

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**DOCKET UE-072300
DOCKET UG-072301
(Consolidated)**

POST-HEARING BRIEF OF COMMISSION STAFF

**RECOMMENDING CONTINUATION OF POWER COST ONLY RATE CASE
MECHANISM WITH PROCEDURAL REVISIONS**

September 26, 2008

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I. INTRODUCTION

1 This proceeding is a general rate case filed by Puget Sound Energy, Inc. ("PSE" or "the Company") on December 3, 2007. However, the only remaining issue is whether the Commission should eliminate or modify the Company's Power Cost Only Rate Case ("PCORC") mechanism.¹

2 Staff recommends that the PCORC should not be eliminated. The PCORC authorized single-issue ratemaking to allow the Company more timely recovery of increased power supply costs than can typically occur in a general rate case. Public Counsel and the Industrial Customers of Northwest Utilities ("ICNU") have not demonstrated why that policy objective should be renounced.

3 Staff's support for the PCORC is not unconditional, however. Public Counsel and ICNU express legitimate objections to the PCORC process. Staff recommends procedural revisions to the PCORC that will alleviate many of their concerns. Staff's proposals are acceptable to the Company and should be approved by the Commission.

II. HISTORICAL BACKGROUND

A. The PCORC Authorizes Expedited Recovery Of The Cost Of New Resources Or Other Increases In Power Costs

4 The PCORC mechanism was part of a multiparty settlement adopted by the Commission in a general rate case in June 2002.² Staff supported the PCORC as a means to

¹ In the most recent PCORC, the Commission ordered a collaborative to consider the scope and timing of the mechanism, and whether it should continue. *WUTC v. Puget Sound Energy, Inc.*, Docket UE-070565, Order 07 at Appendix A, ¶14 (August 2, 2007). The participants in the collaborative (PSE, Commission Staff, Public Counsel and the Industrial Customers of Northwest Utilities) failed to agree on a revised PCORC. Thus, whether to eliminate or modify the PCORC must be resolved by the Commission in this general rate case. *Id.* at Appendix A, ¶15.

All other issues are the subject of several unopposed settlements. The testimonies supporting the settlements explain why they are in the public interest and should be approved by the Commission. The settlements will not be further addressed in Staff's post-hearing brief.

² *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-011570 and UG-011571, Twelfth Supp. Order (June 20, 2002). PSE, Staff and Public Counsel were parties to the settlement. ICNU did not join or oppose the settlement.

address increased costs associated with adding new resources for growth or replacing old low-cost resources.³ The PCORC was supported by the Company as assisting decisions about longer term supply resources, since the mechanism allows for timely inclusion of new resource costs in rates.⁴

5 Four elements of the PCORC are noteworthy. First, the Company's discretion to initiate a PCORC was not limited to cost recovery of new resource acquisitions:

Power Cost Only Rate Review: In addition to the yearly adjustment for power cost variances, there could be a periodic proceeding specific to power costs that would true up the Power Cost Rate to *all power costs* identified in the Power Cost Rate. The Company can also initiate a power cost only proceeding to add new resources to the Power Cost Rate. In either case, the Company would submit a Power Cost Only Rate filing proposing such change.⁵ (Emphasis in original)

The Commission clarified expressly that the PCORC allows single-issue rate making not only to add new resources, but also to recover all changes in power supply costs:

[N]ew resources will not be recovered directly through the PCA, but the Company may periodically update its general rates to reflect increased power supply costs associated with new resources or increased costs of existing resources. These Power Cost Only rate proceedings are an exception to the general rule that a company should not be allowed to file single issue rate cases.⁶

Thus, the PCORC is as much about updating the level of power costs recovered in rates generally as it is about including in rates the cost of new resources on an expedited basis.

³ See, Exhibit LS-1T at 7:7-10 (Testimony of Lee Smith), citing Exhibit 562 at 13:21-22 (Testimony of Merton R. Lott).

