EXHIBIT NO. ___(JAP-1CT)
DOCKET NO. UE-16____
SCHEDULE 451 FILING
WITNESS: JON A. PILIARIS

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket No. UE-16____**

PREFILED DIRECT TESTIMONY (CONFIDENTIAL) OF JON A. PILIARIS ON BEHALF OF PUGET SOUND ENERGY

REDACTED VERSION

OCTOBER 7, 2016

PUGET SOUND ENERGY

PREFILED DIRECT TESTIMONY (CONFIDENTIAL) OF

JON A. PILIARIS

CONTENTS

PUGET SOUND ENERGY

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

JON A. PILIARIS

I. INTRODUCTION

Q. Please state your name, business address, and present position with Puget Sound Energy.

A. My name is Jon A. Piliaris. I am employed as Manager, Pricing and Cost of Service at Puget Sound Energy ("PSE"). My business address is 10885 N.E. Fourth Street, Bellevue, Washington, 98009.

Q. Have you prepared an exhibit describing your professional qualifications?

A. Yes, I have. It is Exhibit No. ___(JAP-2).

Q. What is the purpose of your testimony?

A. My testimony evaluates the stranded cost associated with the potential decision of Microsoft Corporation ("Microsoft") to take service under the proposed Schedule 451 (Large Customer Retail Wheeling), the proposed rates and charges within Schedule 451, and how existing rider schedules will apply to customers taking service under Schedule 451.

Q. Please summarize your conclusions regarding the stranded costs associated with Microsoft's possible decision to take service for a portion of its load under PSE's proposed Schedule 451.

A I conclude that a reduction of Microsoft load on PSE will likely put upward pressure on the rates of remaining PSE customers in the near term but could put downward pressure on the rates of remaining customers after approximately four years. In recognition of the rate impacts associated with this near term stranded cost, PSE proposes that Microsoft pay $23.685 million to mitigate these potential near term rate impacts.

Q. Please summarize the application of rates, charges and riders under Schedule 451.

A The rates and charges under Schedule 451 will be similar to those included in PSE's existing Schedule 449 (Retail Wheeling Service), with notable differences due to the distinct service being offered under Schedule 451. Specifically, since service under Schedule 451 is being offered to customers currently taking service under PSE's existing Schedule 40 (Large General Service Greater Than 3 aMW),[1] distribution costs will continue to be recovered in a manner consistent with the way in which they are recovered under that schedule. In addition, while the rider rates applicable to Schedule 451 will eventually be derived exclusively for this schedule using the most current methods approved by the Commission, until the data is available to perform rate calculations specific to Schedule 451 usage,

[1] Customers must also meet the other eligibility requirements for service under Schedule 451.

customers served under Schedule 451 would pay rates under Schedule 120 (Conservation) that are tied to Schedule 449 and for all other applicable riders would pay rates that are tied to Schedule 40, as discussed later in this testimony.[2]

II. STRANDED COST ASSOCIATED WITH THE LOSS OF MICROSOFT LOAD ON PSE'S GENERATION SYSTEM

Q. What Microsoft load is eligible for service under PSE's proposed Schedule 451?

A. Microsoft currently has approximately [redacted] locations served under Schedule 40 that will be eligible for service under the proposed Schedule 451. For calendar year 2015, PSE served about [redacted] MWh, or approximately [redacted] aMW, of load at these locations. This is the only portion of Microsoft's load that would be eligible for service under the proposed Schedule 451. Microsoft also takes fully bundled service under several other rate schedules and those loads would not be eligible for Schedule 451.

Q. Did you assess the stranded costs associated with Microsoft taking service under Schedule 451?

A. Yes. I performed an analysis to calculate the stranded costs associated with Microsoft taking service under Schedule 451 rather than Schedule 40. This analysis, modelled after the analysis I presented in Docket No. UE-132027, is presented in Exhibit No. ___(JAP-3C).

