

**EXHIBIT NO. ___(EDH-1CT)
DOCKET UE-200115
COLSTRIP UNIT 4 SALE
WITNESS: EZRA D. HAUSMAN, PH.D.**

**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 DIRECT TESTIMONY OF

EZRA D. HAUSMAN, PH.D.

ON BEHALF OF THE SIERRA CLUB

CONFIDENTIAL PER PROTECTIVE ORDER - REDACTED VERSION

October 2, 2020

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(Wash. Utilities Comm'n Dec. 2019)

1 I. Professional Qualifications

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Ezra D. Hausman, Ph.D. I am an independent consultant doing business as Ezra
4 Hausman Consulting, operating from offices at 77 Kaposia Street, Auburndale, Massachusetts
5 02466.

6 **Q. What is your educational and professional background?**

7 A. I have served as an independent consulting analyst and expert in energy and environmental issues
8 since 2014. Before that, from 2005 until early 2014, I was employed at Synapse Energy
9 Economics, Inc., a research and consulting company located in Cambridge, Massachusetts, where
10 I served as Vice President, and Chief Operating Officer. In both of these positions, I have served
11 as an analyst and expert in several areas, including: state and regional energy, capacity, and
12 transmission planning, including both utility resource planning and long-term (multi-decadal)
13 climate-constrained resource planning; regulatory and ratemaking proceedings; electricity and
14 generating capacity market design and analysis; electric system dispatch modeling; economic
15 analysis of environmental and other regulations, including greenhouse gas regulation, in energy
16 markets; economic analysis, price forecasting, and asset valuation; quantification of the economic
17 and environmental benefits of displaced emissions; energy efficiency and renewable energy
18 programs and policies; and regulation and mitigation of greenhouse gas emissions.

19 I have provided testimony before public utility commissions or legislative committees in
20 Arizona, Florida, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Massachusetts,
21 Minnesota, Mississippi, Missouri, Nevada, New Hampshire, New Jersey, North Carolina,
22 Oregon, Pennsylvania, South Carolina, South Dakota, Utah, Vermont, Virginia, Washington, DC,
23 and Washington State, as well as at the Federal level. I have provided expert representation for

1 stakeholders at the PJM ISO, the California ISO, the Midcontinent ISO, and at the Federal Energy
2 Regulatory Commission (“FERC”). While most of my testimony and analytical work has
3 centered on issues in electricity market economics, I have also brought my expertise as a scientist
4 to bear on cases involving greenhouse gas regulation and mitigation in the United States.

5 Before joining Synapse, I was employed from 1998 through 2004 as a Senior Associate
6 at Tabors Caramanis and Associates (“TCA”) of Cambridge, Massachusetts. In 2004, TCA was
7 acquired by Charles River Associates (“CRA”), where I remained until I joined Synapse in 2005.
8 At TCA/CRA, I performed a wide range of electricity market and economic analyses and price
9 forecast modeling studies. These included asset valuation studies, market transition cost/benefit
10 studies, market power analyses, and litigation support. I have extensive experience with market
11 simulation, production cost modeling, and resource planning methodologies and software.

12 I hold a BA in Psychology from Wesleyan University, an MS in Environmental
13 Engineering from Tufts University, an SM in Applied Physics from Harvard University, and a
14 PhD in Atmospheric Chemistry from Harvard University. I have provided a detailed resume as
15 Exhibit EDH-2.

16 **Q. Have you ever testified before the Washington Utilities and Transportation Commission**
17 **(WUTC)?**

18 A. Yes. I testified on behalf of Sierra Club in the following cases:

- 19 • Puget Sound Energy’s 2012 General Rate Case, Docket Nos. UE-111048 and UG-111049.
- 20 • Puget Sound Energy’s 2017 General Rate Case, Docket Nos. UE-17033 and UG-17034
- 21 • Avista Corporation’s 2019 General Rate Case, Docket Nos. UE-190334, UG-190335, and
22 UE- 190222

1 II. Purpose of Testimony, Summary of Conclusions and Recommendations

2 **Q. Please summarize the purpose of your testimony, and your conclusions.**

3 A. In its filing in this matter, PSE (“PSE” or, “Company”) requests an order pursuant to Chapter
4 80.12 RCW and Chapter 480-143 WAC authorizing it to sell its share (25%, or 195 MW) of Unit
5 4 of the Colstrip Generating Plant in Colstrip, Montana, (“Unit 4”) in equal shares to two other
6 companies that are already co-owners of the Colstrip plant. The counterparties are, in equal
7 shares, NorthWestern Energy (“NorthWestern”), a regulated utility in Montana, and Talen Energy
8 Corporation (“Talen”), an independent power company with headquarters in Allentown, PA. As
9 part of each sale, PSE proposes to enter into a Power Purchase Agreement (“PPA”) with each
10 buyer for approximately five years. The PPA would obligate PSE to purchase 90 MW of net
11 power every hour that the plant is operating at its minimum load level or higher. At the same
12 time, PSE proposes to sell certain PSE interests in the Colstrip Transmission System to
13 NorthWestern and Talen.¹ These three components of the transaction have been presented as a
14 package in the Company’s filing. PSE also seeks approval of its proposed accounting treatment
15 for the proposed sale.

16 In my testimony, I show that the proposed package of transactions are not in the interest
17 of PSE’s ratepayers, and therefore should not be approved by the Commission pursuant to WAC
18 480-143-170. My specific conclusions and reasoning are as follows:

- 19 • The PPA is a terrible deal for ratepayers relative to alternative sources of energy and
20 capacity. Because of its disadvantageous terms, PSE is effectively proposing to *pay* at least
21 [REDACTED] of ratepayer funds to NorthWestern and Talen to take its share of Colstrip unit 4
22 – before considering the impact of the transmission sale and an unknown amount of
23 decommissioning and remediation cost.

¹ PSE Supplemental Application at 1-3, Docket No. UE-200115 (Aug. 20, 2020) [hereinafter “Supplemental Application”].

- 1 • The cost of power under the PPA would never provide a benefit to ratepayers relative to
2 market purchases, because it would be always be *as high as or higher than* the Mid-C price.
3 (As discussed herein and as acknowledged by PSE in discovery,² PSE’s witness’ “illustrative
4 example” showing otherwise was erroneous and misleading because it omitted a key term
5 from the PPA price.)

- 6 • The reason that PSE’s analysis appears to show a benefit to ratepayers from the combined
7 transaction (absent consideration of the sale of transmission assets) is that PSE proposes to
8 replace a portion of Colstrip’s costly power with cheaper market purchases. PSE never
9 showed the impact of the PPA alone.

- 10 • The transmission sale is also likely a bad deal for ratepayers. PSE’s contention that the
11 depreciated net book value represents the market value is illogical and unsupported. PSE has
12 never put out a request for bids to purchase the asset, and the fact that Talen is attempting to
13 assert a claim to the assets suggests that the market value is likely higher.

