EXH. WFD-1T
DOCKET UG-230393
WITNESS: WILLIAM F. DONAHUE

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

WILLIAM F. DONAHUE

ON BEHALF OF PUGET SOUND ENERGY

MAY 25, 2023

PUGET SOUND ENERGY

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PUGET SOUND ENERGY

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF WILLIAM F. DONAHUE

I. INTRODUCTION

Q. Please state your name, affiliation, and business address.

A. My name is William F. Donahue, and I am a principal at WFDonahue Consulting, LLC ("WFD Consulting"). My business address is 5005 NE 187th Street, Lake Forest Park, WA 98155. As a principal at WFD Consulting, I provide consulting services to PSE on liquefied natural gas ("LNG"), renewable natural gas ("RNG"), and gas pipeline matters. Prior to establishing WFD Consulting, I was the Manager of Natural Gas Resources at Puget Sound Energy ("PSE").

Q. On whose behalf are you appearing in this proceeding?

A. I am appearing on behalf of Puget Sound Energy ("PSE" or the "Company").

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

A. Yes, I have. It is Exhibit WFD-2.

Q. What is your assignment in this proceeding?

A. PSE requested WFD Consulting to further explain how PSE is recovering costs of the four-mile pipeline segment that integrates the Tacoma LNG Facility with the

PSE distribution system and show why it is appropriate for PSE's affiliate, Puget LNG, LLC ("Puget LNG"), to contribute to the costs of that four-mile pipeline segment through rates it pays today as a Schedule 87T customer and in the future as a Schedule 88T customer.

Q. Please describe Puget LNG.

A. Puget LNG is a non-regulated subsidiary of PSE's parent, Puget Energy, Inc. In Docket UG-151663, the Commission approved a Settlement Stipulation ("Settlement") under which Puget Energy, Inc. would form a new wholly-owned subsidiary for the purpose of owning, developing, and financing the Tacoma LNG Facility as a tenant-in-common with PSE.[1] In accordance with Order 10, Puget LNG is providing non-regulated sales of LNG as transportation fuel and is paying for the capital and operating costs of the Tacoma LNG Project allocated to Puget LNG based on its use of the Tacoma LNG Facility.[2]

Q. Please describe the four-mile pipeline segment.

A. The four-mile pipeline segment is part of the improvements to PSE's gas distribution system that were needed to support the delivery of natural gas both to

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[1] Docket UG-151663, *Final Order 10 Approving and Adopting Settlement Stipulation; Reopening Record and Amending Order 08 in Docket U-072375*, dated Nov. 1, 2016 ("Order 10").

[2] *Id*. at ¶ 43.

and from the dual-use Tacoma LNG Facility.[3] The four miles of new piping and the meter station installed adjacent to the Tacoma LNG Facility are a portion of the PSE gas distribution system used to supply natural gas to the Tacoma LNG Facility for liquefaction and to transport vaporized natural gas from the Tacoma LNG Facility to customers in the Tacoma area of the PSE distribution system. As the Commission noted in Order 24/10 in Dockets UE-220066, UG-220067, & UG-210918 (Consolidated), this four-mile pipeline segment accounts for a majority of the Tacoma LNG distribution costs ($30 million out of $46.4 million without including AFUDC), and it was placed into service in 2017.[4]

Q. Why is PSE providing additional testimony on the four miles of pipeline in this proceeding?

A. In Order 24/10, the Commission found that although it appeared there was recognition and agreement that the full cost of the four miles of distribution line should not be borne solely by core customers, it was not clear how PSE would recover the shared costs for the distribution plant from Puget LNG.[5] Therefore, the Commission allowed PSE to include the costs of the four-mile pipeline

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[3] These distribution system improvements included: a pressure increase on an existing section of pipe and construction of the Golden Givens Limit Station; modifying the existing Frederickson Gate Station; and adding the approximately four miles of new higher-pressure piping. As described below only the costs of the four-mile piping is at issue in this proceeding.

