

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of the Investigation of**

**AVISTA CORPORATION d/b/a AVISTA  
UTILITIES, PUGET SOUND ENERGY  
and PACIFIC POWER LIGHT  
COMPANY**

**DOCKET UE-190882**

**Regarding Prudency of Outage and  
Replacement Power Costs**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**

**SUSAN E. FREE**

**ON BEHALF OF PUGET SOUND ENERGY**

**JANUARY 23, 2020**

**PUGET SOUND ENERGY**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF  
SUSAN E. FREE**

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**PUGET SOUND ENERGY**

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SUSAN E. FREE**

**LIST OF EXHIBITS**

Exh. SEF-5      Revised 2018 Annual Report - \$11.7 million

Exh. SEF-6      Revised 2018 Annual Report - \$17.4 million

1 **PUGET SOUND ENERGY**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**  
3 **SUSAN E. FREE**

4 **I. INTRODUCTION**

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

6 A. My name is Susan E. Free. My business address is 355 110th Ave. NE, Bellevue,  
7 WA 98004. I am the Director of Revenue Requirements and Regulatory  
8 Compliance for Puget Sound Energy (“PSE” or “Company”).

9 **Q. Are you the same Susan E. Free who filed direct testimony in Docket UE-**  
10 **190324?**

11 A. Yes. On April 30, 2019, PSE submitted to the Washington Utilities and  
12 Transportation Commission (“Commission” or “WUTC”) my prefiled direct  
13 testimony and exhibits, Exh. SEF-1T, SEF-2, and SEF-3, in Docket UE-190324.  
14 Pursuant to Order 1 in this proceeding, my testimony and exhibits in Docket UE-  
15 190324 have been placed into this docket for the Commission’s review.<sup>1</sup>

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<sup>1</sup> Paragraph 25 of Order 1 states:

We exercise our discretion and authority to place all portions from the initial filings of Avista, PSE, and Pacific Power in Dockets UE-190222, UE-190324, and UE-190456, respectively, pertaining to the prudence of decision making leading up to the 2018 Colstrip outage and the costs incurred to acquire replacement power into Docket UE-190882, as the Companies’ initial filing on those limited issues.

1 **Q. Have there been any changes to your qualifications since you submitted**  
2 **prefiled direct testimony?**

3 A. Yes. When the filing was made, I was the Manager of Revenue Requirement for  
4 PSE. Since the original filing, I have assumed the role of Director of Revenue  
5 Requirement and Regulatory Compliance.

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. My testimony responds to the response testimonies of WUTC Staff (“Staff”)  
8 witness David C. Gomez and Public Counsel<sup>2</sup> witness Avi Allison. Both  
9 witnesses recommend a disallowance of costs in PSE’s Power Cost Adjustment  
10 Annual Report in Docket UE-190324 for the replacement power procured during  
11 the outage of Colstrip Units 3 and 4 that occurred between June and September  
12 2018. Mr. Gomez recommends a disallowance of \$17.9 million and Mr. Allison  
13 recommends a disallowance of \$17.4 million.<sup>3</sup> The Prefiled Rebuttal Testimony  
14 of Company witness Ronald J. Roberts, Exh. RJR-4CT, discusses how a  
15 disallowance is not warranted in this proceeding. The Prefiled Rebuttal Testimony  
16 of Company witness Paul K. Wetherbee, Exh. PKW-6T, provides the correct  
17 determination of the value of the replacement power costs at issue for the Colstrip  
18 Units 3 and 4 outage and testifies the amount should be \$11.7 million, rather than

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<sup>2</sup> Public Counsel of the Washington Attorney General’s Office (“Public Counsel”).

<sup>3</sup> Gomez, Exh. DCG-1CCT at 5:7-11; Allison, Exh. AA-1CT at 3:14-19. Staff inappropriately uses \$17.9 million, which represents all four units of Colstrip for the entire year. Public Counsel more appropriately uses amounts presented in PSE’s work papers of \$17.4 million for only Units 3 and 4 and only for July and August. Therefore, for simplicity, in my testimony I will refer to parties’ proposals as \$17.4 million. Paul K. Wetherbee provides the more appropriate calculation of \$11.7 million, which represents the replacement power for Units 3 and 4 during the outage period. *See* Wetherbee, Exh. PKW-6T.