⁴ See, Exhibit LS-1T at 7:11-14 (Testimony of Lee Smith), citing Exhibit 532 at 4:24-5:2 (Testimony of William A. Gaines).

⁵ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-011570 and UG-011571, Twelfth Supp. Order at Appendix A, Exhibit A, ¶8 (June 20, 2002).

⁶ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-011570 and UG-011571, Twelfth Supp. Order at ¶25 (June 20, 2002).

6 Public Counsel and ICNU allege that the main objective of the PCORC is to provide timely inclusion in rates of the costs of new resources.⁷ Their allegation is not well-taken. The Commission stated that inclusion in rates of a new resource by the time the resource goes into service is only “one objective” of the PCORC process.⁸ Indeed, Public Counsel and ICNU concur that the Company may submit a PCORC to address changes in power supply costs even if new resources are not being introduced.⁹

7 The second important element of the PCORC is the requirement that the Company file a general rate case within three months of the effective date of any rate increase resulting from a PCORC.¹⁰ This safeguard ensures that the Company’s earnings and all of its costs will not escape Commission scrutiny:

These Power Cost Only rate proceedings are an exception to the general rule that a company should not be allowed to file single issue rate cases. For that reason, these single issue rate cases are limited and under certain events will trigger a general rate case to true-up all costs.¹¹

Thus, the Company cannot, as alleged by ICNU,¹² choose only file a PCORC to recover increasing power supply costs when other costs (e.g., capital costs) are declining. The Company must file a general rate case shortly after a PCORC is concluded and it must bear the burden to prove that all costs are reasonable and prudent, and, thus, appropriate for

⁷ Exhibit DWS-1T at 5:15-16 (Testimony of Donald W. Schoenbeck); Exhibit LS-1TC at 7:19-8:1 (Testimony of Lee Smith).

⁸ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-011570 and UG-011571, Twelfth Supp. Order at Appendix A, Exhibit A, ¶11 (June 20, 2002).

⁹ Exhibit DWS-1T at 3:8-10 (Testimony of Donald W. Schoenbeck); Exhibit LS-1TC at 8:1-3 (Testimony of Lee Smith).

¹⁰ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-011570 and UG-011571, Twelfth Supp. Order at Appendix A, Exhibit A, ¶10 (June 20, 2002). Before July 1, 2005, the general rate case requirement was triggered only if a PCORC resulted in an increase in rates in excess of 5 percent. *Id.* at ¶9.

¹¹ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-011570 and UG-011571, Twelfth Supp. Order at ¶25 (June 20, 2002). See also, *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-060266 and UG-060267, Order 08 at ¶26 (January 5, 2007) (the post-PCORC general rate case “provides an important safeguard to ensure an earnings review and a true-up of all costs after the occurrence of a PCORC – a single issue ratemaking mechanism.”)

¹² Exhibit DWS-1T at 8:9-12 (Testimony of Donald W. Schoenbeck).

recovery in rates.

8 Third, the Commission contemplated that a PCORC would occur more expeditiously than a general rate case.¹³ It stated, however, that the parties' expectation of a Commission order within five months of filing a PCORC was not binding on the Commission itself.¹⁴

9 Finally, because a PCORC looks at all costs included in the baseline power cost rate, the Commission required the Company to support its PCORC proposals in the "same detail it must support power supply costs in a general rate proceeding."¹⁵ This detail requires PSE to file testimony and exhibits that include the following specific items:

- Current or updated least cost plan
- Description of the need for additional resources (if applicable)
- Evaluation of alternatives under various scenarios
- Adjustments to the Fixed Rate Components
- Adjustments to the Variable Rate Components
- A calculation of pro forma production cost schedules that are consistent with this docket, including power supply and other adjustments impacting then current production costs.¹⁶

10 Thus, the Company must file extensive documentation to support a PCORC filing, including all work papers and its AURORA data base. Staff agrees with ICNU that review of these materials is extensive and complex.¹⁷ As discussed below, Staff proposes procedural revisions to address ICNU's concern.

