

**EXHIBIT NO. ____ (JOINT-1T)
2013 PSE PCORC**

**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

JOINT TESTIMONY OF:

**KATHERINE J. BARNARD
CHRISTOPHER T. MICKELSON
STEFANIE A. JOHNSON
DONALD W. SCHOENBECK**

IN SUPPORT OF SETTLEMENT STIPULATION

SEPTEMBER 16, 2013

1 **I. INTRODUCTION**

2 **Q. Please state your names, titles, and who you represent in this matter?**

3 A. Our names, titles, and representation are as follows:

- 4 • Katherine J. Barnard, Director, Revenue Requirements and Regulatory
5 Compliance for Puget Sound Energy, Inc. (“PSE” or “the Company”);
- 6 • Christopher T. Mickelson, Regulatory Analyst for Commission Staff
7 (“Staff”);
- 8 • Stefanie A. Johnson, Regulatory Analyst for the Office of Public Counsel
9 (“Public Counsel”);
- 10 • Donald W. Schoenbeck, Regulatory & Cogeneration Services, Inc.,
11 consultant for the Industrial Customers of Northwest Utilities (“ICNU”).

12 **Q. Have you provided information pertaining to your educational background and**
13 **professional experience?**

14 A. Yes. Ms. Barnard's qualifications are provided in Exhibit No. ___(KJB-2). Mr.
15 Mickelson’s qualifications are provided in Exhibit No. ___(CTM-1T). Mr.
16 Schoenbeck's qualifications are provided in Exhibit No. ___(DWS-2).

17 Ms. Johnson does not have a separate qualifications exhibit, but her qualifications
18 are briefly described here. Ms. Johnson has a B.A. in Political Studies and History
19 from Whitworth College, and a Master of Public Administration degree from the
20 Evans School of Public Affairs at the University of Washington. Since joining
21 Public Counsel in December 2005, she has worked on a wide range of energy and

1 telecommunication issues and cases, testified before the Commission as part of
2 settlement panels in numerous dockets, and have presented before this Commission
3 at Open Meetings on various issues.

4 **Q. What is the scope of this testimony?**

5 A. This testimony recommends approval by the Commission of the full Settlement
6 Stipulation that was executed by all parties in this proceeding: PSE, Staff, Public
7 Counsel and ICNU (collectively, the “Parties”). The Company's case and the
8 Settlement Stipulation received sufficient scrutiny and the proposed Settlement is
9 supported by sound analysis and sufficient evidence, including the testimony and
10 exhibits that were prefiled by PSE on April 25, 2013 and updated July 2, 2013, the
11 testimony and exhibits that were prefiled by Staff, Public Counsel, and ICNU on
12 August 14, 2013, and the rebuttal testimony and exhibits that were filed by PSE on
13 August 28, 2013. Approval of the Settlement Stipulation is in the public interest and
14 will result in rates that are just, fair, reasonable and sufficient.

15 **II. THE SCOPE OF THE UNDERLYING DISPUTE**

16 **Q. Please describe the Company's filing that gave rise to this proceeding.**

17 A. PSE commenced this proceeding by filing proposed revisions to its Power Cost Rate
18 to reflect decreases in the Company's overall normalized power supply costs. The
19 filing was a “power cost only rate case” (“PCORC”) under PSE's Power Cost
20 Adjustment (“PCA”) Mechanism, which was approved by the Commission in its
21 Twelfth Supplemental Order in Dockets UE-011570 and UG-011571.

1 PSE's initial filing of April 25, 2013 represented a revenue decrease of \$616,833 (an
2 average decrease of approximately 0.03 percent) for customers. PSE's rebuttal case,
3 filed August 28, 2013, supported a revenue decrease of \$1,048,707 (an average
4 decrease of approximately 0.05 percent) for customers.

5 On April 23, 2013, PSE initiated Docket UE-130583 by filing a petition for an
6 accounting order for major maintenance ("Petition"). In the Petition, PSE seeks
7 Commission approval for accounting for major maintenance at PSE's Mint Farm
8 Combined Cycle Generating Station. The Petition describes in detail the accounting
9 treatment requested, which, in general, involves a deferral method for accounting
10 and rate making purposes.

