WUTC DOCKET: UE-190529, et al.
EXHIBIT: BGM-1T
ADMIT ☑ W/D ☐ REJECT ☐

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 SOUND ENERGY For an Order Authorizing Deferral Accounting and Ratemaking Treatment for Short-life UT/Technology Investment.	DOCKETS UE-190274 and UG-190275 (*consolidated*)

RESPONSE TESTIMONY OF BRADLEY G. MULLINS

ON BEHALF OF

THE ALLIANCE OF WESTERN ENERGY CONSUMERS

November 22, 2019

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RESPONSE TESTIMONY OF BRADLEY G. MULLINS

EXHIBIT LIST

I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Bradley G. Mullins, and my business address is 10147 Moratoc Drive, Tualatin, Oregon 97062.

Q. PLEASE STATE YOUR OCCUPATION AND ON WHOSE BEHALF YOU ARE TESTIFYING.

A. I am an independent energy and utilities consultant representing energy consumers before state regulatory commissions, primarily in the Western United States. I am appearing in this docket on behalf of the Alliance of Western Energy Consumers ("AWEC"). AWEC is a non-profit trade association whose members are large energy users served by electric and gas utilities located throughout the West, including Puget Sound Energy ("Puget").

Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.

A. I have a Master of Accounting degree from the University of Utah. After obtaining my master's degree, I worked at Deloitte in San Jose, California, where I specialized in performing research and development tax credit studies. I later worked at PacifiCorp as an analyst involved in power cost forecasting. I have been performing independent energy and utilities consulting services for approximately six years and provide services to utility customers on matters such as revenue requirement, power cost forecasting, and rate development. I have sponsored testimony in regulatory jurisdictions around the United States, including before the Washington Utilities and Transportation Commission (the "Commission"). A list of cases where I have submitted testimony can be found in Mullins, Exh. BGM-2.

Q. WHAT IS THE PURPOSE OF YOUR RESPONSE TESTIMONY?

A. I discuss the provisions from the Multiparty Settlement Stipulation and Agreement in consolidated Dockets UE-170033 and UG-170034 (the "2017 GRC") regarding the retirement of Colstrip Units 1 – 2 and the application of production tax credits ("PTCs") to the unrecovered investment balances of Colstrip Units 1 – 4.

In addition, I address the remaining issues related to the Tax Cuts and Jobs Act ("TCJA") not resolved in the Settlement Stipulation and Agreement in consolidated Dockets UE-180899 and UG-180900, Puget's 2018 Expedited Rate Filing ("2018 ERF"). Specifically, I discuss 1) the ratemaking treatment of protected-plus excess deferred federal income taxes ("EDFIT") over the period January 1, 2018 through February 28, 2019, and 2) the ratemaking treatment of unprotected EDFIT.

Finally, I discuss the prudence of Puget's costs incurred to relocate two data centers, and the allocation of costs associated with the construction of a new gas main to serve the Tacoma Liquified Natural Gas ("LNG") project.

Q. ARE ANY OTHER WITNESSES FILING TESTIMONY ON BEHALF OF AWEC IN THIS DOCKET?

A. Yes. Witness Michael P. Gorman is filing testimony on behalf of AWEC addressing Puget's proposed attrition adjustments.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A. I recommend that the Commission require Puget to:

- *Transfer the unrecovered plant balances for Colstrip Units 1 and 2 into a regulatory asset and reduce the balance for production tax credits monetized by Puget as of September 30, 2019, including monetization in 2019;*

- *Reduce the annual depreciation expense for Colstrip Units 3 and 4 for the residual production tax credit regulatory liability amounts;*
- *Amortize the January 1, 2018 through February 28, 2019 protected-plus EDFIT reversals for electric services and gas services over a four-year period through Schedule 141X;*
- *Amortize unprotected EDFIT for gas services over a single year;*
- *Remove costs associated with Puget's relocation of data centers as disallowance; and*
- *Make a rate spread adjustment, if necessary, to remove costs associated with the Tacoma LNG project from transportation customer rates.*

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATIONS?

A. Table 1, below, details the revenue requirement impacts of my recommendations. In addition, Mullins, Exh. BGM-3 and Mullins, Exh. BGM-4 include revenue requirement tables detailing AWEC's recommended adjustments for electric and gas services, respectively. Table 1 also details the impact of Puget's revised response to AWEC Data Request 20, where Puget was requested to identify all updates and corrections to revenue requirement since its initial filing.[1/]

[1/] Mullins, Exh. BGM-5 at 8-9 (PSE Revised Response to AWEC Data Request 020).

TABLE 1
Impact of Revenue Requirement Recommendations
($000)

		Electric	Gas
Puget Initial Filing		**$ 104,503**	**$ 86,128**
Adjustments			
	AWEC DR 20 Rev. Corrections	(3,492)	42
7.07	Colstrip 1-2 Reg. Accounting	(16,181)	-
7.07	Colstrip 3-4 Depreciation	(16,001)	-
6.03	Interim Protected Plus EDFIT	(5,690)	(1,495)
6.26	Unprotected EDFIT	-	(2,765)
AWEC-1	Data Center Relocation	(5,323)	(2,709)
6.04	Interest Synchronization	1,418	138
	Total Adjustments	(45,270)	(6,789)
Adjusted Rev. Req.		**$ 59,233**	**$ 79,340**

Note that the revenue requirement adjustments in Table 1 are based on Puget's requested revenue requirement before application of an attrition adjustment. This is done to reflect Mr. Gorman's recommendation that the Commission reject this requested attrition adjustment. Further, while these adjustments are based on the cost of capital Puget proposed for purposes of ease of presentation, this should not be construed as AWEC's support for Puget's proposed cost of capital.

II. ADJ. NO. 7.07 ER – COLSTRIP AND PRODUCTION TAX CREDITS

Q. WHAT ADJUSTMENTS HAS PUGET PROPOSED TO ACCOUNT FOR THE RETIREMENT OF COLSTRIP UNITS 1 AND 2?

A. Colstrip Units 1 and 2 are scheduled to retire by the end of calendar year 2019. To account for the retirement, Puget made several rate case adjustments. In Adjustment No.

7.07 ER, for example, Puget removed $18,794,238 in depreciation expenses associated with Colstrip units 1 and 2.[2/] Further, in adjustment 7.01EP, Puget removed $19,963,943 in operating expenses associated with Colstrip Units 1 and 2.[3/]

As noted in response to AWEC Data Request 38, however, Puget made no adjustment to the rate base amounts associated with Colstrip included in the test period.[4/] In the response to AWEC Data Request 38, Puget stated that it "did not make a rate case adjustment to Colstrip Units 1 and 2 rate base because at the time it is removed from service it will be transferred to a regulatory asset pursuant the Settlement Agreement in UE-170033."

Q. WHAT FRAMEWORK DID PARTIES ESTABLISH IN PUGET'S 2017 GRC FOR HANDLING THE RETIREMENT OF COLSTRIP UNITS 1 AND 2?

A. In Puget's 2017 GRC, parties agreed to a comprehensive framework for dealing with the retirement of Colstrip Units 1 and 2. First, under paragraph 116 of the Settlement Stipulation and Agreement, parties agreed to transfer $95,000,000 of hydro-related treasury grants into an interest-accruing retirement account pursuant to RCW 80.84.020 to cover decommissioning and remediation costs associated with Colstrip Units 1 and 2. In addition, under paragraph 117 of the Settlement Stipulation and Agreement, parties agreed to use Puget's production tax credit regulatory liability, then valued at approximately $281,200,000, "(i) to fund community transition planning funds of $5 million, as identified in paragraph 118; (ii) to recover unrecovered plant balances for

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2/ Mullins, Exh. BGM-5 at 19 (PSE Response to AWEC Data Request 039).
3/ Id. at 20 (PSE Response to AWEC Data Request 040).
4/ Id. at 16 (PSE Response to AWEC Data Request 038).

