

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

_____)
In the Matter of the Petition of King County,)
Washington, BNSF Railway, Frontier)
Communications Northwest, Inc., Verizon)
Wireless, and New Cingular Wireless PCS,) DOCKET NO. UE-141335
LLC. For a Declaratory Order to address the)
degradation of service from Puget Sound)
Energy due to the physical deterioration of the)
Maloney Ridge Line underground cable.)
_____)

PRE-FILED OPENING TESTIMONY OF MICHAEL P. GORMAN

ON BEHALF OF

**KING COUNTY, WASHINGTON, BNSF RAILWAY,
FRONTIER COMMUNICATIONS NORTHWEST, INC.,
VERIZON WIRELESS, AND NEW CINGULAR WIRELESS PCS, LLC**

November 19, 2014



**TABLE OF CONTENTS TO THE
PRE-FILED OPENING TESTIMONY OF MICHAEL P. GORMAN**

	<u>Page</u>
I. SUMMARY.....	1
II. DETAILS OF THE CONTROVERSY BEFORE THE COMMISSION.....	2
III. PSE’S RESPONSIBILITY AS OWNER OF THE MALONEY RIDGE DISTRIBUTION LINE	13
IV. THE COSTS OF REPLACING THE MALONEY RIDGE DISTRIBUTION LINE WILL HAVE NEGLIGIBLE EFFECT ON SCHEDULE 24 CUSTOMERS	14
V. MALONEY RIDGE CUSTOMERS’ PAYMENTS TO PSE.....	17
Exhibit No.__(MPG-2): Qualifications of Michael P. Gorman	
Exhibit No.__(MPG-3): Excerpts from Subchapter C—Accounts, Federal Power Act, Part 101	
Exhibit No.__(MPG-4): Impact of \$8 Million Investment in Maloney Ridge Line to Total Utility Revenue Requirement	
Exhibit No.__(MPG-5): Annual Change in Net Distribution Plant Calendar Years 2010-2013	

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q. WHAT IS YOUR OCCUPATION?**

5 **A.** I am a consultant in the field of public utility regulation and a managing principal with
6 Brubaker & Associates, Inc., energy, economic and regulatory consultants.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

9 **A.** These are set forth in Exhibit No.__(MPG-2).

10 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

11 **A.** I am appearing on behalf of King County, Washington, BNSF Railway, Frontier
12 Communications Northwest, Inc., Verizon Wireless, and New Cingular Wireless PCS,
13 LLC (“Petitioners”).

14 **Q. ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH THIS**
15 **TESTIMONY?**

16 **A.** Yes. I am sponsoring Exhibit No.__(MPG-2) through Exhibit No.__(MPG-5).

17 **I. SUMMARY**

18 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS AND FINDINGS.**

19 **A.** My recommendations and findings are summarized as follows:

- 20 1. Puget Sound Energy (“PSE” or “Company”) has an obligation to make capital
21 repairs and replacements on infrastructure it owns absent clear findings that
22 making the repairs or replacement is inconsistent with express provisions of its
23 tariffs, rules or agreements.
- 24 2. Funding replacement of the Maloney Ridge Distribution Line, as part of PSE’s
25 regular capital investment program with replacement costs to be added to PSE’s
26 rate base, is consistent with PSE tariffs and rules. Further, PSE has not negotiated
27 any different obligation under the tariffs and rules with respect to replacement of

1 that line. Demanding, instead, that the multiple customers served by the Maloney
2 Ridge Distribution Line fund that replacement, through a contribution-in-aid-of-
3 construction, is therefore inconsistent with PSE tariffs and rules.

- 4 3. The rate impact to other customers caused by requiring PSE to fund replacement
5 of the Maloney Ridge Distribution Line is *de minimis*, and customers that take
6 service from PSE on the Maloney Ridge Distribution Line are entitled to the same
7 safe and reliable service that all other customers receive.
- 8 4. PSE’s proposal to treat the capital replacement of the Maloney Ridge Distribution
9 Line as an operating expense is not reasonable. It is inconsistent with regulatory
10 accounting principles and should be rejected.
- 11 5. PSE’s rationalization for not making the investment to replace the Maloney Ridge
12 Distribution Line is without merit. The capital replacement is not an operating
13 expense, and making the investment is consistent with PSE’s tariff rate schedules
14 and rules.

15 For all these reasons, PSE should be directed to replace the Maloney Ridge
16 Distribution Line without further delay, and include the entire replacement cost in its
17 cost of service for recovery generally from all PSE customers. This is fair and
18 reasonable to all customers that take service under PSE tariff rate schedules and avoids
19 discriminatory treatment of the customers who take service over the Maloney Ridge
20 Distribution Line.

