

**EXH. RJR-14T
DOCKETS UE-190529/UG-190530
UE-190274/UG-190275
2019 PSE GENERAL RATE CASE
WITNESS: RONALD J. ROBERTS**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**Docket UE-190529
Docket UG-190530 (*Consolidated*)**

In the Matter of the Petition of

PUGET SOUND ENERGY

**For an Order Authorizing Deferral
Accounting and Ratemaking Treatment
for Short-life IT/Technology Investment**

**Docket UE-190274
Docket UG-190275 (*Consolidated*)**

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF

RONALD J. ROBERTS

ON BEHALF OF PUGET SOUND ENERGY

JANUARY 15, 2019

PUGET SOUND ENERGY

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
RONALD J. ROBERTS**

CONTENTS

I. INTRODUCTION1

II. THE COMMISSION SHOULD DETERMINE THAT THE DECISION TO INVEST IN SMARTBURN CONTROLS FOR COLSTRIP UNIT 3 WAS PRUDENT2

III. THE COMMISSION SHOULD ALLOW PSE TO CONTINUE TO AMORTIZE MAJOR MAINTENANCE EVENTS FOR COLSTRIP UNITS 3 & 4 IN RATES.....12

IV. THE COMMISSION SHOULD ALLOW PSE TO SHIFT CERTAIN COLSTRIP COMMON COSTS PREVIOUSLY ALLOCATED TO COLSTRIP UNITS 1 & 2 TO COLSTRIP UNITS 3 & 4.....15

V. PSE DID NOT INCLUDE COSTS ASSOCIATED WITH THE NEW COAL SUPPLY AGREEMENT WITH WESTMORELAND ROSEBUD MINING COMPANY BECAUSE THE PREHEARING CONFERENCE ORDER PROHIBITED PSE FROM UPDATING ALL BUT A LIMITED SUBSET OF POWER COSTS IN THIS PROCEEDING.....17

VI. ISSUES REGARDING THE PSE INTEGRATED RESOURCE PLAN TECHNICAL ADVISORY GROUP ARE BEST ADDRESSED IN THE IRP DOCKET21

VII. THE COMMISSION SHOULD ADDRESS ANY ISSUE ASSOCIATED WITH THE 2018 OUTAGES FOR COLSTRIP UNITS 3 & 4 IN DOCKET UE-190882.....21

VIII. UPDATES TO PSE’S PRODUCTION OPERATIONS AND MAINTENANCE COSTS.....23

IX. CONCLUSION.....23

PUGET SOUND ENERGY

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
RONALD J. ROBERTS**

LIST OF EXHIBITS

- Exh. RJR-15HC Coal Supply Agreement with Westmoreland Rosebud
Mining Company
- Exh. RJR-16 Updated Summary of Rate Year Production O&M
Costs

1 **PUGET SOUND ENERGY**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**
3 **RONALD J. ROBERTS**

4 **I. INTRODUCTION**

5 **Q. Are you the same Ronald J. Roberts who submitted prefiled direct testimony**
6 **on June 20, 2019, on behalf of Puget Sound Energy (“PSE”) in this**
7 **proceeding?**

8 A. Yes.

9 **Q. What is the purpose of your rebuttal testimony?**

10 A. This rebuttal testimony rebuts certain issues raised by Commission Staff with
11 respect to the Colstrip Steam Electric Station and PSE’s production operations
12 and maintenance costs and suggests the following:

- 13 (i) The Commission should determine that the decision to
14 invest in SmartBurn controls for Colstrip Unit 3 was
15 prudent.
- 16 (ii) The Commission should allow PSE to continue to amortize
17 major maintenance events for Colstrip Units 3 & 4 in rates.
- 18 (iii) The Commission should allow PSE to shift certain Colstrip
19 common costs previously allocated to Colstrip Units 1 & 2
20 to Colstrip Units 3 & 4.
- 21 (iv) PSE did not include costs associated with the new coal
22 supply agreement with Westmoreland Rosebud Mining
23 Company because the prehearing conference order
24 prohibited PSE from updating all but a limited subset of
25 power costs in this proceeding.

1 (v) The Commission should address issues regarding the PSE
2 Integrated Resource Plan Technical Advisory Group in the
3 relevant Integrated Resource Plan docket.

4 (vi) The Commission should address any issue associated with
5 the 2018 outages for Colstrip Units 3 & 4 in Docket UE-
6 190882.

