Exh. DCG-8
Dockets UE-260005, UG-260006 and UE-260113
Witness: David C. Gomez

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**DOCKETS UE-260005 & UG-260006**
In the Matter of the Petition of **PUGET SOUND ENERGY** **For an Accounting Order Authorizing the Deferred Accounting Treatment for FERC Interest Associated with Mandatory Transmission Network Upgrades**	**DOCKET UE-260113 (Consolidated)**

EXHIBIT TO

TESTIMONY OF

DAVID C. GOMEZ

STAFF OF WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

UE-011570, PSE, Direct Testimony of William A. Gaines WAG-10T, 6-7-2002

July 28, 2026

EXHIBIT NO. _____ (WAG-10T)
DOCKET NO. UE-011570 and UG-011571
WITNESS: WILLIAM A. GAINES

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DIRECT TESTIMONY OF WILLIAM A. GAINES ON BEHALF OF PUGET SOUND ENERGY, INC. REGARDING POWER COST ADJUSTMENT ("PCA") MECHANISM SETTLEMENT

JUNE 7, 2002

PUGET SOUND ENERGY, INC.

DIRECT TESTIMONY OF WILLIAM A. GAINES

POWER COST ADJUSTMENT ("PCA") MECHANISM SETTLEMENT

Q: Please state your name, business address, and position with Puget Sound Energy, Inc.?

A: My name is William A. Gaines. My business address is 411 108th Avenue N.E., Bellevue, Washington 98004. I am Vice President Energy Supply for Puget Sound Energy, Inc. ("PSE", or the "Company").

Q: Have you prepared testimony in this proceeding.?

A: Yes, I have. I filed direct testimony in the General Rate Case, and I also filed testimony in the Interim Proceeding.

Q: Have you prepared an Exhibit describing your education, relevant employment experience, and other professional qualifications?

A: Yes, I have. My qualifications are referenced at Exhibit 152.

Q: Did you participate in the PCA collaborative on behalf of the Company?

A: Yes. I represented the Company in this collaborative, along with Kimberly Harris, George Pohndorf, John Story and Jim Elsea. The parties participating in the PCA collaborative brought an impressive set of skills and talents to the table. Therefore, the Company had several representatives participating in the collaborative to enable the Company to engage in discussions covering a broad range of policy and technical expertise. The consensus proposal that has been brought forward to the Commission reflects the thorough and complete analysis of important policy and technical issues.

Q: What were some of the policy issues considered by the parties in arriving at a settlement?

A: There were a number of policy issues considered by the parties, bearing upon a variety of interests. Speaking for the Company, the PCA settlement reflects a balancing of policy considerations and interests, including the following:

- The need to rebuild and maintain the Company's financial stability through timely recovery of prudently incurred energy supply costs.
- The balance between providing customers with certainty and rate stability, as well as price signals when appropriate.
- The challenge of maintaining a financially healthy utility in the context of volatile wholesale energy supply markets.
- The need for a mechanism that appropriately and equitably shares power cost variances between shareholders and ratepayers.
- The need to position the Company to effectively compete in capital markets.
- The need for a mechanism that provides proper incentives to the Company to manage its resource portfolio in a way that is efficient, cost effective, and makes appropriate use of power cost risk management techniques.

I do not mean to suggest that this list is exhaustive, or that other members of the PCA collaborative would articulate these policy issues in the same way. Certainly, from my perspective, these were important considerations and were the subject of extensive dissuasion over the course of the last six weeks.

Q: Does the proposed settlement appropriately address the technical aspects of a PCA mechanism?

A: The proposed PCA mechanism is the product of collaboration and compromise. Each of the parties brought certain objectives and proposed PCA structures to the process. However, I am confident that, for purposes of settlement and in the spirit of compromise, matters such as the detailed elements of the Company's power costs and proposals for differentiating among these costs, were carefully considered. I am also convinced that accounting issues were duly considered and addressed in this proposal. I believe that the parties arrived at an agreement on a PCA mechanism that will be implemented in a way that implements the parties' intentions.

Q: Will the proposed PCA meet the Company's financial needs?

A: Certainly during the initial four year period, the $40 million cumulative cap on PSE's exposure to excess power costs will assist the Company in achieving its equity rebuilding targets. Beyond that period, I believe that the proposed PCA will provide the Company with a mechanism that gives the Company some level of protection from extreme variances in its energy supply costs.

Q: Does the proposed PCA comport with Commission precedent?

A: Yes, it does. In WUTC v. Avista Corp, Docket Nos. UE-991606 (September 2000) the Commission restated the factors it considers when approving a PCA mechanism. These principles are summarized as follows:

- *Ratepayers should receive the benefit of a cost of capital reduction for a PCA to be approved:* In this case, a cost of capital reduction was agreed to in the March 2002 SETTLEMENT STIPULATION AND APPLICATION FOR COMMISSION APPROVAL OF SETTLEMENT (herein,

the "March Settlement"). The March Settlement calls for a 11% return on equity.

- *A power cost adjustment mechanism should be linked to those factors that are weather related:* Commission precedent has looked to weather related variances as an aspect of the Company's power costs beyond its reasonable control. For example, the Commission made the following policy clarification when it considered the ECAC:

> The purpose of the ECAC is to recognize explicitly in rates the nexus between weather conditions in the Northwest and the cost of operating the existing Puget system. Tying the ECAC to this link between weather changes and operating costs is central for two very important reasons. First, weather patterns are beyond the control of the company, and second, and most significantly, that vast majority of customers can intuitively understand the weather /cost link.

WUTC v. Puget Sound Power & Light, Cause No. U-81-41 (December 1988). The variances addressed by the proposal are weather related.

- *A power cost adjustment mechanism should be a short-run accounting procedure that reflects changes in short-run cost affected by unusual weather.* The proposed PCA accounts for short-term weather or market related cost variances on a monthly basis. These variances (i.e., the deferred balance of power costs, with interest) would be brought forward (as an increase or decrease to general rates through a surcharge or credit) on a periodic basis, to be collected or refunded during the same season in the following year.

Q. **Are there other important aspects of the settlement?**

A. Yes. The parties have recognized the immediate need for PSE to revitalize its resource planning processes and to make decisions about longer term supply resources. Toward that end, the settlement provides for periodic Power Cost Only

Rate Reviews which would be completed on an accelerated timeframe and which would provide for timely inclusion of new resource costs in rates.

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