11 On June 6, 2013, PSE initiated Docket UE-131099 by filing its Application for
12 Approval of Sale of Electron Hydroelectric Project ("Electron Application"). In the
13 Electron Application, PSE requests the Commission to find that PSE's Electron
14 Hydroelectric Project ("Electron Project") is either not necessary or useful, or to
15 approve the sale of that project to Electron Hydro, LLC. PSE also seeks approval of
16 the accounting and ratemaking treatment for the transaction, as described in the
17 Electron Application.

18 On June 27, 2013, PSE initiated Docket UE-131230 by filing its Application for
19 Approval of Sale Related to Lower Snake River ("LSR") Phase II ("LSR II
20 Application"). This docket arises on PSE's application "[f]or an Order Authorizing
21 the Sale of Interests in the Development Assets Required for the Construction and
22 Operation of Phase II of the Lower Snake River Wind Facility" ("Sale and Transfer

1 Application”). The Sale and Transfer Application involves PSE’s sale of certain
2 assets relating to Phase II of the Lower Snake River Wind Facility (renamed the
3 Tucannon River Wind Farm by Portland General Electric Company (“PGE”)) and
4 transfer of certain Bonneville Power Administration (“BPA”) Transmission Service
5 Credits.

6 In the Sale and Transfer Application, PSE requested that the Commission find that
7 certain “Purchased Assets” are not necessary or useful, per RCW 80.12.020 and
8 WAC 480-143-180, and that the transfer of BPA Transmission Service Credits is in
9 the public interest. In Docket UE-131230, Order 01, the Commission: determined
10 that the Purchased Assets are not necessary or useful; approved PSE’s application to
11 transfer a pro rata share of PSE’s Transmission Service Credits to PGE; and set for
12 hearing PSE’s proposed accounting and ratemaking treatment associated with the
13 PSE’s transfer of the BPA Transmission Service Credits to PGE.

14 On August 8, 2013, in Order 05, the Commission consolidated the first three
15 referenced dockets. On August 9, 2013, the Commission consolidated the last
16 referenced docket in a Notice of Consolidation. After settlement discussions, the
17 Parties reached an agreement that resolves all issues in this consolidated proceeding.

18 **Q. Did Staff, Public Counsel and ICNU investigate PSE's filing?**

19 A. Yes. They issued numerous data requests and engaged in conferences with
20 Company staff knowledgeable about various aspects of the filing.

1 **Q. What issues in the filing were disputed by the parties?**

2 A. Staff and ICNU had concerns about several aspects of PSE's proposed costs and
3 adjustments for purposes of determining the revenue requirement and power cost
4 baseline rate. ICNU also raised an issue regarding PSE's cost of service study.
5 Public Counsel had concerns about the design and operation of the PCA mechanism
6 and whether the PCA should be continued, modified, or replaced.

7 **III. THE SCOPE OF THE SETTLEMENT AND**
8 **ITS PRINCIPAL ASPECTS**
9

10 **Q. Please describe the scope of the Settlement Stipulation and its principal aspects.**

11 A. The proposed Settlement Stipulation is a full settlement of all issues presented in this
12 proceeding and it has been executed by all parties that were actively engaged in the
13 proceeding. The text of the proposed Settlement Stipulation is largely self
14 explanatory, thus, we do not repeat each detail here. Generally, the proposed
15 Settlement Stipulation:

- 16 • Sets the power cost baseline rate tariff at a level that will generate \$10.482
17 million less revenue than the existing power cost baseline rate, thus resulting
18 in an average electric rate decrease of 0.516%;
- 19 • Recommends that the Commission determine that PSE prudently acquired
20 and upgraded the following resources: Ferndale Generating Station,
21 renovations and upgrades at the Snoqualmie Falls Project and the Baker
22 Project, and PSE's acquired and renewed transmission contracts with BPA;
- 23 • Provides for recovery of Major Maintenance under the General Accepted
24 Accounting Principles ("GAAP") deferral method of accounting for all of

