

**EXHIBIT NO. RCS-9
DOCKET NOS. UE-170033/UG-170034
WITNESS: RALPH C. SMITH**

**BEFORE THE
WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-170033
Docket No. UG-170034**

SEVENTH EXHIBIT (NONCONFIDENTIAL) TO TESTIMONY OF

RALPH C. SMITH

ON BEHALF OF PUBLIC COUNSEL

Data Request Responses Regarding Environmental Remediation

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. 278

WUTC STAFF DATA REQUEST NO. 278:

RE: Environmental Remediation Projects adjustment

Please refer to Exh. No. SEF-1T, page 23:1 – 5. Explain the Company's rationale for using the amounts in PSE workpaper "6.19E & 6.19G Environmental 17GRC.xlsx," in the "Future Costs" tab, to allocate the unassigned insurance and third party recoveries to offset part of the actual costs.

Response:

Puget Sound Energy ("PSE") has substantially exhausted many available policies and believes the prospect of additional significant recoveries is low. Because current future cost estimates exceed potential additional recoveries, PSE has proposed to retain a portion of its existing recoveries to help offset additional remediation costs in the future. In addition, there are a small number of sites where PSE regularly receives proceeds from third parties. These recoveries are directly applied to each specific site to offset costs incurred.

PSE had concerns about intergenerational inequities that could occur if the entire amount of proceeds were used to offset actual costs and thought it best to reserve a portion of the proceeds to ensure that some recoveries would be available to address the remediation associated with projects that are still early in the remediation process. As a result, PSE relied on existing Generally Accepted Accounting Principles ("GAAP") under Financial Accounting Standards Board Accounting Standards Codification No. 410-30-25 Asset Retirement and Environmental Obligations ("ASC 410-30-25"), which requires the recognition of liabilities associated with environmental liabilities. PSE utilized this existing GAAP requirement to determine a reasonable estimate of what the total net environmental costs would be by adding the mid-range of the future cost estimate to the existing net environmental costs as of September 30, 2016. The proportion of the net environmental costs incurred through September 30, 2016 to the total net environmental costs was used to determine the proportion of the unallocated insurance and third party proceeds to pass back in the current proceeding. Conversely, the remaining proportion would be held to apply against the future costs yet to be

incurred, for which ASC 410-30-25 provides a reasonable estimate. Attached as Attachment A to PSE's Response to WUTC Staff Data Request No. 278, please find a copy of ASC 410-30-25.

ATTACHMENT A to PSE's Response to WUTC Staff Data Request No. 278

410-30-25 Recognition - General

General

> Overall Approach

25-1 Paragraph 450-20-25-2 : requires the accrual of a liability if both of the following conditions are met:

- a. Information available before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25 :) indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements.
- b. The amount of the loss can be reasonably estimated.

25-2 An entity's environmental remediation obligation that results in a liability generally does not become determinable as a distinct event, nor is the amount of the liability generally fixed and determinable at a specific point in time. Rather, the existence of a liability for environmental remediation costs becomes determinable and the amount of the liability becomes estimable over a continuum of events and activities that help to frame, define, and verify the liability.(See Subtopic 450-20 : .)

25-3 The underlying cause of an environmental remediation liability is the past or present ownership or operation of a site, or the contribution or transportation of waste to a site, at which **remedial actions** (at a minimum, investigation) must take place. For a liability to be recognized in the financial statements, this underlying cause must have occurred on or before the date of the financial statements.

> Probability That a Liability Has Been Incurred

25-4 In the context of environmental remediation liabilities, the probability criterion in paragraph 450-20-25-2 : consists of two elements; the criterion is met if both of the following elements are met on or before the date the financial statements are issued or are available to be issued (as discussed in Section 855-10-25 :):

a. Litigation has commenced or a claim or an assessment has been asserted, or, based on available information, commencement of litigation or assertion of a claim or an assessment is probable. In other words, it has been asserted (or it is probable that it will be asserted) that the entity is responsible for participating in a remediation process because of a past event.

b. Based on available information, it is probable that the outcome of such litigation, claim, or assessment will be unfavorable. In other words, an entity will be held responsible for participating in a remediation process because of the past event.