21 **II. DETAILS OF THE CONTROVERSY BEFORE THE COMMISSION**

22 **Q. PLEASE PROVIDE A BRIEF HISTORY OF THE MALONEY RIDGE**
23 **DISTRIBUTION LINE.**

24 **A.** The Maloney Ridge Distribution Line is an 8.5 mile underground cable, owned and
25 operated by PSE. The line was originally constructed by Puget Sound Power & Light
26 Company (as predecessor to PSE) to serve a single customer, General Telephone
27 Company of the Northwest, Inc. (“GTE”), pursuant to an agreement executed in 1971.
28 As the sole customer served by this line at the time, GTE made a contribution-in-aid-
29 of-construction to cover PSE’s capital cost, and agreed to reimburse PSE’s costs of

1 maintaining the Maloney Ridge Distribution Line. These financial arrangements were
2 consistent with applicable rules relating to service to a single customer.

3 In the years following the initial construction, several other customers began
4 taking service from PSE over the Maloney Ridge Distribution Line, including the
5 Petitioners. Currently, PSE provides service from the Maloney Ridge Distribution
6 Line to its customers under “Service Agreements” that simply mirror the 1971
7 agreement.

8 The Maloney Ridge Distribution Line is now over 40 years old, and it is
9 undisputed that it needs to be replaced in the near future due to reliability and safety
10 problems. Safe and reliable service to the Maloney Ridge Distribution Line customers
11 is essential for public safety because the PSE customers served over the Maloney
12 Ridge Distribution Line provide emergency and other essential services to local
13 Washington communities.

14 **Q. PLEASE DESCRIBE THE DECLARATORY ORDER RULING THAT THE**
15 **PETITIONERS ARE SEEKING FROM THE COMMISSION AND THE**
16 **CONFLICTING REQUEST OF PSE.**

17 **A.** The Maloney Ridge Distribution Line is one of many distribution lines in the PSE
18 distribution system that are owned and operated by PSE to provide retail electric
19 service to multiple customers. The Petitioners and PSE have been in discussions
20 about replacing the Maloney Ridge Distribution Line in order to restore service
21 reliability and better ensure safe maintenance of that line. The Petitioners believe that
22 PSE should fund this capital replacement just as it does other capital replacements and
23 improvements to its distribution system. It should become part of PSE’s proposed
24 capital investment program to modernize and improve its distribution service
25 reliability across its entire service area.

1 It is important to emphasize that Petitioners are not seeking to deny PSE the
2 recovery of its associated capital costs. All such costs should be included in PSE's
3 retail rate base for recovery through its generally applicable rates. Such costs should
4 not be recovered up-front from Petitioners through a contribution-in-aid-of-
5 construction.

6 Customers served by PSE over the Maloney Ridge Distribution Line now
7 make a series of payments to PSE for retail service.

8 First, the Maloney Ridge customers pay tariff rates for bundled electric utility
9 service approved by the Washington Utilities and Transportation Commission
10 ("WUTC"). All Maloney Ridge Distribution Line customers currently take service
11 under PSE's Rate Schedule 24.

12 Second, as a vestige of the Service Arrangement they inherited from the
13 original arrangement between PSE and GTE, dating back to 1971, they also make
14 specified payments to compensate PSE for its operating costs of the Maloney Ridge
15 Distribution Line.

16 The Service Agreements require customers to pay operating costs which
17 include repair and maintenance costs incurred by PSE regarding the existing line. The
18 Service Agreements state that PSE shall be responsible for repairing and maintaining
19 the existing line, including furnishing all necessary labor, materials and equipment to
20 keep it in good operating condition. The Service Agreements also state that all
21 operating costs incurred by PSE will be shared across all customers that take service
22 under the Maloney Ridge Distribution Line Service Agreements.

1 **Q. PLEASE DESCRIBE THE DISPUTE.**

2 **A.** The dispute concerns who is responsible for the replacement cost of the Maloney
3 Ridge Distribution Line. The Service Agreements do not specify who is responsible
4 for the replacement cost of this line. However, each Service Agreement incorporates
5 PSE’s applicable rules, which do not provide for any customer contribution-in-aid-of-
6 construction regarding the replacement of an existing distribution line used by PSE to
7 serve multiple customers.

8 **Q. PLEASE DESCRIBE PSE’S POSITION CONCERNING THIS**
9 **REPLACEMENT COST OF THE MALONEY RIDGE DISTRIBUTION LINE.**

10 **A.** PSE acknowledges that the Service Agreements do not define who is responsible for
11 replacement of the Maloney Ridge Distribution Line. At page 6 of its Statement of
12 Fact and Law, PSE admits:

13 While the Service Agreements make no specific reference to
14 “replacement”. . . . [emphasis added]

15 However, PSE further opines that:

16 it is a reasonable interpretation of the Service Agreements that
17 replacement costs are included in “operating costs”, if replacement is
18 necessary to maintain operation of the line.

