

BEFORE
THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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|--|---|----------------------|
| In the Matter of the Petition of |) | |
| PUGET SOUND ENERGY, INC. |) | Docket No. UE-130583 |
| |) | |
| For an Accounting Order Authorizing |) | |
| Accounting Treatment Related to |) | |
| Payments for Major Maintenance |) | |
| Activities |) | |
| |) | |
| _____ WASHINGTON UTILITIES AND |) | Docket No. UE-130617 |
| TRANSPORTATION COMMISSION, |) | |
| |) | |
| Complainant, |) | |
| |) | |
| v. |) | |
| |) | |
| PUGET SOUND ENERGY, INC. |) | |
| |) | |
| Respondent. |) | |
| |) | |
| _____ In the Matter of the Application of |) | Docket No. UE-131099 |
| PUGET SOUND ENERGY, INC. |) | |
| |) | |
| For an Accounting Order Authorizing |) | |
| Accounting the Sale of the Water Rights |) | |
| and Associated Assets of the Electron |) | |
| Hydroelectric Project in Accordance with |) | |
| WAC 480-143 and RCW 80.12. |) | |
| |) | |
| _____ In the Matter of the Application of |) | Docket No. UE-131230 |
| PUGET SOUND ENERGY, INC |) | |
| |) | |
| For an Order Authorizing the Sale of |) | |
| Interests in the Development Assets |) | |
| Required for the Construction and |) | |
| Operation of Phase II of the Lower Snake |) | |
| River Wind Facility |) | |
| |) | |
| _____ |) | |

Exhibit No. ___(DWS-1T)
Docket Nos. UE-130583, UE-130617, UE-131099, UE-131230
Witness: Donald W. Schoenbeck

RESPONSIVE TESTIMONY OF DONALD W. SCHOENBECK
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

August 14, 2013

INTRODUCTION AND SUMMARY

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Donald W. Schoenbeck. I am a member of Regulatory & Cogeneration Services, Inc. (“RCS”), a utility rate and economic consulting firm. My business address is 900 Washington Street, Suite 780, Vancouver, WA 98660.

Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.

A. I have been involved in the energy industry for over 40 years. During that time, I have served as an analyst and expert on a variety of power supply, cost, ratemaking, and policy topics, including issues related to the Pacific Northwest investor-owned utilities and the Bonneville Power Administration (“BPA”). I have provided testimony on behalf of the Industrial Customers of Northwest Utilities (“ICNU”) before the Oregon Public Utility Commission (“OPUC”) in various proceedings regarding Portland General Electric Company and PacifiCorp. I have also provided testimony on behalf of ICNU before the Washington Utilities and Transportation Commission (“WUTC” or the “Commission”) regarding Avista, PacifiCorp, and Puget Sound Energy (“PSE” or the “Company”). A further description of my educational background and work experience can be found in Exhibit No. __ (DWS-2).

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. I am testifying on behalf of ICNU. ICNU is a non-profit trade association whose members are large industrial customers served by local distribution utilities throughout the Pacific Northwest, including PSE.

1 **Q. WHAT TOPICS WILL THIS TESTIMONY ADDRESS?**

2 **A.** The purpose of this testimony is to address certain revenue requirement issues in this
3 proceeding as well as rate spread.

4 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS IN THIS TESTIMONY.**

5 **A.** My recommendations in this proceeding are summarized as follows:

- 6 • **Colstrip Operations and Maintenance (“O&M”) Expense.** Colstrip O&M
7 budgets have been significantly overstated relative to actuals over the 2009-
8 2012 period. ICNU recommends reducing the pro-forma Colstrip O&M
9 expense in the proceeding based on the average overstatement of budget
10 relative to actual expenses for 2009 through 2012. This adjustment lowers the
11 revenue requirement in this case by approximately \$3.0 million.

- 12 • **BPA Transmission Expense.** Since PSE’s initial filing, BPA has issued final
13 rates for the rate year in this proceeding. Adopting these rates will lower the
14 revenue requirement in this proceeding by approximately \$3.3 million.

- 15 • **Rate Spread.** Given that this power cost only rate case (“PCORC”) will not
16 be followed immediately by a general rate case (“GRC”) filing, ICNU
17 recommends correcting an obsolete carbon price assumption from the peak
18 credit method used for cost allocation. The full generation and transmission
19 revenue requirement approved in this case should then be re-allocated based
20 on the corrected demand and energy classification.

21 **REVENUE REQUIREMENT ISSUES**

22 **Colstrip O&M Expense**

23 **Q. HOW DOES THE COMPANY SET O&M EXPENSES FOR THE COLSTRIP**
24 **FACILITIES IN RATES?**

25 **A.** PSE is the part owner of Colstrip Units 1-4, which are operated by PPL Montana. In
26 setting its rates, the Company uses O&M budgets supplied by PPL Montana for the rate
27 year in question.

