

**EXH. SEF-17T
DOCKETS UE-190529/UG-190530
UE-190274/UG-190275
2019 PSE GENERAL RATE CASE
WITNESS: SUSAN E. FREE**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**Docket UE-190529
Docket 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 IT/Technology Investment**

**Docket UE-190274
Docket UG-190275 (*Consolidated*)**

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

JANUARY 15, 2020

PUGET SOUND ENERGY

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
SUSAN E. FREE**

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PUGET SOUND ENERGY

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
SUSAN E. FREE**

LIST OF EXHIBITS

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Exh. SEF-19	Electric and Natural Gas Summary Pages, Detailed Summaries
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Exh. SEF-21	Revenue Requirement Restating and Pro forma Adjustments – Electric Only
Exh. SEF-22	Determination of Attrition Basis Amounts for Electric and Natural Gas
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- Exh. SEF-30 Colstrip Annual Report filed January 7, 2020
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- Exh. SEF-32 Example of Proposed Reporting of Green Direct Variable Power Costs when Program Usage Exceeds PPA Generation

1 **PUGET SOUND ENERGY**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**
3 **SUSAN E. FREE**

4 **I. INTRODUCTION**

5 **Q. Are you the same Susan E. Free who submitted prefiled direct testimony on**
6 **June 20, 2019, as revised on August 22, 2019, and prefiled supplemental**
7 **direct testimony on September 17, 2019 on behalf of Puget Sound Energy**
8 **(“PSE”) in this proceeding?**

9 **A. Yes.**

10 **Q. What is the purpose of your rebuttal testimony?**

11 **A. My testimony provides the following:**

- 12 • An update to the revenue requirement for PSE’s rebuttal position along with a
13 comparison of the revenue requirements proposed by parties in this
14 proceeding.¹
- 15
- 16 • Support for the need for PSE’s proposed attrition adjustment as well as a
17 response to parties’ opposition to PSE’s proposed adjustment.
- 18
- 19 • Discussion of parties’ proposals related to the Colstrip Units.
- 20 • A response to Commission Staff’s proposals on materiality as it relates to pro
21 forma adjustments and deferrals.
- 22
- 23 • An overview of the contested and uncontested adjustments in the traditional
24 electric and natural gas revenue requirement calculations.
- 25

¹ As discussed in more detail below, the revenue requirement and attrition exhibits were prepared assuming a 9.7 percent return on equity (“ROE”) whereas PSE witness Dr. Morin has updated his recommendation for ROE to 9.5 percent.

- 1 • An update to the requested Power Cost Adjustment (“PCA”) Baseline Rate for
2 PSE’s rebuttal position.
3
4 • Proposed tracking and reporting for the Green Direct program.
5
6 • Discussion of the accounting for the potential sale of PSE’s Water Heater
7 Leasing Program.
8

9 **Q. Are you sponsoring any exhibits?**

10 A. Yes, I am sponsoring the First through the Fifteenth Exhibits to the Prefiled
11 Rebuttal Testimony of Susan E. Free, Exhs. SEF-18 through SEF-32.

12 **II. COMPARISON OF PARTIES’ RECOMMENDATIONS**

13 **Q. Have you prepared an exhibit showing PSE’s net revenue change that you
14 are requesting in this rebuttal filing?**

15 A. Yes. I have updated the electric and natural gas net revenue change requested in
16 this rebuttal filing in Exh. SEF-18, which is similar to my Exhs. SEF-3 and SEF-
17 14 (electric only). I discuss the changes made since the supplemental filing on
18 September, 17, 2019 later in my testimony. For both electric and natural gas, Exh.
19 SEF-18 presents the calculation of the revenue change before attrition and riders
20 and the net revenue change requested based on the restated and pro forma results,
21 a limited attrition adjustment and changes to other price schedules. It also
22 provides the determination of the overall attrition revenue deficiency based on the
23 amounts supported by Mr. Amen and the deficiency associated with power costs.

24 **Q. Before presenting the updated Net Revenue Changes Requested, what do you
25 have to clarify related to the amounts presented in your exhibits?**

1 A. In preparation for this rebuttal filing, it was known that Dr. Morin would be
2 lowering his recommendation for PSE's ROE, but it was unclear what specific
3 ROE Dr. Morin would recommend. In accommodation, I utilized an estimated
4 ROE of 9.7 percent in the revenue requirement exhibits while waiting for the final
5 recommended ROE to be determined. Dr. Morin's final determination of the
6 recommended ROE of 9.5 percent was not received in sufficient time to allow for
7 revision of the numerous revenue requirement, cost of service and attrition
8 exhibits that depend on the requested rate of return. Consequently, the exhibits
9 presented in this filing are based on an ROE of 9.7 percent. In testimony, I
10 generally state amounts at 9.7 percent, as that is what agrees to the corresponding
11 exhibits presented. Where possible and relevant, I also state in testimony what the
12 amounts would be at 9.5 percent. The amounts presented at 9.5 percent, however,
13 will not have corresponding revenue requirement exhibits as there was not time
14 for their preparation prior to the filing. PSE witness Mr. Matthew A. McArthur in
15 Exhs. MDM-8 and MDM-9 provides exhibits presenting PSE's rate of return
16 ("ROR") using ROEs at both 9.5 percent and 9.7 percent. PSE will provide two
17 sets of revenue requirement work papers, one at 9.7 percent and one at 9.5
18 percent.

19 **Q. Please present the updated Net Revenue Changes Requested.**

20 A. Provided below are the updated net revenue changes requested.

21 **Electric Net Revenue Change Requested at 9.7 Percent ROE**

22 The electric net revenue change requested is shown on page one of Exh. SEF-
23 18E. The schedule shows the test period pro forma and restated rate base, line 1,

1 requested rate of return, line 2, operating income requirement, line 4 and the
2 revenue change before attrition and riders, line 10. Based on \$5.4 billion invested
3 in rate base, a 7.57 percent ROR² and \$318.2 million of pro forma base rates
4 operating income, PSE requires a revenue change before attrition and riders for
5 electric base rates of \$124.1 million. After the expected reduction to other price
6 schedules, supported by Mr. Piliaris in Exh. JAP-14, of \$3.1 million on line 15,
7 the net revenue change before attrition is presented on line 17. The attrition
8 adjustment on line 19 is determined as the difference between the net revenue
9 change before and after attrition (line 21 minus line 17). The net revenue change
10 after attrition is determined on pages 4 through 6 of the exhibit and represents the
11 electric attrition deficiency for delivery and fixed production as supported by Mr.
12 Amen plus the deficiency associated with power costs. PSE's net revenue change
13 requested for electric shown on line 25 remains at \$139.9 million which is the
14 same as PSE's original filing, which represents a 6.9 percent increase as
15 supported by Mr. Piliaris in Exh. JAP-14, and which results in a limitation to the
16 attrition adjustment of \$5.0 million on line 23. Please see my prefiled direct
17 testimony filed on June 20, 2019 for an explanation of how PSE proposes to
18 change its various rate schedules to achieve its requested net revenue change.

19 **Electric Net Revenue Change Requested at 9.5 Percent**

20 Utilizing the ROE of 9.5 percent recommended by Dr. Morin, the 7.57 percent
21 ROR changes to 7.48 percent as shown in Exh. MDM-8. Utilizing the 7.48
22 percent ROR, the net operating income requirement on line 4 becomes \$406.6

² 7.57 percent is supported in McArthur, Exh. MDM-9 and represents the rate of return based on the ROE of 9.7 percent.

1 million, and the attrition adjustment on line 19 becomes \$23.9 million. There is no
2 longer a need to reduce the attrition adjustment to maintain a requested increase
3 of 6.9 percent; therefore, the reduction to the supported attrition amount on line
4 23 becomes zero. This results in a net revenue change requested on line 25 of
5 \$138.4 million, a \$1.5 million decrease to the amounts at 9.7 percent ROE.

6 **Natural Gas Net Revenue Change Requested at 9.7% ROE**

7 The natural gas net revenue change requested is shown on page one of Exh. SEF-
8 18G. This page shows the test period pro forma and restated rate base, line 1,
9 requested rate of return, line 2, operating income requirement, line 4, pro forma
10 operating income, line 6, and the revenue change before attrition and riders, line
11 10. Based on \$2.1 billion invested in rate base, a 7.57 percent rate of return and
12 \$96.5 million of pro forma base rates operating income, PSE requires a net
13 revenue change for natural gas revenues of \$84.2 million. After the expected
14 reduction to other price schedules supported by Mr. Piliaris in Exh. JAP-15 of
15 \$32.4 million on line 15 and the limited attrition adjustment supported by Mr.
16 Amen on lines 19 and 23 of \$13.7 million, PSE's net revenue change requested
17 for natural gas shown on line 25 is \$65.5 million which has not changed since its
18 original filing.

19 **Natural Gas Net Revenue Change Requested at 9.5 Percent**

20 Utilizing the 7.48 percent ROR, the net operating income requirement on line 4
21 becomes \$158.1 million, and the attrition adjustment on line 19 becomes \$28.0
22 million. As this result is still above the increase of 7.9 percent to which PSE
23 originally limited its filing, the reduction to the supported attrition amount on line

23 absorbs all of these changes and becomes \$11.8 million. This results in the net revenue change requested on line 25 staying the same as the \$65.5 million calculated at a 9.7 percent ROE.

Q. Please provide a reconciliation between the net revenue changes presented in your original and supplemental filings with this rebuttal filing.

A. Although at 9.7 percent ROE, the overall net revenue change requested has not changed for either electric or natural gas since its original filing, there were changes within the revenue change before attrition and riders and the limited attrition adjustments. The below table contains the reconciliation between the net revenue changes requested in the original and supplemental filings at both 9.7 and 9.5 ROE:

Table 1
Reconciliation of Electric and Natural Gas
Net Revenue Change Requested between PSE's
Original/Supplemental Filing and Rebuttal Filings

DESCRIPTION	USING 9.7% ROE AS FILED			USING 9.5% ROE AS SUPPORTED BY DR. MORN		
	ELECTRIC	GAS	COMBINED	ELECTRIC	GAS	COMBINED
1. Revenue Change Before Attrition and Riders	\$ 124.1	\$ 84.2	\$ 208.4	\$ 117.6	\$ 81.7	\$ 199.3
2. Changes To Other Price Schedules	(3.1)	(32.4)	(35.5)	(3.1)	(32.4)	(35.5)
3. Net Revenue Change Before Attrition	121.0	51.8	172.8	114.5	49.3	163.8
4. Attrition Adjustment	23.9	28.2	52.1	23.9	28.0	51.9
5. Net Revenue Change After Attrition	144.9	80.0	224.9	138.4	77.3	215.7
6. Reduction to Supported Amount	(5.0)	(14.5)	(19.5)	-	(11.8)	(11.8)
7. Net Revenue Change Requested	\$ 139.9	\$ 65.5	\$ 205.4	\$ 138.4	\$ 65.5	\$ 203.9

Line	Description	At 9.7% ROE			At 9.5% ROE		
		Electric	Gas	Combined	Electric	Gas	Combined
1	Net Revenue Change Requested in June 20, 2019 filing	\$ 139.9	\$ 65.5	\$ 205.4	\$ 139.9	\$ 65.5	\$ 205.4
2	Changes to Revenue Change Before Attrition And Riders:						
3	Increase to Power Costs	26.1	-	26.1	26.1	-	26.1
4	Reduction for inclusion of Shuffleton Gain	(4.3)	-	(4.3)	(4.3)	-	(4.3)
5	Reduction for rate of return	(3.6)	(1.4)	(5.0)	(10.1)	(3.9)	(14.1)
6	Other	1.5	(0.5)	0.9	1.5	(0.5)	0.9
7	Changes to Revenue Change Before Attrition And Riders	19.6	(1.9)	17.7	13.1	(4.4)	8.7
8	Changes to Attrition:						
9	Corrections to include amortizations	(1.0)	8.2	7.2	(1.0)	8.2	7.2
10	Correction to remove Colstrip Units 1 and 2 Production O&M	(20.6)	-	(20.6)	(20.6)	-	(20.6)
11	Change in growth factors	(2.6)	-	(2.6)	(2.6)	-	(2.6)
12	Corrections to taxes	-	(2.1)	(2.1)	-	(2.1)	(2.1)
13	Other	3.5	-	3.5	3.5	(0.2)	3.3
14	Offsetting change in limitation to attrition adjustment	1.0	(4.1)	(3.2)	6.0	(1.4)	4.6
15	Changes to Attrition	(19.6)	1.9	(17.7)	(14.6)	4.4	(10.2)
16							
17	Net Revenue Change Requested in January 15, 2020 filing	\$ 139.9	\$ 65.5	\$ 205.4	\$ 138.4	\$ 65.5	\$ 203.9

1
2
3 **Q. Please provide a comparison between the net revenue changes presented in**
4 **PSE's rebuttal filing and those presented by parties in their response**
5 **testimonies.**

6 A. The below table contains the comparisons between the net revenue changes
7 presented in PSE's rebuttal filing and those presented by parties in their response
8 testimonies³:

9 **Table 2 – Comparison of Parties Recommendations**

(in millions)	Description	Staff			Public Counsel			AWEC		
		Electric	Gas	Total	Electric	Gas	Total	Electric	Gas	Total
1	PSE's Rebuttal Request Filed January 15, 2020	\$ 139.9	\$ 65.5	\$ 205.4	\$ 139.9	\$ 65.5	\$ 205.4	\$ 139.9	\$ 65.5	\$ 205.4
2										
3	Reject Attrition	(18.8)	(13.7)	(32.5)	(18.8)	(13.7)	(32.5)	(18.8)	(13.7)	(32.5)
4	Rate of Return	(16.6)	(6.2)	(22.8)	(34.7)	(13.0)	(47.7)	3.5	1.3	4.8
5	Power Costs	(37.5)		(37.5)	(46.0)		(46.0)	(26.1)		(26.1)
6	Protected EDIT Reversals Jan 2018 through Feb 2019			-	(20.0)	(3.6)	(23.6)	(5.7)	(1.5)	(7.2)
7	Unprotected EDIT Amortization			-	(11.6)	(0.9)	(12.5)	0.0	(2.8)	(2.8)
8	Rate Base at 6/19 AMA, Remove Proformas, Deferrals			-	(42.4)	(17.4)	(59.8)			-
9	Incentive Costs			-	(5.0)	(2.1)	(7.1)			-
10	Temperature Normalization	(3.6)	0.8	(2.8)			-			-
11	Get to Zero	(7.5)	(3.8)	(11.3)	(15.5)	(7.9)	(23.4)			-
12	LNG Distribution Upgrade		(3.4)	(3.4)			-			-
13	Production Tax Credits			-			-	(32.2)		(32.2)
14	Regulatory Assets & Liabilities	0.1		0.1	14.5		14.5	(0.0)	-	(0.0)
15	Other	(5.9)	(0.8)	(6.7)	3.1	(1.2)	1.9	(4.4)	(1.9)	(6.3)
16	Subtotal Changes	(89.9)	(27.1)	(117.0)	(176.6)	(59.7)	(236.3)	(83.8)	(18.5)	(102.3)
17										
18	Parties Recommendations	\$ 50.0	\$ 38.4	\$ 88.4	\$ (36.7)	\$ 5.8	\$ (30.9)	\$ 56.1	\$ 46.9	\$ 103.0

³ Table 2 at 9.5 percent will be included in work papers.

1 **Q. Have you prepared exhibits which detail the updated restating and pro**
2 **forma adjustments that PSE is proposing?**

3 A. Yes. The impact on electric and natural gas net operating income and rate base for
4 each PSE adjustment is summarized on pages 1 through 7 of Exh. SEF-19E and
5 pages 1 through 5 of Exh. SEF-19G. I have also prepared Exhs. SEF-20E, SEF-
6 20G, SEF-21E,⁴ which contain the detail pages supporting the summarized
7 adjustments in Exh. SEF-19. Exhs. SEF-19 through SEF-21 are presented in the
8 same format as Exhs. SEF-4, SEF-7, SEF-15 and SEF-16, and are also in the
9 same format as Staff witness Ms. Liu's Exhs. JL-2 and JL-3.

10 **Q. What other exhibits have you updated for this rebuttal proceeding?**

11 A. Exh. SEF-22 provides the update to the attrition base amounts, which were
12 previously presented in Exh. SEF-9, for changes presented in this rebuttal filing.
13 Exh. SEF-23 provides the updated Exhibit A-1 Power Cost Baseline Rate for use
14 in the Power Cost Adjustment ("PCA") mechanism, which is an update to Exh.
15 SEF-11. I have also prepared Exhs. SEF-24 (electric) and SEF-25 (natural gas),
16 which provide a detailed comparison of the differences between the parties'
17 requested net revenue changes.⁵ Each of these adjustments is explained by
18 reference to the actual adjustment page as listed below. PSE requests that the
19 Commission accept the adjustments included in these exhibits as presented by
20 PSE.

⁴ There were no changes to the natural gas only adjustments from Exh. SEF-8G, therefore, there is no corresponding Exh. SEF-21G.

⁵ Free, Exh. SEF-24 and Exh. SEF-25 at 9.5 percent ROE will be included in work papers.

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III. ATTRITION

A. The Threshold Criteria for Attrition Adjustments Have Been Met

Q. Please summarize your understanding of Commission Staff's position on PSE's attrition allowance.

A. Staff witness Mr. Chris R. McGuire testifies that PSE has not demonstrated circumstances warranting an attrition adjustment. He also states that even if PSE had demonstrated the circumstances, it has not demonstrated the need for an adjustment based on Staff's analysis.⁶

Q. One concern raised by Mr. McGuire, as well as other parties is that PSE should not be granted an attrition adjustment because it has not shown chronic under earnings. Do you agree with this premise?

A. No. I do not agree that PSE has not shown chronic under earnings, and as discussed later in my testimony, I do not believe PSE is required to show chronic under earning. The Commission has determined that evidence of under earning in the rate year, absent an attrition adjustment, justifies an attrition adjustment.⁷

Q. Please address the parties' assertions that PSE has not demonstrated chronic under earning.

A. Mr. McGuire, Mr. Gorman and Mr. Garrett point to PSE's presentation of its historical normalized rates of return from 2013 to 2018 as evidence that PSE has

⁶ McGuire, Exh. CRM-1T at 14:19-20

⁷ See, e.g., Docket UE-150204 and UG-150205, Final Order 05, ¶¶ 110, 116, 131 (granting attrition adjustment to Avista on electric even though currently financially healthy, because absent such an adjustment, the company may not have the opportunity to earn at or near authorized level).