7 **II. THE COMMISSION SHOULD DETERMINE THAT THE**
8 **DECISION TO INVEST IN SMARTBURN CONTROLS**
9 **FOR COLSTRIP UNIT 3 WAS PRUDENT**

10 **Q. Please describe Commission Staff's proposal regarding the SmartBurn**
11 **investment in Colstrip Unit 3.**

12 A. Commission Staff has proposed that the Commission disallow PSE's test year
13 capital addition for SmartBurn technology:

14 There is no evidence that SmartBurn is required to comply with
15 Federal law regarding NOx levels. There was no documentation
16 provided that supported the investment. Further, the investment is
17 not currently providing any benefit to ratepayers, as NOx levels
18 were decreased by only 0.01 lbs/MMBtu. Therefore, absent
19 evidence of need, the Company's decision making process, or a
20 substantial improvement in NOx levels, I recommend that the
21 Commission reject \$7.2 million of PSE's test year capital addition
22 for SmartBurn.¹

23 **Q. Is Commission Staff correct that the SmartBurn technology is not required**
24 **to comply with Federal law regarding NOx levels?**

25 A. Commission Staff is technically correct that Federal law does not require
26 SmartBurn technology to comply with NOx levels. That said, the Colstrip owners,
27 in and around 2012-13, decided to install SmartBurn controls in response to

¹ Gomez, Exh. DCG-1CT, at 19:20 – 20:4.

1 (i) orders requiring selective catalytic reduction emission controls in in many
2 surrounding states and (ii) litigation against the owners of Colstrip units that
3 demanded selective catalytic reduction for alleged “New Source Review”
4 violations. At the time of the decision, the Colstrip owners anticipated that all four
5 Colstrip units would continue to serve PSE’s load for at least the next two
6 decades.

7 Based on these orders and the then-ongoing litigation, the Colstrip owners
8 believed that they would need to achieve NOx reductions at the Colstrip units.
9 They decided to proceed with SmartBurn controls, which were the last available,
10 low cost, NOx pollution prevention emission control (and were far less expensive
11 than the installation of costly selective catalytic reduction emission).

12 **Q. Did the owners of Colstrip expect SmartBurn controls to satisfy all future**
13 **NOx emission reductions at the Colstrip units?**

14 A. No. At the time the Colstrip owners made the decision to install the SmartBurn
15 controls, they believed that the installation of such technology would be the first
16 in a multistep process to address NOx emissions at the Colstrip units.

17 The owners of Colstrip units reviewed a wide variety of NOx control solutions
18 over the years, including selective non-catalytic reduction, selective catalytic
19 reduction, SmartBurn controls, and others. SmartBurn controls reduce a
20 significant amount of the target NOx reduction for a significantly lower cost than
21 a full control modification approach.

1 At the time, the Colstrip owners believed that achieving NOx emissions through
2 an approach of gradualism was better for customers than immediately employing
3 more effective—and more costly—technologies, such as selective catalytic
4 reduction emissions. The early installation of SmartBurn controls also provides
5 several years of operational boiler data that would allow for the design and
6 eventual installation of the appropriately sized selective catalytic reduction or
7 other control technology, once deemed appropriate.

8 SmartBurn controls also provide an additional tool to maintain NOx emissions
9 within the current operating requirements, as the plant ramps more frequently to
10 support an increasing amount of variable generation in the region. In short, the
11 use of SmartBurn controls was determined to be the first step in an integral part of
12 any projected future NOx control technology for the Colstrip units.

13 Finally, the operational effectiveness of SmartBurn controls may have allowed for
14 a different and more cost-effective technology to be installed in place of selective
15 catalytic reduction, because a lower amount of NOx is being produced by the
16 plant. SmartBurn controls do not otherwise improve reliability or extend the life
17 of the plant, so it has no bearing on the useful life of the plant or the Colstrip
18 owner's decision to operate the plant. SmartBurn controls provide immediate
19 environmental benefits through NOx reduction now and helps mitigate the cost of
20 later selective catalytic reduction additions.

1 **Q. At the time the Colstrip owners decided to install SmartBurn technology on**
2 **the units of the Colstrip Steam Electric Station, was it reasonable to**
3 **anticipate that future additional NOx reductions would be required for those**
4 **units?**

5 A. Yes. It was reasonable for the Colstrip owners to anticipate that future additional
6 NOx reductions would be required for the units of the Colstrip Steam Electric
7 Station. At the time of the decision, the Colstrip owners anticipated a need to
8 install selective catalytic reduction technology at the Colstrip units to meet the
9 need for future additional NOx reductions. The expectation of the Colstrip owners
10 was based upon the Federal Implementation Plan for the State of Montana,
11 finalized on September 18, 2012,² and the expectation of a Reasonable Progress
12 Report in September 2017.³

13 **Q. Is Commission Staff correct that the SmartBurn technology is “not currently**
14 **providing any benefit to ratepayers”?**

15 A. No. It is not true that the SmartBurn technology is not currently providing any
16 benefit to PSE’s customers, as suggested by Commission Staff. The installation of
17 SmartBurn controls has met the guaranteed emission rate reduction specified in

² *Approval and Promulgation of Implementation Plans; State of Montana; State Implementation Plan and Regional Haze Federal Implementation Plan; Final Rules*, 77 Fed. Reg. 57864 (Sept. 18, 2012) (revising 40 C.F.R. Part 52).

