EXHIBIT NO. JHS-14T
DOCKET NOS. UE-090704/UG-090705
2009 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-090704** **Docket No. UG-090705**

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

DECEMBER 17, 2009

PUGET SOUND ENERGY, INC.

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF JOHN H. STORY

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PUGET SOUND ENERGY, INC.

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I. INTRODUCTION

Q. Are you the same John H. Story who submitted prefiled direct testimony in this proceeding on May 8, 2009, and supplemental prefiled direct testimony in this proceeding on September 28, 2009, each on behalf of Puget Sound Energy, Inc. ("PSE" or "the Company")?

A. Yes.

Q. Please summarize the purpose of your rebuttal testimony.

A. My testimony discusses the various electric pro forma and restating adjustments that the Company is proposing in rebuttal.

First, I discuss Commission Staff's interpretation of pro forma adjustments and how Commission Staff's application of that interpretation to various adjustments is not consistent with prior Commission orders or with Commission Staff's recommendations in prior cases. Second, I explain that the Conservation Phase-In Adjustment proposed by Mr. Piliaris meets the requirements of a pro forma adjustment, and I respond to Commission Staff's assertion that a pro forma adjustment cannot use units to adjust the test year. Third, I respond to

Commission Staff's incorrect characterization of the Production Factor Adjustment as an attrition adjustment. Fourth, I present the uncontested adjustments between Commission Staff and the Company and explain why some of the adjustments have different impacts on net operating income ("NOI") and rate base. Fifth, I discuss specific electric restating and pro forma adjustments proposed by Commission Staff and other parties that the Company feels are inappropriate and explain why the Company disagrees with the proposed adjustments. Finally, I present the Exhibits that support the Power Cost Adjustment ("PCA") Mechanism calculation during the rate year using the Company's pro forma and restating adjustments for production and power costs.

Based on the pro forma and restating adjustments proposed by the Company and presented in Exhibit No. JHS-16, there is an electric revenue deficiency of $113,299,963 after allocation of $222,835 to Firm Resale and Firm Wholesale customers. If approved, this would represent an average 5.66% rate increase.

II. COMPARISON OF THE COMPANY'S REVENUE DEFICIENCY AND COMMISSION STAFF'S REVENUE DEFICIENCY

Q. Have you prepared a reconciliation between the revenue deficiency filed by the Company and the revenue deficiency filed by Commission Staff?

A. Yes. The following table highlights the differences, in millions, between the Company's supplemental filing, the Company's rebuttal filing and the Commission Staff filing.

PSE Supplemental Filing Revenue	$	153.9
Changes to power costs as supported by David Mills		(18.7
Change Mint Farm deferral balance and amortization period from 3 to 10 years		(14.6
Update property values and system ratios to actuals for property taxes		(5.5
Change tax treatment of non-deductible executive compensation and injuries & damages		(1.5
Include Wild Horse Expansion deferral		3.6
Other changes +/- $1 million		(3.7
		(40.4
PSE Rebuttal Filing Revenue	$	113.5
Differences, by Adjustment, to reconcile to Commission Staff:		
Rate of Return on Actual Results of Operations		(32.9
Adj 16.02 - Revenues and		(10.0
Adj 16.03 - Power		(34.7
Adj 16.04 - Federal Income Tax		1.5
Adj 16.07 - Wild Horse Expansion		(3.9
Adj 16.08 - Mint Farm Energy Center		(10.5
Adj 16.15 - Property Taxes		2.2
Adj 16.25 - Wage Increase		(2.2
Adj 16.33 -		(1.8
Adj 16.34 - Mint Farm Deferral		(2.6
Adj 16.36 - Net Interest Due to IRS		(2.6
Adj 16.38 - Production		(5.5
Other Adjustments +/- $1		(3.0
		(106.0
Commission Staff Response Filing Deficiency as Revised December 11, 2009	$	7.5

Q. Did any other parties propose adjustments to the Company's revenue deficiency?

A. Yes. Some of the adjustments proposed by other parties have been included in the Company's final rebuttal revenue deficiency, which I will discuss in the context of the relevant pro forma or restating adjustment. Later in my testimony, I will discuss the adjustments that the Company disagrees with or provide a reference to other Company witnesses that have testimony that discusses why a particular adjustment is inappropriate.

Q. Did you prepare a reconciliation between Public Counsel's revenue deficiency and the Company's revenue deficiency?

A. No. Public Counsel's witness, Mr. Dittmer, calculated Public Counsel's revenue deficiency from the Company's *adjusted year* instead of calculating the adjustments' impact on the *actual test year*. There was insufficient time to try to reconcile Public Counsel's presentation. Where there are errors in the actual calculation of Public Counsel's adjustments, or disagreement as to whether a cost should be allowed, it will be addressed with the appropriate adjustment.

III. PRO FORMA ADJUSTMENTS

A. <u>Commission's Historical Application of the Pro Forma Adjustment Standard</u>

Q. Are you aware of the definition of pro forma adjustments in the Washington Administrative Code ("WAC")?

A. Yes. WAC 480-07-510(3)(iii) states:

> Pro forma adjustments give effect for the test period to all known and measurable changes that are not offset by other factors. The

> work papers must identify dollar values and underlying reasons for each proposed pro forma adjustment.

Q. How has this definition been applied in prior Company cases?

A. The application of this definition is dependent on the particular pro forma adjustment. In some situations the requirement that pro forma adjustments be "known and measurable changes that are not offset by other factors" is met when the company provides a reasonable estimate, based on its expertise. For example, in a proceeding over thirty years ago, *WUTC v. Wash Natural Gas*, Docket. U-77-47 (1977), the Commission stated as follows:

> The company made a pro forma adjustment resulting in an increase of $170,988 to its maintenance expense during the test year (Line 3, Column M, Sheet 2, Exhibit 10) resulting in a decrease to its net operating income of ($88,914) (Line 15, Column M, Sheet 2, Exhibit 10) for the test year. The company contends that the increased maintenance cost is attributable to the recently adopted rules of the Commission pertaining to reclassification of leaks. The company contends had the new rules been in effect during the test year, that an additional 256 maintenance jobs would have been required at a cost of $99,672, and the company would be required to reevaluate all Class B leaks on a time schedule not exceeding 15 months at an annual cost of $26,316 and finally that the additional office and administrative costs incurred due to the compilation of reports and other internal office data directly attributable to the new rules results in an additional cost of $45,000 annually.

> The staff rejects the company's pro forma adjustment asserting that the company has not demonstrated that compliance with the new rules will result in increased costs. The staff points out that Mr. Hoglund cannot with certainty project the number of leaks which might occur in the future (5 years hence) and that the number of leaks vary from year to year, and Mr. Hoglund's testimony estimating the approximately 40% of all B2 leaks would be reclassified as Class C leaks subject to the 15-month resurvey requirement was not made on historical experience but was made

> on an "engineering" judgment, not supported by any known and measurable data.
>
> **The Commission recognizes the concern of the staff that the company's treatment of this adjustment is based upon a projection and not actual experience.** However, the Commission recognizes that not all things in a rate case hearing are provable with absolute certainty or are precisely measurable. For example, the rate of return necessarily includes a judgment factor. The company's engineering staff has vast and extensive experience in dealing with maintenance and as a professional staff we recognize it has developed a degree of expertise which goes into its judgment. We must and do recognize that a judgment or projection made by people having special expertise has credibility, if the projection is supported by believable testimony and experience. We believe it is ***reasonable*** (emphasis added) to assume that the new rules on reclassification of leaks will result in additional maintenance and expenses, and on a whole the company will as a result of the new rules incur additional expenses. Accordingly the company's adjustment will be allowed.

As discussed above, the Commission recognized that not all things in a rate case are provable with absolute certainty or precisely measurable. There are many items that are estimates such as depreciation, weather normalization, line losses, power costs, property taxes, rate year load, cost of service allocations and, as noted above, rate of return. These all rely on estimates that have been determined reasonable by the Commission over many years.

Q. Have more recent Commission decisions supported this view of pro forma adjustments?

A. Yes. In Docket UE-031725, Frederickson I was proformed into the rate year as its purchase date was expected to be coincident with the Commission order. In its Findings of Fact, item 6 the Commission states as follows:

> PSE has carried its burden to show that the costs the Company proposes to include in rates for the PCORC rate period, as modified during the course of the proceeding and reflected in Exhibit No. 318, line 5, are reasonable.

In the Conclusions of Law in the same docket the Commission states as follows:

> Including PSE's costs associated with its acquisition of Frederickson I, as reflected in Exhibit No. 318, line 5, in PSE permanent rates at the time PSE places the plant in service will result in rates, terms, and conditions of service that are fair, just, reasonable, and sufficient.

