

**EXH. SJK-1T  
DOCKETS UE-19 \_\_\_/UG-19 \_\_\_  
2019 PSE GENERAL RATE CASE  
WITNESS: STEPHEN J. KING**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY,**

**Respondent.**

**Docket UE-19 \_\_\_  
Docket UG-19 \_\_\_**

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**

**STEPHEN J. KING**

**ON BEHALF OF PUGET SOUND ENERGY**

**JUNE 20, 2019**

**PUGET SOUND ENERGY**

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF  
STEPHEN J. KING**

**CONTENTS**

I. INTRODUCTION .....1

II. SUMMARY OF PSE’S PROCESSES AND PROCEDURES TO  
ENSURE ACCURACY IN ITS REPORTED FINANCIAL RESULTS .....2

III. PRESENTATION OF PSE’S INCOME STATEMENT AND BALANCE  
SHEET .....6

IV. CAPITAL STRUCTURE FOR REGULATORY PURPOSES.....8

V. AFFILIATE AND SUBSIDIARY TRANSACTIONS .....10

VI. CONCLUSION.....11

**PUGET SOUND ENERGY**

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF  
STEPHEN J. KING**

**LIST OF EXHIBITS**

Exh. SJK-2	Professional Qualifications
Exh. SJK-3	Allocated Results of Operations
Exh. SJK-4	Balance Sheet
Exh. SJK-5	Revised 2018 Affiliated Interest and Subsidiary Transaction Report filed with the Commission on May 7, 2019

1 **PUGET SOUND ENERGY**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**  
3 **STEPHEN J. KING**

4 **I. INTRODUCTION**

5 **Q. Please state your name and business address.**

6 A. My name is Stephen J. King and my business address is 355 110th Ave. NE,  
7 Bellevue, Washington 98004. I am employed by Puget Sound Energy (“PSE”) as  
8 Director, Controller and Principal Accounting Officer.

9 **Q. Have you prepared an exhibit describing your education, relevant**  
10 **employment experience, and other professional qualifications?**

11 A. Yes. Please see the First Exhibit to the Prefiled Direct Testimony of Stephen J.  
12 King, Exh. SJK-2, for a description of my education, relevant employment  
13 experience, and other professional qualifications.

14 **Q. Please briefly describe your responsibilities as the Director, Controller and**  
15 **Principal Accounting Officer of PSE.**

16 A. I am responsible for Puget Energy’s and PSE’s annual and quarterly financial  
17 statements. I ensure that they are presented in conformity with generally accepted  
18 accounting principles (“GAAP”) and that they present fairly, in all material  
19 respects, the financial position of the companies and the results of their  
20 operations. I also am responsible for PSE’s annual and quarterly Federal Energy  
21 Regulatory Commission (“FERC”) reports, presented in conformity with the

1 FERC Uniform System of Accounts. I establish, monitor and enforce financial  
2 policies and internal controls to ensure financial information is complete, accurate  
3 and in compliance with accounting standards when filed with external parties, the  
4 Securities and Exchange Commission (“SEC”) and FERC.

5 **Q. Please summarize the purpose of your testimony.**

6 A. My testimony addresses the processes and procedures that PSE has in place to  
7 ensure the completeness and accuracy of the financial information used in the test  
8 periods for the electric and gas revenue requirements.

9 **II. SUMMARY OF PSE’S PROCESSES AND PROCEDURES**  
10 **TO ENSURE ACCURACY IN ITS REPORTED FINANCIAL**  
11 **RESULTS**

12 **Q. Are you responsible for preparing PSE’s financial information?**

13 A. Yes, I am responsible for preparing PSE’s financial information under GAAP and  
14 FERC reporting requirements, which are the basis for the test period used in the  
15 electric and gas revenue requirements.

1 **Q. What processes and procedures does PSE have in place to ensure the**  
2 **completeness and accuracy of its reported financial results?**

3 A. As required by the 2008 Acquisition Order,<sup>1</sup> PSE complies with Section 404 of  
4 the Sarbanes-Oxley Act of 2002, which requires management of public  
5 companies to assess the effectiveness of internal controls for financial reporting.  
6 Internal controls for financial reporting is a process designed to provide  
7 reasonable assurance regarding the reliability of financial reporting and the  
8 preparation of financial statements for external purposes in accordance with  
9 GAAP. internal controls for financial reporting includes policies and procedures  
10 that (i) pertain to the maintenance of records that, in reasonable detail, accurately  
11 and fairly reflect the transactions and dispositions of the assets of the company;  
12 (ii) provide reasonable assurance that transactions are recorded as necessary to  
13 permit preparation of financial statements in accordance with GAAP, and that  
14 receipts and expenditures of the company are being made only in accordance with  
15 authorizations of management and directors of the company; and (iii) provide  
16 reasonable assurance regarding prevention or timely detection of unauthorized  
17 acquisition, use, or disposition of the company's assets that could have a material  
18 effect on the financial statements.

