

Exh. DPK-1Tr
Dockets UE-240004,
UG-240005, UE-230810
Witness: Danny P. Kermode

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**DOCKETS UE-240004,
UG-240005 and UE-230810
(Consolidated)**

TESTIMONY OF

DANNY P. KERMODE

**ON BEHALF OF STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Overall Revenue Requirement

August 6, 2024

Revised August 14, 2024

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| Exh. DPK-4r Electric Operating Income with Staff Adjustments – Proposed Trackers Included in Analysis

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| Exh. DPK-8r Natural Gas Operating Income with Staff Adjustments – Proposed Tracker Removed with Costs Restored to Base Rates

1 **I. INTRODUCTION**

2

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

4 A. My name is Danny Kermode, and my business address is 1850 Parkway Place, Suite 800,
5 Marietta, GA 30067. My business email address is danny.kermode@gdsassociates.com.

6

7 **Q. By whom are you employed and in what capacity?**

8 A. I am employed by GDS Associates, a national consulting firm specializing in regulatory
9 utility matters.

10

11 **Q. Please state your qualifications to provide testimony in this proceeding.**

12 A. I received my Bachelor of Science degree in accounting from Arizona State University in
13 1982 and was licensed as a Certified Public Accounting 1984. I have more than 40 years
14 of regulatory accounting experience within both private practice and in government. A
15 more detailed description of my qualifications is set forth in my Statement of
16 Qualifications found at Exhibit DPK-2. I have appeared as an expert witness in numerous
17 contested cases presenting financial, income tax and regulatory accounting issues. I last
18 worked as the Assistant Director for Water and Transportation at the Washington Utilities
19 and Transportation Commission (UTC or Commission). Prior to being appointed
20 Assistant Director, I was UTC's Director of Policy and Legislation. I also was previously
21 the Commissioners' chief accounting advisor and a senior energy policy advisor. I am a
22 retired Certified Public Accountant.

1 I worked for the UTC for over 25 years. Prior to working at the UTC, I had
2 accumulated over ten years of experience in private accounting practice specializing in
3 public utility regulation and was a Certified Financial Planner, although that certification
4 is now inactive.

5 I am a visiting faculty member and Senior Fellow at Michigan State University's
6 Institute of Public Utilities, where I continue to teach advanced regulatory studies and
7 basic ratemaking. Previously, I was on the faculty of the annual National Association of
8 Regulatory Utility Commissioner (NARUC) Rate School in San Diego California. In
9 2014, I worked as an adjunct professor at St. Martin's University teaching business
10 taxation.

11 In addition, I have written various articles on public utility regulation in
12 nationally- recognized publications, including the Public Utility Fortnightly and the
13 National Regulatory Research Institute Journal of Applied Regulation.

14
15 **Q. Have you testified previously before a regulatory commission?**

16 A. Yes. I have testified before the UTC at least 13 times covering various industries
17 including electric, natural gas, telecom, marine pilotage, oil pipeline and water utility. For
18 example, I filed testimony in two PacifiCorp d/b/a Pacific Power general rate cases, and
19 two Avista Utilities general rate cases. I have also testified specifically on income tax
20 issues in a rate case involving the Olympic Pipeline Company. Additionally, I have filed
21 testimony in various investor-owned water company general rate cases.

1 **II. SCOPE AND SUMMARY OF TESTIMONY**

2

3 **Q. What is the purpose and scope of your testimony?**

4 A. The purpose of my testimony is to present Staff’s revenue requirement analysis for Puget
5 Sound Energy’s (PSE or Company) two-year multiyear rate plan (MYRP) with rate years
6 beginning June 30, 2025, (Rate Year 1), and June 30, 2026, (Rate Year 2) for both its
7 electric and gas operations. Staff conducted an independent, stand-alone analysis to
8 determine the additional revenue required for the Company to have the opportunity to
9 achieve a reasonable return on its investment in Washington using modified historical test
10 year studies which include restating and known-and-measurable pro forma adjustments.

11 My testimony responds to the Company’s Washington Results of Operations for
12 Rate Year 1 and Rate Year 2 sponsored by Company witness Susan Free in Exhibit SEF-
13 4 for Puget Sound Energy’s electric operations and Exhibit SEF-8 for its natural gas
14 operations.

