EXH. MS-1Tr2
DOCKETS UE-240004/UG-240005
2024 PSE GENERAL RATE CASE
WITNESS: MATT STEUERWALT

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

MATT STEUERWALT

ON BEHALF OF PUGET SOUND ENERGY

REVISED
MARCH 4, 2024

REVISED
APRIL 10, 2024

FEBRUARY 15, 2024

PUGET SOUND ENERGY

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I. INTRODUCTION AND OVERVIEW OF PSE'S RATE PROPOSAL

A. Professional Background and Experience

Q. Please state your name and business address.

A. My name is Matt Steuerwalt, and my business address is Puget Sound Energy, P.O. Box 97034, Bellevue, Washington 98009-9734.

Q. By whom are you employed and in what capacity?

A. I am employed by Puget Sound Energy ("PSE") as Senior Vice President of External Affairs.

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

A. Yes, I have. Please see Exhibit MS-2 to the Prefiled Direct Testimony of Matt Steuerwalt, for a description of my education, relevant employment experience, and other professional qualifications.

Q. What are your duties as Senior Vice President of External Affairs for PSE?

A. I lead PSE's efforts to engage with policymakers, communities, regulators, and the general public.

B. Purpose of Testimony

Q. What topics are you covering in your testimony?

A. My testimony introduces PSE and provides an overview of the relief PSE is seeking in this case, why that relief is necessary, and the testimony that PSE is presenting to support that request.

First, I provide a high-level overview of the ongoing mission for PSE to continue to provide safe, reliable, and affordable energy services to customers. This includes the need to secure sufficient resources to meet customer needs during the period of the rate plan when PSE will remove a substantial amount of coal-fired generation from its portfolio.

Second, I discuss the fundamental change that PSE must address as a result of changing state law and the rapid implementation of those laws. PSE takes as a foundation to its ability to serve customers the need to do so equitably, as required by the Clean Energy Transformation Act ("CETA"), the Climate Commitment Act ("CCA"), the multiyear rate plan statute and as informed by this Commission's orders. PSE seeks to infuse an equity perspective throughout the operations of its business. Additionally, those same laws impose obligations to make the energy services PSE provides to its customers far less carbon-intensive. This landscape in which PSE, the Commission, and interested parties now operate is more complex, and necessitates a common, collaborative, and accelerated approach by the company, regulators, and interested parties to continue to

navigate this complexity without compromising our core need for safe and reliable service.

Third, I describe the challenges PSE faces and the importance of this multiyear rate plan in helping PSE meet those challenges so it can successfully comply with the state's policy directives, invest in its infrastructure, and provide benefits to customers during the rapidly accelerating clean energy transition. I describe how the multiyear rate plan filing supports the investments and operating costs necessary to make the clean energy transition occur and how this case is essential if PSE is to be successful now and over the longer-term of the clean energy transition.

Fourth, I introduce key emerging issues that PSE is facing and the reason we are advancing proposals to address wildland fire risk, enhanced natural gas decarbonization, and timely recovery in rates of clean generation resources.

Finally, I introduce the witnesses who will establish that PSE has incurred, and expects to incur, necessary costs in a reasonable and prudent manner, resulting in rates that are just, fair, reasonable, and sufficient and that will satisfy ongoing regulatory and statutory mandates.

C. Overview of PSE and Its Filing, Proposals, and Rate Requests

Q. Please provide an overview of PSE.

A. PSE is Washington State's largest and oldest utility, serving 1.5 million customers in ten counties over 6,000 square miles. PSE owns and maintains more than 25,000 miles of electric transmission and distribution lines and underground cables, which deliver electricity to our customers. Additionally, PSE owns and maintains approximately 26,000 miles of natural gas lines that serve natural gas customers. PSE's customers are diverse—from the high-tech urban areas of Bellevue and Redmond to the agricultural and forest lands in Skagit County. PSE employs more than 3,000 union and non-union Washington residents.

PSE and its predecessor companies have served western Washington for more than 150 years. Our employees are proud of PSE's legacy, are committed to great customer service, and work to help make our communities better places to live and work. Our mission today is to be our customers' clean energy partner of choice, while continuing to provide safe and reliable energy services to customers. PSE was an early leader in investing in renewable resources and energy efficiency for homes and businesses. Now, PSE is on the path to meet the current and future needs of its customers and to deliver on the requirements to decarbonize operations and serve its customers and communities equitably. While PSE has evolved over the past 150 years and undertaken significant changes, the transition that PSE is in the midst of undertaking is unprecedented in terms of the magnitude of the change and the accelerated time frame in which it

must be achieved. Further, the transition will only be truly successful if it is completed without compromising key standards of safety and reliability.

Q. Please describe PSE's filing in this case.

A. PSE is seeking to recover prudently planned expenses to maintain core utility services while meeting new and transformative state policy objectives. Consistent with the Revised Code of Washington ("RCW") 80.28.425, PSE is proposing a two-year multiyear rate plan that will begin in early 2025. This law requires utilities such as PSE that file general rate cases after January 1, 2022, to propose a multiyear rate plan for up to four years. In addition, PSE proposes a concise set of performance measures and the extension of one performance incentive mechanism, consistent with RCW 80.28.425(7), using experience gained calculating and reporting the much broader set of performance measures required for the current multiyear rate plan. PSE's proposed multiyear rate plan is consistent with the goal of the Legislature for companies to provide safe and reliable energy while transitioning to cleaner sources of energy.

Q. Please describe the rate relief PSE is seeking in this proceeding.

For year 2025 ("Year One") of the multiyear rate plan, PSE's cost of electric service establishes the need for a $192.2 million increase in overall revenues. ~~Power costs account for $133 million of the proposed rate increase in Year One.~~ For natural gas, the required increase is $196.0 million.

For year 2026 ("Year Two") of the multiyear rate plan, PSE's cost of electric service establishes the need for a $285.2 million increase in overall revenues. ~~Power costs account for $110.5 million of the proposed rate increase in Year Two.~~ For natural gas, the required increase is $25.4 million.

This is based on a test year ending June 30, 2023, with pro forma adjustments extending to December 31, 2023, and includes all plant that is used and useful as of the rate effective date as well as projected to be put in service during Year One and Year Two of the multiyear rate plan. Table 1 below shows the rate request for each year of the multiyear rate plan:

Table 1. Rate Request for Each Year of Multiyear Rate Plan

Decription	2025			2026			Total Rate Years		
	Electric	Gas	Combined	Electric	Gas	Combined	Electric	Gas	Combined
RATE BASE	$ 168.5	$ 32.4	$ 200.9	$ 118.9	$ 12.6	$ 131.5	$ 287.4	$ 45.0	$ 332.4
POWER COSTS	(133.0)	-	(133.0)	110.5	-	110.5	(22.5)	-	(22.5)
OPERATING EXPENSES	65.3	17.2	82.5	21.3	(0.1)	21.2	86.6	17.1	103.8
CUSTOMER AND A&G	44.9	(16.8)	28.0	8.6	6.2	14.8	53.5	(10.7)	42.8
PLANT DEPRECIATION / AMORTIZATION	69.6	89.9	159.5	62.3	10.9	73.2	131.9	100.8	232.7
REGULATORY AMORTIZATIONS	20.8	6.2	26.9	(16.7)	(6.8)	(23.6)	4.0	(0.7)	3.4
REVENUE (GROWTH) DECLINE	(61.3)	64.6	3.3	(22.4)	2.5	(19.9)	(83.7)	67.0	(16.7)
OTHER (INCL GROSS UP FOR RSI/TAXES)	17.5	2.6	20.1	2.6	0.1	2.8	20.1	2.7	22.8
REVENUE DEFICIENCY - GROSSED UP	$ 192.2	$ 196.0	$ 388.3	$ 285.2	$ 25.4	$ 310.5	$ 477.4	$ 221.4	$ 698.8

NOTE: INCLUDES CHANGES RELATED TO SCHEDULES 141CGR AND WFP (INCLUDING RATE YEAR 2) AND DCARB

Q. What is PSE requesting for a return on equity and capital structure in this case?

A. PSE is requesting a return on equity of 9.95 percent and a capital structure of 50 percent equity in Year One of the multiyear rate plan. In Year Two of the multiyear rate plan, PSE is requesting a return on equity of 10.5 percent and a capital structure of 51 percent equity. Additional detail regarding the need for these incremental steps to increase PSE's return on equity and equity thickness in

order to have sufficient financial strength to fund the clean energy transition while maintaining safe and reliable energy service is discussed in the Prefiled Direct Testimony of Daniel A. Doyle, Exh. DAD-1CT, the Prefiled Direct Testimony of Cara G. Peterman, Exh. CGP-1CT, and the Prefiled Direct Testimony of Ann E. Bulkley, Exh. AEB-1T.

Q. Can you quantify the capital investments that PSE estimates it will make that are not included in current rates?

A. As outlined in the Prefiled Direct Testimonies of Joshua A. Kensok, Exh. JAK-1CT, and the Prefiled Direct Testimonies of Susan E. Free, Exh. SEF-1T, PSE is requesting recovery of additional capital investments totaling approximately $3.7 billion during the two-year multiyear rate plan period.[1] These capital investments made on behalf of customers will result in a net increase of $1.3 billion in the rate base being recovered for Year One over what was approved in the last rate plan and an additional increase of $0.8 billion for Year Two.[2]

Q. Why is PSE requesting a two-year multiyear rate plan?

A. PSE appreciates the desire for Washington investor-owned utilities to enter into longer rate plans that do not all coincide with each other and feels it is a goal that can eventually be achieved. However, the filing of a two-year rate plan at this time is necessary given the need to maintain flexibility and to align cost recovery

[1] *See* Exh. JAK-5.
[2] *See* Exh. SEF-1T.

as PSE passes the 2025 CETA deadline for becoming coal-free, and as investment needs intensify given the amount of time left before the 2030 CETA milestone.

