

DOCKETS UE-130583, UE-130617, UE-131099, UE-131230  
SETTLING PARTIES' JOINT TESTIMONY IN  
SUPPORT OF PCA MODIFICATION SETTLEMENT  
Exhibit No. JOT-1Tr

BEFORE THE WASHINGTON STATE  
UTILITIES & TRANSPORTATION COMMISSION

In the Matter of the Petition of  
PUGET SOUND ENERGY, INC.

DOCKET UE-130583 (*Consolidated*)

For an Accounting Order Authorizing  
Accounting Treatment Related to  
Payments for Major Maintenance  
Activities

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WASHINGTON UTILITIES AND  
TRANSPORTATION  
COMMISSION,

DOCKET UE-130617 (*Consolidated*)

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DOCKET UE-131099 (*Consolidated*)

.....  
In the Matter of the Petition of  
PUGET SOUND ENERGY, Inc.

For an Order Authorizing the Sale of  
the Water Rights and Associated  
Assets of the Electron Hydroelectric  
Project in Accordance with WAC 480-  
143 and RCW 80.12

.....  
In the Matter of the Petition of  
PUGET SOUND ENERGY, INC.

DOCKET UE-131230

For an 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

SETTLING PARTIES' JOINT  
TESTIMONY IN SUPPORT OF PCA  
MODIFICATION SETTLEMENT

**REVISED  
APRIL 28, 2015**

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 • Jason Ball, Regulatory Analyst for Commission Staff (Staff);
- 5 • Katherine J. Barnard, Revenue Requirements and Regulatory Compliance
- 6 for Puget Sound Energy, Inc. (PSE or the Company);
- 7 • Stefanie A. Johnson, Regulatory Analyst for the Office of Public Counsel
- 8 (Public Counsel);

9 **Q: Mr. Ball, please describe your education, relevant experience, and other**

10 **professional qualifications.**

11 A: I graduated from New Mexico State University in 2010 with a Bachelor of Arts

12 dual-major in Economics and Government. In 2013, I graduated with honors

13 from New Mexico State University with a Masters of Economics specializing in

14 Public Utility Policy and Regulation. I testified on power supply and load

15 forecasting in Avista Corporation's general rate case Docket UE-140188. I filed

16 joint testimony in Puget Sound Energy's (PSE) power cost only rate case in

17 Docket UE-141141. I also filed testimony in PacifiCorp's general rate case

18 Docket UE-140762 on overall policy, revenue requirement, inflation factors, and

19 the Merwin Fish Collector accounting deferral. I am the lead analyst for matters

20 relating to the Bonneville Power Administration's Residential Exchange Program,

21 for customers of Avista, PSE, and PacifiCorp.

22 **Q: Ms. Barnard, have you provided information pertaining to your educational**

23 **background and professional experience?**

1 A: Yes. My qualifications are provided in Exhibit No. KJB-2.

2 **Q. Ms. Johnson, please state your qualifications and experience.**

3 A. I am employed as a Regulatory Analyst with the Public Counsel Division of the  
4 Attorney General's Office. I have a B.A. in Political Studies and History from  
5 Whitworth College, and a Master of Public Administration degree from the Evans  
6 School of Public Affairs at the University of Washington. Since joining Public  
7 Counsel in December 2005, I have worked on a wide range of energy and  
8 telecommunication issues and cases, testified before the Commission as part of  
9 settlement panels in numerous dockets, and have presented before this  
10 Commission at Open Meetings on various issues.

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1       **Q:     What is the purpose of this testimony?**

2       **A:**     As part of the 2013 power cost only rate case (PCORC) all-party Settlement  
3               Stipulation (2013 PCORC Settlement), the parties<sup>1</sup> to the docket agreed “to  
4               participate in a collaborative process per WAC 480-07-720 to address PCA and  
5               PCORC-related issues.<sup>2</sup> Beginning in November 2013, the parties began a series  
6               of collaborative meetings regarding the power cost adjustment mechanism (PCA).  
7               The parties have spent many hours analyzing and discussing the structure and  
8               operation of the current PCA mechanism, as well as various options for possible  
9               modification.