---

<sup>1</sup> *In re Joint Application of Puget Holdings LLC and Puget Sound Energy, Inc. For an Order Authorizing Proposed Transaction*, Docket U-072375, Order 08, Attachment C, p. 11 (Dec. 30, 2008). This commitment was restated in the 2019 order approving the sale of the Macquarie interests in Puget Holdings. *See In re Joint Application of PSE, AIMCO, BCIMC, OAC, and PGGM For an Order Authorizing Proposed Sales of Indirect Interests in PSE*, Docket U-180680, Order 06, Att. A, App. A., p. 12 (Mar. 7, 2019).

1 **Q. Is the design and operational effectiveness of PSE’s internal controls for**  
2 **financial reporting reviewed by outside auditors?**

3 A. Yes. On an annual basis PricewaterhouseCoopers, LLP (“PwC”), PSE’s external  
4 auditors, opine on whether PSE maintained effective internal controls for  
5 financial reporting. PSE has received only unqualified opinions from PwC with  
6 respect to management’s internal controls for financial reporting, meaning that  
7 PSE has maintained, in all material respects, effective internal controls for  
8 financial reporting based on criteria established in *Internal Control – Integrated*  
9 *Framework (2013) issued by the Committee of Sponsoring Organizations of the*  
10 *Treadway Commission (“COSO”).*

11 **Q. What is the relationship between internal controls for financial reporting and**  
12 **PSE’s financial information used in the test period financial information?**

13 A. The underlying records of the GAAP financial statements and FERC Form 1 and  
14 FERC Form 2 represent the test period financial information used for the electric  
15 and gas revenue requirement respectively; therefore, the procedures noted above  
16 validate the accuracy and completeness of the financial records that are used in  
17 PSE’s test period financial information.

1 **Q. Are there any regulatory requirements that validate that PSE's financial**  
2 **position and results of operations are materially correct, including out-of-**  
3 **period, nonoperating, and nonrecurring adjustments?**

4 A. Yes, PSE's annual financial statements (Form 10-K), filed with the SEC, are  
5 audited by PwC; and PSE's quarterly financial statements (Form 10-Q), filed with  
6 the SEC, are reviewed by PwC. PSE's 2018 10-K was filed with the SEC on  
7 February 21, 2019 and received an unqualified opinion from PwC. PSE's FERC  
8 Form 1 is also audited by PwC on an annual basis, and the 2018 FERC Form 1  
9 was filed with FERC on April 15, 2019, for which, PwC also provided an  
10 unqualified opinion. The GAAP financial statement audit is in accordance with  
11 the standards of the Public Company Accounting Oversight Board, and the FERC  
12 Form 1 audit is in accordance with the auditing standard from the American  
13 Institute of CPAs. Those standards require that the audits obtain reasonable  
14 assurance about whether the financial statements are free of material misstatement  
15 and whether effective internal controls for financial reporting were maintained in  
16 all material respects. The audits of the financial statements include procedures to  
17 assess the risks of material misstatement of the financial statements and to  
18 respond to those risks.



1 **Q. What was the result of this additional analysis?**

2 A. Through the course of my review, I found one storm event that should have been  
3 considered “normal” storm expense rather than qualified storm expense.

4 **Q. Please describe the error and the correcting entry necessary.**

5 A. In calendar year 2018, PSE included a qualifying storm event that had total costs  
6 less than \$500,000 towards its overall threshold of \$10.5 million. Under the terms  
7 of the updated storm deferral mechanism that was agreed upon in the 2017 GRC  
8 settlement,<sup>2</sup> storms with a total cost of less than \$500,000 will not count towards  
9 the \$10.5 million annual threshold that must be reached before deferral of  
10 qualifying storm may occur. The January 27-28, 2018, storm met the IEEE T-med  
11 criteria for a qualifying event; however, because the total cost of the storm was  
12 only \$447,000, the storm should not have counted towards the \$10.5 million  
13 threshold. Therefore, \$447,000 was deferred when it should have been expensed.  
14 As a result, the 2018 Deferred Storm balance shown on the balance sheet should  
15 have been \$447,000 lower than reported and the “normal” storm expense on the  
16 income statement would increase by \$447,000. This error was discovered after the  
17 close of the calendar year 2018 books and, therefore, will be booked in calendar  
18 year 2019. For this proceeding, Ms. Free has included an adjustment to reflect this  
19 correcting entry, SEF-7.05ER and 7.05EP.

---

<sup>2</sup> *WUTC v. Puget Sound Energy*, Dockets UE-170033 & UG-170034, Order 08 at ¶196  
(Dec. 5, 2017).

1 Aside from this one item, no misclassifications or out of period errors were  
2 identified as part of the additional analysis.

