

EXHIBIT NO. ___(SML-9T)
DOCKET NO. UG-040640, *et al.* (consolidated)
2004 PSE GENERAL RATE CASE
WITNESS: SUSAN MCLAIN

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UG-040640
Docket No. UE-040641
(*consolidated*)

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For an Order Regarding the Accounting
Treatment for Certain Costs of the Company's
Power Cost Only Rate Filing.

Docket No. UE-031471 (*consolidated*)

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For an Accounting Order Authorizing
Deferral and Recovery of the Investment
and Costs Related to the White River
Hydroelectric Project.

Docket No. UE-032043 (*consolidated*)

PREFILED REBUTTAL TESTIMONY OF
SUSAN MCLAIN (NONCONFIDENTIAL)
ON BEHALF OF PUGET SOUND ENERGY, INC.

NOVEMBER 3, 2004

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PUGET SOUND ENERGY, INC.

PREFILED REBUTTAL TESTIMONY OF SUSAN MCLAIN

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PUGET SOUND ENERGY, INC.

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PREFILED REBUTTAL TESTIMONY OF SUSAN MCLAIN

3

I. INTRODUCTION

4 **Q. Are you the same Susan McLain who submitted direct testimony in this**
5 **proceeding on behalf of Puget Sound Energy, Inc. ("PSE" or "the**
6 **Company")?**

7 A. Yes I am.

8 **Q. What is the purpose of your rebuttal testimony?**

9 A. I respond to testimony from Commission Staff witnesses Douglas Kilpatrick and
10 James M. Russell regarding PSE's proposal for dealing with catastrophic events. I
11 will also address suggestions made by Mr. Kilpatrick regarding PSE's SQI
12 benchmarks and the TreeWatch program. Finally, I provide some observations on
13 proposals to remove various "nonrecurring" expenses from PSE's revenue
14 requirement for this case.

15

II. CATASTROPHIC EVENTS

16 **Q. Staff witness Russell has proposed a dual trigger approach to defining**
17 **catastrophic events to the electric system. Do you agree with this proposal?**

18 A. The Company would not be opposed to the dual-trigger approach to defining

1 electric catastrophic events, with some modifications, provided that the dollar
2 threshold level is appropriate. However, in addition to storm damage, the
3 catastrophic event definition should address man-made disasters, such as
4 terrorism, and natural disasters, such as earthquakes, and should apply to the gas
5 system as well as the electric system. A more comprehensive mechanism
6 provides predictability for investors by ensuring cost recovery, while at the same
7 time spreading these volatile and sometimes extreme costs over a longer period,
8 providing more rate stability for customers.

9 **Q. Do you agree with using the IEEE standard for "major event" to replace**
10 **PSE's catastrophic storm definition?**

11 A. PSE would not object to using the IEEE standard 1366-2003 formula as a metric
12 for analysis of electric system reliability or as a trigger for catastrophic damage as
13 relates to the electric system. However, PSE does not agree that the IEEE
14 definition of an outage, with respect to the length of time, is appropriate. As Mr.
15 Kilpatrick notes in his testimony, PSE currently defines a sustained interruption as
16 any interruption lasting one minute or more. The IEEE defines a sustained
17 interruption as any event that lasts more than five minutes. (DEK page 7, lines 8
18 – 10). We believe that PSE's definition of outage is more consistent with our
19 customers' expectations.

20
21 **Q. What is PSE's proposed method of determining if an event qualifies under**
22 **the IEEE Standard 1366-2003?**

23 A. An electric catastrophic event occurs when the daily System Average Interruption

1 Duration Index ("SAIDI") exceeds the Tmed threshold (or trigger). The Tmed
2 threshold for any year is calculated using a data set of the previous five years of
3 daily SAIDI. For example, for 2004, the Tmed threshold would be calculated
4 using the daily SAIDI from 01/01/99 to 12/31/03; and for 2005, the Tmed
5 threshold would be calculated using the daily SAIDI from 01/01/00 to 12/31/04.
6 The Tmed is defined to be the exponential of (Alpha + 2.5 Beta) where Alpha is
7 the average of the logarithm of the data set, and Beta is the standard deviation of
8 the logarithms of the data set. As discussed above, PSE does not propose to
9 change its definition of an outage in order to calculate its daily SAIDI in
10 accordance with IEEE 1366. PSE believes that maintaining the shorter duration
11 of an outage definition (i.e. one minute as opposed to five minutes) is more
12 responsive to customers who may have concerns about short duration outages,
13 and does not materially affect the daily SAIDI, the Tmed threshold, or the number
14 of qualifying "major events."