1 not experienced chronic under earning.⁸ However, the time period presented
2 covers PSE's multi-year rate plan in which it received automatic annual rate
3 increases to delivery revenues of 3.0 percent and 2.2 percent from July 2013
4 through December 2017 for electric and natural gas, respectively. It is
5 disingenuous to take the position that chronic under earnings over that time period
6 is not an issue for PSE, when the period contained an innovative solution intended
7 to address attrition and under earnings.⁹ PSE witness Daniel A. Doyle in Exh.
8 DAD-1T at pages 15 to 17 and in Exh. DAD-7T demonstrates and discusses how
9 PSE would not have been able to earn its authorized rate of return during the rate
10 plan period absent these automatic rate increases.

11 **Q. What other observations do you have about PSE's historical rates of return?**

12 A. It is clear from review of PSE's normalized historical rates of return¹⁰ that despite
13 the automatic rate increases, PSE's rates of return increased only modestly – 55
14 basis points for electric and 82 basis points for natural gas¹¹ – during the four and
15 one-half year rate plan period. However, in one short year, in 2018, after the
16 conclusion of the rate plan, PSE's normalized rate of return decreased by 99 basis
17 points for electric and 252 basis points for natural gas. These declines, along with
18 evidence presented by Mr. Doyle that PSE would not have earned its rate of
19 return absent the rate plan, demonstrate that an attrition adjustment is appropriate.
20 PSE should not be considered to have achieved its rate of return for purposes of

⁸ Doyle, Exh. DAD-1T at 14:1-16; McGuire, Exh. CRM-1T at 22:15-23:8; Garrett, Exh. MEG-1T at 14:17 – 15:6.; Gorman, MPG-1T starting at 5.

⁹ See Final Order 07 in UE-121697 and UG-121705 (consolidated) and UE-130137 and UG-130138 (consolidated) ¶¶ 22, 189.

¹⁰ Doyle, Exh. DAD-1T at 14.

¹¹ Net change between 2017 and 2013.

1 determining if an attrition adjustment is warranted in this case, as PSE was only
2 able to do so because of the Commission's approval of the innovative and
3 temporary rate plan. Indeed, absent the rate plan, PSE meets the threshold
4 criterion of under earning over many years.

5 **Q. Are you aware if the trend of under earning continues past the test year into**
6 **2019?**

7 A. Yes. PSE prepared results of operations for the twelve-months ended November
8 30, 2019 in a manner similar to a Commission Basis Report which show a
9 normalized combined electric and natural gas ROE and ROR of 7.3 percent and
10 6.5 percent, respectively. These amounts have been incorporated into Exh. DAD-
11 7T to reflect how the current year's results continue the pattern of under earning.

12 **Q. What is your response to Mr. McGuire's discussion related to how the rate**
13 **change from PSE's 2018 Expedited Rate Filing ("ERF") impacts the chronic**
14 **under earnings discussion¹²?**

15 A. Mr. McGuire attempts to negate PSE's decrease in its 2018 normalized rates of
16 return by referencing PSE's acceptance of the 2018 ERF Settlement¹³ as evidence
17 that PSE's decreased 2018 earnings should not be considered in the discussion of
18 chronic under earnings. There are at least two problems with this argument. First,
19 the 2018 ERF rate effective period was March 1, 2019, which represents a rate
20 year of March 1, 2019 through February 29, 2020. The rate year in this
21 proceeding is May 2020 through April 2021. These rate periods do not match or

¹² McGuire, Exh. CRM-1T at 23:10-24:7.

¹³ Dockets UE-180899 and UG-180900.

1 overlap. The rate year in this general rate case is beyond the ERF rate year.
2 Second, the very definition of attrition is that the relationships of rate base,
3 operating expense and revenues do not hold into the rate year – and the rate year
4 in this general rate case is beyond the ERF rate year. Mr. McGuire’s assumption
5 that PSE’s rates from its 2018 ERF should be sufficient beyond the rate year is
6 flawed.

7 **Q. Do you agree with Mr. McGuire’s and Mr. Garrett’s assessment that PSE**
8 **does not provide persuasive evidence that the costs it identifies are due to**
9 **factors outside of its control¹⁴?**

10 A. No. Mr. McGuire only points to Mr. Doyle’s testimony to support his faulty
11 assertion that PSE identifies only costs largely unrelated to attrition as costs
12 beyond the company’s ability to control.¹⁵ In so doing, Mr. McGuire ignores
13 evidence provided by other PSE witnesses in their prefiled direct testimony,
14 namely Mr. David E. Mills, Ms. Catherine A. Koch and Ms. Margaret F. Hopkins
15 who discuss at length the expected spending for PSE’s transmission, distribution
16 and information technology (“IT”) portfolios and how it is reasonable, necessary,
17 and responsive to factors that are outside of PSE’s ability to control. Indeed,
18 Commission Staff witness Ms. Aimee N. Higby provides evidence that
19 investment in IT spending is changing the face of utility spending profiles.¹⁶ And
20 Mr. McGuire admits, later in his testimony, that a utility that foregoes investment

¹⁴ McGuire, Exh. CRM-1T at 3:11–12; Exh. Garrett, MEG-1T at 12:7 – 14:6.

¹⁵ McGuire, Exh. CRM-1T at 3:11–13.

¹⁶ Higby, Exh. ANH-1T at 17.

1 in IT spending and technology transformation could be considered to be acting
2 imprudently, and that these short-lived IT assets create pressures on the utility.¹⁷

3 **Q. Do you agree with Staff's proposed solution to address the pressures short-**
4 **lived plant causes for utilities?**

5 No. I discuss below how Staff's recommended change to their interpretation of
6 the materiality threshold for short-lived plant does not sufficiently address PSE's
7 regulatory lag related to its overall capital spending. Additionally, Public Counsel
8 witness Mr. Garrett argues that *any* level of regulatory lag is appropriate and that
9 a company's only remedy should be to file a general rate case.¹⁸ Washington
10 investor owned utilities have been filing frequent rate cases since 2010¹⁹ and
11 continue to do so, which demonstrates that regulatory lag is not being sufficiently
12 addressed by the modified historical test year framework.

13 **Q. Do you agree that chronic under earnings and uncontrollable costs are the**
14 **only thresholds that must exist before the Commission can grant an attrition**
15 **allowance?**

16 A. No. The Commission has stated that demonstration of a utility's expectation that
17 it will not earn its rate of return in the rate year is evidence of attrition that can
18 justify the use of an attrition adjustment.

19 In addition, while the record shows that Avista's electric operations are
20 currently financially healthy and the Company has actually earned near or
21 above authorized levels for its electric operations for the past two year, we
22 are concerned this may not hold in the rate year or beyond. Absent an

¹⁷ McGuire, Exh. CRM-1T at 26-27.

¹⁸ Garrett, Exh. MEG-1T at 13:8-14:8.

¹⁹ As previously discussed, Mr. Doyle demonstrates that PSE would have filed even more frequently were it not for the approval by the Commission of PSE's innovative rate plan.

1 attrition adjustment we are concerned that the Company may not have an
2 opportunity to achieve earnings at or near authorized levels.²⁰

3
4 I discuss above how PSE meets the chronic under earnings. PSE has demonstrated
5 a deficiency in its pro forma revenue requirement calculation. Additionally, PSE
6 witness Mr. Josh A. Kensok provides additional rebuttal testimony in Exh. JAK-
7 1T (based on the latest five-year financial plan) that PSE anticipates it will not
8 earn its rate of return in the rate year absent some form of additional rate relief
9 including an attrition allowance. Thus, not only does PSE meet the criteria of
10 chronic under earnings and uncontrollable costs discussed by Mr. McGuire, but
11 PSE also has demonstrated that it will not earn its authorized return in the rate
12 year absent the requested attrition adjustment.

13 **Q. Does PSE request an attrition adjustment on top of a deficiency that is based**
14 **on a fully forecasted rate year as suggested by Public Counsel Witness Mr.**
15 **Mark E. Garrett²¹?**

16 A. No. PSE presents an attrition adjustment to its revenue deficiency that is based on
17 a historical test year plus limited pro forma adjustments.²² It is unclear why Mr.
18 Garrett believes that PSE is requesting both a fully forecasted rate year and an
19 attrition adjustment; regardless, his assumption is incorrect.

20 **Q. Do you agree with Mr. Garrett that the wage increase and other pro forma**
21 **adjustments that reach beyond the pro forma period are duplicated by the**
22 **attrition adjustment?**

²⁰ Dockets UE-150204 and UG-150205, Final Order 05, ¶ 131.

²¹ Garrett, Exh. MEG-1T at 5:15–6:17, 7:13-14.

²² Free, Exhs. SEF-3E&G at 1, SEF-14E at 1, SEF-18E&G at 1.

1 A. No. I stated in my Prefiled Direct Testimony, Exh. SEF-1Tr, that the starting
2 point for the attrition base amounts on which the attrition adjustment is calculated
3 was the restated results of operations.²³ Neither the wage increase nor any pro
4 forma plant adjustments were included in the attrition base amounts as evidenced
5 in Exh. SEF-22. In other words, PSE made the appropriate accommodations to the
6 calculation of its attrition adjustment to address Mr. Garrett's concerns.

7 **Q. Do you agree with Mr. Garrett that attrition adjustments are “out of vogue”**
8 **since the 1980's²⁴?**

9 A. No. Mr. Garrett provides testimony that while attrition adjustments are not used
10 by many jurisdictions to address regulatory lag, they have been replaced by other
11 forms of alternative rate making that address regulatory lag such as multi-year
12 rate plans and future test years.²⁵ Additionally, Mr. Garrett incorrectly relies on
13 inflationary costs as the need for attrition allowances²⁶ when the Commission has
14 made clear that it no longer requires extraordinary circumstances such as high
15 levels of inflation to exist before granting an attrition adjustment.²⁷ Additionally,
16 above I have addressed how PSE has provided evidence that the factors driving its
17 cost increases are outside of its control.

18 **Q. How do you respond to Mr. McGuire's assertion that without Staff's**
19 **proposals to address attrition in this case the Company would have a revenue**
20 **surplus²⁸?**

²³ Free, Exh. SEF-1Tr at 73:12–75:2.

²⁴ Garrett, Exh. MEG-1T at 8:7.

²⁵ Garrett, Exh. MEG-1T at 6:11-12, 25:12-14.

²⁶ *Id.* at 9-10.

²⁷ Dockets UE-160228 and UG-160229 ¶ 69.

²⁸ McGuire, Exh. CRM-1T at 15:7-11.

1 A. Mr. McGuire's assertion is based on Commission Staff's proposal. Commission
2 Staff's purported surplus evaporates under further scrutiny. The difference
3 between PSE's and Staff's proposed rates of return has PSE in a deficient
4 position, in addition to mention all the other differences between PSE's and
5 Staff's positions. Furthermore, as I discuss below in Section IV, the difference
6 between PSE's and Staff's position related to the materiality threshold is
7 significant. It represents a difference of \$20 million in revenue requirement for
8 known and measurable investments that will exist when rates are in effect for
9 which Staff is not recommending recovery.

10 **Q. How do you respond to Mr. Gorman's assertion that PSE's attrition**
11 **adjustment is not based on budgeted or planned costs of service that can be**
12 **shown to be needed or are reasonable costs of providing service²⁹?**

13 A. Mr. Kensok provides testimony that shows PSE's forecast of rate base at the
14 beginning and end of the rate year is equal to or higher than the level of rate base
15 included in PSE's attrition analysis. He also provides testimony as to the
16 reliability of PSE's budgets compared to actual spending over the past several
17 years. PSE's method of presenting an attrition adjustment – a trended historic
18 analysis along with an analysis of how the trends are likely to continue in the rate
19 year – has been discussed by the Commission as a form of attrition adjustment
20 that can be used to address regulatory lag and that this form of preparing an
21 attrition adjustment distinguishes the adjustment from a future test year.³⁰

²⁹ Gorman, Exh. MPG-1T at 5:1-7.

³⁰ Dockets UE-111048 and UG-111049, n. 673.

1 **B. PSE's Existing Regulatory Mechanisms Are Not Sufficient To**
2 **Address Regulatory Lag**

3 **Q. How do you respond to Mr. Gorman's assertion that PSE's existing**
4 **regulatory mechanisms are sufficient to address attrition³¹?**

5 A. Mr. Gorman's conclusion that PSE's existing regulatory mechanisms are
6 sufficient to address attrition is flawed. Mr. Kensok provides testimony showing
7 PSE would not earn its rate of return in the rate year under existing mechanisms
8 with no attrition relief. Additionally, as discussed in more detail below, Mr.
9 Gorman incorrectly points to the following mechanisms and accounting devices to
10 support his assertion that PSE does not need an attrition adjustment.

11 Expedited Rate Filings:

12 Expedited rate filings are not an established mechanism and face opposition and
13 controversy when utilized by PSE. For example, PSE's expedited rate filings have
14 encountered disputes over the contents of the filings and arguments for a
15 suspension period that, in PSE's opinion, does not sufficiently shorten the review
16 period to a point that make them worth pursuing.³²

17 Regulatory Assets

18 Mr. Gorman's reference to the regulatory assets reported in PSE's FERC Form 1
19 is misplaced. First, the regulatory assets reported here are not all established for
20 ratemaking, many are regulatory assets established for GAAP purposes that are
21 not allowed for ratemaking. Second, Mr. Gorman does not mention that PSE also

³¹ Gorman, Exh. MPG-1T at 5:20.

³² See Dockets UE-180532 and UG-180533; Dockets UE-180889 and UG-180900.

1 has regulatory liabilities that offset these regulatory assets. Exh. SEF-26 provides
2 a listing of the regulatory assets and liabilities in PSE's FERC Form 1 and
3 identifies which are considered for rate making and which are not. As can be seen
4 on line 9 of Exh. SEF-26, only \$204 million³³ of the \$750 million of regulatory
5 assets on line 43 for 2018 and \$235 million of the \$825 million for 2017 are
6 regulatory assets that have previously been allowed for ratemaking. Other
7 accounts included in the totals are for items such as riders and trackers that are not
8 considered when setting base rates (line 7), amounts that are actually included in
9 PSE's average invested capital (line 10) and amounts that are truly part of PSE's
10 plant in service rate base (line 6). Additionally, line 28 shows that there are
11 offsetting regulatory liabilities of \$13 million for 2018 and \$34 million for 2017
12 that were not considered by Mr. Gorman. The remainder of the items on Exh.
13 SEF-26 that are not considered for rate making net to an overall liability on line
14 38. Finally, the use of regulatory assets does not provide certainty of recovery and
15 contains the risk of having to write-off any regulatory assets not approved for
16 recovery by the Commission. Parties often argue against recovery of PSE's
17 regulatory assets, as is evidenced in this case by parties arguing against PSE's
18 requests to recover its Get to Zero deferral. Accordingly, the use of deferrals is
19 not an effective or sustainable way to manage regulatory lag.

20 Cost Recovery Mechanism ("CRM") for Natural Gas

³³ I would not consider the deferrals for storms and environmental remediation on lines 3 and 4 to be relevant as these are long standing and ongoing deferral mechanisms that cover costs that are not driving the regulatory lag that PSE's is trying to address through its request for an attrition adjustment.

1 PSE has not included its Natural Gas CRM in its attrition analysis. PSE removed
2 its historical level of spending from the creation of its escalation factors, and
3 removed it from the base on which the escalation factors are applied.³⁴ These
4 accommodations were made to the attrition analysis to address exactly the points
5 that Mr. Gorman raises. Thus, his assertion that PSE's attrition adjustment may
6 allow PSE to double recover the costs included in its natural gas CRM³⁵ is
7 incorrect. PSE recognizes that it will have the ability to recover CRM costs in its
8 Gas Schedule 149 and therefore properly removed the impacts of CRM
9 investment from its attrition analysis in its original filing. Additionally PSE has
10 not been able to earn its rate of return on the gas side (absent the multi-year rate
11 plan) even with the Gas CRM.

12 **Q. Is Mr. Gorman right to criticize PSE for including in its attrition analysis**
13 **investment in projects requested in its Electric Cost Recovery Mechanism**
14 **("ECRM") in its 2017 general rate case (UE-170033 and UG-170034)³⁶?**

15 A. No. When the Commission rejected the ECRM in the 2017 general rate case it
16 outlined other options available to PSE for recovery of costs that PSE had
17 included in its ECRM proposal (i.e. replacement of high molecular weight
18 ("HMW") cable and worst performing distribution circuit work). Specifically, the
19 Commission indicated that other solutions such as end of period rate base and pro
20 forma adjustments are available for recovery of these costs.³⁷ PSE is appropriately

³⁴ Amen, Exh. RJA-1T at 25:5-26:2.

³⁵ See Gorman, Exh. MPG-1T at 7:19-21.

³⁶ Gorman, Exh. MPG-1T at 8:18 – 9:23.

³⁷ Dockets UE-170033 and UG-170034, Order 08 ¶ 236

1 pursuing alternative solutions to allow for more timely recovery of these
2 reliability-related costs in this case.

3 **Q. Have other parties incorporated these costs in pro forma adjustments?**

4 A. No. PSE's pro forma adjustment for HMW has been contested by other parties as
5 immaterial.³⁸

6 **Q. Are pro forma adjustments a solution for more timely recovery of these
7 programmatic costs?**

8 A. No. Applying Commission Staff's proposed guidelines for pro forma adjustments
9 leaves approximately \$60 million of rate base and \$10 million of depreciation
10 unrecovered. Moreover, PSE has only proposed six pro forma adjustments in this
11 case based on guidelines from the Commission to limit the number of pro forma
12 adjustments. Therefore, pro forma adjustments are not the answer to address
13 regulatory lag from these programmatic expenses. It is appropriate to include
14 these types of ongoing, programmatic spending in the attrition adjustment, as they
15 are material in the aggregate and contribute to PSE's regulatory lag.

16 **Q. Is Mr. Gorman correct that PSE's growth in rate base does not support
17 providing PSE with anything more than traditional historical rate making?**

18 A. No. As can be seen in his own exhibit, Exh. MPG-3, the annual net additions on
19 line 7 of each page far exceeds the level of depreciation expense on line 14 (line
20 10 for common) of each page in recent history. In fact, Exh. MPG-3 clearly
21 demonstrates that PSE's net plant closings averaging roughly \$750 million per

³⁸ Higby, Exh. ANH-1T at 24:12-25:3.

1 year in the last three years far exceed the level of depreciation currently set in
 2 rates of \$483 million as shown in Table 3 below. In fact, before attrition, \$117
 3 million of the deficiency in this filing is driven by unrecovered depreciation
 4 expense. The result is that PSE is investing at a level that is not supported by
 5 recovery of depreciation expense as Mr. Gorman suggests.

