Exh. KAF-2
Dockets UE-170033/UG-170034
Witness: Kyle A. Frankiewich

**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*)**

**EXHIBIT TO
TESTIMONY OF**

Kyle A. Frankiewich

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

***PSE's Response to Public Counsel Data Request No. 290
(not including attachments)***

June 30, 2017

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Dockets UE-170033 and UG-170034
Puget Sound Energy
2017 General Rate Case

PUBLIC COUNSEL DATA REQUEST NO. 290

PUBLIC COUNSEL DATA REQUEST NO. 290:

Re: EIM Market Power Cost Offset. Refer to the Prefiled Direct Testimony of Katherine J. Barnard, Exhibit No. KJB-1T at pages 49 through 51.

(a) Identify by account and amount all EIM costs that PSE has included in its requested revenue requirement in its filing.

(b) Show in detail how PSE has derived the amount of reduction in rate year power costs to equally offset the revenue requirement associated with the EIM costs included in the filing.

(c) Explain the basis for the assumed three year life for the EIM rate base items. (Page 50, lines 12-13.)

(d) What is the basis for the assumption that there would be "an additional half-year bonus depreciation"? (Page 50, line 18.)

(e) Identify the amount of EIM assets (telemetry, software, etc.) (1) that is anticipated to be placed into service in 2016, and (2) that will generate 2016 bonus tax depreciation deductions.

(f) At page 51, lines 11-12, states that "the benefits for the EIM Project are assumed to be equal to the total costs in this proceeding."
   i. Identify the total costs of EIM in this proceeding by component.
   ii. Show in detail how the EIM costs were estimated.
   iii. Does PSE project that the benefits of the EIM will exceed the total costs? If not, explain fully why not.
   iv. If the total benefits equal the total costs, does that mean that PSE has reflected no net cost savings for the EIM Project? If not, explain fully why not.
   v. When does PSE project that the EIM Project will begin generating net cost savings?
   vi. When does PSE project that the total cumulative cost savings realized from the EIM Project will exceed the total cumulative costs of the Project?

vii. Identify and provide all projections of EIM project (1) costs and (2) cost savings that PSE has.

Response:

(a) Please refer to the workpapers supporting the Prefiled Direct Testimony of Paul K. Wetherbee, Exhibit No. ___(PKW-1CT), entitled "PKW_WP_C_Costs Not In AURORA 2017 As Filed.xlsx," in the tab entitled "Summary," on lines 33 and 34, to find amounts representing the power costs included in the rate year. The $2.333 million listed in FERC Account 557 represents the power costs related to the Energy Imbalance Market ("EIM") project, and $8.471 million in FERC Account 447 represents the reduction to power costs, or the "EIM Benefit," reflected in power costs.

Please refer to the workpapers supporting the Prefiled Direct Testimony of Katherine J. Barnard, Exhibit No. ___(KJB-1T), entitled "7.08E EIM 17GRC.xlsx," in the tab entitled "Lead E," for EIM costs related to rate base. The sum of the average of the monthly averages of $16.120 million of plant FERC Account 101, $9.403 million of accumulated depreciation FERC Account 108 and $1.584 million of deferred federal income tax ("FIT") FERC Account 283 total a net rate base amount equal to $5.132 million. EIM Depreciation expense FERC Account 403 in the rate year amounts to $5.373 million.

Depreciation plus the return on the aforementioned rate base and consideration for the tax benefit of pro forma interest amounts to $3.836 million. This amount is grossed up for FIT and the variable production factor in deriving the $6.137 million amount which was added to the $2.333 million of power cost in order to calculate the $8.471 million benefit offset. The table below summarizes these costs and offsetting benefits.

	Rate Year 2018
Power costs	$2,333,246
Rate base costs	$6,137,517
Total costs	$8,470,763
Benefits	$(8,470,763)
Net benefits	$0

(b) See part (a) above.

(c) The basis for the three year book life for the EIM capital asset is tied to the length of the service contract for the software. For tax purposes, Puget Sound Energy

("PSE") depreciates EIM software using the straight line method and a useful life of three years per the Internal Revenue Code ("IRC") §167(f)(1).

(d) EIM software qualifies for 50% bonus depreciation for the first year per IRC §168(k)(2)(A).

(e) The amount of EIM assets that was placed into service in 2016 that will generate 2016 bonus tax depreciation deductions is $16.883 million, roughly $763 thousand higher than the $16.120 million included in the original filing.

(f)

i. See part (a) above and PSE's Response to ICNU Data Request No. 002.

ii. See part (a) above.

iii. Yes, PSE expects to see benefits over the long term, as discussed in the Prefiled Direct Testimony of David E. Mills, Exhibit No. ___(DEM-1T).

iv. Please see PSE's Responses to ICNU Data Request Nos. 002, 004 and 041.

v. PSE expects net benefits from EIM in the long term, but does not have estimates of when the benefits will start to exceed the costs.

vi. See part (f) v. above.

vii. PSE does not have specific cost or savings projections beyond what has been presented in this proceeding. When PSE decided to enter the EIM it relied upon the 2014 study Benefits Analysis of PSE's participation in the ISO Energy Imbalance Market produced by E3, which is attached as Attachment A to PSE's Response to Public Counsel Data Request No. 290.