

**EXH. SEF-1T
DOCKET UG-230393
WITNESS: SUSAN E. FREE**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

Docket UG-230393

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

MAY 25, 2023

PUGET SOUND ENERGY
PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
SUSAN E. FREE

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PUGET SOUND ENERGY

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
SUSAN E. FREE**

LIST OF EXHIBITS

- | | |
|------------|-------------------------------------|
| Exh. SEF-2 | Professional Qualifications Exhibit |
| Exh. SEF-3 | Revenue Requirement Exhibits |

1 **PUGET SOUND ENERGY**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **SUSAN E. FREE**

4 **I. INTRODUCTION**

5 **Q. Please state your name, business address, and position with Puget Sound**
6 **Energy.**

7 A. My name is Susan E. Free, and my business address is Puget Sound Energy, 355
8 110th Ave. NE, Bellevue, WA 98004. I am the Director of Revenue Requirements
9 and Regulatory Compliance for Puget Sound Energy (“PSE”).

10 **Q. Have you prepared an exhibit describing your education, relevant**
11 **employment experience, and other professional qualifications?**

12 A. Yes, I have. It is Exhibit SEF-2.

13 **Q. What are your duties as Director of Revenue Requirements and Regulatory**
14 **Compliance for PSE?**

15 A. As Director of Revenue Requirements and Regulatory Compliance, I am
16 responsible for strategy, policy, direction, and coordination of PSE’s interests on
17 state regulatory issues. I oversee state regulatory processes and compliance
18 requirements, including audits, rate cases and regulatory proceedings. I represent
19 PSE before state regulators and other constituents. I negotiate rate and tariff issues

1 with customers, agencies, interested parties, and regulators. I am the primary
2 accounting witness for PSE on regulatory matters.

3 II. PURPOSE AND SCOPE OF TESTIMONY

4 **Q. What is the purpose of your testimony?**

5 A. The primary purpose of my testimony is to explain and support the recovery of the
6 annual revenue requirement as well as the recovery of the deferred operation and
7 maintenance (“O&M”) expense, depreciation expense, and PSE’s return on its
8 investment (“Deferred Costs”) associated with the regulated portion of the Tacoma
9 Liquefied Natural Gas (“LNG”) Facility (“Tacoma LNG Facility”) that PSE is
10 seeking to include in the LNG tracker under the newly proposed Schedule 141LNG.

11 **Q. Please explain how your testimony is organized.**

12 A. First, I provide a summary of the PSE witnesses who are submitting prefiled
13 testimony and exhibits in this case. Second, I provide a high-level overview of the
14 procedural history leading to this filing. Third, I provide testimony supporting the
15 recovery of the Deferred Costs, and I address the recovery of the annual revenue
16 requirement and Deferred Costs and the associated amortization for the regulated
17 portion of the Tacoma LNG Facility. Lastly, I explain how Schedule 141LNG will
18 be administered.

19 **Q. Are there any exhibits included with your testimony?**

1 A. Yes. Exh. SEF-2 is my professional qualifications exhibit, and Exh. SEF-3 is a
2 spreadsheet used to calculate the annual revenue requirement and Deferred Costs
3 related to PSE's regulated portion of the Tacoma LNG Facility.

4 **Q. Are other witnesses providing testimony on behalf of PSE in this proceeding?**

5 A. Yes, below is a list of PSE witnesses and the topics they cover in their testimony:

- 6 • **Ronald J. Roberts**: Mr. Roberts provides testimony and exhibits supporting the
7 costs of the Tacoma LNG Facility that PSE incurred after the September 16, 2016
8 decision authorizing construction and operation of the Tacoma LNG Project. Mr.
9 Roberts also provides testimony describing PSE's reassessment of need during
10 construction of the project and supporting O&M costs PSE has been deferring.
- 11 • **William F. Donahue**: Mr. Donahue provides testimony supporting PSE's
12 allocation of costs for the four-mile 16-inch distribution line that integrates the
13 Tacoma LNG Facility with PSE's distribution system.
- 14 • **John D. Taylor**: Mr. Taylor provides testimony supporting the allocation to the
15 rate classes of the revenue requirement associated with the Tacoma LNG Tracker
16 through a new Schedule 141LNG. He explains the rate design associated with
17 the tracker and demonstrates the associated bill impacts. In addition, he supports
18 the design for a newly proposed Schedule 88T, including related changes to
19 Schedule 141D and Schedule 141N (new tariff sheets 141N-D and 141N-E).

