

**EXH. JJS-4T
DOCKETS UE-190529/UG-190530
UE-190274/UG-190275
2019 PSE GENERAL RATE CASE
WITNESS: JOHN J. SPANOS**

**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

JOHN J. SPANOS

ON BEHALF OF PUGET SOUND ENERGY

JANUARY 15, 2020

PUGET SOUND ENERGY
PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
JOHN J. SPANOS
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1 **PUGET SOUND ENERGY**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**

3
4 **JOHN J. SPANOS**

5
6 **I. INTRODUCTION**

7 **Q. Are you the same John J. Spanos who submitted prefiled direct testimony in**
8 **June 2019 on behalf of Puget Sound Energy (“PSE”) in this proceeding?**

9 A. Yes.

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

11 A. My rebuttal testimony responds to Public Counsel witness Paul J. Alvarez. Mr.
12 Alvarez’s proposal to deny a return of and on the unrecovered costs for the
13 Company’s legacy electric meters that have been or will be replaced with
14 Advanced Metering Infrastructure (“AMI”) meters in the Company’s AMI
15 Program. Many utilities across the country have implemented AMI programs,
16 which have resulted in unrecovered legacy meter costs upon retirement. Mr.
17 Alvarez has not provided any examples of regulators that have denied the return
18 of legacy meter costs. In contrast, based on my experience, utilities have been
19 afforded recovery of these costs, which were prudent when incurred. In addition, I
20 have provided cases in other jurisdictions in which utilities have been afforded the
21 opportunity to earn a return on these costs as well.

1 **II. PUBLIC COUNSEL’S PROPOSAL TO DENY A RETURN**
2 **OF AND ON UNRECOVERED COSTS OF LEGACY METERS**
3 **SHOULD BE DENIED**

4 **Q. What will you address related to AMI meters?**

5 **A.** I will address Mr. Alvarez’s proposal that, if the Commission accepts the
6 Company’s AMI Meter program, it should disallow a return of and on the retired
7 legacy meters.

8 **Q. On page 25 of his direct testimony, Exh. PJA-1T, Mr. Alvarez proposes that**
9 **the Commission reject PSE’s request for the recovery of and return on its**
10 **AMI investments. Will you address this proposal?**

11 **A.** No. Mr. Alvarez’s proposal and the prudence of the Company’s AMI investments
12 are addressed by Catherine Koch in her prefiled rebuttal testimony, Exh. CAK-
13 6T.

14 **Q. What is Mr. Alvarez’s alternative proposal if the Commission disagrees with**
15 **his primary proposal?**

16 **A.** On page 25 of his testimony, Mr. Alvarez proposes, as an alternative, that the
17 “Commission disallow cost recovery for the \$126.8 million in book value of the
18 existing metering system replaced prematurely.”

19 **Q. Do you agree with Mr. Alvarez’s alternative proposal?**

20 **A.** No. I first note that it is important to understand that there are two separate but
21 related issues incorporated in Mr. Alvarez’s proposal. The first is the return of the
22 unrecovered costs of legacy meters. As a depreciation expert, my testimony will

1 primarily address this first issue, i.e., the return of the unrecovered legacy meter
2 costs. Upon retirement, the Company has recovered only a portion of the costs of
3 legacy meters through depreciation expense. Public Counsel does not contest that
4 legacy meter costs were prudently incurred. Nor does Public Counsel contest that
5 these costs were approved for recovery in multiple previous rate cases.

6 Accordingly, these remaining costs need to be recovered through either
7 depreciation expense or a separate amortization (e.g., of a regulatory asset).

8 Additionally, as discussed by Ms. Koch in her Prefiled Direct Testimony, Exh.
9 CAK-1T, these assets will be in service and benefiting customers for one or more
10 years into the future as AMI installations progress through 2023 and, therefore,
11 PSE is entitled to a return of and on these AMR assets while in service.

12 The second issue relates to the return on the unrecovered legacy meters costs.

13 During the course of my discussion of the cases addressing the return of legacy
14 meter costs, I also reference cases in other jurisdictions that addressed the return
15 on unrecovered meters costs.

