

**EXH. SJK-1T
DOCKETS UE-22 ___/UG-22 ___
2022 PSE GENERAL RATE CASE
WITNESS: STEPHEN J. KING**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent

Docket UE-22 ___

Docket UG-22 ___

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

STEPHEN J. KING

ON BEHALF OF PUGET SOUND ENERGY

JANUARY 31, 2022

PUGET SOUND ENERGY

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
STEPHEN J. KING**

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PUGET SOUND ENERGY

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
STEPHEN J. KING**

LIST OF EXHIBITS

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1 **PUGET SOUND ENERGY**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **STEPHEN J. KING**

4 **I. INTRODUCTION**

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

6 A. My name is Stephen J. King and my business address is 355 110th Ave. NE,
7 Bellevue, Washington 98004. I am employed by Puget Sound Energy (“PSE” or
8 the Company”) as Director, Controller and Principal Accounting Officer.

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

11 A. Yes. Please see the First Exhibit to the Prefiled Direct Testimony of Stephen J.
12 King, Exh. SJK-2, for a description of my education, relevant employment
13 experience, and other professional qualifications.

14 **Q. Please briefly describe your responsibilities as the Director, Controller and**
15 **Principal Accounting Officer of PSE.**

16 A. I am responsible for Puget Energy’s and PSE’s annual and quarterly financial
17 statements. I confirm that they are presented in conformity with generally
18 accepted accounting principles (“GAAP”) and that they present fairly, in all
19 material respects, the financial position of the companies and the results of their
20 operations. I also am responsible for PSE’s annual and quarterly Federal Energy

1 Regulatory Commission (“FERC”) reports, presented in conformity with the
2 FERC Uniform System of Accounts. I establish, monitor, and enforce financial
3 policies and internal controls so that financial information is complete, accurate,
4 and in compliance with accounting standards when filed with external parties, the
5 Securities and Exchange Commission (“SEC”), and FERC.

6 **Q. Please summarize the purpose of your testimony.**

7 A. First, my testimony addresses the processes and procedures that PSE has in place
8 to confirm the completeness and accuracy of the financial information reflected in
9 the test year for the electric and gas revenue requirements. Second, I present
10 PSE’s income statement and balance sheet for the twelve months ended June 30,
11 2021. Third, I discuss the calculation of PSE’s capital structure and testify that
12 PSE has calculated the capital structure in the same manner as it has been
13 calculated in recent general rate cases. Fourth, I provide the Affiliated Interest
14 and Subsidiary Transaction Report for the test year as required by Commission
15 rules.

16 **II. SUMMARY OF PSE’S PROCESSES AND PROCEDURES TO VALIDATE**
17 **ACCURACY IN ITS REPORTED FINANCIAL RESULTS**

18 **Q. Are you responsible for preparing PSE’s financial information?**

19 A. Yes, I am responsible for preparing PSE’s financial information under GAAP and
20 FERC reporting requirements, which are the basis for the test year used in PSE’s
21 electric and gas revenue requirements.

1 **Q. What processes and procedures does PSE have in place to validate the**
2 **completeness and accuracy of its reported financial results?**

3 A. As required by the 2008 Acquisition Order, PSE complies with Section 404 of
4 the Sarbanes-Oxley Act of 2002, which requires management of public
5 companies to assess the effectiveness of internal controls for financial reporting.
6 Internal controls for financial reporting (“ICFR”) is a process designed to provide
7 reasonable assurance regarding the reliability of financial reporting and the
8 preparation of financial statements for external purposes in accordance with
9 GAAP.¹ Internal controls for financial reporting includes policies and procedures
10 that (i) pertain to the maintenance of records that, in reasonable detail, accurately
11 and fairly reflect the transactions and dispositions of the assets of the company;
12 (ii) provide reasonable assurance that transactions are recorded as necessary to
13 permit preparation of financial statements in accordance with GAAP, and that
14 receipts and expenditures of the company are being made only in accordance with
15 authorizations of management and directors of the company; and (iii) provide
16 reasonable assurance regarding prevention or timely detection of unauthorized
17 acquisition, use, or disposition of the company’s assets that could have a material
18 effect on the financial statements.

