

**BEFORE THE WASHINGTON
UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY

Respondent.

DOCKET NOS. UE-190529 and UG-190530 (*Consolidated*)

MARK E. GARRETT ON BEHALF OF PUBLIC COUNSEL UNIT

EXHIBIT MEG-4

Natural Gas Revenue Requirement

November 22, 2019

PUGET SOUND ENERGY
 GAS DOCKET NO. UG-190530
CALCULATION OF GENERAL REVENUE REQUIREMENT
 TEST YEAR ENDED DECEMBER 31, 2018

Dockets UE-190529 & UG-190530
 Exhibit No. MEG-4
 Page 1 of 10
 Schedule No. 1

Line No.	Description	Amount Per Company	Amount Per PC
1	Adjusted Rate Base	\$ 2,112,672,665	\$ 2,017,563,425
2	Rate of Return	<u>7.62%</u>	<u>7.07%</u>
3	Net Operating Income Requirement	160,985,657	142,629,831
4	Adjusted Net Operating Income	<u>96,036,536</u>	<u>113,845,920</u>
5	Net Operating Income Deficiency/(Sufficiency)	64,949,121	28,783,910
6	Revenue Conversion Factor	<u>0.754097</u>	<u>0.754097</u>
7	Revenue Requirement	86,128,338	38,170,037
8	Changes to Other Price Schedules	<u>(32,408,666)</u>	<u>(32,408,666)</u>
9	Net Revenue Change before Attrition	53,719,672	5,761,371
10	Attrition Adjustment	<u>22,110,792</u>	<u>-</u>
11	Net Revenue Change After Attrition	75,830,464	5,761,371
12	Reduction to Requested Amount	<u>(10,357,655)</u>	<u>-</u>
13	Net Revenue Change Requested or Recommended	<u><u>\$ 65,472,809</u></u>	<u><u>\$ 5,761,371</u></u>

