Exh. BAE-1Tr
Dockets UE-260005, UG-260006
and UE-260113
Witness: Betty A. Erdahl

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**DOCKETS UE-260005 & UG-260006**
In the Matter of the Petition of **PUGET SOUND ENERGY** **For an Accounting Order Authorizing the Deferred Accounting Treatment for FERC Interest Associated with Mandatory Transmission Network Upgrades**	**DOCKET UE-260113** **(Consolidated)**

TESTIMONY OF

BETTY A. ERDAHL

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Test Year Investor Supplied Working Capital Amount
Investor Supplied Working Capital - Common Adj. 6.19 (Electric and Natural Gas)

July 28, 2026

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Betty A. Erdahl, and my business address is 621 Woodland Square Loop SE, Lacey, WA 98503. My business mailing address is P.O. Box 47250, Olympia, WA 98504-7250. My email address is betty.erdahl@utc.wa.gov.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a Regulatory Analyst in the Energy Regulation Section of the Regulatory Services Division.

Q. Please state your educational and professional background.

A. I received a Bachelor of Arts degree in accounting from Washington State University in 1988. I have also completed relevant coursework such as the "Basics of Regulation" offered by New Mexico State University; the Rate Making Process Technical Program; the USTA class on Understanding Separations, Access Charges, and Settlements; as well as Utility Ratemaking: The Fundamentals and the Frontier. Before joining the Commission, I worked for two years as an accountant in the financial sector. I have worked at the Commission as a Regulatory Analyst since June 1991 and in my current position since July 2013.

Q. Have you previously testified before the Commission?

A. Yes. With respect to Puget Sound Energy (PSE or the Company), I sponsored testimony on behalf of Commission Staff in the following adjudicated proceedings: PSE's 2011 general rate case (GRC), Dockets UE-111048 and UG-111049; PSE's 2017 GRC, Dockets UE-170033 and UG-170034; PSE's 2019 GRC, Dockets UE-190529 and UG-190530; and PSE's 2022 GRC, Dockets UE-220066 and UG-220067.

I also sponsored testimony on behalf of Commission Staff in Pacific Power & Light Company's (PacifiCorp's) 2013 GRC, Docket UE-130043; PacifiCorp's 2014 GRC, Docket UE-140762, et al.; Avista Corporation d/b/a Avista utilities' s (Avista's) 2014 GRC, Dockets UE-140188 and UG-140189; Avista's 2017 GRC, Dockets UE-170485 and UG-170486; Avista's 2019 GRC, Dockets UE-190334 and UG-190335; Cascade Natural Gas Corporation's (Cascade's) 2015 GRC Settlement, Docket UG-152286; Cascade's 2017 GRC Settlement, Docket UG-170929; and Cascade's 2019 GRC Settlement, Docket UG-190210.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the purpose and scope of your testimony?

A. The purpose of my testimony is to present Staff's recommendation regarding: 1) the calculation of the Investor-Supplied Working Capital (ISWC) included in the test year, and 2) the ISWC portion of Common Adjustment 6.19 (electric and natural gas operations), as filed by PSE. The results of my analysis are incorporated into the revenue

requirement models of Staff witness Sorrells, Exh. SJS-4 for electric and Exh. SJS-5 for natural gas.

Q. What is the summary of your recommendations?

A. First, Staff recommends several changes to the categorization of balance sheet accounts when calculating ISWC, decreasing PSE's proposed test year ISWC amount. Second, Staff recommends the Commission return to the Company's prior use of average of monthly averages (AMA) convention for ISWC, even if the Commission authorizes the end of period (EOP) convention for plant and associated accounts. The overall impact of Staff's recategorization of many accounts and the use of an AMA amount results in decreases to PSE's electric and natural gas revenue requirements of approximately $17.0 million and $8.1 million respectively.[1]

Q. Have you prepared any exhibits in support of your testimony?

A. Yes. I prepared Exhibits BAE-2 through BAE-4, included above in the List of Exhibits.

III. INVESTOR SUPPLIED WORKING CAPITAL

Q. What is working capital and its significance in ratemaking?

A. Working capital is a measure of financial liquidity reflecting a company's ability to meet its day-to-day operational requirements inherent in a business cycle. A business cycle consists of three basic stages: production, sales, and collection of revenue from

[1] These differences include the use of Staff proposed 7.50 percent Rate of Return.

customers. The costs of production and sales are incurred prior to the collection of revenues. Working capital represents the funds needed by a company to pay its current obligations while waiting for payment from its customers. The funds needed by a company to run its business day-to-day vary month-to-month and thus the AMA amount is used when calculating the return on ISWC.