³ *See, e.g.,* Montana Department of Environmental Quality, *Regional Haze 5-Year Progress Report* (Aug. 2017), available at http://deq.mt.gov/Portals/112/Air/AirQuality/Documents/RegionalHaze/RegionalHaze_ProgressReport_8-2017.pdf.

1 the contract for this capital investment. The addition of SmartBurn controls on
2 Colstrip Units 3 & 4 improved NOx removal from 80 percent to approximately
3 86 percent, or an 8 percent improvement. Indeed, Commission Staff's own exhibit
4 illustrates the downward slope in the average NOx emissions rates for Colstrip
5 Units 3 & 4 precipitated by the installation of the SmartBurn controls.⁴

6 The installation of SmartBurn controls has demonstrated the capability for even
7 greater NOx emissions reductions. For example, during the period July 2010 to
8 April 2015, NOx emissions for Colstrip Unit 2 averaged 0.30 lbs./MMBtu. In the
9 period after the installation of SmartBurn controls and prior to the retirement of
10 Colstrip Unit 2, NOx emissions for Colstrip Unit 2 averaged 0.15 lbs./MMBtu.
11 Thus, the SmartBurn controls reduced the NOx emissions for Colstrip Unit 2 by
12 approximately 40 percent.

13 **Q. Is Commission Staff correct that the NOx emissions achieved for Colstrip**
14 **Unit 3 is more modest than the 50 percent reduction in emissions experienced**
15 **at Colstrip Unit 2?**

16 A. Yes. Commission Staff is correct that the improved NOx removal (from
17 80 percent to approximately 86 percent) for the Colstrip Unit 3 is modest,
18 representing an observed decrease in NOx levels of 0.01 lbs/MMBtu. As
19 previously mentioned, however, the installation of the SmartBurn technology but
20 was the first step in what the Colstrip owners then-believed was a multistep

⁴ See generally Gomez, Exh. DCG-9.

1 process to reduce NOx emissions at the units. The Colstrip owners then-believed
2 that an approach of gradualism in the reduction of NOx emissions would be better
3 for customers.

4 **Q. Are there other reasons behind the modest reductions in NOx emissions at**
5 **Colstrip Unit 3?**

6 A. Yes. In considering data for the periods before and after installation of SmartBurn
7 controls at Colstrip Units 3 & 4, the results are more modest, representing a
8 reduction in NOx emissions of approximately 8 percent, for a number of reasons.

9 First, the data relied upon by Commission Staff represents the reduction the five-
10 year rolling average for NOx emissions for Colstrip Units 3 & 4, but the
11 compliance limits are based upon a much shorter 30-day rolling average for NOx
12 emissions for Colstrip Units 3 & 4. The five-year rolling average NOx emissions
13 for Colstrip Units 3 & 4 cited by Commission Staff, however, is lower than the
14 30-day rolling average NOx emission for Colstrip Units 3 & 4 and not a relevant
15 basis for determining the prudence of the decision to install the SmartBurn
16 controls because NOx emission limits are based on the 30-day rolling average for
17 NOx emissions

18 Prior to installation of SmartBurn controls at Colstrip Unit 3 & 4, each unit had
19 periods when its 30-day rolling average for NOx emissions was
20 0.174 lbs./MMBtu (as compared to the NOx limit of 0.18 lbs./MMBtu). The
21 performance guarantee for the SmartBurn controls is a 30-day rolling average
22 NOx emissions of 0.130 lbs./MMBtu. Thus, the SmartBurn controls were

1 intended to reduce the 30-day rolling average NOx emissions (i.e., the basis for
2 the NOx emissions limitation) for those units by approximately 25 percent when
3 compared to the pre-installation period. Given (i) the compliance limit of
4 0.18 lbs./MMBtu on the 30-day rolling average of NOx emissions and
5 (ii) Colstrip Units 3 & 4 had periods in which they were operating within
6 97 percent of this compliance limit, the Colstrip owners were justified in
7 installing the SmartBurn controls to establish a better compliance margin and
8 demonstrate reasonable progress towards the Regional Haze Rule.

