

Exhibit No. __T (APB-1T)
Dockets UE-072300/
UG-072301/UG-080064
Witness: Alan P. Buckley

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

DOCKET UE-072300
DOCKET UG-072301
(Consolidated)

DOCKET UG-080064

TESTIMONY OF

ALAN P. BUCKLEY

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Power Cost Adjustments

May 30, 2008

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Exhibit No. __ (APB-2)	Summary of Net Power Supply Expense Adjustments
Exhibit No. __ (APB-3C)	Calculation of Colstrip Forced Outage Rate Adjustment
Exhibit No. __ (APB-4C)	Calculation of Water Filter Adjustment

1 I. INTRODUCTION

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

4 A. My name is Alan P. Buckley. My office address is The Richard Hemstad Building,
5 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia,
6 Washington 98504. My e-mail address is abuckley@utc.wa.gov.

7
8 Q. By whom are you employed and in what capacity?

9 A. I am employed by the Washington Utilities and Transportation Commission
10 ("UTC") as a Senior Policy Strategist. Among other duties, I am responsible for
11 analyzing rate and power supply issues as they pertain to the investor-owned utilities
12 under the jurisdiction of the UTC.

13
14 Q. How long have you been employed by the UTC?

15 A. I have been employed by the UTC since 1993.

16
17 Q. What are your education and experience qualifications?

18 A. I received a B.S. degree in Petroleum Engineering with Honors from the University
19 of Texas at Austin in 1981. In 1987, I received a Masters of Business
20 Administration degree in Finance from the University of California at Berkeley.

21 From 1981 through 1986, I was employed by Standard Oil of Ohio (now
22 British Petroleum-America) in San Francisco as a Petroleum Engineer working on
23 Alaskan North Slope exploration drilling and development projects. From 1987 to

1 1988, I was employed as a Rates Analyst at Pacific Gas and Electric Company in
2 San Francisco. I was next employed by R.W. Beck and Associates, an engineering
3 and consulting firm in Seattle, Washington, conducting cost-of-service and other rate
4 studies, carrying out power supply studies, analyzing mergers, and analyzing the
5 rates of the Bonneville Power Administration ("BPA") and the Western Area Power
6 Administration.

7 I came to the UTC in December of 1993, where I have held a number of
8 positions including Utility Analyst, Electric Program Manager, and the position that I
9 now hold. I have been a witness in numerous proceedings before the UTC. I also
10 have testified before BPA and the Federal Energy Regulatory Commission.

11

12 II. SCOPE AND ORGANIZATION OF TESTIMONY

13

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

15 **A.** The principle purpose of my testimony is to present Staff's adjustments to Puget
16 Sound Energy's ("PSE" or "the Company") Projected Rate Year Power Costs, as
17 revised by the Company's April 14, 2008 Supplemental Filing. The results of my
18 adjustments are reflected in Staff witness Weinman's Exhibit No. ___ (WHW-2).

19 I also discuss the overall context in which these recommendations are made.
20 That discussion also supports my additional recommendation that the UTC order the
21 Company in its next general rate case to prepare a study and alternative proposal of a
22 redesigned Power Cost Adjustment ("PCA") mechanism that better aligns risks and

1 benefits in light of the asymmetrical distribution of power supply costs over water
2 years,

3
4 **Q. How is the remainder of your testimony organized?**

5 A. The remainder of my testimony is divided into four sections. Section III summarizes
6 Staff's power supply recommendations and discusses the context in which those
7 recommendations are made. Section IV addresses the Company's revised Projected
8 Rate Year Power Costs filed on April 14, 2008, and recommends that the UTC
9 accept those revisions. Section V presents a detailed explanation of Staff's
10 recommended adjustments to the revised Projected Rate Year Power Costs. Finally,
11 in Section VI, I support my recommendation to bring the Company's current PCA
12 design before the UTC for re-examination in the next general rate case.

