

**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  
ROXIE M. MCCULLAR (RMM-12T)  
ON BEHALF OF  
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL,  
PUBLIC COUNSEL UNIT

**SEPTEMBER 22, 2017**

TESTIMONY IN RESPONSE TO PROPOSED SETTLEMENT  
OF ROXIE M. MCCULAR (RMM-12T)

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1 **I. INTRODUCTION**

2 **Q: Please state your name and business address?**

3 A: My name is Roxie McCullar. My business address is 8625 Farmington Cemetery Road,  
4 Pleasant Plains, Illinois 62677.

5 **Q: Are you the same Roxie McCullar who submitted pre-filed Response Testimony**  
6 **Exhibit RMM-1T on behalf of the Public Counsel Unit of the Washington State**  
7 **Office of the Attorney General on June 30, 2017, in this proceeding?**

8 A: Yes. I also sponsored Exhibits RMM-2 through RMM-11.

9 **Q: On whose behalf are you testifying?**

10 A: I am testifying on behalf of the Public Counsel Unit of the Washington State Office of the  
11 Attorney General (Public Counsel).

12 **Q: What is the purpose of your testimony?**

13 A: The purpose of my testimony is to address the depreciation issues included in and omitted  
14 from the Multiparty Settlement Stipulation and Agreement (“Settlement”) filed in this  
15 proceeding on September 15, 2017.

16 **II. DEPRECIATION EXPENSE IN THE SETTLEMENT**

17 **Q: Do you have an initial observation regarding the depreciation expense included in**  
18 **the Settlement?**

19 A: Yes. Overall, the proposed depreciation expense levels in the Settlement are very similar,  
20 or equal to, the depreciation expense levels proposed by PSE in its direct filing.

1 A Settlement that accepts PSE’s originally filed amount, even though various  
2 parties proposed and supported adjustments, does not seem like a reasonable settlement  
3 for a contested issue in this proceeding.

4 For electric operations, the Settlement includes only a \$298,823 decrease, or a  
5 0.86 percent decrease, from PSE’s direct filing.<sup>1</sup> Paragraph 27 of the Settlement states:  
6 “The Settling Parties agree that Adjustment No. 13.06 – Depreciation Study (i) decreases  
7 net operating income for electric operations by \$34,311,788 ....”<sup>2</sup> Related to proposed  
8 changes in the electric depreciation rates, the PSE’s direct filing included a “net operating  
9 income is decreased by \$34,610,611 for electric operations....”<sup>3</sup>

10 For natural gas operations, the Settlement did not make any changes to PSE’s  
11 filed position. Paragraph 28 of the Settlement states: “The Settling Parties further agree  
12 that Adjustment No. 11.06 – Depreciation Study is uncontested for natural gas operations  
13 and (i) increases net operating income for natural gas operations by \$13,174,098....”<sup>4</sup>  
14 Related to proposed changes in the natural gas depreciation rates, PSE’s direct filing  
15 increased the operating income by “\$13,174,098 for natural gas operations.”<sup>5</sup>

16 **Q: Regarding natural gas depreciation rates the Settlement states: “Adjustment No.**  
17 **11.06 – Depreciation Study is uncontested for natural gas operations....” Do you**  
18 **agree that the natural gas depreciation rates are *uncontested* in this proceeding?**

19 **A:** No. Public Counsel filed depreciation rates that were different than PSE’s proposed  
20 depreciation rates for natural gas operations. In my Response Testimony, I recommended

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<sup>1</sup> Settlement amount of \$34,311,788 less PSE’s filed amount of \$34,610,611 = -\$298,823.  $\$298,823 / \$34,610,611 = 0.8634$  percent.

<sup>2</sup> Multiparty Settlement Stipulation and Agreement ¶ 27.

<sup>3</sup> Prefiled Direct Testimony of Katherine J. Barnard, Exh. KJB-1T at 33:1.

<sup>4</sup> Multiparty Settlement Stipulation and Agreement ¶ 28.

<sup>5</sup> Barnard, Exh. KJB-1T at 33:2.

1 adjustments to the future net salvage recovery amounts for several natural gas  
2 depreciation accounts that are a “good balance between the depreciation expense charged  
3 to current customers and the building of the book reserve to cover any PSE future net  
4 removal costs associated with the retirement of an asset.”<sup>6</sup> I still support and recommend  
5 those adjustments.