1 **Q. WHAT LEVEL OF COLSTRIP O&M EXPENSE IS INCLUDED IN THIS CASE?**

2 **A.** The Company has included a pro-forma amount of approximately \$40.3 million for its
3 share of the budgeted O&M expense levels. This compares to a level of approximately
4 \$40.1 million included in the Company's 2011 GRC.

5 **Q. HAVE THE BUDGETS RELIED UPON FOR THE COMPANY'S RATE**
6 **SETTING PURPOSES BEEN ACCURATE HISTORICALLY?**

7 **A.** No. In response to ICNU Data Request 1.2, the Company provided a comparison of
8 historical actual and budgeted O&M amounts for the four year period of 2009 through
9 2012. I have included this information in Exhibit No. __ (DWS-3). As this exhibit
10 shows, budgeted O&M amounts for Colstrip have been higher than actuals in every year,
11 notably exceeding 10% on average for combined 2011 and 2012.

12 **Q. GIVEN THESE DISCREPANCIES, WHAT DO YOU RECOMMEND**
13 **REGARDING THE LEVEL OF COLSTRIP O&M EXPENSE INCLUDED IN**
14 **THIS PROCEEDING?**

15 **A.** Given the consistent and escalating trend in over-budgeting for Colstrip O&M expenses,
16 I recommend that the budgeted amount in this case be reduced by the average over-
17 budgeted percentage from the 2009 to 2012 period of 7.1%. I further consider this a
18 conservative recommendation given that this reduction is significantly below the actual
19 observed values from the most recent two years.

20 **Q. WHAT IS THE EFFECT OF THIS PROPOSED ADJUSTMENT?**

21 **A.** The effect of this adjustment is to lower the revenue requirement in this proceeding by
22 approximately \$3.0 million.

1 **BPA Transmission Rates**

2 **Q. HAVE THERE BEEN DEVELOPMENTS IN BPA’S TRANSMISSION RATE**
3 **CASE SINCE THE BEGINNING OF THIS PROCEEDING?**

4 **A.** Yes. On July 24, 2013, BPA issued the final Administrator’s Record of Decision
5 (“ROD”) in the BP-14 rate proceeding and established transmission and power rates for
6 the October 2013 through September 2015 time period.

7 **Q. DID DECISIONS IN THE FINAL ROD HAVE IMPACTS ON PSE’S COSTS FOR**
8 **THE RATE YEAR IN THIS PROCEEDING?**

9 **A.** Yes. In particular, BPA’s decision to use a portion of its financial reserves to offset the
10 point to point (“PTP”) transmission rate increase will impact PSE.

11 **Q. HAVE THE IMPACTS OF THE BPA FINAL ROD BEEN QUANTIFIED IN THIS**
12 **CASE?**

13 **A.** Yes. In the 1st Supplemental Response to ICNU Data Request 1.5, PSE provided an
14 analysis of the BPA final rates on its transmission costs. Exhibit No. __ (DWS-7). I
15 have reviewed PSE’s calculations and they appear appropriate.

16 **Q. WHAT IS THE IMPACT OF INCLUDING BPA’S FINAL RATES IN PSE’S**
17 **TRANSMISSION COSTS FOR THIS PROCEEDING?**

18 **A.** Including BPA’s final transmission rates lowers the revenue requirement in this
19 proceeding by approximately \$3.3 million.

20 **RATE SPREAD**

21 **Q. PLEASE SUMMARIZE THE COMPANY’S PROPOSED RATE SPREAD IN**
22 **THIS PROCEEDING.**

23 **A.** Pursuant to standard practice in the Company’s power cost only cases, the allocation of
24 any rate changes are allocated on the basis of the peak credit method approved in the
25 Company’s last GRC. Docket No. UE-130617, Exhibit No. __ (JAP-1T), page 2, lines 7-

1 10. The last order setting PSE's cost of service and rate spread was in Docket No. UE-
2 111048.

3 **Q. PLEASE BRIEFLY EXPLAIN THE PEAK CREDIT METHOD AND ITS**
4 **APPLICATION TO THE ALLOCATION OF GENERATION AND**
5 **TRANSMISSION COSTS.**

6 **A.** As a preliminary matter, the Company determines its costs of service that are attributable
7 to the generation and transmission business functions. Next, it classifies those costs
8 between those caused by meeting peak demand and those caused by meeting energy
9 needs. This step of classifying production costs between demand and energy is necessary
10 because utility production plant typically serves the dual purposes of meeting system
11 peak and serving energy needs throughout the year.

12 The peak credit method is the process by which the Company determines what
13 portion of generation and transmission function costs are classified to meeting peak
14 demand on the system (i.e., demand-related) and what portion are classified to meeting
15 system energy needs (i.e., energy-related). PSE's method for this calculation is to
16 determine the ratio of the cost of a proxy peaking generating resource to the cost of a
17 proxy baseload generating resource.