[4] Dockets UE-220066 and UG-220067/210918 (consolidated), *Final Order Rejecting Tariff Sheets; Approving Settlements, with Conditions; Authorizing and Requiring Compliance Filing* ¶ 406, n.788 dated Dec. 22, 2022 (“Order 24/10”).

[5] Order 24/10 at ¶ 408.

segment in rates on a provisional basis and found that issues regarding the appropriate allocation and method of recovery of those costs would be addressed when PSE requests recovery of the Tacoma LNG Facility costs.[6]

II. ALLOCATION OF COSTS ASSOCIATED WITH THE FOUR-MILE PIPELINE SEGMENT

Q. Please describe the dual-use of the Tacoma LNG Facility.

A. As a dual-use project, the Tacoma LNG Facility is used by PSE to meet the peak shaving needs of its core customers and it is also being used by Puget LNG to make and dispense LNG to end-use customers primarily as transportation fuel. By serving dual uses that share the costs of developing, constructing, and operating the project, the Tacoma LNG Project is a cost-effective way to help meet the peak-day resource needs of PSE's gas utility customers.

Q. What is the capacity of natural gas that can be provided to the PSE gas distribution system from the Tacoma LNG Facility?

A. The total peak-day capacity of the Tacoma LNG Facility is 85,000 dekatherms ("Dth") per day. The Tacoma LNG Facility is equipped with a vaporizer capable of gasifying and injecting natural gas into PSE's natural gas distribution system at a rate of 66,000 Dth/day. In addition, PSE is able to divert up to 19,000 Dth/day of natural gas, that would otherwise be sold to Puget LNG for its use at the Tacoma LNG Facility for delivery to any PSE gate station on the Williams

[6] Order 24/10 at ¶ 410.

Northwest Pipeline system to provide a total of 85,000 Dth/day to the PSE gas system. This is consistent with the design of the plant, in that it cannot both liquefy and vaporize at the same time.

Q. Why did PSE request that WFD Consulting provide testimony concerning how PSE is recovering costs of the four-mile pipeline segment?

A. In my prior role as Manager, Natural Gas Resources at PSE, I prepared an analysis of the appropriate portion of the costs of the distribution system upgrades, including the four-mile pipeline segment, which should be attributed to each of Puget LNG, PSE's peaking resource, and the PSE gas system in general.

Q. Please describe the reasons that an analysis of the costs of the distribution system upgrades attributable to Puget LNG, PSE's peaking resource, and the PSE gas system in general was necessary.

A. In response to Order 10, Puget Energy created the PSE affiliate known as Puget LNG. Puget LNG decided to take service under Schedule 87T, in order to acquire its own gas supply and transport it across the PSE gas distribution system for delivery to the Tacoma LNG Facility for its use in making LNG sales. PSE determined that it was appropriate to treat Puget LNG in a non-discriminatory fashion, as simply another industrial transportation customer on its system. To that end, PSE had to determine the costs associated with the system upgrades necessary to provide service to Puget LNG as a new transportation customer and determine further whether Puget LNG would be required to make a customer payment or "contribution in aid of construction."

Q. Please describe the analysis of the costs of the distribution system upgrades, including the four-mile pipeline segment, that you prepared.

A. First, I examined how each component of the distribution upgrades, including the four-mile pipeline segment would be used. The four-mile pipeline segment can be used to deliver 21,400 Dth/day of natural gas *to* the Tacoma LNG Facility and, at other times, to deliver 66,000 Dth/day of vaporized natural gas *from* the Tacoma LNG Facility to other portions of the PSE distribution system. My analysis also took into account that a 12-inch pipeline would have been adequate to deliver 21,400 Dth/day to the Tacoma LNG Facility, but a 16-inch pipeline is needed to deliver 66,000 Dth/day from the Tacoma LNG Facility to other portions of the PSE distribution system.

