BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	
Complainant,	)	Docket No. UE-090704/ UG-090705 (*Consolidated*)
v.	)	
PUGET SOUND ENERGY, INC.	)	
Respondent.	)	

INITIAL BRIEF OF

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

REDACTED VERSION

February 19, 2010

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I. INTRODUCTION

1 The Industrial Customers of Northwest Utilities ("ICNU") submits this Initial Brief in Washington Utilities and Transportation Commission ("WUTC" or the "Commission") Docket Nos. UE-090704 and UG-090705, requesting that the Commission reject Puget Sound Energy's ("PSE" or the "Company") proposed rate increase and order the adjustments to PSE's power supply costs described below. Staff and ICNU (the "Joint Parties") propose a net decrease to the Company's proposed power supply costs of $35.1 million. The evidence in this proceeding establishes that:

- The Company has not corrected a logic error which underestimates its Westcoast Pipeline capacity basis gain by about $4.0 million;
- PSE has hedged its power supply gas requirements in excess of its gas needs, resulting in an unjustified $45 million mark-to-market ("MTM") increase in its modeled power costs; the Joint Parties propose a modest adjustment to the level of the MTM adjustment, which reduces power costs by $18.6 million;
- A value component associated with Jackson Prairie fuel storage should be included in power costs, reducing PSE's power costs by $0.3 million;
- A hydro filtering adjustment should be implemented to further reduce power costs by $5.7 million; and
- The Joint Parties and PSE agree on power cost adjustments which will decrease the Company's power costs by $6.5 million.

2 The table on the following page summarizes the approximate impacts of the Joint Parties recommended adjustments to PSE's power cost projection. PSE's rebuttal filing updated the Company's power costs to incorporate some of the Joint

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Parties recommendations, decreasing the projection by $9.7 million,[1/] while PSE also agreed to a reduction of $0.8 million related to regional load forecasting.[2/] An additional Company adjustment related to Mid-Columbia ("Mid-C") auction results,[3/] which is not opposed by the Joint Parties, increases power costs by $3.5 million. Therefore, the overall net uncontested decrease is $6.5 million, and the remaining contested adjustments total $28.6 million.

<u>Power Supply Costs Adjustments</u>

	Approx. Power Cost Adjustment ($ Million)
Uncontested Adjustments	
Upper/Lower Baker Generation	$1.4
Mid-C Projects Budget	$2.1
Westcoast Capacity Worksheet Correction	$5.7
Regional Load Forecast	$0.8
Mid-C Power Auction	($3.5)
Total Uncontested Adjustments:	**$6.5**
Joint Parties' Adjustments	
Westcoast Capacity Logic Correction	$4.0
Mark-to-Market for Gas Hedges	$18.6
Jackson Prairie Storage Capacity	$0.3
Hydro Filtering	$5.7
Total Joint Parties' Contested Adjustments:	**$28.6**
Total Uncontested & Joint Parties' Contested Adjustments:	**$35.1**

1/ Mills, Exh. No. DEM-12CT at 10:15 – 11:2 (stating adjustment to Upper/Lower Baker Generation as a single year adjustment); <u>cf.</u> Buckley and Schoenbeck, Exh. No. JT-2 (stating the same adjustments in single year and multi-year amounts, the latter of which is supported by the Joint Parties).

2/ Mills, Exh. No. DEM-12CT at 28:4-7 (noting the single-year Joint Parties proposal of $1.1 million); <u>cf.</u> Buckley and Schoenbeck, Exh. No. JT-1CT at 7:17-21 (providing a proposed reduction of $1.1 million when stated as a single-year adjustment, and $0.8 million as a cumulative adjustment).

3/ Mills, Exh. No. DEM-12CT at 14:6 – 15:3.

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3 PSE agreed to make an adjustment related to the regional load forecast used in Aurora as a one-time out-of Aurora adjustment; however, the Joint Parties recommend that the Commission require PSE, in future general and power cost only rate case filings, to calculate the regional load forecast adjustments as part of its AURORA model results.

4 The Commission also should remove from base rates costs that are unrepresentative of future costs. In particular, the $45 million MTM gas cost adjustment should be removed from base rates and included in a tracker, since it reflects an abnormally high level of costs. Similarly, the costs of the Tenaska regulatory asset should be removed from rates and recovered through a tracker, because the regulatory asset may be fully amortized before the completion of PSE's next rate case. As the Joint Parties established in testimony, there is a significant risk that these short-term and extraordinary costs will remain embedded in rates, absent a timely request to remove these costs from rates.[4/] PSE has agreed to the concept of separate recovery of the costs of the Tenaska regulatory asset in a tracker employing a class specific recovery mechanism and a December 31, 2011 sunset.[5/] The Company's rebuttal testimony proposes how to implement such a tracker, which ICNU does not oppose.[6/] PSE opposes a tracker for the gas MTM.

4/ Buckley and Schoenbeck, Exh. No. JT-1CT at 23:9-22, 26:3-12.
5/ Story, Exh. No. JHS-14T at 16:16 – 17:19.
6/ Id.

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5 On a revenue requirement basis, the Joint Parties power cost proposal results in a reduction in revenue requirement of $29,944,194.[7] Regarding the Company's overall revenue request, ICNU supports Staff's proposal that the Commission allow PSE a $10,382,994 million electric revenue rate increase.[8] Finally, ICNU recommends that the Commission approve the Multiparty Settlement regarding Electric Rate Spread and Electric Rate Design, which was filed with the Commission on January 15, 2010.

II. BACKGROUND

6 On May 8, 2009, PSE filed a request for general electric and gas rate increases with the WUTC. The Company originally requested an electric revenue increase of approximately $148.1 million, or 7.4%.[9] On September 28, 2009, PSE filed extensive supplemental testimony updating its case and increasing the proposed electric rate increase to $153.9 million.[10]

7 Staff and intervenors filed testimony on November 17, 2009. ICNU submitted testimony on rate spread and rate design, and the Joint Parties submitted testimony concerning power supply issues.[11] On December 17, 2009, in its Rebuttal Testimony, the Company accepted several power supply adjustments proposed by the Joint Parties, resulting in a net uncontested reduction in power costs of $6.5 million.[12] Additionally, PSE agreed to an overall $40.4 million reduction in its revenue request, lowering the Company's proposed electric rate increase to $113.3 million, an average

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7/ Staff Response to Bench Request ("BR") No. 3 at 2.50, adj. 10.03.
8/ Id. at 2.47:13.
9/ Markell, Exh. No. EMM-1CT at 2:14-15.
10/ Story, Exh. No. JHS-9T at 2:5-7.
11/ Schoenbeck, Exh. No. DWS-5T; Buckley and Schoenbeck, Exh. No. JT-1CT.
12/ Mills, Exh. No. DEM-12CT at 10:15 – 11:2, 14:6 – 15:3, 28:4-5.

