

**Exh. CRM-6T  
Dockets UE-170033/UG-170033  
Witness: Chris R. McGuire**

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.**

**Respondent.**

**DOCKETS UE-170033 and  
UG-170033  
(Consolidated)**

**CROSS-ANSWERING TESTIMONY OF**

**Chris R. McGuire**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

***Colstrip Units 1 and 2 – Depreciation Rates and Rate Base***

**August 9, 2017**

**TABLE OF CONTENTS**

I. INTRODUCTION AND PURPOSE..... 2  
II. COLSTRIP UNITS 1 AND 2 – DEPRECIATION AND RATE BASE..... 3

1 **I. INTRODUCTION AND PURPOSE**

2

3 **Q. Please state your name.**

4 A. My name is Christopher R. McGuire.

5

6 **Q. Are you the same Christopher R. McGuire who submitted response testimony on**  
7 **behalf of Staff on June 30, 2017, in this docket?**

8 A. Yes, I am.

9

10 **Q. What is the purpose of your cross-answering testimony?**

11 A. My testimony serves two purposes. First, I summarize the various parties' positions on  
12 the depreciation and net plant in service concerning Colstrip Units 1 and 2. Here I alert  
13 the Commission to the difficulties of comparing the revenue requirement effects of the  
14 various parties' proposals and invite the Commission to ask the parties to provide clearly  
15 identified overall revenue requirement impacts directly or indirectly associated with their  
16 recommendations for Colstrip Units 1 and 2. If the Commission does so, it should specify  
17 a set of conditions under which the parties' analysis is performed. Second, I provide the  
18 Commission with brief commentary on what each party's position means in terms of  
19 policy preference on intergenerational equity and balance of burden between ratepayers  
20 and the Company's investors.

21

1           **II. COLSTRIP UNITS 1 AND 2 – DEPRECIATION AND RATE BASE**

2

3   **Q. Can you please summarize the basic elements of the various parties’**  
4   **recommendations in response testimony regarding Colstrip Units 1 and 2?**

5   A. Yes. Please note that I only attempt to summarize the parties’ positions on depreciation  
6   expense and net plant in service (and, where applicable, amortization of a regulatory  
7   asset) for Colstrip Units 1 and 2. In some cases, however, particularly in attempting to  
8   summarize ICNU’s position, a party’s recommendation on Colstrip decommissioning and  
9   remediation affects what would be recovered through a regulatory asset and also the  
10   appropriate depreciation expense and rate base for other facilities. Although Staff witness  
11   Mr. Hancock sponsors cross-answering testimony to the parties’ recommendations  
12   concerning the decommissioning and remediation of Colstrip Units 1 and 2, it is not  
13   always possible to cleanly delineate between the treatment of decommissioning and  
14   remediation costs and the appropriate depreciation or amortization expense associated  
15   with Colstrip Units 1 and 2.

16   Staff witness Mr. McGuire recommends the following:

- 17           1. Current net plant in service: adjusted downward by increasing the reserve for  
18           accumulated depreciation.
- 19           2. Depreciation expense: set to recover reduced plant in service over the next 4.5  
20           years.
- 21           3. Regulatory asset: yes, created now (capturing the adjustment to accumulated  
22           depreciation).
- 23           4. Amortization period for the regulatory asset: begins January 1, 2018, and  
24           continues through December 31, 2035.

1                   5. Rate of return on the reduced net plant: Weighted Average Cost of Capital  
2                   (WACC) until closure.

3                   6. Rate of return on the regulatory asset: 0 percent.

4                   Sierra Club witness Mr. Hausman recommends the following:

5                   1. Current net plant in service: unadjusted.

6                   2. Depreciation expense: current rates remain in effect until closure.

7                   3. Regulatory asset: yes, created at closure.

8                   4. Amortization period for the regulatory asset: begins upon closure, but  
9                   amortization period unspecified.

10                  5. Rate of return on net plant: WACC until closure.

11                  6. Rate of return on regulatory asset: 0 percent.

12                  ICNU witness Mr. Mullins recommends the following:

13                  1. Current net plant in service: adjusted downward by moving “end of life costs”  
14                  to a regulatory asset.

15                  2. Depreciation expense: current rates remain in effect until closure.

16                  3. Regulatory asset: yes, created now but capturing projected unrecovered  
17                  balance at closure and incorporating a portion of decommissioning and  
18                  remediation costs.

19                  4. Amortization period for the regulatory asset: begins January 1, 2018, and  
20                  continues through December 31, 2029.

21                  5. Rate of return on net plant: WACC.