- 14 • The proposed transaction would leave PSE ratepayers with the full risk for the cost of
15 decommissioning and remediation at the end of the unit’s life, whenever that may be. PSE
16 should not be able to sell its share of Colstrip 4 without a condition establishing a fixed
17 liability for its ratepayers.

- 18 • The proposed sale would also effectively circumvent the Legislature’s intent under the
19 Washington Clean Energy Transformation Act (“CETA”) by divesting PSE of its share of
20 Unit 4 while providing no environmental benefit. In fact, the proposed sale could keep Unit 4

² PSE response to Sierra Club Data Request No. 026(a) (Sept. 29, 2020) (attached as Exh. EDH-3): “Line E of Table 1 in the Prefiled Supplemental Direct Testimony of Cindy L. Song, Exh.CLS-8T, does not reflect the full price that Puget Sound Energy is likely to pay under the terms and conditions of the proposed power purchase agreements with NorthWestern Energy and Talen Montana, LLC... The fixed component, O&M Cost (Base), is not impacted by the Mid-C pricing and therefore was not included in the illustrative examples in Table 1.”

1 running longer by subsidizing its operations through an overly-generous PPA and retaining
2 post-2025 decommissioning risk, thus increasing total greenhouse gas emissions.

- 3 • PSE’s own analysis shows that Unit 4 is economically obsolete because it cannot compete
4 with readily-available alternative sources of energy, such as market purchases. Because of
5 this, Unit 4 (and by extension, Colstrip Unit 3) cannot be deemed “used and useful” and
6 should be excluded from rate base.

7 **Q. What are your recommendations for this Commission?**

8 A. I recommend that the Commission deny PSE’s request for approval to sell its share of Colstrip
9 Unit 4 and certain transmission assets, and to enter into the proposed five-year PPA. Instead, I
10 recommend that the Company be directed to pursue closure of this uneconomic generating unit,
11 and of its companion Unit 3, at the earliest possible date. PSE should be put on notice that these
12 coal assets are economically obsolete and can no longer be deemed “used and useful” for
13 ratemaking purposes. Whatever the complexities of PSE extracting itself from the Colstrip
14 Ownership and Operation Agreement, PSE’s ratepayers and this Commission should not be held
15 hostage to a poorly-performing plant for five more years on this basis. Further, a finding by the
16 Commission that the plant is no longer used and useful based on its economic performance would
17 likely help PSE extract itself from the Ownership and Operation Agreement, and ultimately
18 effectuate closure of both uneconomic units.

19 If the Commission decides to grant its approval for the sale, I recommend that it reject the
20 proposed PPA, whose terms are egregiously one-sided to the disadvantage of PSE’s customers. I
21 also recommend that the Commission defer consideration of the proposed sale of any PSE
22 transmission assets pending establishment of their market value and the opportunity cost for PSE.
23 I further recommend that the Commission condition any approval of the sale on establishing a
24 firm cap on PSE’s share of ultimate decommissioning and remediation costs for the unit, which
25 should be established based on an independent decommissioning cost study.

1 III. Proposed Unit 4 Sale and PPA

2 **Q. What is the Company’s rationale for the proposed transaction?**

3 A. PSE claims that its proposal is “a necessary step in preparing PSE for the period beginning
4 January 1, 2026, in which PSA will no longer be able to serve retail customer loads with coal
5 fired generation” in accordance with CETA.³ The Company also claims to be responding to
6 “operational uncertainties” including “evolving energy markets, new environmental regulations,
7 potential carbon pricing, aging infrastructure, periodic litigation, and potential valuation
8 differences among its six owners.”⁴ Further, PSE claims that its proposal will “provide net
9 present value financial benefits to retail customers for the period 2020 through 2025, would cap
10 PSE’s liabilities with compliance costs associated with Colstrip Unit 4, [and] would significantly
11 reduce PSE’s greenhouse gas emissions.”⁵

12 **Q. If PSE is allowed to sell its share of Colstrip unit 4, would that eliminate its dependence on
13 the Colstrip plant?**

14 A. No. PSE would continue to own 15% of Colstrip Unit 3. PSE would also still be responsible for a
15 share of the common (non-unit-specific) facilities at the plant. In addition, the quantity and cost
16 of power delivered under the proposed PPA are based in part on the output and cost of production
17 at Colstrip Unit 4, as will be described below. Finally, PSE would retain its full liability for future
18 decommissioning and remediation costs for the unit, including if the plant continues to run and
19 generate pollution and waste beyond 2025.

³ Supplemental Application at ¶ 2. Under CETA, electric utilities must divest eliminate coal fired generation from their portfolios of resources serving Washington customers by the end of 2025.

⁴ *Ibid.*

⁵ *Ibid.*

1 IV. PSE’s analysis of the proposed transactions is erroneous and misleading

2 **Q. Does the Company claim that the proposed sale of the unit and transmission assets, along**
3 **with the PPA, are in its customers’ interest?**

4 A. Yes. PSE witness Cindy Song describes a series of analyses, performed by PSE between July and
5 October 2019, of the transaction’s impact on ratepayers. Ms. Song filed supplemental testimony
6 on August 20, 2020, updating her analysis to reflect the revised PPAs. She also “refined the
7 quantitative analysis to reflect the projected costs under the NorthWestern Energy PPA and the
8 Talen Montana PPA more accurately.”⁶ Ms. Song claims that these analyses consistently showed
9 a customer benefit of the transaction compared to continued ownership and operation of Unit 4.

10 **Q. What is your response to Ms. Song’s testimony about whether the proposed transactions**
11 **are in customers’ interest?**

12 A. My response is that Ms. Song’s analysis and testimony provide an incomplete and misleading
13 picture of the impact of the proposed transactions on ratepayers. Ms. Song’s initial series of
14 analyses were deficient, as she implicitly acknowledged in filing the series of “refinements” she
15 describes on page 5 of her supplemental testimony. Ms. Song’s August 20, 2020 analysis better
16 reflects most terms of the agreement; however, she still has not considered the impact of the
17 Sellers’ (NorthWestern and Talen) option to deliver power at one of two electrical locations under
18 the PPA, or the impact of the sale of transmission assets, both of which are discussed in Section
19 VI of this testimony.⁷

20 Further, Ms. Song’s testimony contains yet another deficiency that renders her
21 presentation misleading. Specifically, the “Illustrative Example” provided on page 7 of Ms.
22 Song’s testimony does not accurately reflect the terms of the proposed PPA between PSE and

⁶ Exh. CLS-8T, Supplemental Direct Testimony of Cindy L. Song at 2:17-19 (Aug. 20, 2020) [hereinafter “Song Supplemental”].

⁷ Puget Sound Energy Application, Exhibit C at 1, Docket No. UE-200115 (Feb. 19, 2020) [hereinafter “Application Exhibit C”].

