

EXHIBIT NO. ____ (JHS-1T)
DOCKET NO. UE-07 ____
2007 PSE PCORC
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-07 ____

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

MARCH 20, 2007

PUGET SOUND ENERGY, INC.

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
JOHN H. STORY**

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PUGET SOUND ENERGY, INC.

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
JOHN H. STORY**

I. INTRODUCTION

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

A. My name is John H. Story and I am Director of Cost and Regulation with Puget Sound Energy, Inc. ("PSE"). My business address is 10885 NE 4th Street, Bellevue, Washington, 98009-5591.

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

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

Q. What are your duties as Director of Cost and Regulation for PSE?

A. As Director of Cost and Regulation, I am responsible for the Revenue Requirement department at PSE.

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1 **Q. What is the nature of your testimony in this proceeding?**

2 A. My testimony describes: (1) adjustments to PSE's power supply costs that have
3 prompted PSE to seek the proposed Power Cost Rate; (2) the rate impact of adding
4 a new resource, the Goldendale Generating Station, to PSE's power supply
5 portfolio; and (3) the calculation of PSE's new Power Cost Rate, which accounts
6 for the addition of new power cost resources to PSE's power supply portfolio,
7 updates expenses to account for current costs, and corrects the tax impact of the
8 Tenaska regulatory asset amortization. The total rate increase resulting from these
9 adjustments is \$64,680,804, an average 3.67% increase over the rates set in January
10 2007.

11 **II. ADJUSTMENTS TO THE POWER COST RATE**

12 **Q. Please explain what is meant by the Power Cost Rate.**

13 A. The Power Cost Rate is the product of the parties' settlement of PSE's 2001 general
14 rate case, Docket Nos. UE-011570 and UG-011571. In June 2002, the Commission
15 approved the parties' Settlement Stipulation for Electric and Common Issues in that
16 docket ("Settlement Stipulation"). *See* Commission's Twelfth Supplemental Order
17 (dated June 20, 2002) ("Twelfth Supplemental Order"). Among other things, the
18 Twelfth Supplemental Order authorized the use of a Power Cost Adjustment
19 Mechanism ("PCA") as a method for adjusting PSE's power costs. *See Settlement*
20 *Terms for the Power Cost Adjustment Mechanism*, Exhibit A to the Settlement
21 Stipulation, attached as Exhibit No. ____ (JHS-3).

1 As described in the Settlement Stipulation, the PCA sets forth an annual accounting
2 process for a sharing of costs and benefits between PSE and its customers over four
3 graduated levels, or “bands,” of power cost variances, with an overall cap of \$40
4 million (+/-) over the four year period July 1, 2002 through June 30, 2006. *See*
5 Exhibit No. ____ (JHS-3) at 1. The PCA distinguishes between power costs and all
6 other costs included in general rates and allows PSE to file an application seeking
7 adjustment of only PSE’s power costs. *See* Exhibit No. ____ (JHS-3) at 2. The
8 Settlement Stipulation includes a table that shows the allocation of costs between
9 costs that can be adjusted through the PCA, and other, non-power costs, which are
10 not adjusted through the PCA. Two categories of costs comprise the Power Cost
11 Rate: variable rate components and fixed rate components. *See* Exhibit
12 No. ____ (JHS-3) at 4.

13 **Q. Have there been changes to the PCA and the method of determining the Power**
14 **Cost Rate since the Settlement Stipulation was approved by the Commission?**

15 A. Yes. On Exhibit No. ____ (JHS-4), I have modified Exhibit A to the Settlement
16 Stipulation to show the changes that have been made to the PCA since the
17 Settlement Stipulation was approved by the Commission. As shown on Exhibit
18 No. ____ (JHS-4), these include: (i) revising the accounting period for the PCA
19 accounting process to a calendar year; (ii) eliminating Schedule E (effective
20 January 2007); (iii) including interest costs and commitment fees associated with
21 electric hedging activities in the Power Cost Rate, and (iv) computing rate spread
22 based on the peak credit methodology utilized in computing the rate spread in the

1 Company's most recent general rate case proceeding rather than referencing the
2 peak credit methodology used in the 2001 general rate case.

