

**EXHIBIT NO. ___(WRG-1T)
DOCKET NOS. UE-111048/UG-111049
2011 PSE GENERAL RATE CASE
WITNESS: WAYNE R. GOULD**

**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
(NONCONFIDENTIAL) OF
WAYNE R. GOULD
ON BEHALF OF PUGET SOUND ENERGY, INC.**

JANUARY 17, 2012

PUGET SOUND ENERGY, INC.

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
WAYNE R. GOULD**

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**
3 **WAYNE R. GOULD**

4 **I. INTRODUCTION**

5 **Q. Please state your name and business address.**

6 A. My name is Wayne R. Gould. My business address is 10885 NE Fourth Street,
7 P.O. Box 97034, Bellevue WA 98009-9734.

8 **Q. By whom are you employed and in what capacity?**

9 A. I am employed by Puget Sound Energy, Inc. ("PSE") as Director, Thermal
10 Generation.

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

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

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

15 A. My testimony responds to the recommendations by Commission Staff and ICNU
16 with respect to proposed changes in power generation operations and maintenance
17 ("O&M") costs.

1 **II. MAINTENANCE OF THERMAL GENERATION ASSETS**

2 **Q. Please explain what type of thermal generation assets and maintenance you**
3 **will be discussing in your testimony.**

4 A. My testimony relates to production O&M costs associated with PSE’s simple cycle
5 and combined cycle combustion turbines (“SCCT” and “CCCT”, respectively, or
6 “thermal generation assets”, collectively), including basic, or core O&M expense
7 and major maintenance costs whether self managed or performed under a long term
8 maintenance agreement. These cost categories will be defined in the body of this
9 testimony.

10 **III. CHANGES IN OPERATIONAL TRENDS**

11 **Q. How has PSE’s reliance on its thermal generation assets changed over the**
12 **recent past?**

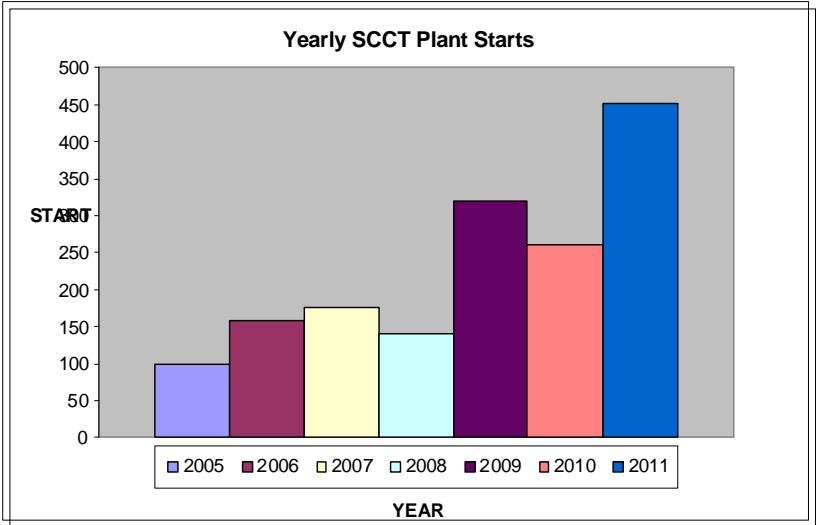
13 A. PSE has historically used its thermal generation assets in a support role to its lower
14 cost hydro resources—making up for variations in hydro flow and market
15 conditions. The support role of the SCCT and CCCT facilities, especially with
16 respect to the SCCT facilities, has also been changing over the past several years.
17 The changes are due to increased constraints on the Columbia River Hydro system
18 operations that mandate tighter management of water flows during spring and
19 summer water runoff months. These increased flow restrictions have added to the
20 number of starts on PSE’s SCCT equipment during these months. The increased
21 number of starts due to Columbia River flow restrictions is particularly evident

1 during years of heavy runoff. In addition to recent changes in hydro regulation, the
2 support role of these units has increased with the integration of wind resources.
3 Wind production is both more variable and the ramping rates are greater than
4 compared to hydro production. With wind production growing as a proportion of
5 the Company's portfolio, this more volatile resource places additional pressure on
6 SCCT units on top of the already existing pressure to backup the hydro production.