1 counterparties NorthWestern and Talen and erroneously shows a benefit to the PPA that simply
2 would not exist.

3 **Q. How does Ms. Song’s illustrative example fail to reflect the terms of the proposed PPA**
4 **between PSE and NorthWestern and Talen?**

5 A. Ms. Song’s illustrative example omits the Base O&M cost term in calculating the cost of the PPA
6 to PSE. The proposed PPA describes the “Contract Price” as follows:

7 For each hour of the term of the contract, regardless of the Delivery Point, *the*
8 *higher of* (i) the Mid C Day-Ahead Index Price for on-peak and off-peak periods,
9 as applicable, minus O&M Costs (Base) Equilivant [*sic*] and (ii) the Floor Price
10 applicable to such hour. **In addition Purchaser shall pay a monthly payment of**
11 **1/12th of the annual O&M Costs (Base).**⁸

12 The O&M component of the cost (in bold above) must be paid by PSE monthly, in
13 addition to the price of energy for each hour, whether the energy price is calculated at the Mid-C
14 price or the “floor price.” This additional cost is represented by the “O&M Cost (Base)
15 Equivalent” shown on line B of Ms. Song’s example table, but she has failed to add it into the
16 “Amount Paid by PSE” (line E) of the same table.

17 **Q. Have you recalculated Ms. Song’s illustrative example to remedy this omission?**

18 A. Yes. The revised calculation in is shown in Table 1.

⁸ *Ibid.* Emphasis added.

1 **Table 1. Corrected Illustrative Example of Variable Pricing for the NorthWestern Energy**
 2 **PPA and the Talen Montana PPA under Different Mid-C Index Price Scenarios. Corrected**
 3 **rows are shown in bold.**

		<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>
A	Mid-C Index Price	\$20.00/MWh	\$30.00/MWh	\$40.00/MWh
B	O&M Cost (Base) Equivalent	\$10.00/MWh	\$10.00/MWh	\$10.00/MWh
C	Net Price (A-B)	\$10/MWh	\$20/MWh	\$30/MWh
D	Floor Price	\$25.40/MWh	\$25.40/MWh	\$25.40/MWh
E	Amount Paid by PSE (Greater of C or D, plus O&M Equivalent)	\$35.40/MWh	\$35.40/MWh	\$40/MWh
F	PSE (Cost)/Savings Compared to Mid-C Prices (A-E)	\$(15.40)/MWh	\$(5.40)/MWh	\$0/MWh

4 As seen in Table 1, the cost of power under the PPA would be *as high as or higher than*
 5 the Mid-C price under each of the scenarios shown once the actual pricing terms of the PPA are
 6 accounted for. In fact, there is no way the cost of the PPA would *ever* be lower than the cost of
 7 purchasing power at Mid-C, because of the “higher of” clause in the pricing term of the PPA
 8 (italicized in the quote above.) While the O&M cost equivalent is subtracted from the Mid-C
 9 price for purposes of determining the “higher of” selection, it is added back in – to both price
 10 formulations – in setting the effective cost of energy to PSE under the PPA.

11 **Q. Has PSE confirmed that Ms. Song’s analysis failed to reflect the full cost to PSE under the**
 12 **terms of the PPA?**

13 A. Yes. In response to Sierra Club Data Request No. 026(a),⁹ PSE confirmed that this example "does
 14 not reflect the full price that Puget Sound Energy is likely to pay under the terms and conditions
 15 of the proposed power purchase agreements with NorthWestern Energy and Talen Montana,
 16 LLC."

⁹ Exh. EDH-3.

1 **Q. Beyond her illustrative example, did Ms. Song provide an updated analysis of the proposed**
2 **transaction?**

3 A. Yes. Ms. Song provided an updated analysis of the PPA, combined with market purchases,
4 compared to the cost of continuing to own and generate power at Unit 4. She concluded that “the
5 proposed transactions with NorthWestern Energy and Talen Montana would provide net present
6 value savings to PSE customers of approximately \$6 to \$33 million.”¹⁰

7 **Q. Did Ms. Song make this same omission in calculating these benefits as in the illustrative**
8 **example on page 7 of her supplemental testimony?**

9 A. No. As the redacted version of PSE Exhibit CLS-09C, worksheets “No Hedging (R)” and
10 “Hedging (R)” denotes, Ms. Song properly adds the Base O&M back into the total cost when
11 calculating the annualized cost for PSE under the PPA.¹¹ This makes it all the more puzzling that
12 she omitted this term in her illustrative example.

13 **Q. Is Ms. Song’s statement that “the proposed transactions with NorthWestern Energy and**
14 **Talen Montana would provide net present value savings to PSE customers of approximately**
15 **\$6 to \$33 million” supported by her analyses?**

16 A. This statement is misleading. Ms. Song’s analyses and workpapers clearly show that the proposed
17 transactions with NorthWestern and Talen would lead to a present value cost of at least [REDACTED]
18 [REDACTED] relative to simply divesting from or shutting down the unit. All of the savings found by
19 Ms. Song derive from replacing overpriced Colstrip power with market-priced energy purchases.

20 **Q. Please explain why you find that Ms. Song’s analysis is misleading.**

21 A. PSE confounded its analysis by never showing the impact of the PPA alone, but by always

¹⁰ PSE Exh. CLS-08T, Song Supplemental at 9:12-16.

¹¹ On line 8 of the indicated sheets, the “Total PPA” cost is shown as the sum of the “PPA cost” and the “Base O&M”.

1 combining it with the savings the Company would realize from the power it *didn't* have to
2 purchase from Colstrip. Specifically, while the combined PPAs are for a total quantity of 90 MW
3 each hour,¹² PSE's 25% share of Unit 4 that it proposes to sell is 185 MW. In PSE's analyses, it
4 combined the cost of purchased power under the PPA with market purchases for the remaining 95
5 MW. Although never acknowledged by the Company, the resulting savings can be attributed
6 solely to the lower projected cost of the market purchases, and not to the extremely unfavorable
7 terms of the PPA.

8 **Q. Is your conclusion that the purported savings shown by Ms. Song are solely attributable to**
9 **market purchases supported by Ms. Song's workpapers?**

10 A. Yes. Table 2 summarizes data from the confidential workpaper of PSE witness Cindy Song
11 showing the breakdown of costs for three different scenarios: (1) Continued operations; (2) PSE's
12 proposal, which includes PPAs for 90 MW of Unit 4 capacity, and a "Market Replacement"
13 scenario under which the full 185 MW of Unit 4 capacity currently owned by PSE is replaced by
14 market purchases of energy and capacity.¹³ Table 1 shows a comparison of costs on a net present
15 value ("NPV") basis, as well as a total undiscounted dollar basis, and an average per-MWh cost
16 (undiscounted) over the term of the proposed transactions.

¹² Application Exhibit C at 1.

