Exhibit _____ (JTS-1T)

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Washington Utilities and Transportation Commission,	)	
	)	
Complainant,	)	
	)	**Docket Nos. UE-060266 and UG-060267**
v.	)	
	)	
Puget Sound Energy, Inc.	)	
	)	
Respondent.	)	

Testimony of

James T. Selecky

On behalf of

Federal Executive Agencies

July 19, 2006
Project 8556

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

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Testimony of James T. Selecky

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

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

Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A We have been engaged by the United States Department of the Navy to present testimony on behalf of the consumer interests of the Navy and all other Federal Executive Agencies (FEA).

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A The purpose of my testimony is to address Puget Sound Energy, Inc.'s (PSE) proposal to revise the sharing bands of the current Power Cost Adjustment mechanism (PCA). Also, I will address PSE's proposed electric energy efficiency incentive mechanism. The fact that an issue may not be addressed should not be construed as an endorsement of PSE's position.

POWER COST ADJUSTMENT MECHANISM

Q PLEASE DESCRIBE PSE'S EXISTING POWER COST ADJUSTMENT MECHANISM.

A PSE's current Power Cost Adjustment (PCA) mechanism was the result of a negotiated settlement agreement and has been operating since July 2002. The purpose of the current PCA is to minimize the risk associated with power cost variations and to provide an incentive to PSE to minimize total power cost. The current PCA mechanism has four graduated sharing bands on the first $120 million of power cost variance. The first band is a +/- $20 million "deadband" in which the Company absorbs any power cost variation above or below the PCA baseline. The PCA Baseline is the cost embedded in the tariff rates paid by PSE's customers. As shown in Table 1 below, beyond the $20 million and up to $120 million, the mechanism has three more sharing bands whereby consumers take on an increasing share of any variation in power cost over or under the PCA Baseline.

TABLE 1

Existing Power Cost Adjustment Sharing Mechanism

Power Cost ($ Millions) (Over or Under PCA Baseline)	Customer Share	PSE Share*
$0 - $20 +/-	0%	100%
$20 - $40 +/-	50%	50%
$40 - $120 +/-	90%	10%
> $120 +/-	95%	5%

* $40 million cap on PSE's exposure over four-year period.

The current mechanism has a cumulative cap of $40 million on the amount of power cost exposure that PSE would be required to absorb during the first four years of the mechanism. On power cost variances over the $40 million cap, the PCA sharing mechanism allocated 99% of the excess cost or benefit to customers and the remaining 1% to PSE. The cap (but not the PCA mechanism) expired on June 30, 2006.

Q **DID PSE REACH THE $40 MILLION CAP DURING THE FOUR-YEAR PERIOD?**

A Yes. The Company exceeded the $40 million cap four months into PCA period 4. However, at the end of PCA period 3, PSE's share of excess power costs was below $40 million. PSE's share of excess power costs exceeded $40 million in October 2005 of PCA Period 4 and at March 31, 2006, is still above the $40 million cap. (PSE Response to FEA Data Request No. 01-047)

Q HAS PSE'S CURRENT PCA MECHANISM OPERATED AS EXPECTED?

A Yes. The current PCA mechanism has helped to stabilize the Company's earnings and customers' rates. The Company states that the existing PCA mechanism has "reduced – but not removed – " financial risks related to commodity costs. (Prefiled Direct Testimony of Bertrand A. Valdman, page 10) The purpose of a PCA sharing mechanism is to reduce, not remove, risk related to power cost variation.

Q IS PSE PROPOSING TO CHANGE THE EXISTING PCA MECHANISM?

A Yes. PSE is proposing to eliminate the deadband and to reduce the number of additional sharing bands from three to two. The revised sharing bands shift more of the risk of power cost variation away from the Company and onto the customers. Eliminating the deadband shifts risk to customers. PSE is also shifting risk to customers in the second band, by decreasing the point at which customers share of the risk is 90% from $40 million down to $25 million. Table 2 compares the current and proposed PCA mechanisms.

