Exhibit MPG-1T
Dockets UE-190529/UG-190530/UE-190274/UG-190275
Witness: Michael P. Gorman

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent.	)	DOCKETS UE-190529 and UG-190530 (*consolidated*)
In the Matter of the Petition of PUGET SOUND ENERGY For an Order Authorizing Deferral Accounting and Ratemaking Treatment for Short-life UT/Technology Investment.	)	DOCKETS UE-190274 and UG-190275 (*consolidated*)

RESPONSE TESTIMONY OF MICHAEL P. GORMAN

ON BEHALF OF

THE ALLIANCE OF WESTERN ENERGY CONSUMERS

November 22, 2019

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q. WHAT IS YOUR OCCUPATION?

A. I am a consultant in the field of public utility regulation and a Managing Principal of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. These are set forth in Exhibit MPG-2.

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. I am appearing on behalf of the Alliance of Western Energy Consumers ("AWEC"), an association of large energy users, some of whom are customers of Puget Sound Energy ("PSE" or the "Company").

Q. WHAT IS THE PURPOSE OF YOUR RESPONSE TESTIMONY?

A. I will respond to the Company's proposal to develop its revenue requirement using an attrition adjustment to its more traditional methodology of studying a revenue requirement using a historical test year with pro forma adjustments.

My silence in regard to any issue should not be construed as an endorsement of PSE's position.

Q. PLEASE DESCRIBE YOUR RECOMMENDATIONS AND CONCLUSIONS.

A. The Company's proposal to use an attrition methodology in addition to its use of a historical test year with pro forma adjustments should be rejected as unsound and unbalanced. The ratemaking process should ensure that the interests of both investors and ratepayers are protected to ensure that rates are just and reasonable, while the

Company does have a fair opportunity, but not a guarantee, to earn its authorized rate of return. However, this opportunity assumes that the utility is operated under "economic management" while the rates approved in the rate case are in effect.

The Company asserts an attrition adjustment is needed to address the backward-looking historical nature of traditional ratemaking. However, PSE's argument simply does not recognize the enhancements to historical ratemaking that operate to enhance PSE's reasonable opportunity of earning its authorized return on equity. Further, PSE ignores other regulatory mechanisms that allow for post-test year rate adjustments and/or accounting deferrals, all of which protect the Company's ability to recover its increased cost of service outside of a traditional rate case. Finally, and most importantly, PSE's proposed attrition adjustment ignores customer protections intended to safeguard ratepayers and ensure that prices they pay are based only on cost of service principles that reflect known and measurable costs incurred to provide service. Statistical regression analysis simply does not produce costs which can be shown to be based on competent and efficient management of utility operations, and costs which are known, measurable and necessary to provide service to retail customers. PSE's proposed attrition adjustment plainly and severely constrains or completely eliminates customer protections in the ratemaking process.

I. The Company's Proposed Attrition Adjustment

Q. PLEASE DESCRIBE HOW THE COMPANY DEVELOPED ITS CLAIMED REVENUE DEFICIENCY FOR ELECTRIC AND GAS OPERATIONS IN THIS PROCEEDING.

A. The Company developed its claimed revenue deficiency by first relying on a historical test year with pro forma cost of service adjustments. The Company relied on a historical test year of calendar year 2018, with pro forma adjustments out through June of 2019.

As shown in the table below, this three-step process of measuring cost of service, and estimating revenue adequacy or deficiencies, resulted in a systematic increase to the estimated revenue deficiency. The December 31, 2018 test year produced a $61.8 million and $72.1 million revenue deficiency for electric and gas operations, respectively. The pro forma adjustments to the historical test year (through June 30, 2019) increased the estimated revenue deficiency to $104.5 million for electric operations and $86.1 million for gas operations. The final adjustments for attrition further increase the claimed revenue deficiency up to $149.0 million for electric, and $108.3 million for gas.

