

EXHIBIT NO. ___(JKP-1T)
DOCKET NO. UE-13___/UG-13___
PSE EXPEDITED RATE FILING
WITNESS: JANET K. PHELPS

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of

PUGET SOUND ENERGY, INC.'S

Expedited Rate Filing

Docket No. UE-13___
Docket No. UG-13___

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
JANET K. PHELPS
ON BEHALF OF PUGET SOUND ENERGY, INC.

FEBRUARY 1, 2013

PUGET SOUND ENERGY, INC.

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
JANET K. PHELPS**

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **JANET K. PHELPS**

4 **I. INTRODUCTION**

5 **Q. Please state your name and business address.**

6 A. My name is Janet K. Phelps. I am employed as a Regulatory Consultant in
7 Pricing and Cost of Service with Puget Sound Energy, Inc. ("PSE"). My business
8 address is 10885 N.E. Fourth Street, Bellevue, Washington 98004.

9 **Q. Have you prepared an exhibit describing your education, relevant**
10 **employment experience, and other professional qualifications?**

11 A. Yes, I have. It is Exhibit No. ___(JKP-2).

12 **Q. What is the purpose of your testimony?**

13 A. This prefiled direct testimony

14 (i) explains PSE's restatement of volume and revenue from
15 natural gas operations for the test year ended June 30,
16 2012, which is summarized on page 2 of Exhibit
17 No. ___(KJB-4);

18 (ii) presents the calculation of 2011 general rate case (UG-
19 111049) rates applicable to the expedited rate filing
20 ("ERF") for the test year ended June 30, 2012, also
21 presented on page 2 of Exhibit No. ___(KJB-4);

1 (iii) discusses the removal of property tax revenues from 2011
2 general rate case rates; and

3 (iv) presents PSE's proposed rate spread and rate design for
4 natural gas service in this proceeding.

5 **II. COMMISSION BASIS REPORT REVENUE**
6 **AT ACTUAL RATES**

7 **Q. Have you prepared an exhibit that demonstrates PSE's development of its**
8 **restated revenue at actual rates for the June 2012 Commission Basis Report**
9 **("CBR")?**

10 A. Yes, I have. It is the Second Exhibit to my Prefiled Direct Testimony,
11 Exhibit No. ___(JKP-3).

12 **Q. Please explain page 1 of Exhibit No. ___(JKP-3), Adjustments to Volume**
13 **(Therms) by Rate Schedule.**

14 A. Test year revenue for ratemaking purposes is based on test year billing
15 determinants, which include gas throughput. Restating revenue involves making
16 adjustments to test year throughput. PSE's adjustments to test year natural gas
17 throughput for this case are summarized on page 1 of Exhibit No. ___(JKP-3).
18 Column B of page 1 shows the volume of sales and transportation for the test year
19 in this proceeding, which is the year ended June 30, 2012.

20 The restating adjustments in column C include an out-of-period adjustment and an
21 unbilled volume adjustment. The out-of-period adjustment corrects usage
22 associated with billing corrections by moving the consumption from the period in

1 which it was corrected into the period in which it should have been billed. The
2 unbilled volume adjustment adjusts for the fact that customers' bills are issued
3 throughout the month and do not correspond to calendar months. The volume in
4 column B, which underlies PSE's income statement, reflects sales for a given
5 month that were billed during that month, removes the portion of that volume that
6 was consumed in the previous month, and adds an estimate of sales that occurred
7 during the calendar month but were not yet billed. In the adjustment to unbilled
8 volume included in column C, this estimate of the unbilled portion of sales was
9 updated to reflect sales that actually took place during each calendar month, by
10 rate schedule, after the whole month's consumption was actually billed.

11 The restating customer adjustments in column D reflect the removal of volume
12 associated with specific customers who ceased to take service during the test year.
13 Schedule 50, Compressed Natural Gas, was reopened temporarily to serve a
14 customer who experienced a catastrophic event. That customer took service
15 during the test year, but left the system and the schedule was closed. The
16 adjustment to Schedule 87T volume is consistent with an adjustment approved in
17 Docket UG-111049 for a large customer who also left the system during the test
18 year.