15

16 **Q. Please summarize the Company’s rate increase request for its electric operations in
17 Washington.**

18 A. In January of this year, PSE filed its MYRP for the years 2025 and 2026 requesting the
19 Commission approve rate increases for its electric operations of \$584.3 million and
20 \$259.9 million, respectively. In Rate Year 1 the \$584.3 million is reduced by \$499.0
21 million by tariffs resetting to zero. The Company is also requesting approval of three new
22 trackers which, if approved, would collect an additional \$106.9 ~~101~~-million in revenue in
23 Rate Year 1 and \$25.3 million in Rate Year 2.

	PSE	AMA DEC 2025	AMA DEC 2026
Revenue Deficiency - Grossed Up		584,376,758	\$ 259,901,924
Rate schedules set to zero		(499,034,932)	
Deficiencies for Trackers		106,876,213	25,266,288
Total Revenue Rate Change	\$	<u>192,218,039</u>	<u>\$ 285,168,212</u>

Q. Please summarize the Company's rate increase request for its natural gas operations in Washington.

A. At the same time which it filed for increased rates in its electric operations MYRP, PSE also filed for its natural gas operations. The Company filed for a rate increase of \$247.6 million for Rate Year 1, reduced by \$55.6 by tariffs resetting to zero; and as with its electric operations, the Company is also proposing a new tracker that would collect \$4.0 million in additional revenue netting \$196.0 million in additional revenue. For Rate Year 2 the Company is requesting \$25.4 million.

	PSE	Company	Company
Revenue Deficiency - Grossed Up		247,614,954	\$ 25,350,286
Rate schedules set to zero		(55,609,679)	
Deficiencies for Trackers		4,035,116	
Total Revenue Rate Change	\$	<u>196,040,391</u>	<u>\$ 25,350,286</u>

Q. Did Staff perform an analysis of the Company's request for increased rates.

A. Yes. Staff did a review of the Company's filing for both of its electric and gas operations.

1 **Q. Summarize Staff's approach to its analysis of the revenue requirements for PSE's**
2 **electric operations?**

3 A. Staff is using revenue requirement models that reflect the Company's 2023 test year and
4 the Company's proposed adjustments including adjustments to the 2024 GAP year and
5 the two proposed Rate Years 2025 and 2026. The models compute, after adjustments,
6 Staff's position regarding rate base and revenue requirement for each presented Rate
7 Year. In addition, PSEs MYRP for its electric operations contains a proposal to remove
8 from base rates those costs associated with three new trackers the costs of which would
9 normally be included in base rates. To better understand the impact of the proposed
10 trackers on electric rates, Staff performed two revenue requirement analyses.

11 The two studies, as adjusted by Staff, show first, the impact of the Company's
12 tracker associated costs and rate base impact on the overall revenue requirement for base
13 rates as filed by the Company. I have identified this study as Exhibit DPK-3r. In addition,
14 a second study was performed to reflect the impact of the removal of trackers and the
15 restoration of the costs on the overall revenue requirement for base rates. I have identified
16 this study as Exhibit DPK-5r 4.

17
18 **Q. Please explain why you provided separate analyses for the Company's electric rate**
19 **request showing the impact of restoring the trackers' costs to base rates?**

20 A. As testified by Staff witness Chris McGuire, in Exhibit CRM-1T, Staff is recommending
21 the Commission reject all three of the proposed trackers for electric and the single
22 proposed tracker for gas. The rejection by Staff requires the Commission to have a clear
23 understanding of the impact on revenue requirement of restoration of the embedded costs

1 of the proposed trackers into base rates. To do so, it is necessary to provide an analysis
2 reflecting the adjustments proposed by Staff not affected by the proposed trackers and an
3 additional analysis showing the tracker costs returned to base rates.

4
5 **Q. Please begin with a summary of your analysis of PSE’s proposal for its electric**
6 **operations with its proposed tracker costs removed from base rates.**

7 A. As shown in Exhibit DPK-3r at page 4, line 49, for Rate Year 1, Staff’s analysis shows
8 PSE earning a 1.25 percent overall rate of return on its adjusted rate base. Whereas, for
9 following Rate Year 2, our analysis shows PSE earnings drop to a negative 0.33 percent
10 on its adjusted rate base at current rates.

11 As shown on DPK-3r at page 5, line 6, Staff’s analysis, with the proposed
12 trackers, including the impact of those rate schedules reset to zero in 2025, supports an
13 increase in annual revenues of \$110.3 million in 2025 (Rate Year 1) and a \$275.5 million
14 increase in annual revenues in 2026 (Rate Year 2).