13
14 **Q. Did you prepare any exhibits in support of your testimony?**

15 A. Yes. They are the following:

- 16 • Exhibit No. __ (APB-2), Summary of Net Power Supply Expense
17 Adjustments
18
19 • Exhibit No. __ (APB-3C), Calculation of Colstrip Forced Outage Rate
20 Adjustment
21
22 • Exhibit No. __ (APB-4C), Calculation of Water Filter Adjustment
23

24 **III. SUMMARY OF STAFF RECOMMENDATIONS AND CASE CONTEXT**

25
26 **Q. Please summarize your recommended Projected Rate Year Power Supply**
27 **adjustments.**

1 A. The UTC should adopt the Projected Rate Year Power Supply adjustments shown in
2 my Exhibit No. ___ (APB-2), lines 3 and 4. The total of these adjustments reduces
3 PSE's revised Projected Rate Year Power Costs by approximately \$12.463 million to
4 a total of \$1,136,188,000, as shown on line 6 of Exhibit No. ___ (APB-2). This
5 compares to the Company's projection of \$1,148,651,000 presented in Exhibit No.
6 ___ (DEM-10).

7 My recommended adjustments are summarized below:

- 8 • Accept the overall \$13.3 million additional increase to Projected Rate Year
9 Power Costs included in the Company's April 14th Supplemental Filing. This
10 adjustment is consistent with the UTC's stated preference to update gas costs
11 using a well-established, straightforward, mechanical, and non-controversial
12 method and has been explicitly allowed in previous cases. Although
13 primarily offered to update gas costs and fixed price gas contracts, the
14 Supplemental Filing also corrects several items identified by Staff and other
15 parties. These corrections include an adjustment to PSE's wind integration
16 due to BPA tariff actions that affect Company resources. Also included is a
17 correction to PSE's Mid-Columbia Project costs.
- 18 • Reduce Projected Rate Year Power Costs by \$3.083 million due to revisions
19 to AURORA model Colstrip Forced Outage Rates. This adjustment provides
20 a more appropriate sharing of risk when developing normalized base power
21 costs given PSE's frequent general rate cases, Power Cost Only Rate Cases
22 ("PCORC"), and PCA filings.

- 1 • Reduce Projected Rate Year Power Costs by \$9.380 million resulting from
2 filtering water-year data. This adjustment also more appropriately shares risk
3 when developing normalized base power costs in an environment of frequent
4 general rate cases, PCORCs and PCA filings.

5
6 **Q. Do you have any other recommendations in this proceeding?**

7 A. Yes, they are as follows:

- 8 • Order the parties to determine a “no later than” date during general rate case
9 pre-hearing conferences for any update filings to power supply cost
10 projections during general rate cases, if such updates are to be allowed.
11 • Order the Company to prepare a study and alternative proposal in its next
12 general rate case for a PCA dead band and sharing band design that provides
13 more balanced risks and benefits for ratepayers based on the asymmetrical
14 distribution of power supply costs over water years. Designs of this nature
15 have been cited by the UTC as a necessary refinement. *WUTC v. PacifiCorp*,
16 Dockets UE-061546, *et al.* Order 08 at ¶¶ 87 and 101 (June 21, 2007).

17
18 **Q. Please discuss the overall context in which your recommendations are made in**
19 **this proceeding.**

20 A. Certainly. This filing is yet another in a long stream of rate filings by the Company.
21 Customers have seen, and are expected to continue to see, regular general rate case
22 filings, PCORCs, and annual PCA filings, as the cost of doing business increases.

1 Recently, these increases have been particularly acute in the area of power supply as
2 the cost of all sources of energy has risen at a historically rapid pace.

3
4 **Q. Why is the pace and frequency of rate filings by the Company an issue?**

5 A. It is an issue because the constant procession of filings, in light of their specific
6 designs, has shifted virtually all of PSE's power supply cost recovery risk to its
7 customers, with no apparent offsetting benefits.