TABLE 2

Comparison of Existing and Proposed
Power Cost Adjustment Sharing Mechanism

Power Cost ($ Millions) (Over or Under PCA Baseline)	**Customer Share**	**PSE Share***
Existing Mechanism		
$0 - $20 +/-	0%	100%
$20 - $40 +/-	50%	50%
$40 - $120 +/-	90%	10%
> $120 +/-	95%	5%
Proposed Mechanism		
$0 - $25 +/-	50%	50%
$25 - $120 +/-	90%	10%
> $120 +/-	95%	5%

* $40 million cap on PSE's exposure over four-year period under existing mechanism; no cap under proposed mechanism.

Q IS PSE IN A BETTER POSITION TO MANAGE THE VARIATION IN POWER COST THAN ITS CUSTOMERS ARE?

A Yes. The Company can manage power cost risk using various strategies. It can buy long-term fixed price resources and hedge fuel costs. In fact, PSE already has a fuel cost hedging program in place and is requesting that additional hedging power supply cost be allowable as a PCA expense. The Company is in the business of managing power cost: generating, buying and selling power. However, most customers have limited power to manage their electric bills. For example, residential customers cannot hedge power costs. Therefore, they must rely on the Company to provide the lowest possible energy costs. Commercial customers' major concern is their primary line of business. These customers may also lack the expertise and resources to cost effectively manage power costs. PSE's industrial customers, for the most part, view electricity as an input to their production process, over which they have limited control.

Q HAS PSE MADE A CONVINCING CASE THAT THERE IS A PROBLEM WITH THE CURRENT PCA MECHANISM?

A No. PSE has failed to show that elimination of the deadband results in a fair allocation of risks between shareholders and customers. By eliminating the deadband, PSE is not eliminating wholesale market and natural gas price risk, but rather is transferring this risk to the customer.

One of the Company's main concerns with respect to the current PCA mechanism appears to be the expiration of the $40 million cap. The Company is concerned that the elimination of the $40 million cap will result in financial risk that it may not be able to sustain. However, the Company is not requesting that any deferred PCA cost be included in rates in addition to the general rate increase requested in this proceeding. (Story, page 48). According to the Company, the deferred PCA costs did not exceed the $30 million trigger amount necessary to request an increase or refund of power cost under the terms of the current PCA mechanism.

Q DO YOU AGREE WITH THE COMPANY'S ASSESSMENT REGARDING THE ELIMINATION OF THE $40 MILLION CAP?

A No. The Company has stated that it can reduce power cost exposure through the types of hedging activities discussed in this filing. Such hedging can be expected to reduce the power cost variability. (Aladin, page 17) In addition, the PCA focuses only on selected costs for the utility. To the extent other costs decrease, this would offset excess power cost increases and it is possible that PSE could earn its authorized return even if it has to absorb some excess power costs.

Q WHAT IS THE POTENTIAL IMPACT OF ADOPTING PSE'S PROPOSED PCA SHARING MECHANISM?

A It is likely that customers' power cost would be higher under PSE's proposed PCA mechanism. The Company compared the customers' and the Company's share of excess power costs for the four-year period (through March 2006) under the current and proposed PCA mechanisms. The comparison shows that customers' share of the excess power cost would have been higher under the Company's proposed PCA mechanism.

Q DOES SHIFTING THE RISK AWAY FROM THE COMPANY HAVE AN ADDITIONAL IMPLICATION?

A Yes, There is a link between the PCA mechanism and the cost of capital required to a utility. PSE's proposed change would shift risk from the Company to the customer without a corresponding reduction in the return on equity.

Q HAS THE COMMISSION ADDRESSED THIS ISSUE IN RECENT RATE PROCEEDINGS?

A Yes. The Commission addressed similar mechanisms in the Pacific Power and Light Company general rate proceeding, Docket UE-050684 and in the recent proceeding involving Avista Utilities Energy Recovery Mechanism in Docket UE-060181.

Q WHAT WAS THE OUTCOME REGARDING THE PCA MECHANISMS IN THOSE PROCEEDINGS?

