

EXHIBIT NO. _____ (WAG-37)
DOCKET NO. UE-031725
2003 POWER COST ONLY RATE CASE
WITNESS: WILLIAM A. GAINES

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-031725

**REBUTTAL TESTIMONY OF
WILLIAM A. GAINES
ON BEHALF OF PUGET SOUND ENERGY, INC.**

FEBRUARY 13, 2004

BONNEVILLE POWER ADMINISTRATION

POWER SUBSCRIPTION STRATEGY PROPOSAL

Sept. 18, 1998

BPA intends to assure that the benefits of the Federal Columbia River Power System (FCRPS) are distributed as widely as possible throughout the region. BPA estimates that public agency customers could subscribe up to approximately 5500 aMW of firm power at BPA's lowest cost firm power rate. In addition, IOUs or their successors may subscribe on behalf of residential and small farm customers to the equivalent of 1500 aMW of firm power.

After meeting the power requests of public agency customers and IOUs, DSIs may execute firm power contracts for remaining firm power. BPA expects approximately 1000 aMW of firm power to be available for the DSIs, but the amount will depend on Subscription choices made by public entities and investor-owned utilities. In addition, BPA intends to offer 1000 aMW of interruptible power sales to DSIs. If sales occur at a pace that meets BPA's business interests, all the firm inventory will be sold through Subscription.

A. Serving Public Agency Loads

BPA proposes that public agencies be able to subscribe at the lowest cost-based Priority Firm rate (PF(1)) for all load not currently being served by customers' generating resources as of the release date of the final Subscription strategy. Public agency customers will be able to continue Residential Exchange transactions under section 5(c) of the Northwest Power Act at the Priority Firm Exchange (PF Exchange) rate, subject to in lieu transactions.

B. Serving Residential and Small Farm Customers of the IOUs

Under the Residential Exchange Program established in section 5(c) of the Northwest Power Act, a Pacific Northwest utility (either a public agency or an investor-owned utility) may offer to sell power to BPA at the utility's Average System Cost. BPA purchases such power and, in exchange, sells the same amount of power to the utility at BPA's PF Exchange Rate. The amount of the power exchange equals the utility's residential and small farm load. In practice in the past, no actual power sales have taken place, and BPA has provided monetary benefits to the utility based on the difference between the utility's ASC and the applicable PF rate multiplied by the utility's residential load. These monetary benefits must be passed through directly to the utility's residential consumers. The amount of Residential Exchange benefits depends in large part on the level of the PF Exchange Rate. Generally speaking, the higher the PF Exchange rate, the lower the exchange benefits. If the PF Exchange rate is above market, utilities are unlikely to purchase the power offered by BPA under in-lieu transactions, and residential consumers would receive no benefits from the Residential Exchange Program.

In BPA's upcoming rate case, the current Average System Cost methodology will be used for any Residential Exchange forecasts. Because the Residential Purchase and Sale Agreements (RPSA) that implement the Residential Exchange Program have been terminated or will terminate in 2001, new RPSAs must be negotiated for any utilities choosing to participate in the Residential Exchange Program after 2001. Utilities with negative account balances under the previous RPSAs must pay BPA the full amount of their negative account balances before being eligible to receive any benefits from the Residential Exchange Program after 2001.

BPA is proposing that instead of participating in the Residential Exchange Program, IOUs be able to purchase a specified amount of power under Subscription for their residential and small

farm consumers at the New Resource NR(1) rate, a rate approximately equivalent to the lowest cost PF Preference rate PF(1). Therefore, residential and small farm loads of the IOUs may receive benefits from the federal system through one of two ways. An IOU may participate in the established Residential Exchange Program as described above or it may participate in Subscription, which allows the benefits of the FCRPS to flow more directly to consumers.

In Subscription, BPA proposes that residential and small farm loads of the IOUs be assured access to the equivalent of 1500 aMW of federal power for the 2001–2006 period. At least 1000 aMW of the 1500 aMW will be served with actual BPA power deliveries. The remainder may be provided through either a financial arrangement or additional power deliveries depending on which approach is most cost-effective for BPA. The actual power deliveries for these loads will be in equal hourly amounts over the period.

Expiration of existing long-term extra-regional power sales contracts will make approximately another 1000 aMW available for Subscription after 2006. Subject to meeting its public agency service obligations, this should make it possible to reach the state public utility commissions' goal of 2200 aMW available for IOU residential consumers, absent significant reductions in BPA system capability.

To the extent permitted by law, the state public utility commissions will jointly determine the share of power that goes to the residential and small farm customers of each IOU that chooses to participate in Subscription. The state commissions also will determine how the benefits of the Subscription sales will be passed on to residential and small farm consumers. In addition, the commissions will determine whether utilities with negative account balances under the previous Residential Purchase and Sale Agreements (RPSAs) must pay BPA the full amount of their negative balances before they are eligible to participate in Subscription. The consumer bills of participating IOUs should designate "Benefits of the Federal Columbia River Power System" to describe the amount of benefits each consumer receives. Further, Subscription power (both the physical and financial components) will be transferable to any other eligible entity that serves the residential and small farm load (for example, new public agencies, aggregators, etc.) under the same terms and conditions as the Subscription purchase by the original IOU.

BPA intends to ensure that the benefits of low-cost federal power are widely enjoyed by residential and small farm customers throughout the Pacific Northwest. The region needs to clarify how the benefits of low-cost, in-region, nonfederal resources are preserved to benefit regional residential and small farm ratepayers. An important consideration in BPA's proposal to sell power for service to residential and small farm customers of IOUs is that these sales not displace low-cost nonfederal resources currently serving regional loads and be used to serve loads outside the region.

C. Serving the DSIs

Assuming public agency customers continue to purchase power from BPA at current levels, BPA should be able to serve 2000 aMW of DSI load under this proposal through a combination of 1000 aMW of firm power left after public agency and IOU residential and small farm purchases plus 1000 aMW of interruptible sales. Unlike the amounts for the public agencies and IOU customers, however, the full expected 2000 aMW is not guaranteed to be available to the DSIs.