

**EXH. SEF-5T  
DOCKET UE-200115  
COLSTRIP UNIT 4 SALE  
WITNESS: SUSAN E. FREE**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of the Application of  
PUGET SOUND ENERGY**

**For an Order Authorizing the Sale of  
All of Puget Sound Energy's Interests  
in Colstrip Unit 4 and Certain of  
Puget Sound Energy's Interests in  
the Colstrip Transmission System**

**Docket UE-200115**

**PREFILED  
SUPPLEMENTAL DIRECT TESTIMONY (NONCONFIDENTIAL) OF  
SUSAN E. FREE  
ON BEHALF OF PUGET SOUND ENERGY**

**AUGUST 20, 2020**

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**I. INTRODUCTION**

1  
2 **Q. Are you the same Susan E. Free who provided prefiled direct testimony,**  
3 **Exhibit SEF-1CT, and three supporting exhibits, Exhibit SEF-2 through**  
4 **Exhibit SEF-4, on behalf of Puget Sound Energy (“PSE”) on February 19,**  
5 **2020?**

6 **A. Yes.**

7 **Q. Please summarize your prefiled supplemental direct testimony.**

8 **A. This prefiled supplemental direct testimony details**

9 (i) the changes (or lack thereof) to the requested accounting  
10 treatment of the addition of Talen Montana, LLC (“Talen  
11 Montana”) as an additional purchaser of PSE’s 25 percent  
12 interest in Colstrip Unit 4, and

13 (ii) the financial impacts of the results of the proposed  
14 transactions with NorthWestern Energy and Talen Montana  
15 based on a number of events that have occurred since the  
16 initial filing of the Application on February 19, 2020.

1                                   **II.       CHANGES TO THE PROPOSED SALE OF**  
2                                   **PSE’S 25 PERCENT INTEREST IN COLSTRIP UNIT 4**  
3                                   **HAVE NO IMPACT ON THE REQUESTED ACCOUNTING**  
4                                   **TREATMENT IN THIS PROCEEDING**

5   **Q.     Can you please describe the changes to proposed sale of PSE’s 25 percent**  
6                                   **interest in Colstrip Unit 4?**

7   A.     As described in the Prefiled Supplemental Direct Testimony of Ronald J. Roberts,  
8                                   Exh. RJR-9CT, Talen Montana exercised its right of first refusal under  
9                                   section 24(f) of the Ownership and Operating Agreement<sup>1</sup> to acquire half of  
10                                  PSE’s 25 percent interest in Colstrip Unit 4.

11   **Q.     Does the introduction of Talen Montana as a purchaser of PSE’s 25 percent**  
12                                  **interest in Colstrip Unit 4 change the accounting and regulatory treatment**  
13                                  **proposed by PSE in the Application filed on February 19, 2020?**

14   A.     No. The introduction of Talen Montana as a purchaser of PSE’s 25 percent  
15                                  interest in Colstrip Unit 4 does not change the accounting and regulatory  
16                                  treatment proposed by PSE in the Application filed on February 19, 2020

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<sup>1</sup> The Term “Ownership and Operating Agreement” refers to that certain Ownership and Operation Agreement, dated as of May 6, 1981, by The Montana Power Company, Puget Sound Power and Light Company, The Washington Water Power Company, Portland General Electric Company, Pacific Power and Light Company, and Basin Electric Power Company, as amended. Please see the Second Exhibit to the Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-3, for a copy of the Ownership and Operation Agreement.

1 **Q. Can you please explain why the introduction of Talen Montana as a**  
2 **purchaser of PSE's 25 percent interest in Colstrip Unit 4 does not change the**  
3 **accounting and regulatory treatment proposed by PSE in the Application**  
4 **filed on February 19, 2020?**

5 A. Yes. The only thing changing in the transaction is the introduction of two  
6 purchasers (NorthWestern Energy and Talen Montana) instead of one purchaser  
7 (NorthWestern Energy). The accounting treatment proposed by PSE is only  
8 affected to the extent that PSE's interests in Colstrip Unit 4 and PSE's obligation  
9 to acquire 90 megawatt of output from Colstrip Unit 4 are now divided equally  
10 between Northwestern Energy and Talen Montana.

