

**EXHIBIT NO. ___(TAD-1T)
DOCKET NO. UE-13____
2013 PSE PCORC
WITNESS: TOM A. DEBOER**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-13____

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
TOM A. DEBOER
ON BEHALF OF PUGET SOUND ENERGY, INC.**

APRIL 25, 2013

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PUGET SOUND ENERGY, INC.

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
TOM A. DEBOER**

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **TOM A. DEBOER**

4 **I. INTRODUCTION**

5 **Q. Please state your name, business address, and position with Puget Sound**
6 **Energy, Inc.**

7 A. My name is Tom A. DeBoer. My business address is 10885 NE Fourth Street,
8 P.O. Box 97034, Bellevue, WA 98009-9734. I am the Director, Energy Supply
9 Operations Policy, Planning & Compliance for Puget Sound Energy, Inc.
10 (“PSE”).

11 **Q. Have you prepared an exhibit describing your education, relevant**
12 **employment experience, and other professional qualifications?**

13 A. Yes, I have. It is Exhibit No. ____ (TAD-2).

14 **Q. What are your duties as Director, Energy Supply Operations Policy,**
15 **Planning & Compliance at PSE?**

16 A. As Director, Energy Supply Operations Policy, Planning & Compliance, my
17 responsibilities include providing policy direction on federal and regional issues;
18 managing filings and proceedings before the Federal Energy Regulatory
19 Commission (“FERC”) and the Bonneville Power Administration (“BPA”);

1 directing the planning and analyses supporting the energy supply and
2 transmission needs of PSE; and oversight of the FERC, North American Electric
3 Reliability Corporation (“NERC”) and Western Electricity Coordinating Council
4 (“WECC”) compliance obligations for Energy Supply Operations.

5 **Q. What is the nature of your prefiled direct testimony in this proceeding?**

6 A. This prefiled direct testimony addresses the following issues relevant to the power
7 costs for this proceeding’s rate year November 1, 2013, through October 31, 2014
8 (the “rate year”):

9 (i) the impact of the BPA’s current transmission rate
10 proceeding; and

11 (ii) PSE’s prudently incurred BPA transmission contract
12 renewals and acquisitions.

13 **II. BPA’S 2014-2015 RATE CASE**

14 **Q. Are BPA transmission rates expected to change during the rate year?**

15 A. Yes. BPA is currently conducting a combined power and transmission rate
16 proceeding to set new rates for BPA’s fiscal year 2014-2015, effective October 1,
17 2013. BPA published a notice in the Federal Register on November 8, 2012, with
18 an Initial Rate Proposal for all transmission and ancillary services (the “BPA
19 2014 Rate Case”).

1 **Q. Is PSE participating in BPA's 2014 Rate Case?**

2 A. Yes. PSE intervened in BPA's 2014 Rate Case to advocate for PSE customers'
3 interests to ensure any rate changes are supported by the facts presented. PSE has
4 been working with other parties to jointly sponsor testimony recommending ways
5 to reduce the rate increases.

6 Table 1 below provides a summary of BPA's proposed rate changes¹ that impact
7 PSE's costs of transmission:

¹ BPA's 2014 Rate Case proposed transmission rate changes may be accessed at:
<https://www.bpa.gov/secure/RateCase/openfile.aspx?fileName=BP-14-E-BPA-10.pdf&contentType=application%2fpdf>.

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Table 1. BPA 2014 Rate Case Proposed Rate Changes

Service	Volumetric Measure	Current Rate	Proposed Rate	Proposed Rate Change
Integration of Resources	\$/kW/mo	1.498	1.794	19.8%
Point to Point	\$/kW/mo	1.298	1.544	18.6%
Scheduling, System Control & Dispatch	\$/kW/mo	0.203	0.254	25.1%
Operating Reserve - Spinning Reserve	\$/MWh	11.20	10.86	(3.0%)
Operating Reserve – Supplemental Reserve	\$/MWh	9.52	9.95	4.5%
Variable Energy Resource Balancing Service (VERBS)				
Regulating Reserve	\$/kW/mo	0.08	0.08	0.0%
Following Reserve	\$/kW/mo	0.37	0.36	(2.7%)
Imbalance Reserve	\$/kW/mo	0.78	0.95	21.8%
Total	\$/kW/mo	1.23	1.39	13.0%
WNP, based on FPT-14.3	\$/MW/mo	880.00	1,060.00	20.5%
Southern Intertie	\$/kW/mo	1.293	1.152	(10.9%)

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Q. How does PSE propose to include BPA’s planned transmission rate changes in rate year power costs?

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A. PSE has included BPA’s proposed transmission rate changes in the pro forma transmission costs included in the rate year power cost forecast presented in the Prefiled Direct Testimony of Mr. David E. Mills, Exhibit No. ___(DEM-1CT). These BPA proposed rate increases have added \$16.7 million to PSE’s rate year power costs. The final rates implemented by BPA may change during the course of this proceeding, and PSE requests permission to update rate year power costs to reflect BPA’s Final Record of Decision, which is expected late July 2013.

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1 **Q. Do you have a summary of PSE’s transmission renewals and additions for**
2 **the rate year?**

3 A. Yes. Table 2 below shows the transmission contracts with BPA that have or will
4 expire before the end of the rate year and the two new contract additions.