In Docket Nos. UG-04640 *et al*, UE-040641, UE-031471 and UE-032043, Order No. 06, paragraph 108, the Commission states as follows:

> [P]ower costs determined in general rate proceedings and in PCORC proceedings should be set as closely as possible to costs that are reasonably expected to be actually incurred during short and intermediate periods following the conclusion of such proceedings

Later in the same order the Commission states:

> Staff argues that there should be no adjustment from test period wheeling costs because any increase, including what PSE proposes on the basis of the pending settlement agreement, is not final and is, therefore, not known and measurable. Staff disputes PSE's assertion that if the settlement is rejected by BPA or the FERC then transmission rates would necessarily be higher. Staff argues that in the event the settlement fails, the transmission rate case would go into litigation mode. Staff concedes that the TBL might propose higher transmission rates, but argues that any such proposal would be subject to challenge by other parties, and would not become effective in any event until approved by BPA and FERC. Until all such events play out, Staff argues, any increase in BPA wheeling charges remains unknown and unmeasurable.
>
> Just as we cannot be certain of precisely what gas costs PSE will incur during the rate year, we cannot be precisely sure what increased

> transmission costs the Company will face. It does seem clear, however, that there will be some increase in BPA's transmission rates during the rate year. The parties' responses to Bench Request No. 10 show that there is widespread customer support for the settlement agreement. BPA's press release of January 26, 2005, states that BPA's administrator "said the settlement will expedite the transmission rate case, sparing the region a lengthy, costly formal rate process." It does not appear that approval from the BPA administrator is seriously in doubt.
>
> We find on the basis of the record that it is more likely than not that PSE will experience higher transmission costs during the rate year at approximately the level it requests. AURORA accounts for any offsetting adjustments that may result in power costs due to the effect within the model of higher transmission rates. Accordingly, we find that PSE's proposed change is within the known and measurable standard and should be approved. (Footnotes omitted)

These orders show that the implementation and acceptance of pro forma adjustments have remained consistent over time. Pro forma adjustments can include judgments, projections, and reasonable estimates based on expertise and informed beliefs as to what is "more likely than not" to occur. The new, stricter definition of pro forma adjustments that Commission Staff and Public Counsel advocate in this case—precluding the use of forecasts, budgets and projections—is not consistent with Commission Staff's past practice or Commission orders.

Q. Should all pro forma adjustments be judged under the same standard?

A. As described in these prior Commission orders, there are many types of pro forma adjustments--some are based on historical numbers and some are based on estimates and projections. Judgment must be used as to what is a reasonable pro forma adjustment. The pro forma adjustments should be considered within their own environment as to whether they meet the pro forma standard or not. For many of the pro forma adjustments, such as new resources, there is precedent as to how they are calculated. For some adjustments, like gas and wind turbine maintenance, which Mr. Odom and I discuss in our prefiled direct and rebuttal testimony, new standards have to be defined. To set a blanket rule that all pro forma adjustments must be based on actual costs as proposed by Commission Staff and Public Counsel, or that pro forma adjustments must have all offsets identified as proposed by Public Counsel is neither appropriate or consistent with prior Commission orders.

Q. What is a reasonable pro forma adjustment for a new plant that begins operations in the test year?

A. In the case of a pro forma adjustment for a new plant coming on line that has no test year history of maintenance, property taxes or insurance, the Company must be permitted to use reasonable estimates for these costs. Commission Staff recognized this in the Company's last general rate case, Docket No. UE-072300 *et al* ("2007 general rate case"). Exhibit No. JHS-21 is a copy of Mr. Parvinen's cross answering testimony (Exhibit No. MPP-2T) in that proceeding. Beginning on page 2 of his testimony, Mr. Parvinen describes how the Commission has allowed specific pro forma rate base adjustments, with resource acquisitions being a primary example.

Q. Did Commission Staff and the Company agree on other pro forma adjustments for production plant in the Company's last general rate case?

A. Yes. Exhibit No. JHS-22 is an excerpt from the response testimony of Mr. William Weinman (Exhibit No. WHW-1T) in the 2007 general rate case. This testimony demonstrates that Commission Staff did not contest the adjustments PSE proposed for its new production plant--Hopkins Ridge Wind Infill Project, Wild Horse, Goldendale, Sumas and Whitehorn. The position Commission Staff takes in the current case is inconsistent with Commission Staff's position on pro forma adjustments for production plant in the 2007 general rate case.

Q. Please describe the uncontested adjustment for the Hopkins Ridge Wind Infill Project in the 2007 general rate case.

A. The Hopkins Ridge Wind Infill Project was a 7.2 MW expansion of the existing 149.4 MW Hopkins Ridge Wind Project located in Dayton, WA. The estimated acquisition price less the accumulated depreciation and deferred taxes through the October 2009 time period, the end of the rate year in that proceeding, was the amount that PSE used to calculate the investment for the Hopkins Ridge Wind Infill Project. Construction was projected to be completed July 2008. For the rate year costs, the Company assumed that the construction costs would be final prior to November 2008 and be equal to the current estimate of capital cost. Using this amount, the Company calculated the average of the monthly averages ("AMA") plant balance for the rate period. PSE also calculated the accumulated depreciation and deferred taxes through the rate year based on an estimate as to when final capital costs would be closed to the plant accounts.

Q. Please describe the uncontested adjustment for Wild Horse in the 2007 general rate case

A. Wild Horse was a restating adjustment as the test year only had ten months of Wild Horse rate base and depreciation. This adjustment restated the test year so that a full year of costs were reflected for rate base, depreciation and accumulated deferred taxes.

Q. Please describe the uncontested adjustment for Goldendale in the 2007 general rate case

A. Goldendale was a pro forma and restating adjustment that included the estimated cost of Goldendale Generating Station as of the rate year, November 2008 through October 2009, taking into consideration the original purchase price and the retirement of certain plant items related to a turbine failure and rebuild.

Q. Please describe the uncontested adjustments used to calculate the investments for Sumas and Whitehorn in the 2007 general rate case

A. The adjustment for the investment for the Sumas Cogeneration Station was calculated using the estimated acquisition price as of July 2008 less the accumulated depreciation and deferred taxes through the October 2009 time period.

Similarly, the adjustment for the investment for the Whitehorn Generating Station was calculated using the estimated acquisition price less the accumulated depreciation and deferred taxes from the purchase date through the October 2009 time period.

B. Conservation Pro Forma Adjustment and Use of Units

Q. Mr. Parvinen states on page 13 of his testimony in this case that the Company has an error in its conservation phase in pro forma adjustment in that it uses units to adjust the test year. Do you agree?

A. No. Both restating and pro forma adjustments use units to adjust dollars. The restating weather adjustment uses normalized loads and losses to adjust revenues. Mr. Parvinen discusses in his testimony the pro forma Production Adjustment and mentions that it has been used since the mid 1970s. This pro forma adjustment is based on units of production as acknowledged by Mr. Parvinen on page 18 of his testimony. The production factor is determined by the relationship of the rate year delivered load to the test year load, both of which are expressed in kWhs.

Q. Is there a mismatch between revenues and expenses as Mr. Parvinen claims?

A. No. As explained by Mr. Piliaris in his prefiled direct testimony, Exhibit No. JAP-1T, and his prefiled rebuttal testimony, Exhibit No. JAP-5T, the mismatch occurs without the adjustment. The rate year load reflects the full impacts of the conservation undertaken during the test year yet, without this Conservation

Phase-In Adjustment, the test year load on which cost of service is allocated only reflects, on average, one-half of the conservation savings.

Q. Would you please explain which Company adjustments are impacted by the conservation phase-in adjustment for electric?

A. There are four Company electric adjustments impacted by the conservation phase-in. The first adjustment is the Revenues and Expenses, Adjustment 16.02. The revenues associated with the kWhs that are no longer available are removed in this adjustment on line 13. The second adjustment is Power Costs, Adjustment 16.03. As the test year delivered load is decreased for the kWhs that are no longer available, the production factor is impacted. On page 16.03a the rate year power costs are shown as presented in Mr. Mills Exhibit No. DEM-16C. The production factor is applied to these costs to get the equivalent per unit power cost for the test year. The third adjustment is the Production Adjustment, Adjustment 16.38. The application of the production factor is shown in the second to last column of this adjustment. The change in rate base from the production factor calculation impacts rate base in Tax Benefit of Pro Forma Interest, Adjustment 16.05. The net effect of conservation by electric adjustment is as follows:

	Net Operating Income	RATE BASE	Revenue Requirement
16.02 Revenue & Expenses	(6,242,791)	-	10,048,564
16.03 Power Costs	3,519,498	-	(5,665,078)
16.05 Tax Benefit of Profoma Interest	(102,260)	-	164,600
16.38 Producution Adjustment	816,417	(8,800,345)	(2,518,175)
Total Impact of Conservation	(2,009,137)	(8,800,345)	2,029,912

IV. PRODUCTION ADJUSTMENT

Q. Would you please explain why the production factor is used?

A. Yes. As I explained in my prefiled direct testimony, Exhibit No. JHS-1T, the production factor is applied to power cost related items so that the growth in delivered load from the test year to the rate year will provide an increase in revenues to cover the projected rate year level of power costs. The production factor is based on the ratio of the test period normalized delivered load to the rate year delivered load.

When my prefiled direct testimony was filed, the rate year delivered load was projected to be higher than the test year delivered load; therefore, the term growth in load was used in the prefiled direct testimony. Since that filing, customer usage has dropped and the rate year delivered load is now projected to be lower than the test year delivered load. Mr. Gaines explains this change in delivered load in his prefiled supplemental testimony, Exhibit No. DEG-9T, and his rebuttal testimony, Exhibit No. DEG-11HCT.

Q. What is the purpose of this production factor adjustment?

A. As Mr. Parvinen points out, the production factor has been used since the mid-1970s and is applied to the rate year power costs, the production operating and maintenance expense, the production rate base, and production regulatory asset/liability accounts. As some of these costs are projected at rate year levels, and other production related costs are held at historical year levels, the production factor is applied so that these costs are built into rates at the same unit cost using test year loads as they would be using rate year costs spread over rate year load. This adjustment brings the production related costs back to the test year based on the relationship of loads described above so that when approved costs are allocated over test year loads to set customer rates the same relationship between power costs and load at the rate year load level is maintained for the test year load.