3 **Q. When are the accumulated PCA costs and benefits allocations reviewed?**

4 A. For each of the past four years, PSE filed an annual PCA report in August, which
5 reviewed the accumulated PCA costs and benefits allocations for the preceding year
6 (July 1 through June 30). In Docket No. UE-050870, the Commission approved
7 changing the annual accounting process to a calendar year, January through
8 December. With this change, PSE will file an annual report each March detailing
9 the power costs included in the deferral calculation for the annual period ending
10 December 31 of the prior year. The March 2007 report will cover the July 1, 2006,
11 through December 31, 2006, period. *See* Exhibit No. ____ (JHS-4).

12 **Q. How is the Power Cost Rate adjusted?**

13 A. Independent of the yearly accounting and adjustment for power cost variances, PSE
14 may also apply to the Commission to true up the Power Cost Rate to all power costs
15 identified in the Power Cost Rate. In order to true up the Power Cost Rate, the
16 Settlement Stipulation requires, among other things, testimony and exhibits that
17 include

- 18 • Adjustments to the fixed rate components of the Power Cost Rate;
- 19 • Adjustments to the variable rate components of the Power Cost Rate;
- 20 and
- 21 • A calculation of pro forma production cost schedules that are

1 consistent with the costs presented in this docket, including power
2 supply and other adjustments impacting production costs.

3 See Exhibit No. ____ (JHS-4) at page 5. My testimony provides this required
4 information in support of PSE's present application to true up its Power Cost Rate.

5 **Q. Would you please describe the adjustments used to determine the new Power**
6 **Cost Rate?**

7 A. Exhibit No. ____ (JHS-5) to my testimony summarizes the adjustments used to
8 determine the new Power Cost Rate. As stated earlier, the PCA makes a distinction
9 between: (i) power costs, which may be determined in a power cost only rate case;
10 and (ii) all the other costs, which are determined in a general rate case. In a general
11 rate case, the Company uses a future rate year to determine certain power costs and
12 then pro forms those costs back to the test year. Using this methodology for the
13 present case, we have summarized the power cost adjustments, plus restating
14 adjustments, associated with production costs in Exhibit No. ____ (JHS-5). The
15 proposed rate year used for these adjustments is September 2007 through August
16 2008. For this proceeding we used the test year ended December 31, 2006.

17 In addition to the above power cost adjustments, we have provided a pro forma
18 adjustment to account for changes to PSE's ratebase and operating expenses
19 associated with: (i) the purchase of the Goldendale Generating Station, which is
20 discussed in more detail in the testimonies of Mr. Eric Markell, Mr. Roger Garrett,
21 and Mr. James Elsea; and (ii) the Wild Horse Wind Project, which went into service
22 December 20, 2006. Section 8 of the Settlement Stipulation authorizes the

1 Company to initiate a power cost only proceeding to add costs of new resources to
2 the Power Cost Rate.

3 **Q. Please explain what Exhibit No. ____ (JHS-5) represents.**

4 A. The first column of Exhibit No. ____ (JHS-5) shows the ratebase and production
5 costs from the test year that will be considered in setting the Power Cost Rate. The
6 first column, titled "Test Year Actual 12 months ended December 31, 2006", sets
7 forth the ratebase and actual production costs for the test year ended December
8 2006. The columns to the right of this first column show the impact of the pro
9 forma and restating power cost adjustments PSE is proposing for the pro forma rate
10 year. These adjustments are presented in more detail on the succeeding pages
11 referenced in the title of a particular column; the work papers supporting these
12 adjustments have been provided to Commission Staff and intervenors. The total of
13 the test year amounts plus the pro forma and restating adjustments is shown in the
14 column titled "Adjusted 12 months ended December 31, 2006" on page 2 of Exhibit
15 No. ____ (JHS-5). This column represents the costs to be used in determining the
16 Power Cost Rate used to calculate the required rate increase. These are the same
17 amounts shown in the first column of Exhibit No. ____ (JHS-6C), "Exhibit A-1
18 Power Cost Rate".