¹³ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-011570 and UG-011571, Twelfth Supp. Order at ¶28 (June 20, 2002).

¹⁴ *Id.*

¹⁵ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-011570 and UG-011571, Twelfth Supp. Order at ¶25 (June 20, 2002).

¹⁶ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-011570 and UG-011571, Twelfth Supp. Order at Appendix A, Exhibit A, ¶8 (June 20, 2002).

¹⁷ Exhibit DWS-1T at 5:22-6:5 (Testimony of Donald W. Schoenbeck).

B. Filed PCORCs Have Not Been Dominated By The Cost Of New Resources And Have Been Largely Uncontested

11 The Company has filed three PCORCs since the mechanism was established in 2002. In each case, PSE sought to recover the cost of a new resource, but that cost did not justify the majority of the overall revenue increase requested by the Company or granted by the Commission. Increases in other power supply costs pre-dominated each case.

12 Moreover, the Company's proposals to recover the costs of new resources were unchallenged by all other parties in each PCORC. With only one exception, the Company's proposals to recover increased costs of existing resources have also been uncontested.

13 The first PCORC filing was Docket UE-031725. The Company proposed to recover its acquisition of the Frederickson I natural gas-fired electric generation facility, as well as other increases to its power cost baseline. PSE's proposals were uncontested except with respect to fuel costs for the Tenaska generation facility. The Commission held the acquisition of Frederickson prudent and the associated costs reasonable for rate recovery.¹⁸ It approved the Company's entire filing, except for a one-time disallowance related to Tenaska.¹⁹ Frederickson accounted for only \$18.3 million of the \$44.1 million overall revenue increase granted by the Commission.²⁰

14 The second PCORC filing was Docket UE-050870. The Company requested cost recovery of the Hopkins Ridge wind generation facility, as well other increased power supply costs including fuel costs for the Company's gas turbine electric generation. The parties reached a full settlement that recommended a finding of prudence and cost recovery

¹⁸ *WUTC v. Puget Sound Energy, Inc.*, Docket UE-031725, Order 12 (April 7, 2004). Approval of rate recovery for Frederickson preceded the Commission's determination of all other power cost issues. This staggered approach was requested by the Company so it could accomplish various pre-closing matters and have certainty as to that resource acquisition. *Id.* at ¶2.

¹⁹ *WUTC v. Puget Sound Energy, Inc.*, Docket UE-031725, Order 14 (May 13, 2004).

²⁰ Exhibit DWS-1T at 5:14 (Testimony of Donald W. Schoenbeck).

for Hopkins Ridge, and additional revenues in the full amount requested by PSE: \$55.6 million. The Commission approved and adopted the settlement.²¹ Only \$5 million of the full amount granted by the Commission was attributable to Hopkins Ridge.

15 The most recent PCORC filing was Docket UE-070565. The Company requested rate recovery of additional power costs including acquisition of the Goldendale gas-fired combustion turbine generation facility. Again, the parties reached a full settlement that recommended a finding of prudence and cost recovery for Goldendale, and additional revenues in the full amount requested by PSE: \$64.7 million. The Commission approved and adopted the settlement.²² Goldendale was responsible for \$31.4 million of the total amount granted.²³

III. ARGUMENT

A. The Policy Justification For The PCORC Mechanism Remains Valid

16 As noted above, the purpose of the PCORC is to allow the timely recovery of prudent and reasonable power supply cost increases associated with new or existing generation resources. There is no reason to abandon that policy objective by eliminating the PCORC.

17 The Company's 2005 Least Cost Plan ("LCP") and its 2007 Integrated Resource Plan ("IRP") document PSE's need to acquire a significant amount of additional power resources in the next ten years. The 2005 LCP concluded that the Company's need to acquire new resources grew from 305 aMW in 2008 to 739 aMW in 2011 and 1471 aMW in 2013.²⁴ The Company's 2007 IRP demonstrates a need to acquire resources for 480 aMW

²¹ *WUTC v. Puget Sound Energy, Inc.*, Docket UE-050870, Order 04 (October 20, 2005).