8
9 **Q. Do not the dead band and sharing bands in the current PCA maintain an
10 appropriate level of risk on the Company?**

11 A. Not necessarily. After six cycles, PSE's PCA has a total cumulative customer
12 deferral balance of approximately \$3.1 million. While it is true that the PCA has not
13 resulted in any rate adjustments to date, customers' base rates have increased
14 significantly. This is not surprising since the PCA's baseline power cost level is
15 constantly increasing through general rate cases and PCORCs.

16
17 **Q. Are there other factors that have decreased PSE's exposure to costs, but
18 increased customers' exposure to costs without offsetting benefits?**

19 A. Yes. The Company has taken full advantage of the opportunity to update certain
20 power supply costs during general rate cases and PCORCs. On April 14, 2008 in
21 this proceeding, PSE filed supplemental testimony updating its Projected Power
22 Costs based on a previously approved gas cost update methodology. This update,
23 along with other corrections identified by other parties, resulted in an increase of

1 \$13.3 million to power costs over the Company's original filing. Presumably, PSE
2 intends to submit further updates as this case proceeds to reflect additional "real-
3 time" increases which, if approved, will be made part of baseline power costs.

4 I am not arguing at this time the amount of any increase or the Company's
5 ability to update costs. I am simply pointing out the greatly expanding cost risk that
6 has been shifted to ratepayers without any apparent consideration of offsetting
7 benefits. My adjustments for Colstrip forced outage rates and water-filtering are
8 designed to bring some benefits back to ratepayers when determining fair and
9 reasonable normalized base power supply costs in a manner consistent with having a
10 PCA already in place.

11 12 IV. PSE'S SUPPLEMENTAL FILING

13
14 **Q. Did you have the opportunity to review the Company's April 14th update to the**
15 **Projected Rate Year Power Costs?**

16 **A.** Yes. However, updates to rate case cost projections, particularly in the area of power
17 supply, require significant effort to review input data and output data as the changes
18 flow through the AURORA model. Although the UTC has attempted to limit
19 updates to certain straightforward, non-controversial cost projections, power supply
20 updates cannot be made in a vacuum. Therefore, these updates have the real
21 potential to interrupt and complicate the preparation of other parties' response cases.
22 Although in this proceeding Staff did not contest the update, we remain sensitive to
23 the increased burden put on all parties by these filings.

1

2 **Q. Were there any mitigating circumstances in this proceeding that made a timely**
3 **review possible?**

4 **A.** Yes. Prior to the filing of the update, I met with the Company to discuss several
5 corrections and updates related to other power supply costs used to determine
6 Projected Rate Year Power Costs. PSE's inclusion of several of these items in the
7 Supplemental Filing eliminated the need to address them in detail in my testimony.
8 These items include the update to Mid-C Power Contract costs and the costs
9 associated with integrating various PSE wind projects into the regional transmission
10 grid. The Company also made several updates to production operation and
11 maintenance costs that were overall favorable to ratepayers. Finally, PSE attempted
12 to address a concern regarding forced outage rates for Colstrip. That attempt went
13 some, but not the entire distance, in meeting my concerns regarding Colstrip forced
14 outages. I will discuss this issue later in my testimony.

15

16 **Q. Despite these mitigating circumstances, do you have any suggestions on how to**
17 **reduce the burden placed on the parties by these updates?**

18 **A.** Yes. In future general rate cases, I recommend that a "no later than" date be set
19 during the pre-hearing conference for update filings, if such updates are to be
20 allowed. This will alleviate the burden placed on the parties without harm to PSE.

21

22 **Q. Did you review all of the updated cost projections in addition to the other**
23 **corrections you described above?**

1 A. Yes.

2

3 **Q. Do you recommend the UTC accept the adjustments to Projected Rate Year**
4 **~~Power Costs as presented in the Company's April 14th Supplemental Filing?~~**

5 A. Yes, with the adoption of Staff's recommended adjustments described in the next
6 section of my testimony.

7

8 **V. STAFF RECOMMENDED ADJUSTMENTS**

9

10 **A. Colstrip Forced Outage Rate Adjustment**

11

12 **Q. Please describe your Colstrip Forced Outage Rate Adjustment.**

13 A. This adjustment removes those years with both a higher and a lower than "normal"
14 range of historical forced outages when developing the forced outage rates used in
15 AURORA for PSE's Colstrip generating units. Forced outage rates refer to the
16 fraction of time that a generating unit is expected to be unavailable due to random
17 failures or unexpected breakdowns. Small changes in forced outage rates can result
18 in significant cost differences particularly when large, multi-unit, coal-fired
19 generating plants are involved.

