Exh. CSH-6T
Dockets UE-170033/UG-170034
Witness: Christopher S. Hancock

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**DOCKETS UE-170033 and UG-170034 (*Consolidated*)**

CROSS-ANSWERING TESTIMONY OF

Christopher S. Hancock

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Response to the Filed Testimony of Other Intervening Parties Regarding Funding of Colstrip Units 1 and 2 Decommissioning and Remediation; Use of Production Tax Credits

August 9, 2017

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I. INTRODUCTION

Q: Please state your name.

A: Christopher Hancock.

Q. Are you the same Christopher Hancock who submitted response testimony on behalf of Staff on June 30, 2017, in this docket?

A. Yes.

II. SCOPE OF TESTIMONY

Q. What is the purpose of your testimony?

A. I am responding to the response testimony of other intervening parties, which was filed on June 30, 2017. I summarize their positions on the funding of decommissioning and remediation expenses for Colstrip Units 1 and 2, and provide some commentary on certain specific matters.

III. SUMMARY OF THE POSITIONS OF OTHER INTERVENING PARTIES

A. Parties Generally Supporting PSE's Proposal

Q. Which parties are in general agreement with PSE's proposal?

A. Public Counsel, Sierra Club, and Northwest Environmental Coalition (NWEC) witnesses were generally supportive of the Company's proposal to use regulatory liabilities to cover decommissioning and remediation costs related to Colstrip Units 1 and 2, although with varying degrees of enthusiam.

Q. What did Public Counsel have to say about PSE's proposal?

A. Public Counsel witness Mr. Smith states that "PSE's proposal appears to be consistent with the authorizing legislation"[1] and asserts his belief that the proposal is "reasonable in the context of the current general rate case."[2] Mr. Smith also recommends reviewing actual expenditures in future rate cases.[3]

Q. How do you respond to Mr. Smith's recommendation to review actual expenditures in future rate cases?

A. Staff supports this proposal.

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[1] Smith, Exh. RCS-1T at 82:11, 15-17.
[2] Smith, Exh. RCS-1T at 82:15-17.
[3] Smith, Exh. RCS-1T at 83:4-6.

Q. What did Sierra Club have to say about PSE's proposal?

A. Mr. Hausman, testifying on behalf of Sierra Club, struck a similar tone to that of Mr. Smith. Mr. Hausman stated that PSE's proposal is a "reasonable if unconventional path out of a bad situation for PSE."[4] Mr. Hausman stated his belief that the proposal "combines two problems of intergenerational in equity, which roughly balance each other out."[5]

Q. Did Mr. Hausman elaborate on the "two problems of intergenerational inequity"?

A. Yes. Later in his testimony, Mr. Hausman argues that past generations of ratepayers did not pay as much depreciation (and negative salvage value) costs as they should have.[6] However, he notes that these customers also were not receiving the Production Tax Credit benefits that were expected,[7] and that proposed use of these in PSE's proposal more or less cancels out intergenerational concerns.[8]

Q. What did Northwest Energy Coalition (NWEC) have to say about PSE's proposal?

A. Mr. Power, NWEC's witness on this matter, may be best described as reluctantly supportive of PSE's proposal. He states that "Under the circumstances, I am not objecting to this effort at rate stabilization."[9] Mr. Power makes clear elsewhere in his

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[4] Hausman, Exh. EDH-1T at 4:2-3.
[5] Hausman, Exh. EDH-1T at 4:6-7.
[6] Hausman, Exh. EDH-1T at 22:1-3, 15-18.
[7] *See* Hausman, Exh. EDH-1T at 21:10-15.
[8] Hausman, Exh. EDH-1T at 21:18-22:4.
[9] Power, Exh. TMP-1T at 15:17-18.

testimony that he believes the conditions requiring an “alternative regulatory method to recover retirement costs while shielding customers from a large rate increase” could have been avoided, and that it is only because of the fortunate presence of “large amounts of federal treasury grants and unused production tax credits” – which otherwise would have been experienced by ratepayers in the form of future rate decreases – paired with legislation accommodating PSE’s proposal, that PSE is able to avoid causing rate shock to customers in this case.[10] Mr. Power uses the occasion to emphasize that the issue should be instructive for PSE and the Commission with respect to Colstrip Units 3 and 4.[11]

B. Parties Offering Their Own Proposal

Q. Which parties offered alternative proposals?

A. Staff and ICNU offered alternative proposals to that of the Company.

Q. Do you have caveats to make regarding ICNU’s recommendation?

A. First, I must note my expectation that ICNU witness Mr. Mullins will modify his proposal in his cross-answering testimony. It is my understanding, based on phone conversations I have had with him since the filing of his response testimony, that he will make these adjustments, although I am not privy to what those adjustments will be.

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[10] Power, Exh. TMP-1T at 15:13-25.
[11] Power, Exh. TMP-1T at 17:23-25, 21:4-17.

