**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.**

**REVISED SEPTEMBER 23, 2015**

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

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

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

## B. Allocation Factors for the Tacoma LNG Facility

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

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

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

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

## E. Working Capital

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

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

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

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

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

(i) non-regulated fuel sales capacity is 0% subscribed in the first year of operations (see Exhibit No. \_\_\_(SEF-9C);

(ii) non-regulated fuel sales capacity is 19% subscribed in the first year of operations (see Exhibit No. \_\_\_(SEF-10C); and

(iii) non-regulated fuel sales capacity is 100% subscribed in the first year of operations (see Exhibit No. \_\_\_(SEF-11C).

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

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

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

**Revenue**

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

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

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

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

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

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

**Q. How do Exhibit No. \_\_\_(SEF-9C) and Exhibit No. \_\_\_(SEF-11C) compare to Exhibit No. \_\_\_(SEF-10C)?**

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