20

21 **Q. Is the methodology of your adjustment different from corresponding**
22 **adjustments in prior cases?**

1 A. Yes. Adjustments to forced outage rates have been proposed in the past. Typically
2 those adjustments have looked at trends, taking into consideration the history and
3 stability of the data, and controversial statistic-based arguments about whether
4 outliers should or should not be included in the calculation.

5 I believe it is time to focus the adjustment on the important fact that a PCA
6 already exists. This fact renders moot the issue whether or not outlier data years
7 need to be included in model runs to determine Projected Rate Year Power Costs.
8 Like the affect of extreme water years I discuss later, the Company's PCA already
9 allows for the recovery and sharing of costs or benefits associated with outlier years
10 if and when they occur. This warrants their exclusion based on a simple common
11 sense approach that eliminates favorable and unfavorable historical forced outage
12 rates, and allows those costs or benefits to pass through the PCA, as it is designed to
13 do. My recommended adjustment utilizes a more normal and expected range of
14 forced outage rates to determine the AURORA model input. Unlike past attempts,
15 my proposal does not get bogged down in theoretical application issues.

16 My adjustment is shown on line 3 of Exhibit No. __ (APB-2) and results in
17 an estimated reduction to Projected Rate Year Power Costs of \$3.083 million. This
18 adjustment is based on the Projected Rate Year Power Costs contained in the April
19 14th Supplemental Filing, so it is incremental to the Company's prior removal of the
20 anomalous 2000 historical forced outage data for all Colstrip units.

21
22 **Q. How did you determine the appropriate Colstrip forced outage rates to use in**
23 **the AURORA model?**

1 A. I used the same historical forced outage data in the Company's work papers for
2 Colstrip Units 1 and 2 and Units 3 and 4. However, I eliminated not only the 2000
3 year data for all Colstrip units, as did the Company, but also the 2004 data for
4 ~~Colstrip Units 1 and 2 and the 2002 data for Colstrip Units 3 and 4.~~ The historical
5 forced outage rates during these periods were well above the normal trend observed
6 since the year 2000. Finally, to recognize that, under the Company's PCA
7 mechanism, positive benefits may also accrue through the management of generating
8 resources, I removed the 2007 data for Colstrip Units 3 and 4. This year represents
9 recently increased performance levels of plant operations for these units, providing
10 benefits to the Company under the PCA.

11 The resultant forced outage calculations and the average rates used in the
12 AURORA model for Colstrip Units 1-4 are shown in my Exhibit No. ___ (APB-3C),
13 lines 1 through 9, with the eliminated data indicated as the shaded blocked values.
14 Using these adjusted forced outage rates in AURORA results in an estimated
15 incremental reduction in Projected Rate Year Power Costs of \$3.083 million, as
16 indicated on line 12 of Exhibit No. ___ (APB-3C). To facilitate the analysis, I used
17 PSE's Average Water Year from its AURORA model data base. Should the UTC
18 accept my recommendation, an exact adjustment amount can be determined
19 consistent with this and other adopted adjustments, using the approved water year
20 methodology.

1 **Q. Do you believe your adjustment is conservative?**

2 A. Yes, for several reasons. My calculation still incorporates some forced outage data
3 from years before plant upgrades that have favorably affected outage rates in more
4 recent years. The 2007 Colstrip 3 and 4 unit data that I removed to recognize the
5 symmetry of the PCA reflects this trend. Finally, the forced outage rates that I used
6 in AURORA are still above the equivalent forced outage rates for peer groups
7 determined from NERC Generator Availability Reports, as presented in PSE's
8 previous PCORC, Docket U-070565. (Testimony of Donald W. Schoenbeck, Exhibit
9 No. 103CT (DWS-1TC).)