5 **Table 2. BPA Transmission Renewals and Additions**

Resource	Renewal Deadline	Start Date	Megawatt Capacity
Mint Farm Station Service – New	N/A	8/1/12	8
Total New Transmission			8
Cross-Cascades	12/30/10	3/1/11	23
Mid-C	8/31/12	11/1/12	400
Mid-C	2/28/13	3/1/14	35
Mid-C	7/31/13	10/1/13	115
Total Mid-C/Cross-Cascades Transmission Renewals			573
PG&E Exchange – Renewal	7/31/13	8/1/14	300
PG&E Exchange – New	N/A	8/1/14	300
Total Transmission Acquired & Renewed for PG&E Exchange			600
Clymer	7/31/13	8/1/14	4
Goldendale	2/28/13	3/1/14	27
Colstrip	7/31/13	8/1/14	663
Total Transmission Renewed for Resources and Load			694

6 **A. 8 MW Conditional Firm Station Service Capacity Acquisition**

7 **Q. Please describe PSE’s new 8 MW transmission contract with BPA.**

8 A. Beginning on August 1, 2012, PSE acquired an 8 megawatt (“MW”) conditional
9 firm transmission contract with BPA to serve as a low-risk means to deliver

1 physical power from PSE's system resources to provide station service power
2 load at Mint Farm.

3 When Mint Farm is generating, electric power used for station service at Mint
4 Farm is provided from its own generators. However, when Mint Farm is not
5 generating, station service power is provided by receiving power through the
6 plant's transmission line. Until July 31, 2012, PSE held an electric supply
7 agreement with the Cowlitz County Public Utility District ("Cowlitz County
8 PUD") for provision of station service power to Mint Farm. Effective August 1,
9 2012, PSE began providing the station service power needs to Mint Farm using
10 this new transmission contract. The new 8 MW BPA transmission contract
11 contains full rollover rights even though its current contract term is less than five
12 years (August 1, 2012 until June 1, 2016).

13 **Q. Why did PSE replace its electric supply agreement with Cowlitz County**
14 **PUD?**

15 A. PSE moved Mint Farm from BPA's Balancing Authority ("BA") to PSE's BA in
16 December 2010. Because Cowlitz County PUD's resources are in BPA's BA,
17 Cowlitz County PUD's ability to provide load-following service to meet the real-
18 time demands of the station service was diminished. Providing Mint Farm station
19 service load requirements from PSE's resources using BPA conditional firm
20 transmission service reduced complications surrounding energy scheduling.
21 Replacement of the Cowlitz County PUD electric supply agreement with BPA

1 conditional firm transmission service and energy/capacity from PSE's own
2 resources also provided a cost savings to PSE customers as compared to
3 continued service with Cowlitz County PUD, as noted below.

4 **Q. Please describe the characteristics of the station service load at Mint Farm.**

5 A. Mint Farm has a maximum demand, or station service need, of 8 average
6 megawatts ("aMW") when the facility is operating. Once the facility is online
7 and producing power, however, there is no external station service load
8 requirement because Mint Farm self-supplies its own station service power needs.
9 When Mint Farm is offline and not generating it has a demand of approximately
10 0.5 aMW. On a monthly basis, the energy required to serve the load is
11 approximately 266 megawatt-hours ("MWh"). It is also important to note that
12 Mint Farm's 8 aMW demand is not considered to be coincident with PSE's winter
13 peak load requirements because Mint Farm is assumed to be generating during a
14 peak load event.

15 **Q. Please describe what options PSE considered in providing station service to**
16 **Mint Farm.**

17 A. Although PSE considered serving the station service load using short-term or
18 non-firm transmission at lower costs than the conditional firm service, short-term
19 or non-firm transmission service has a higher probability of curtailment than
20 conditional firm transmission. Mint Farm is a base load resource that serves

1 customer demand; therefore, it is imperative that the station service load be met
2 with reliable, low curtailment risk transmission service.

3 **Q. Please explain the differences between conditional and long-term firm**
4 **transmission service.**

5 A. Conditional firm transmission service is a type of long-term firm transmission
6 service for which there is a specified number of hours per year or specified
7 system condition in which the transmission provider, in this case BPA, can curtail
8 the reservation prior to curtailing other long-term firm service on a specific
9 transmission system constrained path, also called a flowgate.² Firm transmission
10 service receives the highest transmission service reservation priority (NERC
11 Priority 7), whereas conditional firm transmission service is one level lower
12 (NERC Priority 6) for the specified flowgate. Conditional firm transmission
13 service is a NERC Priority 7 for all BPA flowgates other than at the specific
14 flowgates identified in the conditional firm contract. Non-firm transmission at
15 NERC Priority Levels 0 through 5 on the specified flowgate are at risk of
16 transmission service curtailment *before* curtailment of conditional firm at Priority
17 Level 6.

18 Under BPA's conditional firm policy, BPA will "firm-up" a conditional firm
19 product from Priority 6 to Priority 7 three months prior to the operating month if

² Flowgates, also called paths, are sets of high voltage transmission lines in a particularly constrained area of the bulk electric transmission system.

1 BPA determines there is adequate transmission capacity on the flowgate. Indeed,
2 BPA has “firmed-up” PSE’s 8 MW of conditional firm transmission service to
3 NERC Priority 7 in each month of the 8 MW transmission contract. During the
4 evaluation of this 8 MW transmission acquisition, BPA also confirmed that BPA
5 has never curtailed any of its conditional firm transmission.

6 **Q. Is PSE pursuing options to convert the conditional firm transmission service**
7 **under the 8 MW transmission contract to firm transmission service?**

8 A. Yes. PSE is pursuing options to convert the conditional firm transmission service
9 under the 8 MW transmission contract to firm transmission service if BPA
10 identifies a transmission build in its upcoming 2013 Network Open Season
11 process.