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5.66% increase.[13] Taking into account PSE's Rebuttal Case, there are $28.6 million in contested power cost adjustments.

III. ARGUMENT

A. The Joint Parties' Adjustments Are Supported by the Record

8 The Joint Parties have established that a further $28.6 million reduction in power costs is justified by the evidence. In this Initial Brief, ICNU elaborates upon five recommended adjustments. However, the two most significant adjustments relate to hydro filtering and the MTM gas adjustment.

1. The Commission Should Reject PSE's Proposed $45 Million Mark-to-Market Adjustment to the AURORA Results

The evidence in this case establishes an unprecedented increase to the MTM adjustment related to the Company's recent gas hedging activity, indicative of an unprecedented expansion in PSE hedging policy.[14] In short, the Company has procured far more gas for its power supply requirements than is necessary or justifiable and at a much higher cost than current market; thus, a reduction in its MTM cost adjustment is appropriate.

a. A Hedging Cap Will Mitigate the Unreasonable Effect of Excess Hedging

9 PSE's power costs are set using the results of the AURORA production cost model; however, PSE typically makes certain out of AURORA adjustments, through an Excel workbook called "Not in Aurora."[15] One of the "Not in Aurora" adjustments is

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[13] Markell, Exh. No. EMM-5T at 10:19-21.
[14] Buckley and Schoenbeck, Exh. No. JT-1CT at 20:4-9.
[15] Mills, TR. 743:15 – 744:2.

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a MTM of gas purchases to reflect the impact of physical and financial gas hedges implemented by the Company. In six different general or power cost only rate cases spanning the past six years, PSE's average MTM adjustment amount was about $2.15 million.[16] In half of those cases, the adjustment resulted in a reduction to power costs, and in half the power costs increased, but in no case did a single adjustment ever exceed $5.2 million. In this case, PSE proposes an MTM adjustment that increases Aurora generated power costs by $45 million, which is nearly nine times the highest previous MTM adjustment.

10 The Joint Parties have established that the $45 million adjustment is founded on the purchase of gas hedges in excess of the Company's gas for power needs.[17] Specifically, the Company has hedged [redacted] of its gas power supply need as projected by AURORA.[18] In certain months the over-hedging is even higher. The Joint Parties' solution to reducing this excessive hedging activity is simple and reasonable: cap the volume of forward gas purchases for each month at 80% of the AURORA-projected base load need.[19] This recognizes that it is prudent for a utility to acquire a portion (20%) of its gas needs at market prices, while hedging the remainder.

PSE denounces this proposal as "arbitrary."[20] The Joint Parties maintain, however, that this approach is fair and reasonable, which is premised upon the well-established portfolio theory, i.e., that there should be some open market position to

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[16] Buckley and Schoenbeck, Exh. No. JT-1CT at 20:3-5.
[17] Id. at 21:6-11.
[18] Id. at 21:10-11.
[19] Id. at 22:10-14.
[20] Mills, Exh. No. DEM-12CT at 17:9, 17:21.

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account for uncertainty or risk. Indeed, the Company typically leaves a portion of its projected gas need unhedged as a matter of practice, as acknowledged by Company Director of Energy Supply and Planning, Mr. David E. Mills.[21/] The problem, however, lies in the Company's application of this practice in conjunction with hedging activity based on forward gas purchases for wholesale activity not reflected in AURORA—hedging activity which Mr. Mills affirmed on cross-examination.[22/] The unsurprising result of such a combination is over subscription, a thoroughly preventable result for which customers should not be charged. To avoid this ultimate result, the 80% hedging cap reduces the mark-to-market adjustment by $18.6 million, based on the Joint Parties' AURORA calculations.[23/]

b. The Company Has Not Offered a Legitimate Defense Against the Joint Parties Proposal

11 PSE's other objections to the Joint Parties proposal are not persuasive. Principally, the Company argues that it does not use the AURORA model to guide its hedging activity.[24/] This is irrelevant. Regardless of guiding methodology, the Joint Parties proposal concerns the costs and benefits *resulting* from hedging activity, which are appropriately *measured* by reference to the Company's gas needs that are calculated in the AURORA model.[25/] That is, PSE sets rates based on volume need and forward gas

21/ Mills, TR. 758:12 – 759:10; Mills, Exhibit No. DEM-23C.
22/ Mills, TR. 750:22 – 751:1.
23/ Buckley and Schoenbeck, Exh. No. JT-1CT at 23:3-7.
24/ Mills, Exh. No. DEM-12CT at 17:18 – 18:2, 18:7-10.
25/ Buckley and Schoenbeck, Exh. No. JT-1CT at 21:4 – 22:7; cf. Mills, TR. 746:13-16 (acknowledging that AURORA projects the Company's expected generation of gas fired resources).

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prices incorporated within AURORA[26]—so the proper metric to calculate the MTM must also be derived from AURORA.

12 PSE also relies upon AURORA to determine the amount of wholesale sales assumed in rates,[27] despite the fact that actual wholesale sales far exceed the AURORA projections.[28] PSE can't have it both ways; if it uses AURORA to determine wholesale sales, then it should use AURORA to determine its gas needs. On cross-examination, Mr. Mills was directly asked if the Company uses gas hedges to generate power used to make wholesale power sales.[29] In other words, he was asked whether PSE makes forward gas purchases for wholesale sales activity not reflected in AURORA or in rates. Mr. Mills had to admit that the Company engaged in this practice, demonstrating a plain inconsistency between what PSE does in reality against what it models in AURORA.[30] Accordingly, it would be unfair to include gas costs that support wholesale sale in rates, while excluding the benefits of those sales from rates. Public Counsel's witness Scott Norwood criticizes the fact that PSE does not include an appropriate credit for wholesale margins in rates.[31] If the Commission allows the $45 million MTM adjustment proposed by PSE, which included costs that support wholesale sales, then it should allow the wholesale sales adjustment proposed by Public Counsel to account for the margins from wholesales not included in AURORA.[32]

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[26] Mills, TR. 743:5-7, 743:11-14.
[27] Id. at 749:3-7.
[28] Buckley and Schoenbeck, Exh. No. JT-1CT at 21:10-11.
[29] Mills, TR. 750:22-24.
[30] Id. at 750:25 – 751:1.
[31] Norwood, Exh. No. SN-1T HC at 36:16 – 40:4.
[32] Id.