20

1 **III. PROCEDURAL HISTORY AND OVERVIEW OF THE**
2 **FILING**

3 **Q. What is PSE requesting in this filing?**

4 A. This filing seeks recovery of the costs associated with the Tacoma LNG Facility,
5 which PSE has been authorized to include provisionally in a tracker.¹ PSE is also
6 seeking recovery of amounts deferred pursuant to an accounting petition in
7 Docket UG-210918.²

8 **Q. Please briefly describe the Tacoma LNG Facility.**

9 A. The Tacoma LNG Facility is a dual use project located at the Port of Tacoma.
10 The Tacoma LNG Facility liquefies natural gas that can be vaporized and injected
11 into PSE’s gas distribution system to help serve the design peak day requirements
12 of PSE’s gas customers on a regulated basis, and which also can be sold by Puget
13 LNG, LLC (“Puget LNG”) a wholly-owned subsidiary of Puget Energy, as fuel to
14 shipping customers on a non-regulated basis.³ The Tacoma LNG Facility is
15 described in more detail in the Prefiled Direct Testimony of Ronald J. Roberts,
16 Exh. RJR-1T.

¹ *WUTC v. PSE*, Dockets UE-220066 *et al.*, Orders 24/10 ¶ 510 (December 22, 2022) (approving Tacoma LNG Settlement Stipulation that allows recovery of Tacoma LNG costs through a tracker).

² *See id.* ¶ 450.

³ *See id.* ¶ 330.

1 **Q. Can you please briefly describe the events leading up to this filing?**

2 A. Yes. On November 1, 2016, the Commission issued its Final Order in Docket
3 UG-151663, approving and adopting a settlement stipulation that provided the
4 terms and conditions under which PSE could pursue developing its Tacoma LNG
5 Facility, including the joint ownership shares and cost allocators for each
6 component of the facility.⁴ The 2016 settlement stipulation expressly reserved
7 questions of prudence and cost recovery in rates for future review and
8 determination by the Commission.⁵

9 **Q. When did the Tacoma LNG Facility commence commercial operation?**

10 A. The Tacoma LNG Facility commenced commercial operation in February 2022,
11 and the facility began liquefying natural gas to fill the facility's storage tanks in
12 February 2022.⁶

13 **Q. Please provide a brief overview of the accounting petition filed in Docket UG-**
14 **210918.**

15 A. On November 24, 2021, PSE filed an accounting petition proposing deferred
16 accounting treatment of the Deferred Costs associated with PSE's share of the

⁴ See *id.* ¶ 321 (citing *In re Petition of PSE for (i) Approval of a Special Contract for LNG Fuel Service with TOTE and (ii) a Declaratory Order Approving the Methodology for Allocating Costs Between Regulated and Non-Regulated LNG Services*, Docket UG-151663, Order 10 ¶ 14 (Nov. 1, 2016) (hereafter "2016 Tacoma LNG Final Order")).

⁵ See *id.* ¶ 324 (citing 2016 Tacoma LNG Final Order ¶ 47).

⁶ See *id.* ¶ 377.

1 Tacoma LNG Facility beginning as of the date of commercial operation of the
2 facility (“Accounting Petition”). The Commission approved the Accounting
3 Petition, with modifications, on December 22, 2022.