From a regulatory standpoint, ISWC is measured to quantify the portion of working capital that has been provided by investors. This amount is then included in rate base to provide a return on this investment for the company's ongoing sustainability. However, it is important to note that ISWC is not investment in plant. It is only included in the rate base section of the revenue requirement model to apply a return on that amount for rate making purposes. It can be calculated by subtracting current liabilities from current assets. Another calculation option is to subtract total investments from average invested capital; this results in the same amount of cash working capital. The objective of the calculation is to determine the amount of cash provided by investors required to fund day-to-day operations during the lag between paying expenses and receiving revenue from customers.

Q. What is the ratemaking perspective of ISWC?

A. For ratemaking purposes, ISWC is a measure of investor funding of daily operating expenditures and a variety of non-plant investments that are necessary to sustain ongoing operations of the utility. The purpose of including working capital in rate base is to allow investors the opportunity to earn a return on that amount. Thus, ratepayers compensate the investors for capital they have supplied to enable the company to operate efficiently

and economically and for which they would not otherwise be compensated. As a result, the utility is authorized to earn a return on the amount of investor supplied funds which have provided service to the ratepayers.

Q. What is the basic concept of the ISWC method used by Staff?

A. There are two commonly used approaches to determine ISWC: 1) the lead-lag approach, and 2) the balance sheet approach. Historically, the Commission has relied on the balance sheet approach. Broadly speaking, ISWC measures the difference between the capital invested in a business and the investments in the business. In other words, as the name implies, ISWC is the amount of invested capital that was provided by investors and available for the company's use, over and above the company's investments in operating and non-operating portions of the utilities business. If there is an excess of invested capital over investments, that amount is ISWC and although it is not plant or investment, ISWC is treated as a rate base item simply to earn a return on that amount. In contrast, the lead-lag approach to working capital uses the income statement instead of the balance sheet.

Q. Who provides working capital besides investors?

A. Working capital may be provided by ratepayers or non-investors via various regulatory treatments such as deferred income taxes, customer deposits, or trade creditors. This provides a company with the use of those funds for a period of time because the expenses are paid at a later date.

Q. How does PSE calculate its ISWC?

A. The Company's process for calculating ISWC is to put each general ledger account on the balance sheet into one of four categories: Current Assets, Current Liabilities, Average Invested Capital, or Total Investments.[2] Based on these categories, PSE calculated a working capital amount of $457.6 million[3] by subtracting Total Investments from Total Average Invested Capital. Once the AMA ISWC amount of $457.6 million was determined, the Company allocated the amount of ISWC between electric operations, natural gas operation, and non-operating investments of $249.2 million, $124.9 million, and $83.5 million, respectively.[4]

Next, PSE adjusted ISWC balances from AMA to EOP in Common Adj. 6.19, increasing total ISWC from $457.6 million to $627.4 million.[5] This increases the ISWC amount in rate base by approximately $96.2 million from $249.2 million to $345.4 million for electric operations, and an increase of $45.3 million from $124.9 million to $170.2 million for natural gas operations with the remainder allocated to non-utility.[6] ISWC is included in the rate base section of each revenue requirement model to assure that it earns a return based on the Commission authorized cost of capital. PSE's proposed revenue requirement impact of its use of EOP for ISWC calculation is $37.4 million[7] for electric operations and $18.3 million[8] for natural gas operations.

[2] Erdahl, Exh. BAE-2, underlying workpapers, Account Detail tab, columns AI through AL.
[3] Erdahl, Exh. BAE-2 tab, column (b), line 17, Jun-25 AMA Investor Supplied Working Capital.
[4] Erdahl, Exh. BAE-2 tab, column (b), lines 21, 23, and 25.
[5] Erdahl, Exh. BAE-2 tab, column (a), line 17, Jun-25 EOP Investor Supplied Working Capital.
[6] Erdahl, Exh. BAE-2 tab, column (c), lines 21, 23 and 25.
[7] Erdahl, Exh. BAE-2, column (a), line 32 (highlighted pink).
[8] Erdahl, Exh. BAE-2, column (a), line 35 (highlighted pink).