6 **Table 3 – Depreciation vs. Amount in Rates**

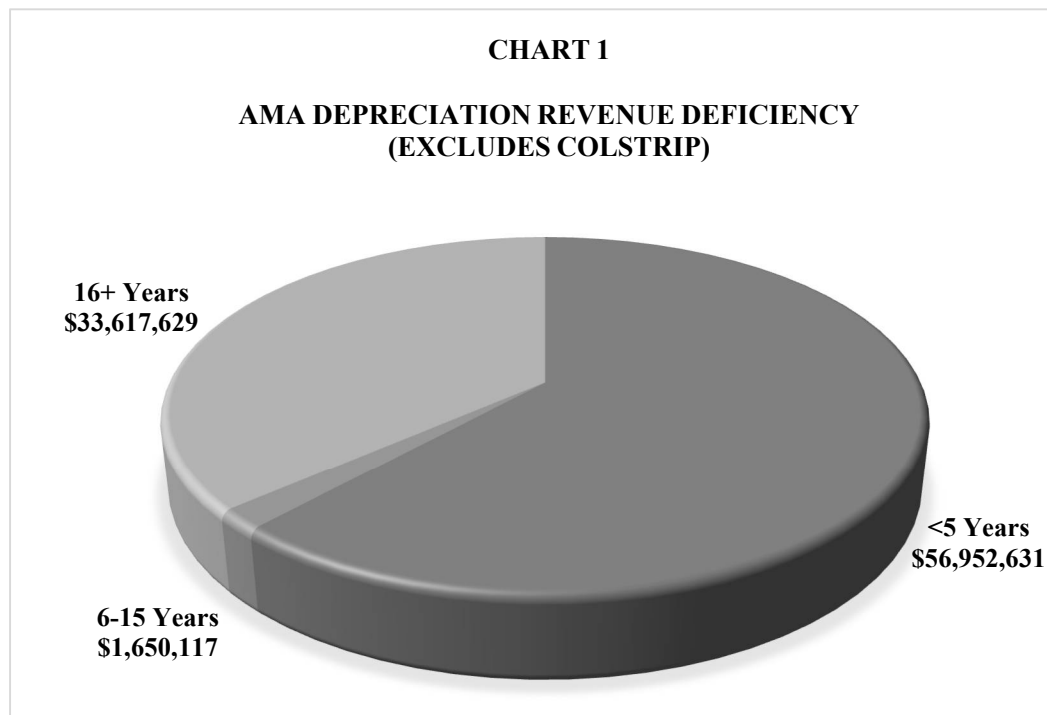
Description	amounts included in PSE's 2017 GRC compliance filing in UE-170033 and UG-170034			amounts included in PSE's 2019 GRC rebuttal filing in UE- 190529 and UG-190530			Depreciation Increase
	Electric	Gas	Combined	Electric	Gas	Combined	
Depreciation	\$ 281,240,332	\$ 101,667,737	\$ 382,908,069	\$ 306,846,696	\$ 116,807,862	\$ 423,654,557	\$ 40,746,488
Amortization	26,490,915	11,632,340	38,123,255	60,078,878	25,958,436	86,037,314	47,914,059
Restating/Proforma Adjustments	2,984,142	(20,928)	2,963,214	2,768,125	3,754,919	6,523,044	3,559,830
	\$ 310,715,389	\$ 113,279,149	\$ 423,994,538	\$ 369,693,698	\$ 146,521,217	\$ 516,214,915	\$ 92,220,377
Colstrip Depreciation (All Units)	41,353,313	-	41,353,313	34,713,851	-	34,713,851	(6,639,462)
Other Depreciation Related Items	17,744,764	178,868	17,923,632	15,278,794	309,002	15,587,796	(2,335,836)
AMA to EOP Adjustment	-	-	-	21,398,676	12,326,972	33,725,648	33,725,648
Total Depreciation in Revenue Requirement	\$ 369,813,466	\$ 113,458,017	\$ 483,271,483	\$ 441,085,019	\$ 159,157,191	\$ 600,242,210	\$ 116,970,727

7
 8 Additionally, over this same time period, the average useful life of PSE's
 9 aggregate investments has been shortening, putting upward pressure on
 10 depreciation expense, but also aggravating the problem of regulatory lag. The
 11 information technology expenditures presented in Exh. SEF-27 demonstrate how
 12 a significant portion of PSE's information technology investment has a life of five
 13 years or less of PSE's overall Intangible Plant category (line 36).

14 **Q. If the life of PSE's aggregate investments has been shortening, can you**
 15 **demonstrate the impact on depreciation expense and the resulting impact of**
 16 **regulatory lag?**

17 A. Yes, a simple example using the AMA depreciation expense from PSE's 2017
 18 GRC compliance filing compared to the AMA depreciation expense in the present
 19 case shown in Table 3 above, shows the revenue deficiency is \$92 million.

1 Breaking the deficiency down by asset life shows that 62 percent, or \$57 million
2 of the deficiency results from investments with a useful life of five years or less.
3 Chart 1 below illustrates the deficiency broken down by asset lives: five years or
4 less, 6-15 years, and greater than 15 years. From this analysis it is clear that the
5 consequence of regulatory lag is significant. Using traditional historical rate
6 making, as Mr. Gorman suggests, even with back to back rate cases, as much as
7 62 percent of PSE’s inter-rate case depreciation expense could be unrecovered.
8 Moving to end of period (“EOP”) rate base and depreciation in the present case
9 closes the gap by an additional \$34 million – or conversely this shows the gap
10 between the two rates cases is closer to \$117 million as shown in Table 3 above.
11 With the addition of an attrition adjustment, the under recovery of depreciation
12 expense is further reduced.



13

1 **Q. How would you summarize PSE’s case related to its request for an attrition**
2 **adjustment?**

3 A. As I have discussed above, and as discussed in the testimonies of PSE witnesses
4 Mills, Doyle, Kensok, Hopkins, Koch and Jacobs, PSE has established that it will
5 under-earn in the rate year absent the attrition adjustment, and it has had a history
6 of under earnings due to factors that are outside of its control, therefore PSE
7 meets the criteria the parties argue must be met before an attrition adjustment can
8 be granted.

9 **C. Flaws with Commission Staff’s Attrition Analysis and Proposal To**
10 **Reject an Attrition Adjustment in this Case**

11 **Q. Given that PSE has established the need for an attrition adjustment, what**
12 **comments do you have regarding how Staff calculated its attrition**
13 **adjustment for PSE?**

14 A. I will address the base amounts on which Ms. Jing Liu calculates her attrition
15 adjustment for PSE in Exhs. JL-19r and JL-20r. I will also address Ms. Liu’s
16 critique of PSE’s analysis and the conclusion that her analysis does not support an
17 attrition allowance. In his Prefiled Rebuttal Testimony, Exh. RJA-6T, Ron J.
18 Amen discusses why the growth rates used by Ms. Liu are inappropriate.

19 **Q. Do you agree that the Commission must adhere to the long-held “used and**
20 **useful” and “known and measurable” principles in determining whether to**
21 **grant PSE’s attrition adjustment³⁹?**

³⁹ McGuire, Exh. CRM-1T 20:8-21:13, 28:12-22; Liu, Exh. JL-1Tr 58:1-7, 60:15-20.

1 A. No. The guidelines laid out by the Commission were applicable to a different
2 statutory landscape, which the legislature altered earlier this year when it passed
3 the Clean Energy Transformation Act (“CETA”). As part of CETA, rates may
4 include plant that will become used and useful during the rate year. As discussed
5 by Mr. Kensok, PSE’s attrition adjustment is consistent with the level of plant that
6 will be in service during the rate effective period.

7 **Q. Should PSE have waited for Commission guidance before filing for an**
8 **attrition adjustment in this case, as Commission Staff suggests?**

9 A. No. PSE is not obligated to wait for Commission guidance on the new law before
10 filing for an attrition adjustment in its case. Indeed, that would have resulted in
11 more than a six-month delay in filing this case, further exacerbating PSE’s under
12 earning. Moreover, PSE should not be limited to “long-held” principles of
13 ratemaking mechanisms, as Commission Staff and other parties suggest, when
14 those principles have been superseded by the new law. The Commission may
15 consider PSE’s proposed attrition adjustment in this case, under the new statute.
16 The Commission has broad discretion to accept proposals prior to issuing
17 guidance and can utilize the litigation process to support the appropriate direction
18 it wishes to pursue in carrying out the statutory changes. Moreover, multiple PSE
19 witnesses have provided testimony that supports the use of alternative ratemaking
20 under the circumstances in this case. Additionally, the Commission has
21 recognized attrition adjustments can be determined through the use of a trended
22 historical analysis along with an analysis of how the trends are likely to continue

1 in the rate year.⁴⁰ PSE has provided such an analysis through the testimonies of
2 Mr. Amen and Mr. Kensok.

3 **Q. Are there any corrections or changes that need to be made to PSE's attrition**
4 **adjustment as filed?**

5 A. Yes. In PSE's original filing, in Exh. SEF-09, I presented the calculation of the
6 attrition base amounts on which Mr. Amen applied the attrition factors.
7 Subsequent to the original filing, I identified several necessary corrections to both
8 the traditional revenue requirement and attrition revenue requirement calculations.
9 PSE identified these corrections in its First Revised Response to AWEC Data
10 Request No. 020 which Ms. Liu attached to her testimony as Exh. JL-22.⁴¹ In
11 Exh. SEF-22, I have presented the revised attrition base amounts for this rebuttal
12 filing which incorporate the corrections communicated in PSE's First Revised
13 Response.

14 **Q. Have other corrections to the attrition deficiency been identified since filing**
15 **PSE's First Revised Response to AWEC Data Request No. 020?**

16 A. Yes. Mr. Amen and Mr. Marcelia discuss the additional changes that were made
17 by PSE to its attrition analysis in this filing. Mr. Amen provides the overall
18 summary of the changes.

⁴⁰ Dockets UE-111048 and UG-111049, n. 673.

⁴¹ Ms. Liu indicates at Exh. JL-1CTr at 62:10-12 that the impact of PSE's First Revised Response to AWEC 20 resulted in a decrease to the net revenue change requested of \$9.9 million for electric and \$0 for natural gas. In actuality there was no impact on either electric or natural gas – see Exh. JL-22 at 2.

1 **Q. Ms. Liu removes the costs for PSE’s LNG distribution upgrades and the**
2 **software related to PSE’s participation in the Energy Imbalance Market**
3 **(“EIM”) from both the historical data⁴² as well as the attrition base**
4 **amounts.⁴³ Do you agree with this treatment?**

5 A. No. Ms. Liu does not provide a basis for why these projects should be removed
6 other than that they are large capital projects. Presumably, she is removing the
7 Tacoma LNG upgrades because Staff is recommending these amounts not be
8 included in the traditional revenue requirement. Mr. Duane A. Henderson in Exh.
9 DAH-4T explains why Staff’s proposal to remove the costs associated with the
10 Tacoma LNG upgrades should not be accepted. Therefore, PSE also believes
11 these amounts should not be excluded from the attrition analysis as they are
12 legitimate expenditures that occurred in a rate base category for which there will
13 be similar ongoing investments.

14 Also, Ms. Liu’s removal of the EIM software is presumably due to it being fully
15 amortized by the start of the rate year. This is not a reason to remove amounts
16 from PSE’s attrition analysis as there will be ongoing investment in software for
17 the electric business as well as investments in common software that are allocated
18 to the electric business that will occur in place of the capital that was historically
19 spent on EIM. The Commission has recognized that even though specific items
20 may not occur in the rate year, similar expenditures which will occur in its place
21 can be cause for not treating something as a one-time or unusual expense.⁴⁴ Based

⁴² *Id.* at 72:15-17.

⁴³ As identified in the work papers of Ms. Liu; Excel file “Staff-Revised SEF-9.01E-9.01G-AttritionBaseAmounts.xlsx” tabs “Exh p1” and “Exh p2”.

⁴⁴ Dockets UE-090704 and UG-090705, Order 11 ¶¶ 212-216.

1 on this, PSE believes it is not appropriate to remove costs for the Tacoma LNG
2 Upgrades and the EIM project from the attrition base amounts or the historical
3 data.

4 **Q. Even if the Commission were to accept Commission Staff's determination of**
5 **attrition, do you agree with Mr. McGuire and Ms. Liu that Commission**
6 **Staff's attrition results are close enough to the traditional revenue**
7 **requirement that they need not be used⁴⁵?**

8 A. No, I do not agree that the Commission should accept Staff's determination of
9 attrition. However, even if Staff's attrition analysis were to be accepted, I do not
10 agree that, in total, the amounts are close enough to Staff's traditional revenue
11 requirement to ignore the attrition analysis. While Staff's attrition assessment for
12 PSE's electric operations of \$2.5 million is not material, Staff's attrition
13 assessment for natural gas is material. Ms. Liu's revised attrition calculation for
14 natural gas in Exh. JL-19r indicates an attrition adjustment of \$12.1 million.⁴⁶ As
15 shown in Table 4 below, under Commission Staff's own scenario, if PSE were not
16 provided with the \$12.1 million Staff calculated, it would be equivalent to setting
17 rates with an inherent 43 basis point reduction on PSE's authorized rate of return.

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⁴⁵ McGuire, Exh. CRM-1T at 30:10-16; Liu, Exh. JL-1CTr at 57:16-17.

⁴⁶ Liu, Exh. JL-1CTr at 57:15.

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**Table 4 – Impact of Not Considering Staff’s
Gas Attrition Adjustment**

Description	Staff	
	Source	Amount
Revenue Change Before Attrition and Riders	JL-3r	\$ 70,720,343
Revenue Escalation Factor	x JL-19r	1.014285
Revenue Change Before Adjusting for Revenue Growth		71,730,605
Conversion Factor	x	0.754097
Net Operating Income Deficiency		54,091,834
Attrition Net Operating Income	+ JL-19r	95,049,883
Inherent Net Operating Income Requirement		149,141,717
Attrition Rate Base	÷ JL-19r	2,161,170,845
Inherent Rate of Return		6.90%
Staff’s Recommended Rate of Return	- JL-3r	7.33%
Reduction to Rate of Return		-0.43%

Q. Please summarize your response to Ms. Liu’s testimony related to Staff’s attrition analysis.

A. For the reasons stated above, if the Commission determines an attrition adjustment is warranted, the amounts should be based on PSE’s proposal, which is consistent with the law, past Commission decisions, and supported by the evidence.

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IV. MATERIALITY STANDARD FOR PRO FORMA ADJUSTMENTS

Q. Please summarize Commission Staff's proposal as it relates to the materiality threshold.

A. Commission Staff witnesses Mr. McGuire and Ms. Higby argue that a materiality threshold must be established and adhered to in determining whether to grant pro forma adjustments or the establishment of deferrals.⁴⁷

Q. Do you agree with establishing a threshold or bright line for determining what amounts will be allowed for a pro forma adjustment or for deferred accounting?

A. No. Commission Staff provides citations to various Commission orders where reference has been made to determining what projects to include as pro forma adjustments and Staff characterizes the record as the Commission setting an established traditional methodology for determining materiality.⁴⁸ I believe this is a presumptive conclusion. Indeed, the citation used to support that the Commission has established a traditional standard⁴⁹ appears to have been only relevant to the case in which the order was issued.

Staff's proposed threshold for major plant additions relies on an established rule, albeit one established in a somewhat different setting. It has, however, the advantage of being proportional to the size of the Company's rate base and therefore relevant to the issue of the financial impact on the Company in the setting of rates. We find it reasonable to set the threshold in proportion to a company's rate base. **In the instant case,** we find it reasonable to use the one-half of one percent threshold.⁵⁰

⁴⁷ McGuire, Exh. CRM-1T at 9:19-20, 12:17-19; Higby, Exh. ANH-1T at 3:2-3, 4:5-7.

⁴⁸ McGuire, Exh. CRM-1T at 12:17-18, 41:9-10.

⁴⁹ Higby, Exh. ANH-1T at 16:5, n. 19.

⁵⁰ Dockets UE-150204 and UG-150205 Order 05 ¶40 (emphasis added).

1
2 Furthermore, the Commission has indicated that it does not utilize a bright line
3 rule in determining materiality thresholds and that the Commission intends to
4 maintain its discretion to determine what is material based on the facts and
5 circumstances of each individual case:

6 Regulatory ratemaking involves, in many areas, the exercise of informed
7 judgment. The reason Mr. McGuire found the Commission practice in
8 accepting pro forma adjustments “highly variable” is because it is entirely
9 appropriate for the Commission to make different determinations in
10 different cases depending on the record in each individual case and the
11 context in which the case is decided.⁵¹
12

13 As well as:

14 The Commission has not established bright-line standards governing the
15 timing or the number of adjustments that can be accepted in a given case,
16 and has not established a minimum size for pro forma adjustments to be
17 recognized.⁵²
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19 **Q. Do you agree with Staff’s assumption that the Commission has set a bright-**
20 **line materiality standard of five-tenths of one percent of the company’s net**
21 **utility plant in service based on WAC 480-140-040?**

22 A. No. As stated above, the Commission has repeatedly made clear that it seeks to
23 have flexibility in how it determines materiality for purposes of pro forma
24 adjustments. In the 2017 Avista general rate case, the Commission expressly
25 rejected Staff’s view that WAC 480-140-140 should set a bright-line standard,
26 and the Commission reiterated that it has clearly and repeatedly rejected the use

⁵¹ Dockets UE-130043 Order 05 ¶198.

⁵² Dockets UE-160228 and UG-160229 Order 06 ¶82.

1 of right line rule.⁵³ While the Commission did follow the direction of Commission
2 Staff in the 2014 PacifiCorp case cited by Staff and looked to the definition of
3 major plant additions in WAC 480-140-040, the Commission has accepted other
4 standards as well. As noted in my prefiled direct testimony, the standard
5 Commission Staff used for materiality in PSE's 2017 GRC settlement, was any
6 item that had an impact on rate of return of one basis point.⁵⁴ Interestingly, Staff
7 indicated a strength of this methodology was that it was relative to the size and
8 particular financial position of a Company which is a similar criteria discussed by
9 the Commission.⁵⁵ Thus, the Commission should maintain flexibility and consider
10 the circumstances of the case before it, when considering materiality, rather than
11 adopting a one-size fits all standard.

12 **Q. Are there other reasons why the Commission should maintain flexibility on**
13 **materiality standards and other standards for pro forma adjustments?**

14 A. Yes, with the enactment of CETA, the legislature has made clear that the
15 Commission may set rates that include plant acquired or constructed *by or during*
16 the rate effective period.⁵⁶ This new law with its broader approach to allowing
17 plant in service up to the rate effective date, and during the rate effective period,
18 signals a shift from the historical test year approach. This case is an appropriate

⁵³ See, e.g., Dockets UE-170485 *et al.* ¶¶ 196, 200 (noting Staff carries its interpretation of pro forma adjustments too far in advocating for a bright-line cost threshold using WAC 480-140-040, and further noting that the Commission has clearly and repeatedly rejected use of a bright line rule).