3 **IV. CAPITAL STRUCTURE FOR REGULATORY PURPOSES**

4 **Q. Is the test year capital structure reflected in Table 1 of the Prefiled Direct**  
5 **Testimony of Daniel A. Doyle, Exh. DAD-1T, and provided in the Second**  
6 **Exhibit to the Prefiled Direct Testimony of Matthew D. McArthur,**  
7 **Exh. MDM-3, calculated in a manner similar to the capital structure**  
8 **calculations in PSE’s recent rate proceedings?**

9 A. Yes. PSE has calculated the test year capital structure provided in Table 1 of the  
10 Prefiled Direct Testimony of Daniel A. Doyle, Exh. DAD-1T, and provided in the  
11 Second Exhibit to the Prefiled Direct Testimony of Matthew D. McArthur,  
12 Exh. MDM-3, in a manner similar to how PSE has calculated capital structures in  
13 PSE’s recent general rate cases. Specifically, PSE removed the following non-  
14 regulated activities and the impact of certain other items from PSE’s reported  
15 consolidated capital structure:

- 16 i. The retained earnings from unregulated activities such as  
17 Puget Western, Inc (“Puget Western”);
- 18 ii. The unrealized retained earnings impacts resulting from  
19 marking to market the value of its hedging activities; and
- 20 iii. The retained earnings impact from pension accounting.

21 These adjustments have been consistently applied to PSE’s Commission Basis  
22 Reports and previous general rate cases and have been consistently accepted by  
23 the Commission.

1 **Q. Why does PSE remove the retained earnings from Puget Western from its**  
2 **consolidated common equity?**

3 A. PSE removes the retained earnings generated by Puget Western, a real estate  
4 subsidiary, from PSE's consolidated capital structure because the retained  
5 earnings generated by this subsidiary are non-regulated.

6 **Q. Why does PSE remove the impacts of certain derivatives from its**  
7 **consolidated common equity?**

8 A. The Commission historically sets PSE's rates in a manner that does not recover,  
9 through customer rates, the accounting income or expense from marking  
10 derivatives to their market value. PSE removes the corresponding balance sheet  
11 impacts of accounting for the market value of derivatives from its consolidated  
12 common equity because the expense or income is not recognized in rates. This  
13 adjustment removes the variability of the mark-to-market calculations made for  
14 financial reporting purposes. The Commission has not recognized mark-to-market  
15 adjustments required by GAAP in setting rates because such adjustments reflect  
16 the measurement of a timing difference for financial reporting purposes and do  
17 not reflect "cash" or financially settled transactions.

18 **Q. Why does PSE remove the retained earnings impacts of pension accounting**  
19 **from its consolidated common equity?**

20 A. The Commission historically sets PSE's rates in a manner that reflects actual  
21 "cash" pension contributions averaged over four years and does not use the

1 financial reporting pension expense required by GAAP. Therefore, PSE removes  
2 the impacts of such GAAP - required pension accounting as it is not used for  
3 ratemaking. Adjustment of the consolidated common equity for these items is  
4 consistent with approved treatment in prior proceedings.

5 **V. AFFILIATE AND SUBSIDIARY TRANSACTIONS**

6 **Q. Has PSE filed its annual affiliate and subsidiary transaction report with the**  
7 **Commission?**

8 A. Yes. On April 30, 2009, PSE filed its 2018 Affiliated Interest and Subsidiary  
9 Transaction Report in accordance with the requirements of WAC 480-90-264  
10 and WAC 480-100-264. A limited amount of information was not available at the  
11 time of that filing. On May 7, 2019, PSE filed a revised 2018 Affiliated Interest  
12 and Subsidiary Transaction Report that incorporated the information not available  
13 on April 30, 2019. Please see the Fourth Exhibit to the Prefiled Direct Testimony  
14 of Stephen J. King, Exh. SJK-5, for a copy of the revised 2018 Affiliated Interest  
15 and Subsidiary Transaction Report filed with the Commission on May 7, 2019.

16 **Q. Does PSE have any supplement to the revised 2018 Affiliated Interest and**  
17 **Subsidiary Transaction Report filed with the Commission on May 7, 2019?**

18 A. No. The test year in this proceeding (January 1, 2018, through December 31,  
19 2018) is identical to the period covered in the revised 2018 Affiliated Interest and  
20 Subsidiary Transaction Report filed with the Commission on May 7, 2019, and  
21 PSE has no need to supplement the report.

1 **Q. What allocation method does PSE use to distribute common costs between**  
2 **PSE and nonregulated affiliated entities and the dollar amount of those**  
3 **costs?**

4 A. The allocation method used by PSE to distribute common costs between PSE and  
5 nonregulated affiliated entities and the dollar amount of those costs is described in  
6 PSE's Corporate and Affiliated Interest Cost Allocation Methodology, which is  
7 provided as Exhibit 4 to the revised 2018 Affiliated Interest and Subsidiary  
8 Transaction Report filed with the Commission on May 7, 2019. Please see  
9 Exh. SJK-5 at 32-41 for a copy of PSE's Corporate and Affiliated Interest Cost  
10 Allocation Methodology.

11 **VI. CONCLUSION**

12 **Q. Does this conclude your testimony?**

13 A. Yes, it does.