PSE Adj. #	Description	Puget Sound Energy Adjustments (Note 1)			PC Adjustment		Public Counsel Adjustments and/or PC Neutral in Direct			Public Counsel Position on PSE's Position	Rev. Req. Impact of Differences
		NOI	Rate Base	Rev Req	NOI	Rate Base	NOI	Rate Base	Rev Req		
	Test Year December 31, 2018	103,864,304	1,951,252,143	59,436,796			103,864,304	1,951,252,143	45,190,088	PC Neutral in Direct	(14,246,707)
6.01 GR	Revenues and Expenses	954,667	0	(1,265,974)			954,667	-	(1,265,974)	PC Neutral in Direct	0
6.02 GR	Temperature Normalization	31,955	0	(42,375)			31,955	-	(42,375)	PC Neutral in Direct	0
6.03 GR	Federal Income Tax	1,216,419	0	(1,613,080)	2,306,435	(5,820,422) (1)	3,522,854	(5,820,422)	(5,217,265)	PC Neutral in Direct	(3,604,185)
6.04 GR	Tax-Benefit of Interest	12,917,116	0	(17,129,250)			12,917,116	-	(17,129,250)	PC Neutral in Direct	0
6.05 GR	Pass-Through Revenue & Exp.	(1,412,119)	0	1,872,596			(1,412,119)	-	1,872,596	PC Neutral in Direct	0
6.06 GR	Injuries & Damages	(1,256,319)	0	1,665,991			(1,256,319)	-	1,665,991	PC Neutral in Direct	0
6.07 GR	Bad Debts	(125,429)	0	166,330			(125,429)	-	166,330	PC Neutral in Direct	0
6.08 GR	Incentive Pay	(187,098)	0	248,109	1,546,627	(2)	1,359,529	-	(1,802,857)	PC Opposes	(2,050,966)
6.09 GR	Excise Tax & Filing Fee	69,886	0	(92,675)			69,886	-	(92,675)	PC Neutral in Direct	0
6.10 GR	D&O Insurance	3,831	0	(5,080)			3,831	-	(5,080)	PC Neutral in Direct	0
6.11 GR	Interest on Customer Deposits	(204,504)	0	271,191			(204,504)	-	271,191	PC Neutral in Direct	0
6.12 GR	Rate Case Expense	(438,078)	0	580,931			(438,078)	-	580,931	PC Neutral in Direct	0
6.13 GR	Pension Plan	(770,451)	0	1,021,687			(770,451)	-	1,021,687	PC Neutral in Direct	0
6.14 GR	Property and Liability Insurance	(52,646)	0	69,813			(52,646)	-	69,813	PC Neutral in Direct	0
6.15 GR	Wage & Payroll Tax	(359,399)	0	476,595			(359,399)	-	476,595	PC Neutral in Direct	0
6.16 GR	Investment Plan	(4,190)	0	5,556			(4,190)	-	5,556	PC Neutral in Direct	0
6.17 GR	Employee Insurance	(10,645)	0	14,116			(10,645)	-	14,116	PC Neutral in Direct	0
6.18 GR	AMA to EOP Rate Base		150,665,688	15,224,468		(33,049,618) (3)		117,616,070	11,026,118	PC Neutral in Direct	(4,198,350)
6.19 GR	AMA to EOP Depreciation	(9,738,308)	(9,738,308)	11,929,830	1,125,546	1,125,546 (3)	(8,612,762)	(8,612,762)	10,613,874	PC Neutral in Direct	(1,315,956)
6.23 GR	Annualize Rent Expense	520,589	0	(690,348)			520,589	-	(690,348)	PC Neutral in Direct	0
Pro Forma Adjustments											
6.01 GP	Revenues and Expenses	(7,393,164)	0	9,803,996	0	0	(7,393,164)	-	9,803,996	PC Opposes	0
6.02 GP	Temperature Normalization	13,373,053	0	(17,733,863)	0	0	13,373,053	-	(17,733,863)	PC Opposes	0
6.04 GP	Tax Benefit of Interest	(184,038)	0	244,051	(761,087)	0 (4)	(945,125)	-	1,253,320	PC Opposes	1,009,269
6.09 GP	Excise Tax & Filing Fee	(69,886)	0	92,675	69,886	0 (5)	-	-	0	PC Opposes	(92,675)
6.10 GP	D&O Insurance	(3,831)	0	5,080	3,831	0 (5)	-	-	0	PC Opposes	(5,080)
6.14 GP	Property & Liability Insurance	(24,480)	0	32,463	0	0	(24,480)	-	32,463	PC Opposes	0
6.15 GP	Wage Increase	(1,909,978)	0	2,532,801	1,260,670	0 (6)	(649,308)	-	861,040	PC Opposes	(1,671,762)
6.16 GP	Investment Plan	(92,854)	0	123,133	92,854	0 (5)	-	-	0	PC Opposes	(123,133)
6.17 GP	Employee Insurance	(308,532)	0	409,141	308,532	0 (5)	-	-	0	PC Opposes	(409,141)
6.20 GP	Def. G/L on Property Sales	72,647	0	(96,336)	(72,647)	0 (5)	-	-	0	PC Opposes	96,336
6.21 GP	Environmental Remediation	(676,944)	0	897,688	676,944	0 (5)	-	-	0	PC Opposes	(897,688)
6.22 GP	AMI	(2,112,898)	13,882,663	4,204,707	5,387,141	(35,761,342) (7)	3,274,243	(21,878,679)	(6,392,992)	PC Opposes	(10,597,699)
6.23 GP	Annualize Rent Expense	134,162		(177,911)	(134,162)	0 (5)	-	-	0	PC Opposes	177,911
6.24 GP	GTZ Plant & Deferral	(4,917,796)	13,218,339	7,857,124	4,917,796	(13,218,339) (3)	-	-	0	PC Opposes	(7,857,124)
6.25 GP	Credit Card Amortization	344,098		(456,305)	(344,098)	0 (5)	-	-	0	PC Opposes	456,305
6.26 GP	Remove Unprotected ADFIT	722,630	361,315	(921,762)	722,630	361,315 (8)	1,445,260	722,630	(1,848,800)	PC Opposes	(927,038)
6.27 GP	Public Improvement	(123,556)	5,946,648	764,743	123,556	(5,946,648) (3)	-	-	0	PC Opposes	(764,743)
6.28 GP	Contract Escalations	(303,817)		402,888	303,817	0 (5)	-	-	0	PC Opposes	(402,888)
6.29 GP	HR Tops	(275,112)	2,799,732	647,730	275,112	(2,799,732) (3)	-	-	0	PC Opposes	(647,730)
8.01 GP	Remove 2018 CRM	31,240	(9,327,511)	(983,953)			31,240	(9,327,511)	(915,850)	PC Opposes	68,103
8.02 GP	SCH. 149 CRM	(5,263,989)	(6,388,044)	6,335,021			(5,263,989)	(6,388,044)	6,381,662	PC Opposes	46,641
	Pro Forma Total	<u>96,036,536</u>	<u>2,112,672,665</u>	<u>86,128,338</u>	<u>17,809,384</u>	<u>(95,109,240)</u>	<u>113,845,920</u>	<u>2,017,563,425</u>	<u>38,170,037</u>		<u>(47,958,301)</u>

