

**EXHIBIT NO. ___(RCR-4HCT)
DOCKET NO. UE-111048/UG-111049
2011 PSE GENERAL RATE CASE
WITNESS: R. CLAY RIDING**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-111048
Docket No. UG-111049**

**PREFILED REBUTTAL TESTIMONY (HIGHLY CONFIDENTIAL) OF
R. CLAY RIDING
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED
VERSION**

JANUARY 17, 2012

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PUGET SOUND ENERGY, INC.

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
R. CLAY RIDING**

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PUGET SOUND ENERGY, INC.

**PREFILED REBUTTAL TESTIMONY
(HIGHLY CONFIDENTIAL) OF
R. CLAY RIDING**

Q. Are you the same R. Clay Riding who provided prefiled direct testimony in these dockets on behalf of Puget Sound Energy, Inc. ("PSE")?

A. Yes, I filed prefiled direct testimony, Exhibit No. ___(RCR-1T) and two supporting exhibits, Exhibit No. ___(RCR-2) and Exhibit No. ___(RCR-3).

Q. What is the purpose of your prefiled rebuttal testimony?

A. I will respond to the assertions made by Commission Staff witness, Alan P. Buckley, regarding the Company's Cedar Hills gas purchase. I will also respond to ICNU witness Michael Deen's allegations concerning the Company's estimate of higher firm natural gas transportation costs. Finally, I will respond to Commission Staff witness, Roland Martin, regarding the proposed reclassification of Jackson Prairie rental costs. The proposed adjustments impact rate year power costs as presented in the Prefiled Rebuttal Testimony of David E. Mills, Exhibit No. ___(DEM-11CT).

1 I. CEDAR HILLS GAS PURCHASE

2 Q. Staff witness Mr. Buckley asserts that the Cedar Hills gas purchase was
3 “speculative” and purchased solely to “receive benefits from the renewable
4 side of the transaction” and further asserts that “clearly, the gas was not
5 acquired to meet generation needs.”¹ Are such assertions accurate?

6 A. No. The Cedar Hills gas purchase was included in PSE's 2009 general rate case,
7 Docket Nos UE-090704 and UG-090705. As described in my prefiled direct
8 testimony in that case, PSE entered into an arrangement to purchase all of the
9 pipeline quality natural gas supply produced from the landfill-gas recovery
10 project at the Cedar Hills Landfill in King County. The arrangement was the
11 result of a collaborative effort among PSE, Bio Energy Washington (“BEW”) and
12 King County to develop a project that captures the waste gas produced at the
13 Cedar Hills Landfill, processes it to achieve pipeline quality supply, and delivers
14 the gas into Northwest Pipeline GP’s (“NWP”) interstate system.
15
16 The supply arrangement was negotiated for the Power Book for delivery to
17 various PSE power generation facilities via the NWP system. It was believed that
18 such power generated from landfill gas would have potential green benefits,
19 which is why the contract was negotiated as a Power Book resource. At the time
of the purchase, it was not clear PSE could obtain clear title to the renewable

¹ Testimony of Alan P. Buckley, Exhibit No. ___(APB-1CT), page 24, lines 8-12.

1 attributes; therefore, no value was ascribed to the environmental attributes in the
2 acquisition phase. The arrangement was structured to give the Power Book a
3 measure of price diversity, with pricing based on an AECO-related index, a
4 supply basin that the Power Book had been unable to directly access.
5 Furthermore, the transaction was negotiated at a time (mid-2008) of very high gas
6 prices, and although the pricing was based on the AECO index, it included a
7 market-based: (i) floor to give BEW price certainty for project financing; and (ii)
8 ceiling to protect PSE from higher gas prices. While the volume (expected to be
9 between 3,000 and 6,500 MMBtu per day) is modest in terms of the Power Book's
10 total daily demand, the Cedar Hills natural gas was purchased to serve generation
11 demand at a market sensitive price. In sum, PSE entered into the Cedar Hills
12 purchase to meet generation needs and PSE ultimately acquired the renewable
13 attributes of the gas.

14 **Q. Please describe the actions PSE has taken with regard to the renewable**
15 **attributes of the gas.**

16 A. Subsequent to the physical gas purchase transaction, which was executed in
17 October 2008, PSE entered into an arrangement with King County in February
18 2011 that gave PSE all rights to the renewable attributes of the landfill gas. This
19 enabled PSE to begin monetizing such renewable attributes, as discussed in Mr.
20 Mills' Prefiled Direct Testimony, Exhibit No. __ (DEM-1T), beginning on page

1 32. As PSE analyzed the various markets, it became apparent that the renewable
2 value of the landfill gas may be greater in certain markets as a natural gas product
3 than as a generated renewable energy credit (“REC”). Accordingly, subsequent
4 to PSE’s initial filing in this proceeding, PSE has entered into a short-term natural
5 gas transaction to monetize the Cedar Hills landfill gas renewable attributes in
6 2012, and is working on a longer-term deal. In any event, PSE will continually
7 canvas the various opportunities to yield the greatest renewable value for the gas.
8 As circumstances change, PSE will direct the landfill gas to the most valuable
9 market available.