12 **Q. What are the benefits of this 8 MW transmission service as compared to the**
13 **electric supply agreement with Cowlitz County PUD?**

14 A. PSE determined that the combined cost of the 8 MW of conditional firm BPA
15 transmission service, capacity and energy costs to serve the Mint Farm station
16 represented savings of over \$245,000 per year as compared to continued service
17 under the electric supply agreement with Cowlitz County PUD. Please compare
18 costs of the electric supply agreement with Cowlitz County PUD in Table 3 below
19 with the costs of the self-supply alternative using the 8 MW transmission contract
20 in Table 4 below:

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**Table 3. Mint Farm Station Service
Cowlitz PUD ESA Costs**

Month	Demand Costs	Energy Costs	Customer Charge and Taxes Cost	Total, including taxes
Oct-10	\$28,392	\$11,403	\$115	\$39,910
Nov-10	\$34,476	\$12,074	\$115	\$46,665
Dec-10	\$29,406	\$18,174	\$115	\$47,695
Jan-11	\$28,672	\$20,469	\$210	\$49,351
Feb-11	\$29,696	\$25,538	\$210	\$55,444
Mar-11	\$21,504	\$24,696	\$210	\$46,410
Apr-11	\$31,744	\$27,837	\$210	\$59,791
May-11	\$28,672	\$19,290	\$210	\$48,172
Jun-11	\$20,890	\$16,975	\$210	\$38,074
Jul-11	\$31,744	\$21,976	\$210	\$53,930
Aug-11	\$26,624	\$11,805	\$210	\$38,639
Sep-11	\$28,672	\$3,621	\$210	\$32,503
Annual	\$340,492	\$213,857	\$2,235	\$556,583

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**Table 4. Mint Farm Station Service
BPA 8 MW Transmission, Required Ancillary Services and
Variable Energy Costs from PSE System Resources**

Month	Fixed Costs		Variable Costs	Total Costs
	Current PTP Costs	Scheduling Costs	Energy Costs	
1	\$10,384	\$1,624	\$13,887	\$25,895
2	\$10,384	\$1,624	\$13,887	\$25,895
3	\$10,384	\$1,624	\$13,887	\$25,895
4	\$10,384	\$1,624	\$13,887	\$25,895
5	\$10,384	\$1,624	\$13,887	\$25,895
6	\$10,384	\$1,624	\$13,887	\$25,895
7	\$10,384	\$1,624	\$13,887	\$25,895
8	\$10,384	\$1,624	\$13,887	\$25,895
9	\$10,384	\$1,624	\$13,887	\$25,895
10	\$10,384	\$1,624	\$13,887	\$25,895
11	\$10,384	\$1,624	\$13,887	\$25,895
12	\$10,384	\$1,624	\$13,887	\$25,895
Annual	\$124,608	\$19,488	\$166,644	\$310,744

1 **Q. Was a presentation made to PSE’s Energy Management Committee (the**
2 **“EMC”) regarding this 8 MW transmission acquisition?**

3 A. Yes. PSE made a presentation to the EMC on August 16, 2012 which included
4 information regarding transmission renewals, PSE’s renewal process and several
5 renewal and acquisition analyses, including the 8 MW conditional firm
6 transmission contract acquisition for the Mint Farm station service. Please see
7 Exhibit No. ___(TAD-3HC) for a copy of the presentation.

8 **Q. What are the costs of the 8 MW transmission contract for Mint Farm that**
9 **are included in rate year power costs?**

10 A. Rate year power costs include \$147,840 for the 8 MW point-to-point transmission
11 contract and \$24,384 for BPA’s scheduling service, for an annual total of
12 \$172,224.

13 **B. 23 MW Firm Cross-Cascades Transmission Capacity Renewal**

14 **Q. Please describe PSE’s 23 MW transmission contract with BPA.**

15 A. Originally, PSE’s 23 MW firm transmission contract with BPA delivered power
16 purchased under the Municipal Steam Waste contract with the City of Spokane
17 (“Spokane PPA”). The Spokane PPA was set to expire December 31, 2011;
18 however, the 23-MW firm transmission contract was due to expire ten months
19 earlier, on March 1, 2011. PSE had to renew the transmission contract for at least

1 one year (through March 1, 2012) to cover the remaining term of the
2 Spokane PPA because BPA policy requires annual renewals on existing, long-
3 term firm contracts. Additionally, PSE had to decide the most cost-effective
4 choice from a power portfolio cost/benefit perspective, as discussed below.

5 **Q. Why is this 23 MW transmission contract an issue for this proceeding?**

6 A. The Commission allowed PSE to recover the costs of this 23-MW transmission
7 contract in its final order in PSE's 2011 general rate case proceeding in
8 Dockets UE-111048 and UG-111049 ("2011 GRC").³ The Commission,
9 however, noted that, in order to *continue* to receive recovery of this cost, PSE
10 would need to provide proof that this continued expense was prudently incurred:

11 Any acquisition of firm transmission capacity by PSE, even a small
12 one, should be supported by a showing of definite benefits that
13 justify the annual cost of the expense. Other than in a most general
14 sense, the Company failed in this instance to make such a showing.
15 In addition, the Company provides only a cursory statement
16 concerning its consideration of this contract vis-à-vis other options
17 considered during the 2010 RFP process.

18 Considering, however, current constraints on the availability of long-
19 term firm transmission across the Cascades, we are disinclined to
20 exclude these costs, which might encourage PSE to relinquish these
21 rights. We accordingly will not disallow the \$414,000 in costs for
22 the rate year. However, we expect PSE to provide in its next general
23 rate case a full and detailed justification showing the prudence of
24 this expense if the Company expects to continue to recover it in
25 rates.⁴

³ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048 & UG-111049, Order 08 (May 2, 2012) (the "2011 GRC Order").

⁴ 2011 GRC Order at ¶¶ 257-58.

