

Exhibit No. ___ T (TES-1T)
DOCKET UE-121373
DOCKETS UE-121697/UG-121705
DOCKETS UE-130137/UG-130138
Witness: Thomas E. Schooley

BEFORE THE WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DOCKET UE-121373
DOCKETS UE-121697/UG-121705
DOCKETS UE-130137/UG-130138

TESTIMONY OF

THOMAS E. SCHOOLEY

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

*In Support of Multiparty Settlement Re:
Coal Transition Power Purchase Agreement and Other Pending Dockets*

March 27, 2013

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- Exhibit No. ____ (TES-2), Letters between Governor and Commission Chairman, dated
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Exhibit No. ____ (TES-3), Rates of return in Commission-basis Reports

1 I. INTRODUCTION

2

3 Q. Please state your name and business address.

4 A. My name is Thomas E. Schooley. My business address is The Richard Hemstad
5 Building, 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA
6 98504. My email address is tschoole@utc.wa.gov.

7

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

9 A. I am employed by the Washington Utilities and Transportation Commission
10 (“Commission”) as the Assistant Director - Energy Regulation, Regulatory Services
11 Division. My responsibilities include direct supervision of the Commission’s
12 Regulatory Analysts who review tariff filings and other applications of regulated
13 electricity and natural gas companies, and make recommendations for Commission
14 decision on those filings and applications.

15

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

17 A. I have been employed with the Commission since September 1991.

18

19 Q. Please state your educational and professional background.

20 A. I received a Bachelor of Science degree from Central Washington University in
21 1986. I met the requirements for a double major in Accounting and Business
22 Administration-Finance. I also have a Bachelor of Science degree in geology from
23 the University of Michigan. I passed the Certified Public Accountant exam in May

1 1989. Since joining the Commission, I have attended several regulatory accounting
2 courses, including the summer session of the Institute of Public Utilities.

3 Before obtaining my current position, I held several other positions including
4 Accounting Manager of the Energy Section and Regulatory Analyst. I testified in
5 Docket UE-960195 involving the merger between Washington Natural Gas
6 Company and Puget Sound Power & Light Company ("Puget"). I was the lead Staff
7 analyst in several applications for accounting treatment, including Puget Sound
8 Energy, Inc. Dockets UE-971619 and UE-991918. I testified in the Avista general
9 rate case, Docket UE-991606, and Avista's energy recovery mechanism, Dockets
10 UE-000972, UE-010395, UE-011595, and UE-030751. I also assisted in the
11 development of Staff testimony in Puget's "PRAM 2" case, Docket UE-920630, and
12 I presented the Staff recommendation on environmental remediation in Puget Docket
13 UE-911476.

14 I analyzed PacifiCorp's proposed accounting treatment of Clean Air Act
15 allowances in Docket UE-940947, and participated in meetings of PacifiCorp's inter-
16 jurisdictional task force on allocations. I testified in PSE's power cost only rate case,
17 Docket UE-031725; PSE's general rate cases, Dockets UE-072300/UG-072301 and
18 UE-090704/UG-090705; and PacifiCorp's general rate cases, Dockets UE-032065,
19 UE-050684, UE-061546, *et al.*, and UE-100749.

20 I have prepared detailed statistical studies for use by commissioners and other
21 Commission employees, and have interpreted utility company reports to determine
22 their compliance with Commission regulations. I have also presented Staff
23 recommendations to the Commission in numerous open public meetings.

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II. SCOPE AND SUMMARY OF TESTIMONY

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

A. I present Staff's support for the global settlement of five dockets covering three major issues. Those five dockets are: Docket UE-121373, Coal Transition Power Purchase Agreement; Dockets UE-121697/UG-121705 (*consolidated*), Decoupling Plan; and Dockets UE-130137/UG-130138 (*consolidated*), Expedited Rate Filing (collective dockets, or Global Settlement.)