4 **Q. Please provide a brief overview of PSE’s most recent general rate case as it**
5 **relates to the Tacoma LNG Facility.**

6 A. In January 2022, PSE filed a general rate case in Docket UG-220067 et al. (“2022
7 GRC”) in which it proposed a multiyear rate plan (“MYRP”). In the 2022 GRC,
8 PSE sought recovery of the Deferred Costs and the revenue requirement associated
9 with the Tacoma LNG Facility in its MYRP revenue requirement. On May 12, 2022,
10 the Commission consolidated the Accounting Petition with PSE’s 2022 GRC.

11 On September 9, 2022, PSE filed an amended settlement agreement (“LNG
12 Settlement Agreement”) with five Settling Parties,⁷ which accepted “a
13 determination that the decision to build the regulated portion of the Tacoma LNG
14 Facility was prudent” and agreed the investment could be “provisionally included
15 in rates in a tracker” to be considered contemporaneously with the 2023 Purchased
16 Gas Adjustment (“PGA”) filing.⁸ The LNG Settlement Agreement also provided

⁷ The settling parties included Commission Staff, Alliance of Western Energy Consumers, Nucor Steel Seattle, Walmart Inc. and Kroger Co. in addition to PSE.

⁸ Amended Tacoma LNG Settlement Stipulation ¶ 18 B and D.

1 that PSE would “start amortization of deferred Tacoma LNG costs as requested in
2 Docket UG-210918 in the tracker.”⁹

3 On December 22, 2022, the Commission issued its Final Order in PSE’s 2022 GRC
4 approving, with modifications, the LNG Settlement.¹⁰ The Commission determined
5 that PSE acted prudently in developing and constructing the Tacoma LNG Facility
6 up through the initial decision authorizing construction of the facility on September
7 22, 2016 and agreed with the Settlement provision allowing parties to challenge the
8 prudence of later construction and operation costs in a future proceeding, including
9 this tracker filing.¹¹ The Commission also conditioned its approval on the
10 provisional recovery of the four-mile distribution line to allow for consideration of
11 the appropriate allocation of costs of the distribution line to Puget LNG.

12 Consistent with the Tacoma LNG Settlement and the Commission’s Final Order
13 approving it, PSE is seeking recovery of the regulated costs and regulatory asset
14 amortization associated with the Tacoma LNG Facility, through a tracker. PSE is
15 also presenting the four-mile distribution line to the Commission for consideration
16 of the appropriate allocation of costs as between PSE’s customers, including Puget
17 LNG.

⁹ *Id.* ¶ 18 A.2.

¹⁰ *See WUTC v. PSE*, Dockets UE-220066 *et al.*, Orders 24/10 ¶ 410 (December 22, 2022).

¹¹ *See id.* ¶ 449.

1 **IV. THE COSTS INCLUDED IN THE TRACKER SHOULD BE**
2 **APPROVED FOR RECOVERY BY THE COMMISSION**

3 **Q. What costs has PSE included for recovery in the tracker?**

4 A. Consistent with the costs that were originally requested for recovery in the 2022
5 GRC and that were removed from the revenue requirement in that case, PSE is
6 requesting to recover the return on rate base, depreciation expense, and O&M
7 costs associated with the regulated portion of the Tacoma LNG Facility.
8 Additionally, PSE requests recovery on¹² and of the regulatory assets that were
9 deferred under the Accounting Petition.

10 **Q. Why should the Commission grant recovery of the deferred costs for the**
11 **Tacoma LNG Facility?**

12 A. Mr. Roberts provides testimony regarding the appropriateness of O&M costs
13 included in the deferral, and it is on that basis that PSE should be allowed to
14 recover the deferral of O&M costs. My testimony covers the reasonableness and
15 recoverability of the deferred return and depreciation. The recovery of the
16 deferred return and depreciation follows treatment approved in PSE's request for
17 a deferral related to its Electric Vehicle Supply Equipment Pilot Programs in
18 Docket UE-190129 ("EV petition"), which has been allowed for recovery in
19 PSE's 2022 general rate case. In the EV petition, the Commission approved PSE's
20 request to defer a return on its capital investment citing the legislature's intent to

¹² On the depreciation and O&M deferrals only.