19 The weather normalization adjustment to volume presented in column E removes
20 the effect of non-normal temperatures from test year loads, so that test year loads
21 and revenues are more reflective of normal operating conditions.

1 Restated volume that reflects all of these adjustments and is used for calculating
2 restated revenue is presented in column G on page one of Exhibit No. ___(JKP-
3 3).

4 **Q. Please explain page two of Exhibit No. ___(JKP-3), Reconciliation of**
5 **Revenue at Actual Rates by Rate Schedule.**

6 A. Page 2 of Exhibit No. ___(JKP-3) presents explanations of the differences
7 between test year revenue and gas costs, as presented in PSE's income statement,
8 and restated revenue, as calculated based on billing determinants and rates, and
9 the resulting impact on gas costs. The revenue and gas costs included in the test
10 year income statement are presented in column B of page 2, and restated revenue
11 based on billing determinants and current rates and the resulting gas costs are
12 presented in column N. The items presented in columns C through M are
13 explanations of the differences between the income statement and restated
14 revenue and gas costs. These items are related to either:

- 15 1. removal of revenue from adjusting price schedules,
16 municipal taxes, and new customer charges (columns C-I);
- 17 2. other restating adjustments that correspond to the
18 previously-discussed restating volume adjustments,
19 specifically the billing corrections, the change in unbilled
20 revenue adjustment, and removal of specific customers and
21 the resulting impact on gas costs (columns J-K); or
- 22 3. an adjustment to revenue to reflect the weather adjustment
23 to volume and the resulting impact on gas costs
24 (column L).

1 **Q. What are PSE's resulting restated volume and revenue?**

2 A. The total restated volume for the test year is 1,109,876,840 therms, and is
3 presented in column G of page 1 of Exhibit No. ___(JKP-3). The total restated
4 revenue of \$1,044,123,226 is presented in column N of page 2 of Exhibit
5 No. ___(JKP-3). The margin portion of this revenue is \$437,002,653 and is
6 presented in column Q of page 2 of Exhibit No. ___(JKP-3).

7 **Q. How does the restated revenue compare with the pro forma revenue PSE**
8 **typically develops in a general rate case?**

9 A. The restatement of revenue is consistent with the method used in PSE's general
10 rate cases, with one exception. In this proceeding, restated revenue presented in
11 Exhibit No. ___(JKP-3) reflects actual rates in place during the test year but does
12 not annualize rate changes that took place during or after the test year. Pro forma
13 revenue in a general rate case does reflect annualization of price changes. The
14 effect of price changes is taken into account in a later step in the ERF process,
15 which I will discuss later in my testimony.

16 The foundation for this ERF proceeding starts with a CBR approach. This
17 difference is necessary to remain consistent with WAC 480-90-257(3), which
18 governs the information to be presented in a CBR and prevents PSE from
19 repricing its CBR period revenues.

1 **III. PROPERTY TAXES**

2 **Q. Why have you removed property tax revenue from Docket UG-111049**
3 **approved revenue?**

4 A. As discussed in the Prefiled Direct Testimony of Katherine J. Barnard, Exhibit
5 No. ___(KJB-1T), PSE proposes a tracker mechanism for recovery of property
6 taxes. If property taxes are recovered through the tracker, they need to be
7 removed from base rates.

8 **Q. How have you removed property tax revenue from Docket UG-111049**
9 **approved revenue?**

10 A. The Third Exhibit to my Prefiled Direct Testimony, Exhibit No. ___(JKP-4),
11 presents the removal of property tax revenue from Docket UG-111049 approved
12 revenue from rates. Columns B and C of page 1 of Exhibit No. ___(JKP-4)
13 present weather normalized volume and approved margin from Docket UG-
14 111049, respectively. Column D presents the allocation of plant from PSE's cost
15 of service study in Docket UG-111049 given the approved revenue requirement.
16 In column E, the \$17,416,344 of property taxes from Docket UG-111049 are
17 allocated to rate schedules based on the percentages in column D. Column F
18 presents the adjusted margin from Docket UG-111049, with property taxes
19 removed, of \$422,155,448, which is also presented on page 3 of Exhibit
20 No. ___(KJB-4). This represents the ERF-related portion of margin from
21 Docket UG-111049.

