EXH. NWA-4T
DOCKET UE-240004/UG-240005 et al.
2024 PSE GENERAL RATE CASE
WITNESS: NED W. ALLIS

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

NED W. ALLIS

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 Ned W. Allis who submitted Prefiled Direct Testimony on February 15, 2024 on behalf of Puget Sound Energy ("PSE" or the "Company") in this proceeding?

A. Yes, on February 15, 2024, I filed the Prefiled Direct Testimony of Ned W. Allis, Exhibit NWA-1T and two supporting exhibits (NWA-2 through NWA-3).

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony responds to the depreciation-related testimonies of Washington Utilities and Transportation Commission ("WUTC") Staff ("Staff")) witnesses Chris McGuire and Wesley Franks, Public Counsel ("PC") witness David Garrett, Alliance of Western Energy Consumers ("AWEC") witness Lance Kauffman, the Joint Environmental Advocates witness William Gehrke ("JEA") and The Energy Project ("TEP") witness Shaylee Stokes.

Q. What issues do each of these witnesses raise?

A. Each addresses the topic of depreciation and the Company's proposals in this case, which include shorter service lives for several accounts that reflect a gradual move towards the level of depreciation needed for the clean energy transition underway in Washington. Several witnesses also raise the issue of Washington

House Bill 1589 ("HB 1589"), which addresses depreciation for combined gas and electric utilities.

My testimony was filed on February 15, 2024,[1] which preceded the passage of HB 1589 in March of 2024. This law includes requirements for the calculation of depreciation for gas assets for large combined gas and electric utilities. Additionally, as other parties note, parts of HB 1589, including a requirement for gas assets to be depreciated by 2050, could be repealed by a ballot initiative this November. While I recognize that such future changes could modify specific legal requirements, in my view it does not change the overall reasonableness of the Company's depreciation proposal. Further, HB 1589 provides insight into the legislature's view of the necessary depreciation expense for large, combined electric and gas utilities. That the current statutory requirements would result in higher depreciation than the Company's proposal is supportive of the point I made in my Direct Testimony that as I discuss, the depreciation resulting from the application of HB 1589 is considerably higher than the Company's proposal and further supports that the Company's proposal is a reasonable, prudent, and gradual change towards the higher level of depreciation needed.

Q. What do the other parties recommend?

A. While there are some commonalities, each parties' testimony on depreciation varies in terms of recommendations. Staff provides context and discussion of

[1] My recommendations in the depreciation study were completed prior to this date.

developments such as HB 1589, though does not recommend a specific depreciation proposal. Public Counsel's witness does not even address the issue of the impact of GHG emissions, making no mention of the energy transition in its witness testimony and proposes depreciation rates that are oblivious to the significant changes underway in the state. The other parties generally recommend either no change or a more gradual increase in depreciation and provide discussion of HB 1589 and other factors.

Given the passage of HB 1589 and other recent developments since concluding the depreciation study, my response to the other parties will also update my analyses in the context of legislative guidance on depreciation. My response also considers the testimony of PSE witness Matthew Steuerwalt, who explains that the Company's proposal is necessary whether or not HB 1589 is repealed. Although my testimony speaks directly to HB 1589, the same principles are at play whether or not this particular legislation is repealed. The Company believes that increased electrification will still occur based on state and federal policy, putting increased pressure on remaining gas customers. This belief is consistent with analyses I have reviewed or performed in other jurisdictions with similar state GHG emissions goals. As I discuss further in my rebuttal testimony, I present an acceptable method by which depreciation rates can be adjusted to allow for more gradual impacts to customers for this transition.

Q. Please continue your explanation of the parties' proposals.

A. I disagree with many of the conclusions raised by other parties and, importantly, also disagree with many of their criticisms of my analysis. For example, contrary to the testimonies of AWEC, TEP and JEA, my recommendation is not based solely on the analyses of a single scenario and its impact on service lives, but rather considers the range of possibilities – as well as the impact and equity concerns for both current and future customers. Rather than focus on a single data point or set of analyses, I have reviewed multiple scenarios and analyses (both for the Company and in other jurisdictions) and my recommendations – which are gradual relative to the depreciation that will be necessary to achieve the energy transition that has been legislated – incorporate all of this information in an effort to balance both the short- and long-term costs and impacts to customers and the Company.

