

**EXHIBIT NO. ___(BAL-4T)
DOCKET NO. UG-040640, et al. (consolidated)
2004 PSE GENERAL RATE CASE
WITNESS: BARBARA A. LUSCIER**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UG-040640
Docket No. UE-040641
(consolidated)**

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

**For an Order Regarding the Accounting
Treatment for Certain Costs of the Company's
Power Cost Only Rate Filing.**

Docket No. UE-031471 (consolidated)

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

**For an Accounting Order Authorizing
Deferral and Recovery of the Investment
and Costs Related to the White River
Hydroelectric Project.**

Docket No. UE-032043 (consolidated)

**PREFILED REBUTTAL TESTIMONY OF
BARBARA A. LUSCIER (NONCONFIDENTIAL)
ON BEHALF OF PUGET SOUND ENERGY, INC.**

NOVEMBER 3, 2004

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PUGET SOUND ENERGY, INC.

PREFILED REBUTTAL TESTIMONY OF BARBARA A. LUSCIER

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PUGET SOUND ENERGY, INC.

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PREFILED REBUTTAL TESTIMONY OF BARBARA A. LUSCIER

3

I. INTRODUCTION

4

Q. Are you the same Barbara A. Luscier who submitted direct testimony in this proceeding on behalf of Puget Sound Energy, Inc. ("PSE" or "the Company")?

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A. Yes, I am.

8

Q. What is the purpose of your rebuttal testimony?

9

A. My testimony will discuss the various gas proforma and restating adjustments that the Company is proposing in rebuttal. First, I will discuss the adjustments proposed by other parties that the Company agrees with. Second, I will discuss adjustments proposed by Commission Staff and other parties that the Company does not agree with. Third, I discuss various changes to rate base and working capital. Finally, I present an updated revenue requirement deficiency of \$46,184,288 that takes into consideration agreed items and the various adjustments discussed in my testimony and represents an average 6.32% gas rate increase.

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**II. COMPARISON BETWEEN THE COMPANY
SUPPLEMENTAL FILING REVENUE DEFICIENCY AND
COMMISSION STAFF REVENUE DEFICIENCY**

Q. Have you prepared a reconciliation between the revenue deficiency filed by the Company in its supplemental filing and that filed by Commission Staff?

A. Yes. The following table highlights the differences between the Company's and Commission Staff's gas revenue deficiency.

PSE Supplemental Filing Revenue Deficiency	\$48,873,560
Cost of Equity (reduced from 11.75% to 9%)	(22,175,061)
Gas Water Heater Rate Base and Conversion Burner Rental Program	(4,094,349)
Revenue and Purchased Gas	(3,939,719)
Beginning Rate Base	(2,725,897)
Capital Structure and Cost of Debt	(2,699,686)
Bad Debt Percentage	(1,181,899)
Miscellaneous Adjustments (adjustments less than \$500,000)	(1,165,619)
Gas Water Heater and Conversion Burner Rental Program NOI	(1,016,739)
Incentive Plan	(887,723)
Property Taxes	(842,130)
Wage Increase	(769,077)
Tax Benefit of Proforma Interest	740,394
Commission Staff Revenue Deficiency	8,115,752

1 **Q. Based on the above, what other adjustments need to be reflected in the**
2 **revenue requirement?**

3 **A. Adjustment 2.03, Tax Benefit of Proforma Interest,** is a function of the
4 allowed rate base as determined by other adjustments and the effective interest
5 rate as determined by the capital structure. The Company's adjustment lowers net
6 operating income by \$6,007,908.

7 **Q. Taking into account Commission Staff positions to which the Company will**
8 **agree and Company positions to which no other party has objected, what are**
9 **the uncontested adjustments in this case?**

10 **A. The agreed upon adjustments and their impact on NOI or rate base are:**

Adjustment	NOI	Rate Base
2.02 Federal Income Tax	(\$1,221,100)	
2.04 Depreciation/Amortization	(\$156,853)	(\$120,656)
2.05 Conservation	\$754,507	
2.08 Property Taxes	(\$819,519)	
2.09 Filing Fee	(\$116,245)	
2.12 Pension Plan	(\$3,111,507)	
2.15 Employee Insurance	(\$461,431)	
2.16 Low Income Amortization	(\$1,792,203)	

1 IV. CONTESTED ADJUSTMENTS

2 Q. Please describe the contested adjustments and the Company's position on
3 each of these items.

4 A. Adjustment 2.01, Revenue & Purchased Gas. Dr. Mariam of Commission
5 Staff proposes to use NOAA's 30-year normal temperature rather than the 20-year
6 rolling average as proposed by the Company. The Company does not agree with
7 Commission Staff's adjustment for the reasons stated in Mr. Heidell's rebuttal
8 testimony.