1 **Q. Why did PSE decide to renew the contract for a five year period?**

2 A. PSE renewed the 23 MW transmission contract from March 1, 2011 through
3 March 1, 2016 for the following reasons:

- 4 • The 23 MW transmission contract had to be renewed for at
5 least one year (through March 1, 2012) to cover the
6 remaining term of the Spokane PPA as BPA policy requires
7 renewals in one-year increments on existing long-term firm
8 transmission contracts;
- 9 • Renewal of the 23 MW transmission contract for five years
10 guaranteed future roll-over rights;
- 11 • PSE considered the 23 MW transmission contract to be
12 valuable because it was akin to a Mid-C transmission
13 contract in that it had a high probability of being able to be
14 redirected on an annual or short-term basis to the Mid-C to
15 access short term market power to serve PSE's winter
16 peaking capacity need (i.e., November - February); and
- 17 • PSE considered the location of the contract's point-of-
18 receipt at Westside 230kV substation near Spokane to have
19 qualitative value because PSE could redirect transmission
20 to other potential resource options in Eastern Washington
21 near the point-of-receipt without having to go through the
22 transmission request process - which could take significant
23 time to complete.

24 **Q. Did PSE have a capacity need in December 2010 when PSE decided to renew**
25 **the 23 MW transmission contract with BPA?**

26 A. Yes. PSE had a capacity need in December 2010 when PSE decided to renew the
27 23 MW transmission contract with BPA. In completing PSE's 2010 Request for
28 Proposals ("2010 RFP") and negotiating with entities on the 2010 RFP short list,
29 PSE forecasted a capacity need of 646 MW in 2012, growing to more than

1 1,000 MW by 2017. This was the same forecasted capacity need that led to the
2 decision to enter into the 100 MW Klamath Peaker purchased power agreement
3 (the “Klamath Peaker PPA”)with Iberdrola Renewables, LLC in March 2011.⁵

4 The Commission found that the 100 MW Klamath Peaker PPA was prudent in the
5 2011 GRC Final Order.⁶

6 **Q. Did PSE consider the 23 MW transmission contract as a way to partially**
7 **satisfy PSE’s capacity need?**

8 A. Yes. PSE considered the 23 MW transmission contract as a way to partially
9 satisfy PSE’s capacity need. PSE relies on existing firm BPA transmission
10 contracts from Mid-C to PSE’s system to meet its capacity need. PSE uses this
11 type of transmission to wheel short-term market purchases from the Mid-C to
12 PSE’s load. These short-term market purchases, combined with the transmission,
13 are referred to in the 2009 IRP as “Short Term Resources”.⁷

14 By electing to renew the 23 MW of firm BPA transmission for a five-year term
15 and redirect the point of receipt on a short-term basis to the Mid-C, PSE increased
16 its Short Term Resources by 23 MW and reduced its capacity need by 23 MW
17 over the renewal term, March 2011 through February 2016. PSE anticipated that

⁵ The fifty month contract with Iberdrola Renewables for 100MW of winter capacity and energy (November through March) associated with the Klamath Peakers for the term January 1, 2012 through February 29, 2016.

⁶ 2011 GRC Final Order at ¶ 431.

⁷ “Short term purchases” are still referred to in PSE’s 2011 IRP and in PSE’s Draft 2013 IRP issued April 1, 2013. PSE’s final 2013 IRP is to be filed by May 31, 2013.

1 extending this transmission contract would provide PSE a mechanism for
2 additional winter season energy purchases at Mid-C to count toward meeting
3 PSE's existing capacity need. This additional Short Term Resource offsets the
4 expired Spokane PPA.

5 **Q. Did the cost of the 23 MW transmission renewal compare favorably with**
6 **other capacity resource options?**

7 A. Yes. As described in more detail in the Prefiled Direct Testimony of Ms. Aliza
8 Seelig, Exhibit No. ____ (AS-1HCT), the 23 MW transmission contract was a cost
9 effective way to help meet PSE's short term capacity need that compared
10 favorably with other resource capacity options considered by PSE in the
11 2010 RFP.

12 **Q. Was the availability of cross-Cascade transmission a factor in PSE's decision**
13 **to renew the 23 MW transmission contract?**

14 A. Yes. Transmission availability is a significant reason to renew transmission, and
15 the availability of cross-Cascade transmission was a factor in PSE's decision to
16 renew the 23 MW transmission contract. Regional transmission constraints limit
17 long-term firm transmission availability for resources east of the Cascade
18 Mountains to serve load west of the Cascade Mountains. PSE has no additional
19 long-term firm transmission capacity on PSE's owned transmission system across

1 the Cascade Mountains. BPA is the only other cross-Cascades transmission
2 provider and had placed its transmission evaluation process, called the Network
3 Open Season (“NOS”), on hold since the conclusion of the 2010 NOS process.
4 This action by BPA left the future availability of cross-Cascades transmission
5 very uncertain and highlighted the importance of retaining existing transmission
6 rights. Therefore, the renewal of 23 MW of cross-Cascades transmission met
7 PSE’s near-term needs for firm capacity across the Cascade Mountains to the
8 Mid-C. By renewing the contract for five years, PSE also maintains rollover
9 rights to retain the transmission in the future.

10 **Q. At the time of renewal, did PSE anticipate it would be able to redirect the**
11 **transmission to the Mid-C?**

12 A. Yes. At the time the contract was renewed, PSE’s analysis showed that the
13 contract could be redirected to the Mid-C on an annual or short-term basis to meet
14 winter peaking capacity needs (i.e., November - February) during the contract
15 term.

16 PSE’s analysis showed that PSE would need to participate in a future NOS to
17 redirect the transmission to the Mid-C permanently and to secure long-term firm
18 capacity at the Mid-C through subsequent renewal terms on the North of Hanford
19 flowgate. Because of rollover rights, BPA will only allow a permanent redirect if
20 BPA’s analysis shows there is sufficient flowgate capacity in the long term.

21 Short-term or annual redirects less than five years in length do not retain rollover

1 rights. At the time of the 23 MW transmission renewal, BPA's posted long-term
2 firm capacity on the North of Hanford flowgate showed significant capacity
3 available in the near-term to support annual or short-term redirects. Moreover,
4 with the NOS process on hold, it was not clear when PSE could permanently
5 redirect the transmission to the Mid-C.

