

**EXH. SEF-8T
DOCKETS UE-170033/UG-170034
2017 PSE GENERAL RATE CASE
WITNESS: SUSAN E. FREE**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**Docket UE-170033
Docket UG-170034**

**PREFILED SUPPLEMENTAL DIRECT TESTIMONY
(NONCONFIDENTIAL) OF**

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

APRIL 3, 2017

PUGET SOUND ENERGY

**PREFILED SUPPLEMENTAL DIRECT TESTIMONY
(NONCONFIDENTIAL) OF
SUSAN E. FREE**

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1 **PUGET SOUND ENERGY**

2 **PREFILED SUPPLEMENTAL DIRECT TESTIMONY**
3 **(NONCONFIDENTIAL) OF**
4 **SUSAN E. FREE**

5 **I. INTRODUCTION**

6 **Q. Are you the same Susan E. Free who provided prefiled direct testimony in**
7 **these dockets on behalf of Puget Sound Energy (“PSE”)?**

8 A. Yes, I filed prefiled direct testimony, Exh. SEF-1T, and six supporting exhibits,
9 Exh. SEF-2 through Exh. SEF-7. I sponsor the following exhibits in support of
10 this prefiled supplemental direct testimony: Exh. SEF-9 through Exh. SEF-11.

11 **Q. Please summarize your prefiled supplemental direct testimony.**

12 A. This prefiled supplemental direct testimony presents an update to the natural gas
13 revenue requirement to reflect changes that have occurred since the filing in
14 January. I will also provide updated exhibits that are impacted as a result of these
15 changes.

16 These changes to the gas pro forma and restating adjustments result in a reduction
17 of \$179,880 to PSE’s total natural gas base rate revenue deficiency, from the
18 \$22,992,570, set forth in PSE’s January 13, 2017 filing to \$22,812,690 in this
19 supplemental filing. This supplemental filing represents an average increase of
20 5.2 percent in base rates (or gross increase to retail sales customers), which is
21 lower than the 5.3 percent increase in base rates requested in PSE's January 13,
22 2017 filing.

1 **II. UPDATE TO NATURAL GAS REVENUE REQUIREMENT**

2 **Q. Please provide a description of the changes that occurred since the original**
3 **filing and their impacts on the natural gas base rate revenue deficiency.**

4 A. My Exh. SEF-9 presents similar information to Exh. SEF-3 in this proceeding,
5 after being updated for the revisions as described later in this prefiled
6 supplemental direct testimony. Only page one of this exhibit has changed since
7 the original filing. The overall natural gas base rate revenue requirement
8 deficiency is shown on page one of Exh. SEF-9. The schedule shows the test
9 period pro forma and restated rate base, line 1, rate of return, line 2, operating
10 income requirement, line 4 and base rates revenue requirement deficiency, line
11 10.

12 Based on \$1,760,693,633 invested in rate base, a 7.74% rate of return and
13 \$122,123,553 of pro forma base rate operating income, PSE has an overall base
14 rate revenue requirement deficiency for natural gas revenues of \$22,812,690.

15 **Q. Please describe Exh. SEF-10.**

16 A. My Exh. SEF-10 presents similar information to Exh. SEF-4 in this proceeding,
17 after being updated for the revisions as described later in this prefiled
18 supplemental direct testimony. The first page of Exh. SEF-10 shows the
19 calculation of the natural gas base rate deficiency. This page presents the
20 unadjusted operating natural gas income statement and average of monthly
21 averages (“AMA”) rate base for PSE as of September 30, 2016 (the test year) in
22 the column labeled Actual Results of Operations. The various line items are then

1 adjusted by the summarized pro forma and restating adjustments, shown in the
2 third column. The fourth column is the adjusted results of operations for the test
3 period, and this column is used to calculate the natural gas base rate revenue
4 deficiency. In the second to last column, the natural gas base rate revenue
5 deficiency is added to the adjusted test period income statement, and the impact
6 on the operating income statement and rate base is presented in the final column,
7 which shows that the net operating income divided by the test period rate base
8 results in the requested rate of return.

9 Pages two through four of this exhibit present a summary schedule for all of the
10 pro forma and restating adjustments. The first column of numbers on page two is
11 the unadjusted net operating income and rate base for the test year. Each column
12 to the right presents a pro forma or restating adjustment to net operating income
13 or rate base. For the adjustments that have changed since the January 13, 2017
14 filing, the columns have been marked as "REVISED". Each of these adjustments
15 has a supporting schedule, which is referenced by the exhibit number and page
16 number shown in each column title.

17 The second to the last column titled "Total Adjustments", shown on page four of
18 the exhibit, summarizes all of the adjustments. The final column represents the
19 adjusted test period results, which are the basis for calculating the natural gas base
20 rate revenue deficiency.