Revenue Deficiency - Grossed Up	\$ 537,373,714	\$ 222,546,580
Rate schedules set to zero	(499,034,932)	-
Deficiencies for Trackers	71,926,822	52,918,205
Total Revenue Rate Change	<u>\$ 110,265,603</u>	<u>\$ 275,464,785</u>

15 **Q. Staff is recommending the new trackers not be approved and that those costs should**
16 **continue to be included in the Company’s base rate costs. That being so, what is the**
17 **revenue impact of restoring the trackers to base rates?**

1 A. When the tracker costs are returned to base rates, the revenue requirement for base rates
 2 increases remains essentially the same since the costs do not change. The only difference
 3 being that, instead of those costs being collected in a tracker, the costs are embedded in
 4 base rates. As reflected in my Exhibit DPK-5r at Page 5, Staff's analysis computes the
 5 proposed increase without an offset for the costs associated with the proposed trackers
 6 and restores tracker costs into base rates. The impact of those rate schedules reset to zero

	Staff AMA DEC 2025	AMA DEC 2026
Revenue Deficiency - Grossed Up	\$ 609,504,748	\$ 275,464,963
Rate schedules set to zero	(499,034,932)	-
Deficiencies for Trackers		
Total Revenue Rate Change	\$ 110,469,816	\$ 275,464,963

7 in 2025 are still used. In total, the analysis supports an increase in annual revenues of
 8 \$110.5 ~~110.4~~ million in 2025 (Rate Year 1) and a \$275.5 ~~257.0~~ million increase in annual
 9 revenues in 2026 (Rate Year 2).

10 **Q. Did you perform an analysis of PSE proposal for its Natural Gas operations?**

11 A. Yes, however for its natural gas operations, I did not create exhibits showing revenue
 12 with the proposed tracker and without. The Company requested only one natural gas
 13 tracker, which was not as material to the revenue requirement compared to the trackers
 14 proposed for the electric operations.

15
 16 **Q. Please summarize your analysis of the natural gas proposal, which includes the**
 17 **restoration of the proposed tracker costs back into base rates.**

1 A. For Rate Year 1, Staff’s analysis shows PSE natural gas operations earning an overall
 2 rate of return on its adjusted rate base of ~~1.57~~1.83 percent; and for Rate Year 2, the
 3 analysis shows PSE would be earning a ~~1.18~~1.58 percent return on its investment.¹
 4 Staff’s analysis on page 5, line 6, of Exhibit DPK-7~~r~~ supports an increase in annual
 5 revenues of \$~~154.3~~164.4 million in Rate Year 1 and \$~~9.9~~15.0 million in Rate Year 2.

	Staff	AMA DEC 2025	AMA DEC 2026
Revenue Deficiency - Grossed Up	\$	209,902,399	\$ 9,911,064
Rate schedules set to zero		(55,609,679)	-
Deficiencies for Trackers		-	
Total Revenue Rate Change	\$	154,292,719	\$ 9,911,064

7

8 **Q. Have you prepared any exhibits in support of your testimony?**

- 9 A. Yes. I have prepared Exhibits DPK-2 through DPK-8~~r~~.
- 10 • Exh. DPK-2 - Qualifications of Danny Kermode
 - 11 • Exh. DPK-3~~r~~ - Electric Summary Schedules Staff Results - Proposed Trackers
 12 included in analysis
 - 13 • Exh. DPK-4~~r~~ - Electric Operating Income with Staff Adjustments – Proposed
 14 Trackers included in analysis
 - 15 • Exh. DPK-5~~r~~ - Electric Summary Schedules Staff Results - Proposed Trackers
 16 removed with costs restored to base rates
 - 17 • Exh. DPK-6~~r~~ - Electric Operating Income with Staff Adjustments – Proposed
 18 Trackers removed with costs restored to base rates
 - 19 • Exh. DPK-7~~r~~ - Natural Gas Summary Schedules of Staff Results – Proposed
 20 Tracker removed with costs restored to base rates
 - 21 • Exh. DPK-8~~r~~ - Natural Gas Operating Income with Staff Adjustments –
 22 Proposed Tracker removed with costs restored to base rates

¹ Kermode, Exh. DPK-7~~r~~ at 4, line 49.