¹³ PSE performed the 100% Market Replacement" analysis pursuant to Sierra Club Date Request No. 11(g). As a caveat, PSE stated in its response that "[a]lthough PSE is providing the information for 100% market replacement, it is not an option provided for in the transaction."

1 ratepayers – power from this resource is about [REDACTED] the projected cost of
2 market purchases, including replacement capacity, over the next five years. Though the proposed
3 combined transactions represent some cost savings relative to continued reliance Colstrip for
4 PSE’s current 185 MW ownership share, this is only because 95 MW are replaced by market
5 purchases rather than Colstrip’s costly power. The PPA portion of the transaction is still a bitter
6 and expensive pill PSE is asking its customers to swallow in exchange for only partially reducing
7 their reliance on the plant. PSE’s own numbers show that the proposed overpriced PPA is not the
8 best option for ratepayers. The best option for ratepayers is for PSE eliminate its reliance on the
9 plant entirely, and ultimately to shut down this clearly uneconomic resource.

10 **Q. In your opinion, is the Colstrip plant “used and useful”,¹⁵ as required for inclusion in rates**
11 **in the State of Washington?**

12 A. No. The utility ratemaking concept of “used and useful” exists, in part, to ensure that
13 “investments that are no longer used and useful to the public because they are either
14 technologically or economically obsolete can be excluded from the rate base.”¹⁶ PSE’s analysis
15 shows that Unit 4 is clearly “economically obsolete” and does not belong in PSE’s energy mix or
16 rate base, either directly, or indirectly in the form of an overpriced PPA.

17 **Q. Are you aware of PSE witness Mr. Roberts’ claim that PSE, as 25% owner of Colstrip Units**
18 **3 and 4, cannot unilaterally decide to retire the units?**

19 A. Yes, I am aware of Mr. Roberts’ statement that “[i]n 2018, PSE considered the potential of
20 closing Colstrip Units 3 & 4 but ultimately determined that such an action would be extremely
21 difficult, if not impossible, due to the provisions of the Ownership and Operation Agreement that

¹⁵ RCW 80.04.250(2).

¹⁶ Kenneth Rose, *Electric Power: Traditional Monopoly Franchise Regulation and Rate Making*, 2
Encyclopedia of Energy 289, 293 (2004).

1 requires unanimity among the owners to effectuate a closure.”¹⁷ Mr. Roberts did not specify
2 which section of the Ownership and Operation Agreement he was referencing.¹⁸

3 I am also aware that the same Ownership and Operation Agreement states that the term of
4 the Agreement “...shall continue for so long as the Project or any part thereof as originally
5 constructed, reconstructed or added to is, or can be made, capable of producing electricity
6 consistent with Prudent Utility Practice or the requirements of governmental agencies having
7 jurisdiction plus any time required for ending the Project.”¹⁹ Because the plant can no longer be
8 run economically, as clearly illustrated by PSE’s own analysis, it no longer “is, or can be made,
9 capable of producing electricity consistent with Prudent Utility Practice.” Such a finding by the
10 Commission would also clarify that it can no longer be operated in accordance with “the
11 requirements of governmental agencies having jurisdiction.”

12 V. PSE “Hedging” Scenario Makes No Sense

13 **Q. In the analysis provided above, you focused on the “No Hedging” scenario. Are you aware
14 that PSE also provided a scenario in which it would hedge the cost of market purchases?**

15 A. Yes.

16 **Q. Please describe the “Hedging” scenario.**

17 A. Under the “Hedging” scenario, Ms. Song recalculated the benefits of the proposed transaction by
18 replacing the projected cost of energy at Mid-C with a fixed price of \$36.60 per MWh.²⁰ Because
19 this price is significantly higher than the projected Mid-C price over this period, the projected

¹⁷ PSE Exh. RJR-1CTr, Ronald J. Roberts Direct Testimony (Redacted) at 7:20-8:2 (rev. Mar. 10, 2020) [hereinafter “Roberts Direct”].

¹⁸ PSE Exh. RJR-3, Ownership and Operations Agreement (Feb. 19, 2020) (excerpt attached as Exh. EDH-4).

¹⁹ *Id.* at 32.

²⁰ Exh. CLS-08T, Song Supplemental at 7:11-12. In Ms. Song’s initial testimony, the fixed hedge price was \$37.52/MWh, which was then updated to \$36.60/MWh in response to WUTC Staff Data Request No. 020. Ms. Song claims in Exhibit CLS-08T that the original hedging price was \$37.75/MWh, but this value appears to be in error.

1 benefits of the combined transaction – PPA + market purchases, relative to continued operations
2 – are reduced. For example, in the results presented in Exhibit CLS-08T, the net benefits of the
3 non-hedging scenario is claimed to be \$33 million on an NPV basis, while the net benefit of the
4 hedging scenario is claimed to be \$6 million NPV.

5 **Q. Does the hedging scenario make sense to you?**

6 A. No.

7 **Q. Please explain why the hedging scenario does not make sense to you?**

8 A. First of all, the hedging price seems very high to me. As Ms. Song describes, the projected market
9 price of electricity at Mid-C is “in a range of between \$23/MWh and \$25.40/MWh over the term
10 of the...PPA.”²¹ This was confirmed in response to Sierra Club Data Request No. 014(a).²² It is
11 hard to believe that PSE’s traders would “hedge” the full 95 MW of market-purchased energy at a
12 price that is approximately 50% higher than the expected price of energy. This so-called
13 “hedged” price also [REDACTED] the “higher price scenario” Mid-C price used by PSE in its
14 “stress testing analysis on how the PPA performs in a higher price scenario.”²³

15 While I agree with PSE that “[o]btaining a fixed hedge price requires the payment of a
16 premium to mitigate the volatility,”²⁴ a premium of this magnitude would essentially lock in a
17 very high price for PSE’s customers. The only risk it would mitigate would be the risk that they
18 might pay a lower, more reasonable price for power.

19 Second, it makes no sense that PSE would hedge the cost of market purchases, but not

²¹ Exh. CLS-1CT, Direct Testimony of Cindy L. Song (Redacted) at 12 n.5 (Feb. 19, 2020).

²² Sierra Club Data Request to PSE No. 014(a) (June 17, 2020) (attached as Exh. EDH-5).

²³ PSE Second Revised Confidential response to WUTC Staff Data Request No. 021 (Sept. 8, 2020) (attached as Exh. EDH-6C).

²⁴ PSE response to Sierra Club Data Request No. 14(b) (June 30, 2020) (attached as Exh. EDH-7). In the same data response, PSE noted that “The proxy for the fixed hedged price was not done at the same time of the development of Mid-C pricing.” If the Company meant to suggest that the market price and hedge values it used in the same analysis were mutually incompatible, it should have updated its analysis to make its numbers consistent.

