**EXHIBIT NO. ___(JHS-1T)**
**DOCKET NO. UE-12____**
**PCA 10 COMPLIANCE**
**WITNESS: JOHN H. STORY**

**BEFORE THE**
**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| **In the Matter of the Petition of**<br><br>**PUGET SOUND ENERGY, INC.**<br><br>**For Approval of its March 2012 Power Cost Adjustment Mechanism Report** | **Docket No. UE-12____** |

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
**JOHN H. STORY**
**ON BEHALF OF PUGET SOUND ENERGY, INC.**

**MARCH 30, 2012**

**PUGET SOUND ENERGY, INC.**

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
JOHN H. STORY**


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**PUGET SOUND ENERGY, INC.**

**PREFILED DIRECT TESTIMONY OF JOHN H. STORY**

## I. INTRODUCTION

**Q. Please state your name, business address and present position.**

A. My name is John H. Story. My business address is 10885 N.E. Fourth Street, P.O. Box 97034, Bellevue, Washington 98009-9734. I am the Director of Cost and Regulation for Puget Sound Energy, Inc. ("PSE").

**Q. What is your educational and professional experience?**

A. Exhibit No. ___(JHS-2) describes my educational and professional experience.

**Q. What are your duties as Director of Cost and Regulation for PSE?**

A. As Director of Cost and Regulation, I am responsible for the Revenue Requirement department at PSE.

**Q. What is the purpose of this filing?**

A. In accordance with the Commission's Twelfth Supplemental Order in Docket No. UE-011570, PSE must file an annual report detailing the power costs included in its deferral calculation under the Power Cost Adjustment ("PCA") Mechanism. The Settlement Agreement in the Fourth Order in PSE's power cost only rate case, Docket No. UE-050870, incorporated an amendment to the annual reporting period for the PCA Mechanism from a June 30 fiscal year to a calendar year. In compliance with the order approving the settlement in Docket No. UE-050870 and the Sixteenth Supplemental Order in Docket Nos. UE-011570, the annual PCA true-up filings are due by the end of each March for the prior PCA calendar year. Through its Petition, PSE is requesting approval of its PCA Mechanism Report for the Twelve Months Ended December 31, 2011 ("PCA Annual Report"). The PCA Annual Report is provided in this filing as the Second Exhibit to the Prefiled Direct Testimony of John H. Story, Exhibit No. ___(JHS-3).

## II. BACKGROUND REGARDING THE PCA MECHANISM

**Q. Please provide a brief summary of the Power Cost Adjustment Mechanism.**

A. As authorized by the Commission, PSE's PCA Mechanism accounts for differences in PSE's modified actual power costs relative to a power cost baseline. This mechanism accounts for a sharing of costs and benefits that are graduated over four levels of power cost variances. The Settlement Stipulation approved in the Commission's Twelfth Supplemental Order in Docket No. UE-011570 defines the specific sharing levels and conditions. It is attached as Exhibit A to the Petition.

**Q. Please describe the categories of power costs that are included in the PCA Mechanism.**

A. The following fixed and variable power costs are included. These costs are adjusted as described below.

**Fixed Costs:**

For PCA calculation purposes, fixed costs are power production related costs and rate of return. Power production related costs from the most recent general rate case or power cost only rate case are included and do not change from what was approved. These costs include depreciation, property taxes and insurance for production plant, and specifically identified transmission plant. Other fixed costs include FERC Accounts 557 Other production expense, Hydro and Other Production O&M, and 500 KV O&M. Regarding the rate of return, the rate from the most recent general rate case is applied as appropriate in the PCA period.

**Variable Costs:**

PCA variable costs include actual monthly amounts recorded in FERC Accounts 501 – Steam generation fuel, 547 – Other power generation fuel, 555 – Purchased power, 447 – Sales for resale, 565 – Transmission of electricity by others. In addition, variable costs and credits for sales of non-core gas, Transmission Revenue for Colstrip 1-4 lines, Third AC and Northern Intertie, and costs related to the hedging line of credit are included. Allowed regulatory return on and of regulatory assets and liabilities associated with the types of items that have been approved by order to be recovered through the PCA are also included in variable costs. A listing of these regulatory assets and liabilities are included in the workpapers filed in support of the PCA Annual Report, Exhibit No. ___(JHS-3).

**Adjustments to Variable Costs:**

The following are applicable adjustments as determined in Docket No. UE 011570:

1) Prudence disallowance from Docket No. UE-921262, disallowing a portion of the power costs associated with March Point 2 (3%) and Tenaska (1.2%) are shown in Schedule X, "NUG Prudence Adjustments";

2) Colstrip Availability adjustment if the actual availability factor for the four plants at Colstrip falls below a 70% equivalent availability factor. This adjustment would be reflected on PCA Exhibit F, "Colstrip Availability Adjustment"; and

3) New long-term resource pricing adjustment to bring the variable cost of the new resource to the lower of actual unit cost or the average embedded cost. This adjustment is reflected on PCA Exhibit G, "New Resource Adjustment." The specifics behind the calculation of this adjustment are further discussed below.

