

**EXHIBIT NO. ___(SEF-1T)
DOCKET NO. UG-151663
WITNESS: SUSAN E. FREE**

**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
SUSAN E. FREE
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**AUGUST 11, 2015
REVISED SEPTEMBER 23, 2015**

1 based on the cause of the cost would be the allocation of the costs associated with
2 storage. These costs would be allocated based on the total gallons of storage
3 available to each consumer (PSE and TOTE storage would be allocated to
4 regulated operations, while the remaining storage would be allocated to non-
5 regulated operations).

6 **Q. Please describe allocations using general allocation factors.**

7 A. The third type of allocation relates to Tacoma LNG Facility costs that are
8 common to both regulated and nonregulated services but cannot practically be
9 allocated using the first two methods of allocation. This method of allocation will
10 be based on the assumption that PSE incurred the common costs to support both
11 regulated and non-regulated services, and the assignment of these costs would be
12 in relationship to the directly incurred costs.

13 **B. Allocation Factors for the Tacoma LNG Facility**

14 **Q. What allocators will PSE use to allocate Tacoma LNG Facility costs and**
15 **capital?**

16 A. Please see Exhibit No. ___(SEF-4) for the allocation factors developed for the
17 Tacoma LNG Facility to allocate Tacoma LNG Facility costs and capital. Please
18 see the Prefiled Direct Testimony of Roger Garratt, Exhibit No. ___(RG-1CT),
19 and supporting materials thereto, for the development and support of the capital
20 allocation factors. Please see the Prefiled Direct Testimony of Clay Riding,
21 Exhibit No. ___(CR-1HCT), and supporting materials thereto, for the

1 Corporate employee labor is charged 14.7% corporate overheads, and site-specific
2 labor is charged 3% corporate overheads. The work papers supporting the
3 Prefiled Direct Testimony of Roger Garratt, Exhibit No. ___(RG-1CT), and the
4 Prefiled Direct Testimony of Clay Riding, Exhibit No. ___(CR-1HCT), assume a
5 corporate overhead rate of 10%. The 10% corporate overhead rate was used for
6 modeling purposes to simulate the impact of the use of two corporate overhead
7 rates that depend on the type of employees charging or allocating time to LNG
8 functions.

9 Additionally, the total capital costs assigned to the non-fuel sales operations will
10 contain standard capital overheads, such as construction support, materials, and
11 fleet overheads. These methods for applying corporate overheads to capital and
12 O&M costs ensure that the non-regulated fuel sales operations are being
13 appropriately burdened with a fair share of support services and are not being
14 subsidized by regulated operations.

15 **E. Working Capital**

16 **Q. Will PSE allocate working capital to the non-regulated fuel sales operations?**

17 A. Yes. PSE will allocate working capital to the non-regulated fuel sales operations.
18 The Commission-approved calculation of combined working capital employed by
19 PSE assigns a portion of working capital to non-utility, which is excluded from
20 PSE's rate base. The amount of working capital that is assigned to non-utility is
21 based on the balances in non-operating accounts, such as non-utility plant and
22 construction work in progress. Accordingly, no change needs to be made to the

1 LNG Facility in service that PSE will determine the actual value of the capital
2 allocation factors because all costs in all capital categories will then be known.

3 **Q. Will the value of the allocation factors change depending on the level of**
4 **subscription of the non-regulated service?**

5 A. Yes, depending on the allocator. The LNG Volumes, Annual Capacity and
6 Wharfage causal allocators in Exhibit No. ___(SEF-6) will have different values
7 depending on the level of non-regulated sales over time and will be recalculated
8 on a periodic basis. The exhibits referenced below present illustrative impacts on
9 regulated and non-regulated operations of the Tacoma LNG Facility, based on
10 differing levels of subscription of non-regulated fuel sales capacity. Changes in
11 the value of these specific allocation factors can be seen under each of the
12 different scenarios. The support for the calculation of these factors is included in
13 the work papers supporting the Prefiled Direct Testimony of Roger Garratt,
14 Exhibit No. ___(RG-1CT), and the Prefiled Direct Testimony of Clay Riding,
15 Exhibit No. ___(CR-1HCT):