7 **Q. How will the above changes in system characteristics affect energy
8 production O&M expenses?**

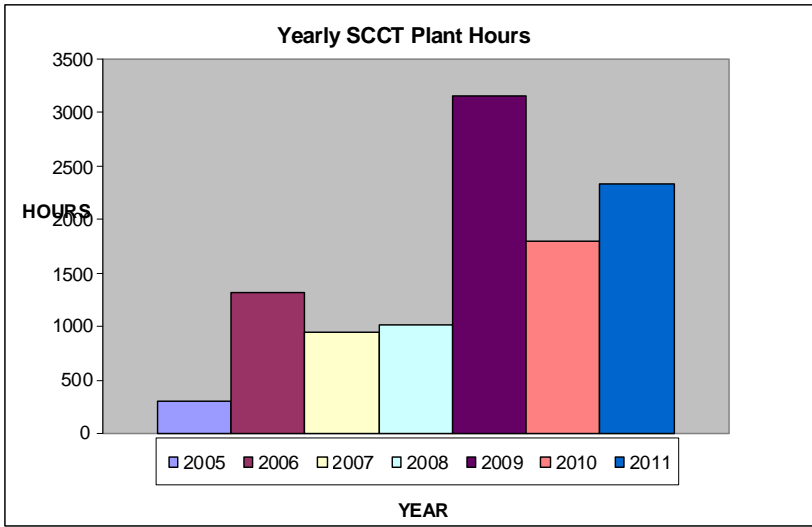
9 A. The change in operational duty has increased the demands on PSE thermal
10 generation assets. In particular, reduced Mid-Columbia ("Mid-C") hydroelectric
11 capacity, high water run-off, and increased firming support for wind are clearly
12 evidenced in the SCCT plant starts in Graph 1 below:

13 **GRAPH 1**



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GRAPH 2

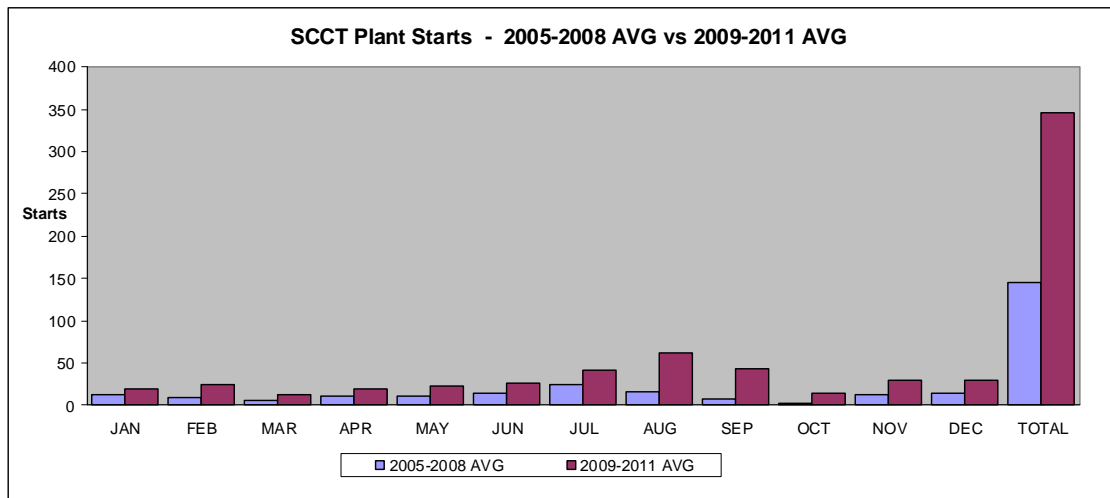


For example, the requirement to provide firming support for our wind assets is contributing to more starts with shorter average run times. In 2008, PSE’s SCCT units had a run time to start ratio of approximately 7 to 1, whereas PSE’s 2011 operations was approximately 5 to 1. This type of dispatch pattern is hard on PSE’s SCCTs and leads to more frequent maintenance events. The frequency of repair and replacement of turbine components is largely driven by the thermal stresses imposed upon these components when the plants are brought up to operating temperature and cooled after use. This change in operations will result in more frequent major maintenance events and increased production O&M expenses.

1 **Q. In light of the above, is it possible to forecast, with accuracy the intervals**
2 **between major maintenance events?**

3 A. Yes, the intervals between major maintenance¹ events can be accurately forecasted,
4 using historical information based on operational trends. As Graphs 1 and 2 above
5 clearly demonstrate, there was a significant change in operational duty that
6 occurred between 2008 and 2009. The Company believes this is a “sea-change”
7 that will continue into the future. For example, the charts below show the average
8 of starts and hours for the period 2005 through 2008 as compared to the average
9 starts and hours for 2009 through 2011:

