

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) <u>(1.7)</u>
Contract Major Maintenance	(\$1.1)	(\$0.6) <u>(0.3)</u>
Non Contract Major Maintenance	(\$3.5)	(\$5.2) <u>(5.1)</u>
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 1.7 million

1 for core O&M, ~~\$0.6~~ 0.3 million for contract major maintenance, ~~\$5.2~~ 5.1 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.

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

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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 ~~\$5.66.5~~ 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. $\$8.4 - \$1.3 \text{ million} = \$7.1 \text{ million}$.