Exh. ECW-1T
Dockets UE-170033/UG-170034
Witness: E. Cooper Wright

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**DOCKETS UE-170033 and UG-170034 (*Consolidated*)**

TESTIMONY OF

E. Cooper Wright

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Adjustments 13.12 South King Service Center, 14.03 Wild Horse, 14.09 Goldendale Capacity Upgrade, 14.10 Mint Farm Capacity Upgrade, 14.11 White River, and Rate Base Additions Snoqualmie Falls and Buckley Natural Gas Utility.

June 30, 2017

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I. INTRODUCTION

Q. Please state your name and business address.

A. I am E. Cooper Wright. My business address is 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a Regulatory Analyst in the Conservation and Energy Planning Section of the Regulatory Services Division.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since August 2016.

Q Would you please state your educational and professional background?

A. In 1998, I volunteered for naval service in the United States Navy as a nuclear operator aboard submarines. For 10 years my duties included operating and maintaining steam plant, seawater desalinization, and air-conditioning equipment. After completing my service obligation, I graduated from the University of Idaho in 2010 with a Bachelor of Science degree in Political Science, and then worked as a project coordinator in Schweitzer Engineering Laboratories' Engineering Services department. In 2016, I graduated from Texas A&M University with a Master of Public Service and Administration degree, with an emphasis on energy, environmental, and technology policy. My studies included courses in energy markets, energy policy, natural resource economics, finance, and econometric analysis. Soon after graduation, I joined the Washington Utilities and Transportation Commission, and have since completed the Public Utilities Reports Guide's "Principles of Public Utilities Operations and Management" course on February 9, 2017.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. Please explain the purpose of your testimony.

A. My testimony has two purposes. In the first portion of my testimony, I present Staff's response to a majority of Puget Sound Energy's ("PSE" or "the Company") pro forma plant addition adjustments.

Common Adjustments:

- 13.21(Electric[1]) and 11.21 (Gas[2]) South King Service Center,

Electric Only Adjustments:

- 14.03 (Electric) Wild Horse, [3]
- 14.09 (Electric) Goldendale Capacity Upgrade, [4]

[1] Barnard, Exh. KJB-1T at 39:20 to 40:10, and Molander, Exh. JLM-1T (testifying to the actual due diligence process in purchasing the site).
[2] Free, Exh. SEF-1T at 27:1 to 29:15.
[3] Barnard, Exh. KJB-1T at 43: 14-20.
[4] Roberts, Exh. RJR-1CT at 61:9 to 67:14.

- 14.10 (Electric) Mint Farm Capacity Upgrade, [5] and
- 14.11 (Electric) White River. [6]

Second, my testimony discusses the prudency of two major PSE plant additions placed into service before the beginning of the test year.

- the remaining costs to complete the Snoqualmie Falls project, and
- the acquisition of the Buckley natural gas utility.

The relevant Company witnesses for these major plant additions are Mr. Roque Bamba, Jr.,[7] and Mr. Michael Mullally,[8] respectively.

Q. Which pro forma plant addition adjustments are uncontested by Staff?

A. The following adjustments are uncontested by Staff:

- 13.21(Electric) and 11.21 (Gas) South King Service Center,
- 14.03 (Electric) Wild Horse,
- 14.09 (Electric) Goldendale Capacity Upgrade, and
- 14.10 (Electric) Mint Farm Capacity Upgrade.

Q. Which pro forma plant addition adjustments are contested by Staff?

A. The following adjustment is contested by Staff:

- 14.11 (Electric) White River.

[5] Roberts, Exh. RJR-1CT at 61:9 to 67:14.
[6] Weatherbee, Exh. PKW-1CT at 76:10 to 82:15.
[7] Bamba, Exh. RB-1T.
[8] Mullally, Exh. MM-1HCT.