Mr. Mullins's proposal regarding the use of regulatory liabilities and the coverage of costs related to decommissioning and remediation are tough to separate from his proposal regarding the plant balance of Colstrip 1 and 2.[12] This also makes it difficult, if not impossible, to compare the generational effects of his proposal to those of PSE and Staff.[13]

Q. Please summarize Mr. Mullins's recommendations regarding the treatment of regulatory liabilities.

A. Mr. Mullins makes two recommendations regarding regulatory liabilities. First, he recommends maintaining the current treatment of treasury grants.[14] Second, he recommends "amortiz[ing] the production tax credits prospectively over the four and one-half year period ending July 2022, corresponding to the remaining useful life of Colstrip" Units 1 and 2.[15]

Q. Please elaborate on Mr. Mullins's recommendation regarding production tax credits.

A. Mr. Mullins's recommendation on production tax credits amounts to a shift of timing-related risk from customers to the Company. Under the status quo treatment of production tax credits, the Company must wait to have the opportunity to use production tax credits on its tax returns, claim those credits, and then pass those

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[12] Staff witness Mr. McGuire discusses this in more detail in his cross-answering testimony, filed concurrently with this testimony. *See* McGuire, Exh. CRM-6T at 7:11-8:12.
[13] *See* Hancock, Exh. CSH-1T at 25:1-12.
[14] Mullins, Exh. BGM-1CTr at 36:11-13.
[15] Mullins, Exh. BGM-1CT at 35:4-6.

benefits to customers through Schedule 95A. PSE has noted that these credits have not been claimed due to the existence of bonus depreciation, and not due to negligence. Under the status quo treatment, customers bear the burden of waiting for the Company to incur the benefits of production tax credits, and then bear an additional burden of waiting for the Company to file with the Commission to pass those benefits back to customers.

Mr. Mullins advocates a shift of this risk to the Company, and claims that the Company has enjoyed an unspecified imputed return on these credits while holding them.[16] The current value of these production tax credits (at least $191 million) would be amortized over four and a half years, ending in July 2022, freeing customers from timing-related risks. Mr. Mullins establishes that this recommendation is connected to the useful life of Colstrip Units 1 and 2, explaining that "this treatment serves to offset the cost in the period in which ratepayers are responsible for ongoing depreciation expenses, in addition to amortization of the end of life regulatory asset."[17]

Q. Do you have some reservations about this particular recommendation?

A. Yes. Adopting this treatment may have unintended consequences. There are three facts to consider about Production Tax Credits:

[16] Mullins, Exh. BGM-1CTr at 35:15-17.
[17] Mullins, Exh. BGM-1CTr at 35:8-11.

- by law, net operating loss carryforwards – generated in large part by the use of bonus depreciation - must be exhausted before Production Tax Credits can be claimed;[18]
- Production Tax Credits can only be claimed against taxable income;[19]
- Production Tax Credits must be exercised within 20 years of the generating activity.[20]

My concerns are twofold: first, I am concerned that adopting this recommendation, all else being equal, runs the risk of placing the Company in a position in which it lacks taxable income against which to apply these production tax credits. Second, I am concerned that this recommendation violates the known-and-measurable regulatory principle.

Mr. Mullins calculates that adopting this treatment would amount to a $46 million revenue requirement reduction to the Company.[21] That $46 million reduction in taxable income may leave the Company with a reduced opportunity to use production tax credits. Mr. Mullins's recommendation thus makes it less likely that the Company will be able to claim production tax credits.

Mr. Mullins's recommendation is based on an assumption that PSE will at some point in the future have taxable income. While the amount of production tax credits is measurable, the timing of when the Company can take advantage of the PTCs to reduce taxable income is not known.

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[18] *See* Doyle, Exh. DAD-1T at 48:11-15.
[19] Barnard, Exh. KJB-1T at 84:9-12; Doyle, Exh. DAD-1T at 48:4-15.
[20] 26 U.S.C. § 39(a)(1)(B).
[21] Mullins, Exh. BGM-1CTr at 37:1-4.

Adopting Mr. Mullins's recommendation would also deny a future commission the opportunity to explore other treatment options for production tax credits, such as those proposed by the Company, or by Staff (i.e., maintaining current treatment).

Q. Please summarize Mr. Mullins's recommendations regarding coverage of decommissioning and remediation costs.

A. Mr. Mullins accepts estimates from PSE of costs through 2029 for ratemaking purposes.[22] However, he rejects the notion of using regulatory liabilities to cover these costs.[23] He recommends capitalizing these costs in a regulatory asset (along with the projected plant balance as of July 2022, presuming no change in depreciation rates).[24] This regulatory asset would have a "carrying charge" at the cost of capital until July 2022, and at the cost of debt from that point forward, and it would be amortized from January 2018 to December 2035.[25] Should there exist any "linering expenditures" beyond 2029, Mr. Mullins assumes that they will be funded through rates.[26]

Effectively, this recommendation recognizes estimates through 2029 as if they are negative net salvage value, in that the Company would earn a return on those capitalized costs. Furthermore, it creates the real possibility that future costs will be allocated to ratepayers who never used the plant that caused these costs to

[22] Mullins, Exh. BGM-1CTr at 17:7-11.
[23] Mullins, Exh. BGM-1CTr at 17:3-7, BGM-1T at 32:14-23.
[24] Mullins, Exh. BGM-1CTr at 6:4-8, 24:13-18.
[25] Mullins, Exh. BGM-1CTr at 20:12-21:9.
[26] Mullins, Exh. BGM-1CTr at 17:9-11.

exist. As Mr. McGuire says in his cross-answering testimony, Mr. Mullins's recommendation places a higher priority on the concerns of near-term ratepayers than on the concept of intergenerational equity.

C. Parties Not Commenting on PSE's Proposal

Q. Which parties withheld comment on PSE's proposal?

A. Kroger and Federal Executive Agencies did not comment directly on PSE's proposal. However, Kroger witness Mr. Higgins offered the following caveat: "Absence of comment on my part regarding a particular issue does not signify supporting (or opposition) toward PSE's filing with respect to the non-discussed issue."[27]

Q. Does this conclude your testimony?

A. Yes.

[27] Higgins, Exh. KCH-1T, at 3:6-8.