BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY For an Order Authorizing Deferred Accounting Treatment for Puget Sound Energy's Share of Costs Associated with the Tacoma LNG Facility	)))))))	Docket UG-21______________ PETITION OF PUGET SOUND ENERGY

I. INTRODUCTION

1 In accordance with WAC 480-07-370(3), Puget Sound Energy ("PSE" or "the Company") respectfully petitions the Commission for an Order authorizing the deferred accounting treatment detailed in this Petition related to the Company's portion of costs associated with the Tacoma Liquefied Natural Gas ("LNG") facility[1]. PSE requests that the Commission issue the requested order authorizing the deferred accounting treatment to be effective as of the date of commercial operation of this facility.

2 Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040, RCW 80.28.020, WAC 480-07-370(3), and WAC 480-90-203.

3 PSE is a combined gas and electric utility that provides service to approximately 1,200,000 electric customers and 860,000 natural gas customers in Western Washington.

4 All correspondence related to this Petition should be directed as follows:

Puget Sound Energy
Attn: Susan Free
Director of Revenue Requirements and Regulatory Compliance
P.O. Box 97034, EST-07W
Bellevue, WA 98009-9734

[1] The structure of PSE's investment in the Tacoma LNG facility is discussed further below in this petition.

Telephone: (425) 456-2105
E-mail: susan.free@pse.com

II. SUMMARY OF PETITION

5 PSE is requesting in this Petition that the Commission approve: (1) deferred accounting treatment for operation and maintenance expense, depreciation, and PSE's return at its authorized rate of return on its investment in rate base inclusive of income taxes, resulting from the operation of PSE's share of the Tacoma LNG facility beginning as of the date of commercial operation of this facility; and (2) the monthly booking of carrying charges on the deferral of operation and maintenance expense and depreciation at a rate equal to the quarterly rate published by FERC[2] and which will also be updated quarterly for purposes of the deferral.

6 The categories requested for deferral follows treatment approved in PSE's request for a deferral related to its Electric Vehicle Supply Equipment Pilot Programs in Docket UE-190129 ("EV petition"). In the EV petition, the Commission approved PSE's request to defer a return on its capital investment citing the legislature's intent to encourage growth of transportation electrification as in the public interest[3]. As in the EV petition, PSE's investment in the Tacoma LNG facility is in the public interest as cited in Order 10 of Docket UG-151663, the proceeding in which PSE received approval for the current ownership structure of the facility. In that Order, the Commission stated, in paragraph 21, that "More broadly, the Tacoma LNG facility will promote the public interest as recognized by the legislature in RCW 80.28.280". Furthermore, in paragraph 115, the Commission recognized that there were "potential benefits of an LNG project that could serve PSE's core customers' peaking needs and promote the Legislature's

---

[2] https://www.ferc.gov/interest-calculation-rates-and-methodology
[3] Docket UE-190129, Order 01, paragraph 10.

stated finding in RCW 80.28.280 that the development of liquefied natural gas vessel refueling facilities is in the public interest". The Commission also made a finding of fact in paragraph 150 of Order 10 that "the record supports a finding that the Settlement Stipulation is in the public interest." The Agreement allows the Tacoma LNG facility to commence production and begin commercial operation and thus carry out the public interest that the Commission has recognized, determined and approved. Accordingly, approval of the deferral of the authorized rate of return on PSE's share of the capital investment in the Tacoma LNG facility follows the similar Commission determination in PSE's EV deferral petition that allowed deferral of return for investments made in the public interest.

7 This accounting treatment is necessary in order for PSE to recover the Tacoma LNG facility costs that are not included in general rates. These costs would not otherwise be recovered until PSE's next general rate case ("GRC") absent Commission approval of the cost deferral requested herein. Not recovering these costs would result in significant erosion of earnings. For multiple reasons, the filing of PSE's next GRC will not align with the in-service date for the facility, resulting in the need for this petition. In the early onset of the pandemic, PSE elected to not file a general rate case, but rather opted for filing a more limited power cost only rate case to more narrowly address its needs and limit the impacts to customers. Additionally, with the passage of Senate Bill 5295 which provided structural changes that benefit all parties to a rate case, PSE determined not to file a general rate case prior to 2022 when the legislation takes effect.