A. Categorization of Balance Sheet Accounts

Q. Does PSE categorize the accounts similar to Staff when calculating ISWC?

A. In general, yes. In the Company's 2017 GRC, Dockets UE-170033 and UG-170034, Staff worked with PSE to reach consensus on the categorization of many of the general ledger accounts.[9] However, in this rate case, the Company categorized some of the accounts differently than how Staff believes they should be categorized.[10] The ISWC calculation methodology is the same, but the categorization of some accounts is different from Staff's recommendation.

Q. Did Staff examine PSE's categorization of balance sheet accounts in this GRC?

A. Yes. Staff analyzed the Company's ISWC model, Company witnesses Free's and Pavel's workpaper: 260005-06-PSE-WP-SEF-5-TJP-5-WkgCapRateBase-26GRC-02-2026,[11] which included approximately 2000 accounts. Staff identified several accounts that it believes should be categorized differently, including the accounts associated with the Climate Commitment Act (CCA), Conservation, Regulatory Filing Fee Deferral, , Adjustments to Retained Earnings related to the 2017 Tax Cuts and Jobs Act (TCJA), Puget Western's retained earnings account, and accounts related to Tacoma Liquefied Natural Gas (LNG).

[9] *See Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-170033 & UG-170034, Order 08, Final Order Approving and Adopting Multiparty Settlement Stipulation, Appx. B, 17-18, ¶ 64, Exh. C (Dec. 5, 2017).
[10] Erdahl, Exh. BAE-3.
[11] Erdahl, Exh. BAE-2, Account Detail tab.

Q. Did Staff discuss these accounts with the Company and send out data requests?

A. Yes. Staff met with Company representatives and issued several data requests regarding ISWC.[12] In general, these data requests asked the Company to identify what certain accounts represent and explain the rationale behind the categorizations.

Q. How does PSE categorize its accounts?

A. Exhibit BAE-2 is PSE's workpaper 260005-06-PSE-WP-SEF-5-TJP-5-WkgCapRateBase-26GRC-02-2026, the Account Detail tab lists all balance sheet accounts. Each account is categorized as Current Asset, Current Liability, Average Invested Capital, or Investment. Next, investments are allocated into one of the following categories: electric operations, natural gas operations, or non-operating. Separating investments into these categories is necessary to calculate the percentage of the total investment for each of these operations. The investments category includes all assets that already earn a return (electric and natural gas rate base), investments that are not allowed for rate-making purposes, and investments that are not used in utility operations, for which the Company is not entitled to earn a return (non-operating).[13] Finally, ISWC is allocated between these three operations based on the percentages.

Q. What are the accounts that Staff recommends being categorized differently than PSE?

[12] Erdahl, Exh. BAE-4. Staff issued other DRs but did not receive a response from the Company in time to include them in testimony.
[13] *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light* Co., Cause No. U-83-33, Second Supplemental Order, 19 (Feb. 9, 1984).

A. Exh. BAE-3 is an updated version of PSE's ISWC workpaper that includes Staff's recommended recategorization of several accounts[14] to better align with regulatory rate-making theory. The following is a list of the accounts recategorized by Staff:

1. 13400113 CCA Bid Guarantee Auction Deposit Account represents cash that has not yet been spent by the Company. Staff re-categorized this account from Current Asset (CA) to non-operating because there is a separate tracker for CCA allowances that accrues interest on the deferred amount. Thus, it should not earn a return through ISWC treatment. Additionally, PSE informally stated that these funds represent a deposit that is required to be held by the Company prior to the auction.[15] If that is true, then these funds are not available for use in day-to-day operations. The impact of this re-categorization results in a lower ISWC amount.
2. 18230021, 18230032, 18230042, 18230621,18239881, 18239901, 18239941, 19000562, 23200961, 28300262, 28300581, 19000562 Conservation accounts identified by Staff. These accounts were categorized as Current Asset (CA) or Current Liability (CL). Staff re-categorized them to be non-operating because WAC 480-109-130(3) states that a utility may not accrue interest or incur a carrying charge on the deferred conservation cost balances. Specifically, it states "…with revisions to recover only actual program costs of the prior year." The implication is that it should not receive working capital treatment. If the accounts were included in CA or CL, the Company would receive a return through ISWC treatment. In a pending data request Staff asked PSE to provide a list of all

[14] Erdahl, Exh. BAE-3, tab Recategorized Accts.
[15] Erdahl, Exh. BAE-4.

conservation-related accounts. If Staff missed any of the conservation accounts, those missed accounts should also be re-categorized to non-operating. The impact of the re-categorization results in a lower ISWC amount.