To further clarify my proposals and respond to the other parties proposals (as well as add context from HB 1589), I provide analyses of both the short- and long-term tradeoffs in each of the different proposals.[2] The analyses presented later in my testimony will help clarify these tradeoffs, particularly in the context of the level of depreciation expense that will be necessary once HB 1589 is implemented (presumably in the next depreciation study filed for Puget Sound Energy in its next multiyear rate plan anticipated in early 2026).

Q. Does the passage of HB 1589 change your recommendations?

[2] Indeed, many parties raise the issues of equity as well as the need to balance short- and long-term interests. *See e.g.*, Kaufman, Exh. LDK-1T; Franks, Exh. WF-1T; Maguire, Exh. CRM-1T; McCloy, Exh. LCM-1T; Gehrke, Exh. WAG-1T; Garrett, Exh. DJG-1T.

A. No. My recommendations were made prior to the passage of HB 1589 and I believe they are sound regardless of whether portions of the law are repealed in November. However, I believe the passage of HB 1589 strengthens the case that 1) depreciation will need to increase significantly (and more than the Company's proposal in the instant case); and 2) the Company's proposal is a gradual recommendation that balances short- and long-term interests. As I will describe in more detail later in my testimony, fully accelerating depreciation would result in depreciation expense of closer to $380 million per year, more than double current depreciation expense. Fully accelerated depreciation aligned with HB 1589 would result in an increase in depreciation of over $200 million, significantly more than the $71 million increase the Company has made with a more gradual proposal in its multi-year rate plan. While other parties observe that HB 1589 requirements may not be in full force until the Company's next depreciation study, delaying the shortening of depreciation lives today will have significant impacts on customers receiving service at the time of that next study. Indeed, analysis provided later in my testimony shows that keeping a business-as-usual depreciation expense (as proposed by PC and other parties) would result in an incremental increase in depreciation of more than $130 million in 2026 to reach the level of depreciation set forth in HB 1589. The Company's proposal, in contrast, would result in a more moderate $71 million increase in the current case, followed by a $60 million increase in 2026. Accumulated depreciation would also be more than $200 million lower in 2026 than under a business-as-usual depreciation approach.

Overall, the passage of HB1589 supports the Company's recommendation to gradually increase depreciation in this case in preparation for the future. This will, in my view, balance the short- and long-term impacts of the energy transition. However, as I describe later in my testimony, HB 1589 establishes a higher range of depreciation than I considered when making my recommendations in the depreciation study. As a result, even though there could be potential changes in policy,[3] the outlook today (and current law) supports a higher level of depreciation than the Company's proposal.

Q. Should HB 1589 be considered when determining depreciation in this case?

A. Yes. As noted in my direct testimony, the FERC definition of depreciation explains that causes of depreciation "known to be in current operation" should be considered, which includes both obsolescence and requirements of Public Authorities. HB 1589, the CCA, and CETA would represent requirements of public authorities known to be in current operation and, therefore, the higher depreciation that will result needs to be considered.

[3] For example, other parties raise potential results of ballot initiatives this fall. *See e.g.*, Kaufman, Exh. LDK-1T at 9; McGuire, Exh. CRM-1Tr at 24-29.

II. DEPRECIATION SCENARIOS AND HB 1589

Q. In your direct testimony, you provided the results of your analyses of several scenarios assessing the impacts of and approaches to depreciation in the context of the energy transition. With the passage of HB 1589, have you updated any of these analyses?

A. Yes. In my Direct Testimony, I provided the results of several scenarios using different depreciation approaches, including shorter service lives, a method that recovers all cost on a straight line basis by 2050 ("Recovery by 2050 – SL") and the Units of Production Method. Based on HB 1589, I have added one additional scenario that combines the remaining lives from the recovery by 2050 scenario and Units of Production ("Recovery by 2050 – UoP") based on gas throughput projections.[4] I believe this scenario would best satisfy the intent of HB 1589 in terms of equitably recovering the costs of gas plant most equitably by 2050, since it aligns with potential declines in demand over that same period.