Colstrip Units 1 through 4; and (iii) to fund and recover prudently incurred decommissioning and remediation costs for Colstrip Units 1 through 4." In conjunction with the agreement to use the production tax credit regulatory liability funds in this manner, in paragraph 25 of the Settlement Stipulation and Agreement, Puget "assume[d] the risk that it [might be] unable to monetize the PTCs to offset additional unrecovered plant balances for Colstrip Units 1 and 2; provided, however that if Colstrip Units 1 and 2 close prior to the monetization of sufficient PTCs to offset additional unrecovered plant balances for Colstrip Units 1 and 2, PSE shall hold remaining unrecovered plant balances of Colstrip Units 1 and 2 in a regulatory asset in rate base until the earlier to occur of (i) the recovery of all plant balances for Colstrip Units 1 and 2 through monetized PTC offsets or (ii) December 31, 2029."

Q. DID PUGET APPLY THE RATEMAKING FROM THE 2017 GRC STIPULATION FOR THE RETIREMENT OF COLSTRIP UNITS 1 AND 2?

A. No. As noted in Puget's response to AWEC Data Request 45, Puget did not apply the production tax credit regulatory liability balance against the unrecovered plant balances associated with Colstrip Units 1 and 2. Further, Puget did not transfer the remaining unrecovered investment balances associated with Colstrip Units 1 and 2 to a regulatory asset, and instead included the plant balances for those units in rate base based on the 2018 levels.

<u>Colstrip Units 1-2 Regulatory Accounting</u>

Q. HOW MUCH RATE BASE HAS PUGET INCLUDED IN REVENUE REQUIREMENT FOR COLSTRIP UNITS 1 AND 2?

A. In response to AWEC Data Request 38, Puget reported that $176,254,761 of plant balances for Colstrip Units 1 and 2 were included in revenue requirement in Puget's initial filing. That response has been summarized in Table 2, below.

TABLE 2
<u>Colstrip Units 1-2 Rate Base Amounts Included in Initial Filing</u>
<u>Per AWEC DR 38 (Whole Dollars)</u>

Gross Plant	$ 323,313,129
Accum. Depr.	(179,212,502)
ADFIT	32,154,133
Total Rate Base	**$ 176,254,761**

Note that in the response to AWEC Data Request 38, Puget identified $1,037,733 in common plant shared between Colstrip Units 1-4. I excluded from Table 2, above, since those amounts will not be retired when Colstrip Units 1-2 cease operations.

Q. WHY DO ACCUMULATED DEFERRED INCOME TAXES INCREASE RATE BASE FOR COLSTRIP UNITS 1 AND 2 RATE IN TABLE 4?

A. In AWEC Data Request 38, Puget reported that the ADFIT for Colstrip Units 1 and 2 was an increase to rate base. While not explained in the response, due to the early retirement, book depreciation for Colstrip Units 1 and 2 appears to have proceeded more rapidly than the tax depreciation, resulting in a deferred tax asset, rather than a deferred tax liability. Typically, book depreciation for utility plant accrues more slowly than tax depreciation, resulting in a deferred tax liability and a reduction to rate base. This is important to note because when Colstrip Units 1 and 2 are retired from service, any remaining book tax difference will be eliminated, resulting in the elimination of the ADFIT debit balance. When Colstrip Units 1 and 2 retire, Puget will recognize a loss for its remaining adjusted basis associated with the property disposition, eliminating the deferred tax asset.[5/]

Q. WHAT WILL THE UNRECOVERED INVESTMENT FOR COLSTRIP UNITS 1 AND 2 BE AS OF DECEMBER 31, 2019?

A. In AWEC Data Request 35, Puget was requested to provide the expected unrecovered investment balance associated with Colstrip Unit 1 and 2 by FERC account as of December 31, 2019, or the expected retirement date, whichever was earlier. Puget responded that, because it expected an immaterial amount of capital additions in the fourth quarter of 2019, Puget's response to AWEC Data Request 34, which provided the plant balances as of September 30, 2019, was representative of the unrecovered investment balance as of December 31, 2019. In AWEC Data Request 34, Puget reported plant balances of $178,247,202[6/] for Colstrip Units 1 and 2 as of September 30, 2019.

Q. ARE THE SEPTEMBER 30, 2019 BALANCES REPRESENTATIVE OF THE UNRECOVERED INVESTMENT IN COLSTRIP UNITS 1 AND 2 AS OF DECEMBER 31, 2019?

A. No. There are two reasons why the September 30, 2019 balances are not representative of the unrecovered investment amount as of December 31, 2019, irrespective of incremental capital additions.

First, since incremental depreciation will accrue on the unrecovered investment balances associated with Colstrip Units 1 and 2 in the three months between September

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5/ See, e.g., IRS Publication 544 at 5.

6/ As noted in PSE's Response to AWEC DR 034, PSE's third-quarter plant balances required confidential treatment prior to the publishing of the Company's Form 10-Q on November 6, 2019. AWEC has confirmed with PSE that these amounts no longer require confidential treatment.

30, 2019 and December 31, 2019, the September 30, 2019 balances are not representative of the unrecovered investment balance in Colstrip Units 1 and 2 as of December 31, 2019. Based on the $18,794,238 of annual depreciation expenses associated with Colstrip Units 1 and 2, the plant balances for Colstrip Units 1 and 2 will decline by $4,698,559 over the three-month period following September 30, 2019.

Second, as mentioned above, when the plant is retired the ADFIT balances associated with Colstrip Units 1 and 2 will reverse. Thus, the ADFIT balances identified in Response to AWEC Data Request 38, and included in the September 30, 2019 balances, need not be considered in the unrecovered investment balance. In response to AWEC Data Request 34, Puget did not specifically identify the ADFIT included in the plant balances as of September 30, 2019. Accordingly, for purposes of the adjustment calculations performed for this testimony, I used the ADFIT balance from AWEC Data Request 38. Note that reversal of the ADFIT will also trigger EDFIT ARAM reversals, which I recommend be handled in the unrecovered investment balance, rather than through base rate EDFIT amortization.

Q. BASED ON THOSE CHANGES, WHAT IS THE AMOUNT OF UNRECOVERED INVESTMENT FOR COLSTRIP UNITS 1 AND 2 AS OF DECEMBER 31, 2019?

A. Table 3, below, details my calculation of the unrecovered investment balances for Colstrip Units 1 and 2 as of the December 31, 2019 retirement date. After considering the additional three months of accumulated depreciation and the reversal of ADFIT, the unrecovered balances for Colstrip Units 1 and 2 will decline to approximately $145,896,088 by December 31, 2019.

TABLE 3
Colstrip Units 1 and 2 Expected Unrecovered Investment Balance
As of December 31, 2019

Sep 30, 2019 Bal.	$ 178,247,202
Less: 2019 Q4 Depr.	(4,698,559)
Less: ADFIT Revrsl.	(32,154,133)
Add: EDFIT	4,501,579
Dec. 30, 2019 Unrecoverd Inv.	**$ 145,896,088**

As noted in Table 3, the unrecovered investment will be approximately $30,358,673 lower than the amounts Puget has included in rate base for Colstrip Units 1 and 2. Irrespective of application of production tax credits, discussed below, this reduction is appropriately considered in revenue requirement since the plant closure is known and the impacts are measurable.

Further, in response to AWEC Data Request 34, Puget detailed $52,868,135 in rate base for "Asset retirement costs for steam production plant." While I had not investigated that line item at the time of filing this testimony, those amounts might be decommissioning costs. Under paragraph 116 of the 2017 GRC Stipulation, Colstrip 1 and 2 decommissioning costs are to be offset with hydro treasury grants. In preparing this testimony, I did not consider the impact of hydro treasury grants on decommissioning and remediation costs. Accordingly, as Puget makes further information available about the components of its unrecovered investment in Colstrip Units 1 and 2, I may modify my recommendation to consider the impacts of the hydro treasury grants, to the extent that

Puget has included decommissioning costs in the unrecovered investment balance for Colstrip Units 1 and 2.

Q. WHAT IS THE TOTAL BALANCE OF THE PRODUCTION TAX CREDIT REGULATORY LIABILITY?

A. Puget uses separate accounts for the production tax credit regulatory liability amounts that have been monetized and those that have not been monetized. This makes it somewhat more difficult to understand the total amount of production tax credit liability that is available to apply in the manner prescribed in the 2017 GRC Stipulation.