6 **Q. Has the 23 MW transmission contract been used to serve PSE customers**
7 **since renewal and expiration of the Spokane PPA?**

8 A. Yes. For the winter season (November through February) of 2011-2012 and
9 annually in 2012-2013, PSE redirected the 23 MW transmission contract on a
10 firm basis from its original point-of-receipt to a point-of-receipt at the Mid-C for
11 use in meeting PSE's winter peak capacity need with Mid-C energy resources.
12 Additionally, PSE redirected the contract from March 2012 through May 2012 to
13 PSE's Lower Snake River Wind Project, Phase 1 to provide additional firm
14 transmission service to the wind facility until additional transmission was made
15 available by BPA.

16 **Q. Does PSE anticipate that the 23 MW transmission contract will be used to**
17 **serve PSE customers through the balance of the contract term?**

18 A. Yes. In anticipation of the BPA NOS process resuming in 2013, PSE submitted a
19 transmission request in March 2013 to BPA to redirect the contract from its
20 original point-of-receipt to a point-of-receipt at the Mid-C for the remainder of
21 the contract term (November 1, 2013 through March 1, 2016) and secure rollover

1 rights. Subsequently, BPA notified PSE that BPA could not automatically grant
2 the permanent (i.e., balance of the contract term) redirect request due to limited
3 capacity on the North of Hanford flowgate. BPA will study this permanent
4 redirect request in BPA's upcoming 2013 NOS process. In the meantime, PSE is
5 working with BPA to secure a transmission redirect to the Mid-C for short-term
6 needs.

7 **Q. Is PSE's renewal of the 23 MW transmission contract with BPA in December**
8 **2010 a prudently incurred expense?**

9 A. Yes. PSE's renewal of the 23 MW transmission contract with BPA in December
10 2010 was a prudently incurred expense. The 23 MW transmission contract was a
11 lowest cost and low risk resource identified to meet PSE's capacity need
12 considering the facts known at the time of the decision. PSE requests the
13 Commission approve PSE's recovery of the \$495,144 of rate year costs associated
14 with this 23 MW transmission contract.

15 **C. PG&E Exchange Firm Transmission Renewal and Acquisition**

16 **Q. What is the PG&E Exchange?**

17 A. The PG&E Exchange is a seasonal 413,000 MWh energy exchange with PG&E at
18 the California-Oregon Border ("COB"). The PG&E Exchange requires 300 MW
19 of firm transmission service in both directions between the COB delivery point
20 and PSE's system, including a Southern Intertie transmission wheel from COB to

1 BPA's John Day substation plus a BPA network transmission wheel from John
2 Day to PSE's system.

3 **Q. How is the transmission renewal for the PG&E Exchange different from**
4 **other contracts?**

5 A. Both the Southern Intertie and BPA network transmission wheels are considered
6 "grandfathered" pre-Order 888 transmission contracts by FERC, and are not
7 transmission service based on an Open Access Transmission Tariff ("OATT").

8 The BPA network transmission wheel between PSE's system and John Day is a
9 grandfathered Integration of Resources ("IR") transmission service that allows bi-
10 directional transmission rights across the BPA network under a single
11 transmission rate. This IR contract expires on July 31, 2014, and must be
12 replaced with an OATT-based, unidirectional transmission service.

13 Unfortunately, there is no bi-directional OATT-based transmission service to
14 replace the current IR transmission service. In order to continue firm
15 transmission service for the PG&E Exchange, PSE must replace the single,
16 bidirectional IR transmission contract with two unidirectional, Point-to-Point
17 ("PTP") transmission contracts. The new 300 MW PTP transmission contracts
18 begin on August 1, 2014.

19 The Southern Intertie transmission contract between John Day and COB does not
20 contain an expiration date and will remain a bidirectional contract until the PG&E
21 Exchange is terminated or modified to OATT-based service.

1 **Q. What termination rights does PSE have under the PG&E Exchange?**

2 A. The PG&E Exchange has a rolling provision providing either party an option to
3 terminate with a five-year notice.

4 **Q. Why does PSE need the PG&E Exchange?**

5 A. The PG&E Exchange is part of PSE's existing resource stack and provides
6 300 MW of winter capacity to meet our capacity need. PSE's capacity need
7 would increase by 300 MW if either PSE or PG&E were to cancel the PG&E
8 Exchange. The PG&E Exchange is a low cost resource similar to Mid-C
9 transmission contracts with BPA. Please see the Direct Prefiled Testimony of
10 Ms. Aliza Seelig, Exhibit No. ___(AS-1HCT), for a description of PSE's analysis
11 of the PG&E Exchange.

12 **Q. Did PSE perform any other analysis of the PG&E Exchange?**

13 A. Yes. PSE examined the benefit of the exchange in the PSM III model, also
14 known as the "Optimization Model." Assuming a 20-year continuation of the
15 PG&E Exchange, the results showed an approximate \$264 million benefit
16 compared to cancelling the PG&E Exchange in 2019, as discussed in the Prefiled
17 Direct Testimony of Ms. Aliza Seelig, Exhibit No. ___(AS-1HCT).

1 **Q. Did PSE present the analysis of the PG&E Exchange to the Energy**
2 **Management Committee?**

3 A. Yes. PSE presented the analysis of the PG&E Exchange to the EMC on January
4 17, 2013 and February 21, 2013, receiving approval at the latter meeting. Please
5 see Exhibit No. ____ (TAD-4) for a copy of the informational presentation made to
6 the EMC on January 17, 2013 which included information regarding transmission
7 renewals, PSE's renewal process and several renewal and acquisition analyses,
8 including the PG&E firm transmission renewal and acquisition. Please see
9 Exhibit No. ____ (TAD-5HC) for a copy of the transmission renewal presentation
10 made to the EMC on February 21, 2013, which included the PG&E firm
11 transmission renewal and acquisition.