Q. Can you provide an example of how the production factor adjustment is applied?

A. Yes. Exhibit No. JHS-23 shows the unit cost for power costs during the rate year, the test year adjusted for the conservation phase-in, and the test year without the conservation phase-in adjustment. The rate year unit cost is calculated by dividing the rate year power costs, from Exhibit No. DEM-16C, by the rate year delivered load. In Column (b) the power costs have been adjusted to the test year using the production factor that includes the conservation phase-in. The unit cost for power costs during the test year after this production factor has been applied is the same as Column (a) and is shown in Column (b) at line 12. Column (c) shows the same calculation using a production factor that does not include any adjustment to the test year kWh's for the conservation phase-in. When the adjusted power costs are divided by the test year load without the conservation phase-in, it again shows that the unit cost for power cost is the same as the other two calculations.

Q. When test year loads are higher than rate year loads, does this adjustment become an adjustment for attrition as Mr. Parvinen testifies?

A. No. It does not become an adjustment for positive attrition anymore than it was an adjustment for negative attrition when load was growing. This adjustment allows the Company the opportunity during the rate year to recover the rate year power and production costs that the Commission has approved during a particular proceeding. Because the same unit cost per kWh is built into rates for the rate year and the test year, after the production factor has been applied, there is no positive, or negative, attrition built into the adjustment.

V. TRACKER MECHANISMS

Q. Have you reviewed the Joint Testimony of Commission Staff and the Industrial Customers of Northwest Utilities ("Joint Parties"), which proposes to remove the costs associated with the Tenaska regulatory asset and hedges from general rate tariffs and to include these costs in a tracker mechanism?

A. Yes, I have reviewed this testimony.

Q. Does the Company agree with the proposal to recover the Tenaska regulatory asset in a tracker?

A. The concept is acceptable, however, the proposal as defined in the Joint Parties' testimony is incomplete. For example, concerning the regulatory asset associated with the Tenaska buy down, the Joint Parties propose moving the amortization of the regulatory asset in this proceeding to a tracker so that when the total amortization is complete the tracker can be terminated. The Joint Parties did not mention the impact of the disallowance associated with the Tenaska buy down as being part of the tracker. This is currently a credit of $2.3 million[1] that is built into power costs and shown on Adjustment 16.03a, line 6a. This amount should also be removed from general tariffs at the same time the amortization of the regulatory asset is removed. The Joint Parties also do not address the increase in amortization of the regulatory asset that occurs in 2011 or the return on the regulatory asset. *See* Exhibit JHS-19, page 8 of 11 for the calculation of both the amortization and return on the regulatory asset through the end of the amortization period. What is included in the current proceeding for amortization of, and return on, the regulatory asset for the Tenaska buy down is nine months of 2010 amortization and three months of 2011 amortization. The Joint Parties' proposal should be corrected to collect the remaining 2011 amortization of, and return on, the regulatory asset that occurs after March 2011, the end of the rate year.

If the Joint Parties' proposal is corrected to account for all of the costs associated with the remaining Tenaska buy down, and if it provides for a true up of the tracker at the end of the rate year, the Company does not oppose the tracker.

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[1] The final amount of the Tenaska buy down disallowance is dependent on the final authorized rate of return. Exhibit No. DEM-17C shows the methodology used to determine the disallowance.

Q. Does the Company agree with the Joint Parties' proposed tracker for hedging costs?

A. No. As explained by Mr. Mills, the hedges and underlying costs of power are inter-related. Going into the next period after the rate year there will obviously be a new relationship of hedges to costs but there is nothing in this record to indicate what that relationship will be. It could be power costs will be much higher and hedging costs will be lower, yet the net total power cost could be close to what is currently in rates. All costs would have to be looked at for the next period to determine what that relationship will be. Just removing one item in the power cost forecast is not reasonable or justified.

Q. Are there other situations where parties have proposed adjusting items in the power cost projections in isolation?

A. Yes. Mr. Norwood for Public Counsel proposes a trigger mechanism to provide for an incentive for the Company to petition the Commission to reduce its power cost rate at any time that its natural gas costs drop by 15% or more. This mechanism is neither reasonable nor justified. Using the 2007 general rate case as an example, the average gas price set in that proceeding was $8.35. The actual average price of gas through October 2009, which is the end of the rate year from that proceeding, was $3.97. This is a 53% decrease from what was set in rates. Using the PCA summary, which tracks over and under recovery of power cost for the PCA and is presented in Exhibit No. JHS-24, it can be seen that the Company under recovered its power costs by $25 million for the 12 months ending October 2009. Adding the additional under recovery of $8.4 million experienced for the month of November 2009 to the $25 million, the total under recovery since the gas prices were set in rates would result in an under recovery of $33.4 million.

Although the arguments to adjust elements of the power cost mechanism may have a certain superficial appeal, the interactions of the resources used to serve the customers are very complex. This is one of the reasons why all the components of power costs are used in setting the PCA baseline rate and are reviewed together in a PCORC or general rate case. These single issue adjustments for one element of the power cost forecast should be denied by the Commission.

VI. RENEWABLE ENERGY CREDIT PROCEEDS

Q. Has the Company proposed any adjustment in this proceeding for the net proceeds from the sale of renewable energy credits ("REC") that are being deferred as a liability on the Company's books?

A. No. The net proceeds from the REC sales are being addressed in a separate proceeding, Docket No. UE-070725. In that docket the Company has proposed that the net proceeds, net of an amount allocated to low income and the California receivable, be used to offset some of the regulatory assets that are on the Company's books. If the Commission were to accept that proposal, there would be an impact on the revenue requirement included in this proceeding. The most effective manner to implement this type of adjustment would be through a tracker adopted in Docket No. UE-070725 that would credit back to the customers the regulatory asset costs that would have been built into rates.

Q. Have you reviewed Mr. Norwood's proposed pro forma adjustment for REC sales?

A. Yes. There are several errors in his proposal. First, the amount of benefit that he has calculated does not take into consideration any allocation to low income or the Company's California receivable as proposed in Docket No. UE-070725. Mr. Norwood acknowledges that the decision as to how these proceeds are to be allocated will be appropriately addressed in Docket No. UE-070725.

Second, revenues can vary greatly based on the actual RECs available for sale; therefore, it is more properly handled in a non-general rate tariff similar to what is used for passing through Production Tax Credits rather than as an adjustment to general tariffs. If the Commission were to decide to pass through the net REC proceeds to the customers in this case, as proposed by Mr. Norwood, the non-general rate tariff is still the best vehicle to accomplish this so that any allocation of REC proceeds, plus the variability in sales of the RECs, can be tracked and trued up outside a general rate case filing.

VII. UNCONTESTED ELECTRIC ADJUSTMENTS BETWEEN THE COMPANY AND COMMISSION STAFF

Q. Have you prepared exhibits that detail the updated restating and pro forma adjustments that the Company is proposing?

A. Yes. Exhibit No. JHS-15 reflects revised test year ratebase amounts that adopt Mr. Kermode's and Mr. Martin's proposed changes to working capital as filed December 11, 2009. Exhibit No. JHS-16 summarizes the Company's restating and pro forma adjustments. This exhibit is presented in the same format as my Exhibit No. JHS-4, Exhibit No. JHS-10 and Ms. Breda's Exhibit No. KHB-2. The amounts reflected for test year ratebase in Exhibit No. JHS-16 are equal to the amounts presented in Exhibit No. JHS-15. Exhibit No. JHS-20 provides an additional overview of all the adjustments as to whether they are contested or uncontested and how their net operating income, ratebase and contribution to revenue deficiency compare between the Company and Commission Staff.

Q. Please explain the adjustments where the Company is in agreement with Commission Staff.

A. The uncontested adjustments and their impact on Net Operating Income ("NOI") or rate base are:

Adjustment	NOI	Rate Base
Actual Results of Operations	225,331,768	3,464,213,140
16.01 Temperature Normalization	(12,235,767)	
16.05 Tax Benefit of Pro Forma Interest	(971,811)	
16.12 Pass-through Revenue and Expense	(640,213)	
16.13 Bad Debts	1,021,353	
16.16 Excise Tax & Filing Fee	264,096	
16.18 Montana Energy Tax	50,981	
16.19 Interest on Customer Deposits	(61,479)	
16.20 SFAS 133	4,899,699	
16.21 Rate Case Expense	380,361	
16.22 Deferred Gains/Losses on Property Sales	(247,166)	
16.23 Property and Liability Insurance	(778,678)	
16.24 Pension Plan	(2,741,878)	
16.28 Incentive Pay	1,137,979	
16.29 Merger Cost Savings and Rate Credits	568,233	
16.30 Storm Damage	(6,176,024)	
16.32 Depreciation	9,109,591	4,554,795

Q. Is this list of uncontested adjustments different than the list of uncontested adjustments that Mr. Parvinen presents in his prefiled response testimony?

A. Yes. Mr. Parvinen listed Adjustment 16.22, Deferred Gains/Losses on Property Sales, as an uncontested adjustment. The Company's rebuttal adjustment includes one more gain on property than Commission Staff's adjustment. During the test year a gain on property was included in a normal retirement job order that was closed to Account 108, Accumulated Depreciation. The Company has reclassified this gain to Account 253 and has included the gain on its adjustment. Additionally, Mr. Parvinen does not include Adjustment 15.03 and 15.04 Test Year Rate Base and Working Capital, Adjustment 16.23 Property and Liability Insurance and Adjustment 16.19 Interest on Customer Deposits as uncontested. The Company has adopted the Commission Staff's proposed changes, resulting in these adjustments no longer being contested. Mr. Stranik discusses each of these adjustments in his prefiled rebuttal testimony Exhibit No. MJS-12T. Finally, Commission Staff lists Adjustment 16.04 Federal Income Tax as uncontested. In accepting proposals from Public Counsel related to this adjustment, which are described later in my testimony, this adjustment is now different in net operating income between the Commission Staff and the Company.