¹ *In re Joint Application of Puget Holdings LLC and Puget Sound Energy, Inc. For an Order Authorizing Proposed Transaction*, Docket U-072375, Order 08, Attachment C, p. 11 (December 30, 2008). This commitment was restated in the 2019 order approving the sale of the Macquarie interests in Puget Holdings. *See In re Joint Application of PSE, AIMCO, BCIMC, OAC, and PGGM For an Order Authorizing Proposed Sales of Indirect Interests in PSE*, Docket U-180680, Order 06, Att. A, App. A., p. 12 (March 7, 2019).

1 **Q. Is the design and operational effectiveness of PSE’s internal controls for**
2 **financial reporting reviewed by outside auditors?**

3 A. Yes. On an annual basis PricewaterhouseCoopers, LLP (“PwC”), PSE’s external
4 auditor, opines on whether the Company maintained effective internal controls for
5 financial reporting. PSE has received only unqualified opinions from PwC with
6 respect to management’s internal controls for financial reporting, meaning that
7 PSE has maintained, in all material respects, effective internal controls for
8 financial reporting based on criteria established in *Internal Control – Integrated*
9 *Framework (2013) issued by the Committee of Sponsoring Organizations of the*
10 *Treadway Commission.*

11 **Q. What is the relationship between ICFR and PSE’s financial information used**
12 **in the test year financial information?**

13 A. The underlying records of the GAAP financial statements and FERC Form 1 and
14 FERC Form 2 is the same financial information used to develop the test year for
15 the electric and gas revenue requirement; therefore, the procedures noted above
16 validate the accuracy and completeness of the financial records that are used in
17 PSE’s test year financial information.

18 **Q. Are there any regulatory requirements that provide assurance that PSE’s**
19 **financial position and results of operations are materially correct, including**
20 **out-of-period, non-operating, and non-recurring adjustments?**

1 A. Yes, PSE’s annual financial statements (Form 10-K), filed with the SEC, are
2 audited by PwC; and PSE’s quarterly financial statements (Form 10-Q), filed with
3 the SEC, are reviewed by PwC. PSE’s 2020 10-K was filed with the SEC on
4 February 26, 2021 and received an unqualified opinion from PwC. PSE’s FERC
5 Form 1 is also audited by PwC on an annual basis, and the 2020 FERC Form 1
6 was filed with FERC on April 15, 2021, for which, PwC also provided an
7 unqualified opinion. The GAAP financial statement audit is in accordance with
8 the standards of the Public Company Accounting Oversight Board (“PCAOB”),
9 and the FERC Form 1 audit is in accordance with the auditing standard from the
10 American Institute of CPAs. Those standards require that the audits obtain
11 reasonable assurance about whether the financial statements are free of material
12 misstatement and whether effective internal controls for financial reporting were
13 maintained in all material respects. The audits of the financial statements include
14 procedures to assess the risks of material misstatement of the financial statements
15 and to respond to those risks.

16 **III. PRESENTATION OF PSE’S INCOME STATEMENT AND BALANCE**
17 **SHEET**

18 **Q. Please explain the Second Exhibit to the Prefiled Direct Testimony of**
19 **Stephen J. King, Exh. SJK-3.**

20 A. The Second Exhibit to the Prefiled Direct Testimony of Stephen J. King, Exh.
21 SJK-3, presents the actual financial statements for the test year. It includes
22 columns presenting the unadjusted income statements for both electric and natural

1 gas for the twelve months ending June 30, 2021, which is the test year for this
2 general rate case.

3 **Q. Please explain the Third Exhibit to the Prefiled Direct Testimony of Stephen**
4 **J. King Exh. SJK-4.**

5 A. The Third Exhibit to the Prefiled Direct Testimony of Stephen J. King, Exh. SJK-
6 4, presents the balance sheet for the test year on an end of period and average of
7 the monthly average basis.