[2] As discussed later in this testimony, certain of PSE's existing riders will not apply to customers taking service under Schedule 451.

Q. Please summarize the approach used in your analysis in Exhibit No. ___(JAP-3C).

A. My analysis first relies on forecasts of PSE's incremental power costs with and without Microsoft's load served under Schedule 40. The difference in results between these two forecasts is the avoided cost associated with Microsoft's projected load served under Schedule 40. These avoided cost forecasts, provided by PSE's Resource Planning Department, were performed using PSE's Portfolio Screening Model III ("PSM III"), wherein PSE's incremental power costs were forecast with and without Microsoft's forecasted loads under Schedule 40. Otherwise, these forecasts used a consistent set of assumptions.

These projected avoided costs were compared against a projection of the power-related revenues associated with Microsoft's forecasted load under Schedule 40. The starting point for the projection of power-related revenue is the average effective Power Cost Adjustment ("PCA") baseline rate approved in PSE's 2014 Power Cost Only Rate Case ("PCORC") in Docket No. UE-141141 for customers served under Schedule 40.[3] This effective PCA baseline rate for Schedule 40 was then forecast over the period analyzed. The "variable" portion of this PCA baseline rate is assumed to grow at a rate consistent with the forecast of annual market power and gas prices. The "fixed" portion of this PCA baseline rate is held constant through the forecast period. This forecasted rate was further adjusted to reflect production-related rate credits currently available to

[3] It may be worth clarifying here that this effective rate includes the rate recovering power costs that are currently embedded in base rates (i.e., Schedule 40), as well as the effects of the adjusting Schedule 95 (Power Cost Adjustment Clause).

Schedule 40 customers under Schedule 95A (Federal Incentive Tracker) and Schedule 137 (Temporary Customer Surcharge or Credit). The resulting forecasted retail power-related rate was then applied to the forecast of Microsoft's Schedule 40 load to derive the associated power-related revenue.

The net present value of the difference between the avoided power costs and the lost power-related revenue was then calculated for each year through 2035, which is the final year included in PSE's 2015 Integrated Resource Plan ("2015 IRP") analysis. This analysis is summarized in Exhibit No. ___(JAP-3C).

Q. What do the results show?

A. The results show that PSE's loss of Microsoft's Schedule 40 loads and associated power-related revenues results in an estimated net cost of approximately $[redacted] to $[redacted] million per year over the first four years of the projections, after which there is estimated to be a net benefit. On a net present value basis, there is estimated to be a net cost through the first ten years of the projections that becomes a net benefit thereafter. By 2035, the net present value of PSE's loss of Microsoft's Schedule 40 load is estimated to be a net benefit of approximately $23 million.

Q. Why do the results change from a net cost to a net benefit after the first four years of the analysis?

A. Fundamentally, the results of this analysis rely on the difference between the price for power supply embedded in PSE's retail electric rates and its avoided power supply cost, as well as PSE's need for new resources to meet its load requirements. Without a need for new resources, a loss of retail load should result

in a net cost to other PSE customers since the retail price for power supply currently exceeds PSE avoided costs of power supply, which is roughly approximated by the projected market price of power. However, when PSE anticipates the need to make a major resource acquisition, this loss of retail load becomes a net benefit to other customers through the delayed or reduced acquisition of those resources. As recently announced, PSE has agreed to cease operations of Units 1 and 2 of its Colstrip Generating Station in eastern Montana in 2022, which is year five of the analysis presented in Exhibit No. ___(JAP-3C). PSE's share of these units is approximately 300 MW of generating capacity. Therefore, the loss of PSE's obligation to supply power to Microsoft load in 2022 would reduce the need to replace the full 300 MW of power from these generating units, to the benefit of PSE's remaining customers beginning in year five of the analysis.

Q. Please describe PSE's PSM III model used to calculate its avoided cost related to Microsoft's load served under Schedule 40.