Q. Are there adjustments you are listing as uncontested for which there are differences between the Company and Commission Staff as to the adjustment's contribution to rate base or net operating income?

A. Yes. Although we are in agreement as to the methodology used to calculate several adjustments, these adjustments are dependent on other adjustments that are disputed, such as power cost, rate base and cost of capital. The difference in Adjustment 16.05 Tax Benefit of Pro Forma Interest is strictly the result of differences between the weighted average cost of debt and rate base. The difference related to Adjustment 16.18 Montana Electric Energy Tax is the result of updated rate year generation for the Colstrip facility from changes made to the rate year power cost forecast.

VIII. CONTESTED ADJUSTMENTS

Q. Would you please describe the difference between the Company and other parties on the contested adjustments?

A. Yes. The impact on net operating income and rate base for each of the Company adjustments is summarized on pages 16-A through 16-E of Exhibit No. JHS-16. Each of these adjustments is explained by reference to the actual adjustment page as listed below. The Company requests that the Commission accept the following adjustments as presented by the Company.

<u>Revenue and Expense 16.02</u>

Commission Staff witness, Mr. Schooley, has removed the Conservation Phase-In Adjustment from the Revenue and Expense Adjustment. Commission Staff's calculation increases NOI by $86,639,106 compared to PSE's rebuttal filing NOI increase of $80,396,404.

Public Counsel Witness Mr. Dittmer also removed the Conservation Phase-In Adjustment from the Revenue and Expense Adjustment. In addition, Public Counsel Witness Norwood made two other adjustments to the Revenue and Expenses Adjustment. First, Mr. Norwood states on page 46 of his testimony that PSE should not be allowed to defer REC sales of $51,956,124 but should include the effect in this proceeding. Second, Mr. Norwood removes $19,474,745, which is his calculation of the equity return on the Mint Farm Generating Station ("Mint Farm"). Mr. Norwood revised this number downward in his response to PSE's Data Request No. 12 to $15,577,000. *See* Exhibit No. JHS-25.

Q. Do you agree with Commission Staff's or Public Counsel's adjustment to remove the Conservation Phase-In Adjustment?

A. No, as stated earlier in my testimony, the Conservation Phase-In Adjustment is an appropriate pro forma adjustment and the Company requests that the Commission approve this adjustment.

Q. Does PSE agree with Public Counsel's adjustments to include REC sales and disallow an equity return on Mint Farm?

A. No, I discussed the REC proceeds earlier in my testimony. Mr. Norwood's proposed adjustment is not appropriate and should not be included in general tariffs. Ms. Harris and Mr. Garratt discuss why Mr. Norwood's adjustment for the disallowance of the equity return on Mint Farm should be rejected.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

<u>Power Cost Adjustment 16.03</u>

Mr. David Mills' prefiled rebuttal testimony describes the differences between the

Company's power cost adjustment and the power cost adjustment proposed by the Joint Parties and Public Counsel Witness Mr. Norwood. Mr. Odom discusses the differences between the Company and Commission Staff and Public Counsel for maintenance costs that are associated with the natural gas turbines and the wind turbines. Mr. Jones discusses how Commission Staff's proposed adjustment ignores current operating characteristics for the Colstrip plants and how rate year budgets are comparable to actual maintenance costs. Mr. Lane discusses why Commission Staffs' adjustments to the Baker River Hydroelectric Project and Snoqualmie Falls Project are inappropriate and do not reflect the required costs associated with the new Federal Energy Regulatory Commission ("FERC") licenses.

Both the Joint Parties and Mr. Norwood suggest changes to the methodology that has been used to set power cost rates in the last several Company proceedings. The Joint Parties suggest that there is a pricing error in the way power costs are determined and propose a hydro filtering mechanism to correct for this perceived error. Mr. Mills and Mr. Dubin discuss why this is not appropriate. Mr. Norwood proposes an adjustment to the Baseline Rate for natural gas prices when they decrease more than 15% from the price that was used in the Company's latest proceeding, which I discussed earlier in my testimony. Mr. Mills also discusses why this approach is not appropriate and why Mr. Norwood's adjustment for sales for resale is not appropriate.

Federal Income Tax, Adjustment 16.04

The Company has made changes to its Federal Income Tax Adjustment in its rebuttal by accepting two of Public Counsel's adjustments. These changes consist of an adjustment for non tax deductible executive compensation and flow through treatment for injuries and damages that are described in the prefiled rebuttal testimony of Matthew R. Marcelia, See Exhibit No. MRM-4CT.

Tax Benefit of Pro forma Interest, Adjustment 16.05

Mr. Kermode, in his prefiled testimony, lists this adjustment as uncontested and it is not disputed among the Company, Commission Staff and Public Counsel as to the methodology used in the calculation. The difference among the Company, the Commission Staff and Public Counsel for this adjustment is based on the different rate base and average interest costs included in the respective cost of capital testimony.

Hopkins Ridge Infill, Adjustment 16.06

This plant was put in-service during the test year. The Company pro forma adjustment follows the same procedures used in prior dockets where a generating plant which was approved for recovery in a preceding docket was put in-service during what has become a test year for a new proceeding. The Company's pro forma adjustment in this case is consistent with the treatment of the new plant in the Company's 2007 general rate case, where the full value of the new plant was included in the revenue deficiency as a pro forma adjustment.

Q. Please discuss the differences between the Commission Staff and the Company in calculating this pro forma adjustment.

A. Commission Staff has proposed several changes to this pro forma adjustment based on Mr. Parvinen's testimony describing pro forma adjustments. I have explained earlier in my testimony why Commission Staff's interpretation of the definition for pro forma adjustments is not appropriate for plant additions and is not consistent with Mr. Parvinen's previous definition of a new resource pro forma adjustment or prior Commission Staff's interpretation of resource pro forma adjustments. The interpretation of a pro forma adjustment related to plant additions discussed by Mr. Parvinen in this case has been proposed to be applied by Commission Staff to all of the Company's new resources being restated or pro formed into the rate year. The Company requests that the Commission continue to accept the pro forma adjustments, as calculated and allowed in prior cases, for these resources.

Commission Staff has calculated their rate base and other expenses for this plant based on costs through August 2009. As this plant went into service in August 2008, the Commission Staff's use of plant balances through August 2009 is similar to the Company's adjustment for rate base. As the dollar impacts on revenue requirement for the difference between PSE's original filing and Commission Staff's response filing are minimal, PSE has incorporated

Commission Staff's amounts in its rebuttal filing to simplify this adjustment. The Company does not accept the methodology used in calculating the dollar amounts used in the adjustment except where explained below.

The Company's rebuttal pro forma adjustment includes the actual known insurance premium for this project and is the same as Commission Staff's amount for this item. The Company includes the property taxes associated with this project as it is known and measurable that these costs will occur. Mr. Marcelia explains how property taxes are calculated for inclusion in the financial statements, and the general rate case, in his rebuttal testimony, Exhibit No. MRM-4T. Commission Staff adjusts property taxes to test year levels and transfers them to Adjustment 16.15 Property Taxes. The Company disagrees with both the adjustment to test year levels and the removal of property taxes from this adjustment. The correct property tax amounts should be included in the stand alone plant adjustments as this is part of the cost associated with a new resource.

Q. Did any other parties have an adjustment for this plant addition?

A. No other parties had adjustments to Hopkins Ridge Infill pro forma adjustment as originally filed by the Company.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

<u>Wild Horse Expansion Project, Adjustment 16.07</u>

This plant went into service on November 9, 2009. This pro forma adjustment follows the same methodology that has been used in prior cases to determine the rate year costs associated with the plant. In the Company's prefiled direct testimony and exhibits, the dollar amounts used in the cost analysis of the plant were used to estimate the impact of the plant on rate year costs. At rebuttal the Company has updated these costs to reflect lower estimates for the final costs of construction and rate year expenses. These changes were provided to all parties in PSE's responses to Public Counsel Data Request No. 513, dated November 4, 2009, and WUTC Staff Data Request No. 206, dated November 3, 2009. Changes were made subsequent to data shown in PSE's responses to incorporate actual costs through October 2009 and to update property taxes for the impacts of actual known property values and system ratios as discussed by Mr. Marcelia in his prefiled rebuttal testimony.

Q. Please explain any other differences between the Company's supplemental filing and rebuttal filing for this plant addition.

A. The Company's supplemental filing used an estimated in service date of December 1, 2009 to calculate the plant amounts, depreciation and deferred taxes in the rate year. The pro forma adjustment in the rebuttal filing uses the actual in service date of November 9, 2009.

The Company has not included the changes that would need to be made to this adjustment for the utilization of Treasury Grants in-lieu of Production Tax Credits. The changes would include lowering the tax basis of the plant by one-half of the grant amount and tax affecting the difference between book basis and tax basis for the plant. If these corrections had been included, the revenue deficiency associated with this plant would be increased by $.6 million.

Q. Please discuss the differences between the Commission Staff and the Company in calculating this adjustment.

A. To calculate the gross plant values for Wild Horse Expansion, Commission Staff uses actual Construction Work in Progress balances through September 2009 whereas the Company uses the total capital cost expected to close to plant by December 2009 as supported by Mr. Roger Garratt. In addition, Commission Staff does not adjust for land value of $1.3 million associated with this project. In the Company's direct filing this pro forma adjustment also did not show any value for rate base that was included in the test year. As the land was included in future use property during the test year, which is in rate base, the value of the land needs to be shown on line 3 of this adjustment. This correction was provided to all parties in response to WUTC Staff Data Request No. 85 and FEA Data Request No. 01.10.

