

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

WASHINGTON UTILITIES AND )  
TRANSPORTATION COMMISSION, ) DOCKETS UE-220066, UG-220067 and  
Complainant, ) UG-210918 (*Consolidated*)  
v. )  
PUGET SOUND ENERGY, )  
Respondent. )  
\_\_\_\_\_)  
In the Matter of the Petition of )  
PUGET SOUND ENERGY )  
For an Order Authorizing Deferred Accounting )  
Treatment for Puget Sound Energy's Share of )  
Costs Associated with the Tacoma LNG )  
Facility. )  
\_\_\_\_\_)

**RESPONSE TESTIMONY OF BRADLEY G. MULLINS**  
**ON BEHALF OF**  
**ALLIANCE OF WESTERN ENERGY CONSUMERS**

**July 28, 2022**

**TABLE OF CONTENTS TO THE  
RESPONSE TESTIMONY OF BRADLEY G. MULLINS**

I.	Introduction and Summary .....	1
II.	Multi-Year Rate Plan Background .....	4
III.	Cost of Capital .....	10
IV.	Capital Additions .....	12
	a. Capital Prioritization (Adj. A1) .....	13
	b. Line Extension Allowance (Adj. 11.32) .....	22
	c. Tacoma Liquefied Natural Gas (Adjs. 11.33, 11.48, 11.50) .....	23
	d. Renewable Natural Gas (Adj. 11.33) .....	24
	e. Refundable Rates (Schedule 141R) .....	25
V.	Operating Expenses .....	28
	a. Five-Year Plan Budget (Adjs. 6.22, 11.22) .....	28
	b. Directors’ Fees and Expenses (Adj. A2) .....	36
VI.	Northwest Pipeline Refund (Adj. 6.45) .....	40
VII.	Monetized Production Tax Credits (Adj. A3) .....	42
VIII.	Regulatory Assets .....	44
	a. Storm Damage Amortization (Adj. 6.51) .....	44
	b. COVID-19 Deferral (Adjs. 6.22, 11.22) .....	48
IX.	Inflation Tracker .....	49

**EXHIBIT LIST**

- Mullins, Exh BGM-2: Regulatory Appearances of Bradley G. Mullins
- Mullins, Exh BGM-3: Electric Revenue Requirement Calculations
- Mullins, Exh BGM-4: Gas Revenue Requirement Calculations
- Mullins, Exh BGM-5: Responses to Data Requests
- Mullins, Exh BGM-6: Capital Budget Analysis
- Mullins, Exh BGM-7: Operating Expense Analysis
- Mullins, Exh BGM-8: Northwest Pipeline 2017 Settlement Excerpt
- Mullins, Exh BGM-9: Working Capital Calculation with Monetized PTC Reclassification
- Mullins, Exh BGM-10: Proposed Excess Storm Cost Regulatory Asset Amortization

1 **I. INTRODUCTION AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Bradley G. Mullins, and my business address is Lummintie 13, Oulunsalo,  
4 Finland FI-90460.

5 **Q. PLEASE STATE YOUR OCCUPATION AND ON WHOSE BEHALF YOU ARE**  
6 **TESTIFYING.**

7 A. I am an independent energy and utilities consultant representing large energy consumers  
8 before state regulatory commissions, primarily in the Western United States. I am  
9 appearing in this matter on behalf of Alliance of Western Energy Consumers (“AWEC”).  
10 AWEC is a non-profit trade association whose members are energy consumers located  
11 throughout the Pacific Northwest, including electric and gas customers of Puget Sound  
12 Energy (“PSE”).

13 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.**

14 A. I have a Master of Accounting degree from the University of Utah. After obtaining my  
15 master’s degree, I worked at Deloitte in San Jose, California, where I specialized in  
16 performing research and development tax credit studies. I later worked at PacifiCorp as  
17 an analyst involved in power cost forecasting. I currently provide services to utility  
18 customers on matters such as revenue requirement, power cost forecasting, and rate  
19 spread and design. I have sponsored testimony in regulatory jurisdictions around the  
20 United States, including before the Washington Utilities and Transportation Commission  
21 (the “Commission”). A list of cases where I have submitted testimony can be found in  
22 **Mullins, Exh. BGM-2.**

1 **Q. WHAT IS THE PURPOSE OF YOUR RESPONSE TESTIMONY?**

2 A. I discuss my review of PSE's request to increase revenue requirement for electric  
3 services and natural gas services through its proposed three-year rate plan beginning  
4 January 1, 2023 through December 31, 2025. Specifically, I discuss PSE's request to  
5 increase electric service revenue requirement by \$402,865,299 over the three-year rate  
6 plan,<sup>1</sup> and PSE's request to increase gas service revenue requirement by \$218,700,287  
7 over the three-year rate plan.<sup>2</sup>

8 **Q. WHAT WAS THE SCOPE OF YOUR REVIEW?**

9 A. I performed an independent analysis of PSE's revenue requirements over the three-year  
10 rate plan period. This analysis may be found at **Mullins, Exh. BGM-3** for electric  
11 services and **Mullins, Exh. BGM-4** for natural gas services. This analysis was based on  
12 my review of PSE's Direct Testimony and workpapers, along with its responses to  
13 discovery requests submitted by AWEC and other parties to this proceeding. Responses  
14 to relevant discovery requests have been attached at **Mullins, Exh. BGM-5**. My  
15 recommendation also incorporates the impacts of adjustments proposed by witness Dr.  
16 Kaufman, who is also sponsoring testimony on behalf of AWEC in this proceeding.

17 **Q. BASED UPON YOUR REVIEW, WHAT ARE YOUR RECOMMENDATIONS**  
18 **AND CONCLUSIONS?**

19 A. I recommend the Commission reject PSE's proposal for differentiated refundable and  
20 nonrefundable rates in each year of the rate plan. Rather, I recommend the Commission  
21 approve a single surcharge rate for each year of the rate plan, with special treatment for

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<sup>1</sup> Free, Exh. SEF-3r at 1:21.

<sup>2</sup> Free, Exh. SEF-8 at 1:21.

1 three large projects, the Tacoma Liquefied Natural Gas (“LNG”), Energize Eastside, and  
 2 Lower Baker Grouting, subject to the adjustments detailed below in **Table 1A** and **Table**  
 3 **1B** for electric services and gas services, respectively.

**Table 1A**  
AWEC Electric Revenue Requirement Recommendation  
 (\$000)

	<u>Base Rate</u>	<u>141N/R</u>			<u>Total</u>
		<u>2023</u>	<u>2024</u>	<u>2025</u>	
1 <b>PSE Proposed</b>	<b>(13,010)</b>	<b>343,023</b>	<b>62,666</b>	<b>10,186</b>	<b>402,865</b>
2 Adjustments					
3 Cost of Capital	(13,902)	(390)	(4,939)	(5,597)	(24,828)
4 A1 Capital Prioritization	-	(3,784)	(21,642)	(20,246)	(45,672)
5 6.33 Move Energ. E.S. to Tracker	-	(4,430)	(8,243)	(20,470)	(33,143)
6 6.33 Remove Lwr. Bkr. Grouting	-	-	-	(1,799)	(1,799)
7 6.22 Pro Forma O&M	-	(67,302)	(1,768)	(3,032)	(72,102)
8 A2 Directors' Fees	-	(531)	(1)	(1)	(532)
9 6.45 Northwest Pipeline Refund	-	(4,571)	4,571	-	0
10 A3 Montetized PTCs in ISWC	(996)	-	-	-	(996)
11 6.51 Storm Cost Deferral	-	(14,266)	(1,682)	3,547	(12,401)
12 6.22 Covid Deferral	(85)	(1,888)	138	1,984	148
13 6.04 Interest Sync.	6	529	1,718	2,460	4,714
14 <b>Total Adjustments</b>	<b>(14,977)</b>	<b>(96,633)</b>	<b>(31,848)</b>	<b>(43,153)</b>	<b>(186,611)</b>
15 Revenue Offset	-	(1)	(1,288)	(236)	(1,524)
16 <b>Adjusted</b>	<b>(27,987)</b>	<b>246,389</b>	<b>29,531</b>	<b>(33,203)</b>	<b>214,730</b>

**Table 1B**  
**AWEC Gas Revenue Requirement Recommendation**  
**(\$000)**

	<u>Base Rate</u>	<u>141N/R</u>			<u>Total</u>
		<u>2023</u>	<u>2024</u>	<u>2025</u>	
1 <b>PSE Proposed</b>	<b>62,458</b>	<b>103,025</b>	<b>29,890</b>	<b>23,327</b>	<b>218,700</b>
2 Adjustments					
3 Cost of Capital	(6,473)	(987)	(2,502)	(2,436)	(12,399)
4 A1 Capital Prioritization	-	(6,088)	(7,524)	(2,864)	(16,476)
5 11.32 Line Ext. Allow. (Kaufman)	-	(16,709)	(5,597)	(4,448)	(26,754)
6 11.33 Move Tacoma LNG to Tracker	-	(26,813)	704	681	(25,428)
7 11.48 Tacoma LNG Upgrade Deferral	(2,829)	(2,299)	40	40	(5,047)
9 11.50 Tacoma Capital Deferral	-	(8,790)	200	200	(8,390)
10 6.22 Pro Forma O&M	-	(31,755)	(1,363)	(550)	(33,669)
11 A2 Directors' Fees	-	(269)	(0)	(0)	(270)
12 11.22 Covid Deferral	(34)	(751)	55	789	59
13 11.05 Interest Sync.	170	2,917	637	316	4,040
14 <b>Total Adjustments</b>	<b>(9,165)</b>	<b>(91,543)</b>	<b>(15,351)</b>	<b>(8,273)</b>	<b>(124,333)</b>
15 Revenue Offset (Proposed)		0	(1,351)	(16)	(1,367)
16 A4 Revenue Adj. (Kaufman)		(818)	(57)	(78)	(953)
17 <b>Adjusted</b>	<b>53,293</b>	<b>10,664</b>	<b>13,131</b>	<b>14,959</b>	<b>92,047</b>

**II. MULTI-YEAR RATE PLAN BACKGROUND**

**Q. PLEASE PROVIDE AN OVERVIEW OF PSE'S RATE PLAN PROPOSAL.**

A. The rate plan structure PSE has proposed is complicated. It involves setting rates starting with a historical test period, encompassing the 12 months ending June 30, 2021. PSE then calculates a base rate revenue requirement for both service lines using a modified historical test period, the traditional approach used in Washington, including restating and pro forma adjustments through December 31, 2022. PSE then proceeds to calculate separate incremental revenue requirements for each year of the rate plan based on expenditures identified in its five-year plan budget. PSE proposes that these budgetary revenue requirement adjustments be recoverable through new surcharges in Schedule 141, including both refundable and non-refundable surcharge rates. Thus, based on this

1 structure, PSE is requesting that the Commission approve seven different revenue  
2 requirement calculations for each service line—a base year revenue requirement, a non-  
3 refundable surcharge revenue requirement for each year of the three-year rate plan, and a  
4 refundable surcharge revenue requirement for each year of the rate plan—which amounts  
5 to a total of 14 revenue requirement calculations. This approach is unwieldy, and  
6 accordingly, I recommend some simplifying modifications given the dynamics of this  
7 case, discussed below.