1 \$17.4 million. Thus, if the Commission were to determine that replacement  
2 power costs should be disallowed the amount of the disallowance would be \$11.7  
3 million when the cost of replacement power is properly calculated. Finally, my  
4 testimony provides an overview of the proper application in PSE's PCA  
5 mechanism of the disallowance, should one be required by the Commission.

6 **II. EVEN IF A DISALLOWANCE IS ORDERED BY THE**  
7 **COMMISSION THE CHANGE TO THE POWER COST**  
8 **IMBALANCE CALCULATION FALLS WITHIN THE DEAD**  
9 **BAND OF THE PCA MECHANISM**

10 **Q. Please explain the PCA imbalance and the customer share of the imbalance**  
11 **that PSE has filed for in its 2018 Annual PCA Compliance filing in Docket**  
12 **UE-190324.**

13 A. As presented on page four of Exh. SEF-3 ("Annual Report"), PSE's total  
14 imbalance for sharing<sup>4</sup> for the twelve months ended December 2018 was an  
15 under-recovery of \$3.5 million, none of which was assigned to customers. There  
16 was no amount assigned to customers as the imbalance fell within PSE's dead  
17 band of +/- \$17 million<sup>5</sup>.

18 **Q. What is the significance that none of the PCA total imbalance for 2018 was**  
19 **assigned to customers?**

20 A. Because the total imbalance did not fall outside of the dead band, none of PSE's

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<sup>4</sup> PSE's imbalance for sharing is determined as the difference between total allowable costs and the baseline power costs recovered in rates as defined in the PCA mechanism. The sharing bands are then applied to PSE's imbalance to determine the portion of the imbalance to be assigned to customers.

<sup>5</sup> Page 1 of Attachment A to Settlement Stipulation in Dockets UE-130617, *et al.*

1 under-recovered actual power costs for 2018, including the replacement power at  
2 issue in this proceeding, was assigned to customers.<sup>6</sup> Therefore, when Public  
3 Counsel recommends that the Commission not permit PSE to recover the  
4 replacement power costs from customers, it is important to understand that PSE  
5 has not assigned any of these power costs to customers and, therefore, PSE is not  
6 requesting recovery of these costs from customers. Customers paid a  
7 predetermined rate for power costs based on PSE's 2017 general rate case – they  
8 have not been specifically charged for the actual power costs reported in PSE's  
9 Annual Report. In other words, there is nothing to be returned to customers  
10 because they have not been charged – PSE absorbed the difference between rates  
11 and costs, including the replacement power – in 2018, and none of the imbalance  
12 was borne by customers.

13 **Q. Are customers worse off because of the outage and the resulting replacement**  
14 **power?**

15 A. No. Customers are simply paying the rates for power costs that were approved by  
16 the Commission in PSE's 2017 general rate case. Customers did not pay anything  
17 more than the baseline rate that was determined appropriate by the Commission,  
18 even though these replacement power costs were experienced in the reporting  
19 period. Customers would have paid the same had the replacement power costs  
20 never been incurred. Accordingly, there is nothing to return to customers as they  
21 have not incurred any more cost than has already been approved for them to pay.

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<sup>6</sup> Free, Exh. SEF-1T at 9:12-18.

1 **Q. Is there any other way that these replacement power costs might be included**  
2 **in setting rates for PSE's customers?**

3 A. No. These costs occurred during 2018, which does happen to coincide with the  
4 test year in PSE's pending general rate case in Docket UE-190529. However,  
5 PSE sets power costs in rates based on the forecasted level of rate year power  
6 costs. Therefore, the replacement power costs are not included in the pending  
7 general rate case and will never be included in a rate request from PSE.

8 **Q. Please explain the impact on PSE for the replacement power costs.**

9 A. Because PSE's power costs exceeded the level included in rates, PSE has already  
10 absorbed the impact of the replacement power. If the Commission were to  
11 determine that these costs should be disallowed, PSE has already in effect  
12 absorbed the disallowance and should not be required to do so again.