Q. Why is PSE filing this case at this time?

A. There are several factors that influence PSE's decision to file its second multiyear rate plan at the current time. First, PSE's first multiyear rate plan filed under RCW 80.28.425 will conclude in early January 2025. During the plan, PSE will have added significant new resources to its portfolio, increasing the percentage of CETA-compliant energy from 34 percent in 2020 to a projected 60 percent by the end of 2025[3] (i.e., approximately 3.5 million more megawatt hours ("MWh") of clean energy than was projected in PSE's first Clean Energy Implementation Plan ("CEIP")), even as power markets became more volatile. PSE must continue to acquire additional clean energy resources at an ever-increasing pace to comply with CETA and its decarbonization goals. PSE also must add capacity resources, and in this case, PSE proposes several new resources with a total peak capacity of 556 megawatts ("MW") as discussed in the Prefiled Direct Testimony of Craig J. Pospisil, Exh. CJP-1T. This case will allow PSE to bring new resources into rates and to recover a reasonable level of operating costs over the proposed multiyear rate plan.

Second, it is important to note the persistently high inflation rates that have occurred since PSE filed it last multiyear rate plan in January 2022, escalating the

[3] *See* Docket UE-210795, PSE 2023 Biennial Clean Energy Implementation Plan Update at 1.2 (Nov. 1, 2023).

costs of delivering service to customers. This is discussed in more detail in the Prefiled Direct Testimony of Mark N. Lowry, Exh. MNL-1T, and in the Second Exhibit to the Prefiled Direct Testimony of Mark N. Lowry, Exh. MNL-3.

Third, the Prefiled Direct Testimony of Daniel A. Doyle, Exh. DAD-1CT, demonstrates that PSE has not earned the currently authorized 9.4 percent return on equity. Daniel Doyle further discusses the need to increase PSE's authorized rate of return and equity ratio if PSE is to be able to successfully compete for the significant amount of debt and equity financing needed to add substantial new clean energy resources while continuing to provide safe, reliable, and affordable electric and natural gas service.

Ultimately, incremental rate relief is necessary so that PSE may continue to provide safe and reliable energy services to its customers while complying with a series of transformative state mandates and meeting the expectations of customers and interested parties to decarbonize its energy systems.

D. Steps PSE Has Taken to Mitigate the Effects of Rate Increases on Customers

Q. Has PSE taken steps to mitigate the effects of rate increases on its customers?

A. Yes, PSE is committed to being the clean energy provider of choice for our customers and has undertaken key efforts to control costs and provide affordable services for all customers. PSE examined its head count, made targeted reductions in some areas and then imposed a hiring freeze company-wide, examined its outside vendor service levels and made strategic reductions, and has implemented

a number of other initiatives to contain spending. These efforts are discussed in more detail in the Prefiled Direct Testimony of Joshua A. Kensok, Exh. JAK-1CT. Joshua Kensok also discusses PSE's history of operating leanly and managing its operating costs; PSE has effectively managed the growth of operations and maintenance ("O&M") expense per customer (excluding pass-through items such as low income and Commission fees) to an annual average increase of 0.67 percent compound average growth rate during the 2014-2023 period.

In addition, as described further in the Prefiled Direct Testimony of John Mannetti, Exh. JM-1CT, PSE has pursued opportunities to identify and obtain sources of funding for the benefit of customers, including funding made available under the Infrastructure Investment and Jobs Act, the Inflation Reduction Act, and from the State of Washington.

Finally, as outlined later in my testimony and in the Prefiled Direct Testimony of Carol L. Wallace, Exh. CLW-1T, PSE has also made substantial progress in the areas of affordability and expanding energy assistance for income qualified customers since the last general rate case.

Q. What steps is PSE taking to help reduce the energy burden for customers who are struggling financially?

A. PSE is continuing its efforts to support the evolving needs of our customers, particularly as it relates to affordability and energy burden. PSE worked hard to

secure funding and provide relief to reduce residential bill obligations during the pandemic. This past year PSE implemented a new Bill Discount Rate ("BDR") program designed in collaboration with other interested parties. PSE also improved its existing programs designed to mitigate bill impacts to income-qualified customers. The Prefiled Direct Testimony of Carol L. Wallace, Exh CLW-1T, describes PSE's continued efforts to improve access to energy assistance programs and deploy expanded assistance programs.

Q. What is the current status of the Bill Discount Rate program?

A. PSE filed the BDR program tariff pursuant to RCW 80.28.068 on June 30, 2023, and the tariff went into effect in August 2023. Since then, PSE has undertaken a substantial effort to reach customers who may be eligible, including over 200 in-person, in-language events in partnership with community-based organizations, as well as marketing that utilizes online and offline approaches like email, social media, radio, direct mail, earned media, broadcast television, community newspapers, and deploying third-party partners as trusted messengers. Program materials are available in Spanish, Vietnamese, Chinese, Korean, Russian, Marshallese, and Khmer.

Customer response to the program has been swift, and PSE has surpassed the 70,000-customer target established by the Commission in the 2022 GRC order. In 2024, PSE plans to review initial implementation of the BDR program with its Low-Income Advisory Committee members using data generated during the first several months of program operation.

Q. Is PSE designing any new programs to help customers with affordability and energy burden?

A. Yes, PSE also continues to develop an Arrearage Management Program, consistent with the terms of the Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and PSE's Green Direct Program in Docket UE-220066 et al. ("2022 GRC Settlement"). PSE has formed a working group with members of the Low-Income Advisory Committee and began meetings in September 2023 to consult with Arrearage Management Program working group members to create the program, including determining customer eligibility requirements, structure of arrearage forgiveness, technology requirements, credit application processes, and assessing resources needed to manage the program. The expected in-service date for the Arrearage Management Program is October 1, 2024.

Q. How does the work PSE is doing to address energy affordability also support PSE's transformation to clean energy?

A. There is a tension in how swiftly PSE can achieve the unprecedented emissions-free goals and associated time frames set by the state while also maintaining the affordability of vital energy services. PSE is committed to making sure the clean energy transition happens and that the burden, and benefits, of that transition are distributed equitably. A robust portfolio of programs to assist customers who most need it is a critical part of the overall response to the state's policy objectives. Additionally, by taking steps to eliminate the barriers to participation and

enrollment in PSE's energy assistance programs, PSE aims to leverage any identified best practices that may also inform program development in the clean energy space.

II. THE MULTIYEAR RATE PLAN ALLOWS PSE TO MAINTAIN SAFE AND RELIABLE SERVICE

A. PSE Will Continue to Prioritize the Need to Provide Safe and Reliable Service

Q. Please describe the importance of safety and reliability to PSE.

A. The continued safety and reliability of our service to customers, and the safety and wellbeing of our employees, remain at the heart of PSE's obligation to provide service, and it remains foundational to PSE's mission. In the efforts to reduce costs described above, PSE started with the principle that none of those cost-reduction efforts could impair its ability to deliver safe and reliable service.

Q. Does the proposed rate plan facilitate improvements in delivery system reliability and resilience?

A. Yes. As discussed in the Prefiled Direct Testimony of Michelle L. Vargo, MLV-1T, the Prefiled Direct Testimony of David J. Landers, Exh. DJL-1T, and the Prefiled Direct Testimony of Roque B. Bamba, Exh. RBB-1T, PSE will continue to use a variety of strategies in delivery system planning to maintain customer and public safety, meet customer growth and service needs, and modernize and automate the grid to support reliable and resilient clean energy. These strategies include: infrastructure improvement programs focused on reducing and

eliminating power outages for customers; a continued focus on vegetation management; use of technologies such as PSE's advanced distribution management systems to support bi-directional power flow on the grid and leverage a growing prevalence of electric vehicles and distributed energy resources ("DER") throughout our service territory to enhance distribution carrying capacity; and meeting reliability standards of the North American Electric Reliability Corporation. PSE plans to continue its gas system integrity management programs, and examples include eliminating sewer cross bores and replacing DuPont pipe to maintain customer and public safety.

Finally, as I discuss in Section V of my testimony, PSE is focused on the need to address wildland fire risk and invest to reduce risk, mitigate impacts, and increase reliability and resilience. These issues will also be further discussed in the Prefiled Direct Testimony of Ryan Murphy, Exh. RM-1T.