Q. Please summarize Staff's recommendations for pro forma plant additions.

A. Staff does not contest adjustments for the South King Service Center (Electric 13.21, Gas 13.21), Goldendale Capacity Upgrade (Electric 14.09), and Mint Farm Capacity Upgrade (Electric 14.10) because these additions are used and useful and were prudently incurred.

Similarly, Staff does not contest the adjustment for Wild Horse Solar (Electric 14.03) because it removes the effect of the project from rate base.

Staff also recommends that the Commission reject the White River adjustment (Electric 14.11) to reduce the amortization period for this regulatory asset to three years because the proposal is an unnecessary revision to a prior Commission directive.[9] Staff witness Mr. Chris McGuire provides additional discussion about matching plant life to depreciation and amortization periods.[10]

Q. Please summarize Staff's prudency review for the Snoqualmie Falls project and the acquisition of the Buckley natural gas utility.

A. With this rate case, the Company submitted two major plant additions placed into service prior to the test year. The first pertains to completing the Snoqualmie Falls Project. The second asks the Commission to review the Company's purchase of the city of Buckley, Washington's natural gas utility. Staff accepts PSE's presentation, finds that these projects are prudent, and recommends the Commission include both

[9] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Docket UE-031725, Order 15, ¶ 44 (June 7, 2004).
[10] McGuire, Exh. CRM-1T at 9:9 to 12:7.

the completed Snoqualmie Falls Project costs and Buckley natural gas utility acquisition in consumer rates.

Snoqualmie Falls Project: In 2009, the Company completed the licensing process with the Federal Energy Regulatory Commission (FERC) to refurbish the century-old Snoqualmie Falls hydroelectric facility. By 2013 the refurbishment was complete enough to place the hydroelectric generators in service, but some aspects of the project were not yet complete. In the Company's 2013 PCORC, the costs up to that point were found prudent and allowed to be recovered in rates. Any future unknown costs were left to a future rate case. The Company is now proposing to recover $25 million in known costs.

Buckley Natural Gas Utility: In 2013, the city of Buckley, WA issued an RFP for bids to purchase their municipally-owned natural gas utility. The Company responded with a five-month-long due diligence review of the system, and concluded that an offer should be submitted. On June 26, 2014, after receiving Commission approval to expand their service territory to include the city of Buckley, the Company purchased the utility.

III. PRO FORMA PLANT ADDITIONS

A. Pro Forma Plant Additions Policy and Standards

Q. Please describe Staff's standard for evaluating pro forma plant adjustments in this case.

A. Staff considered four questions for reviewing pro forma adjustments:

1. If the *pro forma* adjustment is to add new plant, is it "major?"
2. Are the costs associated with the adjustment known and measurable?
3. If the *pro forma* adjustment is to add new plant, has it been shown that the new plant will be used and useful to serve Washington customers?
4. Have the costs related to the adjustment been prudently incurred?

If the answer to all four of the above questions is "yes", then Staff would generally support including the adjustment in rates.

Q. Is Staff adhering to recent Commission guidance on how to analyze and answer the above four questions?

A. Yes. Although Staff has tailored its review to the specific facts and circumstances in the current rate case, recent Commission orders and guidance strongly inform Staff's analysis.

First, the Commission recently found it reasonable to define a major plant addition as at least 0.5 percent of the utility's rate base.[11] However, Staff found

[11] *Wash. Utils. & Transp. Comm'n. v. Avista Corp.*, Dockets UE-150204 and UG-150205, Order 05, ¶ 40 (Jan. 6, 2016).

smaller adjustments that would otherwise be reasonable, such as Distribution plant adjustments, would not be captured if the threshold were only applied to gross rate base. Therefore, Staff refined the standard in this case, applying the one-half of one percent threshold to net utility plant in service by category instead of rate base.[12] Staff believes the refinement will allow a better review of plant adjustments in this, and future, rate cases.

