

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Washington Utilities and)
Transportation Commission,)
)
Complainant,)
)
v.)
)
Puget Sound Energy, Inc.)
)

Respondent.)

Docket Nos. UE-011570
and UG-011571

Interim Testimony of

James T. Selecky

On behalf of

Federal Executive Agencies

January 30, 2002
Project 7742



BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Interim Testimony of James T. Selecky

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A James T. Selecky; 1215 Fern Ridge Parkway, Suite 208; St. Louis, MO 63141-2000.

3 Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?

4 A I am a consultant in the field of public utility regulation and a principal in the firm of
5 Brubaker & Associates, Inc., energy, economic and regulatory consultants.

6 Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
7 EXPERIENCE.

8 A These are set forth in Appendix A to this testimony.

9 Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

10 A I am testifying on behalf of the consumer interests of the Federal Executive Agencies
11 (FEA).

1 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A The purpose of my testimony is to address Puget Sound Energy, Inc.'s (PSE) proposal
3 for interim rate relief. The fact that an issue may not be addressed should not be
4 construed as an endorsement of PSE's position.

5 **Q WHAT IS PSE'S INTERIM PROPOSAL?**

6 A For interim rate relief, PSE is specifically seeking to recover from customers the
7 difference between electric power costs embedded in its current general rates and
8 projected power costs for the period January 1, 2002 through October 31, 2002. PSE
9 is proposing to collect from ratepayers approximately \$170.7 million during the period
10 March 1, 2002 through October 31, 2002. PSE proposes to collect this revenue through
11 an Electric Energy Cost Surcharge rate of 1.4568¢/kWh. The revenues collected through
12 this surcharge are subject to refund.

13 **Q WHAT IS THE IMPACT OF PSE'S PROPOSAL ON RATEPAYERS?**

14 A Table 1 summarizes the percent increase each customer class would experience. The
15 percent increase uses the ratepayers' cost as stated on a ¢/kWh basis as presented by
16 PSE in the cost of service study contained in its general rate application.

<u>Customer Class</u>	<u>¢/kWh</u> <u>6/30/2001</u>	<u>Interim Percent</u> <u>Increase</u>
Residential	7.38	19.7%
Secondary	6.59	22.1%
Primary	5.35	27.2%
High Voltage	4.33	33.7%

Source: 2001 PSE Rate Case, Rate Design Workpapers

1 The percentage increase was calculated by dividing PSE's proposed surcharge
2 by the ¢/kWh as of June 30, 2001. As Table 1 shows, all of PSE's customers would see
3 a substantial increase if the requested interim is granted. It should be noted that for all
4 classes except the residential, the proposed interim percent increase is larger than the
5 proposed percent increase that PSE is proposing in its general rate case.

6 **Q WHAT ARE YOUR CONCLUSIONS AND RECOMMENDATIONS IN THIS**
7 **PROCEEDING?**

8 **A My conclusions and recommendations are as follows:**

- 9 1. The Washington Utilities and Transportation Commission (Commission) should
10 reject PSE's interim proposal.

- 1 2. PSE's proposed level of interim is based on projected costs that have not been
2 reviewed for prudence.
- 3 3. PSE's interim proposal does not look at all of its costs, but only focuses on their
4 power costs.
- 5 4. The interim rate relief should be subject to refund with interest equal to PSE's
6 overall rate of return.
- 7 5. Any interim rate relief that is granted in this proceeding should be based on an
8 equal percentage basis. This is consistent with past Commission rulings and
9 maintains the current relationships that exist between the various rate classes.

10 **Q IF THE COMMISSION GRANTS PSE INTERIM RATE RELIEF, HOW**
11 **SHOULD THIS DETERMINATION BE MADE?**

12 A Any interim rate relief should be based on financial need.

13 **Q WHY DO YOU BELIEVE IT IS IMPORTANT TO BASE ANY INTERIM**
14 **RATE RELIEF ON FINANCIAL NEED AND NOT PROJECTED POWER**
15 **COSTS?**

16 A The fact that a utility is incurring a cost for a certain item that is in excess of the level of the
17 cost that is currently reflected in rates for that item is not sufficient reason to grant rate
18 relief. In general, all of a utility's costs and revenues should be thoroughly analyzed
19 before granting any rate increase. The power costs represent only one component of
20 PSE's revenue requirement or total cost of service. To determine if PSE needs rate
21 relief, all costs need to be reviewed, and not just a single cost component. In addition, it
22 is important that the Commission have an extensive review of the prudence of PSE's

1 power costs. The interim does not allow sufficient time to completely analyze the
2 prudence of PSE's purchased power and fuel procurement practices.

3 The Commission in recent orders has clearly relied on the financial need tests to
4 determine if interim rate relief is necessary. Given that PSE has a general rate case
5 pending before this Commission, financial need should be the sole basis.