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13 The Company also contends that its hedging strategies have not significantly altered since the last general rate case.[33/] This claim is simply not supported by the evidence, which establishes a large increase in hedging activity relative to the past six relevant proceedings, and a nine-fold increase from the last general rate case.[34/] Indeed, PSE acknowledges that it has "extended the term or tenor of its hedging program,"[35/] including an expansion in 2007 from an eighteen month to three year hedging timeframe.[36/] While there appears to be disagreement over semantics—<u>e.g.</u>, of classifying the Company's recent hedging activity as strategic alteration or extension of "term or tenor"—there can be no question that the change has been marked and extremely significant. Hence, the Company's attempt to downplay the huge increase in its mark-to-market power cost adjustment is unconvincing, in light of empirical evidence.

14 On a related point, PSE makes the unsupported assertion that its new surplus hedging strategy is justified by the alleged results "of an in-depth customer survey."[37/] According to PSE, the majority of its customers prefer more stability and less volatility in energy costs.[38/] Based on this premise, the Company contends that the recent expansion in its hedging strategies is warranted.[39/] As an initial matter, however, there is no evidence to show that the alleged results of the Company's in-depth survey support the scope of its increased hedging activity. Moreover, even assuming that most

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33/ Mills, Exh. No. DEM-12CT at 20:3-4, 6-7.
34/ Buckley and Schoenbeck, Exh. No. JT-1CT at 20:3-9.
35/ Mills, Exh. No. DEM-12CT at 20:9.
36/ Mills, TR. 746:5-7.
37/ Mills, Exh. No. DEM-12CT at 20:11-15.
38/ <u>Id.</u> at 20:15-17.
39/ <u>Id.</u> at 20:17-18.

customers prefer stability to volatility, it is extremely doubtful that a majority of customers also value increased stability *at the expense* of major rate increases arising from hedging excesses. This logic just does not stand up to reasonable consideration.

15 Finally, PSE defends its proposed $45 million MTM adjustment by claiming that customers have generally benefitted from past mark-to-market gas hedges.[40/] This claim does not withstand scrutiny. Mr. Mills testified on rebuttal that an alleged $122.1 million of customer benefit has accrued by means of a $144.7 million benefit in "Long-term Contracts," netted against a $0.5 million "Short-term Contracts" loss, dating back to 2003.[41/] On cross-examination, however, Mr. Mills explained that the term "short-term contract" only means contracts of *three years or less* in duration.[42/] In other words, the "Long-term Contracts" that account for the entire alleged hedging "benefit" do not represent hedging activity at all, since even under the recent expansion in its hedging program, PSE does not hedge beyond a three year timeframe.[43/] "Long-term Contracts" are simply fixed costs associated with generating assets, not hedges.

16 In this light, PSE's rebuttal testimony actually establishes that customers have been harmed by the Company's past hedging strategy. In fact, PSE conceded on cross-examination that if current hedges are considered, PSE's short-term strategy, since 2003, would show a net customer *cost* of nearly $45 million.[44/]

[40/] Id. at 19:4-15.
[41/] Id. at 19:12-13.
[42/] Mills, TR. 754:12-16.
[43/] Id. at 746:5-7.
[44/] Id. at 755:15-18, 755:21 – 756:2.

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17 Similarly, the Company admits that an up-to-date analysis of the rebuttal "hedging" cost/benefit calculations would show "zero" benefit from "long-term" contracts.[45/] That is, even assuming PSE's long-term contracts produced some sort of benefit in the past, they provide none today. The Company acknowledges that there are no "long-term" contracts still in place.[46/]

18 Further, the evidence shows that the purported "benefit" from the Company's long-term contracts has nothing to do with existing hedging strategy. On cross-examination, Mr. Mills agreed that the workpaper used to support the alleged long-term contract benefit included contracts dating back to 1991 and 1993.[47/] Mr. Mills acknowledged that the Company's existing hedging strategy did *not* extend that far back.[48/] In short, there is no relation between PSE's "existing treatment of mark-to-market for gas hedges" and "Long-term Contracts" portrayed as a benefit to customers.[49/] The Company's claim that there *is* a beneficial relationship between MTM hedges and long-term contracts simply does not stand up to the evidence.[50/]

19 Notwithstanding, even ignoring *all* of the aforementioned problems with PSE's hedging "benefit" argument, the Company's fundamental calculation of long-term contract benefits is wildly inaccurate because it omits consideration of the very significant amortization costs associated with the buyout of the gas supplies for the

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45/ Id. at 755:19-20.
46/ Id. at 755:6-9.
47/ Id. at 756:3 – 757:3.
48/ Id. at 758:7-11.
49/ Mills, Exh. No. DEM-12CT at 19:6-13.
50/ Id.

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Tenaska and Encogen plants.[51] When these hedging results are included, the alleged $122.5 million "benefit" is absolutely dwarfed; e.g., the Tenaska buyout alone has cost customers $215 million, as PSE admitted on cross-examination.[52] Likewise, PSE did not calculate the $12 million buyout cost of one of its Encogen contracts.[53] In sum, on review of the Company's *entire* alleged hedging history, the claim that PSE hedging policy is beneficial to customers is not credible.

