

**EXHIBIT NO. ___(JHS-11T)
DOCKET NOS. UE-111048/UG-111049
2011 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-111048
Docket No. UG-111049**

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

SEPTEMBER 1, 2011

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.....5

IV. UNIT COST6

V. POWER COST ADJUSTMENT ("PCA") EXHIBITS6

VI. CONCLUSION.....8

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 nine supporting
9 exhibits (Exhibit No. ____ (JHS-2) through Exhibit No. ____ (JHS-10)).

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, other power cost projections
13 and a reclassification of legal expense discussed by Mr. David E. Mills in his
14 prefiled supplemental direct testimony, Exhibit No. ____ (DEM-8T). I will also
15 provide updated exhibits that are impacted as a result of these changes.

16 These changes to the pro forma and restating adjustments result in a reduction of
17 \$8,347,055 to PSE's total electric revenue deficiency, from the \$161,275,556, set
18 forth in PSE's June 13, 2011 filing to \$152,928,501 in the supplemental filing.

19 Firm Resale customers are allocated \$164,110 and Large Firm Wholesale
20 customers are allocated \$427,532 of this deficiency. The remaining \$152,337,039

1 of the electric revenue deficiency represents an average 7.70 percent rate increase to
2 retail sales customers, which is lower than the 8.13 percent rate increase requested
3 in PSE's June 13, 2011 filing.

4 II. UPDATE TO REVENUE REQUIREMENT

5 **Q. Have you provided workpapers and a description of the changes that occurred**
6 **since the original filing and their impacts on the electric revenue deficiency?**

7 A. Yes.

8 **Q. Please explain Exhibit No. ____ (JHS-12).**

9 A. Exhibit No. ____ (JHS-12) presents similar information to Exhibit No. ____ (JHS-4) in
10 this proceeding, after being updated for the revisions as described later in my
11 prefiled supplemental direct testimony. The first page of Exhibit No. ____ (JHS-12),
12 page 12.01, presents the unadjusted operating electric income statement and
13 average of monthly averages ("AMA") rate base for PSE as of December 31, 2010
14 (test year) in the column labeled Actual Results of Operations. The various line
15 items are then adjusted by the summarized pro forma and restating adjustments,
16 shown in the third column. The fourth column is the adjusted results of operations
17 for the test period, and this column is used to calculate the electric revenue
18 deficiency. In the second to last column, the electric revenue deficiency is added to
19 the adjusted test period income statement, and the impact on the operating income
20 statement and rate base is presented in the final column, which shows that the net

1 operating income divided by the test period rate base results in the requested rate of
2 return.

3 Pages 12.02 through 12.05 of this Exhibit No. ____ (JHS-12) present a summary
4 schedule for all of the pro forma and restating adjustments. The first column of
5 numbers on page 12.02 is the unadjusted net operating income and rate base for the
6 year ended December 31, 2010, the test year. Each column to the right of the first
7 column represents a pro forma or restating adjustment to net operating income or
8 rate base. For the two adjustments that have changed since the June 13, 2011 filing,
9 we have marked the columns as "**REVISED**". Each of these adjustments has a
10 supporting schedule, which is referenced by the exhibit number and page number
11 shown in each column title.

12 The second to the last column, shown on page 12.05 of the summary schedule,
13 summarizes all of the adjustments. The final column represents the adjusted test
14 period results, which are the basis for calculating the electric revenue deficiency.

15 **Q. Please explain Exhibit No. ____ (JHS-13) and Exhibit No. ____ (JHS-14)**

16 A. All pages in Exhibit No. ____ (JHS-13) are the supporting schedules for adjustments
17 directly related to electric operations, and all pages in Exhibit No. ____ (JHS-14) are
18 the supporting schedules for adjustments common between electric and natural gas
19 operations. These are similar to Exhibit No. ____ (JHS-5) and Exhibit No. ____ (JHS-
20 6) in my prefiled direct testimony and exhibits.

1 **Q. Have you prepared a reconciliation between the electric revenue deficiency**
2 **filed in June 2011 and the current revenue deficiency?**

3 A. Yes. The following table shows the impact of each of the revised pro forma and
4 restating adjustments.

Description	Revenue Deficiency (million)
As filed June 13, 2011	\$161.3
13.01 Power Cost	(9.9)
14.06 Miscellaneous Expense	1.5
Updated Revenue Deficiency	\$152.9

5 **Q. Please explain the changes for each of the revised electric pro forma and**
6 **restating adjustments.**

7 A. **Adjustment 13.01, Power Costs**, has been updated for the following changes,
8 which are discussed in the prefiled supplemental direct testimony of David E. Mills,
9 Exhibit No. ___(DEM-8T).

- 10 1. Natural Gas Prices Updated
- 11 2. Contract Updates
- 12 3. Mark to Market Calculation
- 13 4. Remove Transmission related Legal Costs in Account 557
- 14 5. Klamath Peakers PPA
- 15 6. Transmission and Wind Integration Costs
- 16 7. Transmission Reassignments
- 17 8. Wells Hydroelectric Project Contract
- 18 9. Other Power Cost Updates

1 Mr. Mills' Exhibit No. ___(DEM-9) and Exhibit No. ___(DEM-10C) provide a
2 comparison by FERC account and resource as to the changes for power costs. Net
3 operating income is increased by \$100,033,495 in the supplemental filing versus an
4 increase of \$93,899,884 in the original filing for this pro forma adjustment. Page
5 13.01(A) of Exhibit No. ___(JHS-13) details where various power cost amounts
6 have been moved to other adjustments for presentation purposes, and has been
7 updated for these changes as well.

