

Ex. \_\_ (DWS - 2)  
Docket No. UE-991606  
Docket No. UG-991607  
Witness: Donald W. Schoenbeck

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
COMMISSION**

Washington Utilities and )  
Transportation Commission, )  
 )  
Complainant, ) **DOCKET NO. UE-991606**  
 )  
vs. ) **DOCKET NO. UG-991607**  
 )  
Avista Corporation, )  
 )  
Respondent )  
\_\_\_\_\_ )

**EXHIBIT OF  
DIRECT TESTIMONY OF  
DONALD W. SCHOENBECK  
ON BEHALF OF THE  
INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

**DATED: MAY 5, 2000**

WUTC		
DOCKET NO.	UE-991606	
EXHIBIT #	720	
ADMIT	W/D	REJECT
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The following utilities were specifically identified by Avista (“Company”) witness Avera as having similar PCAs to the one proposed in Washington by the Company. *See* Company response to Record Request No. 26 (“Response”), which is attached to this exhibit. The Response identifies 12 companies. Four of those, by the Company’s own admission, no longer have PCAs. The PCAs of the others are summarized below:

1. **Alliant Energy** has a PCA-type mechanism in only part of its multi-state territory. There is a PCA-type mechanism in Iowa, but Wisconsin does not have a similar mechanism. In Wisconsin, utilities can seek emergency rate relief for increases in fuel and purchase power costs. It appears that only about 60% of Alliant Energy’s retail revenues are subject to a PCA-type mechanism.
2. **Central Hudson Gas & Electric** (“Central”) in New York State has an adjustment mechanism that, according to the Company, allows for changes in fuel costs and “certain purchased power costs.” Several comments can be added to this terse description. First, Central is proceeding under a restructuring plan to phase-in customer choice. This fact alone should provide Central with a direct incentive to minimize its power costs, thereby reducing its risks in an increasingly-competitive

environment. Second, Central's mechanism does not pass through 100% of the variation of the adjustable costs, as the Company is proposing in the Washington proceeding. Central's shareholders must absorb the first 20% of the variation up to \$10 million, and 10% of the variation between \$10 million and \$20 million. This shareholder exposure provides a further direct incentive to Central to minimize costs. Finally, the "certain purchase power costs" are specifically defined. The allowable purchase costs are for cogeneration, small power producers and economy energy purchases, which are capped at Central's avoided fuel cost. In sum, Central's ratepayers are not exposed to all of the energy market risk, as the Company is proposing in its PCA for Washington.

3. **CINergy, Inc.** — whose main utility entities are Cincinnati Gas & Electric ("CG&E") and PSI Energy — is required by Ohio legislation to provide all customers with the opportunity to select an electric supplier as of January 1, 2001. The Company does not mention the legislation in its Response. For residential customers who choose not to switch suppliers on this date, CG&E must provide a 5% decrease in the generation component of customer bills. Furthermore, the rate will be frozen at this level for the duration of a 5-year transition period. This arrangement is radically different from the PCA protection sought by the Company in this proceeding. Only for operations in Indiana is there a PCA-type

mechanism in place for CINergy. For PSI, the mechanism is targeted to recover changes in fuel-related costs of its own generation. PSI does not recover purchased power expenses, as the Company is proposing in this proceeding. PSI filed a petition with the Indiana commission in May 1999 seeking a purchase power tracker. Hearings were held for this application in December but the Indiana commission has yet to issue an order.

4. The Company's description of **Conectiv** conveys the impression that this utility has an adjustment mechanism for its entire retail load. That is not the situation. Both the operating entities of this company — Delmarva Power & Light ("Delmarva") and Atlantic City Electric ("ACE") — are restructuring their operations. In the case of Delmarva, the state of Delaware eliminated the adjustment mechanism on October 1, 1999, and Maryland will eliminate it on June 30, 2000. Furthermore, Delmarva is also proposing that the mechanism be eliminated this year in Virginia, a jurisdiction of only 20,000 customers. Virginia legislation requires a phase-in of customer choice beginning January, 2002. Delmarva noted that its earnings volatility may increase when the PCA-type mechanism is eliminated. In New Jersey, ACE's fuel cost adjustment mechanism ended on July 31, 1999. Thus, it would be much closer to the mark to describe Conectiv as *not* having a PCA-type mechanism.