Public Counsel Adjustments

- (1) Adjustment to include the protected EDIT that was reversed by the Company from January 2018 through February 2019, and to amortize the regular liability to ratepayers over a two year period.
- (2) Adjustment to share the financial related incentives with shareholders that directly benefit.
- (3) Adjustment to plant related investment and depreciation expense on an AMA basis to the pro forma period ended June 30, 2019.
- (4) Adjustment to the tax benefit of interest based on the rate base adjustments recommended by the Public Counsel.
- (5) Adjustments to remove the post-test year adjustments opposed by the Public Counsel.
- (6) Adjustment to recognize wage increases occurring within the pro forma year.
- (7) Adjustment to exclude the AMI investment.
- (8) Adjustment to amortized the unprotected EDIT over a two year period.

Line No.	Description	Per PC Adjustment	Per PSE Adjustment
	WAGES:		
1	Production Manufact. Gas	\$ 979	\$ 4,260
2	Other Gas Supply	38,653	69,831
3	Storage, LNG T&G	16,302	36,641
4	Transmission	-	-
5	Distribution	177,072	1,350,206
6	Customer Accounts	210,939	274,377
7	Customer Service	19,211	31,612
8	Sales	-	-
9	Administrative & General	306,785	552,919
10	Total Wage Increase	<u>\$ 769,941</u>	<u>\$ 2,319,846</u>
11	Payroll Taxes	51,967	97,848
12	Total Wages & Taxes	<u>\$ 821,908</u>	<u>\$ 2,417,694</u>
13	Increase (Decrease) Operating Expense	\$ 821,908	\$ 2,417,694
14	Increase (Decrease) FIT @ 21%	<u>(172,601)</u>	<u>(507,716)</u>
15	Increase (Decrease) NOI	<u><u>\$ (649,308)</u></u>	<u><u>\$ (1,909,978)</u></u>

Source: See work paper June 30 2019 Wage Adjustments based on NEW-PSE-WP-SEF-6.15E-6.15G-WageIncr-19GRC-06-2019.xlsx.

Line No.	Description	Per PC Adjustment	Per PSE Adjustment
1	Restated Incentive Compensation Plus Payroll Taxes	\$ 4,389,178	\$ 4,389,178
2	Test Year Incentive Compensation Plus Payroll Taxes	<u>4,152,345</u>	<u>4,152,345</u>
3	Adjustment for Restated Expenses	236,833	236,833
4	Exclude 50% Shareholder Benefit	<u>(2,194,589)</u>	<u>-</u>
5	Total Adjustment to Incentive Compensation and Payroll Taxes	(1,957,756)	236,833
6	Federal Income Tax Rate	<u>21%</u>	<u>21%</u>
7	Reduction in Federal Income Tax Expense	<u>411,129</u>	<u>(49,735)</u>
8	Adjustment to Net Operating Income	<u><u>\$ 1,546,627</u></u>	<u><u>\$ (187,098)</u></u>

Source/Notes:

NEW-PSE-WP-SEF-6.08E-6.08G-Incentive-19grc-06-2019.xlsx, tab Gas

Line No.	Description	Per PC Adjustment	Per PSE Adjustment
1	Plant In Service	\$ 167,984,851	\$ 200,340,093
2	Accumulated Depreciation	(53,501,077)	(55,515,782)
3	Deferred Debits and Credits		3,758,546
4	Deferred Federal Income Tax	3,132,296	2,958,805
5	Allowance for Working Capital		(875,974)
6	Total Rate Base Update Adjustment	<u>\$ 117,616,070</u>	<u>\$ 150,665,688</u>
7	Depreciation Expense Update	\$ 10,902,230	\$ 12,326,972
8	Income Tax Expense	<u>(2,289,468)</u>	<u>(2,588,664)</u>
9	Total Net Operating Income Adjustment	<u>\$ (8,612,762)</u>	<u>\$ (9,738,308)</u>
10	Accumulated Depreciation for Deprec. Exp. Update	\$ (10,902,230)	\$ (12,326,972)
11	ADIT for Depreciation Expense Update	<u>2,289,468</u>	<u>2,588,664</u>
12	Total Rate Base Adjustment for Depreciation Expense	<u>\$ (8,612,762)</u>	<u>\$ (9,738,308)</u>

Source/Notes:

PSE Amounts: NEW-PSE-WP-SEF-5.01-5.02-E-n-G-WC-RB-19GRC-06-2019.xlsx, tab 2017 GRC WC Det Format, cells AJ20, AJ21, AT20, AT21.

