BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent.	)	DOCKETS UE-190529 and UG-190530 (*consolidated*)
In the Matter of the Petition of PUGET SOUND ENERGY For an Order Authorizing Deferral Accounting and Ratemaking Treatment for Short-life UT/Technology Investment.	)	DOCKETS UE-190274 and UG-190275 (*consolidated*)

CROSS-ANSWERING TESTIMONY OF BRADLEY G. MULLINS

ON BEHALF OF

THE ALLIANCE OF WESTERN ENERGY CONSUMERS

January 15, 2020

TABLE OF CONTENTS TO THE CROSS-ANSWERING TESTIMONY OF BRADLEY G. MULLINS

EXHIBIT LIST

I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Bradley G. Mullins, and my business address is 10147 Moratoc Drive, Tualatin, Oregon 97062.

Q. ARE YOU THE SAME WITNESS THAT PREVIOUSLY FILED TESTIMONY ON BEHALF OF THE ALLIANCE OF WESTERN ENERGY CONSUMERS ("AWEC")?

A. Yes. I previously filed Response Testimony on behalf of AWEC discussing revenue requirement and rate issues.

Q. WHAT IS THE PURPOSE OF YOUR CROSS-ANSWERING TESTIMONY?

A. I respond to the Response Testimony of Staff on the ratemaking impacts associated with Colstrip, including the effects of the retirement of Colstrip Units 1 and 2 and the remaining costs at Colstrip Units 3 and 4. In addition, I also discuss my review of several revenue requirement adjustments Staff proposed in Response Testimony. Finally, I comment on the natural gas rate spread proposals presented by Staff and Public Counsel.

Q. HAVE YOU UPDATED YOUR ANALYSIS TO CONSIDER THE EFFECTS OF OTHER PARTY POSITIONS?

A. Yes. Exhibits BGM-9 and BGM-10 include updated revenue requirement tables for electric and gas services, respectively, and incorporate the impacts of other party positions I view to be reasonable. The updated analysis, summarized in Table 1-CA below, details an increase to revenue requirement of $30,068,177 for electric services and an increase of $65,580,771 for gas services.

TABLE 1-CA

Cross-Answering Revenue Requirement Adjustments ($000)

		Electric	Gas
Puget Initial Filing		**$ 104,503**	**$ 86,128**
Adjustments			
	AWEC DR 20 Rev. Corrections	(3,492)	42
7.07	Colstrip 1-2 Reg. Accounting	(11,323)	-
7.07	Colstrip 3-4 Depreciation	(23,413)	-
6.03	Interim Protected Plus EDFIT	(5,690)	(1,495)
6.26	Unprotected EDFIT	-	(2,765)
AWEC-1	Data Center Relocation	(5,323)	(2,709)
6.01 P	Revenues & Expenses	(12)	-
6.24 P	Get to Zero	(7,491)	(3,813)
6.27 P	Public Improvements	(1,698)	(765)
6.29 P	HR Tops	(1,273)	(648)
7.02 P	Montana Tax	(42)	-
7.09 P	HMC Cable	(1,596)	-
7.10 P	Energy Mgmt. Sys.	27	-
12.01	Smart Burn	(1,109)	-
12.02	Colstrip Outage	(33)	-
12.04	Remove Shuffleton	(116)	-
12.05	Tacoma LNG	-	(3,700)
6.04	Interest Synchronization	1,427	477
	Total Adjustments	(61,158)	(15,375)
Adjusted Rev. Req. @ 9.8% ROE		**$ 43,345**	**$ 70,753**
	4bp ROE Adj.	(13,277)	(5,172)
Adjusted Rev. Req. @ 9.4% ROE		**$ 30,068**	**$ 65,581**

