

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	Docket No. UE-050482
Complainant,)	
)	Docket No. UG-050483
vs.)	
)	<i>(consolidated)</i>
AVISTA CORPORATION,)	
)	
Respondent.)	
_____)	

EXHIBIT NO. ___(RJF-3)

EXCERPT OF DIRECT TESTIMONY OF ALAN BUCKLEY

IN WUTC DOCKET NO. UE-032065

August 26, 2005

Exhibit No. ____ (APB-1T)

Docket No. UE-032065

Witness: Alan P. Buckley

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**PACIFICORP, d/b/a PACIFIC POWER
& LIGHT COMPANY,**

Respondent.

DOCKET NO. UE-032065

TESTIMONY OF

ALAN P. BUCKLEY

**STAFF OF THE WASHINGTON UTILITIES
AND TRANSPORTATION COMMISSION**

July 2, 2004

1 **B. Water Year Adjustment**

2 **Q. Please describe the Water Year adjustment.**

3 A. I recommend that normalized power supply costs determined from the
4 Company's dispatch model use water-years that are one standard deviation from
5 the mean of available data. This methodology replaces the 40-year rolling
6 average methodology that has been previously adopted by the Commission.

7
8 **Q. Please describe the relationship between water- years and normalized system
9 power supply expense.**

10 A. The calculation of normalized power supply expense begins with a model that
11 simulates hydroelectric generation based on historical stream flows, current
12 plant efficiencies, storage capabilities, flow requirements, and other factors. The
13 output from that model is then used in an hourly dispatch model (the
14 Company's GRID model) to simulate the operation of the Company's power
15 supply system for each water-year. The GRID results from each water-year are
16 averaged to determine normalized net power costs.

17 For years, the issues of how many water-years to use and which ones to
18 use in setting normalized power supply expenses have come before this
19 Commission. Various proposals by the electric companies, Staff, and other
20 parties have been reviewed and either rejected or adopted. The latest

1 Commission approved methodology utilizes a 40-year series of hydro data to
2 develop normalized power supply costs.

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4 **Q. Why does Staff propose a different methodology at this time for this**
5 **PacifiCorp?**

6 A. Two factors led Staff to conclude that an alternative approach is appropriate.
7 The first is the recent, very real tendency for the regulated electric utilities to
8 request rate relief when higher than expected actual power supply expenses
9 occur due to “unforeseen” events. Bad water -years and their effect on actual
10 power supply costs have been cited as one of the unforeseen events. Debate then
11 occurs over the extent that existing rates actually include consideration of
12 unfavorable water conditions, and whether the company is due relief given the
13 costs that are embedded in rates using the normalization methodology. The
14 region’s common use of normalizing power supply expenses for purposes of
15 ratemaking is designed to give the companies the opportunity to recover their
16 costs over time, given a variety of water conditions. Rates using, for example,
17 the 40-year rolling average method, reflect revenue requirements under the
18 entire 40-year range of historical water conditions. It is highly unlikely that a
19 company will not seek rate relief for a period long enough to experience all water
20 conditions considered in the normalized ratemaking process. However,

1 companies have filed for rate relief based on higher than expected actual costs,
2 costs that in the near-term may not be recovered with existing revenues. It is
3 then difficult to reconcile the long-term normalized ratemaking process with the
4 need to recover short-term costs and maintain financial integrity for the
5 companies. Staff's water year recommendation will minimize these
6 controversies and simplify the rate setting process by making it clearer what
7 costs are included in rates.

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9 **Q. What is the second factor?**

10 A. Two of the three regulated electric utilities now have some form of power cost
11 adjustment mechanism. A Washington islanding or stand-alone approach may
12 include some form of hydro adjustment to address the variability in generation
13 from hydro resources in the Western Control Area. Such a hydro adjustment
14 would address the more significant variations in water conditions throughout
15 the region. It is therefore unnecessary, and even incorrect, to include the power
16 supply costs associated with all water year conditions in the determination of the
17 base power supply costs when a hydro adjustment mechanism exists. The effects
18 on power supply expense of water years above or below some level can be
19 addressed in the mechanism.

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1 **Q. The Company does not have a hydro adjustment mechanism at the present**
2 **time. Why is Staff still recommending the water year adjustment?**

3 A. The first factor, alone, is sufficient to support the adjustment. This is especially
4 true if the Commission accepts Staff's recommendations in this proceeding. The
5 Company would, in a relatively short period of time, be before the Commission
6 to reset its rates based on an islanding or stand-alone approach to ratemaking.
7 There is no need to burden Washington customers with rates designed to recover
8 long-term extremes in power supply costs due to stream flow variations. In the
9 event an extreme year occurs that adversely affects power costs between now
10 and the next general rate case, the Company can make a filing to recover those
11 costs. The adoption of this water year methodology is also appropriate under
12 any scenario. Whether through a hydro adjustment mechanism or through a
13 separate filing requesting relief from drought conditions, it may be in the best
14 interests of customers to see the cost effects of stream flow variations.
15 Embedding the effects of the more extreme stream flow conditions is tantamount
16 to paying an insurance premium and then hoping the Company will have
17 sufficient funds to pay the claim. Actually seeing the effects of more extreme
18 stream flow conditions may result in better customer information in the form of
19 conservation or demand-side measures needs, in the event the Company files for
20 immediate rate relief.

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Q. Please describe how normalized power supply costs are calculated using the recommended water-year methodology.

A. The GRID model input file for monthly hydro is analyzed. That file specifies the output of electricity produced at each of the Company’s hydro units per month from 1929 to 1978. The annual generation for each facility is calculated and then added to derive the total output from the Company’s hydro units for each of the water years. The mean and standard deviation are calculated using total annual generation. Those water years that represent annual generation within plus or minus one standard deviation of the mean are identified. A new monthly hydro input file is developed consisting of the 26 water years that met the test. The GRID model result, with the “filtered” water-years, is compared to the Company’s 40-year result. The net power costs that are assigned to the Western Control Area are identified and allocated to Washington.

Q. What are Washington’s allocated Net Power Costs under Staff’s recommended water year adjustment?

A. Western Control Area Net Power Cost decrease by approximately \$13,516,177, with Washington’s allocated Net Power Cost decreasing by \$3,026,412.