PC amounts: PC Plant Update WP 1

PUGET SOUND ENERGY
 GAS DOCKET NO. UG-190530
INTERIM PROTECTED EDIT AMORTIZATION
 TEST YEAR ENDED DECEMBER 31, 2018

Dockets UE-190529 & UG-190530
 Exhibit No. MEG-4
 Page 6 of 10
 Schedule No. 6

Line No.	Description	Per PC Adjustment	Per PSE Adjustment
1	2018 Protected EDIT ARAM Amortization	\$ 6,272,059	\$ -
2	2019 Protected EDIT ARAM Amortization	4,786,138	
3	Portion of 2019 Amortization by February 28 $((31+28)/365)$	<u>16.164384%</u>	
4	2019 Amortization through February 28	<u>\$ 773,650</u>	
5	Total Protected EDIT Amortization 1/1/2018 - 2/28/2019	\$ 7,045,709	
6	Adjustment to EDIT AMA Regulatory Liability to 6/30/2019	<u>\$ 5,820,422</u>	\$ -
7	Adjustment for Rider 2 Year Amortization of Interim EDIT	<u>\$ 3,522,854</u>	\$ -

Source/Notes:
 WUTC Staff 67

AMA Adjustment Calculation

June 2018 Additional Property Related EDIT	3,136,030
July 2018 Additional Property Related EDIT	3,658,701
August 2018 Additional Property Related EDIT	4,181,373
September 2018 Additional Property Related EDIT	4,704,044
October 2018 Additional Property Related EDIT	5,226,716
November 2018 Additional Property Related EDIT	5,749,387
December 2018 Additional Property Related EDIT	6,272,059
January 2019 Additional Property Related EDIT	6,670,904
February 2019 Additional Property Related EDIT	7,069,749
March 2019 Additional Property Related EDIT	7,069,749
April 2019 Additional Property Related EDIT	7,069,749
May 2019 Additional Property Related EDIT	7,069,749
June 2019 Additional Property Related EDIT	7,069,749
September 2019 Adjustment for Property Related EDIT	5,820,422

T SOUND ENERGY
DOCKET NO. UG-190530
YEAR AMI COST AND INVESTMENT
YEAR ENDED DECEMBER 31, 2018

Description	Per PC Adjustment	Per PSE Adjustment
Rate Base		
Plant in Service	\$ (26,581,112)	\$ 12,465,833
Accumulated Depreciation	2,852,976	(1,019,306)
Deferred Income Tax Liability	1,849,456	(872,688)
Total Post-Test Year Rate Base Adjustment	\$ (21,878,679)	\$ 10,573,839
Depreciation Deferral	\$ -	\$ 5,026,061
Accumulated Amortization of Depreciation Deferral		(837,677)
ADFIT on Depreciation Deferral		(879,561)
Total Deferred Depreciation	\$ -	\$ 3,308,823
Total Rate Base Adjustment	<u>\$ (21,878,679)</u>	<u>\$ 13,882,662</u>
Net Operating Income		
Depreciation Expense	\$ (4,144,611)	\$ 654,456
Less Avoided Depreciation from AMR Retirements in Rate YR.		(45,793)
Amort of Def'd Return through Apr 2020: 3YRS May '20 - Apr '23		390,538
Amort of Def'd Deprec through Apr 2020: 3YRS May '20 - Apr '23		1,675,354
Federal Income Tax	870,368	(561,657)
Total Net Operating Income Adjustment	<u>\$ 3,274,243</u>	<u>\$ (2,112,898)</u>

Source/Notes:

PSE adjustment: NEW-PSE-WP-SEF-6.22E-AMI-19GRC-06-2019.xlsx.