1 PSE’s gas fired electric generation facilities, subject to a \$500,000 minimum
2 threshold for any Major Maintenance event to qualify for deferral accounting
3 treatment and thus for rate making recovery;

- 4 • Recommends that the Commission conditionally grant PSE’s application for
5 approval of the sale of PSE’s Electron Project to Electron Hydro LLC
6 (including the PPA with Electron Hydro LLC), by finding that the sale is in
7 the public interest, so long as there are no material changes to the Asset
8 Purchase Agreement (including all exhibits thereto) PSE filed with its
9 application in Docket UE-131099;
- 10 • Recommends that the Commission grant the treatment requested in PSE’s
11 application for an order authorizing the sale of the interests in the
12 development assets related to Phase II of the Lower Snake River Wind
13 Facility (“LSR Phase II”), Docket UE-131230, with respect to the
14 transmission credits assigned to PGE as part of the sale of the development
15 rights for LSR Phase II;
- 16 • Provides that PSE will amortize the Treasury Grants received for the
17 Snoqualmie Falls Project and Baker Project over the life of the plants and
18 include the grants in the PCA as fixed rate base in the next PCORC;
- 19 • Mandates stakeholder collaborative processes to address 1) PCA and
20 PCORC-related issues and 2) issues with cost of service, rate spread, and rate
21 design, and provides for procedures to resolve such issues; and
- 22 • Requires PSE to evaluate the PGE Dispatchable Standby Generation
23 (“DSG”) program.

1 IV. THE SETTLEMENT SATISFIES THE PARTIES' INTERESTS
2 AND THE PUBLIC INTEREST
3

4 Q. Ms. Barnard, why does the Settlement Stipulation satisfy the interests of
5 PSE?

6 A. The Settlement Stipulation provides a reasonable value for a power cost baseline rate
7 in this case and allows the Company to focus on operations rather than litigation.
8 Key elements to PSE's determination that the Settlement Stipulation provides a
9 reasonable value for the power cost baseline rate include: the stipulation to the
10 Company's position regarding inclusion of estimated project costs for the pro forma
11 rate base additions associated with the Snoqualmie Falls and Baker projects; and the
12 stipulation to the amount of the regulatory asset associated with the deferred carrying
13 costs, which had been previously approved, on the transferred BPA transmission
14 credits associated with LSR. The Company also believes that the compromise
15 position of adjusting LSR 1 to the average of the monthly average balance at the start
16 of the rate year is a reasonable outcome for this proceeding. Additionally, the
17 Settlement Stipulation provides support for a determination that the following PSE
18 resources were prudently acquired or upgraded:¹

- 19 (i) the acquisition of the Ferndale Generating Station and the
20 costs associated with this project;²
- 21 (ii) the renovation and upgrades at Snoqualmie Falls Project to
22 implement the Federal Energy Regulatory Commission
23 ("FERC") license;

¹ ICNU's testimony addressed issues related to the PCORC Revenue Requirement and rate spread, and did not address other issues resolved in the Settlement Stipulation. ICNU takes no position on the issues related to the prudence of these resources, but does not object to the Settlement Stipulation's other recommendations, including those regarding a prudence determination.

² Williams, Exhibit No. JMW-1T, page 39, lines 7-11.

1 (iii) the addition of a fourth generator unit and a floating surface
2 collector at the Baker Project to implement the FERC license;³
3 and

4 (iv) PSE's acquired and renewed transmission contracts with BPA.

5 The Settlement Stipulation allows PSE to include these new and upgraded plants that
6 are already in commercial operation, into its rate base.

7 The Settlement Stipulation also supports PSE's application for approval to sell PSE's
8 Electron Project to Electron Hydro LLC and the prudence determination of the
9 associated Purchased Power Agreement ("PPA") between PSE and Electron Hydro
10 LLC which is part of the consideration for the sale.