25-5 What constitutes commencement or probable commencement of litigation or assertion or probable assertion of a claim or an assessment in relation to particular environmental laws and regulations may require legal determination.

25-6 Given the legal framework within which most environmental remediation liabilities arise, there is a presumption that the outcome of such litigation, claim, or assessment will be unfavorable if both of the following conditions exist:

a. Litigation has commenced or a claim or an assessment has been asserted, or commencement of litigation or assertion of a claim or assessment is probable.

b. The reporting entity is associated with the site—that is, it in fact arranged for the **disposal** of hazardous substances found at a site or transported hazardous substances to the site or is the current or previous owner or operator of the site.

> Ability to Reasonably Estimate the Liability

25-7 Estimating environmental remediation liabilities involves an array of issues at any point in time. In the early stages of the process, cost estimates can be difficult to derive because of uncertainties about a variety of factors. For this reason, estimates developed in the early stages of remediation can vary significantly; in many cases, early estimates later require significant revision. The following are some of the factors that are integral to developing cost estimates:

- a. The extent and types of hazardous substances at a site
- b. The range of technologies that can be used for remediation
- c. Evolving standards of what constitutes acceptable remediation
- d. The number and financial condition of other potentially responsible parties and the extent of their responsibility for the remediation (that is, the extent and types of hazardous substances they contributed to the site).

25-8 Section 450-20-55 : concludes that the criterion for recognition of a loss contingency in paragraph 450-20-25-2(b) : is met when a range of loss can be reasonably estimated.

25-9 An estimate of the range of an environmental remediation liability typically is derived by combining estimates of various components of the liability (such as the costs of performing particular tasks, or amounts allocable to other potentially responsible parties but that will not be paid by those other potentially responsible parties), which are themselves likely to be ranges. For some of those component ranges, there may be amounts that appear to be better estimates than any other amount within the range; for other component ranges, there may be no such best estimates. Accordingly, the overall liability that is recorded may be based on amounts representing the lower end of a range of costs for some components of the liability and best estimates within ranges of costs of other components of the liability.

25-10 At the early stages of the remediation process, particular components of the overall liability may not be reasonably estimable. This fact should not preclude the recognition of a liability. Rather, the components of the liability that can be reasonably estimated should be viewed as a surrogate for the minimum in the range of the overall liability.

25-11 For example, a sole potentially responsible party that has confirmed that it sent waste to a Superfund site and agrees to perform a remedial investigation and feasibility study may know that it will incur costs related to the **remedial investigation-feasibility study** . The potentially responsible party, although aware that the total costs associated with the site will be greater than the cost of the remedial investigation-feasibility study, may be unable to reasonably estimate the overall liability because of existing uncertainties, for example, regarding the kinds and quantities of hazardous substances present at the site and the technologies available to remediate the site. This lack of ability to quantify the total costs of the remediation effort, however, shall not preclude recognition of the estimated cost of the remedial investigation-feasibility study. In this circumstance, a liability for the best estimate (or, if no best estimate is available, the minimum amount in the range) of the cost of the remedial investigation-feasibility study and for any other component remediation costs that can be reasonably estimated shall be recognized in the entity's financial statements.

25-12 Uncertainties relating to the entity's share of an environmental remediation liability shall not preclude the entity from recognizing its best estimate of its share of the liability or, if no best estimate can be made, the minimum estimate of its share of the liability, if the liability is probable and the total remediation liability associated with the site is reasonably estimable within a range (see paragraphs 410-30-30-1 through 30-7 :).

25-13 Uncertainties are pervasive in the measurement of environmental remediation liabilities, and reporting entities are required to recognize their best estimate at the particular point in time (or, if no best estimate can be made, the minimum estimate) of their share of the liability and to refine their estimate as events in the remediation process occur.

> Benchmarks

25-14 Certain stages of a remediation effort or process and of potentially responsible party involvement (see paragraphs 410-30-05-24 : for a discussion of these stages) provide benchmarks that should be considered when evaluating the probability that a loss has been incurred and the extent to which any loss is reasonably estimable. Benchmarks should not, however, be applied in a manner that would delay recognition beyond the point at which the recognition criteria in Subtopic 450-20 : are met.