10       **Q:     Has an agreement been reached?**

11       **A:**     Yes, a multi-party agreement was reached. Staff, Public Counsel, and PSE  
12               (Settling Parties) agreed on proposed changes to the PCA mechanism. ICNU,  
13               who also participated in the collaborative discussions, did not join in the  
14               settlement.

15                       On March 27, 2015, the Settling Parties filed the following documents  
16               with the Commission:

- 17                       1. Settlement Stipulation (PCA Modification Settlement)  
18                       The Settlement Stipulation states the terms of the PCA  
19                       Modification Settlement agreed to between the parties.
- 20                       2. Attachment A to Settlement Stipulation  
21                       Attachment A (Summary of Power Cost Adjustment  
22                       Settlement Terms) incorporates the agreed upon  
23                       Settlement Terms)  
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<sup>1</sup> Puget Sound Energy, Inc., (PSE), the Staff of the Washington Utilities and Transportation Commission (Staff), the Public Counsel Division of the Attorney General’s Office (Public Counsel) and the Industrial Customers of Northwest Utilities (ICNU).

<sup>2</sup> Docket UE-130617, Order 06, Final Order Approving and Adopting Settlement Agreement , Appendix A, ¶ 25.

1 modifications into the original PCA settlement  
2 document.<sup>3</sup>  
3

4 3. Exhibits A and B to Attachment A

5 These are examples of the exhibits to be used in future  
6 PCA filings per PCA Modification Settlement, ¶ 3.  
7

8 **Q: Are the Settling Parties sponsoring any exhibits with this testimony?**

9 A: Yes. Attached as Appendix 1 is a red-lined version of Attachment A to the  
10 Settlement Stipulation (PCA Modification Settlement) listed above. This  
11 document makes redline changes to the original PCA settlement<sup>4</sup> to indicate the  
12 changes agreed to in the PCA Modification Settlement filed with the Commission  
13 on March 27, 2015.

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

15 **Q: Please briefly describe the existing PCA mechanism.**

16 A: PSE's PCA is the product of a settlement in PSE's 2001 general rate case,  
17 Docket UE-011570 (2001 PSE GRC). In June 2002, the Commission approved  
18 the parties' Settlement Stipulation for Electric and Common Issues in that docket,  
19 including the original PCA settlement creating the mechanism.<sup>5</sup> The PCA  
20 established an annual accounting process for a sharing of modified actual power  
21 costs relative to a power cost baseline between PSE and its customers.<sup>6</sup> The PCA  
22 distinguishes between power costs and all other costs included in general rates  
23 and allows PSE to file for rate changes to update all of PSE's power costs  
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<sup>3</sup> *WUTC v. PSE*, Docket UE-011570, Twelfth Supplemental Order, Appendix A, Exhibit A. The PCA Settlement agreement is included in this docket as Exhibit No.KJB-3.

<sup>4</sup> *Id.*

<sup>5</sup> *Id.*

<sup>6</sup> *See* Exhibit No.KJB-3 at 1. The PCA had an overall cap on PSE's share of power cost variances of \$40 million (+/-) over the four year period July 1, 2002 through June 30, 2006, which is now expired.

1 identified in the Power Cost Rate.<sup>7</sup> The PCA Exhibit A included a table  
2 identifying the costs that could be adjusted through the PCA<sup>8</sup>

3 **Q: Have there been changes to the PCA since the original PCA Exhibit A was**  
4 **approved by the Commission?**

5 A: Yes. Several changes have been made to the PCA since the original PCA Exhibit  
6 A was approved by the Commission, including:

- 7 • revising the accounting period for the PCA accounting process to a calendar  
8 year;<sup>9</sup>
- 9 • eliminating Schedule E;<sup>10</sup>
- 10 • including interest costs and commitment fees associated with electric hedging  
11 activities in the Power Cost Rate;<sup>11</sup>
- 12 • computing rate spread based on the peak credit methodology in the  
13 Company's most recent general rate case proceeding rather than the peak  
14 credit methodology used in the 2001 GRC;<sup>12</sup>
- 15 • extending the expected procedural schedule for a PCORC from five to six  
16 months;<sup>13</sup>

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<sup>7</sup> *Id.* at 2.