Table 1, below, provides the analysis from my Direct Testimony with this additional scenario. The Recovery by 2050 – UoP scenario results in close to three times the increase in depreciation as the Company's proposal of 10-Year shorter service lives.

[4] The new scenario shown in my Rebuttal Testimony uses the higher electrification projections of throughput (i.e., the same as for the UoP – CCHP), as recovering all costs by 2050 implies a more significant decline in throughput. The CCHP scenario does not decline to zero by 2050, so appears more conservative than implied in HB 1589.

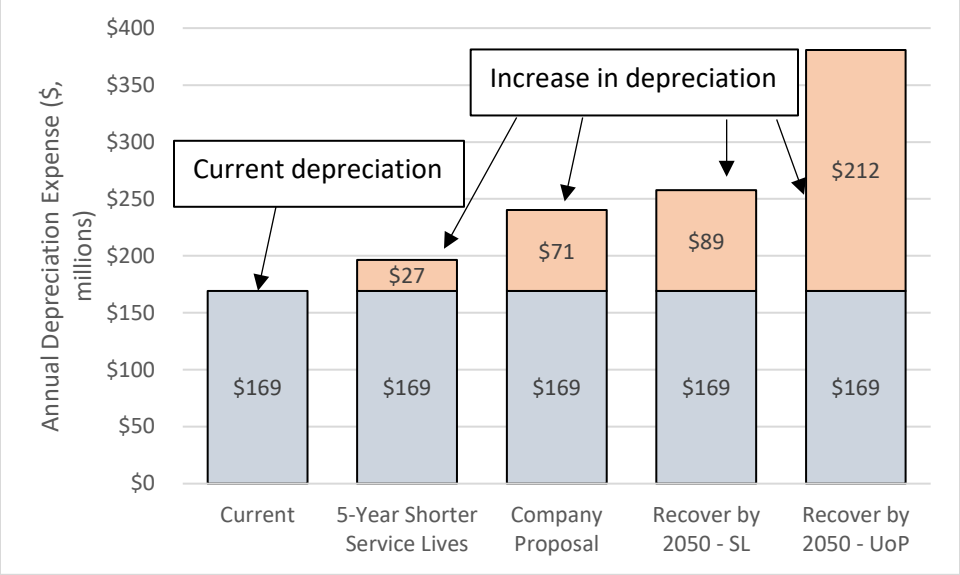
Table 1: Comparison of Annual Depreciation Expense Resulting from Various Scenarios for Gas Plant ($ in millions)

FUNCTION	CURRENT DEPR.	HIST. EXP.	5-YEAR SHORTER SERVICE LIVES	10-YEAR SHORTER SERVICE LIVES	RECOV. BY 2050 – SL	UoP - CCHP	UoP - HHP	SYD	RECOV. BY 2050 - UoP
UNDERGROUND STORAGE	$1.9	$2.2	$2.2	$2.2	$2.2	$2.8	$2.7	$4.1	$2.7
OTHER STORAGE	$6.5	$6.5	$6.5	$6.5	$9.7	$12.5	$11.6	$12.7	$15.0
DISTRIBUTION	$158.9	$160.1	$185.7	$229.4	$243.7	$294.8	$276.6	$310.8	$359.7
GENERAL	$2.0	$2.1	$2.1	$2.1	$2.3	$3.2	$3.2	$2.7	$3.3
TOTAL	**$169.3**	**$170.8**	**$196.4**	**$240.2**	**$257.8**	**$313.3**	**$294.1**	**$330.3**	**$380.8**

Q. Based on this analysis, can you put into context PSE's proposal?

A. Yes. As discussed above, we know that depreciation will need to increase significantly by the next depreciation study due to HB 1589 and ongoing state and federal policy support for electrification. Indeed, the analysis show in Table 1 demonstrates that depreciation will need to more than double in order to comply with this new law. The Company's proposal, in contrast, is a more moderate increase of approximately 42 percent when compared to current depreciation rates. This is further illustrated in Figure 1 below. The Recover by 2050 – UoP bar shows where depreciation will need to move to under HB 1589 by the next study. The Company's proposal moves in this direction, but only about one-third of the way. This further reinforces the discussion in my direct testimony that the Company's proposal is a moderate proposal and gradual change that balances both short- and long-term impacts.

