EXHIBIT NO. ___(JHS-9T)
DOCKET NO. UE-072300/UG-072310
2007 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-072300** **Docket No. UG-072301**

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

APRIL 11, 2008

PUGET SOUND ENERGY, INC.

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PUGET SOUND ENERGY, INC.

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I. INTRODUCTION

Q. Are you the same John H. Story who provided prefiled direct testimony in this Docket on behalf of Puget Sound Energy, Inc. ("PSE" or "the Company")?

A. Yes.

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

A. I present the update to power cost projections discussed by Mr. David E. Mills in his prefiled supplemental direct testimony, Exhibit No. ___(DEM-9T), as well as an update to several pro forma and restating adjustments for new information that has become available to the Company since its original filing made on December 3, 2007.

These changes to the pro forma and restating adjustments result in an adjustment to the Company's total revenue deficiency from the $174,819,117 set forth in PSE's December 3, 2007 filing to $179,675,349. Firm Resale customers are allocated $340,165 of this deficiency and the retail sales revenue deficiency is

$179,335,184, which represents an average 9.77% increase.

II. UPDATE TO REVENUE REQUIREMENT

Q. Have you provided a summary of the changes which occurred since the original filing and their impacts on the revenue deficiency?

A. Yes. Included in the workpapers with this supplemental filing is a table of contents which provides a comprehensive list of all relevant exhibits in this proceeding taking into consideration this supplemental filing. This table of contents also provides guidance on where the electronic versions of each exhibit and its supporting electronic workpapers can be found. Additionally, a table has been provided which reconciles, by adjustment, the revenue deficiency from the original filing to that included in this supplemental filing. A summarized version of this table is presented later in my testimony.

Q. Please explain Exhibit No. ___(JHS-10).

A. The First Exhibit to my Prefiled Supplemental Direct Testimony, Exhibit No. ___(JHS-10), contains only pages 10.03 and 10.04, which present similar information as pages 3.03 and 3.04 of the Second Exhibit to my Prefiled Direct Testimony, Exhibit No. ___(JHS-3), in this proceeding, after being updated for the following revisions. Page 10.03 of Exhibit No. ___(JHS-10) corrects the test year ratebase calculation to include a balance sheet account with a $397,600, average of monthly average balance, for White River Sales Costs to ratebase as this account had not been properly classified in the original filing. In Exhibit No. ___(JHS-10), page 10.04, the balance sheet liability account for the net sales proceeds for renewable energy credits (RECs) was reassigned to working capital instead of non-operating investment. With these changes test year ratebase changed from $3,189,416,474 to $3,189,766,299.

Q. Please explain Exhibit No. ___(JHS-11).

A. Exhibit No. ___(JHS-11), presents similar information to Exhibit No. ___(JHS-4) in this proceeding, after being updated for the revisions described later in my Prefiled Supplemental Direct Testimony. The first column on the pages marked "Summary" and "Page 11-a" in this Exhibit provides the ratebase and production costs from the test year that will be considered in setting the power cost rate. The column entitled "Revised Actual Results of Operation", presents the unadjusted operating electric income statement and ratebase for the test year ended September 2007. The columns to the right of this first column show the effect of the supplemental pro forma and restating adjustments PSE is proposing for the test period. For the adjustments that have changed since the December 3, 2007 filing, we have marked the columns as **"REVISED".**

Each adjustment is presented in more detail on the succeeding pages referenced in the title of a particular column. The total of the test year amounts plus the pro forma and restating adjustments is shown in the column titled "Revised Adjusted

Results of Operations" on page 11-D of Exhibit No. ___(JHS-11). The numbers that changed in each adjustment as a result of this supplemental filing have been presented in bold and italic font. The work papers supporting the December 3, 2007 adjustments have been previously provided to Commission Staff and intervenors. For each adjustment that is marked "**REVISED,**" new workpapers supporting the adjustment have been provided.

Q. Have you prepared a reconciliation between the revenue deficiency filed in December 2007 and the current revenue deficiency?

A. Yes. The following table shows the impact of each of the pro forma and restating adjustments, in excess of $500,000, on the December 2007 revenue deficiency.

Description	Adjustment	Revenue Deficiency (million)
As filed December 3, 2007		$174.8
Revenues and Expenses	11.02	.8
Power Cost	11.03	13.4
Federal Income Tax	11.04	(3.8)
Miscellaneous Operating Exp.	11.14	(2.5)
Storm Damage	11.31	(.6)
Reg. Assets and Liabilities	11.32	(.8)
Depreciation	11.33	(2.1)
Other Adjustments less than $500,000		.5
Updated Revenue Deficiency		$179.7

Q. Please explain the changes for each of the pro forma and restating adjustments.

A. I will provide an explanation of each of the adjustments that change and provide a comparison to the net operating income or ratebase impact of each adjustment as originally filed in Exhibit No. ___(JHS-4). The adjustments are presented in the same order as they were originally filed.