II. RESPONSES TO ADJUSTMENTS

a. Adj. No. 7.07 ER – Colstrip

Q. WHAT WAS YOUR RECOMMENDATION FOR ADJ. NO. 7.07 ER – COLSTRIP IN RESPONSE TESTIMONY?

A. In light of the retirement of Units 1 and 2 and the passage of the Clean Energy Transformation Act ("CETA"), several adjustments to the revenue requirement related to these assets need to occur. First, all rate base associated with Colstrip Units 1 and 2 must be removed from rates since those facilities are no longer used and useful under RCW § 80.04.250. Second, a regulatory asset needs to be used to provide Puget Sound Energy ("PSE" or "Company") with recovery of the remaining unrecovered investment for Colstrip Units 1 and 2, as agreed upon in the Multiparty Settlement Stipulation and Agreement in consolidated Dockets UE-170033 and UG-170034 (the "2017 GRC"). Third, the Colstrip Units 1 and 2 regulatory asset needs to be amortized to the Production Tax Credit Regulatory Liability amount for production tax credits that have been monetized, also pursuant to the 2017 GRC Stipulation. Fourth—and finally—depreciation expenses for Colstrip Units 3 and 4 need to be reduced for the portion of the Production Tax Credit Regulatory Liability balance that remains after amortization of the Colstrip 1 and 2 regulatory asset.

Q. DID STAFF FILE TESTIMONY DISCUSSING RATEMAKING FOR COSTS ASSOCIATED WITH THE COLSTRIP FACILITY?

A. Yes. Staff witness McGuire provided response testimony discussing ratemaking for the Colstrip facility, identifying many of the same issues that I discussed in my response testimony.[1] Staff discussed the terms of the 2017 GRC Stipulation, including the application of production tax credits to the end of life costs for Colstrip Units 1 and 2 and for Units 3 and 4.[2] Staff testimony also discussed Decommissioning and Remediation ("D&R") expenditures associated with Colstrip Units 1 and 2, including the use of treasury grants to offset those end of life costs.[3]

Q. DID STAFF PROPOSE ANY CHANGES TO THE COMPANY'S REVENUE REQUIREMENT ADJUSTMENT 7.07 ER?

A. No. While Staff identified issues related to the adjustment, Staff did not propose any changes to revenue requirement Adjustment 7.07 ER for Colstrip. Notwithstanding, Staff identified an alternative adjustment, suggesting that the Commission "*could* order PSE to remove D&R costs for Units 3 and 4 from rates now, given the likely availability of PTCs to offset those costs."[4]

Q. DO YOU AGREE WITH STAFF'S APPROACH?

A. I agree with much of Staff's analysis. I disagree, however, that it is appropriate to accept the Adjustment 7.07 ER that the Company has proposed. As discussed in my Response Testimony, the terms of 2017 GRC Stipulation need to be faithfully applied to Colstrip, particularly in light of the fact that Colstrip Units 1 and 2 have now ceased commercial operations. The retirement of Units 1 and 2 and CETA have introduced several new facts that are appropriately considered in Colstrip Adjustment 7.07 ER. First, since Units 1 and 2 retired on or around December 31, 2019, the unrecovered investment balance due

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[1] Exh. CRM-1T at 31:1-40:3.
[2] Id. at 36:16-37:5.
[3] Id. at 36:1-37:2.
[4] Id. at 39:5-7 (emphasis added).

from customers for those units is now known. It is also known that the Production Tax Credit Regulatory Liability will be sufficient to cover the unrecovered investment amount for Colstrip Units 1 and 2. The monetized portion of the Production Tax Credit Regulatory Liability I calculated in Table 5 of my Response Testimony is sufficient to repay the entire unrecovered investment amount PSE identified in revised data responses. Finally, since the remaining unrecovered investment for Colstrip Units 1 and 2 is now known, the amount of Production Tax Credit Regulatory Liability balance necessary to remunerate the Company's investment in Colstrip Units 3 and 4 is also known and can therefore be factored into the remaining depreciation expenses for those units.

Q. WHAT IS THE APPROPRIATE ACCOUNTING FOR COLSTRIP UNDER THE 2017 GRC STIPULATION?

A. Paragraph 25 of the 2017 GRC Stipulation provides that "if Colstrip Units 1 and 2 close prior to the monetization of sufficient PTCs to offset additional unrecovered plant balances for Colstrip Units 1 and 2, PSE shall hold remaining unrecovered plant balances of Colstrip Units 1 and 2 in a regulatory asset in rate base until the earlier to occur of (i) the recovery of all plant balances for Colstrip Units 1 and 2 through monetized PTC offsets or (ii) December 31, 2029." While Colstrip Units 1 and 2 have closed earlier than anticipated in the 2017 GRC Stipulation, there is no need to hold unrecovered plant balances in a regulatory asset in rate base because there are sufficient monetized production tax credits to offset the entire plant balance for Units 1 and 2 immediately.