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1 **III. ADJUSTMENTS TO TEST YEAR POWER COSTS**

2 **Q. Please describe each of the adjustments presented in Exhibit No. ____ (JHS-5).**

3 **A. The adjustments are:**

- 4 1. Power Cost – **ADJUSTMENT-1** presents the rate year pro forma power
5 costs discussed in the testimony of Mr. Mills, Exhibit No. ____ (DEM-1CT),
6 and presented in Exhibit No. ____ (DEM-4). These costs are the projected
7 rate year fixed and variable power operating and maintenance costs for
8 PSE’s existing power supply portfolio that are adjusted to test year levels
9 using the relationship of normalized test year delivered load to rate year
10 delivered load (“production factor”). These projected costs are a pro forma
11 adjustment to the test year costs shown on the first page of Exhibit
12 No. ____ (JHS-5). This adjustment decreases cost by \$48,606,412.
- 13 2. Sales for Resale – **ADJUSTMENT-2** pro forms the rate year secondary
14 sales presented in Exhibit No. ____ (DEM-4) to test year secondary sales.
15 This adjustment decreases secondary sales revenue by \$80,273,154.
- 16 3. Transmission Income – **ADJUSTMENT-3** pro forms the forecast
17 transmission income for the four transmission lines identified in the power
18 cost rate to the expected rate year levels. The rate year revenues reflect the
19 average of the last three years of revenues. This adjustment decreases
20 transmission revenue by \$545,355.

- 1 4. Goldendale – **ADJUSTMENT-4** pro forms the cost of the Goldendale
2 Generating Station for both ratebase and operating expenses. The costs
3 used in this adjustment are explained later in my testimony.
- 4 5. Property Taxes – **ADJUSTMENT-5** restates test year property taxes for
5 known changes in the levy rates and production plant balances for Montana,
6 Oregon and Washington. This adjustment increases expense by \$311,624.
- 7 6. Montana Energy Tax – **ADJUSTMENT-6** pro forms the tax that is assessed
8 on Colstrip generation. This adjustment compares the forecast generation of
9 the Colstrip plants to the actual generation in the test year, and the
10 difference is priced at the appropriate tax rate. This adjustment reduces
11 expense by \$2,713.
- 12 7. Property Insurance – **ADJUSTMENT-7** restates production property
13 insurance to current levels and increases expense by \$94,512.
- 14 8. Wild Horse – **ADJUSTMENT-8** pro forms plant costs of the Wild Horse
15 Project, which was placed in-service during December 2006. This
16 adjustment reflects these plant costs plus the additional 2007 costs expected
17 to be incurred to complete the plant addition. This pro forma adjustment is
18 necessary so that a full year of plant costs is properly recognized for this
19 plant as allowed in Docket UE-060266 and UG-060267. This adjustment
20 calculates the ratebase and costs for the plant during the PCORC rate year.
21 These costs are then adjusted to test year amounts in the Production

Adjustment, Adjustment-11. Mr. Garratt discusses the additional 2007 capital costs, which will be trued up during this proceeding, and the expected operating costs associated with this plant in his direct testimony, Exhibit No. ____ (RG-1HCT). This adjustment increases ratebase by \$292,941,891 and operating expense by \$47,182,453.

9. Baker River Relicensing – **ADJUSTMENT-9** pro forms the relicensing costs for the Baker River Relicensing for both ratebase and operating expenses as approved in Docket UE-060266 and UG-060267. The license for this project is estimated to be issued in the second quarter of 2007. This adjustment increases ratebase by \$27,776,685 and operating expense by \$3,650,664.

10. Regulatory Assets and Liabilities – **ADJUSTMENT-10** pro forms the rate year ratebase and amortization for the regulatory assets associated with Tenaska, Cabot buyout, White River Plant Costs, White River Relicensing, and Bonneville Exchange Power (“BEP”) as well as for the CanWest regulatory liability. This adjustment reduces ratebase by \$44,993,019 and increases expense by \$1,786,790.

11. Production Adjustment – **ADJUSTMENT-11** pro forms the production related ratebase and expenses that have not been included in the Power Cost Adjustments. As with the Power Cost Adjustments, these costs are adjusted to test year levels using the production factor, the ratio of test year delivered

1 load to rate year delivered load, so that the test year level of costs are
2 collected in the rate year. This adjustment reduces ratebase by \$35,384,934
3 and expense by \$7,380,133.

4 12. Hedging Line of Credit – ADJUSTMENT-12 pro forms in the commitment
5 costs associated with the line of credit for hedging. In Docket UE-060266
6 and UG-060267, the Commission approved recovery of costs associated
7 with a line of credit supporting hedging transaction in the PCA and
8 Purchased Gas Adjustment mechanism. As discussed in the prefiled direct
9 testimony of Mr. Don Gaines, Exhibit No. ____ (DEG-1CT), the Company is
10 expecting to finalize a line of credit by the end of March, 2007. This
11 adjustment pro forms in the electric portfolio share, 61%, of the rate year
12 costs for this line of credit. As the Company gains experience with the line
13 of credit, the fees will be allocated to gas or electric based on actual
14 experience as to which energy portfolio used the line of credit. For
15 purposes of this first adjustment, we have used a 61-39 percent split
16 between electric and gas based on an analysis of the portfolios and how the
17 line of credit would be utilized. This adjustment increases expense by
18 \$308,050.

