

**EXHIBIT NO. ___(TAD-1T)
DOCKET NO. UG-110723
WITNESS: TOM DE BOER**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UG-110723

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
TOM DE BOER
ON BEHALF OF PUGET SOUND ENERGY, INC.**

SEPTEMBER 2, 2011

PUGET SOUND ENERGY, INC.
PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
TOM DE BOER

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **TOM DE BOER**

4 **I. INTRODUCTION**

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

6 A. My name is Tom De Boer. My business address is 10885 NE Fourth Street, P.O.
7 Box 97034, Bellevue WA 98009-9734.

8 **Q. By whom are you employed and in what capacity?**

9 A. I am employed by Puget Sound Energy, Inc. ("PSE" or the "Company") as
10 Director, Federal and State Regulatory Affairs.

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

13 A. Yes, I have. It is Exhibit No. ___(TAD-2).

14 **Q. What are your duties as Director, Federal and State Regulatory Affairs for**
15 **PSE?**

16 A. As Director, Federal and State Regulatory Affairs, I manage PSE's Rates and
17 Regulatory Department. My present responsibilities include oversight of various
18 regulatory proceedings before the Washington Utilities and Transportation
19 Commission ("WUTC" or "Commission"), the Federal Energy Regulatory
20 Commission ("FERC") and certain rate related issues with the Bonneville Power

1 Administration.

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

3 A. My testimony provides a general overview of the reasons PSE is requesting the
4 Pipeline Integrity Program ("PIP") tariff. I also describe the discussions PSE has
5 had with interested stakeholders regarding the proposed tariff. Finally, I address
6 policy issues that have been raised regarding the tariff, and discuss how PSE, its
7 customers, the Commission, and interested stakeholders benefit by the proactive
8 approach to pipeline integrity management that this tariff provides.

9 The Prefiled Direct Testimony of Duane A. Henderson, Exhibit No. ___(DAH-
10 1T), provides an overview of PSE's pipeline programs and the current PIP filing,
11 and the Prefiled Direct Testimony of John H. Story, Exhibit No. ___(JHS-1T),
12 describes the mechanics of the proposed tariff, the impact on customer rates and
13 the calculation of the revenue deficiency.

14 **II. PSE'S PIPELINE INTEGRITY PROGRAM**

15 **Q. Why is PSE requesting the Pipeline Integrity Program tariff?**

16 A. The PIP is intended to promote a more proactive approach to pipeline integrity
17 management by encouraging increased levels of investment in pipe replacement
18 that will enhance the safety and reliability of PSE's natural gas delivery system.
19 Pipeline safety has been a topic of concern for several years, but has recently
20 taken on new urgency due to recent explosions in California and Pennsylvania.
21 As a result of these concerns and as discussed in more detail in Mr. Henderson's

1 testimony, the scope of pipeline safety and compliance programs, at both the
2 Federal and State levels, has been expanding for several years. While in a perfect
3 world, PSE would have unlimited dollars to immediately address all facets of
4 these expanding programs, the Company does not. Accordingly, in order to meet
5 all of its capital requirements, PSE must prioritize these programs and sets
6 separate budgets, timelines and other work requirements which can limit the
7 flexibility in addressing the highest priority safety and compliance issues across
8 the entire system. The proposed PIP mitigates a major obstacle to managing
9 safety on a system-wide basis in that it allows for timely recovery of costs
10 incurred without regard to the artificial program classifications and would allow
11 the Company, in consultation with stakeholders, to increase investments to
12 address reliability, integrity and safety programs.

13 **Q. What types of pipe will be replaced as part of the PIP?**

14 A. The current PIP proposal includes replacements of wrapped steel service piping,
15 wrapped steel main, and older polyethylene pipe. The current proposal excludes
16 the bare steel replacement program as reflected in the Company's substitute filing
17 in this docket on July 14, 2011. However, the program is intended to be flexible
18 to address safety concerns as they arise in the future. PSE will discuss annually
19 with Commission Staff and other stakeholders the scope of the programs to be
20 included in future years.

21 **Q. Please describe the processes by which PSE communicated the proposed**
22 **Pipeline Integrity Program tariff to stakeholders.**

1 A. PSE held several meetings with interested stakeholders over the past several
2 months to discuss the development of the Pipeline Integrity Program. PSE met
3 with WUTC Staff (both Pipeline Safety Staff and Energy Staff) on February 1,
4 2011 and May 31, 2011; Public Counsel on April 13, 2011; and Northwest
5 Industrial Gas Users ("NWIGU") on March, 29, 2011. At these meetings PSE
6 explained the PIP tariff and discussed forecast of programs and expected budgets
7 for those programs. In addition to those meetings, on April 22, 2011 PSE
8 distributed electronic copies of its draft filing to WUTC Staff (both Pipeline
9 Safety Staff and Energy Staff), Public Counsel and NWIGU. Subsequent to this
10 filing, PSE responded to a number of informal data requests which were shared
11 with the other interested parties.

12 **Q. Is PSE's pipeline system safe without the PIP?**

13 A. Yes.

14 **Q. If PSE's natural gas system is safe, why should customers pay for accelerated**
15 **pipe replacement?**

16 A. First, it is important to remember that safety is not a single point but a continuum.
17 While we believe PSE's system is safe, the safety of PSE's system, like any other
18 utility system, can always be enhanced. The Pipeline Integrity Program tariff
19 removes barriers to additional investments and allows PSE to take a more
20 proactive approach to pipe replacement and integrity management issues. The
21 PIP tariff allows PSE the ability, in consultation with Commission Staff and
22 others, to accelerate funding for these pipeline integrity initiatives beyond the

1 level currently budgeted in any particular year and provides certainty as to the
2 timing of that recovery. PSE believes this accelerated funding is appropriate
3 given the recent pipeline safety issues that have emerged locally and nationally
4 and the age and performance of PSE's system.

