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January 27, 2004

***Via Email and Federal Express***

Carole J. Washburn  
Secretary  
Washington Utilities and Transportation Commission  
PO Box 47250  
1300 S Evergreen Park Drive, SW  
Olympia WA 98504-7250

Re: In the matter of Washington Utilities and Transportation Commission v. Puget  
Sound Energy, Inc.  
**Docket Nos. UG-040640 et al.**

Dear Ms. Washburn:

Enclosed please find the original and twenty (20) copies of the Reply Brief on behalf of the Industrial Customers of Northwest Utilities in the above-referenced Docket.

The electronic copies will be sent to the Records Center and parties on January 27, 2005, via electronic mail.

Please return a file-stamped copy of the document in the postage-prepaid envelope provided. Thank you for your assistance.

Sincerely yours,



Ruth A. Miller

Enclosures

cc: Service List

**BEFORE THE WASHINGTON STATE  
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	
	)	
Complainant,	)	<b>DOCKET NO. UG-040640</b>
	)	<b>DOCKET NO. UE-040641</b>
	)	<i>(consolidated)</i>
vs.	)	
	)	
PUGET SOUND ENERGY, INC.,	)	
	)	
Respondent.	)	
	)	
<hr/>		
In the Matter of the Petition of	)	
	)	
PUGET SOUND ENERGY, INC.,	)	<b>DOCKET NO. UE-031471</b>
	)	<i>(consolidated)</i>
For an Order Regarding the Accounting Treatment for Certain Costs of the Company's Power Cost Only Rate Filing.	)	
	)	
<hr/>		
In the Matter of the Petition of	)	
	)	
PUGET SOUND ENERGY, INC.,	)	<b>DOCKET NO. UE-032043</b>
	)	<i>(consolidated)</i>
For an Accounting Order Authorizing Deferral and Recovery of Investment and Costs Related to the White River Hydroelectric Project.	)	
	)	
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**REPLY BRIEF OF  
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

**January 27, 2005**

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## **I. SUMMARY OF ARGUMENT**

1 In its Initial Brief, Puget Sound Energy, Inc. (“PSE” or the “Company”) fails to demonstrate that the Company’s proposed methodologies for determining gas prices and hydro normalization are reasonable. In addition, PSE has failed to show that its proposed combustion turbine (“CT”) oil burn costs and rate case/Power Cost Only Rate Case (“PCORC”) expense are reasonable. Since PSE has not met its burden of proof on these issues and the Industrial Customers of Northwest Utilities (“ICNU”) has demonstrated the reasonableness of its recommendations, the Washington Utilities and Transportation Commission (“WUTC” or the “Commission”) should adopt the following adjustments to PSE’s filing: 1) adopt \$4.25 per MMBtu as the appropriate gas price or, at the very least, require PSE to update the normalized gas price effective June 30, 2006; 2) disallow PSE’s \$12.75 million in CT oil expense or adjust revenue requirement in some other manner to prevent the Company from recovering the costs of both oil and gas to serve the same load; 3) retain the 40-year rolling average methodology for calculating hydro availability or use all 120 years of available stream flow data; and 4) establish a reasonable normalized amount for rate case expense and order \$250,000 to be included in rates for PCORC expenses.

## **IV. REVENUE REQUIREMENT**

### **A. Contested Adjustments—Electric**

#### **1. Adjustment 2.03—Power Costs**

2 Much of the dispute regarding PSE’s power costs centers on whether the power cost baseline in the Power Cost Adjustment (“PCA”) should reflect a reasonable

level of normalized expense or a prediction of the costs the Company will incur during the rate year. ICNU urges the Commission to adopt normalized levels of expense for setting the power cost baseline in the PCA rather than adopting the Company's approach of using predictions of actual costs during the rate year.

**a. Gas Costs**

3 PSE and Staff recommend that the Commission adopt a gas price that is based on an average of three months of NYMEX prices prior to the rate year, but Staff and PSE disagree on the particular months that should be used to calculate this average. ICNU recommends that the Commission adopt a fundamentals-based gas price. NYMEX market prices are inappropriate for establishing a normalized gas cost for use in the PCA, because they may not reflect a liquid market for the entire rate period, and they are susceptible to price changes as a result of near-term events.