1
2 **III. ELECTRIC RESULTS OF OPERATIONS AND**
3 **REVENUE REQUIREMENT**
4

5 **Q. Please begin with a summary of your analysis of PSEs proposal for its electric**
6 **operations with its proposed tracker costs removed from base rates shown in your**
7 **Exhibit DPK-3r at page 1.**

8 A. My analysis examines the results of operations for the Rate Years 1 and 2 under PSE's
9 proposal to institute three new tracker mechanisms. In my Exhibit DPK-3r at page 1, line
10 12, for Rate Year 1, Staff's analysis shows a net revenue change in base rates of \$537.3
11 million. However, this amount is reduced by \$499.0 million by resetting and the zeroing
12 out five tariff schedules.² In the same vein, the costs that the Company proposes to be
13 recovered through trackers are added together to derive an increase in overall revenue
14 requirement of \$110.3 million, as shown on line 30, ~~resulting in a total revenue~~
15 ~~requirement for Rate Year 1 of \$285.1 million, or a 3.87 percent increase.~~

16 Also in my Exhibit DPK-3r at page 1, line 12, Staff's analysis of the rate
17 proposal for the 2026 Rate Year (year 2) shows a net revenue change in base rates of
18 \$222.5 million. Recognizing the resetting and the zeroing out of the five tariff schedules
19 along with those costs proposed ~~With costs~~ to be recovered by the trackers added back,
20 the overall increase in revenue requirement is \$275.5 million, ~~resulting in a total revenue~~

² Kermode, Exh. DPK-3r at 1, lines 17-21.

1 requirement of \$3,066 million for Rate Year 2 or a 7.26 percent increase, as shown on
2 line 30.

3 **Q. Can you briefly discuss Staff's proposed Cost of Capital shown on page 2 of each of**
4 **your Exhibits DPK-3_r, DPK-5_r and DPK-7_r?**

5 A. On page 2 of each of my Exhibits DPK-3_r, DPK-5_r, and DPK-7_r, I show Staff witness
6 Parcell's cost of capital recommendation. Shown in each exhibit, is Parcell's
7 recommended costs of debt and equity and related capital structure for the Rate Years 1
8 and 2. For Rate Year 1, he recommends an overall weighted cost of capital of 7.36
9 percent whereas, for Rate Year 2, Mr. Parcell recommends a slightly higher overall cost
10 of capital of 7.37 percent.

11 I reflect these returns on page 2 of my Exhibits DPK-3_r, DPK-5_r, and DPK-7_r,
12 including the weighted cost of debt, which are used in Staff's recommended revenue
13 requirement under the two scenarios for electric and for the single scenario of gas.
14

15 **Q. Also, on page 3 of your Exhibits DPK-3_r, DPK-5_r and DPK-7_r, you have a schedule**
16 **labeled "Revenue Conversion Factor." Please discuss the purpose of this schedule**
17 **and how it is used.**

18 A. The revenue conversion factor is the result of a mathematical equation that is used to
19 convert an expense or revenue into its related revenue requirement. For example, for the
20 Company to recover in rates an additional expense of \$100 will require more than \$100
21 because of taxes or fees that are based on revenue or income. For example, if the

1 Company receives revenue of \$100 for the new expense, it must then pay the state utility
2 tax and the UTC fee, reducing the amount received below the required \$100.

3 The revenue conversion factor “grosses up” the amount to allow payment of the
4 taxes and fees while still allowing recovery on the \$100. Page 3 of each Exhibit DPK-3_r,
5 DPK-5_r, and DPK-7_r shows the derivation of the conversion factor which is used
6 throughout the analysis.

7
8 **Q. Returning to your Exhibit DPK-3_r, page 4, contains a schedule labeled “Electric**
9 **Statement of Operating Income Including Proposed Trackers – 2024 General Rate**
10 **Case.” Could you please discuss the schedule?**

11 A. Page 4 of Exhibit DPK-3_r is a multicolumn portrayal of the development of the MYRP
12 that summarizes the development of the costs and investments of PSE over the MYRP
13 period ending in 2026. The unshaded columns (d, f, h, j, and l) are summations of
14 detailed adjustments partially detailed in Exhibit DPK-4_r, and in the Excel model used in
15 the analysis of the case.

16 The adjustments made in the columns labeled Restating Adjustments, Traditional
17 Pro Forma Adjustments, and Gap Year Adjustments attempt to bring the Company’s
18 financial statements to the current period including changes in expenses and capital
19 investment. Whereas, Rate Year 1 Adjustments and Rate Year 2 Adjustments project the
20 future costs and revenues of the Company to allow rates to be set fairly.