To summarize, the evidence justifies the Joint Parties proposed reduction to the MTM adjustment. The arguments posed by the Company in defense of its excessive hedging costs are either inaccurate or unpersuasive. Accordingly, the Commission should adopt the mark-to-market adjustment and reduce power costs by $18.6 million.[54] If the Commission adopts the Joint Parties Proposal to reduce the MTM adjustment, the costs of the gas hedges will still be flowed through PSE's power cost adjustment ("PCA") mechanism. Therefore, once the PCA deadband is exceeded, all costs of the gas hedges will be flowed through to customers. However, PSE will bear some of the risks of these hedges through the operation of the deadband.

c. The Mark-to-Market Adjustment Should be Excluded from Baseline Rates

20 The MTM adjustment changes on a daily basis due to changes in gas prices, making it a highly unpredictable cost. As such, it is not known and measurable. In addition, the MTM adjustment in this case is extraordinarily high, when compared to

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[51] Mills, Exh. No. DEM-21.
[52] Story, TR. 586:20-24.
[53] Id. at 586:25 – 587:5.
[54] Buckley and Schoenbeck, Exh. No. JT-1CT at 23:3-7.

past precedent. Under these circumstances, the MTM adjustment should be excluded from base rates entirely. This could be accomplished in two ways. First, the MTM costs could be excluded from base rates and simply flowed through the PCA mechanism. In the alternative, the Joint Parties proposed in testimony that the MTM costs be excluded from base rates and recovered in a separate tariff rider.[55/] The high cost of the MTM adjustment abundantly supports the Joint Parties contention that current MTM costs are not indicative of long-term or normal annual power costs, which would be proper for inclusion within the baseline.[56/] The abnormal level of the adjustment is demonstrated by the fact that the average previous adjustment was $2.15 million, and the maximum prior adjustment was $5.2 million.[57/] Thus, it is fair and reasonable to exclude these extraordinary, short-lived, and non-reoccurring costs from base rates.

21 The Joint Parties recommend that the Commission order that the MTM adjustment be reduced by $18.6 million and that the remainder be recovered on a kilowatt hour ("kWh") basis, with a rider to sunset at the end of the rate year, by April 1, 2011.[58/] In the alternative, the Commission should simply exclude the gas hedging costs from rates and allow them to be flowed through the PCA.

55/ Buckley and Schoenbeck, Exh. No. JT-1CT at 23:9 – 24:9.

56/ Id. at 23:13-15; cf. WUTC v. PacifiCorp, Docket No. UE-061546, Final Order at ¶ 76 (Jan. 5, 2007) (noting that "[b]ase power costs are a statistical estimation of what level of costs is expected under normal conditions").

57/ Buckley and Schoenbeck, Exh. No. JT-1CT at 20:4.

58/ Id. at 24:2-4.

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2. A Hydro Filtering Adjustment Should Be Implemented to Remove the Effect of Extreme Water Years on Power Cost Calculations

22 The Joint Parties propose a $5.7 million water filtering adjustment, pursuant to which water years with Mid-Columbia generation that is more than one standard deviation from normal are excluded from determining normalized power costs.[59/] The Joint Parties water filtering adjustment is well supported by Commission precedent and the weight of the evidence in this case.

a. Hydro Filtering Has Been Approved in Theory and Practice by the Commission

23 As a guiding principle, the Commission has ruled that if a utility "and its customers will share the costs and benefits of unusual power cost extremes, there is *no need* to include those extreme circumstances in the calculation of normalized power costs."[60/]

24 The Joint Parties proposal is simple and is designed for easy implementation at the administrative level. In accord with Commission guidance, the hydro filtering adjustment removes extreme or outlier water years from the calculation of projected rate year power costs, producing a truly normalized range for purposes of baseline calculations.[61/] This hydro filtering proposal is not biased toward either extreme, because wet and dry years are equally filtered through an uncomplicated "one standard deviation filter."[62/] In fact, the whole design of the one standard deviation approach is to

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59/ Id. at 13:1-5.
60/ WUTC v. PacifiCorp, Docket No. UE-061546, Final Order at ¶ 88 (emphasis added).
61/ Buckley and Schoenbeck, Exh. No. JT-1CT at 7:26 – 8:5.
62/ Id. at 11:7 – 12:2.

avoid computational controversy.[63] In sum, the filtering approach allows normal hydro costs to be included in base rates, while costs associated with extreme water years may still be recovered through PSE's PCA mechanism.[64]

25 The Commission has already ruled upon the propriety of hydro filtering within the context of a PCA.[65] Specifically, the Commission found that "water filtering is appropriate in the context of a PCAM, but not appropriate if there is no PCAM in place."[66] Thus, the Commission has approved hydro filtering when some form of PCAM exists.[67] Since PSE has a PCA, there should be no question about the propriety of the Joint Parties' hydro filtering proposal.

b. None of the Company's Objections to Hydro Filtering Have Merit

26 PSE's first objection is that "rate year power costs should be calculated using agreed upon methodologies and regulatory precedents;"[68] however, the Joint Parties proposal fully satisfies this standard. The applicable regulatory precedent is the Commission's finding that "there is no need to include . . . extreme circumstances in the calculation of normalized power costs."[69] Moreover, the Commission just approved a hydro filtering adjustment in the Avista general rate case.[70] This is prime evidence that hydro filtering *is* an agreed upon methodology, with a major utility, the Joint Parties, and

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[63] Id. at 11:19-12:5
[64] Id. at 12:10-12:23
[65] Id. at 10:5-10:22
[66] WUTC v. PacifiCorp, Docket No. UE-061546, Order 8 at ¶ 89.
[67] WUTC v. Avista, Docket No. UE-090134, Final Order at ¶¶ 27, 28 (July 14, 2009).
[68] Mills, Exh. No. DEM-12CT at 33:9.
[69] Buckley and Schoenbeck, Exh. No. JT-1CT at 10:9-11.
[70] WUTC v. Avista, Docket No. UE-090134, Final Order at ¶¶ 27, 28 (Dec. 22, 2009).

Public Counsel all having agreed upon a hydro filtering adjustment.[71/] PSE simply ignores the Commission precedent and broad acceptance of the hydro filtering methodology.

27 The Company's next complaint is equally unfounded: "The proposal of the Joint Parties merely biases projected rate year power costs."[72/] The entire design of the hydro filtering adjustment is to eliminate bias, and this is plain from a cursory review of the Joint Parties' testimony. There is nothing overly technical about the Joint Parties filter, nor is there any hidden effect—it is a simple, one standard deviation filter that applies evenly to all outlying water years at either extreme.[73/] The Joint Parties specifically emphasized, several times, that the filter did not favor or bias either extreme.[74/] As should be apparent, the removal of extreme outlier years from power cost calculations logically *reduces* bias by normalizing the range of water years under consideration.

28 The Company also offers a number of minor and briefly stated critiques against the Joint Parties proposal, none of which are convincing. PSE contends that the Joint Parties erroneously used the entire Mid-C generation for each of the water years, without considering the Company's varying contractual shares of the generation.[75/] PSE's varying generation shares are irrelevant, however, because filtering is carried out

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71/ Buckley and Schoenbeck, Exh. No. JT-1CT at 10:18-22.
72/ Mills, Exh. No. DEM-12CT at 33:15-16.
73/ Buckley and Schoenbeck, Exh. No. JT-1CT at 11:4-11.
74/ Id. at 12:7-14, 12:16-23
75/ Mills, Exh. No. DEM-12CT at 39:20 – 40:1.