Figure 1



Q. Your analysis shows both a straight line and UoP scenario for the recover by 2050 analysis. Please explain the difference between these two and why the UoP scenario better meets the requirements of HB 1589.

A. Both the straight-line and UoP methods, combined with the Recover by 2050 calculated remaining lives, will recover the costs of gas plant (including the current net salvage estimates) by 2050. However, the straight line scenario does so in equal amounts for each year through 2050 and the UoP scenario does so in proportion to projected gas throughput.

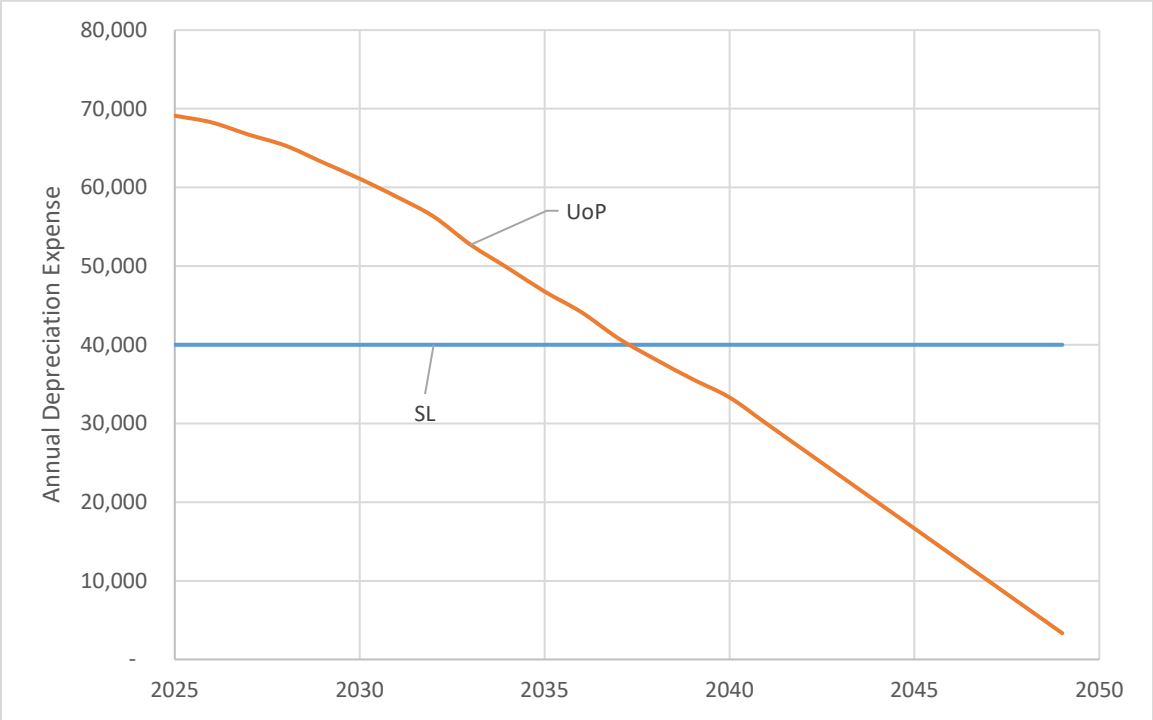
The need to recover costs by 2050 set forth in HB 1589 implies that gas lives will be shorter than in the past and, similarly, customer counts and gas throughput will decline significantly. This implies that many assets will retire *before* 2050 and, further, demand and usage of remaining assets will decline significantly before 2050 as well.

The straight line Recover by 2050 scenario allocates costs so they are recovered on a straight line basis through the end of 2050. However, it does not incorporate assets retiring earlier than 2050 (e.g., for customers who fully electrify) nor does it consider declining throughput. As a result, a strictly straight line Recover by 2050 scenario will still backload the recovery of cost onto the customer base in the late 2040s (which is likely a smaller customer base). For this reason, the straight line Recover by 2050 scenario results in an inequitable recovery of costs when compared to the UoP scenario.