16 **Q. Are you familiar with any cases in which a company was not afforded the**
17 **opportunity for the return of legacy meters costs?**

18 A. No, nor has Mr. Alvarez provided citations to any such cases. In the First Exhibit
19 to my Prefiled Rebuttal Testimony, Exh. JJS-5, I provide Public Counsel's
20 Response to PSE Data Request No. 018, in which Mr. Alvarez admits that he is
21 unaware of any cases in which a regulatory commission denied a return of the
22 costs of legacy meters. Rejecting a return of these costs would result in the

1 disallowance of the recovery of prudently incurred costs that were previously
2 approved for recovery in rates. Instead, the issue regarding the return of these
3 costs is that the service life of legacy meters was shorter than previously
4 anticipated. Legacy meters provided service to customers, but due to the
5 installation of a superseding technology (i.e., the AMI meters), only a portion of
6 their costs have been recovered to date. The Company, therefore, at a minimum
7 should receive a return of these costs.

8 I note that the Company's proposal for the recovery of these costs is already a
9 deferral of cost recovery when compared to their experienced service lives. This
10 is evident as the proposed 10-year recovery period is longer than the remaining
11 lives of these assets (as they have now reached the end of their service lives)
12 which would support immediate recovery of legacy meter costs. Recovering these
13 costs over the longer period of time proposed by the Company will reduce the
14 annual cost to customers.

15 **Q. Are you familiar with any cases in other jurisdictions for which both the**
16 **return on and return of were approved for legacy meters?**

17 A. Yes, I identify several below.

18 **FLORIDA**

19 For many types of retirements that occur earlier than expected, the Florida Public
20 Service Commission ("FPSC") has historically used a mechanism called a
21 "capital recovery schedule" to recover the costs of retired (or expected to retire)
22 assets. The unrecovered costs of assets recovered through capital recovery

1 schedules remain in rate base until fully recovered. As explained by the FPSC in
2 Order No. PSC-10-0153-FOF-EI in Docket Nos 080677-EI and 090130-EI (p.
3 21):

4 Under the capital recovery schedule mechanism, the investment
5 and associated reserve of installations facing near-term retirement
6 are separated out as sub-accounts, and the unrecovered net
7 amounts are amortized over the period of their remaining service to
8 the public. The mechanism is in our depreciation rule, and is the
9 standard practice of this Commission.

10 I note that there have been circumstances in which the recovery period has
11 extended beyond the period assets were in service. The FPSC's has explained its
12 reasoning for using capital recovery schedules as follows (p. 23 of Order No.
13 PSC-10-0153-FOF-EI):

14 If assets retire earlier than the average life of the group without
15 recovery being afforded, a negative reserve component is created.
16 The negative reserve component translates into a positive rate base
17 element. From the Company's standpoint, it will continue to earn a
18 return on this non-existent plant over the life of the group. From
19 the ratepayers' standpoint, they will continue paying for plant no
20 longer providing service until the situation is corrected. Negative
21 reserve amounts are non-life related net investments that we have
22 historically corrected as fast as practicable to remedy the existing
23 intergenerational inequity.

24 In that docket, the FPSC approved capital recovery schedules for Florida Power &
25 Light's meters made obsolete by AMI meters. ¹

¹ Florida Order 10-0153-FOF-EI (pp. 23-25).

1 **NEVADA**

2 In Nevada, utilities also received a return of and return on retired legacy meters.

3 In the order for Nevada Dockets 10-02009, 10-03022 and 10-03023, the Nevada

4 Public Utilities Commission found that:

5 319. Regarding the treatment of the costs related to both the non-
6 AMI and AMI meters between general rate cases, the Commission
7 accepts the regulatory asset accounting methodology proposed by
8 the Companies and Staff for the non-AMI meters. This approach
9 eliminates the potential for financial impairment which could result
10 in a financial loss. The ASD deployment is projected to create
11 significant operational benefits, which are anticipated to exceed the
12 estimated ASD revenue requirements between rate cases. The
13 authorized accounting allows the Companies to retain these
14 benefits during the interim between general rate cases.