In Table 4, below, I consolidated the monetized, and non-monetized production tax credit regulatory lability amounts based on Puget's responses to AWEC data requests, showing the overall amount of funds available to apply in the manner outlined in the 2017 GRC stipulation.

TABLE 4
Production Tax Credit Liability Amounts

	2016	2017	2018	2019 - Sept
Production Tax Credit Regulatory Liability:				
Un-Monetized	$ 290,821,118	$ 237,490,017	$ 153,944,432	$ 118,474,724
Monetized	-	4,287,263	87,224,442	122,694,150
Intrst on Monet.			298,800	298,800
Total	$ 290,821,118	$ 241,777,280	$ 241,467,674	$ 241,467,674
Ann. Monetization		4,287,263	82,937,179	35,469,708

In AWEC Data Request 46, Puget detailed the regulatory liability balances, reduced for monetized tax credits. Further, in response to AWEC Data Request 36, Puget detailed the amount of PTCs that were monetized in 2017 and 2018. The 2019 production tax credit monetization was imputed based on the reduction that Puget recorded against the un-monetized production tax credit regulatory liability. The interest accruals are from AWEC Data Request 49.

Q. WHY DID PUGET NOT APPLY THE MONETIZED TAX CREDITS AGAINST THE COLSTRIP UNITS 1 AND 2 UNRECOVERED INVESTMENT?

A. In response to AWEC Data Request 45, Puget stated its reasoning for not applying the monetized production tax credits against the regulatory asset balance for Colstrip Units 1 and 2. Puget stated that "[t]he full balance of PTCs that are applicable to Colstrip Units 1 and 2 unrecovered plant were monetized in PSE's 2018 tax return that was filed in September 2019 [, which was] beyond the June 2019 date used for pro forma adjustments." Thus, under Puget's interpretation, a production tax credit is only monetized at the time Puget files its tax return.

Q. DO YOU AGREE WITH PUGET'S INTERPRETATION OF WHEN PRODUCTION TAX CREDITS ARE "MONETIZED"?

A. No. Puget's current tax liability is not due at the time Puget files its tax return, which is typically nine to ten months after the end of the calendar year. Rather, Puget is required to make estimated tax payments ratably over the course of the tax year, or else incur interest penalties for failing to pay in a timely manner. Thus, production tax credits are properly considered to be monetized over the course of the tax year at the time Puget submits its quarterly estimated taxes, not at the time the tax return is submitted. To determine the amount of taxes to submit to the IRS, Puget prepares quarterly tax provision calculations, which are reviewed by its financial auditors. In its quarterly tax provision calculations, Puget considers all aspects of its tax liability, including production tax credits. To the extent production tax credits are available, Puget will reduce the amount of quarterly taxes that it submits to the IRS. To the extent differences occur between the tax provision and the final tax return, those amounts are trued up, typically in a utility's third quarter tax provision of the subsequent year. Since Puget submits quarterly estimated taxes, it is appropriate to consider the production tax credit liability as being monetized when the amounts are utilized in Puget's tax provision.

Supporting my position is the fact that, when calculating the unmonetized production tax credit liability as of September 30, 2019, Puget reduced the balance for production tax credits utilized in Puget Energy's September 30, 2019 tax provision, even though the tax year 2019 income tax return will not be filed until September 2020.

Q. IS IT APPROPRIATE TO INCLUDE INTEREST ON THE MONETIZED PRODUCTION TAX CREDIT AMOUNTS?

A. Yes. Prior to the time that the monetized credits are applied toward the unrecovered plant balances for Colstrip Units 1-4, the monetized production tax credit amounts appropriately accrue interest. In response to AWEC Data Request 49, Puget confirmed that it included interest on the monetized production tax credit regulatory liability using its pre-tax rate of return of 8.72%. The total amount of interest Puget calculated was $298,801.

Q. DO YOU AGREE WITH PUGET'S APPROACH FOR CALCULATING INTEREST?

A. I support applying interest to the monetized production tax credit balances using Puget's pre-tax cost of capital. Using the pre-tax cost of capital is consistent with the rate that I recommended be applied to the refund at issue in the Avista Remand proceeding, Dockets UE-150204 and UG-150205.

Notwithstanding, I disagree with the timing of the interest accruals. When calculating the interest component, Puget began applying interest on the date that it filed its tax return, consistent with its view of when the tax credits were monetized. For the reasons already discussed, it is more appropriate for the interest accruals to be calculated quarterly, beginning in the tax year in which Puget received the benefit of the production tax credits. Using my approach, I calculate interest accruals of $11,924,587 through December 31, 2019, as detailed in Table 5, below.

TABLE 5

Interest Calculation on Monetized Production Tax Credits

Monetized PTC Balance Available to Colstrip Retirement

Quarter	Beg. Balance	Interest at 8.72%	PTC Monet.	Less: MT Fund	Ending Balance
2017 Q1	-	-	$ 1,071,816	$ (1,071,816)	-
2017 Q2	-	-	1,071,816	(1,071,816)	-
2017 Q3	-	-	1,071,816	(1,071,816)	-
2017 Q4	-	-	1,071,816	(1,071,816)	-
2018 Q1	-	-	20,734,295	(712,737)	20,021,558
2018 Q2	20,021,558	436,470	20,734,295		41,192,322
2018 Q3	41,192,322	897,993	20,734,295		62,824,610
2018 Q4	62,824,610	1,369,576	20,734,295		84,928,481
2019 Q1	84,928,481	1,851,441	11,823,236		98,603,158
2019 Q2	98,603,158	2,149,549	11,823,236		112,575,943
2019 Q3	112,575,943	2,454,156	11,823,236		126,853,334
2019 Q4	126,853,334	2,765,403	-		129,618,737
Total	-	11,924,587	122,694,150	(5,000,000)	129,618,737

Total Q4 2019 PTC Reg. Liab. Inc. Interest (Excl. MT Fund)

Un-Monetized	118,474,724
Monetized	129,618,737
Total	**248,093,461**

In performing this interest calculation, I used a beginning-of-quarter convention, assuming the incremental monetization occurred at the end of the quarter. I viewed this approach to be reasonable, since estimated taxes are typically paid at the end of the quarter. Further, when performing this calculation, I first deducted the amounts applicable to the Montana Transition Fund and did not apply interest to the monetized tax credits used for that purpose. That treatment is consistent with the treatment of the Montana Transition Fund Puget discussed in response to AWEC Data Request 49.

Q. WILL THE PRODUCTION TAX CREDIT REGULATORY LIABILITY BE SUFFICIENT TO COVER THE UNRECOVERED INVESTMENT FOR COLSTRIP UNITS 1 AND 2?

A. Yes. The $248,093,461 of production tax credit regulatory liability will be more than sufficient to pay for Puget's unrecovered investment in Colstrip Units 1 and 2, leaving approximately $102,197,373 to pay for the plant balances associated with Colstrip Units 3 and 4, as outlined in the 2017 GRC Stipulation. Table 6, below, details my calculation of the allocation of the gross production tax credit regulatory liability, including both the monetized and unmonetized portions, as outlined in the 2017 GRC Stipulation:

TABLE 6

Allocation of Puget Production Tax Credit Regulatory Liability

		PTC Regulatory Liability Allocation			
	Applicable Balance	Monetized*	Future Monetization	Total PTC Allocation	Remaining Balance
Colstrip 1-2	145,896,088	(129,618,737)	(16,277,351)	(145,896,088)	-
Colstrip 3-4**	271,220,276	-	(102,197,373)	(102,197,373)	169,022,903
Total	417,116,364	(129,618,737)	(118,474,724)	(248,093,461)	169,022,903

* Excluding MT Fund Amounts

** December 31, 2018 Balances

Note that in calculating the above amounts, I have used the PTC regulatory liability balances identified in Table 5, which already consider the allocation of $5,000,000 in monetized production tax credits to the Montana Transition Fund.

Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF USING THE REGULATORY ACCOUNTING FROM THE 2017 GRC STIPULATION FOR COLSTRIP UNITS 1 AND 2?

A. Table 7, below, details the revenue requirement impact of removing the Colstrip Units 1 and 2 plant balances from rate base, and transferring the unrecovered investment amount into a regulatory asset. It also details the impact of applying monetized production tax credits through September 30, 2019 against the regulatory asset balance.

TABLE 7

Revenue Requirement Impact of Using 2017 GRC Regulatory Accounting for Colstrip Units 1-2

	Rate Base
Remove: Colstrip 1-2 Plant Balances	(176,254,761)
Add Back Colstrip 1-2 Unrecovered Inv.	145,896,088
Less: Monetized PTCs	(129,618,737)
Total Rate Base Adj.	**(159,977,410)**
Rev. Req	*(16,181,249)*
Remaing Colstrip 1-2 Regulatory Asset	*16,277,351*

As can be seen, the revenue requirement impact of applying the ratemaking treatment outlined in the 2017 GRC Stipulation is an approximate $159,977,410 reduction to rate base, relative to the 2018 plant balances that Puget included in revenue requirement. This rate base reduction leaves a Colstrip 1-2 regulatory asset of $16,277,351 in rate base, which can also be identified in Table 6. The remaining Colstrip Units 1 and 2 regulatory asset will be fully offset by future PTC monetization. The impact of this rate base reduction is a $16,181,249 reduction to revenue requirement for electric services.

Colstrip Units 3-4 Depreciation Expenses

Q. DID PUGET MAKE ANY ADJUSTMENT TO THE DEPRECIATION EXPENSES FOR COLSTRIP UNITS 3 AND 4 FOR THE PRODUCTION TAX CREDIT REGULATORY LIABILITY?

A. No. Since the unrecovered investment amount associated with Colstrip Units 1 and 2 is now known, however, it is also possible to determine the amount of production tax credit regulatory liability that will be available to apply against the unrecovered investment balances for Colstrip Units 3 and 4. While those tax credits have not yet been monetized, it is appropriate to consider the production tax credit regulatory liability when calculating depreciation expenses for Colstrip Units 3 and 4.

Q. DOES PUGET EXPECT TO FULLY MONETIZE THE PRODUCTION TAX CREDIT REGULATORY LIABILITY BY THE RETIREMENT DATE OF COLSTRIP UNITS 3 AND 4?

A. Yes. In response to AWEC Data Request 48, included in Exhibit BGM-5, Puget was requested to provide a forecast of production tax credit monetization. In response, Puget stated that it was unable to provide such a forecast, but that it expected all production tax credit regulatory liability to be monetized by tax year 2022.

Q. WHAT AMOUNT OF PRODUCTION TAX CREDIT REGULATORY LIABILITY WILL BE AVAILABLE FOR COLSTRIP UNITS 3 AND 4?

A. Based on the amounts detailed in Table 8, above, $102,197,373 will be available to offset the unrecovered investment balances for Colstrip Units 3 and 4. Note that the amounts in Table 8 are calculated as of December 31, 2019, and do not consider that the production tax credit regulatory liability balances will accrue interest at Puget's pre-tax cost of capital between the period that they are monetized and the time in which Colstrip Units 3-4 ultimately retire. The interest accruals will be material, accreting approximately $8,911,611 per year toward the monetized production tax credit regulatory liability that may be used to reduce the unrecovered investment balance of Colstrip Units 3 and 4. Notwithstanding, when calculating the impact of the remaining production tax credit liability on Colstrip Units 3 and 4 depreciation expenses, I have not considered any incremental interest accruals. Thus, any additional amount of interest accruals may be used to fund incremental capital additions or unforeseen decommissioning and remediation expenses when Colstrip Units 3 and 4 are retired.

Q. WHAT IS THE IMPACT OF THE REMAINING PRODUCTION TAX CREDIT REGULATORY LIABILITY ON THE DEPRECIATION EXPENSE FOR COLSTRIP UNITS 3 AND 4?

A. I calculate the impact of the remaining production tax credit regulatory liability on depreciation expenses for Colstrip Units 3 and 4 in Table 10, below. As can be seen, I have spread the impact of the regulatory liability ratably over the 5.6 year period beginning May 20, 2020 through December 31, 2025.

TABLE 10
Impact of Production Tax Credit Regulatory Liability
on Colstrip Units 3-4 Depreciation Expense

Furture Colstrip 3-4 PTC Monetization	(102,197,373)
Remaining Life*	5.6
Impact on Depr. Exp.	(18,249,531)
*As of May 20, 2020	

After considering the rate base impacts associated with the slower depreciation schedule, this proposed reduction to Colstrip Units 3-4 depreciation expenses produces a $16,000,906 reduction to revenue requirement.

III. ADJ. NOS. 6.03 ER, 6.03GR - PROTECTED-PLUS EDFIT

Q. WHAT ARE EXCESS DEFERRED FEDERAL INCOME TAXES?

A. Excess deferred federal income taxes are financial gains that arise due to the impact of a tax rate reduction on accumulated deferred federal income taxes ("ADFIT"). ADFIT represents taxes accrued, but not yet paid by a utility, similar to a zero-interest loan. In the case of a tax rate reduction, the utility will have accrued more taxes for financial purposes in ADFIT than it will ultimately have to pay. Accordingly, a tax rate reduction has the effect of triggering a financial gain, commonly referred to as EDFIT, which is similar to the financial gain that occurs when the principal balance of a loan is forgiven.

For non-utilities, generally accepted accounting principles require EDFIT gains to flow through the income statement in the current period, in one lump-sum.[7/] For public utilities, however, the treatment is different.

Under the normalization requirements of IRC § 168(i)(9), the majority of the financial gains associated with the change in tax rate must remain on the public utility's balance sheet, and instead of recognizing the gains in one lump sum, the gains are amortized over an extended period of time. A few methods are available to amortize the gains, but the amortization period is generally intended to correspond to the period over which the underlying book-tax differences are expected to reverse.

IRS normalization requirements apply only to deferred tax balances associated with the use of accelerated depreciation—both Modified Accelerated Cost Recovery System ("MACRS") and bonus depreciation—in IRC § 168k. Accordingly, normalization accounting methods outlined in the TCJA only apply to those deferred tax balances associated with accelerated and bonus depreciation on utility plant.

With respect to the other deferred tax balances, those are often referred to as *unprotected*, since the Commission has greater leeway in determining how the gains on those balances resulting from the TCJA are returned to ratepayers.

In Washington, the term *protected-plus* is used to describe protected deferred tax balances, in addition to other unprotected balances that are also associated with utility plant. Deferred taxes associated with repair deductions, for example, are related to plant

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7/ See Financial Accounting Standards Board ("FASB"), Statement of Financial Accounting Standards No. ("SFAS") 109, Accounting for Income Taxes ¶ 27; See also FASB Accounting Standards Codification ("ASC") 740-25-47.

balances but are not subject to the IRS normalization requirements. Nonetheless, Washington has adopted the normalization ratemaking methods for unprotected deferred taxes associated with plant, even though those balances do not necessarily need to follow the IRS normalization requirements.

Q. HOW WAS PROTECTED-PLUS EDFIT RESOLVED IN PUGET'S 2018 ERF FILING?

A. In the Settlement Stipulation and Agreement in Puget's 2018 ERF filing, parties agreed to amortize and track annual amounts of protected-plus EDFIT through newly created rate schedules, Schedule 141X, applicable to both electric and gas services. Pursuant to paragraph 14 of the 2018 ERF Stipulation, Puget began amortizing $25,900,000 in protected-plus EDFIT for electric services and $6,100,000 of protected-plus EDFIT for gas services on March 1, 2019. Further, parties agreed to use reversals calculated using Average Rate Assumption Method ("ARAM") for purposes of determining the appropriate amount of EDFIT to amortize in rates.

Note that for purposes of this testimony, I use the term "amortize" to describe the amounts refunded to customers and the term "reversal" to describe the amount of EDFIT benefit calculated using the ARAM normalization calculation. The two are not necessarily the same, since the normalization requirements permit a utility to amortize EDFIT benefits more slowly than the reversals calculated using the ARAM calculation.