At the time I did my analysis, PSE estimated the cost to construct four miles of 12-inch pipeline was $23.3 million. Of the 21,400 Dth/day delivered *to* the Tacoma LNG Facility, 90 percent is attributable to Puget LNG and 10 percent is attributable to PSE. The purpose of delivering natural gas to the Tacoma LNG Facility is to liquefy the gas so it can be stored until needed for peak shaving or for transportation fuel. This 90/10 cost split is consistent with the Settlement approved by the Commission in Docket UG-151663 whereby liquefaction facilities are allocated 90 percent to Puget LNG and 10 percent to PSE.

In contrast, 100 percent of the cost to deliver 21,400 Dth/day *from* the Tacoma LNG Facility to other portions of the PSE distribution system is attributable to PSE because Puget LNG has no need for or rights to natural gas delivered from the Tacoma LNG Facility. The percentages of the estimated costs to construct four miles of 12-inch pipeline that are attributable to PSE and Puget LNG are shown on Exhibit WFD-3. Similar allocations for the other gas distribution system upgrades are also shown on Exhibit WFD-3.

The estimated cost difference between constructing four miles of 12-inch pipeline and four miles of 16-inch pipeline was approximately $4.1 million. I proposed to allocate 100 percent of that cost differential to PSE because only PSE uses the four-mile pipeline segment to deliver natural gas from the Tacoma LNG Facility to other portions of the PSE distribution system. As previously discussed, the 16-inch pipeline segment was not needed for Puget LNG because a 12-inch pipeline would have been adequate to deliver 21,400 Dth/day to the Tacoma LNG Facility, but a 16-inch pipeline segment is needed for PSE to deliver 66,000 Dth/day from the Tacoma LNG Facility to other portions of the PSE distribution system. Based on these calculations, PSE would be allocated $16,920,000 or 61.8 percent of the costs of the four-mile pipeline segment, and Puget LNG would be allocated $10,480,000 or 38.3 percent of the costs of the four-mile pipeline segment. *See* Exh. WFD-3. In the Settlement approved in Docket UG-151663, PSE agreed not to propose to allocate costs associated with the four-mile pipeline segment to transportation-only customers. This point is discussed further below.

III. RECOVERY OF COSTS ASSOCIATED WITH THE FOUR- MILE PIPELINE SEGMENT

Q. Please describe the next step in your analysis of the costs of gas distribution system upgrades, including the four-mile pipeline segment.

A. Next, I reviewed the anticipated use of the four-mile pipeline segment, along with the other distribution system upgrades attributable to provision of service to Puget LNG to determine whether, under Rule No. 6, Extension of Distribution Facilities,[7] Puget LNG would be required to provide an upfront "customer payment" (as defined in Rule No. 6); such a customer payment is sometimes referred to as a contribution in aid of construction ("CIAC").

Q. Please explain what you mean by Rule No. 6.

A. Rule No. 6, Extension of Distribution Facilities, was one of the rules governing natural gas service in the PSE Natural Gas Tariff. Under Rule No. 6, PSE would compare the capital cost of distribution system upgrades necessary to provide the requested service to a new customer to the capital cost recovery portion of revenues earned from the expected service to that customer or location. If the capital costs are greater than the capital cost recovery expected from that customer, Rule No. 6 required an upfront customer payment in addition to the revenues over the life of the service. The purpose of the customer payment is to reduce the net capitalized rate base of the distribution system upgrades such that

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[7] I used Rule No. 6, the rule in effect at the time the analysis was done (December 2020). Rule No. 6 was subsequently superseded by Rule No. 7.

no costs of the upgrades are shifted to other rate payers. The customer payment is considered a CIAC in accounting terminology and does not provide the customer with any ownership rights to the distribution system upgrades.

Q. Please describe the results of your analysis under Rule No. 6.

A. As shown in Exhibit No. WFD-4, for both scenarios modeled, the dollar amount of the Puget LNG volumes multiplied by the Rule No. 6 credit for Schedule 87T, the "Margin Allowance," is greater than the "Allocated Capital Costs" to provide the service by year five, and on average over the ten-year contract term. In other words, the Margin Allowance PSE would provide to Puget LNG under section 5 of Rule No. 6 is greater than the Allocated Capital Costs of the distribution system upgrades to Puget LNG. Thus, the analysis shows that Puget LNG would not be required by Rule No. 6 to provide an upfront customer payment. Instead, PSE would recover the costs for the Puget LNG portion of the distribution upgrades, including the four-mile pipeline segment, through the tariff rates Puget LNG pays PSE for service.