22                  6. Rate of return on regulatory asset: WACC until closure, cost of debt after  
23                  closure.

1           Public Counsel witness Ms. McCullar recommends the following

- 2                   1. Current net plant in service: adjusted downward for Colstrip Units 1 and 2 by
- 3                    reallocating accumulated depreciation from other production plant to Colstrip
- 4                    Units 1 and 2.
- 5                   2. Overall production rate base: unchanged, though rate base for Colstrip Units 1
- 6                    and 2 is lower.
- 7                   3. Depreciation expense: set to recover reduced plant in service over the next 4.5
- 8                    years (though the higher net plant for other production plant is recovered over
- 9                    the expected remaining lives of those facilities).
- 10                  4. Regulatory asset: no (unnecessary because instead of using a regulatory asset
- 11                  to recover the reserve imbalance, the reserve imbalance is addressed by
- 12                  reallocating accumulated depreciation from other production plant to Colstrip
- 13                  Units 1 and 2).
- 14                  5. Amortization period: N/A.
- 15                  6. Rate of return on net plant: WACC.
- 16                  7. Rate of return on regulatory asset: N/A.

17

18   **Q.    Can you please provide a summary of the revenue requirement impacts of the**

19           **various parties' recommendations regarding Colstrip Units 1 and 2?**

20   A.    I cannot. After significant effort, Staff could not produce revenue requirement summaries

21           that it believed were fair representations of each of the parties' positions. Summarizing

22           depreciation expense, amortization expense, and rate base across the parties'

23           recommendations requires making a large number of simplifying assumptions to control

1 for the parameters that the parties treat inconsistently. Controlling for these  
2 inconsistencies, however, creates the risk of misrepresenting the parties'  
3 recommendations.

4 As a few examples, in order present revenue requirement impacts while  
5 controlling for parameter inconsistencies across the parties, one would have to a) use a  
6 single rate of return to identify the revenue requirement impact of changes to rate base,  
7 even though the parties recommend different rates of return, b) assume the original cost is  
8 represented at a specific point in time, such as at the end of the test year though not all  
9 parties use that approach,<sup>1</sup> c) assume net salvage equals zero, though that does not fairly  
10 represent the positions of all parties,<sup>2</sup> and d) assume amortization periods where  
11 amortization periods are unspecified.<sup>3</sup>

12 Moreover, various parties' recommendations create revenue requirement impacts  
13 that ripple across Puget Sound Energy's rate case, creating the need to make a decision  
14 about where the boundaries lie for producing a summary of the revenue requirement  
15 impact of the parties' perspectives.

16 For example, Public Counsel recommends, essentially, that accumulated  
17 depreciation be moved from certain production plant to Colstrip Units 1 and 2. This  
18 would lower both rate base and depreciation expense for Colstrip Units 1 and 2.  
19 However, it would be misleading to simply present the components of revenue

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<sup>1</sup> ICNU witness Mr. Mullins, for example, appears to walk accumulated depreciation and certain transfers to plant forward to July 1, 2022.

<sup>2</sup> ICNU witness Mr. Mullins, for example, recommends regulatory liabilities (i.e., treasury grants and production tax credits) not be used to offset decommissioning and remediation, implying that a net salvage is substantially less than zero.

<sup>3</sup> Sierra Club, for example, recommends that unrecovered plant be transferred to a regulatory asset upon closure, but does not opine on the proper amortization period which, in its view, will be considered by a future commission once the plant is retired.

1 requirement for only Colstrip Units 1 and 2 given that net plant associated with other  
2 production facilities would be changed as a direct result of Public Counsel's  
3 recommendation. The boundary of the analysis clearly would impact the presentation of  
4 the position summary. Staff does not wish to put itself in the position of determining the  
5 frame within which another party's recommendation is presented. Further, even if it were  
6 willing to determine the frame for presenting Public Counsel's recommendation, it is  
7 likely impossible for Staff to identify depreciation expense impacts to other facilities,  
8 particularly as we progress through time, given that the affected production plant (from  
9 which accumulated depreciation would be moved) consists of a smattering of expected  
10 useful lives over which to spread the revised net plant in service.

11 As another example, ICNU's recommendation that treasury grants and production  
12 tax credits not be used to offset decommissioning and remediation has two distinct effects  
13 that confound a straightforward, apples-to-apples comparison of revenue requirement  
14 impacts. First, the proposal would effectively lower depreciation expense for certain  
15 hydro facilities (relative to PSE's proposal). Second, the decommissioning and  
16 remediation expense that would have been offset by the treasury grants or production tax  
17 credits largely would be included within ICNU's proposed regulatory asset.