8 **Q. PLEASE PROVIDE BACKGROUND ON THE REQUIREMENT FOR PSE TO**  
9 **FILE A MULTI-YEAR RATE PLAN.**

10 A. Engrossed Substitute Senate Bill 5295 of the 67<sup>th</sup> Washington Legislature, hereinafter SB  
11 5295, was enacted into law on May 3, 2021. Among the provisions in that bill was a  
12 requirement for utilities filing rate cases after January 1, 2022, to include a proposal for a  
13 multi-year rate plan. The requirement for a proposal for a multi-year rate plan was  
14 codified as RCW 80.28.425.

15 **Q. DID THE REQUIREMENT FOR A MULTI-YEAR RATE PLAN MODIFY THE**  
16 **STANDARD FOR APPROVING RATES?**

17 A. No. RCW 80.28.425(1) specifically stated that “[t]he commission's consideration of a  
18 proposal for a multiyear rate plan is subject to the same standards applicable to other rate  
19 filings made under this title, including the public interest and fair, just, reasonable, and  
20 sufficient rates.”

21 **Q. DID THE REQUIREMENT FOR A MULTI-YEAR RATE PLAN MODIFY THE**  
22 **USED AND USEFUL REQUIREMENT FOR VALUING UTILITY PROPERTY?**

23 A. No. RCW 80.28.425(3)(b) stated that “[t]he commission shall ascertain and determine  
24 the fair value for rate-making purposes of the property of any gas or electrical company

1 that is or will be used and useful under RCW 80.04.250 for service in this state by or  
2 during each rate year of the multiyear rate plan.” The provisions of RCW 80.04.250 were  
3 not modified in conjunction with the passage of the SB 5295. Thus, the method for  
4 valuing utility property remained unchanged since the passage of Senate Bill 5116 of  
5 2019, the Clean Energy Transformation Act (“CETA”).

6 **Q. WHAT CHANGES WERE MADE TO THE USED AND USEFUL**  
7 **REQUIREMENT IN CETA?**

8 A. CETA expanded the Commission’s ability to consider plant additions for property in the  
9 rate effective period (i.e., after the rate-effective date). The revisions to RCW 80.04.250  
10 provided the Commission with “power upon complaint or upon its own motion to  
11 ascertain and determine the fair value for rate making purposes of the property of any  
12 public service company used and useful for service in this state by or during the rate  
13 effective period.”<sup>3</sup> It also added language that allowed the Commission to consider plant  
14 additions in the context of multi-year rate plans of up to four years, stating “[t]he  
15 commission may provide changes to rates under this section for up to forty-eight months  
16 after the rate effective date using any standard, formula, method, or theory of valuation  
17 reasonably calculated to arrive at fair, just, reasonable, and sufficient rates.”<sup>4</sup>

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<sup>3</sup> RCW 80.04.250(2)

<sup>4</sup> RCW 80.04.250(3)



1 **Q. HAS THE COMMISSION SINCE ESTABLISHED A POLICY FOR HOW IT**  
2 **WILL VALUE PROPERTY IN THE CONTEXT OF A MULTI-YEAR RATE**  
3 **PLAN?**

4 A. Yes. In Docket U-190531 the Commission issued a policy statement that addressed in  
5 detail the process by which the Commission will identify, review, and approve public  
6 service company property that becomes used and useful for service in this state on or  
7 after the rate effective date, including in the context of multi-year rate plans. That policy  
8 remains the most recent standard the Commission has established for evaluating multi-  
9 year rate plans.

10 **Q. HAS THE COMMISSION’S STANDARD FOR APPROVING PRO-FORMA**  
11 **ADJUSTMENTS CHANGED?**

12 A. No. In the context of a multi-year rate plan, the Commission is required to “ascertain and  
13 determine the revenues and operating expenses for rate-making purposes of any gas or  
14 electrical company for each rate year of the multiyear rate plan.”<sup>5</sup> The known and  
15 measurable standard for approving pro forma adjustments, and making such a  
16 determination, however, has not changed. This was described in the Commission’s used  
17 and useful policy statement as follows:

18 WAC 480-07-510(3)(c)(ii), which defines pro forma adjustments, remains  
19 unchanged, applicable, and relevant. In particular, this rule defines the  
20 known and measurable standard and the offsetting factors standard, both of  
21 which are elements of the matching principle, and both of which are  
22 necessary to ensure that costs and offsetting benefits are accounted for  
23 during the period in which they occur. The known and measurable standard  
24 continues to require that an event that causes a change to revenue, expenses,  
25 or rate base must be “known” to have occurred during or after the historical

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<sup>5</sup> RCW 80.28.425(3)(c).

1 12-months of actual results of operations. It must also be demonstrated (i.e.,  
2 known) that the effect of the event will be in place during the rate year.<sup>6</sup>

3 **Q. WHAT HAS PSE PROPOSED IN THIS CASE?**

4 A. As detailed in the Direct Testimony of PSE witness Kensok, PSE’s operating expense  
5 and pro forma capital additions are based on its “annual five-year financial planning and  
6 budgeting process that is governed by PSE’s Board of Directors.”<sup>7</sup>

7 **Q. IS THAT A DEPARTURE FROM PAST COMMISSION PRECEDENT?**

8 A. Yes. With limited exceptions such as power cost modeling and attrition adjustments, the  
9 Commission’s practice has been to not approve pro forma adjustments that are “an  
10 estimate, projection, product of a budget forecast, or some similar exercise of informed  
11 judgment concerning future revenue, expense, or rate base.”<sup>8</sup> PSE’s proposal to rely  
12 solely on its budget for ratemaking purposes, therefore, represents a material departure  
13 from the Commission’s past precedent. SB 5295 provides that “the commission may use  
14 any standard, formula, method, or theory of valuation reasonably calculated to arrive at  
15 fair, just, reasonable, and sufficient rates.”<sup>9</sup> Nonetheless, the Commission has always  
16 had broad authority with respect to the standards, formulas, methods and theories of  
17 valuation used to establish rates. The evidentiary standard, and the Commission’s policy  
18 towards pro forma adjustments and the known and measurable standard, however, has not  
19 necessarily changed.

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6 In re the Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used  
and Useful after Rate Effective Date, Docket U-190531, Policy Statement on Property That Becomes Used  
and Useful After Rate Effective Date ¶ 22 (Jan. 31, 2020).  
7 Kensok, Exh. JAK-1T at 3:21-22  
8 Docket U-190531, Policy Statement ¶ 23.  
9 RCW 80.28.425(3)(d).

1 **Q. ARE PSE’S BUDGET PROJECTIONS REASONABLE?**

2 A. The reasonableness of PSE’s budget projections is difficult to determine in the context of  
3 an evidence-based proceeding. As PSE witness Kensok acknowledges, its budget “relies  
4 on the judgment of subject matter experts and the collective knowledge of PSE  
5 management, the BPC, and the full Board of Directors.”<sup>10</sup> Thus, in considering the  
6 reasonableness of PSE’s five-year plan budget, the Commission must inherently evaluate  
7 the reasonableness of the judgment of those individuals, rather than focusing on discrete  
8 known and measurable changes to test period results. This sort of approach requires the  
9 Commission to exercise much more discretion than the traditional known and measurable  
10 standard.

11 **Q. DOES THE USE OF REFUNDABLE RATES ADDRESS THE CHALLENGES OF**  
12 **CONSIDERING THE REASONABLENESS OF BUDGET PROJECTIONS?**

13 A. No. Whether the Commission establishes rates subject to refund is without consequence  
14 in evaluating the budget, since it must still establish the baseline upon which refunds  
15 would be given using the budgetary data.

16 **Q. HOW DO YOU RECOMMEND THE COMMISSION EVALUATE PSE’S FIVE-**  
17 **YEAR PLAN BUDGET?**

18 A. The Commission applies a just, fair, reasonable, and sufficient standard when evaluating  
19 rates. Under RCW 80.28.010, “[a]ll charges made, demanded or received by any gas  
20 company, electrical company, wastewater company, or water company for gas, electricity  
21 or water, or for any service rendered or to be rendered in connection therewith, shall be

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<sup>10</sup> Kensok, Exh. JAK-1T at 6:8-10.

1 just, fair, reasonable and sufficient.”<sup>11</sup> The Commission has defined this standard as “fair  
2 to customers and to the Company’s owners; just in the sense of being based solely on the  
3 record developed in the proceeding following principles of due process of law;  
4 reasonable in light of the range of possible outcomes supported by the evidence and;  
5 sufficient to meet the needs of the Company to cover its expenses and attract necessary  
6 capital on reasonable terms.”<sup>12</sup>

7 When evaluating PSE's five-year plan budget, I therefore recommend the  
8 Commission primarily focus on determining the level of expenditures that are *sufficient*  
9 for PSE to continue providing safe and reliable services, but no more. Given the  
10 flexibility to set rates for multi-year periods based on a forecast, it is appropriate for the  
11 Commission to adjust PSE’s budget to produce rates that are more *reasonable*, given the  
12 potentially unlimited range of possible outcomes, many within PSE’s control, that may  
13 occur when PSE ultimately makes its expenditures. With such an approach, PSE may be  
14 required to make difficult decisions in order to further prioritize investments, albeit  
15 without necessarily requiring a disallowance or a Commission finding that any particular  
16 investment or expense is imprudent.

### 17 III. COST OF CAPITAL

18 **Q. WHAT COST OF CAPITAL HAVE YOU USED TO CALCULATE REVENUE**  
19 **REQUIREMENT?**

20 A. I have used a 7.20% cost of capital consisting of the following components.

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<sup>11</sup> RCW 80.28.010.

<sup>12</sup> *WUTC v. Puget Sound Energy*, Dockets UE-090704 and UG-090705 (consolidated), Order 11 ¶ 18 (Apr. 2, 2010)

**Table 2**  
**AWEC Recommended Cost of Capital**

AWEC Cost of Capital Component	Capital Structure	Cost	Weighted Cost
Total Debt	51.00%	4.98%	2.54%
Common	49.00%	9.50%	4.66%
Total	100.00%		7.20%

1 **Q. WHY HAVE YOU SELECTED THESE PARAMETERS?**

2 A. While AWEC is not presenting a full cost of capital case in this proceeding, the  
3 Commission has acknowledged that the models employed tend to produce a wide range  
4 of outcomes, depending on the individual judgments of the experts preparing the  
5 models.<sup>13</sup> The Commission is tasked with establishing a reasonable level within the  
6 range of outcomes and has historically attempted to strike an appropriate balance between  
7 the lower risk of utility investment and regulated companies' ability to attract investors.  
8 In PSE's 2019 GRC, the Commission approved a 9.4% ROE as satisfying that standard.<sup>14</sup>  
9 Notwithstanding, given the changing economic environment, I find a 9.5% ROE to be a  
10 reasonable level for this proceeding.

11 **Q. DO YOU RECOMMEND PSE BE PROVIDED DIFFERENT COST OF CAPITAL**  
12 **PARAMETERS IN EACH YEAR OF THE RATE PLAN?**

13 A. No. I recommend that the cost of capital, including the capital structure and cost of debt,  
14 be held constant over the rate plan period. This is appropriate because the three-year rate  
15 plan does not include intermediate decision points at which it would be possible for the  
16 Commission to evaluate whether the year-to-year changes PSE proposes are reasonable

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<sup>13</sup> *WUTC v. PSE*, Docket UE-190529 et al., Order 08 ¶ 102 (July 8, 2020).

<sup>14</sup> *Id.* ¶ 28.