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only upon water years, not upon power costs.[76/] Thus, the Company's varying shares of generation will be applied identically, to either range, to later calculate projected power costs. Since the entire Mid-C generation represents the level of water flow occurring for a given year, it is appropriate to use the entire Mid-C generation in excluding extreme outlying water years.

29 PSE also finds fault with the elimination of twenty outlying years from its initial range of 50 water years.[77/] At root, the Company's logic is unsound in this regard. PSE claims "that *at least* fifty years of hydro information should be used when determining power costs."[78/] Again, however, the elimination of extreme outlying years *aids* in the derivation of normalized power costs, in accord with the ultimate logic behind surveying "*at least* fifty years" worth of data in the first place. The end goal is normalization, and the Joint Parties hydro filtering adjustment provides an even more efficient means to this end.

30 Finally, PSE witness Dr. Jeffrey A. Dubin offers a mini-disquisition on the statistical definitions of "outlier" and "extreme."[79/] While ICNU does not question Dr. Dubin's erudition, his testimony misses the point. As the Joint Parties candidly affirm, their "choice of a one standard deviation filter was *not* based on a scientific study of any kind."[80/] What Dr. Dubin fails to recognize is that the inherent uncertainty in determining resultant *power costs* during the more extreme water years, good or bad,

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76/ Buckley and Schoenbeck, Exh. No. JT-1CT at 9:1-4, 10:26 – 11:1.
77/ Dubin, Exh. No. JAD-1T at 3:4-14.
78/ Mills, Exh. No. DEM-12CT at 39:11-12.
79/ Dubin, Exh. No. JAD-1T at 8:13-18.
80/ Buckley and Schoenbeck, Exh. No. JT-1CT at 11:19-20 (emphasis added).

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forms the basis for the Joint Parties filtering recommendation—not an extensive analysis of the historical water year data itself. The very purpose of the hydro filtering adjustment is to direct extreme cost recovery determinations to the PCA in a manner that is not complex and which allows for easy administration.[81/] The one standard deviation filter proposed by the Joint Parties accomplishes this purpose, and considering the fine points of statistical theory is unhelpful and unnecessary.

3. The Commission Should Require a Logic Correction to the Basis Gain Calculation in Westcoast Pipeline Capacity

31 The Joint Parties and PSE disagree over the appropriate amount of further reductions attributable to the basis gain associated with PSE's purchase of Westcoast Pipeline capacity. The Joint Parties maintain that the significant annual fixed cost associated with the Westcoast Pipeline capacity should only be included in rates if it can be offset by annual savings resulting from the acquisition.[82/] To this end, the Joint Parties pointed out a logic error in PSE's basis gain benefit calculation, and proposed a $4.0 million reduction to power costs related to the benefit.[83/] PSE does not oppose a cost reduction based upon the Westcoast capacity benefit, but suggests a lower adjustment of $2.4 million.[84/]

32 The point of contention centers on whether to calculate the benefit of the new pipeline capacity based on broker quotes or historic differentials. The Joint Parties have submitted evidence that establishes a $4.0 million basis gain through calculations

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81/ Id. at 11:20 – 12:5.
82/ Buckley and Schoenbeck, Exh. No. JT-1CT at 15:3-6.
83/ Id. at 19:3-8.
84/ Mills, Exh. No. DEM-12CT at 31:12-14.

relying upon historic trading data.[85] Such data provides the best indicator of the actual benefit associated with the basis differential, as it minimizes the influence of bias attributable to the recent economic downturn.[86]

33 Conversely, PSE offers little support for its reliance upon a limited number of broker quotes to calculate the basis differential attributable to Westcoast capacity, claiming only that no reliable predictive data exists.[87] By obvious implication, however, if the Company cannot obtain any reliable predictive data, a broker quote is unlikely to be founded on any reliable basis either. Thus, PSE's contention against the Joint Parties proposal is primarily founded in the negative—the Company merely makes the unsupported assertion that reliance on recent historic data is "an unprecedented methodology."[88] If anything, however, present costs *are* traditionally set based on historic costs.[89]

34 PSE's further argues that the basis gain benefit of the Westcoast capacity acquisition exceeds the Company's cost.[90] There is nothing problematic about this relationship, because the Company should be seeking to make investments that produce benefits that exceed costs.

35 In sum, PSE has not presented any evidence justifying its broker-based proposal of a $2.4 million reduction. Therefore, the Commission should adopt the Joint

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[85] Buckley and Schoenbeck, Exh. No. JT-1CT at 18:13 – 19:1.
[86] Id. at 18:17-18.
[87] Mills, Exh. No. DEM-12CT at 30:1-5.
[88] Id. at 30:13-15.
[89] E.g., WUTC v. Avista, Docket No. UE-090134, Final Order at 30 n.67.
[90] Mills, Exh. No. DEM-12CT at 31:7-8.

Parties proposal of a $4.0 million adjustment, which is fairly and reasonably based upon historic evidence of the basis differential.

4. Jackson Prairie Storage Capacity Benefits Should Be Reflected in Rates

36 The Company has included [redacted] in costs for the acquisition of Jackson Prairie Storage Capacity[91/] within the Company's power cost projections, but PSE has not included any corresponding benefits. To remedy this discrepancy, the Joint Parties propose a reduction of $0.3 million in the Company's power costs, to account for the seasonal cost benefit associated with Jackson Prairie storage.[92/]

37 The evidence establishes that PSE's own Energy Management Committee ("EMC") considered the benefit associated with Jackson Prairie capacity storage in 2009, when the Company was presented with the acquisition opportunity.[93/] The Joint Parties also submitted a straightforward methodology for calculating the storage benefit—i.e., the difference in market prices between the low and high gas cost months, times the storage volume.[94/]

38 The Company's opposition to the Joint Parties proposal is unconvincing. PSE argues that it acquired Jackson Prairie storage capacity simply for purposes of reliability and renewable resource integration management.[95/] While this position is questionable in light of the aforementioned evidence from the EMC meetings, it is

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91/ Buckley and Schoenbeck, Exh. No. JT-1CT at 24:20-22.

92/ Id. at 25:7-10; Mills, Exh. No. DEM-12CT at 25:10-13 (reciting the proposed reduction as a non-confidential amount).