10

11 **Q. You state your Colstrip adjustment has the benefit of not relying on
12 complicated and controversial statistics-based methods. Can you explain?**

13 A. Yes. There are three reasons to get away from the statistics-oriented arguments of
14 past proceedings. First, of course, is the presence of the PCA itself, which allows for
15 any outlier events to be addressed during the annual PCA review, rather than through
16 analyses of events years after their actual occurrence.

17 Second, some variation in forced outage rates and their affect on power costs
18 should be a function of the PCA dead bands, which were designed to allow the
19 Company to manage its resources to receive the associated benefits or to absorb a
20 certain amount of risk from generation operations.

21 Third, and recognizing the last point, by removing a favorable outage rate my
22 adjustment includes an "upside" allowance that will benefit PSE if the units can be

1 held to favorable forced outage rates over time by positive management of the
2 resources.

3 On the negative side, I still relied upon the more recent actual forced outage
4 rate data. I agree that this method is not repeatable, in that it does not provide a set
5 methodology to determine model input. But, I believe that reasonable and fair
6 results are obtained for an item that has been the subject of contested, complicated
7 and unresolved statistical analysis in the past.

8
9 **Q. Are there other benefits to your Colstrip forced outage methodology?**

10 A. Yes. Historically, major outages at large thermal generating stations such as Colstrip
11 warrant some prudence review before ratepayers are burdened with cost recovery.
12 Addressing outlier issues in the PCA as they occur provides the opportunity for
13 review prior to cost recovery, thus providing some benefit to ratepayers, compared to
14 simply embedding the historical forced outage rates into the calculation of Projected
15 Rate Year Power Costs.

16
17 **B. Water Filtering Adjustment**

18
19 **Q. What is the purpose of your Water Filtering Adjustment?**

20 A. Like my Colstrip adjustment, the water filtering adjustment aligns the methodology
21 for determining base power supply costs with a regulatory environment that includes
22 an annual PCA, as compared to the traditional normalized power supply cost
23 methodology. The water filtering adjustment removes the power supply cost

1 uncertainty associated with extreme, or outlier, water years from the calculation of
2 Projected Rate Year Power Costs, and appropriately leaves the review and recovery
3 of costs associated with those years to the annual PCA review.
4

5 **Q. Why is it appropriate to make this adjustment?**

6 A. Historically, the Company has based its adjustment on power cost models runs for a
7 number of water years and then calculated a “normalized” level of net power supply
8 costs. The number of water years and their timing has been a contentious issue in
9 many past rate proceedings. The effects on normalized power supply costs of the
10 extreme water years, both wet and dry, have been particularly troublesome.
11 However, with the PCA it is possible to eliminate this controversy by narrowing the
12 range of water years used to determine base power supply costs to those years
13 representing what is more normally expected to occur.
14

15 **Q. How did PSE calculate its adjustment?**

16 A. Consistent with several past rate cases, PSE used the average of the 50-year Mid-C
17 stream flow history from 1928 through 1977 to determine power costs for the rate
18 year. The theory is to set rates using a range of actual power supply expense levels
19 assumed to be experienced over time, and, thus, actual under-recovery of costs in
20 some years is balanced by over-recovery in others. This methodology is acceptable,
21 absent the PCA. However, net power supply cost normalization needs to be aligned
22 with the presence of the PCA.
23

1 Q. You stated that both “review and recovery” of the extreme, or outlier, water
2 year costs belong in the PCA. Please explain.

3 A. This is perhaps the most important feature of my adjustment to set base power costs
4 using a narrower range, or more typical, number of water years. It is probably not
5 surprising that the more extreme years typically result in the more “interesting” years
6 costs-wise, particularly on the dry or drought side of the spectrum. By not including
7 in base rates the effects of those extreme years on power supply costs, Staff and
8 other parties, as well as the UTC, may evaluate the costs in the annual PCA filings
9 without concern as to whether they have already been recovered in base power cost.
10 This removes what I believe is a valid concern regarding double recovery of costs by
11 the Company.