Q. Please illustrate the difference between straight line depreciation and UoP for a Recover by 2050 scenario.

A. As a brief illustration of this concept, consider $1 million of gas plant installed at the end of 2024, which serves 500 customers and will need to be depreciated by 2050. The need to depreciate the assets by 2050 is driven by the assumption of the decline in the number of customers and throughput. For this example, we will assume decline to close to zero by that time as well. Figure 2 shows the annual depreciation expense for both the straight line and UoP approaches of recovering these costs by 2050.

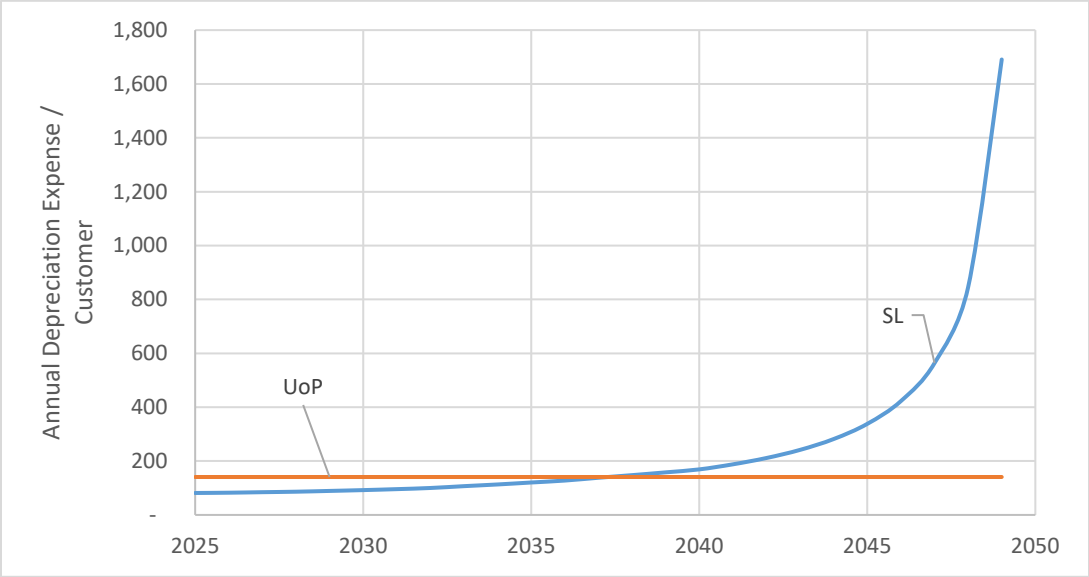
Figure 2



Q. Does the above show the full impact on future customers if many of today's customers leave the system by 2050?

Q. No. Figure 2 shows the total depreciation expense. Since throughput and gas customers would decline under this scenario, Figure 3 below, which shows the same depreciation expense but on a per-customer basis, illustrates why UoP is more equitable in this scenario, as it results in an equal recovery on a per-customer or per-unit basis. The straight line approach, in contrast, results in delaying the recovery of much higher costs to the customers who remain on the system in the 2040s.

Figure 3



For these reasons, I believe the Recover by 2050 – UoP Scenario will best comply with and satisfy the intent of HB 1589 and, importantly, would most equitably recover costs under the scenario laid out in HB 1589.

Q. Other parties suggest it is premature to comply with the requirement of HB 1589.[5] How do you respond?

A. I will defer to counsel, as other witnesses have, on the legal questions regarding implementation of HB 1589, including the potential for changes to the law in November. However, I believe the analysis of the result of the directives in HB 1589 help inform the Company's proposal, which is a considerably smaller increase than will occur when HB 1589 is implemented. Further, as witness Matt Steuerwalt discusses in his rebuttal testimony, the Company's proposal is still a gradual move in a necessary direction regardless of the future of HB 1589.

[5] *See e.g.*, Kaufman, Exh. LDK-1T at 9; McGuire, Exh. CRM-1Tr at 24-29.