6 **III. COLSTRIP UNITS 1 AND 2**

7 **Q: Do you have any observations regarding the depreciation expense for Colstrip Units**  
8 **1 and 2 included in the Settlement?**

9 A: Yes. Paragraph 25 of the Settlement supports an \$18.5 million annual depreciation  
10 expense for Colstrip Units 1 and 2. The level of depreciation expense seems high based  
11 on the proposals in the proceeding.

12 For comparison, regarding the annual depreciation expense for Colstrip Units 1  
13 and 2, PSE filed requesting \$27.2 million annual depreciation expense,<sup>7</sup> Staff’s filing  
14 stated that \$13.9 is a “fair” level of annual depreciation expense,<sup>8</sup> and Public Counsel’s  
15 filing included an \$8.7 million annual depreciation expense.<sup>9</sup>

16 **Q: What is one Public Counsel adjustment to the Colstrip Units 1 and 2 depreciation**  
17 **expense that is not addressed in the Settlement?**

18 A: Public Counsel’s filed depreciation expense for Colstrip Units 1 and 2 included a  
19 reallocation of the Steam Production book reserve. As stated in my Response Testimony,

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<sup>6</sup> Response Testimony of Roxie M. McCullar, Exh. RMM-1T at 25:1-3.

<sup>7</sup> Calculated from PSE workpaper “6.06E Depr Study 17GRC”.

<sup>8</sup> Testimony of Chris R. McGuire, Exh. CRM-1T at 36:10.

<sup>9</sup> Calculated from Public Counsel workpaper “Electric Depreciation Rates per Public Counsel-RM Updated” provided in Public Counsel’s response to PSE Data Request Nos. 5-12.

1 overall Steam Production has a \$92 million reserve surplus.<sup>10</sup> The reallocation of the  
2 surplus for the units with longer remaining lives to the units that are expected to retire  
3 sooner than originally estimated is fair to the ratepayers who contributed to the surplus.

4 For example, Table 3 of my Response Testimony shows that Goldendale has a  
5 reserve surplus of \$43 million.<sup>11</sup> Since Goldendale was acquired by PSE in 2007,<sup>12</sup> this  
6 surplus has been collected from ratepayers during the last decade. Since the ratepayers in  
7 the last decade have also been impacted by the PSE-claimed underpayment for Colstrip  
8 Units 1 and 2 since 2009,<sup>13</sup> it is reasonable to use this surplus for Goldendale to offset the  
9 deficiency for Colstrip Units 1 and 2.

10 Public Counsel's proposal to reallocate the reserve impacts the ratepayers that  
11 provided the surplus while also allegedly benefitting from the PSE claimed "lower  
12 depreciation rates"<sup>14</sup> for Colstrip Units 1 and 2.

13 **Q: What did you consider in determining that PSE had depreciation reserves?**

14 A: I considered the theoretical reserve levels as calculated in PSE's 2016 Depreciation  
15 Study. Indeed, the theoretical reserve levels used in my calculation are the same  
16 theoretical reserve amounts calculated by Mr. John Spanos and used in the calculation of  
17 PSE's proposed depreciation rates.

18 PSE's 2016 Depreciation Study states: "For the purpose of calculating remaining  
19 life accruals as of September 30, 2016, the depreciation reserve for each plant account is

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<sup>10</sup> McCullar, Exh. No. RMM-1T at 8-14; Exh. RMM-4 at 27-29. This overall surplus includes the estimated deficiency in Colstrip Units 1 and 2.

<sup>11</sup> McCullar, Exh. RMM-1T at 10, Table 3.

<sup>12</sup> Prefiled Direct Testimony of John J. Spanos, Exh. JJS-4T at 17:2-3.

<sup>13</sup> Joint Testimony of Katherine J. Barnard, Susan E. Free, and Jon A. Piliaris, Exh. PSE-1JT at 6:6-10.

<sup>14</sup> PSE Joint Testimony, Exh. PSE-1JT at 6:6-10.

1 allocated among vintages in proportion to the calculated accrued depreciation for the  
2 account.”<sup>15</sup>

3 For example, looking at Mr. Spanos’s calculation of remaining life depreciation  
4 rates for Account 312, Boiler Plant Equipment,<sup>16</sup> pages 478-484 of PSE’s 2016  
5 Depreciation Study shows the allocation of the book reserve “among vintages in  
6 proportion to the calculated accrued depreciation” using the same theoretical reserve  
7 levels as I used in my Response Testimony.