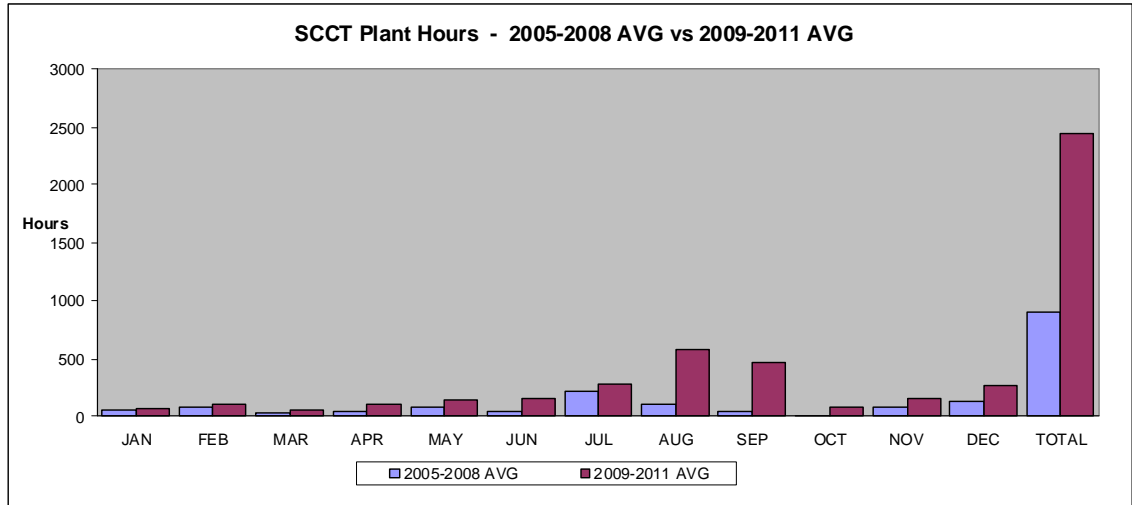
10 **GRAPH 3**



¹ Activities that are considered major maintenance are described in detail later in my testimony.

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GRAPH 4



For purposes of forecasting major maintenance events, the experience of the recent past is the most relevant.

IV. PRODUCTION OPERATION AND MAINTENANCE COSTS

Q. Please provide a brief explanation of the type of costs included in production O&M.

A. PSE performs several levels of maintenance at its gas-fired SCCT and CCCT generation facilities to ensure safe operations, to reduce the probability of premature equipment failure and to prevent costly unplanned maintenance events, also known as “forced’ outages.” PSE is diligent in preventing forced outages on its SCCTs and CCCTs because such unplanned events remove facilities from service when their electrical output is needed and was planned for, and often result in collateral damage that costs more to repair on average than planned maintenance

1 work. For ease of discussion, production O&M expense can be considered to be
 2 composed of: core O&M expense; major maintenance expense, including both
 3 contract and non-contract major maintenance; and other O&M expense. I have
 4 prepared Exhibit No. ___(WRG-3), which groups PSE's, Commission Staff's and
 5 ICNU's proposals by these specific categories, which can be used as a frame of
 6 reference throughout the rest of my testimony. The table below summarizes
 7 Commission Staff's and ICNU's proposals.

8 **TABLE 1**

Production O&M (rounded to nearest \$100,000)	Commission Staff	ICNU
Core O&M		(\$1.4)
Contract Major Maintenance	(\$1.1)	(\$0.6)
Non Contract Major Maintenance	(\$3.5)	(\$5.2)
Other - Discretionary/Other	(\$0.7)	(\$1.3)
Other - Jackson Prairie Storage	(\$0.3)	
Total Proposed Adjustments	(\$5.6)	(\$8.4)

9 **V. CORE PRODUCTION O&M EXPENSE**

10 **Q. What constitutes core O&M expense for the SCCT and CCCT generation**
 11 **facilities?**

12 **A.** Core O&M includes operating expenses and routine minor maintenance expenses,
 13 which is further broken down between preventive maintenance and corrective
 14 maintenance. Each type of expense is described more fully as follows:

15 **Operating expenses:** Operating expenses consist of operating and
 16 supervisory labor, chemicals required for water treatment and emissions

1 control, water, power, utilities and consumables as required for routine
2 operations

3 **Routine minor maintenance expenses:**

4 *Preventive maintenance:* Preventive maintenance is performed on a
5 calendar or running-time basis, and on an equipment condition basis. The
6 goal of this routine minor maintenance is to prevent failure from occurring
7 by performing tasks such as lubrication, calibration, alignment, balancing,
8 adjustments, programmed replacements, vibration analysis, oil sampling,
9 leak detection and current performance monitoring.

10 *Corrective maintenance:* Corrective maintenance includes repairs to
11 equipment and replacement of minor items of property to address equipment
12 wear and minor failures that are expected under normal operation of the
13 facilities.

14 **Q. How does PSE propose to recover core O&M expense in rates?**

15 A. For PSE owned units, test year core O&M is an appropriate estimate of rate year
16 core O&M expense. PSE proposes that for those facilities in which PSE has a
17 partnership interest, that third-party rate year budgets be used, which is the
18 methodology accepted by the Commission in PSE's 2009 general rate case.