<sup>8</sup> *Id.* at 4. The Power Cost Rate is comprised of Variable Rate Components and Fixed Rate Components.

<sup>9</sup> Docket UE-050870.

<sup>10</sup> Docket UE-060266.

<sup>11</sup> Docket UE-060266.

<sup>12</sup> Docket UE-070565.

<sup>13</sup> Docket UE-072300.

- 1           • limiting the filing of power cost updates to one per PCORC, with an  
2           additional update allowed as part of the compliance filing if the Commission  
3           determines the update is necessary due to increased gas costs and orders that  
4           such update be made as part of the compliance filing;<sup>14</sup>
  
- 5           • prohibiting the overlap of PCORCs and general rate cases, except for requests  
6           for interim rate relief;<sup>15</sup>
  
- 7           • shortening data request response time from ten to five business days at the  
8           outset of a PCORC proceeding.<sup>16</sup>
  
- 9           • removing property taxes from the mechanism as a result of the approval and  
10          implementation of a Property Tax Tracker.<sup>17</sup>

11       **Q: Please describe the collaborative process.**

12       A: The Parties met numerous times over a year long period. PSE provided responses  
13       to multiple data requests in order for the Parties to have adequate data to conduct  
14       a detailed review of the existing PCA mechanism. Meetings and working  
15       sessions were held on 16 different occasions. The proposed settlement is a  
16       product of those efforts.

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<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> *Id.*

<sup>17</sup> Docket UE-130137.

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### III. THE PCA MODIFICATION SETTLEMENT

**Q: Please describe the scope of the PCA Modification Settlement and its principal aspects.**

A: The proposed PCA Modification Settlement modifies PSE's existing PCA mechanism and is the product of the year-long collaborative process to address concerns of various parties regarding the mechanics of the original PCA mechanism. The text of the proposed PCA Modification Settlement is largely self-explanatory, therefore, we do not repeat each detail here; however, key modifications include:

- Removal of fixed production costs from the PCA imbalance calculation.
- Adjustment of the dead-bands and sharing bands for under- and over-recovery of allowed costs to:<sup>18</sup>
  - Narrow the deadband from \$20 million to \$17 million to provide earlier sharing of both costs and benefits;
  - Adjust the first sharing band (\$17 million to \$40 million) such that customers will receive 65 percent of the benefits of power cost over-recoveries rather than the 50/50 sharing that currently occurs in the first sharing band; and
  - Eliminate the third sharing band, thus limiting customers' sharing of under- or over-recoveries over \$40 million to 90 percent.

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<sup>18</sup> The existing PCA labeled the bands as Deadband and Second, Third and Fourth Sharing Bands. The modifications in this Settlement label the bands as Deadband, First and Second Sharing Bands.



- 1           • The threshold for determining the timing of rate refunds or surcharges is  
 2           reduced to \$20 million from the existing \$30 million cumulative deferred  
 3           balances.
- 4           • Continuation of the existing PCORC filing provisions, which allow for a full  
 5           update to power costs (both variable and fixed production costs) in a PCORC.
- 6           • A streamlining and clarification of the exhibits required for power costs in a  
 7           PCORC or GRC filing and those required in the annual PCA compliance  
 8           filings. The table below provides a summary of the changes in the required  
 9           exhibits:

Exhibit	Description	PCORC/GRC Filing	Annual Filing
A-1	Baseline Rate	Yes	Yes
<del>A-2</del>	<del>Transmission Rate Base</del>	Remove	N/A
<del>A-3</del>	<del>Colstrip Fixed Costs</del>	Remove	N/A
<del>A-4</del>	<del>Power Costs</del>	Remove	N/A
<del>A-5</del>	<del>Production Adjustment</del>	Remove	N/A
B	PCA Imbalance Calculation including Sharing Bands & Interest	N/A	Yes
<del>C</del>	<del>Application of \$40 Million Cap</del>	N/A	Expired
<del>D</del>	<del>Regulatory Assets/Liabilities</del>	Remove	N/A
<del>E</del>	<del>Contract Adjustments</del>	N/A	Removed <sup>19</sup>
<del>F</del>	<del>Colstrip Availability Adjustment</del>	N/A	Remove
<del>G</del>	<del>New Resource Adjustment</del>	N/A	Remove

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11           **Q:     What is the proposed timing of the changes to the mechanism?**

12           A:     The parties propose that the changes be effective January 1, 2017, which  
 13           coincides with the start of a PCA year and is anticipated to be close to the

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<sup>19</sup> *Washington Utilities & Transportation Commission v. Puget Sound Energy, Inc.*, Dockets UE-060266/UG-060267, Order 08, ¶¶ 28-33.