Commission Staff has used a November 1, 2009 in service date and the Company has used the actual in service date of November 9, 2009 to calculate rate base, accumulated depreciation and accumulated deferred income tax. Mr. Odom explains the differences for maintenance between Commission Staff and the Company. Mr. Marcelia discusses the difference between Commission Staff and the Company for property taxes associated with this plant. The Company has not included an insurance premium for this property as the insurance broker will not be providing a new premium for the total project including the expansion until later in 2010.

Q. Are there any errors in Commission Staff's adjustment filed November 17, 2009?

A. Mr. Marcelia discusses a tax normalization error in Ms. Breda's calculation of DFIT filed December 11, 2009. Due to this Commission Staff filing occurring while the Company was finalizing its rebuttal, it was not possible to check all the calculations filed by Commission Staff for accuracy.

Q. Did any other parties have an adjustment for this plant addition?

A. No other parties had adjustments for this plant addition.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

<u>Mint Farm, Adjustment 16.08</u>

This plant went into service in December, 2008. This pro forma adjustment follows the same methodology that has been used in prior cases to determine the rate year costs associated with the plant. In the Company's prefiled direct testimony and exhibits, the dollar amounts used in the cost analysis of the plant were used to estimate the impact of the plant on rate year costs. At rebuttal the Company has updated these costs to reflect actual plant balances through October, 2009 and trued up the estimates of the final costs of construction and rate year expenses.

Q. Please explain the differences between the Company's supplemental filing and rebuttal filing for this plant addition.

A. The Company's rebuttal filing includes updates for actual plant and depreciation balances through October 2009 and estimated plant additions through December 2009 of $2.2 million. Depreciation and amortization expense have been updated to reflect these changes made to rate base. Production operations and maintenance ("O&M") expenses have been updated to remove PSE's originally proposed normalized five-year forecasted maintenance. Because PSE has not owned and operated the Mint Farm facility long enough to establish a reasonable estimate of an annual maintenance expense, Mint Farm's rate year pro forma O&M expense has been updated in rebuttal based on maintenance expenses for a like-type plant, PSE's owned Goldendale Generating Station. The methodology for determining the annual maintenance expense and PSE's opposition to Commission Staff's use of an annualized amount based on annualized actual costs through August 2009 is discussed further in the prefiled rebuttal testimony of Mr. Ed Odom, Exhibit No. LEO-13CT. Projections for fuel and wheeling have been updated to reflect amounts shown in the exhibits of Mr. David E. Mills. Property insurance was updated to the actual premiums for the policy period April 2009 through March 2010. These adjustments increase rate base by $220,525,801, which represents a reduction to rate base of $2,983,278 from the $223,509,079 reflected in the Company's supplemental filing. The impact of the operating expenses presented on this adjustment is to decrease net operating income by $5,200,035 less than the $56,574,839 reflected in the supplemental filing.

Q. Please discuss the differences between the Commission Staff and the Company in calculating this adjustment.

A. Commission Staff calculates the Mint Farm plant balances and depreciation and amortization based on actual plant additions through August 2009. Production O&M is included using an annualized amount based on actual expenses for January through August 2009. Mr. Odom discusses why this is an inappropriate adjustment in his rebuttal testimony. Commission Staff adjusts all property taxes to test year amounts and moves this part of the adjustment to their Adjustment 16.15, Property Tax. Because test year property taxes for Mint Farm were deferred, this results in no property taxes being allowed for recovery in Commission Staff's proposal.

Q. Did any other parties have an adjustment for this plant addition?

A. No. Although Public Counsel removes the recovery of the Mint Farm deferral and disallows the equity return on the Mint Farm rate base discussed earlier, Public Counsel did not make adjustments to the actual plant adjustment as filed in the Company's direct or supplemental testimony.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

Sumas, Adjustment 16.09

This plant was also put in-service during the test year. As with the Hopkins Ridge Wind Infill Project, this adjustment follows the same procedures used in prior dockets where a generating plant that was approved for recovery in a preceding docket was put in-service during what has become a test year for a new proceeding. In the preceding docket the full value of the new plant was included in the revenue deficiency as a pro forma adjustment for the period of time it was in-service.

Q. Please explain the differences between the Company's supplemental filing and rebuttal filing for this plant addition.

A. The Company's rebuttal adjustment includes updates for actual balances through August 2009, which is the same date used by Commission Staff. The property insurance premium has been updated to the current premium and is the same as Commission Staffs' insurance amount. Property taxes for Sumas were updated to the current estimate as explained by Mr. Marcelia. These adjustments increase rate base by $620,859 from the $7,282,195 increase reflected in the Company's supplemental filing. The impact of the operating expenses presented on this adjustment is to decrease net operating income by $138,869 less as compared to the $738,416 net operating income decrease reflected in PSE's supplemental filing.

Q. Please discuss the differences between the Commission Staff and the Company in calculating this adjustment.

A. There are four differences between the Company's rebuttal filing and Commission Staff's December 11, 2009 filing. Commission Staff updated their adjustment with recorded balances through August 2009 for Plant in Service, Accumulated Depreciation balances using PSE's response to WUTC Staff DR 158 as a source for the revisions. Commission Staff then recalculated their Deferred Federal Income Taxes (DFIT) calculation based on the new Plant in Service and Accumulated Reserve numbers. Commission Staff adjusts all property taxes to test year amounts and moves this part of the adjustment to their Adjustment 15 Property Tax. Mr. Marcelia discusses why Commission Staffs' proposed adjustments to reflect property taxes at test year amounts are inappropriate.

Q. Are there any errors in Commission Staff's adjustment filed November 17, 2009?

A. Yes, however, Commission Staff filed new numbers for this adjustment on December 11, 2009 that appear to have corrected some errors from the original filing that involved the deferred tax calculation. Due to this Commission Staff filing occurring while the Company was finalizing its rebuttal, it was not possible to check all the calculations filed by Commission Staff for accuracy.

Q. Did any other parties have an adjustment for this plant addition?

A. No other parties have any adjustments for this plant addition.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

<u>Whitehorn, Adjustment 16.10</u>

This plant was also put in service during the test year. As with the Hopkins Ridge Wind Infill Project, this adjustment follows the same procedures used in prior dockets where a generating plant that was approved for recovery in a preceding docket was put in-service during what has become a test year for a new proceeding. In the preceding docket the full value of the new plant was included in the revenue deficiency as a pro forma adjustment for the period of time it was in-service.

Q. Please explain the differences between the Company's supplemental filing and rebuttal filing for this plant addition.

A. The Company's rebuttal adjustment includes updates for actual balances through August 2009. The property insurance premium has been updated to the current premium for the 2009 to 2010 policy period. Property taxes for Sumas were updated to the current estimate as explained by Mr. Marcelia. The Company has corrected an AMA calculation error in the accumulated deferred taxes included in the prefiled direct testimony and exhibits for this plant. Correcting the DFIT calculation to the correct AMA calculation decreases rate base by ($337,117). These adjustments decrease rate base by $324,637 from the $18,323,366 increase reflected in the Company's supplemental filing. The impact of the operating expenses presented on this adjustment is to decrease net operating by an additional $15,210 as compared to the $2,015,304 decrease reflected in the PSE supplemental filing.

Q. Please discuss the differences between the Commission Staff and the Company in calculating this adjustment.

A. Commission Staff filed new numbers on December 11, 2009 with updates to their accumulated depreciation and accumulated amortization balances using PSE's responses to Data Request 163 as their basis. Commission Staff also fixed the DFIT calculation to include accumulated amortization when developing their DFIT balances. Commission Staff adjusts all property taxes to test year amounts and moves this part of the adjustment to Adjustment 15, Property Tax. Mr. Marcelia discusses why Commission Staffs' proposed adjustments to reflect property taxes at test year amounts are inappropriate.

Q. Are there any errors in Commission Staff's adjustment filed November 17, 2009?

A. Yes, however, Commission Staff filed new numbers for this adjustment on December 11, 2009 that appear to have corrected some errors from the original filing that involved the deferred tax calculation. Due to this Commission Staff filing occurring while the Company was finalizing its rebuttal it was not possible to check all the calculations filed by Commission Staff for accuracy.

Q. Did any other parties have an adjustment for this plant addition?

A. No other parties made any adjustment to the Whitehorn Adjustment.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

<u>Baker Hydro Relicensing, Adjustment 16.11</u>

The costs associated with the Baker Hydro Relicensing were also included in the 2007 general rate case. This pro forma adjustment annualizes the amortization of the FERC licensing costs as they were only included in the test year for two months.

Q. Please explain the differences between the Company's supplemental filing and rebuttal filing for this adjustment.

A. The Company's rebuttal adjustment includes updates for plant actual balances through August 2009. The property insurance premium was updated to the current period and property taxes for Baker Hydro Relicensing were updated to the current estimate as explained by Mr. Marcelia. In its prefiled direct filing the Company did not include any accumulated deferred tax balance for the rate base associated with this adjustment. In the process of responding to Commission Staff Data Request No. 185, it was determined that the Baker Hydro Relicensing qualifies for accelerated tax depreciation under IRS regulations as the relicensing costs qualify as intangible plant and can be amortized over 15 years under §197 of the Internal Revenue Code. In its response to Commission Staff Data Request No. 185, the Company informed all parties that the Company would include in its rebuttal filing a DFIT calculation in Adjustment 16.11 Baker Hydro Relicensing. The Company also corrects its amortization of the relicensing cost so that the remaining costs as of April, 2010 are amortized over the remaining 50 years of the license from the time the license was received instead of over an additional 50 years from the beginning of the rate year. These adjustments decrease rate base by $1,070,134 from the $32,876,741 increase reflected in the Company's supplemental filing. The impact of the operating expenses presented on this adjustment is to increase net operating income by an additional $1,824 as compared to the $1,000,689 decrease reflected in PSE's supplemental filing.