25-15 The following are recognition benchmarks for a Superfund remediation liability; analogous stages of the Resource Conservation and Recovery Act corrective-action process are also indicated. At a minimum, the estimate of a Superfund (or Resource Conservation and Recovery Act) remediation liability should be evaluated as each of these benchmarks occurs.

a. Identification and verification of an entity as a potentially responsible party. The Resource Conservation and Recovery Act analogue is subjection to facility permit requirements. Receipt of notification or otherwise becoming aware that an entity may be a potentially responsible party compels the entity to action. The entity must examine its records to determine whether it is associated with the site. If, based on a review and evaluation of its records and all other available information, the entity determines that it is associated with the site, it is probable that a liability has been incurred. If all or a portion of the liability is reasonably estimable, the liability shall be recognized. In some cases, an entity will be able to reasonably estimate a range of its liability very early in the process because the site situation is common or similar to situations at other sites with which the entity has been associated (for example, the remediation involves only the removal of underground storage tanks in accordance with the underground storage tank program). In such cases, the criteria for recognition would be met and the liability shall be recognized. In other cases, however, the entity may have insufficient information to reasonably estimate the minimum amount in the range of its liability. In these cases, the criteria for recognition would not be met at this time.

b. Receipt of **unilateral administrative order**. The Resource Conservation and Recovery Act analogue is, generally, interim corrective measures. An entity may receive a unilateral administrative order compelling it to take a response action at a site or risk penalties of up to four times the cost of the response action. Such response actions may be relatively limited actions, such as the performance of a remedial investigation and feasibility study or performance of a **removal action**, or they may be broad actions such as remediating a site. Under section 106 of Superfund, the Environmental Protection Agency must find that an "imminent and substantial endangerment" exists at the site before such an order may be issued. No preenforcement review by a court is authorized under Superfund if an entity elects to challenge a unilateral administrative order. The ability to estimate costs resulting from unilateral administrative orders varies with factors such as site complexity and the nature and extent of the work to be performed. The benchmarks that follow should be considered in evaluating the ability to estimate such costs insofar as the actions required by the unilateral administrative order involve these benchmarks. The cost of performing the requisite work generally is estimable within a range, and recognition of an environmental remediation liability for costs of removal actions generally should not be delayed beyond this point.

c. Participation, as a potentially responsible party, in the remedial investigation-feasibility study. The Resource Conservation and Recovery Act analogue is Resource Conservation and Recovery Act facility investigation. At this stage, the entity and possibly others have been identified as potentially responsible parties and have agreed to pay the costs of a study that will investigate the extent of the environmental impact of the **release** or threatened release of hazardous substances and identify site-remediation alternatives. Further, the total cost of the remedial investigation-feasibility study generally is estimable within a reasonable range. In addition, the identification of other potentially responsible parties and their agreement to participate in funding the remedial investigation-feasibility study typically provides a reasonable basis for determining the entity's allocable share of the cost of the remedial investigation-feasibility study. At this stage, additional information may be available regarding the extent of environmental impact and possible remediation alternatives. This additional information, however, may or may not be sufficient to provide a basis for reasonable estimation of the total remediation liability. At a minimum, the entity should recognize its share of the estimated total cost of the remedial investigation-feasibility study. As the remedial investigation-feasibility study proceeds, the entity's estimate of its share of the total cost of the remedial investigation-feasibility study can be refined. Further, additional information may become available based on which the entity can refine its estimates of other components of the liability or begin to estimate other components. For example, an entity may be able to estimate the extent of environmental impact at a site and to identify existing alternative remediation technologies. An entity may also be able to identify better the extent of its involvement at the site relative to other potentially responsible parties; the universe of potentially responsible parties may be identified; negotiations among potentially responsible parties and with federal and state Environmental Protection Agency representatives may occur; and information may be obtained that materially affects the agreed-upon method of remediation.

d. Completion of feasibility study. The Resource Conservation and Recovery Act analogue is corrective measures study. At substantial completion of the feasibility study, both a minimum remediation liability and the entity's allocated share generally will be reasonably estimable. The feasibility study should be considered substantially complete no later than the point at which the potentially responsible parties recommend a proposed course of action to the Environmental Protection Agency. If the entity had not previously concluded that it could reasonably estimate the remediation liability (the best estimate or, if no amount within an estimated range of loss was a better estimate than any other amount in the range, the minimum amount in the range), recognition should not be delayed beyond this point, even if uncertainties, for example, about allocations to individual potentially responsible parties and potential recoveries from third parties, remain.