1 effective date for final rates in PSE's next general rate case.

2 **Q: Are there additional components of the settlement stipulation?**

3 A: Yes. There were several additional key components to this settlement which are  
4 described briefly below, and discussed in further detail by Ms. Barnard, Mr. Ball,  
5 and Ms. Johnson in their individual testimonies included later in this document.

- 6 • **Five-year moratorium for changes to the PCA Mechanism:** The Settling  
7 Parties agree to a five-year moratorium on further changes to the PCA  
8 mechanism, effective from the start of the modified PCA mechanism, January  
9 1, 2017. During the moratorium, the requirement to file a GRC following a  
10 PCORC filing will be removed.
- 11 • **PCORC filing moratorium** – During the five-year moratorium, discussed  
12 above, the settlement provides for a limited stay-out period by PSE of six  
13 months following the rate effective date of any PCORC filing. This is not  
14 considered to be a permanent change to the PCA Mechanism, but PSE has  
15 agreed to such a stay out during the five-year moratorium period discussed  
16 above.
- 17 • **Cost categories** – The settlement recognizes that certain costs will no longer  
18 be included in the PCA imbalance calculation but they will still be updated  
19 through a PCORC filing. To continue with the PCORC updates without  
20 unduly burdening others and the Commission, the Settling Parties agree to  
21 separately identify costs using three categories: 1) variable production costs  
22 (recovered and tracked through the PCA imbalance calculation), 2) fixed  
23 production-related costs (that will be included in the electric decoupling

1 mechanism if the mechanism continues, and 3) delivery costs (all other costs  
2 including those currently in the decoupling plan).

- 3 • **Cost of service** - The original PCA Mechanism stated specifically that  
4 changes in the power cost rate would utilize the Peak Credit Methodology. In  
5 light of the recent rate spread/rate design settlement agreement that was  
6 initiated under this docket, and the related upcoming generic proceeding, the  
7 parties have agreed that the PCA mechanism and the PCORC will recover  
8 costs based on the prevailing cost-of-service methodology at the time of their  
9 initial filing. This language change allows for any outcome in the generic  
10 proceeding to be seamlessly integrated into the updated mechanism, and if no  
11 change is made, to retain the status quo.

- 12 • **Decoupling:** Parties are not bound to any position with respect to the  
13 continuation of decoupling or the treatment of fixed production costs within  
14 the decoupling mechanism in PSE's next general rate case. However, if the  
15 electric decoupling mechanism continues for PSE after the review of  
16 decoupling in PSE's next general rate case, the electric decoupling mechanism  
17 will include fixed production costs that were formerly tracked in the PCA  
18 mechanism identified in Attachment A to the PCA Modification Settlement.

19 **IV. THE SETTLEMENT SATISFIES THE PARTIES' INTERESTS AND**  
20 **THE PUBLIC INTEREST**

21 **Q: Why does the Settlement Stipulation satisfy the public interest?**

22 A: The restructuring of the sharing bands fairly balances the interests of PSE and its  
23 customers. Customers benefit because of the asymmetrical design of the first

1 sharing band; they will receive a higher share of over-recoveries of power costs  
2 above the dead band (65 percent versus 50 percent of under-recoveries).  
3 Additionally, their overall responsibility for power cost under-recoveries beyond  
4 \$120 ~~40~~-million has been reduced from 95 to 90 percent. The narrowing of the  
5 deadband from \$20 million to \$17 million provides customers quicker access to  
6 their higher share of over-recoveries, but provides PSE the benefit of receiving  
7 customer sharing of costs sooner when there are under recoveries of power costs.