9 Adjustment 2.06, Bad Debts. Commission Staff proposes using a three year
10 average of the Company's bad debt experience from September 30, 2000 to
11 September 30, 2002 (Exhibit No. T-___(MPP-1T) at 11), leaving out the test year.
12 Commission Staff proposes changing the bad debt calculation because the bad
13 debt experienced during the test year was abnormally high.

14 The Company's bad debt adjustment in its original filing was based on the test
15 year amount, consistent with the treatment agreed to in the settlement of the 2001
16 general rate case. The Company does not object to normalizing the bad debt
17 adjustment, which is more consistent with the historical approach to this
18 adjustment. Bad debt experience in a given year can vary significantly due to the
19 credit actions taken during the year plus the proceeding year and other factors.
20 However, the Company does not believe it is reasonable to normalize bad debt by
21 excluding a high year while including a year that might be unusually low.

1 Instead, the Company proposes to calculate this adjustment by taking the bad debt
2 for the last five years, removing the high and low years from the calculation, then
3 calculating the average of those three years. This is a more reasonable approach
4 than Commission Staff's proposal because it more accurately captures a
5 normalized amount of bad debt to build into rates. This adjustment increases net
6 operating income by \$563,835.

7 **Adjustment 2.07, Miscellaneous Operating Expenses - Incentive/Merit Plan.**

8 Commission Staff proposes that the calendar year 2003 incentive rather than test
9 year, twelve months ended September 30 2003, amount be the basis for the
10 adjustment (see Exhibit No. ___(MPP-1T) at 12). As stated in Ms. Clement's
11 rebuttal testimony, the Company does not agree with Commission Staff's
12 assertion that the expense amount associated with 2004 payout, for the 2003
13 calendar year, is an appropriate amount. Commission Staff also proposes to
14 eliminate the portion of the incentive payments associated with or tied to earnings
15 (see Exhibit No. ___(MPP-1T) at 12). PSE does not agree for the reasons state in
16 Ms. Clement's rebuttal testimony.

17 **Adjustment 2.11, Property and Liability Insurance.** The Company and
18 Commission Staff agree that these costs should be updated to actual. Staff's
19 response testimony takes into consideration some actual changes since the
20 original filing. In addition, \$300,000 of costs related to additional liability
21 coverage was incurred and \$4,389 representing a refund associated with a policy
22 cancellation occurred subsequent to the Company's original filing. The
23 Company's adjustment decreases net operating income by \$122,465.

1 **A. Cost of Capital**

2 This schedule, shown on Exhibit No. ___(BAL-G6), page 2, reflects the proposed
3 capital structure for the Company during the rate year and the associated costs for
4 each capital category. The capital structure and costs are presented in the
5 testimony of Mr. Donald Gaines, Exhibit No. ___(DEG-9CT). The rate of return
6 is 9.12%.

7 **B. Conversion Factor**

8 The conversion factor, shown on Exhibit No. ___(BAL-G6), page 3, is used to
9 adjust the net operating income deficiency by revenue sensitive items and Federal
10 income tax to determine the total revenue requirement. The revenue sensitive
11 items are the Washington State utility tax, Washington WUTC filing fee, and bad
12 debts. The conversion factor used in the revenue requirement calculation, taking
13 into consideration the adjustments discussed earlier, is 62.07738%.

14 **C. Rate Base**

15 The calculation of the test period rate base is shown in Exhibit No. ___(BAL-G6),
16 page 4, and is \$1,065,156,799.

17 **D. Working Capital**

18 The calculation of working capital is shown in Exhibit No. ___(BAL-G6), page 5.
19 The purpose of this calculation is to provide a return for the funds the shareholder
20 has invested in the Company, for utility purposes, over and above the investment

1 in plant and other specifically identified ratebase items already earning a rate of
2 return.