1 in light of then-current conditions. Further, the majority of the year-to-year changes PSE  
2 proposes relate to PSE's capital structure. The Commission has historically focused on  
3 establishing an optimal capital structure that is sufficient to attract investors, while  
4 balancing economy to ratepayers. That optimal level, however, will not necessarily  
5 change during the rate plan. Finally, from a practical perspective, using different  
6 parameters in different years of the rate plan over-complicates the calculation of revenue  
7 requirement, producing different rate valuations for the same property in different years  
8 of the rate plan. For example, approving a different cost of capital in each year will  
9 otherwise produce a different base rate revenue requirement in each year of the rate plan,  
10 even though base rates are not necessarily changing. Thus, using different cost of capital  
11 parameters in each year exacerbates the "whack-a-mole" effect present in PSE's revenue  
12 requirement calculations, where an adjustment to a capital or expense item in one year of  
13 the rate plan produces cascading effects in all other years of the rate plan.

#### 14 IV. CAPITAL ADDITIONS

15 **Q. HOW DO YOU RECOMMEND THE COMMISSION CONSIDER PSE'S**  
16 **PROPOSED CAPITAL BUDGET IN THIS PROCEEDING?**

17 A. PSE's five-year capital budget includes an aggressive schedule of expenditures. A major  
18 portion of this increased investment is discretionary, including ramped-up spending on  
19 grid modernization and resiliency. While these investments are not necessarily  
20 unimportant, many can be potentially delayed or rescheduled for economy purposes, to  
21 mitigate the rate increase that PSE would otherwise impose on ratepayers during a period  
22 in which ratepayers are already under increasing pressure from rising prices in nearly

1 every aspect of their consumption. Further, some projects may also experience delays,  
2 which is of particular concern for the projects with in-service dates projected for 2025.  
3 Accordingly, rather than focusing on the prudence of individual budgeted projects *per se*,  
4 I recommend the Commission focus its analysis on establishing an aggregate level of  
5 capital expenditures which is *sufficient* to maintain safe and reliable services, but no  
6 more. Measuring sufficiency of capital spending in the context of a budget might be  
7 viewed as an entirely abstract exercise. Notwithstanding, I recommend the Commission  
8 focus its analysis on PSE's historical level of capital spending, as concrete evidence, to  
9 inform the aggregate level capital spending over the rate plan period. In **Mullins, Exh.**  
10 **BGM-6**, I have performed an analysis comparing historical spending to the levels  
11 forecast in the five-year plan. That analysis demonstrates that it is appropriate to reduce  
12 the capital budget recoverable in rates to a more reasonable level, otherwise requiring  
13 PSE to further prioritize its investments.

14 **a. Capital Prioritization (Adj. A1)**

15 **Q. PLEASE PROVIDE AN OVERVIEW OF MULLINS, EXH. BGM-6.**

16 A. In **Mullins, Exh. BGM-6**, I performed a review of PSE's historical capital expenditures  
17 over the period 2017 through 2021 by FERC account. These values were compared to  
18 the budgeted capital expenditures over the period 2022 through 2025 from PSE's five-  
19 year plan included in revenue requirement. The analysis uses historical project-level data  
20 that PSE provided in response to AWEC Data Request 77. The project-level data  
21 necessary to derive the FERC-level data can be found in the workpaper version of the  
22 exhibit.

1 **Q. HOW DO YOU RECOMMEND THE COMMISSION EVALUATE THE**  
2 **HISTORICAL DATA?**

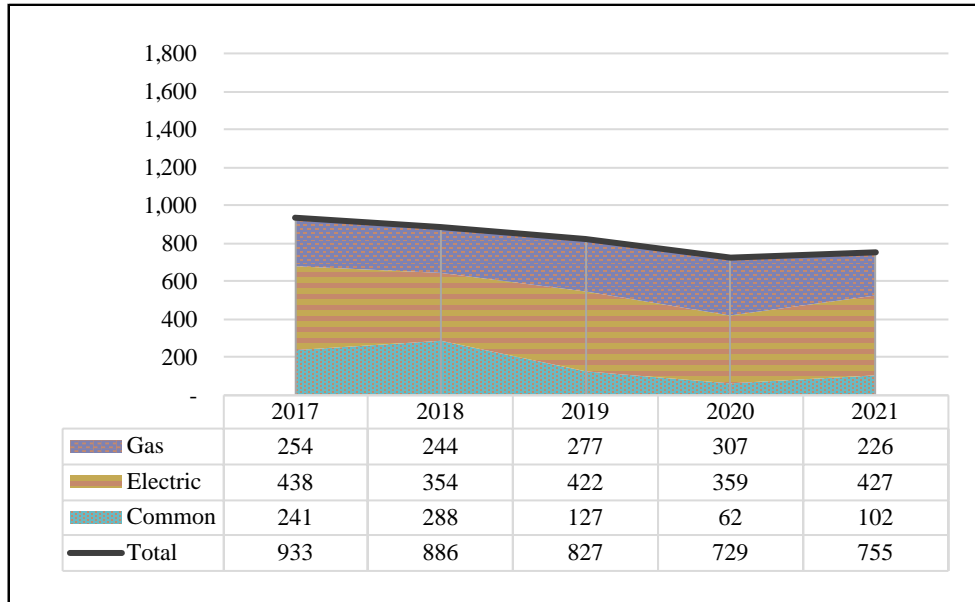
3 A. With the historical data it is possible to ascertain the level of spending which is sufficient  
4 for PSE to continue providing safe and reliable services. If a certain level of capital  
5 expenditures was sufficient to maintain safe and reliable service in the historical period, it  
6 can be concluded that the equivalent level of capital spending, adjusted for exogenous  
7 impacts such as inflation, is also sufficient to maintain safe and reliable service over the  
8 rate plan period.

9 **Q. HOW HAVE PSE'S CAPITAL EXPENDITURES BEEN TRENDING?**

10 A. Over the period from 2017 through 2021, PSE's overall capital expenditures have been  
11 trending downward, and have declined by 19.1%. That level of reduction represents an  
12 average decrease of approximately 4.2% annually, although the percentage reductions  
13 changed from year to year. These reductions may be observed in **Figure 1**, below.



**Figure 1**  
PSE Capital Spending by Business Line 2017 – 2021  
From Mullins, Exh. BGM-6  
(\$millions)



1           As can be noted from the figure, reductions in capital investment in common plant  
2           were a key driver of the reduced capital spending that occurred from 2017 through 2021.  
3           In contrast, spending on gas and electric plant remained relatively flat over the five-year  
4           period analyzed, albeit also declining.

5   **Q.   WHAT DROVE THE REDUCED EXPENDITURES ON COMMON PLANT?**

6   A.   As noted in **Mullins, Exh. BGM-6**, the reductions to common plant expenditures were  
7           predominantly driven by reduced spending in FERC Account 303, Miscellaneous  
8           intangible plant. From its height in 2018, spending on Account 303 declined by  
9           \$185,743,117 in 2021.<sup>15</sup> From the project data, it can be observed that this account

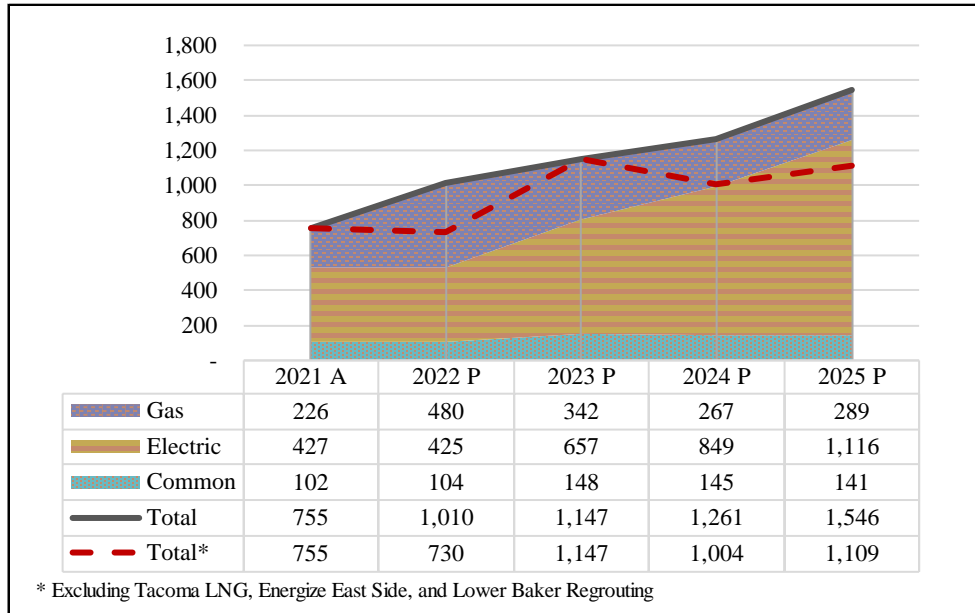
<sup>15</sup>       Calculated from Mullins, Exh. BGM-6.

1 includes a variety of common software applications, including web application  
2 development, spectrum purchases, get-to-zero investments, and AMI investments. The  
3 data in **Mullins, Exh. BGM-6** is not adjusted for deferrals, so despite the dramatic  
4 reduction in expenditures in this category beginning in 2020, PSE has still sought to  
5 recover the costs of incremental get-to-zero and AMI investments through deferrals. If  
6 adjusted for these deferrals, this chart would show even steeper reductions to capital  
7 spending on common plant. In addition, reduced investments in structures and  
8 improvements were also a driver of reduced spending on common plant.

9 **Q. HOW DOES THIS HISTORICAL SPENDING COMPARE TO THE FIVE-YEAR**  
10 **PLAN PROPOSED FOR USE IN CALCULATING REVENUE REQUIREMENT?**

11 A. The five-year plan budget included in revenue requirement would result in sharp  
12 increases to PSE's capital budget. These increases may be observed in **Figure 2**, below.

**Figure 2**  
**PSE Five-Year Plan Capital Spending**  
**From Mullins, Exh. BGM-6**  
**(\$millions)**



1           As can be seen, PSE’s capital forecast results in a 104% increase in capital  
2           spending over the five-year period, or approximately 15.4% per year on average. Given  
3           PSE’s control over its capital spending, the doubling of capital spending over such a short  
4           time frame is concerning.

5   **Q.   WHAT IS DRIVING THE INCREASE?**

6   A.   There are several factors driving the increase in the five-year plan budget. First, PSE  
7       forecasts a material increase in spending on discretionary investments, such as grid  
8       modernization and resiliency, primarily on the electric business line. Second, increases  
9       are also being driven by several exceptionally large projects. These include 1) the Lower  
10      Baker Dam Grouting Program with \$436,459,992 in plant expected to close in December  
11      2025; 2) the Energize East Side project with \$296,802,951 in plant closing primarily in

1 2024; and 3) the Tacoma Liquefied Natural Gas (“LNG”) plant with \$239,413,150 that  
2 closed to plant in early 2022.<sup>16</sup> Besides these three projects, the next largest annual  
3 transfer to plant for a specific project over 2022 through 2025 was the Marine Crossing  
4 project in the amount of \$27,829,948, roughly 12% of the size of the Tacoma LNG  
5 project.<sup>17</sup> Thus, these three exceptionally large projects are distinguishable from all other  
6 projects included in the forecast. In **Figure 2**, the dashed line details the impact of PSE’s  
7 capital forecast excluding these three large projects.