21
22 **Q. Does this schedule represent Staff’s final recommendation?**

1 A. No. It is important to keep in mind that Exhibit DPK-3_r does not reflect Staff’s final
2 recommendation but is provided merely for clarity. Exhibit DPK-3_r is Staff’s analysis
3 that recognizes the new proposed trackers as not being included in base rates. Staff, on
4 the other hand, is recommending the restoration of the three proposed trackers back into
5 base rates. This schedule focuses on the other non-tracker adjustments sponsored by staff
6 witnesses allowing the Commission to better understand the impact of Staff’s proposals
7 to the overall revenue requirement before addressing the issue of trackers. Exhibit DPK-
8 5_r presents Staff’s final recommendation.

9 **Q. Please describe your Exhibit DPK-4_r “Electric Operating Income with Staff**
10 **Adjustments – Proposed Trackers Included in Analysis.”**

11 A. Exhibit DPK-4_r includes the analysis of selected staff adjustments to the Company
12 witness Susan Free, presented in Exhibit SEF-4. Exhibit DPK-4_r details the changes and
13 new adjustments Staff made to the Company filing. The intent is to allow the
14 Commission and parties to clearly understand the changes recommended by Staff to the
15 Company’s proposed adjustments.

16
17 **Q. Staff’s recommendation is to deny and restore the proposed trackers to base rates.**
18 **Please summarize the impact of the Company’s three proposed trackers costs being**
19 **restored to base rates as shown in your Exhibit DPK-6_r, pages 4 and 5.**

20 A. Building onto the rate setting scenario presented in Exhibit DPK-4_r, Exhibit DPK-6_r
21 restores the costs of the proposed trackers through three Rate-Year Adjustments labeled
22 S-6.49, S-6.50, and S-6.51 for Clean Generation Resources, Decarbonization, and
23 Wildfire Prevention respectively. These adjustments impact both Rate Year 1 and Rate

1 Year 2. Each adjustment detail is shown in Exhibit DPK-6r at pages 4 and 5. It should be
2 noted that the tracker costs shown in Exhibit DPK-3r at page 1, lines 23 through 25, are
3 zeroed out in Exhibit DPK-5r, effectively restoring the tracker costs to base rates.

4
5 **Q. Please summarize your analysis with the proposed tracker costs restored to base
6 rates as shown in Exhibit DPK-5r at page 1.**

7 A. As shown in Exhibit DPK-5r at page 1, line 12, for Rate Year 1, Staff's analysis shows a
8 net revenue change in base rates of \$609.5 million. However, as mentioned before, this
9 amount is once again reduced by \$499.0 million by resetting and the zeroing out other
10 tariff schedules,³ resulting in a \$110.5 million increased revenue requirement for Rate
11 Year 1 and \$275.5 ~~257.0~~ million for Rate Year 2.⁴

	Staff	AMA DEC 2025		AMA DEC 2026
Revenue Deficiency - Grossed Up	\$	609,504,748	\$	275,464,963
Rate schedules set to zero		(499,034,932)		-
Deficiencies for Trackers				
Total Revenue Rate Change	\$	<u>110,469,816</u>	\$	<u>275,464,963</u>

12 **IV. NATURAL GAS RESULTS OF OPERATIONS**

13 **AND REVENUE REQUIREMENT**

14
15 **Q. Please summarize PSE's rate increase request for its natural gas operations in
16 Washington.**

³ Kermode, Exh. DPK-5r at 1, line 28.

⁴ Kermode, Exh. DPK-5r at 1, line 30.

1 A. PSE filed for a rate increase of \$196.0 million for 2025, made up of a general revenue
 2 deficiency of \$247.6 million which is reduced by \$55.6 by tariffs resetting to zero and by
 3 a new proposed tracker that would collect \$4.0 million in additional revenue netting the
 4 requested \$196.0 million. For Rate Year 2026 the Company is requesting \$25.4 million
 5 of additional revenue.

