

**EXH. SEF-1CT
DOCKET UG-_____
WITNESS: SUSAN E. FREE**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of the Application of
PUGET SOUND ENERGY
For an Order Determining Property Is
no Longer Necessary or Useful or
Alternatively Authorizing the Sale of
Puget Sound Energy's Water Heater
Rental Service**

Docket UG-_____

PREFILED DIRECT TESTIMONY (CONFIDENTIAL) OF

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

REDACTED VERSION

FEBRUARY 19, 2020

PUGET SOUND ENERGY

**PREFILED DIRECT TESTIMONY (CONFIDENTIAL) OF
SUSAN E. FREE**

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PUGET SOUND ENERGY

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1 **PUGET SOUND ENERGY**

2 **PREFILED DIRECT TESTIMONY (CONFIDENTIAL) OF**
3 **SUSAN E. FREE**

4 **I. INTRODUCTION**

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

6 A. My name is Susan E. Free. My business address is 355 110th Ave. NE, Bellevue,
7 WA 98004. I am the Director of Revenue Requirement and Regulatory
8 Compliance for Puget Sound Energy (“PSE”).

9 **Q. Have you prepared an exhibit describing your education, relevant**
10 **employment experience, and other professional qualifications?**

11 A. Yes. Please see the First Exhibit to the Prefiled Direct Testimony of Susan E.
12 Free, Exh. SEF-2.

13 **Q. What topics are you covering in your prefiled direct testimony?**

14 A. In this prefiled direct testimony I discuss the current and requested accounting for
15 the closure of Schedules 71 and 72 and the sale of PSE’s water heater rental
16 service (the “Water Heater Service”) (sale referred to hereafter as the “Proposed
17 Transaction”). I will also address the accounting associated with PSE’s Schedule
18 74 conversion burner program, which closes on March 31, 2020.

1 believes the Proposed Transaction is consistent with the public interest and is
2 requesting Commission approval of the Proposed Transaction on that basis.

3 **B. Background on the Treatment of Gains/Losses on the Transfer of**
4 **Property**

5 **Q. What is the relevant law that governs PSE's treatment of gains/losses on the**
6 **transfer of property?**

7 A. PSE's treatment of gains and losses on the transfer of property is governed by U-
8 89-2688-T, U-89-2955-T Findings of Fact paragraph 19 and the Stipulation and
9 Order of Dismissal dated May 26, 1992, Washington Court of Appeals, No.
10 29404-1. The settlement agreement related to those proceedings indicates an
11 amortization period of no shorter than three years.

12 **C. Current Accounting Treatment**

13 **Q. How are the Water Heater Assets included in the Proposed Transaction**
14 **currently recorded?**

15 A. The Water Heater Assets are recorded based on historical cost to FERC 101 Gas
16 Utility Plant specifically within FERC Account G386 (Other Property on
17 Customers' Premises). As of December 31, 2019, the net book value of the Water
18 Heater Assets was approximately \$ [REDACTED].¹

¹ This information should be treated as Confidential until PSE submits its Form 10-K on February 20, 2020.

1 **D. Requested Accounting Treatment**

2 **Q. What categories of Water Heater Assets will exist as a result of the Proposed**
3 **Transaction?**

4 A. Following Commission approval, the Water Heater Assets will fall into the below
5 categories based on options provided to customers:

- 6 1. Customers who terminate their rental service and elect to take
7 ownership of their water heater;
- 8 2. Customers who terminate their rental service and request PSE remove
9 the water heater; and
- 10 3. Customers who do not end their rental service prior to closing will be
11 transitioned to GHIL for a continuation of their rental service.

12 **Q. What is the sales price of the Proposed Transaction?**

13 A. [REDACTED]
14 [REDACTED].
15 [REDACTED]. There will also be proceeds received for assets, with a
16 remaining undepreciated value, that are retired for customers who terminate their
17 rental service, but this amount is unknown at this time. Therefore, there is no final
18 sales price as of the date of this filing.
19 PSE estimates a loss on the Proposed Transaction as compared to the current net
20 book value of between [REDACTED], including PSE's selling costs.
21 Because customers who choose to take ownership of the water heater will be
22 required to pay any remaining balance, there will theoretically be no expected loss
23 on this category of transactions. Any uncollectible amounts from these customers

1 will not be included in any calculation of the overall gain/loss on sale but will
2 instead be recorded as uncollectible account write offs as usual.

3 **Q. How does PSE propose treating the disposition of the Water Heater Assets in**
4 **the Proposed Transaction?**

5 A. PSE will ultimately record all proceeds against a FERC 187 account (Deferred
6 losses from disposition of utility plant). Proceeds will include the following:

- 7 1. Proceeds received from GHL at close.
- 8 2. Proceeds received from GHL as part of the 60 day post-close true-up.
- 9 3. Proceeds received, equal to the undepreciated value (or net book value) of
10 the water heater from customers who terminate their rental service and
11 elect to take ownership of their water heater.

12 Additionally, the pre-tax net book value of the Water Heater Assets will be
13 transferred from their respective plant accounts to the 187 account as follows:

- 14 1. The pre-tax net book value as of the closing date for Water Heater Assets
15 for customers who transition to GHL.
- 16 2. The pre-tax net book value as of the rental service termination date for
17 Water Heater Assets for customers who terminate their rental service.

18 Any direct selling costs, including costs for PSE to remove water heaters for
19 customers who wish to terminate their rental agreement, will also be recorded in
20 the 187 account. The balance of the 187 account will be held until the next
21 general rate case where PSE will request recovery through amortization.

1 **IV. CONCLUSION**

2 **Q. Does this conclude your prefiled direct testimony?**

3 **A. Yes.**