8 **Q: Ms. Johnson, why does the Settlement Stipulation satisfy the interests of**  
9 **Public Counsel?**

10 A: Public Counsel believes the proposed changes to the PCA sufficiently address  
11 many of the issues raised in the Direct Testimony of Mr. Sebastian Coppola, on  
12 behalf of Public Counsel, filed in the earlier stages of this docket.<sup>20</sup> Specifically,  
13 important elements of this settlement remove fixed production costs from the  
14 PCA, adjust the mechanism to account for asymmetry in risk between customers  
15 and the company, adjust the trigger threshold and sharing bands, and simplify the  
16 mechanism and its related filings. Moreover, these agreed changes were reached  
17 after an extensive collaboration process which took place over the course of more  
18 than a year. Considerable time and effort was committed to these discussions,  
19 and Public Counsel believes that this proposal best reflects proper regulatory  
20 treatment of variable costs and risks in a manner that has been tailored to the  
21 Company's specific operation and circumstances at this time.<sup>21</sup>

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<sup>20</sup> See, Direct Testimony of Sebastian Coppola, Exhibit No. SC-1T.

<sup>21</sup> Public Counsel also agrees with the testimony of Mr. Ball, on behalf of Staff.

**REVISED**  
**APRIL 28, 2015**

1       **Q:     Please discuss the elements of this settlement important to Public Counsel.**

2       A:     As mentioned above, there are a few select elements of the settlement that address  
3       Mr. Coppola's concerns that Public Counsel believes are essential to this  
4       agreement. These are discussed below.

- 5       •     Removal of Fixed Costs. No specific element of the proposed PCA can be  
6       judged in isolation. However, Public Counsel is very pleased that, on the  
7       whole, this settlement works to simplify an unnecessarily complex  
8       mechanism. The removal of fixed costs, as well as the proposed changes to  
9       the exhibits filed in a PCA, PCORC, or GRC filing will make it easier for  
10      Public Counsel, Staff, and other interveners to review PSE's power costs.
- 11      •     Sharing Bands. The asymmetry introduced in the first sharing band is an  
12      essential component of this revised mechanism. This asymmetry is  
13      particularly important because mechanisms such as the PCA naturally shift  
14      risk from the Company to customers, who obviously do not wield any control  
15      over costs, and serves to encourage cost control on the part of PSE.  
16      Additionally, the reduction of the deadband from \$20 million to \$17 million  
17      further justifies enhanced customer benefits in the first sharing band in  
18      situations where the company has collected more revenue than needed to  
19      cover its power costs.
- 20      •     Adjustment of the trigger mechanism. One purpose of the PCA is to prevent  
21      rate volatility. The trigger serves a useful purpose to this end by avoiding  
22      overly frequent surcharges or refunds, however, it needs to be appropriately  
23      calibrated in order to fully perform its correct function. Public Counsel

1 believes an appropriate calibration allows customers to periodically benefit  
2 when refund amounts build up to a significant level, understanding that the  
3 company will benefit if a significant surcharge obligation builds up. The  
4 current mechanism, set at \$30 million, had never triggered a refund or a  
5 surcharge. This proposed change reduces the trigger to \$20 million. Even at  
6 this reduced level, the current mechanism would have only triggered a  
7 surcharge or refund once in its history, so it does not reintroduce concerns  
8 about frequent rate changes.

- 9 • Decoupling. One critical element of this agreement is the provision stating  
10 that parties are “not bound to any position with respect to the continuation of  
11 decoupling or the treatment of fixed production costs within the decoupling  
12 mechanism in PSE’s next general rate case.” Moreover, “nothing in this  
13 Settlement binds any party to any position with regard to treatment of costs in  
14 an automatic escalation factor mechanism (such as a K-factor) or in a multi-  
15 year rate plan.” Public Counsel believes proper regulatory treatment of the  
16 fixed production costs is outside of the PCA, which should be limited to  
17 variable costs alone. Public Counsel has both recommended and agreed to  
18 full decoupling mechanisms for this company and others in recent dockets.  
19 We believe that looking at these fixed production charges in the full scope of  
20 the consideration of the continuation of the Company’s decoupling  
21 mechanism in the next GRC is the appropriate means of approaching this  
22 issue. Furthermore, it was essential to Public Counsel that this agreement not

1           limit parties' ability to advocate for any position on the K-factor, which will  
2           undergo a close look in the upcoming GRC.