1 **Q. Please explain Exh. SEF-11.**

2 A. All pages in Exh. SEF-11 are the supporting schedules for adjustments that are
3 common between electric and natural gas operations. These pages are similar to
4 Exh. SEF-6, filed with my prefiled direct testimony and exhibits.¹

5 **Q. Have you prepared a reconciliation between the natural gas base rate**
6 **revenue deficiency filed in January 2017 and the natural gas base rate**
7 **revenue deficiency filed in this supplemental filing?**

8 A. Yes. The following table shows the impact of each of the revised pro forma and
9 restating adjustments.

Description	Revenue Deficiency (in millions)
As filed January 13, 2017	\$ 23.0
13.08 Bad Debt Expense	(0.3)
All Other Adjustments	0.2
Updated Revenue Deficiency	\$ 22.9

10 **III. UPDATES TO COMMON ADJUSTMENTS**

11 **Q. Please explain the changes that were made to the adjustments that are**
12 **common to electric and gas operations as shown in Exh. SEF-11.**

13 A. The following is a description of the changes made to the adjustments that are
14 common to electric and gas operations:

¹ Exh. SEF-5, which presented the test year financial statements, has not changed since the original filing.

1 **Adjustment No. 11.02 Temperature Normalization: Exh. SEF-11, page 2**

2 In PSE's response to WUTC Staff Data Request No. 006, PSE witness Dr. Chun
3 Chang discusses how errors were discovered in the gas rate-schedule modeling
4 database after PSE filed the direct testimony on January 13, 2017. A more
5 detailed discussion of the changes is included in the Prefiled Supplemental Direct
6 Testimony of Mr. Jon A. Piliaris, Exh. JAP-34T. This adjustment continues to be
7 calculated following its original methodology. After incorporating these
8 corrections, this adjustment now increases net operating income by \$16,046,445.

9 **Adjustment No. 11.08 Bad Debt Expense: Exh. SEF 11, page 8**

10 Please see the Prefiled Supplemental Direct Testimony of Ms. Katherine J.
11 Barnard, Exh. KJB-10T, for a detailed discussion of the changes to this
12 adjustment. This adjustment continues to be calculated following its original
13 methodology. This adjustment now increases net operating income of \$35,240.

14 **Adjustment No. 11.09 Incentive Pay: Exh. SEF-11, page 9**

15 As originally discussed on page 15 of my prefiled direct testimony, Exh. SEF-1T,
16 the incentive adjustment is being revised to update the restated amount of
17 incentive pay and the related payroll tax impacts for the most current period. This
18 adjustment continues to be calculated following its original methodology. This
19 adjustment now reflects the operations and maintenance portion of the four-year
20 average of incentive payouts for the period 2014 through 2017, which are related
21 to calendar years 2013 through 2016. This change has increased the restated
22 amount of incentive pay from \$3,265,364 to \$3,423,363. Additionally, the impact

1 of this update changes the payroll taxes. After updating for these changes, this
2 adjustment now increases net operating income by \$104,023.

3 **Adjustment No. 11.11 Interest on Customer Deposits: Exh. SEF 11, page 11**

4 As originally discussed on page 17 of my prefiled direct testimony, Exh. SEF-1T,
5 the interest on customer deposit adjustment is being updated for the interest rate
6 that became effective January 15, 2017. This adjustment continues to be
7 calculated following its original methodology. The interest rate increased from
8 0.49% to 0.80%. After updating for this change, the adjustment now decreases
9 net operating income by \$50,137.

10 **Adjustment No. 11.16 Wage Increase: Exh. SEF-11, page 16**

11 As originally discussed on pages 20 and 21 of my prefiled direct testimony, Exh.
12 SEF-1T, this adjustment is being updated for the actual wage increase that
13 because effective on March 1, 2017 as well as for the March 1, 2017 information
14 used in the slippage calculation. One more update to this adjustment has been
15 made to incorporate the new FICA and SUTA wage caps.

16 1. Update to the actual wage increase:

17 The March 1, 2017 estimated three percent increase was updated to
18 reflect the actual wage increase of 2.85%.

19 2. Updates to the slippage calculation:

20 The updates to the slippage calculation changed the average salary
21 change per non-union employees for March 31, 2017 from 2.27% to

1 1.47% which changed the overall four-year average salary change per
2 non-union employees from 2.40% to 2.18%. Additionally, the
3 estimated average wage increase granted for March 31, 2017 of 3.00%
4 was updated to the actual average wage increase granted of 2.85%.
5 These updates changed the overall average wage increase given at the
6 beginning of each year from 3.04% to 3.00%. The 2.18% average
7 change in wages between the beginning and end of each year is now
8 72.73% of the 3.00% average wage increase given at the beginning of
9 each year, which decreased from the 78.78% in the original filing.
10 Additionally, decreasing the estimated average wage increase granted
11 for March 31, 2017 from 3.00% to the actual of 2.85% decreased the
12 compound wage increase from 4.25% to 4.10%. Applying the overall
13 slippage percentage of 72.73% to the 4.10% compound wage increase
14 as of March 31, 2017 now yields an effective wage increase of 2.98%,
15 down from the 3.35% included in the original filing.

16 3. FICA and SUTA wage caps:

17 For purposes of calculating the payroll taxes in this adjustment, the
18 FICA taxable wage base limit increased from \$118,500 to \$127,200
19 and the SUTA taxable wage base limit increased from \$44,000 to
20 \$45,000. Both of these changes were effective January 1, 2017.

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This adjustment continues to be calculated following its original methodology.

After updating for the above changes, the adjustment now decreases net operating income by \$907,409.

Adjustment No. 11.17 Investment Plan: Exh. SEF-11, page 17

This adjustment continues to be calculated following its original methodology and is being updated solely due to the change to the effective wage increase in Adjustment 11.16 Wage Increase. After updating for this change, the adjustment now decreases net operating income by \$46,689.

IV. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.