²² *WUTC v. Puget Sound Energy, Inc.*, Docket UE-070565, Order 07 (August 2, 2007).

²³ *Id.* at ¶19.

²⁴ Exhibit KJH-1HCT at 11:10-12 (Testimony of Kimberly Harris).

by winter 2010, growing to 1,650 aMW by 2015 and to 2,125 aMW by 2020.²⁵ The driving forces behind this increasing need for new resources are load growth, the need to replace expiring energy supply contracts, and the need to replace reductions in energy supply under the terms of existing Mid-Columbia hydroelectric contracts.²⁶ The Company states it plans to meet these resource needs through a combination of energy efficiency and commercially available resources such as wind power to meet the renewable portfolio standards in RCW 19.285, as well as gas-fired generation.²⁷

18 In addition, increases in natural gas prices have placed consistent upward pressure on the cost of providing electric service to PSE's customers.²⁸ The PCORC requires the Company to prove that increased costs for new and existing power resources are prudent and reasonable, but allows for the timely recovery of those costs if that burden of proof is carried, as it has been in all three PCORCs to date except for the Tenaska disallowance in Docket UE-031725.

19 Public Counsel and ICNU do not question the Company's need for new resources. Nor do they dispute the Company's claims of increasing power cost pressures in general.

20 Rather, Public Counsel and ICNU argue that the PCORC allows the Company to circumvent the Power Cost Adjustment ("PCA") mechanism by resetting the power cost baseline and changing rates when the PCA alone would not have allowed a rate change.²⁹

Public Counsel also argues that, absent a PCORC, the PCA power cost baseline would still

²⁵ Exhibit KJH-1HCT at 12:11-13 (Testimony of Kimberly Harris). The Commission accepted the Company's projected resource needs in the 2007 IRP as fulfilling existing regulatory requirements. Such acknowledgment expressly reserved consideration of rate making treatment. *Puget Sound Energy's Integrated Resource Plan for Electricity and Natural Gas Operations*, Dockets UE-071063 and 071074, Letter from Carole J. Washburn, Attachment at 1 (November 13, 2007).

²⁶ Exhibit KJH-9CT at 4:6-9 (Testimony of Kimberly Harris).

²⁷ Exhibit KJH-1HCT at 13:6-11 (Testimony of Kimberly Harris).

²⁸ Exhibit KJH-9CT at 15:9-12 (Testimony of Kimberly Harris).

²⁹ Exhibit DWS-1T at 6:18-21 (Testimony of Donald W. Schoenbeck) and Exhibit LS-1T at 13:16-18 (Testimony of Lee Smith).

be adjusted, but only at the time of a general rate case, which would provide rate stability for customers, allow the PCA to work as planned, and afford the parties and the Commission more time and opportunity to review power cost-related rate requests and data.³⁰

21 Staff agrees that rate stability for consumers is an important public policy goal. However, timely recovery of prudent and reasonable costs is also an appropriate policy objective of rate making. With the exception of Tenaska fuel costs, the Company's power supply costs associated with new and existing resources have not been challenged as imprudent or unreasonable in any of the three PCORCs filed to date.

22 It is also a policy goal of rate making to avoid rate shock for consumers. Absent the PCORC, consumers may have experienced fewer rate changes, but each rate change would have been proportionately larger to reflect the addition of new resources that had already gone into service and were providing electricity to PSE's customers.

23 In any event, Public Counsel and ICNU are wrong to assume that the PCA has been impeded through more frequent adjustments to the power cost baseline than would have occurred without a PCORC mechanism. Public Counsel and ICNU both acknowledge that the Company has proven adept in preparing general rate cases very quickly, even as expeditiously as a PCORC.³¹ Public Counsel also acknowledges that, absent a PCORC, the Company might have filed general rate cases earlier than actually filed, at about the same date the PCORCs were filed.³² The effective dates of new rates from those general rate cases may not have been dramatically different than the PCORCs they would have

³⁰ Exhibit LS-1T at 14:4-8 (Testimony of Lee Smith).