5. For **Consolidated Edison** (“ConEd”) in New York, the Response notes that the shareholders are at risk for 30% of costs above a target amount, with a penalty cap at \$35 million. The Response does not state that the mechanism terminated on May 1, 2000, to comply with New York restructuring requirements. There is a replacement mechanism that affects customers who remain with their utility supplier, but ConEd can only pass through 90% of the fuel costs. The remaining 10% is borne by shareholders, and the utility therefore has an incentive to procure cost-effective fuel supplies.
6. **LG&E Energy** in Kentucky has a PCA-type mechanism but it is not clear for how long it will remain in place. The Kentucky Commission rescinded the PCA-type mechanism in 1999 but reinstated it in 2000, pending resolution of alternate mechanisms.
7. The Company’s Response leaves the wrong impression for **Public Service Enterprise Group**, a New Jersey holding company. The first sentence of the Response appears to indicate that an adjustment clause is in place. But the second sentence is confusing because it suggests the mechanism is no longer being used to recover fuel-related costs. The company’s 1999 10-K form explains the matter, as follows:

Certain . . . variances did not impact earnings as there was an offsetting variance in expense. To the extent fuel revenue expense flowed through the Electric Levelized Energy Adjustment Clause (LEAC) through July 31, 1999, . . . variances in certain revenue and expenses offset and thus had no effect on earnings. . . . On August 1, 1999, the LEAC mechanism was eliminated as a result of the Final Order. This is likely to increase earnings volatility since PSE&G and Power [another subsidiary] now bear the full risks and rewards of changes in nuclear and fossil generating fuel costs and replacement power costs.

8. Finally, the Company's Response does not fully explain the status of **Sempra Energy** in California. The rate freeze for this utility ended this past summer after Sempra had recovered all of its stranded costs. During the rate freeze period, Sempra had an incentive to minimize purchased power and fuel expenses in order to more rapidly recover its stranded costs. As the rate freeze neared its termination date, Sempra, with the support of some parties, proposed an energy procurement incentive mechanism to take its place. The California Public Utility Commission declined to adopt the proposal because the state's two other investor-owned utilities, Southern California Edison and Pacific Gas & Electric, have yet to recover their stranded costs. The California commission said it will reconsider these types of proposals once the transition period is over for the two utilities. This transition

period cannot extend beyond March, 2002. Thus, it is correct that for a relatively brief period, Sempra is allowed to recover all of its purchase power expenses. Sempra, however, is the only utility among the 12 comparable companies in this position, and Sempra's PCA-type mechanism will only last for a short time.

**AVISTA UTILITIES  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Washington	DATE PREPARED:	4/14/00
CASE NO:	UE-991606	WITNESS:	William Avera
	UG-991607	RESPONDER:	Adrien McKenzie
REQUESTER:	Staff	DEPT:	FINCAP
TYPE:	Record Request	TELEPHONE:	(512) 458-4644
DUE DATE:		FIELD AUDIT:	___ Yes <u>X</u> No
REQUEST NO.:	026		

**REQUEST:**

Which of the companies shown on WEA-1 have a PCA, or a PCA equivalent, mechanism? Describe the mechanism for each.

**RESPONSE:**

Please see the attached company listing and associated explanations.