11 **Q. Are you aware that PSE, NorthWestern Energy, and Talen Montana are**  
12 **engaged in arbitration with regard to an assertion by Talen Montana that it**  
13 **has a right under section 24(f) of the Ownership and Operation Agreement to**  
14 **acquire some of PSE's interests in the Colstrip Transmission System?**

15 A. Yes. I am aware that Talen Montana has asserted this claim, that each of  
16 NorthWestern Energy and PSE has rejected Talen Montana's assertion, and that  
17 the matter is currently in arbitration.

1 **Q. If Talen Montana were to prevail in that arbitration and subsequently**  
2 **acquire an interest in the Colstrip Transmission System, would such an**  
3 **acquisition change the accounting and regulatory treatment proposed by**  
4 **PSE in the Application filed on February 19, 2020?**

5 A. No. If Talen Montana were to prevail in that arbitration and subsequently acquire  
6 an interest in the Colstrip Transmission System, such an acquisition would not  
7 change the accounting and regulatory treatment proposed by PSE in the  
8 Application filed on February 19, 2020. Again, the accounting treatment proposed  
9 by PSE would only be affected to the extent that the sale of certain of PSE's  
10 interests in the Colstrip Transmission System would then be divided equally  
11 between Northwestern Energy and Talen Montana.

12 **III. EVENTS THAT HAVE OCCURRED SINCE**  
13 **FEBRUARY 19, 2020, THAT AFFECT THE**  
14 **UNRECOVERED PLANT BALANCE RESULTING**  
15 **FROM THE PROPOSED SALE OF PSE'S INTERESTS**  
16 **IN COLSTRIP UNIT 4**

17 **Q. Please describe the events that have occurred since the filing of the**  
18 **Application on February 19, 2020, that have affected the unrecovered plant**  
19 **balance and remediation and decommissioning cost estimates resulting from**  
20 **the proposed sale of PSE's interest in Colstrip Unit 4.**

21 A. The following events have occurred since the filing of the Application on  
22 February 19, 2020:

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1. PSE has changed the projected closing date for the sale of its 25 percent interest in Colstrip Unit 4 from September 30, 2020, to December 16, 2020;
2. PSE now has actual financial data available through the end of the second quarter of 2020 (i.e., June 30, 2020);
3. PSE has changed the projected effective date for new depreciation rates resulting from PSE's 2019 general rate case proceeding (Dockets UE-190529, *et al.*) from May 20, 2020 to September 1, 2020; and
4. PSE has included its share of remediation costs for Colstrip Unit 4 presented in the Unit 3 & 4 Remedy Evaluation Report conditionally approved by the Montana Department of Environmental Quality in February 2020.

Although these events do not change the accounting treatment proposed by PSE in this proceeding, they do affect the unrecovered plant balance resulting from the proposed sale of PSE's interests in Colstrip Unit 4. Accordingly, the remainder of this Section III addresses these events and their financial impacts.

**Q. Can PSE provide the overall impact of the above-referenced events on unrecovered plant balance resulting from the proposed sale of PSE's interests in Colstrip Unit 4?**

A. Yes. The cumulative impact of the above-referenced events is an increase in the unrecovered plant balance (and proposed regulatory asset) from \$84.8 million in the prefiled direct testimony filed on February 19, 2020, to \$84.9 million in this prefiled supplemental testimony.

1 **Q. What is the impact of the change in the projected closing date for the sale of**  
2 **its 25 percent interest in Colstrip Unit 4 from September 30, 2020 to**  
3 **December 16, 2020?**

4 A. The following Table 1 represents an update to Table 1 from the Prefiled Direct  
5 Testimony of Susan E. Free, Exh. SEF-1CT, and provided the updated  
6 amortization expense for Colstrip Unit 4 that PSE proposed in its 2019 general  
7 rate case (Dockets UE-190529, *et al.*). In that proceeding, PSE modified the life  
8 component, the decommissioning component, and the remediation component  
9 because the allocation is based on the estimated unrecovered plant balance, which  
10 has changed.