Further, Paragraph 117 of the 2017 GRC Stipulation provides that "PSE shall place PTCs as they are monetized in a second, more flexible account not established pursuant to Chapter 80.84 RCW. PSE shall use the monetized PTCs in the second account in accordance with the following priority for use: (i) to fund community transition planning funds of $5 million …; (ii) to recover unrecovered plant balances for Colstrip Units 1 through 4; and (iii) to fund and recover prudently incurred decommissioning and remediation costs for Colstrip Units 1 through 4." Accordingly, any PTC balances remaining following payment of the unrecovered plant balance for Units 1 and 2 (and community transition funding) must first be used to pay off the unrecovered plant balance for Units 3 and 4.

Q. DID STAFF CONSIDER THESE ASPECTS OF THE 2017 GRC STIPULATION?

A There are at least three aspects of the Stipulation that Staff did not consider in its analysis. First, Staff did not recognize the necessity to remove Colstrip Units 1 and 2 from rate base and to establish an unrecovered investment regulatory asset, consistent with Paragraph 25 of the Stipulation.[5/] Second, Staff did not consider that monetized production tax credits are available to offset the entire Colstrip Units 1 and 2 regulatory asset balance, also as provided in Paragraph 25 of the Stipulation. Third, in Staff's alternative proposal, it recommended applying the remaining Production Tax Credits Regulatory Liability balance to D&R expenditures associated with Colstrip Units 3 and 4, without first applying the amounts to the unrecovered investment balances for Units 3 and 4, as required in Paragraph 117 the 2017 GRC Stipulation.[6/]

5/ Dockets UE-170033/UG-170034, Order 08, Appen. B ¶ 25.

6/ Id. ¶ 117. AWEC understands that PSE's proposed sale of Colstrip Unit 4 to Northwestern Energy will be considered in a separate docket. AWEC will propose any necessary changes to PSE's accounting for the unrecovered plant balance of this unit in that docket and reserves its right to take any appropriate position on this issue at that time.

Q. HAS THE COMPANY PROVIDED A REVISED CALCULATION OF ITS UNRECOVERED INVESTMENT IN COLSTRIP UNITS 1 AND 2?

A. Yes. In PSE's Confidential Response to AWEC Data Request 50, the Company provided an updated estimate of the unrecovered investment for Colstrip Units 1 and 2. This confidential response has been attached as Exhibit BGM-11C, and contains greater detail of the unrecovered investment balances than the Response to AWEC Data Request 35.

In response to AWEC Data Request 50, PSE further clarified the amount of ADIT included in the Unrecovered Investment balance.[7/] At the same time, the Company also revised its response to AWEC Data Request 38, where PSE had reversed the sign for ADIT included for Colstrip Units 1 and 2 rate base balances for the test period (that is, PSE reflected ADIT as a positive balance (asset) whereas it is, in fact, a negative balance (liability)).[8/]

Further, in PSE's response to AWEC Data Request 51, the Company clarified that the D&R expenditures it had included in the unrecovered investment balances in response to AWEC Data Request 34 were accounting accruals and appropriately removed from the unrecovered investment balances for regulatory purposes. At the same time, the Company submitted a revised response to AWEC Data Request 34 to make that change.

Finally, in PSE's revised response to AWEC Data Request 49, PSE has proposed to include ADIT in the interest calculation associated with the Regulatory Liability for monetized production tax credits. In Table 5 of my Response testimony, I performed an independent calculation of the interest accruals. Accordingly, PSE's revised response to

7/ Mullins, Exh. BGM-11C (PSE's Response to AWEC Data Request 50)
8/ Mullins, Exh. BGM-12 (PSE's Revised Response to AWEC Data Request 38)

AWEC Data Request 49 does not impact my recommendation regarding interest on the Regulatory Liability balance. I disagree, however, that it is necessary to consider any additional deferred taxes associated with the Regulatory Liability in the interest calculation. For regulatory purposes, no book/tax difference arises as a result of the interest accrual. The interest accrual represents actual savings of financing costs, so it is not necessary to make a tax adjustment for regulatory purposes.

These revised responses resolve the remaining questions that I had in Response Testimony concerning ADIT and D&R expenditures. In Exhibit BGM-13, I have updated the relevant tables from my Response Testimony to consider the Company's revised responses.