8 **Q. WHAT DO YOU RECOMMEND?**

9 A. Given the rate pressure presented in this case, coupled with otherwise increasing  
10 inflationary pressure on ratepayers, I recommend that the Commission adopt reduced  
11 budget levels, which may require PSE to further prioritize its budgeted capital spending.  
12 Specifically, I recommend that capital spending, excluding the three major capital  
13 projects identified above, be adjusted to a level that is consistent with PSE’s 2021 capital  
14 spending, adjusted for inflation. The specific targets that I recommend are detailed in  
15 **Table 3**, below.

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<sup>16</sup> Kensok, JAK-5 at 3.

<sup>17</sup> *Id.*

**Table 3**  
**AWEC Proposed Capital Prioritization Target**  
**Including Common Capital Allocation**  
**(\$000)**

	2021	2022	2023	2024	2025
<b>Filed</b>					
Electric	493,947	453,831	755,026	688,321	772,200
Gas	260,754	276,412	392,423	316,082	336,623
<b>Total</b>	<b>754,701</b>	<b>730,243</b>	<b>1,147,449</b>	<b>1,004,403</b>	<b>1,108,823</b>
<b>Target</b>					
Inflation Target		7.31%	3.31%	2.56%	2.56%
		(a)	(b)	(c)	(c)
Electric	493,947	530,030	547,574	561,592	575,969
Gas	260,754	279,802	289,063	296,463	304,053
<b>Total</b>	<b>754,701</b>	<b>809,832</b>	<b>836,637</b>	<b>858,055</b>	<b>880,021</b>
<b>Adjustment</b>					
Electric	-	76,200	(207,452)	(126,729)	(196,231)
Gas	-	3,389	(103,360)	(19,619)	(32,570)
<b>Total</b>	<b>-</b>	<b>79,589</b>	<b>(310,812)</b>	<b>(146,348)</b>	<b>(228,801)</b>
<b>Cumulative</b>			<b>(231,222)</b>	<b>(377,570)</b>	<b>(606,372)</b>
<small>(a) 50/50 blend of BLS PPI for 12-months ending June 2022 and (b) 1-year Expected Inflation            (b) Federal Reserve Bank of Cleveland, 1-Year Expected Inflation [EXPINF1YR], retrieved from FRED, Federal Reserve Bank of St. Louis; <a href="https://fred.stlouisfed.org/series/EXPINF1YR">https://fred.stlouisfed.org/series/EXPINF1YR</a>, July 24, 2022.            (b) Federal Reserve Bank of St. Louis, 5-Year Breakeven Inflation Rate [T5YIE], retrieved from FRED, Federal Reserve Bank of St. Louis; <a href="https://fred.stlouisfed.org/series/T5YIE">https://fred.stlouisfed.org/series/T5YIE</a>, July 24, 2022.</small>					

1           As can be seen from Table 3, excluding the Tacoma LNG plant, PSE’s budget in  
 2           2022 was actually less than the inflation-adjusted target. This is further evidence that  
 3           using the inflation adjusted 2021 capital spending level as the baseline will result in a  
 4           sufficient level of capital expenditures over the rate plan, since it produced a level that  
 5           was less than PSE’s budget in 2022. In my revenue requirement calculation, credit is  
 6           given for this underspending relative to the inflation-adjusted target. In subsequent years,  
 7           however, PSE’s proposed capital spending exceeded the inflation-adjusted targets by a

1 wide margin, indicating that those spending levels need to be reduced to a more  
2 reasonable level.

3 **Q. WHAT INFLATION RATES DID YOU USE?**

4 A. Inflation is a major concern for both ratepayers and utilities in the current economic  
5 environment. Certainly, embedding inflationary assumptions into utility rates  
6 compounds the effects of inflation. Notwithstanding, it is not necessarily unreasonable to  
7 consider inflationary effects when evaluating the sufficiency of PSE's overall capital  
8 budget, although I recommend the Commission do so with caution. While inflation has  
9 been high over the past year, forward-looking inflationary expectations have moderated  
10 in July 2022. Accordingly, for 2022, I used a 50 / 50 blend of the June PPI value  
11 published by the Bureau of Labor Statistics of 11.30% through June 2022,<sup>18</sup> and the July  
12 2022 one-year expected inflation rate published by the Federal Reserve Bank of  
13 Cleveland of 3.31%.<sup>19</sup> In calendar year 2023, I also used the one-year expected inflation  
14 rate published by the Federal Reserve Bank of Cleveland of 3.31%. The one-year  
15 expected inflation rate data series is calculated by the Federal Reserve with a model that  
16 uses treasury yields, inflation data, inflation swaps, and survey-based measures of  
17 inflation expectations. For 2024 and 2025, I used the five-year inflation break-even rate  
18 published by the Federal Reserve Bank of St. Louis of 2.56%.<sup>20</sup> The five-year inflation

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18 Bureau of Labor Statistics, Press Release, Produce Price Indexes – June 2022  
[https://www.bls.gov/news.release/archives/ppi\\_07142022.pdf](https://www.bls.gov/news.release/archives/ppi_07142022.pdf), accessed 7/27/2022.

19 Federal Reserve Bank of Cleveland, 1-Year Expected Inflation [EXPINF1YR], retrieved from FRED,  
Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/EXPINF1YR>, July 24, 2022.

20 Federal Reserve Bank of St. Louis, 5-Year Breakeven Inflation Rate [T5YIE], retrieved from FRED,  
Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/T5YIE>, July 24, 2022.

1 break-even rate represents the market consensus of inflation embedded in the price of  
2 inflation protected securities.

3 **Q. WHAT IS THE IMPACT OF THIS RECOMMENDATION?**

4 A. The impacts of applying the inflation-adjusted targets identified in **Table 3** above are  
5 detailed in **Table 4** and **Table 5**, below, for electric and gas services, respectively.

**Table 4**  
Revenue Requirement Impact of AWEC Proposed Electric Capital Prioritization Adjustment (\$000)

	<u>Rate Year 1</u>	<u>Rate Year 2</u>	<u>Rate Year 3</u>
NOI (Pre-Tax)	1,010	6,132	5,926
Rate Base	(28,460)	(158,860)	(146,529)
Rev. Req. (Incr.)	(3,784)	(21,642)	(20,246)

**Table 5**  
Revenue Requirement Impact of AWEC Proposed Gas Capital Prioritization Adjustment (\$000)

	<u>Rate Year 1</u>	<u>Rate Year 2</u>	<u>Rate Year 3</u>
NOI (Pre-Tax)	1,560	1,986	843
Rate Base	(46,705)	(57,081)	(20,781)
Rev. Req. (Incr.)	(6,088)	(7,524)	(2,864)

6 In calculating these adjustments, I used the composite depreciation rates for gas  
7 and electric services presented in PSE's new depreciation study. I also calculated the  
8 impact on accumulated deferred income taxes, assuming an average 20-year tax  
9 depreciation schedule. Support for these calculations may be found in my workpapers.

1 **b. Line Extension Allowance (Adj. 11.32)**

2 **Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF AWEC WITNESS DR.**  
3 **KAUFMAN'S RECOMMENDATION REGARDING LINE EXTENSION**  
4 **ALLOWANCES?**

5 A. The impacts are detailed in **Table 6**, below

**Table 6**  
Gas Revenue Requirement Impact of Kaufman New Line Extension Allowance (\$000)

	<u>Rate Year 1</u>	<u>Rate Year 2</u>	<u>Rate Year 3</u>
NOI (Pre-Tax)	3,874	1,386	1,161
Rate Base	(132,661)	(43,467)	(33,887)
Rev. Req. (Incr.)	(16,709)	(5,597)	(4,448)

6 In modeling this adjustment, I used a 2.77% depreciation rate, which is the  
7 approximate weighted average depreciation rate for contributions in aid of construction in  
8 PSE witness Free's workpapers. I also modeled incremental accumulated deferred  
9 income taxes, using a 20-year depreciation schedule.

10 **Q. IS THIS ADJUSTMENT DUPLICATIVE OF YOUR CAPITAL**  
11 **PRIORITIZATION ADJUSTMENT?**

12 A. No. The new line extension policy went into effect on January 1, 2022, so the 2021  
13 baseline used in my capital prioritization adjustment did not consider the effects of this  
14 change. Stated differently, if the new line extension policy had been considered in the  
15 capital prioritization adjustment, it would have been necessary to reduce the baseline for  
16 the change in policy.



1 **c. Tacoma Liquefied Natural Gas (Adjs. 11.33, 11.48, 11.50)**

2 **Q. WHAT IS AWEC'S PROPOSAL RELATED TO THE TACOMA LNG**  
3 **INVESTMENTS?**

4 A. Since these investments are attributable to the production of gas, for the benefit of sales  
5 customers, AWEC recommends that they be removed from general rates and recovered  
6 through a separate rider schedule, which would be deferred and trued up annually  
7 beginning on November 1, 2023, at the same time as PSE's annual Purchased Gas  
8 Adjustment ("PGA") filings. This proposal is discussed in greater detail in the Response  
9 Testimony of AWEC witness Dr. Kaufman.

10 **Q. WHY DO YOU PROPOSE DEFERRING THE COST UNTIL THE 2023 PGA?**

11 A. Deferring the cost until the 2023 PGA will provide further rate stability for sales  
12 customers because it will correspond to the expiration of the supplemental PGA  
13 amortizations associated with the Enbridge outages. It will also be possible to  
14 incorporate the impacts of an approximate \$28,675,000 refund due from the Northwest  
15 Pipeline to offset the impact of the deferral, resulting in further rate stability.

16 **Q. WHY DO YOU RECOMMEND THE AMOUNT BE TRUED UP ANNUALLY?**

17 A. This treatment will provide ratepayers with the ongoing benefit of the declining rate base  
18 associated with these facilities and will also consider the impact of changing production  
19 levels, which will also impact the cost of gas.

20 **Q. WHAT IS THE IMPACT OF THIS RECOMMENDATION?**

21 A. The impacts of this recommendation are detailed in **Table 7**, below.

**Table 7**  
**Revenue Requirement Impact of Removing Tacoma LNG**

	<u>Base Rate</u>	<u>Rate Year 1</u>	<u>Rate Year 2</u>	<u>Rate Year 3</u>
<b>Direct Capital (Adj. 11.33)</b>				
NOI (Pre-Tax)	-	5,100	-	-
Rate Base	-	(225,136)	7,381	7,134
Rev. Req. (Incr.)	-	(26,813)	704	681
<b>Less Deferral Rev. Req.</b>				
Adj. 11.48 LNG Upgrade	(2,829)	(2,299)	40	40
Adj. 11.50 Capital Deferral	-	(8,790)	200	200
<b>Total Rev. Req. (Incr.)</b>	<b>(2,829)</b>	<b>(37,901)</b>	<b>944</b>	<b>921</b>

1 **d. Renewable Natural Gas (Adj. 11.33)**

2 **Q. WHAT TREATMENT DO YOU RECOMMEND FOR RENEWABLE NATURAL**  
3 **GAS?**

4 A. PSE’s capital forecast includes \$28,888,675 of capital for RNG acquisitions in each year  
5 2023, 2024 and 2025. Rather than recovering the costs of these investments through  
6 general rates, AWEC recommends establishing a renewable natural gas tracking  
7 mechanism, which would be updated at the same time as the PGA, and which would only  
8 be paid by sales customers. Transportation customers have their own compliance  
9 obligations under the Climate Commitment Act and therefore do not benefit from the  
10 renewable natural gas that PSE purchases for its sales customers.<sup>21</sup> In such a  
11 circumstance, ratepayers would be double-paying for compliance, both through their own  
12 compliance obligations and by paying for PSE’s RNG costs in rates. This approach is  
13 also preferred because it will allow PSE and the Commission to consider the merits of

<sup>21</sup> RCW 70A.65.080(1)(e)(ii).