Q. DID THE PARTIES RESOLVE ALL ISSUES RELATED TO EDFIT IN THE 2018 ERF STIPULATION?

A. No. As noted in Order 05 of that docket, "the Parties agreed to return the protected-plus EDIT on a going-forward basis, but were unable to agree on the accounting and proper ratemaking treatment of interim protected-plus EDIT reversals that occurred between January 1, 2018, and February 28, 2019."[8/] The stipulating parties agreed that the resolution of the ratemaking treatment of ARAM reversals over the 14-month period January 1, 2019 through February 28, 2019 "will be addressed in PSE's next general rate case,"[9/] which is this docket.

Further, the 2018 ERF Stipulation also did not resolve the issue of the unprotected EDFIT, which I discuss in the next section of testimony.

In addition, the Stipulation did not resolve the ratemaking treatment of interim period tax expense savings other than EDFIT, although the Commission ultimately imposed a condition on the 2018 ERF Stipulation requiring that interim period tax expense savings amounts be returned immediately through Schedules 141Y for electric and gas services.

Q. DID PUGET INITIALLY AGREE TO AMORTIZE AN ANNUAL AMOUNT OF PROTECTED-PLUS EDFIT IN THE 2018 ERF?

A. No. While the 2018 ERF Stipulation included an annual amount of protected-plus EDFIT amortization, Puget's initial filing in the 2018 ERF initially proposed to include only six-months' worth of protected-plus EDFIT benefits in revenue requirement.[10/] The 2018 ERF used a test period of July 1, 2017 through June 31, 2018. Since the effective date of the TCJA was January 1, 2018, only six months of EDFIT ARAM reversals had occurred in the 2018 ERF test period. Puget argued that it would violate IRS

8/ UE-180899 (Cons.), Order 05 ¶ 31 (Feb. 21, 2019).
9/ UE-180899 (Cons.), Settlement Stipulation and Agreement ¶ 14 (Jan. 30, 2019) (emphasis added).
10/ UE-180889 (Cons.), Marcelia, Exh. MRM-1T at 17.

normalization and consistency requirements to apply a pro forma adjustment to annualize the going-forward EDFIT benefit in the 2018 ERF revenue requirement.

Q. WHY DID PUGET BELIEVE INCLUDING AN ANNUALIZED AMOUNT OF EDFIT WOULD VIOLATE NORMALIZATION REQUIREMENTS?

A. In the 2018 ERF, Puget witness Marcelia filed testimony theorizing that the application of a pro forma adjustment to annualize EDFIT benefits in revenue requirement on a going-forward basis would violate IRS normalization requirements. It is relevant to note that witness Marcelia's testimony on the IRS normalization requirements in the 2018 ERF is nearly a verbatim copy of the testimony that witness Marcelia filed in this docket. Witness Marcelia inferred from PLR 8920025, a situation involving the transfer of a plant from regulated to unregulated services, that any pro forma adjustment to EDFIT reversals calculated in the test period would constitute a normalization violation. As I discuss further below, not only are witness Marcelia's theories inconsistent with the resolution of protected-plus EDFIT for nearly every other utility in Washington, the issues raised in PLR 8920025 regarding the transfer of property are unrelated to the issues surrounding interim period EDFIT under consideration in this docket.

Q. WHY WAS PUGET ULTIMATELY WILLING TO INCLUDE AN ANNUAL AMOUNT OF AMORTIZATION IN THE 2018 ERF SETTLEMENT?

A. In the 2018 ERF Settlement, Puget agreed to provide for an annualized amount of protected-plus EDFIT amortization on a going-forward basis and to track the protected-plus EDFIT amounts returned to ratepayers through a new rate schedule, Schedule 141X. According to Puget, using a separate tariff schedule avoided its concerns regarding the IRS normalization and consistency requirements. In settlement testimony, Puget stated:

"PSE can support the use of Schedule 141X because the rates will not change until adjusted in a general rate case where all rate base, accumulated deferred tax balances, depreciation/amortization, and tax expense items are reviewed, therefore meeting the IRS normalization provisions, particularly the consistency requirements."[11/]

Q. HOW HAS PUGET PROPOSED TO RESOLVE THE JANUARY 1, 2018 THROUGH FEBRUARY 28, 2019 PROTECTED-PLUS EDFIT REVERSALS?

A. Puget's position on those amounts is not clear. Puget witness Marcelia, for example, offers the same theoretical discussion regarding the IRS normalization requirements that was presented in the 2018 ERF. Yet, it's not clear whether witness Marcelia is implying that Puget's normalization theories provide justification for Puget retaining the protected-plus EDFIT benefits recognized over the period January 1, 2018 through February 28, 2019, as Puget later conceded in the 2018 ERF Settlement. Witness Marcelia does suggest, however, that it would be inconsistent with Puget's view of the IRS normalization requirements to defer any amount of protected-plus EDFIT.[12/]

Q. DO PUGET'S NORMALIZATION THEORIES JUSTIFY IT RETAINING THE PROTECTED-PLUS EDFIT REVERSALS OVER THE PERIOD JANUARY 1, 2018 THOUGH FEBRUARY 28, 2019?

A. No. The theory advocated by witness Marcelia is premised on several factual and conceptual inaccuracies. For example, witness Marcelia assumes that Washington revenue requirement is calculated using a historical test period. That assumption, however, is not accurate, since Washington uses a modified test period that includes pro forma adjustments into the future rate period. In this case, Puget itself is arguing for

11/ UE-180899 (Cons.), Barnard, et al., Exh. PSE-1JT at 5:6-10.
12/ Marcelia, Exh. MRM-1T at 30:1-15.

revenue requirement calculated using an attrition allowance methodology that would have the effect of establishing rates based on the level of plant and ADFIT in the rate period.

Further, the normalization testimony that witness Marcelia has included from the 2018 ERF is not relevant to the resolution of the protected-plus EDFIT reversals over the period January 1, 2018 through February 28, 2019 because those amounts are the subject of the tax reform deferrals in Dockets UE-171225 and UG-171226. Parties agreed that resolution of the remaining deferred amounts of interim-period protected-plus EDFIT benefits were not resolved through the ERF Stipulation and would be reserved for resolution this docket. It may be true, as witness Marcelia states, that Puget has not recorded a regulatory liability on its financial statements for the remaining protected-plus EDFIT amounts due to ratepayers for the interim period.[13/] Puget's accounting policy, however, is not determinative over whether the deferred protected-plus EDFIT amounts are appropriately returned to ratepayers. Only the Commission can make that determination.

Q. HAVE OTHER UTILITIES AGREED TO DEFER AND RETURN PROTECTED-PLUS EDFIT REVERSALS IN THE INTERIM PERIOD?

A. Yes. Other major utilities in Washington and in other states that have filed rate cases since the passage of the TCJA have deferred and returned the protected-plus EDFIT amounts which reversed under the ARAM in the interim period.

13/ Marcelia, Exh. No. MRM-1T at 30:11.

In Docket No. UG-170929, Cascade Natural Gas Corporation's ("Cascade") 2018 General Rate Case, the disposition of protected-plus EDFIT reversals in the interim period was a litigated issue. In that docket, the Commission "reject[ed] Cascade's argument that allowing the Company to retain the Interim Period EDIT will benefit customers,"[14/] and directed Cascade to "return to its customers the $1.6 million in excess deferred income tax it collected between January 1, 2018, and July 31, 2018."[15/]

In Docket UG-181053, NW Natural's 2019 General Rate Case, parties stipulated to spread the deferred ARAM reversals from the interim period over a five-year period. Testimony from NW Natural Witness Borgerson, Exh. SRB-1T at 19:6-20:13, describes how the interim period protected-plus EDFIT benefits were spread over a five-year period in establishing the annual amount of protected-plus EDFIT amortization ultimately approved by the Commission. The NW Natural methodology was slightly different than that used for Cascade. Notwithstanding, in Borgerson, Exh. SRB-6 it can be noted that NW Natural applied the interim period protected-plus EDFIT reversals on a going forward basis through 2023.