19 PSE further asserts that it is economically infeasible for it to incur the
20 replacement cost of the Maloney Ridge Distribution Line. PSE states that the Service
21 Agreements are an extension of its Schedule 85 to PSE’s Electric Tariff G which
22 states PSE is only obligated to incur the replacement cost if it is economically feasible
23 for PSE to replace the Maloney Ridge Distribution Line. Absent economic feasibility
24 of this line replacement, PSE contends that its obligation to provide safe and reliable
25 service to the customers served by the Maloney Ridge Distribution Line does not

1 justify PSE incurring this cost and recovering it from all PSE customers.^{1/} In other
2 words, PSE puts a price tag on its obligation to provide safe and reliable service to
3 Petitioners as existing PSE customers. Yet, Petitioners have for many years and
4 continue today to pay Schedule 24 rates that help fund capital replacements for other
5 parts of the PSE system from which Petitioners derive no benefit.

6 **Q. PLEASE COMMENT ON PSE’S ARGUMENT THAT IT IS A REASONABLE**
7 **INTERPRETATION OF THE SERVICE AGREEMENTS TO ASSUME THAT**
8 **REPLACEMENT COSTS ARE INCLUDED AS AN OPERATING COST IF**
9 **REPLACEMENT IS NEEDED TO PROVIDE SERVICE.**

10 **A.** This conclusion is not reasonable, nor even credible. PSE is obligated to provide safe
11 and reliable service to all of its customers, and it does this by charging rates which are
12 based on accepted regulatory accounting standards. Regulatory accounting standards
13 separate capital investment from operating expenses in order to have a clear and
14 transparent presentation of PSE’s cost of service. These accounting standards do not
15 include capital replacement costs as a component of operating expense. Also, PSE’s
16 own cost of service presentation to the WUTC clearly separates capital investments
17 and operating costs consistent with these regulatory accounting standards. Operating
18 costs and capital investments are clearly distinct categories of expenses and are
19 accounted for differently.

20 The Uniform System of Accounts, promulgated by the Federal Energy
21 Regulatory Commission (“FERC”), clearly distinguishes costs incurred by a utility
22 which will be recorded on its balance sheet as “investments” from those costs in the
23 utility’s operating income statement as “operating expenses.” The relevant provisions
24 are contained in Subchapter C – Accounts, Federal Power Act, Part 101, which defines

^{1/} PSE Statement of Fact and Law at 4-5.

1 Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to
2 the Provisions of the Federal Power Act (“the Act”).

3 The FERC accounting-system rule prescribes electric plant accounts, and
4 outlines specific subaccounts within a specified balance sheet chart of accounts. The
5 Uniform System of Accounts identifies balance sheet accounts, including utility plant,
6 and other provisions of capital investment. The accounting-system rule also defines
7 Electric Operating Expense Instructions and specifies the costs will include
8 supervision and engineering expenses, general expenses, and maintenance expenses.^{2/}
9 Capital investments for underground distribution plant are to be recorded in electric
10 plant Accounts 366 “Underground Conduit” and/or 367 “Underground Conductors
11 and Devices.”^{3/} These accounts are where the replacement capital costs of the
12 Maloney Ridge Distribution Line must be recorded.

13 The regulatory accounting standards also specify “distribution operation and
14 maintenance expense” accounts as well as other operating expense accounts and
15 functional categories. Distribution expenses include operation and maintenance
16 (“O&M”) for distribution underground lines in Accounts 584 and 594.^{4/}

17 The regulatory accounting standards prescribe maintenance of underground
18 lines to include repairs to various aspects of underground conduits and conductors.^{5/}
19 In contrast, the distribution capital investments of underground conduit and conductor

^{2/} See Exhibit No.____(MPG-3), page 2.

^{3/} *Id.*, pages 5-7.

^{4/} *Id.*, pages 8-9 and 12.

^{5/} *Id.*, page 12.

1 for distribution circuits are recorded in balance sheet accounts, and not as an operating
2 expense.^{6/}

3 Moreover, in its cost of service study supporting its revenue requirement in
4 rate proceedings before the WUTC, PSE separates operating expenses from capital
5 investment costs (rate base) in deriving its revenue requirement used to set
6 WUTC-approved tariff rates. Operating expenses include O&M expenses, which are
7 used to measure PSE's operating income at current rates. The measurement of the
8 utility invested capital, or rate base, is then needed to determine whether or not the
9 operating income is "just and reasonable" for ratemaking purposes.