Q. WHAT AMOUNT OF PRODUCTION TAX CREDIT REGULATORY LIABILITY DID STAFF IDENTIFY IN RESPONSE TESTIMONY?

A. Staff notes that in the 2017 GRC approximately $280,000,000 of production tax credit regulatory liability was assumed to be available to be used in the manner outlined in the 2017 GRC Stipulation.[9/] The amount Staff identified, however, did not consider the impacts of tax reform on the PTC regulatory liability balance, as discussed in Direct Testimony by Company Witness Marcelia.[10/] To arrive at the Production Tax Credit Regulatory Liability balance, the amount of production tax credit carryforwards reported on Puget Energy's (PSE's parent company) tax return must be grossed up for taxes. Since the tax rate has declined, however, the grossed-up regulatory liability balance also has declined. The balances in PSE's response to AWEC Data Request 46, which I used

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9/ Exh. CRM-1T at 38:3-4.
10/ Marcelia, Exh. MRM at 36:1-41:13.

in Response Testimony, contain the reduced balance, after accounting for the tax rate change.

Q. WHAT WAS THE PRODUCTION TAX CREDIT REGULATORY LIABILITY AMOUNT THAT YOU CALCULATED?

A. The amount of Production Tax Credit Regulatory Liability that I calculated in Response Testimony was provided in Table 5. I calculated a total Production Tax Credit Regulatory Liability balance of $248,093,461, including interest on the monetized balances. The total balance can be divided into $129,618,737 in monetized amounts, including accrued interest, and $118,474,724 in unmonetized amounts. It is critical for ratepayers to receive timely interest on the monetized regulatory liability balances.

Staff recognized that the Production Tax Credit Liability will be sufficient to repay the entire regulatory balance for Colstrip Units 1 and 2. Staff did not, however, consider that a sufficient portion has already been monetized and, after considering interest, is available to offset the entire unrecovered investment amount for those Units. Since the monetized balances are large enough, it is unnecessary to hold any regulatory asset in rate base for Colstrip Units 1 and 2.

Q. DO YOU AGREE WITH STAFF'S ALTERNATIVE PROPOSAL FOR COLSTRIP UNITS 3 AND 4?

A. Staff proposes applying the remaining Production Tax Credit Regulatory Liability Balance first to D&R expenses associated with Colstrip Units 3 and 4. As noted above, however, in the 2017 GRC Stipulation, the remaining Production Tax Credit Liability amount was to be first applied to the unrecovered investment balance associated with Colstrip Units 3 and 4 before being applied to D&R costs. AWEC does not oppose providing the Company with a reserve for the full amount of D&R costs it has requested in its proposed depreciation expense. My recommendation, however, is that the plant reserves, whatever they be used for, be funded with the remaining Production Tax Credit Regulatory Liability amounts.

Q. PLEASE SUMMARIZE YOUR RESPONSE TO STAFF REGARDING COLSTRIP CLOSURE COSTS.

A. My proposal is different than Staff's in several ways. First, I recommended removal of Colstrip Units 1 and 2 from rate base. Second, I proposed moving the remaining plant balances into a regulatory asset. Third, I recommended that the monetized portion of the Production Tax Credit Regulatory Liability be applied to offset the entire amount of the regulatory asset. Fourth, I affirmatively support reducing depreciation expenses for Colstrip Units 3 and 4 by the Production Tax Credit Regulatory Liability amounts, which are available following the retirement of Units 1 and 2. The impacts of these adjustments, based on PSE's revised responses to AWEC data responses, has been detailed in Table 1-CA above.

b. Adj. No. 6.24G/E – Get to Zero

Q. WHAT TESTIMONY DID STAFF PROVIDE REGARDING THE COMPANY'S GET-TO-ZERO PROGRAM?

A. Staff witness Higby provided testimony regarding PSE's Get-to-Zero program.[11/] Staff reviewed the pro-forma plant additions included in this adjustment. The adjustment represents a series of smaller projects involved with improving the Company's

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[11/] Higby, Exh. ANH-1T at 25:6-38:23.

information technology infrastructure. Based on Staff's review, Staff concluded that only one of the projects was material enough to justify inclusion as a pro forma plant addition. I agree with Staff's assessment and have accepted Staff's adjustment for both electric and gas services.