Adjustment 11.01, Temperature Normalization, corrects the temperature adjusted hours for June and September 2007. The hours in the original filing were not properly updated to the final temperature adjusted hours. This changes the decrease to net operating income to ($7,470,315) from the original filing amount of ($7,499,730).

Adjustment 11.02, Revenues and Expenses, is updated for the impact of unbilled revenues due to the normalized load change and a correction made to the revenues from 449 customers. In addition $765,692 of revenues for Georgia Pacific Steam Sales is removed as this contract has expired and will not be renewed. Net operating income is increased by $49,427,844 after this update versus an increase of $49,910,343 in the original filing.

Adjustment 11.03, Power Costs, have been updated as discussed by Mr. David E. Mills in his Prefiled Supplemental Direct Testimony, Exhibit No. ___(DEM-9T). Mr. Mills' Exhibit No. ___(DEM-10) and Exhibit No. ___(DEM-11C) provide a comparison by FERC account and resource as to the changes for power costs. Net operating income is decreased by $59,130,419 versus a decrease of $50,814,456 in the original filing.

Adjustment 11.04, Federal Income Tax, corrects a cell reference error in the original filing for additional deferred tax credits on line 8 of page 11.04, which were not included in the original filing. Net operating income is decreased by $9,826,242 versus a decrease of $12,165,039 in the original filing.

Adjustment 11.05, Tax Benefit of Pro forma Interest, reflects the cumulative impact of changes to ratebase made to other adjustments . Net operating income is decreased by $2,926,968 versus a decrease of $2,754,228 in the original filing.

Adjustment 11.06, Hopkins Ridge Infill Project, has no change to the original filing amount shown in **Adjustment 4.06**.

Adjustment 11.07, Wild Horse Wind Plant, corrects the depreciation expense rate used in this adjustment to the depreciation rate proposed in the depreciation study. This also required an update to the deferred taxes to reflect the change in the book depreciation rate. The total adjustment now decreases net operating income by $2,191,792 versus a decrease of $2,108,303 in the original filing.

The ratebase for Wild Horse Wind Plant changed to $62,547,669 from $64,190,026 in the original filing due to the update for deprecation and the related impact on deferred taxes.

Adjustment 11.08 through Adjustment 11.11 have no changes to the original filing amounts shown in **Adjustment 4.08 through 4.11.**

Adjustment 11.12, Pass-Through Revenue and Expenses, reflects the impact of changing the bad debt and state utility tax portion of the conversion factor used in calculating adjustments to pass-through revenue. The change made to the bad debt expense adjustment is discussed immediately below. The total adjustment now decreases net operating income by $974,801 versus a decrease of $976,447 in the original filing.

Adjustment 11.13, Bad Debts, corrects the bad debt calculation for a write-off associated with bankruptcies that was booked in December 2007. After the original filing, it was discovered that the Company had not been notified of the resolution of several bankruptcies that impact the years 2003 through 2007. This correction reflects the bad debt expense write-offs in the years that they would have been recorded had they been booked when these court decisions had occurred. The total adjustment now decreases net operating income by $527,902 versus a decrease of $349,580 in the original filing. The bad debt rate also changes to .3502428% versus .3352435% in the original filing which impacts both the bad debt and state utility tax components of the conversion factor, which is reported in Exhibit No. ___(JHS-12) at page 12.03.

Adjustment 11.14, Miscellaneous Operating Expense, has several corrections. The first correction updates the Residential Exchange Benefits interest calculation to reflect the April, 2008 payment made by BPA. In the original filing the Company had assumed there would not be any payments from BPA until after the rate year. In this revised adjustment, interest on the amounts that had been overpaid to the customers was no longer included in the calculation of the adjustment after the receipt of BPA's payment, and the amount of recovery for previously booked interest drops to $1,487,423 versus $4,440,313. After the original filing it was found that the accounting for Company employee association stores items had been recorded in some above the line accounts on the Company's books. Previously the accounting for these items had been maintained separately.

The adjustment on lines 13 through 14 removes the revenues and costs associated with the inventory for this activity. In the future this activity will be recorded below the line.

