

**Exhibit No. \_\_\_ CT (EJK-1CT)  
Docket UE-130617  
Witness: Edward J. Keating  
REDACTED VERSION**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.**

**Respondent.**

**DOCKET UE-130617**

**TESTIMONY OF**

**Edward J. Keating**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

**August 14, 2013**

**CONFIDENTIAL PER PROTECTIVE ORDER  
Redacted Version**

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1 I. INTRODUCTION

2 Q. Please state your name and business address.

3 A. My name is Edward J. Keating. My business address is 1300 S. Evergreen Park  
4 Drive S.W., P.O. Box 47250, Olympia, WA 98504.  
5

6 Q. By whom are you employed and in what capacity?

7 A. I am employed by the Washington Utilities and Transportation Commission  
8 (Commission) as a regulatory analyst.  
9

10 Q. How long have you been employed by the Commission?

11 A. I have been employed by the Commission since February 2010.  
12

13 Q. Would you please state your educational and professional background?

14 A. I graduated from Saint Martin's University in Lacey, Washington with a Bachelor of  
15 Arts degree in Accounting. Before joining the Commission in February 2010, my  
16 relevant professional experience consisted of 12 years in a variety of fields, including  
17 management, accounting/auditing, and the treasury side of banking.

18 During my employment at the Commission, I have performed accounting and  
19 financial analyses of regulated utility companies. I have completed coursework in  
20 "Utility Ratemaking: The Fundamentals and the Frontier" and "Regulatory  
21 Approaches to Accommodate Renewable energy, Demand-Side Resources, and  
22 Energy Efficiency Programs" offered by New Mexico State University. I also  
23 attended the 55<sup>th</sup> Annual National Association of Regulatory Utility Commissioners

1 (NARUC) Regulatory Studies Program held at Michigan State University in East  
2 Lansing, Michigan in 2013.

3 I have presented testimony before the Commission in Docket UE-101217  
4 regarding the sale of Puget Sound Energy, Inc. (“PSE” or the “Company”) property  
5 to Jefferson County Public Utility District No. 1, and in Avista Corporation’s  
6 General Rate Case, Dockets UE-120436 and UG-120437 (*consolidated*). I have also  
7 presented Staff recommendations to the Commission in open public meetings  
8

## 9 II. SCOPE OF TESTIMONY

10  
11 **Q. What is the purpose of your testimony in this proceeding?**

12 A. The purpose of my testimony is to address the mark-to-market (“MTM”) adjustment  
13 associated with PSE’s purchase of biogas produced from the Cedar Hills Regional  
14 Landfill facility (“Cedar Hills”) included in rate year power costs. The Cedar Hills  
15 biogas MTM adjustment is not the same as a MTM adjustment associated with  
16 financial hedges of natural gas. This MTM adjustment is essentially the “premium”  
17 cost of the biogas compared to Aurora modeled market prices of natural gas.  
18

19 **Q. Did you prepare any exhibits in support of your testimony?**

20 A. Yes. They are the following:

- 21 • Exhibit No. EJK-2, Cedar Hills MTM Proposed Adjustment
- 22 • Exhibit No. EJK-3, Excerpt from PSE Response to Commission Staff Data Request  
23 No. 44 (excludes confidential attachments)

- 1 • Exhibit No. EJK-4, Excerpt of PSE Response to Commission Staff Data Request No.  
2 54 (excludes confidential attachments)

3

4

### III. MTM ADJUSTMENT

5

6 **Q. Please provide the context of this adjustment.**

7 A. This adjustment removes the MTM, or premium, of the Cedar Hills biogas which  
8 PSE has proposed to include in power costs. PSE has not used the biogas to generate  
9 electricity or serve load in any way, ever. Therefore, it is improper to include any of  
10 the costs associated with the Cedar Hills biogas contract in power costs. Staff  
11 removes the PSE contract for Cedar Hills from power costs results in Aurora and  
12 replaces it with regular gas at modeled prices. The net effect is to reduce power  
13 costs by the MTM, or premium, PSE has proposed to include.

14 Ratepayers should not be required to pay any MTM or premiums associated  
15 with a speculative activity which has not provided any ratepayer benefits to date.  
16 Ratepayers have essentially paid market prices plus a premium in power costs for  
17 biogas that simply has been sitting in storage in the hopes of monetizing some  
18 renewable attribute, instead of being used to generate electricity.

