

**EXHIBIT NO. ___(JT-1T)
DOCKET NO. UG-151663
WITNESS: JOINT TESTIMONY**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY

**for (i) Approval of a Special Contract
for Liquefied Natural Gas Fuel Service
with Totem Ocean Trailer Express, Inc.
and (ii) a Declaratory Order Approving
the Methodology for Allocating Costs
Between Regulated and Non-regulated
Liquefied Natural Gas Services**

DOCKET UG-151663

PREFILED JOINT TESTIMONY OF

**CARLA COLAMONICI
EDWARD A. FINKLEA
ROGER GARRATT
DAVID C. GOMEZ**

SUPPORTING FULL SETTLEMENT STIPULATION

**OCTOBER 7, 2016
REVISED OCTOBER 25, 2016**

**PREFILED JOINT TESTIMONY
SUPPORTING SETTLEMENT STIPULATION**

CONTENTS

I.	INTRODUCTION	1
II.	THE SCOPE OF THE UNDERLYING DISPUTE.....	4
III.	THE SCOPE OF THE SETTLEMENT STIPULATION AND ITS PRINCIPAL ASPECTS.....	8
A.	Ring-Fencing Agreements	9
1.	Creation of Puget LNG	10
2.	Non-Consolidation Opinion.....	10
3.	PSE Customers Held Harmless.....	11
4.	Joint Ownership Agreement	12
5.	Revisions to the Commitments in the Merger Order	15
6.	Notice to the Commission.....	17
B.	Allocation of Capital Costs of Components of the Tacoma LNG Facility Between PSE and Puget LNG	18
C.	Agreements With Respect to Costs Associated with Certain Natural Gas Distribution Facility Upgrades	20
IV.	THE SETTLEMENT STIPULATION SATISFIES THE PARTICIPATING PARTIES’ INTERESTS AND IS CONSISTENT WITH THE PUBLIC INTEREST	23
A.	Statement of Commission Staff	23
B.	Statement of Public Counsel.....	36
C.	Statement of NWIGU	42
D.	Statement of PSE	45
V.	CONCLUSION.....	49

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**PREFILED JOINT TESTIMONY
SUPPORTING SETTLEMENT STIPULATION**

I. INTRODUCTION

Q. Please state your names, titles, and who you represent in this matter.

A. My name is Carla Colamonici. I provide this testimony on behalf of the Public Counsel Unit of the Washington Office of Attorney General (“Public Counsel”). I am employed by Public Counsel as a Regulatory Analyst. Please see Exhibit No. ___(JT-2) for an exhibit describing my education and relevant experience.

My name is Edward A. Finklea. I provide this testimony on behalf of the Northwest Industrial Gas Users (“NWIGU”). I am the Executive Director of NWIGU. Please see Exhibit No. ___(JT-3) for an exhibit describing my education and relevant experience.

My name is Roger Garratt. I provide this testimony on behalf of Puget Sound Energy (“PSE”). I am employed by PSE as Director Strategic Initiatives. Please see Exhibit No. ___(RG-2), filed on August 11, 2015, for an exhibit describing my education and relevant experience.

My name is David C. Gomez. I provide this testimony on behalf of the Staff of the Washington Utilities and Transportation Commission (“Commission Staff”). I am employed by the Commission as the Assistant Power Supply Manager. Please see Exhibit No. ___(JT-4) for an exhibit describing my education and relevant experience.

1 The Industrial Customers of Northwest Utilities (“ICNU”) is a party to portions of
2 the Settlement Stipulation. ICNU has authorized the individuals on this Prefiled
3 Joint Testimony to state that it is the position of ICNU that those portions of the
4 Settlement Stipulation to which it is a party relate purely to legal matters.

5 Therefore, ICNU does not offer a sponsoring witness for the Settlement
6 Stipulation but will make its counsel available to present ICNU’s positions with
7 respect thereto at hearing and to address any legal questions the Commission has.

8 **Q. Are you sponsoring joint testimony in support of the Settlement Stipulation,**
9 **dated September 30, 2016, and filed with this Commission on September 30,**
10 **2016 (the “Settlement Stipulation”)?**

11 A. Yes. This joint testimony recommends that the Commission approve the
12 Settlement Stipulation that was arrived at by Commission Staff, Public Counsel,
13 NWIGU, ICNU, and PSE (referred to hereinafter jointly as the “Settling Parties”
14 and individually as a “Settling Party”). The Settlement Stipulation culminates a
15 14-month effort by the Settling Parties. The case initially focused on the
16 jurisdictional question posed by PSE’s contract with TOTE, and the Commission
17 later provided parties the opportunity to explore alternative business models and
18 structures within the scope of the Commission’s authority that would enable PSE
19 to proceed with the development of the Tacoma LNG Facility.¹ The Settlement
20 Stipulation before the Commission is the result of this effort.

1 Order 04, ¶ 30.

1 **Q. Do all parties to the proceeding join in support of the Settlement Stipulation,**
2 **dated September 30, 2016, and filed with this Commission on September 30,**
3 **2016?**

4 A. Yes. All parties to the proceeding join in support of the Settlement Stipulation,
5 dated September 30, 2016, and filed with this Commission on September 30,
6 2016.

7 **Q. Please summarize the joint testimony of the Settling Parties.**

8 A. Prior to executing the Settlement Stipulation, the Settling Parties spent several
9 months in mediated settlement discussions addressing the issues previously raised
10 in this proceeding. The mediated settlement discussions were led by independent
11 mediator, Mr. Donald Trotter (the “Mediator”). During the mediated settlement
12 discussions, PSE identified two issues that were critical to resolve for it to
13 proceed with the development of the Tacoma LNG Facility. First, PSE required a
14 waiver to or revision of Commitments 56 and 58 of the Merger Order² that would
15 allow Puget Energy, Inc. (“Puget Energy”) to form or cause to be formed a
16 wholly-owned subsidiary of Puget Energy. That wholly-owned subsidiary would
17 be named Puget LNG, LLC (“Puget LNG”). Second, PSE required an allocation
18 of the capital costs of the Tacoma LNG Facility between PSE and Puget LNG so
19 that each entity could properly account for its ownership shares of each
20 component of the Tacoma LNG Facility.

² *In the Matter of the Joint Application of Puget Holdings LLC and Puget Sound Energy, Inc., For an Order Authorizing Proposed Transaction, Docket U-072375, Order 08 (Dec. 30, 2008) (“Merger Order”).*

1 Also during the mediated settlement discussions, the Settling Parties worked
2 together to craft an agreement to provide additional assurances to the Settling
3 Parties, PSE’s customers, and the Commission that the proposed arrangement in
4 which PSE and Puget LNG own, develop, and finance the Tacoma LNG Facility
5 as tenants-in-common is consistent with the public interest and will not cause
6 harm to PSE or its customers.

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

8 **Q. Please describe the filing that gave rise to this proceeding.**

9 A. On August 11, 2015, PSE filed with the Commission a proposal to develop at the
10 Port of Tacoma a liquefied natural gas (LNG) facility (the “Tacoma LNG
11 Facility”) capable of (i) receiving nearly 21,000 Decatherms per day (Dth/day) of
12 natural gas, (ii) producing approximately 250,000 gallons of LNG when
13 liquefying at nameplate capacity, and (iii) storing approximately 8 million gallons
14 of LNG. PSE identified three functions the facility is planned to perform:

- 15 • The Tacoma LNG Facility would supply fuel to Totem
16 Ocean Trailer Express, Inc. (TOTE), under a contract PSE
17 entered with TOTE on October 27, 2014.
- 18 • The Tacoma LNG Facility would provide fuel for sales to
19 other marine vessels or other purchasers.
- 20 • The Tacoma LNG Facility would serve as a peaking
21 resource for PSE’s core natural gas customers.

22 PSE initially proposed that the first and third functions would be treated as part of
23 PSE’s regulated business—the first function meeting the needs of a single
24 customer, TOTE, under a “special contract” and the third function providing

1 capacity to meet core retail natural gas customers' peak requirements at tariffed
2 rates. PSE proposed that the second function would be a separate, unregulated
3 business.

4 On December 18, 2015, the Commission entered Order 04 in this proceeding, in
5 which the Commission determined that it has "general jurisdiction under Title 80
6 RCW to regulate sales of liquefied natural gas by gas companies for use as
7 transportation fuel." However, the Commission also determined that it lacked
8 authority to exercise its jurisdiction over sales of LNG by PSE to TOTE as
9 originally proposed by PSE. The Commission also stated in Order 04 that

10 [w]hile the structure of the business PSE proposes, as described in
11 its Petition and accompanying submittals in this docket, is one over
12 which we cannot lawfully assert our jurisdiction, we make that
13 determination here provisional and will carry the question forward
14 with the case for the time being. We accordingly will afford the
15 parties two additional formal opportunities to explore the question
16 of jurisdiction specifically, and the proposed project more
17 generally, to learn whether there may be alternative business
18 models with structures that would fall under the Commission's
19 jurisdiction if this is somehow critical to the success of this project.
20 Parties may file supplemental briefs by January 15, 2016, to
21 address this question.

