EXH. SEF-49C
DOCKETS UE-240004/UG-240005 et al.
2024 PSE GENERAL RATE CASE
WITNESS: SUSAN E. FREE

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*)**

TWENTY-FIRST EXHIBIT (CONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

REDACTED VERSION

SEPTEMBER 18, 2024

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Dockets UE-240004 & UG-240005
Puget Sound Energy
2024 General Rate Case

WUTC STAFF DATA REQUEST NO. 173

"CONFIDENTIAL" Table of Contents

	"CONFIDENTIAL" Material
Data Request No. 173	Shaded information is designated as CONFIDENTIAL per Protective Order in Dockets UE-240004 and UG-240005 as marked in Puget Sound Energy's Response to WUTC Staff Data Request No. 173.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Dockets UE-240004 & UG-240005
Puget Sound Energy
2024 General Rate Case

WUTC STAFF DATA REQUEST NO. 173:
REQUESTED BY: Suran Kumar

RE: Employee Benefits – Pensions & Benefits

For the Operations Training facility, as per page 107 of 2023 SEC 10 K, provide info for the calculation of any amount included in the rate case. Also, provide all reasons for such a lease arrangement for its own Operations Training through a third-party facility along with details about this third-party including negotiations for the lease cost and terms.

Response:

Puget Sound Energy ("PSE") objects to WUTC Staff Data Request No. 173 to the extent it requests information that is publicly available or obtainable from some other source that is more convenient, less burdensome, or less expensive. Notwithstanding these PSEdoes not include leases in rate base and, therefore, does not earn a return on leased assets. Refer to work paper 240004-05-PSE-WP-SEF-5E-10G-WkgCapRateBase-24GRC-02-2024.xlsx, tab "New Format B.Sheet" rows 17 through 19 wherein operating and finance leases are classified as non-operating assets and excluded from rate base.

The expense associated with this lease agreement should be included in the revenue requirement in the same manner as the treatment of operating leases. However, it was discovered during the preparation of this response that the expense associated with this lease, as well as two additional finance leases,[1] were inadvertently and incorrectly excluded from PSE's requested revenue increase. The circumstances that resulted in this error are discussed as follows.

PSE uses a FERC presentation to develop its revenue requirement. For FERC reporting, both operating and finance leases are recorded in FERC account 931 Rents, which is a part of PSE's O&M. However, for GAAP and forecasting purposes, finance leases are included in amortization and interest expense while operating leases are included in O&M. Due to this difference between FERC and GAAP/forecasting

[1] Kent and Puyallup Service Center leases.

presentation, amortization and interest expense related to the 3 finance leases were inappropriately not added to the forecasted O&M to match the FERC presentation needed for developing the revenue requirement, and were therefore excluded from the O&M adjustment and the rate case revenue requirement calculations. As a result, PSE's overall requested revenue change in this proceeding is understated by as much as $8 million in 2025 and $12 million in 2026. In the event that these lease costs should be allocated to construction overheads, a portion of their costs based on a rate developed through a periodic time study, would be removed from O&M for allocation to capital, which would result in a lower impact on the revenue requirement. The current allocation to capital is approximately 60%. PSE may include these omitted O&M expenses in its revenue change request at a future point in this proceeding.

PSE conducted a competitive bid process for the Operational Training Center, receiving responses from 3 different developers. The most qualified bid was selected for the project. Several qualifications were reviewed, including Institutional background, Green standards, development approach, development fees and terms, access to resources, and overall budget. Trammell Crow was selected; they were founded in 1948 and have extensive experience in Build to Suit ("BTS") projects and access to top contractors.

The rationale behind building projects using BTS vs. Design, Bid, Build ("DBB") is that the development costs are spread out over a [redacted] period, as opposed to all the dollars spent in the front of the project. Using net present value, the projects are cheaper for development within the BTS model than spending all of this money at the onset in a DBB. When initially costing out the project, the BTS present value of regulated revenues was roughly [redacted] million lower than DBB. When the project is finished, PSE will manage the facility and has operational control as if we owned it outright. At the end of the [redacted] period, PSE has the option to purchase the facility for [redacted]; or, extend the lease. The functions of the facility remain the same under both development options.