Depreciation involves forecasts of what will occur over several decades, and so context matters beyond the specific mechanics of the law. Based on current law, by the Company's next rate case, depreciation rates will need to be determined to recover pre-2024 capital investment by 2050.

We also know that waiting to increase depreciation has costs both in terms of higher depreciation and higher rate base. I have modeled several scenarios in the next section, which roughly equate to proposals discussed or made in this case.

III. SHORT- AND LONG-TERM IMPACTS OF PARTIES' PROPOSALS

Q. Other parties have proposed depreciation rates more similar to other scenarios shown in Table 1 above. Please explain the impact of their proposals in both this and future rate cases.

A. For the current case, we can start from the unique assumption that the Recover All by 2050 – UoP scenario will be implemented in 2026, after implementation of HB 1589. Because this is espoused in law, it represents our best estimate of the future capital recovery pattern that aligns with state policy. In other words, we do not need to assume a precise pathway to 2050 but can instead calculate depreciation that aligns with state policy. In Figure 4 below, the charts show the impact on revenue requirements (more precisely, the impact of depreciation on expense and rate base) in 2026. There are three scenarios modeled:

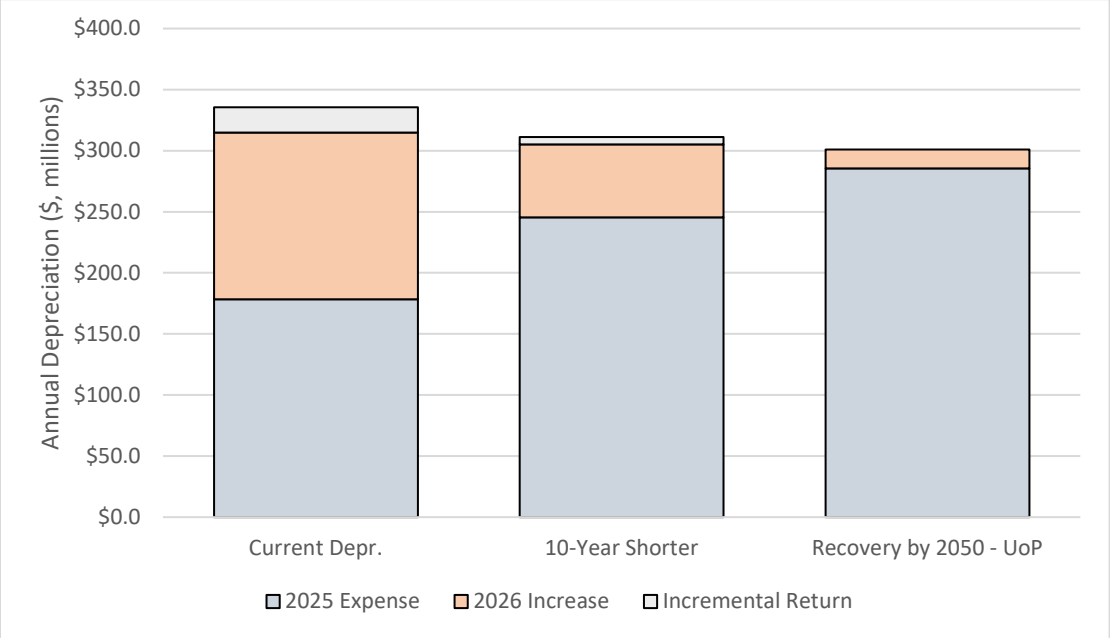
- Recover All by 2050 – UoP, which results in a greater increase today but lower rates in as soon as three years under HB 1589.

- Current depreciation rates, which assumes the current depreciation rates remain in effect until HB 1589 is implemented; and

- The Company's proposal for 10-year shorter service lives.

The resultant depreciation expense, the increase from 2025 to 2026, and the higher return on rate base (when compared to the Recover by 2050 – UoP scenario) are all shown in Figure 4 below.