⁵⁴ Dockets UE-170033 and UG-170034, Cheesman, Exh. MCC-1T at 23:16-19.

⁵⁵ *Id.* at lines 17-19 and Dockets UE-150204 and UG-150205 Order 05 ¶ 40.

⁵⁶ See RCW 80.04.240(2).

1 time for the Commission to reconsider its traditional use of pro forma
2 adjustments.

3 **Q. Do parties address this change to the law in their responsive testimony?**

4 A. Only minimally. Parties other than Commission Staff and NWECA ignore the
5 change in law that allows the Commission considerable discretion in its approach
6 to ratemaking.

7 **Q. How do you believe the Commission should determine whether to accept pro
8 forma adjustments or deferral requests?**

9 A. I agree that the Commission should not establish a bright line rule and should
10 preserve the ability to use its discretion in determining which pro forma and
11 deferral requests to accept in each case based on the facts and circumstances. I
12 also anticipate that the Commission may want to revisit its previous analysis of
13 pro forma adjustments in light of the flexibility that CETA provides in addressing
14 plant added during the rate effective period. Even so, with this in mind, PSE
15 conservatively proposed the pro forma adjustments it includes in this case. PSE
16 referenced materiality testimony provided by Commission Staff witness Ms.
17 Melissa C. Cheesman in its 2017 general rate case⁵⁷ in determining the
18 adjustments to include. Additionally, PSE limited the number of pro forma
19 adjustment so as not to encumber the support and review process, which is
20 consistent with Ms. Higby's testimony.⁵⁸ PSE has only proposed six pro forma
21 adjustments in this case, which certainly adheres to the Commission's preference

⁵⁷ Dockets UE-170033 and UG-170034, Exh. MCC-1T at 23; Free, Exh. SEF-1T at 11.

⁵⁸ Higby, Exh. ANH-1T at 14:17-15:2.

1 for not having a large number of adjustments. Further, PSE limited its pro forma
2 adjustments to projects placed into service within only six months from the end of
3 the test year. In sum, PSE did not frivolously propose all plant additions for a
4 period far past the test year but attempted to adhere to a reasonable approach in
5 determining what adjustments to propose.

6 **Q. Do you agree with Ms. Higby’s proposal to exclude plant pro forma**
7 **adjustments and a portion of the Get to Zero (“GTZ”) deferral?**

8 A. No. Ms. Higby does not argue that these projects do not meet the known and
9 measurable, used and useful, or prudence requirements that she cites on page 8 of
10 her testimony. Her only concern is that they do not meet her definition of the
11 materiality requirement. However, the Commission has indicated that it looks to
12 the financial impact on the Company when considering materiality.⁵⁹ The way in
13 which Commission Staff is proposing to design a specific materiality threshold
14 results in a myopic way of determining what adjustments and deferrals to allow,
15 and ignores the bigger picture. Indeed, the adjustments that Commission Staff is
16 opposing when taken together, would meet Staff’s materiality threshold.

17 **Q. What is the impact of Staff’s removal of these pro forma adjustments and**
18 **deferrals?**

19 The revenue requirement impact of the non-revenue producing pro forma
20 adjustments and deferrals that Commission Staff proposes to exclude is

⁵⁹ Dockets UG-080519 & UG-080530, Order 01 at 3, ¶ 7.

1 approximately \$17 million in total; \$12 million for electric⁶⁰ and \$5 million for
2 natural gas.⁶¹ The exclusion of these pro forma adjustments and deferrals has a
3 material impact on PSE. As previously noted, PSE is not proposing an
4 unreasonable number of projects, and all projects are known and measurable, used
5 and useful, and prudent. Taken together they are impactful to the Company's
6 results, therefore it is reasonable to include them in determination of the
7 Company's rates.

8 **Q. Do you have any other concerns with Commission Staff's calculation of the**
9 **materiality of pro forma adjustments?**

10 A. Yes, as I discuss below, when correcting for a logic flaw in Commission Staff's
11 calculation and by more appropriately looking at PSE's materiality by function,
12 two of the projects that Ms. Higby recommends not be accepted are material by
13 Commission Staff's own standards and should be accepted.

14 **Q. If the Commission were to agree with Commission Staff and establish a**
15 **threshold as they have proposed, do you agree with their calculations of the**
16 **thresholds?**

17 A. As stated above, I do not think it is appropriate to adopt Commission Staff's
18 bright line threshold calculations, even with the "modifications" to include a gross
19 cost test. However, if the Commission were to agree with Commission Staff, I
20 believe there should be some adjustments to their calculation and how it is

⁶⁰ J. Liu work paper "Staff-ELECTRIC-MODEL (C).xlsx" tab "Compare" cells F25:F28. Amounts will vary depending on the rate of return assumed.

⁶¹ J. Liu work paper "Staff-GAS-MODEL.xlsx" tab "Compare" cells F21:F23. Amounts will vary depending on the rate of return assumed.

1 applied. First, the threshold Mr. McGuire calculates for common plant should be
2 altered. By adding the individual electric and natural gas thresholds together to
3 establish the common threshold as Commission Staff has done, the result when
4 allocated back to electric and gas does not equal either of the electric and gas
5 individual thresholds. To correct for this, it would be appropriate to start from
6 each individual electric and gas threshold and apply the common allocation factor
7 in determining the common threshold – it should be set at the level that would
8 yield the lowest dollar threshold. In Table 5 below, I offer a visual presentation
9 for clearer understanding. Table 5 shows that based on \$32.3 million of plant for
10 electric with a 66.19 percent electric four factor allocator and \$13.3 million of
11 plant for gas with a 33.81 percent gas four factor allocator, a common investment
12 of \$39.3 million would result in the project meeting the gas threshold which is the
13 lower of the two individual thresholds. Therefore, the common threshold under
14 Commission Staff's recommended approach would more appropriately be \$39.3
15 million rather than the \$45.6 million that Mr. McGuire proposes.⁶²

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⁶² McGuire, Exh. CRM 1-T at 42:12

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Table 5
Revisions to Commission Staff's Determination
of the Common Gross Cost Threshold

	Electric	Gas
.05% Theshold	\$ 32,300,000	\$ 13,300,000
Four Factor	66.19%	33.81%
Common to yield E/G Threshold (1)	\$ 48,800,000	\$ 39,340,000

(1) If the common threshold were merely the sum of the individual electric and gas thresholds, then the amounts when allocated to electric and gas would result in an amount that is not equal to the individual thresholds.

	Electric	Gas	Combined
Combined T-Hold	\$ 45,600,000	\$ 45,600,000	\$ 45,600,000
Four Factor	66.19%	33.81%	
Result	\$ 30,180,000	\$ 15,420,000	\$ 45,600,000
Individual T-Hold	\$ 32,300,000	\$ 13,300,000	\$ 45,600,000
Differences	<i>Neither meets individual threshold</i>		
Derived Common	\$ 39,340,000	\$ 39,340,000	\$ 39,340,000
Four Factor	66.19%	33.81%	
Result	\$ 26,040,000	\$ 13,300,000	\$ 39,340,000
Individual T-Hold	\$ 32,300,000	\$ 13,300,000	\$ 45,600,000
Differences	<i>Allows common amount to meet gas threshold</i>		

Q. Have you recalculated Commission Staff's gross cost test for common costs based on the corrected common threshold shown in Table 5?

A. Yes. Based on the \$39.3 million for the common threshold and using a conservative assumption of a 40-year life that Commission Staff used for gas⁶³ the gross cost test for common costs would be \$3.4 million instead of the \$3.9 million⁶⁴ presented by Mr. McGuire.

⁶³ *Id.* at 42:17.

⁶⁴ *Id.* at 43:14.

1 **Q. Would any of the projects that Ms. Higby proposes to exclude as immaterial**
2 **meet the materiality threshold using the revised common gross cost threshold**
3 **from Table 5?**

4 A. No. However, I am making sure to point it out if the Commission does adopt
5 Commission Staff's methodology for a bright line materiality threshold. The
6 calculation of the common threshold should be based on the determination laid
7 out in Table 5 above.

8 **Q. Do you agree with the way Ms. Higby is applying the gross cost thresholds**

9 A. No. I believe a more appropriate way to apply the thresholds is at the functional
10 level. I note that in PSE's 2017 general rate case (Dockets UE-170033 and UG-
11 170034), Commission Staff witness Mr. E. Cooper Wright recommended that a
12 materiality threshold would more appropriately be applied at the functional
13 level.⁶⁵ I also note that applying the gross cost threshold at the functional level
14 would have allowed for PSE's HR Tops and High Molecular Weight Cable
15 adjustments to be included. Although PSE does not agree with Commission
16 Staff's requirement of a bright line threshold, this way of applying the gross cost
17 threshold provides additional support for why PSE's inclusion of these pro forma
18 adjustments is reasonable.

19 **Q. The Public Improvement adjustment would still not meet Commission Staff's**
20 **gross cost threshold if determined at the functional level. Why should the**
21 **Commission approve this adjustment?**

⁶⁵ Dockets UE-170033 and UG-170034, Exh. ECW-1T 6:21-7:6.

1 A. As noted by Ms. Cathy A. Koch, public improvement projects are projects that are
2 required by outside agencies, and PSE has little influence on whether these
3 projects must be performed. Additionally, these projects are non-revenue
4 generating and so contribute to PSE's regulatory lag. Taken as a whole, the
5 projects proposed for pro forma treatment by PSE, including the Public
6 Improvement adjustment, are reasonable and should be accepted by the
7 Commission.

8 **Q. Did you identify any other projects that would meet the gross cost threshold**
9 **from Table 5 when applied at the functional level?**

10 A. Yes. PSE identified six additional adjustments. Incorporating them would change
11 the revenue requirement by \$1.9 million for electric and 0.9 million for natural
12 gas for a total of \$2.8 million. However, I am not adding these adjustments to the
13 revenue requirement as I believe the process that was used to identify pro forma
14 adjustments for our original filing is reasonable and appropriate.

15 **Q. Do you agree with Mr. McGuire that if the Commission were to grant PSE's**
16 **GTZ deferral, it would mean the Commission would be indicating that past**
17 **rates were not set sufficiently?⁶⁶**

18 A. No. PSE has presented ample evidence that it is experiencing attrition and
19 regulatory lag, which by definition, means that the relationships relied on to set
20 rates on a historical basis would not be adequate to hold into the rate year. PSE is

⁶⁶ McGuire, Exh. CRM 1-T at 10:8-13.

1 merely employing the solutions that the Commission has indicated are available
2 to address regulatory lag.

3 **Q. Turning back to the GTZ pro forma and deferral adjustments, do you agree**
4 **with Commission Staff's proposal to treat GTZ as discrete projects, thus**
5 **limiting the amount that can be included as pro forma and deferral**
6 **adjustments?**

7 A. No. Starting at page 25 of her testimony, Ms. Higby attempts to prove that GTZ is
8 many different projects that should not be aggregated for purposes of her
9 threshold. She points out that these projects had multiple in-service dates across
10 multiple years. Traditionally, pro forma adjustments followed a pattern of having
11 one in-service date, such as when a utility purchased or built a generating plant.
12 However, as Ms. Higby acknowledges, the face of spending for utilities is
13 changing related to its increased investments in technology solutions to meet
14 customer needs.⁶⁷ But this does not mean that PSE should be denied recovery of
15 these used and useful, prudently incurred, interrelated expenditures because they
16 do not all fall on the same in-service date. To re-iterate, the GTZ projects that
17 Commission Staff is recommending not be included in the pro forma adjustment
18 and deferral are material when taken together, which is a criteria the Commission
19 considers.

20 **Q. Is there anything you would like to clarify related to the GTZ deferral?**

⁶⁷ Higby, Exh. ANH-1T at 17.

1 A. Yes. Mr. McGuire and Ms. Higby indicate that PSE is requesting to continue
2 deferring depreciation on GTZ projects after rates from this proceeding go into
3 effect.⁶⁸ I would like to clarify that if the Commission were to grant PSE's
4 attrition adjustment, PSE would discontinue deferring any GTZ depreciation
5 effective with new rates in this proceeding. This would be appropriate as PSE's
6 attrition adjustment contains GTZ investments through the end of the rate year.

7 **Q. Please identify the GTZ investments that PSE is currently deferring.**

8 A. PSE is currently deferring depreciation on its GTZ projects with a life of ten years
9 or less that were placed in service after June 2018. It is deferring this depreciation
10 in two tranches. The first tranche consists of assets that were included in the
11 deferral presented in this proceeding which include assets placed in service
12 through June 2019. The second tranche includes deferral of depreciation on assets
13 placed in service after June 2019, the deferral of which has not been presented in
14 this proceeding.

15 **Q. What is PSE's proposal for the GTZ deferral if the Commission grants PSE's**
16 **attrition adjustment?**

17 A. If the Commission grants PSE's attrition adjustment, PSE would discontinue
18 deferring the depreciation for both tranches effective with new rates in this
19 proceeding. If the Commission were to not accept PSE's attrition adjustment, PSE
20 should be allowed to continue to defer GTZ related depreciation for the second
21 tranche (i.e., depreciation on assets placed in service after June 2019) after the
22 rates in this proceeding go into effect and until the next general rate case. This

⁶⁸ McGuire, Exh. CRM-1T at 11; Higby, Exh. ANH-1T at 27.

1 deferral for the second tranche would be considered for recovery in the next
2 general rate case whether or not the Commission grants PSE's attrition
3 adjustment.

4 **Q. Please summarize the difference between these two scenarios.**

5 A. The only difference in these two scenarios would be when the deferral ceased.
6 The deferral would cease with the effective date of new rates in this proceeding if
7 PSE's attrition adjustment is granted. The deferral would cease with the effective
8 dates of new rates in PSE's next general rate case if the attrition adjustment is not
9 granted.

10 **Q. Would the deferral treatment you describe also apply to PSE's AMI**
11 **deferral?**

12 A. Yes. This treatment would apply to PSE's AMI deferral as well.

13 **Q. How do you respond to Commission Staff's view that to continue the GTZ**
14 **deferral would allow for deferral of hypothetical expenses on unidentified**
15 **future projects⁶⁹?**

16 A. I disagree with Commission Staff's viewpoint. PSE would only be deferring
17 depreciation on projects that were used and useful and in service when deferred.
18 The projects would be identifiable, traceable and auditable at the time PSE
19 presents the deferral for recovery. PSE recognizes that the act of deferring does
20 not guarantee recovery, it must justify amounts it has deferred, and the underlying
21 projects must be prudent. However, not allowing deferral takes away an important

⁶⁹ McGuire, Exh. CRM-1T at 11:4; Higby, ANH-1T at 27:21-22.

1 Commission tool for addressing regulatory lag that the Commission has allowed
2 in many different circumstances.

3 **Q. Do you agree with Commission Staff witness Mr. McGuire that deferred**
4 **accounting should be reserved for extraordinary events?**

5 A. No, I do not. The Commission has used deferred accounting to capture a wide
6 range of costs and benefits without limiting it to extraordinary events. For
7 example, in recent years the Commission has granted deferred accounting for
8 development costs of demand response programs,⁷⁰ to book new depreciation
9 rates outside of a rate case,⁷¹ for electric vehicle supply equipment pilot,⁷² for
10 pension costs,⁷³ to make permanent current perpetual NPV calculation
11 methodology for line extension allowances,⁷⁴ for REC purchases for multiple
12 years and on multiple occasions,⁷⁵ for incremental third party costs relating to
13 compliance with maximum allowable operating pressure requirements,⁷⁶ and for
14 costs to offer fee-free credit card payment program.⁷⁷ In none of the orders,
15 discussed above, authorizing deferred accounting has the Commission identified
16 the deferred costs as extraordinary.

⁷⁰ Docket UE-170277.

⁷¹ Docket UG-180251.

⁷² Docket UE-180809.

⁷³ Docket UE-181042.

⁷⁴ Docket UG-180920.

⁷⁵ Docket UE-161067 and UE-143915

⁷⁶ Docket UG-160787

⁷⁷ Docket UE-160203/UG-160204.

1 **Q. Why should PSE be allowed to defer carrying charges on the GTZ deferral**
2 **balance⁷⁸?**

3 A. PSE is requesting carrying charges on the GTZ deferral balance to recognize the
4 delay in recovery of the assets that are currently in service. The accrual of
5 carrying charges on the deferral balance is consistent with deferred accounting for
6 PSE's Electric Vehicle Pilot Program authorized in Docket UE-190129.⁷⁹ It is
7 appropriate to allow accrual of carrying charges to recognize PSE is financing the
8 funds to cover the lack of revenue for these projects and the cost of financing
9 these funds are an additional cost associated with the plant that is now in service.

10 **Q. What should the Commission decide related to PSE's GTZ pro forma and**
11 **deferral adjustment?**

12 A. For the reasons stated above, the Commission should accept PSE's GTZ pro
13 forma plant and deferral adjustments as filed by the Company.

14 **Q. Do you have any other requests related to materiality?**

15 A. Yes. In the original filing, I requested that PSE be allowed to discontinue its
16 adjustments for D&O Insurance (Adj. No. 6.10E 6.10P) and Excise Tax and
17 Filing Fees (Adj. No. 6.09E 6.09G).⁸⁰ No party contested this request and so PSE
18 requests permission to omit these adjustments in future cases or Commission
19 Basis Reports.

⁷⁸ Higby, Exh. ANH-1T at 38:6-10.

⁷⁹ Docket UE-190129, Order 01 ¶11.

⁸⁰ Free, Exh. SEF-1T at 12:7-20.

1 not known at this time because there will be plant additions and retirements
2 through the end of its service that will not be known until the invoices from the
3 operator are fully reconciled and accounted for which may even occur after the
4 retirement date. As Commission Staff witness Ms. Higby testified,⁸² parties prefer
5 that pro forma adjustments be limited to those that have occurred and can be
6 measured in advance of the filing date for parties' response testimony. Because of
7 this, PSE did not propose pro forma plant adjustments beyond June 30, 2019, nor
8 did it include a pro forma adjustment for the Colstrip Units 1 and 2 regulatory
9 asset balance and offsetting monetized PTC balance.

10 **Q. Why is PSE's treatment appropriate?**

11 A. This treatment is appropriate because whether or not Colstrip Units 1 and 2 are
12 reflected at their test year plant balances or as a regulatory asset, it will be
13 included in rate base, therefore, an adjustment is not necessary for the asset.
14 Additionally, even though the test year has no PTC amounts included in rate base,
15 PSE is accruing interest on PTCs as they become monetized. I discuss below the
16 true definition of monetized to which the Commission should adhere. Interest will
17 be accrued until the point at which the monetized PTC balance is included in rates
18 in a future proceeding. This treatment provides the same effect as the PTCs being
19 included in rate base. Therefore, it is not necessary to make an exception to
20 extend beyond the June 2019 plant pro forma period to include the PTCs in rate
21 base as they will be afforded equivalent treatment through the accrual of interest
22 until they can be included in rate base in the next general rate case.

