

**EXH. SWS-1T  
DOCKETS UE-240004/UG-240005  
2024 PSE GENERAL RATE CASE  
WITNESS: STACY W. SMITH**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY,**

**Respondent.**

**Docket UE-240004  
Docket UG-240005**

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**

**STACY W. SMITH**

**ON BEHALF OF PUGET SOUND ENERGY**

**FEBRUARY 15, 2024**

**PUGET SOUND ENERGY**

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF  
STACY W. SMITH**

**CONTENTS**

I. INTRODUCTION .....1

II. SUMMARY OF PSE’S PROCESSES AND PROCEDURES TO  
SAFEGUARD ACCURACY IN ITS REPORTED FINANCIAL  
RESULTS .....2

III. PRESENTATION OF PSE’S INCOME STATEMENT AND BALANCE  
SHEET .....7

IV. CAPITAL STRUCTURE FOR REGULATORY PURPOSES.....7

V. AFFILIATE AND SUBSIDIARY TRANSACTIONS .....10

VI. ADVANCED METER READING ACCOUNTING .....10

VII. CONCLUSION.....14

**PUGET SOUND ENERGY**

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STACY W. SMITH**

**LIST OF EXHIBITS**

Exh. SWS-2	Professional Qualifications
Exh. SWS-3	Allocated Results of Operations
Exh. SWS-4	Balance Sheet
Exh. SWS-5	2022 Affiliated Interest and Subsidiary Transaction Report filed with the Commission on April 28, 2023 and June 30, 2023 six months Affiliated Interest and Subsidiary Transaction report.

1 **PUGET SOUND ENERGY**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**  
3 **STACY W. SMITH**

4 **I. INTRODUCTION**

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

6 A. My name is Stacy W. Smith and my business address is 355 110th Ave. NE,  
7 Bellevue, Washington 98004. I am employed by Puget Sound Energy (“PSE”) as  
8 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 Stacy W.  
12 Smith, Exh. SWS-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 make certain 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  
21 Regulatory Commission (“FERC”) reports, presented in conformity with the

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

5 **Q. Please summarize the purpose of this prefiled direct testimony.**

6 A. First, this prefiled direct testimony addresses the processes and procedures that  
7 PSE has in place to confirm the completeness and accuracy of the financial  
8 information reflected in the test year for the electric and gas revenue  
9 requirements. Second, this prefiled direct testimony presents PSE’s income  
10 statement and balance sheet for the twelve months ended June 30, 2023. Third,  
11 this prefiled direct testimony discusses the calculation of PSE’s capital structure  
12 and that PSE has calculated the capital structure in the same manner as it has been  
13 calculated in recent general rate cases. Fourth, this prefiled direct testimony  
14 provides the Affiliated Interest and Subsidiary Transaction Report for the test year  
15 as required by Commission rules. Finally, I address the accounting for the  
16 Advanced Meter Reading (“AMR”) regulatory asset.

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

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

20 A. Yes, I am responsible for preparing PSE’s financial information under GAAP and  
21 FERC reporting requirements, which are the basis for the test year used in the  
22 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 the  
4 Sarbanes-Oxley Act of 2002, which requires management of public companies to  
5 assess the effectiveness of internal controls for financial reporting (“ICFR”).

6 Internal controls for financial reporting 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.<sup>1</sup> Internal controls for financial reporting includes policies and procedures  
10 that

11 (i) pertain to the maintenance of records that, in reasonable  
12 detail, accurately and fairly reflect the transactions and  
13 dispositions of the assets of the company;

14 (ii) provide reasonable assurance that transactions are recorded  
15 as necessary to permit preparation of financial statements in  
16 accordance with GAAP, and that receipts and expenditures  
17 of the company are being made only in accordance with  
18 authorizations of management and directors of the  
19 company; and

20 (iii) provide reasonable assurance regarding prevention or  
21 timely detection of unauthorized acquisition, use, or  
22 disposition of the company’s assets that could have a  
23 material effect on the financial statements.

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<sup>1</sup> *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 2022 order approving the sale of the CPP Investments interests in Puget Holdings. *See In the Matter of the Joint Application of Puget Sound Energy, Ontario Teachers’ Pension Plan Board, and Macquarie Washington Clean Energy Investment, L.P., for an Order Authorizing Proposed Sales of Indirect Interests in Puget Sound Energy*, Docket U-210542, Order 01, Attachment A, p. 12 (January 27, 2022).

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 (“COSO”).*

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 information used to develop the test year for the  
15 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.