³¹ Exhibit DWS-1T at 8:7-8 (Testimony of Donald W. Schoenbeck); Exhibit LS-1T at 28:17-19 (Testimony of Lee Smith).

³² Exhibit LS-1T at 19:9-10 (Testimony of Lee Smith).

replaced.³³ Thus, absent PCORC, the Company's power cost baseline may have been reset as frequently through additional general rate cases.

24 Indeed, Public Counsel opines that, if there had been no PCORC since April 2004, it is likely that there would have been three to four rate changes due to general rate cases, and two rate surcharges resulting from the PCA deferral reaching the level necessary to change rates.³⁴ This is the same number of rate changes that actually did occur over the same period of time with PCORC in existence.³⁵ From a rate stability perspective, there is little if any difference between a world with PCORC and a world without PCORC, according to Public Counsel itself.

25 Finally, Public Counsel and ICNU argue that the PCORC is not necessary because the Company can request deferred accounting treatment for the costs of a new resource acquisition after the resource goes on-line and before it is included in rates in a general rate case.³⁶ The Commission did allow deferred accounting treatment for the costs of PSE's acquisition of the Goldendale electric generation facility, including carrying charges at the Company's net of tax rate of return.³⁷

26 The argument is not persuasive because it assumes incorrectly that the PCORC addresses only the cost of new resource additions. As stated above, the PCORC also addresses increases in all other power supply costs.

³³ To date, PCORCs have been completed in 6.3 months, as compared to 9.6 months for general rate cases. Exhibit LS-1T at 28:10-12 (Testimony of Lee Smith).

³⁴ Exhibit LS-1T at 21:13-15 (Testimony of Lee Smith).

³⁵ As noted above, there were three PCORCs (Dockets UE-031725, UE-050870 and UE-070655). There were also two general rate cases (Dockets UE-040641 and UE-060266). The sixth actual rate change occurred only because the time period for PCA accounting was changed from the year July 1 to June 30 to the calendar year, pursuant to a settlement agreement approved by the Commission in PSE's second PCORC. *WUTC v. Puget Sound Energy, Inc.*, Docket UE-050870, Order 04 at Appendix A, ¶¶F-G (October 20, 2005). The actual rate change to effect the change in PCA accounting occurred in Docket UE-060783 and was uncontested. *In re Tariff Filing of Puget Sound Energy, Inc.*, Docket UE-060783, Order 01 (June 29, 2006).

³⁶ Exhibit LS-1T at 27:15-17 (Testimony of Lee Smith); Exhibit DWS-1T at 8:13-20 (Testimony of Donald W. Schoenbeck).

³⁷ *In the Matter of the Petition of Puget Sound Energy, Inc.*, Docket UE-070533, Order 01 (April 11, 2007).

27

Moreover, the Goldendale plant was acquired in a bankruptcy proceeding on such short notice that the Company could not prepare and file either a general rate case or a PCORC in time to match the in-service date with rate recovery. Therefore, deferred accounting was the only mechanism available consistent with an objective of the PCORC to have a new power cost baseline rate in effect at the time a new resource goes into service.³⁸ The Commission should be reluctant to rely generally on deferred accounting as a rationale for abandoning the PCORC.³⁹

28

In fact, all electrical companies under Commission jurisdiction were recently given statutory authority to implement deferred accounting for certain resource additions without prior Commission approval:

An electrical company may account for and defer for later consideration by the commission costs incurred in connection with the long-term financial commitment, including operating and maintenance costs, depreciation, taxes and cost of invested capital.⁴⁰

That same statutory authorization did not renounce the PCORC or similar proceedings for cost recovery of the deferred power costs. Rather, the statute acknowledged the continued availability of such mechanisms:

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.⁴¹ (Emphasis added.)

³⁸ *In the Matter of the Petition of Puget Sound Energy, Inc.*, Docket UE-070533, Order 01 at ¶6 (April 11, 2007).

