

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**Dockets UE-170033 and UG-170034
Puget Sound Energy
2017 General Rate Case****PUBLIC COUNSEL DATA REQUEST NO. 480****PUBLIC COUNSEL DATA REQUEST NO. 480:****Re: Rebuttal Testimony of Jon Piliaris, Exhibit No. JAP-46CT at 23:9-13 (Complete Decoupling for Delivery Costs).**

Mr. Piliaris states:

Public Counsel's proposal for fixed delivery costs is contrary to the clear evidence in this case that shows PSE's delivery costs have not only been increasing, but increasing faster than customer growth. This is clearly shown in the Prefiled Direct Testimony of Katherine J. Barnard, where delivery costs per customer were shown to grow by 1.2 percent per year....

Please respond to the following:

- a. Does Mr. Piliaris or PSE contend that the trend in the Company's historical costs on a per-customer basis is indicative of future earnings attrition that will occur at the same rate?
- b. Please provide complete copies of all reports, analyses, workpapers, projections and other documents relied upon in support of your responses to parts (a) and (b).
- c. Confirm that Ms. Barnard's analysis of delivery costs per customer included only the Company's electric and gas O&M expenses, ignoring changes in rate base and the cost of capital, or explain any inability to provide such confirmation.

Response:

- a. The referenced testimony does not relate to attrition, rather it relates to the historic growth in costs outpacing the historic growth in customers and that it is, therefore, conservative to simply allow the growth in allowed revenue to equal customer growth without an attrition adjustment like the current K-factors. Puget Sound Energy ("PSE") would further note that by using this information, updated through the end of December 2016, the referenced 1.2 percent growth rate actually grew to 1.5 percent.

- b. Not applicable.
- c. Ms. Barnard's analysis of delivery costs per customer included only PSE's electric and gas O&M expenses and does not include changes in rate base and cost of capital.

However, it can be shown that analysis of fixed delivery costs (e.g., return, depreciation and taxes) also supports the notion that delivery cost growth has exceeded customer growth over the period between 2011 and 2016. Attached as Attachment A to PSE's Response to Public Counsel Data Request No. 480 is an MS Excel file updating the workpapers supporting Tables 1 through 3 within Exhibit KJB-1T (1) for information through December 2016 and (2) including an estimate of the fixed delivery costs for the beginning (2011) and ending (2016) period. These results show that overall fixed delivery costs per customer have grown by 0.4 percent over this period. Therefore, even fixed delivery costs can be shown to be growing faster than customer growth, albeit at a slightly lower rate than expenses.

ATTACHMENT A to PSE's Response to PUBLIC COUNSEL Data Request No. 480

**PUGET SOUND ENERGY
COMBINED RESULTS OF OPERATIONS
COMMISSION BASIS REPORT**

LINE NO.	DESCR	12ME Dec 2011	12ME Dec 2012	12ME Dec 2013	12ME Dec 2014	12ME Dec 2015	12ME Dec 2016	COMPOUND GROWTH RATE
		RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	
1	COMBINED EXPENSES:							
2	TRANSMISSION EXPENSE	\$ 9,530,907	\$ 19,073,045	\$ 19,383,744	\$ 21,589,406	\$ 19,801,305	\$ 20,320,134	
3	DISTRIBUTION EXPENSE	130,531,255	126,441,451	127,563,845	136,490,873	131,977,836	146,062,640	
4	CUSTOMER ACCOUNT EXPENSES	78,512,657	80,013,147	82,230,612	82,709,937	76,520,034	71,881,945	
5	CUSTOMER SERVICE EXPENSES	4,800,000	3,249,127	3,914,400	5,603,627	3,810,121	4,899,412	
6	ADMIN & GENERAL EXPENSE	142,745,361	145,172,486	154,517,147	159,194,144	156,849,476	170,342,501	
7	TOTAL EXPENSES	\$ 366,120,180	\$ 373,949,255	\$ 387,609,749	\$ 405,587,987	\$ 388,958,771	\$ 413,506,632	2.5%
8								
9	AVERAGE CUSTOMER COUNT	1,840,114	1,852,951	1,858,766	1,876,129	1,898,648	1,927,305	
10	ACTUAL COST PER CUSTOMER	\$ 198.97	\$ 201.81	\$ 208.53	\$ 216.18	\$ 204.86	\$ 214.55	CALCULATED 1.5%
11	2011 GROWN AT HISTORICAL RATE	\$ 198.97	\$ 206.45	\$ 214.22	\$ 222.28	\$ 230.64	\$ 239.32	COMBINED ERF 3.8%
12	Delivery Rate Base	\$ 4,782,659,294					\$ 4,899,860,906	0.5%
13	Pre-tax ROR grossed up for taxes		<u>10.62%</u>				<u>10.29%</u>	
14	Delivery Return + Taxes	\$ 507,918,417					\$ 504,195,687	-0.1%
15	Delivery Depreciation	<u>236,118,377</u>					<u>289,286,967</u>	4.1%
16	Delivery Return + Taxes + Depreciation	\$ 744,036,794					\$ 793,482,654	1.3%
17	Delivery Fixed Cost per Customer	\$ 404.34					\$ 411.71	0.4%