18 The first of those effects creates issues similar to the ones created by Public  
19 Counsel's proposal. Given that under ICNU's recommendation treasury grant balances  
20 would continue to act as depreciation expense offsets for hydro facilities (specifically for  
21 Lower Baker River and Snoqualmie Falls), if we only focus on depreciation expense for  
22 Colstrip Units 1 and 2, we miss the depreciation effects of the proposal on other facilities.



1           As to the second effect, the negative net salvage value of Colstrip Units 1 and 2  
2           created as a result of not offsetting decommissioning and remediation with treasury  
3           grants or production tax credits becomes a component of “end of life” costs which ICNU  
4           proposes to recover through amortization of a regulatory asset. ICNU’s proposal, then,  
5           includes multiple factors that affect revenue requirement in various directions and to  
6           varying degrees; ratepayers would experience additional costs through amortization of a  
7           larger regulatory asset but would receive an offsetting benefit through lower depreciation  
8           expense associated with Snoqualmie Falls and Lower Baker River, and an additional very  
9           large benefit associated with the amortization of production tax credits over the next 4.5  
10          years. Focusing the lens solely on Colstrip Units 1 and 2, it would appear as if ICNU’s  
11          recommendation represents only a modest change relative to PSE’s proposal; a wider lens  
12          would capture a much different picture.

13           From Staff’s perspective, attempting to summarize the revenue requirement  
14          impacts of the various parties’ positions on Colstrip Units 1 and 2 is a fool’s errand, as it  
15          requires Staff to set the terms of comparison and speak for other parties with regard to  
16          those terms. Doing so will almost certainly result in revenue requirement summaries that  
17          are travesties of the various parties’ positions. Each party should itself be responsible for  
18          clarifying the aggregate revenue requirement impact of its own proposal on Colstrip  
19          Units 1 and 2, and over a time horizon that clarifies intergenerational effects.

20  
21      **Q.   How does Staff recommend the Commission obtain clarity on the revenue**  
22      **requirement impacts of the various parties’ proposals regarding Colstrip Units 1**  
23      **and 2?**

1 A. To the extent that the Commission seeks clarification of the revenue requirement effects  
2 of each party's proposal on Colstrip Units 1 and 2, Staff recommends that the  
3 Commission issue bench requests to each of the parties requiring clear summarization of  
4 the distinct revenue requirement impacts of its recommendation. Such a summarization  
5 should include identification of each individual component of the revenue requirement  
6 calculation for each element that the recommendation affects. Referring to the examples  
7 provided above, 1) Public Counsel would identify the aggregate impact of its  
8 recommendation on annual depreciation expense and rate base and 2) ICNU would  
9 identify the effects of its recommendation on hydro depreciation expense.

10 If the Commission does issue such bench requests, Staff recommends that the  
11 Commission set parameters that would allow for meaningful comparison, such as  
12 specifying the point in time at which original cost is presented and the period of time over  
13 which any regulatory asset should be amortized (for the purposes of clarifying  
14 intergenerational effects for parties that do not specify an amortization period).  
15 Additional parameters could include clear delineation between Colstrip-specific elements  
16 of overall depreciation expense and other recommendations (such as Public Counsel's  
17 recommendation on salvage estimates within the depreciation study), and treating novel  
18 recommendations on production tax credits as independent of Colstrip Units 1 and 2  
19 (such as ICNU's proposal to amortize production tax credits over the next 4.5 years). If  
20 these parameters aren't drawn, it becomes very difficult to ascertain the revenue  
21 requirement impact associated specifically with a party's recommendation on Colstrip  
22 Units 1 and 2. Given that the treatment of Colstrip is a substantial revenue requirement

1 driver in this general rate case, it is essential that the aggregate revenue requirement  
2 effect of each proposal is clear.

3 Given that the Commission undoubtedly will be weighing intergenerational equity  
4 considerations when it makes its final decision, Staff recommends that the Commission  
5 request representations across at least two points of time: 1) the rate year (2018), and 2) a  
6 year in which Colstrip will no longer be in service (e.g., 2023).

7  
8 **Q. Do you have criticism of any party's proposals regarding Colstrip Units 1 and 2?**

9 A. Not really. Each party's recommendation merely reflects a different policy perspective on  
10 intergenerational equity and the extent to which ratepayers should continue to pay a  
11 return on an impaired asset or a return on the regulatory asset capturing abandoned plant.  
12 Staff stands by its own proposal as representing the best balance of fair rates,  
13 intergenerational equity, and distribution of burden between ratepayers and the  
14 Company's investors.