Second, the Commission provided a definition of the known and measurable standard as recently as 2009.[13] Third, the used and useful standard is based in statute,[14] and the Commission provided further recent guidance by stating that the new resource must be a benefit to ratepayers in Washington.[15] Fourth, the Commission described an analytical framework for determining prudence under a reasonableness standard.[16]

[12] The categories are Production, Distribution, Transmission, and General, as reported on the most recent FERC reports. 2015 Puget Sound Energy, Inc., FERC Form 1 and Form 2.
[13] *Wash. Utils. & Transp. Comm'n. v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG-090705, Order 11, ¶ 26 (April 2, 2010) ("The known and measurable test requires that an event that causes a change in revenue, expense or rate base must be *known* to have occurred during, or reasonably soon after, the historical 12 month of actual results of operations, and the effect of that event will be in place during the 12-month period when rates will likely be in effect. Furthermore, the actual amount of the change must be *measureable*. This means the amount typically cannot be an estimate, a projection, the product of a budget forecast, or some similar exercise of judgement – even informed judgement – concerning future revenue, expense or rate base.")
[14] RCW 80.04.250.
[15] *Wash. Utils. & Transp. Comm'n. v. PacifiCorp, d/b/a Pacific Power & Light Co.*, Docket UE-050684, Order 04 (April 17, 2006), at ¶ 50. ("We interpret the phrase "used and useful in this state for service in this state" to mean benefits to ratepayers in Washington either directly (e.g., flow of power from a resource to customers) and/or indirectly (e.g., reduction of cost to Washington customers through exchange contracts or other tangible or intangible benefits)."
[16] *Wash. Utils.& Transp. Comm'n v. Puget Sound Energy, Inc.*, Docket UE-031725, Order 12, ¶¶ 19-20 (April 7, 2004).

Q. Please explain how Staff defined the threshold for "major plant additions" in this case.

A. For this rate case, Staff applied a one-half of one percent threshold to net utility plant in service by category as a general guideline. Therefore, in general, for a plant addition to be considered "major" it must be greater than the following thresholds for each category:

	PSE 2015 FERC FORMS 1 and 2	
Utility Net Plant in Service (UNPIS)	Electric	Gas
Net Production	$2,351,405,996	$33,224,000
Production Threshold	$11,757,030	$166,120
Net Transmission	$958,165,503	-
Transmission Threshold	$4,790,828	
Net Distribution	$2,143,887,388	$2,007,336,321
Distribution Threshold	$10,719,437	$10,036,682
Net General	$130,087,378	$17,189,136
General Threshold	$650,437	$85,946

Q. How has Staff applied the known and measurable standard?

A. Staff applies the known and measureable standard to mean that Staff can verify the event occurred and can accurately measure the impact of the event prior to filing testimony in this case. Staff's application corresponds to Commission rules and recent guidance.[17]

[17] WAC 480-07-510(3)(iii). *Wash. Utils & Transp. Comm'n v. Avista Corp.*, Docket UE-090134, Order 10 (Dec. 22, 2009), ¶ 45.

Q. How has Staff applied the used and useful standard?

A. Staff applies the used and useful standard to mean that the plant must be in service and providing benefit to Washington ratepayers prior to Staff's filing testimony in this case. Staff's application is again consistent the applicable rules and recent Commission guidance.[18]

Q. What factors determine if an acquisition meets the prudence standard and is allowed to be included in rates?

A. There is not an explicit criteria upon which to base a determination. Instead, the Commission has used an evolving suite of factors when determining prudence, and in recent cases four criteria have been consistently applied.[19]

1. *Need for the Resource:* The utility must determine the need and cost effectiveness of acquiring or constructing the potential resource.
2. *Evaluation of Alternatives:* The utility must analyze the resource alternatives using current information.
3. *Communication With and Involvement of the Company's Board of Directors:* In the absence of the board of directors' authorization, the Commission evaluates prudence by asking "what would a reasonable board of directors and company management have decided given what

[18] RCW 80.28.250. *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Docket UE-090134, Order 10, ¶ 48, (Dec. 22, 2009).
[19] Id., ¶ 20.

they knew or reasonably should have known to be true at the time they made a decision."[20]

4. *Adequate Documentation:* The utility must keep adequate contemporaneous records that will allow the Commission to evaluate the Company's decision-making process.