A. PSE uses the PSM III model for resource planning and acquisitions. The PSM III uses a linear optimization model to select a lowest cost portfolio of resources subject to a constraint, which requires the optimal portfolio's resources to meet the forecasted 20-year peak capacity need. This model and its use in PSE's resource planning and acquisitions is described in detail in Appendix N of PSE's 2015 IRP.

Q. Are the underlying assumptions used to evaluate Microsoft's stranded cost consistent with the base case assumptions in PSE's 2015 IRP?

A. This analysis uses assumptions consistent with the base case assumptions used in PSE's 2015 IRP with a few exceptions. First, PSE excluded carbon costs from the analysis. Second, PSE updated its gas price forecast to reflect the three-month average (as of December 4, 2015) of projections from Kiodex for 2017 through 2020 and the Fall 2015 fundamental Base forecast from Wood Mackenzie for 2021 through 2035. Finally, PSE updated is market power price forecast to be consistent with the avoided costs filed in Docket No. UE-152314 on March 4, 2016, which is linked to the gas price forecast and the assumption that there is no carbon cost during the forecast horizon. The only other change in assumptions is the removal of Microsoft's projected Schedule 40 peak load to derive the avoided costs associated with this load.

Q. What is the basis for your forecast of Microsoft's Schedule 40 annual average and peak energy use?

A. This information was provided to PSE by Microsoft. PSE has no basis for developing any more accurate forecast of Microsoft's Schedule 40 load than developed by this customer.

Q. Does PSE anticipate any further stranding of costs associated with its transmission and distribution systems?

A. No. As discussed further in the next section of this testimony, Microsoft would continue to receive and pay for transmission and distribution service as a Schedule 451 customer. Therefore, there is no stranding of these costs.

Q. What do you conclude from this analysis about the stranded cost associated with the loss of Microsoft's Schedule 40 load?

A. While it is shown in Exhibit No. ___(JAP-3C) that there is projected to be a net benefit associated with the loss of Microsoft's Schedule 40 load over the full forecast horizon, it is equally true that there is projected to be a net cost associated with the loss of this load in the first few years.

Q. Given these conflicting near term and longer term results, what do you propose as Microsoft's stranded cost in this case?

A. In deference to the notion that the near term costs are more certain than the longer term benefits, PSE proposes to rely more heavily on the near term results as the basis for estimating Microsoft's stranded costs. Specifically, PSE proposes using the net present value of the net benefit of the loss of Microsoft's load forecast to be served under Schedule 40 in year five of the projections as the basis for determining Microsoft's stranded costs. This value is shown in row 5, column (f) of Exhibit No. ___(JAP-3C) to be approximately $23.7 million.

Q. What is the basis for using the results in year five of this analysis to determine the proposed stranded cost payment associated with Microsoft taking service under Schedule 451?

A. The use of the year five result is based on at least two factors. First, as noted earlier, in the absence of any mitigation from this move, PSE customers are projected to experience upward rate pressure in the first few years as a result of Microsoft's potential move from Schedule 40 to Schedule 451. However, it is also true that remaining customers are projected to benefit beginning in the fifth year and over the longer term. So, it is fair to provide some recognition for that benefit. PSE believes reflecting one year of that benefit in the calculation of Microsoft's stranded cost calculation is appropriate, as it provides some recognition of the longer-term benefits that could accrue to remaining customers.

Second, in Docket No. UE-132027, parties argued strenuously for relying on a shorter period of time than the 20-year period that PSE presented for the analysis in that case, which is very similar to the analysis presented in this docket in Exhibit No. ___(JAP-3C).[4] While the parties were not explicit about the appropriate time period for the analysis, PSE's proposed five year period is an attempt to address this concern by the parties.

[4] *See, e.g.,* Docket No. UE-132027, ICNU Brief at ¶¶ 45-47, Public Counsel Brief at ¶ 43, and Staff Brief at ¶¶ 100-104.

