BEFORE THE
WASHINGTON UTILITIES & TRANSPORATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY

Respondent.

DOCKET NOS. UE-220066 and UG-220067

RESPONSIVE TESTIMONY AND EXHIBITS OF

ALEX J. KRONAUER

ON BEHALF OF

WALMART INC.

JULY 28, 2022

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I. Introduction

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Alex J. Kronauer. My business address is 2608 SE J St., Bentonville, AR 72716-0550. I am employed by Walmart Inc. ("Walmart") as a Senior Manager, Energy Services.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?

A. I am testifying on behalf of Walmart.

Q. IS WALMART SPONSORING ADDITIONAL TESTIMONY IN THIS DOCKET?

A. Yes. Walmart is also sponsoring the testimony of Steve W. Chriss.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

In 2011, I earned a Master of Business Administration at the McCombs School of Business at The University of Texas at Austin with a concentration in Finance and Investment Management. From 2011 to 2012, I was a Senior Financial Analyst at TXU Energy, a Texas-based power supplier. My duties included load forecasting and analysis. From 2012 to 2019, I was a Financial Analyst and later a Senior Financial Analyst at CyrusOne, a data center provider in Dallas. I was involved in several power-related areas, including demand response, power procurement, and power expense forecasting. I joined the Walmart Energy Department in July 2019 as a Senior Manager. Since joining Walmart, I have completed several utility-related training seminars and earned the Certified Rate of Return Analyst (“CRRA”) certification. My Witness Qualifications Statement is attached as Exhibit AJK-2.

Q. DO YOU HOLD ANY CERTIFICATIONS THAT ARE RELEVANT TO THE ISSUES BEFORE THE COMMISSION IN THIS PROCEEDING?

A. Yes, I am a member of the Society of Utility and Regulatory Financial Analysts ("SURFA"). In 2022, I was awarded the CRRA professional designation by SURFA. The CRRA designation is based on education, experience, and the successful completion of a comprehensive written examination.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION ("COMMISSION")?

A. Yes, I submitted testimony in Docket Nos. UE-220053, UG-220054, and UE-191024.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE OTHER STATE REGULATORY COMMISSIONS?

A. Yes, I have submitted testimony with state regulatory commissions in Arkansas, Colorado, Massachusetts, New Mexico, New York, Ohio, Oregon, Pennsylvania, and Texas.

Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?

A. Yes. I am sponsoring the exhibits listed in the table of contents.

Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS IN WASHINGTON.

A. As stated on Walmart's website, Walmart operates 52 retail units, two distribution centers, and employs over 23,000 associates in Washington. In fiscal year ending 2022, Walmart purchased approximately $2.9 billion worth of goods and services from suppliers, supporting over 39,000 jobs.[1]

Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS WITHIN THE SERVICE TERRITORY OF PUGET SOUND ENERGY ("PSE" OR "THE COMPANY").

A. Walmart is a large customer of PSE with 19 stores and other related facilities that take electric service from the Company, primarily on Schedule 26, Large Demand General Service rate schedule. Additionally, Walmart has 25 stores and other related facilities that take gas service from the Company, primarily on Schedule 31, Commercial and Industrial General Service rate schedule.

II. Purpose of Testimony and Summary of Recommendations

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address aspects of PSE's rate case filing and to provide recommendations to assist the Commission in thoroughly and carefully considering the customer impact of the Company's proposed rate increase.

Q. IN SETTING THE REVENUE REQUIREMENT, RETURN ON EQUITY ("ROE"), REVENUE ALLOCATION, AND RATE DESIGN CHANGES FOR THE COMPANY, SHOULD THE COMMISSION CONSIDER THE IMPACT OF THE PROPOSED RATE INCREASE ON BUSINESS CUSTOMERS?