- 16 (i) non-regulated fuel sales capacity is 0% subscribed in the
17 first year of operations (see Exhibit No. ___(SEF-9C);
- 18 (ii) non-regulated fuel sales capacity is 19% subscribed in the
19 first year of operations (see Exhibit No. ___(SEF-10C); and
- 20 (iii) non-regulated fuel sales capacity is 100% subscribed in the
21 first year of operations (see Exhibit No. ___(SEF-11C).

22 **Q. Please provide an overview of the examples presented in your exhibits.**

23 A. Using Exhibit No. ___(SEF-10C) as an example, all amounts shown on page 1 in
24 column G represent an example of the revenues, expenses, rate base, and net

1 assets that have been directly assigned or allocated above the line to peak shaving
2 and TOTE fuel sales operations. Amounts shown in column I represent an
3 example of the revenues, costs, and net non-utility plant directly assigned or
4 allocated below the line to the non-regulated fuel sales operations.

5 **Revenue**

6 Line 5 represents the revenue to be received from the TOTE Special Contract (but
7 does not include revenue collected from TOTE for service across PSE's
8 distribution system). Line 3 represents the revenue received from PSE core
9 customers to cover the cost of service associated with peak shaving operations.
10 Please see the work papers supporting the Prefiled Direct Testimony of Roger
11 Garratt, Exhibit No. ___(RG-1CT), and the Prefiled Direct Testimony of Clay
12 Riding, Exhibit No. ___(CR-1HCT), for the determination of the amount of
13 revenue assigned to TOTE and PSE core customers. Neither of these amounts
14 include the revenue to recover the natural gas distribution upgrades. These
15 amounts are considered to be directly assigned because they will be the result of
16 PSE customer bills from base rates or special contracts.

17 Exhibit No. ___(SEF-10C) assumes that the non-regulated fuel sales capacity is
18 19% subscribed during the first year of operations, which is PSE's current base
19 case projection of subscription for that year. Included on line 4 is the amount of
20 distribution revenues received from non-regulated fuel sales operations. The
21 determination of this amount is supported in the work papers supporting the
22 Prefiled Direct Testimony of Roger Garratt, Exhibit No. ___(RG-1CT), and the

1 Prefiled Direct Testimony of Clay Riding, Exhibit No. ___(CR-1HCT). This
2 amount is considered to be directly assigned because it will be based on revenues
3 received by PSE from non-regulated fuel sales operations pursuant to or based on
4 distribution service tariffed rate.

5 The offsetting distribution expense recorded for amounts paid for natural gas
6 distribution service and charged to non-regulated operations is reflected on line
7 23. Line 6 represents the contracted, directly assignable revenue received by PSE
8 from non-regulated fuel sales operations.

9 **Expenses, Rate Base, and Net Assets**

10 The remaining expense, rate base and net assets have been directly assigned or
11 allocated as discussed throughout this testimony and are supported by the work
12 papers supporting the Prefiled Direct Testimony of Roger Garratt, Exhibit
13 No. ___(RG-1CT), and the Prefiled Direct Testimony of Clay Riding, Exhibit
14 No. ___(CR-1HCT).

15 **Q. How do Exhibit No. ___(SEF-9C) and Exhibit No. ___(SEF-11C) compare to**
16 **Exhibit No. ___(SEF-10C)?**

17 A. When the subscribed amount of non-regulated fuel sales capacity changes, the
18 total variable project costs, certain fixed costs, and revenues and expenses from
19 non-regulated fuel sales operations change. Exhibit No. ___(SEF-9C) and Exhibit
20 No. ___(SEF-11C) reflect the resulting revenue, costs, and rate base that would be
21 recognized by the regulated and non-regulated operations assuming 0% and 100%
22 non-regulated sales, respectively in the first year of operations based on the