Similar examples may be found in other jurisdictions as well. For example, in Docket UM 1920 before the Public Utility Commission of Oregon, Portland General Electric Company agreed to refund $7,979,000 in protected EDFIT ARAM reversals as a component of the interim-period tax savings refunded to customers.[16/]

14/ WUTC v. Cascade Natural Gas Corporation, UG-170929, Order 06 ¶ 38 (July 20, 2018).

15/ Id., ¶ 105.

16/ See In re Portland General Electric Company, Application for Authorization to Defer Benefits Associated with the US Tax Reconciliation Act, Or.PUC Docket No. UM 1920, Staff Report for December 4th Public Meeting, Attachment B (Dec. 3, 2018).

If Puget's normalization theory were accurate, each of these utilities that has deferred and returned interim-period protected EDFIT to ratepayers would be in violation of the IRS normalization requirements.

Q. HAS THE IRS ISSUED GUIDANCE ON THIS ISSUE?

A. On July 2, 2019, the IRS issued Notice 2019-33 indicating that it is currently in the process of drafting guidance on the application of the TCJA normalization requirements.

In the Notice, the IRS specifically requested comments on the issue of whether "[t]he implementation of interim rates to reflect the TCJA's decrease in the corporate tax rate including but not limited to comments about the meaning of the phrase 'reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under ARAM.'"

Of the commenters discussing this issue, most commenters, including Dominion Energy, the American Gas Association, and the Edison Electric Institute, supported the recommendation that interim EDFIT rate adjustments would be in compliance with the normalization method of accounting, including the consistency rule if, when EDFIT is amortized and returned to customers, there is a corresponding impact (increase) to rate base reflecting that amortization.[17/] The position advocated by these commenters is largely consistent with the way that interim-period EDFIT amortization has been implemented for other utilities in Washington, as well as in other states such as Oregon and Idaho.

[17/] See IRS Notice 2019-33, Comments of Dominion Energy (Jul. 29, 2019); Joint Comments of American Gas Association and Edison Electric Institute (Jul. 26, 2019).

Q. DID PUGET SUBMIT COMMENTS IN RESPONSE TO IRS NOTICE 2019-33?

A. No. Puget did not submit comments presenting its normalization theory as outlined in witness Marcelia's testimony. The Washington Utilities and Transportation Commission, however, did submit comments in response to the Notice 2019-33, specifically requesting the IRS address this issue in its guidance, without making any specific recommendation. While the resolution of Notice 2019-33 may be uncertain, it is clear that, in advocating its normalization theory in testimony, Puget fails to mention that its theory is inconsistent with the position of the majority of others in the industry, including its own trade associations, the Edison Electric Institute and the American Gas Association.

Q. HOW MUCH PROTECTED-PLUS EDFIT BENEFIT DID PSE PROPOSE TO INCLUDE IN REVENUE REQUIREMENT IN ITS INITIAL FILING?

A. Puget's initial filing would result in the elimination of Schedule 141X for electric and gas services. In its place, Puget's filing proposes to amortize protected-plus EDFIT as a component of base rates. Puget's filing includes EDFIT amortization in base rates. In response to WUTC Data Request 67, Puget provided the calculation of the protected-plus ARAM reversals that it proposes, along with a forecast of ARAM reversals between 2019 through 2022. For electric services Puget calculated protected-plus ARAM reversals of $23,516,910, including allocated reversals associated with common plant. For gas services Puget calculated protected-plus ARAM reversals of $6,272,059, including allocated reversals associated with common plant.

Q. HOW MUCH PROTECTED-PLUS AMORTIZATION DID PUGET RECOGNIZE IN THE PERIOD JANUARY 1, 2018 THROUGH FEBRUARY 28, 2019?

A As detailed in Table 9, below, over the period January 1, 2018 through February 28, 2019, Puget recognized protected-plus EDFIT reversals of $27,034,601 for electric services and $7,069,749 for gas services. In response to AWEC Data Request 24, Puget confirmed that it does not track protected plus EDFIT reversals on a monthly basis and that the "'monthly' reversals would be a straight proration of the annual amounts."[18/]

18/ Mullins, Exh. BGM-5 at 10 (PSE Response to AWEC DR 24).

TABLE 9
Interim Period ARAM Reversals (Whole Dollars)
Source: Puget's Response to WUTC Data Request 67

ln	Month	Electriec	Gas
1	2018 Jan	(1,959,743)	(522,672)
2	Feb	(1,959,743)	(522,672)
3	Mar	(1,959,743)	(522,672)
4	Apr	(1,959,743)	(522,672)
5	May	(1,959,743)	(522,672)
6	Jun	(1,959,743)	(522,672)
7	Jul	(1,959,743)	(522,672)
8	Aug	(1,959,743)	(522,672)
9	Sep	(1,959,743)	(522,672)
10	Oct	(1,959,743)	(522,672)
11	Nov	(1,959,743)	(522,672)
12	Dec	(1,959,743)	(522,672)
13	2019 Jan	(1,758,845)	(398,845)
14	Feb	(1,758,845)	(398,845)
15	Total Interim Period Reversals	(27,034,601)	(7,069,749)
16	4-Year Amort	(6,758,650)	(1,767,437)
17	Rate Base Impacts:		
18	Year 1	3,379,325	883,719
19	Year 2	10,137,975	2,651,156
20	Year 3	16,896,626	4,418,593
21	Year 4	23,655,276	6,186,030

Q. HOW DO YOU RECOMMEND THE JANUARY 1, 2018 THROUGH FEBRUARY 28, 2019 EDFIT AMOUNTS BE CONSIDERED?

A. In addition to the amounts Puget included in base rates in revenue requirement, I recommend amortizing an additional amount of EDFIT amortization for January 1, 2018 through February 28, 2019 over a four-year period. I have selected this period to allow Puget to perform an annual check to ensure that the cumulative amortization amounts do not exceed the cumulative amount of ARAM reversals, similar to the treatment in Cascade Docket UG-170929.[19/]

Q. DO YOU RECOMMEND THE INTERIM-PERIOD PROTECTED-PLUS EDFIT BE INCLUDED IN BASE RATES?

A. Rather than including the additional interim-period protected-plus EDFIT amortization amounts in base rates, I recommend including the amount in Schedules 141X for electric and gas services, so that the amounts can be tracked and distinguished from the amount of ARAM amortization considered in base rates.

Q. HOW DO YOU RECOMMEND HANDLING THE RATE BASE IMPACTS OF THE AMORTIZATION?

A. In calculating the amount of the sur-credit, I recommend applying an offsetting adjustment to account for the increase in rate base associated with the additional protected-plus EDFIT amortization, as detailed in Table 9, above. Since the rate base impacts will change each year, I recommend having the sur-credit decline each year to account for the increasing rate base. Alternatively, the rate base impacts could be calculated on a levelized basis over the four-year period.

Q. WILL YOUR RECOMMENDATION VIOLATE THE ARAM NORMALIZATION REQUIREMENTS?

A. No. Mullins, Exh. BGM-6 contains the section of the TCJA discussing the IRS normalization requirements. The TCJA states that "[a] normalization method of accounting shall not be treated as being used […] if the taxpayer […] reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under

19/ Docket UG-170929, Order 06 at ¶ 51.

the average rate assumption method."[20] This section of the TCJA does not require EDFIT amortization to be the exact amount calculated using the ARAM, as Puget's normalization theory would suggest. Accordingly, it is permissible for the Commission to adopt an amortization schedule that returns EDFIT more slowly than the reversals calculated using the ARAM.

Q. HAVE YOU PERFORMED AN ANALYSIS DEMONSTRATING THAT YOUR PROPOSAL WILL NOT VIOLATE THIS NORMALIZATION REQUIREMENT?

A. As detailed in Mullins, Exh. BGM-7 and Table 10, below, amortizing the January 1, 2018 through February 28, 2019 ARAM reversals will result in Puget more closely matching the actual protected-plus EDFIT benefit that Puget will recognize in the rate period, and will not cause Puget to exceed the total amount of ARAM amortization in the rate period.