19 **Q. Did any party propose a different methodology for recovery of core O&M
20 expense?**

21 A. Only ICNU proposed a different methodology. Mr. Schoenbeck proposed an
22 adjustment using a four-year average of all categories of production O&M expense
23 (including core O&M, contract/non-contract major maintenance, and other O&M)
24 for the years 2007-2010. As the table above shows, ICNU proposes to reduce
25 production O&M costs \$8.4 million, which represents a reduction of \$1.4 million

1 for core O&M, \$0.6 million for contract major maintenance, \$5.2 million for non-
2 contract major maintenance and \$1.3 million for other maintenance.

3 **Q. Does PSE agree with ICNU's proposed adjustment methodology?**

4 **A.** No, PSE takes exception with the use of applying an averaging methodology to core
5 thermal O&M costs.² ICNU noted considerable variance in historical O&M
6 expense as a reason for using historical averages to determine the O&M expense
7 allowed for recovery. As noted above, production O&M expense consists of core
8 O&M, non-contract major maintenance, contract major maintenance expense, and
9 other O&M.

10 Core O&M historically has displayed much less variability than non-contract and
11 contract major maintenance expense, as shown in Exhibit No. ____ (WRG-4). In a
12 time period of changing operational patterns, averaging historical cost has several
13 short comings as a methodology to predict rate year expense. First, costs incurred
14 four and five years ago are much less likely to be representative of conditions and
15 expenses to be incurred during the rate year than the more recent costs incurred
16 during the test year. Conditions such as the mix of SCCT and CCCT facilities
17 within the fleet, fleet operating strategy, plant conditions and regulatory
18 environment have changed over time. Second, the cost of materials and services
19 associated with thermal generation core O&M has tended to increase over the years.
20 Historical averages tend to understate the true levelized cost. Third, averaging

² Later in my testimony I address Mr. Schoenbeck's choice of facilities in his averaging methodology.

1 methodologies may not properly reflect the impact of the “ramp up” costs of new
2 generating plant acquisitions that occurred during the averaging period. These
3 would include understating costs due to delays in fully staffing a new facility or
4 implementing new compliance and maintenance programs. Finally, averaging
5 methodologies do not properly reflect the fact that core O&M costs tend to increase
6 as equipment progresses through their useful lives.

7 For the above reasons, we do not believe that wholesale averaging of core O&M
8 expense is an appropriate methodology for determining rate year core O&M
9 expense. PSE’s proposal to use the test year core O&M expense is the appropriate
10 choice for rate making purposes. ICNU’s adjustment, which would remove \$8.4
11 million, should be rejected for understating the cost and creating a mismatch
12 between today’s operational costs and benefits.

13 **Q. Are you aware of any errors or omissions with respect to the thermal O&M**
14 **cost adjustment proposed by ICNU ?**

15 A. Yes, in addition to the aforementioned deficiencies in the proposed averaging
16 methodology, ICNU has chosen to include only those thermal facilities that
17 experienced high maintenance costs during the test year. Mr. Schoenbeck does not
18 explain why his adjustment excludes Whitehorn, Encogen and Goldendale
19 facilities, but omitting these thermal facilities is inappropriate. Also, while PSE
20 disagrees with ICNU’s use of averaging, its averaging methodology for Sumas is
21 incorrect. Mr. Schoenbeck’s calculation of Sumas’s average O&M expense was
22 based upon a two-year average of 2009 and 2010 O&M expense. PSE purchased

1 Sumas in July 2008 and thus, the facility was owned by PSE for thirty months
2 during the four years used by ICNU for averaging. Mr. Schoenbeck's calculation
3 should therefore be based on two and one-half years of expenses. Correcting the
4 inconsistencies in Mr. Schoenbeck's adjustment to include all gas-fired facilities
5 and to reflect the proper length of PSE ownership of the Sumas facility would
6 reduce rate year production O&M by \$5.6 million rather than the \$7.1 million
7 included in his testimony.³ See Exhibit No. ___(WRG-5). Even with these
8 corrections, Mr. Schoenbeck's adjustment still suffers from the other erroneous
9 assumptions discussed earlier.

10 **Q. Do you have any other issues with Mr. Schoenbeck's testimony related to**
11 **averaging of O&M expense?**

12 A. Yes, I have one additional observation. In Mr. Schoenbeck's introduction to the
13 averaging methodology, he included a table that compared test year and rate year
14 non-contract major maintenance for only four of PSE's seven gas-fired facilities:
15 Frederickson, Fredonia, Mint Farm and Sumas, noting that the rate year budgeted
16 expense was \$8.3 million less than the test year amount. This table demonstrates
17 how selective comparisons of actual and budgeted expense can be misleading. I
18 have compiled a table that compares test year and budgeted rate year production
19 O&M expense in Exhibit No. ___(WRG-6). As you can see in Exhibit
20 No. ___(WRG-6), overall rate year production O&M expense is budgeted to be

³ \$7.1 million refers to only that portion of Mr. Schoenbeck's adjustment relating to core O&M, contract and non-contract major maintenance. The \$1.3 million related to other production O&M expense is addressed later in this testimony. $\$8.4 - \$1.3 \text{ million} = \$7.1 \text{ million}$.