12 **Q. Are PSE's transmission contracts for the PG&E Exchange a prudently**
13 **incurred expense?**

14 A. Yes. PSE's renewal of the 300 MW transmission contract with BPA and the
15 addition of a 300 MW transmission contract with BPA effective August 1, 2014
16 were prudently incurred expenses, as discussed above. PSE requests the
17 Commission approve these contracts' renewals and acquisitions and approve
18 recovery of the \$3.2 million of rate year costs associated with these two 300 MW
19 transmission contracts (\$3.2 million represents costs for August 1, 2014 through
20 October 31, 2014, or three months of costs, which are \$12.9 million on an
21 annualized basis).

1 **D. Other Mid-C Firm Transmission Contract Renewals and Acquisitions**

2 **Q. How does PSE determine the appropriateness of renewing firm Mid-C**
3 **transmission?**

4 A. As noted above, PSE relies on existing firm BPA transmission contracts from
5 Mid-C to PSE's system, as Short Term Resources, to meet its customers' capacity
6 needs. PSE uses this type of transmission to move its share of Mid-C hydro
7 generation and short-term market purchases from the Mid-C hub to serve PSE's
8 load. These short-term market purchases, combined with the transmission, are
9 referred to as "Available Mid-C Transmission"⁸ in PSE's 2011 IRP process. As
10 Mid-C transmission contracts become eligible for renewal, PSE evaluates the
11 costs and risks of Mid-C resources, drawing on information from PSE's most
12 recent IRP and RFP.

13 **Q. What information does PSE consider in making a decision to renew a**
14 **transmission contract?**

15 A. In considering whether to renew a transmission contract, PSE considers resource
16 need, availability of regional surplus capacity, resource costs from its most recent
17 RFP and IRP processes, and the likely availability of Mid-C transmission in the
18 future.

⁸ "Available Mid-C Transmission" is referred to in PSE's 2011 IRP and in PSE's Draft 2013 IRP issued April 1, 2013. PSE's final 2013 IRP is to be filed by May 31, 2013.

1 **Q. When did PSE evaluate the Mid-C transmission renewals?**

2 A. PSE evaluates the costs and benefits of renewing its Mid-C transmission contracts
3 in order to have adequate information to make a prudent decision by the renewal
4 deadline. As an example, the following Table 5 shows PSE's major Mid-C
5 renewal decision deadlines for 2012 and 2013. My testimony presents the August
6 2012 decision to renew 400 MW of Mid-C Transmission and the February 2013
7 decision to renew 35 MW of Mid-C transmission. Even after these decisions are
8 made, PSE will continue to evaluate Mid-C contracts and will have the
9 opportunity to make adjustments to its total Mid-C transmission capacity
10 available to meet capacity need as other Mid-C contracts come up for renewal.
11 For example, before the end of November 2013, PSE will have to decide whether
12 to renew another 514 MW of Mid-C transmission capacity or a portion thereof.
13 At that time, PSE will have the option to reduce its Mid-C transmission capacity
14 if new information results in a different conclusion than previous IRPs and RFPs.

Table 5. BPA 2012 & 2013 Mid-C Transmission Renewal Deadlines

RESOURCE	Renewal Deadline	Start Date	Megawatt Capacity	Evaluation / Decision	RFP/ IRP
Mid-Columbia (Rate Year decision)	8/31/12	11/1/12	400	Aug12	2011/ 2011
Mid-Columbia (Rate Year decision)	2/28/13	3/1/14	35	Feb13	2011/ Draft 2013
Mid-Columbia (Rate Year decision)	7/31/13	10/1/13	115	Feb/Jul13	2011/ Draft 2013
Mid-Columbia (does not impact Rate Year)	10/31/13	11/1/14	305	Oct13	2011/ Draft 2013
Mid-Columbia (does not impact Rate Year)	11/30/13	12/1/14	209	Oct13	2011/ Draft 2013

1. 400 MW Mid-C Firm Transmission Renewal

Q. Please provide a summary description of the 400 MW Mid-C firm transmission renewal.

A. In August 2012, PSE performed extensive analysis of Mid-C transmission renewals using the PSM III model, also known as the “Optimization Model”, consistent with the 2011 RFP analysis. Please see the Prefiled Direct Testimony of Ms. Aliza Seelig, Exhibit No. ___(AS-1HCT), for a discussion of PSE’s analyses of the 400 MW Mid-C firm transmission renewal.

Q. Could PSE renew only a portion of the 400 MW Mid-C firm transmission contract?

A. Yes. PSE has the option to renew all or any portion of the 400 MW Mid-C firm transmission contract. However, if PSE relinquishes any transmission capacity there is a risk, given the current state of available Mid-C capacity, of not being able to reacquire needed Mid-C transmission in the future.

1 **Q. What are some of the risks associated with acquiring new Mid-C firm**
2 **transmission in the future?**

3 A. New Mid-C firm transmission is requested through BPA's transmission queue
4 and requires participation in a future NOS. BPA's NOS processes have has been
5 on hold since the last NOS process in 2010, but BPA expects to resume its NOS
6 processes in the latter half of 2013. A new Mid-C firm transmission request
7 requires capacity on multiple constrained BPA flowgates. The most prominent
8 BPA flowgate affecting a new Mid-C firm transmission request is the Cross-
9 Cascades North flowgate. The Cross-Cascades North flowgate is highly
10 constrained, with no available winter month capacity posted on the BPA website
11 through 2022.⁹ The BPA posted capacity does not include current plans to
12 upgrade the transmission system affecting the Cross-Cascades North flowgate;
13 however the additional capacity available after project completion would not
14 fulfill the current needs of the BPA transmission queue, and the projects could be
15 subject to delays. At the time of the decision to renew this Mid-C transmission
16 contracts, BPA's transmission queue indicated there was no available
17 transmission capacity on the Cross-Cascades North flowgate until 2022.