1 Pages 2-6 of Exhibit No. ___(JKP-4) contain the recalculation of rates with
2 property taxes removed. Column G of page 1 contains this margin as calculated
3 based on these Docket UG-111049 rates applicable to ERF, and column H
4 presents the change from approved total margin. As stated in the prefiled direct
5 testimony of Ms. Barnard, implementation of the property tax tracker to recover
6 the \$17,416,344 of property taxes in conjunction with removal of that amount
7 from general rates would result in a revenue neutral rate change.

8 **Q. What components of the rates were changed when property taxes were**
9 **removed?**

10 A. As indicated in the prefiled direct testimony of Ms. Barnard, only the volumetric
11 delivery charges were adjusted for the removal of property taxes. For a given rate
12 schedule, the allocated property taxes shown in column E of page 1 were divided
13 by the therms for that schedule to yield a property tax rate. This amount was
14 subtracted from the approved volumetric delivery charge. For schedules with
15 block rates, the same per therm rate was subtracted from all blocks. For
16 schedules without volumetric rates, the unit rates were adjusted. The property tax
17 tracker rates are also proposed to be on a per therm basis.

18 **IV. EXPEDITED RATE FILING REVENUE**

19 **Q. How were the Docket UG-111049 rates applicable to expedited rate filing**
20 **applied to the CBR test period ended June 30, 2012?**

21 A. The Fourth Exhibit to my Prefiled Direct Testimony, Exhibit No. ___(JKP-5),

1 presents the calculation of margin for the CBR period ended June 30, 2012. In
2 Exhibit No. ____ (JKP-5), the Docket UG-111049 rates applicable to ERF that
3 were developed in Exhibit No. ____ (JKP-4) are multiplied by CBR period ended
4 June 30, 2012 billing determinants to yield margin. These are the same billing
5 determinants that were used to develop restated CBR revenue presented in
6 Exhibit No. ____ (JKP-3). This calculation yields margin revenue of \$430,357,971,
7 as shown on page 5 of Exhibit No. ____ (JKP-5) and in column H of page 2 of
8 Exhibit No. ____ (KJB-4).

9 **V. RATE SPREAD AND RATE DESIGN**

10 **Q. How does PSE propose to assign the revenue surplus to customer classes?**

11 A. In a general rate case, PSE uses its cost of service study to provide guidance for
12 the allocation of a revenue deficiency to customer classes. In the present
13 proceeding, however, there is no cost of service study. As discussed in the
14 prefiled direct testimony of Ms. Barnard, Exhibit No. ____ (KJB-1T), one of the
15 proposals of the ERF is that the rate spread be based on the last general rate case.
16 Therefore, to preserve the relative contributions to margin, PSE proposes that all
17 customer classes receive an equal percentage reduction in rates, calculated as a
18 percent of margin. Page 1 of the Fifth Exhibit to my Prefiled Direct Testimony,
19 Exhibit No. ____ (JKP-6), presents a summary of revenue allocation to customer
20 classes. In column I of page 1, the revenue surplus of \$1,240,137 presented by
21 Ms. Barnard on page 1 of Exhibit No. ____ (KJB-4) is allocated to customer

1 classes. Column M presents the percentage decrease as a percent of margin by
2 customer class. The overall rate change is a reduction of 0.3 percent of margin or
3 0.1 percent of total revenue at existing rates.

4 **Q. How does PSE propose to adjust rates to reflect the proposed revenue**
5 **surplus of \$1,240,137?**

6 A. Consistent with the ERF proposal discussed in the prefiled direct testimony of
7 Ms. Barnard, for each schedule, all elements of rates are changed by an equal
8 percentage. Minor exceptions to this are consistent with rate design agreed to by
9 the parties to the settlement in Docket UG-111049, such as maintaining the same
10 demand charge for all schedules to which it is applicable.

11 **Q. Have you prepared tariff sheets that present the proposed ERF rates?**

12 A. Yes. They are provided as the Sixth Exhibit to my Prefiled Direct Testimony,
13 Exhibit No. ___(JKP-7).

14 **VI. CONCLUSION**

15 **Q. Does this conclude your testimony?**

16 A. Yes, it does.