8 PSE is not requesting in this Petition that the Commission address: (1) the prudence of PSE's investment in the Tacoma LNG facility; or (2) the final rate treatment for recovery of PSE's related revenue requirement of the facility or of the deferral requested in this petition. PSE will present its case on these issues in a future GRC. At that time the Commission will have before it the evidence and arguments necessary to address prudence and rate treatment issues and thus will be able to rule upon these issues at that time.

III. BACKGROUND

9 In Docket UG-151663, the Commission approved a Settlement Stipulation that allowed PSE's parent corporation, Puget Energy, to create a wholly-owned subsidiary, Puget LNG ("PLNG"). PLNG is a special purpose limited liability company formed by Puget Energy solely for the purposes of owning, developing, and financing the Tacoma LNG facility as a tenant-in-common with PSE. PLNG is not subject to the Commission's jurisdiction under Title 80 RCW. PLNG's sales of LNG as marine fuel to TOTE Maritime Alaska[4] ("TOTE") and other sales of LNG as transportation fuel will not be regulated by the Commission. Through this tenant-in-common relationship PSE and PLNG have constructed the Tacoma LNG facility which is capable of (i) receiving nearly 21,000 dekatherms per day of natural gas, (ii) producing approximately 250,000 gallons of LNG per day when liquefying at nameplate capacity, and (iii) storing approximately 8 million gallons of LNG. The three functions of this facility are to perform the following:

- Supply fuel to TOTE;
- Provide fuel for sales to other marine vessels or other purchasers; and
- Serve as a peaking resource for PSE's core natural gas customers.

10 The first and second functions, as indicated above, will be performed by PLNG under the separate unregulated business. The third function is a part of PSE's regulated business and as such "is a cost-effective way to meet customers' peaking requirements[5]" versus the cost of

[4] Since Docket UG-151663, Totem Ocean Trailer Express, Inc. was involved in a re-organization and current agreements are with a resulting subsidiary of parent company Saltchuck called TOTE Maritime Alaska.
[5] Docket UG-151663, Exhibit No. JT-1T (Joint Testimony by Carla Colamonici for Public Counsel, Edward A. Finklea for NWIGU, Roger Garratt for PSE, and David C. Gomez for Staff), at 24:18-19

PSE acquiring additional gas pipeline transmission capacity. It is only this third category that is the topic of this petition.

11 According to the Settlement Stipulation[6], the Settling Parties agreed to certain capital cost allocators to appropriately allocate costs between the regulated and unregulated portions of the project. As determined in Docket UG-151663, "in the general rate case proceeding in which PSE seeks to include PSE's Ownership Shares of the Tacoma LNG facility in general rates, PSE shall (i) identify the final actual capital costs associated with each component of the Tacoma LNG facility and (ii) calculate the common allocator for each of PSE and Puget LNG. PSE's calculation of the common cost allocator shall be consistent with paragraph 26 and Attachment D to this Settlement Stipulation."[7]

12 With this petition, PSE is requesting the Commission's approval for deferral of the regulated portion of the Tacoma LNG facility costs as outlined herein.

IV. JUSTIFICATION FOR DEFERRAL TREATMENT

13 PSE currently expects the Tacoma LNG facility to commence commercial operations in January 2022. PSE's share of the costs of the Tacoma LNG facility are eligible for deferral prior to their inclusion in rates based on previous Commission decisions regarding when deferrals should be allowed. The Commission has granted deferral treatment when a company is likely to experience earnings erosion without the deferral, citing earnings erosion as an extraordinary circumstance that would warrant deferral[8]. Such is the case with PSE's share of the Tacoma LNG facility. Given the level of financial investment the Company has made (refer to

[6] Docket UG-151633, Final Order 10, Appendix A, Attachments B and C.
[7] Docket UG-15663, Order 10, Appendix A.
[8] Docket UG-190529 and UG-190530, et al, Order No. 10, ⁋441.