15  
16 **Q. Can you please provide a general sense of what each of the parties'  
17 recommendations demonstrate in terms of policy preference?**

18 A. Yes. Staff's proposal represents the position that the next 4.5 years of ratepayers should  
19 not be on the hook for the full depreciation reserve deficiency. Rather, those costs should  
20 be spread out through 2035 through a regulatory asset, aligning the life of the regulatory  
21 asset with the life of Colstrip Units 3 and 4. While other parties propose waiting until the  
22 plant closes to begin amortization, Staff proposes to begin amortization immediately  
23 under the rationale that current ratepayers should not be spared that burden at the expense

1 of future ratepayers. Staff does not recommend ratepayers pay a return on the regulatory  
2 asset for abandoned plant. Consequently, for the rate year Staff's recommended rate base  
3 for Colstrip Units 1 and 2 is substantially lower than what other parties recommend.

4 Sierra Club's proposal is very similar to Staff's proposal, though with two notable  
5 differences: Sierra Club recommends 1) waiting until the plant closes to begin  
6 amortization of the reserve deficiency and 2) providing the Company with a return on the  
7 full net plant balance while the plant remains in service. Thus, Sierra Club's position,  
8 relative to Staff's position, is that future ratepayers should pay a larger portion of the  
9 reserve deficiency while current ratepayers should provide investors with a return on a  
10 larger rate base balance. The net effect of those preferences is that ratepayers in 2018  
11 would pay a similar amount under both Staff's and Sierra Club's positions, but ratepayers  
12 post-closure would pay more under Sierra Club's proposal.

13 Public Counsel's position on intergenerational equity, albeit achieved through an  
14 entirely different approach, is similar to Staff's position in that it aims to spread the  
15 depreciation reserve deficiency over a period of time that is substantially longer than 4.5  
16 years. The reserve deficiency for Colstrip Units 1 and 2 effectively would be spread over  
17 the useful lives of other (non-Colstrip) production plant. The effect of immediately  
18 reallocating accumulated depreciation to longer-lived assets is that the reserve deficiency  
19 begins to be "amortized" immediately, consistent in its effect with Staff's approach.  
20 Public Counsel's position on intergenerational equity thus is consistent with Staff's  
21 position. However, the rate base associated with Public Counsel's position is much higher  
22 than that under Staff's position, meaning that the Company's investors continue to profit  
23 from the investment in Colstrip Units 1 and 2, despite plant abandonment.

1 ICNU's position is much more complicated to summarize, given that it proposes  
2 to handle regulatory liabilities (i.e. treasury grants and production tax credits) in a  
3 substantially different manner than the other parties. Ignoring that fact for the moment, in  
4 a sense ICNU's proposal is similar to Staff's in that it entails a lower depreciation  
5 expense (relative to PSE's proposal) and begins amortization of "end of life" costs  
6 immediately. However, that is where the similarity ends. First, ICNU recommends  
7 allowing the Company a return on an inflated plant balance as well as a return (at the cost  
8 of debt) on the regulatory asset over the life of the regulatory asset. Second, under  
9 ICNU's proposal the benefit of treasury grants accrue as normal (i.e. as an offset to hydro  
10 rate base and depreciation expense), while decommissioning and remediation expenses  
11 accruing through 2029 would be amortized as a piece of a larger regulatory asset. In  
12 other words, current (2018) ratepayers get the benefit of treasury grants while  
13 contributing to some amount of the decommissioning and remediation costs.  
14 Decommissioning and remediation costs that are expected accrue between 2030 and 2051  
15 not included as a component of ICNU's rate calculation.

16 Setting aside for a moment ICNU's recommendation on amortization of  
17 production tax credits, ICNU's recommendation achieves some sense of intergenerational  
18 equity, though by excluding a portion of the decommissioning and remediation costs  
19 from the regulatory asset, ICNU demonstrates a preference for having future generations  
20 (beyond the amortization period) cover future remediation expenses. Add to that the fact  
21 that ICNU is recommending amortizing \$200 million in production tax credits over the  
22 next 4.5 years and the result is that current ratepayers would be much better off than  
23 under anyone else's proposal. The policy preference for ICNU is very clearly that rate

1 relief in the near term is a higher priority than intergenerational equity. Although Staff  
2 does not endorse this approach, the approach does represent a specific perspective on  
3 intergenerational equity and is an option if the Commission wishes to give preference to  
4 near-term ratepayers.

5

6 **Q. Does that conclude your testimony?**

7 A. Yes, it does.

8