

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

Puget Sound Energy, Inc. )

Docket No. ER11-\_\_\_\_-000

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PREPARED DIRECT TESTIMONY OF  
JOHN H. STORY  
ON BEHALF OF PUGET SOUND ENERGY, INC.

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1 **SECTION I - INTRODUCTION**

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

3 A. My name is John H. Story. My business address is 10885 NE Fourth Street, Bellevue,  
4 Washington 98004-5591.

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

6 A. I am employed by Puget Sound Energy, Inc. ("PSE") as Director of Cost and Regulation.

7 **Q. What are your duties as Director of Cost and Regulation?**

8 A. As Director of Cost and Regulation, I am responsible for determining and submitting  
9 PSE's revenue requirements for various regulated services to the appropriate regulatory  
10 authorities.

11 **Q. Briefly describe your education and relevant employment experience.**

12 A. I graduated from the University of Washington in 1973 with a Bachelor of Arts degree in  
13 Business Administration and a major in Accounting. I am a member of the Washington  
14 Society of Certified Public Accountants.

15 I started with Puget Sound Power & Light Company ("PSP&L") in January of  
16 1974 and worked in several areas of PSP&L, including Customer Accounting, Risk and

1 Claims, General Accounting, Major Projects, Internal Auditing and General Books. I  
2 have also served as Assistant Controller/Treasurer, Manager of Risk Control, and  
3 Director of Revenue Requirement for PSP&L.

4 Since PSP&L merged with Washington Natural Gas to form PSE, I have worked  
5 in Energy Supply as Manager of Risk Control, as well as in my present position of  
6 Director of Cost and Regulation.

7 **Q. What is the purpose of your testimony in this proceeding?**

8 A. The purpose of my testimony is to provide the cost of service support required under Part  
9 35 of the Commission's regulations for PSE's updated regulation capacity rate under  
10 Schedules 3 and 13 of the PSE Open Access Transmission Tariff ("OATT"). To that  
11 end, I have developed and supported the annual revenue requirement associated with the  
12 pool of regulation resources identified by PSE Witness Mike Tongue. I am sponsoring  
13 Statements AA-BM, except for Statement AV, Rate of Return (Exhibit PSE-401), which  
14 is sponsored by PSE Witness James Sant, and Statement BL, Rate Design Information  
15 (Exhibit PSE-101), which is sponsored by PSE Witness Lloyd Reed. The cost of service  
16 statements that I am sponsoring are contained in Exhibit PSE-501.

17 **SECTION II - COST OF SERVICE STATEMENTS**

18  
19 **Q. Please describe in general terms how you developed the monthly capacity rate for**  
20 **the facilities in the regulation resource pool identified in the testimony of PSE**  
21 **witness Mike Tongue.**

22 A. I prepared a traditional cost-of-service analysis for the generation units owned by PSE as  
23 identified by Mr. Tongue with a revenue requirement equal to the sum of the return on  
24 rate base, income tax expense, fixed operations and maintenance ("O&M") expenses,

1 depreciation, and taxes other than income taxes. For the Mid-Columbia hydroelectric  
2 generation resources, which are not owned by PSE, the annual revenue requirement  
3 consists solely of PSE's purchased power costs for the resource.

4 **Q. Please describe generally the cost of service statements contained in Exhibit PSE-**  
5 **501.**

6 A. In accordance with Part 35 of the Commission's regulations, Exhibit PSE-501 contains  
7 Statements AA-BM for Period I and for Period II, with the exception of Statements AV  
8 and BL which, as indicated above, are sponsored by James Sant and Lloyd Reed and  
9 included with this filing as Exhibits PSE-401 and PSE-101, respectively. These cost of  
10 service statements provide the cost support for the revenue requirement associated with  
11 the pool of generation resources identified by Mr. Tongue.

12 **Q. Has PSE omitted any of the required statements?**

13 A. Yes. PSE has omitted, and has respectfully requested Commission waiver of, Statements  
14 AM (Construction Work in Progress), AO (Rate for Allowance for Funds Used During  
15 Construction), AS (Additional State Income Tax Deductions), AT (State Tax  
16 Adjustments), AW (Cost of Short-Term Debt), and AX (Other Recent and Pending Rate  
17 Changes) because PSE is not seeking cost recovery of these items in its proposed rate for  
18 regulation capacity or the statements are otherwise inapplicable to PSE's proposed  
19 regulation capacity rate. PSE is further omitting statements BB (Allocation Demand and  
20 Capability Data), BD (Allocation Energy and Supporting Data), BE (Specific Assignment  
21 Data), BF (Exclusive-Use Commitments of Major Power Supply Facilities), BI (Fuel  
22 Cost Adjustment Factors), and BM (Construction Program Statement) because these  
23 statements are not applicable to PSE's proposed regulation capacity rate.

1 **Q. What test period was utilized in the preparation of the statements?**

2 A. The test period is Period II, calendar year 2011. The base period is Period I, calendar  
3 year 2010.

4 **Q. What is the source of the information in the Period I statements?**

5 A. The data shown in the Period I statements is based on actual, calendar year operating  
6 results and rate base as shown on PSE's books and records as reported to this  
7 Commission in PSE's 2010 FERC Form 1 report.