3       **Q: Mr. Ball, please summarize why Staff supports the settlement?**

4       A: Staff supports this settlement because it is in the public interest. Staff is pleased  
5       to see this collaborative achieve a multi-party agreement that simplifies and  
6       updates PSE's Power Cost Adjustment (PCA) mechanism. Not only does the  
7       removal of fixed costs from the PCA reduce the complexity of the mechanism  
8       itself, but it achieves broader consistency with the principled policy goals of a  
9       power cost adjustment mechanism. Further, by updating the sharing mechanisms  
10      to recognize asymmetry in power cost recovery the PCA will provide clearer and  
11      more reasonable cost control incentives to the Company. As a whole, the  
12      Settlement makes changes to the way costs are recovered and through what  
13      apparatus – it does not allow or disallow any additional costs. This Settlement  
14      aligns variable costs with appropriate variable recovery mechanisms and leads to  
15      an outcome that is better balanced and more equitable. For all these reasons, Staff  
16      recommends the Commission accept this Settlement.

17      **Q: Please outline the analysis Staff undertook in reviewing and ultimately**  
18      **supporting this Settlement.**

19      A: The overall policy of the Settlement and the changes that it implements to the  
20      PCA are, in Staff's opinion, matters of power cost recovery design principles and  
21      simplification. Below is a list of the different components of this Settlement and  
22      a brief discussion of Staff's analysis for each:

- 1           •   Removed Fixed Production-Related Costs - The current mechanism includes  
2           fixed production-related costs (such as hydro and other production operations  
3           and maintenance) that have very little to no annual variability (as in the case  
4           of the amortization of regulatory assets). The purpose of a properly designed  
5           PCAM is to “protect the companies against extreme variations in power costs  
6           caused by . . . circumstances that are beyond the companies’ ability to  
7           foresee and control.”<sup>22</sup> The Settlement’s removal of fixed production-related  
8           costs achieves this purpose.

9                       Normally, fixed costs are recovered through general rates and subject to  
10           variations in load with no true-up (except via other mechanisms such as  
11           decoupling). However, when fixed costs are included in an energy recovery  
12           mechanism, they are subject to true-up for load variations. This has an  
13           impact on cost sharing and may push other variable costs, which the  
14           Company may have some control over, into a higher sharing band or  
15           conversely contain the variable costs within the dead band. In either case,  
16           this alters the incentives for the Company to control its costs whenever  
17           possible.

- 18           •   Sharing Bands – the Settlement proposal modifies the existing sharing bands  
19           and aligns the PCA with the Commission’s policies on PCAM’s.  
20           Additionally, asymmetry in power costs is directly outlined in the report  
21           PSE filed in compliance with Order 12 in Docket UE-072300. In that report  
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<sup>22</sup> *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-060266 & UG-060267 (*consolidated*), Order 08 (January 5, 2007) at ¶¶ 20-21.



1 PSE concluded that:

2 “In contrast to the symmetrical nature of the PCA bands, this study  
 3 demonstrates that the power cost imbalance, when viewed as a whole, is  
 4 asymmetric, with a higher likelihood for the occurrence of over-recovery  
 5 of power costs.”<sup>23</sup>

6 This Settlement implements asymmetric sharing bands in a manner consistent  
 7 with both the report and the Commission’s language in Order 08 in Docket UE-  
 8 065146:

9 “Each company’s individual circumstances must be considered and must  
 10 inform the development of a PCAM . . . An optimally designed PCAM  
 11 would recognize the inequality between upside and downside risk in its  
 12 design of deadbands and sharing bands”<sup>24</sup>

13 This settlement recognizes the asymmetric risk of power costs for a utility  
 14 operating primarily in a hydro-rich region like the Northwest and provides an  
 15 appropriately tailored outcome. Additionally, the adjustment to the level of the  
 16 dead band from \$20 million to \$17 million helps mitigate the shifts in the risk  
 17 between ratepayers and the Company from altering the sharing bands.

