EXH. SEF-1T
DOCKET UE-22____
2021 PCA COMPLIANCE FILING
WITNESS: SUSAN E. FREE

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of **PUGET SOUND ENERGY** **For Approval of its 2021 Power Cost Adjustment Mechanism Report**	**DOCKET UE-22____**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

APRIL 29, 2022

PUGET SOUND ENERGY

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
SUSAN E. FREE**

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PUGET SOUND ENERGY

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF SUSAN E. FREE

I. INTRODUCTION

Q. Please state your name, business address, and position with Puget Sound Energy.

A. My name is Susan E. Free. My business address is 355 110th Ave. NE, Bellevue, WA 98004. I am the Director of Revenue Requirements and Regulatory Compliance for Puget Sound Energy ("PSE" or "the Company").

Q. Have you prepared an exhibit describing your education, relevant employment experience, and other professional qualifications?

A. Yes, I have. It is Exh. SEF-2.

Q. Please summarize the contents of your testimony.

A. In this prefiled direct testimony I provide a background of PSE's PCA Mechanism and a summary of the results contained within the PCA Mechanism Report ("PCA Annual Report") for the Twelve Months Ended December 31, 2021, for which PSE is requesting approval. I also discuss PSE's proposal for recovering the 2021 customer deferral balance. Finally, I provide reporting associated with Schedule 139 Voluntary Long Term Renewable Energy Purchase Rider ("Green Direct Program") PSE's Green Direct Program.

II. BACKGROUND REGARDING THE PCA MECHANISM

Q. Please provide a brief summary of the Power Cost Adjustment Mechanism.

A. At inception, as authorized by the Commission, PSE's PCA Mechanism accounted for differences in PSE's modified actual power costs relative to a power cost baseline. The calculation was performed using the methodology shown in PCA Exhibit B from the Settlement Stipulation approved in the Commission's Twelfth Supplemental Order in Docket UE-011570 ("2002 PCA Settlement"). That mechanism accounted for a sharing of costs and benefits that were graduated over four levels of power cost variances. The 2002 PCA Settlement defined the specific sharing levels and conditions.

Subsequently, PSE and the parties entered into a PCA Collaborative that was initiated as part of the Settlement terms from the 2013 Power Cost Only rate case, Docket UE-130617 ("2013 PCORC"). PSE, WUTC Staff, and Public Counsel ("Settling Parties") entered into a settlement stipulation involving modifications to PSE's PCA mechanism ("2015 PCA Settlement").[1,2] The Commission approved the 2015 PCA Settlement in Order 11 of PSE's 2013 PCORC ("Order 11"). As a result, beginning January 2017, the PCA mechanism was changed to track only variable power costs, and fixed production and delivery costs were included in the decoupling mechanism approved in PSE's 2017 general rate case,

[1] The Alliance of Western Energy Consumers (then known as the Industrial Customers of Northwest Utilities) was a party to the 2013 PCORC but opposed the 2015 PCA Settlement.

[2] Attached as Exh. A to PSE's Petition in this proceeding.

Docket UE-170033. Accordingly, as of January 1, 2017, PSE reports only the variable power costs in its PCA Annual Compliance filings.

III. 2021 PCA PERIOD POWER COSTS

Q. Please explain how PSE has tracked its PCA Period power costs and has treated any resulting imbalance.

A. Each month PSE calculates the power costs subject to PCA sharing. These total allowable costs are compared to the approved baseline power cost rate, multiplied by the actual delivered load excluding Green Direct customers, and any difference is allocated to PSE or customers based on the different levels of sharing defined in the PCA Mechanism per the 2015 PCA Settlement. Any difference allocated to customers is recorded in FERC Account 182.3, Other regulatory assets, unless it is determined to be an over-collection at a PCA period end, at which time the costs are transferred to FERC Account 254, Other regulatory liabilities.