1 encourage growth of transportation electrification as in the public interest.¹³ As
2 in the EV petition, PSE’s investment in the Tacoma LNG Facility is in the public
3 interest as cited in Order 10 of Docket UG-151663. In that Order, the
4 Commission stated, in paragraph 21, that “the Tacoma LNG facility will promote
5 the public interest as recognized by the legislature in RCW 80.28.280.”
6 Furthermore, in paragraph 115 of Order 10, the Commission recognized that there
7 were “potential benefits of an LNG project that could serve PSE’s core
8 customers’ peaking needs and promote the Legislature’s stated finding in RCW
9 80.28.280 that the development of liquefied natural gas vessel refueling facilities
10 is in the public interest.” The Commission also made a finding of fact in
11 paragraph 150 of Order 10 that “the record supports a finding that the Settlement
12 Stipulation is in the public interest.” Accordingly, approval of the deferral and
13 recovery of the authorized rate of return on PSE’s share of the capital investment
14 in the Tacoma LNG Facility follows the similar Commission determination in
15 PSE’s EV petition that allowed deferral and recovery of return for investments
16 made in the public interest.

17 Furthermore, it also follows suit that if the Commission determines the facility to
18 be prudent for recovery in rates, PSE should be allowed to recover the deferred
19 return and depreciation, which would have been recovered had rates been set
20 when the facility became operational. PSE filed a deferral petition to preserve its

¹³ Docket UE-190129, Order 01, paragraph 10.

1 ability to recover for the period prior to rates being set, which the Commission
2 authorized with conditions. PSE's petition in Docket UG-210918 provided ample
3 documentation that without deferral and recovery of the return during the deferral
4 period, PSE would experience significant erosion of earnings.

5 **Q. Did PSE's gas business earn below its authorized ROE in 2022?**

6 A. Yes. PSE's Commission Basis Report filed for 2022 in Docket UG-230209
7 shows PSE's normalized rate of return for the gas business is 6.77 percent, which
8 is 62 basis points below its blended authorized rate of return of 7.39 percent. As
9 such, it is appropriate for the Commission to allow recovery of the O&M,
10 deferred return and the associated depreciation.

11 **Q. Please describe the annual revenue requirement PSE is seeking to recover**
12 **under Schedule 141LNG.**

13 A. The calculation of the revenue requirement is provided in the Second Exhibit to the
14 Prefiled Direct Testimony of Susan E. Free, Exhibit SEF-3, on page one. As shown
15 on Line 36 of Exhibit SEF-3, PSE is seeking to include an annual revenue
16 requirement of \$47.6 million in the Schedule 141LNG tracker.

17 **Q. Please explain the components of the revenue requirement calculation.**

18 A. The following items, as shown on page one of Exh. SEF-3, are included in the
19 revenue requirement calculation.

20 **Return on Rate Base – Line 26.**

1 The return on rate base before gross up of \$17.1 million is presented on Line 26 of
2 Exh. SEF-3, and includes the following components:

3 Plant Rate Base:

4 Plant rate base is calculated using the average-of-monthly-averages (“AMA”) basis
5 for plant-in-service, accumulated depreciation, and accumulated deferred income
6 taxes (“ADIT”) balances for the period beginning November 2023 through October
7 2024. There are no significant additions forecast for this period. Therefore, PSE
8 used the actual balances and existing monthly depreciation as of March 31, 2023 to
9 calculate the balances as of October 2024.

10 Regulatory Assets:

11 The AMA balances of the regulatory assets for depreciation expense and O&M are
12 included in Line 26, which is consistent with PSE’s original request for the Tacoma
13 LNG Facility deferrals as well as the treatment of the Get to Zero deferrals from
14 PSE’s 2022 GRC. The balances used are net of their associated ADIT.

