EXHIBIT NO. ___ (EDH-10T)
DOCKETS UE-170033/UG-170034
2017 PSE GENERAL RATE CASE
WITNESS: EZRA D. HAUSMAN, PH.D.

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket UE-170033** **Docket UG-170034**

CROSS-ANSWERING TESTIMONY OF

EZRA D. HAUSMAN, PH.D.

ON BEHALF OF SIERRA CLUB

August 9, 2017

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I. <u>Purpose of Testimony</u>

Q. Please state your name, occupation, and business address.

A. My name is Ezra D. Hausman, Ph.D. I am an independent consultant doing business as Ezra Hausman Consulting, operating from offices at 77 Kaposia Street, Auburndale, Massachusetts 02466.

Q. Are you the same Ezra Hausman who provided direct testimony on behalf of the Sierra Club in this proceeding?

A. Yes.

Q. What is the purpose of your cross-answering testimony in this proceeding?

A. I am responding to the testimony of WUTC Staff Witness Chris R. McGuire and ICNU/NWIGU Witness Bradley G. Mullins regarding the rate treatment of costs for Colstrip Units 1 and 2, including depreciation costs and net salvage costs.

Q. Did you previously provide testimony on the treatment of these costs?

A. Yes.

Q. Please briefly recap the differences between your proposal, Mr. McGuire's proposal, and Mr. Mullins' proposal for treatment of these costs.

A. Mr. McGuire, Mr. Mullins and I all addressed the fact that the two older Colstrip units, Units 1 and 2, will have a large undepreciated balance upon retirement because the owners of those units have committed to a shut-down date no later than July 1, 2022, while their previous depreciation schedules were based on retirements in 2035. As Mr. McGuire points out, although these units have been operating since the mid-1970s, as of

September 30, 2016 they were only 50% depreciated.[1] Charging PSE's customers for 50% of the cost of these units concentrated into the 4.5 years until they retire does not reasonably reflect ratepayers' consumption of these assets.

In my direct testimony, I noted that as of the retirement date, and using its current depreciation schedule, PSE expects to have an undepreciated balance of $178.6 million for its share of these two units. My recommendation was that at retirement of these units, the Commission allow continued recovery of the undepreciated plant balance, but not allow any return of the cost of capital on those units. I reasoned that this would be a fair allocation of the costs of PSE's having assumed an unrealistically long depreciable life for these units, and would help to ameliorate the intergenerational inequity associated with having future ratepayers pay down the balance of a resource from which they were not deriving any benefit.

Mr. McGuire addressed the same issue with an alternative proposal: briefly, that PSE should immediately reduce the undepreciated balance of the two units to a level consistent with an ideal, straight-line depreciation of the units' capital costs of their entire useful lives, and transfer the remaining balance into a regulatory asset to be amortized over 18 years, also without a return on capital for the Company. Mr. McGuire calculates that the Company should increase the reserve for accumulated depreciation by $127.6 million, leading to an annual depreciation expense of $6.8 million of the remaining 4.5

[1] Direct testimony of Chris R. McGuire, p.9 at 3-4.

years until the currently-planned retirement date.[2]

Mr. Mullins' proposal for depreciation expense is similar to my own, in that Mr. Mullins recommended that the Company not be allowed to implement accelerated depreciation, but should instead retain its current depreciation rates through the end of the useful lives of Units 1 and 2 and then transfer the balance to a regulatory asset, to be amortized over a set period of time. Mr. Mullins suggested that this amortization take place over 12 years, ending in 2030.[3]

Q. Please describe the impact on PSE's depreciation and amortization expense based on these proposals, as well as the Company's proposal.

A. My original proposal, similar to Mr. Mullins' proposal, would not change the Company's depreciation expense from its current depreciation schedule – as shown in Table 1 of Mr. McGuire's testimony, the Company is now claiming an annual depreciation expense of $5,391,258, based on its existing schedule. Mr. McGuire's proposal would change both the depreciation schedule (reflecting the remaining expected 4.5 years of service life) and the depreciable amount, reflecting the loss in service value due to the Company's agreement to retire the units by that date. The result is an annual depreciation expense of $6,805,438. PSE proposes to depreciate the entire undepreciated balance of the plant over 4.5 years, yielding (again as shown in Mr. McGuire's Table 1) an annual depreciation expense of $27,241,335.

[2] Ibid., p. 17 at 9-16.
[3] Direct testimony of Bradley G. Mullins, p. 6 at 5-12.

Mr. McGuire proposes that the Company begin amortizing the increase in the reserve for accumulated depreciation immediately, and that it do so over 18 years. He calculates that this would lead to an annual amortization expense of $7,090,530 over that time period. Mr. Mullins proposes that amortization of this regulatory asset over a twelve-year period, ending in 2030. I had similarly proposed that this amortization expense would take place starting upon retirement in 2022; however, I had not specified an amortization timetable or annual amount after that date. Under my proposal, those details would be left for a future commission to determine.