1 hedge the cost of the PPA. The PPA, after all, is pegged to the cost of energy at Mid-C *or higher*
2 if the “floor price” exceeds the Mid-C price net of Base O&M.²⁵

3 **Q. Has PSE addressed your concerns regarding the cost of its proposed hedge?**

4 A. No. In its Data Requests Nos. 012 and 013, Sierra Club requested “...all emails, memoranda,
5 reports, analyses, and other materials supporting” the initial (\$37.52/MWh) and updated
6 (\$36.60/MWh) hedged prices, respectively. In each case, PSE provided a copy of confidential
7 “correspondence from the PSE trade floor”²⁶ but provided no supporting analysis or explanation;
8 nor did PSE provide a copy of the request to which the trade floor was responding. Sierra Club
9 further probed the basis of these prices by requesting additional communications surrounding
10 these price estimates in its Data Requests Nos. 024 and 025, and similarly received no
11 explanatory information.²⁷ Thus, it is impossible to know how to interpret the hedge prices
12 provided or how applicable they are to the risks ostensibly being “hedged”.

13 **Q. Has PSE explained why it might choose to hedge the market purchases, but not the PPA?**

14 A. No. PSE provided an inadequate explanation in response to Sierra Club Data Request No. 006,
15 stating that the PPA itself serves as a hedge.²⁸ Sierra Club then promulgated another data request
16 asking for clarification how an arrangement structured to return the Mid-C price *or higher* could
17 constitute a hedge against the Mid-C price.²⁹ In response, PSE reiterated its faulty argument, this

²⁵ Application Exhibit C at 1. It should be noted that Mr. Roberts misrepresented the PPA contract price in his October 21, 2019 memo to the Board of Directors, describing the floor price as “the marginal operating cost of Colstrip Unit 4.” (Exh. RJR-5C, Ronald J. Roberts Direct Testimony (Redacted) at 97 ¶ v (Feb. 19, 2020)). In fact, the floor price is to be calculated using the minimum load heat rate of Unit 4 (Application Exhibit C at 5) *i.e.*, when the unit is *least* efficient. In general, this price will be higher than the marginal operating cost of the unit.

²⁶ PSE response to Sierra Club Data Request No. 012, Confidential Attachment A (June 30, 2020) (attached as Exhibit EDH-8C); PSE response to Sierra Club Data Request No. 013, Confidential Attachment A (June 30, 2020) (attached as Exhibit EDH-9C).

²⁷ PSE response to Sierra Club Data Request No. 024 (Sept. 29, 2020) (attached as Exh. EDH-10); PSE response to Sierra Club Data Request No. 025 (Sept. 29, 2020) and PSE response to Sierra Club Data Request No. 025, Confidential Attachment A (Sept. 29, 2020) (attached together as Exhibit EDH-11C).

²⁸ PSE response to Sierra Club Data Request No. 006 (May 1, 2020) (attached as Exh. EDH-12).

²⁹ Sierra Club Data Request to PSE No. 021 (Sept. 10, 2020) (attached as Exh. EDH-13).

1 time with reference to the flawed “illustrative example” provided by Ms. Song that I discussed in
2 detail in Section IV. Finally, Sierra Club promulgated a discovery request to confirm that Ms.
3 Song’s illustrative example “does not reflect the full price paid by PSE under the PPAs.”³⁰ In
4 response, PSE confirmed this to be the case and explained that the example only represented the
5 variable cost portion of the PPA price, and that the values shown “[do] not reflect the full price
6 that Puget Sound Energy is likely to pay under the terms and conditions of the proposed power
7 purchase agreements with NorthWestern Energy and Talen Montana, LLC.”³¹

8 To be clear, a power purchase agreement can and often does serve as a hedge against
9 market prices, as long as the PPA is set at a fixed price, or pegged to the production cost of a
10 particular unit, or pegged to some other index that is independent of the market price itself. The
11 PPA proposed in this matter simply does not meet this criterion, because it is pegged to the
12 market price³² *or higher* if the floor price is higher than the market price net of base O&M. This
13 is not a hedge but an anti-hedge – it *increases* risk to customers, relative to market price
14 exposure.

15 **Q. Overall, what is your assessment of the proposed sale and PPA?**

16 A. PSE claims in its filing that it is proposing to sell its share of Colstrip Unit 4 to NorthWestern and
17 Talen for \$1. This is misleading. Because the sale is tied to a PPA with such one-sided terms to
18 the detriment of PSE’s ratepayers, the transaction should be properly viewed as PSE proposing to
19 pay at least [REDACTED]³³ to NorthWestern and Talen to take its share of Colstrip unit 4 – before
20 considering the impact of the transmission sale, discussed in Section VI, or managing its
21 customers’ exposure to decommissioning and reclamation cost (see Section VII(b)) or providing
22 any environmental benefit (see Section VIII.) Further, the proposed transaction leaves PSE’s

³⁰ Sierra Club Data Request to PSE No. 026(a) (Sept. 22, 2020) (attached as Exh. EDH-14).

³¹ Exh. EDH-3.

³² Technically, the market price net of Unit 4 base O&M, plus Unit 4 base O&M, so effectively the market price.

³³ Table 2 herein, line E.

1 ratepayers worse off from a risk perspective than if they were fully exposed to the Mid-C market
2 price for electricity for the full 185 MW of power.

3 VI. Transmission Sale Also Likely a Bad Deal for PSE Ratepayers

4 **Q. The third component of the transactions proposed by PSE in this matter is the sale of
5 certain Colstrip transmission assets. Have you reviewed the terms of this proposed sale?**

6 A. Yes. However, it should be noted that the counterparty to this proposed transaction has not yet
7 been established. As PSE Witness Thomas Flynn describes, Talen Montana has asserted a claim
8 to a right of first refusal to purchase a share of these assets under the same terms as NorthWestern
9 Energy, and this claim is currently in arbitration.³⁴

10 **Q. At what price does PSE propose to sell the subject transmission assets, and how was this
11 price established?**

12 A. PSE proposes to sell the assets at their net book value as of the closing date of the proposed
13 transactions. PSE proposes to deliver a calculation of the depreciated net book value on each of
14 the “Initial” and “Option” assets at least three days prior to closing, and this will be the purchase
15 price.³⁵

16 **Q. Does PSE claim that the depreciated net book value is a reasonable proxy for the market
17 value of the transmission assets?**

18 A. Yes. In response to a discovery request from Commission Staff, PSE averred that “Puget Sound
19 Energy...believes the net book value of the transmission assets sold in the Colstrip Transmission
20 System Purchase and Sale Agreement is the best representation of its market value.”³⁶

21 In the same discovery request, PSE goes on to claim that the assets have “limited value”

³⁴ PSE Exh. TMF-5T, Supplemental Direct Testimony of Thomas M. Flynn at 3:1-7 (Aug. 20, 2020).

³⁵ Exh. RJR-1CTr, Roberts Direct at 38:22 to 39:2.

