

**EXH. DAH-4T
DOCKETS UE-190529/UG-190530
UE-190274/UG-190275
2019 PSE GENERAL RATE CASE
WITNESS: DUANE A. HENDERSON**

**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

DUANE A. HENDERSON

ON BEHALF OF PUGET SOUND ENERGY

JANUARY 15, 2020

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PUGET SOUND ENERGY

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
DUANE A. HENDERSON**

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1 **PUGET SOUND ENERGY**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**
3 **DUANE A. HENDERSON**

4 **I. INTRODUCTION**

5 **Q. Are you the same Duane A. Henderson who submitted prefiled direct**
6 **testimony on June 20, 2019, on behalf of Puget Sound Energy (“PSE”) in this**
7 **proceeding.**

8 A. Yes.

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

10 A. My rebuttal testimony responds to the testimony of Commission Staff witness,
11 David C. Gomez, DCG-1CT, regarding three topics: the inclusion in this case of
12 certain natural gas distribution system upgrades needed to support the Tacoma
13 LNG Facility, the increase in costs for distribution system upgrades between the
14 2018 ERF filing and this rate case filing, and the anticipated in-service date for
15 the Tacoma LNG Project.

16 **II. DISTRIBUTION UPGRADES RELATED TO TACOMA**
17 **LNG PROJECT**

18 **Q. Please refresh our understanding of the distribution system upgrades related**
19 **to the Tacoma LNG Project.**

20 A. There are three primary area upgrades necessary to connect the Tacoma LNG
21 Facility to the PSE gas distribution system:

1 Upgrade 1 Four miles of new piping connecting the Tacoma LNG Facility to
2 the PSE natural gas distribution system.

3 Upgrade 2 One mile of 12-inch high pressure piping installed along Golden
4 Given Road East, and installation of the new Golden Given Limit
5 Station.

6 Upgrade 3 Upgrades to the Frederickson Gate Station.

7 **Q. Which of these upgrades have been constructed and put into service?**

8 **A.** Construciton on the four miles of new pipeline (Upgrade 1) was completed and
9 the pipeline placed into service in October 2017. Construction on the upgrade to
10 the Frederickson Gate Station (Upgrade 3) was completed and the facility placed
11 into service in September 2017. Construction of the one mile of 12-inch high
12 pressure pipeline and the new Golden Given Limit Station (Upgrade 2) has been
13 delayed pending approval of the Notice of Construction permit by the the Puget
14 Sound Clean Air Agency (“PSCAA”). This approval was received on
15 December 10, 2019, and a new schedule is being developed for the construction
16 of Upgrade 2 to meet the anticipated in-service date for the Tacoma LNG facility.

17 **Q. Why is it appropriate to include the cost of Upgrade 1 and Upgrade 3 in the**
18 **test-year rate base?**

19 **A.** Mr. Gomez incorrectly concludes that because the Tacoma LNG facility is not yet
20 operational, that all system investments made to date should not be allowed in
21 rates. However, as discussed in the Commission’s policy statement in Docket

1 UE-100849, investments have been allowed into rate base before they were
2 needed to meet load. Upgrade 1 and Upgrade 3 are both capable of being put to
3 use and are being put to use as discussed in my prefiled direct testimony, even
4 though the Tacoma LNG Facility is not yet in service.

5 **Q. Is it common for pipeline infrastructure to be installed in advance of the**
6 **customer need date?**

7 A. Yes. PSE works closely with the customer to determine when best to install
8 pipeline infrastructure to meet the in-service requirements of the customer's
9 project. PSE considers risks to the infrastructure project that may impact the
10 construction schedule, such as permitting and environmental factors (weather),
11 when developing the overall project schedule. This practice is consistent with
12 Commission policy. In fact, the Commission has stated plainly that "we have
13 allowed resources into rate base before they were needed to meet load."¹

14 **Q. Do customer projects always become operational in accordance with their**
15 **initially communicated need date?**

16 A. No. It is common for customer projects to experience unforeseen delays that
17 result in pipeline infrastructure being installed in advance of their readiness to
18 receive gas. When PSE is made aware of these delays with enough advance

¹ Report and Policy Statement, Docket UE-100849 ¶ 55 (Jan. 3, 2011).

1 notice, PSE endeavors to adjust its construction schedule accordingly, as was
2 done for the construction of Upgrade 2.

3 **Q. Should the cost of Upgrade 1 and Upgrade 3 be included in rate base at this**
4 **time?**

5 A. Yes. Both Upgrade 1 and Upgrade 3 are used and useful. PSE exercised
6 reasonable planning for the construction of the distribution system upgrades given
7 the information available at the time. When circumstances changed, PSE took
8 appropriate actions to adjust the schedule for the remaining work.

9 **Q. Please explain the additional costs for the 4-mile pipeline included in this rate**
10 **filing?**

11 A. As noted by Mr. Gomez, the cost for the 16-inch pipeline (Upgrade 1) is
12 approximately \$4.3 million more than the cost included in the 2018 ERF filing.
13 This additional cost is for funding of city-required (and city-performed)
14 mitigation measures by the City of Tacoma. The fees were paid in December
15 2018, after the ERF filing. The permit fee (\$4 million) and associated overheads
16 (\$320,143) account for the entirety of the cost difference.

17 **Q. What is the anticipated in-service date for the Tacoma LNG Facility?**

18 A. With the December 10, 2019, decision by the PSCAA to approve the Notice of
19 Construction permit, PSE anticipates the Tacoma LNG Facility to be operational
20 as early as March 2021.

1 **Q. Would PSE accept deferral of the three upgrades until the LNG facility is in**
2 **service?**

3 A. Yes. While it would be appropriate to allow for the recovery of Upgrade 1 and
4 Upgrade 3 in this rate case because they are currently used and useful, PSE would
5 accept being required to defer the return on and of Upgrades 1 and 3 until the
6 LNG system is in service, and all three upgrades could be analyzed in a future rate
7 case.

8 **III. CONCLUSION**

9 **Q. Does this conclude your testimony?**

10 A. Yes it does.