9 Second, the SmartBurn controls met the performance guarantee of a 30-day
10 rolling average NOx emissions of 0.130 lbs./MMBtu for Colstrip Units 3 & 4. A
11 variety of other operational parameters (steam temperature, opacity, carbon
12 monoxide levels, etc.) have not made it possible to always operate Colstrip
13 Units 3 & 4 under conditions necessary to achieve these NOx emission levels,
14 thereby resulting in the relatively modest emissions reduction of 8 percent cited
15 by Commission Staff.

16 **Q. Is there any validity to speculation by Commission Staff that the NOx**
17 **emissions reductions achieved by Colstrip Units 3 & 4 may be offset by**
18 **actions taken to bring particulate emissions into compliance?**

19 A. No. Commission Staff's suggestions that improvements to NOx emissions
20 resulting from the installation of SmartBurn controls on Colstrip Units 3 & 4 will
21 be completely erased (or even increased) as a result of actions taken to bring

1 particulate matter into compliance⁵ is without merit. Commission’s Staff’s
2 speculation appears to be based entirely upon the following recommendation from
3 a Root Cause Analysis report commissioned by the Colstrip Owners:⁶

4 Change the objectives of furnace optimization: The burners are
5 currently tuned to minimize slagging and NOX emissions, while
6 also maintaining output. Recommend including control of PM as an
7 objective of boiler operation. Status: In process.⁷

8 The Root Cause Analysis report, however, focuses exclusively on a
9 recommendation for the compliance with the Mercury Air Toxics
10 Standard (MATS) and does not purport to address any issues with regard the NOx
11 emissions compliance or the interrelationship between the two standards. The
12 plant operator (i.e., Talen Montana LLC (“Talen Montana”)) must take into
13 account and balance *all* regulations and laws to meet multiple compliance
14 obligations associated with Colstrip Units 3 & 4.

15 Furthermore, as shown in Table 1 below, the evidence demonstrates that neither
16 Colstrip Units 3 & 4 was in violation of NOx emissions limits during the relevant
17 period studied in the Root Cause Analysis report:

**Table 1. NOx Emission Levels for Colstrip Units 3 & 4
for Period September 2018 through October 2019**

	Colstrip Unit 3 NOx Levels (lbs./MMBtu)	Colstrip Unit 4 NOx Levels (lbs./MMBtu)
September 2018	0.16	0.16

⁵ See Gomez, Exh. DCG-1CT, at 14:18-22.
⁶ See Gomez, Exh. DCG-5, for a copy of the Root Cause Analysis report.
⁷ Gomez, Exh. DCG-1CT, at 14:12-16 (quoting from the Root Cause Analysis report provided as Gomez, , Exh. DCG-5, at 21 (emphasis added by Commission Staff)).

	Colstrip Unit 3 NOx Levels (lbs./MMBtu)	Colstrip Unit 4 NOx Levels (lbs./MMBtu)
October 2018	0.16	0.17
November 2018	0.16	0.16
December 2018	0.15	0.16
January 2019	0.17	0.17
February 2019	0.17	0.17
March 2019	0.16	0.16
April 2019	0.13	0.14
May 2019	0.13	0.14
June 2019	0.15	0.14
July 2019	0.16	0.15
August 2019	0.16	0.15
September 2019	0.15	0.15
October 2019	0.15	0.14

1 **Q. In hindsight, is it fortuitous that the Colstrip owners pursued NOx emissions**
2 **reductions based on an approach of gradualism?**

3 A. Yes. In hindsight, it is fortuitous that the Colstrip owners pursued NOx emissions
4 reductions based on an approach of gradualism. On May 7, 2019, Governor Inslee
5 signed into law the Clean Energy Transformation Act, which, in part, prohibits
6 PSE, beginning January 1, 2026, from serving load in the state with electricity
7 generated by coal-fired resources. At the time of the installation of the SmartBurn
8 controls, PSE did not know that it could not continue to rely on the Colstrip units
9 to meet load after 2025. Indeed, PSE expected, at the time the decision was made
10 to install SmartBurn controls, that all four Colstrip units would continue to serve
11 PSE's load for at least the next two decades.

1 If PSE knew then what it knows now, it would have agreed with Commission
2 Staff that the installation of the SmartBurn technology would not have been a
3 good investment—and the alternatives advocated by stakeholders and considered
4 by the Colstrip owners, such as selective catalytic reduction emission controls,
5 would have looked even worse.

