

**EXHIBIT NO. ___(JHS-9T)
DOCKET NOS. UE-090704/UG-090705
2009 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-090704
Docket No. UG-090705**

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

SEPTEMBER 28, 2009

PUGET SOUND ENERGY, INC.

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

CONTENTS

I. INTRODUCTION1

II. UPDATE TO REVENUE REQUIREMENT2

III. CALCULATION OF THE SUPPLEMENTAL ELECTRIC REVENUE
DEFICIENCY.....8

 11.01 General Rate Increase8

 11.02 Cost of Capital9

IV. UNIT COST9

V. POWER COST ADJUSTMENT (“PCA”) EXHIBITS10

VI. CONCLUSION.....11

1 **PUGET SOUND ENERGY, INC.**

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

5 **I. INTRODUCTION**

6 **Q. Are you the same John H. Story who provided prefiled direct testimony in**
7 **these dockets on behalf of Puget Sound Energy, Inc. (“PSE”)?**

8 A. Yes, I filed prefiled direct testimony, Exhibit No. ___(JHS-1T) and seven
9 supporting exhibits (Exhibit No. ___(JHS-2) through Exhibit No. ___(JHS-8)).

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

11 A. This prefiled supplemental direct testimony presents the update to the power cost
12 pro forma adjustment for the new natural gas forecast and other projections
13 discussed by Mr. David E. Mills in his Prefiled Supplemental Direct Testimony,
14 Exhibit No. ___(DEM-9CT). The power costs are based on a new rate year load
15 forecast which is discussed by Mr. Donald Gaines in his Prefiled Supplemental
16 Direct Testimony, Exhibit No. ___(DEG-9T) . I will also provide updated exhibits
17 for changes made to several pro forma and restating production related adjustments
18 including changes on maintenance costs that are discussed by Mr. Ed Odom in his
19 Prefiled Supplemental Direct Testimony, Exhibit No. ___(LEO-10CT). The Wild
20 Horse Expansion Project adjustment has also been updated to reflect bonus tax

1 depreciation that has been granted by Congress for projects going into service in
2 2009. The revenue deficiency also takes into consideration a new bond issuance
3 that is discussed in Mr. Gaines prefiled supplemental direct testimony that will
4 reduce PSE's requested rate of return to 8.50% from 8.56%.

5 These changes to the pro forma and restating adjustments result in an adjustment to
6 PSE's total electric revenue deficiency from the \$148,443,904, set forth in PSE's
7 May 8, 2009 filing to \$153,940,365 in the supplemental filing. Firm Resale
8 customers are allocated \$79,160 and Large Firm Wholesale customers are allocated
9 \$220,879 of this deficiency. The remaining \$153,640,326 of the electric revenue
10 deficiency represents an average 7.67% increase to retail sales customers.

11 II. UPDATE TO REVENUE REQUIREMENT

12 **Q. Have you provided workpapers and a description of the changes which**
13 **occurred since the original filing and their impacts on the electric revenue**
14 **deficiency?**

15 A. Yes. Included in the workpapers with this supplemental filing is a table of contents
16 which provides a comprehensive list of all the power cost exhibits that have
17 changed due to this supplemental filing. This table of contents also provides
18 guidance on where the electronic workpapers for each revised and original exhibit
19 can be found. Additionally, a table has been provided which reconciles, by
20 adjustment, the electric revenue deficiency from the original filing to that included
21 in this supplemental filing. A summarized version of this table is presented later in

1 my testimony.

2 **Q. Please explain Exhibit No. ____ (JHS-10).**

3 A. Exhibit No. ____ (JHS-10), presents similar information to Exhibit No. ____ (JHS-4)
4 in this proceeding, after being updated for the revisions as described later in my
5 prefiled supplemental direct testimony. The first page of Exhibit No. ____ (JHS-10),
6 Summary page, presents the unadjusted operating electric income statement and
7 average of monthly averages (“AMA”) ratebase for PSE as of December 31, 2008
8 (test year) in the column labeled Actual Results of Operations. The various line
9 items are then adjusted by the summarized pro forma and restating adjustments,
10 shown in the third column. The fourth column is the adjusted results of operations
11 for the test period, and this column is used to calculate the electric revenue
12 deficiency. In the second to last column the electric revenue deficiency is added to
13 the adjusted test period income statement, and the impact on the operating income
14 statement and ratebase is presented in the final column, which shows that the net
15 operating income divided by the test period ratebase results is the new requested
16 rate of return.