11 One important aspect of this settlement from PSE's perspective is the certainty that it
12 provides with respect to the recovery of Major Maintenance expense on PSE's gas
13 fired generation plants. This settlement resolves an issue that has arisen in the past
14 two general rate cases regarding the deferral, amortization and recovery of Major
15 Maintenance expense. Recovery of Major Maintenance under the deferral method of
16 accounting, as agreed to in the Settlement Stipulation, will apply not only to the hot
17 gas path inspection for the Mint Farm Generating Station that occurred earlier this
18 year, but will also apply, going forward, to all Major Maintenance for PSE's gas fired
19 electric generation, subject to a \$500,000 minimum threshold.

³ The Parties agree that the prudence determinations for the Snoqualmie Falls Project and Baker Project include the updated budget amounts for these plants, as updated through June 2013, which is the amount of plant included in rates in this proceeding.

1 Although PSE believes, and the Commission has found, that the PCA mechanism is
2 operating as it is intended and providing benefits to both customers and PSE, PSE
3 has agreed in this Settlement Stipulation to engage in a collaborative review of the
4 PCA mechanism. The collaborative will not address elimination of the PCA
5 mechanism or PCORC, but the parties will engage in discussions to determine if
6 there are ways to simplify or improve the PCA mechanism.

7 **Q. Mr. Mickelson, why does the Settlement Stipulation satisfy the interests of**
8 **Staff?**

9 A. Staff supports the Settlement overall. However, in my answer that follows, I itemize
10 and discuss the primary reasons why Staff supports each Item listed in Part III of the
11 Settlement Stipulation:

12 **Item 1 (Paragraph 14): “Admission of Exhibits”.** Admitting all pre-filed exhibits
13 provides comprehensive support for the overall settlement outcome, and each of its
14 components. Therefore, it is reasonable to include them in the record for purposes of
15 Commission evaluation of the Settlement.

16 **Item 2 (Paragraphs 15 and 16): “PCORC Revenue Requirement Decrease**
17 **(Docket UE-130617)”.** The PCORC’s revenue requirement decrease is \$10.482
18 million. This result sets the power cost baseline rate at the level from which the
19 PCA will be trued-up, subject to the dead band and sharing bands. The major
20 elements supporting this revenue decrease include:

- 21 a) removing expenses related to Cedar Hills Biogas;
- 22 b) reducing the regulatory asset related to BPA Transmission Credits by \$20.5
23 million;

- c) setting LSR Phase I rate base at the beginning of the rate year; and
- d) including Electron, Ferndale, Snoqualmie, and Baker Projects in rates.

For the most part, these elements are consistent with the positions of Commission Staff, as reflected in Staff’s filed testimony and exhibits. Exceptions include Staff’s position on carrying charges related to the LSR Phase II sale, and Staff’s position on the cut-off dates for evaluating plant additions.

Regarding the LSR Phase II sale, Staff contended that the regulatory asset also be reduced by a commensurate share of the carrying costs.⁴ However, Staff believes the other benefits of the Settlement are sufficient for Staff to compromise on this issue for purposes of settlement.

Staff also contested the cut-off dates for evaluating plant additions.⁵ Staff is aware that the Commission is presented with a similar issue in a pending utility rate case involving PacifiCorp in Docket UE-130043. Although that case does not involve a PCORC-type procedure, Staff anticipates the Commission will provide helpful policy guidance on these issues in that case. Accordingly, Staff is willing to avoid litigating that issue in this PCORC, without prejudice to Staff’s position in the PacifiCorp filing.

Item 3 (Paragraphs 17-19): “Major Maintenance Petition (Docket UE-130583)”.

PSE agrees to follow GAAP for Major Maintenance using a deferral method for all

⁴ Huang, Exhibit No. JH-1T, page 11, line 6 through Page 13, line 18.

⁵ Williams, Exhibit No. JMW-1T, page 5 though page 17, line 13.

1 of PSE's gas fired electric generation facilities. This is the accounting treatment
2 recommended by Commission Staff.⁶

3 This accounting will provide a reasonable "smoothing effect" for Major Maintenance
4 expenses, rather than have PSE expense the total cost in the year it was incurred.

5 This provides a better matching of the expense and the benefits the expense
6 produces.

7 The Settlement provides significant parameters and safeguards by defining "Major
8 Maintenance" and restricting each Major Maintenance event to a substantial,
9 minimum dollar threshold (\$500,000). Moreover, the accounting does not create a
10 regulatory asset, so PSE will not defer any carrying costs associated with these
11 expenses. In Staff's view, these parameters and safeguards make the proposal
12 reasonable.