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

4 A. Yes, PSE's annual financial statements (Form 10-K), filed with the SEC, are  
5 audited by PwC; and PSE's quarterly financial statements (Form 10-Q), filed with  
6 the SEC, are reviewed by PwC. PSE's 2022 Form 10-K was filed with the SEC  
7 on February 23, 2023 and received an unqualified opinion from PwC. PSE's  
8 FERC Form 1 is also audited by PwC on an annual basis, and the 2022 FERC  
9 Form 1 was filed with FERC on April 14, 2023, for which, PwC also provided an  
10 unqualified opinion. The GAAP financial statement audit is in accordance with  
11 the standards of the Public Company Accounting Oversight Board ("PCAOB"),  
12 and the FERC Form 1 audit is in accordance with the auditing standard from the  
13 American Institute of CPAs. Those standards require that the audits obtain  
14 reasonable assurance about whether the financial statements are free of material  
15 misstatement and whether effective internal controls for financial reporting were  
16 maintained in all material respects. The audits of the financial statements include  
17 procedures to assess the risks of material misstatement of the financial statements  
18 and to respond to those risks.

19 **Q. Are there any new proposals within this proceeding which require different**  
20 **accounting procedures?**

21 A. Yes, as detailed in the Prefiled Direct Testimony of Daniel A. Doyle, Exh. DAD-  
22 1CT, PSE is proposing to include construction work in progress ("CWIP") related

1 to large development projects in rate base beginning on the rate effective date of  
2 the tariffs in this proceeding. Therefore, CWIP on these specific projects would  
3 no longer receive an allowance for funds used during construction (“AFUDC”) as  
4 almost all other CWIP currently does.

5 **Q. How will PSE confirm the CWIP associated with these projects does not**  
6 **receive AFUDC?**

7 A. PSE calculates AFUDC in a system called Power Plant which allows PSE to  
8 apply AFUDC on a project-by-project basis. PSE has multiple controls in place to  
9 reconcile and review the AFUDC calculation on a monthly basis to confirm it is  
10 complete and accurate. In order to prevent AFUDC from applying to any projects  
11 which include CWIP in rate base, PSE would amend its current AFUDC process  
12 to remove these projects from the calculation. PSE will also revise its controls for  
13 AFUDC calculations to be updated appropriately and review the effective  
14 implementation of this as part of the monthly controls, including maintaining a  
15 list of orders on projects where CWIP balances are included in rate base and  
16 excluded from the AFUDC calculation. These controls will be a part of the review  
17 of the design and operational effectiveness of PSE’s internal controls for financial  
18 reporting completed by outside auditors as noted above.



1 Specifically, PSE removed the following non-regulated activities and the impact  
2 of certain other items from PSE’s consolidated capital structure:<sup>2</sup>

- 3 (i) the retained earnings from unregulated activities such as  
4 Puget Western, Inc. (“Puget Western”);
- 5 (ii) the impact on retained earnings resulting from the marking  
6 to market of the value of PSE’s unrealized hedging  
7 activities, or derivatives, recorded pursuant to Accounting  
8 Standards Codification (“ASC”) 815, as these amounts are  
9 not used for rate making purposes; and
- 10 (iii) the retained earnings impact from pension accounting  
11 recorded pursuant to ASC 715, as these amounts are not  
12 used for rate-making purposes.

13 These adjustments have been accepted by the Commission and have been applied  
14 consistent with PSE’s Commission Basis Reports and previous general rate cases.

15 Please refer to the Prefiled Direct Testimony of Cara G. Peterman, Exh. CGP-  
16 1CT, for the supporting calculations for these adjustments.

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

19 A. The retained earnings generated by Puget Western, a subsidiary, are removed  
20 from PSE’s consolidated capital structure because the retained earnings generated  
21 by this subsidiary are non-regulated.

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<sup>2</sup> Entities included in the starting consolidated capital structure are PSE and PSE’s wholly-owned subsidiary, Puget Western, Inc.

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

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

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

16 A. The Commission historically sets PSE's rates in a manner that reflects actual or  
17 forecasted "cash" pension contributions averaged over four years and does not use  
18 the financial reporting pension expense required by GAAP. Therefore, PSE  
19 removes the impacts of such GAAP required pension accounting as it is not used  
20 for ratemaking. Adjustment of the consolidated common equity for these items is  
21 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 28, 2023, PSE filed its 2022 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 Stacy W. Smith, Exh. SWS-5, for a copy of the 2022 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 2023?**

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 year. Please see the Fourth Exhibit to the Prefiled Direct Testimony of  
14 Stacy W. Smith, Exh. SWS-5, for a copy of the six-month 2023 Affiliated Interest  
15 and Subsidiary Transaction Report.

