

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

DOCKETS UE-190529 and UG-190530  
(Consolidated)

In the Matter of the Petition of

PUGET SOUNDS ENERGY

For an Order Authorizing Deferral  
Accounting and Ratemaking Treatment for  
Short-life IT/Technology Investment

DOCKETS UE-190274 and UG-190275  
(Consolidated)

In the Matter of the Petition of

PUGET SOUND ENERGY

For an Order Authorizing Deferred  
Accounting associated with Federal Tax Act  
on Puget Sound Energy's Cost of Service

DOCKETS UE-171225 and UG-171226  
(Consolidated)

In the Matter of the Petition of

PUGET SOUND ENERGY

For an Order Authorizing the Accounting  
treatment of Cost of Liquidated Damages

DOCKETS UE-190991 and UG-190992  
(Consolidated)

**REPLY BRIEF OF NUCOR STEEL SEATTLE, INC.**

April 10, 2020

## TABLE OF CONTENTS

<b>I.</b>	<b>INTRODUCTION.....</b>	<b>1</b>
<b>II.</b>	<b>ATTRITION ADJUSTMENT .....</b>	<b>1</b>
<b>III.</b>	<b>COST OF CAPITAL/RETURN ON EQUITY .....</b>	<b>2</b>
<b>IV.</b>	<b>NATURAL GAS REVENUE REQUIREMENT .....</b>	<b>2</b>
<b>V.</b>	<b>COST ALLOCATION .....</b>	<b>3</b>
<b>VI.</b>	<b>CONCLUSION .....</b>	<b>4</b>

## I. INTRODUCTION

1 Pursuant to the Washington Utilities and Transportation Commission’s (the  
“Commission”) Orders 03 and 07 in dockets UE-190529 and UG-190530, Nucor Steel Seattle,  
Inc. (“Nucor”) hereby submits this Reply Brief for consideration by the Commission.

2 While Nucor did not file an Initial Brief in this proceeding, Nucor finds it appropriate to  
file this Reply Brief in support of positions advocated by certain parties to this proceeding.  
Specifically, Nucor supports the Public Counsel Unit of the Washington Attorney General’s  
Office (“Public Counsel”) in its analysis and recommendations related to Puget Sound Energy’s  
 (“PSE” or the “Company”) proposal to implement an attrition adjustment, PSE’s cost of  
capital/rate of return on equity (“ROE”), and PSE’s natural gas revenue requirement. In  
addition, Nucor supports PSE’s natural gas allocation method, which is also supported by the  
Alliance of Western Energy Consumers (“AWEC”).<sup>1</sup>

## II. ATTRITION ADJUSTMENT

3 In this case, PSE proposes an attrition adjustment to address regulatory lag and attrition,  
claiming that it “slightly under-earned” its authorized rate of return and ROE.<sup>2</sup> However,  
according to Public Counsel, PSE’s attrition request does not meet the Commission’s attrition  
standard, and PSE may misconstrue the Commission’s attrition standard.<sup>3</sup> Public Counsel argues  
that PSE is a “healthy utility,” over-earning in four of the past five years and that it would be  
inappropriate to provide adjustments for cost increases while ignoring potential cost decreases  
over the same period.<sup>4</sup> Overall, Public Counsel concludes that “PSE fails to demonstrate that it

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<sup>1</sup> Nucor’s silence on any issues not specifically addressed in this Reply Brief should not be construed as supporting or opposing any issues raised by PSE or intervenors.

<sup>2</sup> See Doyle, Exh. DAD-1T, at 13:18 to 15:9.

<sup>3</sup> See Initial Post-Hearing Brief of Public Counsel at 14-15.

<sup>4</sup> *Id.* at 15-16.

needs an attrition adjustment,” and Public Counsel recommends the Commission reject PSE’s proposed attrition adjustment.<sup>5</sup> Nucor supports Public Counsel’s analysis and recommendations and therefore requests that the Commission reject PSE’s proposed attrition adjustment.

### III. COST OF CAPITAL/RETURN ON EQUITY

4 PSE petitions the Commission to approve an ROE of 9.5% and an overall rate of return of 7.48%. However, as explained by Public Counsel, PSE’s requested ROE is excessive, and Public Counsel recommends an ROE of 8.75% and an overall rate of return of 7.07%.<sup>6</sup> In support of its recommendation, Public Counsel explains that low interest rates and capital costs have led to declining ROEs for electric and natural gas utilities.<sup>7</sup> Despite this general trend, utility ROEs overall have been higher than necessary to meet investor’s required returns.<sup>8</sup> Additionally, Public Counsel’s witness Dr. J. Randall Woolridge analyzed several models to determine PSE’s appropriate cost of equity. Dr. Woolridge found that an appropriate ROE for PSE would be between 6.9% and 8.95%.<sup>9</sup> Based on Dr. Woolridge’s results, comparable returns expected by investors, and guiding legal precedent, Public Counsel recommends an ROE of 8.75% for PSE. Nucor supports Public Counsel’s analysis and recommendations and requests the Commission approve an ROE of 8.75% for PSE.

