

**BEFORE THE WASHINGTON  
UTILITIES & TRANSPORTATION COMMISSION**  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,  
Complainant,  
v.  
PUGET SOUND ENERGY,  
Respondent.

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DOCKETS UE-170033 & UG-170034 (*Consolidated*)

TESTIMONY IN RESPONSE TO PROPOSED SETTLEMENT OF  
RALPH C. SMITH (RCS-13T)  
ON BEHALF OF  
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL,  
PUBLIC COUNSEL UNIT

**SEPTEMBER 22, 2017**

TESTIMONY IN RESPONSE TO PROPOSED SETTLEMENT  
OF RALPH C. SMITH (RCS-13T)

DOCKETS UE-170033 and UG-170034 (*Consolidated*)

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**EXHIBIT LIST**

Exhibit No. RCS-14                      Settlement Exhibit A Recalculated with Lower ROE Impacts

**I. INTRODUCTION**

**Q: Please state your name and business address.**

A: Ralph C. Smith, 15728 Farmington Road, Livonia, Michigan 48154.

**Q: Are you the same Ralph C. Smith who previously submitted Response Testimony on behalf of the Public Counsel Unit of the Washington Attorney General's Office ("Public Counsel") in this proceeding?**

A: Yes. My Response Testimony was identified as Exhibit No. RCS-1T. I also sponsored Exhibits RCS-2 through RCS-12C.

**Q: What is the purpose of your testimony at this time?**

A: I have been asked by Public Counsel to evaluate and respond to the Multiparty Settlement Stipulation and Agreement ("Settlement") that was entered into by several parties to this proceeding and the related Settlement supportive testimony recently filed by those parties.

**Q: Did Public Counsel join the Settlement?**

A: No. Public Counsel is offering an alternative viewpoint in this case.

**Q: Please explain the issues you will be addressing regarding the Settlement.**

A: I will be addressing the stipulated terms on revenue requirement for Puget Sound Energy (PSE or "Company").

**Q: What additional information did you review in preparing this responsive testimony?**

A: In addition to the voluminous materials I had already reviewed in preparing my prior Response Testimony, to prepare this responsive testimony, I reviewed the Multiparty Settlement Stipulation and Agreement dated September 15, 2017, the Joint Memorandum

1 in Support of the Multiparty Partial Settlement filed on the same date, and the recently  
2 filed Settlement supportive testimonies of Puget Sound Energy, Staff and Intervenor  
3 witnesses.

## 4 II. REVENUE REQUIREMENT

5 **Q: What revenue increases (or decreases) does the Settlement propose?**

6 A: The Settlement provides for an overall PSE electric revenue increase of \$20 million (or a  
7 0.9 percent increase) and an overall natural gas revenue decrease of \$35 million (or a 3.8  
8 percent decrease).<sup>1</sup>

9 **Q: What are Public Counsel's major concerns with the revenue requirement contained**  
10 **in the Settlement?**

11 A: The major concerns are that the revenue requirement is too high for PSE and does not  
12 adequately incorporate recommendations of Public Counsel witnesses.

13 The Settlement uses a return on equity (ROE) of 9.5 percent,<sup>2</sup> which is lower than  
14 the 9.8 percent requested by PSE, but is higher than the ROE recommended by all of the  
15 other expert witnesses who filed testimony concerning ROE.

16 Another major concern is that the Settlement Agreement does not incorporate  
17 adjustments presented by Public Counsel witnesses in response testimony, including  
18 depreciation rate adjustments for the PSE gas utility (and electric utility) recommended  
19 by Public Counsel witness Ms. Roxie McCullar,<sup>3</sup> and other adjustments, such as pension

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<sup>1</sup> See Multiparty Settlement Agreement and Stipulation at 4.

<sup>2</sup> See Multiparty Settlement Agreement and Stipulation at 3, Table 1: Authorized Rate of Return.

<sup>3</sup> Ms. McCullar is also filing testimony in response to the Settlement. The Settlement at page 9, paragraph 28, for example, states that: "The Settling Parties further agree that Adjustment No. 11.06 - Depreciation Study is uncontested for natural gas operations ...." Public Counsel witness Ms. McCullar has contested the gas (as well as the PSE electric) depreciation rates. Public Counsel acknowledges that the Settlement reflects different useful lives

1 expense, storm amortization, plant held for future use, and environmental remediation,  
2 recommended in my Response Testimony.