15 **Q. Are there other differences between your proposed use of the IEEE standard**
16 **and Staff's proposal?**

17 A. Yes. Mr. Russell's proposal applies only to damage to PSE's electric system
18 caused by storms. Yet, the IEEE Standard 1366-2003 that Mr. Kilpatrick and Mr.
19 Russell propose is not limited to storm outages. The IEEE Standard encompasses
20 all days on which outages of the electric system exceed the Tmed threshold,
21 irrespective of the cause of the outages. PSE's proposes to incorporate the IEEE
22 standard and include all electric "events," not just those caused by storms.

1 **Q. In addition to the IEEE Standard 1366-2003, Staff Witness Russell proposes**
2 **a cumulative cost threshold of \$5 million for March through December of**
3 **2005 and an annual cumulative cost threshold of \$7 million for the following**
4 **two fiscal years. Do you agree with his proposed annual cost thresholds?**

5 A. PSE is not opposed to a cumulative, annual cost threshold, but believes that the
6 threshold levels proposed by Mr. Russell are too high. A more appropriate annual
7 threshold would be \$5 million. To be clear, PSE would be willing to defer and
8 recover on an amortized basis all system events during a calendar year that meet
9 IEEE Standard No. 1366-2003 once PSE has incurred during that calendar year
10 \$5 million in cumulative costs for events that meet IEEE Standard No. 1366-
11 2003, as modified per my testimony above. For the partial 2005 calendar year,
12 the cumulative threshold should be \$3.5 million, rather than the \$5 million
13 proposed by Mr. Russell. Thereafter, the calendar year \$5 million in cumulative
14 costs threshold would go into effect.

15 **Q. Why do you believe PSE's proposed thresholds are more appropriate than**
16 **Mr. Russell's?**

17 A. In Staff Response to PSE Data Request No. 58, Mr. Russell provided his analysis
18 of storm data that he used in reaching the \$7 million annual threshold for fiscal
19 years 2006 and 2007. That Data Request Response is attached as Exhibit
20 No. ___(SML-10). As shown in Exhibit No. ___(SML-11), under Mr. Russell's
21 proposal, PSE would have deferred \$3.8 million less in catastrophic storm costs
22 under the new method over the past five years than under the existing definition

1 for storm events.

2 The new catastrophic event definition should not leave PSE in a worse position
3 than it is now. PSE proposed changing the catastrophic storm definition to
4 increase financial stability and predictability, and to provide a definition that
5 recognizes the severity of outages without regard to whether they occurred in a
6 highly populated area. In their testimony, Mr. Russell and Mr. Kilpatrick agree
7 with the need to change the definition. However, Mr. Russell's proposal would
8 put the Company in a worse financial position than where it currently stands.

9 In contrast, PSE's proposed thresholds more closely approximate the amounts
10 deferred over the past five years. See Exhibit No. ____ (SML-11). PSE proposes
11 setting the threshold at \$5 million annually, which is \$400,000 over the storm
12 damage expense built into PSE's revenue requirement based on actual storm
13 experience over the past 6 years. The \$5 million threshold would require PSE to
14 absorb nearly a half million dollars annually in excess costs (as well as costs for
15 electric events that do not meet the IEEE standard), but PSE would have more
16 certainty that it will not be exposed to millions of additional excess catastrophic
17 costs.

18 **Q. How would the Company define catastrophic gas system events?**

19 A. As set forth in my direct testimony, PSE proposes to define a catastrophic gas
20 system event as one where external events such as earthquakes, landslides, or
21 terrorist attacks cause significant impact to the gas infrastructure or customer
22 service, *and* the Company spends \$2 million or more per event. Though PSE has

1 never had an event of this magnitude impacting the gas system, it is good to have
2 a plan in advance of such an event, because it provides additional financial
3 stability and would avoid the administrative burden to the Company and the
4 Commission of making a special filing, should such an event occur.

5 **Q. Why should the Company be given blanket authority to defer catastrophic**
6 **damage costs?**

7 A. It is not efficient for PSE to file an accounting petition each time a catastrophic
8 event adversely impacts its gas or electric system. In addition, the financial
9 uncertainty associated with regulatory review and ratemaking treatment of such
10 volatile costs is reduced when a mechanism is in place that provides for
11 predictable treatment of such prudently incurred costs. It makes sense to define
12 those events that are catastrophic, and allow the Company to defer costs related to
13 these events. Regulatory oversight of the mechanism is still assured in that the
14 Company proposes to continue filing a report justifying any deferrals with the
15 Commission, as is currently done for major storms, within 90 days of the event.

