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5 **PUGET SOUND ENERGY, INC.**  
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7 **Testimony of Lloyd Reed**  
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10 **Q. Please introduce yourself.**

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12 A. My name is Lloyd Reed. My address is 411-108th Avenue NE, Bellevue, Washington. I am in  
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14 Puget Sound Energy's Power Management Department. My work requires that I be familiar with  
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16 electricity commodity markets.

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18 **Q. Please summarize your testimony.**

19 A. I explain how PSE derived the \$0.46 per kVa-month firming charge filed for the November 1998  
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21 to October 1999 time period. I also explain why the proposed charge understates the appropriate  
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23 charge in light of the Commission's recent decision regarding the index to be applied.

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25 **Q. How did PSE calculate the \$0.46 per kVa-month firming charge?**

A. The charge was calculated by averaging three estimates of the market cost of firming (\$0.63 per  
kW-month, \$0.45 per kW-month, and \$0.30 kW-month).

**Q. What was the source of the estimates used in the calculation?**

A. We relied on two sources. We asked the customers to provide us with any information they had  
– including any quotes they had received – regarding the market value of optional firming. We  
received information about a single quote, which I describe in more detail below. We also  
surveyed the market, in an effort to gather objective information about current market pricing for  
firming. We used two techniques, which provided two estimates of the market value of the  
optional firming service.

**Q. Please describe the information provided to you by customers.**

A. PSE was provided with information about a quote that set an optional firming price of \$0.30 per

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kW-month. Although we were not provided with the actual quote, it was explained to us that under the terms of the offer, customers who exercised their rights to take energy under the quoted product agreement would be required to pay a premium price for doing so. According to the information provided to us, the customers would be charged 1.5 times the Mid-Columbia Electricity Price Index for any energy taken under this option. We later learned that the terms were even more onerous than we had first thought. Apparently, the customers would be required to pay the higher of 1.5 times the Mid-Columbia Electricity Price Index or the actual cost to acquire energy – which could be much higher than 1.5 times the Mid-Columbia price. These energy charge adders reduced the firming charge to \$0.30 per kW-month from what would have been a higher charge if the customer had the right to purchase energy at the Mid-Columbia Electricity Index.. Despite this downward bias, we used this quote in the calculation, giving it equal weight to the other market estimates.

**Q. Please describe the estimates generated by PSE’s survey of the market.**

A. PSE used two methods to obtain market estimates. First, we priced a service using a 75 mill threshold as a surrogate for energy unavailability. We included a requirement that if the call were exercised, the energy would be taken for a six-hour period. The average of monthly pricing was \$0.45 per kW-month. Second, we analyzed the cost of purchasing energy at the Dow Jones Mid-Columbia Firm Electricity Index plus an adder to account for the cost of the higher level of firmness provided under Schedule 48 for those customers that elect Optional Firming. We used market data for a hedging strategy that would allow us to cover the Schedule 48 load. The data showed a monthly average price for firming of \$0.63 per kW-month.

**Q. Are there any adjustments that should be made to the \$0.46 per kW-month figure?**

A. In performing the calculation, we did not add 4.25% Utility Tax and WUTC fee, which would

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have resulted in a figure of \$0.48 per kW-month. In addition, the figure should be adjusted from kW-month to kVa-month, which would further increase the charge.

**Q. Under the Commission’s recent ruling, PSE is required to price Schedule 48 energy based on the Mid-Columbia Non-Firm Index, retroactively for the period starting June 1998. Do you have any information about the cost of firming the Non-Firm Index?**

A. Yes. We have obtained a quote for firming the Non-Firm Index. The price quoted is \$3.24 per kW-month. That amount likely understates the actual cost of firming the Non-Firm Index, because it does not raise the level of service to that required under the Optional Firming provisions of Schedule 48.

**Q. Why is that \$3.24 per kW-month figure relevant here?**

A. Schedule 48 was intended to provide customers with access to wholesale market pricing. The cost of firming the Non-Firm Index represents the market price for the difference between the Non-Firm Index prices being paid by customers and the level of service they are receiving if they choose the Optional Firming service. PSE believes that the Commission should take account of that fact when it considers whether PSE’s proposal should be accepted.

**Q. Does this conclude your testimony, Mr. Reed?**

A. Yes.