

**EXHIBIT NO. \_\_\_(JHS-1T)  
DOCKET NO. UG-110723  
WITNESS: JOHN H. STORY**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of  
PUGET SOUND ENERGY, INC.'S  
Natural Gas Tariff Increase**

**Docket No. UG-110723**

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

**SEPTEMBER 2, 2011**

**PUGET SOUND ENERGY, INC.**

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

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1 **PUGET SOUND ENERGY, INC.**

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

4 **I. INTRODUCTION**

5 **Q. Please state your name, business address, and present position with Puget**  
6 **Sound Energy, Inc.**

7 A. My name is John H. Story. I am Director of Cost and Regulation for Puget Sound  
8 Energy, Inc. ("PSE"). My business address is 10885 N.E. Fourth Street, Bellevue,  
9 Washington, 98004.

10 **Q. Would you please provide a brief description of your educational and**  
11 **business experience?**

12 A. Please see Exhibit No. \_\_\_(JHS-2).

13 **Q. What topics are you covering in your testimony?**

14 A. I describe the mechanics of the proposed Pipeline Integrity Program ("PIP") tariff,  
15 Natural Gas Schedule No. 134, and the impact on customer rates for the time  
16 period the PIP rates will be in effect. I also describe the calculation of the  
17 revenue deficiency associated with the PIP for the twelve months ended October  
18 31, 2012 and how these calculations will be updated in future periods.

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**II. CALCULATION OF THE PIP**

**Q. Please describe the natural gas plant investments that will be included in the PIP.**

A. As Duane Henderson describes in his prefiled direct testimony, Exhibit No. \_\_\_(DAH-1T), the initial replacement program will include investments incurred to replace: (1) wrapped steel service; (2) wrapped steel main; and (3) older polyethylene ("PE") pipe. Most of the infrastructure to be replaced under this program was put into service prior to 1985.

**Q. Did PSE provide a description of the PIP to Staff and other interested parties prior to filing the Company's prefiled direct testimony in this proceeding?**

A. Yes. In February 2011 PSE began meeting with Staff and other interested parties to present a proposal for a tariff that would track the costs associated with a pipeline integrity program. At that time the proposal included bare steel replacement, plus the programs listed above, and a revenue calculation that was based on truing up what was already included in rates for all of the listed investments. On April 26, 2011, PSE filed tariff sheets with the Commission to implement the proposed program effective July 1, 2011. In addition to the tariff sheets, the filing included: a cover letter explaining the purpose of the filing and providing details regarding the scope of the program; and an attachment that

1 provided additional details on the determination of the revenue requirement, cost  
2 tracking, annual timeline, cost allocation and rate design, and annual budget and  
3 program forecast report. This initial filing was amended June 29, 2011 to move  
4 the effective date of the filing from July 1 to August 1, 2011.

5 As discussions progressed, PSE modified the initial proposal to try and address  
6 concerns raised by various parties. On July 14, 2011 PSE filed a letter modifying  
7 the initial filing and included a description of the PIP proposal presented in this  
8 filing. A copy of the July 14, 2011 filing is provided as Exhibit No. \_\_\_\_ (JHS-3).

9 **Q. Has PSE made any changes to the methodology proposed since the July 14,**  
10 **2011 filing?**

11 **A.** No. The amount to be collected during the initial period was updated to reflect  
12 the new rate period, November 1, 2011 through October 31, 2012. The current  
13 proposal generates revenue of \$1,906,869. This revenue increase represents an  
14 average 0.2 percent increase over customer base rates. This proposed increase is  
15 based on actual investments for the three replacement programs from July 1, 2010  
16 through July 31, 2011 and the current forecast capital expenditures from August  
17 1, 2011 through October 31, 2012.

18 **Q. How is the revenue deficiency calculated?**

19 **A.** The formula for calculating the PIP revenue deficiency is provided in Attachment  
20 A to Exhibit No. \_\_\_\_ (JHS-3). PSE provided this formula as Attachment A to the

1 revised tariff filing on July 14, 2011. To summarize the calculation, the revenue  
2 deficiency for PIP is based on the incremental investment in the approved  
3 programs through the rate year. The incremental investment is the new  
4 investment in PIP plant that will be put into service from the end of the most  
5 recent test year used to change the general rate tariff schedules for natural gas  
6 through the PIP rate year. For the current filing, the incremental investment is  
7 from the period of July 1, 2010 through October 31, 2012, with the PIP rate year  
8 November 2011 through October 2012.

9 The revenue deficiency includes the return on this incremental investment, less  
10 accumulated depreciation and deferred taxes associated with that investment, plus  
11 the increased depreciation expense associated with the new investment.

12 **Q. Will the projections used in determining the revenue deficiency be adjusted**  
13 **to actual expenditures?**

14 A. Yes. PSE will track actual expenditures associated with the PIP programs and  
15 will update the expenditures to calculate what the actual revenue deficiency  
16 should have been. Any true-up to the current PIP rate will include actual  
17 expenditures through the month prior to filing a new PIP adjustment.

18 **Q. Please explain Exhibit No. \_\_\_(JHS-4).**

19 A. Exhibit No. \_\_\_(JHS-4) presents the calculation of the total revenue deficiency  
20 for the PIP rate year. The revenue deficiency calculation for each of the three PIP

1 programs is supported in Exhibit No. \_\_\_\_ (JHS-5) through Exhibit No. \_\_\_\_ (JHS-  
2 7). The exhibit that supports the individual program costs is shown in the column  
3 heading for that program.