B. Uncontested Pro Forma Plant Additions

1. 13.21 (Electric) and 11.21 (Gas), South King Service Center

Q. What is the South King Service Center?

A. The South King Service Center is a customer service center in South King County. Historically, PSE leased the facility from a company called Ranch Associates. In 2015, Ranch Associates notified PSE that it intended to sell the property. PSE then initiated a review process that culminated with PSE purchasing the site from Ranch Associates. Adjustments 13.21 (Electric) and 11.21 (Gas) account for PSE's purchase.

Q. Does Staff support including the South King Service Center purchase in rates?

A. Yes. Staff does not contest the South King Service Center purchase because the facility is necessary for PSE to meet its customer service obligations. The Company's decision to purchase the South King Service Center was both financially sensible and thoroughly documented. PSE began to review options shortly after

[20] *Wash. Utils. & Transp. Comm'n. v. Puget Sound & Light Co.*, Cause No. U-83-54, Fourth Supplemental Order at 32 (Sept. 28, 1984).

notification from Ranch Associates. To evaluate those options, the Company commissioned a study by the commercial real estate company CBRE. The CBRE study evaluated five potential scenarios and recommended that PSE purchase the South King Service Center site.[21]

Q. Did PSE adequately document the decision-making process related to the South King Service Center?

Yes. The Company adequately documented both the process and the final decision to purchase the South King Service Center. The above-mentioned CBRE study is an independent third party study from a recognizable consultant with clear expertise in the commercial real estate market in South King County. Staff also reviewed a several-hundred-pages-long structural analysis that documented the condition of the property. PSE also has, and provided to Staff, the internal corporate policy manual concerning real estate purchases. The manual sets out standards for the Company's internal business review and feasibility processes when purchasing real estate. PSE also provided the memoranda approving the purchase of the site with signatures from the appropriate corporate managers, which all complied with the Company's corporate policy manual. Given the extensive review, independent studies, and adherence to the Company's documented corporate processes, a reasonable board of directors would approve of the Company's decision to purchase the South King Service Center.

[21] Molander, Exh. JLM-3.

Q. What is Staff's recommendation?

A. Staff recommends that the Commission find the purchase of the South King Service Center as reasonable because the company demonstrated that there was a need to purchase the facility, alternatives were considered, a reasonable board of directors would have made this decision, and contemporaneous documentation of the process were kept.

2. 14.03 (Electric) Wild Horse

Q. Please summarize Staff's recommendation for the Wild Horse Adjustment.

A. Staff does not contest the Wild Horse Adjustment because it removes the effect of the site upon rates. The company is not seeking to recover project costs in this proceeding.

3. 14.09 (Electric) Goldendale and 14.10 (Electric) Mint Farm Capacity Upgrades

Q. Please summarize why Staff does not contest the Goldendale and Mint Farm Capacity Upgrades.

A. The upgrades at the Goldendale and Mint Farm combined cycle turbine facilities will benefit PSE customers in three ways. The primary benefit is the upgrades increase the capacity of the units. In addition to that increased capacity, the upgrades also increase the units' fuel efficiency and functionality.

Q. Did PSE need the capacity upgrades?

A. Yes. The need for these upgrades is established by the Company's most recent Integrated Resource Plan, where PSE recognized the need for increased generation capacity as demand grew within their service territory.[22] The Commission also acknowledged the Company's 2015 IRP.

Q. Are the upgrades cost effective in comparison to alternatives?

A. Yes. Upgrading Goldendale and Mint Farm to new technology was only marginally more expensive than maintaining the existing equipment. Moreover, the new technology came with significant capacity upgrades, more efficient combustion, and improved flexibility in operating the plant that was not possible with the prior equipment. It is also important to note that the Company did not examine a comparable Power Purchase Agreement because the Goldendale and Mint Farm upgrades were offered during the normal turbine maintenance cycle. By performing the upgrades during regularly scheduled maintenance evolutions, the cost of the upgrades were mitigated because expenditures overlapped and substantially replaced the regular costs. In timing the upgrades in this manner, the upgrades become even more cost effective.