11 **Table 1. Components of 2019 General Rate Case**  
12 **Depreciation Expense for Colstrip Unit 4**

<b>Component</b>	<b>Colstrip Unit 4</b>
Life	\$16,852,764
Decommissioning	\$716,321
Remediation	\$1,923,805
<b>Total</b>	<b>\$19,492,890</b>

13 The amounts in Table 1 above assume that

- 14 (i) PSE amortizes the unrecovered balance for Colstrip Unit 4  
15 as of December 16, 2020, to zero by December 31, 2025,  
16 and
- 17 (ii) the remaining amount of depreciation is attributable to  
18 decommissioning and remediation costs.



1 PSE continues to propose to offset the Colstrip Unit 4 Unrecovered Plant  
2 Regulatory Asset with the updated projected depreciation expense of \$16,852,764  
3 associated with the life component for Colstrip Unit 4. PSE will update the actual  
4 amount based on the balance of the regulatory asset at the close of the sale of  
5 PSE's interests in Colstrip Unit 4.

6 **Q. Please provide the updated values for the proposed accounting entries for the**  
7 **sale of PSE's 25 percent interest in Colstrip Unit 4 for which PSE is**  
8 **requesting Commission approval in this proceeding.**

9 A. The following Table 2 represents an update to Table 2 in the Prefiled Direct  
10 Testimony of Susan E. Free, Exh. SEF-1CT, and presents the updated entries that  
11 PSE proposes to (i) record to recognize the pre-tax loss on the sale of PSE's  
12 25 percent interest in Colstrip Unit 4 and (ii) establish a regulatory asset for the  
13 unrecovered plant balance.

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**Table 2. Requested Entries for Sale of Colstrip Unit 4 Assets**

	<b>FERC Acct.</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>
Cr.	101	Electric Plant in Service		\$274 million
Dr.	108	Accum Prov for Dep	\$189 million	
	182.2	Unrecovered Plant	\$85 million	
<i>To record the unrecovered plant as a regulatory asset</i>				
Dr.	131	Cash	\$1 dollar	
Cr.	182.2	Unrecovered Plant		\$1 dollar
<i>To record the sales proceeds against the unrecovered plant regulatory asset</i>				
Dr.	407	Amort of Prop Loss	\$16.9 million	
Cr.	182.2	Unrecovered Plant		\$16.9 million
<i>To record ongoing annual amortization of regulatory asset through 2025 at \$16.9 million annual amount reflected in Table 1, which is an estimated annual amount that is subject to change.</i>				

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The amounts in Table 2 above

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(i) are based on actual financial data available through the end of the second quarter of 2020 (i.e., June 30, 2020);

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(i) assume no additions or retirements to Colstrip Unit 4 after June 30, 2020;

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(iii) assumes depreciation rates authorized by the Commission in PSE's 2017 general rate case (Dockets UE-170033 & UG-170034 (consolidated)) continue through August 30, 2020; and

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(iv) assumes depreciation rates requested by PSE in its 2019 general rate case (Dockets UE-190529, *et al.*) begin on September 1, 2020.

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1 **Q. Please describe the impact of the Unit 3 & 4 Remedy Evaluation Report**  
2 **conditionally approved by the Montana Department of Environmental**  
3 **Quality on the current balance and proposed amortization of remediation**  
4 **costs for Colstrip Unit 4?**

5 A. In February 2020, the Montana Department of Environmental Quality  
6 conditionally approved the Unit 3 & 4 Remedy Evaluation Report. PSE was  
7 unable to analyze or incorporate the results of this report in changes to  
8 remediation estimates prior to filing its Application and the prefiled direct  
9 testimony in this proceeding on February 19, 2020.

10 The Unit 3 & 4 Remedy Evaluation Report resulted in an increase in estimated  
11 remediation costs of approximately \$1 million.<sup>2</sup> The depreciation rates proposed  
12 in PSE's 2019 general rate proceeding (Dockets UE-190529, *et al.*) and used to  
13 calculate the proposed amortization in Table 1 were developed prior to the  
14 availability of data from the Unit 3 & 4 Remedy Evaluation Report. Accordingly,  
15 the legal (remediation) and non-legal (decommissioning) components of the  
16 depreciation rates approved in PSE's 2019 general rate proceeding (Dockets UE-  
17 190529, *et al.*) will not change at this time.