93/ Buckley and Schoenbeck, Exh. No. JT-1CT at 25:1-6; Exh. No. JT-7C.

94/ Buckley and Schoenbeck, Exh. No. JT-1CT at 25:7-9.

95/ Mills, Exh. No. DEM-12CT at 25:20-21.

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irrelevant, in any event. The *only* issue in this case is whether the Jackson Prairie acquisition has resulted in a storage benefit, whether fortuitously or intentionally. To this end, the Company acknowledges a storage benefit: "having natural gas storage gives the power book the ability, on a real time basis, to withdraw gas from storage to dispatch its generators or inject excess gas into storage."[96] In other words, the Company can and does use Jackson Prairie storage capacity to accrue benefits that offset costs. The obvious metric in which to measure that benefit is to calculate seasonal price differentials, as proposed by the Joint Parties.

5. Long-Term Regional Load Forecast Adjustments Are Appropriate

39 In the September 2009 Supplemental Filing, PSE significantly reduced its forecasted rate year electric loads by 932,382 megawatt hours ("MWhs"), or about 106 average MWs.[97] The company did not, however, implement in the AURORA model any logically correlative regional load reductions based on economic trend data equivalent to that justifying its internal load reduction.[98] Given that PSE suffered load loss due to the severe recession prevailing throughout the region and the effect continues, it is logical that other utilities also suffered comparable load losses.

40 The Joint Parties proposed a simple and conservative solution to this discrepancy, which will reduce the Company's power cost proposal by \$0.8 million.[99] The Company has consented to a one-time reduction in power costs in accord with the

[96] Id. at 25:2-4.
[97] Mills, Exh. No. DEM-9CT at 4:11.
[98] Buckley and Schoenbeck, Exh. No. JT-1CT at 5:10-12.
[99] Id. at 7:14-21.

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Joint Parties' proposal, although it does not commit to future incorporation of regional load forecasts in its AURORA power supply model.[100/]

41 The Joint Parties believe that the Commission should approve the $0.8 power cost reduction adjustment agreed upon by the parties in this case. Additionally, the Joint Parties recommend that the Commission order PSE to address potential regional load forecast reductions as part of the AURORA model in subsequent general and power cost only rate cases. The Company acknowledges the basic merit of these reductions by agreeing to the $0.8 million reduction in the present case and agreeing that "the same economic trend data that reduced PSE's load forecast may have an impact on regional load forecast."[101/]

42 The basic logic for a correlative reduction in regional forecasting is not complex. Plainly, as regional loads are reduced and less efficient plants operate less, regional market prices are reduced.[102/] In turn, such regional price drops result in a net reduction in power supply costs for the Company.[103/] The Company's AURORA power supply model should be adjusted in the future to reflect this dynamic. Indeed, other utilities have incorporated reductions in retail load based upon regional conditions in their

100/ Mills, Exh. No. DEM-12CT at 28:4-7 (noting the single-year Joint Parties proposal of $1.1 million); cf. Buckley and Schoenbeck, Exh. No. JT-1CT at 7:17-21 (providing a proposed reduction of $1.1 million when stated as a single-year adjustment, and $0.8 million as a cumulative adjustment).

101/ Mills, Exh. No. DEM-12CT at 28: 3-4.

102/ Buckley and Schoenbeck, Exh. No. JT-1CT at 5:22-23.

103/ Id. at 6:1-2.

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most recent general rate cases.[104] Again, even PSE acknowledges that the same economic trend data used to reduce its load forecast may have an impact on the regional load forecast.[105]

43 Nevertheless, the Company contends, in principle, that regional load forecast adjustments will not materially affect power costs.[106] The evidence does not support such a contention. The Joint Parties have submitted into evidence a very conservative regional load estimate, only inputting the loads of two large regional utilities into AURORA—Southern California and Pacific Gas & Electric—to derive a forecast of regional impact.[107] Conversely, the Company has admitted to *not* developing a methodology to analyze regional load impact.[108]

44 In choosing between two alternatives, the Commission should adopt the Joint Parties' proposal, and find that a regional load forecast adjustment is or may be material. We simply cannot know with certainty whether regional load costs will be material in the future. That is why PSE should at least be required to consider such adjustments. Thus, ICNU recommends that the Company be directed to include such forecasting in its AURORA modeling in future rate cases.

104/ Id. at 6:21-23; cf. WUTC v. PacifiCorp, Docket No. UE-090205, Direct Testimony of Romita Biswas, Exh. No. RB-1T at 7-14 (Feb. 9, 2009); WUTC v. Avista, Docket No. UE-090134, Final Order at ¶¶ 27, 28.

105/ Mills, Exh. No. DEM-12CT at 28:2-4.

106/ Id. at 26:11-14.

107/ Buckley and Schoenbeck, Exh. No. JT-1CT at 7:13-17.

108/ Mills, Exh. No. DEM-12CT at 27:19 – 28:1.

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B. Tenaska Amortization Costs Should Be Excluded from Baseline Rates and Recovered in a Temporary Tariff Rider

45 The Company's rate year power cost projection includes an annual expense of about $40 million associated with amortization of the Tenaska Regulatory Asset.[109] The Joint Parties request that the WUTC remove these costs from baseline rates because the amortization is scheduled to end in 2011.[110] Unless these costs are recovered in a separate tariff rider, they will be embedded in baseline rates and cause a significant and unnecessary ratepayer burden in 2012, barring an intervening and timely rate filing from the Company. As there can be no guarantee that PSE will remove Tenaska costs from the baseline by 2012, the prudent course is to establish a tariff rider or tracker to recover all remaining amortization costs, with the tracker to sunset on December 31, 2011.

The Joint Parties have proposed a tariff rider with a class specific kWh rate sufficient to recover Tenaska costs for the duration of the amortization period.[111] This is a reasonable solution to avoid undue ratepayer burden for these short-life power costs, and PSE has stated that the tariff rider or tracker concept is acceptable.[112] The Company has explained that a few corrections are needed to complete the Joint Parties proposal, such as accounting for all remaining costs associated with the Tenaska buy

[109] Buckley and Schoenbeck, Exh. No. JT-1CT at 26:22; Story, Exh. No. JHS-32 at 1.
[110] Buckley and Schoenbeck, Exh. No. JT-1CT at 26:6; Story, Exh. No. JHS-32 at 1.
[111] Buckley and Schoenbeck, Exh. No. JT-1CT at 26:17-20.
[112] Story, Exh. No. JHS-14T at 16:16-19; Story, TR. 586:11-19.