Q. Do you stand by your original recommendation?

A. Yes. My original recommendation to maintain existing depreciation rates for Colstrip Units 1 and 2, and to amortize the remaining balance still stands. As with Mr. McGuire's and Mr. Mullins' proposals, my proposal would protect customers from a very large increase in depreciation expense that is far out of proportion to their consumption of the asset.

Based on Mr. McGuire's calculations,[4] I can now clarify that this recommendation would result in a $21.85 million downward adjustment to PSE's depreciation expense as-filed by instead retaining the existing depreciation schedule for Units 1 and 2, with the expectation that any remaining plant balance would be amortized outside of rate base after those units stop operating. The amortization amount and schedule for that undepreciated balance would be set by a future commission decision after Units 1 and 2

[4] McGuire direct, Table 1, p. 6.

retire.

Q. Do you support Mr. McGuire's recommendation as an alternative to your own?

A. Yes. I support Mr. McGuire's recommendation as an alternative to my own because I agree that it is fair to ratepayers to reduce the undepreciated balance now to reflect the decrease in value resulting from the decision to retire Units 1 and 2 no later than 2022, as Mr. McGuire suggests. I further agree with his statement that PSE's "risk-adjusted returns were applied to an artificially high rate base at least since the decision to close Colstrip Units 1 and 2 and possibly for much longer. Because rate base has remained artificially high, ratepayers, in turn, have provided inflated returns to shareholders."[5] The Commission should not allow PSE to continue receiving its full rate of return on an inflated plant balance that reflects erroneous depreciations assumptions from the past.

Q. Are there any other benefits of implementing either your proposal or Mr. McGuire's proposal, in your view?

A. Yes. As noted above, my proposal would reduce the Company's rate-year depreciation/amortization expense by approximately $21.85 million, while Mr. McGuire's proposal would reduce the Company's rate-year depreciation/amortization expense by approximately $13.3 million. Mr McGuire's proposal is to do this by explicitly correcting the depreciation reserve for Colstrip Units 1 and 2 to reflect their actual remaining useful life.

In my direct testimony, I recommended a correction to the depreciation schedule for

[5] Ibid, p.33 at 17-20.

Colstrip Units 3 and 4, similarly to reflect a more realistic expectation of those units' useful lives. I estimated that this adjustment would *increase* the Company's annual revenue requirements by approximately $16 million.[6] Combining this with either of the above recommended adjustments to the depreciation/amortization schedules for Units 1 and 2 would result in a much smaller net adjustment in the PSE's revenue requirements for the rate year, while making two very significant corrections to its treatment of depreciation for its shares of all of the Colstrip units.

Q. What would be the overall impact on the Company's depreciation expense of accepting your recommendations for the depreciable lives of all four Colstrip units?

A. As noted above, my proposal for the annual depreciation expense for Colstrip Units 1 and 2 is a reduction of $21.85 million per year relative to the Company's proposal. My proposal for the depreciation schedule for Units 3 and 4 would yield an annual depreciation expense that is $18.44 million *greater* than the Company's proposal. The net effect of these two recommendations is an annual depreciation expense that is $2.41 million lower than the Company's proposal.

II. Recommendations

Q. What are your revised recommendations for this Commission regarding depreciation for Colstrip Units 1 and 2?

A. The Commission should adopt either my recommendation to retain the current depreciation amounts for Colstrip Units 1 and 2, or adopt the recommendation of WUTC

[6] Hausman direct testimony p.16 at 19-20.

Staff witness Chris McGuire to increase the depreciation reserve for Colstrip Units 1 and 2 by $176.8 million and to transfer that balance into a regulatory asset to be amortized over 18 years.

Q. Have you revised your recommendations for this Commission regarding the depreciation schedule for Colstrip Units 3 and 4?

A. No. As I recommended in my direct testimony, the Commission should base the depreciation schedule for these units on an estimated retirement date no later than December 31, 2024. The increase in depreciation expense from this adjustment will be largely offset by the decrease in revenue requirements deriving from adopting either my recommendation or Mr. McGuire's recommendation for the depreciation of Units 1 and 2. Further, the use of a more realistic depreciation end-of-life date of December 2024 for Units 3 and 4 will reduce the burden of ratepayers having to pay a return on an inflated balance for these units, as they have been for Units 1 and 2. Finally, this correction will help to avert the kind of accounting, ratemaking, and intergenerational equity challenges for Units 3 and 4 that the Commission is now trying to adjudicate for Units 1 and 2.

Q. Does this conclude your cross-answering testimony?

A. Yes.