

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,)	DOCKETS UE-170033 and
)	UG-170034 (Consolidated)
Complainant,)	
)	
v.)	
)	
PUGET SOUND ENERGY)	
)	
Respondent.)	
_____)	

**TESTIMONY OF BRADLEY G. MULLINS IN SUPPORT OF THE MULTI-PARTY
STIPULATION ON BEHALF OF THE INDUSTRIAL CUSTOMERS OF NORTHWEST
UTILITIES AND THE NORTHWEST INDUSTRIAL GAS USERS**

September 15, 2017

I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Bradley G. Mullins, and my business address is 333 SW Taylor Street, Suite 400, Portland, Oregon 97204. My education and work experience is provided in Exhibit Nos. BGM-1CT and BGM-2.

Q. ARE YOU THE SAME BRADLEY G. MULLINS WHO FILED RESPONSE AND CROSS-ANSWERING TESTIMONY IN THIS PROCEEDING?

A. Yes. I previously filed testimony on behalf of the Industrial Customers of Northwest Utilities (“ICNU”) and the Northwest Industrial Gas Users (“NWIGU”) on revenue requirement matters.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I testify on behalf of ICNU and NWIGU in support of the multi-party settlement agreement (“Settlement”) filed with the Washington Utilities and Transportation Commission (“Commission”) in this docket on September 15, 2017.

Q. PLEASE EXPLAIN WHY ICNU AND NWIGU AGREED TO JOIN THE SETTLEMENT.

A. With respect to electric services, the Settlement covers a broad range of issues that, collectively, yield a fair and reasonable result for ICNU’s members who take service from Puget Sound Energy (the “Company”). It reduces the Company’s requested rate increase from net 3.2% overall in its supplemental filing to 0.9%. In the process, it achieves a reasonable resolution of the issues associated with the depreciation, decommissioning, and remediation of Colstrip Units 1 and 2, and provides a more equitable result for the Company’s large customers than the Company had initially proposed.

With respect to gas service, NWIGU is supportive of the stipulation because it results in a reasonable resolution of revenue requirement issues, although NWIGU continues to have concerns with respect to rate spread and rate design issues. The settlement will result in a net revenue requirement decrease of approximately (-)3.8% for gas services, compared to rates customers are paying today. In contrast, the Company's supplemental filing requested a decrease of only (-)3.2%, compared to today's rates. The larger rate reduction proposed in the Settlement represents about \$5 million in savings to gas customers, and NWIGU is supportive of the reasonableness of that result.

Q. PLEASE EXPLAIN ICNU'S POSITION ON THE SETTLEMENT WITH RESPECT TO DEPRECIATION EXPENSE AND DECOMMISSIONING AND REMEDIATION COSTS FOR COLSTRIP UNITS 1 AND 2.

A. In my Response Testimony, I proposed that the Company maintain its existing depreciation accrual for Colstrip Units 1 and 2, and transfer the remaining net plant balance following these units' retirement to a regulatory asset where it would earn interest at a blended Treasury rate. Subsequently, in my Cross-Answering Testimony, I proposed to use the Company's production tax credit ("PTC") regulatory liability accounts to offset both decommissioning and remediation ("D&R") costs associated with Units 1 and 2, and any unrecovered plant investment. I argued that this would support both intergenerational equity and rate stability for customers.

The Settlement largely comports with my recommendations. It uses treasury grants and PTCs to offset both D&R costs and unrecovered plant balances for Colstrip Units 1 and 2. As these costs are currently projected, this should result in future customers incurring no additional cost obligations with respect to these units, which ICNU viewed as a benefit. While the Settlement does increase depreciation expense for

these units to \$18.5 million per year until their retirement, ICNU was willing to agree to this increase as part of a larger package of settlement items. Additionally, PSE has agreed to accept the risk that it will be unable to monetize PTCs before 2030 to offset the unrecovered plant balance of Units 1 and 2.

Q. PLEASE EXPLAIN ICNU'S POSITION ON THE DEPRECIATION LIVES FOR COLSTRIP UNITS 3 AND 4.

A. The Settlement establishes a depreciable life for these units through the end of 2027. I did not file testimony for ICNU on this issue. However, ICNU would have preferred to set these units' depreciable lives at 2030 or, as the Company originally proposed, 2035. Given that no co-owner of these units is set to fully depreciate them until 2030 at the earliest, ICNU viewed 2030 to be a more reasonable estimate of these units' remaining useful lives. Thus, establishing a 2030 depreciable life would have better served intergenerational equity based on what is known today. However, ICNU was willing to agree to a 2028 depreciation date for Units 3 and 4 as part of a broader settlement package. As part of the Settlement, the Company has agreed to ongoing reporting requirements with respect to this depreciation date, and ICNU was supportive of those reporting requirements.

Q. WHAT OTHER REVENUE REQUIREMENT BENEFITS DOES ICNU SEE IN THE SETTLEMENT?

A. The Company has agreed not to include costs associated with the Clean Air Rule in its forecasted power costs. As the Company modeled compliance with this rule, it had a \$19.2 million net operating impact. In my Response Testimony, I recommended removing these costs on the basis that they were not yet known and measurable and that the Company had not adequately demonstrated that it could not avoid these costs through

alternative compliance mechanisms. The Settlement results in a compromise between the Company's filing and my testimony. It removes Clean Air Rule compliance costs, but allows the Company to defer these costs if they ultimately are realized.

Q. WHAT OTHER ELEMENTS OF THE SETTLEMENT DOES ICNU AFFIRMATIVELY SUPPORT?

A. ICNU supports the Settlement's allocation of the electric rate increase among customer classes. As the Company's cost of service study showed, customers on Schedules 46 and 49 were above parity, meaning they are paying more in rates than the cost to serve them. The Company's initial proposal was to provide these customers with 75% of the average rate increase. The Settlement reduces this to 65%, which will bring these customers even closer to their cost of service. It is worth noting, however, that even this will not bring these customers classes entirely to parity. Accordingly, ICNU encourages the Company to continue to work toward achieving full class parity in its next general rate case.

Additionally, ICNU supports the Settlement's reallocation of costs associated with the Ardmore Substation. As I demonstrated in my Response Testimony, this substation was built in the Bellevue-Redmond area to enhance reliability to the region. The substation replaced the now decommissioned Interlaken Substation, which was located in the same block, but Ardmore also provides reliability benefits to other substations in the region that Interlaken did not. However, because of the manner in which the Company assigns substation costs to Schedule 40 customers, these customers were allocated approximately the same percentage of Ardmore's costs as they were of Interlaken's costs, despite Ardmore providing greater benefits to customers not on

Schedule 40 than Interlaken did. The Settlement corrects for this imbalance by reallocating \$250,000 of Ardmore costs from Schedule 40 to the other rate schedules.

Q. PLEASE SUMMARIZE YOUR TESTIMONY ON THE SETTLEMENT.

A. ICNU supports the Settlement because it represents a reasonable compromise of the majority of issues in this case and accomplishes a fair and reasonable result overall for ICNU's members. The Settlement results in a significant reduction to the rate increase the Company originally requested, and better allocates the Company's costs to its various rate schedules. While ICNU would not have advocated for each of the Settlement's terms in isolation, ICNU is able to agree to these terms because they are part of a larger package that, overall, benefits ICNU's PSE members.

Similarly, NWIGU supports the Settlement because it results in a reasonable overall revenue requirement for the Company's gas operations. NWIGU continues to have significant concerns with certain parties' rate spread and rate design issues; however, these issues continue to be litigated and are not part of the Settlement.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.