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down, and a true up for the tariff rider.[113] The Joint Parties do not oppose the implementation of the Company's proposals.

Therefore, as the Joint Parties and PSE are in apparent agreement, ICNU recommends that the Commission order all remaining Tenaska Amortization costs to be excluded from baseline rates and recoverable in a separate tariff rider incorporating all the elements proposed by the Company and the Joint Parties. PSE witness Mr. John H. Story explained the amounts that would be removed from base rates during his cross-examination.[114]

C. Uncontested Power Cost Adjustments Are Fair, Reasonable and Sufficient

46 The Joint Parties and PSE do not contest a number of power supply cost adjustments, resulting in a net decrease of $5.7 million, which the Commission should determine as just, fair, reasonable and sufficient.[115] These include:

- Correcting a time period error resulting in a $1.4 million over-calculation of Lower and Upper Baker projects' power costs;
- Mid-C project budget updates decreasing power costs by $2.1 million;
- Mid-C power auction results increasing power costs by $3.5 million;
- A worksheet correction to the Company's basis gain calculation of Westcoast Pipeline capacity, decreasing power costs by $5.7 million; and
- A $0.8 million power cost reduction attributed to a regional load adjustment as a one-time adjustment.

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[113] Story, Exh. No. JHS-14T at 16:18 – 17:19.
[114] Story, TR. 589:18 – 592:5.
[115] RCW § 80.28.010(1).

1. Time Period Adjustment in Lower and Upper Baker Project Generation

47 PSE has accepted the Joint Parties recommended corrections to what apparently was an inadvertent error in computing Lower and Upper Baker test period generation.[116/] The Company had used an incorrect time period to determine project generation, and later acknowledged its error in response to an ICNU data request.[117/] Use of the correct time period results in a power cost projection decrease of about $1.4 million.[118/]

2. Updated Budget Adjustments to Mid-C Power Costs

48 The Company's initial "Out-of-AURORA" assumptions for power cost projections associated with Chelan PUD and Grant PUD projects are now obsolete. PSE agrees with the Joint Parties that subsequent project budget updates justify a reduction in power cost projections of: 1) $1.37 million for Chelan PUD projects; and 2) $0.76 million for Grant PUD projects.[119/] In sum, an uncontested Mid-C projection reduction of $2.1 million is appropriate.

3. Mid-C Power Auction Results

49 In Rebuttal Testimony, PSE notes that the results of a power auction conducted by Grant PUD resulted in prices lower than forecasted by the Company.[120/] Consequently, PSE states that Reasonable Portion Revenues were decreased, supporting

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116/ Mills, Exh. No. DEM-12CT at 11:5-15.
117/ Buckley and Schoenbeck, Exh. No. JT-1CT at 4:7-17.
118/ Id. at 4:14-16.
119/ Compare id. at 13:22 – 14:6 (rounding to the second decimal place), with Mills, Exh. No. DEM-12CT at 13:5 – 14:5 (rounding only to the first decimal place, ultimately resulting in a combined $2.2 million estimate which is inflated above the more precise $2.1 million Joint Parties estimate).
120/ Mills, Exh. No. DEM-12CT at 14:12-16.

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an increase of $3.5 million in the Company's power costs.[121] The Joint Parties do not contest such an adjustment, and believe it proper to net the proposed $3.5 million increase against uncontested power supply adjustment decreases.

4. Worksheet Correction to Basis Gain Calculation in Westcoast Pipeline Capacity

In its initial filing, the Company submitted a workpaper spreadsheet which calculated the basis gain associated with Westcoast Pipeline capacity for only one day a month instead of the full month's worth of days.[122] PSE acknowledges that error, and agrees with the Joint Parties that an adjustment should be made for a proper worksheet calculation period.[123] The mutually agreed result of such an adjustment is a power cost reduction of $5.7 million.[124]

5. Regional Load Forecasting Reduction

50 The Company has agreed, as a one-time adjustment, to the Joint Parties proposal of a $0.8 million power cost reduction attributed to a regional load adjustment.[125] The adjustment should be implemented.

D. The Commission Should Reject PSE's Conservation Phase-In Program Because It Violates the Company's Merger Commitment Not to Propose Industrial Decoupling

51 PSE's conservation phase-in adjustment should be rejected because it has the same intent and purpose as a traditional decoupling mechanism. The conservation

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121/ Id. at 14:16-18.

122/ Buckley and Schoenbeck, Exh. No. JT-1CT at 15:20 – 16:2.

123/ Id. at 16:2-5; Mills, Exh. No. DEM-12CT at 16:2-5.

124/ Mills, Exh. No. DEM-12CT at 16:2-5.

125/ Id. at 28:4-7 (noting the single-year Joint Parties proposal of $1.1 million); cf. Buckley and Schoenbeck, Exh. No. JT-1CT at 7:17-21 (providing a proposed reduction of $1.1 million when stated as a single-year adjustment, and $0.8 million as a cumulative adjustment).

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adjustment is designed to allow PSE to recover a portion of the lost margins that it would otherwise allegedly recover if the Company had not implemented conservation programs. Recover of lost margins that result from conservation programs is "decoupling." PSE's new conservation adjustment should be rejected since PSE is barred from proposing any form of decoupling for industrial customers during the two-year period following the recent PSE acquisition. The PSE merger was completed on February 6, 2009, and PSE is barred from proposing electric decoupling for industrial customers until February 7, 2011.

52 The Commission has defined decoupling as "a ratemaking and regulatory tool that breaks the link between a utility's recovery of fixed costs and a customer's energy consumption."[126/] Utilities allegedly have a disincentive to invest in conservation because "as consumption declines so may a company's recovery of that portion of its fixed costs embedded in volumetric rates."[127/] In practice, decoupling allows a utility to recover "part, or even all of its fixed costs regardless of reduced consumption."[128/] Thus, a utility is allowed to recover some or all of the "lost margins" associated "with the impacts of its own programmatic and non-programmatic conservation efforts."[129/]

53 PSE's conservation adjustment is more narrowly tailored than a traditional decoupling proposal, but has a similar practical effect because it allows the Company to recover some lost margins that occur because of expected conservation programs. The

126/ WUTC v. PSE, Docket Nos. UE-060266, Order No. 8 at ¶ 53 (Jan. 5, 2007).
127/ Id. at ¶ 55.
128/ Id. at ¶ 53.
129/ WUTC v. Avista, Docket Nos. UE-090134, Order No. 10 at ¶¶ 290-92 (Dec. 22, 2009); see also WUTC v. PSE, Docket Nos. UE-060266, Order No. 8 at ¶¶ 55-56.

conservation adjustment would reduce the test year loads that are expected to occur because of the implementation of conservation programs.[130] Customer rates are then increased to allow PSE to recover the costs associated with the load that is lost because of the conservation programs.[131] Therefore, PSE will able allowed to recover a portion of its fixed costs despite the fact that its actual loads may be reduced because of conservation.