3. 18238341, 18238342 Elec and Gas Reg Fee accounts were categorized as CA. Staff re-categorized these accounts as non-operating because these accounts accrue interest according to Dockets UE-220407 and UG-220408, Orders 01 and 02. A pending data request asked PSE to confirm whether or not it is authorized to accrue interest on the deferred balance, and to provide the citation of this decision. The impact of the re-categorization results in a lower ISWC amount.

4. 43900003 Adjustments to Retained Earnings was categorized as non-operating. Staff re-categorized this account to AIC. This adjustment is due to the 2017 Tax Cuts and Jobs Act and relates to PSE's regulated operations. The Company agrees that this account should be reclassified as AIC. [16] The impact of the re-categorization results in no change to ISWC total, but it lowers the percentage of ISWC being allocated to electric and natural gas operations.

5. 21610013 Puget Western – Retained Earnings was categorized as AIC. Staff re-categorized this account to non-operating because it relates to the earnings of an unregulated subsidiary. The impact of the re-categorization results in no change to ISWC total, but it lowers the percentage of ISWC being allocated to electric and natural gas operations.[17]

6. 18230512, 18239642, 18239652, 18239972, 28300292, 28302342 Tacoma LNG

[16] Erdahl, Exh. BAE-4.
[17] Depending on whether the balance is negative (5 above) or positive (6 above) determines the impact on the allocation to non-operating operations.

Accounts that were categorized as CA, CL, and non-operating. These accounts should be categorized as gas rate base per orders in Dockets UG-230393 and UG-250744. The impact of changing each account results in the following: 18230512 and 18239972 decreases ISWC; 28302342 increases ISWC; and 18239642, 18239652, and 28300292 results in an increase in the percentage of ISWC allocated to the natural gas operations.

Q. Have the categorizations of accounts in ISWC calculation changed over the years?

A. Yes. ISWC was first addressed and included for rate making purposes decades ago. Over the years new accounts have been added, deleted, and possibly recategorized.

Q. Does Staff support the re-categorization of each and every account in PSE's ISWC calculation?

A. Not necessarily. ISWC is a work in progress. PSE has approximately 2,000 lines of accounts on the balance sheet. It is difficult to analyze every account, and Staff examines a variety of accounts every time it reviews ISWC in a rate case. Staff evaluates new accounts, accounts in which the categorization changed, and accounts that look questionable. This can lead Staff to recommend re-categorization of accounts. Staff notes that recommendations may differ from prior Staff recommendations. Staff reserves the right to update its recommendations based on current and timely information. For example, Staff agreed that the conservation related accounts could continue to be categorized as either a CA or CL in a prior GRC. After much consideration and seeing

how Avista handles these accounts in its ISWC treatment,[18] Staff believes the appropriate treatment of the conservation accounts is to categorize them as non-operating based on WAC 480-109-130.

Q. What is the impact of Staff's re-categorization of the accounts listed above?

A. The re-categorization of accounts by Staff decreases total AMA ISWC by approximately $82.0[19] million, from $457.6[20] million to approximately $375.6 million.[21] The AMA ISWC amount that should now be allocated to electric operations is $203.4 million,[22] and the amount that should be allocated to natural gas operations is $102.5 million.[23]

Q. How does Staff's ISWC re-categorizations impact revenue requirements?

A. These decreases to ISWC result in a reduction in the electric and natural gas operations' revenue requirements of $6.6 million[24] and $3.2 million,[25] respectively. The calculation of the revenue requirement impact uses Staff's proposed rate of return of 7.50 percent. These revenue requirement amounts are prior to addressing PSE's proposed Common Adjustment 6.19 (electric and natural gas).

[18] *See Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-260007 & UG-260008, Hillstead, Exh. KMH-2 at lines 280 and 451.
[19] Erdahl, Exh. BAE-3, column (g), line 17.
[20] Erdahl, Exh. BAE-3, column (c), line 17.
[21] Erdahl, Exh. BAE-3, column (e), line 17.
[22] Erdahl, Exh. BAE-3, column (e) line 21.
[23] Erdahl, Exh. BAE-3, column (e) line 23.
[24] Erdahl, Exh. BAE-3, column (g) line 29.
[25] Erdahl, Exh. BAE-3, column (g) line 30.

