

**EXH. JJS-1T
DOCKETS UE-19 ___/UG-19 ___
2019 PSE GENERAL RATE CASE
WITNESS: JOHN J. SPANOS**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**Docket UE-19 ___
Docket UG-19 ___**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

JOHN J. SPANOS

ON BEHALF OF PUGET SOUND ENERGY

JUNE 20, 2019

PUGET SOUND ENERGY

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
JOHN J. SPANOS**

LIST OF EXHIBITS

Exh. JJS-2	Professional Qualifications
Exh. JJS-3	2018 Depreciation Study

1 **PUGET SOUND ENERGY**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **JOHN J. SPANOS**

4 **Q. Please state your name and business address.**

5 A. My name is John Spanos. I am the President of Gannett Fleming Valuation and
6 Rate Consultants, LLC (“Gannett Fleming”). My business address is 207 Senate
7 Avenue in Camp Hill, Pennsylvania, 17011.

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

10 A. Yes, I have. Please see the First Exhibit to the Prefiled Direct Testimony of
11 John J. Spanos, Exh. JJS-2, for an exhibit describing my education, relevant
12 employment experience and other professional qualifications.

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

14 A. I sponsor the depreciation study performed for Puget Sound Energy (“PSE”) and
15 submitted herewith as the Second Exhibit to the Prefiled Direct Testimony of
16 John J. Spanos, Exh. JJS-3. The depreciation study sets forth the calculated annual
17 depreciation accrual rates, by account as of December 31, 2018, Units 3 and 4 of
18 the Colstrip Steam Electric Station (“Colstrip Units 3 & 4”).

1 **Q. What was the purpose of your depreciation study?**

2 A. The purpose of the depreciation study was to determine the annual depreciation
3 accrual rates and amounts for book and ratemaking purposes based on the current
4 outlook for Colstrip Units 3 & 4 and their related common facilities.

5 **Q. Please explain the concept of depreciation.**

6 A. Depreciation refers to the loss in service value not restored by current
7 maintenance, incurred in connection with the consumption or prospective
8 retirement of utility plant in the course of service from causes which are known to
9 be in current operation and against which PSE is not protected by insurance.
10 Among the causes to be given consideration are wear and tear, decay, action of
11 the elements, inadequacy, obsolescence, changes in the art, changes in demand
12 and the requirements of public authorities.

13 **Q. Please describe the depreciation study you performed for PSE.**

14 A. The study is a report entitled, "2018 Depreciation Study - Calculated Annual
15 Depreciation Accruals for Colstrip Units 3 and 4 as of December 31, 2018." The
16 study was prepared and the analyses that underlie the report were conducted under
17 my direction and supervision. The depreciation rates determined as a result of this
18 study are based on the straight-line method using the average service life
19 procedure and were applied on a remaining life basis. The calculations were based
20 on attained ages and estimated average service life and net salvage for each
21 depreciable group of assets.

1 **Q. Why is the depreciation study limited to Colstrip Units 3 & 4?**

2 A. On May 7, 2019, Governor Inslee signed into law the Washington Clean Energy
3 Transformation Act (Engrossed Second Substitute Senate Bill 5116). One of the
4 requirements of this bill is that “[o]n or before December 31, 2025, each electric
5 utility must eliminate coal-fired resources from its allocation of electricity.”
6 PSE’s currently-approved depreciation rates for Colstrip Units 3 & 4, which were
7 established in PSE’s 2017 general rate case, Dockets UE-170033 and UG-170034
8 (consolidated), incorporate a probable retirement date of December 2027.
9 Because the Washington Clean Energy Transformation Act requires the
10 elimination of coal-fired resources by December 2025, the depreciation rates for
11 Colstrip Units 3 & 4 need to be updated to incorporate a retirement date of
12 December 2025. In addition to updating the retirement date for these units, the
13 weighted net salvage estimates have been updated to incorporate current
14 retirement cost estimates. The weighted net salvage includes terminal and interim
15 net salvage components.

16 **Q. What methodology did you use to update the depreciation rates for Colstrip**
17 **Units 3 & 4?**

18 A. The method by which these costs have been incorporated into the net salvage
19 estimates is the same as used in the previous depreciation study. Interim survivor
20 curves and interim net salvage estimates were also reviewed based on current data
21 and were modified as appropriate.

1 **Q. What are the results of the depreciation study?**

2 A. The study results set forth an annual depreciation expense of \$39.8 million when
3 applied to depreciable plant balances as of December 31, 2018. Gannett Fleming
4 recommends the calculated annual depreciation accrual rates set forth herein
5 apply specifically to Colstrip Units 3 & 4 as summarized in Table 1 of the study.
6 Supporting analysis and calculations are provided within the study.

7 **Q. Does this conclude your testimony?**

8 A. Yes.