³⁹ Exhibit MMP-1T at 6:1-9 (Testimony of Michael P. Parvinen).

⁴⁰ RCW 80.80.060(6). A "long-term financial commitment" means either: (1) a new ownership interest in baseload electric generation or an upgrade to a baseload electric generation facility; or (2) a new or renewed power contract for baseload electric generation with a term of five or more years for the provision of retail power or wholesale power to end-use customers in this state. RCW 80.80.010(15).

⁴¹ *Id.*

29 It is true that deferred accounting will subject ratepayers to fewer rate changes. However, the magnitude of an increase is greater.⁴² Thus, any upside rate stability that deferred accounting may afford comes with the potential downside of rate shock for consumers.

B. The Procedural Modifications Recommended By Staff Will Alleviate The Regulatory Burdens Imposed Currently By The PCORC Mechanism

30 Both Public Counsel and ICNU object to the PCORC as imposing regulatory burdens on the Commission and the parties that can be avoided by eliminating the mechanism.⁴³ Burdens they cite include:

- Additional litigation costs;
- Abbreviated time frame to analyze PCORC filings and underlying documentation, and to perform AURORA model simulations;
- Abbreviated time frame to analyze supplemental updates to initial cost projections;
- Administrative delay in getting necessary confidential information from the Company in order to commence analysis; and
- Unnecessarily long turn-around time for response to data requests.

Some of these objections were anticipated by the Commission and the parties at the time the PCORC was established in 2002.

31 It is also not clear that the PCORC has increased overall litigation costs. Public Counsel admits that the PCORC may actually simplify the Company's general rate cases,⁴⁴ which could reduce the cost of general rate case litigation. Indeed, litigation costs may

⁴² Exhibit MMP-1T at 6:6-8 (Testimony of Michael P. Parvinen).

⁴³ Exhibit LS-1T at 22:9-24:23 (Testimony of Lee Smith); Exhibit DWS-1T at 6:24-7:23 (Testimony of Donald W. Schoenbeck).

⁴⁴ Exhibit LS-1T at 25:7-10 (Testimony of Lee Smith).

actually increase without the PCORC if, as Public Counsel acknowledges, the Company were to instead file more general rate cases and those general rate cases required the parties to examine all Company costs rather than limiting their review only to power costs.

32 Nevertheless, Staff is sympathetic to the concerns expressed by Public Counsel and ICNU. It recommends for Commission approval four procedural modifications to the PCORC mechanism that will improve the parties' ability to review PCORCs as filed and when affected elements of power costs are updated during a proceeding. The Company agrees to all Staff recommendations, with one modification.

1. Extend Procedural Schedule

33 Staff recommends that the assumed procedural schedule for a PCORC be extended from five months to six months.⁴⁵ Under current procedures, preparation of the parties' response cases, hearings and post-hearing briefs must all be completed within four months from the tariff filing to allow the Commission an additional month to deliberate and issue its order. This abbreviated period to review and complete a PCORC is inadequate to fully analyze and determine rate recovery, especially since the mechanism addresses new resources and all other production-related fixed and variable expenses such as fuel, purchased power, wheeling, regulatory assets, depreciation, and property and energy taxes. Extending the contemplated PCORC process to six months will alleviate these burdens, but will remain consistent with the underlying goal of expedited power cost review.

2. Limit Number And Timing Of Power Cost Updates

34 Staff proposes that PSE be allowed to update its initial power cost projections only once during a PCORC proceeding and that any update must be made before other parties file

⁴⁵ Exhibit RCM-1T at 10:11-11:6 (Testimony of Roland C. Martin).

their response cases.⁴⁶ An additional update will be allowed only if the Commission determines the update is necessary to reflect increased gas costs and orders such update as part of the compliance filing.

35 The current process allows more than one update throughout the course of an already abbreviated schedule. This requires significant effort for Staff and other parties to assess changing power cost projections, both in the preparation of their own testimony and in the review of Company rebuttal testimony.⁴⁷ Staff's recommendation to limit the number and timing of updates will alleviate these burdens.

