new calculation of the rate  
9 would be necessary.

10 **Q. Have you prepared a new exhibit that calculates the baseline rate for the**  
11 **PCA that reflects the changes to the fixed and variable power costs described**  
12 **earlier?**

13 A. Yes. Exhibit No. \_\_\_(JHS-18) presents the changes to the Power Cost Baseline  
14 Rate, and this rate has been calculated in the same manner as in the 2004 general  
15 rate case and 2005 PCORC. The proposed new Power Cost Baseline Rate is  
16 \$59.331 per MWh before revenue sensitive items, compared to the current Power  
17 Cost Baseline Rate of \$56.901 per MWh that was approved in the July, 2006  
18 PCORC update.

1 Q. Does that conclude your prefiled supplemental direct testimony?

2 A. Yes.