³⁶ PSE response to WUTC Data Request No. 017 (Apr. 30, 2020) (attached as Exh. EDH-15).

1 based on their location in the regional electric topology. PSE states that “Any potential purchaser
2 of PSE’s interest in the Colstrip Transmission System other than the existing owners of the
3 Colstrip Transmission System would need to negotiate new arrangements with BPA, and it is
4 unclear what BPA can or is willing to do to enter into new arrangements across the Eastern
5 Intertie.”³⁷ Further, PSE states that the existing owners of the Colstrip Transmission System are
6 all regulated entities, and thus any such potential purchaser would have to “convince its
7 regulators that it would be in the public interest to ‘inflate’ the rate base for such owner's
8 customers” beyond the existing net book value.³⁸

9 Finally, PSE argues that “any sale of transmission assets to entities outside of the owners
10 of the Colstrip Transmission System is limited because the Colstrip Project Transmission
11 Agreement provides a right of first refusal to the other owners of the Colstrip Transmission
12 System.” PSE concludes that “[g]iven these circumstances, PSE believes the likelihood of the
13 sale of the transmission assets being anything other than net book value is low. Therefore, PSE
14 believes the net book value of the transmission assets sold in the Colstrip Transmission System
15 Purchase and Sale Agreement is the best representation of its market value.”³⁹

16 **Q. Do you agree that the depreciated net book value is a reasonable proxy for the market value**
17 **of these assets?**

18 A. No. The depreciated net book value is an accounting construct for purposes of tracking recovery
19 of PSE’s investment(s) in the asset and is independent of the current market value.

20 **Q. What is a better way to establish a market value for an asset like the Colstrip Transmission**
21 **System?**

22 A. There are a number of approaches that could be taken. First, PSE could have put out a request for

³⁷ *Ibid.*

³⁸ *Ibid.*

³⁹ *Ibid.*

1 bids to purchase the asset, and established if there were, in fact, other potential buyers, and what
2 they would be willing to pay. Second, PSE could have established what the replacement cost
3 would be for the assets – in other words, what it would cost to build them today. Third, PSE
4 could have estimated the future revenues that the assets are likely to generate, along with future
5 operating costs, and used a discounted cash flow model to establish the value of the assets.

6 **Q. Dr. Hausman, have you applied any of these approaches to estimate the market value of the**
7 **Colstrip transmission assets PSE proposes to sell?**

8 A. No. I am not a valuation expert, nor have I attempted to make these calculations myself. I make
9 the statements above based on my knowledge of what net book value represents, which is not
10 market value, and based on valuation approaches I have encountered during my decades of
11 experience with resource planning and ratemaking cases. I also know from experience that there
12 is significant interest in both existing and new transmission that can deliver energy from regions
13 with high renewable energy potential, such as Montana and much of the Western interior, to
14 regions with significant renewable energy demand, such as the Pacific Northwest and California.
15 This is why I find it deficient that PSE has not even explored the true market value of the assets in
16 question.

17 **Q. What is your reaction to PSE’s claim that the subject transmission assets would have**
18 **“limited value” to a third-party purchaser?**

19 A. This seems to be a case of PSE bargaining against itself. The only way it could ascertain the value
20 of the assets to a third party would be to solicit offers, which PSE has not done. In fact, given the
21 likely value of the assets for delivering carbon-free, renewable power from Eastern Montana to
22 the population centers in the Northeast, and the complete failure to market test this assertion,
23 PSE’s claim should be accorded no value.

1 **Q. Has PSE recognized the value of its transmission assets to deliver renewable power from**
2 **Eastern Montana to the Northwest?**

3 A. Yes. As PSE witness Mr. Flynn describes, PSE is planning to retain “380 MW of ATC in an east-
4 to-west direction” to be “available for transmission requests, including requests for transmission
5 of output of renewable resources.”⁴⁰

6 **Q. What is your reaction to PSE’s claim that sale of the transmission assets “to entities outside**
7 **of the owners of the Colstrip Transmission System is limited”⁴¹ because of the other owners’**
8 **right of first refusal?**

9 A. This statement makes no sense. The right of first refusal gives the other owners the option to
10 purchase the assets under the same terms as another potential buyer – that is, if one or more of the
11 existing owners were willing to match the price and other terms offered by an outside buyer, they
12 would have the opportunity to do so.⁴² It does not limit the right of PSE to pursue, and execute,
13 sale to a third party that is willing to offer *more* favorable terms than those offered by the other
14 owners.

15 **Q. You acknowledge that you have not personally attempted to determine the market value of**
16 **the subject transmission assets. Do you have any evidence that that market value is likely to**
17 **be higher than the depreciated net book value proposed by PSE?**

18 A. In addition to the inherent value of transmission that can deliver renewable energy to areas of
19 high demand, the most direct evidence I can cite is the fact that Talen Montana, which is not a
20 regulated entity, is attempting to assert a “right of first refusal” and invoking arbitration to

⁴⁰ PSE Exhibit TMF-1T, Direct Testimony of Thomas M. Flynn at 7:4-7 (Feb. 19, 2020) [hereinafter “Flynn Direct”].

⁴¹ Exh. EDH-15.

⁴²Section 28(f) of the Colstrip Project Transmission Agreement (PSE Exhibit TMF-3, Colstrip Project Transmission Agreement (Feb. 19, 2020)) states that a co-owners interest, or part thereof, may be “transferred and assigned...[t]o any other [person or entity], provided that the Transmission Owner shall first offer to transfer its interest or any part thereof to the other Transmission Owners, at the amount of, and on terms not less advantageous than, those of a bona fide offer from a buyer able and willing to purchase such Transmission Owner’s interest.”

1 participate in the proposed transaction. Talen is not a co-owner of the transmission system, so its
2 assertion has been contested. Talen is also not a regulated entity, so the transmission asset may
3 have a much higher value to it than to one of the existing co-owners.

4 In my opinion, Talen should not have had to assert a right of first refusal. If PSE wanted
5 to sell its transmission assets, it should have solicited market offers, at the very least, and then
6 offered the right of first refusal to the other existing owners as per Section 28 of the Colstrip
7 Project Transmission Agreement.⁴³ However, the fact that Talen is attempting to assert this claim
8 is good evidence that it believes the market value of the assets is at least as high as the price set in
9 the proposed sale to NorthWestern, if not higher.

10 **Q. Could there be risks for PSE’s customers resulting from the proposed sale of transmission**
11 **assets?**

12 A. Yes. The delivery point for energy under the proposed PPA is described as “The high side of the
13 500 kV bus for Unit 4 in the Colstrip Switchyard, or, at Seller's [NorthWestern or Talen] option
14 and with prior notice to Purchaser, at Mid-C.”⁴⁴ If the power is delivered at the high side of the
15 500 kV bus at Colstrip, PSE would be responsible for transmission costs (and ensuring there is
16 available transmission) from that location to Mid-C, which is electrically closer to its load area.