10 Capital investments, including replacement distribution capital investments,
11 are included in PSE's rate base. Capital investment costs are built into the revenue
12 requirement based on an increase in PSE's depreciation expense, its operating income
13 (rate base times rate of return), and related tax expense.

14 PSE's own accounting practice in developing its cost of service and setting
15 rates distinguishes between capital investments (rate base, depreciation expense and
16 operating income) and operating expenses (O&M expense which includes repair
17 costs), which is consistent with regulatory accounting standards.

18 It simply is not accurate for PSE to argue that a reasonable person familiar
19 with regulatory accounting standards and/or PSE rate case cost of service filings
20 would construe any utility rule or regulation to treat capital replacement costs as an
21 operating expense. I do not believe PSE would even have advanced this conclusion if
22 it were not seeking to shift its capital replacement costs to Petitioners through some
23 form of contribution-in-aid-of-construction.

^{6/} *Id.*, pages 5-7.

1 **Q. DID PSE ASSUME THE MALONEY RIDGE DISTRIBUTION LINE**
2 **REPLACEMENT COST WAS AN OPERATING EXPENSE IN ITS**
3 **ECONOMIC STUDY OF REPLACING THE MALONEY RIDGE**
4 **DISTRIBUTION LINE?**

5 **A.** No. In response to Petitioners Data Request No. 001, PSE provided an economic
6 study of replacing the Maloney Ridge Distribution Line. In that economic study, PSE
7 did not assume that the replacement costs would be an operating expense. Rather,
8 consistent with standard regulatory practices in its development of revenue
9 requirement before the WUTC (described above), PSE reflected the Maloney Ridge
10 Distribution Line replacement capital costs as a capital investment or rate base item.
11 PSE modeled the replacement annual revenue requirement based on an increase in
12 operating income (rate base and rate of return) and annual depreciation expense.
13 Again, PSE's economic modeling of the replacement costs shows that it is not
14 reasonable to assume that the replacement cost is an operating expense.

15 **Q. DOES THE COMPANY ARGUE THAT IT IS NOT OBLIGATED TO**
16 **REPLACE THE MALONEY RIDGE DISTRIBUTION LINE IF IT IS NOT**
17 **ECONOMICALLY FEASIBLE FOR IT TO DO SO?**

18 **A.** Yes. PSE witness Jason Sanders in his Declaration in paragraph 7, alleges that the
19 Company is not obligated to incur costs that are inconsistent with the economic
20 feasibility provisions of Schedule 85 to PSE's Tariff G. However, Mr. Sanders
21 actually relies on language in Schedule 80, which outlines the General Rules and
22 Provisions of service by PSE to its customers. Paragraph 9 of that rule outlines
23 Refusal of Service provisions. There, the Rules state that:

24 9. REFUSAL OF SERVICE – The Company may refuse to connect an
25 applicant for service or may refuse to render additional service to a
26 Customer when such service will adversely affect service being
27 rendered to other Customers or where the applicant or Customer has

1 not complied with state, county, or municipal codes or regulations
2 concerning the rendition of such service.^{7/}

3 The Rule identifies several other provisions justifying the refusal of service,
4 but Mr. Sanders references only the last provision:

5 The Company shall not be required to provide service if to do so would
6 be economically unfeasible.^{8/}

7 **Q. DOES THE RULE CITED BY PSE’S WITNESS HAVE RELEVANCE TO**
8 **THIS CASE?**

9 **A.** No, it does not have relevance. By its express terms the Rule applies to an application
10 for new or “additional” service. However, this case concerns existing Schedule 24
11 service to several existing customers. Replacement of the Maloney Ridge Distribution
12 Line is necessary to preserve the *status quo* – reliably and safely. Almost of necessity,
13 this existing service to existing customers could not “adversely affect service being
14 rendered to other Customers.” Neither could there be any question about whether the
15 Petitioners had “complied with state, county, or municipal codes or regulations
16 concerning the rendition of such service.” PSE is simply trying to bolster its litigation
17 position by citing to a rule that does not apply.

18 **Q. ASSUMING THE CITED RULE HAS ANY RELEVANCE TO THIS CASE,**
19 **HAS PSE DEMONSTRATED THAT IT WOULD BE ECONOMICALLY**
20 **UNFEASIBLE TO REPLACE THE MALONEY RIDGE DISTRIBUTION**
21 **LINE?**

22 **A.** No. PSE has not performed any study which purports to support a conclusion that it
23 would be appropriate to refuse continuation of Schedule 24 service because the
24 replacement cost of the Maloney Ridge Distribution Line would adversely affect
25 service being rendered to other customers.