[22] Puget Sound Energy 2015 Integrated Resource Plan, UE-141170 pg. 6-11.

Q. What was the Company's approval process?

A. The Company presented expenditures to the Energy Management Committee and subsequently included those same expenditures in the 2016 and 2017 Capital Plans.[23] The Company's Board of Directors then approved each year's plan. Further, the Company provided contemporaneous documentation of the decision making process in the form of an issues log and Board of Director's meeting minute excerpts. Company witness Mr. Roberts also included a list of maintenance expenses in his testimony.[24]

Q. What is Staff's recommendation?

A. Staff recommends that the Commission find the purchase of the Goldendale and Mint Farm upgrades as reasonable because the Company demonstrated that there was a need for more production, appropriate alternatives were considered, and the board of directors approved the decision, and maintained thorough contemporaneous documentation of the process.

C. Contested Pro Forma Plant Additions

1. 14.11 (Electric) White River: Surplus Properties and Amortization

[23] Goldendale upgrades were included in the 2016 Capital Plans. Mint Farm upgrades were included in the 2017 Capital Plans.
[24] Roberts, Exh. RJR-26C.

Q. Please provide a summary of the White River Regulatory Asset.

A. In 2004, due to an opinion issued by the National Oceanic and Atmospheric Administration - Fisheries, PSE discontinued operation at the White River Hydroelectric Project. PSE then decided to sell the property because electrical generation was no longer economically feasible. A Commission order subsequently allowed PSE to transfer unrecovered costs of the project into FERC 182.2 "Unrecovered Plant and Regulatory Study Costs" and make preparations to sell the property.[25] In 2009, PSE sold the majority of the property and water rights to the Cascade Water Alliance (CWA).[26] By the filing of this rate case, the Company had completed selling of the property intended to be sold to other parties.

Q. Please summarize the Company's proposed pro forma adjustment regarding White River.

A. This adjustment decreases test year rate base by $4,108,724, and decreases net operating income by $3,288,310. The Company is requesting five changes within this adjustment:

1. Allow for full recovery of the regulatory asset.
2. Transfer property retained for utility operations and facilities use from FERC 182.2 "Unrecovered plant and regulatory study costs" into FERC 101 "Electric plant in service."

[25] *Wash. Utils. & Transp. Comm'n. v.Puget Sound Energy, Inc.*, Dockets UE-040640, et. al., Order 06, ¶ 252 (February 18, 2005).
[26] *Wash. Utils. & Transp. Comm'n. v.Puget Sound Energy, Inc.*, Dockets UE-090704 and UG-090705, Order 11, ¶ 344 (April 2, 2010).

3. Transfer property retained as a least cost option environmental remediation from FERC 182.2 "Unrecovered plant and regulatory study costs" into FERC 101 "Electric plant in service."
4. Transfer property retained for future habitat mitigation from FERC 182.2 "Unrecovered plant and regulatory study costs" into FERC 105 "Electric plant held for future use."
5. A three year amortization period for the balance of White River regulatory assets beginning January 1, 2018.[27]

Q. Does Staff contest any of the property transfers?

A. No. Staff has reviewed the property transfers and has found them reasonable because each transfer meets the definition of each destination FERC account. The Company's property transfers reflect good accounting practice.