17 **Q. How does PSE propose to deliver the energy to its customers if it takes delivery of the**
18 **energy at the Colstrip bus?**

19 A. According to Mr. Roberts, “For deliveries to the 500 kV bus for Colstrip Unit 4, PSE will use its
20 existing transmission rights on the Colstrip Transmission System to deliver the power to PSE’s
21 retail customers.”⁴⁵

⁴³ PSE Exh. TMF-3, Colstrip Project Transmission Agreement (Feb. 19, 2020).

⁴⁴ Application Exhibit C at 1.

⁴⁵ Exh. RJR-1CTr, Roberts Direct at 53:10-13.

1 **Q. Is this plan affected by PSE’s plan to sell some of its transmission assets?**

2 A. I believe that it is. As I understand the testimony of PSE witness Thomas M. Flynn, PSE’s current
3 33% capacity share on the Colstrip transmission system is equivalent to 750 MW of transmission
4 capacity from Colstrip to Townsend,⁴⁶ where it connects to the BPA system.⁴⁷ PSE needs 185
5 MW of this capacity to deliver power from its share of Colstrip Unit 3 to its customers; it also
6 posts 380 MW of Available Transmission Capacity (“ATC”) which is “available for other
7 transmission requests, including requests for transmission of output of renewable resources.”⁴⁸

8 This leaves 185 MW of remaining capacity, on which PSE would need 90 MW to deliver
9 the power purchased under the PPA. However, if it sells both the “Initial Purchase Assets” (95
10 MW) and the “Option Assets” (90 MW)⁴⁹ simple math would suggest that all of the available
11 capacity would be spoken for, and PSE would have to compete with other requests for the 380
12 MW of ATC, including potentially zero-cost renewable resources, to deliver power it would be
13 obligated to purchase under the PPA.

14 **Q. How do you respond to the testimony of PSE witness Thomas M. Flynn that PSE would**
15 **retain 380 MW of Available Transmission Capacity, even after the sale of both the “Initial**
16 **Assets” and the “Option Assets”?**

17 A. Mr. Flynn’s analysis makes no sense to me. He seems to be implying that after the sale of the 95
18 MW Initial Purchase Assets, PSE would have 380 MW of capacity remaining;⁵⁰ and then if it
19 sold another 90 MW as the “Option Assets” it would still have 380 MW remaining.⁵¹ In other
20 words, the numbers do not add up. In response to Sierra Club Data Request No. 020, PSE

⁴⁶ Exh. TMF-1T, Flynn Direct at 10:12-15.

⁴⁷ *Id.* at 3.

⁴⁸ *Id.* at 7:6-7.

⁴⁹ The proposed sale of transmission assets is comprised of both “Initial Purchase Assets” and “Option Assets”. See Exh. RJR-1CTr, Roberts Direct at 36-37.

⁵⁰ Exh. TMF-1T, Flynn Direct at 11, Table 2.

⁵¹ *Id.* at 12, Table 3.

1 explained that the 90 MW of “Option Assets” sold would no longer be “Capacity for
2 Transmission of [PPA-related] Output.”⁵²

3 **Q. If PSE does need to use the transmission assets it proposes to sell in the future, can it have
4 certainty regarding the cost of transmission access?**

5 A. No. Because of the ongoing arbitration regarding Talen Energy’s claim of a right of first refusal
6 on the proposed transmission asset sale, PSE cannot know whether these assets would be owned
7 by NorthWestern, a regulated Montana utility, or independent market participant Talen. Thus it
8 can have no certainty over the future tariff provisions that will govern use of these assets.

9 VII. Other Purported Benefits are Unlikely to Materialize

10 a. Risk associated with energy market developments

11 **Q. Among other reasons for its proposal, PSE cites “the changing landscape of evolving energy
12 markets, new environmental regulations, [and] potential carbon pricing”⁵³ as reasons for
13 the sale. Would the Company’s proposal help shield PSE ratepayers from these costs?**

14 A. No. Because the PPA price is pegged to the *higher of* the Mid-C price or the floor price, any
15 development in these areas during the contract period that increased either the cost of operations
16 at Colstrip, or the market price, or both, would directly impact PSE’s ratepayers. After the
17 termination of the PPA, or upon closure of Colstrip Unit4, these risks to PSE’s ratepayers would
18 be reduced. However, because PSE is required to remove Colstrip from its rate base by the end of
19 2025 pursuant to the CETA, any post-2025 benefits for PSE’s customers cannot be attributed to
20 the proposed transaction.

⁵² Mr. Flynn’s testimony describes this as “NorthWestern Energy output” as it predated the ROFR claim by Talen and the subsequent update of PSE’s case in this matter. Mr. Flynn further clarifies on page 11, lines 8-9 of Exhibit TMF-1T that this refers specifically to the output associated with the PPA.

⁵³ Puget Sound Energy Application at ¶ 2, Docket No. UE-200115 (Feb. 19, 2020) [hereinafter “Application”].

1 b. Risk associated with decommissioning cost

2 **Q. PSE claims that the proposed transactions will “cap PSE’s liabilities with compliance costs**
3 **associated with Colstrip Unit 4.”⁵⁴ Do you agree?**

4 A. No. Although PSE proposes to sell its ownership share of Unit 4, it proposes to retain its full risk
5 for the cost of decommissioning and remediation at the end of the unit’s life, whenever that may
6 come and whatever additional pollution has been produced by that time.

7 Specifically, Attachment B to the Company’s Application, Section 2.1(d) states that the
8 “the seller shall retain and the buyer shall not assume...(ii) claims arising out of liabilities
9 occurring prior to Closing, including Environmental Liabilities [and] (iv) future decommissioning
10 and demolition costs in connection with the Colstrip 4 Interests.” This is effectively a blank check
11 on decommissioning costs, which may rise in the future as remediation standards, requirements,
12 and costs evolve.⁵⁵

13 **Q. How could PSE have managed its decommissioning risk while selling the unit?**

14 A. One alternative would have been for the owners to have commissioned an independent
15 decommissioning study, and determined a fair, fixed dollar amount that PSE would be
16 responsible for holding in reserve for its share of the decommissioning costs. In this way it would
17 still be responsible for the cleanup expense associated with the years in which it served its
18 customers from Colstrip, but it would not have an open-ended, unknowable liability on its books
19 until some unknown future date when Colstrip Unit 4 is retired and fully decommissioned.

⁵⁴ *Ibid.*

⁵⁵ This issue was addressed in Public Counsel Data Request 008; however, PSE did not address the question of whether or not “the proposed sale would cap PSE’s compliance-cost liabilities at a specific dollar amount,” instead describing the allocation of liabilities under the proposed Colstrip Unit 4 Purchase and Sale Agreement.