[20] Mullins, Exh. BGM-6 at 1.

TABLE 10
Protected-plus Rate Amortization Illustration
Including Amortization of Jan 1, 2018 through February 28, 2019

	2018	2019	2020	2021
Electric				
Cumulative ARAM	(23,516,910)	(44,623,053)	(67,019,568)	(89,245,504)
Amortization				
Sch. 141X (Old)	-	(18,107,774)	(11,097,971)	-
Base Rates	-	-	(14,413,590)	(23,516,910)
Sch. 141X (Prop.)	-	-	(4,142,399)	(6,758,650)
Total Amort.	-	(18,107,774)	(29,653,960)	(30,275,561)
Cum. Amort.	-	(18,107,774)	(47,761,734)	(78,037,294)
Amort. Less ARAM	23,516,910	26,515,279	19,257,835	11,208,210
Natural Gas				
Cumulative ARAM	(6,272,059)	(11,058,197)	(16,209,927)	(21,819,309)
Amortization				
Sch. 141X (Old)	-	(4,608,928)	(2,910,254)	-
Base Rates	-	-	(3,844,165)	(6,272,059)
Sch. 141X (Prop.)	-	-	(1,083,268)	(1,767,437)
Total Amort.	-	(4,608,928)	(7,837,688)	(8,039,497)
Cum. Amort.	-	(4,608,928)	(12,446,616)	(20,486,112)
Amort. Less ARAM	6,272,059	6,449,269	3,763,311	1,333,197

The amounts in Table 10 are based upon monthly amortization calculations provided in Mullins, Exh. BGM-7. As can be seen in Table 10, above, I detail the total amount of cumulative EDFIT amortization under my proposal in comparison to the cumulative amount of ARAM reversals provided in response to WUTC Data Request 67 through 2021. As can be noted, in no year does the cumulative EDFIT amortization exceed the amount of amortization calculated using the ARAM method.

Q. IS IT APPROPRIATE FOR PUGET TO PERIODICALLY REVIEW THE LEVEL OF PROTECTED-PLUS EDFIT AMORTIZATION?

A Yes. If my proposal is accepted by the Commission, I recommend that the additional EDFIT amortization provided through Schedule 141X be reviewed annually to ensure that additional amortization, in conjunction with the base rate amortization of EDFIT, does not cause the total amount of EDFIT amortization to exceed the cumulative amount of ARAM reversals.

Q. IS THE UNPROTECTED PORTION OF PROTECTED-PLUS EDFIT RELEVANT IN CONSIDERING THE NORMALIZATION REQUIREMENTS?

A. Yes. Since Washington includes unprotected plant-related EDFIT in the protected-plus ARAM reversals, those amounts may be used as a buffer and amortized first, in case there were any question whether Puget were in violation of the normalization requirements.

Q. ARE THERE ANY OTHER ISSUES THAT YOU IDENTIFIED WHEN PREPARING TABLE 3?

A. In response to Public Counsel Data Request 64, Puget detailed the rate base deduction that it applied to the test period EDFIT balances. Based on that response, it appears that Puget considered only the 2018 test period protected-plus EDFIT amortization amount in determining the EDFIT balances to include in rate base, and did not consider the EDFIT amortization amounts that are being returned to customers through Schedule 141X. For consistency purposes, I recommend that the Schedule 141X amortization amounts of $29,205,749 for electric services and $7,519,182 for gas services be applied as an increase to rate base when calculating revenue requirement.

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATIONS REGARDING INTERIM-PERIOD PROTECTED-PLUS EDFIT?

A. Applying my proposed ratemaking for protected-plus EDFIT, including the reduction to ADFIT for past amortization through Schedules 141X, produces a $5,690,413 reduction to electric revenue requirement and a $1,494,683 reduction to gas revenue requirement.

IV. ADJ. NOS. 6.26EP, 6.26GP - UNPROTECTED EDFIT

Q. WHAT HAS PUGET PROPOSED WITH RESPECT TO UNPROTECTED EDFIT?

A. Puget's proposal for handling unprotected EDFIT may be found in the testimony of witness Free, Exh. SEF-1T at 57-58. In witness Free's testimony, Puget proposes to return the full amount of unprotected EDFIT benefits to ratepayers, amortizing the balances over a four-year period, including an offsetting adjustment to increase rate base for the incremental amortization.

Q. WHAT IS THE TOTAL AMOUNT OF UNPROTECTED EDFIT THAT PUGET HAS CALCULATED?

A. Puget calculated a total amount of unprotected EDFIT of $36,025,489 for electric services and $2,890,522 for gas services.[21/]

Q. WHAT AMOUNT OF AMORTIZATION DOES PUGET PROPOSE?

A. As noted, Puget proposes a four-year amortization for unprotected EDFIT. For electric services, Puget proposes annual unprotected EDFIT amortization of $9,006,372 offset by a corresponding $4,503,186 reduction to ADFIT. For gas services, Puget proposes

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[21/] See Workpaper UE-190529 and UG-190530-PSE-WP-SEF-6.26E-6.26G-UnprotectedEDIT-19GRC-06-2019.xlsx annual unprotected EDFIT amortization of $722,630, offset by a corresponding $361,315 reduction to ADFIT.

Q. WHY DID PUGET PROPOSE A FOUR-YEAR AMORTIZATION FOR UNPROTECTED EDFIT?

A. In testimony, Puget provides no rationale for adopting a four-year amortization for unprotected EDFIT.

Q. DO YOU AGREE WITH PUGET'S PROPOSED AMORTIZATION PERIOD FOR UNPROTECTED EDFIT?

A. AWEC does not oppose using a four-year amortization for unprotected EDFIT for electric services. Given the large magnitude of the rate increase faced by gas customers and the relatively small balance of unprotected EDFIT applicable to gas services, however, I recommend adopting a shorter amortization period for gas services. Specifically, I recommend amortizing the unprotected EDFIT applicable to gas customers over a one-year period. Adopting a shorter amortization period for gas services will have the effect of mitigating the impact of the large rate increase Puget is proposing for gas customers in this proceeding.

Q. WHAT IS THE IMPACT OF APPLYING A ONE-YEAR AMORTIZATION FOR UNPROTECTED EDFIT FOR GAS SERVICES?

Using a one-year amortization for unprotected EDFIT for gas services results in an annual amortization of $2,890,522 and a corresponding increase to ADFIT of $1,445,261. This recommendation produces a $2,765,287 reduction to gas revenue requirement relative to the amortization Puget proposed in testimony.

V. DATA CENTER RELOCATION

Q. PLEASE OUTLINE PUGET'S DATA CENTER AND DISASTER RECOVERY PROGRAM.

A. Puget witness Hopkins outlines the Data Center and Disaster Recovery Program ("DCDR") as a "four-year effort to mitigate a significant business continuity risk associated with the critical IT systems that are essential to the safe and secure operation of [Puget's] electric and gas services."[22/] The DCDR has three phases, including 1) replacing the "substandard" Bothell and Bellevue data centers; 2) implementing Disaster Recovery capabilities for IT systems; and 3) decommissioning the existing data centers.[23/]

Q. CAN YOU PLEASE PROVIDE ADDITIONAL DETAIL REGARDING THE DATA CENTER REPLACEMENT EFFORTS?

A. Yes. As noted by witness Hopkins,[24/] Puget has historically operated two data centers, located in the greater Bellevue area: the Bothell and Bellevue facilities. In this proceeding, Puget is requesting recovery of $79.3 million related to the construction of two new data centers, one located at the Snoqualmie Technology Center Office, and the second located in Cle Elum, Washington, and the transfer of information from the existing facilities to the new facilities.[25/] This is comprised of $33.2 million to construct

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22/ Hopkins, Exh. MFH-1T at 19:19-21.
23/ Id. at 19:22-20:2.
24/ Id. at 20:3-17.
25/ See id. at 26:1-15.

the new data centers, $31.2 million to purchase new IT systems, and $14.9 million to configure, test, and migrate all IT systems to the new facilities.[26/]

Q. WHAT RATIONALE DID THE PUGET PROVIDE FOR REPLACING THE DATA CENTERS?

A. The Puget describes the Bothell and Bellevue locations as "substandard"[27/], and thus requiring replacement. Specifically, Puget states that the "facilities were located 12 miles apart on the same seismic fault," which created a business continuity risk from a localized disaster or seismic event.[28/] Additionally, Puget claims the Bothell facility was "substandard" due to its location within a floodplain and on the second floor of an office building.[29/]

Q. WHAT ARE AWEC'S CONCERNS REGARDING THESE REPLACEMENT EFFORTS?

A. Fundamentally, the major concerns presented by Puget justifying the need to spend more than $79 million are issues that existed when Puget originally determined to locate the data centers at the Bothell and Bellevue locations. Specifically, the fault-line and the flood-plain concerns Puget cited were certainly known or knowable when the original decision was made to locate the data center facilities.