Q. Have you prepared any exhibits in support of your testimony?

A. Yes, I have two additional exhibits:

- Exhibit No. ____ (TES-2), Letters between Governor and Commission Chairman, dated January 4 and January 15, 2013
- Exhibit No. ____ (TES-3), Rates of return in Commission-basis Reports

III. DISCUSSION

A. Summary of Global Settlement

Q. Please give a brief description of the Global Settlement.

A. The Global Settlement covers four basic components of the collective dockets: (1) an expedited rate filing to update revenue requirements to June 2012; (2) a rate plan (3) a decoupling plan; and (4) resolving areas of uncertainty in the coal transition power purchase agreement Order. Given approval of these components,

1 PSE will not file a general rate case before April 2015, but must file one before April
2 2016. PSE also agrees to drop its request for the Commission to reconsider the level
3 of the equity adder in the coal transition power purchase agreement Order if the
4 Global Settlement is accepted by the Commission.

5 The Global Settlement begins with an update to PSE's last general rate case,
6 Dockets UE-111048/UG-111049 which set rates effective in May 2012 (2012 GRC).
7 This update is the Expedited Rate Filing (ERF) filed in Dockets UE-130137 and UG-
8 130138. PSE developed a Commission-basis Report (CBR) for the period ending
9 June 30, 2012. From this basis the power cost and property tax components were
10 removed, leaving delivery charges. The result shows PSE has a demonstrated need
11 for about a \$32 million increase to recover its investments and costs in electric
12 delivery activities, but a small decrease of \$1.2 million for natural gas delivery.
13 Overall, rates would increase by 1.6%.

14 The second component of the global settlement is the rate plan. From the
15 ERF the delivery revenues are divided by the number of customers to derive
16 revenues per customer (RPC). The rate plan calls for three percent increases per year
17 to the electric delivery RPC, and 2.2 percent increases to the gas delivery RPC. The
18 initial rate plan increases are applied to the ERF RPC. This initial rate plan increase
19 brings the delivery revenue level from June 2012, up to the present time. The
20 combined effect on a residential bill of the ERF and rate plan increases is about
21 \$3.28 (3.3%) in electricity and for natural gas an increase of about \$1.33 (1.7%).

22 The third component is the decoupling plan. The delivery RPC, as calculated
23 above, multiplied by the actual customers in a given year derives the financial

1 revenues for PSE. Those financial revenues are collected from customers on the
2 usual cents per kWh basis. The inevitable difference between the two methods is
3 deferred and passed through to customers in the subsequent year's rate filing.

4 Additional customer protections in the ERF--rate plan--decoupling proposal
5 include an annual earnings review in April of each year, a soft cap of no more than a
6 three percent increase in total rates, and refunds if PSE shows it is earning more than
7 the rate of return allowed in the 2012 GRC.

8 The final component of the Global Settlement addresses aspects of PSE's
9 motion for reconsideration in the coal transition power purchase agreement (PPA)
10 case. There are two basic areas where PSE states that it finds unacceptable
11 uncertainty in the recovery of the costs of the PPA. First, Order 03 in Docket UE-
12 121373 leaves open the possibility that the PPA could be deemed imprudent at some
13 future date with potential disallowances. Second, the Order specifically leaves to the
14 future a plan for recovering the costs of the PPA. The proposals in the Global
15 Settlement to cure these uncertainties, as explained below, do not contradict the
16 Commission's decisions, but rather simply serve to resolve these matters now.

17
18 **Q. Does the Global Settlement achieve policy goals stated by the Commission?**

19 **A.** Yes. In Order 08 of the 2012 GRC the Commission opined on Staff's ideas for
20 reducing regulatory lag. Staff had suggested an expedited rate filing to reduce the
21 regulatory time frame. The Commission said it will give fair consideration to a
22 proposal either presented on the Company's own initiative, or after having met with

1 Staff to confirm mutual expectations.¹ The filings in Dockets UE-130137/UG-
2 130138 are the result of just such meetings. These expectations also include the
3 incorporation of end of period rate base, and new regulatory processes as noted in the
4 Synopsis of Order 08.²

5 The rate plan/decoupling dockets are the result of a lengthy process covering
6 many years and many dockets; the 2012 GRC being the most recent. Here again, the
7 Commission invited proposals for full decoupling mechanisms. Staff's acceptance
8 of the plan before us today is fully explained in Ms. Reynolds testimony.³

9
10 **Q. What other entities have expressed interest in the Commission's ratemaking**
11 **processes?**

12 A. The Global Settlement also addresses ratemaking concerns discussed by various
13 stakeholders and the Governor. A letter from the Governor's office and the response
14 by then Chairman and current Commissioner Goltz is presented as Exhibit No. ____
15 (TES-2). Recommendations by the Governor include "provisions for expedited rate
16 proceedings," and "policies [to] increase the efficiency, predictability and
17 consistency of the regulatory system." The Global Settlement accomplishes those
18 recommendations.