19 13. Tenaska Flow Through Tax True-up – ADJUSTMENT-13 corrects a tax
20 calculation error associated with the amortization of the principal payment
21 on the Tenaska regulatory asset. As discussed below, the tax amortization,
22 rather than book amortization, of the Tenaska regulatory asset should be

1 reflected in rates. However, in the last three general rate case proceedings,
2 the increased rate year book amortization associated with the Tenaska
3 regulatory asset has been treated as tax deductible. This has caused tax
4 benefits to be overstated.

5 The amortization of the regulatory asset was treated as a flow through item
6 in Docket UE-971619, and it is the tax benefit associated with the tax
7 amortization of this asset that should be reflected in rates. This amortization
8 is reflected correctly in the Company's general rate case pro forma tax
9 adjustment. The adjustment in this PCORC filing corrects the calculation
10 from the last general rate case on a prospective basis through the rate year
11 and increases costs, net of production factor, by \$4,283,296.

12 **Q. Would you please explain this overstatement of tax benefit associated with the**
13 **Tenaska regulatory asset in more detail?**

14 A. In the original proceeding associated with the buy down of the Tenaska fuel prices,
15 Docket UE-971619, the principal buy down amount of \$215 million was treated as
16 a flow through item for rate recovery. Because the IRS would only allow a straight
17 line amortization of the \$215 million over 15 years, the customer receives the tax
18 benefit associated with this tax amortization and not the book amortization actually
19 recorded for the \$215 million. When the PCA was implemented in 2002, one of the
20 adjustments made was to move to the rate year both the ratebase impact of the
21 regulatory asset and its amortization. When this adjustment was made, all the

1 regulatory asset amortizations for the rate year were treated as tax deductible. This
2 was an inadvertent error for the Tenaska amortization. Because the tax
3 amortization does not change, there should not have been any additional tax benefit
4 associated with the increasing book amortization associated with Tenaska.
5 Erroneously calculating a tax benefit for this increasing book amortization, rather
6 than straight line tax amortization, for the Tenaska regulatory asset understates the
7 revenue deficiency associated with this amortization.

8 Included in Exhibit No. ____ (JHS-8) are copies of the pro forma income tax
9 adjustment workpapers: (i) from the 2001 general rate case, which appear at pages
10 1-3 of Exhibit No. ____ (JHS-8); (ii) from the 2003 general rate case, which appear at
11 pages 4 through 6 of Exhibit No. ____ (JHS-8); and (iii) from the 2006 general rate
12 case, which appear at pages 7 through 9 of Exhibit No. ____ (JHS-8). The amounts
13 included in the drawn in boxes on pages 3, 6, and 9 of Exhibit No. ____ (JHS-8)
14 show the Company's pro forma tax adjustments used in the 2001 general rate case,
15 the 2003 general rate case, and the 2006 general rate case, respectively. These
16 pages show that in each of these three general rate cases the adjustment from book
17 amortization to the tax amortization of the Tenaska regulatory asset was calculated
18 and the tax benefit associated with the tax amortization was being passed through to
19 the customer. When the book amortization was changed to the rate year and the
20 resulting increased book amortization was tax effected, this overstated the tax
21 benefit actually received for the principal amortization.

22 Page 10 of Exhibit No. ____ (JHS-8) is a copy of the Tenaska Regulatory Asset

1 Amortization that is being followed for rate purposes. As can be seen on line 5,
2 page 10, of Exhibit No. ____ (JHS-8), the federal income tax ("FIT") benefit is
3 \$5.017 million per year until year 14, the end of the contract, when both years 14
4 and 15 can be written off for tax purposes. (Because there is no longer a contract
5 after year 14, all remaining tax deductible costs can be recognized in the final year.)
6 Dividing the \$5.017 million by 35%, the applicable tax rate, provides the tax
7 amortization per year of \$14.3 million that is allowed for tax purposes.

