

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION
STAFF RESPONSE TO BENCH REQUEST

DATE PREPARED: November 21, 2024 DOCKETS: UE-240004-UG-240005 REQUESTER: Bench	WITNESS: Danny Kermode RESPONDER: Danny Kermode TELEPHONE:
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BENCH REQUEST NO. 1:

- a. In Staff witness Kermode’s revised natural gas revenue requirement exhibit (Exh. DPK-7r and DPK-8r) filed on August 14, 2024,1 two discrepancies appear in certain calculations. On the “Detailed Summary” tab of Exh. DPK-8r at Column BB and BC, line 306 the requested rate of return (ROR) appears as 7.36 percent. However, Staff witness Parcell proposed a Rate Year 2 ROR of 7.37 percent, which appears at Columns E-AS, line 306 for the individual adjustments. The revenue requirement calculation at Columns BB and BC, line 309 appears to use the 7.36 percent value. Please confirm the correct ROR for line 306 or explain why two different values are used in Staff’s calculations.
- b. In the same exhibit, Staff applies a conversion factor of 0.9547 for its “Restore Dcarb Tracker Costs” adjustment labeled “S-11.41” at Column AS, Line 246. At Column AS, Line 248 the revenue requirement calculation incorporates that conversion factor. However, when calculating the Total Restating Adjustments and Restated Results of Operation, the revenue requirement formula relies on Line 246 at Column BB and BC, respectively reflecting a conversion factor of 0.754213 for all adjustments (including S-11.41). This appears to overstate Staff’s revenue requirement for Rate Year 1 by \$1.6 million. Please confirm the correct conversion factor for Staff Adjustment S-11.41 and the resulting RY1 natural gas revenue requirement.
- c. In Company witness Free’s rebuttal testimony (SEF-28T at 76:16-77:2), they identify a potential error in Staff’s revised exhibits DPK-7r and DPK-8r. Free suggests that Staff utilizes the Electric O&M amount instead of the Gas O&M amount for Schedule 141DCARB. Free claims this results in an overstatement of Staff’s proposed natural gas requirement by \$3.6 million over the course of the rate plan. Please confirm whether Staff agrees with the Company’s assessment of this error or provide narrative explaining how Staff’s calculation in the referenced exhibits for Schedule 141DCARB is correct.

RESPONSE:

- a. The correct value for line 306 is 7.37 percent, but this oversight does not impact Staff’s overall revenue requirement. The ‘Detailed Summary’ tab does use the incorrect ROR of 7.36 percent in column BC, and correcting that error would increase the revenue requirement in cell BC309 of that tab by \$474,522.

However, the overall revenue requirement is calculated correctly in top-level tab (titled 'Def, COC, ConvF DPK-7'). Compare the amount in cell BC 309 of the 'Detailed Summary' tab (\$219,338,941) against the amount in cell D21 of the 'Def, COC, ConvF DPK-7' tab (\$219,813,463). The 'Def, COC, ConvF DPK-7' tab was correctly calculated independently, and did not rely on the results shown in the "Detailed Summary" Tab. Because Staff's overall RR recommendation uses the amount in tab 'Def, COC, ConvF DPK-7', correcting the error in column BC of the 'Detailed Summary' tab of Exh. DPK-8r would not impact Staff's overall revenue requirement recommendation.

- b. The conversion factor of 0.9547 that Staff used in Column AS was incorrect. The correct conversion factor should have been 0.7542. However, as I'll explain below, because of the way the model is constructed (i.e., because the conversion factor of 0.7542 is correctly applied in Column BC), using the incorrect conversion factor in Column AS did not affect Staff's overall revenue requirement calculation.

Although both columns, BB and BC, show the use of the income tax affected revenue conversion factor of 0.754213, the impact of the use of the 0.9547 in the Staff's adjustment S-11.41 is different in each column because of different approaches used in each column to compute the impact of adjustments. For example, column BB uses the summation of the detailed revenue requirements in columns E-AS as the basis of its computation of the revenue requirement which means it does not use the 0.754213 conversion factor in Cell BB307. Rather, it actually includes the 0.9547 conversion factor in its computation in its summation of detailed revenue requirements on row 309. Column BC on the other hand uses a different approach. It actually computes the revenue requirement by using the rate base and expenses derived by the summations of adjustments and beginning balance. It actually does use the displayed 0.754213 conversion factor in cell BC307. That said, the error in the exhibit was not in the use of the 0.754213 conversion factor in the summary columns, but rather it was the use of the 0.9547 conversion factor in the detail for S-11.41 in column AS. Notice in cell AS226 of the detail, it computes income tax on the adjustment. It is then required to use the 0.754213 conversion factor to zero out the effect of the income taxes. In that column BC recomputes revenue requirement from adjustment summations, the revenue requirement for Rate-Year 1 is computed correctly. Adjustment S-11.41 computes the impact of income tax which are zeroed out using the 0.754213 conversion factor, in BC307. The same amount is derived had the 0.9547 conversion factor been used but that would require no income tax impact be included in the adjustment. providing income tax avoids the use of two conversion factors.

- c. Staff agrees with the assessment provided by Ms. Free in that there is an overstatement as a result of the error identified. The annual DECARB revenue requirements are \$7,673,452 and \$4,035,116 for electric and gas, respectively. The difference between those numbers is \$3,638,336. Therefore, the decrease to Staff's annual revenue requirement for gas should be \$3,638,336. However, the \$3.6 million error carries into the second year as well, resulting in an overstatement of Staff's proposed natural gas requirement of \$7.3 million over the two years of the rate plan.