**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**Dockets UE-190529 & UG-190530**
**Puget Sound Energy**
**2019 General Rate Case**

**PUBLIC COUNSEL DATA REQUEST NO. 270:**

Please refer to Catherine A. Koch's Rebuttal Testimony, Exh. CAK-6T at 12:11-13, which states "(i)f book value were included in calculations when evaluating alternatives, it would need to be applied to all the alternatives."

a) Explain why the book value of assets being removed from service should be included in the alternative in which AMR assets are not removed from service.

b) When assets PSE values at $127 million are removed from service, customers lose the functionality previously provided by those assets, though they are still paying for those assets in rates. Explain why this loss of functionality is not a cost to customers which should have been considered in PSE's AMI benefit-cost analysis.

**Response:**

Puget Sound Energy ("PSE") provides the following response to Public Counsel Data Request No. 270.

a) This data request implies that there is an "alternative" in which Automated Meter Reading ("AMR") assets are not removed from service. This is not the case. Each practical and functional alternative will require AMR equipment additions to be made for growth and replacements as a result of AMR failure. The only approach, albeit unrealistic, for which no additions are made is to convert back to manual meter reading as meter failures occur and to not add any new customers. If PSE pursued this unrealistic approach, PSE would be required to manually read AMR meters that have failed, upwards of one million gas and electric meters by 2028, which would be a significant year over year increase in expense. If the objective of this approach is to prevent added cost to customers, the expense of manual meter reading offsets that objective.

   The only comparable "alternative", besides the chosen Advanced Metering Infrastructure ("AMI") system, would be to replace the existing AMR system with another completely new AMR system (meters, modules, and communication devices) because the current system cannot be incrementally replaced due to lack of equipment supply. Any such multi-year alternative that proactively addresses failure and obsolescence has the identical implications to book value as the chosen alternative of installing an AMI system.

b) First, the "loss of functionality" is the basis for the AMI Business Case due to failure and obsolescence. Second, the Prefiled Rebuttal Testimony of Catherine A. Koch, Exh. CAK-6T, pages 9:19-21 to 10:1-4, clarifies that the $127 million book value of assets as of June 30, 2018, are still "functioning" as the AMI transition occurs through 2022-2023.

Per the response to subpart (a), "functionality" of the existing AMR system is failing irrespective of whether meters are retired or left in place and manually read. The inference that "functionality" only exists through the end of depreciation life is simply not the case. Service life and depreciation or recovery life should not be confused. This is further reinforced in the Prefiled Rebuttal Testimony of John J. Spanos, Exh. JJS-4T, as he discusses service life and recovery life relative to utility accounting and regulatory treatment.

Regardless, Mr. Alvarez's argument to include book value in the cost-benefit analysis would still result in the same chosen alternative to transition to AMI as it is the lower cost to customers. Using the same simplified alternative comparison theory discussed in the Prefiled Rebuttal Testimony of Catherine A. Koch, Exh CAK-6T, pages 20:19-23 to 21:1-6, the following results occur:

| | AMI Alternative | Continuing with AMR |
|---|---|---|
| Cost of new AMI | 473 | 0 |
| Maintenance Cost | 148 | 378 |
| Legacy book value* | 100 | |
| Estimated carrying cost** | 49 | |
| Benefits | -436 | 0 |
| Total | 334 | 378 |
| Potential additional benefits related to GTZ | -428 | 0 |
| | -94 | 378 |
| | | |
| * Per PSE's response to Public Counsel Data Request No. 265 | | |
| **Quick estimation using ratio from PJA-1T, page 7 | | |

This analysis ignores the fact that PSE cannot continue with AMR due to lack of future supply. In this scenario, book value will occur due to additions for new customers and replacement due to failure. At some future point, PSE would transition to AMI, and undepreciated book value would exist.