4 PSE criticizes ICNU's proposal to use a fundamentals-based gas price on the bases that: 1) the Company only develops fundamentals forecasts intermittently and such forecasts could not be updated in a timely manner; 2) such forecasts use standardized time periods that do not correspond to the rate year; and 3) near-term price forecasts quickly become stale.<sup>1/</sup> PSE's criticisms are unconvincing and have been sufficiently rebutted by ICNU.

5 First, PSE argues that ICNU's proposal is unworkable because the Company's intermittent development of fundamentals forecasts would not allow for updating the forecast in a timely manner. PSE's claim obscures the fact that the

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<sup>1/</sup> PSE Initial Brief at ¶ 80.

Company's difficulty with using fundamentals analysis to establish gas prices for ratemaking purposes is more a product of its unwillingness to do so rather than any legitimate impediment. As ICNU pointed out in its Initial Brief, PSE develops fundamentals analyses for risk management, long-term planning, and additional purposes other than establishing gas prices at the WUTC.<sup>2/</sup> Thus, PSE is perfectly able to prepare a fundamentals analysis for establishing gas prices used to calculate baseline power costs. Second, PSE claims that fundamentals forecasts use time periods that do not correspond to the Company's rate years but does not explain why the Company could not develop such an analysis for the appropriate time period if necessary.<sup>3/</sup> Finally, PSE argues that near-term price data used in fundamentals forecasts is unusable because such data quickly becomes stale, but it then points out that the Company uses fundamentals-based data for "long-term resource planning and acquisitions."<sup>4/</sup> PSE's use of fundamentals-based data for long-term decisionmaking undermines its argument about the flaws of this data. It makes little sense that PSE would make long-term decisions based on certain data if the Company truly believed that the data became "stale" shortly thereafter.

6                   Staff argues that the Commission should reject ICNU's fundamentals-based gas price because: 1) ICNU has not provided statistical analysis to support the correlation between forward and spot prices; and 2) it is inappropriate to use a fundamentals model with respect to gas prices.<sup>5/</sup> First, ICNU's proposed gas price was not based on consideration of the relative correlation between the futures and spot

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<sup>2/</sup> PSE Initial Brief at ¶ 80; ICNU Initial Brief at ¶ 16.

<sup>3/</sup> PSE Initial Brief at ¶ 80.

<sup>4/</sup> Id. at ¶¶ 80-81.

<sup>5/</sup> Staff Initial Brief at ¶ 93; TR. 702:22 - 703:19 (Mariam).

markets; rather, it was based on the notion that gas prices that may be in effect longer than the rate year should be based on market fundamentals rather than short-term market pressures. As Mr. Schoenbeck indicated, the expected price of liquefied natural gas effectively establishes a cap on longer-term gas prices.<sup>6/</sup> Second, Staff's witness acknowledged that the Department of Energy and other institutions use fundamentals models to forecast gas prices.<sup>7/</sup> As a result, there is no basis to reject ICNU's proposed gas price based on Staff's criticisms.

7                   Both Staff's and PSE's arguments miss ICNU's main point regarding the gas price, which is that it should reflect a normalized expense rather than a prediction of PSE's actual costs during the rate year. ICNU recommends that the Commission adopt \$4.25 per MMBtu as the appropriate, normalized gas price. As the Commission recognized in its order in the PCORC, establishing the appropriate gas price is an important issue, and the impact of the gas price on customers will only become more substantial in the future.<sup>8/</sup> It is important that the Commission establish the most accurate normalized gas price possible for use in the PCA. Nevertheless, if the Commission disagrees with ICNU and adopts Staff's or PSE's gas price, then PSE should be required to update gas costs effective July 30, 2006, to coincide with the termination of the \$40 million cumulative cap in the PCA. The impact of the gas price on customers will be much more significant after the expiration of the cumulative cap in the PCA. As a result,

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<sup>6/</sup> See TR. 979:9-20 (Schoenbeck).

<sup>7/</sup> TR. 705:23 - 706:2 (Mariam).

<sup>8/</sup> WUTC v. PSE, WUTC Docket No. UE-031725, Order No. 12 at ¶¶ 55-56 (Apr. 7, 2004).