Q. Why is Staff contesting this adjustment?

A. Staff contests that portion of the adjustment related to the Company's request to accelerate the amortization period of deferred unrecovered regulatory asset costs. The Commission approved the current amortization period in a previous order with the caveat "to continue amortizing these costs at the current depreciation rate until better information is known related to sales and salvage values associated with this property."[28] PSE's reasons for changing the amortization period are the relative size

[27] Barnard, Exh. KJB-1T at 59: 9-10.
[28] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Docket UE-031725, Order 15, ¶ 44 (June 7, 2004).

of the remaining deferral balance and the length of time the Company has held the regulatory asset. The remaining deferral balance and the length of time the Company has had the asset on its books do not have anything to do with new information for the White River property's sales and salvage value. Therefore, the company has not shown any new information that would alter the Commission-established amortization rate.

Q. What is Staff's recommendation for White River?

A. Staff recommends transferring property to the appropriate FERC accounts as requested by the Company. However, Staff recommends the Commission retain the current amortization schedule for White River because the Company has not provided any knowledge gained from sale and salvage of White River property and thus has not provided any justification for altering the Commission's prior order. Staff's recommendation has zero impact on electric net operating income and decreases rate base by ($2,464,569).

IV. RATE BASE ADDITIONS

A. Snoqualmie Falls Project

Q. What is the Snoqualmie Falls Project?

A. The Snoqualmie Falls Project is a PSE effort to refurbish the century-old Snoqualmie Falls Hydroelectric Plant. The project was granted a FERC license in 2004, and construction began in 2009. By September 2013, restoration work to both Plant 1 and Plant 2 was complete enough to return them to commercial operation. The Company has been completing the remaining work since 2013.

A favorable Commission prudency determination on pursuing a Federal Energy Regulatory Commission (FERC) license was made in PSE's 2005 power cost only rate case (PCORC), as was the majority of the project's costs in the 2013 PCORC.

Q. What is PSE's request for the Snoqualmie Falls Project in this GRC?

A. For this GRC, the issue is the additional cost the Company incurred after 2013 PCORC to complete the project to FERC specifications. As of this filing, the project is used and useful, and the project costs are now known and measurable.

Q. Describe the additional costs beyond the 2013 PCORC.

A. The costs can be categorized into one of the three following categories:

1. Completion of work and close-out for changes consistent with PSE's 2013 PCORC, related to geotechnical conditions, electrical and mechanical systems, and the related schedule extensions.
2. PSE staff support for schedule extensions, plant commissioning and completion of punch list items.

3. Grouting, concrete application (shotcrete) and drain installation in select areas of the Plant 1 elevator shaft to control excessive water seepage through the bedrock.

Q. Were the extra costs outside of the scope of work set by the FERC license?

A. No. The expenditures were consistent with the scope of work set within the FERC licensing orders.[29]

Q. How does the final cost compare with the 2009 initial project costs?

A. In 2009, PSE performed an economic analysis of this project and established an assumed a total cost of $317 million.[30] At the close of the project, the Company provides a final update to the known and measurable project costs of $329,610,147. The final project cost is four percent greater than the initial projection.

Q. Why were some of the costs allowed in the 2013 PCORC?

A. In the 2013 PCORC, Commission Staff cited the forward-looking nature of the PCORC and expectations that the plant additions would be completed prior to the ending of the associated rate year.

[29] Order Issuing New License, 107 FERC ¶ 61,331 (June 29, 2004), 110 FERC ¶ 61,200 (March 1, 2005), and 127 FERC ¶ 62,174 (June 1, 2009).
[30] Bamba, Exh. RB-1T at 14:20.

Q. Why were the remaining costs not allowed in the 2014 PCORC?

A. In that rate case, some of the work on the project upgrades was still not complete. The Settlement Stipulation delayed consideration of the final costs until they were completed and known and measurable.[31]

Q. As costs for the project increased, was there any consideration of an alternative?

A. The only alternative to completing the project was abandonment of the site. The FERC license, once granted, carries an obligation to complete the terms of the project. Further, abandonment would require plant decommissioning, which in turn would entail extensive expenditures to return the site to a pre-project condition. The Company believed the public interest was best served by completing the project, and rejected abandonment as an option.[32]

Q. Was there a need for the additional costs incurred after the 2013 PCORC?

A. Yes. The additional costs ensure compliance with FERC specifications outlined during the 2009 licensing process. If the Company had not incurred the post-2013 costs, PSE would not have been able to complete the terms of the licensing renewal.