Figure 4.
2026 Increase in Depreciation Under Different Pathways to HB 1589 Depreciation Expense



The highest depreciation scenario today, in which Recover by 2050 – UoP would be initially implemented in the instant case, results in a $211.5 million increase today but a more moderate increase in the next case of $51.7 million. Additionally, accumulated depreciation would be $290 higher when compared to a business as usual scenario (if current depreciation rates were used through 2025). Rate base would be lower by a similar amount, which would reduce bills for 2026 customers by more than $20 million.[6]

If the current depreciation rates are used, which is similar in depreciation to PC and other parties' proposal, depreciation in 2026 would increase significantly – by 137 million. As noted above, rate base would also be $290 million higher when compared to the Recovery by 2050 – UoP scenario.

The Company's proposal is in between these two outer bounds, balancing both the level of depreciation set forth in HB 1589 with the current, lower levels. There would be a $70.9 million increase today, followed by a $60 million increase in 2026 should the Commission move to a units of production methodology along with HB 1589 depreciation requirements. This is much smaller than the $415.1 million increase that would result from most other parties' proposals. Rate base would also be approximately $210 million less than using a business-as-usual proposal or current depreciation rates, which would save 2026 customers more than $14 million in return on rate base.

[6] Based on applying the currently authorized 7.16% rate of return by $290 million.

Overall, this analysis of the impact of HB 1589 demonstrates that the Company's proposal is a gradual change towards the level of depreciation likely to be needed in the near future.

IV. RESPONSE TO CRITICISMS OF THE COMPANY'S PROPOSAL

Q. AWEC witness Kauffman suggest that your proposal is based on a specific assumption regarding future gas usage and customer counts. Is this accurate?

A. No. Each parties' criticisms come from the Life Cycle Analysis I provided in my direct testimony,[7] which was one of several analyses upon which my recommendations were based. Their criticisms both fail to account for these additional analyses, which also significantly informed my recommendations, and misinterpret the Life Cycle Analysis results.

Q. What additional analyses informed your recommendations?

A. The analyses shown in Table 1, above, support and inform my recommendations as much as the Life Cycle Analysis, although both are supportive overall of my proposal. At the time my testimony was filed, I recommended the 10-Year Shorter Service Lives scenario as a gradual move towards what I believe to be the correct depreciation, based on information available at the time. This proposal resulted in lower depreciation when compared to other scenarios considered and

[7] *See* Allis, Exh. NWA-1T at 31-35.

longer lives with the results of the Life Cycle Analysis I provided.[8] The UoP scenarios better match my preferred approach, although this should potentially be combined with shorter service lives and the Equal Life Group Procedure[9] to determine the most equitable allocation of costs.

For these reasons, I believe the 10-Year Shorter Scenario was conservative and, additionally, had the benefit of not requiring a change in method (to, e.g., UoP). The Life Cycle Analysis supported that in higher electrification scenarios, lives would shorten considerably. However, merely shortening lives would not mitigate the risk of declining demand or customers, as Figure 3 demonstrated. Thus, in my view the Company's proposal represented a good first step, which balanced short- and long-term interests.

Now that I have reviewed and assessed the impacts of HB 1589 on depreciation of the Company's gas assets, my view of the appropriate level of depreciation has been revised *higher*. The $212 million increase in Table 1 based on the Recover by 2050 – UoP scenario is higher than my initial analysis. It also means the other parties criticisms of the Life Cycle Analysis are incorrect, though in the opposite direction they assume. Recovering all costs by 2050 implies a steeper decline in demand and customers than the scenarios I modeled, which supports shorter – not

[8] For the larger accounts, the Life Cycle Analysis produced significantly shorter service lives. For example, for the plastic mains and services accounts, the analysis resulted in average service lives in the mid-30 year range, shorter than the 45 and 40-year average service lives in the Company's proposal.

[9] Equal Life Group depreciation recovers the costs of assets over the dispersed lives within a property group rather than over the average life for the group. This results in a more precise recovery pattern that recovers the costs of assets that retire earlier than the average over their expected service lives.

longer – service lives. That is, the Life Cycle Analysis would support even shorter service lives if calculated assuming a decline to zero by 2050.