22 On March 4, 2016, PSE filed a motion requesting that the Commission establish a
23 bifurcated proceeding to allow for review of an alternative business model PSE is
24 proposing as contemplated by Order 04. PSE's alternative business model to the
25 one proposed by PSE in its original filing. In the March 4 filing, PSE proposed to
26 establish a newly formed, unregulated subsidiary of Puget Energy (PSE's parent
27 corporation) as the business entity that would make such sales to TOTE and
28 others. PSE, by its motion, proposed specifically that in the first phase of the

1 bifurcated proceeding, the parties would brief and the Commission would rule on
2 two issues:

- 3 • Whether the Commission would provide an exemption to
4 Merger Commitment 56 in Docket U-072375 that would
5 allow Puget Energy to own and operate both PSE and Puget
6 LNG.
- 7 • Whether the Commission would authorize an equal sharing
8 of the projected portfolio benefits associated with the
9 Tacoma LNG Facility between PSE investors and PSE
10 natural gas sales customers for consideration in this
11 proceeding.

12 The Settling Parties were unable to reach agreement on the two foundational
13 issues raised in phase one above. As a result, PSE proposed at a hearing on
14 May 29, 2016, PSE proposed to set aside a two-month period during which the
15 parties could participate in mediated negotiations in an effort to develop
16 parameters for the Tacoma LNG Facility that would be acceptable to all parties
17 and the Commission. The Commission determined that it would be appropriate to
18 provide a two-month window of opportunity for the mediation. The Commission
19 further determined that “absent success, or at least very significant progress
20 toward success, during the two month period, it should establish such process and
21 procedural schedule as necessary to bring this proceeding to a timely conclusion.”

22 **Q. Did the Settling Parties other than PSE investigate the filing of August 11,**
23 **2015, and the supporting testimony and exhibits?**

24 A. Yes. Prior to the hearing on May 29, 2016, the Settling Parties issued numerous
25 data requests and engaged in conferences with PSE staff knowledgeable about
26 various aspects of the filing of August 11, 2015. After the hearing on May 29,

1 2016, the Settling Parties retained Mr. Donald Trotter to serve as an independent
2 mediator and the energy consulting firm Brown, Williams, Moorhead & Quinn,
3 Inc. to serve as an independent technical consultant. Mediated conferences were
4 held on June 16 and 17, 2016; on August 9 and 26, 2016; and on September 15,
5 16, and 26, 2016. Telephonic mediation conferences occurred on June 29, 2016;
6 on July 11, 13, and 21, 2016; and on September 27, 2016. Additionally, the
7 Mediator conducted one or more conferences with parties individually. Based on
8 mediated discussions and related correspondence, the Settling Parties have
9 reached an agreement that would provide a basis upon which the Settling Parties
10 could recommend proceeding with the Tacoma LNG Facility.

11 **Q. Were the Settling Parties able to resolve their issues?**

12 A. Yes. Throughout the proceeding, the Settling Parties engaged in numerous
13 settlement discussions and, through the Settlement Stipulation, have resolved their
14 issues in connection with PSE's proposal.

15 **Q. Did the Settling Parties resolve PSE's request to provide an exemption to**
16 **Commitment 56 in the Merger Order that would allow Puget Energy to own**
17 **and operate both PSE and Puget LNG?**

18 A. Yes. As discussed in greater detail below, the Settling Parties made several
19 agreements entitled "Ring-Fencing Agreements" that include (i) an amendment of
20 Commitment 56 in the Merger Order that would allow Puget Energy to own and
21 operate both PSE and Puget LNG, and (ii) an amendment of Commitment 58 in
22 the Merger Order to clarify that the current and any future capital expenditure
23 credit facilities of Puget Energy will, by their terms, limit the use of such funds

1 only for financing capital expenditures of PSE and Puget LNG. The Settling
2 Parties reached additional ring-fencing agreements that are discussed below.

3 **Q. Did the Settling Parties resolve PSE's request that the Commission authorize**
4 **an equal sharing of the projected portfolio benefits associated with the**
5 **Tacoma LNG Facility between PSE investors and PSE natural gas sales**
6 **customers?**

7 A. No. During the mediated settlement discussions, PSE withdrew its request that the
8 Commission authorize an equal sharing of the projected portfolio benefits
9 associated with the Tacoma LNG Facility between PSE investors and PSE natural
10 gas sales customers. Instead, PSE requested that the parties to the proceeding
11 agree upon an allocation of the capital costs associated with the components of
12 the Tacoma LNG Facility so that PSE and Puget LNG can account for such
13 capital costs in owning, developing, and financing the Tacoma LNG Facility as
14 tenants-in-common. As discussed in further detail below, the Settling Parties were
15 able to reach agreement on the allocation of the capital costs associated with the
16 components of the Tacoma LNG Facility.

17 **III. THE SCOPE OF THE SETTLEMENT STIPULATION AND**
18 **ITS PRINCIPAL ASPECTS**

19 **Q. Please describe the scope of the Settlement Stipulation and its principal**
20 **aspects.**

21 A. The Settlement Stipulation is a full settlement of all issues presented in this
22 proceeding and has been executed by each of the Settling Parties. Generally, the

1 Settlement Stipulation includes agreements among the Settling Parties with
2 respect to the following areas:

- 3 • agreements with respect to ring-fencing issues;
- 4 • agreements with respect to ownership shares for
5 components of the Tacoma LNG Facility; and
- 6 • agreements with respect to costs associated with certain
7 natural gas distribution facility upgrades.

8 Each of these agreements is discussed in greater detail below.

9 **A. Ring-Fencing Agreements**

10 **Q. What does the Settlement Stipulation provide with respect to agreements
11 regarding ring-fencing?**

12 A. The Settlement Stipulation contains several agreements with respect to the ring-
13 fencing of PSE that were identified by the Settling Parties:

- 14 1. creation of Puget LNG by Puget Energy;
- 15 2. the filing of a new non-consolidation opinion with the
16 Commission;
- 17 3. a commitment that PSE's customers be held harmless from the
18 liabilities and financial losses of any non-regulated activity of the
19 Tacoma LNG Facility, including any non-regulated activity of
20 Puget LNG;
- 21 4. the filing of a Joint Ownership Agreement between Puget LNG
22 and PSE for approval by the Commission pursuant to RCW
23 80.16.020;
- 24 5. a commitment that PSE notify the Commission of any potential
25 sale or transfer of all or substantially all of the assets of the
26 Tacoma LNG Facility or the potential sale or transfer of Puget
27 LNG's non-regulated operations as soon as practicable.

1 **1. Creation of Puget LNG**

2 **Q. Please describe the Settlement Stipulation’s requirement regarding the**
3 **creation of Puget LNG.**

4 A. The Settlement Stipulation requires Puget Energy to form or cause to be formed
5 Puget LNG as a wholly-owned subsidiary of Puget Energy within thirty (30) days
6 of issuance of an order by the Commission approving the Settlement Stipulation
7 consistent with its terms and its conditions. According to the terms of the
8 Settlement Stipulation, Puget LNG will be a special purpose limited liability
9 company formed by Puget Energy solely for the purposes of owning, developing,
10 and financing the Tacoma LNG Facility as a tenant-in-common with PSE.

11 **2. Non-Consolidation Opinion**

12 **Q. Please describe the Settlement Stipulation’s requirement regarding the filing**
13 **of a non-consolidation opinion by PSE.**

14 A. The Settlement Stipulation requires PSE to file a non-consolidation opinion with
15 the Commission within sixty (60) days of the formation of Puget LNG. The non-
16 consolidation opinion must conclude, subject to customary assumptions and
17 exceptions, that the ring-fencing provisions are sufficient that a bankruptcy court
18 would not order the substantive consolidation of the assets and liabilities of PSE
19 with those of Puget Energy or its affiliates or subsidiaries, including Puget LNG.

20 If the ring-fencing provisions are insufficient to obtain a non-consolidation
21 opinion, PSE will promptly undertake the following actions:

- 22 (i) notify the Commission of this inability to obtain a non-
23 consolidation opinion;

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- (ii) propose and implement, upon Commission approval, such additional ring-fencing provisions around PSE as are sufficient to obtain a non-consolidation opinion subject to customary assumptions and exceptions;
- (iii) obtain a non-consolidation opinion based on the additional ring-fencing provisions and customary assumptions and exceptions; and
- (iv) if PSE cannot obtain a non-consolidation agreement based on the proposed additional ring-fencing provisions, PSE will seek guidance from the Commission.

3. PSE Customers Held Harmless

Q. Please describe the Settlement Stipulation’s requirement that PSE’s customers are held harmless.

A. The Settlement Stipulation requires that PSE’s customers will be held harmless from the liabilities and financial losses of any non-regulated activity of the Tacoma LNG Facility, including any non-regulated activity of Puget LNG. Puget Energy guarantees and will hold PSE’s customers harmless from all liabilities and financial losses of Puget LNG resulting from:

- (i) any non-regulated activity of the Tacoma LNG Facility, including the sale or assignment of the assets of Puget LNG to a thirty party; and
- (ii) circumstances in which Puget LNG or any successor to Puget LNG (a) becomes insolvent or is unable to pay its debts when due, (b) files a petition in bankruptcy, reorganization or similar proceedings (and if filed against, such petition is not removed within 90 days), (c) discontinues its business, or (d) a receiver is appointed or there is an assignment for the benefit of creditors of Puget LNG.