[31] *Wash. Utils. & Transp. Comm'n. v. Puget Sound Energy, Inc.*, Docket UE-141141, Settlement Stipulation, ¶ 12 (September 5, 2014).
[32] Bamba, Exh. RB-1T at 12:3.

Q. Were any efforts made by PSE to control costs?

A. Yes. At the beginning of the project, a baseline for project scope, budget, and schedule was established. As the project progressed, changes to any aspect of the baseline was reviewed and approved by the PSE Project Management and Projects Controls staff.[33] Additionally, as costs mounted, in 2012 the Company triggered a clause within their contractor's contract to set a fee cap. For all work remaining, the contractor performed their work at cost. Further, in August 2013, PSE negotiated a direct fee reduction of $1 million.[34]

Q. Did PSE keep adequate, contemporaneous records that allow the Commission to evaluate the Company's decision-making process?

A. Yes. The Company provided a change order log, which showed the process of approving changes to the project's baseline. The log describes each change order by a change description, status, and price negotiations. The log includes every change order for the post-2013 costs.

Q. Were the PSE Board of Directors involved in the approval of the changes?

A. Not directly. All of the changes were within the purview of PSE Project Management and Project Controls staff.

[33] Bamba, Exh. RB-1T at 11:3.
[34] Id., at 11:19.

Q. Please summarize your conclusions about the Snoqualmie Falls adjustment.

A. Staff recommends that the Commission find the Snoqualmie Falls remaining project costs as reasonable and include the plant in rate base. The project's costs were necessary due to FERC licensing requirements, the Company did not have any viable alternatives to following those licensing requirements, and the Company thoroughly documented relevant information and the decision making process.

B. Buckley Gas System Acquisition

Q. Please provide context for the sale of the Buckley Natural Gas Utility.

A. On January 8, 2013, the City of Buckley City Council approved a resolution declaring the city's intent to sell the natural gas system and issuing a request for proposals (RFP) to that effect. Later in the month, Buckley published a RFP that provided information on the system, proposal requirements, and a due date of June 13, 2013.[35]

Q. How did PSE respond to the RFP issued by the City of Buckley?

A. Upon the publication of the RFP, PSE began an evaluation of the Buckley natural gas utility. The team included personnel from PSE engineering and operations, gas supply and transportation, community and customer relations, legal, insurance, real estate, environmental, rates and regulatory, accounting, human resources, financial planning and strategic initiative groups. The assessment included reviewing

[35] Mullally, Exh. MM-3.

inspection and Commission action reports, current maintenance records, and field inspections including a leak survey. The team used a Discounted Cash Flow method to establish a range for the worth of the Buckley gas utility. The value range they established was $5.0 to $6.4 million, and PSE eventually purchased the system for approximately $5.4 million. Additionally, the Company's analysis found that the system had a depreciable life of 36 years, and with a payback period of 23 years, the result of the evaluation was a recommendation to the PSE Energy Management Committee to purchase the system.[36]

Q. Did PSE fulfill the municipal sale of property requirements?

A. Yes. PSE tendered an offer to the City of Buckley to purchase the natural gas system for $5.4 million.[37] Per the requirements of RCW 35.94.020, the Buckley City Council approved Ordinance No. 08-13 which accepted the bid, and placed the matter for approval by the Buckley electorate. On November 5, 2013, during a special election, 86 percent of Buckley voters approved Proposition 1: Sale of Natural Gas Utility to Puget Sound Energy, Inc.

Q. Did the Commission review the expansion of PSE's service area?

A. Yes. On June 26, 2014, the Commission amended PSE's Certificate of Public Convenience and Necessity to Operate a Gas Plant for Hire to include the City of

[36] Mullally, Exh. MM-4C at 12.
[37] Mullally, Exh. MM-5.

