

**EXH. KJB-36
DOCKETS UE-170033/UG-170034
2017 PSE GENERAL RATE CASE
WITNESS: KATHERINE J. BARNARD**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**Docket UE-170033
Docket UG-170034**

**NINETEENTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF**

KATHERINE J. BARNARD

ON BEHALF OF PUGET SOUND ENERGY

AUGUST 9, 2017

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF
RESPONSE TO DATA REQUEST

DATE PREPARED: July 24, 2017
DOCKETS: UE-170033/UG-170034
REQUESTER: Public Counsel

WITNESS: Thomas E. Schooley
RESPONDER: Thomas E. Schooley
TELEPHONE: (360) 664-1307

REQUEST NO. 2:

Re: Direct Testimony of Thomas Schooley, Exhibit TES-1T at 30:10-14 (Formalized ERF)

At page 30, Mr. Schooley states:

An order in the rulemaking Docket A-130355 will be issued eventually. At that time, the Commission's decisions will inform PSE of a possible formalized procedure for limited issue rate filing, or not. If not, I recommend the Commission accept PSE's proposal for an ERF based on the method used in the ERFs in Dockets UE-130137/UG-130138.

Please respond to the following:

- a. Please state and explain each reason why, before resolution of the pending rulemaking investigation in Docket A-130355, PSE's ERF proposal should be accepted.
- b. Has Mr. Schooley or other Staff conducted any analysis to determine whether or not PSE will experience future earnings attrition or any financial need for an ERF mechanism?
- c. If your response to part (b) is affirmative, please describe each analysis that was undertaken and provide complete copies of all reports, studies, workpapers, projections, and other documents associated with or supportive of such analyses.
- d. Does Mr. Schooley or Staff contend that PSE has any greater need for the limited rate filing procedures under consideration in Docket A-130355 or for a formalized ERF than the other investor-owned utilities in Washington?
- e. If your response to part (d) is affirmative, please describe each analysis that was undertaken and provide complete copies of all reports, studies, workpapers, projections, and other documents associated with or supportive of such analyses.
- f. What are the specific parameters for the "method used in Dockets UE-130137/UG-130138" that are being referenced and recommended by Mr. Schooley?
- g. Which, if any, of the ERF parameters referenced in your response to part (f) are different from what PSE is proposing for ERF formalization in the pending rate cases?

RESPONSE:

- a. PSE, or any utility, may file for new rates at any time after proposed rates are no longer suspended. PSE requested guidance for a formalized procedure for an expedited rate filing. Mr. Schooley simply testifies that the process used in 2013 is acceptable for that procedure.

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- b. No. A showing of “future earnings attrition or any financial need” is not a prerequisite for the filing of an ERF. Staff’s proposal for expedited rate filings in PSE’s GRC Dockets UE-111048/UG-111049 did not state the ERF was contingent on a showing of attrition. The Commission, in Order 08 of those dockets, also did not establish such a contingent. The primary use of the ERF process was “to help address the particular problems associated with PSE’s current position in a cycle of capital investment that places unusually high demands on utilities from time to time as they face the need to maintain and replace significant amounts of aging infrastructure.” Further, in PSE’s ERF of 2013, Dockets UE-130137/UG-130138 (2013 ERF), the Commission did not state that attrition or financial need must be shown to use the ERF process. Dockets UE-130137/UG-130138, Order 08 at 13 ¶ 33 through 35 ¶ 80. One aspect of the 2013 ERF was the use of end-of-period (EOP) rate base. On this one point the Commission did bring up the notion of attrition, but stated, “Although we have no full-blown attrition study in this record, evidence there is ample evidence in the record of such earnings attrition, caused in substantial part by continuing growth in capital investments.” Dockets UE-130137/UG-130138, Order 08 at 21 ¶ 47. The Commissions approved the ERF as “intended to minimize regulatory lag.” Dockets UE-130137/UG-130138, Order 08 at 35 ¶ 80.
- c. Not applicable.
- d. No.
- e. Not applicable.
- f. Objection. To the extent Public Counsel is asking Staff to conduct research and summarize prior Commission orders, the request is unduly burdensome and the information requested is obtainable from another source that is more convenient, less burdensome, and less expensive. Dockets UE-130137/UG-130138 and the orders thereto are publicly available for any interested party to review and summarize. Without waiving the above objection, Mr. Schooley’s testimony is referring to the following parameters:
- i. using the commission basis report (CBR) for a recently ended accounting period;
 - ii. base any new revenues only on delivery costs and rate base by removing variable and fixed power costs from the results of operations;
 - iii. include any revenues from recently concluded rate cases;
 - iv. maintain the rate of return established in the most recent general rate case except to update the interest rate on debt;
 - v. use only restating adjustments most recently approved by the Commission;
 - vi. no pro forma adjustments;
 - vii. maintain the rate spread and rate design as most recently ordered by the Commission or as agreed to by participating parties;

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- viii. use of EOP rate base is acceptable, but the baseline CBR must be filed on an average of monthly averages basis with an adjustment showing the change to EOP with explanatory text.
- g. Mr. Schooley does not see a material difference between the parameters approved in Dockets UE-130137/UG-130138 and the parameters stated in Ms. Barnard's testimony, Exh. KJB-1T at 70:16-72:16.