8 **Adjustment 14.06, Miscellaneous Expenses**, reflects the reclassification of
9 transmission related legal expenses from Account 557, Other Production Expenses,
10 to an administrative and general expense. This adjustment is the offset to item 4
11 listed in the Power Cost Adjustment. These legal costs are being reclassified in this
12 adjustment so that they are properly classified and the costs are removed from a
13 power cost account used in setting a fixed component of the baseline rate in the
14 PCA. Net operating income is decreased by \$4,311,356 versus a decrease of
15 \$3,359,172 in the original filing for this restating adjustment.

16 **III. CALCULATION OF THE SUPPLEMENTAL ELECTRIC**
17 **REVENUE DEFICIENCY**

18 **Q. Would you please explain what is presented in Exhibit No. ___(JHS-15)?**

19 A. Exhibit No. ___(JHS-15) presents the calculation of the electric revenue deficiency
20 based on the supplemental pro forma and restated test period. The schedule, shown
21 on page 15.01 of Exhibit No. ___(JHS-15), shows the test period pro forma and

1 restated rate base (Line 1), and net operating income (Line 6). Based on
2 \$4,904,756,946 invested in rate base, an 8.42 percent rate of return, each of which
3 have not changed from the original filing, and the revised \$318,050,321 of net
4 operating income, PSE has an overall revenue deficiency of \$152,928,501. After
5 allocation of \$427,352 and \$164,110 of the revenue deficiency to Large Firm
6 Wholesale and Sales From Resale – Firm, the retail sales deficiency is
7 \$152,337,039.

8 IV. UNIT COST

9 **Q. Please explain Exhibit No. ___(JHS-16).**

10 A. The unit cost exhibit was updated to reflect the changes as detailed above. Exhibit
11 No. ___(JHS-16) replaces Exhibit No. ___(JHS-8) in the original filing. This
12 exhibit shows how the major cost categories in the income statement and rate base
13 are impacting the revenue deficiency.

14 V. POWER COST ADJUSTMENT ("PCA") EXHIBITS

15 **Q. Have you prepared revised PCA exhibits that have been updated to reflect the**
16 **changes discussed previously?**

17 A. Yes. Exhibit No. ___(JHS-17), which is equivalent to Exhibit No. ___(JHS-9),
18 reflects the updates discussed above and is prepared in the same manner as
19 approved in the PCA Mechanism, which is set forth in Exhibit A to the Settlement
20 Stipulation for Electric and Common Issues ("PCA Settlement Agreement") in

1 PSE's 2001 general rate case, WUTC Docket No. UE-011570. On the first page of
2 Exhibit No. ____ (JHS-17), the costs have been allocated between fixed and variable
3 costs in the same manner as discussed in the PCA Settlement Agreement.

4 Following the same methodology set forth in Exhibit A-1 to the PCA Settlement
5 Agreement, this result is then divided by the test year delivered load to calculate the
6 new power cost rate of \$64.810 per MWh. The equivalent baseline rate included in
7 the original filing was \$65.257 per MWh.

8 **Q. What other pages within Exhibit No. ____ (JHS-17) have been revised?**

9 A. Page 7 of Exhibit No. ____ (JHS-17) ("Page 17.05 – Exhibit A-5 – Power Costs")
10 and pages 8 through 12 of Exhibit No. ____ (JHS-17) ("Page 17.06 – Exhibit D –
11 Regulatory Assets and Liabilities") have been revised.

12 **Q. What changes were made to Page 17.05 – Exhibit A-5 – Power Costs?**

13 A. PCA Exhibit A-5 is a copy of the power cost adjustment – currently page 1 in
14 Exhibit No. ____ (JHS-12) ("Page 12.01") in this proceeding. Therefore, any
15 revisions made to page Page 12.01 must also be made to Page 17.05, which are the
16 only changes that have been made in this revised exhibit.

17 **Q. Please discuss the purpose of page 17.06 "Exhibit D" and the reason that it has
18 been revised.**

19 A. Exhibit D is used to determine the amount of return on and return of the regulatory
20 assets and liabilities included in the calculation of the PCA customer deferral. In

1 every rate filing, PSE provides an update of all PCA mechanism pages based on
2 amounts and regulatory treatment being requested in that filing. Therefore, page
3 17.06 "Exhibit D" in PSE's original filing represents the return on and return of the
4 production related regulatory assets and liabilities currently approved and/or being
5 requested to be recovered under the PCA mechanism. This presentation is based on
6 a PCA period (calendar year) and represents an estimate of what the PCA period
7 would look like based on amounts and estimates included in the current filing. This
8 schedule does not impact either the overall revenue deficiency or the power cost
9 baseline rate on page 17.01. Page 9.06 from the original filing contained formula
10 errors in the calculation of the annual and monthly amounts shown for some of the
11 regulatory assets and liabilities. These formula errors have been corrected on Page
12 17.06 and have no impact on the overall revenue deficiency or the power cost
13 baseline rate on page 17.01.

14 VI. CONCLUSION

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

16 **A.** Yes, it does.