PSE's gas price should be reset prior to that time. Staff has recognized this dynamic and recommends that its proposed gas cost terminate effective June 30, 2006.<sup>9/</sup>

**c. Oil Costs**

8 PSE stated in its Initial Brief that it was reserving a placeholder for an argument on the CT oil burn that ICNU had not yet advanced.<sup>10/</sup> ICNU raised this issue at hearing and repeated it in the Initial Brief.<sup>11/</sup> The argument is simple enough. PSE has not demonstrated that it is reasonable to include \$12.75 million in revenue requirement for oil expense related to extreme weather events when the Company's normalized power costs already include the costs of providing service in such extreme conditions. Without adjusting revenue requirement to remove these costs, PSE will recover the cost of gas to serve load during extreme weather based on the output of the Aurora model and also will recover \$12.75 million that the Company added to power costs to serve the same load by burning oil. Staff in its Initial Brief agreed that this oil burn expense was not properly included in a normal year.<sup>12/</sup> The Commission should either remove \$12.75 million from revenue requirement or adjust revenue requirement by an amount equal to the energy derived from the oil burn multiplied by the gas price adopted in this proceeding to reflect the disallowance of this cost, otherwise PSE will be over-recovering this expense.

**d. Hydro Normalization**

9 PSE disagrees with ICNU's proposals regarding the normalization of hydro data in this Docket, but the Company's Initial Brief reflects a lack of understanding

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<sup>9/</sup> TR. 707:16-18 (Mariam).

<sup>10/</sup> PSE Initial Brief at ¶ 83.

<sup>11/</sup> TR. 877:19 - 888:12 (Ryan); ICNU Initial Brief at ¶¶ 22-33.

<sup>12/</sup> Staff Initial Brief at ¶¶ 105-106.

of both the record and the Commission’s policy on this point. PSE argues that “ICNU and Public Counsel did not present any evidence in their direct cases on the hydro issue. At the hearing, Mr. Schoenbeck proposed the use of 110 years worth of water data for The Dalles, Oregon.”<sup>13/</sup> ICNU actually provided evidence in its direct testimony on the propriety of PSE’s proposal to abandon the Commission’s longstanding policy of using a rolling 40-year average for projecting hydro availability.<sup>14/</sup> In cross-answering testimony, Mr. Schoenbeck disagreed with Staff’s proposal to use a 50-year average.<sup>15/</sup> PSE ignores this evidence.

10                   The Commission should continue using the 40-year rolling average adopted in previous rate cases unless it fully examines this issue in a generic policy proceeding.<sup>16/</sup> If the Commission intends to depart from its policy in this proceeding, then it should use an average of 120 years worth of data because that is the only methodology that makes use of all available information.<sup>17/</sup> Mr. Schoenbeck explained this position at hearing and detailed his reasoning.<sup>18/</sup> The discussion of the hydro normalization issue in PSE’s Initial Brief is misleading and does not reflect the state of the record.

11                   PSE agreed in rebuttal testimony to use the 50-year average proposed by Staff, which increases PSE’s power costs by approximately \$9 million compared to the

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<sup>13/</sup> PSE Initial Brief at ¶ 85.

<sup>14/</sup> Exh. No. 371HC at 9:2-23 (Schoenbeck Direct).

<sup>15/</sup> Exh. No. 387 at 5:8-10 (Schoenbeck Cross-Answering)

<sup>16/</sup> TR. 996:20-23 (Schoenbeck).

<sup>17/</sup> Id. The 110-year data is from the Northwest Power Planning Council. Mr. Schoenbeck pointed out at the hearing that an additional 10 years of data is now available. TR. 993:15 (Schoenbeck).

<sup>18/</sup> TR. 993:10 - 1000:6 (Schoenbeck).

40-year rolling average.<sup>19/</sup> In PSE's 1993 rate case, the Commission stated that the current 40-year rolling average would be changed only upon a "clear and convincing" showing that a superior alternative existed.<sup>20/</sup> PSE and Staff have not met the "clear and convincing" standard with regard to their proposal to use a 50-year average.