B. Common Adjustment 6.19 (Electric and Natural Gas) - ISWC AMA to EOP

Q. What is PSE's proposal regarding Common Adj. 6.19 (electric and natural gas)?

A. PSE adjusts its plant and plant associated accounts in rate base from AMA to EOP in Common Adj. 6.19 (electric and natural gas). In addition to adjusting plant and plant associated accounts from AMA to EOP, the Company also adjusts ISWC from AMA to EOP.

Q. Does Staff agree with PSE's proposal to adjust ISWC from AMA to EOP?

A. No. Staff does not agree with the Company's proposal to adjust ISWC from AMA to EOP.

Q. Do any other regulated utilities in Washington state adjust to EOP for ISWC?

A. No. PSE is the only regulated utility in Washington state authorized to adjust ISWC to an EOP amount.

Q. Why does PSE propose adjusting ISWC from AMA to EOP in Common Adj. 6.19 (electric and natural gas)?

A. PSE first proposed this adjustment in Dockets UE-190529 and UG-190530 (consolidated). Staff filed testimony opposing the use of EOP for ISWC and recommended the continued use of AMA.[26] On rebuttal, PSE accepted Staff's

[26] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy,* Dockets UE-190529, UG-190530, UE-190274, UG-190275, UE-171225, UG-171226, UE-190991 & UG-190992, Final Order 08/05/03, 69, ¶ 229 (July 8, 2020) (2019 PSE GRC Order).

recommendation.[27] However, the Commission did not accept Staff's recommendation to maintain the use of AMA for ISWC.[28]

Q. What was the Commission's decision regarding the use of EOP for ISWC?

A. The Commission declined to adopt Staff's recommendation and instead accepted PSE's original proposal to value all components of rate base (plant and ISWC) on an EOP basis.[29] The Commission stated that in addition to addressing regulatory lag,[30] EOP provides the most balanced and accurate representation of rate base. The fact that ISWC is a calculation did not persuade the Commission that portions of rate base should be valued differently. The Commission concluded that all portions of rate base should be treated consistently.[31]

Q. Does Staff agree with the Commission's decision to use EOP for ISWC?

A. No. Staff respectfully disagrees with the Commission's decision to allow PSE to adjust ISWC to EOP. ISWC is not a component of plant, it is only included in rate base to provide a return for rate making purposes, and should not be treated as plant. In addition, to treat ISWC differently than plant does not violate the matching principle because ISWC is not plant. Accordingly, there is no associated depreciation expense or related deferred taxes.

[27] 2019 PSE GRC Order at 69, ¶ 230.
[28] 2019 PSE GRC Order at 69, ¶ 231.
[29] 2019 PSE GRC Order at 66, ¶ 216.
[30] 2019 PSE GRC Order at 68, ¶ 227.
[31] 2019 PSE GRC Order at 69, ¶ 231.

Q. What is the best valuation of ISWC during the rate effective period?

A. ISWC is the amount of funds investors provide to run the business on a day-to-day basis. Unlike investment in plant, ISWC fluctuates from month to month and is not a cumulative amount. The fluctuations in ISWC are due to timing difference between when payments are paid versus when revenue is collected. Because this amount varies each month, the use of AMA is appropriate and the proper valuation of ISWC to use during the rate effective period. The only reason ISWC is included in the rate base section of the revenue requirement model is to calculate a return on this amount.

Q. What is rate base and why is EOP used for rate base?

A. Rate base is the section of the revenue requirement model that includes the value of property upon which a utility is permitted to earn a specific rate of return established by a regulatory authority. This value of property typically includes the utility's physical assets used in providing service, less accumulated depreciation and deferred taxes. Plant is an ever-increasing amount as the utility invests more in physical assets to provide service to customers. Historically, the Commission has used AMA for rate base to account for the fact that plant was put into service throughout the year. The Commission deviated from the use of AMA to EOP to alleviate regulatory lag for the utility by providing a return on *all* plant in service at the end of the test year.[32]

Q. Why is ISWC included in rate base and how does it differ from plant?

[32] 2019 PSE GRC Order at 66, ¶ 216.