A. Yes. Electricity and gas are significant operating costs for retailers such as Walmart.

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[1] http://corporate.walmart.com/our-story/locations/united-states#/united-states/washington

When electric and gas rates increase, the increased cost to retailers can put pressure on consumer prices and on the other expenses required by a business to operate. The Commission should thoroughly and carefully consider the impact on customers in examining the requested revenue requirement and ROE, in addition to all other facets of this case, to ensure that any increase in the Company's rates is the minimum amount necessary to provide safe, adequate, and reliable service, while also providing PSE the opportunity to recover its reasonable and prudent costs and earn a reasonable return on its investment.

Q. PLEASE SUMMARIZE WALMART'S RECOMMENDATION TO THE COMMISSION FOR PSE'S ELECTRIC AND NATURAL GAS DOCKETS.

A. Walmart's recommendation is that the Commission should closely examine the Company's increase in ROE for electric and natural gas services, especially when viewed in light of:

1) The Company's currently approved ROE and the customer impact of the resulting electric revenue requirement increases;
2) Recent electric rate case ROEs approved by the Commission;
3) Recent electric rate case ROEs approved by other state regulatory Commissions; and
4) The risk-reducing nature of the proposed multi-year rate plan ("MYRP").

Q. DOES THE FACT THAT YOU MAY NOT ADDRESS AN ISSUE OR POSITION ADVOCATED BY THE COMPANY INDICATE WALMART'S SUPPORT?

A. No. The fact that an issue is not addressed herein or in related filings should not be construed as an endorsement of any filed position.

III. Revenue Requirement and Cost of Capital for Electric

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED REVENUE REQUIREMENT INCREASE IN THE PSE ELECTRIC DOCKET?

A. My understanding is that the Company proposes a MYRP that would provide for annual net revenue requirement increases of approximately $310.6 million, or 12.2 percent, for electric in 2023, an additional $63.1 million, or 2.4 percent, for electric in 2024, and an additional $31.8 million, or 1.9 percent, for electric in 2025, using the historical test year ending June 30, 2021. *See* Exhibit SEF-1Tr, page 3, line 17 to line 18, and page 60, Table 7, and Exhibit BDJ-1Tr, page 5, Table 1.

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED ROE AND WEIGHTED AVERAGE COST OF CAPITAL ("WACC") IN THE PSE ELECTRIC DOCKET?

A. My understanding is that the Company proposes an electric ROE of 9.90 percent based on a range of 9.75 percent to 10.50 percent. *See* Exhibit AEB-1T, page 3 to page 4. The Company proposes to change its costs of debt and capital structure during the course of the MYRP, and for 2023, the Company proposes a total cost of debt of 4.98 percent, and a capital structure of 49 percent equity and 51 percent long-term debt for a proposed overall WACC of 7.39 percent. For 2024, the Company proposes a total cost of debt of 5.03 percent, and a capital structure of 49.5 percent equity and 50.5 percent total debt for a proposed overall WACC of 7.44 percent. For 2025, the Company proposes a total cost of debt of 5.08 percent, and a capital structure of 50 percent equity and 50 percent total debt for a proposed overall WACC of 7.49 percent. *See* Exhibit SEF-3r page 1

Q. IS WALMART CONCERNED ABOUT THE REASONABLENESS OF THE COMPANY'S PROPOSED ROE IN THE ELECTRIC DOCKET?

A. Yes, especially when viewed in light of:

1) The Company's currently approved ROE and the customer impact of the resulting revenue requirement increases;
2) Recent rate case ROEs approved by the Commission;
3) Recent rate case ROEs approved by other state regulatory commissions; and
4) The risk-reducing nature of the proposed MYRP.

A. Customer Impact

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S CURRENTLY APPROVED ROE FOR ELECTRIC?

A. My understanding is that the Company's currently authorized ROE is 9.40 percent.[2]

Q. HAVE YOU CALCULATED AN ESTIMATE OF THE IMPACT TO CUSTOMERS OF THE DIFFERENCE BETWEEN THE CURRENTLY AUTHORIZED ELECTRIC ROE OF 9.40 PERCENT AND THE 9.90 PERCENT ELECTRIC ROE PROPOSED BY THE COMPANY?