36 The Company agrees with Staff's recommendation, but proposes that any gas cost update allowed by the Commission in a compliance filing should not be the result only of *increases* in gas prices. The Company proposes that compliance filing updates should also reflect gas cost *decreases*, as well as any other changes in power cost projections that are triggered by the change in gas prices.⁴⁸ PSE confirmed that any compliance filing update permitted by the Commission would be limited to calculating the three-month average forward gas price for the rate year, and updating the AURORA model to reflect these prices.⁴⁹ The Company also confirmed that all supporting documentation would be filed with its update.⁵⁰

⁴⁶ Exhibit RCM-1T at 12:17-13:3 (Testimony of Roland C. Martin). Staff made a similar recommendation for future general rate cases. Exhibit APB-1T at 8:18-20 (Testimony of Alan P. Buckley). The exact timing of the update in both PCORCs and general rate cases would be determined at the pre-hearing conference.

⁴⁷ An illustration of the problem occurred in the Company's 2006 general rate case (Dockets UE-060266 and UG-060267). PSE filed the case on February 15, 2006. On July 10, 2006, (nine calendar days before response testimony was due) the Company filed supplemental testimony that updated its power cost projections for the rate year. Staff and other parties did not object to the updates, but did request an extension of time to file their response cases. The request was granted by the Commission in order to provide adequate time to review the supplemental materials. *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-060266 and UG-060267, Order 05 (July 13, 2006).

⁴⁸ Exhibit KJH-9CT at 21:5-18 (Testimony of Kimberly Harris).

⁴⁹ Exhibit KJH-9CT at 21:16-18 (Testimony of Kimberly Harris); Exhibit DEM-1T at 18:1-14 (Testimony of David E. Mills).

⁵⁰ Tr. 546:15-547:23 (David E. Mills).

37 Staff does not object to these further modifications regarding gas price updates. The updates described by the Company are limited to straightforward, non-controversial power cost projections that have been allowed by the Commission in prior cases. However, if the Company fails to apply that accepted methodology and a dispute arises related to an updated power cost projection, Staff reserves the right to bring that controversy to the Commission and recommend that a compliance filing be accepted only in part, suspended, or rejected.

3. Prohibit Overlap of PCORCs and General Rate Cases

38 Staff's third proposed modification to the PCORC process is to prohibit the Company from filing or having on file a PCORC during the pendency of a general rate case.⁵¹ This proposal does not prohibit PSE from requesting interim rate relief when a PCORC is pending, if the Company can prove adverse financial conditions that meet Commission standards for such rate relief.

39 The overlap of PCORCs and general rate cases that is allowed currently may burden and complicate the Commission's and Staff's review. It also shortens the interval between rate changes that is already compressed, which can result in rate shock and ratepayer confusion. Staff's proposal to prohibit PCORC and general rate case overlaps will reduce rate shock and ratepayer confusion, and improve the ability of the Commission and the parties to focus on and resolve the complexities of a power supply presentation.

4. Reduce Data Request Response Time

40 Under current rule,⁵² parties are allowed ten business days to respond to data requests. Staff recommends that the data request response time be reduced to five business

⁵¹ Exhibit RCM-1T at 11:17-12:15 (Testimony of Roland C. Martin).

⁵² WAC 480-07-405(7)(b).

days.⁵³ Any further reduction can be considered at the pre-hearing conference. Any reasonable extension of the five-day response deadline is also allowed consistent with current practice when a timely response cannot be made despite a party's best efforts.⁵⁴

41 Staff's proposal is consistent with the compressed case schedule of a PCORC. The proposal also mirrors established practice where parties request a shortened response time at pre-hearing conferences. Staff's proposal standardizes that practice.