1 individual projects in the context of annual filings, rather than the blanket authorization  
2 that PSE has proposed in this case. While AWEC recommends these expenditures be  
3 removed from revenue requirement, these additions were considered in the capital  
4 prioritization adjustment targets identified above. Accordingly, I have not made a  
5 separate adjustment to remove these costs from the rate plan period as doing so would be  
6 duplicative.

7 **e. Refundable Rates (Schedule 141R)**

8 **Q. HOW DO YOU RECOMMEND THE COMMISSION CONSIDER THE**  
9 **REFUNDABLE RATES PSE HAS PROPOSED IN ITS RATE PLAN?**

10 A. Rather than adopting PSE's proposal for a true-up involving non-refundable and  
11 refundable Schedule 141 rates, I recommend the Commission combine Schedules 141R  
12 and 141N into a single Schedule 141 surcharge for each year of the rate plan. Rather than  
13 separately evaluating which specific capital investments and costs are included in rates as  
14 refundable, versus non-refundable, investments, I recommend the Commission's capital  
15 review process, as identified in the Commission's Policy Statement in Docket U-190531,  
16 review the aggregate level of spending in each year of the rate plan, including the 2022  
17 Gap Year spending. I recommend that, to the extent the prudent spending levels were  
18 less than the approved levels, the revenue requirement impacts of the spending simply be  
19 deferred and considered in PSE's next general rate case. Given that PSE may wish to  
20 accelerate or delay investments over the course of the rate plan, however, it might not be  
21 unreasonable for the Commission to allow PSE to net underspending in one year of the  
22 rate plan, with overspending in other years, so long as the aggregate level of capital

1 spending approved over the rate plan is not exceeded. This treatment allows the  
2 Commission to consider the used and usefulness of plant in service, without having to  
3 undertake the exercise of determining which specific investments were included in the  
4 refundable versus non-refundable rate category. If the Commission is nevertheless  
5 inclined to adopt an approach that allows for a project-by-project review, it is still  
6 possible to establish a level of spending for each year of the rate plan, and indicate that its  
7 after-the-fact review will be limited to projects that were part of PSE's filed case. This  
8 approach does not necessitate separate Schedules 141R and 141N. Stated differently, it  
9 is possible for the Commission to designate the combined Schedule 141 surcharge as  
10 being subject to refund in its entirety.

11 **Q. HOW DO YOU PROPOSE THE COMMISSION ADDRESS THE THREE**  
12 **MAJOR PROJECTS, IDENTIFIED ABOVE?**

13 A. I recommend that the capital for the three major projects—Tacoma LNG, Energize  
14 Eastside, and Lower Baker Grouting—be carved out for alternative ratemaking treatment  
15 as set forth below.

16 As noted, AWEC recommends that the revenue requirement for the Tacoma LNG  
17 project continue to be deferred until November 1, 2023, and be included in rates based on  
18 actual costs incurred, which are now known, with no need for a retroactive adjustment for  
19 refundable rates.

20 For Energize Eastside, AWEC recommends that the Commission evaluate the  
21 prudence of the project in this case. AWEC is not contesting the prudence of the project.  
22 However, I recommend that the revenue requirement be included in rates as a separate

1 rider rate adjustment with recovery capped at PSE's filed case. Since the transfers to  
2 plant occur over various time frames, I recommend the Commission require PSE to defer  
3 any revenue requirement differences associated with delays, or underspending, over the  
4 rate plan period and until it files its next general rate case, avoiding potential litigation of  
5 refunds during the rate-effective period.

6 Finally, I recommend that the Lower Baker Grouting project not be considered at  
7 all in this docket. The Lower Baker Grouting project has a capital budget that exceeds all  
8 others in this case by a wide margin. The Lower Baker dam produces 79 MW of  
9 electricity, and given the \$436,459,992 capital budget proposed, it is necessary for PSE  
10 and the Commission to undertake a thorough and thoughtful analysis of alternatives,  
11 including potential decommissioning, before approving such a significant investment in  
12 the 100-year-old facility. Further, the investment is also not expected to be placed into  
13 service until the very last month of the rate plan period. Given the scale and uncertainty  
14 associated with the project, as well as the amount of time before it is completed, I  
15 recommend the Commission decline to consider the prudence of the Lower Baker  
16 Grouting project in this case. I therefore recommend the Commission exclude the Lower  
17 Baker Grouting project from the approved revenue requirement in this case and consider  
18 the prudence and actual project spending in PSE's next general rate case. While this has  
19 the potential to subject PSE to a modest amount of regulatory lag – less than one month,  
20 with respect to the project – PSE retains the option to file a new rate case prior to the end  
21 of the rate plan, if the Lower Baker Grouting project is completed earlier than expected  
22 with revenue impacts necessitating further rate relief.

V. OPERATING EXPENSES

a. Five-Year Plan Budget (Adjs. 6.22, 11.22)

Q. WHAT LEVEL OF OPERATIONS AND MAINTENANCE INCREASES DOES PSE PROPOSE IN THE RATE PLAN PERIOD?

A. The O&M levels that PSE proposes are detailed generally in Free, Exh. SEF-17. The specific adjustments to O&M were calculated in the revenue requirement model for the respective business lines, in the Tab “Dec13.” As detailed in that tab, rather than proposing specific pro-forma adjustments in the rate plan period, PSE performs a “Top-Down” adjustment where it forces the O&M levels included in revenue requirement to match the levels it calculated in its five-year plan budget. These adjustments relative to the 2022 O&M levels included in the revenue requirement model are detailed in Exhibit BGM-7 and summarized in Table 8, below.

Table 8
PSE Proposed O&M Adjustments (\$000)

Table with 5 columns: Category, Pro-Forma 2022, 2023, 2024, 2025. Rows include Electric, Gas, and Total Company with their respective values and percentage increases.

As can be seen from the table, reliance on PSE’s five-year plan budget produces a stark increase to O&M relative to the pro forma levels, particularly in the first year of the rate plan period.

1 **Q. HOW WERE PSE’S O&M BUDGETS DEVELOPED?**

2 A. As PSE acknowledges, its budget involves a tiered prioritization process that involves  
3 “trade-offs” and “judgments” of subject matter experts at the Company.<sup>22</sup> PSE witness  
4 Kensok generally describes the process by which the budgeted levels were reviewed and  
5 approved within the Company. Thus, like the capital forecast at issue in this proceeding,  
6 the Commission is in a position of having to review the reasonableness of the trade-offs  
7 and judgments of subject matter experts, rather than reviewing discrete known and  
8 measurable adjustments.

9 **Q. WHAT ASSUMPTIONS AND PARAMETERS WERE USED IN THE**  
10 **DEVELOPMENT OF THE BUDGETED O&M?**

11 A. The specific assumptions and parameters that went into that process described by PSE  
12 witness Kensok are largely unknown. The output from the budget process was provided  
13 in PSE witness Free workpaper “NEW-PSE-WP-SEF-6E-11G-OM-22GRC-01-2022,”  
14 Tab “2021-2026 Opex Data Table.” Notwithstanding, the values in that workpaper were  
15 hardcoded, so while the process for developing the budget was described in testimony,  
16 the actual assumptions and calculations that were used in developing the budget were not  
17 detailed in PSE’s initial filing, nor in its supporting workpapers.

18 **Q. DID YOU REQUEST PSE PROVIDE ADDITIONAL INFORMATION TO**  
19 **SUPPORT ITS O&M BUDGET PROPOSAL?**

20 A. In AWEC Data Request 122, PSE was requested to provide further workpaper support for  
21 the hardcoded values that were presented in its O&M workpaper. The objective of that  
22 request was to develop an understanding of the assumptions and parameters used to

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<sup>22</sup> Kensok, Exh. JAK-1T at 7:18.

1 develop the budgeted increases identified in **Table 8**, above. I am aware that Public  
2 Counsel made similar, repeated requests for workpapers supporting the budgeted O&M  
3 calculations, for example in Public Counsel Data Request 296.

4 **Q. HOW DID PSE RESPOND?**

5 A. In response to AWEC Data Request 122, PSE was unable to produce any workpapers or  
6 additional support for its budget calculations, other than the general descriptions of the  
7 budgeting process that were described in PSE witness Kensok's Direct Testimony.

8 Other than that, PSE stated that "the O&M forecast on tab '2021-2026 Opex Data Table'  
9 of the referenced work paper is a consolidation of various data sources that include in  
10 some instances baseline cost escalations, specific estimates taken from business cases,  
11 other testimony, or the prior year's approved plan."<sup>23</sup> PSE continued, "[t]here are no  
12 work papers with formulas that derive these hardcoded values outside of what has been  
13 provided."<sup>24</sup> Thus, despite parties' repeated attempts to review the calculations that went  
14 into developing the five-year plan O&M budget, PSE has not produced such information.

15 **Q. CAN THE COMMISSION DETERMINE IF THE BUDGET IS REASONABLE, IF**  
16 **THE ASSUMPTIONS AND CALCULATIONS ARE UNKNOWN?**

17 A. No. It is not *just* to require the Commission to presume that the assumptions and  
18 calculations used by the subject matter experts at PSE are reasonable without being able  
19 to review and consider those assumptions and calculations. From PSE's response to  
20 AWEC Data Request 122, it is clear that a large number of assumptions and calculations

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<sup>23</sup> Mullins, Exh. BGM-5 (PSE Response to AWEC DR 122).

<sup>24</sup> *Id.* (emphasis added).



1 went into the budget. Absent having an understanding of those assumptions, it is not  
2 possible to determine that the large increases relative to the test period results are  
3 reasonable.

4 **Q. WHAT IS DRIVING THE INCREASES TO THE TEST PERIOD RESULTS IN**  
5 **PSE'S BUDGET?**

6 A. As can be noted in **Mullins, Exh. BGM-7**, which contains a FERC Account level  
7 comparison between the test period and budgeted O&M levels, the increases for the  
8 electric business line are predominantly being driven by changes to administrative and  
9 general expenses and increases to customer service expenses. Similarly, the increases on  
10 the gas business line are being driven by changes to administrative and general expenses  
11 and increases to distribution expenses.

12 **Q. WHAT FACTORS ARE CAUSING SUCH A SIGNIFICANT INCREASE TO**  
13 **ADMINISTRATIVE AND GENERAL EXPENSES?**

14 A. While the specific drivers are unknown, it can be observed through a comparison to  
15 PSE's 2021 results of operations, provided in response to AWEC Data Request 001, that  
16 changes in FERC Accounts 920 – Administrative and General Salaries, and 930.2 Misc.  
17 General Expenses are a key contributor to the increases. A comparison between the  
18 unadjusted 2023 O&M included in the five-year plan budget and the 2021 results of  
19 operations are detailed in **Table 9**, below.