confidential Attachment A which includes the estimated costs of the facility that would be deferred[9]) and the length of time after commercial operation of the facility until recovery will be incorporated into a GRC, PSE will experience significant earnings erosion. PSE reported 109 basis points of under-earnings on its natural gas business in its 2020 Commission Basis Report[10] and, even when taking into account new revenues from its 2019 GRC[11], as detailed in Attachment B, is still estimated to under-earn by 82 basis points before any consideration of the additional Tacoma LNG costs. As detailed in confidential Attachment A, PSE's share of the investment in the Tacoma LNG facility is expected to significantly impact net operating income in 2022, so that PSE will not have the opportunity to earn its authorized rate of return particularly if the deferral application is not granted. Based on PSE's 2020 Commission Basis Report adjusted for new revenues from the 2019 GRC, the LNG investment would have upwards of a 70 basis point impact on PSE's earnings causing over 179 basis points of under-earning as compared to its 2020 Commission Basis Report. This significant level of anticipated earnings erosion creates the need for the Commission to provide financial relief with the approval of this Petition.

14 Moreover, the magnitude of the financial investment for the Tacoma LNG facility, and the one-time nature of the facility, constitutes an extraordinary circumstance that justifies the Commission's granting of deferred accounting. It is consistent with prior accounting petitions granted by the Commission. For example, in recent years the Commission has granted deferred

[9] Amounts included in this Attachment A are based on balances in Construction Work In Progress accounts as of September 2021 and estimates of O&M. Actual amounts that will close to plant at the in-service date, which is also an estimate, will include additional charges from October 1, 2021 through the actual in service date and so the above amounts are not intended to agree with the final plant amounts on which the deferral entries will be calculated and are provided for demonstration purposes only.

[10] Docket UG-210213, cover letter, ¶2, discussing PSE's authorized rate of return for the period of 7.46 percent and its actual normalized rate of return of 6.37 percent.

[11] Pursuant to Order No. 14 Amending Final Orders in Docket UG-190530

accounting for a wide variety of circumstances including to defer; development costs of demand response programs[12], new depreciation rates outside of a rate case[13], costs and return for electric vehicle supply equipment pilot[14], pension costs[15], perpetual NPV calculation methodology for line extension allowances[16], costs for Renewable Energy Credit purchases for multiple years and on multiple occasions[17], incremental third party costs relating to compliance with maximum allowable operating pressure requirements[18], and costs to offer a fee-free credit card payment program[19].

15 Additionally, this request is reasonable, as it is related to costs incurred for a least cost alternative to satisfy peak day need as identified in previous Integrated Resource Plans ("IRP")[20]. In this regard, deferral treatment would be similar to that allowed under RCW 80.80.060(d). Relevantly, the Commission has approved deferral treatment in a manner consistent with RCW 80.80.060(d) for circumstances that are not directly contemplated under that statute. For instance, PSE treats its monetized Production Tax Credits in a manner consistent with the deferral methodology set forth in RCW 80.80.060(d)[21].

16 Notably, had the Company elected the option of acquiring additional gas pipeline transmission capacity referenced above to satisfy PSE's peak day needs (a more costly alternative), the cost of that pipeline capacity would have been included in PSE's Purchased Gas Adjustment

---

[12] Docket UE-170277
[13] Docket UG-180251
[14] Docket UE-180809
[15] Docket UE-181042
[16] Docket UG-180920
[17] Docket UE-161067 and UE-143915
[18] Docket UG-160787
[19] Docket UE-160203/UG-160204.
[20] A generic regional LNG plant was modeled in the 2011 IRP. See Chapter 6, Gas Analysis, pages 6-44 in Docket UG-100960. An LNG plant was modeled as a shared alternative resource in the 2013 and 2015 IRPs. See Chapter 6, Gas Analysis, pages 6-36 in Docket UG-120768 and Chapter 7 Gas Analysis, pages 7-31 in Docket UG-141169.
[21] Paragraph 117, Appendix B to Final Order 08 in Docket Nos. UE-170033 and UG-170034, et al; also, pages 90-91 of Exh. KJB-17T.