Q. DID STAFF MAKE OTHER ADJUSTMENTS BASED ON ITS ASSESSMENT OF THE MATERIALITY THRESHOLD?

A. Yes. The following three pro forma plant additions were disallowed on the same basis as those identified in the Get-to-Zero program: 6.27 Public Improvements; 6.29 HR Tops; and 7.09 High Molecular Weight Cable.[12/] Accordingly, I have also removed these projects from revenue requirement in Table 1-CA, above.

c. Adj. No. 6.27 GP – Tacoma LNG

Q. WHAT DID STAFF PROPOSE FOR THE TACOMA LIQUEFIED NATURAL GAS PLANT?

A. Staff witness Gomez testified that "Given that the Tacoma LNG facility has yet to enter service, it is inappropriate to include the cost of these projects into rate base at this time."[13/] Based on the information Staff provided, I agree that the Tacoma LNG project does not meet the used and useful standard.

Further, the Company has been unable to identify a date when the Tacoma LNG project will be completed and potentially benefiting customers.[14/] Therefore, while recent changes have been made to the Commission's "used and useful" statute (RCW 80.04.250), there is no basis to conclude that the Tacoma LNG project will be online "during the rate

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12/ Id. at 24:17-25:3.
13/ Gomez, Exh. DCG-1T at 42:18-19.
14/ Id. at 44:5-11.

effective period," as this law still requires.[15] Accordingly, it is not appropriate to include the Tacoma LNG project in natural gas revenue requirement, considering that the plant is not expected to be used and useful in the rate period.

d. Adj. No. 12.04G – Remove Shuffleton

Q. WHAT HAS STAFF PROPOSED FOR THE GAIN ON THE SALE OF THE SHUFFLETON PROPERTY?

A. Staff witness Steward provided response testimony discussing the gain on the sale of the Shuffleton property.[16] Staff recommended the gains associated with the property be adjusted for additional depreciation expenses. I agree with Staff's assessment and have included this adjustment in my revenue requirement calculation.

e. Adj. No. 12.01E – Smart Burn

Q. WHAT TESTIMONY DID STAFF PROVIDE REGARDING SMART BURN?

A. Staff witness Gomez discusses the Smart Burn program at Colstrip.[17] As Staff describes it, the project was unjustified and unsuccessful. Based on the information Staff provided, I have accepted Staff's adjustment.

III. NATURAL GAS RATE SPREAD

Q. WHAT IS STAFF'S RECOMMENDATION REGARDING NATURAL GAS SERVICE RATE SPREAD AS IT APPLIES TO AWEC'S MEMBERS?

A. Staff recommended 150% of the marginal increase be assigned to Schedule 87/87T, and 25% of the marginal increase be assigned to Schedule 86/86T.

15/ RCW 80.04.250(2).
16/ Steward, Exh. CSS-1T at 11:11-12:11.
17/ Gomez, Exh. DCG-1T at 12:11- 20:4.

Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDATION REGARDING NATURAL GAS SERVICE RATE SPREAD AS IT APPLIES TO AWEC'S MEMBERS?

A. Public Counsel recommended 152% of the marginal increase be assigned to Schedule 87/87T and 0% of the marginal increase be assigned to Schedule 86/86T.

Q. DO YOU AGREE WITH THESE RECOMMENDATIONS?

A. No. I recommend that the Commission maintain its current posture and apply any natural gas rate changes resulting from this case on an equal percent of margin basis to all rate schedules. In the Company's last general rate case, Dockets UE-170033 and UG-170034, the Commission accepted a recommendation by AWEC's predecessor to decline to adopt any specific method in determining rate spread, apply a rate spread on an equal percent of margin basis and allow parties to discuss the issue in the ongoing generic proceeding to develop clear guiding principles for cost of service studies.[18] This generic proceeding remains open, and thus the rationale supporting the Commission's prior decision remains valid today. Neither Staff nor Public Counsel have presented convincing arguments to interrupt the ongoing efforts addressing this issue in Docket UG-170003.

Q. WHY DO YOU RECOMMEND THE EQUAL PERCENT OF MARGIN RATE SPREAD BE APPLIED TO ALL SCHEDULES?

A. When applying equal percent of margin, I recommend the same margin rate increase be applied to individual schedules (e.g. 85, 85T, 86, 86T, 87, and 87T). This approach

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[18] See Dockets UE-170033 and UG-170034, Order 08, ¶¶ 377-378.

ensures that sales customers within each rate class receive the same average percent margin increase as transporters within the same rate class.

Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?

A. Yes.