**Table 9**  
2021 Actual vs. 2023 Budgeted Administrative and General Expense  
(\$000)

	2021 Actual		2023 Budget		Delta	
	Electric	Gas	Electric	Gas	Electric	Gas
<b>920 - A &amp; G Salaries</b>	<b>59,104</b>	<b>27,035</b>	<b>92,901</b>	<b>39,082</b>	<b>33,797</b>	<b>12,047</b>
921 - Office Supplies and Expenses	8,971	4,336	8,051	3,937	(920)	(399)
922 - Admin Expenses Transferred	(24,909)	(12,689)	(21,713)	(11,037)	3,196	1,652
923 - Outside Services Employed	16,819	6,219	16,332	6,742	(488)	523
924 - Property Insurance	5,294	(105)	4,518	555	(776)	660
925 - Injuries & Damages	6,365	3,529	7,351	3,811	986	282
926 - Emp Pension & Benefits	35,236	15,503	32,692	15,504	(2,545)	2
928 - Regulatory Commission Expense	10,014	2,881	6,447	1,495	(3,566)	(1,386)
9301 - Gen Advertising Exp	17	0	4	-	(13)	(0)
<b>9302 - Misc. General Expenses</b>	<b>8,093</b>	<b>4,140</b>	<b>25,104</b>	<b>4,730</b>	<b>17,010</b>	<b>590</b>
931 - Rents	8,119	3,433	5,185	2,397	(2,934)	(1,036)
932 - Maint Of General Plant- Gas	-	1,083	-	1,213	-	131
935 - Maint General Plant - Electric	17,797	8,532	20,089	9,680	2,291	1,148
	150,921	63,897	196,959	78,111	46,038	14,214

1           The source of these increases, which would typically be supported by discrete  
2 pro-forma adjustments, is largely unknown. For both service lines, Account 920 – A&G  
3 salaries increased by 53% in the budget relative to 2021 results. This is not an immaterial  
4 difference, and one would hardly expect wage increases of such a magnitude over a two-  
5 year period. It is possible, for example, that the major difference is resulting from an  
6 error in PSE’s calculation in the treatment of capitalized labor expense, or potentially the  
7 allocation of overhead costs, although it was not possible to investigate these types of  
8 assumptions within the calculation, since PSE did not provide any workpapers to support  
9 them.

10           The increase to FERC Account 930.2 miscellaneous expenses, particularly on the  
11 electric business line, was also concerning since that category of expense is a catch-all for  
12 expense items that do not necessarily fit into some other classification. In response to

1 AWEC Data Request 131, PSE provided the historical cost center data for this account. I  
2 attempted to compare the reasonableness of the changes to this account in the forecast  
3 data by reviewing the historical cost center data. Notwithstanding, based on a  
4 comparison to the cost center date included in workpaper “NEW-PSE-WP-SEF-6E-11G-  
5 OM-22GRC-01-2022,” it appears that the key driver of the difference to this account was  
6 a hard-coded plug value, with no relevant description or explanation. This plug value  
7 may be observed on tab “EXBENTAX\_Allocation” Excel Row 526 with the WBS  
8 Description “Labor Variance.” This amount was not attributed to any particular cost  
9 center, nor to any explainable factor in PSE’s workpaper. Accordingly, I was unable to  
10 verify the reasonableness of the increase to miscellaneous expenses.

11 **Q. WHAT IS DRIVING THE INCREASE TO CUSTOMER SERVICE EXPENSES?**

12 A. As noted in **Mullins, Exh. BGM-7**, customer service expenses were budgeted to increase  
13 by 95.8% in 2023 relative to the test period level on a total-company basis. Similar to the  
14 increase associated with FERC Account 930.2 miscellaneous expenses, the increase can  
15 be traced back to a hard-coded plug value in the workpaper “NEW-PSE-WP-SEF-6E-  
16 11G-OM-22GRC-01-2022”, Tab ““EXBENTAX\_Allocation” Excel Row 523 with the  
17 WBS Description “Labor Variance.” Once again, I was unable to verify the  
18 reasonableness of this dramatic increase to budgeted customer service expenses. It is  
19 possible, for example, that the difference is related to low-income program amortizations  
20 that were removed in pro-forma adjustments 6.02 and 11.02, and therefore, not  
21 appropriately considered in the O&M budget. Notwithstanding, it was not possible to

1 verify whether those amortization amounts were considered in the budgeted expenses  
2 levels, since assumption-level detail was not provided.

3 **Q. WHAT IS DRIVING THE INCREASES TO GAS DISTRIBUTION EXPENSES?**

4 A. The increases to gas distribution expenses occurred across a range of accounts. The  
5 increases relative to the 2021 actual expenses are detailed in Table 10, below:

**Table 10**  
2021 Actual vs. 2023 Budgeted Gas Distribution Expenses  
(\$000)

	2021 <u>Actual</u>	2023 <u>Budget</u>	<u>Delta</u>
870 - Distribution Oper Supv & Engineering	2,098	2,680	582
871 - Distribution Oper Load Dispatching	287	286	(2)
874 - Distribution Oper Mains & Services Exp	20,881	22,440	1,559
875 - Distribution Oper Meas & Reg Sta Gen	1,501	1,776	275
876 - Distribution Oper Meas & Reg Sta Indus	1,039	393	(646)
878 - Distribution Oper Meter & House Reg	1,910	2,895	985
879 - Distribution Oper Customer Install Exp	1,529	3,467	1,938
880 - Distribution Oper Other Expense	16,029	17,296	1,267
881 - Distribution Oper Rents Expense	255	133	(122)
885 - Dist Maint Supv & Engineering	57	186	129
886 - Maint of Facilities and Structures	106	142	35
887 - Distribution Maint Mains	8,761	9,498	737
889 - Distribution Maint Meas & Reg Sta Gen	821	892	71
890 - Distribution Maint Meas & Reg Sta Ind	48	150	102
892 - Distribution Maint Services	4,484	6,437	1,953
893 - Distribution Maint Meters & House Reg	512	1,320	808
894 - Distribution Maint Other Equipment	376	403	27
	<u>60,694</u>	<u>70,393</u>	<u>9,699</u>

6 As can be seen, several accounts, such as Account 892, Distribution Maint  
7 Services, are driving the approximate 16% increase to gas distribution expenses relative  
8 to 2021 actual results. In response to AWEC Data Request 126, I reviewed the historical

1 cost center data for Account 892, to evaluate whether the increase was reasonable. The  
 2 results of that analysis are detailed in Table 11, below.

**Table 11**  
2021 Actual vs. 2023 Budgeted FERC Account 892 Expenses by Cost Center

	2021 Actual	2023 Budget	Delta
3037 - Gas Measurement	295,440	333,633	38,193
3042 - Gas System Operations	217,484	232,984	15,500
3083 - Gas Construction Performance Manage	1,360,851	1,123,402	(237,449)
3095 - Gas First Response	678,701	786,814	108,113
4019- Contractor Mgmt 2	31,924		(31,924)
4100 - System Controls & Protection	100,723	298,714	197,991
4160 - Gas System Integrity	55,422	57,852	2,430
4207 - Director Customer & System Projects	62,483	2,141,806	2,079,322
4580 - Electric & Gas System Engineering&D	8,647	10,021	1,374
4588 - Infrastructure Program Management	1,503,709	1,510,182	6,474
9802 - Damage&Injury Liability Claims	276,526	156,797	(119,729)
9804 - Construction Support (CNS)	(107,730)	(125,311)	(17,581)
	4,484,180	6,526,893	2,042,713

3 Note that there were some minor differences between the budgeted cost center  
 4 data that I revised and the FERC account detail in Table 10, which I was unable to  
 5 reconcile. Notwithstanding, from this data it can be observed that the increase to this  
 6 particular account was driven entirely by Cost Center 4207, Director Customer & System  
 7 Projects. From the data reviewed, however, there was no apparent reason why it is  
 8 necessary for the expenses for this cost center to increase by such a dramatic degree.

9 **Q. GIVEN THE INADEQUACIES IN PSE’S O&M BUDGET, WHAT DO YOU**  
 10 **RECOMMEND?**

11 A. I recommend that the Commission reject PSE’s O&M budgets altogether. PSE has  
 12 provided no support for the significant O&M increases that it is proposing by using its

1 five-year plan budget, other than high level descriptions about the methods used to  
 2 develop those budgets. Rather than relying on the budget data, I recommend the  
 3 Commission use the 2022 Pro Forma O&M calculations PSE included in base rate  
 4 revenue requirement and apply an inflationary adjustment, using the same rates I used for  
 5 capital in **Table 3**, above. This calculation is provided on Page 2 of **Mullins, Exh.**  
 6 **BGM-7**.

7 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?**

8 A. The impact of my recommendation is detailed in Table 12, below.

**Table 12**  
Revenue Requirement Impact of AWEC O&M Recommendation  
(\$000)

	Rate Year 1	Rate Year 2	Rate Year 3
Electric			
Expense	(64,095)	(1,684)	(2,887)
Revenue Req.	(67,302)	(1,768)	(3,032)
Gas			
Expense	(30,341)	(1,302)	(526)
Revenue Req.	(31,755)	(1,363)	(550)

9 **b. Directors' Fees and Expenses (Adj. A2)**

10 **Q. WHAT AMOUNT OF DIRECTORS' FEES AND EXPENSES ARE INCLUDED**  
 11 **IN REVENUE REQUIREMENT?**

12 A. In response to AWEC Data Request 66, PSE provided detail of the amount of directors'  
 13 fees included in electric and gas revenue requirement for each year in the rate plan.<sup>25</sup> In  
 14 response to AWEC Data Request 67, PSE provided the amount of directors' expenses

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<sup>25</sup> Mullins, Exh. BGM-5 (PSE Response to AWEC DR 66).

1 included in electric and gas revenue requirement for each year in the rate plan.<sup>26</sup> Finally,  
 2 in response to AWEC Data Request 68, PSE provided transactional data supporting the  
 3 directors’ fees and expenses included in the Test Period.<sup>27</sup> Those responses are  
 4 summarized in **Table 13**, below.

**Table 13**  
Directors’ Fees and Expenses Included in Revenue Requirement

	<u>Test Period</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Directors' Fees				
Electric	437,848	663,842	663,842	663,842
Gas	<u>222,567</u>	<u>337,445</u>	<u>337,445</u>	<u>337,445</u>
Sub-total	660,415	1,001,287	1,001,287	1,001,287
Directors' Expenses				
Electric	7,438	64,936	65,422	65,918
Gas	<u>3,781</u>	<u>33,008</u>	<u>33,256</u>	<u>33,508</u>
Sub-total	11,219	97,944	98,678	99,426
Grand Total	671,634	1,099,231	1,099,965	1,100,713

5 **Q. WHAT IS THE COMMISSION’S POLICY TOWARDS DIRECTORS’ FEES AND**  
 6 **EXPENSE?**

7 A. The Commission’s policy is to share the costs of directors’ fees between ratepayers and  
 8 shareholders. In Avista’s 2015 GRC, the Commission affirmed its “practice is to allow  
 9 the Company recovery of 50 percent of director fees from ratepayers.”<sup>28</sup> This treatment  
 10 was also recently reaffirmed by the Commission in the 2020 GRC of Cascade Natural  
 11 Gas Corporation (“Cascade”), where Cascade accepted, and the Commission approved,

<sup>26</sup> *Id.* (PSE Response to AWEC DR 67).

<sup>27</sup> *Id.* (PSE Response to AWEC DR 68).

<sup>28</sup> Dockets UE-150204/UG-150205, Order 05 at ¶ 220 (Jan. 6, 2016).

1 the adjustment of AWEC and Public Counsel to remove 50 percent of directors' fees  
2 from the Cascade's revenue requirement.<sup>29</sup>

3 **Q. WHY IS THIS POLICY REASONABLE?**

4 A. While directors are a necessary part of the governance structure for a utility, directors  
5 have a fiduciary responsibility towards shareholders, not ratepayers. Thus, when the  
6 interests of shareholders and ratepayers are aligned it can be said that directors are  
7 working for the benefit of ratepayers; otherwise, where there is a conflict, boards of  
8 directors act in the interest of shareholders. Given this conflict, it is appropriate for  
9 shareholders to fund a portion of the cost of their corporate directors, rather than  
10 ratepayers reimbursing the entire costs through rates.