Q. Are potential decommissioning and remediation expenses associated with PSE's future closure of its Colstrip generating facilities included in the estimated stranded cost for Microsoft?

A. No, these potential expenses are not included in its proposed stranded cost charge for Microsoft's service under Schedule 451. PSE anticipates that the recovery of Colstrip-related decommissioning and remediation expenses will be the subject of a future filing and the amount, if any, assigned to customers taking service under Schedule 451 would be addressed at that time.

Q. When would Microsoft pay this stranded cost charge?

A. Microsoft would pay this on the first day of the first calendar month following the month in which Microsoft commences service under Schedule 451.

Q. How would these funds flow back to other PSE customers?

A. PSE proposes to flow through the stranded cost payment over a 12-month period through the PSE's existing electric Schedule 137.[5] This schedule is currently being used to pass through the benefits of PSE's sale of Renewable Energy Credits. Those revenues are being allocated to customers in a manner consistent with their allocated power costs. Since the stranded costs are associated with power costs, this schedule is well suited to appropriately flow through this payment to customers with little additional administrative effort or cost.

[5] PSE does not intend to incur interest expense in connection with flowing through stranded cost payments to customers and would proposes to remit these payments over a shorter period of time, if necessary, to avoid this expense.

Moreover, as explained later in this testimony, since Schedule 137 will not apply to customers taking service under Schedule 451 there is no risk that any portion of the stranded cost payment would flow back to the customer paying the stranded cost in the first place.

Q. Have you explored other approaches to determining the stranded cost estimate for Microsoft?

A. Yes, I calculated the potential stranded cost for Microsoft using a number of other simplified methods to evaluate the reasonableness of PSE's proposed figure of roughly $23.7 million. I first evaluated this figure from the standpoint of the way in which PSE allocates its power costs to customers in its rate-setting processes. I then also evaluated the proposed stranded cost from the view of how PSE's power costs are deemed to be "fixed" or "variable" in nature in PSE's PCA calculations.

Q. Please explain how you evaluated Microsoft's proposed stranded cost from a rate allocation perspective.

A. PSE uses its "peak credit" methodology to classify its power supply costs between those that are considered "demand-related" and those that are considered "energy-related." Costs that are considered "demand-related" generally represent those costs that are thought to be "fixed" and therefore potentially strand-able. Energy-related costs are considered more "variable" in nature and therefore are generally considered to be avoidable. In the rate setting process, customers are then allocated the demand-related and energy-related power supply costs based on their relative contribution to PSE's peak demands and energy consumption.

The classification factor used to split power supply costs between its demand and energy components was then applied to PSE's projected overall power costs. Microsoft's contribution to the demand-related portion of PSE's projected power costs were then calculated and considered "stranded." The net present value of this stream of annual stranded costs was calculated over a four year period to estimate the total stranded cost for Microsoft. These calculations are presented in Exhibit No. ___(JAP-4C) and show that Microsoft's stranded cost under this approach would range from approximately $[redacted] to $[redacted] million, depending on the specific peak credit classifications used.

Q. Please explain why you used a range of peak credit results for the analysis in Exhibit No. ___(JAP-4C).

A. For the results presented in Exhibit No. ___(JAP-4C), I used the peak credit results from PSE's most recent general rate case, Docket No. UE-111048, as well as from the rate design settlement in Docket No. UE-141368. Results using the former result (i.e., from the general rate case) are more in line with the peak credit results experienced over the past few general rate cases. The peak credit results from the rate design settlement, while currently in effect, weighed more in favor of demand-related costs. Moreover, while parties to that settlement agreed that these results would be used in PSE's next general rate case, they reserved the right to advocate for different results in subsequent cases. It is noteworthy that the more current peak credit results produced through the settlement result in a higher

stranded cost calculation than the peak credit results from PSE's last general rate case, which was more in line with historic results.