^{7/} PSE Electric Tariff G, Schedule 80, Fourth Revision of Sheet No. 80-d, July 28, 2006,
Paragraph 9.

^{8/} *Id.*

1 **Q. DID THE COMPANY PERFORM WHAT IT BELIEVES TO BE AN**
2 **ECONOMIC FEASIBILITY STUDY?**

3 **A.** Yes. In response to Petitioners Data Request No. 001, the Company provided its
4 economic feasibility study of replacing the Maloney Ridge Distribution Line.
5 However, that study simply is not useful in assessing the impact on other customers,
6 nor does it accurately measure the additional cost of service that would be passed on to
7 customers from replacement of the Maloney Ridge Distribution Line. The Company
8 study fails to accurately measure this for the following reasons:

- 9 1. The Company study did not recognize the amount of Service Agreement and tariff
10 rate charge revenues paid by the Maloney Ridge Distribution Line customers.
- 11 2. The Company assumed a 28-year life of the Maloney Ridge Distribution Line
12 replacement investment despite its admission that under the WUTC-approved
13 depreciation rates, the investment would be depreciated over 35 years (PSE
14 response to Petitioners Data Requests No. 001 and 009.E.). PSE's faulty
15 assumption increased the annual cost of the replacement line.
- 16 3. The Company in its economic study did not recognize that under the Service
17 Agreements the Maloney Ridge Distribution Line customers directly pay the
18 O&M expense on the line. Therefore, this cost would not be passed on to other
19 customers of PSE. This incorrect assumption overstated the annual cost of the line
20 relative to PSE's system-wide cost of service.

21 For all these reasons, PSE did not accurately measure the impact on other
22 customers if it replaced the line.

23 **Q. ARE THERE OTHER REASONS WHY PSE SHOULD REPLACE THE**
24 **MALONEY RIDGE DISTRIBUTION LINE?**

25 **A.** Yes. The Maloney Ridge Distribution Line customers pay PSE's tariff rates which
26 include an allocated component of PSE's distribution cost of service. Because PSE
27 has been charging them a bundled service rate which includes distribution cost of
28 service, it is reasonable for PSE to treat the Maloney Ridge Distribution Line
29 customers the same way it treats all of its other tariff rate customers. PSE's approach

1 would limit the Maloney Ridge Distribution Line customers to more restrictive access
2 to service, under more expensive terms and conditions, than it imposes on its other
3 tariff rate customers. The result of this disparate treatment would be unlawful
4 discrimination by the utility against the Maloney Ridge Distribution Line customers.

5 **Q. ARE THERE ADVERSE PUBLIC POLICY CONSEQUENCES OF PSE'S**
6 **ECONOMIC FEASIBILITY STUDY APPROACH?**

7 **A.** Yes. It risks pitting geographic customer groups against other geographic customer
8 groups across PSE's system. Aside from this case, undergrounding generally benefits
9 PSE's urban consumers, not rural customers. Why should the generally applicable
10 rates of rural customers include the cost of urban undergrounding, which benefits
11 someone else? Any economic feasibility study of urban undergrounding would show
12 negative economic feasibility for rural customers served via overhead lines.

13 Similarly, PSE's distribution cost per mile is a function of customer density.
14 Any economic feasibility study of PSE's rural distribution system would show
15 negative economic feasibility for urban customers who are cheaper to serve – at least
16 in areas without undergrounding.

17 The logical consequence of PSE's economic feasibility study approach would
18 be some form of zonal pricing system under which customers in every zone would pay
19 a different rate based on zonal geography and demographics. Of course, PSE is not
20 proposing any such zonal pricing system. PSE's position discriminates against the
21 Petitioners by forcing them to make a contribution-in-aid-of-construction to fund
22 replacement of the Maloney Ridge Distribution Line, whereas this replacement should
23 be funded by PSE and included in the rate base that determines the rates applicable to
24 all Schedule 24 customers.