PSE	Company	Company
Revenue Deficiency - Grossed Up	247,614,954	\$ 25,350,286
Rate schedules set to zero	(55,609,679)	
Deficiencies for Trackers	4,035,116	
Total Revenue Rate Change	<u>\$ 196,040,391</u>	<u>\$ 25,350,286</u>

6 **Q. Can you please summarize your analysis of PSE’s proposal for its natural gas**
 7 **operations with its proposed tracker costs included in base rates as shown in your**
 8 **Exhibit DPK-7r, page 1.**

9 A. My analysis of the results of operations for PSE’s natural gas operations is a single
 10 analysis with includes Staff’s recommendation to deny the new proposed tracker and
 11 includes the associated costs in base rates. This contrasts with the Electric segments
 12 analysis, in which two analyses were required to clearly show the effects of restoring the
 13 tracker costs. My analysis here simply restores the single proposed tracker into base rates
 14 because the amount being restored is relatively small, \$7.3 ~~3.8~~ million.

15 As shown in Exhibit DPK-7r at 1, for Rate Year 1, Staff’s analysis shows a
 16 revenue deficiency of \$209.9 ~~220.4~~ million (line 12), reduced by \$55.6 million by the
 17 zeroing out two tariff schedules (line 20), resulting in a net revenue increase of \$154.3
 18 ~~165.4~~ million (line 22). This is in contrast with the \$196.0 million requested by the
 19 Company for Rate Year 1.

1 In Exhibit DPK-~~7r~~ at page 1, line 12, Staff's analysis for Rate Year 2 shows a
2 net revenue change in base rates of ~~\$9.9~~ ~~15.0~~ million. With no offsetting tariff, the
3 resulting total revenue requirement for Rate Year 2026 is ~~\$9.9~~ ~~15.0~~ million, whereas PSE
4 is requesting \$25.3 million.

	Staff	AMA DEC 2025	AMA DEC 2026
Revenue Deficiency - Grossed Up	\$	209,902,399	\$ 9,911,064
Rate schedules set to zero		(55,609,679)	-
Deficiencies for Trackers		-	
Total Revenue Rate Change	\$	<u>154,292,719</u>	<u>\$ 9,911,064</u>

6
7
8 **Q. Exhibit DPK-~~7r~~, page 4, is a schedule labeled “Gas Statement of Operating Income**
9 **and Adjustments – 2024 General Rate Case.” Could you please discuss the**
10 **schedule?**

11 A. Yes. Exhibit DPK-~~7r~~, page 4, contains a multicolumn portrayal of the development of the
12 MYRP that summarizes the development of the costs and investments of the Company's
13 natural gas operations over the MYRP period ending in 2026.

14 The adjustments made in the columns labeled Restating Adjustments, Traditional
15 Pro Forma Adjustments, and Gap Year Adjustments attempt to bring the Company's
16 financial statements to the current period including changes in expenses and capital
17 investment. The columns “2025 Rate Year 1 Adjustments” and “2026 Rate Year 2
18 Adjustments” attempt to project the future costs and revenues.

1 V. CONTESTED ADJUSTMENTS

2
3 Q. Please describe Staff's adjustment to PSE's cost of capital.

4 A. In his testimony for Staff, witness Parcell reduces PSE's requested cost of capital for
5 Rate Year 1 from the requested 7.65 percent to 7.36 percent, or 29 basis points. Parcell
6 also recommends lowering the requested cost of equity from 9.95 percent to 9.50 percent.

7 For Rate Year 2, Mr. Parcell recommends reducing the Company requested
8 overall cost of capital from 7.99 percent to 7.37 percent, resulting primarily from a 100-
9 basis point reduction in PSE's requested return on equity of 10.50 percent to 9.50
10 percent. In addition to the equity adjustments, the weighed cost of debt was adjusted
11 slightly upward in Rate Years 1 and 2.

12 Q. Please discuss Staff witness Watkins's proposal to adjust PSE's forecasted base
13 rate gas sales revenues reflected in Adjustment 11.01 (Gas Common Adjustment
14 11.01) Revenues and Expenses and the impact on the gas rates.