6 **Q IF THE COMMISSION GRANTS PSE INTERIM BY ALLOWING IT TO**
7 **COLLECT ALL OR A PORTION OF ITS PROJECTED POWER COSTS**
8 **THAT IT CLAIMS ARE NOT INCLUDED IN ITS RATES, SHOULD IT BE**
9 **COLLECTED THROUGH A UNIFORM ENERGY OR CENTS PER**
10 **KILOWATTHOUR (¢kWh) SURCHARGE?**

11 **A** No. PSE's proposal to collect power costs, which it claims are not in rates, through a
12 uniform surcharge is not cost of service based. First, a portion of PSE's power costs is
13 demand related. This specifically applies to purchase and interchange costs. PSE's
14 proposed surcharge collects these costs on an energy basis – not on a demand basis.
15 Second, PSE's interim proposal recovers ten months of costs over an eight-month
16 period. Under PSE's proposal, January and February 2002 costs would be deferred
17 and recovered from March through October. This proposal recovers costs from
18 customers different from those who caused the costs to be incurred. Finally, PSE's
19 interim rate proposal will result in some customer classes seeing a large rate increase in
20 March, followed by a large decrease from the interim level in November.

1 **Q PLEASE DESCRIBE HOW PSE'S PROPOSAL FOR RECOVERING ITS**
2 **PROJECTED POWER COSTS VIOLATES COST OF SERVICE**
3 **PRINCIPLES.**

4 A As noted, PSE is proposing to defer the difference between its projected power costs for
5 January and February 2002 and the power costs embedded in its current general rates,
6 for recovery from March 2002 through October 2002. PSE projects this deferral will
7 cost ratepayers approximately \$66.4 million (Exhibit WAG-3, Spreadsheet A, Part 2 of
8 3, Page 1). This deferral represents approximately 40% (\$66,408,000/ \$170,727,000)
9 of the requested interim rate relief. Deferring these costs results in collecting the costs
10 from customers who did not incur the costs.

11 A review of the monthly sales to the residential, commercial and industrial classes,
12 as forecast by PSE for the 12-month period ending December 2002, shows that during
13 January and February 2002, the residential class is forecasted to purchase approximately
14 22.9% of its total annual usage; the commercial class will purchase 18.1% of its total
15 annual usage; and the industrial class will purchase 17.6% of its total annual usage. This is
16 shown in Table 2 below.

TABLE 2

Forecasted Sales in January and February 2002

<u>Rate Class</u>	<u>January and February Sales (MWh)</u>	<u>Forecasted Annual Sales (MWh)</u>	<u>Percent of Sales In January and February</u>
Residential	2,208,267	9,643,450	22.9%
Commercial	1,461,922	8,087,892	18.1%
Industrial	<u>228,466</u>	<u>1,297,148</u>	<u>17.6%</u>
TOTAL	3,898,655	19,028,490	20.5%

Source: WUTC Data Request No. 72-I

1 However, during the months March through October 2002 when the collection of
 2 the January and February deferral will take place, the residential class will purchase
 3 approximately 58% of its annual usage, while the commercial and industrial classes will
 4 purchase 64.4% and 66.6%, respectively, of their annual usage.

TABLE 3

Forecasted Sales March through October 2002

<u>Rate Class</u>	<u>March through October Sales (MWh)</u>	<u>Forecasted Annual Sales (MWh)</u>	<u>Percent of Sales March through October</u>
Residential	5,593,803	9,643,450	58.0%
Commercial	5,205,697	8,087,892	64.4%
Industrial	<u>863,394</u>	<u>1,297,148</u>	<u>66.6%</u>
TOTAL	11,662,894	19,028,490	61.3%

Source: WUTC Data Request No. 72-I

1 Therefore, the power costs associated with January and February usage would
2 be recovered disproportionately from customers. This results in costs incurred by the
3 residential class being recovered from the commercial and industrial classes.

4 **Q HAVE YOU ESTIMATED THE IMPACT OF THIS COST RECOVERY**
5 **MECHANISM ON THE VARIOUS RATE CLASSES?**

6 **A** Yes. Utilizing PSE's forecasted sales figures and the proposed power costs contained in
7 Exhibit WAG-3, I estimate that during the first two months of the year, the residential
8 class power costs will be approximately \$38.2 million in excess of the cost included in the
9 current rates. However, under the Company's proposal, approximately \$31.7 million of

1 that amount would be recovered from the residential class during the March through
2 October period. Table 4 below summarizes the results of this analysis.

<u>Customer Class</u>	<u>Unrecovered</u> <u>Costs January</u> <u>and February</u> (000)	<u>Deferred January</u> <u>and February Costs</u> <u>Recovered from March</u> <u>through October</u> (000)
Residential	\$38,151	\$31,694
Commercial	25,389	29,495
Industrial	<u>3,989</u>	<u>4,892</u>
TOTAL	\$67,529	\$66,082

3 It should be noted that the differences in these columns are attributable to the
4 sales volumes utilized to calculate the amount. The sales volumes contained in the cost of
5 service study workpapers were used to develop both the claimed underrecovered costs
6 and the recovery of those costs.

7 Under PSE's proposal, substantially more revenues will be collected from the
8 commercial and industrial classes than the cost that is actually incurred to serve them. It
9 should be noted that this analysis assumes that all of these costs are energy related. The
10 fact that some of the costs are demand related should not alter the resulting conclusion.