3 **Q: Please briefly summarize the ROE recommendations that have been presented by**  
4 **the parties in their response testimony.**

5 A: PSE witnesses Dr. Roger Morin and Mr. Daniel Doyle have recommended an ROE of 9.8  
6 percent.

7 Staff witness Mr. David Parcell recommended an ROE of 9.2 percent. He  
8 identified an ROE range of 8.85 percent to 9.5 percent. The Settlement uses the extreme  
9 high end of Mr. Parcell's ROE range.

10 Dr. J. Randall Woolridge on behalf of Public Counsel recommended an ROE of  
11 8.85 percent, which coincided with the low end of the ROE range supported by Staff  
12 witness Mr. Parcell.

13 Michael Gorman, a witness for ICNU, recommended an ROE of 9.1 percent.

14 In summary, all non-PSE witnesses who filed testimony on ROE recommended  
15 using an ROE lower than the 9.5 percent that is stipulated to in the Settlement.

16 **Q: What concerns do you have regarding the pension expense reflected in the**  
17 **Settlement?**

18 A: The Settlement at page 13, paragraphs 46 and 47, uses the pension expense proposed by  
19 PSE, which was not contested by Staff, but was contested by Public Counsel, as reflected  
20 in my Response Testimony.<sup>4</sup> As explained in my Response Testimony, PSE's proposed

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for units at the Colstrip plant than were used by Ms. McCullar in the depreciation rate recommendations filed in response testimony; however, there remain concerns about the electric depreciation rates, which are addressed in Ms. McCullar's testimony in response to the Settlement.

<sup>4</sup> See Multiparty Settlement Agreement and Stipulation at ¶¶ 46-47.

1 pension expense would over-recover PSE's average projected pension expense, on either  
2 an accrual or cash basis, as presented in the Confidential Exhibit No. RCS-12C filed with  
3 my Response Testimony.

4 **Q: What is your recommendation to the Commission concerning the treatment of**  
5 **pension expense in the Settlement?**

6 A: I recommend that the Commission review my analysis of PSE's pension expense  
7 presented in my Response Testimony and adjust the PSE-proposed amounts in the  
8 Settlement down to either: (1) the average accrual basis amounts; or (2) the average cash  
9 contribution amounts for 2017 through 2021. Details of my recommendation are shown  
10 on pages 41 to 59 of my Response Testimony, as well as in my analysis presented in the  
11 Confidential Exhibit No. RCS-12C.

12 **Q: What does the Settlement provide for Storm Damage amortization?**

13 A: The Settlement at page 22, in paragraph 79, provides for a six-year average amortization  
14 of \$10.656 million for normalized storm expense.

15 **Q: What is your recommendation to the Commission concerning the treatment of**  
16 **storm damage in the Settlement?**

17 A: With respect to storm cost amortization, Public Counsel continues to recommend that the  
18 January 2012 snow, ice, and wind event referred to as "Snowmageddon," in which a large  
19 storm damage balance was deferred, be amortized over a 10-year period,<sup>5</sup> rather than the  
20 six-year period proposed by PSE, and reflected in the Settlement. A 10-year amortization

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<sup>5</sup> Confidential Response Testimony of Ralph C. Smith, Exh. RCS-1CT at 33-38.

1 has previously been approved by the Commission for catastrophic storms, such as the  
2 December 13, 2006, "Hanukkah Eve" storm included in the Company's 2007 rate case.<sup>6</sup>

3 **Q: Please describe the Settlement's treatment of Plant Held for Future Use.**

4 A: The Settlement does not include this adjustment.

5 **Q: What is Public Counsel's recommendation regarding Plant Held for Future Use?**

6 A: Yes. As seen in my Response Testimony on pages 17 to 20, I propose removing two  
7 components of Kitsap Naval Land from Plant Held for Future Use because they have  
8 been in this account for longer than 20 years. My recommendation is consistent with a  
9 previous Commission order from Dockets UE-920433, UE-920499, and UE-92162.<sup>7</sup>

10 **Q: Please describe the Settlement's adjustment for Environmental Remediation.**

11 A: The Settlement states the following:

12 Within six months of filing of this Settlement with the Commission, PSE  
13 and Commission Staff shall commence a process to determine a  
14 methodology for assigning insurance recoveries received by PSE in a  
15 manner that does not potentially compromise PSE's litigation position  
16 associated with such insurance recoveries. PSE and Commission Staff  
17 shall provide an update regarding such process in the earlier to occur of  
18 either (i) PSE's next general rate case proceeding or (ii) any expedited rate  
19 filing ("ERF") or limited rate proceeding of PSE to revise transmission  
20 and distribution rates.<sup>8</sup>

21 While Public Counsel generally supports the annual environmental reports and  
22 requirements listed in paragraph 55, Public Counsel recommends insurance recoveries be  
23 handled in the manner stated in my Response Testimony on pages 59 to 65.<sup>9</sup>

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<sup>6</sup> See Order 12 dated October 8, 2008, from Dockets UE-072300 and UG-072301, in which the Commission adopted a settlement between PSE and the intervenors in that proceeding.