1 **III. PSE'S RESPONSIBILITY AS OWNER OF**
2 **THE MALONEY RIDGE DISTRIBUTION LINE**

3 **Q. DOES SCHEDULE 85 OUTLINE PSE'S RESPONSIBILITIES AS THE**
4 **OWNER OF THE MALONEY RIDGE DISTRIBUTION LINE?**

5 **A.** Yes. As the owner of the Maloney Ridge Distribution Line, PSE is responsible for
6 several categories of costs, including replacement costs. Schedule 85 provides as
7 follows:

8 The Company will extend and construct new or modify existing electric
9 distribution facilities upon written (or verbal, at the discretion of the
10 Company) request based upon the terms and conditions outlined in this
11 tariff. The Company will evaluate the request to identify any required
12 Customer or Applicant payments based upon the following formula
13 (each element of the formula is as further described in this schedule):

Primary Voltage Line Extension Costs (including Transformation Cost)
+ Secondary Voltage Line Extension Costs
+ Exceptional Transmission & Substation Costs
- Margin Allowance

14 = Line Extension Cost
15 + Service Line Costs
16 = Total Cost to Customer or Applicant

17 This Schedule 85 also sets forth the circumstances, terms and
18 conditions under which the Company is responsible for the ownership,
19 installation, maintenance, repair or replacement of electric distribution
20 facilities, including facilities on the Customer's or Applicant's side (the
21 load side) of the Point of Delivery.^{9/}

22 The terms of Schedule 85 clearly distinguish new distribution facilities and
23 "replacement costs of facilities owned by PSE." For example, in the provisions
24 describing PSE's responsibility for ownership, installation and maintenance, repair or
25 replacement of electric distribution facilities, Schedule 85 states as follows:

26 1. A. OWNERSHIP OF FACILITIES: The Company shall own,
27 operate, maintain and repair all electric distribution facilities
28 installed by or for the Company under this schedule, including

^{9/} PSE Electric Tariff G, Schedule 85, Eighth Revision of Sheet No. 85, November 22, 2006, emphasis added.

1 replacement of such facilities if necessary so long as such
2 replacement is not inconsistent with this schedule or a contract
3 governing such facilities. Other than as provided in section 1.B.,
4 below, the Company shall not own and shall have no responsibility
5 to operate, maintain, repair or replace any electric distribution
6 facilities that were not installed by or for the Company under this
7 schedule.^{10/}

8 PSE incurring the cost of replacing the Maloney Ridge Distribution Line is not
9 inconsistent with PSE's Tariff Schedule 80, or Schedule 85, and is not covered under
10 the terms of the Service Agreements. As such, it is consistent with PSE's Rules and
11 Regulations, and its Service Agreements that PSE should be responsible to replace the
12 Maloney Ridge Distribution Line.

13 **Q. IS THE MALONEY RIDGE DISTRIBUTION LINE A LINE EXTENSION?**

14 A. No. The Maloney Ridge Distribution Line does not need to be extended or modified.
15 The line needs to be replaced because of the erosion in service quality to customers
16 served off the line due to its age and condition.

17 **IV. THE COSTS OF REPLACING THE MALONEY RIDGE DISTRIBUTION**
18 **LINE WILL HAVE NEGLIGIBLE EFFECT ON SCHEDULE 24 CUSTOMERS**

19 **Q. IF PSE MADE THE CAPITAL INVESTMENT TO REPLACE THE**
20 **MALONEY RIDGE LINE AND INCLUDE IT AS A SYSTEM-WIDE**
21 **DISTRIBUTION INVESTMENT, WOULD OTHER SCHEDULE 24**
22 **CUSTOMERS SEE A RATE EFFECT?**

23 A. No. As described below, reflecting costs that would be recovered from Service
24 Agreement charges, PSE's annual revenue requirement for the Maloney Ridge
25 Distribution line would start at approximately \$900,000, as shown on Exhibit
26 No.____(MPG-4), page 1. Spreading this cost over PSE's existing cost of service from

^{10/} PSE Electric Tariff G, Schedule 85, First Revision of Sheet No. 85-k, July 28, 2006, Paragraph 1.A, emphasis added.

1 its last general rate case would increase rates by only 0.04%. As shown on page 2 of
2 this exhibit, if the Maloney Ridge Distribution line were allocated only to Schedule 24
3 customers, the increase in cost of service would be approximately 0.4%.

4 Therefore, the impact on the Schedule 24 rate, payable by Petitioners and other
5 customers in this class, if PSE funds the replacement cost as part of its general capital
6 expansion, would be de minimis.

7 **Q. DOES YOUR ESTIMATED IMPACT ON PSE'S TARIFF RATE SCHEDULE**
8 **REFLECT YOUR RECOMMENDED ALLOCATION OF THE MALONEY**
9 **RIDGE DISTRIBUTION LINE REPLACEMENT COST IN PSE'S NEXT**
10 **RATE CASE?**

11 **A.** No. I am simply estimating the total increase to PSE's total distribution service cost
12 of service, and on Rate Schedule 24 if 100% of the replacement cost is allocated only
13 to Rate Schedule 24. I believe it would be appropriate to allocate the replacement cost
14 consistent with how PSE allocates its distribution cost of service between rate classes
15 in PSE's next rate case.