Under the PCA Mechanism, the deferred amount at the time of the next PCA Compliance filing, along with any projected imbalance through the next proposed rate year, could be considered in the determination of any rate change for the subsequent PCA period.[3] Amounts deferred, when authorized, would be amortized to FERC Account 557, Other power supply expense as they are recovered from or refunded to customers. PSE accrues interest monthly on any

[3] Page two, Section 3.b. of Exh. A to the Petition.

deferred balance (debit or credit) at the interest rate calculated in accordance with WAC 480-90-233(4).[4]

Q. Are there any updates to the PCA imbalance calculation related to the Green Direct Program?

A. Yes. As explained in PSE's 2020 PCA Compliance Filing in Docket UE-210300, as of the inception of Phase 1 of PSE's Green Direct Program, which began in November 2020, based on RCW 19.29A.090(5) and paragraph 296 in the Commission's Final Order 08 in Docket UE-190529, PSE is required to ensure there is no cross subsidization of costs between participating and non-participating customers. Therefore, PSE has excluded the costs associated with the Green Direct Program from total allowable power costs[5] and baseline power costs[6] in order to keep Green Direct Program power purchase agreement ("PPA") costs from being included in total allowable costs, as discussed in more detail in Section V, below. Subsequent to the Phase 1 initiation, Phase 2 of the program began during the 2021 PCA period in March 2021. As shown in Exh. SEF-4C, total Green Direct PPA costs associated with output for both phases that were excluded from allowable costs in the imbalance calculation were $32.4 million.[7] PSE has also made sure that associated customer loads for both phases were removed from baseline power costs by removing their load from the total

[4] As established in the original PCA Settlement, Exhibit A to the Settlement Stipulation in UE-011570, and remaining unchanged in the PCA collaborative initiated as part of UE-130617.

[5] Column Q, row 21, on page three of Exh. SEF-3.

[6] Column Q, row 33, on page three of Exh. SEF-3.

[7] The sum of amounts in column T, rows 25 and 26, on page one of Exh. SEF-4C.

delivered load used to calculate baseline power costs. An adjustment to remove customer loads for January through June from baseline power costs was completed in rows 25, 31 and 32 on page three of Exh. SEF-3 and totaled $4.4 million[8]. As referenced in PSE's prior year 2020 PCA compliance filing, per paragraphs 237 and 294 of Order 08 in Docket UE-190529, the Commission ordered PSE to remove the Green Direct Power Purchase Agreements from power costs, and utilized estimates based on the net reduction to power costs for purposes of setting the revenue requirement in Docket UE-190529. In the 2021 PCA, PSE used the same average monthly replacement power costs per MWh, the "Embedded Market $/KWh," to value the Green Direct load removed from baseline power costs through June 2021. This calculation can be found on row 30 on page three of Exh. SEF-3. Beginning in July 2021, the Green Direct loads for both Phase 1 and Phase 2 customers were removed before the PCA delivered loads were priced out, ending the need to price out the Green Direct load separately.[9]

Q. Did the approved baseline power cost rate change during the 2021 PCA Period?

A. Yes, On July 1, 2021, rates from PSE's 2020 PCORC, in Docket UE-2002980, went into effect, including a change to its baseline rate to recognize the updated

8 The sum of amounts in column Q, rows 31 and 32, on page three of Exh. SEF-3, the Annual Report.

9 Page four of the settlement agreement adopted under Order 05 in Docket UE-200980 stated the "Variable PCA Baseline Rate used for purposes of the PCA imbalance for sharing in Schedule B will not include normalized test year Green Direct load."

variable power costs as approved in the proceeding. The updated baseline rate found in column M row 43 on page six of Exh. SEF-3 was updated to $38.983 per MWh and was in effect through the remainder of the 2021 PCA Period.

Q. What is the actual average power cost rate experienced for the 2021 PCA Period?

A. As shown on page two of Exh. SEF-3, the calculated average variable power cost rate experienced for the 2021 PCA Period is $40.399 per MWh.

Q. Why did the total allowable costs on page two, line 27, of Exh. SEF-3 differ from the total allowable costs in effect during the 2021 PCA Period presented on page six, line 27, of Exh. SEF-3?

A. The total variable allowable costs differed from the baseline power costs in effect during the 2021 PCA Period due to changes in the variable components of the PCA mechanism, which are discussed in the Prefiled Direct Testimony of Paul K. Wetherbee, Exh. PKW-1CT.

Q. Were there any adjustments made under the Restatement Methodology (Section 11 of Attachment A to the 2015 PCA Settlement)[10] for power costs in 2021?

A. No. No instances occurred during 2021 that required adjustment under the Restatement Methodology.

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[10] See pages 18-19 of Exh. A to PSE's Petition in this proceeding.

Q. How much did the actual power costs differ compared to the average baseline power costs in effect during the 2021 PCA Period?

A. Actual power costs were higher than the average baseline power costs included in rates during the 2021 PCA Period by $68.0 million (after adjustment for Firm Wholesale and the Green Direct Program). See column Q row 42 on page three of Exh. SEF-3. PSE's share of this under-recovery of power costs is $31.3 million. The customers' share of this under-recovery of power costs is $36.7 million. See columns H and I on row 31 on page one of Exh. SEF-3.