⁸² Higby, Exh. ANH-1T at 12:19.

1 **B. AWEC's Definition of Monetized PTCs Is Inconsistent with the 2017**
2 **GRC Settlement and Past Practice**

3 **Q. Do you agree with Mr. Mullins' definition of when PTCs should be**
4 **considered monetized and available for the various uses identified in PSE's**
5 **2017 general rate case settlement?**

6 A. No. Mr. Mullins attempts to provide a new definition of monetized that does not
7 match PSE's interpretation of what the parties intended when they entered into the
8 settlement. His definition would result in PTCs being available before their final
9 values become known. For GAAP purposes, PSE accrues its use of PTCs
10 throughout a given tax year. These accruals are based on estimates. The true value
11 of the PTCs will not be known until PSE files its tax return the following
12 September. Based on language in the 2017 general rate case settlement as well as
13 multiple data points that were available at the time of settlement, the intended
14 timing that the PTCs would become available is when they are utilized, or
15 monetized on the final filed tax return. Mr. Mullins now attempts to change the
16 definition of the timing for when PTCs are monetized and argues that they should
17 be available once they have been accrued which is much earlier than appropriate.
18 PSE Witness Mr. Matthew R. Marcellia discussed the timing of when PTCs are
19 available in Exh. MRM-1T at page 38 lines 3 through 5 and page 41 line 13. He
20 further discusses in Exh. MRM-11T why it is inappropriate to consider PTCs
21 available when accrued.

22 **Q. What evidence do you have that supports the definition of monetized to be**
23 **when the PTCs are reported on PSE's final tax return for the year?**

1 A. Aside from the reasons laid out by Mr. Marcellia in his original and rebuttal
2 testimonies for why it is inappropriate to consider PTCs as monetized at the time
3 they are accrued, there are multiple data points supporting the position that PTCs
4 should not be considered available until they are monetized on a filed, final tax
5 return. First, the settlement at paragraph 117 states that:

6 The account shall be consistent with the discussion of the account set forth
7 in the Prefiled Rebuttal Testimony of Ms. Katherine J. Barnard, Exh. KJB-
8 17T.

9
10 In the referenced testimony on page 86 at line 16, Ms. Barnard states

11 Once they are monetized **on a tax return**, the PTCs can be held in a
12 separate account and applied towards the undepreciated balance (emphasis
13 added).

14
15 She goes on to state on page 89 at line 17:

16 My direct testimony, envisioned that once the PTCs were utilized for tax
17 purposes that instead of passing the funds back through a Schedule 95A
18 rate change, PSE would credit the FERC 108 retirement account
19 established for Colstrip Units 1 and 2.

20
21 In Schedule 95A, the timing of when the PTCs would be included in the rate
22 schedule was defined as the time when they are known on the final tax return.

23 Exh. SEF-28 provides an excerpt of previously approved historical Schedule 95A
24 tariff pages. Page 1 shows the tariff page effective January 1, 2014. Bullet 2 in the
25 “Applicability” section indicates PTCs will be

26 available in the Schedule 95A rate year following the year that such
27 production tax credits are **utilized on the Company's tax return**
28 (emphasis added).

1 Page 2 of the exhibit shows the tariff page effective January 1, 2011. Bullet 1 in
2 the Timing of Filing of Revisions” section indicates:

3 Production tax credits...are realized when **utilized by the Company on**
4 **its final annual tax return** (emphasis added).
5

6 As described by Mr. Marcelia, this timing was determined to be necessary as a
7 result of PTCs being passed back to customers through Schedule 95A much too
8 quickly because the timing had been based on when the PTCs were generated, but
9 due to unforeseen tax law changes related to bonus depreciation, PSE became
10 unable to take those accrued PTCs on their final tax returns. Accordingly, in
11 Docket UE-101581, PSE was allowed to collect the PTCs that had been
12 prematurely passed back to customers through offsets with Renewable Energy
13 Credits. Therefore, the availability of PTCs has been an important issue in the
14 past, and prior to the 2017 general rate case settlement, there was an established
15 framework to provide the benefits of PTCs to customers when they were filed on
16 the final tax returns.

17 **Q. Do you have other evidence that supports the definition of monetized to mean**
18 **when PTCs are utilized on the final, filed tax return?**

19 A. Yes. Also in the 2017 general rate case out of which the settlement occurred, Mr.
20 Marcelia discussed in his Exh. MRM-1T on page 10 lines 13 and 14:

21 Under the current paradigm, customers will not receive the benefit of the
22 PTCs **until the PTCs are utilized on PSE’s tax return** (emphasis added)
23

24 Footnote 14 of the referenced text cites Order 06 in Docket UE-050870 which
25 states in paragraph 3:

1 Production tax credits and similar credits are realized when utilized by the
2 Company **on its annual tax return** rather than when generated (emphasis
3 added)
4

5 **Q. What else should the Commission consider when determining the**
6 **appropriate timing for when PTCs should be made available?**

7 A. Mr. Mullins' argument for making PTCs available when they are accrued is very
8 similar to the arguments surrounding recovery of PSE's property taxes. Property
9 taxes are unique in that the amount owed on property at a given point is not
10 known with certainty until 20 months after the property valuation date. This lag,
11 coupled with historical test years, meant the lag associated with property taxes
12 was much longer than other expenses. PSE used to recover its property taxes
13 through a pro forma adjustment that estimated the various components of the
14 property tax calculation and applied it to test year property values – essentially
15 basing the adjustment off of the amounts accrued during the test year. Many
16 parties argued against this pro forma adjustment that it was not known and
17 measurable until the final bills from the taxing authorities – which came 20
18 months after the property valuation date – were known. A solution was finally
19 found wherein PSE gets recovery of its property taxes at the time the bills are
20 received from the taxing authorities and is able to use deferred accounting to
21 match the amount of property tax expense recognized in a given year to the level
22 of recovery based on the timing of the bills received.⁸³ Accordingly, the definition
23 of monetized to be when PSE files its final annual tax return is supported by the
24 treatment of other instances where the accruals were not used for rate making

⁸³ Dockets UE-130138 and UG-130139

1 until the amounts became known through the filing of a tax return, or in the
2 instance of property taxes, when the final bills from the taxing authorities were
3 received.

4 **Q. Do you agree with Mr. Mullins' calculation of interest on PTCs?**

5 A. No. Mr. Mullins compounds interest in his calculation of PTCs.⁸⁴ It is not
6 appropriate to compound interest. For instance, PSE does not compound interest
7 in determining the interest to include in its Schedule 95A tariff, which passes back
8 PSE's wind related Treasury Grants to customers, nor in its Schedule 137 tariff
9 which passes back proceeds from sales of Renewable Energy Credits to
10 customers. Making this correction to the amounts calculated in Mr. Mullins'
11 Table 5 would lower his interest by \$542,000.

12 **Q. What should the Commission determine is the appropriate timing for
13 utilizing PTCs to offset against Colstrip balances?**

14 A. Based on my testimony above and the rebuttal testimony of Mr. Marcelia, the
15 Commission should reject AWEC's proposal and find that the timing of PTC
16 availability should be based on the historical record and be deemed to be available
17 when the final tax return for a given year is filed. Further, because there were not
18 sufficient PTCs taken on PSE's tax return by June 2019, the plant pro forma
19 period in this case, it is not necessary to make an exception by including the PTCs
20 monetized in its 2018 tax return filed in September 2019 in this case, as those
21 PTCs are currently accruing interest, which has the same effect as being included

⁸⁴ Mullins, Exh. BGM-1T at 14:8-9.

1 in rate base and those PTCs will be incorporated into PSE’s next general rate
2 case.

3 **Q. If the Commission were to decide to include the PTCs monetized on PSE’s**
4 **tax return filed in September 2019 in rate base in this case, what else should**
5 **the Commission consider?**

6 A. The amounts of PTCs monetized on PSE’s final 2018 tax return filed in
7 September 2019 that are available for offsetting is \$82.2 million.⁸⁵ If the
8 Commission were to determine to include these amounts in rate base it should
9 consider also updating PSE’s other pro forma adjustments to September 2019. In
10 PSE’s responses to Public Counsel Data Request Nos. 214 and 216, PSE updated
11 its pro forma adjustments through September 30, 2019. Table 6 below provides
12 the information related to these updated adjustments and shows the revenue
13 requirement impact for these updates is \$7.7 million for electric and \$2.1 million
14 for gas for a total of \$9.8 million.

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⁸⁵ Mullins, Exh. BGM-1T at Table 5 – the sum of amounts for 2017 and 2018 in the
“PTC Monet” and “Less MT” columns.

Table 6 – Pro forma Adjustments Updated through September 2019

Adjustment	Ratebase	Return on RB	TBPI (NOI)	NOI	ROR and NOI	Deficiency / (Surplus)
Electric						
Employee Insurance	-	-	-	54,066	(54,066)	(\$71,956)
Deferred Gains and Losses	-	-	-	51,867	(51,867)	(\$69,029)
AMI	21,022,978	1,591,439	126,705	(1,066,827)	2,531,561	\$3,369,211
Annualize Rent	-	-	-	(397,115)	397,115	\$528,513
GTZ	451,035	34,143	2,718	(38,842)	70,267	\$93,517
Public Improvement	9,897,019	749,204	59,649	(953,889)	1,643,444	\$2,187,231
HR Tops	333,217	25,225	2,008	(30,288)	53,505	\$71,209
Storm Damage	-	-	-	127,818	(127,818)	(\$170,111)
High Molecular Wt Cable	13,925,077	1,054,128	83,926	(314,902)	1,285,104	\$1,710,323
Energy Mgt System	(556,903)	(42,158)	(3,356)	(62,634)	23,833	\$31,719
	<u>\$45,072,423</u>	<u>\$3,411,982</u>	<u>\$271,651</u>	<u>(\$2,630,745)</u>	<u>\$5,771,076</u>	<u>\$7,680,626</u>
Gas						
Employee Insurance	-	-	-	24,132	(24,132)	(\$32,001)
AMI	7,635,976	578,043	46,022	(521,009)	1,053,030	\$1,396,412
Annualize Rent	-	-	-	(202,847)	202,847	\$268,993
GTZ	230,389	17,440	1,389	(19,841)	35,892	\$47,597
Public Improvement	961,012	72,749	5,792	(258,131)	325,087	\$431,095
HR Tops	170,208	12,885	1,026	(15,471)	27,330	\$36,242
	<u>8,997,586</u>	<u>681,117</u>	<u>54,228</u>	<u>(993,167)</u>	<u>1,620,056</u>	<u>2,148,338</u>
Total	<u>\$54,070,010</u>	<u>\$4,093,100</u>	<u>\$325,880</u>	<u>(\$3,623,912)</u>	<u>\$7,391,132</u>	<u>\$9,828,964</u>

Additionally, there is a deferred tax asset totaling \$17.3 million associated with the PTCs that should be included in rate base along with the PTC liability. Therefore, should the Commission determine it should include the PTCs monetized in 2019 in rate base in this proceeding, it should include both the PTC liability of \$82.2 million as well as the associated deferred tax asset of \$17.3 million for a total reduction to rate base of \$64.9 million.

C. Other Problems with AWEC’s Pro Forma Adjustment to Reflect the Regulatory Asset and PTC Balances

Q. How does Mr. Mullins determine his pro forma adjustments to reflect the regulatory asset and PTC balances in rate base?

1 A. First, Mr. Mullins removes the value of the Colstrip Units 1 and 2 plant balances
2 from PSE's ending rate base amounts. He then makes a pro forma adjustment to
3 include his estimate of the Colstrip Units 1 and 2 regulatory asset in rate base. He
4 then makes a final pro forma adjustment to offset the regulatory asset with PTCs
5 based on his determination of the monetized PTCs

6 **Q. Has Mr. Mullins calculated his pro forma adjustments correctly?**

7 A. No. As I stated above, it is not appropriate to reflect Mr. Mullins' pro forma
8 adjustments for Colstrip Unit 1 and 2 at this time. However, if the Commission
9 decides it is necessary, there are several corrections that need to be made to Mr.
10 Mullins' calculation of the components of his pro forma adjustments.

11 **Q. Is Mr. Mullins' determination of the plant balance at December 31, 2018**
12 **appropriate?**

13 A. No. Mr. Mullins removes the amount of the Colstrip Units 1 and 2 plant balances
14 that are included in PSE's final adjusted rate base. He relies on PSE's Response to
15 AWEC Data Request No. 38 for the amounts to remove. PSE inadvertently
16 reflected the accumulated deferred income tax ("ADIT") balance in its response
17 as a positive number when it should have been reflected as a negative number to
18 represent that the ADIT was a credit balance. Shortly before filing its rebuttal
19 testimony, PSE identified this error and served a revision to its response to
20 AWEC Data Request No. 38 to correct for the presentation of the ADIT balance.
21 Therefore, the plant balance to be removed if Mr. Mullins' adjustment is accepted
22 should be \$111.9 million rather than the \$176.2 million that Mr. Mullins presents
23 in his Tables 2 and 7.

1 **Q. Is Mr. Mullins calculation of the regulatory asset balance for Colstrip Units 1**
2 **and 2 at December 31, 2019 correct?**

3 A. No. First, it appears that Mr. Mullins has misinterpreted a portion of PSE's
4 Response to AWEC Data Request No. 034. Mr. Mullins interpreted that the
5 balances presented were as of September 30, 2019. PSE's response, however,
6 indicated that it reflected the "expected unrecovered investment associated with
7 Colstrip Units 1 and 2 at shutdown, December 31, 2019, by FERC account as of
8 September 30, 2019" (emphasis added). December 31, 2019 was the valuation
9 date and September 30, 2019 was the record date. Therefore, the additional
10 depreciation expense of \$4.7 million that Mr. Mullins takes in Table 3 of his
11 testimony is unnecessary, as the balances reflected in Data Request No. 034 were
12 already reflective of PSE's estimate of the balances that would exist as of
13 December 31, 2019 as estimated at September 30, 2019.

14 Additionally, PSE's Response to AWEC Data Request No. 034 contained one
15 error. The asset retirement cost of \$52.9 million was incorrect. In accordance with
16 the asset life, this amount will be depreciated to zero by December 31, 2019 and
17 therefore should have been \$0 in the response. Shortly before filing its rebuttal
18 testimony, PSE served a revised response to AWEC Data Request No. 34 to
19 correctly reflect the asset retirement cost as \$0. Mr. Mullins had indicated he may
20 modify his proposal for this item given additional information.⁸⁶

⁸⁶ Mullins, Exh. BGM-1T at 10:13-11:2.

1 Finally, Mr. Marcelia explains why there should be no adjustment of \$4.5 million
2 that Mr. Mullins makes in his Table 3 for the Excess Deferred Income Tax
3 balance.

4 **Q. What is the result of these corrections?**

5 A. Exh. SEF-29 provides a detailed comparison of Mr. Mullins' calculations and
6 how they should be corrected. With the corrections I discussed above, the correct
7 *estimate* of the regulatory asset balance as of December 31, 2019 is \$125.4
8 million (page 1, line 31) and the balance of ADIT associated with the regulatory
9 asset would be a credit of \$26.3 million (page 1, line 33) resulting in net rate base
10 of \$99.0 million (page 1, line 35). Accordingly, Mr. Mullins pro forma
11 adjustments for rate base and the regulatory asset if accepted should be a removal
12 of \$112 million (page 1, line 10) for the plant balance as of December 31, 2018
13 and an addition of \$99.0 million for the balance of the regulatory asset (page 1
14 line 12), less its deferred tax, as of December 31, 2019.

15 **Q. How have you reflected the PTCs in the correction of Mr. Mullins'**
16 **calculations that you show in Exh. SEF-29?**

17 A. Based on my above testimony, there should be no PTCs applied against the
18 regulatory asset. Therefore, in the corrected amounts provided on page 1 of Exh.
19 SEF-29, I have not applied any PTCs against the balance.

20 **Q. What is the effect of these corrections to Mr. Mullins' calculations?**

1 A. The decrease to rate base that Mr. Mullins calculated is too high by \$147
2 million.⁸⁷ The revenue requirement impact for this difference is \$14.9 million.⁸⁸
3 To be clear, PSE does not believe these pro forma adjustments should be made.
4 However, if the Commission were to disagree with PSE’s position and make these
5 pro forma adjustments, the amounts presented in the “corrected” column of page
6 one of Exh. SEF-29 should be the amounts that are used in calculating the
7 adjustments. If the Commission were to determine that a pro forma adjustment
8 should be made to include the PTCs that were monetized on PSE’s 2018 tax
9 return that was filed in September 2019, then the amounts on page two of Exh.
10 SEF-29 be used. PSE has also provided on pages two and three the revenue
11 requirement impact from Table 6 of updating PSE’s other pro forma adjustments
12 through September 2019. The net result is a revenue requirement increase of \$2.0
13 million. And, if the Commission were to fully agree with Mr. Mullins and
14 determine that a pro forma adjustment should be made to include the PTCs when
15 accrued, then the amounts from page three of Exh. SEF-29, which results in a
16 revenue requirement decrease of \$1.4 million, should be used.⁸⁹

17 **D. Problems with AWEC’s Use of PTCs for Colstrip Units 3 and 4**

18 **Q. Please provide an overview of Mr. Mullins proposal related to the use of**
19 **PTCs to offset the increase in depreciation expense for Colstrip Units 3 and**
20 **4.**

⁸⁷ Free, Exh. SEF-29 at 1:16.

⁸⁸ *Id.* at 1:17.

⁸⁹ The amounts presented in Free, Exh. SEF-29 correctly do not compound interest. Additionally, the impacts to revenue requirement at 9.5 ROE will be included in work papers.

1 A. Based on CETA,⁹⁰ PSE has proposed an increase to the depreciation rates
2 associated with Colstrip Units 3 and 4.⁹¹ Mr. Mullins argues that it is appropriate
3 to consider the un-monetized PTCs when calculating depreciation expense for
4 Colstrip Units 3 and 4.⁹² Mr. Mullins provides no basis for why such treatment is
5 appropriate. He merely points to PSE's estimate that the PTCs will be fully
6 monetized by 2022. The fact that PSE anticipates the PTCs will be monetized by
7 2022 represents an estimate that is not appropriate for rate making purposes.
8 Additionally, 2022 is beyond the rate year in this proceeding. Furthermore, the
9 2017 general rate case settlement does not provide for the use of PTCs to cover
10 depreciation expense. Colstrip Units 3 and 4 are currently used and useful and
11 providing benefits to customers; therefore, it is appropriate to recover
12 depreciation expense for these units through customer rates. To conclude, it is not
13 appropriate to treat the un-monetized PTCs – whether it be PSE's or AWEC's
14 definition of monetized – as available for offsetting based on *estimated* timing of
15 their monetization and it is not appropriate to use them to offset costs for which
16 they were not set aside in the settlement. For these reasons, the Commission
17 should reject AWEC's proposal to use un-monetized PTCs to offset the increase
18 to depreciation expense for Colstrip Units 3 and 4.