15 **Net Operating Income Components – Line 33.**

16 Operating & Maintenance Expenses

17 PSE is requesting forecasted O&M costs of \$5.4 million for the rate period. Mr.
18 Roberts discusses forecasted O&M in his Prefiled Direct Testimony, Exh. RJR-
19 1CT. The net operating impact of the O&M is \$4.2 million, which is presented on
20 Line 29.

21 Depreciation Expense

1 PSE is requesting forecasted depreciation expense of \$6.3 million for the rate
2 period. The depreciation expense is based on the most recent monthly depreciation
3 as of March 31, 2023. The net operating impact of the requested depreciation
4 expense is \$5.0 million, which is presented on Line 30.

5 Amortization of Regulatory Assets

6 PSE is requesting forecasted amortization of the regulatory assets for deferred
7 depreciation, O&M and plant return totaling \$13.7 million for the rate period. The
8 amortization period requested is four years, consistent with PSE's original request
9 in its 2022 GRC. The net operating impact of the requested amortization expense
10 is \$10.8 million, which is presented on Line 31. PSE is requesting that the
11 amortization expense be recognized in FERC account 407.3 "Other operating
12 expense".

13 Tax Benefit of Interest

14 The tax benefit of interest of \$1.3 million provided on Line 32 is based on PSE's
15 currently authorized weighted average cost of debt from its 2022 GRC of 2.55
16 percent, which is shown on Line 24.

17 **Q. How is the final revenue requirement determined?**

18 A. The net operating income on Lines 29 through 32 is subtracted from the return on
19 rate base prior to gross up on Line 26, and the result is the net operating income
20 requirement of \$35.9 million shown on Line 33. The conversion factor used to gross
21 up the net operating income requirement is the conversion factor approved in PSE's

1 2022 GRC with the UTC Filing Fee updated to four-tenths of one percent pursuant
2 to RCW 80.24.010. After gross up, the requested revenue requirement of \$47.6
3 million is presented on Line 36.

4 V. OVERVIEW OF SCHEDULE 141LNG

5 **Q. Please briefly describe Schedule 141LNG.**

6 A. Schedule 141LNG sets forth rates, terms, and conditions under which PSE will
7 implement the surcharges to collect the annual revenue requirement of the regulated
8 portion of the Tacoma LNG Facility along with the return on and of the deferred
9 costs. Schedule 141LNG also establishes procedures for cost recovery and trueing
10 up rates, as explained below.

11 **Q. Please describe the Cost Recovery Procedure under Schedule 141LNG.**

12 A. The Cost Recovery Procedure under Schedule 141LNG sets forth the terms and
13 conditions under which PSE is permitted to recover expected and incurred costs
14 and return over the period the tariff is in effect.

15 The Cost Recovery Procedure establishes an annual filing requirement beginning
16 in 2024 (“Annual Filing”). On or prior to October 1 of each year, PSE will be
17 required to submit an Annual Filing to update rates under Schedule 141LNG,
18 effective on November 1 of that year.

19 **Q. Please describe the true-up process under Schedule 141LNG.**

20 A. Each year, PSE will estimate the amount of costs to be included in rates based on
21 its approved forecast and will true-up prior year rates based on actual O&M

1 expenses, depreciation, and return on rate base paid or incurred. The true-up will
2 also include the difference between estimated costs when rates were set for the prior
3 year and actual amounts collected from customers. On or prior to October 1, as
4 part of the Annual Filing, PSE will provide a report of the actual amounts for O&M
5 expenses and rate base items included in the true-up calculation for review. As such,
6 PSE will estimate the amount of the true-up during each rate period through
7 comparison of revenues collected in Schedule 141LNG and the actual costs
8 incurred, and PSE will defer the difference for later collection from or pass back to
9 customers, which is similar to the accounting approved for other tracker schedules
10 such as Schedule 120 Gas Conservation Service Rider.

11 VI. CONCLUSION

12 **Q. Does that conclude your prefiled direct testimony?**

13 **A.** Yes, it does.
14