Q. CAN YOU EXPAND ON THE FLOOD-PLAIN CONCERN?

A. Yes. In response to various data requests from AWEC regarding the due diligence conducted by the Company prior to locating a data center at the Bothell location, the

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26/ Id.
27/ Id. at 19:22; 20:3, 7.
28/ Id. at 20:5-7.
29/ Id. at 20:10-12.

Company stated that it has rented space at the North Creek Campus in Bothell since 1999, for call center operations. Puget "became aware of flooding risks at the North Creek campus in late 2007, due in part to a storm which caused flooding and threatened access to the call center…."[30/]

Notwithstanding this known flooding risk, in 2009 the Company executed a lease for space to develop the Bothell data center. Puget's responses to AWEC's data requests indicate that the lease was executed, in part, due to the landlord's agreement to store lumber, sandbag, and sandbag filling materials on site, presumably for use in a flooding event.[31/] Additionally, the lease required raising the height of the walls of a bridge over North Creek, and the installation of wing walls on both bridges in the office park complex.[32/] Puget did not require any additional flood control measures to protect the data center and related infrastructure. These measures were sufficient for the Company to find the Bothell site secure and appropriate for a data center. Critically, as identified by the Company in response to AWEC data requests, this is the total of the Company's due diligence on the flood threat to the Bothell data center, notwithstanding the actual flooding event the Company had previously experienced at the location.[33/]

It was not until over three years later that the Company's Insurance Administrator visited the site, at which time he noted "the creek bed is only about 1.5 to 2 feet from the

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30/ Mullins, Exh. BGM-5 at 1 (PSE Response to AWEC DR 001).
31/ See id. at 6 (PSE Response to AWEC DR 003).
32/ See id. at 6 (PSE Response to AWEC DR 003).
33/ See id. at 7 (PSE Response to AWEC DR 007).

bottom of a nearby roadbridge."[34/] At this time, the Company's Insurance Administrator noted "it's foreseeable this small flow space beneath the bridge may become inadequate and could plug-up with flood debris; the bridge could become a diversion dam for flooding over time."[35/] As discussed above, this 2012 "significant" concern was not even addressed during the Company's original negotiation for flood-control measures prior to executing the lease for the data center. Instead, the Company knowingly developed a data center in a flood-plain, where the Company had already experienced a flood, based on agreed-upon flood-control measures, which the Company now characterizes as "substandard."

Q. DOES AWEC OPPOSE THE RELOCATION OF THE DATA CENTERS?

A. No. AWEC does not contest the propriety of the Company's determination that the Bothell data center was subject to serious business operational risk due to its location within a known flood zone, with primary and back-up power supplies exposed to flooding.[36/] However, this risk clearly existed at the time the Company developed the Bothell Data Center and the Company was content with the remediation efforts that it now characterizes as "substandard." Indeed, the Company's operations have been negatively affected by this flooding risk.[37/]

34/ Mullins, Exh. BGM-5 at 4 (Attachment A to PSE Response to AWEC DR 001).
35/ Id. at 4 (Attachment A to PSE Response to AWEC DR 001).
36/ See id. at 1 (Attachment A to PSE Response to AWEC DR 001).
37/ Hopkins, Exh. MFH-1T at 20:12-17.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COSTS OF THE DATA CENTER RELOCATIONS?

A. Puget knew of the flood risk when it developed the Bothell Data Center and knew, or should have known, that both the Bothell and Bellevue facilities were located on a fault line. Neither of these operational risks have developed since the Company initially developed these facilities and recovered related costs from ratepayers.

Specifically, and with respect to the Bothell facility, the Company admits it knew of the flood risk prior to developing the site and moved forward, nonetheless, after being satisfied with protection efforts. Puget now claims these efforts result in a substandard facility, without demonstrating any changes in factual circumstances, and again requests ratepayers to pay the costs. I recommend customers be required to pay the costs of only one round of data center development, which they have done. Accordingly, I recommend the costs associated with the Bothell and Bellevue data centers, $79.3 million, be disallowed.

VI. TACOMA LNG ALLOCATION

Q. PLEASE EXPLAIN PUGET'S NATURAL GAS DISTRIBUTION SYSTEM UPGRADES RELATED TO THE TACOMA LIQUIFIED NATURAL GAS PROJECT.

A. Puget witness Henderson outlines Puget's analyses regarding upgrading the natural gas distribution system to accommodate the anticipated operations from the Tacoma Liquified Natural Gas ("Tacoma LNG") Project. Specifically, witness Henderson describes the Company's efforts necessary "for serving the natural gas load at the

Tacoma LNG Project."[38] Witness Henderson testified that the Company determined that a $49.26 million project to "increase capacity of the existing South Tacoma supply system and provide a connection to the North Tacoma supply system"[39] was determined to be "the cost-effective and efficient approach"[40] to upgrade the Company's two, independent, natural gas distribution systems that serve the Tacoma area. Additionally, witness Henderson testified that "a four mile pipeline was required to connect the Tacoma LNG Project to the gas distribution system."[41]

Q. IS THERE ADDITIONAL DETAIL REGARDING THE FOUR-MILE PIPELINE?

A. Yes. Witness Henderson states that the "new 16-inch line will (i) supply natural gas to the Tacoma LNG Project for liquefaction and (ii) transport vaporized natural gas from the Tacoma LNG Project to the distribution system when required to provide a peak day resource to the system."[42]

Q. IS THIS THE FIRST TIME THE COMMISSION HAS REVIEWED THIS PROPOSED 16-INCH PIPE UPGRADE?

A. No. In Docket No. UG-151663, the Company proposed development of the Tacoma LNG Project, including ownership arrangements and various system upgrades necessary to support the proposal. These upgrades included a 16-inch line from the North Tacoma system to the Port of Tacoma that "would not be necessary but for the" Tacoma LNG Project.[43]

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[38] Henderson, Exh. DAH-1T at 4:8.
[39] Id. at 4:12-14.
[40] Id. at 4:17-18.
[41] Id. at 4:18-20.
[42] Id. at 5:9-13.
[43] Docket UG-151663, Order 10, Appendix A (Full Settlement Stipulation) at ¶ 30 (Oct. 31, 2016).

Q. IN DOCKET NO. UG-151663, HOW DID THE COMPANY AGREE TO ADDRESS THE COSTS ASSOCIATED WITH THE 16-INCH LINE?

A. As part of an agreed upon solution with AWEC's predecessor, the Northwest Industrial Gas Users, "PSE agree[d] not to propose to allocate any costs associated with either the 16-Inch Line or the Bonney Lake Lateral Improvements to transportation customers."[44/]

Q. HAS THE COMPANY COMPLIED WITH THE AGREEMENT MADE IN DOCKET NO. UG-151663?

A. Puget did not specifically identify that it has complied with this agreement. Accordingly, I request that Puget remove all costs associated with the 16-inch line upgrade project allocated to transportation customers, as required by the stipulation in UG-151663. For each applicable rate class with both sales and transportation rate schedules, I recommend that a rate spread adjustment be performed deducting the Tacoma LNG costs allocated to the transportation schedules and reallocating the amount to sales customers of the respective rate class.

Q. DOES THIS CONCLUDE YOUR RESPONSE TESTIMONY?

A. Yes.

44/ Id. at ¶ 32.