16 **Q. Mr. Russell points out in his testimony that PacifiCorp and Avista do not**
17 **have automatic storm deferral programs. Why should PSE be treated**
18 **differently from these companies?**

19 A. PSE's service territory experiences more frequent weather-related impacts than
20 either Avista or PacifiCorp. On the west side of the Cascades, we experience
21 more precipitation and heavier, wetter snow and ice conditions than those
22 experienced east of the mountains. That, in conjunction with the greater tree

1 density west of the Cascades, results in greater potential damage to our system
2 from weakening trees and limbs. Also, much of PSE's most densely populated
3 service territory lies in the middle of the Puget Sound convergence zone resulting
4 from strong winds coming off the Straits of Juan de Fuca. Utilities with service
5 territory east of the Cascades rarely experience storm events causing widespread
6 damage to their infrastructure. For example, we understand that Avista has not
7 had a significant storm event in 8 years, since the 1996 ice storm, and has no
8 money earmarked for storm restoration in its annual operating budget. We
9 understand that PacifiCorp typically has one or two major events per year in its
10 six-state service territory. In contrast, PSE has in its 2004 budget \$5.6 million for
11 storm-related expenses, and we have already spent \$8.3 million through
12 September, with two big storm months remaining in the year. Similarly, in PSE's
13 own experience east of the Cascades, catastrophic storm events rarely have
14 significant impact in our Kittitas County service area.

15 **Q. Do you have any other concerns with Staff's proposal for catastrophic**
16 **events?**

17 A. Yes. The 30 day time period proposed by Mr. Russell to file a report of deferral
18 does not give PSE adequate time to ensure the integrity of storm or other
19 catastrophic event data recorded in our system. Currently, post storm event
20 reviews are performed routinely to reconcile all data sources and optimize data
21 integrity. This is particularly important if the event was severe, spanned several
22 days, and covered a wide geographic area. Also, to the extent that a cost trigger is
23 included in determining if an event qualifies for deferral, a 30-day time period

1 would not be sufficient for all event related costs to be recorded in our system. A
2 90-day time period is more appropriate.

3 **III. PSE'S SQI METRICS SHOULD NOT**
4 **BE CHANGED AT THIS TIME**

5 **Q. Do you believe that PSE should adopt IEEE Standard 1366-2003 in place of**
6 **its current SQI standard?**

7 A. No. I agree with Mr. Kilpatrick that changing the SQI benchmarks at this time
8 would provide no useful benefit. The Company is willing to consider utilizing the
9 IEEE standard formula when the SQI benchmarks are next revised. However, as
10 previously discussed, I believe PSE's definition of outage is more consistent with
11 our customers' expectations than the IEEE definition, which fails to recognize
12 outages of less than five minutes duration.

13 **Q. Do you agree with Mr. Kilpatrick's testimony regarding the need to "drill**
14 **down" in order to analyze reliability?**

15 A. PSE's existing Electric Service Reliability report includes annual Company-wide
16 and county SAIDI and SAIFI reliability indices calculated per existing SQI
17 methodology. Performing detailed analysis of area specific "drill down"
18 performance data is already an integral part of PSE's system planning processes.
19 This analysis helps determine system improvement projects. For example, area-
20 specific system performance analysis of outages helps PSE determine where to
21 target cable replacement projects.

1 **IV. TREEWATCH**

2 **Q. Do you agree with Staff's proposal for continuing TreeWatch but treating it**
3 **as an expense rather than a capital item?**

4 A. Yes. PSE agrees with the treatment of TreeWatch costs as expense as long as the
5 appropriate revenue requirement adjustment is made. We are pleased the Staff
6 witnesses recommended continuation of this program so PSE customers may
7 continue to derive the benefits of this innovative program.

8 **V. PROPOSALS TO REMOVE**

9 **"ONE-TIME" EXPENSES FROM RATES**

10 **Q. Are you aware of testimony from opposing witnesses regarding the need to**
11 **remove so-called "one-time" expenses from the amount PSE proposes to**
12 **recover in rates?**

13 A. Yes. I am aware of such testimony, and I disagree with their proposals to cut
14 these so-called "one-time" expenses. The Company has had to restrict its
15 operating budget continuously over the past several years. PSE is already one of
16 the lowest cost providers in the industry. It has accomplished this by prioritizing
17 its budget dollars and allocating the dollars to the areas of highest need.

18 When the Company is required to spend money on new projects or services to
19 meet pressing Company needs, every department's budget is squeezed to provide
20 funds for that effort. The departments that have money shifted out of their

1 budgets also have high-priority projects that may then be delayed or rescheduled
2 in order to allocate money to the higher priority effort.

3 Even if a so-called "one-time expense" is in fact nonrecurring for a particular
4 department, cutting those dollars from the revenue requirement leaves the
5 Company with insufficient resources to restore those funds to other departments
6 for use in its normal operations. Not only are departments squeezed in one budget
7 year to fund the new project, they are squeezed even further, in the future, if the
8 Company loses revenues associated with prudently incurred costs.

9 For these reasons, I think the Commission should look very skeptically at
10 proposals to remove expenses from PSE's revenue requirement based on the
11 argument that a particular project is non-recurring.

12 **Q. Does that conclude your testimony?**

13 **A.** Yes, it does.

14 [DOCUMENT.01 / 07771-0089]