19

20 **Q. What is the total amount of your Cedar Hills Biogas adjustment to the**  
21 **Company's proposed rate year power costs?**

22 A. As shown in Exhibit No. EJK-2, this adjustment reduces the "Not-in-Model" MTM  
23 expenses by \$1.984 million. However, it is understood that pending the outcome of  
24 this case, PSE will update gas/electric market prices, which will affect the actual

1 MTM amount associated with the Cedar Hills biogas. For example, a decrease in  
2 gas prices will increase this adjustment, which must be taken into consideration in  
3 the Company's compliance filing.

#### 4 5 IV. DISCUSSION

6  
7 **Q. Please provide a brief overview of PSE's contract related to the biogas.**

8 A. In October 2008, PSE contracted with Bio Energy, LLC to purchase all of the  
9 pipeline quality biogas produced from Cedar Hills. In February, 2011, PSE and the  
10 King County Solid Waste Division of King County, Washington ("King County")  
11 entered into an agreement in which PSE would purchase all of the emission credits  
12 tied to the pipeline quality biogas produced at Cedar Hills. As part of that  
13 agreement, King County will receive a share of the net proceeds from the sale of the  
14 Cedar Hills biogas or the renewable energy credits produced by Cedar Hills' biogas,  
15 if and when the biogas is used to generate electricity.

16  
17 **Q. How has PSE proposed to account for biogas transactions?**

18 A. In 2011, PSE proposed that when PSE sells the biogas, the sale will be accounted for  
19 as a sale of excess gas by crediting FERC Account 456, Other Electric Revenues.  
20 PSE would track separately the sales price of the gas sold and the revenues generated  
21 from the sale of the emission credits. Sales of the emission credits or RECs would  
22 be deferred in the REC revenue 254 account. Payments from PSE to King County

1 for the County's share of the net proceeds from these sales would reduce PSE's  
2 deferred REC revenues.<sup>1</sup>

3  
4 **Q. What is the effect of PSE's proposed Cedar Hills biogas MTM adjustment on**  
5 **rate year Power Costs?**

6 A. As part of the Company's rate year power costs, PSE is proposing that ratepayers  
7 absorb the MTM costs, or the "premium" of the Cedar Hills biogas purchases. In its  
8 original filing, PSE included [REDACTED] of MTM, or premium costs, associated  
9 with Cedar Hills biogas. In PSE's supplemental filing, the Company reduced this  
10 figure to [REDACTED] because of slightly higher gas futures prices.

11  
12 **Q. Have these MTM biogas costs from Cedar Hills been included in rate year**  
13 **power costs in previous Power Cost Only Rate Cases (PCORC) or General Rate**  
14 **Cases (GRCs)?**

15 A. Yes. PSE included the Cedar Hills biogas MTM costs in both its 2009 and 2011  
16 GRCs as rate year power costs. As I just described, PSE is again proposing to  
17 include these costs in rate year power costs in this case.

18  
19 **Q. Has Staff addressed the costs associated with the Cedar Hills biogas in any of**  
20 **these past rate cases?**

21 A. Yes. In the 2011 GRC, Staff witness Alan Buckley described the purchase of the  
22 Cedar Hills biogas as a transaction that;

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<sup>1</sup> Direct Testimony of David E. Mills, Docket UE-111048, Exhibit No. DEM-1CT, pages 33-34.

1 ...appears to be for the sole purpose of monetizing any renewable attributes  
2 and then asking ratepayers to not only bear the speculative risk of purchasing  
3 and selling the gas commodity, but also to pay in base rates the mark-to-  
4 market costs of the transaction...At a minimum, ratepayers should not pay  
5 the mark-to-market costs related to the Cedar Hills transaction. On its face,  
6 the transaction treats the commodity portion as a speculative buy/sell  
7 arrangement in order to receive benefits from the renewable side of the  
8 transaction and was not acquired under any least gas cost acquisition strategy.  
9 Clearly, the gas was not acquired to meet generation needs based on the  
10 Company's stated intent regarding the sale of the gas, and thus, should not be  
11 included in the determination of net power costs.<sup>2</sup>  
12