12 PSE criticizes ICNU's proposal regarding the use of all available data on two bases: 1) the Commission has rejected prior proposals to use this data; and 2) data from The Dalles is not "hydrologically associated" with the Company's hydro resources.<sup>21/</sup> These reasons are unconvincing. First, PSE cites the 1993 order in which the Commission adopted the 40-year rolling average to support the Company's argument that the Commission already has rejected the use of 110 years of data.<sup>22/</sup> The Company ignores the fact that in that order the Commission also rejected the 50-year average that PSE and Staff support in the current proceeding. In fact, the Commission noted in the 1993 order that "the parties spent far too much time revisiting this issue."<sup>23/</sup> Second, the margin of error for all of the assumptions that must be made to determine a normalized amount of hydro in general is greater than any error attributable to a lack of hydrological connectivity between the Company's resources and hydro data recorded at The Dalles. Mr. Schoenbeck explained at hearing the numerous assumptions that must be made in

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<sup>19/</sup> Exh. No. 82C at 1:8-10 (Ryan Rebuttal)

<sup>20/</sup> WUTC v. Puget Sound Power & Light Co., ("PSP&L"), WUTC Docket Nos. UE-920433, UE-930499, and UE-921262, Eleventh Supp. Order at 43 (Sept. 21, 1993) ("Eleventh Supp. Order").

<sup>21/</sup> PSE Initial Brief at ¶ 86.

<sup>22/</sup> Id.

<sup>23/</sup> Eleventh Supp. Order at 43.

order to obtain a data set that reflects the natural flow of the river.<sup>24/</sup> Thus, PSE overstates the problems of using hydro data from The Dalles.

13                   Staff points out that it performed statistical analysis that supports the use of 50 years of data and that hydro modeling in the Northwest has become more complicated.<sup>25/</sup> Staff's analysis, however, does not demonstrate that the 50-year average is clearly superior to the 40-year rolling average. Rather, Staff relies on its conclusion that there are no trends in the data to justify its decisions to exclude certain years from its proposed average and to not analyze the most recent 40 years of data.<sup>26/</sup> Staff did not examine the reasons why the Commission adopted the 40-year rolling average in 1993, which is the bare minimum that should be required if the Commission is to make a major policy shift away from that methodology. Furthermore, as Public Counsel pointed out in advocating that the Commission retain the 40-year rolling average, Staff and PSE have not identified valid policy reasons or changes in hydro normalization that would justify the Commission abandoning its precedent.<sup>27/</sup> Under these circumstances, there is no reasonable basis to conclude that PSE and Staff have clearly and convincingly demonstrated that the 50-year average is a superior alternative or is more accurate.

14                   In the 2003-04 PCORC, ICNU proposed to calculate the gas price included in PSE's filing on a different basis than the Company had used to derive its gas price in the past. The Commission concluded that it would not adopt a different gas price for PSE until the parties and the Commission had additional opportunity to study and

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<sup>24/</sup> TR. 994:4 - 996:15 (Schoenbeck).

<sup>25/</sup> Staff Initial Brief at ¶¶ 109, 110.

<sup>26/</sup> Exh. No. 451 at 24:17 - 25:5 (Mariam).

<sup>27/</sup> Public Counsel Initial Brief at ¶ 113.

present evidence on the issue even though most parties agreed that establishing the appropriate gas price was an important issue.<sup>28/</sup> The Commission should take a similar and consistent approach in this proceeding with respect to hydro normalization. In this proceeding, Commission Staff proposed use of a 50-year average, and it appears that PSE agreed to that proposal as a matter of litigation strategy rather than out of agreement with Staff's reasoning. No party other than Staff examined the 50-year average methodology in an in-depth manner. In other words, the extent of the analysis of the 50-year average consists of Staff's testimony in support of that proposal, which is insufficient scrutiny to justify abandoning a policy established in 1993 after careful consideration and comment by multiple parties. As PSE points out in its Initial Brief, there is little evidence in the record regarding alternative proposals.<sup>29/</sup> The record simply does not justify a shift in Commission policy on this important issue at this time. However, if the Commission intends to adopt a new standard for hydro normalization, it should initiate a general policy proceeding to allow all interested parties to examine this issue more fully.

15                    If the Commission believes that a change is warranted in this case, then it should adopt ICNU's alternative recommendation to use all 120 years of hydro data at The Dalles. This is the only proposal that makes use of all the available data, and it would prevent PSE from opportunistically agreeing with Staff's proposal in an effort to achieve higher power costs.