⁹ BPA maintains an inventory of available flowgate capacity ("AFC") less impacts of all pending queued requests on the transmission section of their website, available at http://transmission.bpa.gov/tx_availability/atc_less_pending.xls. BPA's version of this document dated March 29, 2013, indicates that 2022 winter capacity (December) on the Cross Cascades North flowgate is negative (-) 2,053 MW, indicating there is significantly more transmission requests than available capacity on the flowgate.

1 **Q. Did PSE present the 400 MW Mid-C firm transmission renewal analysis to**
2 **the EMC?**

3 A Yes. On August 16, 2012, PSE presented the 400 MW Mid-C firm transmission
4 renewal analysis to the EMC. Please see Exhibit No. ___(TAD-3HC) for a copy
5 of the presentation made to the EMC on August 16, 2012 regarding BPA
6 transmission renewals and PSE's renewal process, which included the 400 MW
7 Mid-C firm transmission renewals analysis.

8 **Q. Did PSE renew the 400 MW Mid-C firm transmission contract with BPA?**

9 A. Yes. Based upon PSE's significant resource need, lack of certainty about the
10 decisions for the Coal Transition PPA and the acquisition of the Ferndale
11 Generating Station, the quantitative analysis, and the risk of not being able to
12 reacquire Cross-Cascades firm transmission before 2022, PSE renewed its
13 400 MW of Mid-C firm transmission with BPA.

14 **Q. Is PSE's renewal of its 400 MW Mid-C BPA transmission contract a**
15 **prudently incurred expense?**

16 A. Yes. PSE's renewal of the 400 MW transmission contract with BPA was a
17 prudently incurred expense, as discussed above. PSE requests the Commission
18 approve PSE's recovery of this contract and recovery of the \$8.6 million of rate
19 year costs associated with this 400 MW transmission contract (which represents
20 the annual cost of this contract).

1 **2. 35 MW and 115 MW Mid-C Firm Transmission Renewals**

2 **Q. Has PSE continued to evaluate its Mid-C transmission renewals and the**
3 **amount of Mid-C transmission that it can rely upon in the future?**

4 A. PSE continues to evaluate each transmission renewal and the amount of Mid-C
5 firm transmission upon which it can rely. The most recent analysis considered
6 35 MW and 115 MW Mid-C firm transmission renewals, where the new five-year
7 term for each renewal starts during the rate year. Please see the Prefiled Direct
8 Testimony of Ms. Aliza Seelig, Exhibit No. ___(AS-1HCT), for a discussion of
9 PSE’s analyses of the 35 MW and 115 MW Mid-C firm transmission renewals.

10 **Q. What is the strategy for renewing transmission?**

11 A. PSE decided to renew 35 MW of Mid-C firm transmission in February 2013 to
12 begin March 1, 2014 for a five-year term, thus retaining rollover rights. The
13 analyses also showed that PSE could use an additional 115 MW of Mid-C firm
14 transmission by 2017 and some portions thereof before 2017. At the time of the
15 EMC meeting of February 21, 2012, however, PSE decided that further review
16 and analysis of the 115 MW Mid-C firm transmission renewal were needed
17 before the deadline to renew on July 31, 2013. PSE elected to renew the 35 MW
18 Mid-C firm transmission contract because the renewal decision for the 35 MW
19 Mid-C firm transmission contract (February 28, 2013) must be made earlier than
20 the renewal decision for the 115 MW Mid-C firm transmission contract (July 31,
21 2013).

1 **Q. Why is the renewal decision for the 115 MW Mid-C firm transmission**
2 **contract later than the 35 MW Mid-C firm transmission contract, yet the**
3 **start date is earlier?**

4 A. The 115 MW Mid-C firm transmission contract renewal decision deadline is
5 July 31, 2013 and the 35 MW Mid-C firm transmission contract decision deadline
6 is February 28, 2013. The 115 MW Mid-C firm transmission contract has a
7 grandfathered provision for a 60-day notice for renewal, whereas the 35 MW
8 Mid-C firm transmission contract has the standard one-year notice. In effect, PSE
9 has the benefit of more time to analyze the renewal of the 115 MW Mid-C firm
10 transmission contract.

11 **Q. Did PSE evaluate each of the Mid-C transmission contract renewals?**

12 A. Yes. PSE both qualitatively and quantitatively evaluated each of the 35 MW and
13 115 MW Mid-C firm transmission renewals consistent with the draft 2013 IRP
14 analysis and considering information from the 2011 RFP.

15 **Q. How does resource need impact the decision?**

16 A. PSE's current resource need could be significantly larger if PSE is not able to
17 enter into the Coal Transition PPA, as shown in the Prefiled Direct Testimony of
18 Ms. Aliza Seelig, Exhibit No. ___(AS-1HCT).

1 **Q. How does regional resource adequacy impact the decision?**

2 A. To date, PSE has been able to rely on the Mid-C market to meet its capacity and
3 energy needs and expects to be able to in the near term. The region is starting to
4 recognize, however, that the regional surplus may be diminished with power plant
5 retirements in the Pacific Northwest and California. It is not clear how and when
6 these plants will be replaced. Because most of the Mid-C firm transmission is
7 renewed on a 5-year rolling basis, PSE has the option to adjust its Mid-C firm
8 transmission capacity over time, if necessary.