8 Page 11 of Exhibit No. ____ (JHS-8) is a copy of the Regulatory Assets and
9 Liabilities pro forma adjustment from Docket No. UE-060266 and UG-060267 that
10 is the same adjustment that was accepted in Order No. 08, Table 8, page 41, line 30
11 of that docket. This calculation shows that the change in amortization for Tenaska
12 was included in the total change in amortization of regulatory assets on line 9 and
13 tax affected on line 11.

14 **Q. Please explain the last two pages of Exhibit No. ____ (JHS-5).**

15 **A. ADJUSTMENT-14**, the second to last page of Exhibit No. ____ (JHS-5), presents
16 the adjustment to test year load for the difference in temperature between the test
17 year and a normal temperature year. Because the test year was warmer than
18 normal, on average, this adjustment adds 42,569 MWhs to the actual load after
19 adjusting for system losses. This adjustment is required to determine normal
20 delivered load in the test year, which is used in the production adjustment and is
21 used in determining the Power Cost Rate. This adjustment is also used to determine

1 the normal billed load for the rate spread in this PCORC filing. As explained by
2 Mr. Hoff in his prefiled direct testimony, this normalization adjustment has been
3 calculated using the methodology that the Commission approved in the Company's
4 last general rate case, Docket UE-060266 and UG-060267.

5 **ADJUSTMENT-15**, the last page of Exhibit No. ____ (JHS-5), is the conversion
6 factor for revenue sensitive items. The calculation of this conversion factor uses
7 the bad debt percentage from the 2006 general rate case and the current annual
8 filing fee and state utility tax rates. This conversion factor is used in determining
9 the total revenue deficiency.

10 **IV. ADJUSTMENTS ATTRIBUTABLE TO THE**
11 **ACQUISITION OF THE GOLDENDALE GENERATING FACILITY**

12 **Q. Please describe each of the components presented in Exhibit No. ____ (JHS-5)**
13 **that are attributable to PSE's acquisition of the Goldendale Generating**
14 **Station.**

15 **A. ADJUSTMENT-4** presents the ratebase and operating expenses associated with the
16 Goldendale Generating Station for the rate year. The plant balance, shown on line
17 2 of this adjustment, is the sum of the purchase price, closing costs and AFUDC for
18 the Goldendale Generating Station, which total \$130,952,698. Mr. Garratt provides
19 the detail for all of the Goldendale Generation Station costs in his testimony,
20 Exhibit No. ____ (RG-1HCT), and in his Exhibit No. ____ (RG-18).

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1 **Q. Please explain how the ratebase addition was calculated for rate purposes.**

2 A. The acquisition price, less the average of monthly averages accumulated
3 depreciation and IRS allowed average deferred taxes, were calculated for each of
4 the months August 2007 through August 2008 time period. The elements of this
5 calculation are described below.

6 For book depreciation purposes, the Company is proposing that the asset be
7 depreciated over 28 years. Although this type of plant is normally depreciated over
8 30 years, the plant had already been operational for two years under the prior
9 ownership. Because the purchase date of this asset was February 21, 2007, we have
10 calculated depreciation from that date through the end of the rate year for purposes
11 of determining the rate year revenue requirement for the Goldendale Generating
12 Station.

13 The effective depreciation rate used is 1.39% per year and is applied to the total
14 original construction cost of the plant. The depreciation rate is designed to recover
15 the costs PSE paid for the plant by dividing that cost, less land cost, by 28 years and
16 then dividing that result by the prior owner's total original cost of the plant. This
17 calculation is mandatory, because FERC required that the prior owner's original
18 cost of the plant be booked in the appropriate plant accounts and the accumulated
19 depreciation associated with the plant be booked in Account 108 (Accumulated
20 Depreciation). This accounting created a negative acquisition adjustment, which
21 FERC requires PSE to clear to Account 108 (Accumulated Depreciation). This

1 journal entry lowers the net plant balance to the amount PSE paid for plant.

2 Deferred taxes were calculated in the manner prescribed by Internal Revenue Code
3 Regulations, Section 1.167(l)-1(h). This Section specifies how a future projection
4 of deferred taxes due to accelerated depreciation for tax purposes of an asset must
5 be treated for the normalization method of accounting. The methodology as
6 described presents a calculation that allows deferred taxes to be deducted for
7 ratemaking purposes if calculated based on the pro rata number of days the future
8 period plant is considered for inclusion in ratebase and is adjusted to match the
9 average of the monthly averages used in determining the plant balance.