<sup>7</sup> *Petition of Puget Sound Power & Light Co. for an Accounting Order Regarding the Accounting Treatment of Residential Exchange Benefits; Wash. Utils. & Transp. Comm'n v. Puget Sound Power & Light Co.* Dockets UE-920433, UE-920499, UE-921262, Eleventh Supplemental Order (Sept. 21, 1993).

<sup>8</sup> See Multiparty Settlement Agreement and Stipulation ¶ 54.

<sup>9</sup> Smith, Exh. RCS-1CT at 59-65.

1 **Q: What is Public Counsel's alternative view on the Environmental Remediation**  
2 **adjustment?**

3 A: Public Counsel continues to recommend that 100 percent of the proceeds from insurance  
4 carries and third parties be used to offset environmental remediation as of  
5 September 30, 2016.

6 **Q: Does the Settlement contain "Black Box" adjustments?**

7 A: Yes. At pages 18-19, in paragraphs 68 and 69, respectively, the Settlement Agreement  
8 discusses "Black Box" adjustments to decrease the electric revenue requirement by \$1  
9 million and the natural gas revenue requirement by \$1.5 million "to address all remaining  
10 issues."

11 **Q: Are those "Black Box" adjustments adequate to address all of the concerns that**  
12 **Public Counsel has about the Settlement?**

13 A: No. Public Counsel's concerns about the ROE in the Settlement being too high, even  
14 without consideration of other concerns, appear to dwarf the impact of the "Black Box"  
15 amounts that are specified in the Settlement. In any event, the "Black Box" amounts are  
16 too low to produce an adequate outcome.

17 **Q: Have you prepared an exhibit showing the impacts on the electric and gas revenue**  
18 **requirements associated with using an ROE lower than the 9.5 percent that was**  
19 **reflected in the Settlement?**

20 A: Yes. Exhibit RCS-14 reproduces the results of the Settlement Exhibit A, using the 9.5  
21 percent ROE and recalculates the revenue change using a lower ROE. The results are  
22 also summarized in the following table:



Puget Sound Electric Settlement Agreement Revenue Change at Various Return on Equity Rates						
		PSE Electric		PSE Gas		
Return on Equity Used	Note	Revenue Requirement	Change From Settlement Agreement		Revenue Requirement	Change From Settlement Agreement
		(A)	(B)		(C)	(D)
9.50%	[1]	\$ 20,160,334	\$ -		\$ (35,465,639)	\$ -
9.40%		\$ 15,987,387	\$ (4,172,947)		\$ (36,888,346)	\$ (1,422,707)
9.30%		\$ 11,814,440	\$ (8,345,894)		\$ (38,311,053)	\$ (2,845,414)
9.20%	[2]	\$ 7,641,492	\$ (12,518,842)		\$ (39,733,760)	\$ (4,268,121)
9.10%	[3]	\$ 3,468,545	\$ (16,691,789)		\$ (41,156,467)	\$ (5,690,828)
8.85%	[4]	\$ (6,546,528)	\$ (26,706,862)		\$ (44,570,964)	\$ (9,105,324)
Notes						
[1] Settlement Agreement			[3] ICNU witness Gorman			
[2] Staff witness Parcell			[4] PCU witness Woolridge			

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**Q: What recommendation do you have concerning the revenue requirement**

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**Settlement?**

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A: I respectfully recommend that the Commission require a lower revenue requirement than reflected in the Settlement to incorporate a lower ROE (as recommended by Staff witness Parcell, ICNU witness Gorman, and Public Counsel witness Woolridge, i.e., as supported by all of the non-PSE witnesses addressing the ROE), and to incorporate at least some (if not all) of the adjustments recommended by myself and other Public Counsel witnesses that were not reflected by the settling parties in the Settlement.

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**Q: Does that conclude your testimony at this time?**

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A: Yes, it does.