TABLE 1

Claimed Revenue Deficiency
(Millions)

Description	Electric Amount	Gas Amount
Historical Test Year	$61.8	$72.1
With Pro Forma Adjustments	$104.5	$86.1
With Net Attrition	$149.0	$108.3
Less Adjustments	$(9.1)	$(42.8)
Net Income	$139.9	$65.5

Source: UE-190259 and UG-190530-PSE-EXH-SEF-03-06-20-19.xlsx, tabs SEF-3E, SEF-3G, SEF-4E p 1, SEF-4G p 1.

This deficiency in base rates is then mitigated by certain adjustments proposed to revenue collections in electric and gas operations. Specifically, for electric operations the Company recognizes a $6.0 million reduction to limit the requested increase to 6.9%

and a $3.1 million reduction to reset recovery of power costs to zero. For gas operations, part of the increase in revenues from base rates is currently being recovered through: 1) Schedule 149 ($10.6 million), which is cost recovery of PSE's pipeline replacement program; 2) Schedule 141 (approximately $28.0 million) , an expected expedited rate filing ("ERF") increase approved after the last approved base rate case; and 3) Schedule 141Y, which is a temporary federal income tax credit of around $6.2 million. In total, of the $86.1 million revenue deficiency in base rates estimated by the Company, the Company is currently already recovering $32.4 million in special regulatory rider mechanisms. The Company also includes a $10.4 million reduction to limit the increase to 7.9%.

Q. PLEASE DESCRIBE PSE'S PROPOSED ATTRITION MECHANISM TO ADJUST ITS CLAIMED REVENUE DEFICIENCY USING TRADITIONAL COST OF SERVICE METHODOLOGIES.

A. The attrition adjustment includes two main components. First, it reflects a trending methodology to extrapolate historical changes in operating costs and capital investments, and projects a linear escalation of these costs into the prospective period.

Second, for electric operations the Company includes an adjustment to reflect the deficiency associated with power costs.

The result of the Company's attrition adjustment is to add $44.5 million to the $101.4 million deficiency based on traditional cost of service methodologies for the electric operations, and a $22.1 million increase to the traditional gas utility cost of service of $53.7 million.

Q. DO YOU HAVE ANY CONCERNS WITH THE COMPANY'S PROPOSED ATTRITION ADJUSTMENT?

A. Yes. The trending adjustment is not based on budgeted or planned costs of service that can be shown to be needed or are reasonable costs of providing service. Also, the proposed attrition trending methodology does not reflect productivity gains, regulatory mechanisms that allow PSE to adjust charges for post-test year costs, or investment in new technology that is anticipated to lower operating costs. Also, the attrition methodology ignores post-test year regulatory mechanisms that have protected the Company's ability to recover its cost of service and earn its approved rate of return after a rate case due to specific cost changes. These supplemental regulatory mechanisms, when needed, enhance the Company's ability to fully recover its cost of service and earn its approved rate of return but also maintain some customer protections by ensuring that rates are only set based on known and measurable costs that can be proven to be prudent and reasonable.

In sum, the attrition methodology sets aside virtually all customer protections, ignores regulatory mechanisms that adjust prices in the post-test year period, and does not capture technology or productivity reductions in operating cost. For these reasons, I recommend the Commission reject the Company's proposal to initiate an attrition methodology in this proceeding.

II. PSE's Regulatory Mechanisms

Q. PLEASE DESCRIBE WHY YOU BELIEVE PSE'S EXISTING REGULATORY MECHANISMS ARE ADEQUATE TO SUPPORT PSE'S FINANCIAL INTEGRITY AND CREDIT STANDING AND PROVIDE IT WITH AN OPPORTUNITY TO EARN ITS AUTHORIZED RATE OF RETURN.

A. Existing regulatory mechanisms allow for changes in prices or the use of regulatory accounting mechanisms to compensate the Company for changes in costs that occur

after the historical test year. These regulatory mechanisms are simply ignored in PSE's proposed attrition methodology. For example, in PSE's last electric and gas proceedings, the Commission authorized an EFR to reflect changes in cost of service and adjustment to rates to reflect specific cost increases that occurred after the historical test year measurement of cost of service. Also, the Company is allowed certain accounting regulatory mechanisms that allow it to defer costs and reflect those deferred costs for rate-setting in subsequent rate case proceedings.