6 **Q. Was the installation of the SmartBurn technology on Colstrip Unit 3 a**
7 **prudent decision?**

8 A. Yes. Notwithstanding the benefit of hindsight, the decision to proceed with the
9 installation of SmartBurn technology at Colstrip Unit 3 was a prudent decision at
10 the time the decision was made. The Colstrip owners knew that the Colstrip units
11 would need to achieve NOx emission reductions if they were going to continue to
12 serve load, and the SmartBurn technology was the first in a multi-step approach of
13 gradualism to reduce NOx emissions. The SmartBurn technology has achieved its
14 purpose—a modest eight percent reduction in NOx emissions. The fact that the
15 technology has not reduced NOx emissions at a greater rate or the knowledge
16 available only in hindsight that PSE can no longer consider Colstrip Unit 3 as a
17 long-term resource to meet loads should not render the decision imprudent.

1 **III. THE COMMISSION SHOULD ALLOW PSE TO CONTINUE**
2 **TO AMORTIZE MAJOR MAINTENANCE EVENTS**
3 **FOR COLSTRIP UNITS 3 & 4 IN RATES**

4 **Q. Does PSE agree with Commission Staff’s recommendation⁸ to defer inclusion**
5 **of amortization of the major maintenance event scheduled for Colstrip Unit 4**
6 **and incorporate it into the PSE’s next general rate proceeding at actual cost?**

7 A. No. PSE disagrees with Commission Staff’s argument to discontinue use of Talen
8 Montana budgets for calculation of rate year major maintenance expense.
9 Commission Staff appears to base its recommendation upon references to
10 differences between major maintenance budgets and actual costs for Colstrip
11 Units 1 & 2. Colstrip Units 1 & 2 are separate facilities from Colstrip Units 3 & 4
12 and subject to different ownership structures, different ownership and operations
13 agreements, and different expected lives.

14 As Commission Staff’s testimony correctly points out,⁹ the scope of major
15 maintenance events for Colstrip Units 1 & 2 for calendar years 2017 and 2018
16 varied significantly from that originally budgeted. The reason for this variance is
17 simple and wholly unrelated to Colstrip Units 3 & 4—PSE and Talen Montana
18 (the sole owners of Colstrip Units 1 & 2) agreed in a consent decree entered into
19 in the second half of 2016 to retire Colstrip Units 1 & 2 by a date no later than
20 July 2022. The major maintenance originally budgeted for Colstrip Units 1 & 2

⁸ See Jing, Exh. JL-1CT, at 30:19 – 34:19.

⁹ See *id.* at 32:19 – 33:2.

1 for calendar years 2017 and 2018 was no longer necessary given the commitment
2 to a near-term retirement date.

3 Furthermore, the budgeting process for Colstrip Units 3 & 4 is inherently more
4 complicated due to the existence of six co-owners. As shown in the major
5 maintenance expense the Ninth Exhibit to the Prefiled Direct Testimony of Jing,
6 Liu, Exh. JL-10, the average variance between budget and actual for the outages
7 for Colstrip Units 3 & 4 in calendar years 2014 and 2016 were 2.45 percent and
8 1.71 percent, respectively. The outage for Colstrip Unit 3 for calendar year was
9 subject to a budget overrun, but that variance between budget and capital is
10 attributable to work performed due to deficiencies identified during the course of
11 the outage that were not foreseeable in the development of the budget.

12 Moreover, not one Colstrip owner has made—or likely could make on its own—
13 any commitment regarding potential retirement dates for Colstrip Units 3 & 4.

14 Even if one takes into consideration the enactment of the Clean Energy
15 Transformation Act, which, in part, prohibits PSE, beginning January 1, 2026,
16 from serving load in the state with electricity generated by coal-fired resources,
17 PSE will likely continue to rely on power generated by Colstrip Units 3 & 4 for
18 2020 and the ensuing five years.

19 Commonly accepted maintenance cycles for coal facilities dictate major
20 maintenance on a regular cycle. This helps ensure the safety and reliability of the
21 units. Major maintenance for a coal unit is analogous to major maintenance for
22 automobiles. Any owner that has had a car for six years and intends to keep the

1 unit for an additional four years must continue to replace the brakes, change the
2 oil, inspect and/or replace the belts, and other such normal maintenance items.