Q. Please discuss the differences between the Commission Staff and the Company in calculating this adjustment.

A. Ms. Breda changed the amortization rate that was approved in the Company's last general rate case filing so that the remaining costs would be amortized over 50 years beginning October 2009 instead of April 2010, which is when the new amortization rate would be approved and should be implemented. As indicated earlier in my testimony, the remaining costs as of April, 2010 should be amortized over the remaining 50 years of the license from the time the license was received. The new rate of amortization should only be applied when it is approved.

Ms. Breda also removed the rate year federal land use fees from this adjustment. Mr. Lane explains why these federal land costs are known and measurable and should not be removed.

Q. Are there any errors in Commission Staff's adjustment filed November 17, 2009?

A. Yes, however, Commission Staff filed new numbers for this adjustment on December 11, 2009 that appear to have corrected some, but not all, errors from the original filing that involved the deferred tax calculation. Ms. Breda used the AMA amount for her rate year DFIT balance instead of the IRS calculation. This is a normalization violation and is discussed by Mr. Marcelia in his rebuttal testimony. Due to this Commission Staff filing occurring while the Company was finalizing its rebuttal, it was not possible to check all the calculations filed by

Commission Staff for accuracy.

Q. Did any other parties have an adjustment for this plant addition?

A. No other parties had any adjustments to Adjustment 16.11.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

<u>Miscellaneous Operating Expense, Adjustment 16.14</u>

Q. Please explain the differences between the Company's supplemental filing and rebuttal filing for this plant addition.

A. The Company's rebuttal adjustment includes one update to remove from net operating income the merger related costs of ($1,831) charged to advertising expense that should have been charged below the line. The revised increase to net operating income is $995,982.

Q. Please discuss the differences between the Commission Staff and the Company in calculating this adjustment.

A. There is one difference between the Company and Commission Staff. Commission Staff removed the Company service provider contract increases for transmission and distribution expense from the rate year, reducing forecast expenses by ($23,515) and ($874,539) respectively. Commission Staff stated that no 2010 contract had been signed, therefore the Company's increases were estimates and did not conform to the WAC 480-07-510 (3) (iii) pro forma adjustment definition. Mr. Valdman discusses why these contract changes are known and measurable and should be included as a pro forma adjustment in this proceeding.

Q. Did any other parties have any adjustments for the Miscellaneous Operating Expense Adjustment?

A. Yes, Public Counsel made five adjustments to Adjustment 16.14 Miscellaneous Operating Expense. Public Counsel Witness Mr. Dittmer removed the service provider contract increases for transmission and distribution expense for the rate year for the same reason as Commission Staff, and this adjustment should be denied for the same reason. Mr. Dittmer also removed the Company aircraft from rate base ($871,142) and removed the associated depreciation, O&M expenses and deferred taxes from net operating income, replacing them with his estimate of travel costs. Mr. Stranik discusses this adjustment for the airplane in his prefiled rebuttal testimony, Exhibit No. MJS -12T, and he explains why the costs associated with the airplane should not be removed from the test year.

Mr. Dittmer also removed expenses of $280,035 for Green Power advertising from the Company's filing. These costs had already been removed in the Company's Adjustment 16.12, Pass-through Revenues and Expenses. Mr. Dittmer's removal of these costs duplicates the Company's adjustment and is inappropriate.

Mr. Dittmer adjusts the Company's historical test year results for Account 926, Injuries and Damages by using a three year average of costs charged to this account. Mr. Stranik discusses why this adjustment is not appropriate in his prefiled rebuttal testimony, Exhibit No. MJS -12T.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

<u>Property Taxes 16.15</u>

Prior to filing its rebuttal testimony the Company was successful in having the property values adjusted downward from what has been previously assessed by the Department of Revenue ("DOR"). Actual system ratios were also received from the Department of Revenue and were used in this calculation. Mr. Stranik and Mr. Marcelia each discuss why the other parties' adjustments to property tax are inappropriate in their prefiled rebuttal testimony, Exhibit Nos. MJS-12T and Exhibit No. MRM-4T.

<u>Director and Officers Insurance, Adjustment 16.17</u>

Public Counsel and Commission Staff argue that the Director and Officers Insurance costs should be shared equally between ratepayers and shareholders because both parties benefit from such insurance coverage as it facilitates the retention of directors and officers. Mr. Stranik discusses why the adjustment as proposed by both parties should be denied in his prefiled rebuttal testimony, Exhibit No. MJS -12T.

Montana Electric Energy Tax, Adjustment 16.18

Commission Staff and the Company agree on the methodology used to make this pro forma adjustment. The difference in the amount of the adjustment is based on the amount Colstrip will generate during the rate year, as it is the generation that is taxed. Commission Staff has used a different customer load and different hydro years than the Company therefore, the amount of generation calculated in AURORA for the Colstrip plants is different.

Deferred Gains and Losses on Property Sales, Adjustment 16.22

This is an uncontested adjustment between the Company's filing and Commission Staff's filing except for the additional gain on the property sale discussed earlier. The Company has updated the deferred gains and losses on property sales since its supplemental filing to reflect the balances as of October 31, 2009.

Property and Liability Insurance, Adjustment 16.23

This adjustment is uncontested between the Company and Commission Staff. Mr. Stranik discusses why the adjustment as proposed by Public Counsel should be denied in his prefiled rebuttal testimony, Exhibit No. MJS-12T.

Pension Plan, Adjustment 16.24

This adjustment is uncontested between the Company and Commission Staff. Mr. Stranik discusses why the adjustment as proposed by Public Counsel and FEA should be denied in his prefiled rebuttal testimony, Exhibit No. MJS-12T.

Wage Increase, Adjustment 16.25

Mr. Stranik discusses why the adjustments proposed by other parties for the Wage Increase should be denied in his prefiled rebuttal testimony, Exhibit No. MJS - 12T.

Investment Plan, Adjustment 16.26

Updates to the Investment Plan made by the Company in rebuttal are directly related to changes made in the wage increase adjustments. Accordingly, the differences between the parties in the investment plan adjustments are directly related to the differences in the wage increase adjustments discussed in the prefiled rebuttal testimony of Mr. Stranik in Exhibit No. MJS-12T.

Employee Insurance, Adjustment 16.27

Mr. Stranik discusses why the adjustments proposed by other parties for the Wage Increase should be denied in his prefiled rebuttal testimony, Exhibit No. MJS - 12T.

Regulatory Assets and Liabilities, Adjustment 16.31

The Company has made three updates to the Regulatory Assets and Liabilities Adjustment from the supplemental filing.

(i) **Sales Proceeds from Cascade Water Alliance ("CWA"):** The Company removed the effects of deferred federal income taxes on the proceeds of this sale. This change decreases rate base by $8,750,000 before application of the production factor. Mr. Marcelia discusses why this adjustment was made to this item in his rebuttal testimony, Exhibit No. MRM-4T.

(ii) **Colstrip Settlement Payment:** The Company agrees with Commission Staff that the Colstrip settlement payment should have been net of insurance receivables and has adjusted the amount used to defer the Colstrip settlement payment regulatory asset. The amount of insurance reimbursement receivable of $2,083,590 has been applied against the $10,487,160 test year settlement payment, decreasing the basis for the regulatory asset to $8,403,570. Commission Staff has included this full amount in the test year as a normal cost. The Company still proposes to amortize this cost over five years.

(iii) **Over Recovery of Major Maintenance:** The Company agrees with Commission Staff on this adjustment and has removed the adjustment for this item. This update has resulted in an increase to rate base of $2,985,943 and a decreased reduction in operating expense by $1,194,377 before application of the production adjustment, as compared to PSE's supplemental filing.

Q. Please discuss the differences between the Commission Staff and the Company in calculating the remainder of this adjustment.

A. There are three main differences between the Company and Commission Staff on the Regulatory Assets and Liabilities Adjustment. The first difference relates to the West Coast Pipeline capacity payment. Commission Staff opposes using November 1, 2009 as the date for including a credit in rate base for purposes of calculating the PCA deferral and instead uses the date of receipt, October 24, 2008. As the date of the Company's filing of the Accounting Petition for this item was November 6, 2008 the Company is not opposed to adjusting the actual PCA deferral in PCA Period 9 to incorporate this regulatory liability in production rate base as of October 2008 if the Commission orders this for PCA purposes. However, if this impacts prior PCA reporting periods in such a way that it impacts publicly reported financial earnings, prior to the date of the order for this proceeding, the Company should not have to restate these prior periods and only reflect the change at the time of the order.

Q. Please continue your discussion of the differences between the Company and Commission Staff in calculating the Regulatory Assets and Liabilities Adjustment.

A. For the Colstrip settlement payment, Commission Staff proposes removing PSE's calculation of the settlement payment deferral from rate base and including only the amount as identified in the settlement to be recovered from insurance, or $2,083,590. The Company proposes that this insurance receivable be included in working capital instead of as a rate base adjustment. As discussed earlier, the Company removed the tax associated with the $25 million dollar CWA payment, and Commission Staff did not adjust this item. The Company proposal is that all the tax impacts of all the receipts and costs associated with the White River plant will be calculated when the sale is completed.

