EXHIBIT NO. ___(LEO-4T)
2013 PSE PCORC
WITNESS: L. EDWARD ODOM

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY, Inc. For an Accounting Order Authorizing Accounting Treatment Related to Payments for Major Maintenance Activities	**Docket No. UE-130583**
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, INC., Respondent.	**Docket No. UE-130617**
In the Matter of the Petition of PUGET SOUND ENERGY, Inc. For an Accounting Order Authorizing the Sale of the Water Rights and Associated Assets for the Electron Hydroelectric Project in Accordance with WAC 480-143 and RCW 80.12.	**Docket No. UE-131099**
In the Matter of the Petition of PUGET SOUND ENERGY, Inc. For an Accounting 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	**Docket No. UE-131230**

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF L. EDWARD ODOM ON BEHALF OF PUGET SOUND ENERGY, INC.

AUGUST 28, 2013

PUGET SOUND ENERGY, INC.

PREFILED REBUTTAL TESTIMONY
(NONCONFIDENTIAL) OF L. EDWARD ODOM

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PUGET SOUND ENERGY, INC.

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I. INTRODUCTION

Q. Are you the same L. Edward Odom who provided prefiled direct testimony in this docket on behalf of Puget Sound Energy, Inc. ("PSE")?

A. Yes, I filed prefiled direct testimony, Exhibit No. ___(LEO-1CT), and two supporting exhibits, Exhibit No. ___(LEO-2) through Exhibit No. ___(LEO-3).

Q. What topics are you addressing in your prefiled rebuttal testimony?

A. First, I provide an update to the production operations and maintenance ("O&M") that PSE is requesting in this case. Second, I respond to testimony from the Industrial Customers of Northwest Utilities ("ICNU") regarding the production O&M expense for Colstrip. Third, I provide an update on the scheduled outages for Colstrip Units 1 and 2. Finally, I, along with Ms. Katherine Barnard, respond to Commission Staff's testimony regarding the recovery of major maintenance expense for PSE natural gas fired fleet.

II. UPDATES TO PSE'S PRODUCTION O&M

Q. Is PSE proposing to update production O&M in its rebuttal filing.

A. Yes. PSE is proposing adjustments to increase rate year production O&M by $1.7 million, from $135.0 million to $136.6 million, as shown below:

Rate Year Production O&M	$ in millions
Production O&M per Prefiled Direct Testimony	$134.97
Electron O&M	$1.77
Snoqualmie O&M	(.096)
Total Change	**$1.67**
Production O&M per Prefiled Rebuttal Testimony	**$136.64**

Q. Please discuss the changes in rate year production O&M.

A. As discussed in more detail in the prefiled rebuttal testimony of Paul K. Wetherbee, PSE has accepted Commission Staff's proposal to keep the Electron Generating Station in power cost and to remove the Electron PPA. PSE has included an additional $1.77 million for production O&M expense associated with the Electron Generating Station. Accordingly, the $193,146 adjustment to increase Snoqualmie rate year production O&M labor for Snoqualmie personnel assigned to Electron during the test year has been reduced by 50% to $96,573. The 50% reduction eliminates the double count of Snoqualmie labor that would otherwise occur. The resulting increase to Production O&M from the original filing for these adjustments is $1.67 million and reflected in Exhibit No. ___(LEO-5).

III. COLSTRIP OPERATIONS AND MAINTENANCE EXPENSE

Q. Do you agree with the recommendation of ICNU witness Donald Schoenbeck to decrease Colstrip O&M expense by 7.1 percent?

A. No, I do not agree with Mr. Schoenbeck that the Colstrip O&M expense for the rate year should be reduced. PSE used the same methodology for determining Colstrip O&M as it used in its most recent general rate case, Docket UE-111048 ("2011 GRC").

Q. What reason does Mr. Schoenbeck provide for his proposal to reduce Colstrip O&M expense by 7.1 percent?

A. Mr. Schoenbeck picks four years of historical data and states that over this selected time period, the budgeted O&M expense for Colstrip has exceeded actual expense by 7.1 percent. For that reason, he reduces the Colstrip O&M expense in this case by 7.1 percent.

Q. Why was the actual O&M expense for Colstrip 7.1 percent lower than the budgeted expense for the four-year historical period Mr. Schoenbeck selected?

A. As can be seen in Exhibit No. ___(DWS-3), the two years primarily driving the under-run of actual O&M expense were the years 2011 and 2012. These two years were anomalies. Both 2011 and 2012 were extreme water years with substantially higher than normal levels of hydro generation in the second quarter of each year. The 2011 flow was 125 percent of the 30-year normal ending in 2000 and the 2012 flow was 128 percent. The availability of inexpensive

hydropower in 2011 and 2012 resulted in the decision to place Colstrip Unit 1 and 2 on reserve shutdown status (*i.e.,* both units were available to generate but were not dispatched because of the availability of lower cost power) during most or all of the second quarter of these two years. Because of the reserve shutdown status, production O&M expenses such as overtime requirements, water treatment chemicals and other operating and maintenance costs were minimized, causing the under-run of actual expenses as compared to budget. In contrast, during 2013, a more normal water year, all four Colstrip units ran throughout the second quarter except for the 44-day planned overhaul of Unit 4. Periods of extreme, low-cost hydro generation, such as 2011 and 2012, are not typical of normal Northwest power operations and should not be used as a basis for reduction of Colstrip operating costs.

