

Exhibit No. ___ (TES-3T)
Docket UE-111048/UG-111049
Witness: Thomas E. Schooley

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, Inc.

Respondent.

DOCKET UE-111048
DOCKET UG-111049

(Consolidated)

CROSS-ANSWERING TESTIMONY OF

Thomas E. Schooley

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Disposition of Federal Incentives for Wind Projects

January 17, 2012

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1 **I. INTRODUCTION AND SCOPE OF TESTIMONY**
2

3 **Q. Please state your name, business address, and position of employment.**

4 A. My name is Thomas E. Schooley. My business address is The Richard Hemstad
5 Building, 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA
6 98504. I am employed by the Washington Utilities and Transportation Commission
7 as the Interim Assistant Director in the Energy Section of the Regulatory Services
8 Division.

9
10 **Q. Are you the same Thomas E. Schooley who submitted response testimony on
11 behalf of Staff on December 7, 2011, in this docket?**

12 A. Yes.

13
14 **Q. What is the purpose of your cross-answering testimony?**

15 A. I respond to Public Counsel’s witness Ms. Andrea Crane concerning the Treasury
16 Grant for the Lower Snake River Wind Project Phase 1 (“LSR Phase 1”).

17
18 **Q. Please explain Ms. Crane’s testimony on the subject of Treasury Grants?**

19 A. At page 35, line 6 of Exhibit No. __ (ACC-1T), Ms. Crane provides her
20 understanding that PSE should file revisions to Schedule 95A within 60 days of
21 receiving Treasury Grant monies for LSR Phase 1. She then recommends that the
22 Company be required in that filing to support its proposed amortization schedule and
23 that the Commission should allow other parties the opportunity to recommend

1 alternative amortization periods and other ratemaking adjustments related to the
2 Treasury Grants.

3
4 **Q. Does Staff disagree with these proposals?**

5 A. Staff does not disagree with her recommendation, but we want to make it clear that,
6 in the context of the Schedule 95A filing, the parties should also have the
7 opportunity to propose alternatives to Schedule 95A itself for treating Treasury Grant
8 monies. Ms. Crane's testimony may not contemplate such an expanded opportunity.

9
10 **Q. How does Schedule 95A currently treat Treasury Grants?**

11 A. Treasury grants are one of the credits passed back to customers through Schedule
12 95A. Once the grant is received, PSE sets up a regulatory liability, which is then
13 amortized to customers in the form of a bill credit. Staff will offer an alternative
14 treatment for the benefit of the customers, as I outline later in this testimony.

15
16 **Q. How does the Treasury Grant differ from production tax credits ("PTC") or
17 renewable energy credits ("REC")?**

18 A. PTCs accumulate with every megawatt-hour of generation by a wind turbine. The
19 tax credit is used to reduce the taxes of the utility, but that only occurs if and when
20 the utility has taxable income.

21 RECs are also created as the facility generates electricity. These have
22 regulatory value to the extent they are used to meet state renewable portfolio
23 standards, or monetary value when they are sold to outside parties. Both PTCs and

1 RECs are related directly to the electricity produced by the wind turbines on a
2 regular basis.

3 In contrast, the Treasury Grant is a lump sum PSE receives upon the
4 completion of construction and when the facility is transferred to plant accounts. It
5 is inherently related to the asset itself and reduces the capitalized cost of the asset by
6 a known, fixed amount. The dollar value of the grant does not vary with the output
7 of the plant.

8
9 **Q. What is Staff's understanding of the status of the Treasury Grant for LSR**
10 **Phase 1?**

11 A. Staff understands that LSR Phase 1 will be in service in February 2012. PSE will
12 then file for the Treasury Grant and, after a period of review by the US Treasury
13 Department, the grant could be received in the Summer 2012. The amount of the
14 grant may be in the range of \$200 million.¹

15
16 **Q. Has there been a recent change in the rules on how state utility commissions**
17 **may treat Treasury Grants for renewable energy production?**

18 A. Staff understands that on December 31, 2011, President Obama signed an
19 amendment to the American Recovery and Reinvestment Act of 2009 allowing state
20 public utility commissions more options for passing the benefits of these Treasury
21 Grants to ratepayers.² The Commission is no longer bound by the previous
22 methodology embedded in Schedule 95A for returning these benefits to ratepayers.

¹ PSE Response to Public Counsel Data Request No. 272.

² The amendment occurred through Section 1096 of the National Defense Authorization Act for Fiscal Year 2012, H.R. 1540, 112th Congress, 1st Session.

1 Therefore, the Commission should consider alternatives to Schedule 95A for
2 returning the benefits of the Treasury Grant to ratepayers, once received by PSE.

3
4 **Q. What alternative ratemaking treatment to Schedule 95A does this change allow
5 the Commission to consider?**

6 A. The Commission is now able to apply the entire amount of the grant as a direct offset
7 to the total investment of LSR Phase 1 that will be included in rate base. Therefore,
8 the first year cost of the project could be reduced by the grant, now estimated at \$200
9 million. Staff's preliminary assessment is that this is preferable to what is prescribed
10 by the current Schedule 95A. Staff will further evaluate this option for Commission
11 consideration in the Schedule 95A filing to come.

12
13 **Q. What does Staff propose the Commission do in this rate case to keep all options,
14 such as rate base reduction, "on the table"?**

15 A. Staff proposes that the Commission, in this docket, order PSE, upon receipt of the
16 grant monies, to defer the Treasury Grant as a regulatory liability with interest
17 accruing at the Company's authorized rate of return. This will allow all possible
18 ratemaking treatments to be available for the treatment of the Treasury Grant.

19
20 **Q. Does this conclude your testimony?**

21 A. Yes.