Buckley. However, the inclusion of Buckley was contingent upon the closing of the Asset Purchase Agreement to purchase the system.[38]

Q. Did the Commission make a reasonableness determination when expanding PSE's service area?

A. No. The Commission explicitly made no determination upon the reasonableness of the gas pipeline facility purchase, and reserved the right to make that determination at a later time.[39]

Q. Did the sale occur?

A. Yes. After the service area was amended, on June 26, 2014, the City of Buckley sold their natural gas utility to PSE for $5.4 million. PSE then invested an additional $1 million upgrading it to the PSE gas system standards, adding improved functionality with new meters, and replacing some existing regulators and over-pressure protection equipment to PSE specifications. The total expenditures for PSE on the Buckley gas system was $6.4 million with a payback period of 23 years. Buckley residents are now PSE customers. The Buckley natural gas system is thus used and useful for PSE customers, and all expenditures are known and measurable.

[38] *In the Matter of the Application of Puget Sound Energy, Inc. to Amend its Certificate of Public Convenience and Necessity to Operate a Gas Plant for Hire in the City of Buckley*, Docket UG-140088, Order 01, ¶ 14 (June 26, 2014).
[39] *Id.*, ¶ 15.

Q. Was PSE's purchase of the Buckley natural gas utility necessary?

A. In practical terms, the answer is yes. The Company thoroughly analyzed the city's system from an economic and engineering perspective, with positive results. The City of Buckley also clearly wanted to sell the gas system, and there are not a lot of experienced and well-capitalized natural gas utility operators in the Seattle metropolitan area. The Company also went through the necessary requirement to have this Commission expand the certificate of convenience and necessity. By expanding the company's service territory, PSE assumed an obligation to serve Buckley natural gas customers. The obligation to serve establishes another need to acquire a system to provide natural gas service.

Q. Did PSE consider any alternatives to purchasing the Buckley natural gas utility?

A. Yes. As noted above, the Company's engineering and economic analysis showed the Buckley gas system was a profitable investment, so the alternative would have been failing to make what reasonably appears to be a profitable investment. The only other alternative to purchasing the city's gas system was to build a completely new system. However, a new system covering the entire Buckley service territory would cost a lot more than the $6.4 million PSE spent, and the existing system already met PSE's operational standards. Thus, building a new system would have been a much less reasonable alternative. Additionally, due to Commission order, the need for PSE to purchase the Buckley gas system is predicated upon purchasing the system already in place. This effectively makes the Buckley gas utility the only option.

Q. Did PSE keep adequate, contemporaneous records that allow the Commission to evaluate the Company's decision-making process?

A. Yes. Staff reviewed Company testimony on the results of the technical system analysis,[40] presentations to the Energy Management Committee that presented the business case for purchasing the utility,[41] and the bid package submitted to the city of Buckley.[42] In all instances Staff reviewed, the Company adequately documented its Buckley-related analyses, results of the RFP process, and meetings with the Energy Management Committee.

Q. Was the PSE Board of Directors involved in the decision?

A. No. Four presentations were made to the Energy Management Committee by the evaluation team, two of which were included in the Company's testimony.[43] Based upon public approval, the purchase price, the favorable system life to payback comparison, Staff believes that a reasonable board of directors would have decided to make this purchase.

Q. Please summarize your conclusions about the purchase of the Buckley natural gas utility.

A. Staff recommends that the Commission find the purchase of the Buckley natural gas utility as prudent because the Company demonstrated that there was a need to purchase the system, considered the applicable alternatives, a reasonable board of

[40] Mullally, Exh. MM-9 (C).
[41] Mullally, Exh. MM-3 (C).
[42] Mullally, Exh. MM-4.
[43] Mullally, Exh. MM-4C.

directors would have made the decision to purchase the system, and the evaluation and decision-making process were contemporaneously documented.

Q. Does this conclude your testimony?

A. Yes.