3 Major maintenance helps ensure the safety and reliability of the both cars and coal
4 units.

5 The last major maintenance for Colstrip Unit 3 was performed in 2017, and the
6 last major maintenance for Colstrip Unit 4 was in 2016. Each unit is due for major
7 maintenance on its regular maintenance cycle, and these major maintenance
8 events are necessary. As discussed above, the variance between actual and
9 budgeted costs for major maintenance activities for Colstrip Units 3 & 4 has been
10 relatively minimal, with the only significance attributable to deficiencies
11 identified during the course of the outage that were not foreseeable in the
12 development of the budget. Accordingly, the Commission should allow PSE to
13 continue to amortize major maintenance events for Colstrip Units 3 & 4 in rates.
14 If, however, the Commission were to not allow PSE to continue to amortize this
15 major maintenance event in rates, then PSE respectfully requests that the
16 Commission adopt Commission Staff's proposal to defer the costs of the major
17 maintenance the event for recovery in a later proceeding.

1 **IV. THE COMMISSION SHOULD ALLOW PSE TO**
2 **SHIFT CERTAIN COLSTRIP COMMON COSTS**
3 **PREVIOUSLY ALLOCATED TO COLSTRIP UNITS 1 & 2 TO**
4 **COLSTRIP UNITS 3 & 4**

5 **Q. Commission Staff recommends exclusion of common costs for the Colstrip**
6 **Steam Electric Station and charged to Colstrip Units 1 & 2 in the test year**
7 **from the rate year.¹⁰ Please explain in general terms common costs at**
8 **Colstrip Steam Electric Station.**

9 A. Common costs at the Colstrip Steam Electric Station cover shared expenses, such
10 as maintenance of the general plant site, water treatment and handling equipment,
11 river pumping station, labor relations work, postage, employee safety equipment
12 and training, information technology services, engineering services,
13 communications equipment and more. Some of these items or tasks can fluctuate
14 depending on work load, while others are basic charges. For instance, how much
15 postage is used will depend on how many pieces of mail are generated as opposed
16 to costs that are more structural charges, like environmental monitoring.

17 In this proceeding, PSE included a representative amount of common costs that
18 will continue to remain to be paid at the Colstrip Steam Electric Station. PSE
19 based the amount used on test year amounts, which is a common method for
20 determining the amount of production operations and maintenance costs to
21 include in rates. Specifically, PSE shifted a percentage of common costs
22 previously allocated to Colstrip Units 1 & 2 costs to Colstrip Units 3 & 4.

¹⁰ See Jing, Exh. JL-1CT, at 35:1 – 36:4.

1 Additionally, PSE considered the needs to facilitate the process of plant
2 retirement for Colstrip Units 1 & 2 that will take place over the rate year. For
3 these reasons, PSE shifted common costs in an amount of \$1,299,767 that were
4 previously allocated to Colstrip Units 1 & 2 to Colstrip Units 3 & 4. PSE
5 respectfully requests that PSE include these common costs for recovery during the
6 rate year.

7 **Q. Does PSE agree with Commission Staff's recommendation that the**
8 **operations and maintenance budget for Colstrip Units 3 & 4 not be used to**
9 **establish rate year operations and maintenance costs for those units, even if**
10 **the budget was finalized in December 2019?**¹¹

11 A. No. PSE continues to believe that the budget prepared by the plant operator
12 (i.e., Talen Montana) for Colstrip Units 3 & 4 is a reasonable estimate of the rate
13 year operation and maintenance costs for those units. As discussed previously in
14 this testimony, Commission Staff's argument of large variances between budget
15 and actual expenses is based upon the budget and actual costs of all four units of
16 the Colstrip Steam Electric Station. Variances between budgeted and actual
17 expenses (excluding major maintenance) for Colstrip Units 3 & 4 have been
18 minimal. For example, the Fourteenth Exhibit to the Prefiled Direct Testimony of
19 Jing Liu, Exh. JL-15, shows that the average variance between budgeted and

¹¹ See Jing, Exh. JL-1CT, at 38:19 – 39:13.

1 actual expenses (excluding major maintenance) for Colstrip Units 3 & 4 for
2 calendar years 2013 through 2018 was less than one half of one percent (0.42%).

3 **V. PSE DID NOT INCLUDE COSTS ASSOCIATED**
4 **WITH THE NEW COAL SUPPLY AGREEMENT**
5 **WITH WESTMORELAND ROSEBUD MINING COMPANY**
6 **BECAUSE THE PREHEARING CONFERENCE ORDER**
7 **PROHIBITED PSE FROM UPDATING ALL BUT**
8 **A LIMITED SUBSET OF POWER COSTS IN THIS PROCEEDING**

9 **Q. Did the Colstrip owners enter into a new coal supply agreement with**
10 **Westmoreland Rosebud Mining Company for Colstrip Units 3 & 4, as**
11 **referred to in Commission Staff’s testimony¹²?**

12 A. Yes. PSE and the other Colstrip owners (other than Talen Montana) entered in to
13 a new coal supply agreement with Westmoreland Rosebud Mining Company LLC
14 (“Westmoreland”) on December 5, 2019. Please see the First Exhibit to the
15 Prefiled Rebuttal Testimony of Ronald J. Roberts, Exh. RJR-15C, for a copy of
16 the coal supply agreement with Westmoreland.