1 **4. Joint Ownership Agreement**

2 **Q. Please describe the Settlement Stipulation’s requirement that PSE file a Joint**
3 **Ownership Agreement between Puget LNG and PSE.**

4 A. The Settlement Stipulation requires PSE to file a Joint Ownership Agreement
5 between Puget LNG and PSE for approval by the Commission pursuant to
6 RCW 80.16.020 within sixty (60) days of the formation of Puget LNG. The terms
7 and conditions of the Joint Ownership Agreement will reflect the terms and
8 conditions set forth in Attachment B to the Settlement Stipulation.

9 **Q. Please describe the Settlement Stipulation’s requirements with respect to**
10 **operating costs under the Joint Operating Agreement.**

11 A. The Joint Operating Agreement will require Puget LNG to pay, and Puget Energy
12 to guarantee, Puget LNG’s assigned percentage allocation of annual operating
13 costs and will do so without subsidy from PSE ratepayers. In the event that Puget
14 LNG ceases operating as a going concern and another entity does not succeed
15 Puget LNG’s obligations under the Joint Ownership Agreement or similar
16 agreement, the Joint Ownership Agreement will terminate or expire in accordance
17 with its terms.

18 The Settlement Stipulation acknowledges that some of the fixed operating costs
19 associated with the Tacoma LNG Facility may shift to PSE because Puget LNG
20 will not be available to share in those fixed operating costs. Attachment C to the
21 Settlement Stipulation is a representative list of fixed operating costs associated
22 with the Tacoma LNG Facility that may shift to PSE. PSE will use commercially

1 reasonable efforts to minimize the fixed operating costs shifted to PSE and
2 mitigate the impacts of any such shift on PSE. PSE will bear the burden of
3 demonstrating to the Commission that such fixed operating costs, if any, are
4 prudent and reasonable for recovery in rates by PSE. Each of the Commission
5 Staff, Public Counsel, NWIGU, and ICNU reserves its right to challenge such
6 fixed operating costs, if any, in future rate proceedings.

7 **Q. Please describe the Settlement Stipulation’s requirements with respect to**
8 **liabilities under the Joint Operating Agreement.**

9 A. The Settlement Stipulation acknowledges that the obligations and liabilities of
10 Puget LNG and PSE (each, an “Owner”) with respect to the Tacoma LNG Facility
11 are intended to be several and not joint or collective, and nothing contained in the
12 Joint Ownership Agreement will be construed to create an association, joint
13 venture, trust or partnership. Each Owner will be individually responsible for the
14 performance of its own obligations. Neither Owner will have a right or power to
15 bind the other entity without its express written consent, except as expressly
16 provided in the Joint Ownership Agreement or in an ancillary agreement.

17 Except as otherwise provided, all risk, loss and damage arising out of the
18 ownership, construction, operation or maintenance of any portion of the
19 Tacoma LNG Facility shall be borne by each Owner in proportion to its capital
20 cost allocation as set forth in Attachment D to the Settlement Stipulation (each, an
21 “Ownership Share”), all or portions of which shall be insured; provided, however,
22 that, to the extent that any loss or damage is caused by actions performed
23 exclusively for Puget LNG or exclusively for PSE, then the entity on whose

1 behalf the actions were exclusively performed will be fully responsible for the
2 loss or damage. If either Owner, by reason of joint liability, shall be called upon
3 to make any payment or incur any obligation in excess of its proportionate
4 Ownership Share, then the other Owner shall have the obligation to pay and
5 reimburse, regardless of cost, such Owner proportionately to the extent of any
6 such excess by tendering payment upon thirty (30) business days' notice of such
7 payment in excess of its Ownership Share.

8 **Q. Please describe the Settlement Stipulation's requirements with respect to**
9 **insurance requirements under the Joint Operating Agreement.**

10 A. The Joint Ownership Agreement will require Puget Energy and its affiliates to
11 adequately insure non-regulated activity at the Tacoma LNG Facility. The term
12 "adequately insure" means that the nominal value of such insurance coverage
13 must reasonably reflect the size, value, and scope of the Tacoma LNG Facility
14 and its operations.

15 **Q. Please describe the Settlement Stipulation's requirements with respect to**
16 **usage fees under the Joint Operating Agreement.**

17 A. The Settling Parties acknowledge that, notwithstanding the Ownership Shares
18 identified for components of the Tacoma LNG Facility set forth in this Settlement
19 Stipulation, it may be necessary for an Owner to use more than its Ownership
20 Share of components of the Tacoma LNG Facility. For example, Puget LNG may
21 desire to use more than its Ownership Share of the storage facility during the
22 summer, when PSE does not require as much storage capacity for peaking service.
23 Conversely, PSE may desire to use more than its Ownership Share of the truck

1 loading facility if PSE were to build and operate LNG satellite peaking facilities
2 in addition to the facility in Gig Harbor. The opportunity for each Owner to
3 charge the other Owner to compensate for usage in excess of Ownership Shares
4 will be included in the Joint Operating Agreement.

5 The Joint Operating Agreement will require PSE to maintain sufficient records to
6 support any such usage charge and report any such usage charge for a calendar
7 year in the affiliated interest and subsidiary transaction report filed annually with
8 the Commission pursuant to WAC 480-90-264. In the event PSE receives
9 payment from Puget LNG in excess of its Ownership Share, such benefits shall
10 flow to PSE customers. PSE will bear the burden of demonstrating to the
11 Commission that any charges in excess of its Ownership Shares are prudent and
12 reasonable for recovery in rates by PSE. Each of the Commission Staff, Public
13 Counsel, NWIGU, and ICNU reserves its right to challenge such charges in
14 excess of PSE Ownership Shares, if any, in future rate proceedings.

15 **5. Revisions to the Commitments in the Merger Order**

16 **Q. Please describe the request of the Settling Parties in the Settlement**
17 **Stipulation that the Commission amend Commitment 56 in the Merger**
18 **Order.**

19 A. Commitment 56 of the Merger Order currently provides that Puget Energy shall
20 not operate or own any business other than PSE. The plain language of
21 Commitment 56 would prohibit the creation of Puget LNG by PSE otherwise
22 required by the terms and conditions of the Settlement Stipulation. Therefore, the

1 Settling Parties request that the Commission amend Commitment 56 in the
2 Merger Order to read as follows:

3 56. Puget Energy shall not operate or own any business other
4 than PSE and Puget LNG, LLC (“Puget LNG”). Puget
5 LNG shall be a special purpose entity formed by Puget
6 Energy solely for the purposes of owning, developing, and
7 financing, as a tenant-in-common with PSE, an LNG
8 facility at the Port of Tacoma (the “Tacoma LNG
9 Facility”).

10 This amendment, if granted, would expressly permit Puget Energy to create and
11 own Puget LNG.

12 **Q. Please describe the request of the Settling Parties in the Settlement**
13 **Stipulation that the Commission amend Commitment 58 in the Merger**
14 **Order.**

15 A. Commitment 58 of the Merger Order currently provides that the current and any
16 future capital expenditure credit facilities of Puget Energy will, by their terms,
17 limit the use of such funds only for financing PSE capital expenditures. The plain
18 language of Commitment 58 may be construed to prohibit the use of debt of Puget
19 Energy to finance the Ownership Shares of the Tacoma LNG Facility to be owned
20 by Puget LNG pursuant to the terms and conditions of the Settlement Stipulation.
21 Therefore, the Settling Parties request that the Commission amend
22 Commitment 58 in the Merger Order to read as follows:

23 58. Joint Applicants commit that the current and any future
24 capital expenditure credit facilities will by their terms limit
25 the use of such funds only for financing ~~PSE~~ capital
26 expenditures of PSE and Puget LNG, LLC. Quarterly
27 officer certificates under each of the credit facilities of
28 Puget Energy and PSE will be made available to the

1 Commission and other interested parties, upon request and
2 subject to the protective order in Docket No. U-072375.

3 This amendment, if granted, would expressly permit Puget Energy to use its debt
4 to finance the Ownership Shares of the Tacoma LNG Facility to be owned by
5 Puget LNG pursuant to the terms and conditions of the Settlement Stipulation.

6 **Q. Does the Settlement Stipulation require the amendment of any other**
7 **Commitment in the Merger Order?**

8 A. No. Commitments 1-55, 57, and 59-63 of the Merger Order will continue in full
9 force and effect and without amendment.

10 **6. Notice to the Commission**

11 **Q. Please describe the Settlement Stipulation's requirement that PSE notify the**
12 **Commission in the event of certain events associated with the Tacoma LNG**
13 **Facility.**

14 A. The Settlement Stipulation requires PSE to notify the Commission of any
15 potential sale or transfer of all or substantially all of the assets of the Tacoma
16 LNG Facility or the potential sale or transfer of Puget LNG's non-regulated
17 operations. PSE must give this notice as soon as practicable.