10 **II. FIRM NATURAL GAS TRANSPORTATION COSTS**

11 **Q. Please describe the power cost adjustment proposed by ICNU with respect to**
12 **gas pipeline costs.**

13 A. ICNU proposes to remove rate year forecast cost increases for PSE’s contracted
14 pipeline obligations with Cascade Natural Gas (“Cascade”), Westcoast Energy
15 Inc. (“WEI”) and NWP and reduce power costs \$91,785, \$778,412, and \$691,775,
16 respectively, for a total cost reduction of \$1,561,972.

17 **Q. ICNU witness Mr. Deen states that PSE’s estimates of higher firm**
18 **transportation costs under contracts with Cascade, WEI and NWP are the**

1 result of “speculation by PSE staff and are not known and measurable.”²

2 **Are such assertions accurate?**

3 A. No. As also observed by Mr. Deen, PSE’s estimates are based on “some degree”
4 of informed judgment.³ In contrast to Mr. Deen, I believe estimates such as
5 PSE’s that reflect known contract and/or tariff changes do not present substantial
6 uncertainty and are consistent with the Commission’s ratemaking approach. In
7 PSE's 2009 general rate case, the Commission described the use of a modified
8 historic test year approach for ratemaking in Washington as follows.

9 Thus, in Washington, we use a modified historic test year approach. We
10 start with audited results from a recent 12 month period, but we modify
11 those results to reflect changes that substantial evidence, timely presented,
12 shows have occurred during the pendency of a rate case, or will occur in
13 the rate year that begins at the conclusion of the proceeding. We have
14 found this forward looking approach more appropriate when considering
15 both power costs and production related assets. For example, the
16 AURORA power cost model looks to forecasted power costs in the rate
17 year.⁴

18 As Mr. Deen acknowledges, the Commission further recognized in its final order
19 in PSE's 2009 general rate case that “there are exceptions [to the known and
20 measurable test], such as using the forward costs of gas in power cost

² Responsive Testimony of Michael C. Deen, Exhibit No. ___(MCD-1CT), page 11, lines 5-6.

³ *Id.* page 11 lines 21-22.

⁴ *Washington Utilities and Transportation Commission v. Puget Sound Energy, Inc.*, Order 11 ¶ 23, Docket Nos. UE-090704 and UG-090705 (April 2, 2010) (emphasis added).

1 projections”.⁵ In my opinion, PSE’s informed judgment used to determine the
2 change to firm transportation costs qualifies as an exception as it relates to power
3 costs, which are determined based on the best information available at the time of
4 the power cost forecast.

5 1. Cascade

6 In its direct case, PSE estimated an annual 2.5 percent increase in the cost of
7 Cascade transportation service, consistent with other internal long-term analyses
8 of operating costs. In its rebuttal case, PSE has revised downward its costs for
9 Cascade transportation service for the Whitehorn, Fredonia and Mint Farm plants,
10 to reflect current tariff or contract specific rates, because no rate change is
11 expected during the rate year given that Cascade has not yet applied for a rate
12 change. For the Encogen plant, the contract contains an escalation provision with
13 respect to both the demand and commodity charges, effective in July of each year.
14 PSE has reflected an estimate of the impact of the contractually obligated change
15 for the Encogen plant as warranted under the contract in rate-year power costs.
16 The net effect of these changes is a \$30,735 decrease to power costs.

17 2. Westcoast

⁵ Responsive Testimony of Michael C. Deen, Exhibit No. __ (MCD-1CT), page 11 lines 18-19; citing *Washington Utilities and Transportation Commission v. Puget Sound Energy, Inc.*, Order 11 ¶26, Docket Nos. UE-090704 and UG-090705 (April 2, 2010) (emphasis added).

1 As explained in PSE's Response to ICNU Data Request No. 02.67, provided in
2 Michael Deen's Exhibit No. ___ (MCD-4) pages 4-5, Westcoast's rates are
3 subject to a National Energy Board of Canada ("NEB") approved settlement. As
4 such, it is certain that Westcoast's rates will change on both January 1, 2012 and
5 January 1, 2013, pursuant to a formulaic approach. Due to a delay in certain
6 pipeline integrity related capital additions and higher than expected interruptible
7 revenues recovered in 2011, Westcoast has revised its interim rates downward
8 slightly for 2012. The interim rates, reflecting the best available estimates of
9 2011 year-end accounts, CAD\$478.08 per thousand cubic meters ("10³M³") per
10 month, will remain in effect until WEI's 2011 books are closed and a final
11 calculation can be completed and filed for NEB approval. Typically, "final" rates
12 for the year become effective on March 1, but seldom vary significantly from the
13 interim rate. PSE has reflected WEI's approved 2012 interim rates in its rebuttal
14 rate year power costs and has assumed no change when the 2012 rates become
15 final in March 2012. In addition, because WEI still intends to complete its
16 integrity capital projects in 2012, and because of the reversal of the credit to
17 WEI's cost of service resulting from the over-recovery of 2011 interruptible
18 service in 2012 rates, PSE estimates that the WEI rate will increase by 10%
19 effective January 1, 2013, to CAD\$525.89 per 10³M³ per month. The net effect of
20 these changes is a \$902,477 decrease to power costs.