19
20 **Q. Please summarize Staff's acceptance of the Global Settlement for the**
21 **Company's electricity and natural gas operations.**

¹ Dockets UE-111048/UG-111049 (*consolidated*), Order 08, at ¶ 507

² Dockets UE-111048/UG-111049 (*consolidated*), Order 08, at page ii.

³ Dockets UE-121697/UG-121705, Exhibit No. ____ (DJR-1T)

1 A. Staff accepts the expedited rate filing in the Global Settlement as a fair and
2 reasonable plan for minor rate increases over the next two to three years. The ERF is
3 an easy to understand update to the last general rate case, which set rates effective
4 May 2012. The specific rate increases in the ERF apply only to delivery costs and
5 revenues. Power costs are excluded and will be addressed in separate filings.
6 Property taxes are also removed from the ERF and the rate plan to be recovered in a
7 separate tariff as requested by the Commission in 2012 GRC.⁴

8 The Global Settlement establishes a rate plan for delivery revenues. The rate
9 plan gives a measure of certainty to PSE of some increase in revenues, but the
10 increases are insufficient to guarantee that PSE will achieve the rate of return set in
11 the 2012 GRC. To do so will require PSE to manage its expenses.

12 The Global Settlement also establishes a decoupling mechanism which
13 applies only to the delivery revenues. Financial revenues will be determined by the
14 “delivery revenue per customer” while customers still pay their bills as cents per
15 kilowatt-hour (kWh). This directly removes the incentive to sell more kWh, a long-
16 stated goal of the Commission.

17 The resolution of two issues in the Coal Transition PPA is both fair and
18 timely. First, Order 03 leaves the Commission with “ongoing approval authority”
19 over the prudence of the PPA. Second, the issue of recovering the costs and equity
20 adder are left to a future time. The Global Settlement’s proposed solutions address
21 those issues now rather than postponing the matters for later determination.

22

⁴ Dockets UE-111048/UG-111049, Order 08, at ¶ 143.

1 **B. Expedited Rate Filings**

2

3 **Q. Please explain the electric expedited rate filing in greater detail.**

4 A. The electric ERF is based on a test period for the 12 months ending June 30, 2012.

5 The ERF is filed following the rules for Commission-basis reports where
6 adjustments to the per books results may include only the necessary adjustments as
7 accepted by the Commission in the utility's most recent general rate case;
8 adjustments for any material out-of-period, non-operating, nonrecurring, and
9 extraordinary items; and adjustments to reflect operations under normal temperature
10 and power supply conditions. Commission-basis reports may not include
11 adjustments that annualize price, wage, or other cost changes during a reporting
12 period, nor new theories or approaches that have not been previously addressed.⁵

13 Exhibit Nos. ___ (KJB-3) and (KJB-5) present the electric ERF revenue requirement
14 results.

15

16 **Q. Does the electric ERF meet the constraints of the CBR?**

17 A. Mostly yes, with some exceptions. The intent of the ERF is to derive a baseline for
18 non-production electric operations, which I will call the "delivery" portion of the
19 business. PSE followed the 2011 CBR, but excluded certain adjustments. Power
20 costs were not updated because there are excluded anyway. Certain minor
21 adjustments were excluded in the interests of expediency, but collectively these

⁵ WAC 480-100-257(2)-(3).