Q. What steps is PSE taking to maintain and improve delivery system reliability and resiliency with respect to outages?

A. PSE's planning and execution of grid-improving investments deliver a more robust and hardened system that eliminates or reduces outages directly, as discussed in the Prefiled Direct Testimony of David J. Landers, Exh. DJL-1T and the Prefiled Direct Testimony of Roque B. Bamba, Exh. RBB-1T. However, there are many factors that impact PSE's reliability performance as measured by the system average interruption duration index ("SAIDI") and the system average interruption frequency index ("SAIFI") including severity of seasonal weather

events and externalities such as limits on accessibility to the delivery system to make repairs. These limits on accessibility occur, for example, when road closures are implemented by WSDOT due to avalanche danger, flooding and other events that are occurring with increasing severity as a result of climate change. PSE has not always met the SAIDI benchmark of 155. Therefore, continued robust investment in targeted reliability projects is essential to meeting customer service expectations. However, PSE is also requesting a change to the methodology of calculating reliability metrics to remove scheduled outages and public safety power shutoffs ("PSPS"), as discussed in the Prefiled Direct Testimony of David J. Landers, Exh. DJL-1T.

Q. What steps is PSE taking to continue to safely and reliably deliver natural gas to customers?

A. PSE has an obligation to serve and must continue to deliver natural gas safely and reliably to its customers. Gas systems are designed with redundancy and safety margins to prevent the loss of pressure and outages, which is generally a much more impactful event to customers than electric power outages due to the need for a re-light by qualified personnel behind each impacted customer's meter. Reliable service means focusing on operational excellence through situational awareness and security. As discussed in the Prefiled Direct Testimony of David J. Landers, Exh. DJL-1T, PSE focuses on identifying pipeline safety risk and integrity management concerns in both the distribution and transmission systems and also focuses on meeting increasing regulatory requirements related to pipeline safety.

For example, PSE's Older Vintage PE Pipe Mitigation program removes risk prone pipe, reducing the number of leaks on the system.

Q. What is PSE doing to address gas leaks and methane emissions?

A. PSE's work to eliminate methane emissions from operations is reinforced by the PIPES Act[4] that treats methane as an environmental safety concern. As discussed in the Prefiled Direct Testimony of David J. Landers, Exh. DJL-1T, PSE operates in a "find and fix" mode for new leaks. To this end, PSE continues to invest in advanced leak detection equipment and procedures to find leaks faster and is deploying recompression in lieu of venting or flaring during pipeline construction to keep all molecules of gas in the pipelines.

B. The Evolution of Regional Energy Markets Affects PSE's Operations and Resource Needs

Q. What regional energy market changes and challenges does PSE face?

A. Amidst the rapidly accelerating energy transition and changing energy policy landscape in Washington, regional energy markets continue to evolve dynamically. PSE and its customers benefitted from a period when the wholesale markets were generally characterized by excess energy. PSE witness Ronald J. Roberts describes how a region-wide transition toward carbon-free electric energy supply has accelerated the deployment of intermittent resources, such as wind and solar, and contributed to the retirement of traditional coal-fired baseload

[4] Protecting Our Infrastructure of Pipelines and Enhancing Safety ("PIPES") Act of 2020 and 2023.

generation. Coupled with the increasing frequency of climate change-related events, these factors are resulting in a tightened energy supply and increase in market volatility.

In addition, this multiyear rate plan will include the removal of PSE's coal-fired energy resources from rates, consistent with CETA. In addition to the share of Colstrip Units 3 and 4 that PSE owns, the power purchase agreement for power from TransAlta's Centralia Generation Station, as part of the comprehensive agreement to shut that facility down, also ends in 2025. Together, this represents 750 MW of coal-fired baseload resources that PSE needs to replace at exactly the time other load serving utilities on the west coast are also seeking to do the same thing. The Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-1T, discusses this in more detail.

In this dynamic environment, PSE's latest resource adequacy analysis from the 2023 Electric Progress Report[5] indicates a capacity shortfall as early as 2024 and quantified near-term capacity shortfalls in summer and winter 2029 of 1,875 MW and 1,272 MW, respectively.

Q. What steps is PSE taking to address these challenges?

A. PSE is taking steps to address these capacity shortfalls, but an accelerated timeline to replace baseload generation with intermittent resources has

[5] Puget Sound Energy, *2023 Electric Progress Report* (Mar. 31, 2023), https://www.pse.com/-/media/PDFs/IRP/2023/electric/chapters/00_EPR23_ChapterBook_Final.pdf?modified=20230331180618.

contributed to an increase in regional electric market price volatility, capacity shortfalls, and scarcity of firm transmission rights.

In addition to the complexities of changing market fundamentals summarized above and discussed in greater detail by PSE witness Ronald J. Roberts, the Prefiled Direct Testimony of Philip A. Haines, Exh. PAH-1CT, describes how PSE is concurrently vetting two emergent day-ahead markets in the western U.S., one proposed by the California Independent System Operator, called the Extended Day Ahead Market, and the other, Markets +, proposed by the Southwest Power Pool.

Q. How do these regional market developments potentially impact PSE?

A. As discussed by PSE witness Ronald J. Roberts, in an effort to face the challenges of this industry-wide energy market transition, PSE is shifting away from its reliance on short-term bilateral market transactions to regional coordination in organized market and resource adequacy programs to meet dynamic demand. Two frameworks PSE is actively participating in to reduce price volatility risk and address capacity and transmission constraints include day-ahead market exploration as described above, and joining the Western Resource Adequacy Program ("WRAP"). The WRAP allows PSE and its customers to realize significant cost savings while securing resource adequacy, including a lower capacity requirement (i.e. volume) and lower resource adequacy capacity cost (i.e. price). The benefits of the WRAP are discussed in more detail in the Prefiled Direct Testimony of Philip A. Haines, Exh. PAH-1CT.

III. PSE'S OPERATING ENVIRONMENT HAS CHANGED DRAMATICALLY WITH THE IMPLEMENTATION OF THE EXPANSION OF THE PUBLIC INTEREST

A. Implementation of the Transformative Energy and Equity Policies Enacted by the Washington State Legislature is Impacting PSE and Its Customers

Q. How have Washington State's energy and equity policy landscape evolved since PSE filed its last general rate case in 2022?

A. The State of Washington is currently implementing some of the most transformational energy, equity, environmental, and climate policies in the United States. PSE supported the legislation driving that change. New rules have been enacted since PSE filed its last general rate case, and some rulemaking processes are continuing. Implementation has required PSE, the Commission, and other interested parties to think and act differently, to devote significant time and resources to achieve these new objectives, and to continue to be nimble as rules are adopted, precedent established, and best practices learned.

Implementation of CETA continues, with electric utilities across Washington currently implementing their initial clean energy implementation plans for the 2022–2025 period and the first major CETA milestone for PSE's resource portfolio—the no-coal requirement by the end of 2025—on the very near horizon.

At the same time, the state has also begun to implement the CCA. Implementation has been challenging given the pace and scale of the program, and the uncertainty as PSE—along with our regulators and other interested parties—learn and proceed.

Q. Please provide a high-level overview of how implementation of CETA has continued since PSE's last general rate case.

A. CETA necessitates that PSE fast-track towards an equitable transition to renewable and non-emitting generation resources. It requires PSE's electric system to be coal free by 2025, greenhouse gas neutral by 2030, and 100 percent served by renewable and non-emitting resources by 2045.

On December 17, 2021, PSE filed its first Clean Energy Implementation Plan ("2021 CEIP") that sets interim clean electricity targets and describes PSE's plan to meet them. The Commission accepted PSE's 2021 CEIP with conditions on June 6, 2023 in Docket UE-210795. PSE also filed a Biennial CEIP Update ("Biennial Update") with the Commission on November 1, 2023, which details PSE's efforts to meet CETA's 2030 greenhouse gas neutral requirement and projects that in the 2022-2025 compliance period, PSE will deliver approximately 3.5 million more MWh of clean energy to our electric customers than originally projected in the 2021 CEIP.

While these are important steps forward, it also highlights the urgent necessity for accelerating processes to help facilitate PSE's transition and full CETA compliance.

Additionally, the Commission continues to adopt rules guiding the implementation of CETA for PSE and other utilities.

Q. What specific steps is PSE taking to acquire CETA-eligible resources to comply with CETA?

A. PSE continues to pursue adding additional renewable and non-emitting resources for the remainder of the four-year compliance period. Since the 2021 CEIP was filed, PSE has added 888 MW of new renewable and non-emitting resources to its portfolio to serve customers in 2030 and beyond to meet its CETA obligations. Additionally, PSE continues to engage in short-term transactions for renewable and non-emitting resources to meet its interim and specific targets as outlined in its 2021 CEIP and revised in its most recent Biennial CEIP Update filing. Please see the Prefiled Direct Testimony of Craig J. Pospisil, Exh. CJP-1T and Colin P. Crowley, Exh. CPC-1HCT, for further details on recent clean energy generation resources PSE has acquired to comply with CETA. Colin Crowley's testimony also seeks a prudency determination and cost recovery for the Vantage Wind Power Purchase Agreement and the Beaver Creek Wind Project that will go into service during the multiyear rate plan.

PSE has also developed new demand response programs as discussed in the Prefiled Direct Testimony of Gilbert Archuleta, Exh. GA-1T, consistent with the statute and the Commission's direction. Additionally, PSE has short-listed 34 solar and storage projects in response to its Distributed Solar and Storage RFP, totaling 56.59 MW of DER solar and 33.5 MW of DER storage. These DER projects are discussed in more detail in the Prefiled Direct Testimony of Aaron A.

August, Exh. AAA-1T and the Prefiled Direct Testimony of Brennan D. Mueller, Exh. BDM-1T.