16 **Q. IS THERE EVIDENCE THAT PSE COULD MAKE THIS INVESTMENT**
17 **WITHOUT CREATING A NEED TO INCREASE ITS DISTRIBUTION**
18 **RATES?**

19 **A.** Yes. PSE's data shows that making this investment would not increase its cost of
20 service. I state this because PSE's distribution rate base has actually declined since its
21 last rate case. Based on a review of PSE's cost of service, the Company can make this
22 distribution investment without increasing its cost of distribution service to any
23 customer, including Schedule 24 customers.

24 **Q. WHY DO YOU BELIEVE THAT PSE CAN MAKE THIS INVESTMENT**
25 **WITHOUT INCREASING ITS DISTRIBUTION COST OF SERVICE?**

26 **A.** This investment could be made without increasing PSE's rate base, which was
27 calculated in the development of its current rates in Docket UE-111048. As shown on

1 my attached Exhibit No.____(MPG-5), I compared PSE's distribution net plant
2 investment from 2010 (the test year for Docket No. UE-111048), through year-end
3 2013. The change in net plant was based on the Company's test year filing, and is
4 based on FERC Form 1 data through 2013.

5 As shown on my exhibit, the Company's net distribution plant actually
6 decreased between 2010, when its rates were last set, and the time of its 2013 FERC
7 Form 1 filing. As shown on my Exhibit No.____(MPG-5), PSE's annual report, as
8 recorded in its FERC Form 1, shows a net distribution plant investment of \$2.28
9 billion in 2010. This amount of distribution investment decreased to \$2.05 billion by
10 2013, a decrease of over \$230 million in net distribution plant investment. If the
11 Company incurs the replacement cost of the Maloney Ridge Distribution Line, the \$8
12 million investment would be swallowed by the decrease in distribution net plant
13 investment since the Company's last rate case.

14 **Q. DO THE COMPANY'S BOOKS AND RECORDS INDICATE HOW MUCH**
15 **DISTRIBUTION PLANT INVESTMENT IT MUST MAKE IN ORDER TO**
16 **MAINTAIN THE NET PLANT LEVEL BUILT INTO PREVIOUS RATES?**

17 **A.** Yes. The amount of depreciation expense for distribution plant investment included in
18 the Company's last rate case filing was around \$94 million. Further, including the
19 amortization of other assets functionalized as distribution, the amount of depreciation
20 expense recovered by PSE from WUTC tariff customers is \$137 million per year.

21 The Company needs to make approximately \$137 million of distribution plant
22 investment annually in order to increase its distribution net plant, as an offset to the
23 decrease in its distribution net plant caused by the buildup of accumulated
24 depreciation. The Maloney Ridge Distribution Line capital investment represents less
25 than 6% of this annual depreciation expense reduction to distribution net plant.

1 **V. MALONEY RIDGE CUSTOMERS' PAYMENTS TO PSE**

2 **Q. PLEASE DESCRIBE THE PAYMENTS CUSTOMERS OF THE MALONEY**
3 **RIDGE DISTRIBUTION LINE MAKE TO PSE IN EXCHANGE FOR PSE'S**
4 **COMMITMENT TO PROVIDE RELIABLE AND SAFE ELECTRIC**
5 **SERVICE.**

6 **A.** The original customer, and subsequent customers that take service from the Maloney
7 Ridge Distribution Line, paid PSE charges consistent with the Service Agreements,
8 and approved WUTC tariff rates.

9 Under the Service Agreement, the original customer made a contribution-in-
10 aid-of-construction to PSE to fund the original installation cost of originally
11 developing the Maloney Ridge Distribution Line. The Service Agreements require
12 customers to share PSE's operating costs of the Maloney Ridge Distribution Line. All
13 customers on the Maloney Ridge Distribution Line make Service Agreement
14 payments to PSE, and also pay charges under PSE's approved service Rate
15 Schedule 24.

16 **Q. IS THERE ANY PROVISION IN THE SERVICE AGREEMENTS THAT**
17 **STATES THAT WHILE CUSTOMERS SERVED BY THE MALONEY RIDGE**
18 **DISTRIBUTION LINE WILL PAY PSE'S WUTC-APPROVED TARIFF**
19 **RATES, THEY ARE NOT ENTITLED TO RELIABLE AND SAFE SERVICE?**

20 **A.** No. Indeed, PSE acknowledges that it has an obligation to provide customers served
21 on the Maloney Ridge Distribution Line safe and reliable service.^{11/}

22 **Q. DOES PSE'S RATE SCHEDULE 24 INCLUDE PSE'S FULL COST OF**
23 **SERVICE FOR DELIVERING ENERGY TO ITS RETAIL CUSTOMERS**
24 **INCLUDING THOSE SERVED FROM THE MALONEY RIDGE**
25 **DISTRIBUTION LINE?**

26 **A.** Yes. In PSE's last rate case, Rate Schedule 24 included allocated costs that provide
27 PSE an opportunity to recover its production, transmission and distribution cost of

^{11/} PSE response to Petitioners Data Request No. 006.