A. Yes. Using the Company's proposed cost of debt, proposed revenue deficiency, rate base, and capital structure, the revenue requirement impact of the difference between the currently authorized electric ROE of 9.40 percent and the Company's

[2] *See Case No. UE-190529, General Rate Case For Tariff No. Wn U-60 G To Recover Increased Revenue Of Approximately $139,527,000 (6.9 Percent) On An Annual Basis, Final Order 08, issued July 8, 2020, page 2.*

proposed 9.90 percent electric ROE is approximately $18.4 million, or 5.6 percent of the proposed electric revenue requirement increase in 2023, $19.8 million, or 5.1 percent of the proposed electric revenue requirement increase in 2024, and $21.4 million, or 5.3 percent of the proposed electric revenue requirement increase in 2025. *See* Exhibits AJK-3, AJK-4, and AJK-5.

B. Recent ROEs Approved by the Commission

Q. IS THE COMPANY'S PROPOSED ELECTRIC ROE SIGNIFICANTLY HIGHER THAN THE ELECTRIC ROEs APPROVED BY THE COMMISSION IN 2019, 2020, 2021, AND SO FAR IN 2022?

A. Yes. During 2019, 2020, 2021, and so far in 2022, the Commission has issued an order with stated electric ROEs in four dockets. *See* Exhibit AJK-6.

Q. IN WHICH ELECTRIC CASES DID THE COMMISSION ISSUE ORDERS WITH STATED ELECTRIC ROES?

A. The Commission issued orders with stated electric ROEs in the following cases:

- Case UE-190334, the Avista Corp. general rate case concluded in 2020, in which the Commission approved an ROE of 9.40 percent.[3]

[3] *See General Rate Case for Tariff No. Wn U-28 To Implement A Two-Year Rate Plan Which Would Begin With New Rates Effective April 1, 2020 And Run Through March 31, 2022, Case UE-190334, Final Order 09 Rejecting Tariff Sheets; Approving and Adopting Partial Multiparty Settlement Stipulation; Resolving Contested Issues; Authorizing and Requiring Compliance Filing, issued March 25, 2020, page 13, table 1.*

- Case UE-190529, the Puget Sound general rate case concluded in 2020 cited above, in which the Commission approved an ROE of 9.40 percent. [4]
- Case UE-191024, the PacifiCorp general rate case concluded in 2020, in which the Commission approved an ROE of 9.50 percent.[5]
- Case D-UE-200900, the Avista Corp general rate case concluded in 2021, in which the Commission approved an ROE of 9.40 percent.[6]

As such, the Company's proposed 9.90 percent electric ROE is counter to recent Commission actions regarding ROEs.

C. National Utility Industry ROE and Weighted Equity Cost Trends

Q. HOW DOES THE COMPANY'S PROPOSED ELECTRIC ROE COMPARE TO ELECTRIC ROEs APPROVED BY OTHER UTILITY REGULATORY COMMISSIONS IN 2019, 2020, 2021, AND SO FAR IN 2022?

A. According to data from S&P Global Market Intelligence ("S&P Global"), a financial news and reporting company, the average of the 118 reported electric utility rate case ROEs authorized by commissions for investor-owned utilities in 2019, 2020, 2021, and

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[4] *See General Rate Case For Tariff No. Wn U-60 G To Recover Increased Revenue Of Approximately $139,527,000 (6.9 Percent) On An Annual Basis, Case No. UE-190529, Final Order 08, issued July 8, 2020, page 2.*

[5] *See General Rate Case for Tariff No. Wn U-75 To Increase Revenues Of Approximately $3.1 Million From Washington Operations, Offset By The Approximately $7.1 Million Proposed Amortization Of Certain Tax Reform Benefits, Resulting In An Overall Price Reduction Of Approximately 1.1 Percent, Or $4.0 Million. Case UE-191024, Final Order, issued December 14, 2020, Page 2*