IV. RECOVERY OF CUSTOMER RECEIVABLE

Q. Did PSE have a customer deferral balance at the end of 2020?

A. Yes. The customer deferral including interest approved in PSE's 2020 PCA Period petition under Docket UE-210300 was $46.0 million.[11]

Q. Did PSE request and begin collecting this balance from customers in 2021?

A. Yes. On September 30, 2021, the Commission approved PSE's 2020 PCA Annual Report, covering its 2020 PCA Receivable in Docket UE-210300. At the time, the current Schedule 95 included surcharges set to collect the cumulative PCA deferral balance of $43.9 million as of December 2019 over a 12-month period from December 1, 2020, through November 30, 2021. The Commission approved PSE's request in UE-210806 to keep these surcharges in rates between December 1, 2021, and December 31, 2022, (an additional 13 months) so that it

[11] This amount is before the gross-up for revenue sensitive fees and taxes.

could collect the roughly $48.4 million PCA deferral balance, grossed-up for revenue sensitive items.

Q. Is this reflected in any of the exhibits in this proceeding?

A. Yes. On row 30 on page one of Exh. SEF-3, PSE has included a row labeled "PCA Period 19 Rec" to reflect the balance being recovered from customers and to remove it from the cumulative customer deferral balance presented as of December 31, 2021.

Q. What is the customer deferral balance as of December 31, 2021, when excluding those amounts being already collected?

A. As shown in column K, row 31, on page one of Exh. SEF-3, the customer deferral including interest as of December 31, 2021 is $38.4 million or $40.4 grossed up for revenue sensitive items.

Q. Does PSE propose to collect the customer deferral balance at this time?

A. No, not as a part of this compliance filing.

Q. When does PSE propose to collect the current customer deferral?

A. PSE proposes to recover this balance beginning January 1, 2023, by allowing the rates that were approved for recovery of the 2019 deferral over one year in UE-200893 and subsequently left in place in Docket UE-210300 to continue to remain in effect for an additional eleven months, from January 1, 2023 through November 30, 2023, so that they may recover the 2021 deferral without a required rate change to customers. This balance, when grossed-up for inclusion in rates, totals $40.4 million as shown in column C, row 17, on page seven of Exh. SEF-3. Any residual balance at November 30, 2023, which would essentially be a combined residual balance for the 2019 through 2021 customer deferrals, could then be returned to the overall customer deferral at that time for consideration of recovery or pass back in a future period.

Q. What are the customer class rate design impacts to PSE of not updating Schedule 95 rates as they were originally set in December 2020?

A. By keeping the current rate for only an 11 month period, PSE is forecasted to under-collect by approximately $800 thousand. Updating rates using the precise imbalance due from customers and current load forecasts would lead to increased collections for residential Schedule 7 customers by an approximate $1 million, but no impacts greater than $237 thousand for any other rate class. PSE believes leaving rates unchanged results in an immaterial revenue impact overall, and more importantly, does not require raising rates to customers.

Q. Even though PSE has not proposed to change the rates as approved in UE-200893, will there be any updates to the Schedule 95 tariff?

A. Yes. Attached as Exh. SEF-7 is an example of the proposed Schedule 95 tariff that would be filed to change the proposed effective date to January 1, 2023 through November 30, 2023.

Q. Does PSE propose any changes to other tariff schedules as part of the recovery of the 2021 imbalance?

A. Yes. Even though PSE is proposing to continue using existing rates that were approved in Docket UE-200893, a change to tariffed rates is still required. As noted previously, Phases 1 and 2 of the PSE Green Direct Program commenced in November 2020 and March 2021, respectively, and accordingly, they were excluded from the PCA mechanism as of these dates. Thus, any imbalance resulting after their initiation should not be charged to those Phase 1 and Phase 2 Green Direct Program customers and should only be charged to all other customers.

Q. How does PSE propose to ensure that Phase 1 and Phase 2 Green Direct customers pay for only the portion of the 2021 imbalance for which they are responsible?