A In the Pacific Power and Light Company proceeding, the Commission stated "Deadbands and sharing bands are useful mechanisms, not only to allocate risk, but to motivate management to effectively manage or even reduce power costs." (WUTC Docket UE-050684)

Although Avista proposed to eliminate the deadband in its Energy Recovery Mechanism, the Commission approved a settlement that reduced rather than eliminated the deadband. Avista's deadband was reduced from $9 million to $4 million. There is 50/50 sharing between $4 million and $10 million and 90/10 sharing above $10 million. (WUTC Docket No. UE-060181, Order 3) These figures are not directly comparable to PSE's deadband, because PSE's electric revenues are much higher than Avista's revenues.

Q THE COMPANY IS ARGUING THAT HYDRO VARIABILITY IS A KEY FACTOR THAT LED TO ITS PROPOSED REVISIONS TO THE PCA SHARING MECHANISM. PLEASE RESPOND.

A The Company states that the first $25 million sharing band of its 50/50 sharing percentage is meant to more fairly share the power cost risks associated with hydro variability. That is, under the Company's proposal, hydro costs variability would be shared by the customer and the shareholder. This seems to be counter to the Commission's position. As previously stated, the Commission continues to support including deadbands in a PCA despite hydro variations. Therefore, the Commission through its previous orders has clearly indicated a preference for utilities to reflect hydro variability through the deadbands in a PCA. PSE has acknowledged that it is able to make adjustments for the availability of hydro through their use of its other generation resources, wholesale market purchases and sales and hedging.

Q WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE PROPOSED PCA MECHANISM?

A My recommendation is that the Commission reject the Company's proposed changes to the existing PCA mechanism. PSE's current PCA mechanism is working as intended. The Company has not provided sufficient information to support the proposed changes, and those proposed changes are, at best, unnecessary and, at worst, contrary to the public interest. A properly designed PCA sharing mechanism should consider the risk impacts on both PSE and its customers. I recommend that the PCA mechanism be maintained in its current form.

Q WHAT IS YOUR RECOMMENDATION IF THE COMMISSION ACCEPTS PSE'S PROPOSED CHANGES TO THE PCA SHARING MECHANISM?

A If the Commission accepts the PCA mechanism changes as proposed by the Company, there should be a downward adjustment to the authorized return on equity to recognize the shift in risk from the Company to customers.

Q IS IT YOUR UNDERSTANDING THAT THE COMPANY IS REQUESTING ADDITIONAL FUNDING TO SUPPORT ITS HEDGING ACTIVITIES?

A Yes. The Company is proposing to establish a separate credit line dedicated to supporting its hedging activities and to pass the cost of this credit facility through the PCA mechanism.

Q DO YOU OPPOSE THE COMPANY'S REQUEST?

A No. My only concern is that the funding be allocated appropriately between gas and electric service and the Company be required to demonstrate that it is utilizing the funds for the benefit of ratepayers.

ENERGY EFFICIENCY INCENTIVE MECHANISM

Q DOES PSE CURRENTLY HAVE IN PLACE AN ENERGY EFFICIENCY PROGRAM?

A Yes. As indicated in the testimony of PSE witness Calvin Shirley, the 2001 Conservation Settlement requires that PSE have energy efficient programs that are cost effective and economically feasible for the customers. Under the current program, PSE avoids a penalty assessment if PSE achieves a minimum threshold energy savings goal as determined by the stakeholders advisory committee. However, PSE has never fallen below this threshold energy saving goal, and has never incurred a penalty since it became effective in September 2002.

Q IS PSE PROPOSING ANY CHANGES TO ITS ENERGY EFFICIENCY PROGRAM?

A Yes. PSE is proposing an energy efficiency incentive mechanism that will reward an incentive equal to a percentage of the total annual program cost under the conservation tariff rider. The amount of energy savings achieved will be used to determine the size of the incentive percentage awarded. An economic incentive would only be earned if the total energy savings exceeded a specific threshold. Alternatively, a penalty would be assessed if the total savings are below the baseline target or threshold levels. The penalty would be a fixed dollar amount per kWh that would be applied to the difference between the baseline level of savings and the total savings achieved if the total savings are below a specified threshold.