13 **Item 4 (Paragraph 20): "Electron Application Docket UE-131099"**. As Staff
14 concluded, the Electron Project sale is in the public interest, so long as there are no
15 material changes to the Asset Purchase Agreement.⁷ However, the sale will not
16 occur in the near future, therefore the Electron Project will remain as plant in service
17 and its contribution to power production is captured in the power cost models. The
18 Settlement accepts this result.

19 **Item 5 (Paragraph 21): "Sale and Transfer Application – LSR Phase II (Docket
20 UE-131230)"**. Under the Settlement, PSE will reduce its regulatory asset for BPA

⁶ Mickelson, Exhibit No. CTM-1T, page 12, line 17 through page 18.

⁷ Gomez, Exhibit DCG-1TC, page 12, line 6, through page 17, line 7.

1 Transmission Credits by \$20.5 million to reflect this sale. Ratepayers currently pay
2 for this regulatory asset, and because part of the asset is being sold, it is reasonable
3 to reduce the value of that asset. This aspect of the sale was not contested.

4 A contested issue related to this sale was Staff's contention that the regulatory asset
5 also be reduced by a commensurate share of the carrying costs. I discussed this issue
6 under Item 2 above.

7 **Item 6 (Paragraphs 22-23): "Treasury Grants"**. The Settlement calls for PSE to
8 reduce rate base by the amount of the Treasury Grants PSE receives for the
9 Snoqualmie and Baker Projects, rather than use a rate credit through Schedule 95a.
10 PSE will accrue interest on these Treasury Grants until the next PCORC, when the
11 rate base reduction will occur.

12 This treatment is consistent with Staff's recommendation.⁸ Staff provided several
13 reasons why this treatment is appropriate,⁹ including promoting intergenerational
14 equity, and being consistent with the matching principle.

15 **Item 7 (Paragraph 24): "2014 PCORC"**. In the next PCORC, PSE agrees to use a
16 test year period no earlier than the 12 months ending December 31, 2013. This is a
17 good result. A test year should be as contemporaneous as possible and year-end
18 2013 is an improvement over the September 2012 test year used in this docket.

19 Also, the Settlement calls for PSE to restate the balances for the Snoqualmie Project

⁸ See Testimony of Mr. Mickelson, Exhibit No. CTM-1T, page 21, line 15, through page 34, line 2).

⁹ Id.

1 and Baker Project to the average of the monthly averages for the period ending
2 November 30, 2014, in the next PCORC, similar to LSR Phase I in the present
3 Settlement Stipulation. The Company may include post-test year capital additions
4 related to these two Projects up to a cutoff date of the supplemental filing in the 2014
5 PCORC.

6 **Item 8 (Paragraph 25): “PCA and PCORC-Related Issues”.** An issue in this case
7 is whether the viability and structure of the PCA may be contested in this PCORC.
8 This problem arises because, while a general rate case is the typical procedural
9 vehicle for resolving such issues, PSE will not be filing a general rate case until 2015
10 at the earliest.

11 The Settlement resolves this problem by the Parties agreeing to discuss PCA design
12 and operation issues in a collaborative (other interested persons may participate), and
13 PSE agreeing to initiate a proceeding by July 2014 to resolve PCA design, operation
14 and viability issues, if agreement cannot be reached. If agreement can be reached,
15 these issues can be “teed up” for Commission approval in the 2014 PCORC. In this
16 manner, a forum is provided for timely resolution of these issues.

17 **Item 9 (Paragraph 26): “Cost of Service, Revenue Allocation, and Rate Design**
18 **Issues”.** Similar to the previous Item regarding the PCA and the PCORC, there is an
19 issue whether cost of service, revenue allocation and rate design may be contested in
20 this PCORC. Again, this problem arises because, while a general rate case is the
21 typical procedural vehicle for resolving such issues, PSE will not be filing a general
22 rate case until 2015 at the earliest.