19 **E. Other Parties' Proposals for Colstrip Units 3 and 4**

20 **Q. Do other parties have proposals for Colstrip Units 3 and 4?**

⁹⁰ RCW 19.405

⁹¹ Free, Exh. SEF-1T at 67

⁹² Mullins, Exh. BGM-1T at 17:13-15

1 A. Yes. Mr. McGuire believes there is unclear language in CETA related to
2 recovering amounts for Colstrip Units 3 and 4 decommissioning and remediation
3 (“D&R”) costs in current rates.⁹³ He points to the words “prudently *incurred*”
4 noting that “incurred” is past tense and therefore could be interpreted to mean that
5 cost recovery for D&R was intended to occur after the costs spent by a company
6 are determined to be prudent.

7 **Q. Does Mr. McGuire believe that is a reasonable interpretation?**

8 A. No. Mr. McGuire recognizes this is not a practical interpretation considering that
9 these costs will not be incurred until after the facility is closed with the work
10 continuing over several decades.⁹⁴ I appreciate that Mr. McGuire appears to
11 recognize it would not be fair to require companies to finance the cost of D&R
12 until they are determined to be prudent for recovery in rates.

13 **Q. How has Mr. McGuire recommended this issue be addressed?**

14 A. Mr. McGuire considers that a true-up and tracking mechanism would be an
15 appropriate way in which to handle a more timely recovery of D&R costs. He
16 recommends that an estimated level of D&R costs would be included in rates over
17 the expected life of the remediation period and that rates would be trued up in
18 subsequent periods for actual costs incurred and changes to future estimates.⁹⁵

19 **Q. Do you agree with Mr. McGuire’s recommendation?**

⁹³ McGuire, Exh. CRM-1T at 32:10-33:17

⁹⁴ *Id.* at 33:15-17, 35:18-22

⁹⁵ *Id.* at 36:4-12.

1 A. Although I do not agree with all of the points recommended, I believe Mr.
2 McGuire's recommendation holds merit. I think it worthy of further exploration
3 and development. He is not recommending that the specifics be ironed out in this
4 case with which I also agree.

5 **Q. What else does Mr. McGuire recommend for addressing his interpretation of**
6 **the CETA language related to D&R costs?**

7 A. Mr. McGuire recommends that PSE's currently proposed depreciation rates for
8 Colstrip Units 3 and 4, which contain an estimated level of D&R, be accepted in
9 this case. He further recommends that PSE be ordered to file a proposed plan in
10 its next general rate case for the recovery of D&R costs for Units 3 and 4 that
11 complies with the D&R provisions of CETA. He proposes the filed plan should
12 include an assessment of PTCs available to offset D&R costs and that it propose a
13 true-up and tracking mechanism for costs not covered by depreciation reserves
14 and PTCs. In the alternative, Mr. McGuire recommends the estimated D&R costs
15 included in PSE's proposed depreciation rates for Colstrip Units 3 and 4 in this
16 case be removed. He states he does not prefer this alternative approach citing
17 uncertainty for when the units will close and the availability of PTCs to cover
18 D&R.⁹⁶

⁹⁶ *Id.* at 38:17-39:13.

1 **Q. Does CETA require a reassessment of how and when D&R costs should be**
2 **recovered in rates⁹⁷?**

3 A. Not entirely for PSE. The recovery of D&R costs for all four Colstrip units was
4 addressed in the Multiparty Settlement Stipulation and Agreement (“2017
5 Settlement”) approved in Dockets UE-170033 and UG-170034.⁹⁸ In the 2017
6 Settlement, the depreciation rates agreed to for Colstrip Units 3 and 4 were set to
7 recover a certain level of D&R costs⁹⁹ which is consistent with what PSE has
8 purposed in this rate case. In addition, as part of the 2017 Settlement, monetized
9 production tax credits (“PTCs”) can be used to fund and recover prudently
10 incurred D&R costs for Colstrip Units 1 through 4.¹⁰⁰ Additionally, as part of the
11 2017 Settlement, PSE’s Hydro related Treasury Grants are available to offset
12 D&R costs for Units 1 and 2.¹⁰¹ Therefore, CETA only impacts the cost recovery
13 for D&R for all four Colstrip units to the extent the D&R costs exceed these
14 methods of recovery established in the Settlement.

15 **Q. What is your response to Mr. McGuire’s recommendations?**

16 A. I agree that establishing more certainty around this complex and important issue
17 would be a good thing. On November 27, 2019 and January 7, 2020, after Mr.
18 McGuire filed his testimony, PSE filed and revised its most current Colstrip
19 Annual Report with the Commission. The revised report filed January 7, 2020 is
20 provided as Exh. SEF-30. As shown in the report, now that PSE has moved

⁹⁷ McGuire, Exh. CRM-1T at 32:13-14.

⁹⁸ *Wash. Utils. & Transp. Comm’n. v. Puget Sound Energy, Inc.*, Dockets 170033 & 170034, Order 08 (December 7, 2017).

⁹⁹ *Id.* at Appendix B ¶24 and 26.

¹⁰⁰ *Id.* at Appendix B ¶117.

¹⁰¹ *Id.* at Appendix B ¶116.

1 farther into the remediation planning process, more detailed estimates of costs
2 have been developed for both Colstrip Units 1 and 2 and Colstrip Units 3 and 4.
3 And depending on the scenarios selected by the Montana Department of
4 Environmental Quality (“DEQ”), the cost estimates range greatly – from \$37.2
5 million to \$69 million for Colstrip Units 1 and 2 and from \$44.5 million to \$186.6
6 million for Colstrip Units 3 and 4.¹⁰² And it is important to note, that the estimates
7 for Colstrip Units 1 and 2 do not even cover the full remediation effort. There is a
8 second part to the remediation for Units 1 and 2 that has not yet been determined
9 by the DEQ for which estimates are not known. There is much uncertainty and
10 variability around the costs associated with D&R for all four of the Colstrip units,
11 and it is reasonable to expect that PTCs and the depreciation reserves may not be
12 sufficient to cover all of the costs identified in the 2017 settlement.

13 **Q. Did CETA change the requirement that D&R costs must be prudent before**
14 **they are allowed to be recovered?**

15 A. No. In the Settlement it was stated that costs were to be prudently incurred
16 D&R.¹⁰³ This is the standard PSE uses for all costs we request to recover and is
17 not specific to D&R costs or CETA.

18 **Q. Aren’t depreciation rates for Colstrip Units 3 and 4 designed to recover the**
19 **original book cost plus decommissioning and remediation costs?**

20 A. It is true that Colstrip Units 3 and 4 depreciation rates are designed to recover
21 original book cost plus decommissioning and remediation costs. However, there

¹⁰² Free, Exh. SEF-30 page 11 (report page 3).

¹⁰³ *Wash. Utils. & Transp. Comm’n. v. Puget Sound Energy, Inc.*, Dockets 170033 & 170034, Order 08 Appendix B at ¶117 (December 7, 2017).

1 are several issues that I see that will likely prevent sufficient recovery of these
 2 costs through depreciation rates by the time the units retire. First, there is inherent
 3 lag built into PSE's depreciation rates, in that they are studied as of December 31,
 4 2018 but not implemented until May 2020. This is demonstrated in Mr.
 5 McGuire's testimony. On page 34 lines 14-18 of his testimony, he discusses how
 6 PSE has requested \$73.2 million of D&R costs for Units 3 and 4 in the revised
 7 depreciation rates it is proposing in this case, which amounts to \$10.8 million of
 8 cost per year. This delay between the studied depreciation rates and the period
 9 over which they will be recovered represents a \$12 million gap, as demonstrated
 10 in Table 7 below:

11 **Table 7 – Demonstration of Lag on Depreciation Recovery**

Time Period	Studied	Implemented
2019	\$ 10.5	\$ -
2020 (Jan - Apr)	3.5	-
2020 (May - Dec)	7.0	7.2
2021	10.5	10.8
2022	10.5	10.8
2023	10.5	10.8
2024	10.5	10.8
2025	10.5	10.8
Recovery	\$ 73.2	\$ 61.2
Set in Rates	73.2	73.2
Shortfall	\$ -	\$ (12.0)

12
 13 Second, the amounts included for decommissioning of \$73.2 million represent
 14 estimates that will continue to be refined in each subsequent depreciation study.
 15 Finally, and likely most important, the remediation costs specifically included in
 16 PSE's proposed depreciation rates is only related to the remediation of the
 17 common plant site areas and does not include the remediation associated with

1 Colstrip Units 3 and 4 specifically, which as shown on page 11 of Exh. SEF-30,
2 are estimated to be as high as \$146 million. PSE chose to use the remediation
3 costs for only the common plant site areas because this was the only area that had
4 a remediation plan conditionally approved by the DEQ. As noted on page 10 of
5 Exh. SEF-30, this is expected to result in approximately \$115 million of projected
6 decommissioning and remediation that may not be covered by depreciation by
7 2025.

8 **Q. What is your opinion as to the timing of recovery of D&R costs?**

9 A. I note that Mr. McGuire indicates the issue of intergenerational equity is complex.
10 He indicates that there is merit to the concept that expected D&R costs should be
11 paid for by the ratepayers who benefit from the generation plant, which would
12 have the costs recovered by the retirement date of 2025. He then questions if the
13 ratepayers that are around in the next five years really deserve to pay all of the
14 costs of remediation.¹⁰⁴ This supports the point that intergenerational equity is a
15 complex issue that likely has no perfect solution. With the benefit of hindsight,
16 the D&R costs would have been included within depreciation rates when Colstrip
17 Units 3 and 4 were placed into service decades ago. However, many law changes,
18 and most notably, the Environmental Protection Agency's Disposal of Coal
19 Combustion Residuals from Electric Utilities final rules on April 17, 2015, have
20 significantly changed the D&R standards and estimated costs. The changes in
21 laws and standards can only be incorporated into rates once they are established
22 and therefore by necessity should be charged to those who continue to benefit

¹⁰⁴ McGuire, Exh. CRM-1T at 32:16-33:1, 35:11-12.

1 from the facility which results in the conclusion that D&R costs appropriately
2 should be recovered through depreciation rates as long as the units are in service.

3 **Q. Given the complexity of the situation, what is the best way to recover D&R**
4 **costs?**

5 A. Because the level of D&R costs are so variable and uncertain¹⁰⁵ and rate recovery
6 is never perfect – as evidenced by the depreciation lag demonstrated in Table 7 –
7 it is important and appropriate to use all available methods of recovery in order to
8 adequately fund these costs. Specifically, the 2017 GRC settlement should
9 continue to be followed by maintaining the recovery of D&R costs through
10 depreciation rates through 2025 and utilizing PTCs to cover undepreciated plant
11 and D&R costs not covered by depreciation rates. And at the point PTCs and the
12 reserve from current depreciation rates are exhausted, the ability to propose and
13 develop a tracking and true-up mechanism¹⁰⁶ for cost recovery of D&R costs that
14 exceed PTCs and the depreciation reserve would be an appropriate and welcome
15 solution. It is important to note that the use of PTCs to offset D&R costs provides
16 inherent true-up and tracking the specifics of which can be reported in the
17 Colstrip Annual Report.

18 **Q. Is there anything you would like to clarify about amounts used in Mr.**
19 **McGuire’s analysis?**

¹⁰⁵ This is evidenced by the marked change in cost estimates between PSE’s first and second Annual Colstrip Reports, the change being driven by the stages of the remediation process. The 1st annual report being submitted during an earlier stage where cost estimates are much more high level and not intended to incorporate estimates for all requirements. Cost estimates will become more refined and likely grow as PSE progresses through the remediation process with the DEQ.

¹⁰⁶ PSE is already providing tracking of the actual costs incurred over the time period that those costs are covered by the 2017 GRC settlement through depreciation rates and PTCs.

1 A. Yes. On page 38 of his testimony, Mr. McGuire states that in the 2017 general
2 rate case settlement, PSE estimated it would have \$280 million of PTCs available
3 and he utilizes this amount in his calculations. Since the settlement, the change in
4 the tax rate from 35 percent to 21 percent that was adopted in the Tax Cuts and
5 Jobs Act effective January 1, 2018 resulted in the value of the PTCs for rate
6 making purposes decreasing to reflect the change in the tax rate. Therefore, the
7 value of PTCs that will eventually be monetized will be closer to \$240 million.

8 **Q. What do you recommend be done to address recovery of D&R costs?**

9 A. I do not believe that the language in CETA related to decommissioning and
10 remediation intended that utilities should only set in rates D&R costs that had
11 already been spent and determined to be prudent. I believe the existing Annual
12 Colstrip Report that is required by the 2017 GRC settlement already provides the
13 tracking that Mr. McGuire requests with the only missing piece being the
14 reporting of the adequacy of the PTCs to cover D&R costs.¹⁰⁷ Therefore, I
15 recommend that PSE utilize its existing Annual Colstrip Report filed under
16 Docket UE-170033 and adjust it to include reporting of the adequacy of the PTCs
17 to cover D&R costs. I further recommend that the Commission accept PSE's
18 proposed depreciation rates for Colstrip Units 3 and 4, which include a level of
19 decommissioning and remediation. I agree that in its next general rate case, PSE
20 should file a proposed plan for recovery of D&R costs that will be implemented
21 after the PTCs and the reserve from current depreciation rates are exhausted. I do
22 not believe the proposed plan should be limited to costs for Colstrip Units 3 and 4,

¹⁰⁷ McGuire, Exh. CRM-1T at 39:1-2

1 as there is equal uncertainty about whether there will be sufficient Treasury
2 Grants and PTCs to adequately cover D&R and unrecovered plant for Units 1 and
3 2 as well – especially considering the second part of the remedy evaluation plan¹⁰⁸
4 for Colstrip Units 1 and 2 has not yet been estimated or filed with the DEQ. I also
5 recommend that the Commission not limit itself by deeming that D&R costs can
6 be included in depreciation rates only in this case. The Commission should leave
7 all opportunities open for addressing recovery of D&R costs, including to allow
8 D&R costs in depreciation rates as long as the plant is depreciating.

9 **Q. What final recommendation does Mr. McGuire make that you need to**
10 **respond to?**

11 A. On page 39 of his testimony, Mr. McGuire recommends that the Commission
12 should announce that it will address the matter of how Microsoft should share in
13 the payment of the D&R costs in PSE's next general rate case and that doing so
14 would result in this issue being considered when drafting a proposed plan for the
15 recovery of Colstrip D&R costs that are in excess of PTCs and depreciation
16 reserves. PSE believes that the issue is not yet ripe for discussion until the larger
17 issue of D&R recovery is addressed. However, once a proposed plan is filed, that
18 would be a venue in which the Microsoft issue could be addressed.

19 **F. PSE's Proposed Sale of Colstrip Unit 4**

20 **Q. How does the proposed sale of Unit 4 impact this rate case?**

¹⁰⁸ An explanation of what a remedy evaluation plan is can be found in the Colstrip Annual Report in Free, Exh. SEF-30.

1 A. On December 10, 2019, PSE announced a sale of Colstrip Unit 4 and certain
2 transmission assets to NorthWestern Energy. PSE also plans to enter into a
3 purchase power agreement (“PPA”) for the output of Colstrip Unit 4 through
4 2025. The sale transaction must be approved by both the Washington and
5 Montana commissions before the transaction can close. Currently, PSE expects to
6 file an application seeking approval of the sale pursuant to WAC 480-143-180 in
7 February. As these approval processes are expected to take several months, PSE
8 does not believe the proposed transaction will have an impact on this case. In the
9 sale proceeding, the Commission can address the fact that current rates are set
10 based on the assumption that PSE would continue to own a share of Colstrip Unit
11 4 and that it would be operating throughout the rate year.

12 VI. UNCONTESTED ADJUSTMENTS

13 **Q. Have you provided an overview of all the adjustments proposed by parties**
14 **and which are contested and uncontested?**

15 A. Yes. Exh. SEF-24 for electric and Exh. SEF-25 for gas provides this overview.

16 **Q. Are there uncontested adjustments in which PSE and other parties differ?**

17 A. Yes. Below is a list of uncontested adjustments in which PSE and other parties
18 differ and an explanation as to why PSE’s adjustment has changed since its
19 original filing or why the adjustment differs from other parties’ adjustments.

20 **A. Revenue and Expense – Adjustment Nos. 20.01GR and 20.01EP**

21 There are very minor differences related to adopting certain recommendations
22 from Ms. Liu related to the temperature normalization adjustments. As stated

1 below, the entirety of Ms. Liu's recommendations for temperature normalization
2 will be adopted during PSE's compliance filing.

3 **B. Temperature Normalization – Adjustment Nos. 20.02ER, 20.02EP,**
4 **20.02GR and 20.02GP**

5 Commission Staff recommends this adjustment be calculated using the rate
6 schedule-level temperature adjustments and not reconciled to the system-level
7 model results. Additionally, Commission Staff recommends excluding electric
8 Schedule 29 Irrigation from the temperature adjustment. While PSE has accepted
9 these recommendations as discussed in the Prefiled Rebuttal Testimony of Lorin
10 I. Molander, Exhibit LIM-3T, I have not incorporated the update into the revenue
11 requirement in this rebuttal filing. PSE will incorporate these changes during the
12 compliance filing in this proceeding.

13 **C. Tax Benefit of Pro Forma Interest, Adjustments 20.04ER, 20.04EP,**
14 **20.04GR and 20.04GP**

15 Parties do not contest the manner in which the tax benefit of interest is calculated.
16 But because rate base is a factor in determining the tax benefit of interest, the total
17 amount of this adjustment will differ between PSE and other parties where there
18 are differences associated with rate base items.

19 **D. Montana Tax, Adjustment 21.02EP**

20 The methodology for calculating this adjustment is not contested. However, this
21 adjustment differs between PSE and other parties because of differences in the
22 assumed generation for Colstrip Units 3 and 4 that PSE made at rebuttal.

1 **Q. Are there any adjustments proposed by other parties to which PSE agreed in**
2 **its rebuttal filing?**

3 A. Yes. The following are the adjustments to which PSE agreed in its rebuttal filing
4 and these adjustments (or portions of adjustments) are now uncontested between
5 the parties.