10 For the Goldendale Generating Station, the deferred tax calculation is based on
11 twenty-year tax depreciation. Because the Goldendale Generating Station was
12 added to plant in the first quarter of 2007, the Company is using the half-year
13 convention that would normally be used for the tax calculation.

14 The ratebase adjustment for the addition of the Goldendale Generating Station
15 increases ratebase by \$125,780,498. On line 7 of this adjustment, the amount
16 required to recover the cost of capital (net of tax rate of return 7.06/.65* the rate
17 base adjustment) is shown and is \$13,661,697.

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1 **Q. Please explain the other expenses associated with the Goldendale Generating**
2 **Station on Exhibit No. ____ (JHS-5) Adjustment 4.**

3 A. I explained depreciation expense (shown on page 6, line 10, of Exhibit
4 No. ____ (JHS-5)) above. The basis for the property insurance and property taxes are
5 discussed in Mr. Garratt's testimony, Exhibit No. ____ (RG-1HCT).

6 Natural gas fuel, purchased and interchanged, wheeling, secondary sales and
7 production O&M expenses were included with the power costs presented by Mr.
8 Mills and are shown in Exhibit No. ____ (DEM-4). For presentation purposes, these
9 expenses have been removed from the power cost adjustment and are presented on
10 this adjustment so that all the costs of the Goldendale Generating Station are shown
11 together.

12 **Q. Are the capitalized costs of acquiring the Goldendale Generating Station**
13 **subject to change?**

14 A. The costs of the acquisition are known and the other costs that have been
15 capitalized should be known and trued up during this proceeding. For purposes of
16 the PCA calculation following the implementation of any rate change from this
17 proceeding, it is proposed that there not be any true up on the Goldendale capital
18 costs. If the Commission would like us to true these costs up to actual following
19 the implementation of any rate change, we would follow the same procedures used
20 in prior cases.

1 **Q. What costs does the Company propose that the Commission approve in this**
2 **proceeding with respect to costs of the Goldendale Generating Station?**

3 A. In this proceeding, PSE seeks approval of rates based on the total amount of costs
4 set forth in Exhibit No. ____ (JHS-5), Adjustment 4 and approval of the proposed
5 depreciation rate of 1.39% on the prior owner's original cost for Goldendale.

6 **Q. What is the total cost for the Goldendale Generating Station?**

7 A. The cost, before revenue sensitive items, is \$120,150,075 for the rate year. When
8 this cost is offset by the power cost savings of \$89,762,815 that are realized when
9 the Goldendale Generating Station is added to the Company's portfolio, the final
10 cost is \$30,387,261 for the rate year. As discussed by Mr. Elsea in his prefiled
11 direct testimony in this proceeding, the benefit associated with adding the
12 Goldendale Generating Station to the portfolio is in excess of \$100 million over the
13 remaining life of the project.

14 **V. POWER COST RATE**

15 **Q. Please describe the impact of the pro forma adjustments on the Power Cost**
16 **Rate.**

17 A. Exhibit No. ____ (JHS-6C) shows the impact of the above adjustments on the Power
18 Cost Rate. This exhibit is prepared in the same manner as Exhibit A to the PCA.
19 See Exhibit No. ____ (JHS-4) at page 15. The costs have been allocated in the same

1 manner between fixed and variable costs, and the total costs are adjusted for
2 revenue sensitive items. Following the same methodology set forth in Exhibit A to
3 the PCA, this result is then divided by the test year delivered load to calculate the
4 new Power Cost Rate of \$59.617 per MWh.

5 **Q. Please explain the column labeled “Adjustment to Power Cost Rate” in Exhibit**
6 **No. ____ (JHS-6C).**

7 A. As I explained earlier in my testimony, there is an overstatement of tax benefits
8 associated with the Tenaska regulatory asset in the Company’s 2006 general rate
9 case. This overstatement reduced the revenue requirement associated with
10 amortization for this regulatory asset. The Adjustment to Power Cost Rate column
11 includes the MWh rate impact of the understatement of revenue requirement on the
12 Power Cost Rate that is used for calculating the current revenue deficiency. The
13 Power Cost Rate used for calculating the revenue deficiency is \$62.64 per MWh
14 after revenue sensitive items.

