## EXHIBIT NO. \_\_\_(JAP-1T) DOCKET NO. UG-151663 WITNESS: JON A. PILIARIS

#### BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

for (i) Approval of a Special Contract for Liquefied Natural Gas Fuel Service with Totem Ocean Trailer Express, Inc. and (ii) a Declaratory Order Approving the Methodology for Allocating Costs Between Regulated and Non-regulated Liquefied Natural Gas Services

**DOCKET NO. UG-151663** 

#### PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF JON A. PILIARIS ON BEHALF OF PUGET SOUND ENERGY, INC.

AUGUST 11, 2015 REVISED SEPTEMBER 23, 2015

| 1  | Q.              | Please summarize the projected first year revenue requirement impacts to  |
|--|-----------------|---|
| 2  |                 | PSE core natural gas customers associated with the Tacoma LNG Project.  |
| 3  | A.              | The projected first year revenue requirement impact to PSE's core natural gas   |
| 4  |                 | customers associated with the Tacoma LNG Project would range from an increase   |
| 5  |                 | of \$30.6 million to \$34.0 million, or 3.2 percent to 3.6 percent, relative to overall   |
| 6  |                 | natural gas revenue requirement as of December 31, 2014, depending on the   |
| 7  |                 | projected amount of sales related to PSE's non-regulated investment in the  |
| 8  |                 | Tacoma LNG Facility. For the typical residential customer, this would be an   |
| 9  |                 | increase in bills of between \$2.68 to \$2.93 per month.  |
| 10<br>11   |                 | II. INCREMENTAL COSTS ASSOCIATED WITH<br>REGULATED OPERATIONS OF THE TACOMA LNG PROJECT   |
|  |                 |   |
| 12   | Q.              | What are the projected capital costs associated with regulated portion of the   |
| 12<br>13   | Q.              | What are the projected capital costs associated with regulated portion of the Tacoma LNG Facility?  |
|  | <b>Q.</b><br>A. |   |
| 13   |                 | Tacoma LNG Facility?  |
| 13<br>14   |                 | Tacoma LNG Facility?         As discussed in the Prefiled Direct Testimony of Roger Garratt, Exhibit  |
| 13<br>14<br>15   |                 | Tacoma LNG Facility?<br>As discussed in the Prefiled Direct Testimony of Roger Garratt, Exhibit<br>No(RG-1CT), the projected capital costs associated with the Tacoma LNG   |
| 13<br>14<br>15<br>16   |                 | Tacoma LNG Facility?         As discussed in the Prefiled Direct Testimony of Roger Garratt, Exhibit         No(RG-1CT), the projected capital costs associated with the Tacoma LNG         Facility are \$229.3 million, or \$271.5 million including allowances for funds used  |
| 13<br>14<br>15<br>16<br>17   |                 | Tacoma LNG Facility?         As discussed in the Prefiled Direct Testimony of Roger Garratt, Exhibit         No(RG-1CT), the projected capital costs associated with the Tacoma LNG         Facility are \$229.3 million, or \$271.5 million including allowances for funds used         during construction ("AFUDC"). This includes the costs associated with   |
| <ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> </ol> |                 | Tacoma LNG Facility?         As discussed in the Prefiled Direct Testimony of Roger Garratt, Exhibit         No(RG-1CT), the projected capital costs associated with the Tacoma LNG         Facility are \$229.3 million, or \$271.5 million including allowances for funds used         during construction ("AFUDC"). This includes the costs associated with         providing LNG Fuel Supply Service to Totem Ocean Trailer Express, Inc. (the |
| <ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> </ol> |                 | Tacoma LNG Facility?         As discussed in the Prefiled Direct Testimony of Roger Garratt, Exhibit         No(RG-1CT), the projected capital costs associated with the Tacoma LNG         Facility are \$229.3 million, or \$271.5 million including allowances for funds used         during construction ("AFUDC"). This includes the costs associated with         providing LNG Fuel Supply Service to Totem Ocean Trailer Express, Inc. (the |