8 **Q. What is the source of the information in the Period II statements?**

9 A. The cost of service data shown in the Period II statements is primarily based on PSE's  
10 regularly prepared corporate budget for 2011. While the corporate budget by its nature  
11 covers a range of FERC accounts, the PSE budget does not assign a specific FERC  
12 account number to each budget item. Therefore, budgeted items were assigned to FERC  
13 accounts by reviewing the FERC accounts that were associated with each budgeted item  
14 on a historical basis. In addition, there are certain costs that are not included in PSE's  
15 regularly prepared corporate budget, including purchased power (Account 555),  
16 purchased power related items (Account 557), fuel (accounts 501 and 547), and  
17 transmission by others (Account 565). These costs are built into PSE's financial planning  
18 model, along with revenues, and overall corporate planning items. Like PSE's corporate  
19 budget, its financial planning model is not organized by FERC account; therefore, use of  
20 its information for the Period II statements required an examination of the individual  
21 results of the model run on an item by item basis to determine the appropriate FERC  
22 accounts. Relevant excerpts of PSE's corporate budget and financial planning model are

1 included with this filing as my confidential workpapers, as required by 18 C.F.R. §  
2 35.13(d)(5).

3 **Q. Please describe Statement BK.**

4 A. Statement BK generally accumulates the cost of service data set forth in Statements AA-  
5 AY to provide the functionalized revenue requirement of PSE's utility services.

6 Page 1 of Statement BK shows that general, intangible, and common plant in  
7 service, and accumulated depreciation, are allocated to utility services based on direct  
8 labor exclusive of administrative and general labor. Accumulated deferred income taxes  
9 are allocated to utility services based on gross plant. Working capital comes from  
10 Statement AL, and was determined by taking 1/8<sup>th</sup> of production O&M less fuel and  
11 purchased power costs consistent with FERC precedent.<sup>1</sup> Total rate base by utility  
12 service is shown on line 29.

13 The second page of Statement BK shows operation and maintenance expenses.  
14 The functional categories are directly assigned to utility services with the exception of  
15 administrative and general expenses, which are allocated based on labor, exclusive of  
16 administrative and general labor.

17 The third page of Statement BK shows depreciation expenses. The functional  
18 production, transmission, and distribution categories are directly assigned to utility  
19 services. Intangible, general and common plant amounts are allocated based on labor,  
20 exclusive of administrative and general labor.

21 The fourth page of Statement BK shows taxes, which are allocated based on gross  
22 plant, with the exception of payroll taxes, which are allocated according to the direct  
23 labor ratio.

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<sup>1</sup> *Carolina Power & Light Co.*, 6 FERC ¶ 61,154 at p. 61,295 (1979).

1 **Q. Please describe the table following Statement BK titled “Production – Fixed O&M.”**

2 A. The Schedule 3 and 13 capacity rate is based on fixed costs and does not include variable  
3 O&M expense. This table demonstrates the breakdown of production O&M between  
4 fixed and variable costs. As the table shows, amounts booked to FERC Accounts 501  
5 (Fuel - Coal), 510 (Maintenance Supervision and Engineering), 512 (Maintenance of  
6 Boiler Plant), 513 (Maintenance of Electric Plant - Steam), 544 (Maintenance of Electric  
7 Plant – Hydraulic), and 547 (Fuel – Natural Gas) were deemed variable costs and are not  
8 included in the production O&M for purposes of determining the Schedule 3 and 13  
9 capacity rate.

10 **Q. Please describe Statement BK – By Plant.**

11 A. Statement BK - By Plant provides the production cost of service identified in Statement  
12 BK by the individual production facilities included in the pool of regulation resources  
13 identified by Mr. Tongue. Costs were directly assigned to the individual generation  
14 resources wherever possible. Production costs that were not directly assignable were  
15 allocated among PSE’s generation resources using a gross plant ratio allocator. In the  
16 case of production fixed O&M, costs were allocated to the individual plants using a plant  
17 capacity ratio based on the net plant capability (“Net Capability”)<sup>2</sup> of the plants as stated  
18 in PSE’s 2010 FERC Form 1 and set forth on line 28 of Statement BK-By Plant. The  
19 allocation of costs to the individual plants from total production cost of service is shown  
20 in greater detail on Statement BK-By Plant Backup.

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<sup>2</sup> The plant capacity figures cited in Statement BK were taken directly from PSE’s 2010 FERC Form 1 Report. Capacity figures for the PSE thermal plants are the “Net Continuous Plant Capability When Not Limited by Condenser Water” ratings. Capacity figures for the PSE hydro plants are the “Net Plant Capability Under Most Favorable Oper[ating] Conditions” ratings.

1 **Q. What is the monthly capacity rate associated with the pool of regulation resources**  
2 **identified by Mr. Tongue?**

3 A. Statement BK-By Plant identifies the monthly capacity rate associated with the  
4 generation resources comprising the regulation resource pool identified by Mr. Tongue.  
5 The Period II monthly capacity rate is \$12.39 / kW-month.

6 **Q. How was the Period II \$12.39 / kW-month capacity rate identified in Statement BK-**  
7 **By Plant determined?**

8 A. The \$12.39 / kW-month capacity rate identified in Statement BK-By Plant was calculated  
9 by determining the weighted average cost of capacity of the resources in the pool, using  
10 the Net Capability of the plants. To do so, the annual revenue requirement of each plant  
11 in the pool was divided by the Net Capability of the plant to determine the annual  
12 capacity rate associated with the plant, as shown on line 29. The annual capacity rate for  
13 each plant was divided by 12 to yield the monthly capacity rate in \$/kW-month, as shown  
14 on line 30. Next, the Net Capability of each plant was divided by the total Net Capability  
15 of the regulation resource pool and this fraction was multiplied by the monthly capacity  
16 rate of each plant. This calculation was performed for all plants in the regulation  
17 resource pool to determine the weighted average capacity rate in \$/kW-month for each  
18 plant in the pool as shown on line 32. The sum of the weighted average capacity rates is  
19 \$12.39 / kW-month, as shown in column 2.

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

21 A. Yes.