11 **Q. HAS PSE MADE A SIMILAR ADJUSTMENT IN THIS CASE?**

12 A. No.

13 **Q. WHAT IS DRIVING THE INCREASE IN DIRECTORS' FEES AND EXPENSES**  
14 **RELATIVE TO THE TEST PERIOD?**

15 A. The increase was not described in response to AWEC's data requests. Notwithstanding,  
16 PSE's board-approved budget would represent a 52% increase to board of directors' fees.  
17 Such a level of increase is not supportable in this case, and therefore, it is necessary to  
18 remove this increase from revenue requirement.

19 **Q. WHAT TYPES OF COSTS ARE INCURRED AS DIRECTORS' EXPENSES?**

20 A. Based on the transactional detail provided in response to AWEC Data Request 68, the  
21 test period directors' expenses included items such as a "Brass plaque for PSE Board

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<sup>29</sup> Docket UG-200568, Order 05 ¶ 31 (May 18, 2021).



1 Member,” and a “Magnet and sign post for PSE board member.” These types of costs  
2 serve a similar function as directors’ fees and are therefore appropriately considered  
3 when performing the 50% adjustments to director’s fees, consistent with Commission  
4 precedent.

5 **Q. WHAT DO YOU RECOMMEND?**

6 A. My recommendation has three parts. First, I recommend removing the unsupported  
7 increases in directors’ fees and expenses assumed in the rate plan. Second, I recommend  
8 the Commission continue its policy of allocating 50% of directors’ fees to shareholders  
9 and removing those amounts from revenue requirement. Third, I recommend that the  
10 50% adjustment also apply to directors’ expenses, which serve a similar function as  
11 directors’ fees.

12 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?**

13 A. Based on the test period level of spending, my recommendation results in pro forma  
14 directors’ and officers’ fees and expenses of \$222,643 for electric services and \$113,174  
15 for gas services. The impact of adjusting to this level of my recommendation is detailed  
16 in **Table 14**, below.

**Table 14**  
Revenue Requirement Impact of Directors’ Fees Adjustments

	<u>Rate Year 1</u>	<u>Rate Year 2</u>	<u>Rate Year 3</u>
Electric Services			
NOI (Pre-Tax)	506,135	486	496
Rev. Req. (Incr.)	531,460	510	521
Gas Services			
NOI (Pre-Tax)	257,279	248	252
Rev. Req. (Incr.)	269,277	260	264

1 **VI. NORTHWEST PIPELINE REFUND (ADJ. 6.45)**

2 **Q. PLEASE PROVIDE AN OVERVIEW OF THE REFUND THAT IS AT ISSUE**  
3 **WITH THE NORTHWEST PIPELINE.**

4 A. In FERC Docket No. RP17-346, the Northwest Pipeline and its Shippers entered into a  
5 Stipulation and Settlement Agreement, which, among other things, required Northwest  
6 Pipeline to defer the impacts of a potential tax rate change in a regulatory asset to be  
7 refunded, or collected, at the time of its next rate case. A copy of the relevant portions of  
8 the Stipulation and Settlement Agreement are attached at **Mullins, Exh. BGM-8**. The  
9 Stipulation and Settlement Agreement were filed on January 23, 2017, well before the  
10 enactment of the Tax Cuts and Jobs Act of 2017 (“TCJA”), and at the time, there was  
11 uncertainty over the likelihood or magnitude of tax reform and/or a tax rate increase  
12 given the new presidential administration that was taking office around the same time.  
13 Under Appendix E to the Stipulation and Settlement Agreement, Northwest Pipeline and  
14 Shippers agreed to accrue a specified amount of regulatory liability dependent on various  
15 tax rate changes. At a 21% tax rate, which was eventually enacted in the TCJA,  
16 Northwest Pipeline was required to accrue \$23,580,040 per year to the regulatory liability  
17 account until the filing of its next general rate case.

18 **Q. WHEN WAS NORTHWEST PIPELINE REQUIRED TO FILE ITS NEXT**  
19 **GENERAL RATE CASE?**

20 A. The Stipulation and Settlement Agreement has a provision requiring Northwest Pipeline  
21 to file a new rate case no later than July 1, 2022, with new rates effective January 1,  
22 2023. Northwest Pipeline and Shippers, including PSE and AWEC members, are

1 currently in pre-rate case settlement negotiations evaluating the potential resolution of the  
2 case prior to Northwest Pipeline making its filing.

3 **Q. WHAT IS THE AMOUNT OF THE REFUND AT ISSUE?**

4 A. Given the January 1, 2023 rate effective date, the total amount of the refund at issue,  
5 spanning regulatory liability balances accrued over the five-year period 2018 through  
6 2022, is \$117,900,200, which will be refunded to Shippers, plus interest at the FERC  
7 short-term interest rate.<sup>30</sup> With interest, the total amount of the refund will be  
8 approximately \$129,544,958.<sup>31</sup>

9 **Q. WHAT PORTION OF THE REFUND WILL PSE RECEIVE?**

10 A. In AWEC Data Request 41, AWEC requested that PSE identify the total refund it will  
11 receive. After consultation with the Northwest Pipeline, PSE identified \$28,675,000 that  
12 it will receive in connection with the refund.<sup>32</sup> Of that amount, \$4,353,000 is  
13 related to electric services and \$24,322,000 is related to gas services.<sup>33</sup>

14 **Q. HOW DO YOU RECOMMEND THE REFUND BE HANDLED IN THIS CASE?**

15 A. While there is still uncertainty on the timeframe over which this refund will be provided,  
16 that uncertainty will be resolved by the time a settlement is reached or when Northwest  
17 Pipeline files its case. There is no uncertainty, however, that PSE will receive a refund,  
18 nor the amount of the refund. Therefore, I recommend that the refunds be considered in  
19 this case.

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30 \$23,580,040 × 5.

31 Calculation is provided in my workpapers.

32 Exh. Mullins BGM-5 (PSE Response to AWEC DR 41).

33 *Id.*

1 **Q. HOW DO YOU RECOMMEND THAT THE ELECTRIC PORTION OF THE**  
2 **REFUND BE HANDLED?**

3 A. I recommend that the electric refund be applied as a reduction to forecast power cost in  
4 the 60-day power cost update, in a manner consistent with the final resolution of the  
5 refund.

6 **Q. HOW DO YOU RECOMMEND THAT THE GAS PORTION OF THE REFUND**  
7 **BE HANDLED?**

8 A. For rate mitigation purposes, I recommend that the gas portion of the refund be applied as  
9 an offset against the Tacoma LNG revenue requirement, which AWEC recommends  
10 deferring until November 1, 2023, and recovering through a separate rider coinciding  
11 with PSE's 2023 PGA filing. Applying the refund as an offset to the Tacoma LNG  
12 revenue requirement will mitigate the rate impact to sales customers associated with the  
13 LNG facility. Notwithstanding, if the Commission does not accept AWEC's  
14 recommendation to continue deferring the Tacoma LNG revenue requirement and/or  
15 recover the balance through a separate rider, AWEC still recommends that the Northwest  
16 Pipeline refund be applied as an offset to the first-year revenue requirement of the  
17 Tacoma LNG facility as a rate mitigation measure.

18 **VII. MONETIZED PRODUCTION TAX CREDITS (ADJ. A3)**

19 **Q. HOW HAS PSE CLASSIFIED PRODUCTION TAX CREDITS IN ITS**  
20 **INVESTOR SUPPLIED WORKING CAPITAL MODEL?**

21 A. In its investor supplied working capital calculation, PSE included \$279,743,557 in  
22 monetized production tax credit ("PTC") balances as a non-operating liability. PSE  
23 presumably selected this classification because the regulatory liability is accruing a  
24 carrying charge. These balances may be found on three rows in the workpapers of PSE

1 witness Free titled “NEW-PSE-WP-SEF-5E-10G-WkgCapRateBase-22GRC-01-2022”,  
2 Tab “New Format B.Sheet.” First, on Excel row 49, PSE details the \$135,694,578 in  
3 monetized PTC liability that has not yet been used to offset unrecovered plant balances.  
4 Second, on Excel Row 64, PSE details the accrued interest on the regulatory liability  
5 balance. Finally, on Excel row 281, PSE details \$110,972,218 in regulatory balances  
6 used to offset the unrecovered plant of Colstrip Units 1 and 2 at retirement. Notably, the  
7 unrecovered investment balance of Colstrip Units 1 and 2 on Excel row 280 was  
8 classified as an electric rate base item, even though the offsetting PTC regulatory liability  
9 was not.

10 **Q. DO YOU AGREE WITH PSE’S TREATMENT?**

11 A. No. PSE’s treatment results in a reduction to the non-utility operating balances included  
12 in the investor supplied working capital calculation. By reducing the non-operating  
13 balances for monetized PTCs, the proportion of working capital requirements attributed  
14 to non-utility operations is also reduced. Given that the PTC balances are a ratepayer  
15 funded asset and earning a carrying charge at PSE’s full cost of capital, however, it is  
16 more appropriate to consider those amounts as a rate base item, even though they are not  
17 included directly in rate base in the revenue requirement model. There are many  
18 accounts not included directly in rate base in the revenue that are still utility funded assets  
19 or liabilities. For example, PSE proposes to remove Colstrip from base rates altogether to  
20 be tracked through a rider schedule (Schedule 141C),<sup>34</sup> but it will still be necessary to

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<sup>34</sup> Free, Exh. SEF-18.

1 consider the Colstrip balances when calculating the allocation of working capital  
2 requirements between utility and non-utility capital. If the Commission accepts PSE's  
3 treatment, it would also be necessary to include all of the Colstrip-related balances as  
4 non-utility accounts.

5 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?**

6 A. The impact of this change, which is detailed in **Mullins, Exh. BGM-9**, is a \$10,412,256  
7 reduction to electric working capital in all years of the rate plan. This change produces a  
8 \$996,448 reduction to base electric revenue requirement.

9 **VIII. REGULATORY ASSETS**

10 **a. Storm Damage Amortization (Adj. 6.51)**

11 **Q. PLEASE PROVIDE THE RELEVANT REGULATORY BACKGROUND**  
12 **RELATED TO STORM DAMAGE AND AMORTIZATION.**

13 A. In the 2019 GRC, PSE initially included amortization of storm costs, with various  
14 amortization periods for different storms, based on the rate case where the storm  
15 regulatory asset was approved.<sup>35</sup> This resulted in a range of overlapping amortization  
16 periods for several different regulatory assets. In Bench Request 15, however, the  
17 Commission requested input from the parties regarding methods to reduce the impact of  
18 the rate filing, considering the impacts of COVID-19.<sup>36</sup> One of the proposals offered by  
19 PSE was to consolidate and extend the amortization period for major storms to 27  
20 years.<sup>37</sup> In its response, PSE identified \$109,231,675 in deferred storm costs that were

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<sup>35</sup> Docket UE-190529 et al., Free, Exh. SEF-1T at 64:17-66:8.

<sup>36</sup> Docket UE-190529 et al., Bench Request 15 (Apr. 22, 2020).

<sup>37</sup> Docket UE-190529 et al., PSE's Response to Bench Request 15 (May 1, 2020).