e. Issuance of record of decision. The Resource Conservation and Recovery Act analogue is approval of corrective measures study. At this point, the Environmental Protection Agency has issued its determination specifying a preferred remedy. Normally, the entity and other potentially responsible parties have begun, or perhaps completed, negotiations, litigation (see paragraphs 410-30-35-8 through 35-11 :), or both for their allocated share of the remediation liability. Accordingly, the entity's estimate normally can be refined based on the specified preferred remedy and a preliminary allocation of the total remediation costs.

f. Remedial design through operation and maintenance, including postremediation monitoring. The Resource Conservation and Recovery Act analogue is corrective measures implementation. During the design phase of the remediation, engineers develop a better sense of the work to be done and are able to provide more precise estimates of the total remediation cost. Further information likely will become available at various points until the site is delisted, subject only to postremediation monitoring. The entity should continue to refine and recognize its best estimate of its final obligation as this additional information becomes available.

> Criteria to Capitalize Environmental Treatment Costs

25-16 In general, environmental contamination treatment costs shall be charged to expense.

25-17 In certain situations, such as those described in paragraphs 410-30-25-18 through 25-21 :), it may be appropriate to capitalize environmental remediation costs.

25-18 Those costs may be capitalized if recoverable but only if any one of the following criteria is met:

a. The costs extend the life, increase the capacity, or improve the safety or efficiency of property owned by the entity. For purposes of this criterion, the condition of that property after the costs are incurred must be improved as compared with the condition of that property when originally constructed or acquired, if later.

b. The costs mitigate or prevent environmental contamination that has yet to occur and that otherwise may result from future operations or activities. In addition, the costs improve the property compared with its condition when constructed or acquired, if later.

c. The costs are incurred in preparing for sale that property currently held for sale.

25-19 This Subtopic requires that tangible assets acquired to clean a particular spill not be charged to expense immediately. Rather, to the extent that those tangible assets have future uses, they may be capitalized. Example 5 (see paragraph 410-30-55-18 :) illustrates this guidance.

25-20 Paragraph Not Used :

> **Remediation Liabilities in Property Acquisitions**


25-21 The recording of the receipt of property as a contribution received following the guidance in Subtopic 958-605 : shall include the effect of any environmental remediation liability that is recorded in conjunction with the contribution.

25-22 Recording an environmental remediation liability usually results in a corresponding charge to income, and the guidance herein with respect to the income statement refers to such charges.

> **Unasserted Claims**

25-23 Future actions of an entity, when they occur, may create a **legal obligation** to perform environmental remediation; however, no obligation exists currently (for example, if the obligation arises only when and if an entity ceases to operate a facility). Costs related to asset **retirement** , including costs of future site restoration or **closure** that are required upon the cessation of operations or sale of facilities, may create a current obligation that would be recognized in accordance with Subtopic 410-20 : .

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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. 284

WUTC STAFF DATA REQUEST NO. 284:

RE: Environmental Remediation Projects adjustment

Please refer to Exh. No. SEF-1T, page 25:1 – 28. Are the future remediation and monitoring obligations identified in “Recoveries from Insurance Proceeds or 3rd Parties as of September 2016” (proceeds) in PSE workpaper “6.19E & 6.19G Environmental 17GRC.xlsx,” worksheet JKR-3 E, cell J57 and worksheet JKR-3 G, cell H66 currently known by PSE? If yes, please provide documentation of these obligations.

Response:

Cell “I57” in JKR-3E and cell “H66” in JKR-3G in the workpaper “6.19E & 6.19G Environmental 17GRC.xlsx,” are the actual recoveries received as of September 30, 2016 from third parties and insurance. These figures do not represent future remediation or monitoring obligations. For more detailed information regarding the future remediation and monitoring obligations, please refer to Puget Sound Energy’s Response to WUTC Staff Data Request No. 276 that identifies the range of future costs by project site.