Q. Why is using PSE's peak credit results a valid approach to determining Microsoft's stranded cost?

A. It puts the stranded cost calculation on equal footing with the way in which Microsoft is currently being allocated its share of PSE's overall power costs. This is a growing issue within the industry, with the growing interest in conservation and self-generation, whereby the manner in which costs are allocated to customers when receiving power from the utility necessarily influences the value they receive by avoided purchases from the utility. Simply put, the greater the cost allocation to a particular group of customers, the greater the value to them of avoiding the purchase of power from the utility.

Q. Why did PSE only use four years to calculate Microsoft's stranded cost using this approach?

A. Limiting the analysis to four years produces results that are more protective of remaining ratepayers by ignoring the potential avoided cost benefits that may accrue to remaining customers in 2022 and beyond. As noted above, with the planned retirement of Colstrip Units 1 and 2 in 2022, which is the fifth year of the analysis, PSE is projected to be able to begin avoiding costs by the loss of its Microsoft's Schedule 40 load obligation. Therefore, to be conservative, this analysis ended at the point at which PSE's remaining customers may experience a

benefit. The last year in which customers are projected to be harmed by the loss of Microsoft's Schedule 40 load is 2021, or year four of the analysis.

Q. Please explain how you used PSE's PCA mechanism to estimate Microsoft's stranded cost.

A. This approach is very similar to the previous one using the peak credit results. However, instead of associating Microsoft's stranded costs with the power supply costs deemed to be demand-related through the peak credit methodology, it is associated with the costs that are determined to be "fixed" within the operation of PSE's PCA mechanism. The results are similarly calculated by determining Microsoft's annual share of the projected fixed costs within the PCA mechanism allocated to Schedule 40. The net present value of these annual amounts is then calculated over a four-year period, for the same reasons articulated earlier, to determine the estimated stranded cost. PSE used a four -year period of analysis for the same reasons articulated in the explanation of the results using the peak credit approach.

Q. What are the results under this approach?

A. This approach produces a stranded cost estimate of approximately $[redacted] million. The calculation of these results is presented in Exhibit No. ___(JAP-5C).

Q. Please summarize the range of results using your alternative stranded cost calculations.

A. The range of results using the alternative stranded cost calculations are summarized in the table below. As can be seen from this table, the proposed stranded cost of approximately $23.7 million for Microsoft falls well within this range of results, supporting its reasonableness.

Approach	Stranded Cost Estimate ($ Millions)
Peak Credit (General Rate Case Results)	$[redacted]
Peak Credit (Settlement Results)	$[redacted]
Proposed Approach	$23.7
Fixed PCA Costs	$[redacted]

Q. Is PSE endorsing the use of any of these alternative calculations for purposes of determining Microsoft's stranded costs?

A. No. These were only meant to be illustrative of the range of results. However, for purposes of determining Microsoft's stranded costs, PSE strongly prefers the use of the analysis presented in Exhibit No. ___(JAP-3C) as this analysis most directly ties to PSE's avoided costs and is most reflective of the results customers are expected to experience by the loss of Microsoft's Schedule 40 load. The analysis shown in Exhibit No. ___(JAP-3C) is the only one of the four that gives any recognition to the avoided cost benefits that could accrue to remaining customers as a result of PSE no longer having to serve the Microsoft Schedule 40 load. In light of these potential benefits, PSE believes it is appropriate to reflect at least some of the potential benefit in the stranded cost calculations.

III. SCHEDULE 451 RATES AND CHARGES

Q. Please summarize the rates and charges for customers taking service under Schedule 451.

A. In many respects, the structure of the rates and charges under Schedule 451 mirror those for customers taking service under Schedule 449. Power supply is arranged directly between the customer and their supplier. Transmission and the associated ancillary services are recovered through PSE's Open Access Transmission Tariff ("OATT"). Customer-related costs will be recovered through a customer charge. Similarly, a variety of rate riders will also apply. However, unlike Schedule 449, customers under Schedule 451 will have a separate charge for distribution service, distribution losses will be recovered separately[6] and there will also be a separate stranded cost charge.