1 service from Schedule 24 customers. As shown on the attached Exhibit
2 No.____(MPG-4), page 4, Rate Schedule 24 had an allocated cost of service of \$245
3 million based on PSE's cost of service study, of which approximately \$104.5 million
4 was for distribution costs, or 42.5% of Schedule 24 bills. The remainder was for
5 production and transmission cost of service.

6 **Q. PLEASE DESCRIBE HOW THE MALONEY RIDGE DISTRIBUTION LINE**
7 **COMPARES TO PSE'S DISTRIBUTION INFRASTRUCTURE.**

8 **A.** PSE's distribution infrastructure includes over 20,500 miles of distribution lines to
9 serve approximately 1.1 million customers.^{12/} In contrast, the Maloney Ridge
10 Distribution line is an 8.5-mile conductor^{13/} that serves a very small number of
11 customers.

12 **Q. IN DEVELOPING ITS TARIFF RATES, HAS THERE BEEN A DELIBERATE**
13 **AND SIGNIFICANT INCREASE IN TARIFF RATES TO ALLOW PSE TO**
14 **MODERNIZE ITS AGING DISTRIBUTION INFRASTRUCTURE?**

15 **A.** PSE claims that there is a significant build-out in its distribution system in its last
16 general rate case. Although this claim does not appear to be supported by a review of
17 the distribution net plant recorded in PSE's annual FERC Form 1 filings, nevertheless,
18 in support of its base rate filing, and more recent Expedited Rate Filing proposal, PSE
19 outlined significant capital investments needed to improve its aging infrastructure.
20 These additional investments supported its claimed revenue deficiency.

21 For example, in Docket Nos. UE-111048 and UG-111049 (Consolidated),
22 Order 08, at 182, paragraph 494, the Commission stated:

^{12/} WUTC Docket Nos. UE-111048 and UG-111049 (Consolidated), Prefiled Direct Testimony of Susan McLain, June 13, 2011, Exhibit No.____(SML-1T) at 12.

^{13/} PSE Statement of Fact and Law, page 2, paragraph 3.

1 PSE presented evidence in this case showing that it continues to face
2 the need for unusually high levels of capital investment to replace aging
3 infrastructure, as it has for the past several years.^{14/}

4 PSE witness Susan McLain described the size and age of PSE's delivery
5 distribution system. Ms. McLain stated the following:^{15/} PSE's electric distribution
6 system has grown by 678 miles of transmission and distribution lines in
7 15 transmission and distribution substations. She states that this larger system
8 requires more maintenance costs in order to maintain this distribution system.

9 She states that over 50% of the Company's substation transformers are over 30
10 years old and likely in need of replacement for the continued safe and reliable
11 operation of the system.

12 She also outlines that approximately 2.5% of PSE's wood distribution poles
13 were installed prior to 1955. She states that replacement poles are more expensive and
14 must be periodically inspected and tested.

15 **Q. DO THE MALONEY RIDGE DISTRIBUTION LINE CUSTOMERS PAY AN**
16 **ALLOCATED SHARE OF PSE'S INFRASTRUCTURE MODERNIZATION**
17 **COST OF SERVICE?**

18 **A.** Yes. The increases in PSE's invested capital costs for distribution projects are
19 included in its general rate cases, and allocated across all rate classes including
20 Schedule 24. As described above and in Exhibit No. ___MPG-4, approximately 42.5%
21 of the revenue requirement allocated to Rate Schedule 24 relates to distribution cost of
22 service. Maloney Ridge Distribution Line customers pay this allocated share of the
23 increase to PSE's distribution cost of service in addition to the Service Agreements'

^{14/} WUTC Docket Nos. UE-111048 and UG-111049 (Consolidated), Order 08, May 7, 2012, at 182, paragraph 494.

^{15/} WUTC Docket Nos. UE-111048 and UG-111049 (Consolidated), Prefiled Direct Testimony of Susan McLain, June 13, 2011, Exhibit No. ___(SML-1T) at 20-23.

1 charges they pay for operating expense incurred to maintain and repair the Maloney
2 Ridge Distribution Line.

3 **Q. DOES THIS CONCLUDE YOUR PRE-FILED OPENING TESTIMONY?**

4 **A.** Yes, it does.

9972/269009