17 **Q. Please explain how the new coal supply agreement with Westmoreland will**
18 **address the possibility of coal purchase from non-Westmoreland sources and**
19 **Montana state legislation related to alternate fuel sourcing for Colstrip**
20 **raised in Commission Staff’s testimony.¹³**

21 A. With the execution of the new coal supply agreement with Westmoreland for
22 supply of coal to Colstrip Units 3 & 4, any speculation regarding the possibility of

¹² See Gomez, DCG-1CT, at 20:6 – 31:13.

¹³ See *id.* at 20:6 – 23:14.

1 use of coal from a supplier other than Westmoreland is now moot. Additionally,
2 Commission Staff's testimony refers to comments made by Talen Montana in
3 relation to Colstrip fuel sourcing legislation considered by the Montana
4 Legislature in 2019.¹⁴ Those comments were made by a representative of Talen
5 Montana in its role as an owner of interests in Colstrip Units 1, 2, and 3, and were
6 not made in any role as a representative for the Colstrip owners generally or as
7 operator of the Colstrip units. PSE did not make similar comments with regard to
8 the proposed legislation, and the comments of a representative of Talen Montana
9 in its role as but one of several owners of the Colstrip units should not—and
10 cannot—be attributable to PSE. In sum, PSE and all Colstrip owners other than
11 Talen Montana were able to execute a coal supply agreement with Westmoreland
12 to source coal for Colstrip Units 3 & 4 for the period 2020 and beyond.

13 **Q. Are the potential permitting issues in Montana associated with a new**
14 **Colstrip coal unloading facility¹⁵ relevant to this proceeding?**

15 A. No. The potential permitting issues in Montana associated with a new Colstrip
16 coal unloading facility are irrelevant to this proceeding. A new Colstrip coal
17 unloading facility would only have been necessary if the coal for Colstrip
18 Units 3 & 4 had been sourced by a supplier other than Westmoreland. With the
19 execution of a new coal supply agreement with Westmoreland, PSE's obligation

¹⁴ See Gomez, Exh. DCG-1CT, at 22:3-7

¹⁵ See *id.* at 23:8-2:8

1 for coal supply rests solely with Westmoreland as the supplier, and a new coal
2 unloading facility is neither contemplated nor necessary.

3 **Q. Are the potential permitting issues in Montana associated with a potential**
4 **mine expansion¹⁶ relevant to this proceeding?**

5 A. No. Westmoreland is a separate company from PSE, and PSE has no ability to
6 affect Westmoreland's current or future business decisions with respect to any
7 potential mine expansion. PSE solely relies upon Westmoreland to supply a
8 commodity, and Westmoreland business decisions and financial, permitting, or
9 environmental obligations are Westmoreland's alone. More importantly, PSE's
10 new coal supply agreement with Westmoreland protects both PSE and its
11 customers from any pricing pressures facing Westmoreland related to any
12 decision to expand the Rosebud Mine. Indeed, the terms and the conditions of the
13 coal supply agreement expressly require PSE to pay the same price, regardless of
14 the area of the Rosebud Mine that Westmoreland uses to supply Colstrip
15 Units 3 & 4.

16 **Q. Why did PSE exclude the costs of the new coal supply agreement¹⁷ from this**
17 **proceeding?**

18 A. PSE did not incorporate the cost of a new coal contract for Colstrip Units 3 & 4
19 into its request in this proceeding because, at the time of the direct filing on

¹⁶ See Gomez, Exh. DCG-1CT, at 25:12 – 26:14.

¹⁷ See *id.* at 28:10-13.

1 June 20, 2019, the terms and conditions of the new coal supply agreement were
2 subject to negotiations, and the costs of the coal supply agreement were not
3 known and measurable.

4 Additionally, the prehearing conference order in this proceeding limited PSE
5 power cost updates in this case to certain enumerated cost categories.¹⁸ The
6 pricing associated with the new coal supply agreement did not fall within any of
7 the categories of power costs that the prehearing conference order permitted PSE
8 to update. Accordingly, PSE has honored the terms of the prehearing order by not
9 including costs associated with the new coal supply agreement in this proceeding.
10 If the Commission were to modify the prehearing conference order to include the
11 costs associated with the new coal supply agreement to be included within the
12 limited power cost updates permitted in this proceeding or to otherwise order PSE
13 to include the costs of the new coal supply agreement in this proceeding, then
14 PSE would be willing to do so.

