

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket UG-230393
Puget Sound Energy
2023 Tacoma LNG Tracker**

BENCH REQUEST NO. 004:

Referring to Free, Exhibit SEF-3, Susan E. Free provides a calculation of the Company's total revenue requirement at page 1. Line 19 of this page is titled "Net deferral rate base" which represents the sum of lines 13-18, which includes "Depreciation deferral balances" and "O&M deferral balances," among other related offsetting balances. This "Net deferral rate base" is then included in "Total rate base" on line 21, which is multiplied by the "Approved Rate of Return" on line 23, to arrive at a total "Return on rate base" of \$17.1 million, as shown on line 26. This "Return on rate base" is then added to other items affecting net operating income in lines 29-32, and totaled on line 33, which is then grossed up to arrive at the total revenue requirement of \$47.6 million, shown on line 36.

1. Please confirm whether the Company requests a rate of return on deferred O&M expenses and depreciation expenses, which are described as O&M deferral balances and depreciation deferral balances in Free, Exh. SEF-3.
2. If the Company requests a return on deferred O&M and depreciation expenses, please explain why the Company should be granted a return on its deferred O&M expenses and depreciation expenses at the Company's currently authorized rate of return.
3. If the company does not request a return on deferred O&M and depreciation expenses, please submit a revised Exhibit SEF-3 that clearly demonstrates that PSE is not seeking a return on these deferred expenses.

Response:

1. Through its inclusion in rate base, Puget Sound Energy ("PSE") requests a rate of return on the regulatory asset that is created by the deferral authorized by the Commission in Docket No. UG-210918 as the deferral is being recovered. PSE is not requesting, and did not calculate, a return on O&M costs or depreciation when accruing the deferral balance prior to recovery. At hearing, the witness misunderstood the question from the Bench on this topic. The witness interpreted the question to be whether there was deferred return recognized on O&M costs when accruing the deferral balance prior to recovery and it is now clear that was a misinterpretation. It is appreciated that this Bench Request has been issued to allow for the record to be clarified. As a matter of additional background, the booking of carrying charges on the deferred O&M and depreciation expense had at one time

been requested, but was dropped by Puget Sound Energy (“PSE”) in paragraph 135 of its Brief in Docket UG-220067 and accepted by the Commission in paragraph 450 in Order No. 24 in that docket. It is this background that the witness thought the Chair was asking about which led to the negative response that was provided at hearing.

2. The request for rate base treatment on regulatory assets that include deferred O&M and depreciation expenses is consistent with past practice and has been granted by the Commission in prior proceedings.

The most recent example occurred in PSE’s 2019 general rate case in Dockets UE-190529 and UG-190530, et al. On July 20, 2020 in that docket, PSE filed a Motion for Clarification of Final Order (“Motion”). In its original filing, PSE had requested both recovery of and recovery on the AMI depreciation deferral through inclusion of the deferral in rate base with such treatment providing a return at the authorized rate. In paragraph 4 of its Motion, PSE explained that it had requested rate base treatment for the depreciation deferral on AMI investments and that recovery of that depreciation deferral had been approved in the proceeding but the Commission did not appear to have allowed rate base treatment for the AMI depreciation deferral. In its Motion, PSE sought clarification that it was also allowed to defer a return on the depreciation deferral consistent with the utility plant treatment ordered by the Commission in the case. In paragraph 6 of Order No. 10 Granting Motion for Clarification, the Commission clarified that PSE could defer return on the depreciation deferral. The deferred return on the AMI depreciation deferral was approved for recovery in rates in Dockets UE-220066 and UG-220067.¹ The AMI depreciation deferral was provided rate base treatment in that docket as well.²

Another example is from PSE’s 2011 general rate case in Docket UE-111048, et al. In Order 8, paragraphs 322 through 325, the Commission resolved a dispute regarding the amount of deferred costs for the Lower Snake River deferral to include in rate base and agreed with PSE’s treatment and amount of deferred costs to include in rate base.

The below table, which may not be inclusive of all instances, provides additional historical examples where PSE’s rates have incorporated previously deferred O&M and depreciation in rate base as the deferral is being recovered.

¹ December 30, 2022 and January 9, 2023 Compliance filing; NEW-PSE-WP-SEF-6E-11G-AMI-Plant-Deferral-22GRC-01-2022.xlsx, Tabs “AMI Reg Asset and Amort – Elec” and “AMI Reg Asset and Amort – Gas”, cells C4 and C6.

² *Id.*; NEW-PSE-WP-SEF-4E-ELECTRIC-REV-REQ-MODEL-22GRC-01-2022.xlsx tab “Electric Adj”, cells BM35:BZ35; NEW-PSE-WP-SEF-9G-GAS-REV-REQ-MODEL-22GRC-01-2022.xlsx Tab “Gas Adj”, cells BM18:BZ18.

Docket	Project	Order
UE-220066, UG-220067	AMI (discussed above)	Order 24/10, see footnote 1 and 2 above.
UE-200980	SPI Biomass	Order 5, Appendix A, page 15 of 21, Adjustment 12, Row 3
UE-190529, UG-190530	AMI (discussed above)	Order 10, paragraph 6.
UE-130617	Snoqualmie Baker Ferndale	Order 6, Attachment A to Settlement Agreement, 03. UE-130617 et al Settlement Stipulation Attach A part 1 (9-16-13).xlsx Tab "Att A pgs 12-14 (RevReqSummPgs)" Cells I17, K17, M17
UE-111048, UG-11049	Lower Snake River (discussed above)	Order 8, paragraphs 322 - 325
UE-072300, UG-072301	Goldendale	Order 12, Appendices A-E page 154, line 64 and page 159 line 123

Finally, PSE notes that if rate base treatment is not allowed for the deferred O&M and depreciation for Tacoma LNG, the deferral balances would need to be included in working capital which provides for substantially the same results as rate base treatment. Under the investor-supplied working capital methodology, all of a company's balance sheet accounts are assigned to either invested capital, rate base, non-operating or working capital. A ratio is then developed using the invested capital, rate base and non-operating accounts to determine how much of the working capital is assigned to utility versus non-utility. The utility portion of working capital is then included in rate base. Based on PSE's current working capital ratio, 89 percent of its working capital accounts are assigned to utility and included in rate base and 11 percent are treated as non-utility and excluded from rate base.³

3. Not applicable. Please see PSE's response to subpart 2 above.

³ *Id.*; NEW-PSE-WP-SEF-5E-10G-WkgCapRateBase-22GRC-01-2022.xlsx, Tab "WC", cells E30, E32 and E34.