18 **Q. IS THE PEAK CREDIT CALCULATION FROM THE 2011 GRC**
19 **APPROPRIATE TO USE IN THIS PROCEEDING?**

20 **A.** No. I believe the peak credit classification from the Company's 2011 GRC should be
21 revisited in this proceeding on a limited basis. From a factual perspective, the 19%-81%
22 split between demand and energy classification from the 2011 GRC was predicated on
23 assumptions regarding the implementation of a Federal cap and trade program on carbon
24 dioxide emissions. The Company is no longer planning on this outcome for resource

1 acquisition and planning purposes, as described in Docket No. UE-130617, Exhibit
2 No. __ (AS-1CT), page 17, lines 10-11. From a procedural perspective, this is a
3 particular problem because unlike a standard PCORC, this case will not be followed by a
4 GRC filing within a short time frame. In fact, rates from a new GRC filing could go into
5 effect as late as 2017. This would mean that the Company's power related costs would
6 be misclassified and allocated incorrectly for approximately a 5-year period.

7 **Q. HOW DO YOU RECOMMEND THE PEAK CREDIT CLASSIFICATION AND**
8 **ALLOCATION METHODS BE CHANGED IN THIS PROCEEDING?**

9 **A.** I recommend that the peak credit calculation from the 2011 GRC be updated to remove
10 the obsolete carbon cost component. I further recommend that *all* generation and
11 transmission costs be reallocated on this basis as part of the rate spread determination in
12 this proceeding.

13 **Q. WHAT IS THE EFFECT OF REMOVING THE OBSOLETE CARBON COST**
14 **ASSUMPTIONS FROM THE COMPANY'S PEAK CREDIT CALCULATION?**

15 **A.** Removing these erroneous costs shifts the peak credit classification to a split of 22%
16 demand related and 78% energy related. This revised calculation is presented in Exhibit
17 No. __ (DWS-4). In general terms, classifying more production costs to demand will
18 result in a shift in cost allocation away from high load factor classes to lower load-factor
19 costs.

20 **Q. IS THE DEMAND-ENERGY SPLIT RESULTING FROM YOUR PROPOSED**
21 **CHANGES REASONABLE?**

22 **A.** Yes, because they more accurately reflect PSE's current operations and resource planning
23 criteria rather than old information that has been shown to be inaccurate. The change is
24 also relatively modest and also will still be very far below the peak credit demand

1 classifications of Avista and PacifiCorp in Washington. Specifically, Avista and
2 PacifiCorp proposed classification to demand or approximately 34% and 38%
3 respectively in their most recent GRC filings. My proposed change to PSE's method
4 would still leave PSE as an outlier compared to these values.

5 **Q. HAVE YOU CALCULATED UPDATED WEIGHTED ALLOCATION FACTORS**
6 **BASED ON YOUR PROPOSED CHANGE?**
7

8 **A.** Yes. ICNU's proposed weighted allocation factors (based on the corrected peak credit
9 calculation) are presented in Exhibit No. ___ (DWS-5). Correcting the peak credit
10 calculation results in a slightly higher weighted allocation factor for Schedule 7 and firm
11 resale and slight decreases for all other customer classes.

12 **Q. WHAT IS THE REVENUE IMPACT BY CLASS OF REALLOCATING ALL**
13 **GENERATION AND TRANSMISSION COSTS FROM THIS PROCEEDING**
14 **BASED ON ICNU'S PROPOSAL RATHER THAN THE 2011 GRC FACTORS?**

15 **A.** Exhibit No. ___(DWS-6) presents the relative allocation of the generation and
16 transmission costs in this proceeding based on 2011 GRC-based allocation factors and
17 ICNU's corrected allocation factors. As this exhibit shows, Schedule 7 would receive a
18 0.42% increase relative to current rates as a result of ICNU's proposal, and all other
19 customers would receive slight decreases. This exhibit shows that in addition to being
20 factual and cost based, ICNU's proposal also has only incremental rate impacts on the
21 major negatively affected class.

22 **Q. PLEASE EXPLAIN WHY ICNU'S PROPOSED CHANGES ARE IMPORTANT**
AND APPROPRIATE DESPITE AFFECTING RELATIVELY SMALL
CHANGES IN ALLOCATION BETWEEN CLASSES.

A. Again, given that this PCORC filing will not be followed by a GRC filing for some time,
it is appropriate to re-examine the basis for allocation of generation and transmission

1 costs. Without such consideration, the allocation decisions of the 2011 GRC could be in
2 effect for approximately 5 years. Further, the carbon price assumption underlying the
3 2011 GRC peak credit method is clearly obsolete. Without correction this will lead to an
4 ongoing subsidy from high load factor customers to lower load factor customers. Finally,
5 ICNU's proposed change is limited to correction of a specific shortcoming based on
6 current information and does not seek to re-litigate every assumption underlying the 2011
7 GRC peak credit implementation.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A.** Yes.