54 While PSE has characterized the conservation adjustment as an "annualizing adjustment,"[132] the Company has admitted that the actual purpose of the adjustment is to ensure that PSE is able to recover a portion of its "lost margins" associated with its conservation programs.[133] PSE proposed the conservation adjustment to provide the Commission an opportunity to approve a "permanent" mechanism to "promote conservation investment by removing the rapidly growing disincentives to Company-sponsored conservation programs."[134] In allowing PSE to recover lost margins, the conservation adjustment "would go a long way toward removing the financial disincentives to Company-sponsored conservation programs."[135] This is exactly the same purpose for decoupling programs.[136]

55 PSE attempts to distinguish its conservation adjustment from a traditional decoupling adjustment on the grounds that it does not completely break the link between

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130/ Pilaris, Exh. No. JAP-1T at 18:7-17.
131/ Id. at 18:7-17, 22:12 – 24:19.
132/ Id. at 19:18 – 21: 5.
133/ Pilaris, Exh. No. JAP-5T at 17:9-14, 18:13-18; Pilaris, TR. 571:11-18.
134/ Pilaris, Exh. No. JAP-5T at 20:15-18.
135/ Id. at 18:13-15.
136/ WUTC v. Avista, Docket Nos. UE-090134, UG-090135 & UG-060518, Order No. 10 at ¶¶ 290-92; WUTC v. PSE, Docket Nos. UE-060266, Order No. 8 at ¶¶ 53-56.

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the Company's alleged disincentive to invest ratepayer money in conservation programs.[137/] While the conservation adjustment will "go a long way" toward breaking the alleged financial disincentives, "it would not remove them completely."[138/] According to PSE, a decoupling mechanism is not true decoupling if it only removes some of the financial disincentives or only allows the utility to recover part of its lost margins.[139/] The Commission should reject this strained analysis and recognize that partial decoupling is still decoupling.

56 PSE's conservation adjustment is inconsistent with PSE's commitment not to propose any "decoupling for electric industrial customers during the two-year period commencing as of the date of closing of the" recent PSE acquisition.[140/] Merger commitment 63 regarding electrical decoupling states:

> PSE has no current plans to make any proposals regarding decoupling for electric customers in the State of Washington for the two-year period following the date of closing of the Proposed Transaction. The Joint Applicants agree that PSE will not make any proposals regarding decoupling for electric industrial customers during the two-year period commencing as of the date of closing of the Proposed Transaction.

As explained by ICNU Executive Director Michael Early, the commitment regarding decoupling was critical for ICNU's support of the PSE acquisition because:

> While ICNU supports cost effective conservation, we do not support decoupling as a rate recovery mechanism. Commitment 63 clarifies that these commitments on energy efficiency and conservation do not require

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137/ Pilaris, TR. 565:14 – 566:1.
138/ Pilaris, Exh. No. JAP-5T at 18:15-16.
139/ Pilaris, TR. at 565:14 — 566: 1.
140/ Re Puget Holdings and PSE, Docket No. U-072375, Order No. 8 at ¶ 95 and Appendix A to Stipulation, page 13 (Dec. 30, 2008).

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or necessarily lead to a cost recovery or profit stabilization mechanism such as decoupling.[141/]

57 The Commission should not permit PSE to disregard this commitment merely because its decoupling proposal is characterized as a "conservation phase-in adjustment" and does not result in full and complete decoupling. PSE committed as part the merger (and is required by law) to fully invest in all cost effective conservation, and there is no need to remove any financial "disincentives," especially when PSE recently committed that decoupling was not needed for industrial customers for at least a two-year period (until February 7, 2011).

E. The Commission Should Adopt the Multi-Party Settlement Regarding Electric Rate Spread and Rate Design

58 On January 15, 2010, PSE, the Joint Parties, Public Counsel and the Kroger Co. filed a settlement agreement regarding electric rate spread and rate design ("Multi-Party Settlement"). The Multi-Party Settlement is supported across the full range of customer class interests, and provides a fair, just, and reasonable agreement regarding electric rate spread and rate design. Accordingly, the Joint Parties believe the Commission should adopt the Multi-Party Settlement.

V. CONCLUSION

59 ICNU urges the Commission to adopt the following adjustments to PSE's proposed power cost projections, which would result in an approximate power cost reduction of $35.1 million compared to the original case:

141/ Re Puget Holdings and PSE, Docket No. U-072375, Direct Testimony of Michael B. Early, Exhibit No. MBE-1T at 2:23 – 3:3 (July 28, 2008).

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- Correction of a PSE logic error which underestimates the Westcoast Pipeline capacity basis gain by about $4.0 million;

- Application of an 80% hedging cap, to rectify excess hedging of the Company's power supply gas requirements, resulting in an $18.6 million cost reduction, and an order to recover such costs on a kWh basis in a separate tariff rider to sunset by the end of the rate year;

- Implementation of a value component associated with Jackson Prairie capacity storage, reducing PSE's power cost projection by $0.3 million;

- Institution of a hydro filtering adjustment, to exclude the effect of extreme water years on power cost calculations, to further reduce power costs by $5.7 million; and

- All uncontested adjustments agreed to by the Company and the Joint Parties, amounting to a net power cost reduction of $6.5 million.

60 ICNU also urges the Commission, in future general and power cost only rate case filings, to order that the Company calculate regional load forecast adjustments as part of its AURORA model. ICNU requests that the Commission exclude Tenaska Amortization costs from baseline rates, and order PSE to recover such costs on a kWh basis in a separate tariff rider comprising all the provisions agreed upon by the Joint Parties and the Company in testimony. The Commission should also reject PSE's partial decoupling proposal. Finally, ICNU asks that the Commission adopt the Multi-Party Settlement regarding electric rate spread and rate design as a fair agreement supported by the full spectrum of customer class interests.

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Dated in Portland, Oregon, this 19th day of February, 2010.

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