6 **E. Tax Rate in Equity Adder for Centralia PPA – Adjustment No.**
7 **21.01EP**

8 PSE has accepted the change to the tax rate used for the Centralia PPA Equity
9 Adder. The tax rate has been lowered to 21 percent.¹⁰⁹ This is not the only change
10 to the power cost adjustment. Further changes to the power cost adjustment are
11 detailed in Section VII. Additionally, although the Equity Adder for Centralia
12 PPA is no longer contested with Commission Staff, the overall power cost
13 adjustment, Adjustment 21.01 EP remains contested between PSE, Staff and
14 Public Counsel.

15 **F. Fredonia Major Maintenance– Adjustment No. 21.01EP**

16 As discussed by PSE witness Ronald J. Roberts, Exh. RJR-14T, PSE has accepted
17 an update proposed by Ms. Liu to reflect the actual major inspection cost for the
18 Fredonia gas generation plant. This is not the only change to this adjustment.
19 Further changes to this adjustment are detailed in Section VII. Additionally,
20 although the Fredonia amortization is no longer contested with Commission Staff,
21 the overall power cost adjustment, Adjustment 21.01 EP remains contested
22 between PSE, Staff and Public Counsel.

¹⁰⁹ Liu, Exh. JL-1CTr at 40

1 **G. Adjust Rate Base from Average of the Monthly Averages (“AMA”) to**
2 **End of Period (“EOP”) – Adjustments 20.18ER and 20.18GR**

3 PSE agrees with Ms. Steward’s recommended change to reflect Investor Supplied
4 Working Capital on an AMA basis.¹¹⁰ This adjustment now represents an increase
5 to rate base of \$190.5 million for electric and \$151.5 million for gas. This
6 adjustment remains contested between PSE and Public Counsel as Public Counsel
7 is recommending PSE’s rate base be valued on an AMA basis at June 30, 2019,
8 which PSE opposes as explained in Section VII. AWEC did not contest PSE’s
9 AMA to EOP rate base adjustment; however, this update now creates a difference
10 between PSE and AWEC for this adjustment.

11 **H. Remove Shuffleton Rate Base – Adjustment No. SEF-21.11EP and**
12 **Staff Adjustment 12.04E**

13 PSE agrees with Ms. Steward’s recommended change to reflect the removal of the
14 Shuffleton net book value from rate base and the depreciation expense from net
15 operating income.¹¹¹ This electric only adjustment represents a decrease to
16 electric rate base of \$0.6 million and an increase to net operating income of \$0.1
17 million. This adjustment is now uncontested between PSE and Staff. It is not clear
18 if AWEC or Public Counsel will contest this adjustment until filing of their cross-
19 answering testimonies.

20 **I. Energy Management System (“EMS”), Adjustment 21.10EP**

21 PSE notes that a correction was made by Ms. Liu to the accumulated deferred
22 income taxes for the EMS project, to which PSE agrees. This electric only

¹¹⁰ Steward, Exh. CSS-1T at 8

¹¹¹ *Id.* at 11

1 adjustment now increases electric rate base by \$4.6 million. The decrease to
2 electric net operating income remains unchanged at \$2.4 million. This adjustment
3 is now uncontested between PSE and Commission Staff and AWEC, although
4 AWEC may have a slight difference as Mr. Mullins may or may not pick up this
5 correction in his cross-answering testimony. It remains contested between PSE
6 and Public Counsel who removes PSE's pro forma plant adjustments and replaces
7 them with AMA rate base as of June 30, 2019.

8 **J. Remove Green Direct Rate Base, Adjustments 20.30ER and 20.30GR**
9 **and Staff Adjustments 12.03 E and 12.03G**

10 PSE had intended for there to be no fixed costs associated with the Green Direct
11 Program in its filing. However, after filing its direct case, PSE identified that on
12 the last day of the test year, a software project totaling \$340,000 associated with
13 billing upgrades needed for the Green Direct Program was placed in a common
14 account that is included in PSE's rate base determination. In its First Revised
15 Response to AWEC Data Request No. 020, PSE provided the information needed
16 to remove the item from rate base. PSE has now incorporated this adjustment into
17 its rebuttal filing which removes the minor \$30,000 of revenue requirement
18 impact for this item. Therefore, this adjustment is not contested between PSE and
19 Commission Staff nor is it anticipated to be contested by other parties.

1 **VII. CONTESTED ADJUSTMENTS**

2 **Q. Please discuss the adjustments that are contested between PSE and the**
3 **parties.**

4 A. The impact on electric and natural gas operating income, rate base and revenue
5 requirement for each PSE adjustments is summarized on Exhs. SEF-24 and SEF-
6 25.¹¹² A discussion of the adjustments that are contested between PSE and the
7 parties and why the Commission should adopt PSE's proposed adjustments is
8 provided below.

9 **A. Cost of Debt and Equity – Adjustment SEF-18.02EP and EG**

10 Public Counsel witness Mr. Randall J. Woolridge and Commission Staff witness
11 Mr. David C. Parcell contest PSE's cost of equity and propose different costs for
12 the Commission to consider. AWEC does not propose a different cost of equity
13 but does not accept PSE's cost of capital.¹¹³ PSE witness Dr. Roger A. Morin, in
14 his Prefiled Rebuttal Testimony, Exh. RAM-12T, recommends an update to
15 PSE's requested return on equity from 9.8 percent to 9.5 percent and explains
16 why PSE's proposed cost of equity is appropriate. Accordingly, the cost of equity
17 portion of this adjustment is contested between all parties. As noted in Section II,
18 the revenue requirement exhibits were prepared assuming a 9.7 percent ROE and
19 PSE did not have time prior to the filing to incorporate Mr. Morin's final
20 recommended 9.5 percent. No party expressly recommended a different capital
21 structure than PSE, therefore, the capital structure is not contested. Likewise, no

¹¹² Free, Exhs. SEF-24, SEF-25 at 9.5 percent ROE will be included in work papers.

¹¹³ Mullins, Exh. BGM-1T at 4:4-6.

1 party expressly recommended a different long term cost of debt than PSE.
2 However, Mr. Woolridge discusses the decline in short-term debt rates since
3 PSE's original filing and recommends a different cost of short term debt than
4 PSE. In his Prefiled Rebuttal Testimony, Exh. MDM-7T, PSE witness Mr.
5 Matthew D. McArthur recommends that PSE update its cost of short-term debt in
6 the compliance filing in this case. Therefore, it has not been updated at this time
7 for the rebuttal filing. Accordingly, PSE's requested cost of capital incorporating
8 Dr. Morin's recommended change to the return on equity is 7.48 percent (or 7.57
9 percent at a 9.7 percent ROE, which is what is presented in the exhibits).

10 **B. Federal Income Taxes – Adjustment Nos. SEF-20.03 ER and GR**

11 This adjustment is contested between PSE, Public Counsel and AWEC primarily
12 related to the treatment of the turn-around of excess deferred income taxes. Mr.
13 Marcelia, in Exh. MRM-11T discusses why PSE's income tax adjustment is
14 correct. Accordingly, PSE's adjustment remains unchanged from the original
15 filing and should be accepted by the Commission. The adjustments of
16 Commission Staff, Public Counsel and AWEC should not be accepted by the
17 Commission for the reasons discussed by Mr. Marcelia.

18 **C. Unprotected Excess Deferred Income Taxes – Adjustment Nos. SEF-**
19 **20.26 EP and GP**

20 This adjustment is contested between PSE, Public Counsel and AWEC. Mr.
21 Marcelia explains why the parties' adjustments are inappropriate. Accordingly,
22 PSE's adjustment remains unchanged from the original filing and should be
23 accepted by the Commission.

1 **D. Colstrip**

2 In addition to the adjustments that are contested between PSE and AWEC that
3 were discussed in section V of my testimony, there are numerous adjustments
4 related to Colstrip that are contested between PSE and parties that are discussed
5 below.

6 **i. Unit 4 June 2020 Major Maintenance Event – Adjustment SEF-**
7 **21.01EP**

8 Mr. Roberts provides testimony in rebuttal to Ms. Liu’s testimony related to the
9 amortization of the June 2020 Unit 4 major maintenance event¹¹⁴ and why the
10 amortization for the major maintenance event for Colstrip Unit 4 in June 2020
11 should be allowed in rates. If, however, the Commission does not allow the
12 amortization in rates in this proceeding, then PSE requests that the Commission
13 accept Ms. Liu’s proposal to allow PSE to defer the cost of the event, once
14 known, for consideration of recovery through amortization in a later proceeding.
15 Further changes to Adjustment SEF-21.01EP are discussed below.

16 **ii. Allocation of Units 1 and 2 Common Costs to Units 3 and 4 –**
17 **Adjustment SEF-21.01EP**

18 Mr. Roberts provides testimony in rebuttal to Ms. Liu’s recommendation related
19 to the Colstrip Units 1 and 2 common costs.¹¹⁵ This portion of the adjustment
20 remains unchanged from PSE’s original filing. Further changes to Adjustment
21 SEF-21.01EP are discussed below.

¹¹⁴ Liu, Exh. JL-1CTr at 31-34

¹¹⁵ *Id.* at 35-40

1 **iii. Capital Investments in SmartBurn and June 2018 Outages for Units 3**
2 **and 4 – Staff Adjustments 12.01E and 12.02E**

3 Mr. Roberts provides testimony in rebuttal to Commission Staff witness Mr.
4 David C. Gomez’s Prefiled Response Testimony, Exh. DCG-1CT, in which he
5 recommends a write off of PSE’s capital investments for Colstrip related to
6 SmartBurn and the June 2018 outages. Accordingly, PSE has not incorporated
7 Mr. Gomez’s adjustments into its rebuttal revenue requirement and these
8 adjustments should be rejected by the Commission for the reasons stated by Mr.
9 Roberts.

10 **E. Other Power Cost Items – Adjustment SEF-21.01EP**

11 PSE witness Mr. Paul K. Wetherbee, in his Prefiled Direct Rebuttal Testimony,
12 Exh. PKW-34T, makes various updates to power costs that were outlined in the
13 prehearing conference order, Order No. 03. Additionally, he provides rebuttal to
14 various parties and recommends the amount of power costs that are included in
15 this rebuttal filing. After incorporating these changes as well as the other changes
16 to Adjustment SEF-21.01EP discussed above, this adjustment is now a reduction
17 to net operating income of \$16.9 million. There were originally no differences
18 between PSE and AWEC. However, as a result of the updates made by PSE, there
19 are now differences between PSE and AWEC for this adjustment.

20 **F. Distribution Upgrades for the Tacoma LNG Project – Staff**
21 **Adjustment 12.05G**

22 PSE Witness Mr. Duane Henderson in his Prefiled Rebuttal Testimony, Exh. DH-
23 4T, provides testimony in rebuttal to Mr. Gomez’s recommendation to remove the
24 rate base and depreciation associated with the distribution upgrades associated

1 with the Tacoma LNG project. Accordingly, no change has been made to this
2 adjustment since the original filing. If, however, the Commission agrees with Mr.
3 Gomez and does not allow recovery in this proceeding, then PSE requests, as
4 recommended by Mr. Gomez, that effective with the date of rates in this
5 proceeding, PSE be granted permission to defer the return on and return of the
6 capital investments for consideration of recovery through amortization in a later
7 proceeding.

8 **G. Plant Pro forma Adjustments**

9 The following plant pro forma adjustments are contested between PSE and
10 Commission Staff and Public Counsel. In Section IV I have discussed the reasons
11 that the Commission should adopt these adjustments as filed by PSE.

12 Accordingly, these adjustments (except for EMS discussed in section VI) have not
13 changed since PSE's original filing.

14 **i. AMI, Adjustments 20.22EP and GP**

15 Public Counsel opposes this adjustment.¹¹⁶ Ms. Koch provides rebuttal
16 testimony as to why PSE's adjustment is appropriate and Public Counsel's
17 proposal to not allow recovery for AMI should be rejected.
18

19 **ii. Get to Zero, Adjustments 20.24EP and GP**

20 Commission Staff opposes roughly 50 percent of this adjustment; Public
21 Counsel opposes the entirety of this adjustment in favor of rate base at
22 June 30, 2019. Public Counsel also proposes to disallow one-half of the
23

¹¹⁶ Alvarez, Exh. PJA-1T.

1 test year amounts for GTZ.¹¹⁷ Mr. Jacobs provides rebuttal testimony as to
2 why PSE's GTZ plant pro forma adjustment should be accepted by the
3 Commission.

4 iii. **Public Improvement, Adjustments 20.27 EP and GP**

5 This adjustment is opposed in full by Commission Staff. Public Counsel
6 opposes the entirety of this adjustment in favor of rate base at June 30,
7 2019.
8

9 iv. **HR Tops, Adjustments 20.29EP and GP**

10 This adjustment is opposed in full by Commission Staff. Public Counsel
11 opposes the entirety of this adjustment in favor of rate base at June 30,
12 2019.
13

14 v. **High Molecular Weight Cable, Adjustment 7.09EP**

15 This adjustment is opposed in full by Commission Staff. Public Counsel
16 opposes the entirety of this adjustment in favor of rate base at June 30,
17 2019.

18 vi. **Emergency Management System, Adjustment, Adjustment 7.10EP**

19 Public Counsel opposes the entirety of this adjustment in favor of rate base
20 at June 30, 2019.

¹¹⁷ Baldwin, Exh. SMB-1T at 4:18-20.

1 vii. **Public Counsel’s Recommendation for June 30, 2019 AMA**

2 Public Counsel witness Mr. Garrett recommends that PSE’s rate base
3 should be valued on an AMA basis as of June 2019.¹¹⁸ Mr. Garrett
4 provides no justification for his recommendation. For the reasons stated in
5 Section III. related to regulatory lag, PSE’s proposal is to use end of
6 period rate base with limited plant pro forma adjustment through June 30,
7 2019 in the calculation of the traditional revenue requirement and to also
8 include a limited attrition adjustment in its proposed change to rates. Page
9 16 of Exh. MEG-1T does not indicate why June 30, 2019 AMA rate base
10 is preferable to PSE’s request. Mr. Garrett mentions at line 12 that “the
11 adjustments that extend past the update period [June 30, 2019] are
12 duplicated by the attrition adjustment, which projects costs into the rate
13 year...”. PSE’s plant pro forma adjustments do not extend past June 30,
14 2019. Regardless, PSE excludes its plant pro forma adjustments from the
15 attrition adjustment.¹¹⁹ Neither Commission Staff nor AWEC opposes
16 reflecting PSE’s rate base for the traditional revenue requirement
17 calculation at end of period with limited pro forma adjustments (although
18 PSE and Commission Staff do differ on the number and amount of plant
19 pro forma adjustments as discussed in Section IV.). Based on Public
20 Counsel’s lack of support or basis for their proposal, the Commission

¹¹⁸ Garrett, Exh. MEG-1T at 16.

¹¹⁹ Free, Exhs. SEF-9 and SEF-22 start from restated amounts and add in pro forma adjustments that are needed for attrition. PSE’s plant pro forma additions are not added in to the attrition base.

1 should reject Public Counsel’s recommendation to reflect rate base at June
2 30, 2019 AMA.

3 **viii. Public Counsel’s Alternative Recommendation to Write-Off AMR**
4 **Investment**

5 Public Counsel witness Mr. Paul A. Alvarez in his Prefiled Response
6
7 Testimony, Exh. PJA-1T, recommends that PSE not be allowed to recover
8 costs associated with its Advanced Metering Infrastructure Investments
9 (“AMI”). Ms. Koch provides testimony in rebuttal to Mr. Alvarez.
10 Accordingly, PSE has not incorporated these adjustments into its rebuttal
11 revenue requirement and Public Counsel’s adjustment to remove recovery
12 of AMI should be rejected by the Commission for the reasons stated by
13 Ms. Koch. Further, Mr. Alvarez recommends that if the Commission were
14 to allow recovery of PSE’s AMI investment, then it should disallow cost
15 recovery for PSE’s Advanced Meter Reading (“AMR”) investment which
16 is being replaced by AMI. PSE Witness Mr. John J. Spanos in his Prefiled
17 Rebuttal Testimony, Exh. JJS-04T, explains why it is inappropriate to
18 disallow costs of a legacy metering system. He explains that the
19 appropriate way to handle the costs for PSE’s AMR investment is as a
20 regulatory asset. However, because PSE’s AMR assets are still used and
21 useful and required in order to provide service to customers during PSE’s
22 multi-year AMI deployment, it is not time to request regulatory treatment
23 for these assets. A more appropriate time to address this will be in a future
24 general rate case. Accordingly, the Commission also should reject Public
25 Counsel’s proposal to write off the costs of PSE’s AMR system.

1 **H. AMI and GTZ Deferrals – Adjustment Nos. 6.22 EP and GP and 6.24**
2 **EP and GP**

3 Neither Commission Staff nor AWEC oppose PSE’s AMI Deferral adjustment.

4 However, Public Counsel completely removes the adjustment, although neither
5 Mr. Garrett nor Mr. Alvarez provide a basis for not allowing the deferral.

6 Presumably, it is because they are opposed to AMI altogether. The Commission
7 should reject the removal of the AMI deferral as Public Counsel provided no
8 sound basis or reasoning for the need for its removal.

9 Similarly, Public Counsel does not provide a reason to deny the GTZ deferral and
10 therefore, the Commission should reject Public Counsel’s removal of this
11 adjustment. Additionally, as discussed in Section IV above, the Commission
12 should reject Commission Staff’s adjustment for the GTZ deferral and accept
13 PSE’s adjustment. Accordingly, these adjustments have not changed since the
14 original filing.

15 **I. Wage Increase Adjustment – Adjustment Nos. 20.15 EP and GP**

16 Mr. Garrett argues that PSE’s wage adjustment should be limited to the same pro
17 forma period as its plant pro forma adjustments or to June 2019. He states that
18 there should not be selective increases to certain expenses while ignoring other
19 costs changes that could be offsetting to these increases.¹²⁰ Although not indicated
20 in his testimony, he removes the UA wage increases that become effective on
21 October 1, 2019 and 2020 as well as the wage increase for PSE’s salaried
22 employees effective March 1, 2020. PSE did provide offsetting costs to these

¹²⁰ Garrett, Exh. MEG-1T at 18:10-17.

1 increases in the form of the slippage adjustment that was discussed in my Prefiled
2 Direct Testimony, Exh. SEF-1T, at pages 34 and 35. The UA increases are
3 contractual and therefore are known and measurable. While the increase for the
4 salaried employees is not contractual, PSE employed a reasonable method of
5 estimation that follows the way it prepares its Bad Debt Expense adjustment as
6 discussed in Exh. SEF-1T at pages 28 and 29. Accordingly, PSE prepared an
7 appropriate pro forma adjustment and the wage increases removed by Public
8 Counsel should be rejected. Accordingly, this adjustment has not changed since
9 the original filing.