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<sup>2</sup> Estimated remediation costs for Colstrip Unit 4 decreased increased due to changes in the timing of cash flows as well as an increase in discount rates and a decrease in inflation rates in the near term.

1 **Q. What other impacts have the listed events had on decommissioning and**  
2 **remediation costs?**

3 A. The change in the effective date of depreciation rates requested by PSE in its  
4 2019 general rate case (Dockets UE-190529, *et al.*), as well as the change in the  
5 closing date for the proposed sale of PSE's interests in Colstrip Unit 4 has  
6 changed the amount of decommissioning and remediation costs anticipated to be  
7 collected by the proposed closing date of December 16, 2020.

8 **Remediation**

9 As previously described in the Prefiled Direct Testimony of Susan E. Free,  
10 Exh. SEF-1CT, PSE must transfer the net unrecovered legal remediation that is  
11 recognized as an Asset Retirement Cost in FERC Accounts 101 and 108 under  
12 Asset Retirement Obligation (ARO) accounting to an unrecovered environmental  
13 remediation asset. The updated estimated proposed entries associated with the  
14 previously requested accounting are shown below in the following Table 3, which  
15 represents an update to amounts in Table 3 in the Prefiled Direct Testimony of  
16 Susan E. Free, Exh. SEF-1CT, and are based on the estimated unrecovered legal  
17 remediation as of December 16, 2020. Similar to the entries in Table 2, the  
18 accumulated deferred taxes would follow the book transactions.

**Table 3. Requested Entries for Colstrip Unit 4 Remediation Costs**

	<b>FERC Acct.</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>
Cr.	101	Electric Plant in Service		\$23 million
Dr.	108	Accum Prov for Dep	\$8 million	
Dr.	182.2	Unrecovered Plant	\$15 million	

*To record the unrecovered remediation as a regulatory asset.*

As previously described in the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1CT, in accordance with Generally Accepted Accounting Principles, the basis for valuing the legal obligation for the ARO in FERC Account 230 is different than the basis for the valuation of the liability under environmental remediation accounting. Therefore, upon transferring the ARO to an environmental liability, the updated valuation adjustment to be recorded is shown in the following Table 4, which represents an update to amounts in Table 4 of the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1CT.

**Table 4. Requested Entries for Transitioning to an Environmental Remediation Liability**

	<b>FERC Acct.</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>
Dr.	230	Asset Rtrmt Oblig	\$18.7 million	
Dr.	182.2	Unrecovered Remediation	\$3.5 million	
Cr.	228.4	Accum Misc. Op. Prov. (Env. Rem.)		\$22.2 million <sup>3</sup>

*To transition legal remediation liability from Asset Retirement Obligation to Environmental Remediation Liability*

<sup>3</sup> The actual amount will be equal to the nominal value of the legal remediation costs currently estimated by PSE after reduction for actual remediation spending.

1 The amounts in Table 1 above are based on PSE’s estimated ARO and  
2 environmental liability as of December 16, 2020.

3 After the establishment of the unrecovered remediation regulatory asset and  
4 recordation of the associated valuation adjustment, PSE will amortize the net  
5 unrecovered remediation regulatory asset based on the amounts included in  
6 Table 1 above.

7 **Table 5. Requested Entries for Amortization of the Unrecovered**  
8 **Remediation Concurrent with Amounts Set in Rates**

	<b>FERC Acct.</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>
Dr.	407	Amort of Prop Loss	\$1.9 million	
Cr.	182.2	Environmental Remediation		\$1.9 million
<i>To record ongoing annual amortization of regulatory asset through 2025 at \$1.9 million annual amount reflected in Table 1.</i>				

9 **Decommissioning**

10 As previously described in the Prefiled Direct Testimony of Susan E. Free, Exh.  
11 SEF-1CT, PSE would continue to include decommissioning in FERC Account  
12 108 - Accumulated Provision for Depreciation. Additionally, PSE would continue  
13 to accumulate decommissioning costs in FERC Account 108 by recognizing the  
14 annual amount of \$0.7 million of depreciation expense for decommissioning costs  
15 included in rates through 2025 from Table 1. The updated proposed entries  
16 associated with this requested accounting are below and are based on \$0.7 million

1 per year for 5.04 years. Similar to the entries in Table 2 above, accumulated  
2 deferred taxes would follow the book transactions.