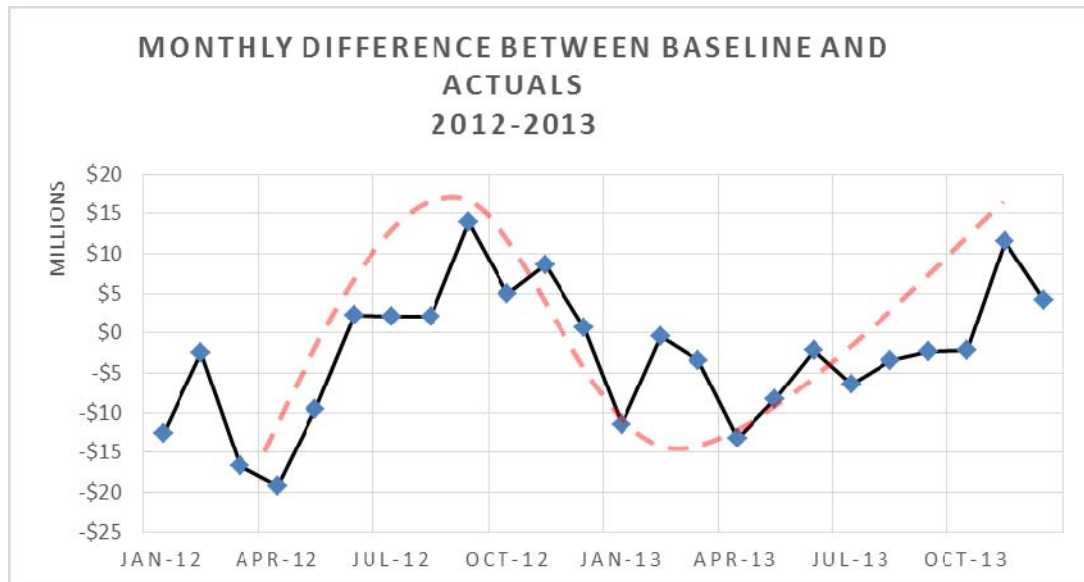
**Risk/Cost Shift Analysis for first \$40 Million**

Change in responsibility for:	PSE	Ratepayer	<i>Results of Efficacy Report</i>
Power Cost Over-Recovery	\$(4,950,000)	\$4,950,000	<i>Higher Probability</i>
Power Cost Under-Recovery	\$1,500,000	\$(1,500,000)	<i>Lower Probability</i>

<sup>23</sup> Study of the Efficacy of the PCA Sharing Bands filed in Compliance with Order 12 in Dockets UE-072300 and UG-072301 (*consolidated*) at p. 8.

<sup>24</sup> *WUTC v. Pacific Power & Light Company, Inc.*, UE-061546 and UE-060817, Order 08 (June 21, 2007) at ¶¶ 83.

1           • Stay-Out period – This provision provides a necessary time limitation  
2           between changes to the baseline power cost rate. Infrequent revisions of the  
3           baseline allow cost-sharing bands to operate as intended. It is necessary for  
4           the natural cyclical fluctuations in variable power costs to occur without  
5           tampering – otherwise the purpose the PCA and its sharing bands is lost. The  
6           primary goal for power cost adjustment mechanisms is to provide protection  
7           from extreme deviations in power costs, not to insulate the company from  
8           normal variations.<sup>25</sup> As illustrated below, monthly and yearly power costs  
9           tend to follow a cyclical trend that, on a deferral basis, will counter act each



10           other by the end of the cycle.  
11           As this trend shows, the cyclical nature of power costs allows and directly  
12           incentivizes the Company to achieve cost saving measures during the PCA  
13           reporting period so long as the baseline rate is not affected.

<sup>25</sup> *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-060266 & UG-060267 (consolidated), Order 08 (January 5, 2007) at ¶¶ 20.