1 would only increase revenue requirements.⁶ The other major adjustment is to
2 remove property taxes from the ERF. Property taxes are proposed to be recovered in
3 a separate tariff filed as Schedule 140.
4

5 **Q. Are there any other deviations from the CBR rule?**

6 A. Yes. PSE used rate base values as of the end of the test period, June 30, 2012. This
7 partially alleviates another cause of regulatory lag. Staff proposed such a move in
8 2012 GRC and the Commission gave positive reviews to that possibility in Order 08
9 as noted by Ms. Barnard in her testimony in the dockets at hand.⁷
10

11 **Q. What final adjustment was made to the ERF base?**

12 A. PSE received a rate increase in May 2012. The revenues from this increase were
13 recognized by applying the increase to the kWh sales in the 10 months prior to May.
14

15 **Q. Did Staff review the adjustments to the per books accounts in the electric ERF?**

16 A. Yes, Staff reviewed the ERF filing and believes the adjustments are proper and
17 reasonable.
18

⁶ The adjustments are found by comparing Exhibit No. ____ (KJB-5), pages 2-3, with Exhibit No. ____ (KJB-7), pages 16-17. Adjustments in the 2011 CBR which are not included in the ERF appear in columns numbered 3.08, 3.11, 3.12, 3.13, and 3.17. The sum of the net operating income effects of these adjustments is a negative \$350,000, meaning additional revenue requirements are needed to recover these items. The direction in the ERF would certainly be the same.

⁷ Exhibit No. ____ (KJB-1T), at 17:5-8.

1 **Q. How is the increase for electric revenues spread to the rate classes?**

2 A. The revenue increase is allocated to all rate schedules on the same basis that delivery
3 cost was assigned to each schedule in 2012 GRC. Although the overall rate change
4 is an increase of 1.6 percent overall, the increases to the schedules range from 0.6
5 percent (high voltage) to over 3.0 percent (retail wheeling and lighting). The two
6 classes that would otherwise incur greater than three percent increases will be held at
7 2.9 percent. The shortfall (about \$262,000) is not recovered by other classes.

8
9 **Q. What is the proposed rate design for this increase to electric revenues?**

10 A. The ERF increase is related to delivery cost only so the increase was spread across
11 basic, energy, demand, and reactive power charge components in proportion to each
12 component's contribution to delivery costs as a whole. The ERF rates are proposed
13 as incremental rates to be collected through Schedule 141.

14
15 **Q. Please explain the natural gas ERF in greater detail.**

16 A. The natural gas ERF is quite similar to the electric filing. The test period is the 12
17 months ending June 30, 2012. And the gas ERF is filed following the rules for
18 Commission-basis reports, as well.⁸ Exhibit Nos. ___ (KJB-4) and (KJB-6) present
19 the natural gas ERF revenue requirement results.

20
21 **Q. Does the natural gas ERF meet the constraints of the CBR?**

22 A. Mostly yes, with some exceptions. The intent of the ERF is to derive a baseline for a
23 portion of rates called "margin." PSE followed the 2011 CBR, but excluded certain

⁸ WAC 480-90-257.

1 minor adjustments in the interests of expediency. In 2011, these adjustments
2 collectively decreased revenue requirement by about \$157,000.⁹ The other major
3 adjustment is to remove property taxes from the ERF. Property taxes are proposed to
4 be recovered in a separate tariff filed as Schedule 140.

5
6 **Q. Are there any other deviations from the CBR rule?**

7 A. Yes. As in electric operations, PSE filed rate base at the account balances for the
8 end of the test period, June 30, 2012. As noted above, this option was identified in
9 Order 08 as partially alleviating regulatory lag.

10
11 **Q. Did Staff review the adjustments to the per books accounts in the gas ERF?**

12 A. Yes, Staff reviewed the gas ERF filing and believes the adjustments are proper and
13 reasonable.

14
15 **Q. How is the reduction to gas revenues spread between the rate classes?**

16 A. The small revenue reduction is allocated to all rate schedules on an equal percentage
17 basis. The overall rate change is a reduction of 0.3 percent of margin.

18

⁹ The adjustments are found by comparing Exhibit No. ____ (KJB-6), pages 2-3 with Exhibit No. ____ (KJB-8), pages 14-15. Adjustments in the 2011 CBR which are not included in the ERF are in columns numbered 3.06, 3.08, 3.09, 3.11, and 3.12. The sum of the net operating income effects for these adjustments is a positive \$156,777, meaning less revenue requirement would be needed in that time period. The effect of including these adjustments in the gas ERF is uncertain.