After the filing the Company agreed to Commission Staff's suggestion that the amortization associated with the Summit Building purchase option be amortized equally over the remaining life of the building lease. The revision on line 17 reflects this change in amortization of the deferred gain to $1,026,113 from the original filing amount of $1,726,475, which had the amortization shaped to lease payments over a seven year period.

Line 19 of this adjustment reflects a savings associated with the New York Stock Exchange Filing Fee if the merger is approved. This fee would no longer be necessary because the Company's stock would no longer be traded on that exchange. If the merger is not approved, then this amount will need to be removed from this adjustment.

Lines 22 through 24 of this adjustment remove management labor and its related overheads that should have been charged to the merger work order during the test year. Because the Company is not requesting recovery of these merger-related costs, this labor should be removed from the test year in the same manner as the labor that was directly charged to the merger activity below the line.

The total adjustment now decreases net operating income by $3,780,906 versus a decrease of $5,331,649 in the original filing.

Adjustment 11.15, Property Tax, updates the property tax ratio used in determining the property tax to reflect the Department of Revenues final property valuation for 2007 property taxes. The adjustment now decreases net operating income by $2,439,698 versus a decrease of $2,153,170 in the original filing.

Adjustment 11.16 and Adjustment 11.17, have no changes to the original filing amounts shown in **Adjustment 4.16 through 4.17.**

Adjustment 11.18, Montana Electric Energy Tax, reflects the change in run time for Colstrip as reflected in the new power cost forecast. The adjustment now decreases net operating income by $44,101 versus a decrease of $31,476 in the original filing.

Adjustment 11.19, Interest on Customer Deposits, updates the interest calculation for the lower cost of interest since the original filing. The adjustment now decreases net operating income by $350,242 versus a decrease of $599,090 in the original filing.

Adjustment 11.20 through Adjustment 11.22, have no changes to the original filing amounts shown in **Adjustment 4.20 through 4.22.**

Adjustment 11.23, Property and Liability Insurance, updates the premium amounts to actual premiums versus the estimated premiums used in the original filing. The liability insurance expense test year amount reflected in the actual income statement is also being corrected to reflect the actual amount incurred in the test year. The adjustment now decreases net operating income by $341,031 versus a decrease of $405,390 in the original filing.

Adjustment 11.24, Pension Expense, does not change from the original filing.

Adjustment 11.25, Wage Increase, corrects the percentage increase used for the union wages in the original filing to reflect the actual percentage increases presented by Mr. Thomas M. Hunt in his Prefiled Direct Testimony, Exhibit No. ___(TMH-1T). In addition, the management wages associated with the merger that were removed in **Adjustment 11.14, Miscellaneous Operating Expense Adjustment** are removed from this calculation. The adjustment now decreases net operating income by $2,857,518 versus a decrease of $2,855,717 in the original filing.

Adjustment 11.26, Investment Plan, reflects the changes made to the **Wage Increase Adjustment**. The adjustment now decreases net operating income by $115,142 versus a decrease of $114,238 in the original filing.

Adjustment 11.27, Employee Insurance, does not change from the original filing.

Adjustment 11.28, Incentive Pay, is updated for the actual 2007 incentive pay out and removes a PTO liability true-up which was incorrectly included in the test year manual clearings. The adjustment now decreases net operating income by $610,439 versus a decrease of $491,990 in the original filing.

Adjustment 11.29, Montana Corporate License Tax, is updated for the change to the **Tax Benefit of Proforma Interest Adjustment 11.05**. The adjustment now decreases net operating income by $139,983 versus a decrease of $138,690 in the original filing.

Adjustment 11.30, Amortization of Goldendale Fixed Cost Deferral, does not change from the original filing.

Adjustment 11.31, Storm Damage, corrects the deferral associated with the December 13, 2006 storm event to remove conductor costs, conductor installation costs and miscellaneous transmission and distribution assets, approximately $3.7 million, that should be capitalized as replacement of units of property. The adjustment now decreases net operating income by $10,378,261 versus a decrease of $10,781,738 in the original filing.

Adjustment 11.32, Regulatory Assets and Liabilities, adjusts the White River regulatory asset amounts for accounting adjustments made after the original general rate case filing. A review of these accounts determined that certain costs included in the regulatory asset accounts should have not been included in rate year ratebase (approximately $4.1 million). These costs should have been included in the non-ratebase costs reimbursable from the Cascade Water Alliance, the party that is in the process of purchasing the White River facilities and Lake Tapps. In addition, an account that is tracking the costs associated with the sale of this asset was not properly reflected as part of ratebase in the original filing (approximately $0.4 million). This account is now included with the other costs associated with the White River assets in the test year and rate year balances. This adjustment now decreases ratebase by $69,560,204 versus a decrease of $63,830,658 in the original filing.