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<sup>28/</sup> WUTC Docket No. UE-031725, Order No. 12 at ¶¶ 55-56.

<sup>29/</sup> PSE Initial Brief at ¶ 86.

**7. Adjustment 2.18—Rate Case Expense**

**a. Cost Treatment (deferral and amortization vs. expense)**

16 PSE requests approval in this proceeding to defer more than \$2.3 million in rate case expense, book that expense as a regulatory asset, and amortize that expense over three years.<sup>30/</sup> PSE's primary rationale for requesting this treatment is that the Company has been treating its rate case expense this way for over 20 years.<sup>31/</sup> ICNU recommends that the Commission reject both PSE's proposal and the proposal of Commission Staff to authorize deferred accounting for the rate case expense incurred through August 2004. The Commission should adopt a reasonable level of rate case expense for inclusion in rates going forward. Rate case expense is not an appropriate cost for deferred accounting.

17 PSE argues that the Commission should not normalize rate case expense because: 1) nearly all of the expenses of a general rate case would be incurred after the end of the test year; 2) the timing of rate cases is irregular and the expenses are variable; and 3) future disputes about normalization of rate case expense are likely to be highly contentious.<sup>32/</sup> PSE's arguments do not justify deferred accounting treatment for the rate case expense.

18 PSE's previous treatment of its rate case expense does not establish that the Commission has a policy of treating the expenses in a particular manner. In fact, in a prudence review that followed PSE's 1993 rate case, the Commission disallowed PSE's

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<sup>30/</sup> PSE Initial Brief at ¶ 100.

<sup>31/</sup> Id. It is unclear whether PSE has been allowed in the past to book rate case expenses as a regulatory asset.

<sup>32/</sup> Id. at ¶ 101.

costs of the proceeding and explicitly warned the Company that it needed “advance Commission approval” before deferring future expenses.<sup>33/</sup> At the hearing, PSE attempted to distinguish the Commission’s order on the basis that it addressed the expense of a prudence review rather than a general rate case, but this distinction is insignificant.<sup>34/</sup> The requirements for deferred accounting do not vary according to whether the expense is associated with a general rate case or a prudence review immediately following that rate case. The Commission unequivocally required advance Commission approval to create deferred accounts.<sup>35/</sup>

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The statements of PSE’s witnesses at the hearing contradict the Company’s claim in its Brief that deferral and amortization is necessary due to the irregularity of rate cases. PSE’s President and Chief Executive Officer stated that the Company expects “to be back in front of this Commission on a very regular basis year in and year out for the . . . foreseeable future.”<sup>36/</sup> This does not indicate an irregular pattern of rate cases. Furthermore, PSE has provided no evidence in this proceeding to support its claim that rate case expense is highly variable. In contrast, however, the concerns about PSE’s costs in rate cases and other proceedings date back to 1993 and have been expressed by the Commission, Staff, and ICNU.<sup>37/</sup> Authorizing deferred accounting for PSE’s rate case expense will only ensure that the Company recovers its rate case expense—it will provide no incentive to control that expense.

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<sup>33/</sup> WUTC v. PSP&L, WUTC Docket Nos. UE-920433, UE-920499, & UE-921262, Twentieth Supp. Order at 20 (Dec. 16, 1994).

<sup>34/</sup> TR. 831:11-17 (Russell).

<sup>35/</sup> WUTC Docket Nos. UE-920433, UE-920499, & UE-921262, Twentieth Supp. Order at 20.

<sup>36/</sup> TR. 163:1-4 (Reynolds).

<sup>37/</sup> Eleventh Supp. Order at 68; Exh. No. 425 at 2-5; Re PSE, WUTC Docket No. UE-031471, ICNU Letter to Commissioners (Apr. 23, 2004).

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PSE’s interest in avoiding “highly contentious” debates about the appropriate level of normalized rate case expense also is not a reason to authorize deferred accounting for those costs.<sup>38/</sup> PSE’s desire to avoid debate about its rate case expense pales in comparison to ratepayers’ interest in those expenses being brought under control. The evidence in this proceeding includes the testimony of an expert witness with twenty years of experience who said that he had “never seen anything on th[e] scale” of PSE’s expenses.<sup>39/</sup> PSE’s costs should be highly scrutinized under these circumstances rather than authorizing deferral and amortization to avoid contention.