1 **Q. What is the proposed rate design for this reduction to gas revenues?**

2 A. All elements of rates are reduced by an equal percentage, with minor exceptions. As
3 agreed in the 2012 GRC, the demand charge is reduced, but the demand charge is
4 kept the same for the affected schedules.

5
6 **Q. Please address the property tax issue.**

7 A. PSE proposes a separate mechanism to collect property taxes. Therefore, property
8 taxes are carved out of the revenue requirement calculations to set up a new tariff,
9 Schedule 140, Property Tax Tracker. The Commission required such a proposal in
10 Order 08.¹⁰ PSE intends this tracker to accomplish the goal of charging customers
11 the actual property taxes—no more and no less. Staff supports this goal, but as
12 Schedule 140 is proposed, but not yet filed, we have not yet confirmed the goal is
13 met. We will do so by the time a compliance filing is needed in the collective
14 filings.

15

16 **C. Rate Plan**

17

18 **Q. Does PSE show an inability to earn a sufficient return on its growing utility**
19 **investments?**

20 A. Yes. My Exhibit No. ____ (TES-3) depicts PSE's CBR rate of return results over the
21 past several years. It shows PSE as earning less than its authorized rate of return by
22 upwards of 250 basis points. Even in years following meaningful rate increases, PSE
23 is unable to narrow the earnings gap. For instance, PSE received an electric rate

¹⁰ Dockets UE-111048/UG-111049 (*consolidated*), Order 08, at ¶ 143.

1 increase of 7.1 percent in November 2008 based on a rate of return of 8.25 percent
2 and a return on equity of 10.15 percent. Yet the 2009 results show that PSE earned
3 6.11 percent overall and 5.63 percent on equity. Many factors enter into why actual
4 results vary from the Commission-allowed results, but the variances are striking,
5 nonetheless.

6
7 **Q. Does the Global Settlement offer PSE a full expectation of earning its**
8 **authorized rate of return?**

9 A. No. The ERF and rate plan increases will improve PSE's opportunity to earn the rate
10 of return set in Dockets UE-111048/UG-111049, which is 7.8 percent. But Staff
11 does not believe PSE will fully achieve that earnings level. PSE will need to manage
12 its expenses, and to the extent it succeeds it will keep those savings, up to a point.
13 Staff considers this a reasonable plan to encourage PSE to manage its expenses over
14 the next three years.

15
16 **Q. What is PSE's justification for the annual delivery charge increases?**

17 A. PSE presents its growth in delivery rate base and expenses over the past several
18 years and its delivery capital budgets for the next three years as evidence supporting
19 the delivery charge increases.¹¹ The historical growth in plant for transmission,
20 distribution and general plant is a trend that continues into the near future. The basis
21 for the exhibit is the Company's compliance filings in general rate cases in the recent
22 past.

¹¹ Dockets UE-121697/UG-121705, Exhibit No. ____ (KJB-3).

1 Electric transmission and distribution (T&D) and general plant has grown at
2 an annual rate of six percent over the five plus years from the 2006 GRC through the
3 2011 GRC. Electric depreciation expense for the same accounts has grown at an
4 annual rate of 6.7 percent. Electric expenses for T&D and customer accounts have
5 annual growth rates of 6.8 percent and 5.2 percent, respectively.

6 Natural gas plant has grown by 5.5 percent annually in the same period. Gas
7 depreciation expense has grown by 7.8 percent. Finally, gas transmission and
8 distribution expenses grew at 7.2 percent, while customer account expenses grew at
9 4.6 percent annually over the past 5 plus years.

10
11 **Q. Are the past levels of investments in T&D and general plant representative of**
12 **PSE's future investments?**

13 A. Yes, Staff believes they are. PSE shows capital budgets for non-generation plant
14 growing at rates similar to those in the recent past.¹²

15
16 **Q. Does PSE base its "K-factor" on the delivery plant and expense growth rates?**

17 A. In a rough sense, yes, but the K-factor is substantially less than the indicated plant or
18 expense growth rates of the past several years. PSE developed a weighted average of
19 the growth rates for delivery rate base, depreciation expense, and expenses. For this
20 purpose, PSE did not use its historical expense growth rate, but rather substituted a
21 forecasted Consumer Price Index (CPI) rate less one-half percent. The adjusted CPI
22 rate of 1.9% is less than the indicated growth rates for the delivery and general
23 expenses. The weighted average basis for the K-factor is 4.06 percent for electricity

¹² Dockets UE-121697/UG-121705, Exhibit No. ____ (KJB-5).