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REQUEST NO. 4:

Re: Direct Testimony of Thomas Schooley, Exhibit TES-1T at 29:21-23 (Formalized ERF)

At page 29, Mr. Schooley states, “An ERF is limited in scope with few, or no, pro forma adjustments and holds constant certain controversial rate making elements such as cost of capital and rate spread/rate design.” Please respond to the following:

- a. Does Mr. Schooley contend that a utility’s revenue requirement is more accurately determined when “few, or no, pro forma adjustments” are considered, rather than when all needed pro forma adjustments are considered? Please explain.
- b. Should the utility, Staff, or intervenors in an ERF proceeding be allowed to develop and present the “few” pro forma adjustments that may be needed? Please state with specificity each of the criteria that should apply to define the adjustments to be included in an ERF.
- c. Does Mr. Schooley contend that a utility’s revenue requirement is more accurately determined when “controversial rate making elements such as cost of capital” are not considered and updated? Please explain.
- d. Does Mr. Schooley contend that a utility’s approved rate levels are more accurately determined when “controversial rate making elements such as ... rate spread/rate design” are not considered and updated? Please explain.

RESPONSE:

- a. No. Determining a utility’s revenue requirement is not an exercise in hairsplitting accuracy. Several subjects in regulatory ratemaking cannot be precisely measured or directly observed. Ratemaking is thus a balancing of various costs, benefits, projections, and interests to arrive at a reasonable outcome. All parties should recognize that the goal of ratemaking is to develop rates that represent the ongoing costs of operating the utility plus the opportunity to earn a sufficient rate of return to the shareholders. In certain circumstances, an expedited filing process may result in a well-supported, reasonable outcome for all parties, including residential and small commercial customers. For example, leaving out pro forma adjustments is one way to expedite the processing of the rate filing. Those pro forma adjustments also generally increase the utility’s revenue requirement, so leaving these out nearly always benefits customers.
- b. No. It is sufficient to review the restating adjustments for completeness and veracity. No specific criteria can be or need be defined.

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- c. No. Cost of capital is, however, controversial and time consuming for all concerned, and, depending on financial market conditions, the cost of capital may not measurably fluctuate over certain periods. The cost of debt is usually one element of capital that is not controversial and readily observable through arms-length transactions in financial markets. Updating this element may reasonably update the overall cost of capital to the present time.
- d. Cost-of-service studies, rate spread, and rate design are never precisely accurate. There is great controversy between the parties. Keeping these issues at the latest status quo is another way to expedite the rate making process.

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REQUEST NO. 6:

Re: Direct Testimony of Thomas Schooley, Exhibit TES-1T at 29 (Formalized ERF)

At page 29, Mr. Schooley states that he “accepts” the ERF process. Please provide the following information:

- a. Please explain Mr. Schooley’s understanding of each element of the ERF filing requirements, procedural scheduling, permitted adjustments and completion intervals that are proposed for formalization by PSE and confirm that Staff fully supports each element of the Company’s proposal or identify with specificity each area of disagreement and describe what alternative ERF specifications are supported by Staff.
- b. Does Mr. Schooley believe that Commission Staff maintains on a continuous basis sufficient uncommitted professional staff hours and budget resources in each required area of expertise that would allow the rapid and complete processing of future ERF applications, which PSE may choose to file in the future, within the ERF processing intervals proposed by PSE?
- c. If your response to part (b) is affirmative, please identify Staff positions and uncommitted hours for persons who will be readily available in 2018 and 2019 to process expedited future ERF rate filings.
- d. If your response to part (b) is negative, explain how the public interest is served by Commission approval of ERF filings for which sufficient Staff review resources may not be available.
- e. Does Staff maintain any audit programs, review checklists, or standardized analytical procedures for the rapid processing of ERF filings made by Washington utilities?
- f. If your response to part (e) is affirmative, please provide copies of all available documentation for such procedures.
- g. Does Staff believe that Public Counsel and other intervenors should be granted an opportunity to fully participate in future PSE ERF proceedings?
- h. Please explain Mr. Schooley’s understanding of whether and how the PSE proposed parameters for future ERF filings would provide sufficient opportunity for full participation by Public Counsel and intervenors in such proceedings.