The following adjustment is also necessary as determined in Docket No. UE-031725:

1) Disallowance of costs associated with the Tenaska Benchmark Disallowance.

Additionally, test year variable costs may be adjusted for items pursuant to the Methodology for Adjustments of Costs Outside of the PCA Period ("true-up methodology"), which is provided as Exhibit No. ___(JHS-4). Discussion of the adjustments applicable to PCA Period 10 that were made under this methodology is included in Section IV, below.

## III. PCA PERIOD 10 ACCOUNTING

**Q. Please explain how PSE has tracked its PCA Period 10 power costs.**

A. There were no significant changes to the PCA Mechanism during 2011. Schedule 133 the Tenaska Regulatory Asset Tracker ("Tenaska Tracker") was included in the baseline power cost rate as approved in Docket No. UE-090704, PSE's 2009 general rate case. Each month PSE calculates the power costs subject to PCA sharing using the same methodology shown in PCA Exhibit B from the original PCA Mechanism filing.[1] Allowed power costs include the fixed and variable costs, net of the adjustments discussed above. These total allowable costs are then compared to the approved baseline power cost rate, multiplied by the actual delivered load, and any difference is allocated to PSE or customers based on the different levels of sharing defined in the PCA Mechanism. Any difference allocated to the customers is recorded in FERC Account 182.3, Other regulatory assets or Account 254, Other regulatory credits depending on whether the accumulated balance is a debit or credit at the end of a PCA period.

Under the PCA Mechanism, the deferred amount at the time of the next PCA annual true-up filing, along with the projected variable and fixed costs through the next proposed rate year could be considered in the determination of any rate change for the subsequent PCA period. Amounts deferred, when authorized, will be amortized to FERC Account 407.3, Regulatory debits or 407.4, Regulatory

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[1] *See* Exhibit A to the Petition.

credits as they are recovered from or refunded to customers. At the time of the filing of this petition such a request is not necessary.

PSE accrues interest monthly on any deferred balance (debit or credit) at the interest rate calculated in accordance with WAC 480-90-233(4).

**Q. Did the baseline power cost rate change during PCA Period 10?**

A. Yes, from January 1, 2011 through March 31, 2011, the baseline power cost rate was $64.387 per Megawatt hour (MWh) which includes Schedule 133, the Tenaska Tracker as established in Docket No. UE-090704, PSE's 2009 general rate case. This baseline power cost rate and supporting schedules are found on pages 11 through 21 of the 2011 PCA Mechanism Annual Report, Exhibit No. ___(JHS-3).

From April 1, 2011 through December 31, 2011, the baseline power cost rate was $64.513 per MWh. The change to the baseline rate was necessary to recognize the rate change to the Tenaska Tracker approved in Docket No. UE-110380. The baseline power cost rate for this period is found on page 23 of Exhibit No. ___(JHS-3).

Historically, recovery of the baseline power cost rate has been included in either general rates or, in the event of implementation of rates from a power cost only rate case, the incremental portion is included in Schedule 95. As a result of PSE's 2009 general rate case, costs associated with the Tenaska Regulatory Asset were set in the Tenaska Tracker, Schedule 133. PSE's 2009 general rate case compliance filing contained a copy of the baseline power cost rate. As noted above, the baseline power cost rates that were in effect during PCA Period 10 are also provided in Exhibit No. ___(JHS-3), showing inclusion of the Tenaska Tracker. Additionally, the costs associated with Tenaska in PCA Period 10 continued to be included in actual variable costs.

**Q. What is the actual average power cost rate experienced for PCA Period 10?**

A. As shown on page 5 (Exhibit A-1 Power Cost Rate Updated) of Exhibit No. ___(JHS-3), the average power cost rate experienced for the twelve month period ended December 31, 2011 is $62.858 per MWh.

**Q. Why did the actual average power cost rate differ from the baseline power cost rates in effect during PCA Period 10?**

A. The actual average power cost rate differed from the baseline power cost rates in effect during PCA Period 10 due to changes in variable components of the PCA Mechanism, which are discussed in the testimony of David Mills, Exhibit No. ___(DEM-1CT).

**Q. How did the actual power costs compare to the average baseline power cost rates in effect during PCA Period 10?**

A. Actual power costs were lower than the average baseline power cost rates in effect during the PCA Period 10 by $34,827,818 (after adjustment for Firm

Wholesale). PSE's share of this over-recovery of power costs is $27,413,909. The customers' share of this iver-recovery of power costs is $7,413,909.

**Q. What is the distribution of the resulting cumulative imbalance for sharing at the end of PCA Period 10?**

A. The activity that occurred in PCA Period 10, along with revisions to the beginning balance made pursuant to the Methodology for Adjustments of Costs Outside of the PCA Period, resulted in a cumulative under-collection of $27,918,875 (from inception of PCA through 12/31/11). PSE's share of this imbalance was $22,446,645, with the remaining $5,472,230 assigned to the customer. *See* Exhibit No. ___(JHS-3), page 4.