5 **Q. How will customers and other stakeholders benefit from the PIP?**

6 A. The PIP enhances safety by allowing for the accelerated replacement of pipe that
7 needs to be replaced. It will give stakeholders confidence that pipeline integrity
8 management is being addressed in a proactive manner. It will also give
9 stakeholders an increased role in determining the amount of pipe to be replaced
10 each year. As discussed in the prefiled direct testimony of Mr. Henderson, PSE
11 will convene a meeting of interested stakeholders each August to review
12 programs, budgets and scope of work to be included in the following year work
13 plan, and the stakeholders will work collaboratively to determine reasonable
14 levels of investment in pipeline safety.

15 **Q. How have other states addressed pipeline integrity management issues?**

16 A. According to the American Gas Association ("AGA"), in May 2011, "more than
17 40 utilities in 19 states serving 20 million residential natural gas customers are
18 using full or limited special rate mechanisms to recover their replacement
19 infrastructure investments, and 6 additional utilities have such mechanisms

1 pending in 3 other states."¹ The AGA reports that the federal government and
2 "state commissions have begun to devote greater attention to the need for
3 additional investment in the infrastructure required to maintain and improve the
4 safety and reliability of the distribution network" and that regulators are "looking
5 at new regulatory models and rate designs that provide for more timely recovery
6 of prudently incurred safety and reliability investments."² Exhibit No. ___(TAD-
7 3) to my prefiled direct testimony is a report from the American Gas Association
8 that details the states with infrastructure cost recovery rate mechanisms.

9 **III. FINANCIAL AND OTHER CONSIDERATIONS**

10 **Q. If the Commission approves PSE's pipeline integrity program, should PSE's**
11 **return on equity be adjusted downward to reflect lower risk?**

12 A. No. PSE's return on equity is based on analyses of PSE's rate of return in relation
13 to other comparable companies. There are a wide variety of rate adjustment
14 mechanisms in place for electric and natural gas utilities across the country and
15 many of these mechanisms are already reflected in the rates of return for
16 comparable companies. The Commission should not arbitrarily reduce PSE's
17 return on equity because of the PIP tariff, given that comparable companies may
18 have in place a similar tariff, a future test year, or other rate adjustment
19 mechanisms.

¹ Exhibit No. ___(TAD-3), Natural Gas Rate Round-Up, American Gas Association
(May 2011), p. 1.

² *Id.*, p. 5.

1 **Q. If the Commission approves PSE's pipeline integrity program will PSE**
2 **experience a decrease in O&M spending as a result of the accelerated pipe**
3 **replacement?**

4 A. As Mr. Henderson discusses in his prefiled direct testimony, the effect of the PIP
5 on operations and maintenance ("O&M") spending will be minimal. While there
6 may be decreased O&M spending due to decreased leak repairs, the operations
7 and maintenance related to construction will increase. Also, leak surveys will
8 continue even after the older pipe is replaced, so that aspect of O&M spending
9 will not change even with the installation of newer pipe.

10 **Q. Will the PIP allow PSE to recover its current level of investment in pipeline**
11 **replacement through the tariff?**

12 A. No. As discussed in the prefiled direct testimony of John Story, the revenue for
13 the PIP tariff is based on the incremental investment in the approved programs.

14 **Q. How do you respond to concerns raised by other parties that the pipeline**
15 **integrity program is single-issue rate making and that PSE has not**
16 **demonstrated exceptional circumstances to justify such a mechanism?**

17 A. These are legal issues that the parties can address in briefing, and the Commission
18 will rule on these issues in its final order. That being said, the Commission has
19 authorized other mechanisms that could be considered single issue rate making
20 mechanisms. Further, as I have previously testified, commissions, legislatures,
21 and utilities around the country are recognizing the benefits of establishing

1 programs that allow for accelerated pipe replacement and that take a more
2 proactive approach to pipeline integrity management. The PIP tariff tracker that
3 PSE proposes in this docket provides a mechanism by which the Commission can
4 enhance pipeline integrity management and safety in a collaborative environment
5 where all stakeholders have a seat at the table and can provide input on PSE's
6 pipeline integrity program. Other "single-issue rate making" mechanisms have
7 grown out of the need to address emerging issues and changing circumstances.
8 For example, the PCA and PCORC arose out of the California energy crisis and
9 the need to make PSE less dependent on the volatility of short-term power
10 purchases. The PIP similarly grows out of a concern by commissions and natural
11 gas utilities across the country that safety can be enhanced by accelerating
12 necessary pipe replacement beyond the pace that has been occurring over the past
13 several years.

14 Further, as to the single-issue rate making concern, the fact that the Commission
15 is looking at PSE's revenues and expenses in total on a regular basis in the
16 general rate case process should mitigate concerns regarding single issue rate
17 making and the matching principle. Therefore, the concerns expressed regarding
18 single issue rate making should not be seen as a barrier to implementation of the
19 PIP tracker.

20 IV. CONCLUSION

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

22 A. Yes, it does.