1 The Settlement resolves this problem by the Parties agreeing to discuss cost of
2 service, revenue allocation and rate design in a collaborative (other interested
3 persons may participate), and PSE agreeing to initiate a proceeding by July 2014 to
4 resolve such issues, if agreement cannot be reached. If agreement can be reached,
5 these issues can be “teed up” for Commission approval in the 2014 PCORC. In this
6 manner, a forum is provided for timely resolution of these issues.

7 **Item 10 (Paragraph 27): “Distributed Standby Generation (DSG)”**. By
8 December 1, 2014, PSE agrees to file a report, or a tariff, with the Commission
9 regarding the financial and technical feasibility of implementing a DSG program in
10 PSE’s territory. This was an uncontested issue in the PCORC docket.¹⁰

11 This requirement is reasonable because this effort could lead to benefits to PSE and
12 ratepayers, depending on the results.

13 **Item 11 (Paragraph 28): “Prudence Determination”**. This Item lists certain
14 prudence determinations the Parties agree the Commission should enter in the
15 PCORC docket. The facilities are: The Ferndale Generating Station, the renovation
16 and upgrades to the Snoqualmie Falls Project; the addition of a fourth generator unit
17 and a floating surface collector at the Baker Project; and PSE’s acquisition and
18 renewal of transmission contracts with BPA.

¹⁰ Williams, Exhibit JMW-1T, page 45, through page 47, line 11, and Mills, Exhibit No. DEM-8CT, page 18, line 21, through page 19, line 15.

1 Staff reviewed each of these PSE acquisitions and found them to be reasonable.¹¹

2 **Q. Please summarize why Staff supports the Settlement.**

3 A. Staff supports the Settlement because it is in the public interest for the reasons I have
4 discussed. Staff is pleased with the result of this settlement and the Parties' ability to
5 reach a full settlement of the consolidated dockets. The issues of Major
6 Maintenance and Treasury Grants have been in contention for some time and the
7 resolution of these issues in the Settlement is appropriate and reflects good public
8 policy. From Staff's viewpoint, in essence, the Settlement accepts PSE's inclusion
9 of the new and upgraded power plants at PSE's proposed values in exchange for
10 using October 31, 2013, for the determination of the plant values for LSR I, and
11 applying the same method (beginning of the rate year) for both Lower Baker and
12 Snoqualmie in the 2014 PCORC. These compromises accomplish the goal of using
13 the most recent data available for determining power costs for the rate period,
14 beginning November 1, 2013. For all of these reasons, Staff recommends that the
15 Commission accept this Settlement, with rates effective November 1, 2013.

16 **Q. Ms. Johnson, why does the Settlement Stipulation satisfy the interests of Public**
17 **Counsel?**

18 A. Public Counsel's participation in this case focused on issues related to PSE's PCA
19 mechanism; Mr. Sebastian Coppola filed testimony and exhibits on behalf of Public

¹¹ For the Ferndale Generating Station, Snoqualmie Falls and Baker Projects, see Williams, Exhibit JMW-1T, page 17, line 15 through page 41. For BPA transmission items, see Gomez, Exhibit DCG-1CT, page 7, line 17, through page 9, line 9.

1 Counsel on this topic. His testimony included a preliminary analysis of the PCA's
2 operation, and a recommendation for a Commission review, either in this case or in a
3 special proceeding, to determine whether the PCA should be terminated or
4 significantly modified.¹²

5 The Settlement Agreement creates a process in which PCA and PCORC-related
6 issues will be examined further by all parties and the Commission, as recommended
7 by Mr. Coppola. In November 2013, the Parties will begin a collaborative process to
8 review the PCA. If the Parties reach agreement on changes to the PCA, those
9 changes would be implemented in the PCORC that PSE will file in June 2014.
10 Importantly, the Settlement Agreement also includes a provision stating that if the
11 parties do not reach agreement, PSE will initiate a docket for PCA review by July 1,
12 2014.