PC adjustment: NEW-PSE-WP-RJA-3-and-4-Attrition-Study-19GRC-06-2019.xlsx, tab AMI

Supplemental Calculations

From: NEW-PSE-WP-RJA-3-and-4-Attrition-Study-19GRC-06-2019.xlsx, tab AMI

	Plant Electric	Gas
6/30/2018	44,394,584	16,153,820
7/31/2018	48,285,611	20,449,774
8/31/2018	53,598,408	23,130,928
9/30/2018	56,859,110	23,474,618
10/31/2018	64,531,734	24,069,036
11/30/2018	64,659,699	24,116,006
12/31/2018	65,960,577	25,901,244
1/31/2019	69,170,421	27,430,166
2/28/2019	73,237,781	27,932,655
3/31/2019	78,296,167	31,736,155
4/30/2019	78,520,538	31,736,155
5/31/2019	78,520,538	31,736,155
6/30/2019	90,599,562	38,367,078
June 30, 2019 AMA	66,594,805	26,581,112
Accumulated Depreciation		
6/30/2018	(1,898,019)	(850,613)
7/31/2018	(2,557,271)	(1,165,123)
8/31/2018	(3,240,873)	(1,491,364)
9/30/2018	(3,939,420)	(1,819,108)
10/31/2018	(4,673,134)	(2,149,452)
11/30/2018	(5,407,433)	(2,480,003)
12/31/2018	(6,147,696)	(2,818,363)
1/31/2019	(6,902,670)	(3,163,413)
2/28/2019	(7,676,286)	(3,510,661)
3/31/2019	(8,473,086)	(3,874,549)
4/30/2019	(9,270,915)	(4,238,437)
5/31/2019	(10,068,743)	(4,602,326)
6/30/2019	(10,921,934)	(4,995,224)
June 30, 2019 AMA AMI	(6,230,625)	(2,852,976)
ADIT		
6/30/2018	(2,355,930)	(1,090,038)
7/31/2018	(2,672,766)	(1,222,024)
8/31/2018	(2,984,489)	(1,351,546)
9/30/2018	(3,293,073)	(1,480,753)
10/31/2018	(3,594,273)	(1,609,414)
11/30/2018	(3,895,349)	(1,738,031)
12/31/2018	(4,195,173)	(1,865,009)
1/31/2019	(4,505,775)	(1,985,059)
2/28/2019	(4,812,463)	(2,104,648)
3/31/2019	(5,114,282)	(2,220,742)
4/30/2019	(5,415,885)	(2,336,836)
5/31/2019	(5,717,487)	(2,452,930)
6/30/2019	(6,007,464)	(2,562,932)
June 30, 2019 AMA AMI	(4,198,559)	(1,849,456)
Depreciation Expense, July 2018 - June 2019	8,664,663.00	4,144,611.00

PUGET SOUND ENERGY
 GAS DOCKET NO. UE-190530
TAX BENEFIT OF INTEREST
 TEST YEAR ENDED DECEMBER 31, 2018

Dockets UE-190529 & UG-190530
 Exhibit No. MEG-4
 Page 9 of 10
 Schedule No. 8

Line No.	Description	Per PC Adjustment	Per PSE Adjustment
1	Rate Base	\$ 2,017,563,425	\$ 2,112,672,666
2	Weighted Cost of Debt	<u>2.83%</u>	<u>2.87%</u>
3	Pro Forma Interest	\$ 57,009,483	\$ 60,633,706
4	Increase (Decrease) in Federal Income Tax at 21%	\$ (11,971,991)	\$ (12,733,078)
5	Restated Tax Benefit of Interest	<u>(12,917,116)</u>	<u>(12,917,116)</u>
6	Update Adjustment for the Tax Benefit of Interest	<u>\$ 945,125</u>	<u>\$ 184,038</u>
7	Increase (Decrease) to NOI	<u>(945,125)</u>	<u>(184,038)</u>

**PUGET SOUND ENERGY
 TRADITIONAL PRO FORMA COST OF CAPITAL**

Line No.	Capital Component	Capital Structure	Cost	Weighted Cost
1	Total Debt	51.5%	5.57%	2.87%
2	Common	48.5%	9.80%	4.75%
3	Total	100.00%		7.62%

**PUBLIC COUNSEL
 TRADITIONAL PRO FORMA COST OF CAPITAL**

Line No.	Capital Component	Capital Structure**	Cost	Weighted Cost*
4	Short-Term Debt	2.3%	2.38%	0.08%
5	Long-Term Debt	<u>49.2%</u>	5.51%	<u>2.74%</u>
6	Total Debt	51.5%		2.83%
7	Common	<u>48.5%</u>	8.75%	<u>4.24%</u>
8	Total	100.00%		7.07%

* Weighted short-term debt cost rate includes .03% of commttment and amortization fees
 Weighted long-term debt cost rate includes .03% of amortization fees

** Capital Structure Ratios are developed in Exhibit JRW-3.