8 **Q: In considering PSE’s theoretical reserve levels and the Settling Parties’ not applying**  
9 **any reserve surplus to the accelerated depreciation, did you reconsider your claim**  
10 **that a reserve surplus exists in the Steam Production Plant Accounts?**

11 A: I reviewed the Steam Production Plant Accounts, and I am confident that a significant  
12 reserve surplus exists. Mr. Spanos testifies that: “If the vintage years corresponding to  
13 the actual dates these assets were placed in service are used, then the actual reserve  
14 imbalance is close to \$20 million less than shown in Ms. McCullar’s table.”<sup>17</sup>

15 Table 3 of my Response Testimony shows a surplus of \$47.8 million for just  
16 Account 312.<sup>18</sup> Overall, my Exhibit RMM-4 shows a \$92.98 million surplus for all  
17 Steam Production Plant.<sup>19</sup> So, even with Mr. Spanos’ claimed \$20 million reduction, the  
18 data in this proceeding still shows a surplus in the actual book reserve for Steam  
19 Production Plant Accounts.

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<sup>15</sup> Exh. JJS-3r at 51 (emphasis added). The terms “theoretical reserve” or “calculated accrued” or “calculated reserve” all refer to the estimated reserve level based on the parameters estimated in the Depreciation Study.

<sup>16</sup> Account 312 is used as the example in Table 3 of my Response Testimony (Exh. RMM-1T at 10).

<sup>17</sup> Prefiled Rebuttal Testimony of John J. Spanos, Exh. JJS-4T at 17:10-13 (emphasis added).

<sup>18</sup> McCullar, Exh. RMM-1T at 10.

<sup>19</sup> McCullar, Exh. RMM-4 at 27-29.

1 PSE's proposal to increase the depreciation expense collected from current  
2 ratepayers due to the reserve deficiency related to the earlier-than-expected retirement of  
3 Colstrip Units 1 and 2 is not fair to the ratepayers, since the same ratepayers have  
4 contributed to this reserve surplus. The reallocation of the reserve surplus among Steam  
5 Production units is a reasonable proposal since it addresses both the reserve deficiency in  
6 Colstrip Units 1 and 2, due to the earlier-than-expected retirement, and the excess reserve  
7 that has been collected from ratepayers for longer living production units over the last  
8 decade.

9 **IV. COLSTRIP UNITS 3 AND 4**

10 **Q: Do you have any observations regarding the depreciation expense for Colstrip Units**  
11 **3 and 4 included in the Settlement?**

12 A: Yes. Paragraph 26 of the Settlement supports a December 31, 2027, retirement year for  
13 Colstrip Units 3 and 4. This date seems early based on the range of 2025 to 2035 for the  
14 retirement year of Colstrip Units 3 and 4 in this proceeding.<sup>20</sup>

15 The current approved retirement year is 2044 and 2045 for Units 3 and 4,  
16 respectively. PSE's filing included a 10-year reduction in life to a 2035 retirement year  
17 for both units. Moreover, PSE claimed in its direct filing that the early retirement of  
18 Colstrip Units 1 and 2 would provide a "more certain future for Colstrip Units 3 & 4."<sup>21</sup>  
19 Additionally, PSE stated that "Colstrip Units 3 & 4 do not have any planned date for  
20 retirement."<sup>22</sup>

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<sup>20</sup> Sierra Club supports a 2025 retirement year. *See* Testimony of Douglas H. Howell, Exh. DHH-1T at 6:11. ICNU supports a 2030 or 2035 retirement year. *See* Testimony of Bradley G. Mullins in Support of Multiparty Stipulation, Exh. BGM-17T at 4.

<sup>21</sup> Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-1T at 30:8-9.

<sup>22</sup> Roberts, Exh. RJR-1T at 48:6.



1           Regarding whether the 2027 retirement year is intended as a retirement year, PSE  
2           testifies that 2027 is not intended to be a retirement date for Colstrip Units 3 and 4.<sup>23</sup>  
3           Rather, the Settlement terms provide for the economic recovery of costs related to Units 3  
4           and 4 by 2027, but do not guarantee closure.

5           **Q: Did you include an adjustment to the PSE proposed 2035 retirement year in your**  
6           **response filing?**

7           A: No. Based on the information in this proceeding, I believe that the PSE proposed 2035  
8           retirement year is reasonable for calculating depreciation rates.