16                   **VI.     ADVANCED METER READING ACCOUNTING**

17 **Q.    Did you provide witness Susan E. Free with information utilized for**  
18 **determining the Advanced Meter Reading (“AMR”) regulatory asset in this**  
19 **proceeding, detailed in Exh. SEF-1T?**

20 A.    Yes. I provided updated information similar to the information used to determine  
21 the regulatory asset in the prior rate case proceeding.

1 **Q. How was the information in the prior rate case in Dockets UE-220066/UG-**  
2 **220067<sup>3</sup> developed?**

3 A. At the time of that proceeding, the rollout of the Advanced Metering  
4 Infrastructure (“AMI”), which replaced AMR, was only partially complete.  
5 Therefore, an estimate of the value of unrecovered AMR assets was utilized based  
6 on the following information:

- 7 1. existing AMR gross plant and accumulated depreciation balances as of the  
8 test year for that proceeding (June 30, 2021);
- 9 2. an estimated AMR retirement schedule;
- 10 3. the forecasted depreciation to occur, taking into account forecasted  
11 retirements, until the substantial completion of the AMI rollout, originally  
12 planned for December 2023; and
- 13 4. an estimate of the proportion of AMR assets within depreciation groups  
14 which also contained non-AMR assets.

15 The unrecovered AMR gross plant and accumulated depreciation balances for  
16 November 2023 through the end of the second rate year in that proceeding were  
17 then developed from the above information. These amounts did not include any  
18 forecasted retirements or depreciation or more precise allocations that would be  
19 available within a closer proximity to rollout completion.

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<sup>3</sup> *WUTC v. PSE*, Dockets UE-220066/ UG-220067, Exh. SEF-4 and Exh. SEF-9,  
Adjustments 6.23 and 11.23

1 **Q. How was the regulatory asset balance determined for this case?**

2 A. It was developed in the same manner as above with the benefit of more current  
3 data and less time between the estimate and the substantial completion of the  
4 AMR retirements.

5 **Q. Have the estimated regulatory asset balances changed with the updated**  
6 **information?**

7 A. Yes. As less of the information is based on estimates and more of the information  
8 is based on actual amounts, the balances for the regulatory assets have changed.  
9 The initial electric regulatory asset has changed from the \$74.6 million balance in  
10 the previous case to the \$80.8 million balance in the current case. The initial gas  
11 regulatory asset has changed from the \$37.2 million balance in the previous case  
12 to the \$37.4 million balance in the current case.

13 **Q. What are the main reasons for the \$6.2 million increase and \$0.2 million**  
14 **increase in the current calculation of the electric and gas AMR regulatory**  
15 **assets, respectively, from the amounts estimated in the prior rate case?**

16 A. There are two main reasons for the change in the electric regulatory asset balance.  
17 The first reason is due to an improvement in the method used to apportion the  
18 amount of AMR and non-AMR assets in FERC account 370. Previously, a flat  
19 ratio was used which in retrospect, does not fully consider the difference in  
20 retirement patterns between the two categories of costs within the FERC account.  
21 The estimate of the AMR portion used for this case assumes the negative reserve

1 within the account is driven by the retirements of AMR assets and is not being  
2 driven by non-AMR assets. The second reason is due to the inclusion of actual  
3 AMR cost of removal expenditures which were not estimated in the prior rate  
4 case regulatory asset amount.

5 While the change in gas regulatory asset balance remained relatively flat, this is  
6 due to offsetting factors. There was a decrease in the regulatory asset due to  
7 retirements occurring slower than forecasted which led to a higher accumulated  
8 depreciation balance and less unrecovered asset. This was offset by a similar  
9 amount related to the inclusion of AMR cost of removal expenditures which were  
10 not estimated in the prior rate case regulatory asset amount.

11 **Q. Are the balances you provided witness Free for this proceeding final?**

12 A. While the AMR rollout reached substantial completion as of October 2023, the  
13 final AMR unrecovered balance is not yet known and will need to be trued-up in a  
14 future period. There were over one million individual AMR assets to be retired in  
15 the field during the five-plus year conversion to AMI and then subsequently, the  
16 recording of the retirements within PSE's system of record have to all be  
17 processed. While PSE has processed the retirement of the vast majority of these  
18 assets, it has not finalized all retirements within our system of record. PSE  
19 expects there to be adjustments to the AMR regulatory asset in its next general  
20 rate case to reflect final true-ups. Ms. Free outlines the process PSE will follow to  
21 confirm the regulatory assets are trued up to their final amounts in a future  
22 proceeding.

**VII. CONCLUSION**

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2 **Q. Does that conclude your prefiled direct testimony?**

3 **A. Yes, it does.**