Q. Please provide a high-level overview of how the CCA applies to PSE.

A. In 2021, the Washington State Legislature passed Senate Bill 5126, also known as the CCA, to reduce greenhouse gas ("GHG") emissions. Also referred to as "Cap and Invest," the law establishes a declining economy-wide cap on greenhouse gas emissions and is intended to reduce emissions from those sectors covered by the cap in the state by 95 percent by 2050. PSE is a covered entity, as defined in RCW 70A.65.080, and must participate in the compliance program.

Q. Have rules been adopted to address the implementation of the CCA?

A. Yes. The Department of Ecology ("Ecology") adopted rules to guide the implementation of the CCA. Those rules were developed over the span of approximately 14 months so the program could begin on January 1, 2023, as required by statute. The pace of that rulemaking was unprecedented given the scale and complexity of the program and highlights the necessity of accelerated processes to maintain the pace necessary for fully compliance in a timely fashion.

Q. How does CCA implementation differ for gas and electric utilities and their customers?

A. The statute treats the electric utility differently than the gas utility. It requires Ecology to give no-cost allowances to natural gas utilities, which must consign an

ever-increasing share of those allowances to auction, even as the number of no-cost allowances the utility receives decrease over time until they reach zero in 2050. The utility must prioritize the use of allowance revenues for nonvolumetric credits on ratepayer utility bills, prioritizing low-income customers, or to minimize cost impacts on low-income, residential, and small business customers through actions that include, but are not limited to, weatherization, decarbonization, conservation and efficiency services, and bill assistance.[6]

For the electric operation, utilities such as PSE that are also subject to CETA receive no-cost allowances to mitigate the cost burden of the cap-and-invest program on electric customers. Electric investor-owned utilities may, but are not required to, consign no-cost allowances to auctions.

Q. Please explain how these clean energy policies will impact PSE and its customers during the proposed multiyear rate plan.

A. Meeting the CETA 2030 requirement will necessitate the acquisition of new renewable and non-emitting resources of approximately 6,700 MW by 2030 – more than PSE has added at one point in time in its portfolio in the 150 years of its existence. This deadline is driving action across the organization during the period of this proposed multiyear rate plan, in strategy and planning (including transmission planning) as described in the Prefiled Direct Testimony of Joshua J.

[6] *See* WAC 173-446-300(2)(b)(iii)(A).

Jacobs, Exh. JJJ-1T; in resource acquisition, as discussed in the Prefiled Direct Testimony of Craig J. Pospisil, Exh. CJP-1T; and in our financial needs to provide these resources, as discussed in the Prefiled Direct Testimony of Daniel A. Doyle, Exh. DAD-1CT.

Additionally, as further explained by PSE witnesses Joshua Jacobs and David Landers, PSE's electric load is expected to dramatically increase due to clean energy policy drivers, such as the proliferation of electric vehicles and requirements for electrification of new buildings. Furthermore, accommodating new customers, whether it is a residential customer or a major project, requires the installation of new infrastructure. The Prefiled Direct Testimony of David J. Landers, Exh. DJL-1T, discusses programs such as the Targeted Capacity program, which is critical in supporting growing distribution capacity needs that are accelerating due to increased electric vehicle charging and transition to greater use of electricity for space and water heating, and the DER Circuit Enablement program, necessary to address constraints on the electric system to enable renewable generation.

CETA also requires considerable work for the utility to implement the equity aspects of the statute. Please see the Prefiled Direct Testimony of Troy A. Hutson, Exh. TAH-1T for an additional description of these efforts, which I also will touch on later in this testimony.

Finally with respect to CETA, PSE has begun to evaluate the technologies and resources that might be viable for providing firm, non-GHG emitting capacity to

meet the 2045 requirement. The three avenues PSE is exploring include long duration battery storage, small modular nuclear reactors, and green hydrogen to generate electricity. Please see the Prefiled Direct Testimony of John Mannetti, Exh. JM-1CT, for a more detailed description of these efforts.

CCA implementation is still very new and the impacts less clear. However, PSE is experiencing some challenges with CCA implementation.

Q. What challenges is PSE experiencing in implementing the CCA for its electric system operations?

A. On the electric side, PSE is hopeful, but increasingly concerned, that meeting its CCA obligations will not impose significant new burdens for customers on top of the CETA requirements. Ecology's methodology related to the provision of no-cost allowances and the associated adjustment mechanism, as well as rules related to existing and developing energy markets, has created ongoing uncertainties and some level of mismatched incentives particularly in the area of power costs. Since it appears that Ecology will not provide no-cost allowances for dispatch of PSE's resources unless those resources are directly supporting load, this creates a trade-off between incurring compliance costs if those resources are dispatched without allowances, or not generating revenue from power sales, which has historically been used to reduce net power costs for customers. Additionally, the Commission's recent order disallowing projections of the costs associated with CCA dispatch in PSE's power cost update raises concerns about adequate power cost recovery. The challenges related to planning, real-time dispatch decision-

making, and cost recovery are discussed more in the Prefiled Direct Testimony of Brennan D. Mueller, Exh. BDM-1T and the Prefiled Direct Testimony of Philip A. Haines, Exh. PAH-1CT.

Q. What challenges is PSE experiencing in implementing CCA on the natural gas side of the business?

A. The biggest challenge PSE faces in implementing the CCA is the high cost of existing options for decarbonizing the gas system. Although the legislature is providing no-cost allowances to help mitigate CCA customer cost burdens, the no-cost allowances only mitigate a declining amount of the overall compliance costs over time because the number of allowances declines as the overall cap declines. PSE has chosen, and the Commission has recently approved, a mechanism to provide all customers with nonvolumetric credits with most of the allowance revenue at this time, with the remaining revenue devoted to decarbonization efforts. However, allowance revenue will begin declining and costs will rise quickly over time. Unfortunately, current options available for decarbonization are costly, and PSE has limited cost effective options other than purchasing CCA allowances in large quantities into the foreseeable future. The key issue is how to reduce greenhouse gas emissions while not overburdening customers with excessive bill increases. PSE also has significant equity concerns about who will bear the cost burdens in the future.

Q. How is PSE leveraging renewable natural gas to reduce emissions?

A. Renewable natural gas ("RNG") is a key component of PSE's decarbonization strategy because it allows PSE to realize immediate reductions in GHGs. It is also one of the few tools directly within the control of PSE since it does not require customers to take action to reduce their own greenhouse gas emissions; in this way it is similar to the substitution of non-emitting resources on the electric side. PSE witness Joshua Jacobs describes how PSE actively engages with RNG project developers and aggregators to find the lowest cost sources of RNG, and how PSE develops contracts to deliver the gas to PSE's delivery system, or looks to procure the environmental attributes of the RNG. In July 2020, PSE began purchasing physical RNG from a large landfill in Washington and recently signed contracts for the acquisition of additional supplies that will commence deliveries in 2024. PSE estimates that these actions will enable PSE to provide 2,735,000 dekatherms ("Dth") of RNG to customers in 2024 through the Purchased Gas Adjustment ("PGA") portfolio and 82,000 Dth through PSE's Voluntary RNG program. The incremental cost of RNG in the PGA portfolio is estimated to be under the mandated five percent of revenue requirement at 3.8 percent for 2024; however, PSE believes that legislative action to expand the ceiling may be warranted. This current restriction severely limits the ability of natural gas companies to rely on RNG to decarbonize customer fuel supply, a limitation compounded by the fact that RNG sells at a premium price when compared to traditional natural gas.

B. PSE is Incorporating and Promoting Equity and Inclusion as Core Tenets of the Energy Transition

Q. What is PSE doing to infuse considerations of equity into its operations?

A. PSE is working very hard to comply with the equity components of CETA, the multiyear rate plan statute, and the Commission's guidance. As an organization, PSE is committed to providing excellent service to our customers, while paying attention to dimensions of differences and disparities including environmental and socioeconomic. To facilitate the incorporation of equity in decisions across the organization, PSE has developed a guidance tool to be used for all business teams in the consideration of equity across all four core energy justice tenets[7] as discussed in the Prefiled Direct Testimony of Troy A. Hutson, Exh. TAH-1T. In addition to developing and implementing this tool, the most important steps we have taken are 1) the creation a centralized Energy Equity organization to provide consistency and alignment for business units that are incorporating energy equity, 2) progress on distributional justice pursuant to the 2022 GRC Settlement agreement through the distributional equity analysis pilot, 3) integration of equity in PSE's planning processes, including distribution system planning and corporate capital planning, and 4) continued and improved procedural justice efforts in our external engagement through, for example, the Equity Advisory Group (EAG) and customer engagements in named communities.

[7] 2021 Cascade Natural Gas GRC Final Order, Docket UG-210755 at ¶ 56.