Q. Is PSE's recovery from Puget LNG of the capital costs of the distribution system upgrades, including the four-mile pipeline segment, consistent with the manner in which PSE would have treated a similarly-situated industrial customer under Rule No. 6?

A. Yes. If the calculation required by Rule No. 6 showed that the customer was not required to provide an upfront customer payment, PSE would recover the capital costs of the facilities constructed to extend its service lines to that customer's facilities through the tariff rates paid by that customer.

Q. Would it be appropriate for Puget LNG to have an ownership interest in the four-mile pipeline segment?

A. No. It is not possible nor reasonable for a PSE industrial customer (or any customer) to have an ownership interest in facilities that PSE uses to provide service to its distribution customers. Under utility rate-making principles in Washington, the capital costs of facilities are capitalized into rate base and recovered through cost-of-service rates paid by the utility's customers. The facilities used to provide service to customers are assets of the regulated utility and are not owned by the customer. The utility remains responsible for operating and maintaining those facilities.

Q. Is PSE proposing to allocate costs associated with the four-mile pipeline segment to Schedule 87T customers?

A. Initially, PSE was planning to allocate the Puget LNG related portion of the costs of the four-mile pipeline segment to Schedule 87T, since Puget LNG is a Schedule 87T customer. However, PSE and other parties had already agreed in the Settlement not to allocate such costs to transportation-only customers. PSE wishes to make more clear which costs are being attributed to Puget LNG and demonstrate that recovery of those costs is only from Puget LNG. As discussed in more detail in the Prefiled Direct Testimony of John D. Taylor, Exh. JDT-1T, PSE is proposing to allocate costs associated with providing service to Puget LNG, including a portion of the four-mile pipeline segment, to a new Schedule 88T. Puget LNG will be transferred to the new Schedule 88T, once it has been approved by the Commission.

Q. In the Settlement approved in Docket UG-151663, PSE agreed that it would not propose to allocate costs associated with the four-mile pipeline segment to transportation-only customers. Why do you think the parties to that Settlement agreed to those terms?

A. I believe all parties to the Settlement approved in Docket UG-151663 had not given due consideration to exactly how Puget LNG would obtain gas supply or how that gas would get to the Tacoma LNG plant. That very Settlement created the need for Puget LNG to exist as a distinct, but affiliated entity, and I do not believe the parties to the Settlement, including PSE, had considered that Puget LNG would need to separately contract for service on the PSE distribution system. On further reflection, due to the magnitude of Puget LNG's gas requirements (Puget LNG is PSE's largest volume individual customer), service under Schedule 87T was Puget LNG's logical choice for service. I believe the parties to the Settlement may have thought that Puget LNG would simply purchase gas from PSE and the only other use of the four-mile pipeline segment would be to deliver vaporized volumes to sales customers. If that were the case, recovering all of the costs of the four-mile pipeline segment from sales customers and excluding those costs from transportation-only rate schedules would have been reasonable.

Q. If PSE is proposing to allocate a portion of the four-mile pipeline segment to Schedule 88T, a transportation-only schedule, how is that not a violation of the Settlement?

A. Puget LNG is a transportation-only customer and thus should pay rates associated with transportation-only service. PSE is proposing a new transportation-only rate schedule that did not exist at the time of the Settlement. Under PSE's proposal, no other transportation-only customers will be required to transfer their service to Schedule 88T, and no other existing transportation customers will be allocated costs associated with the four-mile pipeline segment. Accordingly, PSE's proposal is consistent with the intent of the Settlement.

IV. CONCLUSION

Q. Does that conclude your prefiled direct testimony?

A. Yes, it does.