3 The first part of this adjustment calculates the total average invested capital that
4 has been utilized during the test year. From the average invested capital, the
5 operating investment, which is already earning a return, is deducted. A second
6 deduction is made for nonoperating assets and plant not in service. The result is
7 total working capital provided by the shareholder.

8 This total working capital is then allocated between nonoperating working capital
9 and operating working capital using the method consistent with previous rate
10 cases. The resulting operating working capital represents the shareholder's
11 average investment which is required to provide utility service but which would
12 otherwise not earn a return.

13 This proforma adjustment is \$1,966,924 and is included in the rate base for the
14 test period.

15 **VI. RATE BASE AND WORKING CAPITAL**

16 **Q. What changes are appropriate with respect to rate base and working capital**
17 **as compared to the Company's original filing?**

18 A. The Company agrees with some proposed changes and disagrees with others
19 which impact both electric and natural gas, as stated below:

20 • The Company conditionally agrees with Commission Staff on

1 adjusting the beginning gas rate base for the appropriate share of
2 the deferred tax balance in Account Number 28300513, Indirect
3 Cost Adjustment. This adjustment is discussed in detail by Mr.
4 Story in his rebuttal testimony.

5 • The Company agrees that the electric pension Account Numbers
6 18600073, Intangible FAS87 Pension Asset, 18600083, Prepaid
7 Pension Cost Excess Contribution, and 19000083, Pension
8 Liability-Accumulated Deferred Income Taxes should be included
9 as non-operating investment in the working capital calculation
10 consistent with the treatment of the gas pension accounts.

11 • The Company also agrees that Account Number 14209993,
12 Customer Accounts Receivable Clearing-CLX, should be treated
13 as a “working capital” item (neither operating nor non-operating
14 investment) in the Company’s working capital allowance
15 calculation.

16 • The Company proposes to correct an oversight in its original filing
17 and include the balance in Account Number 19000012,
18 Accumulated Deferred Income Tax-Gas (debit), in rate base as the
19 offsetting Account Number 28300442, Accumulated Deferred
20 Income Tax-Gas (credit), as a rate base item. The balance would
21 be classified as operating investment in the working capital
22 allowance calculation considering the rate base treatment. The

1 Company understands that Commission Staff agrees with this
2 treatment.

3 • The Company also proposes to classify Account Numbers
4 28300023, Deferred Tax-CLX Amortization, 28300193, Deferred
5 Income Tax-SAP, and 28300501, IRS Carryover Adjustment-CLX
6 as operating investment items in the calculation of the Company's
7 working capital allowance. The balances in these deferred tax
8 accounts are associated with rate base items and therefore represent
9 operating balances.

10 • The Company does not agree with Commission Staff in the
11 treatment of general rate case costs. The Company believes that
12 such cost should continue to be deferred and subsequently
13 amortized consistent with prior Commission direction and
14 precedent. Mr. Story addresses this issue in his rebuttal testimony.

15 **Q. Has the Company prepared exhibits that show the impact of the changes you**
16 **have discussed above?**

17 A. Yes. Mr. Story's Exhibit No. ___(JHS-9), page 1.05, and my Exhibit
18 No. ___(BAL-G6), page 1.05, show the Company's working capital calculation as
19 originally filed for electric and natural gas, respectively. Each of these pages then
20 show the difference between the Company's original filing and the Commission
21 Staff's working capital calculation. The column labeled Company Adjustments
22 shows the impact of the adjustments I discussed above and the resulting impact on

1 working capital. On the last page of these Exhibits, the impact on both working
2 capital and rate base are detailed on lines 90-101 for electric and lines 67-68 for
3 natural gas.

4 **Q. What is the impact of the above adjustments on natural gas rate base and**
5 **working capital?**

6 A. These adjustments increase rate base by \$5,855,343, and working capital by
7 \$6,004,633, as shown on Exhibit No. ___(BAL-G6) at 1.05.

1 **VI. CONCLUSION**

2 **Q. Have you prepared an exhibit including restating and proforma adjustment**
3 **reflecting the Company's rebuttal position?**

4 A. Yes. Exhibit No. ___(BAL-G5) summarizes the Company's restating and pro
5 forma adjustments. This exhibit is provided in the same format as Exhibit
6 No. ___(BAL-G3) and Mr. Russell's Exhibit No. ___(JMR-3).

7 **Q. Does that conclude your testimony?**

8 A. Yes, it does.

9 [BA043070.100 / 07771-0089]