Q. PLEASE DESCRIBE REGULATORY MECHANISMS AVAILABLE TO PSE.

A. In PSE's FERC Form 1 filing, it informs the investment community of certain regulatory mechanisms that allow it to recover its cost of providing service. In addition to base rate revenue, PSE informs the investment community that it is allowed to use regulatory accounting, which defers certain costs that are otherwise charged to expense. These costs then are expected to be charged to customers in prospective rate cases. These accounting deferrals are used by PSE in order to improve its ability to fully recover its costs. As of December 31, 2017 and 2018 , PSE had recorded total regulatory assets in the amount of $825 million and $750 million, respectively.[1/] Further, PSE also informs the investment community that it is entitled to use an ERF with permission of the Washington Commission. In an ERF, the Company requests changes in rates associated with its delivery and fixed production costs. PSE notes that this ERF does not include variable production costs, purchased power costs or natural gas pipeline replacement costs, which are recovered in separate mechanisms. PSE used the ERF to resolve issues related to the Tax Cuts and Jobs Act, and as noted in this filing, revenues collected under

[1/] 2018 FERC Form 1 at page 123.9.

the ERF for gas operations were quite significant. Indeed, as shown on line 13 of Exhibit SEF-3G, page 1, under Schedule 141, for gas operations PSE was collecting approximately almost $28 million of revenue under this ERF adjustment to its customer bills.

Q. DOES PSE'S ATTRITION METHODOLOGY RECOGNIZE THESE SPECIAL COST RECOVERY MECHANISMS IN PRODUCING A STATISTICAL ESCALATION OF COSTS BEYOND THE HISTORICAL TEST YEAR WITH PRO FORMA ADJUSTMENTS?

A. No. PSE's proposal to implement an attrition methodology ignores these post-test year regulatory mechanisms that enhance the Company's ability to fully recover its cost of service. The Company's proposal will have the effect of increasing base rates, reflecting costs which cannot be proven to be known, measurable and reasonable costs of providing service, while also exposing customers to both inflated base rates, using the attrition methodology, and post-test year regulatory mechanisms that allow for separate adjustments to cost of service going forward.

Q. SHOULD THE COMMISSION SCRUTINIZE ANY SPECIAL COST RECOVERY MECHANISMS IN PARTICULAR WHEN EVALUATING PSE'S REQUESTED ATTRITION ADJUSTMENT?

A. Yes. On the gas side, PSE's attrition adjustment duplicates the objectives of its Pipeline Replacement Program Cost Recovery Mechanism ("Gas CRM"), and may also allow PSE to double-recover the costs included in its Gas CRM. In its 2012 Policy Statement on gas utility pipeline replacement programs, the Commission determined that:

> [a] goal of this policy statement is to develop a way for a gas company to reduce substantially [regulatory] lag for recovering its investment pursuant to a pipe replacement program ….[2/]

[2/] Docket No. UG-120715, "Commission Policy on Accelerated Replacement of Pipeline Facilities with Elevated Risk," ¶ 33 (Dec. 31, 2012) ("Policy Statement").

PSE, of course, invokes regulatory lag as the basis for its requested attrition adjustment as well.[3/] And both of these mechanisms are on top of the Company's use of "end of period" rate base and pro forma adjustments, also justified on the basis of regulatory lag.[4/]

Yet, PSE does not propose to discontinue use of its Gas CRM if its requested attrition adjustment is approved. To the contrary, PSE proposes to continue recovering pipeline replacement costs through Schedule 149 incurred between November 2018 and October 2019.[5/]

Q. IS IT APPROPRIATE FOR PSE TO REQUEST AN ATTRITION ADJUSTMENT FOR GAS SERVICES WHILE SIMULTANEOUSLY CONTINUING THE USE OF ITS GAS CRM?

A. No. As noted above, the two mechanisms are duplicative of each other in terms of purpose, and potentially in terms of cost recovery as well. PSE already has sufficient extraordinary rate mechanisms in place to mitigate regulatory lag on its gas operations; it does not need an attrition adjustment too. Alternatively, if the Commission authorizes PSE's requested attrition adjustment, it should prohibit the Company from utilizing its Gas CRM while PSE's rates from this case remain in effect.