C. The Company's Procedural Modifications Should Be Accepted By The Commission

1. The AURORA Model Will Be Provided To Parties Without Delay

42 ICNU points out that the Company has not provided its AURORA model to the parties in a PCORC until the Commission issues a protective order and confidentiality agreements are signed.⁵⁵ This delay hampers ICNU's analysis, especially under the expedited schedule of a PCORC.⁵⁶

43 The Company responded to this complaint by agreeing in future PCORCs to provide its AURORA model to Public Counsel and intervenors prior to issuance of a protective order, as long as the parties execute the standard form confidentiality agreement used in previous PCORCs and general rate cases.⁵⁷ This agreement does not impact Staff's review because Staff receives the model at the time a PCORC is filed. However, Staff appreciates PSE's willingness to remove barriers to the analysis performed by other parties.

⁵³ Exhibit RCM-1T at 13:5-14 (Testimony of Roland C. Martin).

⁵⁴ WAC 480-07-405(7)(b).

⁵⁵ Exhibit DWS-1T at 7:4-6 (Testimony of Donald W. Schoenbeck).

⁵⁶ Exhibit B-8 shows that it has taken over one month from the date the Company submitted two of its three PCORCs for the AURORA files to be provided to other parties.

⁵⁷ Tr. 551:22-552:4 (Sheree Strom Carson).

2. The Company's Proposed Revision To The PCORC Adoption Order Should Be Accepted By The Commission

44 The current PCORC mechanism requires the Company to provide with its filing “a calculation of pro forma production cost schedules that are consistent *with this docket*, including power supply and other adjustments impacting then current production costs.”⁵⁸ (Emphasis added.) The Company asks the Commission to change the phrase “with this docket” to “with the Company’s most recent general rate case”.⁵⁹

45 Staff supports the Company’s proposed revision, which clarifies that any new methods and proposals for calculating power costs are left for a general rate case.⁶⁰

D. ICNU’s Proposal For A Major New Resource Trigger Is Not Required

46 ICNU asks the Commission to prohibit PCORCs unless the Company seeks to recover a “major resource”.⁶¹ ICNU does not provide a specific threshold for determining when that trigger is met, although it concedes that each PCORC to date has qualified, apparently based on capital cost or megawatt output of the acquisition.⁶²

47 ICNU’s proposal to require a PCORC to include a major resource acquisition is unnecessary. Each PCORC to date has involved the addition of a significant power facility. Moreover, it is unlikely that the Company would file a PCORC unless it is acquiring a new generation resource.⁶³

⁵⁸ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-011570 and UG-011571, Twelfth Supp. Order at Appendix A, Exhibit A, ¶8 (June 20, 2002).

⁵⁹ Exhibit JHS-1T at 34:18-35:4 (Testimony of John H. Story).

⁶⁰ Because this particular proposal revises the Commission’s Twelfth Supplemental Order in Dockets UE-011570 and UG-015571, the Commission should reopen that docket, pursuant to RCW 80.04.210, for the limited purpose of implementing that revision.

⁶¹ Exhibit DWS-1T at 6:15-16 (Testimony of Donald W. Schoenbeck).

⁶² Exhibit DWS-1T at 6:17 and 4:18-5:5 (Testimony of Donald W. Schoenbeck).

⁶³ Tr. 573:16-573:2 (Kimberly Harris).

IV. CONCLUSION

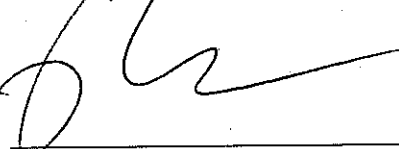
48 The PCORC mechanism has been in place for six years. The policy justification for
the mechanism is as valid today as when the mechanism was approved by the Commission
in 2002. The mechanism should be retained.

49 This does not mean that the PCORC mechanism is without faults. Staff has
proposed revisions to the PCORC procedures that will improve analysis of the Company's
filings, provide additional time for that analysis to occur, and promote fairness and
administrative efficiency. PSE has accepted Staff's proposed revisions and suggested its
own. All of the modifications proposed by Staff and the Company should be approved by
the Commission.

DATED this 26th day of September, 2008.

Respectfully submitted,

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