10 **J. Incentive Pay, Adjustment Nos. 20.08 ER, GR, EP and GP**

11 Public Counsel, as described in the Response Testimony of Mr. Mark E. Garrett
12 Exhibit, MEG-1T, recognized that the Incentive Plan is appropriate but proposed
13 an alternative adjustment that removes 50 percent of the annual incentive plan
14 costs to ratepayers by shifting the cost to shareholders. The Prefiled Rebuttal
15 Testimony of PSE witness Tom M. Hunt, Exhibit TMH-8T, addresses the
16 mischaracterizations presented in Public Counsel's testimony. Mr. Hunt's
17 testimony also indicates that the Incentive Plan has largely remained unchanged
18 since 2004, when it was reviewed in Dockets UG-040640 and UG-040641, and
19 that the Incentive Plan is multi-dimensional and relies on both operational and
20 financial targets working in synchrony. Given the reasons stated by Mr. Hunt,
21 Public Counsel's adjustment should be rejected and PSE's adjustment accepted.

1 **K. Data Centers – AWEC Adjustment No. AWEC-1 for Electric and Gas**

2 PSE witness Ms. Margaret F. Hopkins in her Prefiled Rebuttal Testimony, Exh.
3 MFH-07T, provides testimony in rebuttal to Mr. Mullins’ recommendation to
4 disallow the costs of PSE’s data centers.¹²¹ Accordingly, PSE has not
5 incorporated these adjustments into its rebuttal revenue requirement, and
6 AWEC’s adjustment for the Data Centers should be rejected by the Commission
7 for the reasons stated by Ms. Hopkins.

8 **L. Adjustments Contested by Public Counsel for which No Basis was**
9 **Provided**

10 Public Counsel made numerous changes to PSE adjustments without providing a
11 basis that made sense for why they were changed.

Adjustment Nos.	Adjustment Description
6.09 EP and 6.09 GP	Excise Tax & Filing Fee
6.10 EP and 6.10 GP	D&O Insurance
6.16 EP and 6.16 GP	Investment Plan
6.17 EP and 6.17 GP	Employee Insurance
6.20 EP and 6.20 GP	Deferred Gains and Losses on Property Dispositions
6.21 EP and 6.21 GP	Environmental Remediation
6.23 EP and 6.23 GP	Annualize Rent Expense
6.25 EP and 6.25 GP	Credit Card Amortization
6.28 EP and 6.28 GP	Contract Escalations
7.06 EP	Regulatory Assets & Liabilities

12 It appears they were removed in relation to Mr. Garrett’s removal of plant pro
13 forma adjustments. However, none of the above adjustments has anything to do
14 with plant accounts. Or, perhaps he was removing them because he thought they
15 extended beyond June 30, 2019. However, this also is not reasonable because
16 there are many adjustments listed that do not pro form to a future period, let alone
17 beyond June 2019. For instance, the pro forma adjustments for Excise Tax &

¹²¹ Mullins, Exh. BGM-1T at 37.

1 Filing Fee and D&O Insurance were prepared in order to reverse the effects of
2 PSE's restating adjustments to those cost categories as PSE is requesting to no
3 longer have to prepare those restating adjustments. Also, the Investment Plan
4 adjustment provides the impact of the Wage Adjustment on PSE's investment
5 plan. The adjustment was removed by Public Counsel in its entirety, even though
6 Public Counsel only removed certain of the wage increases. And, the Credit Card
7 Amortization adjustment removes amortizations that are no longer going to exist
8 in the rate year. Mr. Garrett failed to address each of the adjustments on their
9 merit and has not provided any sound basis for their rejection. Accordingly, the
10 Commission should reject Public Counsel's removal of these adjustments and
11 accept them as filed by PSE.

12 **VIII. PROPOSED POWER COST ADJUSTMENT MECHANISM**
13 **BASELINE RATE**

14 **Q. Have you updated the PCA Baseline Rate for the changes you have made in**
15 **this rebuttal filing?**

16 A. Yes. Exh. SEF-23 provides an updated base line rate for use in the determination
17 of the Power Cost Adjustment mechanism imbalance calculation as well as the
18 determination of the fixed production cost portion of PSE's Decoupling
19 Mechanism. This exhibit will need to be updated to the determination of the final
20 order and approved in the compliance filing.

21 **Q. Please describe Exhibit No. SEF-23.**

22 A. Exhibit No. SEF-23 presents the adjusted exhibits for the Power Cost Adjustment
23 mechanism. Page 1 of this exhibit adjusts Exhibit A-1, Power Cost Rate, to reflect

1 the updated Power Cost Rate of \$58.969 per MWh based on the Company's
2 rebuttal power costs and production plant adjustments. The methodology applied
3 is consistent with that set forth in the PCA Settlement Agreement, in Docket UE-
4 011570, and the PCA Compliance Settlement Agreement, in Docket UE-031389.

5 **Q. Does the Commission have the detailed information necessary to calculate**
6 **the Power Cost Rate based on its final determination of the appropriate**
7 **production rate base and operating expenses to be included in rates?**

8 A. The calculations used to determine the line items on Schedule A-1 are included in
9 work papers, and not all of these work papers would be included in the record. To
10 ensure that these pages are accurate, it would be best for PSE to recalculate these
11 exhibits based on the final Commission order. PSE would then file the revised
12 pages with the compliance filing that is required to implement the Commission's
13 final order for approval.

14 **IX. GREEN DIRECT PROGRAM TRACKING AND**
15 **REPORTING**

16 **Q. What concerns have parties raised regarding PSE's Green Direct program?**

17 A. Parties have raised concerns over (1) whether any cross subsidization will occur
18 between participating and non-participating customers;¹²² (2) whether the Green
19 Direct Power Purchase Agreements ("PPAs") should be included in PSE's Power
20 Cost Adjustment ("PCA") mechanism;¹²³ (3) the treatment of liquidated damages
21 ("LDs") associated with delays from the Skookumchuck project;¹²⁴ and (4) the

¹²² Exh. KBS-1CT at 5-8.

¹²³ Colamonici, Exh. CAC-1CT at 13-14.

¹²⁴ Scanlan, Exh. KBS-1CT at 8-12; Colamonici, Exh. CAC-1CT at 14-16.

1 overall tracking of Green Direct costs and benefits.¹²⁵ I address each of these
2 concerns below.

3 **A. Cross Subsidization Concerns Raised by Parties**

4 **Q. How is PSE addressing concerns of cross-subsidization raised by**
5 **Commission Staff?**

6 A. In the Response Testimony of Kathi B. Scanlan, Exh. KBS-1CT, at pages 5-8,
7 Ms. Scanlan states that in Commission Staff's review of the Green Direct
8 program, it found evidence of cross-subsidization based on software related to the
9 Green Direct program billed to a common capital order. It was not PSE's
10 intention to include Green Direct related fixed costs in the revenue requirement –
11 and once it was identified through discovery that these costs had inadvertently
12 been included, PSE communicated that they would be removed. As noted above
13 in Section VI. Uncontested Adjustments, PSE has included an adjustment to
14 remove these costs from rate base, as proposed by Commission Staff.

15 **B. Costs of the Power Purchase Agreement in Power Costs in this**
16 **Proceeding**

17 **Q. Is it appropriate to include the Green Direct PPAs in Power Costs in this**
18 **case?**

19 A. In his Prefiled Rebuttal Testimony, Exh. WTE-9HCT, PSE witness Mr. William
20 T. Einstein discusses why it is appropriate to include these contracts for recovery
21 in this rate case.

¹²⁵ Scanlan, Exh. KBS-1CT, at 12-14.

1 **C. Liquidated Damages**

2 **Q. How has PSE addressed the treatment of liquidated damages (“LDs”)**
3 **received related to the delay of Skookumchuck¹²⁶?**

4 A. At the end of November 2019, PSE filed an accounting petition in Docket UE-
5 190991 requesting deferred accounting treatment for the liquidated damages
6 being accrued and received as a result of the Skookumchuck wind project delays.
7 A draft of the accounting petition was provided to Commission Staff prior to the
8 filing of their response testimonies and PSE incorporated feedback received from
9 Commission Staff in the filing of its petition.

10 **Q. Please summarize the accounting petition PSE filed for deferral of liquidated**
11 **damages.**

12 A. Within its petition, PSE requested the use of deferred accounting for the receipt of
13 liquidated damages, and the ability to offset against these deferred LDs Green
14 Direct costs not currently being recovered through the Schedule 139 tariff. The
15 proposed accounting treatment is to record all Schedule 139 liquidated damages
16 in FERC 254 “Other Regulatory Liabilities.” PSE anticipates it will incur
17 additional costs prior to and after the start of the Schedule 139 program and
18 proposes these costs be offset against the deferred LDs. Examples of the costs
19 PSE is seeking be allowed to be offset against the LDs are related to the
20 following: 1) the purchase of “preprogram” RECs for customers to cover the
21 period from July 2019 until program commencement; 2) REC purchases to assist
22 customers if facility generation falls short of program usage and REC prices

¹²⁶ Colamonici, Exh. CAC-1CT at 14:12-16:6; Scanlan, Exh. KBS-1CT at Section V.B.

1 exceed amounts stated in section 5.e. of the Tariff; and 3) additional program
2 costs not already covered under the Schedule 139 tariff.¹²⁷ Once the deferral
3 balance is no longer a credit balance (costs exceed liquidated damages), no further
4 deferrals will be made. If the credit balance in the deferral cannot be fully offset
5 by costs, then, if material, the balance could be used to adjust Schedule 139 rates
6 in the future.

7 **Q. Public Counsel witness Ms. Carla A. Colamonici indicates the liquidated**
8 **damages should be used to offset program costs.¹²⁸ Do you agree?**

9 A. Not entirely. As stated above, the liquidated damages can only offset program
10 costs that are not already included in Schedule 139 rates.

11 **D. Green Direct Program Tracking and Reporting**

12 **Q. What are the costs and benefits associated with the Green Direct program**
13 **and why are they required to be tracked?**

14 A. RCW 19.29A.090 and Docket UE-160977 require that all costs and benefits
15 associated with a voluntary option to purchase qualified alternative energy
16 resources be allocated to program participants. Green Direct program costs and
17 benefits will consist of program revenues, variable power costs, fixed program
18 costs and liquidated damages.

¹²⁷ Although PSE initially recorded the LDs below the line in FERC 421 in the third quarter of 2019, PSE will record an entry in the fourth quarter to transfer those liquidated damages recognized from FERC 421 to the regulatory liability consistent with its requested treatment.

¹²⁸ Colamonici, Exh. CAC-1CT at 15:16-19, 16:5-6.

1 **Q. Should the Commission require PSE to work with Commission Staff and**
2 **other stakeholders related to the tracking and reporting for the Green Direct**
3 **program?¹²⁹**

4 A. I do not think that is necessary. PSE has many requirements to engage with
5 parties through working groups, etc. In order to limit the amount of post filing
6 work, I believe it is appropriate to clarify these requirements within this docket
7 and I have outlined below the information necessary to achieve this clarification.
8 However, PSE would agree to work with Commission Staff and other
9 stakeholders if the Commission believes it is necessary.

10 **Q. What should the Commission understand about the revenues and costs of the**
11 **Green Direct program?**

12 A. The revenues, fixed program costs and liquidated damages can all be specifically
13 identified as part of the Green Direct program. However, due to the nature of the
14 program, variable power costs are dependent on program load rather than PPA
15 output. This results in the difference between program usage and PPA output not
16 truly being a part of the program. Therefore, the program is deemed to be defined
17 according to the usage of program customers for purposes of reporting for the
18 RCW and the Docket UE-160977 (in other words, the program is not defined
19 according to the generation of the PPAs). Any generation in excess of program
20 customers' usage is outside the program and applies to non-participating
21 customers – which is appropriate provided the PPAs have received a

¹²⁹ Scanlan, Exh. KBS-1CT at 15:13-16.

1 determination of prudence for use to satisfy all customers as requested by Mr.
2 Einstein – not just Green Direct Program customers.

3 **Q. How will PSE track all costs and benefits associated with the Green Direct**
4 **program?**

5 A. Below is the manner in which PSE proposes to report on the four components of
6 the Green Direct Program:

7 **Variable Power Costs**

8 In a separate section of the PCA compliance filing, the monthly variance between
9 Schedule 139 usage and the generation of the PPAs will be presented. Any
10 monthly variance related to Schedule 139 load and the generation of the PPAs
11 will be part of the energy portfolio to absorb or supply. On an annual basis, the
12 energy and associated RECs of the PPAs will be allocated first to Schedule 139
13 customers. Any excess RECs will be allocated to all customers for compliance
14 with PSE's Renewable Portfolio Standard, sold, or banked and used for future
15 compliance or future sales. The excess energy will be used by the energy portfolio
16 to meet non-participating customer needs.

17 **Revenue and Fixed Costs**

18 Total Schedule 139 revenue and fixed costs (i.e. administrative costs, depreciation
19 on SAP billing changes or any incremental costs) will be tracked in separate SAP
20 orders for reporting purposes. They will not be included in the PCA as the PCA
21 only tracks variable power costs. Additionally, these costs and revenues will be
22 excluded from any general rate case or other base rates filings as the costs are
23 included in Schedule 139 tariff. Ms. Scanlan indicates on line 12 of page 14 of her

1 testimony that fixed costs need to be trued-up. I do not agree these costs need to
2 be trued-up. They will be removed from base rates, so there will be nothing to be
3 trued-up. However, if actual fixed costs were different than amounts set in the
4 Schedule 139 rate, PSE would look to adjust the rate as needed. The reporting of
5 these costs can be made available on request, or for convenience, can be
6 submitted as an informational-only report in PSE's annual PCA compliance
7 filings.

8 **Liquidated Damages**

9 As noted above, PSE has filed an accounting petition to track and defer all
10 liquidated damages, and any costs or revenues associated with these can be made
11 available upon request, or for convenience, can be submitted as an informational-
12 only report in PSE's annual PCA compliance filings.

13 **Q. Does PSE have an example of the proposed method of tracking Green Direct**
14 **program costs as described above?**

15 A. Yes. In Exhs. SEF-31 and 32, I have provided two examples of reporting of PCA
16 related variable power costs associated with Schedule 139. Exh. SEF-31 provides
17 an example for when PPA generation exceeds program usage. Exh. SEF-32
18 provides an example for when program usage exceeds PPA generation.

19 **Q. Please further explain Exhs. SEF-31 and SEF-32.**

20 **Exh. SEF-31 – When PPA Generation Exceeds Program Usage**

21 This exhibit provides an example of the proposed reporting of variable power
22 costs associated with the Schedule 139 program when Schedule 139 PPA

1 generation exceeds program usage. In this scenario, there would be excess energy
2 and RECs at the end of the year. Assuming the PPAs will have been determined
3 to be prudent for all customers, the cost of the energy would be part of the overall
4 allowed variable costs in the PCA imbalance calculation as reported in lines 1-38
5 of the report. The RECs would be used for compliance with PSE's Renewable
6 Portfolio Standard, sold, or banked and used for future compliance or future sales,
7 and depending on their disposition, would be included in lines 1-38 if applicable.
8 The difference between the PPA generation and customer usage that is included in
9 lines 1-38 would be separately reported in lines 40 through 66. The difference
10 would be priced at the Skookumchuck (or blended) PPA cost which is also the
11 cost used in developing Schedule 139 rates.

12 **Exh. SEF-32 – when Program Usage Exceeds PPA Generation**

13 This exhibit provides an example of the proposed reporting of variable power
14 costs associated with the Schedule 139 program when Schedule 139 customer
15 usage is above the delivered generation of the PPAs. In this scenario, there would
16 be purchases of RECs at the end of year, and the cost of the RECs would be
17 included in the PCA allowable costs in the PCA imbalance calculation in
18 Schedule B (lines 1-38) and reported in the Schedule 139 reporting section (lines
19 40-66).

20 **Q. Does PSE believe it is necessary to create a collaborative with Commission**
21 **Staff and other parties to further develop a tracking mechanism for Green**
22 **Direct program costs?**

1 A. No. The recommendations set forth in the Response Testimony of Commission
2 Staff witness Scanlan, Exh. KBS-1CT are summarized as follows:

- 3 • Non-energy costs that are fixed in nature be excluded from general rate
4 cases or expedited rate filings.
- 5 • Tracking and true-up timing of fixed costs should align with the filing of
6 the PCA.
- 7 • Reporting of variable costs within the PCA should report monthly
8 variances between program usage and generation of PPAs and include
9 REC and energy purchases to cover shortages between program usage and
10 generation. When generation exceeds usage the cost of energy should be
11 included in the PCA and the use of RECs that are transferred to non-
12 participating customers should be appropriately accounted for and tracked.
- 13 • One hundred percent of liquidated damages benefits be allocated to Green
14 Direct customers.¹³⁰

15 PSE's current proposal, as detailed above and in the referenced exhibits, meets all
16 Commission Staff recommendations. Accordingly, the Commission should adopt
17 PSE's proposal for tracking and reporting of the Green Direct program and not
18 require further post filing work related to this matter.

¹³⁰ Scanlan, Exh KBS-1CT at 14:8-15:2.

1 **Q. How will PSE propose the gain or loss be treated in its application?**

2 A. Consistent with prior treatment of gains or losses on property dispositions, PSE
3 will request to record all proceeds from the sale against a FERC 187 (Deferred
4 losses from disposition of utility plant) or FERC 254 (other Regulatory
5 Liabilities). The pre-tax net book value of the water heater assets, once the final
6 financial results of the transaction are known, will be transferred from their
7 respective plant accounts to the FERC 187 or 254 account. Any selling costs will
8 also be recorded in the FERC 187 or 254 account. The balance of the FERC 187
9 or 254 account will be held until the next general rate case where PSE will request
10 recovery or pass back through amortization.

11 **Q. Is this consistent with the recommendations proposed in the Response**
12 **Testimony of Public Counsel witness Carla Colamonici, Exh. CAC-1CT?**

13 A. Partially. PSE's treatment of gains and losses on the transfer of property is
14 governed by U-89-2688-T, U-89-2955-T Findings of Fact and the Stipulation and
15 Order of Dismissal dated May 26, 1992, Washington Court of Appeals, No.
16 29404-1 which states for, "property sales after March 31, 1989, the Company will
17 defer the gain/loss to be allocated to the customer."

18 Witness Colamonici recommends that, "Any gains PSE receives from selling the
19 water heater rental service should be returned to customers." If the outcome of the
20 transaction is a gain PSE will return this to customers. Witness Colamonici does
21 not address if the outcome of the transaction is a loss. The above referenced
22 guidance is to be applied whether the sale results in a gain or a loss. Accordingly,
23 if the outcome of the sale is a loss, PSE will request recovery from customers.

XI. CONCLUSION

1

2

Q. Does this conclude your prefiled rebuttal testimony?

3

A. Yes, it does.