PUGET SOUND ENERGY
ELECTRIC RESULTS OF OPERATIONS
COMMISSION BASIS REPORT

LINE NO.	DESCR	12ME Dec 2011	12ME Dec 2012	12ME Dec 2013	12ME Dec 2014	12ME Dec 2015	12ME Dec 2016	COMPOUND GROWTH RATE
		RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	
1	<u>COMBINED EXPENSES:</u>							
2	TRANSMISSION EXPENSE	\$ 9,481,215	\$ 19,058,040	\$ 19,355,851	\$ 21,589,071	\$ 19,801,305	\$ 20,320,134	
3	DISTRIBUTION EXPENSE	78,245,091	74,862,781	77,321,920	84,585,141	82,427,091	86,297,607	
4	CUSTOMER ACCOUNT EXPENSES	48,140,876	49,220,845	50,570,101	51,078,600	48,055,081	45,755,373	
5	CUSTOMER SERVICE EXPENSES	3,719,955	2,032,132	2,090,482	2,575,945	2,145,431	2,655,739	
6	ADMIN & GENERAL EXPENSE	96,361,837	99,264,866	106,511,054	110,332,421	109,690,022	117,707,588	
7	TOTAL EXPENSES	\$ 235,948,974	\$ 244,438,664	\$ 255,849,409	\$ 270,161,178	\$ 262,118,931	\$ 272,736,441	2.9%
8								
9	AVERAGE CUSTOMER COUNT	1,083,403	1,089,296	1,085,381	1,091,517	1,103,635	1,119,719	
10	ACTUAL COST PER CUSTOMER	\$ 217.79	\$ 224.40	\$ 235.72	\$ 247.51	\$ 237.51	\$ 243.58	CALCULATED 2.3%
11	2011 GROWN AT HISTORICAL RATE	\$ 217.79	\$ 228.00	\$ 238.69	\$ 249.89	\$ 261.61	\$ 273.88	COMBINED ERF 4.7%

12	Total Rate Base	\$ 4,165,678,380				\$ 5,142,529,409	4.3%	Page 1
13	Production as % of Total Net Plant	25%				38%		
14	Non-Production Rate Base	\$ 3,138,100,307				\$ 3,166,589,409	0.2%	
15	After-tax ROR grossed up for taxes	10.62%				10.29%		
16	Non-Production Return + Taxes	\$ 333,266,253				\$ 325,842,050	-0.4%	
17	Total Depreciation Expense	\$ 196,706,434				\$ 270,719,902	6.6%	Page 4
18	Production Depreciation Exp.	63,477,699				105,460,401	10.7%	
19	Non-Production Depreciation	\$ 133,228,735				\$ 165,259,501	4.4%	
20	Return + Taxes + Depreciation	\$ 466,494,988				\$ 491,101,551	1.0%	
21	Fixed Cost per Customer	\$ 430.58				\$ 438.59	0.4%	
	<u>FERC Form No. 1</u>							<u>Form 1 Source</u>
22	Production Gross Plant	\$ 2,610,087,988				\$ 4,080,277,926	9.3%	P. 205, L. 46
23	Production Accum Dep							
24	- Steam	\$ (678,412,620)				\$ (771,979,167)	2.6%	P. 219, L.20
25	- Hydro	(143,742,902)				(152,035,007)	1.1%	P. 219, L.22
26	- Other	(400,459,428)				(709,580,666)	12.1%	P. 219, L.24
27	Production Net Plant	\$ 1,387,473,038				\$ 2,446,683,086	12.0%	
28	Total Net Plant	\$ 5,624,649,442				\$ 6,367,672,968	2.5%	P. 200, L. 15
29	Production as % of Total Net Plant	25%				38%		
	Production Depr. Exp							
30	- Steam	\$ 19,995,435				\$ 23,437,425		P. 336, L.2
31	- Hydro	6,508,629				14,993,133		P. 336, L.4
32	- Other	36,973,635				67,029,843		P. 336, L.6
33	Total	\$ 63,477,699				\$ 105,460,401		