17 The remainder of Exhibit No. ____ (JHS-10), Pages 10-A through 10-E, presents a
18 summary schedule for all of the pro forma and restating adjustments. The first
19 column of numbers on page 10-A is the unadjusted net operating income for the
20 year ended December 31, 2008, the test year, and the unadjusted ratebase for the
21 same period. Each column to the right of the first column represents a pro forma or

1 restating adjustment to net operating income or ratebase. For the adjustments that
2 have changed since the May 8, 2009 filing, we have marked the columns as
3 “REVISED”. Each of these adjustments has a supporting schedule, which is
4 referenced by the page number shown in each column title.

5 The second to the last column, shown on page 10-E of the summary schedule
6 summarizes all of the adjustments. The final column represents the adjusted test
7 period results, which is the basis for calculating the electric revenue deficiency.

8 **Q. Have you prepared a reconciliation between the electric revenue deficiency**
9 **filed in May 2009 and the current revenue deficiency?**

10 A. Yes. The following table shows the impact of each of the pro forma and restating
11 adjustments, in excess of \$500,000, on the May 2009 electric revenue deficiency.

Description	Adjustment	Revenue Deficiency (million)
As filed May 8, 2009		\$148.4
Power Cost	10.03	(14.0)
Wild Horse Expansion	10.07	(1.6)
Mint Farm	10.08	3.6
Reg. Assets and Liabilities	10.31	1.1
Production Adjustment	10.37	19.5
Remaining Impact of Change in Rate of Return	Various	(3.5)
Other, less than \$.5 million	Various	0.4
Updated Revenue Deficiency		\$153.9

1 **Q. As the overall impact of changing the rate of return is not shown in the above**
2 **reconciliation, have you separately calculated the overall impact on the electric**
3 **revenue requirement deficiency for the change in the rate of return from**
4 **8.56% to 8.50%?**

5 A. Yes. The overall impact, which is included in various line items in the above
6 reconciliation, is to decrease the electric revenue requirement deficiency by \$2.4
7 million.

8 **Q. Have you calculated the impact on the gas revenue requirement deficiency for**
9 **the change in the rate of return from 8.56% to 8.50%?**

10 A. Yes. The impact is to decrease the gas revenue requirement deficiency by \$.9
11 million, from \$30.4 million filed in the gas supplemental filing dated August 3,
12 2009 to \$29.5 million.

13 **Q. Please explain the changes for each of the electric pro forma and restating**
14 **adjustments.**

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

19 **Adjustment 10.03, Power Costs**, have been updated based on more recent gas
20 prices and a new rate year load forecast. Please refer to Mr. David E. Mills'

1 Prefiled Supplemental Direct Testimony, Exhibit No. ____ (DEM-9CT) for a
2 description of changes in power costs. Mr. Mills' Exhibit No. ____ (DEM-10) and
3 Exhibit No. ____ (DEM-11C) provide a comparison by FERC account and resource
4 as to the changes for power costs. Mr. Donald Gaines discusses the new load
5 forecast used for calculating the rate year power costs in Exhibit No. ____ (DEG-9T).
6 Net operating income is increased by \$43,026,979 in the supplemental filing versus
7 an increase of \$34,358,642 in the original filing.

8 **Adjustment 10.05, Tax Benefit Pro forma Interest**, reflects the cumulative
9 impact of changes to ratebase made to other adjustments and the change in the cost
10 of debt explained by Mr. Donald Gaines in his supplemental prefiled direct
11 testimony. Net operating income is decreased by \$878,117 versus a decrease of
12 \$714,135 in the original filing.

13 **Adjustment 10.07, Wild Horse Wind Expansion Project**, updates the pro forma
14 deferred income tax liability for bonus tax depreciation not included in the original
15 filing. In February of this year Congress authorized a 50% bonus depreciation for
16 tax purposes that was not reflected in PSE's original filing for plant put in-service
17 in 2009. Due to this change, Deferred Income Tax Liability, Line 5, Page 10.07,
18 increased from \$12,719,969 to \$23,523,878. As a result, the ratebase for the Wild
19 Horse Wind Expansion Project decreases to \$75,427,036 from the \$86,230,945 that
20 was included in the original filing.

1 **Adjustment 10.08, Mint Farm**, updates fuel costs and production operations and
2 maintenance for Mint Farm to reflect the new power cost forecast discussed by Mr.
3 Mills. Mint Farm fuel and maintenance costs have been removed from the Power
4 Cost Adjustment, page 10.03, and included in this adjustment so that the total cost
5 of this new facility can be shown. The operating expenses presented on this
6 adjustment decrease net operating income by \$56,574,839 in this filing versus a
7 decrease of \$54,228,064 in the original filing.

8 **Adjustment 10.18, Montana Electric Energy Tax**, reflects the change in run time
9 for Colstrip as reflected in the new power cost forecast. The adjustment now
10 increases net operating income by \$51,020 versus an increase of \$92,531 in the
11 original filing.