Q. WHAT SPECIAL COST RECOVERY CONSIDERATIONS ON THE ELECTRIC SIDE SHOULD THE COMMISSION CONSIDER?

A. Unlike on the gas side, PSE does not have an electric cost recovery mechanism ("ECRM"). That is for a very good reason, however – the Commission rejected PSE's

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3/ Exh. No.__(RJA-1T) at 5:15-6:7; Exh. No.__(DAD-1T) at 13:19-21.
4/ Exh. No.__(SEF-1T) at 42:12-21.
5/ Exh. No.__(SEF-1T) at 71 (table 9).

request for just such a mechanism in its last general rate case.[6/] As PSE described the ECRM in that case, it:

> would allow PSE to recover actual known and measurable costs incurred as a result of the targeted replacement program during the interim periods between rate cases comparable to the methodology currently authorized for the [Gas CRM].[7/]

In rejecting the ECRM, the Commission noted that PSE already had access to "other tools the Commission has adopted for attenuating regulatory lag, such as end-of-period rate base and pro forma adjustments."[8/] The Commission was unpersuaded by PSE's claim that it was:

> unable to prioritize in its capital budget process funding to address the worst-performing circuits and to replace aging underground cable that is at risk of failing. PSE has not demonstrated any efforts to review that process to reprioritize projects to secure funding for these specific projects.[9/]

Despite its ECRM being rejected in the last rate case, however, PSE's attrition adjustment, by basing revenue requirement on trending projections of rate base growth during the rate-effective period, would allow it to recover the same costs it sought recovery of through the ECRM. Yet, PSE continues to have access to – and has requested – the same tools to reduce regulatory lag it had in its 2017 rate case, and has provided no evidence that it has made any effort to reprioritize its capital funding process, as the Commission directed. PSE is simply attempting to relitigate the issues underlying the cost recovery mechanisms it was denied previously.

6/ Docket Nos. UE-170033/UG-170034, Order 08 ¶¶ 326-29 (Dec. 5, 2017). I filed testimony for AWEC's predecessor, the Industrial Customers of Northwest Utilities, against the ECRM in this docket. Docket Nos. UE-170033/UG-170034, Exh. No.__(MPG-1T) at 41-44.

7/ Docket Nos. UE-170033/UG-170034, Exh. No.__(KJB-1T) at 73:18-21.

8/ Docket Nos. UE-170033/UG-170034, Order 08 ¶ 326.

9/ Id. ¶ 327.

Q. DOES PSE'S GROWTH IN RATE BASE MOVE AWAY FROM TRADITIONAL COST OF SERVICE IN ADJUSTING RATES IN THIS PROCEEDING?

A. No. PSE, like the utility industry in general currently, is experiencing significant growth in rate base investments. However, PSE's historical data shows a significant amount of its plant additions are largely funded by reductions in rate base derived from depreciation expenses recovered from customers. As such, while capital additions are robust at this point, the amount of depreciation expense PSE recovers from customers funds a significant amount of these incremental plant investments. Most importantly, while rate base does grow by plant additions, it also declines through recovery of depreciation expense and the buildup of accumulated depreciation. The combination of capital spending and capital cost recovery illustrates that PSE's growth in rate base has been relatively modest over the last five years, and as its embedded rate base grows, its depreciation expense recovered from customers increases, slowing the growth in rate base going forward.

This change in rate base is illustrated for PSE on a total Company basis, and electric and gas operations separately. As shown on my Exhibit MPG-3, page 1, PSE's capital investments in rate base have averaged approximately $635 million over the last few years. However, by increasing its embedded cost of rate base, the annual depreciation expense increases each year because gross plant is being added each year. The increase in depreciation expense is becoming larger, while the annual capital investment is not growing significantly. What this means is that over time, as the increase in rate base slows, the Company's capital investments in rate base will largely be offset by recovery of depreciation expense and the buildup of accumulated depreciation.

Page 2 of my Exhibit MPG-3 shows this is more prevalent for electric operations than for gas operations. As shown on this schedule, the electric operations' recovery of depreciation expense is a very large percentage of total changes in gross plant relative to gas operations.