Q. Did any other parties have any adjustments for Regulatory Assets and Liabilities that differ from PSE on rebuttal?

A. Yes, Public Counsel proposes to remove the regulatory asset and related amortization for the Colstrip settlement payment, stating the settlement is a "non-recurring event – or at least infrequently-occurring event". Mr. Dittmer tries to equate the prior major maintenance to the collection of the cost of the Colstrip settlement and would remove both adjustments. The Company does not agree that his adjustment is appropriate. The Company had offered to use the prior calculation of major maintenance, which was based on a projection, as an offset against the projected cost of maintenance as explained in the Company's direct filing. As the Company is no longer advocating that adjustment, as explained by Mr. Odom, the Commission Staff is correct in stating this adjustment is retro-active rate making and should be disallowed. As explained by Mr. Jones in his prefiled direct testimony, the Colstrip settlement payment was made to protect the customers' interests in a low cost production resource. Mr. Dittmer's arguments to not allow recovery of this cost should be rejected by the Commission.

Mr. Dittmer also calculates a tax receivable associated with the CWA proceeds. Mr. Marcelia explains why this adjustment is not appropriate and should be rejected by the Commission in his rebuttal testimony, Exhibit No. MRM-4T. The actual tax impact of the White River assets sales will be determined and included in a future proceeding once known. It should be noted that the estimated tax receivable calculated by Mr. Dittmer for this item was treated erroneously as a reduction to rate base rather than as an increase to rate base. Had Public Counsel included the tax receivable appropriately as an increase to rate base, its proposed rate base would have been $4,148,114 higher than was included in Public Counsel's response filing.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

<u>Fredonia Power Plant, Adjustment 16.33</u>

On November 14, 2008 the current lessor, GE Capital Commercial Inc., submitted a letter to PSE that provided PSE with 60-days' notice of the lessor's election to terminate the lease. PSE has elected to purchase these turbines. This pro forma adjustment follows the same methodology that has been used in prior cases to determine the rate year costs associated with a new resource. In the Company's prefiled direct testimony and exhibits, the dollar amounts used in the cost analysis of the plant were used to estimate the impact of this resource on rate year costs. At rebuttal the Company has updated these costs to reflect current estimates of the final purchase costs and rate year expenses.

Q. Please explain the differences between the Company's supplemental filing and rebuttal filing for this plant addition.

A. The Company's rebuttal filing corrects for using the November 2009 balance, in the Company's original filing, instead of the December 2009 balance for the estimated payoff. The December balance includes an additional payment, which reduces the estimated payoff by $280,793. The estimated payoff from GE Capital Commercial, Inc. was received and confirmed to be equal to the December 2009 balance used. The property insurance has been updated to the current premium.

Q. Please discuss the differences between the Commission Staff and the Company in calculating this adjustment.

A. Commission Staff removed the Company's purchase of Fredonia from the filing, saying that this adjustment is not a proper pro forma adjustment under WAC 480-07-510(3)(iii). Commission Staff includes the current lease payments as if the purchase will not be made.

Q. Does the Company agree with the Commission Staff adjustment?

A. No. Mr. Garratt discusses why this plant purchase is known and measurable. In addition, Commission Staff witness, Mr. Nightingale, states in his testimony on page 32: "Therefore, I conclude that the Fredonia peaking units purchase was reasonable and a prudent choice for acquisition by PSE when that decision was made." As this plant has been determined to be prudent and the costs are based on similar known and measurable criteria approved by the Commission in prior proceedings, Commission Staff's adjustment should not be approved.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

<u>Mint Farm Deferral, Adjustment 16.34</u>

For the rebuttal filing, the Company includes updates for actual deferred amounts through October 2009 and uses a projection of costs for November 2009 through April 7, 2010. The Company's proposed amortization period for the deferral has been changed in rebuttal from three to ten years. This adjustment increases net operating income by $9,345,659 from the decrease in net operating income of $13,649,989 filed in the supplemental filing.

The rate base portion of the adjustment is the deferred costs during the rate year adjusted by the accumulated amortization expense on an AMA basis through the rate year and the deferred taxes associated with this deferral. Due to the longer deferral period, rate base is increased $3,270,603 from the $32,790,782 rate base increase filed in PSE's supplemental filing. All amounts discussed are before application of the production adjustment.

Q. Please discuss the differences between the Commission Staff and the Company in calculating this adjustment.

A. Commission Staff recommends that Mint Farm deferred costs should not include carrying costs. Additionally, Commission Staff proposes an amortization period of 15 years. Commission Staff also requests that the Commission not allow PSE's proposed suspension of Schedule G of the PCA Mechanism for the Mint Farm deferral.

Q. Have you reviewed Mr. Martin's explanation of why the Company should be denied carrying costs on this deferral?

A. Yes. Mr. Martin has focused on the wrong cost reason for the need for carrying costs. When a company does not have revenues coming in to recover its costs of purchasing a new plant that is in-service, it has to finance the funds to cover the lack of revenues. This is true not just for the cash expenditures that are funding interest on the financing used to buy the plant and fund its current operations and maintenance expenses, it is also true for depreciation and the equity return not received. Depreciation and the equity return are certainly the two main contributors of cash generation for a utility. Without this cash available, additional funds must be raised and the cost of financing these new funds are an additional cost associated with operating the plant that is now in-service. This is the interest that is being deferred and the cost is calculated using the rate the Commission has already approved as the appropriate cost of capital in the Company's last general rate case. There is no part of this that is "tantamount to double recovery" – it is simply recovery of all of the costs associated with the resource.

Q. Are there financial precedents to the way the Company has calculated this cost?

A. Yes. If an individual were not to pay the interest portion of their mortgage or credit card debt that interest becomes part of the debt to be repaid and has interest applied. It is not ignored. This is not considered a change in the underlying credit terms but is a cost that is captured over the remaining period the debt is outstanding with interest applied in the same manner it is applied to the original principal ignoring any applicable penalties. Commission Staff's interpretation would have one believe there is not a cost to delaying recovery of a cost. As I discuss in more detail later in my testimony, the recent enactment of RCW 80.80.060, which allows electric utilities to defer costs associated with investment in renewable plant and plant that complies with greenhouse gas standards, demonstrates the Legislature's intent that electric utilities should be able to timely recover costs associated with acquiring such plants, as long as the acquisition is prudent.

Q. Why did the Company change the amortization period to ten years from its original proposal of three years?

A. The Company's original proposal was based on the timeline that was used for a similar deferral associated with the Goldendale Generating Station ("Goldendale"). The Company agrees that the impact associated with this deferral being amortized over three years is significant. Mr. Martin's suggestion to amortize this deferral over 15 years goes to the opposite extreme. In the recent past the deferral of the December 13, 2006 wind storm was $83.6 million. In the last general rate case parties agreed in settlement discussions that the amortization of these costs should be over ten years. As the costs of the Mint Farm deferral are approximately 70% of the storm costs, it would seem that the Mint Farm deferral should not extend beyond ten years. By changing the amortization to ten years the impact on net operating income is $13,169,142 and has been reduced by $8,865,082 compared to a three year amortization.

Q. Does the Company agree with Mr. Martin's analysis associated with Schedule G as it is applied in the PCA?

A. No. Schedule G in the PCA Mechanism was meant as a bridge mechanism that allows the Company to recognize the lesser of the actual cost or the average embedded cost in the PCA. It strictly adjusts for only variable costs associated with a new resource. Schedule G is not an issue if the Company is able to time its rate proceeding to coincide with the in-service date of a plant. The purpose of Schedule G is to restrict costs associated with new resources becoming embedded in the PCA Mechanism prior to a PCORC or general rate case review. A company is not precluded from filing an accounting petition seeking deferral of these costs until they can be recovered in a general rate case. *See* paragraph 7 of Exhibit No. JHS-8.

In 2006, several years after the PCA Mechanism was approved by the Commission, the State Legislature passed a new law requiring baseload electric generation plant to comply with greenhouse gas standards. The law allows electrical companies to defer costs incurred in acquiring eligible renewable resources and electric generation plant that complies with the greenhouse gases standards set forth in the statute:

> (6) An electrical company may account for and defer for later consideration by the commission costs incurred in connection with a long-term financial commitment, including operating and maintenance costs, depreciation, taxes, and cost of invested capital. The deferral begins with the date on which the power plant begins commercial operation or the effective date of the power purchase agreement and continues for a period not to exceed twenty-four months; provided that if during such period the company files a general rate case or other proceeding for the recovery of such costs, deferral ends on the effective date of the final decision by the commission in such proceeding. Creation of such a deferral account does not by itself determine the actual costs of the long-term financial commitment, whether recovery of any or all of these costs is appropriate, or other issues to be decided by the commission in a general rate case or other proceeding for recovery of these costs. For the purpose of this subsection (6) only, the term "long-term financial commitment" also includes an electric company's ownership or power purchase agreement with a term of five or more years associated with an eligible renewable resource as defined in RCW 19.285.030.

It can be surmised from this paragraph that the intent of the State Legislature was to encourage companies to invest in generation resources that meet the greenhouse gases standards, and to protect companies from regulatory lag when making such investments. At the same time, the Legislature provides safeguards for customers in that it makes clear that costs must be reviewed and approved by the Commission before they can be recovered. This safeguard is similar to the safeguard provided by Schedule G in the PCA. The difference between Schedule G and this statute is that Schedule G disallows fixed costs and variable costs that exceed the Baseline Rate from ever being reviewed and recovered, while the State Legislature has ruled that when a Company makes this type of investment it wants the Commission to review, and if the plant is prudently acquired, allow recovery of these costs.