**PUGET SOUND ENERGY
GAS RESULTS OF OPERATIONS
COMMISSION BASIS REPORT**

LINE NO.	DESCR	12ME Dec 2011	12ME Dec 2012	12ME Dec 2013	12ME Dec 2014	12ME Dec 2015	12ME Dec 2016	2011-2016
		RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	COMPOUND GROWTH RATE
1	<u>COMBINED EXPENSES:</u>							
2	TRANSMISSION EXPENSE	\$ 49,692	\$ 15,005	\$ 27,893	\$ 335	\$ -	\$ -	
3	DISTRIBUTION EXPENSE	52,286,164	51,578,669	50,241,925	51,905,732	49,550,744	59,765,034	
4	CUSTOMER ACCOUNT EXPENSES	30,371,782	30,792,302	31,660,511	31,631,337	28,464,953	26,126,572	
5	CUSTOMER SERVICE EXPENSES	1,080,045	1,216,995	1,823,918	3,027,682	1,664,690	2,243,672	
6	ADMIN & GENERAL EXPENSE	46,383,523	45,907,620	48,006,093	48,861,723	47,159,453	52,634,913	
7	TOTAL EXPENSES	<u>\$ 130,171,206</u>	<u>\$ 129,510,591</u>	<u>\$ 131,760,339</u>	<u>\$ 135,426,809</u>	<u>\$ 126,839,840</u>	<u>\$ 140,770,191</u>	1.6%
8								
9	AVERAGE CUSTOMER COUNT	756,711	763,655	773,385	784,612	795,013	807,586	
10	ACTUAL COST PER CUSTOMER	\$ 172.02	\$ 169.59	\$ 170.37	\$ 172.60	\$ 159.54	\$ 174.31	CALCULATED 0.3%
11	2011 GROWN AT HISTORICAL RATE	\$ 172.02	\$ 175.77	\$ 179.61	\$ 183.53	\$ 187.53	\$ 191.62	COMBINED ERF 2.2%
12	Rate Base	\$ 1,644,558,987					\$ 1,733,271,497	1.1%
13	After-tax ROR grossed up for taxes		<u>10.62%</u>				<u>10.29%</u>	
14	Return + Taxes	\$ 174,652,164					\$ 178,353,637	0.4%
15	Depreciation	<u>102,889,642</u>					<u>124,027,466</u>	3.8%
16	Return + Taxes + Depreciation	\$ 277,541,806					\$ 302,381,103	1.7%
17	Fixed Cost per Customer	\$ 366.77					\$ 374.43	0.4%

**PUGET SOUND ENERGY-ELECTRIC
PRO FORMA COST OF CAPITAL
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2008
GENERAL RATE INCREASE**

LINE NO.	DESCRIPTION	PRO FORMA CAPITAL %	COST %	COST OF CAPITAL
1	SHORT TERM DEBT	3.95%	2.47%	0.10%
2	LONG TERM DEBT	50.05%	6.70%	3.35%
3	PREFERRED	0.00%	0.00%	0.00%
4	EQUITY	46.00%	10.10%	4.65%
5	TOTAL	100.00%		8.10%
6				
7	AFTER TAX SHORT TERM DEBT ((LINE 1)* 65%)	3.95%	1.61%	0.07%
8	AFTER TAX LONG TERM DEBT ((LINE 2)* 65%)	50.05%	4.36%	2.18%
9	PREFERRED	0.00%	0.00%	0.00%
10	EQUITY	46.00%	10.10%	4.65%
11	TOTAL AFTER TAX COST OF CAPITAL	100.00%		6.90%

Bench Request No. 002

Attachment C

**PUGET SOUND ENERGY-ELECTRIC
PRO FORMA COST OF CAPITAL
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010
2011 GENERAL RATE INCREASE WITH NEW PCB COSTS**

LINE NO.	DESCRIPTION	PRO FORMA CAPITAL %	COST %	COST OF CAPITAL
1	SHORT TERM DEBT	4.00%	2.68%	0.11%
2	LONG TERM DEBT	48.00%	6.16%	2.96%
3	PREFERRED	0.00%	0.00%	0.00%
4	EQUITY	48.00%	9.80%	4.70%
5	TOTAL	100.00%		7.77%
6				
7	AFTER TAX SHORT TERM DEBT ((LINE 1)* 65%)	4.00%	1.74%	0.07%
8	AFTER TAX LONG TERM DEBT ((LINE 2)* 65%)	48.00%	4.00%	1.92%
9	PREFERRED	0.00%	0.00%	0.00%
10	EQUITY	48.00%	9.80%	4.70%
11	TOTAL AFTER TAX COST OF CAPITAL	100.00%		6.69%