III. Earned vs. Authorized Return

Q. DID PSE WITNESS DOYLE COMPARE THE ACTUAL OVERALL RATE OF RETURN AND EARNED RETURN ON EQUITY FOR PSE COMPARED TO ITS AUTHORIZED RETURN ON EQUITY?

A. Yes. Mr. Doyle makes this comparison at page 14 of his testimony, where he shows the actual earned return on equity from 2013-2018 in relationship to the authorized return on equity. The actual return on equity referred to by Mr. Doyle as "adjusted actual" compared to the authorized return on equity shows that the actual earned return on equity for electric operations has been relatively consistent with its authorized return on equity. Specifically, the average adjusted actual earned return on equity for 2013-2018 was around 9.63%. This compares to the average authorized return on equity for this same time period of about 9.75%. Clearly, PSE's electric operations' actual earned return on equity reasonably aligned with its authorized return on equity.

In Table 2, the average adjusted actual return on equity over the 2013-2018 period for gas operations was 8.9%. This compared to the approximately 9.75% authorized return on equity during this time period. As noted above, gas utility rate base does appear to be growing faster than electric utility rate base. However, because embedded rate base for gas operations has grown, along with recovery of depreciation expense, growth to future rate base will likely slow as increased depreciation expense will largely offset continued elevated capital investments in utility gas infrastructure investments. On the gas side, however, the use of the ERF and the gas cost recovery

mechanism provides the Company additional revenues outside of traditional base rates to support this growth in infrastructure investment.

IV. Technology and Productivity Cost Reduction

Q. PLEASE DESCRIBE HOW PSE WITNESS AMEN DEVELOPED A TRENDING ANALYSIS TO ADJUST THE COMPANY'S CLAIMED REVENUE DEFICIENCY.

A. A summary of the Company's trending analysis is provided on PSE Exhibits RJA-3 (electric operations) and RJA-4 (gas operations). Mr. Amen outlines four sources used for the adjustment:

- 2008-2018 Commission Basis Reports
- Historical period plant accounts
- Revenue projections
- Capital projections

Mr. Amen adjusted the Company's historical Commission Basis Reports and plant accounts to remove items the Company addresses outside the analysis, such as Advanced Metering Infrastructure ("AMI") and the Get to Zero ("GTZ") projects. Mr. Amen states the adjusted data was "run through a series of regression analyses to calculate growth factors for other operating revenues, operation and maintenance ("O&M") expenses and plant line items."[10/] Mr. Amen notes the regression analysis he used is different from the analysis used by Commission Staff in other dockets.[11/] The escalation factors were applied to attrition base amounts to determine operating expenses and rate base values for the 12 months ending April 2021, or 28 months after

[10/] Amen Direct at 26.

[11/] *Id.* at 29. Mr. Amen states, "The analysis presented as part of my testimony begins with the general approach taken by Staff in this more recent Avista docket and makes adjustments appropriate for PSE's present circumstances." *Id.* at 27.

the December 2018 base year. Mr. Amen then adds forecasted rate year costs related to AMI, GTZ projects, and the natural gas cost recovery mechanism.

Q. DOES PSE SUPPORT INVESTMENTS IN NEW TECHNOLOGY IN PART BASED ON THE ENHANCED PRODUCTIVITY CREATED BY NEW INFRASTRUCTURE TECHNOLOGY?

A. Yes. Mr. Amen's trending analysis includes a $377 million increase in rate base due to the addition of AMI and GTZ projects (for both electric and gas operations). However, as shown in columns H and I of Exhibits RJA-3 and RJA-4, there is no value associated with the O&M savings these investments are expected to generate.