¹⁸ See *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-190529 & UG-190530 (consolidated), Order 03 at 9 (July 22, 2019) (limiting PSE's ability to update power costs to (1) forward market data, (2) short-term fixed-price power contracts that are an AURORA input, (3) fixed-price gas for power contracts, (4) index-based power and gas for power contracts, and (5) costs that are themselves dependent on the updated AURORA output).

1 **VI. ISSUES REGARDING THE PSE INTEGRATED**
2 **RESOURCE PLAN TECHNICAL ADVISORY GROUP**
3 **ARE BEST ADDRESSED IN THE IRP DOCKET**

4 **Q. What relevance does Commission Staff’s testimony with respect to the**
5 **Integrated Resource Plan Technical Advisory Group¹⁹ have on this**
6 **proceeding?**

7 A. PSE sees no relevance in Commission Staff’s testimony regarding Integrated
8 Resource Plan (“IRP”) Technical Advisory Group (“TAG”) meetings in this
9 proceeding. The Commission has separate dockets and separate rules with respect
10 to general rate cases and IRPs. Each proceeding has different structures, goals,
11 and outcomes. Any IRP issues should be addressed in the IRP proceeding, in
12 accordance with the rules developed by the Commission for those proceedings.

13 **VII. THE COMMISSION SHOULD ADDRESS**
14 **ANY ISSUE ASSOCIATED WITH THE 2018 OUTAGES**
15 **FOR COLSTRIP UNITS 3 & 4 IN DOCKET UE-190882**

16 **Q. How does PSE respond to testimony of Commission Staff regarding the**
17 **2018 outage for Colstrip Units 3 & 4?**

18 A. PSE generally agrees with Commission Staff that the that the prudence of capital
19 costs associated with the 2018 outages for Colstrip Units 3 & 4 will be addressed
20 in Docket UE-190882.²⁰ Commission Staff’s testimony, however, states that
21 Commission Staff “is contesting \$7.5 million ... which is comprised of PSE’s

¹⁹ See Gomez, Exh. DCG-1CT, at 27:6 – 28:8.

²⁰ See *id.* at 12:7-9.

1 share of capital costs associated with the 2018 Colstrip outage and the installation
2 of SmartBurn for Units 3 and 4.”²¹

3 As mentioned previously, Commission Staff’s testimony “recommend[s] that the
4 Commission reject \$7.2 million of PSE’s test year capital addition for
5 SmartBurn.”²² This suggests that Commission Staff’s adjustment for SmartBurn
6 controls, which the Commission should dismiss for the reasons discussed above,
7 account for all but \$300,000 of the capital costs “associated with the
8 2018 Colstrip outage and the installation of SmartBurn for Units 3 and 4.”²³ It is
9 unclear from Commission Staff’s testimony and supporting exhibits what costs
10 are included in the additional capital costs of \$300,000 not attributable to
11 SmartBurn controls or whether these costs relate to the 2018 outages for Colstrip
12 Units 3 & 4. If, and to the extent, that such costs are identifiable and attributable
13 to the 2018 outages for Colstrip Units 3 & 4, PSE respectfully requests that the
14 Commission consider those costs in Docket UE-190882 at the same time that it
15 considers all other costs associated with the 2018 outages for Colstrip
16 Units 3 & 4.

²¹ Gomez, Exh. DCG-1CT, at 12:4-7.

²² *Id.* at 20:3-4.

²³ *Id.* at 12:4-7.

1
2
3
4
5
6
7
8
9
10
11
12
13
14

**VIII. UPDATES TO PSE'S PRODUCTION OPERATIONS
AND MAINTENANCE COSTS**

Q. Has PSE made any updates to production operations and maintenance costs since it made its direct filing on June 20, 2019?

A. Yes. PSE has accepted a minor change to update the major maintenance cost for PSE's Fredonia Generating Station. This update increases production operations and maintenance costs by \$42,500. Please see the Second Exhibit to the Prefiled Rebuttal Testimony of Ronald J. Roberts, Exh. RJR-16, for the revised production operations and maintenance costs. Please note that this exhibit updates the Sixth Exhibit to the Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-7, filed on June 20, 2019.

IX. CONCLUSION

Q. Does this conclude your rebuttal testimony?

A. Yes.