8 **IV. CAPITAL STRUCTURE FOR REGULATORY PURPOSES**

9 **Q. Is the test year capital structure reflected in the Second Exhibit to the**
10 **Prefiled Direct Testimony of Cara G. Peterman, Exh. CGP-3, calculated in a**
11 **manner similar to the capital structure calculated in PSE's recent rate**
12 **proceedings?**

13 A. Yes. PSE has calculated the test year capital structure in a manner consistent with
14 how PSE has calculated its capital structure in PSE's recent general rate cases.
15 Specifically, PSE removed the following non-regulated activities and the impact
16 of certain other items from PSE's consolidated capital structure:²

17 (i) the retained earnings from unregulated activities such as Puget
18 Western, Inc. ("Puget Western");

² Entities included in the starting consolidated capital structure are PSE and PSE's subsidiary, Puget Western.

1 (ii) the impact on retained earnings resulting from the marking to
2 market of the value of PSE's unrealized hedging activities, or
3 derivatives, recorded pursuant to Accounting Standards
4 Codification ("ASC") 815 as these amounts are not used for rate
5 making purposes; and

6 (iii) the retained earnings impact from pension accounting recorded
7 pursuant to ASC 715 as these amounts are not used for rate making
8 purposes.

9 These adjustments have been accepted by the Commission and have been applied
10 consistent with PSE's Commission Basis Reports and previous general rate cases.
11 Please refer to the Prefiled Direct Testimony of Cara G. Peterman, Exh. CGP-
12 1CT, for the supporting calculations for these adjustments.

13 **Q. Why does PSE remove the retained earnings from Puget Western from its**
14 **consolidated common equity?**

15 A. The retained earnings generated by Puget Western, a subsidiary, are removed
16 from PSE's consolidated capital structure because the retained earnings generated
17 by this subsidiary are non-regulated.

18 **Q. Why does PSE remove the impacts of certain derivatives from its**
19 **consolidated common equity?**

1 A. Historically, the Commission has set PSE's rates in a manner that does not
2 recover, through customer rates, the unrealized accounting income or expense
3 from marking derivatives to their market value. PSE removes the corresponding
4 balance sheet impacts of accounting for the unrealized market value of derivatives
5 from its consolidated common equity because the expense or income is not
6 recognized in rates. This adjustment removes the variability of the mark-to-
7 market calculations of unrealized gains and losses made for financial reporting
8 purposes. The Commission has not recognized mark-to-market adjustments
9 required by GAAP in setting rates because such adjustments reflect the
10 measurement of a timing difference for financial reporting purposes and do not
11 reflect "cash" or financially settled transactions.

12 **Q. Why does PSE remove the retained earnings impacts of pension accounting**
13 **from its consolidated common equity?**

14 A. The Commission historically sets PSE's rates in a manner that reflects actual
15 "cash" pension contributions averaged over a four-year period and does not use
16 the financial reporting pension expense required by GAAP. Therefore, PSE
17 removes the impacts of such GAAP required pension accounting as it is not used
18 for ratemaking. Adjustment of the consolidated common equity for these items is
19 consistent with approved treatment in prior proceedings.

1 **V. AFFILIATE AND SUBSIDIARY TRANSACTIONS**

2 **Q. Has PSE filed its annual affiliate and subsidiary transaction report with the**
3 **Commission?**

4 A. Yes. On April 30, 2021, PSE filed its 2020 Affiliated Interest and Subsidiary
5 Transaction Report in accordance with the requirements of WAC 480-90-264 and
6 WAC 480-100-264. Please see the Fourth Exhibit to the Prefiled Direct
7 Testimony of Stephen J. King, Exh SJK-5, for a copy of the 2020 Affiliated
8 Interest and Subsidiary Transaction Report filed with the Commission.

9 **Q. Has PSE provided an Affiliated Interest and Subsidiary Transaction Report**
10 **for the first six months of 2021?**

11 A. Yes. WAC 480-07-510(3)(g) requires that a company's testimony and exhibits
12 must supplement the annual affiliate and subsidiary transaction report to include
13 the test period. Please see the Fourth Exhibit to the Prefiled Direct Testimony of
14 Stephen J. King, Exh SJK-5, for a copy of the six-month 2021 Affiliated Interest
15 and Subsidiary Transaction Report.

16 **VI. CONCLUSION**

17 **Q. Does this conclude your prefiled direct testimony?**

18 A. Yes, it does.