A. ISWC determines the cash from investors that a company needs to fund day-to-day operations. It is essentially the external funding that supports a business's short-term needs, with the understanding that part of the funds are provided by investors rather than the utility's own cash flow. Because ISWC varies month to month, there is no regulatory lag associated with it.

In contrast, plant is the investment needed to provide electric and natural gas service to rate payers and is continually increasing. Therefore, a company will experience regulatory lag if it uses AMA for plant related accounts.

The *only* purpose of including ISWC in the rate base section of the revenue requirement model with plant and plant-associated accounts is to provide a return on the amount of funds the utility provides to meet day-to-day operations. Traditionally, regulators have allowed a return on the amount of money a utility needs to cover operational expenses (labor, materials, and supplies) between when it pays for them and when it receives payment from customers, bridging the gap between revenue and expense cycles. By allowing a return on ISWC in the rate base section of the revenue requirement model, it ensures that operational continuity is maintained, regulatory compliance is met, and financial stability is supported.

Q. How is the average-of-monthly-averages amount calculated?

A. AMA is a mathematical formula used to determine an average annual amount. It uses the test period financial statements,[33] takes the amount from each month, adds it to the prior

[33] Test period financial statements are on an annual basis.

month, and then divides by two. This is done for all months in the test period. Then the averages are totaled to determine the average-of-monthly-averages.

Q. Why use AMA in rate making?

A. The AMA amount traditionally has been used for calculating net plant to reduce volatility in rates and aligning customer charges with real assets in use. For example, if a utility places a $150 million asset in service on October 1, use of EOP includes the full $150 million for the entire year. If AMA is used, then only three months of the year include the new plant and nine months of the year do not include that plant. This better aligns with the income statement, reflecting the same plant in service that produces the income-statement items used by regulators to set revenue requirements.

Q. Does Staff agree with Common Adj. 6.19 (electric and natural gas) adjusting rate base from AMA to EOP?

A. In part, yes. Staff agrees with PSE's proposal to adjust plant-related amounts from AMA to EOP. The Commission has accepted this approach in the past to address regulatory lag.[34,35] The Company makes additional investments in plant each year to meet customer demands (provide service) and maintain service reliability and quality.

However, Staff does not agree with PSE's adjustment to restate the ISWC

[34] *See Wash. Utils. & Transp. Comm'n v. Avista Corp*., Dockets UE-200900, UG-200901 & UE-200894, Order 08/05, 53, ¶ 143 (Sept. 27, 2021).
[35] *See Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Corp*., Docket UG-200568, Order 05, 47, ¶ 161 (May 18, 2021).

amounts from AMA to EOP. Regardless of the Commission's decision in Dockets UE-190529 and UG-190539, the best valuation of ISWC is to use AMA.

Q. Why does Staff take issue with adjusting ISWC from AMA to EOP?

A. To adjust ISWC from AMA to EOP amounts is inappropriate because ISWC is not plant or investment that grows over time with the possibility of regulatory lag. Instead, ISWC represents cash needed to run the day-to-day operations and fluctuates each month. One month does not necessarily represent what the utility experienced throughout the year.

Q. Is it appropriate to present ISWC on an AMA basis or an EOP basis?

A. For ratemaking purposes, it is appropriate to present ISWC using an AMA amount. The use of an EOP convention would provide a misleading picture of a company's annual ISWC needs, as it only represents one month in a fluctuating 12-month period. Because ISWC is a calculation, not an account, it does not accumulate over a period of time. It fluctuates throughout the test year, increasing and decreasing from month-to-month.

Additionally, because it is a calculation, not an account, the matching principle is not violated by using one convention for ISWC and a different convention for plant.

Q. What is your recommendation regarding ISWC part of Common Adj. 6.19 (electric and natural gas)?

A. Staff recommends the Commission require PSE to use the AMA amount for ISWC. This decreases PSE's electric and natural gas operations' revenue requirements by approximately $10.4 million and $4.9 million, respectively.

IV. CONCLUSION

Q. What is the overall impact of Staff's proposed recommendations to re-categorization of certain accounts and to use the AMA amount for ISWC?

A. Staff's proposal to re-categorize certain accounts and use the AMA amount for ISWC instead of adjusting to EOP, results in a revenue requirement decrease to electric operations of approximately $17.0 million and a decrease to natural gas operations of approximately $8.1 million.

Q. Does this conclude your testimony?

A. Yes.