[6] *See General Rate Case For Electric Operations, Avista Is Proposing An Overall Increase In Electric Base Revenues Of $44.2 Million Or 8.3 Percent. On A Billed Revenue Basis The Increase In Revenue Is 0.0 Percent, After Taking Into Account The Tax Customer Credit. Case UE-200900, Final order, page 2.*

so far in 2022, is 9.46 percent. *See* Exhibit AJK-6. Specifically, the average approved electric ROE was 9.64 percent in 2019, 9.39 percent in 2020, 9.39 percent in 2021, and 9.34 percent so far in 2022. *Id.* The range of reported authorized electric ROEs for the period is 7.36 percent to 10.60 percent, and the median authorized electric ROE is 9.50 percent. *Id.* As such, the Company's proposed 9.90 percent electric ROE is counter to broader electric industry trends.

Q. SEVERAL OF THE REPORTED AUTHORIZED ELECTRIC ROEs ARE FOR DISTRIBUTION-ONLY UTILITIES. WHAT IS THE AVERAGE AUTHORIZED ELECTRIC ROE IN THE REPORTED GROUP FOR VERTICALLY INTEGRATED UTILITIES?

A. In the group reported by S&P Global, the average electric ROE for vertically-integrated utilities authorized over the same time period is 9.60 percent. *Id.* The average electric ROE authorized for vertically integrated utilities in 2019 was 9.73 percent, in 2020 it was 9.55 percent, in 2021 it was 9.55 percent, and so far in 2022 it is 9.47 percent. *Id.* As such, the Company's proposed electric ROE of 9.90 percent is counter to broader electric industry trends. In fact, as shown in Figure 1, the Company's proposed 9.90 percent electric ROE, if approved, would be tied for the 18th highest approved electric ROE (out of 83) for a vertically-integrated utility from 2019 to present. This would put the Company’s proposed electric ROE within the top third of authorized ROEs for vertically integrated utilities.

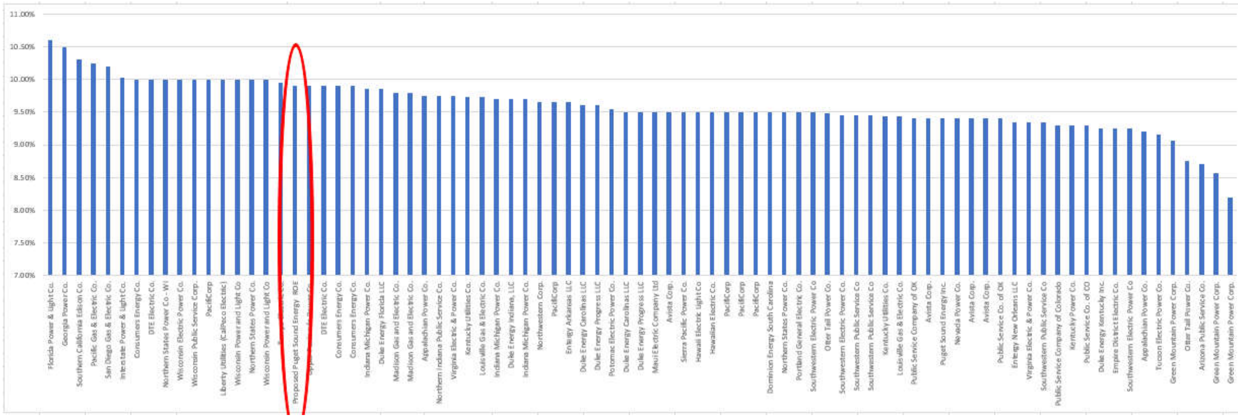

Figure 1. PSE Proposed ROE of 9.90 Percent Versus Approved ROEs, Electric Utilities, 2019 to Present. Source AJK-6

Q. WHAT IS THE DIFFERENCE IN REVENUE REQUIREMENT BETWEEN THE COMPANY'S PROPOSED 9.90 PERCENT ELECTRIC ROE AND THE 9.60 PERCENT AVERAGE AUTHORIZED ELECTRIC ROE FOR VERTICALLY INTEGRATED ELECTRIC UTILITIES FROM 2019 TO PRESENT?