### IV. NATURAL GAS REVENUE REQUIREMENT

5 In addition to the attrition adjustment and ROE recommendations, Public Counsel recommends several other ratemaking adjustments which reduce PSE’s proposed natural gas

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<sup>5</sup> *Id.* at 16.

<sup>6</sup> *Id.* at 3.

<sup>7</sup> *Id.* at 6.

<sup>8</sup> *Id.* at 7.

<sup>9</sup> *Id.* at 7-8.

revenue requirement from an increase of \$65.5 million to an increase of \$5.8 million.<sup>10</sup> Public Counsel’s recommendations concern three major areas. First, Public Counsel takes issue with PSE’s proposal regarding protected excess accumulated deferred income tax (“EDIT”) for the period of January 1, 2018 through February 28, 2019, arguing that protected EDIT should be held in a separate regulatory liability account, rather than be treated as income between rate cases because PSE’s proposal improperly transfers tax benefits from ratepayers to shareholders.<sup>11</sup> Second, Public Counsel recommends that the Commission disallow 50% of the cost of PSE’s short-term incentive compensation plan because the plan as proposed primarily increases shareholder profits rather than encouraging safe and reliable utility service.<sup>12</sup> Third, Public Counsel proposes several post-test year adjustments related to plant in service, accumulated depreciation, accumulated deferred income taxes, depreciation expense, wage increases, advanced metering infrastructure (“AMI”), and adjustments to long-term debt interest.<sup>13</sup> Based on these various adjustments, Public Counsel proposes to disallow all but \$5.8 million of PSE’s requested \$65.5 million increase in its natural gas revenue requirement. Nucor supports Public Counsel’s recommendations and conclusions and requests that the Commission approve no more than the \$5.8 million recommended by Public Counsel.

## V. COST ALLOCATION

6 Following a long-standing practice dating back to PSE’s 2007 general rate case, PSE used the peak and average (“P&A”) methodology for allocating gas distribution mains costs in its natural gas cost-of-service study (“COSS”) filed in this proceeding.<sup>14</sup> Additionally, PSE

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<sup>10</sup> *Id.* at 13.

<sup>11</sup> *Id.* at 17.

<sup>12</sup> *Id.* at 21. Public Counsel argues that this approach is consistent with the view that financial incentives that benefit shareholders more than ratepayers should be funded partially by shareholders. *Id.*

<sup>13</sup> *Id.* at 22-23.

<sup>14</sup> Initial Brief of Puget Sound Energy at 56-57.

updated the COSS to remove small mains for certain customer classes and to directly assign costs to the Special Contract class.<sup>15</sup> Staff recommends that the Commission accept PSE’s natural gas COSS, but address the allocation of mains in the cost of service generic proceedings.<sup>16</sup> AWEC recommends that the Commission allow “larger questions about effectiveness of P&A method overall be addressed in the cost of service rulemaking,” but approve PSE’s “refinements” to the approved P&A method, particularly direct assignment of mains costs where direct assignment is possible.<sup>17</sup> Finally, Public Counsel argues for rejection of PSE’s proposal to allocate mains to Special Contract customers.<sup>18</sup>

7           Nucor supports PSE’s proposed allocation of distribution mains as proposed by PSE and supported by AWEC. PSE’s updates to the P&A allocation method were shown to produce results that are not materially different from PSE’s past practice, plus the cost of service generic rulemaking proceeding will likely resolve most natural gas cost allocation issues going forward.

## VI. CONCLUSION

8           WHEREFORE, based upon the foregoing, Nucor requests that the Commission:

- (1) reject PSE’s proposed attrition adjustment;
- (2) approve an ROE of 8.75% for PSE;
- (3) approve only the \$5.8 million increase in natural gas revenue requirement recommended by Public Counsel; and
- (4) approve PSE’s proposed cost allocation of distribution mains.

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<sup>15</sup> *Id.* at 57-58.

<sup>16</sup> See Commission Staff’s Initial Brief at 49-50 (concluding that the Commission should accept PSE’s COSS results as “directionally accurate” and citing *In re Cost of Service Rulemaking*, Dockets UE-170002 & UG-170003).

<sup>17</sup> Initial Brief of AWEC at 23.

<sup>18</sup> Initial Post-Hearing Brief of Public Counsel at 29-30.

DATED this 10<sup>th</sup> day of April 2020.

Respectfully submitted,



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