13 In other words, Staff was attempting to remove the MTM, or premium cost,  
14 associated with the biogas from rate year power costs due to the speculative nature of  
15 the transaction.  
16

17 **Q. What did the Commission determine in PSE's 2011 GRC regarding the**  
18 **treatment of Cedars Hills biogas costs?**

19 **A.** In its 2011 PSE GRC Order, the Commission stated that;

20 Staff argues the Commission should order PSE to file a petition for an  
21 accounting order to ensure that the revenues from the sale of these RECs are  
22 deferred and, presumably, treated in the same fashion as other REC revenues.  
23 Staff states that if the Commission includes such a condition in its Final  
24 Order, its adjustment to remove the mark-to-market costs of this transaction  
25 should be treated as withdrawn. Absent such a filing, however, Staff urges us  
26 to accept its mark-to-market adjustment, as originally proposed, reducing rate  
27 year power costs by [REDACTED]... We see no need to order PSE to file a  
28 separate accounting petition that would do no more than confirm that the  
29 Company will treat the revenues from any sale of RECs associated with  
30 Cedar Hills in the same manner it treats all other REC revenues. Since such  
31 treatment appears to be the goal Staff proposes to ensure via its proposed  
32 condition for withdrawal of its adjustment, we deem the adjustment to be  
33 withdrawn.<sup>3</sup>  
34  
35

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<sup>2</sup> Testimony of Alan P. Buckley, Dockets UE-111048 and UG-111049 (*consolidated*), Exhibit No. CT APB-1CT, at page 4, lines 1-13.

<sup>3</sup> Dockets UE-111048 and UG111049 (*consolidated*), Order 08 (DATE), at pages 86-87, ¶¶ 243 and 245.



1 **Q. What do you understand from this order regarding treatment of biogas from**  
2 **Cedar Hills?**

3 A. As I read the order, the Commission allowed the premium costs of the biogas into  
4 rate year power costs with the understanding that PSE would book any sales of RECs  
5 from Cedar Hills into the same account as all other REC sales, which would  
6 theoretically offset the premium ratepayers paid for the biogas.

7  
8 **Q. As of the date of your testimony, has PSE generated any RECs associated with**  
9 **the Company's purchases of Cedar Hills biogas?**

10 A. No. My Exhibit No. EJK-3 is PSE's response to Commission Staff Data Request 44,  
11 which asked whether the Company had generated or sold any RECs associated with  
12 the use of Cedar Hills biogas. The Company answered "No".<sup>4</sup>

13 In addition, my Exhibit No. EJK-4 is a non-confidential excerpt of PSE's  
14 response to Commission Staff Data Request 54, in which the Company states...  
15 "PSE has never burned biogas in its own facilities and accordingly has never  
16 produced renewable energy credits ("REC") from Cedar Hills biogas."<sup>5</sup>

17  
18 **Q. What do you make of all this?**

19 A. It is not appropriate for ratepayers to pay for gas in power costs, let alone a  
20 "premium", for gas that is not used to generate electricity. In previous filings before  
21 this Commission, the Company has consistently discussed monetizing renewable  
22 attributes to the benefit of its customers. However, none of that has come to pass.

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<sup>4</sup> Exhibit No. EJK-3, at page 3, No. 5.

<sup>5</sup> Exhibit No. EJK-4, at page 1, Response No. 2

1           It appears the entire history of PSE's Cedar Hills biogas purchases has been a  
2 speculative activity in which ratepayers bore the risk.

3  
4 **Q. Do you have any other concerns regarding treatment of the Cedar Hills biogas?**

5 A. Yes. Staff is concerned that ratepayers have been funding a speculative activity that  
6 focuses on potential arbitrage opportunities associated with purchases of the Cedar  
7 Hills biogas. The potential benefits to ratepayers have not materialized, and may  
8 never materialize. These speculative activities have nothing to do with providing  
9 electric (or even gas) service to customers

10           The Company currently has an accounting petition related to the treatment of  
11 Cedar Hills biogas costs and revenues in Docket No. UG-131276. Staff will address  
12 the treatment of the past and future biogas costs in that docket.

13  
14 **Q. Does this conclude your testimony?**

15 A. Yes.