Q **WHY IS PSE PROPOSING A CHANGE TO THE CONSERVATION PROGRAM THAT CURRENTLY EXISTS?**

A PSE states that under the current program, it is only assessed a penalty if it does not achieve its savings target. However, there is no reward for meeting or exceeding the energy target As a result, the Company claims it has no incentive to more aggressively pursue energy efficiency.

Q **HAS THE COMPANY IDENTIFIED ANY CLAIMED DISINCENTIVES FOR PURSUING AN AGGRESSIVE ENERGY EFFICIENCY PROGRAM?**

A Yes. PSE states that reductions in the volume of energy sales due to energy efficiency programs result in lost revenues to the Company. This, the Company claims, discourages expanded energy efficiency or conservation efforts. However, despite this claimed program deficiency, the Company indicates that it has been responsive to the stakeholders who have urged the Company to undertake aggressive energy efficiency efforts.

Q **IS THE COMPANY PROPOSING TO SEEK SEPARATE RECOVERY OF ANY LOST MARGINS OR REVENUES FROM THE APPLICATION OF THE ELECTRIC ENERGY EFFICIENCY PROGRAM IN THIS PROCEEDING?**

A No. PSE is not seeking any recovery of lost margins or revenues from the electric energy efficiency program. However, the Company's response to FEA Data

Request No. 01-009 states that this does not preclude PSE from seeking recovery at a later time.

Q PLEASE SUMMARIZE PSE'S PROPOSED INCENTIVE MECHANISM.

A As previously stated, PSE is seeking a percentage of the annual program cost based on its ability to exceed the baseline target. The Company's proposal is summarized on Exhibit _____ (CES-4), Page 1 of 1.

As indicated in the prefiled direct testimony of PSE witness Calvin Shirley, the proposed incentives for exceeding the targeted goals range from 10% to 20% of the annual electric program costs. The annual program costs would include all costs associated with planning, implementation, evaluation and administration of the electric energy efficiency programs. The Company would also be assessed a penalty for achieving savings below 80% of the baseline target. The penalty assessment would be 4¢ to 6¢ per kWh of the difference between the baseline target and the actual savings achieved. The deadband is established between 80% and 100% of the baseline target.

Q DO YOU BELIEVE THE COMMISSION SHOULD IMPLEMENT PSE'S PROPOSED INCENTIVE MECHANISM?

A No. The Commission should not artificially increase the program costs that PSE is passing on to ratepayers for providing energy efficient programs to customers. Under PSE's proposal, the Company will be receiving revenues that are in excess of the actual program costs. The customer should only pay prudently-incurred program costs and no more. The current program that was established in the 2001 Conservation Settlement has been performing satisfactorily and should not be adjusted for cost recovery in excess of the costs incurred.

Q WHY SHOULD THE COMPANY NOT BE REWARDED FOR EXCEEDING ITS ENERGY EFFICIENCY TARGET?

A As a protected monopoly, a utility has an obligation to provide the least cost service and should not be provided cost incentives to provide energy efficiency or conservation services. PSE's energy efficiency program is simply another service that the utility is providing. Also, to achieve the goals of least cost long-term energy supply, utilities evaluate and pursue a combination of supply side and demand side resources. It is a combination of these resources that is most likely to result in the lowest cost to ratepayers. Therefore, as I will discuss later, supply side and demand side or energy efficiency programs should be treated similarly. To the extent that the energy efficiency program provides the expected benefits, PSE should be allowed to recover its actual costs and no more.

Q HOW DO YOU RESPOND TO THE COMPANY'S CLAIM THAT AS A RESULT OF THIS PROGRAM, PSE LOSES REVENUES THAT IT WOULD OTHERWISE RECEIVE?

A PSE is only looking at one component of the ratemaking formula, which is the lost revenues. PSE is not focusing on the cost savings that may be achieved as a result of this program. Looking at this program in isolation ignores PSE's other revenue and cost components that comprise its total cost of service.