Q. Does Mr. Martin's proposal on page 24 of his testimony address this issue?

A. No. As explained later Mr. Martin's proposal duplicates costs that the Company has to absorb.

Q. Does the Company's proposal address this issue?

A. Yes. The Company's proposal to defer all the costs associated with Mint Farm, or any machine that meets the definition contained in this statute, addresses this issue. In order to eliminate any double recovery, the Company removes all the costs associated with the new resource, substitutes in the costs for purchased power that were approved in the Company's last rate proceeding, and credits the deferral for these costs. This calculation is based on the run time of the machine multiplied by the costs of purchased power that were approved but no longer need to be purchased. This provides the customer the benefit of an offset to the deferral for the costs already in rates and puts that cost back into power cost for PCA review. All costs that are associated with Mint Farm are removed from the Income Statement and the costs that were originally allowed for purchased power have been restored as if the machine were not available.

On page 19 of his testimony, Mr. Martin acknowledges the above calculation and does not propose eliminating this calculation. In contrast to the Company's proposal, Mr. Martin would add to these calculated purchase costs, that are added back to the income statement, by also keeping the variable costs associated with the new machine in the income statement. As the Company has already reinstated the cost of the purchased power that would have been there if the machine was not available, this creates duplication of costs.

Q. Does Schedule G cause a duplication of costs if there is no deferral associated with a new resource?

A. No. As explained earlier, it causes another problem in that it ignores fixed cost, and variable costs above the Baseline Rate, for PCA purposes. However, if the Company were calculating a new resource that did not qualify for deferral under RCW 80.80.060, there would actually be no costs associated with forgone purchased power that is equal to the generation from the new resource.

Q. Was it the Company's intent to apply over-collection of power costs under the PCA to plant deferrals other than Mint Farm?

A. No. There is no valid reason for doing that. That was a good faith offer by the Company to help mitigate variable costs that could exceed the credit applied for the purchased power offset. At the time the deferral was proposed it was not possible to determine the impact of the total variable deferral. As Mr. Martin has indicated, it is now expected that variable cost deferrals will be more than offset by the purchased power offset. The Company should not be forced to make what was a good faith offer to offset costs for Mint Farm a standard methodology as proposed by Mr. Martin on page 18 of his testimony. Commission Staff was aware that the Company had only intended this offer to be available for the Mint Farm Deferral. See Exhibit No. JHS-26 which is a data request from Commission

Staff addressing this issue.

Q. What are the dollar differences in the calculation of the deferral between Commission Staff and the Company for this adjustment?

A. As discussed above, the major difference is Commission Staff's removal of carrying costs and their amortization period which exceeds that of PSE's by of five years. There are also differences in this adjustment for the fact that the Company has updated the deferral balance with actual amounts through October 2009.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

<u>Net Interest on SSCM to IRS, Adjustment 16.36</u>

Mr. Marcelia explains the history behind this adjustment and why this Company adjustment is appropriate in his prefiled rebuttal testimony, Exhibit No. MRM-4T.

<u>Wild Horse Expansion Deferral, Adjustment 16.37</u>

The Company agrees with Commission Staff that an adjustment for the deferral of the Wild Horse Expansion should be included in this proceeding. On October 27, 2009, the Company filed with the Commission pursuant to RCW 80.80.060(6) a notice of intent to defer costs associated with the Wild Horse Expansion Project. The Company's Wild Horse Expansion Project is a renewable resource under the statute and eligible for cost deferral.

Q. Please discuss the differences between the Commission Staff and the Company in calculating this adjustment.

A. Commission Staff recommends that Wild Horse Expansion Project deferred costs should not include carrying costs and the operation of Schedule G of the PCA should not be suspended with respect to the project. The methodology used in deferring the costs associated with the Wild Horse Expansion Project is the same as the methodology used in the Mint Farm deferral. I have previously discussed in the Mint Farm Deferral, Adjustment 16.34, why the Commission should not accept Commission Staff's proposed adjustments for this deferral.

Amounts included by the Company in this adjustment differ slightly from those filed by Commission Staff due to PSE's correction of formula errors that existed in the original information submitted by the Company and that Commission Staff used in preparing its adjustment. Amounts for the deferral period were obtained from the project pro forma filed by Mr. Garratt in his prefiled direct testimony, Exhibit No. _RG-1HCT.

Q. Please continue with your review of the contested adjustments.

A. The following adjustments are also contested:

Production Adjustment, Adjustment 16.38

I discussed the production factor that is used in this adjustment earlier in my testimony. The production factor that the Company has used in this calculation has the kWh impact associated with the Conservation Phase-in calculation. This adjustment does add costs to the test year to maintain the power cost and production unit cost recovery as explained earlier and is the appropriate method to reflect these costs when delivered load is either increasing or decreasing between the test year and the rate year. If the Commission does not accept this conservation adjustment the correct production factor to use in this and the power cost adjustment is 1.0176%. See Exhibit No. JHS-23 for this calculation

IX. ADJUSTMENTS PROPOSED BY OTHER PARTIES

Q. Have the parties to this case proposed other adjustments to the Company's operating results?

A. Yes. Several parties have proposed adjustments to the Company's operating results, some of which I have discussed above. I will list each adjustment by type of adjustment and provide the Company's response.

Domestic Production Activities Deduction – This issue is raised by FEA witness Mr. Ralph Smith. Mr. Smith's arguments for this deduction are moot as the benefit of this deduction, when available, is included in the PTC calculation tracker per the Commission's Final Order in Docket No. UE-060266. Mr.

Marcelia describes the errors in Mr. Smith's arguments concerning this tax deduction and why the Company has not been able to receive any benefits associated with this deduction to date.

REC Proceeds – Mr. Higgins, on behalf of the Kroger Co., recommends that if these proceeds are to be applied to a regulatory asset then they should be applied to a regulatory asset that is related to generation assets. As Mr. Higgins acknowledges in his testimony, issues regarding REC proceeds are being addressed in Docket No. UE-070725, which is the appropriate docket for consideration of this suggestion. As Mr. Higgins also acknowledges, the Kroger Company has intervened in that proceeding and can present its arguments for how these proceeds should be allocated in that forum. The Company requests the Commission reject Mr. Higgins recommendation for purposes of this proceeding.

Q. Does this complete your discussion of pro forma and restating adjustments?

A. Yes.

X. REVENUE DEFICIENCY

Q. Would you please explain Exhibit No. JHS-17?

A. Exhibit No. JHS-17 presents the calculation of the revenue deficiency based on the pro forma and restating adjustments proposed by the Company and that were discussed above. As shown on page 1 of this Exhibit No. JHS-17, based on \$3,817,123,336 invested in rate base and \$253,928,083 of net operating income, the Company would have an electric retail revenue deficiency of $113,299,963.

Cost of Capital

This schedule, shown on page 2 of Exhibit No. JHS-17, reflects the Company's proposed capital structure for this proceeding and the associated costs for each capital category. The capital structure and costs are presented in the prefiled rebuttal testimony of Mr. Donald Gaines, Exhibit No. DEG-11 CT. The rate of return is 8.50%.

Conversion Factor

The conversion factor, shown on page 3 of Exhibit No. JHS-17, is used to adjust the net operating income deficiency by revenue sensitive items and federal income tax to determine the total revenue requirement. The revenue sensitive items are the Washington State utility tax, WUTC filing fee, and bad debts. The conversion factor used in the revenue requirement calculation, taking into consideration the adjustments discussed earlier, is 62.1262% and is uncontested.

XI. UNIT COST ANALYSIS

Q. Has PSE updated its unit cost analysis?

A. Yes. PSE has updated its unit cost analysis. Please see Exhibit No. JHS-18 for the unit cost analysis. A unit costs analysis consists of the major categories of the income statement and rate base that have been pro formed and restated for each of the test periods for this general rate proceeding and the last general rate proceeding. The major categories of the income statement are then divided by the delivered load for the appropriate test period. This calculation determines the major categories' unit cost for that particular period. The differences between the current period and prior period unit costs are then multiplied by the delivered load for the current regulatory period. This product determines how much that major category has increased or decreased in cost since the last regulatory period taking into consideration load growth and its associated revenue growth. This Exhibit is presented for informational purposes as to the major categories causing the revenue deficiency.

XII. PCA EXHIBITS

Q. Please describe Exhibit No. JHS-19C.

A. Exhibit No. JHS-19C presents the adjusted exhibits for the Power Cost Adjustment mechanism. Page 1 of this exhibit adjusts Exhibit A-1, Power Cost Rate, to reflect the new Power Cost Rate of $65.074 per MWh based on the Company's rebuttal power cost and production plant adjustments. The methodology applied is consistent with that set forth in the PCA Settlement Agreement, under Docket No. UE-011570, and the PCA Compliance Settlement Agreement, under Docket No. UE-031389.

Q. Does the Commission have the detailed information necessary to calculate the Power Cost Rate based on its final determination of the appropriate production rate base and operating expenses to be included in rates?

A. The calculations used to determine the line items on Schedule A-1 are included in workpapers, and not all of these workpapers would be included in the record. To ensure that these pages are accurate, it would be best for the Commission to have the Company recalculate these exhibits based on the final Commission order. The Company would then file the revised pages with the compliance filing that is required to implement the Commission's final order.

XIII. CONCLUSION

Q. Does that conclude your rebuttal testimony?

A. Yes, it does.