Q. Please explain how the customer charge for Schedule 451 will be determined.

A. Initially, customers served under Schedule 451 will pay the same customer charge as being recovered from customers served under Schedule 449. This rate is currently set at $995 per month. The rationale for tying the customer charge under Schedule 451 to Schedule 449 is that the nature of the service, the metering requirements, and the billing complexity will all be very similar. However, expecting that there may be slight differences in the underlying customer costs for service under these two rate schedules, PSE will propose a customer charge

[6] Section 2.3 of the Schedule 451 outlines how distribution losses will be determined and recovered.

unique to service under Schedule 451 in the first general rate case where service under this schedule was provided during the test year of that case. At that point, sufficient data should be available to calculate a more refined charge based on known and measurable costs.

Q. How will the charges for distribution service be determined for service under Schedule 451?

A. Since eligibility for this service is limited to customers currently taking service under Schedule 40, PSE proposes that the existing distribution charges for customers moving their service to Schedule 451 continue to apply. In subsequent general rate cases, PSE would continue to apply the then-current Schedule 40 methodology for determining distribution charges to customers taking service under Schedule 451 (i.e., as if they had continued to take service under Schedule 40).

Q. How will the stranded cost charge be determined and recovered?

A. The level of the charge will be determined in this proceeding. It will be recovered through a separate charge, as outlined in the customer's Schedule 451 Service Agreement. Customers taking service under Schedule 451 would pay this on the first day of the first calendar month following the month in which they commence service under Schedule 451.

Q. Which rate riders would apply to customers taking service under Schedule 451?

A. Customers taking service under Schedule 451 would be subject to charges under Schedule 120 (Electric Conservation Service Rider), Schedule 129 (Low Income Program), Schedule 132 (Merger Rate Credit), Schedule 140 (Property Tax Rider), Schedule 141 (Expedited Rate Filing Rate Adjustment) and Schedule 142 (Revenue Decoupling Adjustment Mechanism). If or when Schedule 451 is approved by the Commission, PSE proposes to make a compliance filing to update these adjusting price schedules to reference Schedule 451, as appropriate. Future rate riders may also apply, or existing ones may be discontinued, over time.

Q. What would customers served under Schedule 451 pay under Schedule 120?

A. PSE proposes that customers taking service under Schedule 451 pay the same rate under Schedule 120 as customers taking service under Schedule 449. These customers will be both taking power supply services from someone other than PSE and, therefore, there would be no basis under the current methodology to allocate conservation costs to customers served under Schedule 451. The current rate paid by Schedule 449 customers under Schedule 120 is $0.001082 per kWh.

Q. Will customers served under Schedule 451 continue to participate in PSE's conservation programs as they do now?

A. Yes. These customers would continue to be eligible to participate in PSE's conservation programs, including Schedule 258 (Large Power User Self Directed Program).

Q. What would customers served under Schedule 451 pay under Schedule 129?

A. Initially, PSE proposes that customers taking service under Schedule 451 pay the same rate under Schedule 129 as customers taking service under Schedule 40. This rate currently stands at $0.000623 per kWh. However, over subsequent (annual) Schedule 129 filings, PSE would apply the approved methodology for allocating the underlying costs recovered through this schedule to customers served under Schedule 451. Currently, these costs are allocated on total base revenue. Since Schedule 40 includes a power supply component that will no longer exist when customers take service under Schedule 451, Microsoft would likely be overpaying so long as their rates under Schedule 129 are tied to those paid by customers taking service under Schedule 40. This issue will correct itself as the rate revenue under Schedule 451 becomes known and measurable, and can be used to allocate the appropriate amount of costs under this Schedule 129 to these customers.