1 **Q. Is there a precedent for setting a fixed decommissioning expense for a utility that terminates**
2 **its ownership of a generating unit?**

3 A. A close analogy is the “Exiting” process implemented for states served by PacifiCorp, which is
4 addressed by PacifiCorp witness Etta Lockey in PacifiCorp’s ongoing General Rate Case before
5 the UTC.⁵⁶ Under this process, when a state Commission such as the UTC issues an “Exit Order”
6 for a coal unit, PacifiCorp will hire a consultant to conduct an independent decommissioning
7 study to determine the fixed share of the decommissioning costs that the ratepayers in that state
8 will be responsible for. Those ratepayers remain responsible for their fair share of
9 decommissioning costs as of the “Exit Date”, but they are not exposed to unknown and
10 unknowable future costs.

11 **Q. If PSE is allowed to sell its share of Colstrip Unit 4, with or without a PPA, would you**
12 **recommend that the sale be conditioned on establishing a fixed liability for PSE ratepayers**
13 **for decommissioning and remediation costs?**

14 A. Yes.

15 **VIII. No Environmental Benefit**

16 **Q. PSE claims that its sale of Unit 4 helps with its compliance with the Washington Clean**
17 **Energy Transformation Act,⁵⁷ which mandates that PSE and other Washington Utilities**
18 **cease to serve customers from coal-fired resources as of January 1, 2026. Do you agree?**

19 A. Though PSE may be meeting the letter of the law, the proposed sale would not comport with the
20 intent of the legislature in enacting CETA.⁵⁸ In its preamble, the legislature made its intent clear:
21 that “Washington must address the impacts of climate change by leading the transition to a clean

⁵⁶ See Exh. EL-3, Direct Testimony of Etta Lockey at Section 4.3, UTC Docket No. UE-191024 (Wash. Utilities Comm’n Dec. 2019) (excerpt attached as Exh. EDH-16).

⁵⁷ Application at 2:1-4.

⁵⁸ RCW 19.405.010.

1 energy economy.”⁵⁹ It further noted that “[a]bsent significant and swift reductions in greenhouse
2 gas emissions, climate change poses immediate significant threats to our economy, health, safety,
3 and national security.”⁶⁰ In addition, the legislature also recently passed state climate targets that
4 are intended to be achieved in a way that “avoids leakage of emissions to other jurisdictions.”⁶¹
5 These concerns, and the recent wildfires ravaging the West, would not be addressed by simply
6 moving the title to power produced at Colstrip out of state. If the unit continues operating, it
7 doesn’t matter whether the energy is sold to PSE customers, or if through nominal shifting of
8 financial arrangements it is sold to other customers outside the borders of Washington – the
9 environmental damage will be the same.

10 **Q. Do you agree with the Company’s statement that its proposal will “significantly reduce**
11 **PSE’s greenhouse gas emissions”?**⁶²

12 A. No. It would not reduce greenhouse gas emissions at all – in fact it may increase them overall by
13 helping to keep the unit running longer than it otherwise would have. Perhaps PSE can claim in
14 the future that these emissions are no longer attributable to its energy supply mix, but even that is
15 a stretch when the Company will subsidize the continued operation of the unit through its overly-
16 generous PPA, and will retain its share of decommissioning risk even after 2025, which helps to
17 enable the continued operation of the unit by reducing the risk to the other co-owners.

18 I do not believe that the legislature’s intent in passing the Clean Energy Transformation
19 Act was to impose costs on Washington ratepayers without any real environmental benefit. This
20 is a classic example of “greenwashing” and should not be acceptable to this Commission.

⁵⁹ *Id.* at ¶ 1.

⁶⁰ *Id.* at ¶ 3.

⁶¹ H.B. 2311 (2020), Section 1, 8(c).

⁶² Application at 2:13-14.

1 IX. Conclusions and Recommendations

2 **Q. What are your conclusions regarding the proposed sale and PPA?**

3 A. My conclusions are enumerated in full in Section II of this testimony.

4 Briefly, I conclude that the terms of the proposed PPA are manifestly disadvantageous to
5 PSE’s customers relative to the cost of readily available alternatives, such as market purchases of
6 power; that PSE’s analysis and representations that the transactions would *save* ratepayers money
7 disguises the disadvantageous terms of the PPA, and ignores the fact that the proposed sale price
8 for its transmission assets is probably too low; that the proposed transactions provide no benefit
9 to PSE’s ratepayers in terms of reduced risk, and would circumvent the intent of the CETA by
10 merely shifting ownership without providing any environmental benefits. PSE’s own analysis
11 shows that Colstrip Unit 4 is clearly “out of the money” relative to the regional market price of
12 electricity, and therefore should be considered “economically obsolete” such that it cannot be
13 deemed “used and useful”, as required for inclusion in rates under RCW 80.04.250. While PSE
14 claims that the purchase price for its share of the unit is \$1, I have shown that PSE actually
15 proposes that its ratepayers *pay* a large sum of money – in the form of a manifestly
16 disadvantageous PPA, and what is likely a low price for the transmission assets – to get its share
17 of Unit 4 out of PSE’s portfolio.

18 It is clear to me that the only way the remaining Colstrip units 3 and 4 can continue
19 operating is if captive ratepayers are required to continue subsidizing them through out-of-
20 market, overpriced energy purchases. Continuing to use Unit 4 to meet PSE’s energy supply
21 needs, whether directly, or indirectly in the form of an overpriced PPA., is a bad deal for PPA’s
22 customers and a bad deal for the environment.

23 **Q. What are your recommendations for this commission?**

24 A. I recommend that the Commission deny PSE’s request for approval to sell its share of Colstrip
25 Unit 4 and certain transmission assets, and to enter into the proposed five-year PPA. Instead, I

1 recommend that the Company be directed to pursue closure of this uneconomic generating unit,
2 and of its companion Unit 3, at the earliest possible date. PSE should be put on notice that these
3 coal assets are economically obsolete and can no longer be deemed “used and useful” for
4 ratemaking purposes. Whatever the complexities of PSE extracting itself from the Colstrip
5 Ownership and Operation Agreement, PSE’s ratepayers and this Commission should not be held
6 hostage to a poorly-performing plant for five more years on this basis. Further, a finding by the
7 Commission that the plant is no longer used and useful based on its economic performance would
8 likely help PSE extract itself from the Ownership and Operation Agreement, and ultimately
9 effectuate closure of both uneconomic units.

10 If the Commission decides to grant its approval for the sale, I recommend that it reject the
11 proposed PPA, whose terms are egregiously one-sided to the disadvantage of PSE’s customers. I
12 also recommend that the Commission defer consideration of the proposed sale of any PSE
13 transmission assets pending establishment of their market value and the opportunity cost for PSE.
14 I further recommend that the Commission condition any approval of the sale on establishing a
15 firm cap on PSE’s share of ultimate decommissioning and remediation costs for the unit, which
16 should be established based on an independent decommissioning cost study.

17 **Q. Does this conclude your testimony?**

18 A. Yes.