1 Q WHAT IS YOUR RECOMMENDATION IF THE COMMISSION
2 AUTHORIZES ANY INTERIM RATE RELIEF?

3 A My recommendation is that the interim rate relief should be a uniform percent increase.
4 The Commission ordered this in a recent Avista Corporation interim rate proceeding
5 regarding the granting of temporary rate relief (Docket No. UE-010395).

6 Q WHAT ARE THE PRIMARY BENEFITS ASSOCIATED WITH UTILIZING A
7 UNIFORM PERCENTAGE INCREASE COLLECTING ANY INTERIM
8 RATE RELIEF?

9 A In addition to matching costs and collection more closely, a uniform percentage rate relief
10 does not disturb the relationship that currently exists between the various rates. Since
11 cost of service will not be addressed in the interim phase, the uniform percentage method
12 represents a reasonable approach.

13 Q DOES THIS CONCLUDE YOUR INTERIM TESTIMONY?

14 A Yes.

Appendix A

Qualifications of James T. Selecky

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A James T. Selecky. My business mailing address is P. O. Box 412000, 1215 Fern Ridge
3 Parkway, Suite 208, St. Louis, Missouri 63141-2000.

4 **Q PLEASE STATE YOUR OCCUPATION.**

5 A I am a consultant in the field of public utility regulation and am a principal in the firm of
6 Brubaker & Associates, Inc., energy, economic and regulatory consultants.

7 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
8 **PROFESSIONAL EMPLOYMENT EXPERIENCE.**

9 A I graduated from Oakland University in 1969 with a Bachelor of Science degree with a
10 major in Engineering. In 1978 I received the degree of Master of Business Admin-
11 istration with a major in Finance from Wayne State University.

12 I was employed by The Detroit Edison Company (DECo) in April of 1969 in its
13 Professional Development Program. My initial assignments were in the engineering and

1 operations divisions where my responsibilities included evaluation of equipment for use on
2 the distribution and transmission system; equipment performance testing under field and
3 laboratory conditions; and trouble-shooting and equipment testing at various power plants
4 throughout the DECo system. I also worked on system design and planning for system
5 expansion.

6 In May of 1975, I transferred to the Rate and Revenue Requirement area of
7 DECo. From that time, and until my departure from DECo in June 1984, I held various
8 positions which included economic analyst, senior financial analyst, supervisor of
9 Rate Research Division, supervisor of Cost-of-Service Division and director of the
10 Revenue Requirement Department. In these positions, I was responsible for overseeing
11 and performing economic and financial studies and book depreciation studies, developed
12 fixed charge rates and parameters and procedures used in economic studies, providing a
13 financial analysis consulting service to all areas of DECo, developing and designing rate
14 structure for electrical and steam service, analyzing profitability of various classes of
15 service and recommending changes therein, determining fuel and purchased power
16 adjustments and all aspects of determining revenue requirements for ratemaking
17 purposes.

1 In June of 1984, I joined the firm of Drazen-Brubaker & Associates, Inc.
2 (DBA). In April 1995 the firm of Brubaker & Associates, Inc. (BAI) was formed. It
3 includes most of the former DBA principals and staff. At DBA and BAI I have testified
4 in electric, gas and water proceedings involving almost all aspects of regulation. I have
5 also performed economic analyses for clients related to energy cost issues.

6 In addition to our main office in St. Louis, the firm also has branch offices in
7 Kerrville, Texas; Plano, Texas; Asheville, NC; Denver, Colorado; and Chicago, Illinois.

8 **Q HAVE YOU PREVIOUSLY APPEARED BEFORE A REGULATORY**
9 **COMMISSION?**

10 **A** Yes. I have testified on behalf of DECo in its steam heating and main electric cases. In
11 these cases I have testified to rate base, income statement adjustments, changes
12 in book depreciation rates, rate design, and interim and final revenue deficiencies.

13 In addition, I have testified before the regulatory commissions of the States of
14 Colorado, Connecticut, Georgia, Illinois, Indiana, Kansas, Maryland, Massachusetts,
15 Missouri, New Hampshire, New Jersey, North Carolina, Ohio, Oklahoma, Tennessee,
16 Texas, Utah, Wisconsin, and Wyoming, and the Provinces of Saskatchewan and Alberta.
17 I also have testified before the Federal Energy Regulatory Commission. In addition, I

1 have filed testimony in proceedings before the regulatory commissions in the States of
2 Iowa, Montana, New York, and Pennsylvania. My testimony has addressed revenue
3 requirement issues, cost of service, rate design, financial integrity, accounting-related
4 issues, merger-related issues, and performance standards. The revenue requirement
5 testimony has addressed book depreciation rates, decommissioning expense, O&M
6 expense levels, and rate base adjustments for items such as plant held for future use,
7 working capital, and post test year adjustments. In addition, I have testified on
8 deregulation issues such as stranded cost estimates and rate design.

9 **Q ARE YOU A REGISTERED PROFESSIONAL ENGINEER?**

10 **A** Yes, I am a registered professional engineer in the State of Michigan.