Q. How will energy equity be advanced during the multiyear rate plan?

A. PSE has incorporated equity across the organization in areas ranging from corporate capital planning, distribution system planning, investment decision-making, pilot programs, low-income program design, performance metrics, and through seeking opportunities to maximize public funding. All this work will continue during the multiyear rate plan. PSE witness Troy Hutson presents PSE's vision and strategy for energy equity, our framework and approach, engagement and education plan, progress, and upcoming plans. He discusses how recent guidance from the Commission regarding equity has shaped PSE's decision-making processes and led to PSE's incorporation of energy equity strategies into its programs. In addition to Mr. Hutson and myself, sixteen other PSE witnesses in this case also address the topic of energy equity in their prefiled testimony.[8]

[8] *See* Prefiled Direct Testimonies of Michelle L. Vargo, Exh. MLV-1T; Joshua J. Jacobs, Exh. JJJ-1T; Craig J. Pospisil, Exh. CJP-1T; Aaron A. August, Exh. AAA-1T; Monica Martinez, Exh. MM-1T; David J. Landers, Exh. DJL-1T; Carol L. Wallace, Exh. CLW-1T; Joshua A. Kensok, Exh. JAK-1CT; John Mannetti, Exh. JM-1CT; Roque B. Bamba, Exh. RBB-1T; Birud D. Jhaveri, Exh. BDJ-1T; John D. Taylor, Exh. JDT-1T; Brian E. Fellon, Exh. BEF-1T; Colin P. Crowley, Exh. CPC-1HCT; Gilbert Archuleta, Exh. GA-1T; Thomas M. Hunt, Exh. TMH-1T.

IV. PSE MUST BE FINANCIALLY HEALTHY TO RESPOND TO THE RAPIDLY CHANGING POLICY LANDSCAPE WHILE ALSO MAINTAINING SAFE, RELIABLE, AND AFFORDABLE SERVICE

Q. Does PSE face financial challenges now and over the course of the multiyear rate plan?

A. Yes. PSE faces significant financial challenges now and in the coming years, as discussed by PSE witnesses Daniel A. Doyle, Ronald J. Roberts, Michelle Vargo, Cara G. Peterman, Joshua A. Kensok, and Susan E. Free.

Q. What are some of the financial challenges PSE faces?

A. Other witnesses will describe these challenges in much greater detail, but below are some of the most concerning challenges for PSE:

- Supply chain constraints that continue to persist beyond the COVID health emergency (Ronald Roberts, Michelle. Vargo).
- Operations and maintenance needs exceed what is currently built into rates (Michelle Vargo, Ronald Roberts, Susan Free).
- Inflationary pressures on the costs of materials and labor (Daniel Doyle, Joshua Kensok, Mark N. Lowry).
- Interest rates have increased significantly (Daniel Doyle, Cara Peterman, Ann Bulkley).
- PSE does not have balance sheet strength to continue to absorb the increasing volatility in commodity and carbon markets (Daniel Doyle, Cara Peterman).
- PSE has still not been able to earn its authorized rate of return (Daniel Doyle).

A. The Multiyear Rate Plan Helps PSE Overcome Financial Challenges to Meet the Clean Energy Transition

Q. Can PSE meet the state's ambitious energy and environmental policies, while also providing safe and reliable service at current rates?

A. PSE's requests in this case are necessary to provide the financial strength and stability to achieve the state's public policy objectives. Absent the rate relief being sought in this case, PSE will not possess the financial strength to concurrently implement CETA and CCA, while providing safe and reliable core utility services to customers. As discussed further by PSE witness Cara Peterman, PSE has concerns about its ability to finance both the traditional work of the utility and the need to support the clean energy transition. If PSE's proposed rate relief is not granted, PSE will need to make difficult choices and defer investments, such as those supporting the clean energy transition in favor of investments in safety and reliability, thereby compromising PSE's ability to make early progress in achieving CETA's objectives and creating greater challenges in future years. We are honored to serve our customers in western and central Washington and excited about transforming our business to meet the requirements of these new clean energy policies. To be successful in these endeavors during this multiyear rate plan and to preserve a path to succeed on the 2030 requirements, the financial support requested in this case is critical, as is Commission support for a measured and thoughtful approach to the speed at which PSE decarbonizes the gas system and transportation. Stated differently, PSE is in the midst of an unprecedented accelerated transition that is very

complex and will carry significant costs, but safety and reliability cannot be compromised during this journey. Nor can essential principles of equity be sacrificed.

Q. How do the state laws mandating a rapid acceleration of the clean energy transition further necessitate this filing?

A. Throughout its history, PSE has invested in new technologies and resources to provide clean and sustainable energy while continuing to fulfill our obligation to provide safe and reliable energy to our customers. With the passage of CETA and the CCA, Washington investor-owned utilities and the Commission have the direction and support from the legislature to show that Washington can be a model for the nation as we lead the clean energy transition, which allows PSE to focus its commitment in a more meaningful and impactful way. Importantly, accelerating the ongoing energy transition and implementing it in an equitable manner, while also providing safe and reliable services, comes with additional costs. It is not sustainable for PSE to continue its fast-paced and multi-faceted work toward realizing the state's ambitious clean energy goals and to provide safe, reliable electric and natural gas services and systems without timely recovery of the required investments and operating costs. PSE must be financially healthy and must have the financial resources to deliver the state's clean energy goals.

Q. How does PSE's proposed multiyear rate plan help PSE overcome these challenges while also balancing the interests of its customers?

A. The multiyear rate plan that PSE proposes in this case follows the statutory requirements and carefully balances the interests of customers and PSE, consistent with legislative intent. For example, PSE's proposed multiyear rate plan allows PSE to timely recover its investments to improve the safety and reliability of its electric and natural gas systems and progress on the transition to a clean energy future over the course of the two-year rate plan. However, it also allows an opportunity for parties to review PSE's investments and confirm that the investments were prudently incurred. Since recovery of projected rates are subject to refund, customers are protected against the risk of being charged for rates that were set too high relative to PSE's plant investment or for costs that are not prudently incurred. Additionally, the proposed multiyear rate plan has protections in place that prevent PSE's shareholders from benefitting at the expense of customers. Specifically, as required by law, if PSE earns in excess of its authorized rate of return during the course of the multiyear rate plan, PSE will defer all revenues in excess of 0.5 percent above its authorized rate of return for refunds to customers or another determination by the Commission in a later proceeding.

V. OTHER KEY ISSUES

Q. What are some of the other key components of PSE's request in this case?

A. Over the multiyear rate plan, PSE anticipates making capital investments at a pace and scale far greater than what PSE has been required to support in prior cases. This planned capital spend also spans across categories, including significant new investments in clean energy resources to fulfill PSE's obligations under CETA, natural gas system decarbonization capital projects, and investments related to wildfire risk mitigation. To support these significant and needed investments, PSE respectfully requests the Commission's approval of three new cost recovery mechanisms: (i) the Clean Generation Resources Rate Adjustment;[9] (ii) the Decarbonization Rate Adjustment;[10] and (iii) the Wildfire Prevention Tracker.[11] I discuss these in more detail below.

A. Clean Generation Resources Rate Adjustment and Power Cost Proposals

Q. Why is the Clean Generation Resources Rate Adjustment necessary?

A. The scale of investment and resource procurement that is required for PSE to meet CETA's obligations is unprecedented in PSE's history. PSE expects to acquire as much as 6,700 MW of clean energy resources by 2030, which would effectively double the installed generating capacity in PSE's portfolio at the time this case is filed and require investments that increase PSE's capital program by

[9] *See* Jacobs, Exh. JJJ-1T; Free, Exh. SEF-1T.
[10] *See* Mannetti, Exh. JM-1CT; Free, Exh. SEF-1T.
[11] *See* Murphy, Exh. RM-1T; Free, Exh. SEF-1T.

50-130 percent above current capital spending levels. PSE witnesses Cara Peterman and Susan Free demonstrate how the Clean Generation Resource Rate Adjustment, in combination with the request for a higher equity ratio, will help PSE maintain the ability to secure capital at reasonable terms and thereby prevent customers from bearing unnecessary costs to support PSE's capital program while implementing CETA.

Q. What other proposals with respect to clean energy generation and power cost resources are included in PSE's case?

A. In addition to the Clean Generation Resources Rate Adjustment, as discussed by PSE witnesses Ronald Roberts and Brennan Mueller, the Commission's renewal of an annual power cost update, approved as part of PSE's 2022 GRC Settlement, is essential in aligning recovery of costs with the dynamic nature of this unprecedented clean energy transformation. Additionally, PSE proposes to continue its power cost only rate case ("PCORC") to allow additional flexibility to bring in new resources and update power costs, including fixed production costs, during this time of unprecedented need for new resources.

B. PSE Continues to Pursue Opportunities to Decarbonize Natural Gas Customer End Use Gas Sales.

Q. Why is PSE addressing greenhouse gas reductions tied to natural gas customer use?

A. In 2021, PSE established a Beyond Net Zero Carbon initiative to drive greenhouse gas emission reductions across the organization. A subset of that initiative includes an aspirational goal of net zero emissions from the supply, distribution, and customer use of natural gas by 2045, with an interim target of 30 percent reduction by 2030. This is consistent with the state's statutory goal of reducing greenhouse gas emissions in the state 95 percent below 1990 levels by 2050. In addition, state and municipal policies and customer demands are clear that natural gas delivery systems will need to emit far lower greenhouse gas emissions in the future. The CCA also solidifies Washington State as a national climate leader with the most ambitious limit on emissions of any state in the nation. The state Energy Strategy, legislative proposals, the new building codes, and municipal actions also demonstrate the desire to move more urgently toward decarbonization of energy supplies.

While PSE works towards decarbonizing its energy systems, we remain committed to our core obligation of providing safe, reliable, and equitable energy to customers. Given the safety and reliability aspects of the natural gas system, we must thoughtfully plan and carefully implement decarbonization efforts as outlined in the Prefiled Direct Testimony of Joshua J. Jacobs, Exh. JJJ-1T and the

Prefiled Direct Testimony of John Mannetti, Exh. JM-1CT. Consistent with the requirements of the 2022 GRC Settlement, PSE is conducting the analysis to enable our system to accommodate the changes necessary for decarbonization, to meet our standards for safety and reliability, and to ensure we do not leave our most vulnerable customers behind.

