EXH. MRM-4T
DOCKETS UE-240004/UG-240005 et al.
2024 PSE GENERAL RATE CASE
WITNESS: MATTHEW R. MARCELIA

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket UE-240004** **Docket UG-240005** **(*consolidated)***
In the Matter of the Petition of **PUGET SOUND ENERGY** **For an Accounting Order Authorizing deferred accounting treatment of purchased power agreement expenses pursuant to RCW 80.28.410**	**Docket UE 230810** **(*consolidated*)**

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF

MATTHEW R. MARCELIA

ON BEHALF OF PUGET SOUND ENERGY

SEPTEMBER 18, 2024

PUGET SOUND ENERGY

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PUGET SOUND ENERGY

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I. INTRODUCTION

Q. Are you the same Matthew R. Marcelia who submitted Prefiled Direct Testimony on February 15, 2024 on behalf of Puget Sound Energy ("PSE") in this proceeding?

A. Yes, on February 15, 2024, I filed the Prefiled Direct Testimony of Matthew R. Marcelia (Exh. MRM-1T) and two supporting exhibits (MRM-1T through MRM-3).

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony responds to testimony from David C. Parcell (Exh. DCP-1T) on behalf of the Staff of Washington Utilities Transportation Commission ("Staff") regarding the impact of the Tax Cuts and Jobs Act ("TCJA") on PSE's cash flows.

II. THE TCJA HAD A NEGATIVE IMPACT ON PSE'S CASH FLOW

Q. Do you have any concerns with the testimony of Staff witness David Parcell?

A. Yes, I do. I am concerned by Parcell's attempt to dismiss and minimize the impact that the TCJA has had *and will continue to have* on PSE's cash flows.

First, Parcell notes the TCJA "occurred at least five years ago." Parcell, Exh. DCP-1T at 61:3.This statement is correct as the TCJA was passed in December 2017. However, regardless of its date of passage, the TCJA remains the law and continues to impact *every taxpayer* in the United States – which includes PSE.

Second, Parcell then postulates that the TCJA has been "superseded by a subsequent set of rate proceedings (Dockets UE-220066 et al.) that employed a new ratemaking mechanism (*I.e*., MYRP)[…]. As a result of these factors, it is *improper* to claim that 'dated' reasons cited by Company witness Peterman should be used as a justification for either a higher ROE or higher equity ratio in the current proceeding." *Id.* at 61:5-10 (emphasis added).

That is inaccurate. As I explained in my prefiled direct testimony at Exh. MRM-1T at 21:17-24:15, the TCJA eliminated PSE's ability to use bonus depreciation. This has greatly contracted the company's ability to "borrow" money from the Internal Revenue Service at an interest rate of zero. In fact, bonus depreciation, which was a *source* of cash to PSE pre-TCJA, has become an *outflow* of cash. My prefiled direct testimony, Exh. MRM-1T at 23, Table 2, shows the average annual decline in PSE's plant-related accumulated deferred income tax ("ADIT") since 2017 is $41 million per year. This places significantly more pressure on PSE's capital structure, as cash must be raised from other sources (i.e. debt and/or equity) to fill the void. And those other sources of cash come with a cost.

Q. Is that still happening today, five years later?

A. Yes, absolutely. And the challenge facing PSE is that the impact of TCJA is growing, not subsiding. This is because bonus depreciation increases and decreases based on capital expenditures, and PSE's capital expenditures are increasing significantly (as has been mentioned throughout this filing). Because of TCJA, none of those capital expenditures will qualify for bonus depreciation. This means that the ADIT PSE records will be smaller than it would have been without TCJA. For PSE, the impact of TCJA ebbs and flows with the tide of capital expenditures. The tide is rising.

Q. But hasn't this impact been offset by the things Parcell mentions, like the rate filings and the MYRP?

A. The TCJA has impacted PSE since it was enacted. Its effects have been reported in every rate case and MYRP the company has filed since then. Its effects are known, measurable, and ongoing (*see* Marcelia, Exh. MRM-1T at 21:15-24:15). It continues to explain, in part, the financing challenges that PSE faces. PSE raises it again in this filing because the effect is still there.

III. CONCLUSION

Q. Does that conclude your prefiled rebuttal testimony?

A. Yes, it does.