1 and 3.80 percent for gas. However, the proposed K-factors are 3.0 percent and 2.2
2 percent, respectively, which are about 25 to 40 percent less than potential plant and
3 expense growth rates.¹³

4
5 **Q. Is PSE likely to earn more than its authorized return from the rate plan**
6 **increases?**

7 A. No, in Staff's opinion that outcome is highly unlikely. Given a K-factor that is less
8 than plant or expense growth rates, coupled with PSE's chronic under-earning, there
9 is ample evidence that the proposed rate plan increases are not likely to lead to
10 overearning. PSE must manage its expenses to generate earnings sufficient to earn
11 its authorized return.

12
13 **D. Decoupling¹⁴**

14
15 **Q. Please review the mechanics of the decoupling proposal.**

16 A. In Year One (at the conclusion of these proceedings in mid-2013) the decoupling
17 mechanism begins with the revenue per customer (RPC) determined by the ERF
18 times the initial K-factor.

19 This RPC, approximately \$400 per electric residential customer annually,¹⁵
20 will be multiplied by the number of customers in each month. Customers, however,
21 will pay bills on the standard method of a small basic charge plus the monthly

¹³ Dockets UE-121697/UG-121705 (*consolidated*), Exhibit No. ____ (KJB-4).

¹⁴ Dockets UE-121697/UG-121705 (*consolidated*), Exhibit No. ____ (DJR-1T) presents Staff's review of the decoupling mechanism in the context of the Commission's decoupling policy.

¹⁵ Dockets UE-121697/UG-121705 (*consolidated*), Exhibit No. ____ (JAP-14). The non-residential electric customer's RPC is \$2,046 annually.

1 kilowatt-hours (kWh) consumed times the cents per kWh. Financial revenues are
2 determined by the RPC calculation. The customer billings determine the cash
3 collections of the revenue. The difference between the RPC revenues and the cents
4 per kWh cash collection is deferred for later true-up.

5 If the annual RPC were divided evenly over 12 months, large over-collection
6 balances would accumulate in winter months to be offset by similarly large under-
7 collection balances in summer months. To reduce the volatility of the deferral
8 balances, the RPC is shaped to approximate the kWh sales in each month. The RPC
9 will be as high as \$34.53 in January to as low as \$18.70 in August for 2013.¹⁶

10 The deferred balances will accrue interest at the rate set by the FERC for
11 purchased gas deferrals. This rate is less than a utility's after-tax rate of return.

12 In January each year, the RPC is increased by the next K-factor, three percent
13 for electricity and 2.2 percent for gas. In April of each year, PSE will file new rates
14 to collect that year's RPC revenues. The new volumetric rate is adjusted to pass
15 through the deferred balance of the prior year. The effective date of this rate change
16 is intended to be May 1. Although the RPC includes revenues from the basic
17 charges, the total revenue increase will be recovered by the volumetric charges.

18 The RPC revenues are only for electric delivery revenues. Therefore, a three
19 percent increase to the RPC does not translate to a three percent increase in cents per
20 kWh or total bills. The effect on total electric bills will be about 1.6 percent.¹⁷

21 The decoupling revenues and rates are detailed in PSE's proposed Schedule
22 139, Revenue Decoupling Adjustment Mechanism.¹⁸

¹⁶ Dockets UE-121697/UG-121705 (*consolidated*), Exhibit No. ____ (JAP-16).

¹⁷ Dockets UE-121697/UG-121705 (*consolidated*), Exhibit No. ____ (JAP-19).

1 The natural gas mechanism works the same as the electric mechanism with
2 similar bill effects.

3
4 **Q. Are there constraints in place to control rate increases?**

5 A. Yes. The annual rate increase will be capped at three percent if the decoupling
6 deferrals could cause a total rate increase to be greater than three percent. For
7 instance, the three percent increase to the RPC will trigger about a 1.6% increase in
8 total rates. If the decoupling deferrals from the prior year are rather substantial, it is
9 possible the overall rate increase would exceed three percent. In that case the overall
10 rate increase will be held at three percent. Therefore, rates will be insufficient to
11 recover the balance in the decoupling deferral account. Those deferrals will remain
12 in the account to be captured in the next year's filing.