1 \$6.7 million greater than the test year, not \$8.3 million less, as implied by Mr.
2 Schoenbeck. The intent of the test year is to provide an overall picture of rate year
3 revenue requirements, specific comparisons of selected line items therein is clearly
4 misleading. During the budget process, PSE endeavors to avoid large changes in
5 the production O&M budget from year to year. Accordingly, the timing of non-
6 contract major maintenance events have been shifted, to the extent it is felt to be
7 prudent by management, so as to avoid large swings in the overall generation
8 budget from one year to the next. Ultimately, the timing of the major maintenance
9 on the SCCT units is driven by observed condition of the unit components during
10 regular inspections which may or may not align with the timing as budgeted. As an
11 example, the \$7 million major inspection performed on Frederickson Unit #2 in
12 2011 was budgeted for 2012, but was brought forward to 2011 so that PSE could be
13 assured of the reliability of this unit during the winter months of 2011/2012.

14 **Q. Should the Commission adopt ICNU's adjustment to PSE's proposed core**
15 **O&M?**

16 A. No. As noted above, we do not believe the methodology underlying Mr.
17 Schoenbeck's proposed adjustment is appropriate for PSE core maintenance
18 expense and urge the Commission to reject ICNU's \$7.1 million reduction to rate
19 year production O&M expense.

1 **VI. MAJOR MAINTENANCE EXPENSE**

2 **Q. In the previous section you discussed core O&M expense. Please describe the**
3 **activities that are included in major maintenance expense.**

4 A. Major maintenance (contract or non-contract), as the term is used here, relates to
5 inspection and repair or replacement of key components of the combustion turbines
6 and their associated generators, collectively referred to as the Combustion Turbine
7 Generator (“CTG”); and repair or replacement of key components of the steam
8 turbines and their associated generators, collectively referred to as the Steam
9 Turbine Generator (“STG”). In general, CTG major maintenance activities may be
10 classified as combustion inspections, hot gas path inspections and major
11 inspections. These are described more fully below. The STGs as well have
12 different classes of major maintenance activities. The scope of these major
13 maintenance activities and the intervals at which they are performed are specified
14 by the Original Equipment Manufacturers (“OEM”). Major maintenance activities
15 may also be initiated based upon observed condition of equipment components
16 during semi-annual preventive maintenance outages.

17 A CTG’s combustion components (the section of the combustion turbine where fuel
18 is burned) must be inspected and replaced on a regular basis. The period of time
19 between these inspections depends on the number of starts the CTG has
20 experienced and the number of operating hours accumulated by the CTG
21 components. The inspection and repair of a CTG’s combustion components is
22 known as a “combustion inspection”.

1 At intervals specified by the OEM, the inspection is expanded to include both the
2 combustion section, described above, and the turbine section where the hot gas
3 from the combustion components flows to drive the generator. This is referred to as
4 a “hot gas path inspection”.

5 A third type of inspection termed a “major inspection” occurs at roughly twice the
6 accumulated hours as the hot gas path inspections and includes the combustion
7 inspection and hot gas path components as well as an inspection of the compressor
8 section, which compresses the ambient air before it enters the combustion section.
9 Major inspections also normally include an inspection of the turbine’s generator.

10 PSE has entered into contractual agreements with General Electric International to
11 perform major maintenance on the CTG’s at Goldendale, Mint Farm, Frederickson
12 1 Generating Station (“Freddy 1”), and Sumas. Major maintenance performed
13 under these contracts is referred to as “contract major maintenance”. Major
14 maintenance at the SCCT and CCCT generating facilities that is not covered under
15 these contracts is self-managed by PSE and is referred to as “non-contract major
16 maintenance”.

17 **A. Contract Major Maintenance Expense**

18 **Q. How has PSE reflected the costs of contracted major maintenance expense in**
19 **this proceeding?**

20 A. For plants with Long Term Service Agreements (“LTSA”) and Contract
21 Service Agreements (“CSA”), the test year major maintenance amortization

1 reflects amortization of known and measurable major maintenance events.

2 Plants with LTSA and CSA's are Freddy 1, Goldendale, Mint Farm and

3 Sumas. Rate year production O&M costs include \$1.1 million of

4 amortization expense for major maintenance contracts.