A. During 2021, Phase 1 customers were participating in the Green Direct program for the entire twelve months. Phase 2 of Green Direct began on March 1, 2021, which resulted in their participation in the PCA mechanism for 11 percent[12] of 2021 and their participation in the Green Direct Program (and thus their exclusion from the PCA mechanism) for 89 percent of 2021. Therefore, Phase 1 customers should receive a credit of 100 percent of the surcharge and Phase 2 customers a

[12] Consistent with the method approved in PSE's PCA Compliance Filing from last year, 11 percent is calculated by taking the sum of the total 2021 PCA imbalance before interest for January through February (the period Phase 2 was still included in the PCA), divided by the imbalance before interest, for the entire twelve months of 2021.

credit of 89 percent of the surcharge they are being charged from Docket UE-200893.

Q. If the Schedule 95 rates from last year that were set in Docket UE-200893 will not be changed, how does PSE propose to ensure that Phase 1 customers will be fully refunded, and that Phase 2 customers will only pay for 11% percent of the 2021 imbalance?

A. Effective January 1, 2023 when the 2021 imbalance will begin to be collected, PSE proposes to change the credit that Phase 2 customers receive in Schedule 139 Supplemental Energy Charge by an amount that equals 89 percent of the Schedule 95 Supplemental Surcharge rate that is currently in effect for Phase 2 customers from Docket UE-200893. Doing so will result in Phase 2 customers paying 100 percent in Schedule 95 Supplemental Surcharge and receiving 89 percent as a credit in Schedule 139 Supplemental Energy Charge which will yield the appropriate 11 percent payment. Phase 1 customers will be credited 100 percent of the Schedule 95 Supplemental Surcharge rate. Exh. SEF-6 provides an example of the Schedule 139 Supplemental Energy Charge tariff for both Phase 1 and Phase 2 customers that would be filed prior to January 1, 2023 to effectuate the proposed change in the Schedule 139.

Q. Please summarize PSE's request related to recovery of the customer deferral.

A. PSE requests that the Commission approve PSE's customer deferral in this filing, and also approve PSE's proposal to recover the deferral as discussed above.

V. 2021 GREEN DIRECT REPORTING

Q. Why is PSE including Green Direct Reporting in this proceeding?

A. As part of Docket UE-160977, in which the Commission approved PSE's tariff filing for Schedule 139 for its Green Direct program, the Commission noted that PSE "has committed to track all costs and benefits of Schedule 139 separately and identifiably in its Power Cost Adjustment mechanism."[13]

Q. What was the result of the proposed reporting in PSE's 2020 PCORC?

A. Parties reached a settlement agreement in the proceeding in which PSE's proposed tracking of costs and benefits summarized in the 2020 PCORC, Exh. SEF-9, associated with generation surplus or deficiency was accepted.[14]

Q. What reporting has PSE included in this proceeding to satisfy the above?

A. PSE has included Exh. SEF-4C, which provides the 2021 results of the costs and benefits associated with the power purchase agreements supporting the Green Direct Program on page one of the exhibit. Exh. SEF-4C also provides reporting on the fixed costs and liquidated damages associated with the Green Direct program on pages two and three, respectively.

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[13] Docket UE-160977, Order 1 at ¶ 10.

[14] See Settlement Stipulation and Agreement filed April 2, 2021 in Docket UE-200980 at 4, item 1.g.

Q. Do you have an exhibit that explains the basis of this reporting and what information it provides?

A. Yes. Exh. SEF-5C is an explanation of the reporting included in Exh. SEF-4C, which follows the methodology agreed to in the PCORC settlement.

Q. Does Exh. SEF-4C show that PSE has been in compliance with both RCW 19.29A.090 (5) and Paragraph 296 of Order No. 08 in Docket UE-190529?

A. Yes. Exh. SEF-4C shows that all costs and benefits associated with PSE's Green Direct program were allocated to the customers who voluntarily chose that option and were not shifted to non-participating customers. Additionally, it shows costs and benefits associated with the over- and under-generation of the PPAs associated with the Green Direct Program were allocated exclusively to participating customers.[15]

Q. Is PSE proposing to defer the costs and benefits of the Green Direct program reflected in Exh. SEF-4C?

A. No. Exh. SEF-4C is presented for reporting purposes only. The pricing structure of the Green Direct program is set in order to recover costs and benefits over the life of the program. Therefore, further adjustments or deferrals are unnecessary.

[15] A $0 on line 46, page one, of Exh. SEF-4C provides a check that confirms costs and benefits are appropriately handled within the PCA mechanism.

Q. Are any further approvals required with regard to reporting of PSE's Green Direct program?

A. No. PSE believes that by approving this Annual PCA Compliance Filing, the method and content of reporting for the Green Direct Program included in Exh. SEF-4C will be deemed adequate by the Commission.

VI. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.