Q. Have there been past years when the actual production O&M costs for Colstrip exceeded the budgeted amounts?

A. Yes. In the two years immediately prior to the years used by Mr. Schoenbeck, PSE's total actual expenditures exceeded its budget as shown below:

	2007	**2008**
Colstrip 1&2	$16,124,429	$27,249,499
Colstrip 3&4	$14,456,942	$15,238,402
Total Actual	$30,581,371	$42,487,901
Total Budget	$30,074,149	$33,327,150
Difference	$507,222	$9,160,751

Q. Do you believe that the third-party budget used to determine Colstrip rate year production O&M is appropriate in this case?

A. Yes. This is the methodology accepted by the Commission in numerous past cases, including the 2011 GRC.

IV. OUTAGES FOR COLSTRIP UNITS 1 AND 2

Q. Please describe the change to the maintenance schedule for Colstrip Units 1 and 2.

A. Colstrip Units 1 and 2 were originally planned to be derated during the rate year for six days and 37 days, respectively, for a total of 43 days. Specifically, Unit 1 was to be reduced to two-thirds of normal output for six days for scrubber cleaning and repair and Unit 2 was to be reduced to two-thirds of normal output for 37 days for scrubber modifications. The more current maintenance schedule has increased the number of days the units will be derated during the rate year to 49 days for each unit, for a total of 98 days. This is an increase of 56 days, in which one of the Colstrip units will have a reduced capacity to provide generation. Mr. David Mills discusses the impact on power costs resulting from this change in planned maintenance in his prefiled rebuttal testimony.

Q. What has caused the change in the duration of the deratings of Units 1 and 2?

A. The changes are based on actual experience gained during the 2013 modification of one scrubber vessel to meet the Mercury and Air Toxics rule that is effective in April 2015. It revealed that modifications to the scrubbers were more extensive

and required more installation time than the 36 to 42 days originally estimated. Also the installation of the second Unit 1 scrubber modification was changed from 2015 to 2014 to assure completion by the effective date of the rule.

V. MAJOR MAINTENANCE EXPENSE

Q. How do you respond to Mr. Mickelson's testimony regarding recovery of major maintenance expense?

A. It appears that PSE and Commission Staff agree on some aspects of major maintenance recovery, although there are some details that need to be clarified to ensure that Commission Staff and PSE are in agreement as to the specifics of the accounting treatment and how it should be applied. Ms. Barnard discusses the accounting treatment in more detail in her rebuttal testimony. My testimony focuses on the generation plants and type of maintenance to which the deferral accounting applies.

Q. To what plants should the Deferral Method of accounting under AUG AIR-1 ("AIR-1") apply?

A. As discussed in Ms. Barnard's rebuttal testimony, Mr. Mickelson's testimony states, "the appropriate accounting for major maintenance is to amortize these major maintenance costs following the time of the major maintenance event until the next major maintenance event."[1] PSE would agree that all major maintenance associated with PSE's natural gas fired turbines should be accounted for using the Deferral Method of accounting under AIR-1.

[1] Exhibit No. ___(CTM-1T) page 13, lines 18 through 20.

Q. What has changed with respect to the pre-1990 combustion turbine generating facilities that would make the Deferral Method a more appropriate accounting methodology for major maintenance at these facilities?

A. The operating environment for PSE's pre-1990 facilities has changed significantly from the environment in place when these facilities were acquired and the "Direct Expense" methodology was adopted. PSE has historically used its simple cycle combustion turbine ("SCCT") facilities in a support role to its lower cost hydro resources—making up for variations in hydro flow and market conditions—but the support role of the plants has changed over the past several years. The operating changes are due to increased constraints on the Columbia River hydro system operations that mandate tighter management of water flows during spring and summer water runoff months. These increased flow restrictions have added to the number of starts on PSE's SCCT equipment during these months. In addition to recent changes in hydro regulation, the support role of these units has increased with the integration of wind resources. Wind production is both more variable and the ramping rates are greater than compared to hydro production. With wind production growing as a proportion of the Company's portfolio, this more volatile resource places additional pressure on SCCT units on top of the already existing pressure to backup the hydro production.

Q. Has the change in the facilities usage improved PSE's ability to predict the timing of the major maintenance events of its pre-1990 facilities?

A. Yes, it has. Of course, the actual timing of the major maintenance events are a function of the operating profile of each unit which in turn is impacted by energy demand, wind and hydro conditions, equipment availability, etc.; however, PSE's Thermal Generation management has developed tools to reasonably predict the timing of the major maintenance events of these pre-1990 facilities and, therefore, to predict the timing of the next event. This allows for use of the Deferral Method of accounting under AIR-1.

VI. CONCLUSION

Q. Does that conclude your prefiled rebuttal testimony?

A. Yes, it does.