<sup>&</sup>lt;sup>1</sup> Please see the Prefiled Direct Testimony of Clay Riding, Exhibit No. \_\_\_(CR-1HCT), for a discussion of the TOTE Special Contract.

| 1                        | Q. | What are the projected capital costs associated with the Tacoma LNG                  |
|--------------------------|----|--|
| 2                        |    | Project distribution system upgrades?  |
| 3                        | A. | As discussed in the Prefiled Direct Testimony of Larry E. Anderson, Exhibit          |
| 4                        |    | No(LEA-1T), the projected capital costs associated with the Tacoma LNG               |
| 5                        |    | Project distribution system upgrades are \$53.5 million, or \$56.3 million including |
| 6                        |    | AFUDC.   |
| 7                        | Q. | What are the projected incremental first year operating expenses for the             |
| 8                        |    | regulated operations associated the Tacoma LNG Project?                              |
| 9                        | A. | As found in the work papers supporting the Prefiled Direct Testimony of Roger        |
| 10                       |    | Garratt, Exhibit No. (RG-1CT), and the Prefiled Direct Testimony of Clay             |
| 11                       |    | Riding, Exhibit No. (CR-1HCT), the projected incremental first year operating        |
| 12                       |    | expenses associated with the Tacoma LNG Project is \$5.6 million.                    |
| 13                       |    | III. GENERAL APPROACH TO COST ALLOCATION   |
| 14                       | Q. | Before discussing the specific approaches used by PSE to allocate the                |
| 15                       |    | regulated portion of Tacoma LNG Project costs, please summarize the                  |
| 16                       |    | general purpose of a cost of service study.  |
| 17                       | A. | A cost of service study identifies the costs that are incurred to serve a particular |
| 18                       |    | customer class. Identifying the cost responsibility of each class requires an        |
| 19                       |    | analysis of PSE's costs and then an allocation of those costs to each customer       |
| 20                       |    | class. This allocation is accomplished by first directly assigning to a customer     |
| 21                       |    | class any costs determined to be caused by that class alone. Joint costs that are    |
|                          |    |  |
| ·                        |    | ed Direct Testimony Exhibit No(JAP-1T)<br>confidential) of Page 3 of 22              |
| Jon A. PiliarisREVISED 9 |    |  |

## V. ALLOCATION OF TACOMA LNG PROJECT REGULATED COSTS

# Q. Please generally describe how PSE allocated the first year costs associated with regulated operations of the Tacoma LNG Project to TOTE and core natural gas customers.

6 A. PSE used a two-step process to estimate the first year costs allocated to TOTE and 7 core natural gas customers. First, PSE initially allocated the incremental costs 8 associated with regulated operations of the Tacoma LNG Facility between PSE's 9 core natural gas customers (i.e., for peaking resource needs) and TOTE (i.e., the 10 customer taking regulated fuel sales service under the TOTE Special Contract) 11 based on the allocations presented in the Prefiled Direct Testimony of Roger 12 Garratt, Exhibit No. (RG-1CT), and the Prefiled Direct Testimony of Clay 13 Riding, Exhibit No. (CR-1HCT).

Second, PSE input these costs, as well as the distribution upgrade costs associated with the Tacoma LNG Project, into PSE's natural gas cost of service model with the baseline costs discussed above and allocated the costs not assigned in the previous step in a manner consistent with the methods used in PSE's 2011 GRC.

Q. Could LNG sales associated with PSE's non-regulated investment in the
 Tacoma LNG Facility also affect the rates paid by PSE's core natural gas
 customers?