12
13 Q. Has the UTC favored a water filtering adjustment for utilities with a PCA
14 mechanism?

15 A. Yes. The UTC has agreed that water filtering is appropriate in the context of a PCA:
16 If the Company and its customers will share the costs and benefits of unusual
17 power cost extremes, there is no need to include those extreme circumstances
18 in the calculation of normalized power costs, particularly if they are
19 controversial. . . . We agree with Staff and PacifiCorp that water filtering is
20 appropriate in the context of a PCAM, but not appropriate if there is no
21 PCAM in place.

22
23 *WUTC v. PacifiCorp*, Dockets UE-061546, *et al.* Order 08 at ¶¶ 88-89 (June 21,
24 2007). Ultimately, a power cost mechanism was not adopted for PacifiCorp and a
25 water filtering adjustment was not implemented.

26

1 Q. Have you prepared an exhibit showing the calculation of your water filtering
2 adjustment?

3 A. Yes. The calculation is shown in my Exhibit No. __ (APB-4C). I began with the
4 fifty years of water year data converted to generation energy on an annual basis, as
5 used by PSE as input to AURORA and that I obtained from Company work papers.
6 It is important to recognize that the adjustment uses water year data, not power cost
7 data as the basis for filtering. The water year data is normally distributed and has
8 been converted to generation on a resource by resource basis.

9 I then tabulated the total annual generation (water flow equivalent) for each
10 of the Mid-Columbia hydro projects used in the AURORA model for each of the
11 water years, and then totaled each water year's energy across the resources. This
12 annual data is shown in Column (b) in Exhibit No. __ (APB-4C) for the years 1929
13 through 1978.

14 In order to narrow the number of water years used to determine a base level
15 of power costs, I calculated a one standard deviation "filter" band on each side of the
16 normally distributed energy data (or water flow equivalent). I then applied that filter
17 to the fifty water years of generation, removing from the calculation those years in
18 which total annual generation was below or above the band. The generation bands
19 are shown on lines 53 and 54 of Exhibit No. __ (APB-4C) and the water filter test
20 results are in Column (c).

21 To calculate the Water Filtering Adjustment, I first applied the test results to
22 each of the AURORA model output costs for each of the years shown in Column (e).
23 The Company's modeled AURORA costs shown on line 52, Column (e) were then

1 compared to the average of the Water Filtered cost shown on line 51, Column (e) to
2 derive my adjustment.

3
4 **Q. What was the basis for choosing a one standard deviation band for “filtering”**
5 **the fifty year average water year generation data?**

6 A. Applying a plus or minus one standard deviation band to the mean values is a simple
7 and straightforward application to the normally distributed energy (water flow
8 equivalent) data. It clearly eliminates the outlier water years when extreme water
9 conditions exist, both favorable and unfavorable. It is an easy to understand step
10 away from using the full 50 year water record and the traditional normalized
11 methodologies for determining baseline power costs under a PCA environment.
12 More drastic steps under a PCA environment may be to simply utilize a single
13 “typical” or “average” water year for power cost modeling and let the PCA
14 mechanism address all variations from that level.

15
16 **Q. If extreme, or outlier, water years and their associated power supply costs are**
17 **removed from the rate setting process, does the Company recover, or**
18 **ratepayers receive the benefits of, the costs the Company incurs in such years?**

19 A. Yes. These incremental costs are simply not recovered as part of overall revenue
20 requirements. This is reasonable because, under the PCA mechanism, customers
21 will pay a portion of these costs and receive a portion of the benefits, when and if
22 they actually occur.