5 **Q. Have you reviewed the testimony of Commission Staff regarding the rate**
6 **treatment for major maintenance events under a LTSA or CSA?**

7 A. Yes, I have. Commission Staff cites the Commission determination in PSE's 2009
8 general rate case, Docket UE-090704, to allow for use of the deferral method for
9 major maintenance expenses:

10 All parties advocate that major plant maintenance should be
11 handled using the "deferral method" though it appears the parties
12 may have some different ideas about what this means in practice.
13 While we accept in principle the use of the deferral methodology
14 for major plant maintenance expenses, we have no need to decide
15 its finer points here. This undoubtedly will be brought before the
16 Commission in some future proceeding when such costs are
17 incurred and it will then be ripe for decision.⁴

18 As one of the finer points referred to above, Commission Staff objects to PSE's
19 proposal that the contract major maintenance costs be automatically included as a
20 regulatory asset in rate base in the period that they occur. Instead, Commission
21 Staff suggests that PSE be required to apply to the Commission for the formation of
22 a unique regulatory asset for the costs of each major contracted maintenance event.
23 It appears that Commission Staff witness Roland C. Martin is proposing that, for

⁴ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG-090705, Order 11, ¶163 (April 2, 2010).

1 events occurring between rate cases, PSE would still amortize the deferral, but not
2 be allowed to include the unamortized deferral balance in rate base until the
3 formation of a regulatory asset has been approved.⁵

4 **Q. Do you agree with Commission Staff’s recommendation to require a separate**
5 **accounting petition for each contract major maintenance event?**

6 A. No. In my opinion Commission Staff’s proposal to require PSE to petition the
7 Commission for the creation of a unique regulatory asset is not necessary and
8 would be an inefficient use of both PSE’s and Commission Staff’s time. The
9 requirement to petition the Commission for the formation of a regulatory asset
10 should be more properly reserved for unique and unexpected cost circumstances.
11 Furthermore, an accounting petition has no deadline for review and action and it is
12 likely, based upon recent history, that these items would be reviewed in a general
13 rate case anyway. Separate accounts will be maintained for each event, allowing
14 for review during subsequent general rate cases.

15 **Q. Do you agree with Mr. Martin’s adjustment to pro forma amortization**
16 **expense related to contract major maintenance expense?**

17 A. The Commission should not adopt Commission Staff witness Mr. Martin’s proposal
18 to pro form the contract major maintenance deferrals to rate year amounts while not
19 including an amount for the next scheduled event. In WUTC Staff’s Response to

⁵ Exhibit No. ___(RCM-1T), page 19 starting at line 23

1 PSE Data Request No. 010, Exhibit No. ___(JHS-29), Mr. Martin confirms his
2 understanding that the amortization periods are determined based on the estimated
3 time interval between events. Amortization periods based upon expected timing of
4 the next major maintenance event will result in relatively short amortization periods
5 of two to five years. As such, it is probable that the amortization for one or more of
6 these events will expire during a rate year, unlike most regulatory assets, which
7 tend to have relatively long amortization periods. The expectation under
8 Accounting Standards Codification 980 (“ASC 980”) is that amortization of the
9 next maintenance event will begin at approximately the same time the amortization
10 of the previous event expires. Adjusting the amortization expense of existing major
11 maintenance regulatory assets to rate year levels (which will very likely be \$0 or
12 represent less than a full twelve month’s amortization expense), while not
13 recognizing amortization associated with events that are expected to occur
14 subsequent to the test year, is inconsistent with the intent of ASC 980. This would
15 also make it unlikely that PSE would recover its costs associated with the
16 contracted major maintenance events. PSE requests the Commission reject
17 Commission Staff’s \$1.1 million reduction to rate year production O&M.

1 **B. Non-Contract Major Maintenance Expense**

2 **Q. How is PSE proposing to recover production O&M costs for non-contract**
3 **major maintenance expense for its gas fired turbines?**

4 A. As discussed in the Prefiled Direct Testimony of David E. Mills, Exhibit
5 No. ___(DEM-1CT), PSE considers its test year level of production O&M expense
6 to represent a normal level of operating expenses for its owned gas-fired turbines
7 and the plant operators budget to represent the rate year level of production O&M
8 for its jointly owned gas-fired turbines. For plants without maintenance contracts,
9 the major maintenance costs incurred in the test year represent known and
10 measurable costs which are indicative of a normal level of maintenance expense.
11 Accordingly, PSE's rate year production O&M expense for non-contract major
12 expense is equal to the test year amount of \$8.2 million.

13 **Q. Did ICNU or Commission Staff propose different rate making treatment for**
14 **non-contract major maintenance?**

15 A. Yes, as discussed above, ICNU witness Mr. Schoenbeck's proposed \$8.4 million
16 adjustment to production O&M included a \$5.2 million reduction to non-contract
17 major maintenance in his four-year average of O&M expense. Additionally,
18 Commission Staff witness Mr. Buckley proposed an adjustment to reduce rate year
19 production O&M costs by \$3.5 million to reflect a five-year average of all historical
20 non-contract major maintenance expense.