13 **Q. How are PSE's sharing bands applied?**

14 A. PSE's sharing bands are applied on an annual basis. In other words, the  
15 determination of the imbalance is calculated each year. The imbalance  
16 calculation starts over at the first of each year, and the bands are applied to each  
17 year's imbalance.

18 **Q. If a disallowance were ordered by the Commission, how should the**  
19 **imbalance be applied?**

20 A. If a disallowance were to be ordered by the Commission, the amount of monthly  
21 total allowable power costs presented on line 16 on page 6 of the Annual Report  
22 would be revised for the disallowance. Assuming the amount of the ordered



1 disallowance is the amount of replacement power costs as determined by Mr.  
2 Wetherbee, the \$11.7 million would reduce the total allowable costs reflected in  
3 the imbalance calculation. This would result in the total allowable costs on line  
4 16 on page 6 of the Annual Report being lowered from \$684.6 million to \$672.8  
5 million.

6 **Q. Assuming total allowable costs were lower by \$11.7 million, what would be**  
7 **the result on the imbalance calculation for sharing?**

8 A. As I stated above, PSE under-recovered its power costs by \$3.5 million in the  
9 2018 PCA. In other words, the imbalance before the proposed disallowance was  
10 an under-recovery of \$3.5 million for calendar year 2018. Because the \$3.5  
11 million in under-recovered power costs falls within the dead band, PSE absorbed  
12 the under-recovery. If the Commission were to disallow the \$11.7 million in  
13 power costs for the replacement power for Colstrip Units 3 and 4 for the June  
14 through September 2018 time period, the disallowance would result in an over-  
15 recovery of \$8.2 million (positive \$3.5 million original imbalance minus \$11.7  
16 million = negative \$8.2 million imbalance which represents an over-recovery).

17 **Q. Would the \$8.5 million over-recovery have an impact on the amount assigned**  
18 **to customers?**

19 A. No. Because the \$8.2 million over-recovery falls within PSE's dead band of +/-  
20 \$17 million and the sharing bands are calculated on an annual basis, there would  
21 be no impact on the customer balance. There would, however, be a slight impact  
22 (less than \$15,000) on the interest on the customer balance.

1 **Q. Would there be any impact on PSE's 2019 PCA mechanism for a**  
2 **disallowance of 2018 costs as proposed by Commission Staff and Public**  
3 **Counsel?**

4 A. No. As I stated previously, the sharing bands are applied on an annual basis.  
5 Additionally, because 2018 does not result in an assignment of the imbalance to  
6 customers, there is no resulting impact on the cumulative customer deferral other  
7 than the minor increase to the interest amount of approximately \$15,000.

8 **Q. Have you provided an example of how PSE's 2018 Annual Report would**  
9 **change if the Commission disallows the replacement power costs?**

10 A. Yes. Exh. SEF-5 presents a revised 2018 Annual Report assuming PSE's  
11 calculation of the replacement power costs of \$11.7 million as determined in Exh.  
12 PKW-3C, should the Commission determine that there should be a disallowance.  
13 Exh SEF-6 presents a revised 2018 Annual Report assuming Staff's calculation of  
14 the disallowance of \$17.4 million. In both cases, the amount of the revised  
15 imbalance remains within PSE's dead band and there is no resulting change to the  
16 customer share of the imbalance and only a slight impact (less than \$15,000) on  
17 the interest.

18 **Q. Do you have any other comments related to parties' testimony?**

19 A. Yes. Mr. Gomez states on page 54, lines 7 through 9, that he recommends that  
20 the Commission allow each company to recover their share of the \$3.4 million in  
21 O&M and capital expense associated with the post-outage actions. It appears that  
22 this recommendation is at odds with Mr. Gomez's recommendation in PSE's 2019

1 general rate case, Docket UE-190529, to disallow capital costs for the outage.<sup>7</sup>

2 PSE did not identify this discrepancy before filing rebuttal testimony in that  
3 proceeding and felt it important to point it out now that it has been identified.

4 **III. CONCLUSION**

5 **Q. Does this conclude your prefiled rebuttal testimony?**

6 **A.** Yes, it does.

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<sup>7</sup> Docket UE-190529, Gomez, Exh. DCG-1CT at 7:8 and Liu, Exh. JL-1CTr at 29:18-19 and Exh. JL-2r at 16:47