Q. What would customers served under Schedule 451 pay under Schedule 132?

A. Initially, PSE proposes that customers taking service under Schedule 451 pay the same rate under Schedule 132 as customers taking service under Schedule 40. This rate credit currently stands at $0.000158 per kWh. As the dollar credit under this schedule is allocated based on non-power revenue, initially tying Schedule 451 to Schedule 40 under Schedule 132 is a reasonable starting point. However, as with the other schedules, PSE will propose a standalone rate for Schedule 451 under Schedule 132 if or when data is available to do so. That being said, this credit is set to expire at the end of 2018. So, depending on the timing of approvals for Schedule 451 and when customers begin taking service under that schedule, there may be no opportunity for a stand-alone rate for Schedule 451 under this schedule.

Q. What would customers served under Schedule 451 pay under Schedule 140?

A. Initially, PSE proposes that customers taking service under Schedule 451 pay the same rate under Schedule 140 as customers taking service under Schedule 40. This rate currently stands at $0.002294 per kWh. Since the property tax expenses recovered through this rate rider are tied to the allocation of plant in the previous general rate case, including production plant, customers initially taking service under Schedule 451 will likely be over-allocated property tax expenses. However, as with a few of the other riders, as Schedule 451 begins to receive an allocation of plant in future general rate cases, a separate rate under Schedule 140 unique to customers taking service under Schedule 451 will be developed. This new rate is

expected to be significantly lower than the initial rate charged within Schedule 140 to customers served under Schedule 451.

Q. What would customers served under Schedule 451 pay under Schedule 141?

A. Initially, PSE proposes that customers taking service under Schedule 451 pay the same rate under Schedule 141 as customers taking service under Schedule 40. There are multiple rate components charged under PSE's Schedule 141. Like Schedule 132, the costs recovered under Schedule 141 are allocated on non-power revenue. So, it is appropriate to initially tie the Schedule 141 rates for customers served under Schedule 451 to the rates for customers served under Schedule 40. It is unclear at this point what will become of Schedule 141 following PSE's next general rate case, where the costs recovered through this schedule will be rolled into PSE's general base rates. At the time of that general rate case, PSE will be ready to be more explicit as to the longer-term application of Schedule 141 to Schedule 451, or any of the other schedules under which customers are taking electric service.

Q. What would customers served under Schedule 451 pay under Schedule 142?

A. Initially, PSE proposes that customers taking service under Schedule 451 pay the same rate under Schedule 142 as customers taking service under Schedule 40. This rate currently stands at $0.003324 per kWh. It is appropriate to tie the rates of Schedule 451 to Schedule 40 within Schedule 142, as the basis for the charge (i.e., the true-up of differences between allowed revenue and actual volumetric

revenue) will not change for customers that move from Schedule 40 to Schedule 451.

Q. Per the settlement stipulation approved in Order No. 11 in Docket No. UE-130617, parties agreed that PSE would propose in its next general rate case to recover fixed production costs in its decoupling mechanism. How will this impact Schedule 451 customers?

A. PSE anticipates that its proposed decoupling mechanism in the next general rate case will maintain a bifurcation between production and non-production costs, in effect creating separate allowed revenue and actual volumetric revenue for each part of the mechanism. Under that proposal, Schedule 142 would be restructured so that only customers purchasing power from PSE would be subject to the production-related true up of costs through this schedule. Therefore, customers served under Schedule 451 would be exempt from these Schedule 142 charges or credits.

Q. Why don't PSE's other adjusting price schedules apply to customers taking service under Schedule 451?

A. These schedules are all power-supply related and, therefore, are not applicable to customers taking service under Schedule 451 since these customers will not be purchasing power from PSE. These other adjusting price schedules include Schedule 95 (Power Cost Adjustment Clause), Schedule 95A (Federal Incentive Tracker) and Schedule 137 (Temporary Customer Charge or Credit). As noted earlier, PSE proposes to flow through the stranded cost payments to customers

through Schedule 137, which prevents customers under Schedule 451 from benefiting from their own stranded cost payment.

IV. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.