Q. Do you agree with AWEC's alternative proposals?

A. No. Mr. Kaufman provides alternative service lives on pages 9 through 11 of his testimony. I disagree with many of his criticisms. First, he argues that I have not provided rationale for changes to other accounts such as house regulators. It is true that I did not specifically explain every single account in the study, but that is only because the same forces will impact many accounts. House regulators are co-located with services, meters and other property at customer locations, so would have the same impact as services and meters. I expect the same impact on these assets and, thus, a shorter life is also appropriate.

Mr. Kauffman also argues that assets like mains will not be retired, arguing that the Company has provided no evidence this will occur. While the precise mechanism by which electrification will occur is unknown today, I would expect there would need to be some degree of zonal electrification (which would mean retiring and decommissioning mains) to achieve GHG emissions goals. I base this not only on PSE's analyses and outlook but also on my experience with many other utilities facing the same set of issues. Further, my recommendation does not shorten the lives for mains to the extent the Life Cycle Analysis I performed would suggest. Finally, even if fewer mains are retired, there will be significantly less throughput. While a UoP approach best captures this decline, shorter service lives also can incorporate some degree of this decline in utilization.

Q. Mr. Kauffman also argues that UoP is not appropriate to apply to "mains and regulating stations." Please address this criticism.

A. Mr. Kauffman argues that UoP does not apply to "mains because the functionality and value of these assets does not decline with units of production."[10] While this has historically been true, it is not true in a scenario where throughput declines significantly.[11] If, say, half as much gas is sold through a main, then the functionality and value would also decline. Mr. Kauffman also argues that UoP is used when assets have a fixed volume over their lifetime, such as for coal investments. However, he is confusing the more limited historical applicability of UoP with its appropriateness. It is true that UoP has historically been used for assets more similar to mining or gas and oil production. But this is because these are assets for which, under normal circumstances, UoP is most appropriate. There are others that are not tied to a fixed volume for which UoP is used though, such as rail and track assets for freight railroads.

In most instances, straight line depreciation is more appropriate for utility assets.[12] However, the situation faced by Puget Sound Energy and other utilities in states with GHG emissions laws is unique – utilities do not typically have expectations for significant declines in demand. As I have shown in Section II of my rebuttal, straight line depreciation does not produce as equitable results for

[10] Kauffman, Exh. LDK-1T at 11:10-11.

[11] While I do not address Mr. Kauffman's rate design issues, I would note that gas assets such as mains provide both demand and volumetric service. Declines in either would reduce utilization of the assets.

[12] Indeed, mathematically, straight line depreciation is equivalent to UoP depreciation with flat demand.

customers and the company with declining demand. Instead, in these circumstances, UoP produces a more equitable allocation of costs. For additional discussion rebutting Mr. Kaufman's testimony regarding cost allocation, among others, please see the Prefiled Rebuttal Testimony of John D. Taylor, Exh. JDT-8T.

Q. Does Public Counsel witness Garrett provide any criticism of the considerations related to the energy transition?

A. No. Mr. Garrett does not make any mention of considering any of these factors. He has instead merely picked curves from the statistical analysis of historical data with no consideration of changes that will occur in the future. He does not respond to any of the issues raised in my testimony.

He does include a discussion about "excessive" depreciation, which of course does not apply to the Company's proposal (since depreciation is lower than in HB 1589). He also claims that his approach is "objective." However, because he fails to consider any changes in the future and bases his estimates only on the past, we can be sure that his proposals are "objectively" wrong.

Q. What is the primary issue with Mr. Garrett's proposal?

A. Mr. Garrett focuses only on the past (in which assets were more commonly retired when they reached the end of their physical lives) and does not consider how the future will be different from the past. As I have discussed, this can and does lead to incorrect results. Indeed, as discussed by PSE witness Matt Steuerwalt in his

rebuttal testimony, the experience with the Colstrip plant illustrates the hazard of Mr. Garrett's approach. The life spans for that plant were originally established more on the expected physical life span. However, the plant was retired earlier for economic and regulatory reasons, leaving costs to be recovered after the plant was retired. Mr. Garrett's approach here would produce similar results, since he failed to consider any ways in which the future would be different from the past.

V. CONCLUSION

Q. Does that conclude your testimony?

A. Yes, it does.