15 In the same order, the Nevada Commission also found that:

16 322. Further, the Commission agrees with the Companies that the
17 non-AMI meter regulatory asset amortization period and carry will
18 be established in the appropriate general rate case.

19 **NORTH CAROLINA**

20 In North Carolina, regulatory asset treatment was approved in stipulations for

21 Duke Energy Progress and Duke Energy Carolinas. In its order adopting the

22 stipulation for Duke Energy Progress, the North Carolina Utilities Commission

23 found that:

24 66. DEP's request to defer to a regulatory asset account the cost of
25 existing AMR meters replaced by AMI meters should be
26 approved.²

² Order in North Carolina Docket Nos. E-2, Sub 1131, 1142, 1103 and 1153 (p. 20).

1 The stipulating parties agreed to “a 10-year remaining life for the meters that are
2 being retired pursuant to the Company’s AMI program.”³

3 For Duke Energy Carolinas, the North Carolina Utilities Commission found that:

4 38. DEC’s AMI costs are reasonable and prudent, and DEC should
5 be allowed to recover its AMI costs.

6 39. DEC should be required to design and propose new rate
7 structures to capture the full benefits of AMI.

8 40. It is just and reasonable for DEC to recover the remaining book
9 value of its Automated Meter Reading (AMR) meters over 15
10 years.⁴

11 **NEW YORK**

12 The New York Public Service Commission allowed both Con Edison and Orange
13 and Rockland to recover their remaining undepreciated legacy meter investment
14 over 15 years, accounting for the costs as a separate regulatory asset.⁵

³ Order in North Carolina Docket Nos. E-2, Sub 1131, 1142, 1103 and 1153 (p. 43).

⁴ Order in North Carolina Docket Nos. E-7, Sub 1146, 819, 1152 and 1110 (p. 21).

⁵ Case 16-E-0060, *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service*, et al., Order Approving Electric and Gas Rate Plans, (issued January 25, 2017) (see p. 41); Case 18-E-0067, *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Electric Service*, et al., Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans, (issued March 14, 2019) (see p. 49).

1 **CALIFORNIA**

2 The California Public Utilities Commission (“California PUC”) has also ruled on
3 this issue in a case for Pacific Gas & Electric Company (“PG&E”). PG&E had
4 initially proposed to effectively recover the costs of legacy meters over 18-years
5 with a full return on the unrecovered costs. The California PUC allowed a return
6 of and a return on these costs. However, in conjunction with a reduction in the
7 return on these costs, the California PUC reduced the recovery period. The
8 California PUC shortened the recovery period to six-years, which it explained as
9 follows:

10 In the cases discussed above where a utility was either denied a
11 rate of return or granted a rate of return, the amortization period
12 was set at a reduced length of time, generally in the range of four
13 to five years. To our knowledge, TURN’s proposal to deny all
14 return on the retired meters while maintaining the 18-year
15 amortization schedule is without precedent. TURN does not cite
16 any prior case in which the Commission denied all return on
17 investment in prematurely retired long-lived assets without
18 substantially shortening the amortization period. Indeed, due to
19 inflation and the time value of money, forcing PG&E to wait 18
20 years to recover the \$341 million balance in the retired meters at a
21 zero percent rate of return would be tantamount to imposing a
22 substantial penalty on PG&E shareholders.

23 The shortened recovery period minimizes, to an extent, the effect
24 of granting or denying a rate of return. From a shareholder
25 perspective, the shortened period accelerates recovery of funds on
26 which they do not earn a return. From a ratepayer perspective, the
27 shortened period reduces the total amount of return that will be
28 incurred. (emphasis added)

29 As noted in the excerpt of the order above, the California PUC also allowed a
30 return on legacy meters costs. However, due in part to the reduced recovery
31 period, the return on equity component was reduced.

1 **II. CONCLUSION**

2 **Q. Does this conclude your rebuttal testimony?**

3 A. Yes.