The Company has indicated in its 2005 Least Cost Plan that the reduction in demand associated with its energy program offsets the addition of generation supply resources to meet energy needs. In fact, the Company indicates the goal of the energy efficiency programs is to minimize the incremental portfolio cost. Therefore, PSE should see lower incremental energy cost as a result of the energy efficiency program.

Q PLEASE RESPOND TO PSE'S CONTENTION THAT THE CURRENT ENERGY EFFICIENCY PROGRAM ONLY PROVIDES FOR PENALTIES AND NOT ANY INCENTIVES.

A The current program allows PSE to recover its cost associated with energy efficiency programs to the extent that these programs meet their target goals. Under the current program, PSE is essentially allowed cost recovery for costs that are used and useful and/or prudently incurred.

This is no different than any cost recovery that would be granted to PSE as a result of installing a supply side option. For a supply side expenditure, a utility would not be rewarded with an incentive that would be applied to the supply side additional investment. In addition, any supply side cost would be subject to any used and useful and/or prudency standards. Therefore, energy efficiency costs should be treated in the same fashion as supply side costs. That is, if the costs are not providing the claimed benefits, then the costs should be disallowed. In summary, energy efficiency expenditures should be subject to the same standards of prudence as supply side resources.

Finally, the Company has indicated in its 2005 Least Cost Plan that an accelerated energy efficiency program is more beneficial to the portfolio mix than a constant rate energy efficiency program. Assuming this is true, the Company should continue its stated accelerated energy efficiency program and only receive cost for recovery of prudently-incurred expenditures.

Q DO YOU HAVE ANY COMMENTS REGARDING ANY OTHER CHANGES THAT PSE IS PROPOSING TO THE ENERGY EFFICIENCY COST RECOVERY MECHANISM?

A No. I am solely addressing the inclusion of an incentive cost being built into the energy efficiency program and have not taken a position on other program changes.

Q DOES THIS CONCLUDE YOUR TESTIMONY?

A Yes.

Appendix A

<u>Qualifications of James T. Selecky</u>

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A James T. Selecky. My business address is 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141.

Q PLEASE STATE YOUR OCCUPATION.

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

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EMPLOYMENT EXPERIENCE.

A I graduated from Oakland University in 1969 with a Bachelor of Science degree with a major in Engineering. In 1978, I received the degree of Master of Business Administration with a major in Finance from Wayne State University.

I was employed by The Detroit Edison Company (DECo) in April of 1969 in its Professional Development Program. My initial assignments were in the engineering and operations divisions where my responsibilities included evaluation of equipment for use on the distribution and transmission system; equipment performance testing under field and laboratory conditions; and troubleshooting and equipment testing at various power plants throughout the DECo system. I also worked on system design and planning for system expansion.

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

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

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona; Chicago, Illinois; Corpus Christi, Texas; and Plano, Texas.

Q HAVE YOU PREVIOUSLY APPEARED BEFORE A REGULATORY COMMISSION?

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

In addition, I have testified before the regulatory commissions of the States of Colorado, Connecticut, Georgia, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Massachusetts, Missouri, New Hampshire, New Jersey, North Carolina, Ohio, Oklahoma, Tennessee, Texas, Utah, Washington, Wisconsin, and Wyoming, and the Provinces of Alberta, Nova Scotia and Saskatchewan. I also have testified before the Federal Energy Regulatory Commission. In addition, I have filed testimony in proceedings before the regulatory commissions in the States of Florida, Montana, New York, Oregon, Pennsylvania and the Province of British Columbia. My testimony has addressed revenue requirement issues, cost of service, rate design, financial integrity, accounting-related issues, merger-related issues, and performance standards. The revenue requirement testimony has addressed book depreciation rates, decommissioning expense, O&M expense levels, and rate base adjustments for items such as plant held for future use, working capital, and post test year adjustments. In addition, I have testified on deregulation issues such as stranded cost estimates and rate design.

Q ARE YOU A REGISTERED PROFESSIONAL ENGINEER?

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