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PSE also argues that other jurisdictions have typically permitted amortization of rate case expense and “consistently rejected” the notion of ratepayers and shareholders “sharing” the costs of rate cases.<sup>40/</sup> The law is unsettled. A number of jurisdictions have used normalization rather than amortization for rate case expense.<sup>41/</sup> In addition, at least one jurisdiction has allowed, “50-50 sharing of rate case expenses for

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<sup>38/</sup> PSE Initial Brief at ¶ 101.

<sup>39/</sup> TR. 495:1 - 496:8 (Hill).

<sup>40/</sup> PSE Initial Brief at ¶¶ 100, 104.

<sup>41/</sup> Penn. PUC v. West Penn Power Co., Penn. PUC Docket No. R-901609 et al., 119 PUR 4th 110, 148 (Dec. 14, 1990) (Agreeing with a party’s argument that “normalization is the concept which specifically addresses prospective recovery of an expense, such as rate case expense, which recurs at dramatically fluctuating levels. Amortization, on the other hand, is properly used for the recovery of atypical, nonrecurring expenses (e.g. storm damage expenses.”); Re Boston Gas Co., Mass. D.P.U. Docket No. 96-50, 174 PUR. 4th 200, 248 (Nov. 29, 1996) (“The Department’s practice in determining the amount of rate case expense to include in rates is to normalize these costs so that a representative annual amount is included in the cost of service. Normalization is not intended to ensure dollar-for-dollar recovery of a particular expense; rather, it is intended to reflect a representative annual level of rate case expense.”) (internal citations omitted); Re Consumers Maine Water Co.—Millinocket, Me. PUC Docket Nos. 2000-96 and 2000-175, 204 PUR 4th 316, 325 (Sept. 26, 2000).



larger utilities,” in recognition of the fact that the benefit of a rate case to shareholders exceed any benefit to ratepayers.<sup>42/</sup>

22                   Finally, PSE generally asserts that it is making efforts to control its legal costs, but it provided no evidence regarding whether the Company has actually reduced expenses.<sup>43/</sup> PSE spent approximately \$1.8 million litigating the PCORC and had spent \$2.3 million on this case before the hearing even began.<sup>44/</sup> If PSE has implemented cost control measures that have resulted in these expenses being less than they would have been without those measures, then the Company should provide evidence to demonstrate that fact. As the record stands, the evidence demonstrates that PSE’s rate case expense is excessive.

23                   The Commission also should reject Staff’s proposal to defer and amortize the Company’s rate case expense through August 2004 without the opportunity to earn a return. In its testimony, Staff explained that it was proposing to allow PSE to defer a portion of its rate case expense because it believed the Company may have legitimately misinterpreted the Commission’s prior orders regarding recovery of rate case expense.<sup>45/</sup> In its Initial Brief, however, Staff indicates that it is proposing this partial deferral because of the Commission’s “clear admonition” that PSE should not create unauthorized deferred accounts.<sup>46/</sup> The Commission should reject Staff’s proposal because the rationale for allowing deferral of a portion of the costs is unsound. If the Commission’s

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<sup>42/</sup>        Re Pennsgrove Water Supply Co., N.J. BPU Docket No. WR98030147, 194 PUR 4th 333, 341 (June 30, 1999).

<sup>43/</sup>        PSE Initial Brief at ¶ 105.

<sup>44/</sup>        Exh. No. 249 at 1; Exh. No. 371HC at 27:20 - 28:2 (Schoenbeck Direct).

<sup>45/</sup>        Exh. No. 421 at 21:1-6 (Russell Direct).

<sup>46/</sup>        Staff Initial Brief at ¶ 139.

admonition regarding creation of deferred accounts was “clear,” then there is no basis to authorize PSE to defer even a portion of the rate case expense because the Company could not have legitimately misinterpreted the Commission’s order. Staff’s proposal to not allow PSE to earn a return on the deferral balance implicitly recognizes that authorizing a traditional deferred account for PSE’s expense is inappropriate.