3 **Table 6. Requested Entries for Colstrip Unit 4 Decommissioning Costs**

	<b>FERC Acct.</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>
Dr.	407	Amort of Prop Loss	\$0.7 million	
Cr.	108	Accum Prov for dep (311 sub-account)		\$0.7 million
<i>To transition legal remediation liability from Asset Retirement Obligation to Environmental Remediation Liability</i>				

4 **Q. Did any other decisions of the Commission in PSE’s 2019 general rate case**  
5 **(Dockets UE-190529, et al.) affect Colstrip Unit 4?**

6 A. Yes. The Commission’s Order on Clarification in that proceeding required PSE to  
7 “track all actual [decommissioning and remediation] costs to a regulatory asset  
8 account to ensure accurate accounting of those costs for future rate recovery  
9 consideration.”<sup>4</sup> Additionally, the Commission’s order required PSE to

10 file in its next [general rate case] a proposed plan for the recovery  
11 of [decommissioning and remediation] costs for Colstrip Units 3  
12 and 4 that complies with [the Washington Clean Energy  
13 Transformation Act]. PSE should include in that plan its assessment  
14 of [Production Tax Credits] available to offset [decommissioning  
15 and remediation] costs for Colstrip Units 3 and 4. We further require  
16 PSE and Staff to work together to establish a tracking mechanism  
17 for [decommissioning and remediation] costs for all 4 units, and to

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<sup>4</sup> *WUTC v. Puget Sound Energy*, Order 10 (Order Granting Motion for Clarification) at ¶ 36, Dockets UE-190529, et.al. (July 31, 2020).

1 present that mechanism for Commission approval in [PSE's] next  
2 [general rate case].<sup>5</sup>

3 Neither of these statements affect PSE's Application in this proceeding because  
4 both statements are based on actual decommissioning and remediation costs, the  
5 accounting for which is not affected by the proposed sale of PSE's 25 percent  
6 interest in Colstrip Unit 4. PSE will comply with these statements regardless of  
7 when or if the Commission approves the sale of PSE's 25 percent interest in this  
8 proceeding.

9 **Q. Is PSE updating the requested accounting treatment for the 90 MW of power**  
10 **to be purchased by PSE from the output of Colstrip Unit 4, the proposed**  
11 **Colstrip Unit 4 Production O&M, and the proposed sale of certain of PSE's**  
12 **interests in the Colstrip Transmission System?**

13 A. No. Those sections of the Prefiled Direct Testimony of the Susan E. Free,  
14 Exh. SEF-1CT, that address the requested accounting treatment for the 90 MW of  
15 power to be purchased by PSE from the output of Colstrip Unit 4 were not based  
16 on actual or estimated costs. PSE continues to request the accounting treatment  
17 for the costs of the 90 MW of power to be purchased by PSE from the output of  
18 Colstrip Unit 4 proposed in the Application filed on February 19, 2020, and  
19 discussed in the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1CT.

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<sup>5</sup> *WUTC v. Puget Sound Energy*, Order 8 (Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing) at ¶ 425, Dockets UE-190529, *et.al.* (July 8, 2020),



1 The outcome of PSE's 2019 general rate case (Dockets UE-190529, *et al.*) did not  
2 change the \$9.3 million of Colstrip Unit 4 Production O&M costs included in  
3 rates, as referenced on page 25 of the Prefiled Direct Testimony of Susan E. Free,  
4 Exh. SEF-1CT. PSE continues to request the accounting treatment for the Colstrip  
5 Unit 4 Production O&M costs proposed in the Application filed on February 19,  
6 2020, and discussed in the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-  
7 1CT.

8 Finally, there has been no change in the proposed sale of certain of PSE's  
9 interests in the Colstrip Transmission System to NorthWestern Energy, and PSE  
10 continues to request the accounting treatment for costs for the sale of certain of  
11 PSE's interests in the Colstrip Transmission System to NorthWestern Energy  
12 proposed in the Application filed on February 19, 2020, and discussed in the  
13 Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1CT.

#### 14 IV. CONCLUSION

15 **Q. Does this conclude your prefiled supplemental direct testimony?**

16 A. Yes.