13 **Q. Mr. Schoenbeck, why does the Settlement Stipulation satisfy the interests of**
14 **ICNU?**

15 A. The Settlement Stipulation satisfies the interests of ICNU because it addresses all of
16 the issues that ICNU raised in this proceeding. First, the Settlement Stipulation
17 incorporates ICNU's recommendation to include updated transmission costs that
18 reflect the Bonneville Power Administration's ("BPA") actual rate increase.

19 Second, the Settlement Stipulation incorporates a \$1 million reduction in production
20 operations and maintenance ("O&M") costs. This is a reasonable resolution of

¹² As noted in Exhibit No. SC-1T, p.9, Public Counsel sought Mr. Coppola's analysis in response to discussion regarding the PCA in PSE's most recent general rate case, Docket No. UE-111048.

1 ICNU's adjustment that recommended a Colstrip O&M adjustment based on the fact
2 that Colstrip O&M budgets have been overstated relative to actuals over the 2009-
3 2012 period.

4 Third, the Settlement Stipulation creates a collaborative process to address, among
5 other things, ICNU's recommended rate spread revision based on the fact that PSE
6 has changed its carbon regulation estimates. It is appropriate to revise at least some
7 of PSE's rate spread and cost of service assumptions given that they are outdated and
8 PSE will not be filing a new general rate case shortly after the conclusion of this
9 PCORC. If the Parties are able to reach agreement, then any rate spread changes
10 will be incorporated in the next PCORC. ICNU is hopeful that the Parties will be
11 able to reach agreement on at least some rate spread issues so that they can be
12 included in the next PCORC.

13 Fourth, ICNU supports a review of the PCA and PCORC, and believes that it is
14 appropriate to have a collaborative process to address these issues. Regarding both
15 the rate spread review and the PCA/PCORC review, it is very important that the
16 Parties will have an opportunity to address these issues in litigated proceedings if the
17 Parties are unable to reach agreement on all issues.

18 Finally, ICNU does not oppose the other provision of the Settlement Stipulation and
19 it supports that many aspects of the Settlement Stipulation are not precedential. The
20 Settlement Stipulation represents a true compromise in positions, and, except as
21 otherwise provided, should not be relied upon by the Parties or the Commission to
22 resolve issues in other proceedings.

1 **Q. To all witnesses, why does the Settlement Stipulation satisfy the public interest?**

2 A. The proposed Settlement Stipulation satisfies the public interest because it will result
3 in rates that are fair, just, reasonable and sufficient. The new power cost baseline
4 rate that is proposed to go into effect on November 1, 2013, will provide immediate
5 rate reductions to PSE customers, even beyond those initially proposed by PSE in its
6 direct and rebuttal filing. Additionally, the decrease is provided to customers one
7 month sooner than was contemplated in the original procedural calendar.

8 The settlement provides for a fair and equitable means of passing back to customers
9 the benefits of the Treasury Grants that will be received from the federal government
10 for the Snoqualmie Falls Project and the Baker Project. The Treasury Grants for
11 these hydroelectric projects will be passed back to customers over the life of these
12 plants, in a manner that better promotes intergenerational equity among customers.

13 The Settlement Stipulation provides opportunities for parties to collaboratively
14 address issues relating to the PCA mechanism and electric rate spread and rate
15 design, that have been raised in past cases.

16 The Settlement Stipulation resolves issues that have been litigated but not fully
17 resolved in several past general rate cases—such as the manner in which major
18 maintenance for PSE's gas-fired generation should be deferred, and the manner in
19 which new plant that was not in service for the full test year should be treated in a
20 rate proceeding. Both of these issues have been contentious in current and past
21 cases. The Major Maintenance resolution applies going forward for all PSE gas-
22 fired generation facilities. The plant in service issue is resolved for the current case

1 and the 2014 PCORC. Agreement on these issues should avoid or limit costly
2 litigation in the future.

3 The Settlement Stipulation approves new and upgraded least-cost resources,
4 including the upgrades to PSE's Snoqualmie Falls Project and Baker Project. With
5 these upgrades, the hydroelectric projects provide incremental electric generation
6 beyond what was previously generated by these facilities, and this incremental
7 generation is a renewable resource.

8 **Q. Does this conclude your joint testimony?**

9 A. Yes.