24 Affirming the proposals to create a deferred account for any of the expense of this proceeding will only encourage higher rate case costs in the future because the Company will be assured that it will recover its costs and, under PSE’s proposal, earn a return on the deferral balance. PSE has not presented valid legal or policy reasons showing why the Commission should not adopt a reasonable, normalized amount of rate case expense. As a result, the Commission should deny PSE the authority to defer and amortize the rate case expense and adopt a reasonable level of normalized rate case expense to include in rates going forward.

## **VII. PCORC COSTS (DOCKET NO. UE-031471)**

25 ICNU, Staff, and PSE all agree that the Commission should deny the Company’s deferred accounting petition related to recovery of the expenses of the 2003-04 PCORC and include a normalized level of PCORC expense in rates going forward.<sup>47/</sup> The issue before the Commission at present is the appropriate level of normalized PCORC expense to include in rates.

26 ICNU stated in its Initial Brief that it disagreed with Staff’s proposal to include \$650,000 of normalized expense that Staff proposed to include in rates for

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<sup>47/</sup> ICNU Initial Brief at ¶ 67; Staff Initial Brief at ¶ 193; PSE Initial Brief at ¶ 138.

PCORC filings.<sup>48/</sup> ICNU’s opposition to Staff’s proposal was based on the understanding that this represented an annual amount to be included in rates. Staff explained in its Initial Brief that this amount is spread over three years, resulting in a yearly amount of approximately \$216,000.<sup>49/</sup> ICNU proposes that the Commission include \$250,000 in PCORC expense to reflect a reasonable normalized amount shared by the Company and customers, and this amount is approximately equivalent to the amount suggested by Staff. The Commission should adopt either the ICNU or Staff proposal.

PSE also apparently misunderstood Staff’s proposal regarding the PCORC expense. PSE stated in rebuttal testimony that it agreed with Staff’s recommendation to include \$650,000 in PCORC expense in rates on an annual basis.<sup>50/</sup> Nevertheless, now that PSE understands that Staff’s proposed normalized amount actually is approximately \$216,000 per year for three years, the Company claims that adopting “Staff or ICNU’s proposed ‘normalized’ amounts for this adjustment would be arbitrary and unlawful, for the reasons set forth in [the Company’s discussion of rate case expense].”<sup>51/</sup> PSE’s argument demonstrates the tension between the Company’s reasoning regarding recovery of rate case and PCORC expense. PSE agreed to a normalized amount of PCORC expense when the Company thought the amount to be included in rates was \$650,000 per year, but it declares that approach “arbitrary and unlawful” when PSE disagrees with the amount. Furthermore, adopting a normalized amount for PCORC expense is lawful according to PSE, but ordering recovery of a

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<sup>48/</sup> ICNU Initial Brief at ¶ 67.

<sup>49/</sup> Staff Initial Brief at ¶ 134.

<sup>50/</sup> Exh. No. 237C at 21:15-19 (Story Rebuttal).

<sup>51/</sup> PSE Initial Brief at ¶ 140.

normalized amount of rate case expense, rather than authorizing deferral and amortization, would be legal error. PSE simply cannot reconcile its positions on these two issues. The Company's arguments obviously are driven by cost recovery rather than sound policy or legal principles. The Commission should adopt the amount of normalized PCORC expense proposed by ICNU or Staff for inclusion in rates going forward.

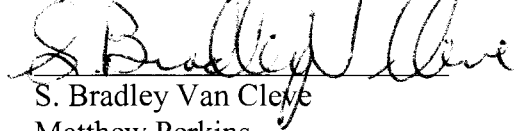
**X. CONCLUSION**

27 PSE has not justified the rate increase sought in this case. ICNU urges the Commission to adopt power costs and rate case and PCORC expenses for PSE that reflect a reasonable level of expense to include in rates on a going forward basis.

Dated this 27th day of January, 2005.

Respectfully submitted,

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## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing Reply Brief on behalf of the Industrial Customers of Northwest Utilities upon all parties of record in this proceeding, by mailing a copy thereof in a sealed, first-class postage prepaid envelope to each individual's last-known address, as listed below.

DATED this 27<sup>th</sup> day of January, 2004.

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