**RECORD REQUEST NO. 26**

<b>COMPANY</b>	<b>DESCRIPTION</b>
Alliant Energy	Tariffs in Iowa jurisdiction include an Energy Adjustment Clause that is designed to currently recover the costs of fuel and the energy portion of purchased-power billings. In Wisconsin, utilities can seek emergency rate increases if the annual costs of fuel and purchased power are more than 3 percent higher than the estimated costs used to establish rates.
Central Hudson G & E	Retail service tariff includes a fuel cost adjustment clause that allows for the adjustment of electric rates to reflect changes in the average cost of fuels used for electric generation and certain purchased power costs from those included in base rates.
CINergy, Inc.	Tariffs include wholesale and retail fuel adjustment clauses, although Indiana limits the recovery of fuel costs where recovery would result in the utility earning a rate of return in excess of that allowed in the last general rate order.
Conectiv	Energy adjustment clauses that provide for collection of fuel costs and the energy component of purchased and net interchange power are included in tariffs. Certain clauses also provide for the recovery of capacity costs incurred under purchased power contracts with independent power producers. Over- or Under- collections of costs under the energy adjustment clauses are generally deferred until customers rates are adjusted to collect or return the balance.
Consolidated Edison	Fuel and purchased power costs that are above the levels included in base rates are recoverable under an electric fuel adjustment clause. Such costs are deferred until the period in which they are billed. Under a partial pass-through adjustment clause approved in conjunction with an incentive regulation plan, the utility retains for stockholders 30 percent of any savings in actual costs for electric fuel and purchased power costs below monthly targets, but must bear 30 percent of any excess of actual costs over targets. The maximum incentive or penalty is capped at \$35 million for any rate year.
LG&E Energy	Currently, changes in fuel costs are reflected in rates by means of an adjustment clause, which specifies hearing every six months to examine past adjustments. The balance of any over- or under- recovery is transferred at two year intervals. As part of an incentive regulation plan, the utility has proposed to replace the fuel adjustment clause with a provision that would allow the utility to retain a portion of any savings in fuel costs below those implied by a fuel cost index. Any costs above those implied by the index would be born by shareholders.
PECO Energy	Prior to December 31, 1996, the utility's retail rates were subject to an energy cost adjustment clause designed to recover or refund the difference between the actual cost of fuel, energy interchange, or purchased power and the amount included in base rates. In conduction with a Final Restructuring Order that deregulates generation operations and institutes retail competition, retail rates were capped at year-end 1996 levels through June 2005.

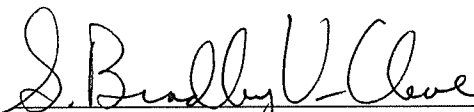
**RECORD REQUEST NO. 26**

<b>COMPANY</b>	<b>DESCRIPTION</b>
<b>P S Entr Group</b>	A levelized energy adjustment clause is approved to minimize the impact of major commodity price swings. In accordance with restructuring proceedings, over-recoveries will be used to mitigate stranded costs while under-recoveries will be recognized in the results of operations.
<b>Puget Sound Energy</b>	Periodic Rate Adjustment Mechanism ended September 30, 1996 under the terms of a stipulated negotiated settlement.
<b>RGS Energy Group</b>	A fuel cost adjustment clause was discontinued effective July 1, 1996, with a settlement on industry restructuring being approved by regulators in November 1997. The terms of the restructuring plan provide for a phase-in to open electric markets while creating an opportunity for shareholders to earn competitive returns. The settlement also allows for a reasonable opportunity to recover substantially all of the utility's prudently incurred costs, including those pertaining to generation and purchased power.
<b>Sempra Energy</b>	Under California's electric industry restructuring law, any over-collection of fuel and purchased energy costs formerly held in balancing accounts was used to offset transition costs. In connection with the transition to competitive markets, rates were frozen at June 1996 levels but for a mandated 10 percent reduction for residential and small commercial consumers and fuel cost changes subject to specified caps.
<b>Sierra Pacific Resources</b>	In connection with deregulation and incentive regulation plans approved in the California and Nevada jurisdictions, deferred energy accounting was suspended May 1995 (Nevada) and June 1996 (California).

CERTIFICATE OF SERVICE

I hereby certify that I served a copy of the foregoing the Direct Testimony of Donald W. Schoenbeck on Behalf of the Industrial Customers of Northwest Utilities upon the parties on the official service list in this proceeding by depositing same in the United States Mail at Portland, Oregon, postage prepaid.

DATED this 5<sup>th</sup> day of May, 2000

  
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S. Bradley Van Cleye