PSE witness Catherine Koch describes the Company's AMI investments. The Company invested approximately $90 million associated with its AMI initiative between October 1, 2016 and December 31, 2018.[12/] Currently, the Company has installed 2,740 of an expected 8,260 network devices.[13/] The network devices are expected to be fully deployed by 2020, which is within the timeframe of the Company's trending analysis. In this case, the Company is requesting that the Commission determine the decision to implement AMI was prudent and approve recovery of the AMI investment that has been placed in service.[14/]

The AMI investment represents a significant known and measurable difference between the historical data Mr. Amen relies on for his trending analysis and the time period in which he applies the resulting escalation factors. Mr. Amen attempts to account for this by removing the AMI investment from the trending analysis and treating it separately. However, Mr. Amen only removes the projected plant balance,

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12/ Exhibit CAK-4 at 2.
13/ *Id.*
14/ Koch Direct at 26.

accumulated depreciation, deferred income taxes, and depreciation expense.[15/] Therefore, Mr. Amen did not treat the AMI related savings separately as he did the AMI related costs. Mr. Amen does not appear to include any AMI related O&M savings in his analysis despite the Company's own testimony arguing the AMI investment will generate significant savings.

Ms. Koch states the total benefits associated with AMI will be $668 million over the 20-year life of the AMI assets.

> The principal benefits of the AMI project are: (i) avoided costs associated with the obsolescence of the AMR system; (ii) lower customer energy usage through implementation of CVR; and (iii) increased reliability at lower cost through implementation of distribution automation using the AMI communication network.
>
> * * *
>
> The total nominal benefit value of the AMI project is expected to be $668 million through 2037.[16/]

Q. DOES PSE'S ATTRITION METHODOLOGY CAPTURE THE COST REDUCTIONS ASSOCIATED WITH INVESTMENTS IN THESE TECHNOLOGICAL IMPROVEMENTS?

A. No. Mr. Amen's attrition analysis does not capture the AMI related savings during the 2018 to 2021 escalation period. Any AMI related savings that may be captured in the historical data from 2016 to 2018 would only reflect a portion of the AMI investment and may be offset by historical cost increases prior to 2016.[17/] The trending analysis's reliance on historical data to forecast future O&M expenses is flawed because it does not reflect a significant known and measureable change. The Commission should reject

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15/ Amen Direct at 28.

16/ Exhibit CAK-4 at 16.

17/ Mr. Amen states, "if there was a step change or a clear change of trend in the data, I settled on a shorter period, which reflects recent trends most accurately" although he does not provide any examples. Amen Direct at 23.

the Company's trending analysis as unbalanced because it fails to consider cost savings anticipated by investments in new technology infrastructure.

Q. ARE THERE ANY OTHER TECHNOLOGICAL IMPROVEMENTS THAT PSE PROPOSES TO INCLUDE IN ITS COST OF SERVICE IN THE HISTORICAL TEST YEAR THAT ARE ANTICIPATED TO PRODUCE OPERATING SAVINGS?

A. Yes. PSE witness Joshua Jacobs provides an overview of the GTZ projects. The initiative focuses on replacing and upgrading PSE's customer service technology. Mr. Jacobs states in his direct testimony that GTZ will lower costs.

> GTZ will provide some financial benefits including 1) efficiencies tied to driving operational improvements through automation or call reduction; 2) reductions to paper and postage given digitization and e-bill adoption; and 3) reductions to bad debt write offs through more effective account management practices and the implementation of remote disconnect and reconnect features in the future years of the initiative.[18/]

Q. ARE THESE GTZ INVESTMENTS AND RELATED OPERATING SAVINGS CAPTURED IN THE ATTRITION ANALYSIS?

A. No. PSE's attrition analysis does not capture these cost savings because they did not exist in the historical cost period. This is precisely the type of asymmetrical analysis presented in support of the proposed attrition analysis that the Commission should reject.

V. Historical vs. Forward-Looking Escalation Factors

Q. ARE THERE ANY OTHER DEFICIENCIES IN THE USE OF AN ATTRITION ANALYSIS TO PROJECT CHANGES IN COST OF SERVICE PROSPECTIVELY?

