

**Exh. ECO-19
Dockets UE-170033/UG-170034
Witness: Elizabeth O'Connell**

**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**

Elizabeth C. O'Connell

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

PSE's response to Staff data request 364.

June 30, 2017

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

WUTC STAFF DATA REQUEST NO. 364

WUTC STAFF DATA REQUEST NO. 364:

Regarding depreciation of gas rental equipment, Acct. 386.00, found in Barnard work paper titled "6 06G Depr Study 17GRC,"

- a. Please describe what is being captured by the "Fully Accrued" and "Amortized" categories of Acct. 386.00. What vintages of equipment are considered fully accrued?
- b. Please provide the proportion of fully accrued Acct. 386 plant that is still in service. Include totals for both the number of units fully accrued and the number of units (of the fully amortized total) still in service. Please provide these data by vintage.
- c. Please explain the relationship, if any exists, between the calculation of annual depreciation expense for Acct. 386.00 and the calculation of the rates charged for renting the equipment to ratepayers. In your response, please describe whether, and how, rental income is considered an offset to rate base, future accruals, or depreciation expense.

Response:

- a. Gas Rental Equipment with a vintage of 2009 or earlier are fully accrued. Vintages of 2010 or later are listed as amortized.
- b. Attached as Attachment A to Puget Sound Energy's ("PSE") Response to WUTC Staff Data Request No. 364, please find the number of units fully accrued and amortized that are still in service by vintage.
- c. There is, at best, currently a loose relationship between the calculation of annual depreciation expense for Account 386 and the calculation of rates charged for renting the equipment to ratepayers. Depreciation expense is among the various components of PSE's overall revenue requirement assigned or allocated to customer classes in PSE's gas cost of service analysis. As described in the Prefiled Direct Testimony of Jon A. Piliaris, Exhibit No. ___ (JAP-1T), at page 52, line 20 to page 53, line 8, this analysis serves as the foundation upon which class revenue responsibility is determined (i.e., through the "rate spread" process),

which ultimately leads to the overall level of rates charged within each rate class. However, as also noted in this testimony, the rates charged to various rate classes commonly diverge from their estimated cost of service. This is especially true for customers that rent water heaters from PSE. As shown in Table 6 on page 49 of Exhibit No. ____ (JAP-1T), rental customers are currently paying in excess of their cost of service under existing rates. So, while the rates charged to rental customers include depreciation in their development, there is only a weak relationship given the wide gap between the rates charged to this class of customers and their estimated cost of service. Further, to be clear, the rates charged to rental customers are not considered an offset to rate base, future accruals or depreciation expense. Rather, rate base and depreciation expense inform the development of rates. The rates charged to rental customers are considered rental revenues and are booked accordingly.