15 A. Mr. Witness Watkins disputes disagrees with the level of the Company's forecasted
16 proposed expected decrease in therm sale and resulting base rate revenues demanded by
17 residential customers during both Rate Years. Witness Watkins' Rate Year 1 revenue
18 adjustment of \$27.634 million results in an incremental change in revenue from the Gap
19 Year of a negative \$3.604 million instead of the Company's negative \$8.403 million
20 incremental change in revenue. Similarly, Witness Walkins' Rate Year 2 revenue
21 adjustment of \$29.620 million results in a negative \$0.487 million incremental change in
22 revenue from Rate Year 1 instead of the Company's negative \$2.473 million incremental
23 change in revenues. He instead proposes a lesser decrease, resulting in in a projected

1 ~~decrease of revenues of \$3.6 million rather than the \$8.4 million offered by the Company~~
2 ~~for Rate Year 1. The impact on revenues for Rate Year 2 drops to \$486,743.~~

3
4 **Q. Focusing on PSE’s electric operations, Staff witness McGuire is contesting the**
5 **Company adjustment 6.47 related to CETA DR PPA Deferrals. Please address the**
6 **revenue requirement impact of his proposed adjustment.**

7 A. Staff witness McGuire is sponsoring an adjustment addressing the PSE’s request for (a)
8 for recognition of an accrued deferred return after the PPAs were included in rates and
9 (b) a return at the overall weighed cost of capital. His adjustment reduces the amount of
10 PPA that a return can be applied to and also provides the weighted cost of debt, rather
11 than the overall cost of capital.

12 For Rate Year 1 Mr. McGuire’s adjustment increases net operating income by
13 ~~\$345,453 329,037~~ over the Company proposal, reducing the proposed revenue
14 requirement by ~~\$459,798 \$438,000~~. For Rate Year 2, the adjustment increases net
15 operating income by \$25,128, which reduces the electric revenue requirement by
16 \$33,446.

17
18 **Q. Adjustment S-6.49 is an adjustment by Staff witness McGuire contesting PSE’s**
19 **adjustment 6.47 related to the Clean Generation Resources Tracker, Schedule**
20 **141CGR. Please discuss the revenue requirement impact of his proposed**
21 **adjustment.**

22 A. Staff witness McGuire is opposing the PSE’s proposal to include CWIP in rate base and
23 of the use of a tracker to do so. The Beaver Creek Project is the only project associated

1 with the tracker currently. Staff includes revenue requirements for Beaver Creek of \$44.7
2 43.2 million in 2025 and \$48.4 ~~89.4~~ million in 2026. Relative to PSE's request of \$71.6
3 million in 2025 and \$90.1 million in 2026, Staff's recommendation to deny PSE's request
4 to include CWIP in rate base for the Beaver Creek Project reduces electric revenue
5 requirement in Rate Year 1 by \$28.4 million and *increases* electric revenue requirement
6 in Rate Year 2 by \$0.7 million.

7
8 **Q. The proposed wildfire tracker is also being opposed by Staff. Please discuss its**
9 **impact on the PSE's revenue requirement and net operating income.**

10 A. Staff is opposing the tracker since, as Staff witness McGuire correctly asserts, the issue is
11 still before the Commission, has not been ruled upon, and therefore, the issue is simply
12 not ripe for regulatory action. The impact of restoring the costs associated with the
13 tracker into base rates, Staff adjustment S-6.51, reduces the Company's net operating
14 income by \$16.0 million in Rate Year 1 and by \$5.3 million in Rate Year 2, while
15 increasing the Company's revenue requirement by \$21.3 million in Rate Year 1 and by
16 \$7.1 million in Rate Year 2.

17
18 **Q. Finally, Staff witness McGuire adjusts PSE's O&M adjustments in both the electric**
19 **operations and gas operations. Please discuss impact on the Company's revenue**
20 **requirement and net operating income for both adjustments.**

21 A. Staff witness McGuire's electric O&M Adjustment 6.22 produces incremental revenue
22 requirements of \$13.3 million in Rate Year 1 and another \$3.3 million in Rate Year 2.
23 When compared to PSE's as-filed electric operations Adjustment 6.22, McGuire's

1 Adjustment 6.22 is an ~~\$18.7~~ \$13.3 million reduction to revenue requirement in Rate Year
2 1 and an ~~\$18.5~~ \$21.7 million reduction to revenue requirement in Rate Year 2.

3 Mr. McGuire's natural gas O&M Adjustment 11.22 produces incremental revenue
4 requirements of \$4.4 million in Rate Year 1 and an additional \$8.1 million in Rate Year
5 2. When compared to PSE's as-filed natural gas O&M Adjustment 11.22, Mr. McGuire's
6 Adjustment is a \$3.7 million reduction to revenue requirement in Rate Year 1 and a \$2.2
7 million reduction to revenue requirement in Rate Year 2.

8
9 **Q. Does this conclude your testimony?**

10 **A. Yes.**