Adjustment 11.33, Depreciation Study, is being adjusted for several updates made in the depreciation study provided by Mr. C. Richard Clarke. Other parties to this filing have received these updates through revised and supplemental data request responses, and Mr. Clarke will provide an updated study at rebuttal. These corrections include adjusting the historical depreciation reserve on account 345, accessory electric equipment, treating account 346.1, miscellaneous tools, as amortizable versus depreciable and correcting the classification of certain transfers between transmission and distribution assets as transfers instead of additions and retirements. The adjustment now decreases net operating income by $6,717,824 versus a decrease of $8,083,203 in the original filing and decreases ratebase by $2,214,273 versus $2,660,162.

Adjustment 11.34, Skagit County Service Center, does not change from the original filing.

Adjustment 11.35, Production Adjustment, reflects the changes made to the adjustments discussed earlier as they relate to production related costs. In addition a correction is made to include the Goldendale fixed cost deferral that had not been included in the original production adjustment or in the original calculation of the power cost baseline rate reflected in Exhibit No. ___(JHS-7C). The change made to test year normalized load, discussed in **Adjustment 11.01**, also changes the production factor to 3.337% versus the 3.339% used in the original filing. The adjustment now increases net operating income by $3,322,658 versus an increase of $3,234,351 in the original filing and decreases ratebase $42,817,779 versus $42,851,342.

III. CALCULATION OF THE SUPPLEMENTAL ELECTRIC REVENUE DEFICIENCY

Q. Would you please explain what is presented in Exhibit No. ___(JHS-12)?

A. Exhibit No. ___(JHS-12) presents the calculation of the revenue deficiency based on the supplemental pro forma and restated test period. The different pages in Exhibit No. ___(JHS-12) are:

12.01 General Rate Increase

This schedule, shown on page 12.01 of Exhibit No. ___(JHS-12), shows the test period pro forma and restated ratebase, line 1, and net operating income, line 6. Based on $3,298,556,021 invested in ratebase, an 8.60% rate of return and $172,036,858 of net operating income, the Company would have a retail revenue deficiency of $179,335,184.

12.02 Cost of Capital

This schedule, shown on page 12.02 of Exhibit No. ___(JHS-12), reflects the proposed capital structure for the Company during the rate year and the associated costs for each capital category. The capital structure and costs are presented in the prefiled direct testimony of Mr. Donald E. Gaines, Exhibit No. ___(DEG-1T). The rate of return is 8.60% and 7.29% net of tax. This exhibit page has not changed from the original filing.

12.03 <u>Conversion Factor</u>

The conversion factor, shown on page 12.03 of Exhibit No. ___(JHS-12), is used to adjust the net operating income deficiency for revenue sensitive items and Federal income tax to determine the total revenue deficiency. The revenue sensitive items are the Washington State utility tax, Washington Utilities and Transportation Commission filing fee, and bad debts. The conversion factor used in the revenue requirement calculation, taking into consideration the adjustments to bad debt expense adjustment 11.13 discussed earlier and its resultant impact on the state utility tax component of the conversion factor, is .6213371 versus .6214308 from the original filing.

IV. POWER COST ADJUSTMENT ("PCA") EXHIBITS

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

A. Yes. Exhibit No. ___(JHS-13C) is equivalent to Exhibit No. ___(JHS-7C) but reflects the updates discussed above and is prepared in the same manner as Exhibit A to the PCA Settlement. On the first page of Exhibit No. ___(JHS-13C), the costs have been allocated in the same manner as discussed in the PCA Settlement Agreement, between fixed and variable costs. Following the same methodology set forth in Exhibit A to the PCA Settlement, this result is then divided by the revised test year delivered load to calculate the new Power Cost Rate of $63.805 per MWh, before the adjustment for the Tenaska flow through taxes. This would be the power cost rate used in tracking the PCA periods following this proceeding. The equivalent baseline rate included in the original filing was $63.012.

Q. Please explain the remaining pages included in Exhibit No. ___(JHS-13C).

A. The remaining pages of Exhibit No. ___(JHS-13C) are equivalent to the Exhibits A-2 through D included in the PCA Settlement and have been updated to reflect the changes presented by the Company in this supplemental filing. In the upper left hand corner of each of these pages is the reference to the exhibit being replaced in the PCA. Where there has been no change to the original filing, I have not included a corresponding page. Thus, there is no page 13.02.

IV. CONCLUSION

Q. Does that conclude your prefiled supplemental direct testimony?

A. Yes, it does.