Q. Can you please describe PSE's natural gas system decarbonization strategy?

A. PSE is approaching decarbonizing customer end use gas sales through several coordinated activities including conservation, decarbonization studies, pilot programs, alternative fuels acquisition, and strategy development, as noted by PSE witness John Mannetti. However, implementation is limited by what is cost effective under existing legal and regulatory frameworks, and by the current prudence standard, which focuses on least cost. As described by PSE witnesses Troy Hutson and John Mannetti, PSE's strategic approach to decarbonizing customer end use gas sales also must consider energy equity across customer groups and reducing energy burden impacts to highly vulnerable populations.

Q. Why is PSE proposing to accelerate the depreciation of the natural gas system?

A. In pursuit of both intergenerational equity and to minimize the risk of low-income and other disadvantaged populations paying a disproportionate share of the costs of the gas system that is currently in place, PSE is proposing to accelerate the depreciation of the gas infrastructure. This is discussed in more detail in the

Prefiled Direct Testimony of Ned W. Allis, Exh. NWA-1T and the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1T. This effort results in current customers paying for the benefits of the infrastructure they are using. It will also assist in minimizing the possibility that as decarbonization and electrification proceed, those customers who can least afford to make a shift are not left with more than an equitable share of the costs that remain.

Q. What are some of the challenges associated with decarbonization of the gas system?

A. PSE is aware of several challenges associated with decarbonization of the gas system. First, PSE must be able to safely and reliably operate the natural gas system as usage and customers change over time. Second, PSE will need to acquire adequate reliable and non-emitting resources to meet our own, and the region's, needs for electricity as loads shift to the electric system over time. A shift from natural gas to electricity that outpaces the shift to a cleaner portfolio of electric generating resources could lead to higher greenhouse gas emissions in the short term. Third, the cost of the transition presents challenges and risk, as PSE works to provide all customers with affordable energy services, while not inequitably burdening those least able to pay. Finally, there are a host of implementation challenges, such as the availability of technology, workforce, and willing consumers over whatever time frame these efforts proceed.

Q. In light of these challenges and issues, what decarbonization measures has PSE implemented so far?

A. PSE has implemented conservation measures, acquired RNG, created a pilot offering incentives for hybrid heat pumps, developed a targeted electrification heat pump incentive program, and offered targeted electrification assessments to customers. PSE also plans to extend hybrid heat pump incentives in its 2024–2025 Biennial Conservation Plan and implement low-income heat pump direct install programs through the use of PSE's no-cost CCA allowance revenue.

Q. What is PSE proposing for this multiyear rate plan?

A. PSE is proposing a Decarbonization Rate Adjustment to account for and recover the costs of moving forward on the suite of efforts outlined in the testimony of John Mannetti. These include several new pilots as part of PSE's Targeted Electrification Pilot Phase 2, such as (i) the Low-Income Heat Pump Direct Installation Pilot; (ii) the Small Business Heat Pump Pilot in Named Communities; (iii) the Multi-Family Heat Pump Rebate in Named Communities Pilot; (iv) the Targeted Electrification of Natural Gas-Constrained Geographic Area Pilot; (v) the Income-Qualified Heat Pump Rebate Pilot; and (vi) the Commercial and Industrial Targeted Electrification Grant Pilot. In summary, PSE intends to build off current efforts and the learning from the studies conducted during the prior rate plan with a set of activities that allow us to make progress, and in particular to focus on low-income customers.

Q. Why is PSE proposing the Decarbonization Rate Adjustment?

A. The Decarbonization Rate Adjustment allows PSE, the Commission, and interested parties to carefully examine the costs, benefits, and pace of the decarbonization work on the natural gas system. Decarbonization work raises many uncertainties in terms of the experimental nature of the work and uncertainty about the level of customer participation in these decarbonization efforts. For these reasons, it is appropriate to include the costs in a tracker rather than building them into base rates.

C. Wildland Fire Risk and Mitigation Proposals

Q. Why is PSE addressing wildfire risk in this case?

A. While PSE has been working on wildfire issues previously, the risk of wildfires in PSE's service territory is growing. For the past several years, PSE has been taking prudent steps to address and mitigate this risk consistent with its Wildfire Mitigation and Response Plan filed annually with the Commission. However, the recent catastrophic wildfire events in the western U.S. have heightened the concern and caused PSE to expand its wildfire mitigation program. Furthermore, recent wildfires in other parts of the U.S. that have historically not had wildfires have contributed to PSE's assessment of this growing risk and the expansion of PSE's wildfire mitigation program.

Relatedly, insurance costs have also skyrocketed for electric companies in 2024, following a series of events, including the severe wildfire activity in California,

the tragic wildfire event in Hawaii, and the adverse wildfire-related jury verdict against PacifiCorp in Oregon. Consistent with this trend, PSE's excess liability insurance premiums for wildfire risk have dramatically increased, further attesting to the risk PSE faces. As discussed in the Prefiled Direct Testimony of Daniel A. Doyle, Exh. DAD-1CT, insurers are no longer differentiating between utilities serving the historically drier intermountain west and those like PSE that serve more temperate climates. Credit rating agencies and the financial community have also focused on this increasing risk and the steps PSE is taking to mitigate risks, as discussed in the Prefiled Direct Testimony of Cara G. Peterman, Exh. CGP-1CT.

While the wildfire risk in the wet forests of western Washington has traditionally been lower than in drier areas of the western United States, devastating wildfires can occur anywhere and can result in catastrophic financial losses when they occur. For this reason, wildfire risk is a top enterprise risk for PSE, and PSE is taking all appropriate steps to mitigate this risk.

Q. What wildfire-related investments is PSE making to mitigate growing wildfire risks during the multiyear rate plan?

A. Over the past five years, PSE has undertaken an ongoing effort to evolve its wildfire risk modeling. As discussed in the Prefiled Direct Testimony of Ryan Murphy, Exh. RM-1T, PSE's initial efforts to quantify wildfire risk began in 2019 and have evolved since then through annual updates to PSE's Wildfire Mitigation and Response Plan. As part of this work to iterate upon the risk assessment

methodology within the Wildfire Mitigation and Response Plan, PSE recently engaged wildfire risk science experts to refine PSE's risk assessment methodology to develop more robust, real-time situational awareness tools, which in turn are helping PSE propose specific investments to mitigate wildfire risk.

As set forth in Exh. RM-1T, PSE's planned wildfire investments have been aligned with the Wildfire Mitigation and Response plan and categorized into the areas of (i) situational awareness (enhanced risk modeling, artificial intelligence smoke detection cameras, weather stations, and meteorologists); (ii) fault reduction (overhead and underground upgrades, pre-season patrols, pole replacements, enhanced vegetation management, and transmission line hardening); and (iii) fault protection (substation SCADA and grid automation). Across these areas, PSE is planning capital investments of over $47 million in 2025 and $66 million in 2026.

In addition to these capital investments, PSE is also anticipating communications-related O&M expenses of approximately $5.63 million for 2025 and $6.43 million in 2026 to enable PSE to provide a foundation of wildfire mitigation information to all customers across PSE's service territory and to conduct targeted outreach with customers in areas at highest risk for wildfire, including a focus on highly impacted communities and vulnerable populations. PSE is also investing in tools to provide timely notifications during an emergency or public safety power shutoff ("PSPS"), educational materials to help customers prepare for wildfire

season and take steps to mitigate risk, and relationship-building with emergency response partners and community-based organizations.

Q. Please describe the Wildfire Prevention Tracker that PSE is proposing in this case.

A. PSE is proposing a Wildfire Prevention Tracker to facilitate greater visibility, transparency, and accounting treatment for wildfire investments going forward. The mechanism will account for clearly-defined wildfire mitigation investments within the forward-looking multiyear rate plan. The mechanics of the proposed Wildfire Prevention Tracker are described in the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1T.

Q. How did PSE determine which wildfire mitigation investments to select?

A. All of the investments identified in the Prefiled Direct Testimony of Ryan Murphy, Exh. RM-1T, target wildfire risk mitigation benefits within higher wildfire risk areas. PSE's energy delivery system investments are selected through the use of an investment decision optimization tool, "iDOT," which prioritizes and selects candidates for planned investments. The iDOT tool incorporates principles of distributive justice, equity, and safety to weight various factors in selecting the portfolio so that equity is built into the initial planning and prioritization of planned investments. The use of iDOT for selecting investments, including wildfire mitigation investments, is described further by Ryan Murphy and in the Prefiled Direct Testimony of David J. Landers, Exh. DJL-1T.

Q. How do the investments identified and selected by PSE benefit customers?

A. As stated elsewhere in this prefiled testimony and through other PSE witnesses, safety is foundational to our mission, and this PSE wildfire effort is an example of this commitment. PSE witness Ryan Murphy describes in detail the benefits to customers of the planned wildfire investments across the categories of situational awareness, fault reduction, fault protection, and communications. The tools and new resources enabled by these investments will benefit customers by enhancing situational awareness during high risk conditions, decreasing the likelihood of potential ignitions and outages, preventing wildfire events, and enabling PSE to listen to and learn from customers and impacted communities and thereby respond to customer concerns.