9 **Q. Did PSE present the 35 MW Mid-C firm transmission contract renewal to**
10 **the EMC?**

11 A. Yes. The EMC reviewed and approved the 35 MW Mid-C firm transmission
12 contract renewal decision at the EMC meeting on February 21, 2013. Please see
13 Exhibit No. ___(TAD-5HC) for a copy of the presentation made to the EMC on
14 February 21, 2013, which included information regarding PSE's transmission
15 renewals, including the 35 MW Mid-C firm transmission renewals analysis.
16 Please see Exhibit No. ___(TAD-4) for a copy of the informational presentation
17 made to the EMC on January 17, 2013, which also included information
18 regarding the 35 MW Mid-C firm transmission renewals analysis.

1 **Q. Is PSE's renewal of its 35 MW Mid-C BPA transmission contract a**
2 **prudently incurred expense?**

3 A. Yes. PSE's renewal of the 35 MW transmission contract with BPA was a
4 prudently incurred expense, as discussed above. PSE requests the Commission
5 approve PSE's recovery of this 35 MW contract and recovery of the \$502,320 of
6 rate year costs (eight months are included in the rate year which equals \$753,480
7 on an annualized basis) associated with this 35 MW transmission contract.

8 **Q. Do the rate year power costs include PSE's renewal of its 115 MW Mid-C**
9 **BPA transmission contract?**

10 A. Yes. Since PSE is still in the process of analyzing the costs and benefits of
11 renewing the 115 MW BPA transmission contract for the renewal deadline of July
12 31, 2013 for a new contract term beginning October 1, 2013, PSE has included
13 this contract as renewed in rate year power costs. PSE will provide the analysis
14 supporting its renewal decision for the 115 MW transmission contract during the
15 course of this proceeding. Power costs include a full year of costs for the
16 renewed 115 MW BPA contract, or \$2.5 million annual cost.

1 **E. Existing Generation Resource/Load Transmission Renewals**

2 **Q. Did PSE renew any BPA transmission contracts used to wheel power from**
3 **existing resources?**

4 A. Yes. PSE renewed three separate transmission contracts to allow continued
5 delivery of power from existing resources. Each of the three is described below.

6 **Q. What is the resource named Clymer?**

7 A. The resource named Clymer is actually a PSE load remote to PSE's transmission
8 system that requires BPA firm transmission for delivery of energy. There are
9 currently no near-term alternatives to BPA transmission for service to this load,
10 so PSE will exercise its rollover rights for this 4 MW contract and on July 31,
11 2013, renew it for five years beginning August 1, 2014.

12 **Q. Please describe the 27 MW contract serving the Goldendale facility.**

13 A. The Goldendale Generating Station is an existing 277 MW facility interconnected
14 to BPA's transmission system. The facility has an estimated resource life ending
15 in 2035. Power from the facility is wheeled to PSE's system in part using a 27
16 MW transmission contract which expired February 28, 2013. PSE renewed the
17 contract for five years (until March 1, 2019) to allow continued delivery of power
18 from the facility.

19 **Q. Please describe the 663 MW contract associated with the Colstrip facility.**

1 A. The Colstrip Generating Station (Units 1, 2, 3 and 4) is an existing facility
2 currently serving PSE load. Power from the facility is wheeled to PSE's system
3 using a 663 MW transmission contract which will expire July 31, 2013. PSE
4 renewed the contract for five years (until August 1, 2019) to allow continued
5 delivery of power from the facility.

6 **Q. Are PSE's transmission contracts to deliver power from existing**
7 **resources/load prudently incurred expenses?**

8 A. Yes. PSE's renewal of the three contracts to allowed continued delivery of power
9 from existing resources and to serve existing load were prudently incurred
10 expenses, for the reason noted above. PSE requests the Commission approve
11 PSE's recovery of these contracts and recovery of the following costs associated
12 with each transmission contract:

- 13 1. Clymer – the rate year includes \$21,528 of costs associated with
14 the renewed 4 MW transmission contract (three months) which is
15 \$86,112 on an annualized basis;
- 16 2. Goldendale – the rate year includes \$387,504 of costs associated
17 with the renewed 27 MW transmission contract (eight months)
18 which is \$581,256 on an annualized basis; and
- 19 3. Colstrip – the rate year includes \$3.6 million of costs associated
20 with the renewed 663 MW transmission contract (three months)
21 which is \$14.3 million on an annualized basis.

1 **F. Summary of Transmission Contract Renewals**

2 **Q. Was PSE's renewal of BPA transmission capacity a valuable and reasonable**
3 **business decision?**

4 A. Yes. As noted above, PSE relies on existing BPA transmission contracts from
5 Mid-C to PSE's system to meet its capacity need in that PSE may use this
6 transmission to wheel short-term market power from Mid-C to PSE's load. In
7 this regard, these types of transmission contracts are akin to a resource for PSE
8 and provide needed capacity. Additionally, firm transmission is required for
9 PSE's generation resources and long-term contracts in order to ensure reliable
10 delivery to PSE's system to serve load.

11 **Q. Was PSE's acquisition and renewal of transmission contracts a prudent**
12 **decision?**

13 A. Yes. In all cases, PSE performed a full and detailed justification for the prudence
14 of the costs of renewing and acquiring these BPA transmission contracts. In this
15 regard, PSE respectfully requests the Commission deem these expenses to be
16 prudently incurred and allow PSE to fully recover these costs in rates.

17 **IV. CONCLUSION**

18 **Q. Please summarize your testimony.**

19 A. PSE is an active participant in BPA's 2014 rate case, is diligently working to
20 lower BPA's initial rate request, and proposes to update power costs in this

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proceeding to include the transmission rates established in BPA’s Final Record of Decision for BPA’s 2014 Rate Case. PSE’s qualitative and quantitative analytics provide a strong basis for the reasonable decisions made to create and to renew its transmission contracts with BPA.

Q. Does that conclude your prefiled direct testimony?

A. Yes, it does.