1 **B. Allocation of Capital Costs of Components of the Tacoma LNG**
2 **Facility Between PSE and Puget LNG**

3 **Q. Please describe the agreement in the Settlement Stipulation with respect to**
4 **the allocation of capital costs of components of the Tacoma LNG Facility**
5 **between PSE and Puget LNG.**

6 A. In the Settlement Stipulation, the Settling Parties have agreed to the following
7 capital cost allocators proposed by PSE in its initial filing in this proceeding for
8 the allocation of the capital costs of the components of the Tacoma LNG Facility:

9 a. Liquefaction Allocator. The liquefaction allocator allocates
10 capital costs associated with liquefaction, which include the
11 costs of facilities used to receive natural gas, treat the gas,
12 cool the gas below its boiling point and deliver the gas to
13 onsite storage.

14 b. Storage Allocator. The storage allocator allocates capital
15 costs associated with storage, which include the costs of the
16 site-erected full containment cryogenic storage tank as well
17 as the costs of foundations and other supporting facilities.

18 c. Bunkering Allocator. The bunkering allocator allocates
19 capital costs associated with bunkering, which include
20 facilities used to move the LNG from the onsite storage
21 tank to the marine loading facility, which will be located at
22 TOTE's berthing location.

23 d. Truck Loading Allocator. The truck loading allocator
24 allocates capital costs associated with truck loading, which
25 include facilities used to move the LNG from the onsite
26 storage tank to tanker trucks or ISO containers

27 e. Vaporization Allocator. The vaporization allocator
28 allocates capital costs associated with vaporization, which
29 include facilities used to vaporize the gas and inject it into
30 PSE's distribution system.

31 f. Common Allocator. The common allocator allocates
32 common project costs, which include facilities that cannot

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be allocated to any individual service (e.g., facility development, civil and site work, site utilities, etc.).

Furthermore, each of the Settling Parties agreed to the following Ownership Shares with respect to the following allocators:

Component Ownership Share	PSE	Puget LNG
Liquefaction	10%	90%
Storage	79%	21%
Bunkering	0%	100%
Truck Loading	5%	95%
Vaporization	100%	0%

The Ownership Shares for the common cost allocator shall equal the weighted costs of the liquefaction, storage, bunkering, truck loading, and vaporization allocation factors. Please see Attachment D to the Settlement Stipulation for the projected Ownership Shares of common items of the Tacoma LNG Facility.

Q. How does the Settlement Stipulation contemplate that PSE and Puget LNG effectuate the allocation of capital costs of components of the Tacoma LNG Facility between PSE and Puget LNG?

A. On a date not later than ninety (90) days after the date of formation of Puget LNG (the “Transfer Date”), (i) PSE shall assign Puget LNG’s Ownership Shares of the components of the Tacoma LNG Facility to Puget LNG; (ii) Puget LNG shall accept assignment of Puget LNG’s Ownership Shares of the components of the Tacoma LNG Facility from PSE; and (iii) Puget LNG shall pay PSE an amount equal to the product of (a) PSE’s total capital expenditures for the Tacoma LNG

1 Facility as of the Transfer Date and (b) Puget LNG’s projected common capital
2 costs allocation of fifty-seven percent (57%).

3 In the general rate case proceeding in which PSE seeks to include PSE’s
4 Ownership Shares of the Tacoma LNG Facility in general rates, PSE shall
5 (i) identify the final actual capital costs associated with each component of the
6 Tacoma LNG Facility, and (ii) calculate the common allocator for each of PSE
7 and Puget LNG. PSE’s calculation of the common cost allocator shall be
8 consistent with paragraph 26 of and Attachment D to the Settlement Stipulation.

9 **C. Agreements With Respect to Costs Associated with Certain Natural**
10 **Gas Distribution Facility Upgrades**

11 **Q. Please describe the agreement in the Settlement Stipulation with respect to**
12 **costs associated with certain natural gas distribution facility upgrades.**

13 A. In the Settlement Stipulation, the Settling Parties acknowledge and agree that the
14 costs of distribution system upgrades associated with the Tacoma LNG Facility
15 should be allocated in accordance with the principle of cost causation.

16 Although not all Settling Parties concur, PSE and NWIGU believe that the
17 following facilities would not be necessary but for the Tacoma LNG Facility:

18 (i) the installation of the new 16-inch line from the existing
19 North Tacoma high pressure line beginning near the
20 intersection of 20th Street East and 62nd Avenue East in
21 Fife, Washington, and terminating at the intersection of
22 Taylor Way and East 11th Street at the Port of Tacoma (the
23 “16-Inch Line”); and

24 (ii) the installation of improvements to the Bonney Lake lateral
25 (currently expected to consist of the installation of
26 approximately 2.1 miles of 12-inch high pressure line) that
27 will be required to accommodate (i) the increase of

1 injection requirements of the Tacoma LNG Facility from
2 50 million cubic feet per day to 66 million cubic feet per
3 day, and (ii) the reduction of pressure out of the North
4 Tacoma Gate Station by approximately 20 pounds per
5 square inch (the “Bonney Lake Lateral Improvements”).

6 In the Settlement Stipulation, PSE has agreed to separately identify the costs
7 associated with each of the 16-Inch Line and the Bonney Lake Lateral
8 Improvements and record these costs in respective subaccounts of FERC
9 Account 376.

10 In all retail class cost of service studies used to set retail gas sales and
11 transportation delivery tariff rates, PSE has agreed to propose to allocate the costs
12 of each of the 16-Inch Line and the Bonney Lake Lateral Improvements identified
13 and recorded in the subaccount of FERC Account 376 in a manner consistent with
14 the interclass allocation of the costs of the Tacoma LNG Facility. PSE will
15 support the interclass allocation of the Tacoma LNG Facility costs to only sales
16 customers on the basis of their contribution to PSE’s total retail design day system
17 peak demand (Dth/day). Except for the condition described in paragraph 33 of the
18 Settlement Stipulation, PSE has agreed not to propose to allocate any costs
19 associated with either the 16-Inch Line or the Bonney Lake Lateral Improvements
20 to transportation customers.

21 Notwithstanding paragraph 32 of the Settlement Stipulation, if a retail natural gas
22 transportation customer of PSE takes retail natural gas transportation service
23 along the 16-Inch Line (e.g., Puget LNG), then PSE agrees to propose rates to be
24 paid by the specific retail natural gas transportation customer or customers that

1 will recover a portion of the costs associated with the 16-Inch Line. This proposed
2 portion of costs will be based on the quotient of:

- 3 (a) the design day peak (Dth/day) for that retail natural gas
4 transportation customer(s), divided by
- 5 (b) the sum of
- 6 (i) the design day peak (Dth/day) for that retail natural
7 gas transportation customer(s), plus
- 8 (ii) the design day peak (Dth/day) for all retail natural
9 gas sales customers.

10 If the Tacoma LNG Facility were to no longer be included in the rate base used to
11 set retail natural gas rates for PSE, the manner in which PSE proposes to allocate
12 the costs of either the 16-Inch Line or the Bonney Lake Lateral Improvements
13 would remain unchanged for the remaining useful life of the 16-Inch Line or the
14 Bonney Lake Lateral Improvements, respectively, unless and until PSE
15 demonstrates the 16-Inch Line is used and useful in providing natural gas
16 distribution service.

17 **Q. Does anything in the Settlement Stipulation bind any of the Settlement**
18 **Parties other than PSE with respect to either the 16-Inch Line or the Bonney**
19 **Lake Lateral Improvements?**

20 A. No. Nothing in the Settlement Stipulation binds any of the Settling Parties other
21 than PSE. Each of Commission Staff, Public Counsel, and NWIGU retains its
22 right to contest PSE's cost of service studies' treatment of the 16-Inch Line and
23 the Bonney Lake Lateral Improvements.

1 **IV. THE SETTLEMENT STIPULATION SATISFIES THE**
2 **PARTICIPATING PARTIES' INTERESTS AND**
3 **IS CONSISTENT WITH THE PUBLIC INTEREST**

4 **A. Statement of Commission Staff**

5 **Q. Mr. Gomez, what is the scope of your supporting testimony?**

6 A. I provide Commission Staff's perspective on the Settling Parties' proposed
7 Settlement Stipulation. My testimony and opinions apply exclusively to the
8 narrowly-focused economic and regulatory issues before the Commission in
9 Docket UG-151663. Although I am generally aware of the publicity and
10 environmental concerns that surround the project in this docket, the Commission
11 does not have a role in the environmental permitting process as far as I am aware,
12 and environmental and construction permitting concerns are not at issue in this
13 case.

14 **Q. What forms the basis for Commission Staff's recommendations?**

15 A. Commission Staff's analysis and recommendations culminate 14-months and over
16 1,500 hours of effort. In that time, Commission Staff has reviewed PSE's various
17 filings and testimony, conducted discovery, participated in a five-party mediation,
18 visited the proposed site on two occasions, and consulted with technical experts.

19 **Q. Please provide an overview of Commission Staff's recommendations.**

20 A. Commission Staff supports the proposed Settlement Stipulation. Current
21 projections show that PSE's natural gas customers need PSE to acquire
22 approximately 111,000 dekatherms/day of peak capacity by 2018-2019. The
23 Tacoma LNG Facility is designed to satisfy over 60 percent of this requirement.

1 This Settlement Stipulation provides PSE with the ability to put in place the
2 needed corporate structure to go forth and build the Tacoma LNG Facility to meet
3 its customers' peaking needs as identified in PSE's most recent Integrated
4 Resource Plan (IRP). By building and sharing the costs of that facility with an
5 unregulated affiliate, PSE and its customers could save tens of millions of dollars.
6 At the same time, the Settlement Stipulation protects PSE's ratepayers from the
7 risks created by unregulated activities at the Tacoma LNG Facility.