9           As stated above, PSE does not currently have a planned retirement date for  
10          Colstrip Units 3 and 4 and claimed that the early retirement of Colstrip Units 1 and 2  
11          would provide a “more certain future for Colstrip Units 3 & 4.”<sup>24</sup>

12          I believe that the retirement year of 2035 for Colstrip Units 3 and 4 is fair to both  
13          the ratepayers and the company based on the information included in this proceeding.<sup>25</sup>

14          **Q: Do you have a recommendation for the Commission regarding the retirement year**  
15          **for Colstrip Units 3 and 4 included in the Settlement?**

16          A: Yes. Regarding the Settlement, ICNU testifies that:

17                ICNU would have preferred to set these units’ depreciable lives at 2030  
18                or, as the Company originally proposed, 2035. Given that no co-owner of  
19                these units is set to fully depreciate them until 2030 at the earliest, ICNU  
20                viewed 2030 to be a more reasonable estimate of these units’ remaining  
21                useful lives. Thus, establishing a 2030 depreciable life would have better  
22                served intergenerational equity based on what is known today.<sup>26</sup>

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<sup>23</sup> PSE Joint Testimony, Exh. PSE-1JT at 7:4-7.

<sup>24</sup> Roberts, Exh. RJR-1T at 30:8-9.

<sup>25</sup> This testimony is addressing the reasonable retirement year for the calculation of the depreciation rates and nothing more.

<sup>26</sup> Mullins, Exh. BGM-17T at 4.

1 I agree with ICNU that a 2030 retirement year seems more reasonable for  
2 settlement purposes given the 2025 to 2035 range in the proceeding and PSE's testimony  
3 that it does not have a retirement year for Colstrip Units 3 and 4.

4 Accelerating the depreciation expense of Colstrip Units 3 and 4 using a retirement  
5 year that is on the lower end of the range, when there is no certainty of the actual  
6 retirement date for those units, is unfair to the ratepayers. Accelerating the depreciation  
7 expense places more of the burden of the unknown future retirement date on the current  
8 ratepayer. PSE is only one owner of Colstrip Units 3 and 4 and is not able to unilaterally  
9 make decisions about its future. Accelerating depreciation to 2030 would be a significant  
10 move, shaving 15 years off the current approved depreciable life for the units.

11 **Q: Are there Public Counsel adjustments to the Colstrip Units 3 and 4 depreciation**  
12 **rates that are not addressed in the Settlement?**

13 A: Yes. The reallocation of the Steam Production book reserve discussed above regarding  
14 Colstrip Units 1 and 2, also impacts the depreciation rates recommended by Public  
15 Counsel for Colstrip Units 3 and 4.

16 Additionally, the PSE filing included inflated estimated terminal net salvage costs  
17 to the year of facility's final retirement. As stated in my Response Testimony, PSE's  
18 proposal collects the more valuable current dollars to pay for estimated future inflated  
19 terminal net salvage costs.<sup>27</sup>

20 I was not able to review workpapers supporting the depreciation rates for Colstrip  
21 Units 3 and 4 included in the Settlement. However, since the issue of inflating the  
22 estimated terminal net salvage costs is not addressed in the text of the Settlement, I

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<sup>27</sup> McCullar, Exh. RMM-1T at 14-17.

1 assume that the depreciation rates for Colstrip Units 3 and 4 in the Settlement still  
2 collects the more valuable current dollars from ratepayers to pay for future estimated  
3 terminal net salvage costs.

4 **V. PUBLIC COUNSEL ADJUSTMENT TO FUTURE NET SALVAGE**

5 **Q: Is there another Public Counsel adjustment to depreciation rates that is not**  
6 **addressed in the Settlement?**

7 A: Yes. I recommended adjustments to the proposed future net salvage percent for several  
8 accounts which resulted in a good balance between the depreciation expense charged to  
9 current ratepayers and the building of the book reserve to cover any PSE future net  
10 removal costs associated with the retirement of an asset.<sup>28</sup>

11 I recommended adjustments to PSE's proposed future net salvage percents for  
12 Electric Accounts 355, 356, 362, 367, and 369 and Natural Gas Accounts 376.20, 376.40,  
13 22 378.00, 380.20, and 380.30, which is not addressed by the Settlement.

14 **VI. CONCLUSION**

15 **Q: Does anything in this testimony or your review of the Settlement change your**  
16 **recommended depreciation rates for PSE?**

17 A: No. I still recommend that Public Counsel's proposed depreciation rates for Electric  
18 Plant, shown on Exhibit RMM-4, and for Natural Gas Plant, shown on Exhibit RMM-5,  
19 be approved for PSE in Washington.

20 **Q: Does this conclude your testimony?**

21 A: Yes.

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<sup>28</sup> McCullar, Exh. RMM-1T at 18-29.