A. The difference in a return on electric rate base at the 9.90 percent electric ROE proposed by the Company versus the 9.60 percent average authorized electric ROE for vertically integrated utilities is an increase in electric revenue requirement of approximately $11.1 million, or roughly 3.4 percent of the Company's proposed electric revenue deficiency in 2023, approximately $12.0 million, or 3.0 percent of the Company’s proposed electric revenue deficiency in 2024, and approximately 12.9 million, or 3.2 percent of the Company’s proposed electric revenue deficiency in 2025. *See* Exhibits AJK-7, AJK-8, and AJK-9.

Q. IS WALMART RECOMMENDING THAT THE COMMISSION SHOULD BE BOUND BY ROEs AUTHORIZED BY OTHER STATE REGULATORY AGENCIES?

A. No. Decisions of other state regulatory commissions are not binding on the Commission. Additionally, each commission considers the specific circumstances in each case in its determination of the proper ROE. Walmart is providing this information to illustrate a national customer perspective on industry trends in authorized ROEs.

D. Risk-Reducing Nature of the Proposed Multi-Year Rate Plan

Q. WHAT IS YOUR UNDERSTANDING OF THE AUTHORITY UNDER WHICH THE COMPANY PROPOSES THE MYRP?

A. While I am not an attorney, my understanding is that the Company has proposed the MYRP under the authority of RCW 80.28.425, which delineates the Commission's ratemaking authority for approval, approval with conditions, or rejection of a filed MYRP.

Q. IS IT YOUR UNDERSTANDING THAT THERE ARE ELEMENTS OF THE COMPANY'S PROPOSED MULTI-YEAR RATE PLAN THAT REDUCE RISK FOR THE COMPANY?

A. Yes, particularly for risk from the Company's exposure to regulatory lag. The Company specifically states that a benefit of a MYRP is more timely recovery of costs incurred and notes that the Commission has recognized that a MYRP can mitigate the effects of regulatory lag. *See* Exhibit JAP-1T, page 3, line 14 to line 16 and page 5, line 6 to line

12.

Q. HOW DOES THE SETTING OF MYRP RATES REDUCE REGULATORY LAG?

A. Similar to a future test year, which reduces regulatory lag by allowing the utility to include the most current information in its rates at the time they will be in effect, the Company's proposed methodology for setting MYRP rates is based on projected rate base and operations and maintenance expenses for each rate year. *Id.,* page 10, line 3 to line 12 and page 13, line 4 to line 12. This allows for rates to better match the Company's cost to serve in each rate year and will allow for annual adjustments in MYRP rates that eliminate the rate case process for incorporating those costs in rates.

Q. ARE THERE ADDITIONAL FACTORS THAT COULD BE RISK REDUCING?

A. Yes. While PSE's proposed MYRP covers a three-year period, the Company retains the right to shorten the plan to two years. *Id.,* page 8, line 1 to line 5. This retained right reduces risk to the Company by allowing it to file a new rate case one year earlier if the Company experiences significant deviations from its forecasts. Additionally, while the Company has not filed a specific mechanism to address inflation in their initial filing, a mechanism within the MYRP could insulate the Company from those impacts. *Id.,* page 18, line 10 to line 11. Finally, PSE plans to continue to use its decoupling mechanism, which allows the Company to maintain its earnings when its revenues are lower than expected. *See* the Commission's *Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, To Encourage Utilities to Meet or*

Exceed Their Conservation Targets.[7] This reduces forecasting risk for the Company.

E. Conclusion

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION IN REGARD TO THE COMPANY'S PROPOSED ELECTRIC ROE?

A. The Commission should closely examine the Company's requested increase in electric ROE, especially when viewed in light of:

1) The Company's currently approved ROE and the customer impact of the resulting revenue requirement increases;
2) Recent rate case ROEs approved by the Commission;
3) Recent rate case ROEs approved by other state regulatory commissions; and
4) The risk-reducing nature of the proposed MYRP.