15 For PCA true up purposes, the Power Cost Rate before the Adjustment of Power
16 Cost Rate, \$59.617 per MWh, is the new Power Cost Rate that the Company will
17 use in the PCA settlement process. This rate is used because it tracks the actual
18 power costs being approved in this proceeding and will be tracked in the subsequent
19 PCA period.

20 /////

1 **Q. What happens to the revenues associated with the difference between the two**
2 **Power Cost Rates?**

3 A. These revenues become part of general rates that are not power cost related. This
4 procedure for truing up tax issues associated with power cost items is similar to the
5 procedure used in PSE's 2005 power cost only rate case, Docket UE-050870, where
6 deferred tax expense had been inadvertently included in the calculation of the
7 Power Cost Rate. In that proceeding it was determined that the Power Cost Rate
8 had been understated by approximately \$1.8 million. To correct for this, the lower
9 Power Cost Rate was used to calculate the revenue deficiency and the higher Power
10 Cost Rate, after the removal of the \$1.8 million, was used for PCA settlement
11 purposes. This, in effect, lowered the revenues associated with non power cost
12 recovery by the \$1.8 million.

13 **Q. Has the Company included any interest costs in this PCORC filing for the line**
14 **of credit mechanism the Commission approved in Docket UE-060266 and UG-**
15 **060267?**

16 A. No, we have only included the fixed commitment costs that I explained earlier in
17 my testimony. As discussed by Mr. Gaines in his prefiled direct testimony, the
18 Company is in the process of finalizing the line of credit. Actual costs, including
19 costs associated with draws under the line of credit, will be included in the true up
20 of costs associated with the PCA and PGA mechanism.

1 **Q. Please explain the remaining pages included in Exhibit No. ____ (JHS-6C).**

2 A. The remaining pages of Exhibit No. ____ (JHS-6C) are equivalent to the exhibits A-2
3 through D included in the PCA Settlement and have been updated to reflect the
4 changes in power costs presented by the Company. In the upper left hand corner of
5 each of these pages is the reference to the exhibit being replaced in the PCA.

6 **Q. How will the new Power Cost Rate be implemented, given that the proposed**
7 **rate year does not match the normal PCA period of January through**
8 **December?**

9 A. Each month the Company calculates the potential over or under collection of power
10 costs for the PCA. For the fixed cost component of the PCA, we assume that these
11 costs are collected equally over the twelve month period. Once we have the new
12 rate approved, we will change this part of the calculation to reflect the new monthly
13 fixed costs allowed in the PCA for the remaining months of the PCA period.

14 Because the variable costs are adjusted to actual variable costs, we will treat these
15 costs in the same manner as the current PCA calculation. We will then deduct for
16 any adjustments to these costs required under the PCA mechanism.

17 The total of the above adjustments for an individual month will then be compared to
18 the kWhs for such month times the appropriate Power Cost Rate, and the algebraic
19 sum of these variances for the PCA period will be the amount that will be
20 considered in the sharing mechanism of the PCA.

1 In other words, the algebraic total of each month's variance for the PCA period will
2 determine if there is any refund or collection of power costs required for the PCA
3 period, after consideration of the various PCA bands.

4 VI. RATE INCREASE

5 **Q. Please explain how the Company calculated the rate increase required after**
6 **taking into consideration the pro forma and restating adjustments.**

7 A. As the Company is only requesting that a portion of its rates be adjusted using the
8 power cost only rate filing, we have calculated the required change in rates using
9 the difference between the Power Cost Rate currently being used and the proposed
10 Power Cost Rate after the Adjustment of Power Cost Rate discussed earlier (each
11 grossed up for revenue sensitive items). This calculation is shown in Exhibit
12 No. ____ (JHS-7) and, as shown on line 16, the new rate is \$62.640 per MWh and the
13 current rate is \$59.583. The difference between these two rates is multiplied by the
14 normalized delivered load for the test period. The result of this calculation is the
15 requested change in revenue deficiency of \$64,680,804 after revenue sensitive
16 items. This change in rates results in an average increase of approximately 3.67%.
17 Mr. Hoff discusses how this revenue deficiency is allocated to each of the customer
18 classes in his testimony.

19 ////

20 ////

1 **Q. Is the Company proposing to file for any power cost deferrals with this change**
2 **in revenue requirement?**

3 A. No.

4 **Q. Does this conclude your testimony?**

5 A. Yes, it does.