A. Yes. Some of the historical escalators for changes in cost may not reasonably reflect going-forward costs for simply macroeconomic factors, let alone the deficiencies related

[18/] Jacobs Direct at 5.

to technological improvements as described above. For example, Mr. Amen forecasts escalation factors between 2.21% and 3.02% for electric operations and 0.93% and 5.59% for gas operations. In contrast, the consensus economists' outlook for inflation is approximately 2.0% during the escalation period.[19/]

For these reasons, historical changes in costs are simply not accurate or reliable projections of future changes in costs. Future changes in costs can be impacted by investments included in cost of service that are expected to reduce operating costs. These cost changes would not accurately be reflected by projecting future O&M expenses, or capital investments, based on trends from historical periods prior to the innovative technology being included in the cost of service. Further, macroeconomic factors can impact changes in wages, changes in materials and supplies, and changes in other commodities that impact the Company's cost of capital investments, and installed costs. Historical inflation and macroeconomic factors may not be reasonable proxies going forward. For all these reasons, the attrition methodology simply is unreliable and does not rise to the standard of customer protections by adjusting rates only by reasonably measurable costs of providing service.

VI. Credit Standing

Q. DID THE COMPANY COMMENT ON ITS CREDIT STANDING IN SUPPORT OF THE USE OF AN ATTRITION METHODOLOGY?

A. Yes. Mr. Doyle also outlines credit metrics considered by Standard & Poor's ("S&P") and Moody's in support of PSE's credit standing. He notes that the cash flow credit metrics are negatively impacted by the change in 2017 due to the federal Tax Cuts and Jobs Act ("TCJA").

[19/] Blue Chip Economic Indicators, October 10, 2019, at 2.

Q. DO THE CREDIT METRICS REFLECTING THE REDUCTION IN CASH FLOW DUE TO THE TCJA INDICATE THAT PSE'S CREDIT METRICS WILL NOT SUPPORT ITS BOND RATING?

A. No. To the contrary, even with the reductions in cash flow and reductions in rates caused by the TCJA, PSE's resulting cash flow metrics still support its current investment grade bond rating.

As shown on my Exhibit MPG-4, I outlined Mr. Doyle's estimated credit metrics before and after the change in the TCJA and I have compared these to benchmarks which indicate adequate cash flow coverages needed to support PSE's bond ratings as published by both S&P and Moody's.

For the Moody's credit metrics, Mr. Doyle considers Funds From Operations ("FFO") to Debt, and Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") as a ratio of Debt to EBITDA. As shown in this exhibit, the FFO to Debt ratio did decline after the change in the tax law, but the resulting FFO to Debt ratio still aligns with the target range published by S&P for a utility like PSE that has an "Excellent" business position with a "Significant" financial position ranking. For a utility with these financial and business risk assessments, an FFO to Debt ratio in the range of 13% to 23% would indicate a bond rating of BBB. PSE's ratios as adjusted for the TCJA fall within this range, and comfortably support PSE's BBB bond rating. Similarly, the Debt to EBITDA ratio as estimated by Mr. Doyle after the effects of the TCJA is 3.6x. This ratio falls toward the "Strong" end of the BBB range of 3.5x to 4.5x – a lower ratio reflects a stronger coverage. Again, this ratio is supportive of PSE's BBB bond rating.

Similarly, the Moody's credit metrics estimated by Mr. Doyle also support bond ratings of between A and Baa, a credit rating range that is supportive of PSE's actual bond rating from Moody's of Baa.

VII. Summary

Q. PLEASE SUMMARIZE YOUR FINDINGS AND CONCLUSIONS IN THIS CASE.

A. For the reasons outlined above, the Company's proposal to use an attrition methodology in addition to its historical test year with pro forma adjustment to identify a revenue deficiency in this proceeding is imbalanced and unreasonable. Current regulatory mechanisms used by PSE are adequate to provide a reasonable opportunity for PSE to earn its authorized return on equity, and also support cash flow coverages that are more than adequate, even after the effects of the TCJA, to support PSE's current investment grade bond rating and financial integrity. The Company's proposal for an attrition adjustment creates significant cost burdens on customers that are simply not justified, and result in the development of rates based on cost of service items which are not known and measurable. Developing rates based on expenses that are not known and measurable will not protect customers by ensuring that they pay only just and reasonable rates for services provided. For all these reasons, the Company's proposal for an attrition adjustment methodology should be rejected.

Q. DOES THIS CONCLUDE YOUR RESPONSE TESTIMONY?

A. Yes, it does.

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