A. Yes, to the extent that PSE is successful in subscribing the non-regulated portion
of its Tacoma LNG Facility, the incremental impact associated with delivering
additional natural gas across its distribution system would also impact rates of

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| 1                              |   | core natural gas customers. This impact would be felt through the allocation of     |  |
|--------------------------------|---|---|--|
| 2                              |   | distribution-related costs. To determine the "bookends" for this impact, the        |  |
| 3                              |   | analyses presented in this testimony assume 0 percent or 100 percent subscription   |  |
| 4                              |   | of the non-regulated portion of the Tacoma LNG Facility. In the latter case, it is  |  |
| 5                              |   | assumed that the distribution service taken is 100 percent interruptible at rates   |  |
| 6                              |   | comparable to Schedule 87T.   |  |
| 7                              | Q.  | How much of the projected capital costs associated with regulated operations        |  |
| 8                              | ν.  | of the Tacoma LNG Facility were allocated to TOTE and PSE's core natural            |  |
| 9                              |   | gas customers?  |  |
|                                | ٨   |   |  |
| 10                             | A.  | As presented in the Prefiled Direct Testimony of Roger Garratt, Exhibit             |  |
| 11                             |   | No(RG-1CT), PSE's core natural gas customers were allocated \$161.9                 |  |
| 12                             |   | million of these capital costs, including AFUDC. The remaining \$109.6 million,     |  |
| 13                             |   | including AFUDC, were allocated to TOTE.  |  |
| 14                             | Q.  | How much of PSE's incremental first year operating costs associated with            |  |
| 15                             |   | the regulated operations of the Tacoma LNG Facility have been allocated to          |  |
| 16                             |   | its core natural gas customers and TOTE?  |  |
| 17                             | A.  | As presented in the Prefiled Direct Testimony of Clay Riding, Exhibit               |  |
| 18                             |   | No. (CR-1HCT), PSE's core natural gas customers were allocated \$3.1                |  |
| 19                             |   | million of the incremental operating costs associated with the regulated operations |  |
| 20                             |   | of the Tacoma LNG Facility. The remaining \$2.5 million were allocated to           |  |
| 21                             |   | TOTE.   |  |
|                                |   |   |  |
|                                | D   |   |  |
|                                | Prefiled Direct Testimony Exhibit No(JAP<br>(Nonconfidential) of Page 12 of |   |  |
| Jon A. Piliaris <u>REVISED</u> |   |   |  |

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Q.

# Is TOTE paying its share of allocated costs?

| 2        | А. | Yes. As reflected in the workpapers supporting the Prefiled Direct Testimony of             |
|----------|----|---|
| 3        |    | Roger Garratt, Exhibit No(RG-1CT), and the Prefiled Direct Testimony of                     |
| 4        |    | Clay Riding, Exhibit No. (CR-1HCT), the TOTE Special Contract is expected                   |
| 5        | 1  | to produce between \$24.9 million and \$26.9 million in first year revenue. <sup>2</sup> As |
| 6        |    | shown in Table 3, TOTE is allocated approximately \$22.4 million in first year              |
| 7        |    | cost. This results in approximately \$2.5 million to \$4.5 million of surplus first         |
| 8        |    | year revenue to be allocated among core natural gas customer classes as a credit            |
| 9        |    | against their allocated costs. For purposes of this analysis, this surplus revenue          |
| 10       |    | was allocated to core natural gas customers in proportion to their allocated share          |
| 11       |    | of the incremental revenue requirement associated with the Tacoma LNG Project,              |
| 12       |    | including the Tacoma LNG Facility and associated distribution upgrades. The                 |
| 13       |    | results in Table 3 reflect the allocation of this surplus revenue from TOTE to              |
| 14       |    | PSE's core natural gas customers.   |
| 15<br>16 |    | VI. OVERALL NET IMPACT OF TACOMA LNG<br>PROJECT TO CORE NATURAL GAS CUSTOMERS               |
| 17       | Q. | What is the overall impact of the Tacoma LNG Project on the baseline costs                  |
| 18       |    | allocated to core natural gas customers?  |
| 19       | A. | Based on the analysis described above, core natural gas customers' allocated                |
| 20       |    | costs, including property tax expenses recovered through Schedule 140, are                  |
| 21       |    | expected to increase by between \$30.6 million to \$34.0 million over baseline              |
|          |    |   |

<sup>&</sup>lt;sup>2</sup> This amount excludes the pass-through of electricity and natural gas commodity costs, as discussed in the Prefiled Direct Testimony of Clay Riding, Exhibit No. (CR-1HCT).