**Q. Please explain Exhibit G and its purpose in the PCA Mechanism.**

A. Under the PCA Mechanism, new resources with a term *less* than or equal to two years are included in allowable PCA costs. The prudence of such resources is determined in the Commission's review of the annual PCA true-up. Power costs related to a new electric resource with a term of *greater* than two years are included in allowable PCA costs through a bridge mechanism, known as PCA Exhibit G, "New Resource Adjustment". Exhibit G reduces the variable costs of the new resources to the lower of actual unit cost or the baseline rate until the prudence of such resources can be reviewed and approved in a power cost only or general rate case.

**Q. Were there any PCA Exhibit G adjustments necessary in PCA Period 10?**

A. No, there were no new resources included in PCA Period 10 that required adjustment under Exhibit G. As in prior PCA compliance filings, PSE continues to exclude contracts executed or extended under its Schedule 91 tariff from adjustment under Exhibit G.

## IV. ADJUSTMENT OF COSTS OUTSIDE OF THE PCA PERIOD

**Q. Please describe in more detail the two adjustments made in PCA Period 10.**

A. The following items which occurred in PCA Period 10 required adjustment to prior PCA periods pursuant to the PCA true-up methodology:

**1) <u>BPA Goldendale Settlement Credit:</u>** In March 2009, PSE moved Goldendale from BPA's balancing authrority to PSE's balancing authority. In implementing this change, a metering error occurred that, during times when the plant was generating, BPA incorrectly billed PSE for station service at the same time that it was self supplying station service. The amount of the overlap was based on the real time amount of power generation that was added to PSE's balancing authority and subtracted from BPA's balancing authority and was equal to the gross generation minus the facility station service (approximately 5 MWs per hour). As a result, PSE received a $2.110 million reconciliation payment from BPA to compensate for the station service power amounts that PSE self provided from March 24, 2009 through February 11, 2011. This was recorded as a credit to FERC Account 447 in March 2011, but following the PCA methodology for true-ups greater than $1 million, the entire credit was not included in the calculation of the imbalance for sharing in March 2011. A portion of the reconciliation payment, $2.060 million, related to PCA periods 8 and 9. The monthly 447 amounts for PCA periods 8 and 9 were restated to include the applicable amount of the reconciliation payment. As a result, the previously reported customer net under recovery was decreased by $1,029,615 net of the wholesale adjustment. The amount of the customer deferral was calculated in accordance with the sharing band level PSE was in at each respective time period. The revision of the PCA periods also resulted in a $21,028 decrease in the PCA interest receivable on the customer deferral balance.

**2) <u>GST/HST Tax Refund From Canada:</u>** An audit done by the Canada Revenue Agency in July 2011 indicated that tax paid by PSE to transport natural gas in Canada was refundable during the period of April 2008 through March 2011. In September 2011, PSE received a $6.9 million refund of taxes paid. The transportation costs were incurred both for PSE's core natural gas customers and for natural gas used to run its combustion turbines so the refund was applied to both the gas book and the electric book. The gas book received $5.3 million and the electric book's share of the refund was $1.6 million. The electric refund was recorded as a credit to FERC 547 electric fuel cost orders in September 2011, but following the PCA methodology for true-ups greater than $1 million, the entire credit was not included in the calculation of the imbalance for sharing in September. The portion of the refund related to PCA periods 7 through 9 totaled $1,247,207. The monthly 547 amounts for PCA periods 7 through 9 were restated to include the applicable amount of the refund. As a result, the previously reported customer net under recovery decreased by $563,106 net of the wholesale adjustment. The amount of the customer deferral was calculated in accordance with the sharing band level PSE was in at each respective time period. The revision of the PCA periods also resulted in a $7,982 decrease in the PCA interest receivable on the customer deferral balance.

**Q. Is there an outstanding issue in PCA 10 that will be addressed in PCA 11?**

**A.** **<u>Electric Tariff Schedule 133 Tenaska Regulatory Asset</u>:** On January 30, 2012, PSE filed a proposed tariff rate change under WUTC Docket No. UE-120137 to recover an under collection of $944,644 related to Schedule 133, the Tenaska Tracker. In December 2011, to accrue the future recovery of the under collection, PSE recorded a $944,644 credit to FERC 555 and an offsetting debit to FERC 186. The credit to FERC 555 was included in the calculation of total variable costs in this current PCA 10 period deferral. On February 23, 2012 at the WUTC open meeting, the rate change went into effect on the No Action Agenda. At that time, it was determined that because there is no Commission Order approving a new power cost baseline rate that includes the Schedule 133 revenues from UE-120137, the PCA should not include anything related to that docket in either the power cost baseline rate used or the costs used in the calculation of the PCA deferral. Accordingly, PSE has made a correction in PCA 11 to remove the December 2011 credit to FERC 555 from the total allowable costs used to determine the PCA 11 deferral. As the amount of the correction did not exceed $1 million, PCA 10 was not restated.

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

A. Yes, it does.