1 **Q. Do you believe averaging of historical expense to be an acceptable**
2 **methodology for non-contract major maintenance?**

3 A. No, I do not. Averaging of historical non-contract major maintenance expense is
4 subject to the same deficiencies as noted in my testimony on core O&M expense:
5 Costs incurred in 2006 and 2007 are much less likely to be representative of
6 conditions and expenses to be incurred during the rate year than the costs incurred
7 during the 2010 test year, particularly in light of the change in the operating
8 regimen of our CCCT facilities over the last few years as discussed in section III of
9 my testimony. Major maintenance on our CCCT units represents a majority of the
10 non-contract major maintenance performed at PSE. Secondly, the cost of materials
11 and services associated with thermal generation core O&M has tended to increase
12 over the years. Historical averages do not address this cost escalation and tend to
13 understate the true levelized cost. As the intent of this proceeding is to establish a
14 reasonable projected cost of rate year operations, the use of historical costs incurred
15 six or seven years prior to the rate year is unlikely to result in adequate coverage of
16 rate year expenses. To illustrate this point, Table 2, below, shows a comparison of
17 two-year averages of non contract major maintenance for the most recent years of
18 PSE history, 2010 and 2011 versus the first two years included in Mr. Buckley's
19 five-year adjustment calculation; 2006 and 2007.

TABLE 2

Plant	2006	2007	2010	2011
Crystal Mtn. Thermal Plant	242,985	11	0	0
Encogen Thermal Plant	165,984	904,690	412,322	880,289
Freddy 1	0	0		0
Mint Farm Plant	0	0	847,902	0
Goldendale Thermal Plant	0	1,743,467	0	186,089
Frederickson 1&2	4,616	143,097	4,758,902	7,460,410
Fredonia Units 1-4	778	0	1,794,386	0
Sumas Thermal Plant	0	0	345,687	0
Whitehorn Units 2&3	1,557,118	539,873	0	199,043
Total	1,971,482	3,331,138	8,159,198	8,725,832

Average Non-Contract Major Maintenance 2006/2007: 2,651,310
Average Non-Contract Major Maintenance 2010/2011: 8,442,515
Difference: 5,791,205

Q. Are you aware of any errors or omissions with respect to proposed cost adjustments to non-contract major maintenance O&M proposed by Commission Staff?

A. Yes, Mr. Buckley proposed an adjustment based upon an average of non-contract major maintenance expense for the five-years from 2006 through 2010. This adjustment suffers the same deficiencies associated with historical averaging as does the ICNU adjustment. Furthermore, Mr. Buckley’s calculation of the five year average does not take into account the fact that Sumas, Goldendale and Mint Farm were not owned and operated for a full five years. Correcting the calculation to reflect the actual time the aforementioned plants were owned and operated by PSE would reduce Mr. Buckley’s proposed adjustment from \$3.50 million to \$2.97 million. I have included a table describing the correction in Exhibit No. ___(WRG-

1 7). Mr. Buckley's corrected adjustment still suffers from the other problems
2 discussed earlier.

3 **Q Please describe the remaining adjustments to production O&M that PSE has**
4 **made on rebuttal.**

5 A. PSE has included an adjustment to Colstrip production O&M for updates to the
6 third-party rate year budgets from Montana and Western Energy Company. This
7 update is further discussed in Mr. Mills's rebuttal testimony, Exhibit
8 No. ___(DEM-11CT).

9 **VII. "OTHER" PRODUCTION O&M EXPENSE**

10 **Q. What is "other" production O&M expenses?**

11 A. "Other" production O&M expense, also referred to as "undistributed" production
12 O&M expense represents ordinary and necessary expenses that benefit all or part of
13 the generation fleet but cannot be easily identified with a specific facility. Labor
14 and expenses for fleet managers and staff, expenses to develop or administer fleet
15 wide regulatory compliance or maintenance programs would be examples of "other
16 production O&M" expense, as contrasted to chemicals, for example, which can be
17 charged to the plant where it was delivered.

1 **Q. Commission Staff witness Mr. Buckley proposes using 2012 budgeted amounts**
2 **for “other” production O&M expense, noting that the test year amount was**
3 **both significantly greater than the rate year budgeted expense and a**
4 **significant increase over the expenses included in prior rate proceedings. Do**
5 **you agree with Mr. Buckley’s adjustment?**

6 A. No, I do not agree with Commission Staff’s adjustment. PSE provided a revised
7 response to ICNU Data Request No. 05.10 on January 9, 2012 to reflect the final
8 2012 and 2013 budget for other production O&M expense as the original response
9 was incomplete. Please see PSE’s First Revised Response to ICNU Data Request
10 No. 05.10, provided as Exhibit No. ___(WRG-8). As noted in the revised response,
11 budgeted “other” production O&M expense for 2012 and 2013 is \$4.1 million and
12 \$4.5 million, respectively, as compared to an adjusted test year amount of \$4.5
13 million.⁶ Costs in this fleet-wide cost category have tended to increase over time
14 and reflects the acquisition of larger, more complex generating facilities, and the
15 desire by PSE to employ strategic, long term maintenance planning to reduce over
16 all maintenance costs and costs associated with compliance with environmental and
17 reliability regulations as well as hydro licensing requirements.