8 **Q. Please explain how the Settlement Stipulation would protect PSE's**
9 **ratepayers.**

10 A Puget LNG and its parent company would hold PSE's ratepayers harmless from
11 any loss or liability caused by unregulated activities at the Tacoma LNG Facility.
12 The Settlement Stipulation also requires PSE and Puget LNG to maintain
13 adequate insurance on the facility. Finally, the Settlement Stipulation preserves
14 the parties' ability to challenge the prudence of any costs associated with the
15 Tacoma LNG Facility.

16 **Q. Why does Commission Staff believe the Tacoma LNG Facility "could save**
17 **tens of millions of dollars"?**

18 A. A shared peaking facility appears to be a cost-effective way to meet customers'
19 peaking requirements. Commission Staff's reference to "tens of millions" reflects
20 the range of possible savings for the project which are dependent on the different
21 assumptions of the cost of acquiring additional gas pipeline transmission capacity,
22 the final actual costs for the facility, and the degree to which Puget LNG is

1 successful in marketing the remaining unsubscribed balance of the Tacoma LNG
2 Facility.

3 After consultation with technical experts and interstate pipeline operators,
4 Commission Staff is convinced that the addition of new incremental pipeline
5 capacity to meet PSE's peak-shaving requirements is more expensive than PSE
6 estimates of gas customer's share of the Tacoma LNG Facility. Commission Staff
7 also investigated a stand-alone peaker sized to meet core gas customer
8 requirements and sited elsewhere in PSE's service territory and found it to not be
9 cost effective when compared to the planned facility at the Port of Tacoma.

10 **Q. Could you please summarize what is before the Commission, and**
11 **Commission Staff's position on that issue?**

12 A. The Settlement Stipulation could be viewed as PSE's request for amendments to
13 Merger Commitments 56 and 58 in exchange for a guarantee from PSE and its
14 parent to hold ratepayers harmless from any losses or liabilities created by non-
15 regulated operations at the Tacoma LNG Facility, a re-affirmation of the
16 remaining merger commitments, and the ability to share a peaking facility's costs
17 with an unregulated entity. Commission approval of the Settlement Stipulation
18 enables PSE to proceed with development of the Tacoma LNG Facility.

19 **Q. Do you want to provide any additional context for the proposed Settlement**
20 **Stipulation?**

21 A. Yes. It is important for everyone to understand that the Settlement Stipulation
22 only provides the terms and conditions under which PSE has the opportunity to

1 pursue the Tacoma LNG Facility. It is PSE, and PSE alone, that must decide how
2 and whether to move forward. The Settling Parties are not approving a project,
3 and the Settlement Stipulation expressly reserves the Settling Parties' rights to
4 challenge the financial prudence and reasonableness of the Tacoma LNG Facility
5 in future Commission proceedings.

6 **Agreement**

7 **Q. Please describe the "Ring-Fencing Agreements" referenced in the Settlement**
8 **Stipulation.**

9 A. The ring-fencing agreements in the Settlement Stipulation are a set of provisions
10 designed to protect, or ring-fence, PSE's regulated operations from Puget LNG's
11 unregulated operations. Ring-fencing is also essential to Commission Staff's
12 support for the proposed Settlement Stipulation. Simply put, Commission Staff
13 would not support any agreement that placed undue economic risk on regulated
14 ratepayers.

15 **Q. Please explain Section III.A.1 Creation of Puget LNG, LLC.**

16 A. Puget Energy will create a subsidiary called Puget LNG, LLC. Puget LNG will be
17 unregulated and will house the unregulated assets and operations associated with
18 the Tacoma LNG Facility. This settlement term is important because it creates
19 two separate legal entities under the utility holding company for regulated and
20 unregulated portions of the facility, respectively. If PSE decides to pursue the
21 Tacoma LNG Facility project, Commission Staff and other Settling Parties want

1 non-regulated operations to be isolated from PSE's regulated operations as soon
2 as possible.

3 **Q. What is the purpose and importance of Section III.A.2. Non-Consolidation**
4 **Opinion?**

5 A. The provision is part protective and part procedural. Protective, because PSE must
6 obtain and file a bankruptcy expert's opinion that a bankruptcy court would not
7 consolidate the assets and liabilities of PSE and Puget LNG in one or the other's
8 bankruptcy proceeding. Procedural, because it lays out the process and potential
9 scenarios for obtaining and filing such an opinion. In the event the bankruptcy
10 expert's opinion is that a court would consolidate the assets and liabilities of
11 Puget LNG and PSE in a bankruptcy, then PSE must notify the Commission and
12 propose an alternate corporate structure or other ring-fencing provision that
13 protects ratepayers in the event of bankruptcy.

14 **Q. Please explain the purpose of Section III.A.3. PSE Customers Held Harmless**

15 A. The hold harmless provisions in Section III.A.3. might be the most important
16 language in the entire Settlement Stipulation. This section is clear that PSE's
17 customers will be held harmless, and the parent company, Puget Energy, will
18 guarantee any liabilities and losses from Puget LNG. That means PSE and Puget
19 Energy guarantee that PSE's regulated ratepayers will not be asked to assume the
20 costs of any capital write-offs or losses, operating costs, or any other type of
21 financial loss or liability tied to non-regulated LNG sales.

1 **Q. How does Commission Staff know PSE and Puget Energy actually will hold**
2 **PSE's customers harmless?**

3 A. CommissionStaff has three reasons to believe that the Company's commitment to
4 protect ratepayers is genuine. First, Puget Energy and Puget LNG have obligated
5 themselves as a result of this proceeding. These companies, in no uncertain terms,
6 guarantee ratepayers will not pay for liabilities and losses associated with
7 unregulated operations. That guarantee, reinforced by the merger commitments,
8 means that Puget Energy, Puget LNG, and their shareholders willingly assume the
9 risk of any losses and unrealized returns associated with unregulated LNG fuel
10 sales and operations. Second, Puget Energy and its consortium of investors have
11 the financial resources to absorb such losses without having to jeopardize the
12 financial health of the regulated utility. As PSE executives have noted, Puget
13 Energy is capitalized to an amount several times the cost of the Tacoma LNG
14 Facility. Puget Energy and PSE also have access to sufficiently large amounts
15 capital through credit markets, existing equity holders, and insurance policies.
16 Third, Commission Staff has the continuing ability to audit the affiliate interest
17 transactions between PSE and Puget LNG. Audits of these cross-charges will
18 provide Commission Staff the ability to track any abnormal charges from
19 Puget LNG to PSE that might be triggered as a means of recovering possible
20 losses incurred by Puget LNG.

21 **Q. Please explain the Section III.A.4. Joint Ownership Agreement.**

22 A. The Settlement Stipulation requires Puget LNG and PSE to enter into a joint
23 operating agreement to govern those companies' proposed tenancy in common. A

1 joint ownership agreement ensures operational transparency and principle-based
2 terms and conditions for owning and operating the Tacoma LNG Facility. Equally
3 important, the Settlement Stipulation preserves the Commission's opportunity to
4 review and approve or reject the specific terms of any joint operating agreement.

5 **Q. What is the purpose and importance of Section III.A.4.a. Operating Costs**
6 **Under the Joint Ownership Agreement?**

7 A. This provision re-states a portion of the hold harmless language discussed above.
8 Puget LNG and Puget Energy guarantee that non-regulated operating costs at the
9 Tacoma LNG Facility will not shift to regulated ratepayers. Paragraph 14 in the
10 Settlement Stipulation, however, does preserve PSE's rights to come to the
11 Commission at some future date and seek recovery of certain fixed operating
12 costs in rates. Such a request could happen in a scenario where Puget LNG goes
13 out of business and the Tacoma LNG Facility becomes a peaking-only facility.
14 The Settlement Stipulation expressly reserves Commission Staff's right to
15 challenge any such request in that hypothetical proceeding.

16 **Q. What is the purpose and importance of Section III.A.4.b. Liabilities Under**
17 **the Joint Ownership Agreement?**

18 A. Section III.A.4.b. is another layer of principle-based protection for ratepayers.
19 Ratepayers should pay and accept responsibility for facilities prudently managed
20 to benefit ratepayers. The inverse is equally true. Ratepayers should not pay or
21 accept responsibility for facilities that benefit only non-regulated customers and
22 PSE shareholders. Where there is mixed-use, ratepayers should only be

1 responsible in proportion to their use. This Section provides that ratepayers are
2 responsible for their share of facilities. No more and no less.

3 **Q. Please explain Section III.A.4.c. Insurance Requirements Under the Joint**
4 **Ownership Agreement.**

5 A. The Tacoma LNG Facility must be adequately insured. “Adequate” is another
6 principle-based term that depends on the size and value of the Tacoma LNG
7 Facility, and the scope of both regulated and non-regulated operations taking
8 place at the facility.