12 **Adjustment 10.31, Regulatory Assets and Liabilities**, adjusts the Over Recovery
13 Major Maintenance amounts to actuals through June 2009 as well as for a change in
14 the scheduled maintenance for Encogen as discussed by Mr. Odom. The regulatory
15 liability in ratebase for the Over Recovery Major Maintenance as shown on Line
16 14, Page 10.31, changed from \$4,765,665 to \$2,985,943. The amortization of the
17 regulatory liability shown on Line 30, Page 10.31, increases amortization expense
18 by \$1,194,377 versus \$1,906,266 in the original filing.

19 This adjustment now decreases ratebase by \$103,466,707 versus a decrease of
20 \$105,246,429 in the original filing, and net operating income is decreased by
21 \$5,500,394 versus a decrease of \$5,037,666 in the original filing.

1 **Adjustment 10.37, Production Adjustment**, adjusts the rate year production costs
2 to the test year costs based on the relationship of the rate year delivered load to the
3 test year delivered load. As the rate year load is now expected to be less than the
4 test year load for the reasons discussed by Mr. Donald Gaines, the production factor
5 is now an additional cost of 1.204% versus a reduction in cost of 2.741% used in
6 the original filing. This adjustment now decreases net operating income by
7 \$2,080,041 versus an increase of \$4,657,230 in the original filing, and ratebase
8 increases by \$19,171,835 versus a decrease \$43,893,528 in the original filing.

9 **III. CALCULATION OF THE SUPPLEMENTAL ELECTRIC**
10 **REVENUE DEFICIENCY**

11 **Q. Would you please explain what is presented in Exhibit No. ____ (JHS-11)?**

12 A. Exhibit No. ____ (JHS-11) presents the calculation of the electric revenue deficiency
13 based on the supplemental pro forma and restated test period. The different pages
14 in Exhibit No. ____ (JHS-11) are:

15 **11.01 General Rate Increase**

16 This schedule, shown on page 11.01 of Exhibit No. ____ (JHS-11), shows the test
17 period pro forma and restated ratebase, Line 1, and net operating income, Line 6.
18 Based on \$3,825,186,520 invested in ratebase, an 8.50% rate of return and
19 \$229,503,555 of net operating income, PSE would have an overall revenue
20 deficiency of \$153,940,365. After allocation of \$220,879 and \$79,160 of the

1 revenue deficiency to Large Firm Wholesale and Sales From Resale – Firm, the
2 retail sales deficiency is \$153,640,326.

3 **11.02 Cost of Capital**

4 This schedule, shown on page 11.02 of Exhibit No. ___(JHS-11), reflects the
5 proposed capital structure for PSE during the rate year and the associated costs for
6 each capital category. The capital structure and new capital costs are presented in
7 the Prefiled Supplemental Direct Testimony of Mr. Donald E. Gaines, Exhibit
8 No. ___(DEG-9T). The new rate of return is 8.50% and 7.34% net of tax. In the
9 May 8, 2009 filing the rate of return was 8.56% and 7.38% net of tax.

10 **IV. UNIT COST**

11 **Q. Please explain Exhibit No. ___(JHS-12).**

12 A. The Unit Cost Exhibit was updated to reflect the changes as detailed above. The
13 Unit Cost Exhibit No ___(JHS-12) replaces the Exhibit No. ___(JHS-6) in the
14 original filing. This Exhibit shows how the major cost categories in the income
15 statement and ratebase are impacting the revenue deficiency.

1 **V. POWER COST ADJUSTMENT (“PCA”) EXHIBITS**

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

5 A. Yes. Exhibit No. ___(JHS-13) is equivalent to Exhibit No. ___(JHS-7) but reflects
6 the updates discussed above and is prepared in the same manner as approved in the
7 PCA Mechanism, which is set forth in Exhibit A to the Settlement Stipulation for
8 Electric and Common Issues from PSE’s 2001 general rate case in WUTC Docket
9 No. UE-011570 (“PCA Settlement Agreement”). On the first page of Exhibit
10 No. ___(JHS-13), the costs have been allocated between fixed and variable costs in
11 the same manner as discussed in the PCA Settlement Agreement. Following the
12 same methodology set forth in Exhibit A-1 to the PCA Settlement Agreement, this
13 result is then divided by the test year delivered load to calculate the new Power
14 Cost Rate of \$67.193 per MWh. The equivalent baseline rate included in the
15 original filing was \$66.911 per MWh.

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

17 A. The remaining pages of Exhibit No. ___(JHS-13) are equivalent to the Exhibits A-2
18 through D included in the PCA Settlement Agreement and have been updated to
19 reflect the changes presented by PSE in this supplemental filing.

1 **VI. CONCLUSION**

2 **Q. Does that conclude your prefiled supplemental direct testimony?**

3 **A. Yes, it does.**