IV. Revenue Requirement and Cost of Capital for Gas

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED REVENUE REQUIREMENT INCREASE IN THE PSE GAS DOCKET (UG-220067)?

A. My understanding is that PSE has requested a MYRP that would provide for revenue increases of approximately $165.5 million for gas for 2023, $195.4 million for gas for 2024, and $218.7 million for gas for 2025, based on the test year ending June 30, 2021.

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[7] Docket U-100422 (November 4, 2010).

See Direct Testimony of Susan E. Free, page 66, line 20 to page 67, line 21 and Direct Testimony of Adrian J. Rodriguez, page 5, line 2 to line 3.

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED REVENUE REQUIREMENT INCREASE IN THE PSE GAS DOCKET?

A. My understanding is that the Company proposes an ROE of 9.90 percent for gas based on a range of 9.75 percent to 10.50 percent. *See* Exhibit AEB-1T, page 3 to page 4. For 2023, the Company proposes a total cost of debt of 4.98 percent, and a capital structure of 49 percent equity and 51 percent long-term debt for a proposed overall WACC of 7.39 percent. For 2024, the Company proposes a total cost of debt of 5.03 percent, and a capital structure of 49.5 percent equity and 50.5 percent total debt for a proposed overall WACC of 7.44 percent. For 2025, the Company proposes a total cost of debt of 5.08 percent, and a capital structure of 50 percent equity and 50 percent total debt for a proposed overall WACC of 7.49 percent. *See* Exhibit SEF-3r, page 1.

Q. IS WALMART CONCERNED ABOUT THE REASONABLENESS OF THE COMPANY'S PROPOSED GAS ROE?

A. Yes, especially when viewed in light of:

1. The Company's currently approved ROE and the customer impact of the resulting revenue requirement increases;
2. Recent rate case gas ROEs approved by the Commission;
3. Recent rate case gas ROEs approved by other state regulatory commissions; and
4. The risk-reducing nature of the proposed MYRP.

A. Customer Impact

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S CURRENTLY APPROVED GAS ROE?

A. My understanding is that the Company's currently approved gas ROE is 9.40 percent.[8]

Q. HAVE YOU CALCULATED AN ESTIMATE OF THE IMPACT OF THE RETURN ON THE GAS RATE BASE FROM THE COMPANY'S PROPOSED INCREASE IN THE GAS ROE FROM 9.40 PERCENT TO 9.90 PERCENT?

A. Yes. Using the Company's proposed rate base, cost of debt, and capital structure for 2023, the impact of the proposed change in the gas ROE from 9.40 percent to 9.90 percent is approximately $9.6 million, or 5.8 percent of the Company's proposed revenue deficiency for 2023. Using the Company's proposed rate base, cost of debt, and capital structure for 2024, the impact of the proposed change in the gas ROE from 9.40 percent to 9.90 percent is approximately $10.3 million, or 5.3 percent of the Company's proposed revenue deficiency. Using the Company's proposed gas rate base, cost of debt, and capital structure for 2025, the impact of the proposed change in the gas ROE from 9.40 percent to 9.90 percent is approximately $10.7 million, or 4.9 percent of the Company's proposed revenue deficiency. *See* Exhibit AJK-10, AJK-11, and AJK-12.

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[8] *See Case UG-190530, General Rate Case for Tariff No. Wn U-60 G to Recover Increase Revenue of Approximately $139,527,000 (6.9 percent) on an Annual Basis, Final Order 08, issued July 8, 2020, page 2.*

B. Recent ROEs Approved by the Commission

Q. IS THE COMPANY'S PROPOSED ROE SIGNIFICANTLY HIGHER THAN GAS ROES APPROVED BY THE COMMISSION SINCE 2019?

A. Yes. During 2019, 2020, 2021, and so far in 2022, the Commission has issued orders with stated gas ROEs in six gas cases, and in each case, the Commission awarded a gas ROE of 9.40 percent. *See* Exhibit AJK-13.