9 **Q. Does Commission Staff also have an operating definition of “adequate**
10 **insurance”?**

11 A. Yes. In discussions with the Settling Parties, PSE representatives discussed a
12 combination of property insurance up to approximately \$650 million and liability
13 insurance up to approximately \$200 million. Commission Staff has reviewed the
14 engineering cost estimates and consulted with technical experts about the initial
15 size, value, and projected scope of operations for the Tacoma LNG Facility, and
16 Commission Staff believes the terms and amounts in PSE’s above discussions
17 would meet the requirements for “adequate insurance.”

18 **Q. What is the purpose and benefit of Section III.A.4.d. Usage Fees Under the**
19 **Joint Ownership Agreement?**

20 A. Again, this section is another principle-based term to protect ratepayers.
21 Commission Staff understands that transportation fuels markets and weather
22 patterns are dynamic. Neither Commission Staff, nor any other Settling Party, can

1 precisely predict exact peaking-usage patterns or LNG fuel sales several years
2 into the future. Section III.A.4.d just works to make sure that where either
3 Puget LNG or PSE temporarily uses the Tacoma LNG Facility in excess of its
4 ownership share, the overusing entity compensates the other entity for that over-
5 usage. If PSE is the overusing entity, though, PSE cannot recover payments to
6 Puget LNG in rates without Commission approval. Commission approval and the
7 corresponding Commission Staff audit provides another layer of protection for
8 ratepayers.

9 **Q. Please explain Section III.5. Revisions to the Commitments in the Merger**
10 **Order.**

11 A. Commission Staff supports a revision to Commitments 56 and 58 because those
12 revisions mean PSE can pursue the Tacoma LNG Facility while at the same time
13 insulate ratepayers from harm. The modifications proposed in the Settlement
14 Stipulation to these two merger commitments and reaffirmation of the others
15 leave ratepayers better protected than they would be if they remained unchanged.
16 According to PSE, the central value proposition of the Tacoma LNG Facility are
17 the cost synergies created by the different requirements associated with regulated
18 and non-regulated operations. In order to realize the full measure of ratepayers'
19 share of both cost and benefit for the Tacoma LNG Facility, Commission Staff
20 supports ring-fencing as much of the non-regulated risks and costs as
21 expeditiously as possible (before construction).

1 **Q. Please explain Section III.A.6. Notice to the Commission.**

2 A. This section requires PSE to notify the Commission of a potential sale as soon as
3 practicable because Puget Energy could sell Puget LNG to another operator. In
4 that situation, PSE's regulated operations would be partnered under the joint
5 operating agreement with an unaffiliated entity. The Commission should be in the
6 loop about any sale transaction before that transaction actually takes place to
7 make sure the ring fencing and other commitments made by PSE remain in effect.

8 **Q. Are there additional restrictions on the potential sale of Puget LNG?**

9 A. Yes. The joint ownership agreement will include restrictions on transfer. Those
10 restrictions will, among other requirements, require, as a condition of sale, any
11 transferee to assume the transferor's obligations in the joint ownership agreement
12 and to demonstrate financial capability to own and operate the applicable portion
13 of the Tacoma LNG Facility. In other words, any new owner or buyer for the
14 Tacoma LNG Facility's unregulated operations would still have to abide by the
15 joint ownership agreement and would have to be adequately-capitalized. Those
16 requirements would also continue to apply to future transfers.

17 **Q. What is the rationale behind Section III.B. Agreements with Respect to**
18 **Ownership Shares?**

19 A. The primary purpose of Section III.B is to arrive at an initial capital allocation
20 between regulated and non-regulated operations at the Tacoma LNG Facility in
21 order to facilitate accounting of costs prior to the facility going into service. The
22 Settling Parties looked at projected usage and consulted with technical experts to

1 determine fair and reasonable capital allocators for each of the major components
2 at the Tacoma LNG Facility.

3 The secondary purpose of Section III.B is procedural. Paragraphs 27 and 28 set
4 out a period by which PSE and Puget LNG will divide ownership shares and
5 Puget LNG will compensate PSE for the estimated capital costs allocated to
6 unregulated operations. Paragraph 28, in particular, lays out how and what PSE
7 will propose in a future general rate proceeding for the facility's common area
8 capital costs.

9 **Q. What is the rationale supporting each of the allocations and amounts?**

10 A. Commission Staff examined in detail PSE's cost model for the facility which
11 includes estimates of both peak-shaving and LNG fuel sales requirements. Some
12 allocations are easy to figure out. For example, the Marine Bunkering allocator is
13 100 percent allocated to Puget LNG because peak-shaving has nothing to do with
14 fueling ships. Similarly, Vaporization is entirely allocated to ratepayers.
15 Liquefaction's allocation is also straightforward as it is a mathematical calculation
16 derived by examining the design capacity of the Tacoma LNG Facility's
17 liquefaction train against the operational requirements of both regulated and
18 unregulated operations.

19 The remaining cost allocators were extensively reviewed and modified as required
20 based on Commission Staff's analysis and technical expert opinion. For example,
21 Truck Loading allocation was reduced to 5 percent based on the historical
22 requirements of PSE's Gig Harbor LNG Satellite facility.

1 **Q. Are the capital allocations permanent?**

2 A. For the most part, yes, but there are two important caveats to understand. First,
3 Paragraph 28 explains that the common cost allocator will be the weighted
4 average of the underlying component cost allocations. The common cost allocator
5 may move a little bit based on construction and construction commodity price
6 fluctuations. Second, the Commission does retain authority to use hypothetical
7 ownership allocations for ratemaking purposes if conditions or usage patterns
8 change dramatically in the future. The Settling Parties also retain the right to
9 challenge the prudence of any expenditure, and the Commission could disallow an
10 allocation or assess a hypothetical allocation if a particular expenditure(s) is
11 imprudent.

12 **Q. What is the reason for Section III.C. Agreement with Respect to the 16-Inch**
13 **Line and Bonney Lake Lateral Improvements?**

14 A. Section III.C. is a compromise among the Settling Parties. The Settling Parties do
15 not agree whether the 16-Inch Line and Bonney Lake Lateral Improvements
16 should be classified as distribution plant or as part of the Tacoma LNG Facility.
17 NWIGU and PSE both believe that the 16-Inch Line and Bonney Lake Lateral
18 Improvements are only necessary because of the Tacoma LNG Facility, and thus
19 those distribution system improvements should actually be classified as part of the
20 Tacoma LNG Facility and not recoverable as distribution plant.

21 Paragraphs 29 and 30 provide NWIGU and PSE's positions. Paragraphs 31 sets
22 out accounting processes for PSE to track the costs of the 16-Inch Line and
23 Bonney Lake Lateral Improvements separately so the Commission can allocate

1 those costs as it sees fit in a future proceeding. Paragraph 32 requires PSE to
2 propose both distribution improvements be allocated to the Tacoma LNG Facility
3 in a future rate proceeding. Paragraphs 33 and 34 provide cost of service details
4 that are not particularly important to Commission Staff, but bind PSE to certain
5 positions in future cases. Paragraph 35 expressly reserves Commission Staff's and
6 other Settling Parties' rights to advocate cost of service and distribution system
7 allocations as they see fit in any future proceedings.

8 **Q. Would Commission Staff like to highlight any particular sections of**
9 **Section IV. Effect of the Settlement Agreement?**

10 A. Yes. Of course every provision is important to the overall settlement, but I would
11 like to highlight paragraphs 36 and 38. Paragraph 36 reserves the Settling Parties'
12 rights to challenge the prudence of any expenditure. Nothing in the Settlement
13 Stipulation should be read as a waiver of any Settling Parties' right to challenge
14 the prudence of any portion of the Tacoma LNG Facility for ratemaking purposes.
15 The Settling Parties have not waived any rights to argue the prudence of anything.
16 Similarly, paragraph 38 is an all-encompassing reservation of the Settling Parties'
17 rights to argue that PSE, Puget Energy, or, to the extent applicable, Puget LNG,
18 violated Merger Commitments. The Settlement Stipulation is not a waiver.

1 **B. Statement of Public Counsel**

2 **Q. Ms. Colamonici, why does Public Counsel believe the Settlement Stipulation**
3 **is in the public interest?**

4 A. The Settlement Stipulation became possible only after the parties engaged in
5 several technical conferences and mediated sessions to discuss the details of
6 PSE’s proposal, the parties’ interests and concerns, and several alternatives to
7 resolve the matter. The resulting Settlement Stipulation is the product of the give
8 and take of negotiation. Public Counsel is satisfied that the Settlement Stipulation
9 is in the public interest and that the Tacoma LNG Facility appears to present “the
10 least cost alternative for PSE Core Gas Customers” based on the information
11 available in this proceeding.³

12 One item of particular importance to Public Counsel is the hold harmless
13 provision. The Settlement Stipulation includes three provisions that guarantee
14 PSE ratepayers will be held harmless. First, Puget Energy, the parent company of
15 both PSE and Puget LNG, will hold PSE ratepayers harmless from the liabilities
16 and financial losses of any non-regulated activity of the Tacoma LNG Facility.
17 Second, Puget Energy will also hold PSE ratepayers harmless for all liabilities
18 and financial losses resulting from the sale or assignment of assets of Puget LNG
19 to a third party. Finally, Puget Energy will hold PSE ratepayers harmless in
20 circumstances under which Puget LNG (or successors) become insolvent or is
21 unable to pay its debts, files bankruptcy or similar proceedings, discontinues its
22 business, a receiver is appointed, or there is an assignment for the benefit of

³ Exhibit No. (JCW-2C) at 13-14.