- 1           •   Decoupling – The provisions of this Settlement allow each party the  
2 flexibility to argue principles and policies in the Company’s next GRC.  
3           What is not at issue is the fact that PSE must be allowed to recover its fixed  
4 production-related costs.
- 5           •   Separation and identification of cost categories – The purpose behind this  
6 Section of the Settlement is to avoid unnecessary confusion in future PCORC  
7 filings, and further, to allow all the terms of this Settlement to be executed in  
8 PSE’s next GRC with minimal complication. The removal of fixed costs  
9 from the imbalance mechanism means that overall it is a revenue-neutral  
10 filing. However, fixed production-related costs must be recovered in some  
11 form; additionally, this settlement does not seek to eliminate PSE’s ability to  
12 update fixed production-related costs through a PCORC. It is therefore  
13 necessary to provide a method that clearly identifies these costs as separate  
14 from other costs currently included in general rates or other mechanisms.  
15 Separate identification allows future rate changes in PCORC filings to go  
16 ahead relatively unimpeded. The Total Revenue Requirement Table in  
17 Attachment A to the PCA Collaborative Settlement Agreement provides an  
18 important and useful breakdown between these costs.

19           As demonstrated above, the individual and overall terms of the settlement  
20 result in a more equitable and reasonable power cost adjustment that benefits both  
21 ratepayers and the Company. For the reasons described above, Staff supports the  
22 Settlement as being in the public interest.

1       **Q:    Ms. Barnard, why does the Settlement Stipulation satisfy the interests of**  
2           **PSE?**

3       A:    PSE believes the current PCA Mechanism has been working as intended, as is  
4           evidenced by the fact that since its inception approximately 12 years ago, the  
5           over-recovery and under-recovery deferrals in the PCA Mechanisms have largely  
6           balanced. However, PSE recognizes there are differing approaches and  
7           perspectives as to how a power cost adjustment mechanism can operate. PSE  
8           agreed to enter into a collaborative discussion to explore whether there were  
9           changes that could be made to the existing PCA Mechanism that would address  
10          concerns raised by other parties while still providing comparable protections and  
11          benefits to PSE and its customers. PSE supports the agreement to avoid further  
12          litigation and believes that the proposed changes when viewed in their entirety are  
13          a reasonable outcome to the collaborative. The Company recognizes that the  
14          original mechanism was created through a settlement process and believes there is  
15          value to making modifications through a similar process versus litigation where  
16          there would be further uncertainty of outcomes. From PSE's perspective, one of  
17          the key elements is the five-year moratorium to further changes to the PCA  
18          mechanism, including the continuation of the existing Power Cost Only Rate  
19          Case, which is essentially unchanged. Although the proposed modifications  
20          include removing fixed production costs from the balancing mechanism, the  
21          settlement provides for differences in revenue recovery associated with the fixed  
22          costs to be including in the decoupling mechanism, should the Commission

1 approve continuation of the decoupling mechanism in PSE's next general rate  
2 case.

3 **Q: Why does the company support the asymmetrical sharing proposal?**

4 A: The company views the proposed asymmetrical sharing within the first sharing  
5 band as part of the give and take of reaching a settlement in this collaborative;  
6 however, PSE has not changed its historical view that both the direction and the  
7 magnitude of asymmetry will change overtime. PSE has, in numerous cases,  
8 demonstrated that although there may be asymmetry in the over- or under-  
9 recovery of power costs, primarily within the deadband, the direction of the  
10 asymmetry changes over time and how the distribution of the imbalances is  
11 skewed will vary depending upon the underlying variables that change frequently.  
12 Most recently, in the 2011 General Rate Case (UE-111048 & UE-111049), PSE  
13 witness Salman Aladin addressed this issue and demonstrated that both the  
14 direction and the magnitude of the skew will vary over time--sometimes showing  
15 a higher likelihood of over recovery of power costs and sometimes showing a  
16 higher likelihood of under recovery of power costs--based on factors that impact  
17 the overall portfolio, such as market prices, market conditions, asset mix, load,  
18 and hydro conditions. Because of this unpredictability, PSE has advocated in the  
19 past and still believes that specific asymmetry should not be built into the sharing  
20 bands. However, PSE believes the concessions made for asymmetry in the  
21 sharing percentage in the first sharing band is reasonable based on other changes  
22 to the mechanism that were agreed to by the Settling Parties, such as narrowing of  
23 the dead bands.

1       **Q:     Does this conclude the testimony of the Settling Parties?**

2       **A:     Yes.**