Q. IN WHICH CASES DID THE COMMISSION ISSUE ORDERS WITH STATED GAS ROES?

A. The Commission issued orders with stated gas ROEs in the following cases:

- D-UG-181053, the Northwest Natural Gas Co. general gas rate case concluded in 2019, in which the Commission approved an ROE of 9.40 percent.[9]
- Case D-UG-190210, the Cascade Natural Gas Corp. general gas rate case concluded in 2020, in which the Commission approved an ROE of 9.40 percent.[10]
- Case D-UG-190335, the Avista Corporation general gas rate case concluded in 2020, in which the Commission approved an ROE of 9.40 percent.[11]

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[9] *Washington Utilities and Transportation Commission v. Northwest Natural Gas, d/b/a NW Natural,* Case UG-181053, Order 06, Attachment A, issued October 21, 2019, page 3.

[10] *Revises Tariff Wn U-3, Reflecting A General Rate Case Proposing Increase Of 5.56% In Base Rates Or $12,708,529 For Natural Gas Service,* Case UG-190210, Order 05, issued February 3, 2020, page 3.

[11] *General Rate Case for Tariff No. Wn U-29 to Implement a Two-Year Rate Plan Which Would Begin with New Rates Effective April 1, 2020 and Run Through March 31, 2022,* Cases UG-190334, UG-190335, UE-190222, Final Order 09, issued March 5, 2020, page 13.

- Case D-UG-190530, the Puget Sound Energy Inc. general gas rate case concluded in 2020 cited above, in which the Commission approved an ROE of 9.40 percent.[12]
- Case D-UG-200568, the Cascade Natural Gas Corporation general gas rate case concluded in 2021, in which the Commission approved an ROE of 9.40 percent.[13]
- Case D-UG-200901, the Avista Corporation general gas rate case concluded in 2021, in which the Commission approved an ROE of 9.40 percent.[14]

As such, the Company's proposed 9.90 percent gas ROE is counter to recent Commission actions regarding gas ROEs.

C. National Utility Industry ROE and Weighted Equity Cost Trends

Q. HOW DOES THE COMPANY'S PROPOSED GAS ROE COMPARE TO GAS ROEs APPROVED BY OTHER UTILITY REGULATORY COMMISSIONS IN 2019, 2021, AND SO FAR IN 2022?

A. According to data from S&P Global, the average of the 119 reported gas utility rate case ROEs authorized by commissions for investor-owned utilities in 2019, 2020, 2021, and so far in 2022, is 9.56 percent. *See* Exhibit AJK-13. The range of reported

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[12] *General Rate Case for Tariff No. Wn U-60 G to Recover Increase Revenue of Approximately $139,527,000 (6.9 percent) on an Annual Basis, Case UG-190530,* Final Order 08, issued July 8, 2020, page 2.
[13] *General Rate Case Proposing An Overall Increase of 5.283 Percent In Base Rates Or $13,830,451 For Natural Gas Service*, Case UG-*200568, Order 05 issued May 18, 2021, page 1.*
[14] *General Rate Case For Natural Gas Operations, Avista Is Proposing An Overall Increase In Base Revenues Of $12.8 Million Or 12.2 Percent. On A Billed Revenue Basis (Including The Cost Of Natural Gas, Upstream Third-Party Owned Transportation, And The Effect Of Other Tariffs, Offset By The Tax Customer Credit), The Increase In Billed Revenue Is 0.0 Percent, Case UG-200901, Order 05/08, issued September 27, 2021, page 2.*

authorized gas ROEs for the period is 8.80 percent to 10.25 percent, and the median authorized gas ROE is 9.60 percent. *Id.* The Company's proposed 9.90 percent gas ROE is wholly counter to broader gas industry trends. In fact, as shown in Figure 2, the Company's proposed 9.90 percent gas ROE, if approved, would be tied for the 15th highest approved gas ROE (out of 120) for a gas utility from 2019 to present.