1 Puget LNG's creditors. These strong hold harmless provisions protect PSE
2 ratepayers and are consistent with the merger commitments in Docket U-072375.⁴

3 Additionally, PSE and Puget LNG will operate the Tacoma LNG Facility
4 pursuant to a Joint Ownership Agreement that will govern ownership interest,
5 liability, and operations. Under the Settlement Stipulation, if Puget LNG fails to
6 operate as a going concern and another entity does not succeed in Puget LNG's
7 obligations, the Joint Ownership Agreement will terminate. In this instance, an
8 exception to the hold harmless provision may occur, where specific fixed
9 operating costs may shift to PSE ratepayers. The costs subject to this exception
10 are shared costs between PSE and Puget LNG, not costs borne solely by
11 Puget LNG. Furthermore, PSE will bear the burden of proving that these shared
12 costs are reasonable and prudent for recovery in rates. Public Counsel and other
13 parties have expressly reserved the right to challenge such costs if they are sought
14 to be included in rates in a future rate proceeding. In any event, no costs will
15 automatically shift from Puget LNG to PSE ratepayers without Commission
16 review and approval.

17 From Public Counsel's perspective, insulating PSE ratepayers from the risk of the
18 unregulated activity at the Tacoma LNG Facility is key to meeting the public
19 interest standard in this case.

⁴ Merger Order.

1 **Q. Please discuss why Public Counsel believes it is in the public interest to hold**
2 **PSE ratepayers harmless from liabilities and financial losses of any non-**
3 **regulated activity of the Tacoma LNG facility.**

4 A. Public Counsel believes that PSE ratepayers should be held harmless of liabilities
5 and financial losses of the unregulated activities of the Tacoma LNG Facility for
6 three reasons. First, the Merger Order required PSE to “generally hold PSE
7 customers harmless from any business and financial risk exposures associated
8 with Puget Energy, Puget Holdings and its other affiliates.”⁵ Thus, the
9 Commission’s approval of PSE’s request in this case is contingent on PSE
10 ratepayers being held harmless as required under the Merger Order.
11 Second, another condition in the Merger Order requires, “PSE agrees (i) to file
12 cost allocation methodologies used to allocate Puget Energy or Puget Holdings-
13 related costs to PSE; (ii) to propose methods and standards for treatment of
14 affiliate transactions; and (iii) that there will be no cross-subsidization by PSE
15 customers of unregulated activities.”⁶ Here, PSE will be subject to a Joint
16 Ownership Agreement that will determine how costs are allocated, and the strong
17 hold harmless provision protects against cross-subsidization.
18 Third, Public Counsel firmly believes that shareholders should bear the risk of the
19 unregulated activity proposed for the Tacoma LNG Facility. PSE ratepayers
20 should be devoid of risk from any non-regulated activities occurring at the
21 Tacoma LNG Facility, and ratepayers should not experience cost shifting as a
22 result of Puget LNG expenses or undertakings, such as an inability to pay debts,
23 bankruptcy, discontinuance of service, or the consignment of a benefit of creditors

⁵ [Merger Order, Attachment B, Fourth Condition.](#)

⁶ [Merger Order, Attachment B, Sixth Condition.](#)

1 of Puget LNG.⁷ As noted in the report of Brown, Williams, Moorhead & Quinn,
2 Inc., “We propose a simple solution and one that FERC has used numerous of
3 times to protect ratepayers and put the risk of projects squarely on the back of
4 project sponsors. BWMQ believes that all of the costs for TOTE LNG service and
5 future third party service should be borne by PSE shareholders.” Exhibit
6 No. ___(JCW-2C) at ~~11-12~~17. Ergo, not only does Public Counsel acknowledge
7 the importance of eliminating risk from PSE ratepayers, but it is also common
8 practice in similar circumstances.

9 **Q. Please discuss why the exception to the hold harmless provision is in the**
10 **public interest?**

11 A. As discussed above, the only costs that may shift from Puget LNG to PSE
12 ratepayers are fixed operating costs shared by both non-regulated and regulated
13 activities under the Joint Ownership Agreement. These shared fixed costs must be
14 approved by the Commission in order for the costs to be placed in base rates, and
15 parties will have the opportunity to review and challenge the costs. Therefore, no
16 costs will automatically shift from Puget LNG to PSE ratepayers. Examples of the
17 fixed operating costs that may be subject to this clause include: maintenance,
18 staff, incremental insurance, allocated corporate overheads, and costs of the lease.
19 It appears that the costs subject to the exception to the hold harmless provision
20 could arguably be costs that may be appropriately included in rates. The
21 Settlement Stipulation correctly does not predetermine whether costs will be

⁷ [Full Settlement Stipulation at ¶ 11.](#)

1 included in rates, and PSE will have the burden to prove any cost is reasonable
2 and prudent to be included in rates.

3 **Q. Please describe the cost allocation of the Tacoma LNG Facility to PSE**
4 **ratepayers.**

5 A. The cost allocation of the Tacoma LNG Facility between Puget LNG activities
6 and PSE's will be determined by the component ownership share of liquefaction,
7 storage, bunkering, truck loading, and vaporization. These cost allocations are
8 used to calculate the ownership share of Puget LNG and PSE, and it is projected
9 that PSE will have a common 43 percent share. The actual ownership percentage
10 will be based on actual costs once the facility is built. PSE may choose to seek its
11 ownership share of the facility in base rates in a future rate case, in which it will
12 be required to demonstrate prudence and will carry the standard burden of proof.

13 **Q. Does this docket address prudence of the Tacoma LNG Facility?**

14 A. No. This docket and the Settlement Stipulation do not address the prudence of the
15 Tacoma LNG Facility. Indeed, paragraph 36 of the Settlement Stipulation
16 expressly reserves the right of Public Counsel and parties to challenge in future
17 PSE rate proceedings the prudence and recovery of any costs associated with the
18 Tacoma LNG Facility. Additionally, paragraph 36 of the Settlement Stipulation
19 contains PSE's acknowledgement that its burden to prove prudence with respect
20 to the Tacoma LNG Facility is not altered by the Settlement Stipulation.

1 **Q. What is Public Counsel’s position regarding the cost of service provisions**
2 **found in paragraphs 29 through 35 of the Settlement Stipulation?**

3 A. Because the language in paragraphs 29 through 35 of the Settlement Stipulation
4 binds only PSE and does not prejudice for the Commission the issue of cost
5 recovery for the two sections of pipe identified, Public Counsel has no objection
6 to their inclusion in the Settlement Stipulation. However, Public Counsel does not
7 agree with the underlying premise of the agreement made by PSE based on
8 information currently available. Be that as it may, the merits of PSE’s agreement
9 will be presented in a later case, when PSE presents a cost of service study and
10 seeks cost recovery of the Tacoma LNG Facility and its related upgrades. For
11 purposes of this docket, it is sufficient that PSE has made an agreement that binds
12 only itself and not the non- concurring parties or the Commission.

13 **Q. Does Public Counsel find other Settlement Stipulation terms notable?**

14 A. Yes. The Settlement Stipulation includes a requirement that Puget Energy and its
15 affiliates “adequately insure” the non-regulated activity at the Tacoma LNG
16 Facility. Adequate insurance will minimize the potential impact on PSE
17 ratepayers in the event that Puget LNG, or its successors in interest, are no longer
18 able to operate as a going concern. Additionally, the Joint Ownership Agreement
19 governs the user fees that Puget LNG and PSE will pay. If one entity uses more
20 than its allocated share of the facility, it could owe the other entity additional
21 compensation for the usage. In the event that PSE receives a payment from Puget
22 LNG, the benefit would flow through to ratepayers.

1 Another notable term is that the remaining merger commitments are reaffirmed
2 and will continue to apply unchanged under in the Settlement Stipulation. Lastly,
3 PSE has agreed to notify the Commission as soon as practicable if the assets of
4 Puget LNG are sold or otherwise transferred.

5 **Q. What is Public Counsel’s recommendation with respect to the Settlement**
6 **Stipulation?**

7 A. Public Counsel recommends that the Commission adopt the Settlement
8 Stipulation without condition. From Public Counsel’s point of view, the terms
9 taken together in the Settlement Stipulation are in the public interest.

10 **C. Statement of NWIGU**

11 **Q. Mr. Finklea, what concerns or issues did NWIGU have related to this**
12 **proceeding and the Tacoma LNG Facility?**

13 A. As described in more detail in the background section of this testimony, this
14 proceeding is unique, and NWIGU was concerned about testing the assumptions
15 and facts underlying PSE’s proposal to develop the Tacoma LNG Facility in order
16 to determine if this proposal is in the public interest. NWIGU was further
17 interested in understanding whether and how the Tacoma LNG Facility would
18 impact industrial transportation customers who do not otherwise benefit from a
19 peaking facility. As a result, the parties agreed to engage Brown, Williams,
20 Moorhead, & Quinn, Inc. to give the parties independent technical advice and to
21 determine if there are less expensive options available to address the needs of core
22 gas customers. Because of the advice and guidance of Brown, Williams,

1 Moorhead, & Quinn, Inc., the parties were able to address NWIGU's questions
2 and concerns and ultimately negotiated a Settlement Stipulation.