RESPONSE:

- a. Objection. Unreasonably cumulative and duplicative. The request is also for information that is more readily obtainable from another source that is less burdensome, less expensive, and more convenient. The elements are listed in the testimony of Kathy Barnard at 71:1-72:5, and Mr. Schooley’s testimony expressly

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states his position to allow for the ERF rulemaking to run its course and, in the interim, allow PSE to continue with the status quo provided for in Dockets UE-130137/UG-130138. Asking Staff to repeat sections of PSE's and Staff's testimony in this docket or recall citations to prior Staff testimony and Commission orders is duplicative of information already in the record and/or publicly available to Public Counsel. Without waiving the above objection, Staff supports the elements in Exh. KJB-1T at 71:1- 72:5 with conditions mentioned below:

- 1) The ERF will not include changes in the rate of return, rate spread or rate design.
An ERF filed within one year of a Commission decision of these elements will not require any further discussion since not much will have changed in this short time period. An update to the cost of debt may be considered.
- 2) An ERF will include only restating adjustments that are necessary to reflect proper ratemaking as defined in WAC 480-07-510(3)(e)(ii). The only exception to this would be the need to take into consideration any revenue increases that occurred after the test period.
Limiting the ERF to restating adjustments lessens the discovery process to one of confirming that the proper booked entries exclude below the line expenditures as defined in rule.
- 3) The basis for an ERF is the Commission Basis Report (CBR) for determining the revenue deficiencies consistent with the approach defined in WAC 480-90-257 and WAC 480-100-257.
This report is a consistent measure of utility performance which lends itself to an effective review.
- 4) An ERF should remove power cost, purchased gas, and pipeline cost recovery mechanism related revenues and expenses leaving only distribution and administration and general costs that will be used to determine the electric and natural gas revenue requirements to be considered in the expedited rate filing.
By removing the above costs the review is simplified. Power costs are forward looking requiring a complex review of future plant dispatch, gas pricing and electricity markets. Same reasons for gas costs which are on a separate filing cycle anyway.
PSE's filing in this case proposes to remove the pipeline cost recovery mechanism revenues and costs from a potential ERF filing. This is acceptable to Staff because such a practice would be consistent with the removal of other trackers in an expedited rate filing. There may be

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reasons to use the expedited filing to fold the CRM into general rates instead of waiting for the next general rate case.

- 5) An Expedited Rate Filing can be processed within 60 to 90 days. Given the limited number of adjustments and, therefore, the limited nature of such a review, Staff accepts this quick timeframe. The review should be able to be accomplished on an expedited basis because the filing includes only the standard restating ratemaking adjustments, uses existing methodologies previously approved by the Commission and excludes pro forma adjustments,

- b. Yes.
- c. Objection. Unduly burdensome. Public Counsel's request effectively asks Mr. Schooley and the Commission to undertake some type of employment study with few parameters and a series of undefined terms. It is unduly burdensome for any party to request Staff to set aside multiple rate filings in order to conduct a study of the regulatory services division's timesheets and projected workloads two years into the future in order to gauge "uncommitted hours" for current and projected staff members. Without waiving the above objection, Mr. Schooley's opinion is based on his 26 years of regulatory accounting experience at the Commission, including work on ERF mechanisms in Dockets UE-130137/UG-130138, and his personal knowledge of the staff members in the regulatory services division of the UTC. Management has not conducted a study of specific positions' uncommitted hours relative to potential unknown filings.
- d. Not applicable.
- e. No.
- f. Not applicable.
- g. Yes. Public Counsel and intervenors choose to participate in any given filing. Under the Commission's rules, Public Counsel becomes a party by simply filing an appearance, anyway.

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REQUEST NO. 7:

Re: Direct Testimony of Thomas Schooley, Exhibit TES-1T at 30:22 (Formalized ERF)

At page 30, Mr. Schooley recommends that the Commission, “Approve some form of an expedited rate filing.” Please clarify whether the “form” of an expedited rate filing that is being recommended should be the result of evidence presented and considered by the Commission in Docket A-130355 or instead be the specific ERF parameters that are being recommended by PSE in the pending rate cases. Explain the basis for your response and provide copies of any supporting analyses, comparisons, workpapers and other supporting documentation.

RESPONSE:

Mr. Schooley’s position is that the Commission should make a determination in the ongoing rulemaking in Docket A-130355, and, in the interim, formalize the status quo established in PSE’s previous Dockets UE-130137/UG-130138. Either result, whether from a rulemaking or from an order, accomplishes PSE’s request for formalized procedures from the Commission. It is this assurance that gives PSE, or another utility, the ability to file an expedited or limited-issue rate filing.