4 **Q. Please explain the exhibits that support Exhibit No. \_\_\_\_ (JHS-4).**

5 A. Exhibit No. \_\_\_\_ (JHS-5) through Exhibit No. \_\_\_\_ (JHS-7) calculate the revenue  
6 deficiency for wrapped steel mains, wrapped steel services and older PE pipe,  
7 respectively. These exhibits are all presented in a similar manner. The first page  
8 of each exhibit shows the calculation of the revenue deficiency for the specific  
9 program that is being presented in that particular exhibit. The remaining pages of  
10 each exhibit show the actual and projected monthly plant investment as it is  
11 expected to be placed in service. As the plant investment is placed in service the  
12 impact on accumulated depreciation, deferred taxes and depreciation expense is  
13 calculated. This detail is used to calculate the average of the monthly averages  
14 for rate base and depreciation expense for the PIP rate year.

15 **Q. What rate of return does PSE use in its calculation of the revenue deficiency?**

16 A. PSE is using the net of tax rate of return that was approved in its most recently  
17 completed general rate case, Docket No. UG-090705.

1 **Q. How would the PIP tariff be affected by a change in natural gas general rate**  
2 **tariff schedules?**

3 A. The PIP tariff schedule is adjusted on November 1 of a given year. When general  
4 tariff schedules are changed during a PIP rate year, the exhibits equivalent to  
5 Exhibit No. \_\_\_\_ (JHS-5) through Exhibit No. \_\_\_\_ (JHS-7) would be adjusted,  
6 based on the effective date of the new general rate tariff schedules, to reflect the  
7 new test year and net of tax rate of return approved in the general rate tariff filing.  
8 If new depreciation rates were approved, the depreciation rates for the plant  
9 accounts would also be changed as of the effective date of the new general rate  
10 tariff schedules. Using these inputs the PIP revenue deficiency for the PIP rate  
11 year would be recalculated taking into consideration the original inputs for the  
12 PIP rate period prior to the date of the new general rate tariffs. At the time new  
13 general rate tariff schedules become effective, the PIP tariff schedule (Schedule  
14 134) would be adjusted to recover the updated PIP rate year revenue deficiency.

15 **III. CUSTOMER RATE IMPACT**

16 **Q. How was the PIP revenue deficiency allocated to rate schedules?**

17 A. Distribution main and service line costs included in the PIP were allocated to rate  
18 schedules based on the allocated costs of mains and service piping in the natural  
19 gas cost of service study filed by PSE in its most recently completed gas rate case,  
20 the 2010 Gas Tariff Increase Filing ("GTIF"), Docket No. UG-101644. For  
21 Account 376, Distribution Mains, allocation factors by schedule were developed



1 by dividing each schedule's portion of GTIF costs by total Account 376 GTIF  
2 costs, net of accumulated depreciation. For Account 380, Services, allocation  
3 factors by schedule were developed by dividing each schedule's portion of GTIF  
4 costs by total Account 380 GTIF costs, net of accumulated depreciation. PIP  
5 costs were allocated to schedules based on these allocation factors.

6 **Q. Please describe how the rates were developed.**

7 A. Rates were developed for each schedule by dividing the allocated revenue  
8 requirement by the projected terms for the 12 month period associated with the  
9 rate period, November 2011 through October 2012. The resulting rate is a per  
10 term rate to be charged for all consumption on the schedule. The rate for special  
11 contract customers was set to equal the rate for Schedules 87 and 87T, to ensure  
12 that special contract customers do not pay a higher rate than they would pay if  
13 they took service on general tariff schedules.

14 **Q. Have you prepared an exhibit that presents the allocated costs and rates by**  
15 **schedule?**

16 A. Yes. Exhibit No. \_\_\_(JHS-8) presents the allocated costs and proposed rates by  
17 schedule.

18 **Q. Please describe the customer impacts by schedule.**

19 A. Table 1 presents the estimated revenue by schedule for the November 1, 2011  
20 through October 31, 2012 period and the estimated percentage increase on

1

customers' bills.

**Table 1: Estimated Customers Impacts November 2011 -October 2012**

<b>Schedule</b>	<b>Proposed PIP Revenue</b>	<b>Estimated Percent Increase</b>
Residential (16, 23)	1,312,443	0.2%
Commercial & industrial (31, 31T)	447,995	0.2%
Large volume (41, 41T)	66,604	0.1%
Interruptible (85, 85T)	30,588	0.2%
Limited interruptible (86, 86T)	6,669	0.1%
Non exclusive interruptible (87, 87T)	30,379	0.1%
Contracts	8,574	0.5%
<b>Total (1)</b>	<b>1,903,253</b>	<b>0.2%</b>

(1) The total estimated customer impacts do not match the total revenue deficiency due to the rounding of rates.

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The typical residential bill for a customer using 68 therms per month is expected to increase approximately 16 cents from \$85.01 to \$85.17.

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**Q. Have you included revised tariff sheets as an exhibit?**

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A: Yes, attached as Exhibit No. \_\_\_(JHS-9) are revised tariff sheets reflecting the changes described in my testimony.

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**Q. Have the revised tariff sheets been submitted to the Commission in a substitute tariff filing?**

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A: No, the tariff sheets in the original tariff filing were suspended in this proceeding and PSE expects, if so ordered by the Commission, to make a compliance tariff filing substantially in the form of the tariff sheets attached as Exhibit No.

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\_\_\_(JHS-9).

1 **IV. CONCLUSION**

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

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