3 **Q. What aspects of the Settlement Stipulation were important to NWIGU?**

4 A. It is important to NWIGU that the Settlement Stipulation requires PSE to hold its
5 customers harmless from the liabilities and financial losses of any non-regulated
6 activity of the Tacoma LNG Facility. This includes the sale or assignment of the
7 assets of Puget LNG to a third party and circumstances in which Puget LNG or
8 any successor to Puget LNG becomes insolvent or is unable to pay its debts when
9 due, discontinues its business or files a petition in bankruptcy, reorganization or
10 similar proceedings.

11 It is also important to NWIGU that PSE's request to share the portfolio benefits
12 associated with the Tacoma LNG Facility between PSE investors and PSE
13 customers was not part of the final Settlement Stipulation. From NWIGU's
14 perspective, this transaction is made possible because of assets paid for through
15 customer rates, and therefore the benefits should flow to gas customers. Further,
16 to the extent PSE receives payment from Puget LNG in excess of its Ownership
17 Share, PSE has agreed that such benefits will flow to PSE customers.

18 **Q. What is NWIGU's position with respect to the Distribution Facility Upgrades**
19 **associated with the Tacoma LNG Facility?**

20 A. It is very important to NWIGU that the Settling Parties acknowledge and agree
21 that the costs of certain distribution system upgrades associated with the
22 Tacoma LNG Facility be allocated in accordance with the principle of cost

1 causation. Based on the information presented, NWIGU and PSE agree that the
2 16-Inch Line and the Bonney Lake Lateral Improvements are required only
3 because of the Tacoma LNG Facility.

4 Because the peaker is used to provide gas supply only to core gas customers, and
5 transportation customers purchase and supply their own gas supply, PSE will
6 separately identify the costs associated with each of the 16-Inch Line and the
7 Bonney Lake Lateral Improvements and record these costs in respective
8 subaccounts of FERC Account 376. Further, in all retail class cost of service
9 studies used to set retail gas sales and transportation delivery tariff rates, PSE has
10 agreed to propose to allocate the costs of each of the 16-Inch Line and the Bonney
11 Lake Lateral Improvements identified and recorded in the subaccount of FERC
12 Account 376 in a manner consistent with the interclass allocation of the costs of
13 the Tacoma LNG Facility. PSE will support the interclass allocation of the
14 Tacoma LNG Facility costs to only sales customers on the basis of their
15 contribution to PSE's total retail design day system peak demand (Dth/day). If,
16 however, a retail natural gas transportation customer of PSE takes retail natural
17 gas transportation service along the 16-Inch Line, then PSE will propose rates to
18 be paid by the specific retail natural gas transportation customer or customers that
19 will recover a portion of the costs associated with the 16-Inch Line.

20 **Q. Does the Settlement Stipulation prejudge the prudence of the Tacoma LNG**
21 **Facility?**

22 A. No. The Settlement Stipulation does not prejudge the prudence of the
23 Tacoma LNG Facility. In fact, the parties expressly reserved the right to challenge

1 in future PSE rate proceedings the prudence and recovery of any costs associated
2 with the Tacoma LNG Facility.

3 **Q. Does NWIGU believe the Settlement Stipulation is in the public interest?**

4 A. Yes. The Settlement Stipulation represents a compromise between the parties
5 based on the information provided in this proceeding, and supported by the
6 analysis of Brown, Williams, Moorhead, & Quinn, Inc. NWIGU supports the
7 Settlement Stipulation, believes it is in the public interest, and requests that the
8 Commission adopt with Settlement Stipulation without modification.

9 **D. Statement of PSE**

10 **Q. Mr. Garratt, please explain how the Settlement Stipulation satisfies PSE's**
11 **interests in this proceeding.**

12 A. Absent waiver or modification of Merger Commitment 56, Puget Energy would
13 not have authority to establish and own Puget LNG. In addition, modifying
14 Merger Commitment 58 clarifies that Puget Energy is permitted to use its debt to
15 finance the Ownership Shares of the Tacoma LNG Facility to be owned by Puget
16 LNG. The existence of Puget LNG and establishment of Ownership Shares of the
17 Tacoma LNG Facility to be owned by PSE and by Puget LNG, respectively, is
18 necessary for PSE to pursue construction and operation of the Tacoma LNG
19 Facility. The proposed modifications to Merger Commitment 56 and Merger
20 Commitment 58 resolve the first of the two issues PSE sought a ruling on in its
21 March 4, 2016, motion to establish a bifurcated proceeding.

1 **Q. Please describe the other ring-fencing provisions addressed in the Settlement**
2 **Stipulation.**

3 A. The remainder of the ring-fencing provisions in the Settlement Stipulation
4 (i.e., the filing of a non-consolidation opinion with the Commission, a
5 commitment to hold PSE's customers harmless from the liabilities and financial
6 losses of any non-regulated activity of the Tacoma LNG facility, the filing of a
7 Joint Ownership Agreement between Puget LNG and PSE, and the PSE
8 commitment to notify the Commission of any potential sale or transfer of all or
9 substantially all of the assets of the Tacoma LNG Facility or of Puget LNG's non-
10 regulated operations) offer additional protections to PSE's customers as related to
11 PSE's ownership and operation of the Tacoma LNG Facility. Protecting its
12 customers is consistent with PSE's interest in this proceeding.

13 **Q. Did the Settling Parties resolve PSE's request that the Commission authorize**
14 **an equal sharing of the projected portfolio benefits associated with the**
15 **Tacoma LNG Facility between PSE investors and PSE natural gas sales**
16 **customers?**

17 A. No. As discussed above, PSE withdrew its request that the Commission authorize
18 an equal sharing of the projected portfolio benefits associated with the Tacoma
19 LNG Facility between PSE investors and PSE natural gas sales customers.
20 Instead, PSE requested that the parties agree upon a final allocation of the capital
21 costs associated with components of the Tacoma LNG Facility so that each of
22 PSE and Puget LNG can account for such capital costs in owning, developing and

1 financing the Tacoma LNG Facility as tenants-in-common. In its initial filing on
 2 August 11, 2015, PSE proposed the following allocation of capital costs to PSE:

Allocation Factor	Percent Allocated to PSE
Liquefaction	10%
Storage	79%
Bunkering	0%
Truck Loading	25%
Vaporization	100%
Common	46%

3 *See Exhibit No. ___(RG-4C) at 1.*

4 During the mediation, the Settling Parties agreed to a revised allocation that
 5 reduced the allocation of truck loading facilities to PSE from 25% to 5%:

Component Ownership Share	PSE	Puget LNG
Liquefaction	10%	90%
Storage	79%	21%
Bunkering	0%	100%
Truck Loading	5%	95%
Vaporization	100%	0%

6 *See Settlement Stipulation at ¶ 26.*

7 The independent consultant retained by the Settling Parties (Brown, Williams,
 8 Moorhead & Quinn, Inc.) recommended that PSE allocate common capital costs
 9 based on the weighted costs of liquefaction, storage, bunkering, truck loading and
 10 vaporization. Although this is different than PSE’s initial proposal for allocating
 11 common capital costs, PSE is agreeable to this recommendation and it is reflected

1 in the Settlement Stipulation. *See* Settlement Stipulation at ¶ 26. Brown,
2 Williams, Moorhead & Quinn, Inc. found that the cost allocators agreed to by the
3 Settling Parties correctly allocate the capital costs between PSE and Puget LNG.
4 *See* Exhibit No. ____ (JCW-2C) at 19.

5 **Q. How does the allocation of capital costs of the Tacoma LNG Facility advance**
6 **PSE's interests?**

7 A. The allocation of capital costs included in the Settlement Stipulation advances
8 PSE's interest by establishing Ownership Shares of the Tacoma LNG Facility to
9 be owned by PSE and by Puget LNG, respectively and allowing each of PSE and
10 Puget LNG to account for such capital costs in owning, developing and financing
11 the Tacoma LNG Facility as tenants-in-common.

12 **Q. What is PSE's position with regard to the allocation of the costs of each of**
13 **the 16-Inch Line and the Bonney Lake Lateral Improvements?**

14 A. As described above, PSE will separately identify the costs associated with each of
15 the 16-Inch Line and the Bonney Lake Lateral Improvements and record those
16 costs in respective subaccounts of FERC Account 376. PSE will propose to
17 allocate the costs of each of the 16-Inch Line and the Bonney Lake Lateral
18 Improvements identified and recorded in the subaccount of FERC Account 376 to
19 only sales customers on the basis of their contribution to PSE's total retail design
20 day system peak demand and not to transportation customers, except to the extent
21 a transportation customer also takes retail natural gas transportation service along
22 the 16-Inch Line. PSE believes this cost allocation is consistent with the principle

1 of cost causation and it supports PSE's interest in developing and owning the
2 Tacoma LNG Facility as a tenant-in-common with Puget LNG.

3 **Q. What is PSE's recommendation with respect to the Settlement Stipulation?**

4 A. PSE recommends that the Commission adopt the Settlement Stipulation without
5 condition. From PSE's point of view, the terms of the Settlement Stipulation are
6 in the public interest.

7 **V. CONCLUSION**

8 **Q. Does this conclude your joint testimony?**

9 A. Yes.