("PGA") mechanism which includes a deferral component for collection from customers in a future PGA period. Therefore, it is appropriate to allow deferral of the costs and return associated with PSE's share of the Tacoma LNG facility, which will be used to satisfy peak day needs as the deferral treatment is in line with current business practice for the alternative resources over which the LNG facility was selected. Additionally, had PSE contracted for capacity instead of investing in the facility, the contracted rate would have been the counter-party's total cost rate which would have included a rate of return for the counter-party. Finally, not allowing deferral of these costs and return would signal that uneven financial incentives exist between alternatives for meeting the same capacity need.

17 For all of the stated reasons, it is appropriate to allow deferral treatment for PSE's share of the costs and return of the Tacoma LNG facility.

V. PROPOSED ACCOUNTING TREATMENT

18 By way of overview of how the Company will determine PSE's share of costs for the Tacoma LNG facility for purposes of the deferral, PSE separately tracks the information required to calculate the allocators between the regulated and non-regulated business. Work orders are created that provide the means for tracking direct and indirect charges. The company first creates the initial work orders separate for each component – both regulated and unregulated – under the entity of PSE[22]. These orders represent the work orders where all initial charges are recorded and are the actual direct costs to construct the full Tacoma LNG facility. On a monthly basis, the PSE Corporate Construction Overhead rate is applied (varies between 8-12%) on all monthly direct charges. The corporate construction overhead rate is comprised of indirect costs to support

[22] As is further explained, all costs on the unregulated work orders are ultimately transferred to PLNG prior to each month's accounting close.

capital projects, including fixed asset accounting, capital forecasting, contracts, accounts payable and other departmental costs attributable to capital work.

19 At this point, all costs of the project are fully loaded and are ready for allocation between PSE and PLNG. The total costs charged are transferred to orders under the separate entities of PSE and PLNG through a process called settlement where the costs are allocated to the correct entity through separate intercompany orders. The settlement allocation percentages follow the percentage splits as outlined in Attachment D to the Settlement Stipulation[23]. Once allocated to the separate entities, the work orders under PSE will be processed and the construction interest, or Allowance for Funds Used During Construction, is applied to the capital costs assigned to PSE in a manner consistent with other PSE gas capital work orders. It is these costs that are assigned to PSE that are the subject of this petition. PSE will record its deferral at the allocation percentages established in Docket UG-151663 and will update the deferral amount for the final allocation percentages once known.

20 The Company proposes in this Petition to defer its share of the operation and maintenance expense and depreciation associated with the Tacoma LNG facility as a regulatory asset in FERC account 182.3 Other Regulatory Asset commencing with the commercial operation date of the facility and ending the day prior to the effective date of new rates in the Company's next general rate case. It is proposed that during this period such operation and maintenance expense and depreciation shall be based upon PSE’s share of operation, maintenance and capital cost as defined by the Settlement Agreement in Docket UG-151663. The expenses will be recorded to their originating FERC accounts and upon deferral, PSE will credit FERC account 407.4, other deferred credits. Additionally, PSE proposes to accrue interest on such deferred amounts to

[23] Docket UG-151663, Order 10, Appendix A, Attachment D.

FERC account 186 Other Deferred Debits through a charge to FERC account 419 Interest and dividend income, at a rate equal to the interest rate published by FERC to be updated quarterly for purposes of the deferral, commencing with the commercial operation date of the facility and ending with the day prior to the effective date of new rates in the Company's next general rate case.

21 In a separate FERC 186 account that will not accrue carrying charges, PSE will defer its net of tax authorized rate of return of 6.8% grossed up for taxes on the average monthly net book value of the plant net of accumulated deferred income taxes. The offsetting charge will be to FERC account 495, Other gas revenues.

22 The categories of items that are requested for deferral and the corresponding FERC accounts follows treatment approved in Docket UE-190129.

VI. REQUEST FOR RELIEF

23 For the reasons discussed above, PSE respectfully requests the Commission issue an Order approving the deferred accounting, as set forth in this Petition.

DATED this 24th day of November, 2021.

Puget Sound Energy

By /s/ Susan E. Free

Susan E. Free
Director of Revenue Requirements and
Regulatory Compliance
Puget Sound Energy / PO Box 97034, EST-07W
Bellevue, WA 98009-9734
425-462-2105 / susan.free@pse.com