21 3. NWP

1 Also as explained in PSE’s response to ICNU Data Request No. 02.67, provided
2 in Michael Deen’s Exhibit No. ___(MCD-4) pages 4-5, NWP’s rates are subject
3 to a settlement approved by the Federal Energy Regulatory Commission
4 (“FERC”) and will definitely change effective January 1, 2013. Pursuant to the
5 FERC order in Docket No. RP04-416 approving the settlement, NWP is required
6 to file a Section 4 rate case in sufficient time to have rates go into effect on
7 January 1, 2013. The FERC rate-making procedures allow a pipeline to place
8 proposed rates that have been accepted pending further review into effect, subject
9 to refund, after a five-month suspension period. Therefore, NWP must file its rate
10 case on or before July 1, 2012, (i.e., 30 days for FERC issuance of the initial order
11 plus the five-month suspension period). NWP has disclosed publicly that if it has
12 not reached a settlement with its customers prior to June 29, 2012 regarding rates
13 to become effective January 1, 2013, it will file a Section 4 rate case on that date
14 which proposes rates to be effective January 1, 2013.

15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED] REDACTED [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]

1 [REDACTED]
2 [REDACTED] REDACTED [REDACTED]
3

4 Therefore, as described herein, the PSE estimates of higher firm transportation
5 costs on Cascade, WEI and NWP are not speculative and should be included in
6 this case.

7 **Q. Please summarize PSE's proposed changes to gas pipeline costs in rebuttal.**

8 A. For the reasons discussed above, PSE urges the Commission to reject ICNU's gas
9 pipeline transportation cost adjustments. PSE also requests that the Commission
10 accept PSE's rate year power cost increases for its Cascade, WEI and NWP
11 pipeline contracts as revised by the changes proposed in PSE's rebuttal filing
12 which would reduce the gas pipeline transportation costs in PSE's initial filing by
\$933,212.

13 **III. JACKSON PRAIRIE STORAGE RENTAL COSTS**

14 **Q. Mr. Martin states that the rental of Jackson Prairie storage by the Power**
15 **Book does not vary and thus should be classified as a fixed cost. Is such**
16 **assertion accurate?**

17 A. No. Mr. Martin has failed to consider the specific terms of the arrangement
18 between the two portfolios. As explained in my Prefiled Direct Testimony,
19 Exhibit No. ___(RCR-1T), at page 4 line 15 through page 5 line 11, and as

1 supported by explanation and documents provided in PSE's Response to WUTC
2 Staff Data Request No. 160, the rental cost will be recalculated annually based on
3 the then-current gas market prices and other factors. A copy of PSE's Response
4 to WUTC Staff Data Request No. 160 and Attachment B to PSE's Response are
5 included in Exhibit No. ___(RCR-5). Thus, the cost of access to the storage
6 capacity will vary over time and is properly classified as a variable expense.

7 **Q Please explain the source of the monthly rental cost discussed in your**
8 **testimony and referenced by Mr. Martin and explain why the cost would**
9 **change.**

10 A. PSE has an obligation to its customers to obtain the best value for any temporarily
11 surplus resource, and under the 1996 Merger Order has a requirement to transact
12 between its power resources and gas resources in a market sensitive manner.⁶
13 The cited \$68,900 per month fee, which remains in effect only through March
14 2012, is the product of a calculation performed in early 2011 to reflect the market
15 value of the identified storage resource for a one-year period of the assignment –
16 April 2011 through March 2012. Under the terms of the amendment to the
17 assignment agreement, PSE will determine a new monthly rental amount for the
18 period April 2012 through March 2013 and for the period April 2013 through
19 March 2014, through calculations to be performed, using then-current market

⁶ Docket No. UE-960195, Order 14; Stipulation at p. 14, Feb. 5, 1997.

1 price information during mid-March of each respective year. Higher or lower
2 rental fees could result from the calculations. Through these provisions, both the
3 gas customers and the electric customers are assured that the transaction reflects
4 current market value for the transfer of the resource.

5 **Q How will the revised monthly fees for Jackson Prairie storage be reflected in**
6 **rates for gas and electric customers under your proposal in contrast to Mr.**
7 **Martin's proposal?**

8 A. Under Mr. Martin's proposal - treatment as a fixed power cost - the Jackson
9 Prairie storage rental rate would remain fixed at the current \$68,900 per month
10 cost, despite the fact that, due to the terms of the contract, the rate would change
11 prior to the start of the rate year and again prior to the end of the rate year. Under
12 PSE's proposed treatment as a variable power cost, the actual cost, whether
13 higher or lower will flow through the tracker mechanism to allow an appropriate
14 matching of actual costs for determining electric customer rates, while PGA
15 treatment of the storage rental revenue will allow for appropriate matching of
16 actual benefits for gas customers.

17 **IV. CONCLUSION**

18 **Q Does that conclude your prefiled rebuttal testimony?**

19 A. Yes, it does.