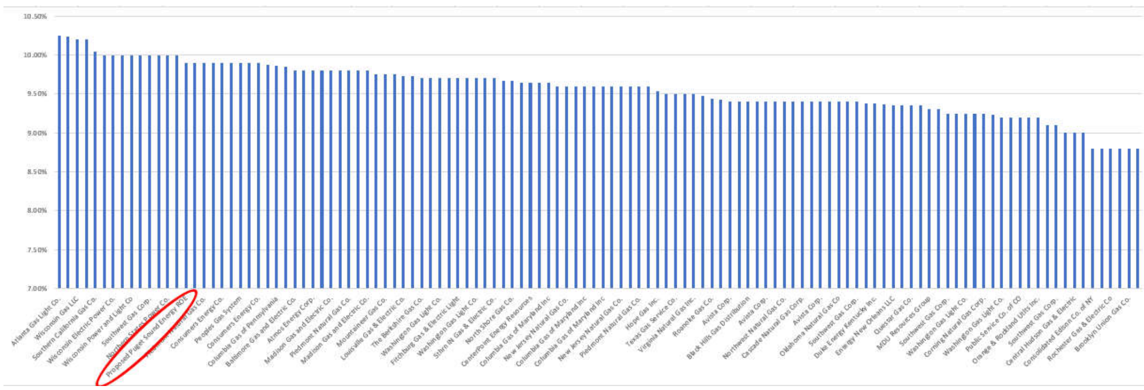

Figure 2. PSE Proposed ROE of 9.90 Percent Versus Approved ROEs, Gas Utilities, 2019 to Present.

Q. WHAT IS THE DIFFERENCE IN REVENUE REQUIREMENTS BETWEEN THE COMPANY'S PROPOSED 9.90 PERCENT ROE, AND 9.56 PERCENT, WHICH IS THE AVERAGE AUTHORIZED GAS ROE FOR GAS UTILITIES FROM 2019 TO PRESENT?

A. The difference in return on rate base for a 9.90 percent ROE versus a 9.56 percent ROE is a difference in revenue requirement of approximately $6.5 million, or roughly 3.9 percent of the Company's proposed gas revenue deficiency in 2023. The difference in return on rate base for a 9.90 percent gas ROE versus a 9.56 percent gas ROE is a difference in the gas revenue requirement of approximately $6.9 million, or roughly 3.5 percent of the Company's proposed revenue deficiency in 2024. The difference in return on rate base for a 9.90 percent ROE versus a 9.56 percent ROE is a difference in the gas revenue requirement of approximately $7.2 million, or roughly 3.3 percent of the Company's proposed gas revenue deficiency in 2025. *See* Exhibits AJK-14, AJK-15, and AJK-16.

Q. IS WALMART RECOMMENDING THAT THE COMMISSION BE BOUND BY ROES AUTHORIZED BY OTHER STATE REGULATORY AGENCIES?

A. No. Decisions of other state regulatory commissions are not binding on the Commission. Additionally, each state regulatory commission considers the specific circumstances in each case in its determination of the proper ROE. Walmart is providing this information to illustrate a national customer perspective on industry trends in authorized ROE.

D. Risk-Reducing Nature of the Proposed Multi-Year Rate Plan

Q. ARE THERE ELEMENTS OF THE COMPANY'S PROPOSED MULTI-YEAR RATE PLAN THAT REDUCE RISK FOR THE COMPANY?

A. Yes. As previously outlined in the electric section of my testimony, there are several elements that reduce risk for the Company. These include allowing the utility to include the most current information in its rates at the time they will be in effect, the right to shorten the plan to two years, as well as continued use of its decoupling mechanism.

E. Conclusion

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION REGARDING THE COMPANY'S PROPOSED GAS ROE?

A. The Commission should closely examine the Company's proposed gas revenue requirement increase and the associated proposed increase in gas ROE, especially when viewed in light of:

1. The Company's currently approved ROE and the customer impact of the resulting revenue requirement increases;
2. Recent rate case gas ROEs approved by the Commission;
3. Recent rate case gas ROEs approved by other state regulatory commissions; and
4. The risk-reducing nature of the proposed MYRP.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.