⁶ Using the revised numbers, Mr. Buckley’s argument to use “lower” 2012 budget amounts no longer applies.

1 **Q. Mr. Buckley has taken exception to the inclusion of \$0.77 million in**
2 **“discretionary benefits” included in test year “other” production O&M**
3 **expense, noting that no such amounts were included in the 2012 and 2013**
4 **budgets. Do you agree with Mr. Buckley’s proposal to adjust “other”**
5 **production O&M to remove “discretionary benefits”?**

6 A. No. Despite the label, the costs are not truly “discretionary”. They represent PTO
7 and incentive costs related to production O&M labor. The actual test year
8 “discretionary” costs are required to true-up the difference between the standard
9 SAP system overhead rates and the actual costs incurred for PTO and incentive
10 costs in production O&M. The reason there is no budget amount shown in the 2012
11 and 2013 budgets is because the budget assumes SAP-applied overheads for PTO
12 and incentive costs, and their distribution, are accurate and therefore require no
13 true-up. Selectively adjusting this isolated part of PSE’s total direct labor and
14 incentive costs is inappropriate because it is part of an overall whole. Additionally,
15 these expenses are adjusted as part of the aggregate wage increase and incentive
16 pay adjustments based on treatments previously approved in prior rate cases. *See*
17 *Prefiled Rebuttal Testimony of Michael J. Stranik, Exhibit No. ___(MJS-10T).*
18 *Therefore, adjusting them here would be duplicative, inappropriate and should be*
19 *rejected.*

1 **Q. Did ICNU witness Mr. Schoenbeck propose an adjustment to “other”**
2 **production O&M expense?**

3 A. Yes, Mr. Schoenbeck proposed a four-year average of production O&M expense,
4 including an adjustment to reduce “other” production O&M expense by \$1.3
5 million.

6 **Q. Do you believe that ICNU’s or Commission Staff’s proposed adjustments are**
7 **appropriate with respect to “other” production O&M expense?**

8 A. No. As noted above, “other” production O&M expense has not demonstrated large
9 swings of increasing and decreasing costs. We continue to assert that the test year
10 “other” production O&M expense is the best historical and measurable indicator of
11 rate year “other” production O&M expense.

12 **Q. Do you propose any adjustment to the test year “other” production O&M**
13 **expense?**

14 A. Yes. PSE has reduced rate year other production O&M costs by \$0.3 million to
15 reflect Commission Staff witness Mr. Martin’s adjustment for Jackson Prairie
16 storage costs as discussed in the Prefiled Rebuttal Testimony of David E. Mills,
17 Exhibit No. ___(DEM-11CT). Mr. Story discusses why Mr. Martin’s arguments
18 for keeping these costs as part of fixed costs are not appropriate.

1 **VIII. CONCLUSION**

2 **Q. Please summarize PSE’s approach to recover production O&M expense.**

3 A. PSE’s approach is a follows:

- 4 • Use third- party rate year budgets for those facilities in which PSE has a
5 partnership interest.
- 6 • Use actual test year core production O&M expense, including “other”
7 production O&M expense, for recovery of core O&M expense for PSE
8 owned units.
- 9 • Use test year actual amortization expense to recover contract major
10 maintenance expense.
- 11 • Use test year actual non-contract major maintenance expense to recover
12 non-contract major maintenance expense.⁷
- 13 • Include known and measurable escalation clauses for wind facilities service
14 and royalty contracts, as discussed by Mr. Mills in his prefiled direct
15 testimony, Exhibit No. ___(DEM-1HCT).

16 **Q. Please summarize the impact of the adjustments to production O&M being**
17 **proposed by PSE in its rebuttal filing.**

18 A. PSE is proposing adjustments to reduce rate year production O&M as shown:

Update Colstrip rate year budget	(\$2.6 million)
Jackson Prairie storage rent	<u>(\$0.3 million)</u>
	(\$2.9 million)

⁷ Please see my Exhibit No. ___(WRG-3) for my Summary of Adjustments and comparison of ICNU and Commission Staff’s proposed adjustments, excluding wind.

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These adjustments are included in Mr. Mills' rebuttal testimony, Exhibit No. ___(DEM-11CT), which is in turn used in developing the rebuttal revenue deficiency in this proceeding.

Any other adjustments to production O&M being proposed by parties should be rejected by the Commission for the reasons stated in my testimony.

Q. Does that conclude your prefiled rebuttal testimony?

A. Yes, it does.