1 subject to amortization.<sup>38</sup> In response to PSE’s proposal, Staff recommended that the  
2 amortization be limited to five years, considering the long-term effects of extending the  
3 amortization period.<sup>39</sup> In its Order, the Commission accepted Staff’s recommendation,  
4 requiring PSE to consolidate its storm regulatory assets and amortize the balance over a  
5 five-year period.<sup>40</sup>

6 **Q. HOW HAS PSE PROPOSED TO HANDLE STORM COSTS IN THIS CASE?**

7 A. PSE has proposed to retain the five-year amortization for the consolidated storm costs  
8 approved in the 2019 GRC, with amortization concluding in September 2025. Further,  
9 PSE has proposed to accrue \$49,594,633 in new storm costs, which it proposes to  
10 amortize over a four-year period, in addition to the amortization approved in the 2019  
11 GRC.<sup>41</sup> As a result, PSE has proposed amortization of \$34,245,089 in 2023, \$34,245,089  
12 in 2024, and \$29,264,639 in 2025.

13 **Q. DO YOU AGREE WITH PSE’S PROPOSAL?**

14 A. No. Because PSE is layering on four-year amortization of new storms on top of the five-  
15 year amortization approved in the 2019 GRC, the storm cost amortization has a  
16 disproportionately high impact on ratepayers over the rate plan period. If PSE had not  
17 consolidated the storm cost amortization in the 2019 GRC, many of the storm  
18 amortizations would have expired, leading to a lower overall amortization level during  
19 the rate plan.

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<sup>38</sup> See *id.*, Attach A-Storm-5-1-20.xlsx.

<sup>39</sup> UE-190529 et al., Staff’s Reply Response to Parties’ Responses to Bench Request 15 at 6 (May 8, 2021).

<sup>40</sup> UE-190529 et al., Order 08 ¶ 662 (July 8, 2020).

<sup>41</sup> See Witness Free workpaper “NEW-PSE-WP-SEF-6E-StormDamageAmort-22GRC-01-2022,” tab “Storm Amortization,” cell “D51.”

1 **Q. WHAT AMORTIZATION DO YOU RECOMMEND?**

2 A. I recommend that the Commission approve similar treatment in this proceeding as it  
3 approved in the 2019 GRC. Specifically, I recommend that the total storm cost  
4 regulatory asset balance, including the residual balance from the 2019 GRC, be  
5 consolidated and amortized over a five-year period. As of December 31, 2022, the total  
6 balance of the storm cost regulatory asset is \$110,153,475, including new storms  
7 regulatory assets proposed in this case. Thus, the annual amortization under my  
8 recommended treatment is \$22,030,695 or approximately \$12,214,393 less than the  
9 amount PSE has proposed. This amortization has been detailed in **Mullins, Exh.**

10 **BGM-10.**

11 **Q. HOW ARE THE RATE BASE BALANCES ASSOCIATED WITH THE STORM**  
12 **COST REGULATORY ASSETS CONSIDERED IN RATE BASE?**

13 A. Storm costs are considered a current asset in the context of the investor supplied working  
14 capital model. In total, PSE includes \$111,353,085 in current assets in the investor  
15 supplied capital calculation on an end-of-period basis.<sup>42</sup>

16 **Q. DOES PSE ADJUST THE BALANCES TO REFLECT ACCUMULATED**  
17 **AMORTIZATION?**

18 A. No. While AWEC does not necessarily oppose including the balances as a component of  
19 investor supplied working capital, it is still necessary when performing the pro forma  
20 storm adjustment to reduce the balance for amortization that has occurred over the rate  
21 plan period. In response to AWEC Data Request 56, PSE stated that it does not make

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<sup>42</sup> See witness Free workpaper “NEW-PSE-WP-SEF-5E-10G-WkgCapRateBase-22GRC-01-2022”, Tab “New Format B.Sheet”, Cells “T271:T279.”



1 adjustments to its working capital calculation.<sup>43</sup> This, however, is an untenable position,  
 2 as ratepayers are paying significant sums in amortization expense and to match costs with  
 3 offsetting benefits, must also recognize the benefit of that amortization through a  
 4 reduction in rate base, regardless of whether the balances are considered as a discrete rate  
 5 base item or in working capital.

6 **Q. WHAT RATE BASE ADJUSTMENT DO YOU PROPOSE?**

7 A. Under my amortization proposal detailed in **Mullins, Exh. BGM-10**, the average  
 8 accumulated amortization balance is \$10,729,972 in 2023, \$32,189,915 in 2024 and  
 9 \$53,649,859 in 2025. I recommend that these accumulated amortization amounts be  
 10 applied as an offset to rate base, after applying the working capital percentage and  
 11 adjusting for deferred taxes, which are similarly considered a current liability in the  
 12 investor supplied working capital model.

13 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?**

14 A. The year-to-year impact of this recommendation, including adjustments for the working  
 15 capital percentage and deferred taxes, is detailed in **Table 15**, below.

**Table 15**  
Electric Revenue Requirement Impact of Consolidated, Five-Year Storm Cost  
Amortization  
(\$000)

	<u>Rate Year 1</u>	<u>Rate Year 2</u>	<u>Rate Year 3</u>
NOI (Pre-Tax)	12,785	0	(4,980)
Rate Base	(8,790)	(17,580)	(17,580)
Rev. Req. (Incr.)	(14,266)	(1,682)	3,547

<sup>43</sup> Mullins, Exh. BGM-5 (PSE Response to AWEC DR 56).

1 **b. COVID-19 Deferral (Adjs. 6.22, 11.22)**

2 **Q. WHAT AMOUNTS DOES PSE PROPOSE TO RECOVER WITH RESPECT TO**  
3 **ITS COVID DEFERRALS?**

4 A. In witness Free’s workpaper NEW-PSE-WP-SEF-6E-11G-Covid-19Def-22GRC-01-  
5 2022, PSE details the amount of COVID expenses and revenues that it proposes to  
6 amortize in the rate period. In total, PSE proposes to recover \$2,665,831 from  
7 ratepayers, consisting of \$3,277,149 in deferred savings, \$5,101,467 of foregone  
8 revenues, and \$841,513 of deferred costs.<sup>44</sup>

9 **Q. IS IT APPROPRIATE FOR PSE TO RECOVER FOREGONE REVENUES?**

10 A. No. It is not appropriate for PSE to recover foregone revenues associated with the  
11 COVID-19 pandemic. The loss of these revenues is a business risk appropriately borne  
12 by shareholders, not a retroactive charge to ratepayers. If PSE is to now go back and  
13 recover the late fees that it would have otherwise charged customers during the COVID-  
14 19 pandemic, then it is not really forgiving the revenues, but rather recovering them at a  
15 later date. The COVID-19 pandemic was a challenging circumstance for many  
16 individuals and businesses. It is appropriate for PSE to be required to share in the impact  
17 of the difficult situation by truly forgiving the late payment and disconnection fees that it  
18 did not assess during COVID-19.

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<sup>44</sup> See Free Workpaper “NEW-PSE-WP-SEF-6E-11G-Covid-19Def-22GRC-01-2022,” Tab “Monthly JEs”  
Excel Row 24 (obtained by summing gas and electric services).

1 **Q. WHAT IS THE IMPACT OF REMOVING THE FOREGONE REVENUES FROM**  
2 **THE DEFERRAL?**

3 A. The impact of removing the forgone revenues from the COVID-19 deferral is detailed in  
4 **Table 16** for electric services and **Table 17** for gas services, below.

**Table 16**  
Impact of COVID-19 Foregone Revenues on Electric Service Revenue Requirement  
(\$000)

	<u>Rate Year 1</u>	<u>Rate Year 2</u>	<u>Rate Year 3</u>
NOI (Pre-Tax)	1,823	-	(1,823)
Rate Base	(2,161)	1,440	720
Rev. Req. (Incr.)	(2,115)	138	1,977

**Table 17**  
Impact of COVID-19 Foregone Revenues on Gas Service Revenue Requirement  
(\$000)

	<u>Rate Year 1</u>	<u>Rate Year 2</u>	<u>Rate Year 3</u>
NOI (Pre-Tax)	727	-	(727)
Rate Base	(862)	575	287
Rev. Req. (Incr.)	(844)	55	789

5 **IX. INFLATION TRACKER**

6 **Q. WHAT HAS PSE PROPOSED WITH RESPECT TO AN INFLATION**  
7 **TRACKER?**

8 A. In the Direct Testimony of PSE Witness Piliaris, PSE recommends the Commission  
9 approve an inflation tracking mechanism, which would, among other things, “update  
10 certain costs included in base rates during the multiyear rate plan period that were  
11 forecast when inflationary expectations were more modest than they have become more

1 recently.”<sup>45</sup> PSE has proposed this adjustment because it views the 2021 five-year plan  
2 budget to be out of date. PSE states that the budgets “included in the development of  
3 PSE’s rate plan were developed in the summer of 2021,”<sup>46</sup> and for that reason, it is  
4 reasonable to provide PSE with an extraordinary rate mechanism to account for cost  
5 increases that were not contemplated at the time that it prepared its budget.<sup>47</sup>

6 **Q. DO YOU AGREE WITH PSE’S PROPOSAL?**

7 A. No. AWEC recommends the Commission reject the proposed inflation tracker.  
8 Foremost, it is inappropriate for PSE to argue for an extraordinary rate mechanism due to  
9 deficiencies in the cost data that it submitted in its filing. If PSE believed that the cost  
10 projections submitted in its filing were inadequate, then it was PSE’s burden to revise  
11 those to produce levels that it found to be sufficient. PSE controls the timing of its rate  
12 cases and had the opportunity to prepare revised budgets to incorporate into its multi-year  
13 rate plan.

14 **Q. HAS PSE IDENTIFIED HOW SUCH A MECHANISM MIGHT BE**  
15 **STRUCTURED?**

16 A. Further, PSE has provided no clear proposal on how such a mechanism might be  
17 reasonably designed. PSE states, for example, that it might “revisit[] this issue with a  
18 specific proposal either through supplemental testimony, approximately one month  
19 before response testimony is due, or as part of its rebuttal testimony in this case.”<sup>48</sup> To

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<sup>45</sup> Piliaris, Exh. JAP-1T at 15:14-17.

<sup>46</sup> *Id.* at 16:17-18.

<sup>47</sup> *Id.* at 16:18 to 17:3.

<sup>48</sup> *Id.* at 18:20-19:1.

1 date, no such proposal has been made and to make such a proposal in rebuttal testimony  
2 is procedurally prejudicial and inappropriate. More substantively, structuring such a  
3 mechanism would be infinitely challenging because the degree of inflation embedded in  
4 the five-year budget that was used in this case is not known. Such a proposal is also  
5 antithetical to the purpose of a multi-year rate plan. If PSE is allowed to make wholesale  
6 adjustments to rates during the pendency of the multi-year rate plan, that would run  
7 counter to the very purpose of the multi-year rate plan, which was designed to avoid the  
8 need for such rate adjustments. While PSE's concerns over inflationary pressures may be  
9 understandable, inflation is a business risk that PSE must appropriately assume in  
10 connection with providing utility service and for which it is compensated through its  
11 return on equity. Finally, to the extent that mounting inflationary pressures do  
12 excessively erode PSE's earnings approved in the multi-year rate plan, PSE retains the  
13 ability to file a new rate case during the multi-year rate plan, as early as February 2024  
14 with new rates effective January 1, 2025.

15 **Q. DOES THIS CONCLUDE YOUR RESPONSE TESTIMONY?**

16 **A. Yes.**