VI. PSE'S FILING HOLDS IT ACCOUNTABLE TO PERFORM DURING THE MULTIYEAR RATE PLAN PERIOD

Q. Is PSE proposing a new and modified set of performance metrics?

A. Yes. PSE is currently tasked with reporting on a large number of performance metrics that are unwieldy and difficult to manage. PSE is proposing a streamlined version of its current performance metrics that should provide more meaningful and manageable data for PSE, the Commission, and interested parties to evaluate PSE's performance during the multiyear rate plan.

Q. How were the current performance metrics established?

A. As part of the 2022 GRC Settlement, PSE agreed to 69 performance metrics, with multiple measures contained in them. In addition, the Commission added 23 metrics when it approved the settlement. In total, PSE is now required to report on 142 metrics. In approving this broad slate of performance metrics, the Commission stated that establishing appropriate metrics and measures for performance-based ratemaking is an iterative process and there is no precedential value to the continuation of the performance metrics agreed to in the 2022 GRC Settlement.[12]

Q. Were concerns expressed with respect to the performance metrics established in the 2022 GRC Settlement?

A. Commission Staff expressed a need for better presentation including data visualization tools and maps and the desire to see trends over multiple periods, in comments supporting the performance metrics in the 2022 GRC Settlement.

Q. Does PSE agree that presentation and data visualization tools are important for the performance metrics?

A. Yes. PSE agrees that presentation of data is important, but presenting this much data will require development of sophisticated presentation tools and ongoing

[12] *WUTC v. PSE*, Dockets UE-220066/UG-220067/UG-210918 *(Consolidated)*, Final Order 24/10, ¶¶ 98-99 (December 22, 2022).

upkeep. Before undertaking that burden, there must be more focus on a smaller set of meaningful metrics and an understanding of how these metrics will be used.

Q. What additional guidance has the Commission provided with respect to performance metrics?

A. The Commission has provided guidance with respect to performance measures in Docket U-210590. Specifically, the RAP Performance-Based Regulation: Considerations for Washington Utilities and Transportation Commission report highlights that design principles for metrics should be outcome-based, non-duplicative, clear, measurable, and meaningful, and evaluated regularly.[13]

Q. Do the current performance metrics meet this guidance?

A. Many of the current metrics do not meet those basic design principles and the sum total of metrics may be too voluminous to be meaningful and evaluated regularly.

Q. Why do you view the current performance metrics as unwieldy and difficult to manage?

A. Of the 142 metrics, 25 metrics required measuring for 509 electric and 750 gas census tracts and 219 electric and 232 gas zip codes. This is an enormous amount of data to collect and present and, while agreed upon in the last multiyear rate plan, after gaining experience gathering and reporting on these metrics, PSE

[13] Policy Statement, Docket U-210590, RAP Performance-Based Regulation: Considerations for Washington Utilities and Transportation Commission, WUTC Performance Based Regulatory at 17 (March 2, 2022).

questions whether this amount of data is useful for driving decisions and actions for the business or for informing interested parties and customers on how PSE is performing on key areas of the public interest.

Q. How has PSE developed its new set of performance metrics?

A. PSE has reviewed the settlement metrics from the 2022 GRC and reflected on the past year's experience with gathering, calculating, and analyzing the data. PSE uses this experience to provide a more effective set of metrics for consideration in this filing for the proposed multiyear rate plan. Many of these proposed metrics are from the metric list in the 2022 GRC order, some are existing metrics with slight modification, and a number are new metrics. Should the Commission adopt this set of metrics, PSE will be able to build effective tools to present this data.

Q. Please describe PSE's proposed set of performance metrics.

A. PSE proposes 35 metrics that support 10 objectives. See Table 2, below, which summarizes the metrics by objective and points to testimony supporting the metrics.

Table 2. PSE's Proposed Set of Performance Metrics

Objective	Description of Inclusion	Number of Metrics	Witness Testimony
Customer Satisfaction	• 4 SQI metrics • 1 settlement metric with modification	5	A~~XA~~A-1T / RBB-1T
Equity	• 2 new metrics • 2 settlement metrics	4	TAH-1T

Table 2. PSE's Proposed Set of Performance Metrics

Objective	Description of Inclusion	Number of Metrics	Witness Testimony
Reliability, Resilience, Safety	• 2 SQI metrics • 2 SQI metrics with modification • 1 new metric	5	DJL-1T
Load Management	• 1 settlement metric with modification	1	GA-1T
DER Adoption	• 2 settlement metrics with modification	2	A~~X~~AA-1T
Environmental	• 3 settlement metrics	3	JJJ-1T
Cost Controls	• 13 Commission (Table 4) metrics	13	JAK-1CT
Customer Affordability	• 2 settlement metrics with modification	2	CAW-1T
	Total	**35**	

Q. Have you prepared a list of the full set of metrics PSE is proposing in this case?

A. Yes. Please see the second exhibit to my testimony, Exh. MS-3, for a list of the proposed metrics.

Q. Is PSE proposing a performance incentive mechanism in this case?

A. Yes. PSE is proposing to continue the demand response performance incentive mechanism approved in the last multiyear rate plan. More details are provided in the Prefiled Direct Testimony of Gilbert Archuleta, Exh. GA-1T.

Q. Did PSE engage stakeholders in this process?

A. No. PSE's proposal is an interim proposal while interested parties continue working together in Docket U-210590 to address performance metrics, which will be used in future multiyear rate plans. Of the proposed metrics, 23 were carried forward unchanged from the final 2022 GRC metrics.

VII. INTRODUCTION OF PSE WITNESSES IN THE CASE

Q. Please introduce the other witnesses who are testifying on behalf of PSE in this case.

A. In addition to me, the following witnesses will testify as part of PSE's direct case:

A. Clean Energy – Resource Needs

1. Joshua J. Jacobs, Exh. JJJ-1T: Mr. Jacobs is the policy witness for PSE's Resource Need and provides testimony to: (i) describe PSE's clean energy and decarbonization efforts, (ii) provide an overview of PSE's resource needs and investments, and (iii) introduce PSE witnesses John Mannetti and David Landers.

2. John Mannetti, Exh. JM-1CT: Mr. Mannetti describes PSE's strategy to decarbonize customer end use gas sales and provides an overview of PSE's efforts to leverage public funding such as the Infrastructure Investment and Jobs Act and the Inflation Reduction Act to meet PSE's goals on decarbonization and affordability for PSE customers.

3. David J. Landers, Exh. DJL-1T: Mr. Landers describes the robust planning process PSE utilizes to optimize the transmission and distribution investment for the benefit of PSE customers. He provides detail on delivery system investments planned for the multiyear rate plan.

B. Resource Acquisitions

4. Craig J. Pospisil, Exh. CJP-1T: Mr. Pospisil is the policy witness for Resource Acquisition and provides testimony to (i) present a high-level overview of PSE's efforts to procure new energy resources in response to public policy; and (ii) introduce the PSE witnesses supporting PSE's efforts to procure new resources.

5. Colin P. Crowley, Exh. CPC-1HCT: Mr. Crowley testifies regarding PSE's major resource acquisitions that will go into service during the multiyear rate plan. These resources were identified following PSE's 2021 All-Source RFP and are needed for PSE to comply with CETA and PSE's other clean energy obligations. These include the Beaver Creek Wind Project and the Vantage Wind PPA. Mr. Crowley demonstrates the prudency of these resources and seeks Commission approval for provisional recovery for these investments during the rate plan.

6. Steven J. St. Clair, Exh. SJS-1CT: Mr. St. Clair supports the prudency and cost recovery of the Frederickson 1 tolling agreement.

7. Gilbert Archuleta, Exh. GA-1T: Mr. Archuleta describes actions PSE has taken to create a customer-focused Demand Response Program and he demonstrates that the Demand Response PPAs PSE has executed are prudent.

C. Generation and Power Costs

8. Ronald J. Roberts, Exh. RJR-1T: Mr. Roberts is the policy witness for Generation and Power Costs and provides an overview of how PSE is changing its energy supply to meet statewide decarbonization targets. He also introduces the witnesses who provide detailed support for his area.

9. Philip A. Haines, Exh. PAH-1CT: Mr. Haines provides an overview of PSE's power portfolio and how it is managed, addresses PSE's plans to match energy supply operations with the rapidly evolving energy markets, and discusses new power resources as well as new and renewed transmission contracts.

10. Brennan D. Mueller, Exh. BDM-1T: Mr. Mueller provides support for the net power costs requested in this proceeding and PSE's methodology for estimating power costs including the impact of the CCA on resource dispatch and power costs. He also addresses PSE's proposal to annually update variable power costs included in the PCA power cost baseline rate and to retain the PCORC to recover in rates fixed costs associated with new and renewed resources.

11. Mark A. Carlson, Exh. MAC-1CT: Mr. Carlson describes the production O&M expenses that PSE presents for recovery in this proceeding, how PSE determined those expenses, and the purpose behind and projects related to those expenses.

12. James P. Hogan, Exh. JPH-1CT: Mr. Hogan requests threshold prudency for multiple utility scale projects. He discusses PSE's plans to re-grout and modernize the upper section of the Baker River Hydroelectric Project as well as crest improvements for the lower section of the project. He also provides testimony for the plans for construction and management of the Beaver Creek Wind Project.