1 **Q. Earlier you stated that the water filtering adjustment provides benefits to**
2 **ratepayers by more appropriately realigning risk sharing. Please elaborate?**

3 A. The water filtering adjustment, while not eliminating the potential for increased
4 costs, does take at least one "risk" factor out of base power costs (and thus base
5 electric rates) and puts it in the PCA where it belongs. The application of Staff's
6 water filtering adjustment to PSE's normalized power cost methodology results in
7 downward adjustments to base power costs. This tells me that ratepayers may have
8 been paying a premium for extreme water year costs whether or not they actually
9 ever occurred. Approving the water filtering adjustment for PSE and removing this
10 premium would provide some appropriate relief for ratepayers in this ever increasing
11 cost environment, at the same time allowing for the pass through of costs or benefits
12 of extreme water years should they occur.

13
14 **Q. What is the effect on Projected Rate Year Power Cost of Staff's Water Filtering**
15 **Adjustment?**

16 A. As shown on line 54 of my Exhibit No. __ (APB- 4C), the Water Filter Adjustment
17 reduces Projected Rate Year Power Costs by \$9.380 million.

18
19 **Q. What is the combined effect of Staff's two power supply related adjustments?**

20 A. The Colstrip Forced Outage Rate and the Water Filtering adjustments reduce the
21 revised Projected Rate Year Power Costs by \$ 12.463 million to \$1,136,188,000.

22

1 dead bands and sharing bands is an option worth examining. Perhaps asymmetrical
2 dead bands and sharing bands will provide the potential for increased benefits to
3 ratepayers in the more extreme years, either through additional revenues on one side
4 or reduced exposure to costs on the other. Notwithstanding the ever increasing
5 baseline power costs, I recognize that the PCA is generally working as planned
6 during years with relatively normal water conditions and that redesigned dead bands
7 and sharing bands will most likely have little effect during those periods.

8
9 **Q. How is PSE's PCA designed now?**

10 A. The PCA compares modified actual power costs relative to a power cost baseline.
11 The PCA has symmetrical dead bands (+/- \$20 million annually), as well as various
12 symmetrical sharing bands: from \$20 to 40 million annually there is a 50/50 sharing
13 of costs or benefits between customers and the Company; between \$40 to \$120
14 million annually there is 10/90 sharing of cost and benefits between Company and
15 customers, respectively; and finally, for over \$120 million in costs annually, 95
16 percent of the costs or benefits goes to the customers. Excess costs or revenues are
17 deferred, but no refunds or surcharges are triggered until the deferral balance
18 generally reaches, or is expected to reach, \$30 million. That trigger has not been
19 reached to date.

20
21 **Q. Has the UTC recognized the validity of asymmetrical power cost mechanism**
22 **designs?**

1 A. Yes. The UTC has recognized the importance of this issue in the overall design of
2 an appropriate PCA. *WUTC v. PacifiCorp*, Dockets UE-061546, *et al.*, Order 08 at
3 ¶¶ 96-101 (June 21, 2007). Clearly, the UTC expects the relationship of risks and
4 benefits to be addressed properly in a PCA.

5
6 **Q. Were you involved in the design of the Company's PCA or the various**
7 **discussions and settlements that led to its current design?**

8 A. No. I do understand that the PCA was the result of many compromises among many
9 parties. However, the PCA has been in place for a number of years now and I do not
10 believe anyone anticipated the steady stream of general rate cases and PCORCs that
11 have taken place in addition to the annual PCA filings. I believe that the design of
12 the PCA should not be set in stone.

13
14 **Q. Do you recommend changes to the PCA design at this time?**

15 A. No. At the present time Staff's resources are severely limited and the modeling
16 effort to make an intelligent recommendation to adjust the PCA dead band and
17 sharing bands is significant.

18
19 **Q. What is your recommendation then in this proceeding?**

20 A. Recognizing that it is the Company that continues to make one filing after another, I
21 recommend that the UTC order PSE, in its next general rate case, to submit a study
22 and a proposal for redesigned PCA dead band and sharing bands to provide for
23 additional benefits to ratepayers by taking into consideration the asymmetrical nature

1 of net power costs. The Company should be ordered to meet with interested parties
2 prior to filing the next general rate case in order to consider their comments on
3 possible redesign alternatives specific to this area.
4

5 **Q. Does this complete your testimony?**

6 **A. Yes.**