13 Also, the annual April 1 filing will include the CBR for the prior year, which
14 will be the basis of an earnings review. If that CBR shows earnings 25 basis points
15 (0.25 percent) greater than PSE's authorized rate of return,¹⁹ then PSE will refund
16 one-half of the over-earnings.

17
18 **Q. How will the impact of the above plans on low income programs be addressed?**

19 A. Under paragraph 12 of the Multiparty Settlement Agreement, the parties reserve the
20 right to negotiate terms addressing the impact of the proposed plans on low income
21 programs.

22

¹⁸ Dockets UE-121697/UG-121705 (*consolidated*), Exhibit Nos. ____ (JAP-20) and (JAP-21).

¹⁹ Which would be 8.05 percent being 7.8 percent plus 0.25 percent.

1 **E. Motion for Reconsideration**

2

3 **Q. Please explain the issue of ongoing approval authority.**

4 A. On the issue of ongoing approval authority, Staff understands that PSE is concerned
5 about the possible consequences of either the termination of TransAlta's
6 Memorandum of Agreement (MOA) with the State of Washington, or a permanent
7 cessation of generation at the Centralia Transition Coal Facility (CTCF), including
8 the possibility that the Commission might rule the PPA contract imprudent. In
9 response to these concerns, PSE and TransAlta amended the contract. The
10 amendment provides that if either the MOA is terminated or there is a permanent
11 cessation of generation at the CTCF, PSE will bring this matter to the Commission
12 with PSE's recommendation on whether to continue the PPA contract or not, and file
13 a petition seeking concurrence with its recommendation from the Commission. In
14 the Global Settlement, PSE expressly agrees that the Commission may condition any
15 Order approving or disapproving a petition for concurrence, including but not limited
16 to the recovery of cost and equity under the Coal Transition PPA, and that any such
17 condition will be binding on PSE if PSE were to continue to make purchases under
18 the Coal Transition PPA. Any such condition would be prospective only. This
19 satisfies the concerns expressed by Staff in the PPA case and we support reopening
20 the record to enter the amendment to the Coal Transition PPA and to clarify
21 Order 03, consistent with the terms of paragraphs 16 and 17 of the Global
22 Settlement.

23

1 **Q. Please explain the proposal to recover PPA expenses.**

2 A. The Global Settlement establishes a method for PSE to collect the PPA costs and the
3 equity adder in rates. The PPA begins in December 2014, with the delivery of 180
4 megawatts (MW) per hour around the clock. In December 2015, the volume
5 increases to 280 MW per hour, and in December 2016, it increases again to 380 MW
6 per hour and remains at that level until December 2024, when it drops to 300 MW
7 for the final year of the contract. In each of the first three years PSE will submit a
8 compliance filing to update the Power Cost Adjustment (PCA) baseline with the
9 price and volumes of the contract plus the equity adder. The costs of the PPA will be
10 offset by the cost of the market power the PPA replaces. Once the volumes reach the
11 maximum of 380 MW per hour, further price increases will flow through the PCA as
12 normal power costs.

13

14 **Q. Is this a fair outcome for PSE and its customers?**

15 A. Yes. This plan allows PSE to recover its initial costs as the contract takes effect and
16 rises to the maximum output. The price escalation in the contract after 2016 will
17 flow through the PCA bands as normal power costs. This is a fair and reasonable
18 outcome from Staff's perspective.

19

1 IV. CONCLUSION

2

3 **Q. What is Staff's recommendation?**

4 A. Staff recommends that the Commission accept the Global Settlement and approve
5 the tariffs and accounting deferrals necessary to accomplish the mechanisms outlined
6 in the Global Settlement. Staff also recommends the Commission reopen the record
7 in Docket UE-121373 to enter the amendment to the Coal Transition PPA and to
8 clarify Order 03, consistent with the terms in paragraphs 16 and 17 of the Global
9 Settlement.

10

11 **Q. Does this conclude your testimony?**

12 A. Yes.