13. Zacarias C. Yanez, Exh. ZCY-1CT: Mr. Yanez provides testimony regarding the prudence of the 20-year Power Sales Agreement with Public Utility District No. 1 of Chelan County ("Chelan PUD") for a 25 percent share of the output of the Rocky Reach and the Rock Island Hydroelectric Projects, which renews and extends the 2006 power sales agreement with Chelan PUD.

D. Energy Delivery

14. Michelle L. Vargo, Exh. MLV-1T: Ms. Vargo is the policy witness for Energy Delivery and provides an overview of PSE's electric and natural gas operations, how PSE invests in the ongoing operations and maintenance of electric and natural gas infrastructure, how PSE prioritizes

natural gas and electric transmission and distribution projects, and the prudency of transmission construction project for which PSE seeks recovery in this proceeding. She also introduces Mr. Bamba who provides detailed support for this area and Mr. Murphy, who addresses PSE's proposed wildfire tracker.

15. Ryan Murphy, Exh. RM-1T: Mr. Murphy provides an overview of PSE's wildfire risk and the steps PSE is taking to mitigate risk. He describes wildfire mitigation investments planned for the multiyear rate plan that will be included in the Wildfire Prevention Tracker.

16. Roque B. Bamba, Exh. RBB-1T: Mr. Bamba provides an overview of how PSE manages and executes on capital infrastructure projects and programs. He also discusses PSE's approach to investing in its infrastructure, how PSE optimizes the benefits from each project or program, and why flexibility is needed for PSE to optimize benefits. He also describes certain major projects in greater detail, such as the progress of implementation and benefits of PSE's AMI investment and PSE's request for full recovery of its investment in this case. He also discusses PSE's Wildfire Mitigation Plan, including the benefits resulting from these investments.

E. Customer Vision and Programs

17. Aaron A. August, Exh. AAA-1T: Mr. August addresses PSE's goal to be the clean energy partner of choice for its customers. Customers play a crucial role in the clean energy transformation by participating in renewable energy, smart technologies, transportation electrification, and distributed resources. He provides testimony on PSE efforts towards continuous improvement in customer satisfaction, evolving SQI measures that enable deeper customer engagement, and affordability. He also introduces Ms. Wallace who provides detailed support regarding energy assistance programs for customers.

18. Carol L. Wallace, Exh. CLW-1T: Ms. Wallace provides testimony regarding (i) PSE's customer solutions work and how it supports customer's evolving needs, and (ii) the evolution of PSE's energy assistance services to its customers. Her testimony describes the significant engagement with advisory groups to design and implement the new programs for income-qualified customers, and to continue to refine the existing programs.

F. Energy Equity

19. Troy A. Hutson, Exh. TAH-1T: Mr. Hutson is the policy witness for PSE's incorporation of customer equity into its business and into this rate plan. He provides an overview of Commission guidance regarding energy equity. He discusses PSE's approach and progress toward addressing

energy equity and provides an overview of the witnesses who discuss energy equity in their areas of PSE's business.

20. Monica Martinez, Exh. MM-1T: Ms. Martinez, a former utility commissioner in Michigan, provides an independent third-party perspective on energy equity, including an overview of national and state perspectives, standards and benchmarks. She reviews PSE's progress on energy equity and provides recommendations for PSE and the Commission as they seek to incorporate a culture of equity.

G. Financial

21. Daniel A. Doyle, Exh. DAD-1CT: Mr. Doyle is the policy witness for Financial matters and provides an overview of PSE's requests for a 9.95 percent return on equity in Year One and 10.50 percent return on equity in Year Two of the multiyear rate plan, as well as an equity ratio that increases from the current level of 49.0 percent to 50.0 percent in Year One and 51.0 percent in Year Two of the multiyear rate plan. He discusses PSE's financial status following tax reform and the outcome of the 2022 general rate case decision, and steps PSE has taken to control costs and earn its authorized rate of return. He testifies that PSE's proposed multiyear rate plan allows PSE to maintain financial strength while providing service to customers and carrying out state energy policies. He also introduces the witnesses who provide detailed support for his area.

22. Ann E. Bulkley, Exh. AEB-1T: Ms. Bulkley presents evidence regarding the appropriate return on equity for PSE and assesses PSE's proposed capital structure for ratemaking.

23. Todd A. Shipman, Exh. TAS-1T: Mr. Shipman provides a description of ratings and ratings agencies and how these ratings effect customers. He discusses how these ratings are used by investors and others and the unique influence regulation has on the ratings process for utilities.

24. Cara G. Peterman, Exh. CGP-1CT: Ms. Peterman describes PSE's requested capital structure, cost of capital, and overall rate of return for each year of the multiyear rate plan. She discusses PSE's credit ratings performance and the factors that have affected PSE's performance. She demonstrates that PSE has reduced its cost of long-term debt and that PSE's requested overall rate of return during the multiyear rate plan is consistent with the authorized rate of return in the early to mid-2010s. She discusses the need from a cash flow perspective for the rate making mechanisms—the Clean Generation Resources Rate Adjustment and the Wildfire Prevention Tracker proposed in this case. Finally, she demonstrates compliance with regulatory commitments regarding capital structure and cost of capital.

25. Joshua A. Kensok, Exh. JAK-1CT: Mr. Kensok explains (i) how PSE's financial planning system, tools, processes, reporting, and governance operate, (ii) how they have performed over time, and (iii) why they can be

relied upon for developing and administering the multiyear rate plan. He also provides the planned capital spending, plant in service, and O&M spending for each year of the multiyear rate plan.

26. Mark N. Lowry, Exh. MNL-1T: Mr. Lowry provides testimony regarding current inflationary pressures and how PSE has incorporated expectations of inflation into its forecast that underlie their request in this proceeding.

27. Stacy W. Smith, Exh. SWS-1T: Mr. Smith presents PSE's income statement and balance sheet and addresses the processes and procedures to validate the completeness and accuracy of financial information used in the test year for electric and gas revenue requirements. He also discusses the calculation of PSE's capital structure and provides the Affiliated Interest and Subsidiary Transaction Report.

28. Matthew Marcelia, Exh. MRM-1T: Mr. Marcelia addresses the treatment of accumulated deferred income taxes and excess deferred income taxes in the multiyear rate plan, the restating adjustment for income taxes, and potential tax law changes and their likely impact on the multiyear rate plan. He also discusses the potential tax benefits PSE is eligible for under the Infrastructure Investment and Jobs Act and the Inflation Reduction Act.

H. Human Resources

29. Thomas M. Hunt, Exh. TMH-1T: Mr. Hunt describes the elements of PSE's compensation and benefits programs, the steps PSE takes to compete in a challenging labor market and retain a skilled workforce while controlling wage and benefits costs, and changes in the labor market in recent years.

I. Information Technology

30. Brian E. Fellon, Exh. BEF-1T: Mr. Fellon describes the IT capital investments related to business enablement and systems modernization that PSE seeks recovery for in this case.

J. Rates, Tariffs and Depreciation

31. Susan E. Free, Exh. SEF-1T: Ms. Free discusses the revenue requirement calculations, including those subject to refund, for the multiyear rate plan, demonstrates that PSE's current rates are insufficient for its current operations. Ms. Free also supports the new trackers we are proposing and that I have previewed in my testimony: the Clean Generation Resources Rate Adjustment, the Decarbonization Rate Adjustment, and the Wildfire Prevention Tracker.

32. Ned W. Allis, Exh. NWA-1T: Mr. Allis sponsors the results of a new limited depreciation study of PSE's gas assets to align depreciation of the natural gas plant with state policy objectives.

33. Birud D. Jhaveri, Exh. BDJ-1T: Mr. Jhaveri presents the status of PSE's implementation of its Time-Varying Rates pilot. He also presents PSE's Energy Burden Analysis and addresses how PSE has considered equity in the development of its residential rates.

34. Christopher Mickelson, Exh. CTM-1T: Mr. Mickelson presents PSE's restated and normalized test year revenues from electric operations, electric cost of service study, electric revenue allocation and rate design, the derivation of projected rate year revenue, the overall rate impacts for the projected rate years in the multiyear rate plan, and updated allowed revenue for PSE's electric and natural gas decoupling mechanisms.

35. John D. Taylor, Exh. JDT-1T: Mr. Taylor presents PSE's natural gas cost of service study and its rate spread and rate design.

36. Dr. Chhandita Das, Exh. CD-1T: Ms. Das presents the results of PSE's Class Load Research used to perform its electric cost of service study and rate design.

37. Curt D. Puckett, Exh. CDP-1T: Mr. Puckett presents the results of the gas load study used to perform its natural cost of service study and rate design.

VIII. CONCLUSION

Q. Please provide a high-level summary of your testimony.

A. PSE retains the responsibility to safely and reliably serve its customers. The clean energy transition is occurring at an accelerated pace and PSE is responding appropriately to comply with the state's laws driving the transition. Although PSE has successfully navigated the early stages of this transition, PSE continues to face a number of financial and other challenges that jeopardize PSE's ability to meet the urgency of the energy transition.

The proposed multiyear rate plan will help PSE overcome these challenges. With the relief requested in this case, PSE can meet these challenges and support a successful and equitable energy transition for the customers and communities we serve. The proposed multiyear rate plan holds PSE accountable to perform, and appropriately balances the interests of PSE and its customers, and therefore should be approved.

Q. Does that conclude your prefiled direct testimony?

A. Yes.