

**EXH. SEF-5C
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____

**FOURTH EXHIBIT (CONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF**

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

**REDACTED
VERSION**

APRIL 29, 2022

1 **PUGET SOUND ENERGY**

2 **FOURTH EXHIBIT (CONFIDENTIAL) TO THE PREFILED**
3 **DIRECT TESTIMONY OF SUSAN E. FREE**

4 **EXPLANATION OF THE ACCOUNTING AND REPORTING FOR THE**
5 **VOLUNTARY LONG TERM RENEWABLE ENERGY PURCHASE RIDER**
6 **UNDER SCHEDULE 139**

7 Overview

8 The accounting and reporting for PSE's Voluntary Long Term Renewable Energy
9 Purchase Rider under Schedule 139 ("Green Direct Program") presented in Exh.
10 SEF-4C has been prepared in order to adhere to the following requirements as
11 provided in the excerpts below:

12 **RCW 19.29A.090 (5)**

13 All costs and benefits associated with any option offered by an electric utility
14 under this section must be allocated to the customers who voluntarily choose
15 that option and may not be shifted to any customers who have not chosen
16 such option.

17 **Paragraph 296 of Order 08 in Docket UE-190529**

18 [T]he tracking system for Green Direct costs and benefits should address
19 over- and under-generation of PPAs relative to Green Direct customer
20 demand in a manner that ensures Green Direct program participants benefit
21 exclusively from the sale of over-generation and prohibits non-participants
22 from subsidizing costs of additional power to serve Green Direct customers,
23 respectively, for any costs determined prudent only for Green Direct
24 customers.

1 PCA Tracking Related to the Green Direct Program

2 In order to adhere to the above requirements, PSE proposed the following within
3 its 2020 Power Cost Only Rate Case “PCORC” (Docket UE-200980):

- 4 • The cost of the Power Purchase Agreements (“PPA”) with the
5 Skookumchuck Wind Energy (“Skookumchuck”) project and the Lund
6 Hill Solar (“Lund Hill”) project that are used to serve Green Direct
7 customer loads are not included in the power cost baseline rate or the
8 rate request.
- 9
10 • As the variable costs of the program are not included, the corresponding
11 loads associated with Green Direct customers are not included in the
12 loads that are used to calculate baseline power costs in SEF-3 page
13 three.
- 14

15 The above treatment is required for current and any future Green Direct resources
16 and Green Direct participants, because if Green Direct customer costs and loads
17 are included in baseline power costs, it would be excessively difficult to achieve
18 the appropriate ring fencing that is required by statute and emphasized in the
19 Commission’s 2019 general rate case order. Even though the costs and loads can
20 be excluded, the physical energy under the PPAs cannot be segregated from PSE’s
21 portfolio which results in the inclusion of certain costs and benefits of the program
22 being initially included in actual amounts recorded on PSE’s books. Therefore,
23 PSE conducts the following process on a monthly basis to properly segregate these
24 costs and benefits from actuals for ratemaking and reporting purposes.

25 There are three fundamental scenarios that could occur under which accounting
26 and tracking are required. While all scenarios may or may not occur in a PCA
27 period, each is described below:

1 I. If PPA generation is lower than Green Direct customer usage (“short”)

2 *Under this scenario, PSE will be required to purchase energy to satisfy*
3 *Green Direct customer load above the PPA generation.*

4 II. If PPA generation is greater than Green Direct customer usage (“long”)

5 *Under this scenario, there will be payments under the PPAs for energy*
6 *purchased that is not used by Green Direct customers.*

7
8 *Additionally, the excess energy purchased under the PPAs will*
9 *presumably be sold on the market.*

10 III. If Renewable Energy Credits (“RECs”) are required to be purchased
11 periodically in a cumulative short scenario or banked in a cumulative
12 quarter-end long scenario.

13 *Under this scenario, there will be RECs that will need to be recorded on*
14 *the balance sheet until they are used.*

15 The first section on page one of Exh. SEF-4C, lines 4 through 35, represent
16 information and entries related to the Green Direct Program that occurred naturally
17 as part of PSE’s existing accounting processes.

18 The second section of Exh. SEF-4C, lines 37 through 52, represent the additional
19 entries that were made in order to neutralize and isolate any Green Direct costs and
20 benefits that occur naturally as part of PSE’s accounting processes shown in the
21 first section. A \$0 on line 46 which adds together all of the lines with PCA
22 designations under the “Mechanism” subheading (lines 27, 28 and 39) checks to
23 ensure that there are no Green Direct Program costs or benefits included in the
24 PCA.

1 The first section contains information on load, generation, RECs, and PPA and
2 market prices that are relevant to the entries that naturally occur when accounting
3 for PSE's portfolio power costs.

4 Actual Green Direct usage is shown on line 6 and actual PPA generation is shown
5 on line 7. The resulting short and long position for each month is shown on lines 8
6 and 9. The short and long position for each quarter end that is needed to determine
7 proper REC treatment is shown on lines 10 and 11.

8 Lines 12 through 17 present RECs that result from either the PPAs or from
9 purchases made by PSE.

10 Lines 19 through 21 present prices for the PPAs and market power (at the average
11 day ahead index for the month) that are used in the additional entries presented in
12 the second section of the reporting example.

13 The journal entries that occur based on the information presented in lines 4 through
14 21 described above are shown on lines 23 through 31. Within these lines the
15 information under the additional subheadings "Mechanism" and "When" in
16 columns D and E should be interpreted as follows:

17 "Mechanism" indicates whether the journal entries can be
18 initially booked directly to Green Direct and are therefore
19 already properly isolated (as indicated by "GD") or the entries
20 are initially booked as part of a portfolio entry and thus require
21 an additional entry in the second section in order to be
22 appropriately neutralized (as indicated by "PCA").

23 "When" indicates under which scenario the entries are booked.
24 "Always" indicates it is relevant under all scenarios. "Long"
25 indicates it only occurs in a long scenario. And "Short"
26 indicates it only occurs in a short scenario.

1 A description of these journal entries under each scenario as well as the
2 additional entries that are in the second section on lines 37 through 42 that
3 were used to neutralize and isolate associated costs and benefits labeled as
4 “PCA” under the “Mechanism” heading are described as follows:

5 **Scenario 1 – Short Position (PPA generation < Green Direct Usage)**

6 A short position occurs when the generation of the PPAs falls short of Green
7 Direct Program customer usage. The process that will be followed under this
8 scenario is described as follows.

9 **Payment for PPAs**

10 In this instance, Green Direct Program customers will use all of the
11 generation from the PPAs and therefore, the entire payment for the PPAs
12 would go to a separate Green Direct order in FERC 555 with a GD
13 designation as shown on line 25.

14 **Market Purchases of Energy to Cover the Short Position**

15 In order to cover the additional usage, PSE will need to purchase
16 additional energy on the market. The market purchases will be made as
17 part of PSE’s portfolio purchases and not be separately identifiable.
18 This is reflected on line 28 with a PCA designation as a charge to FERC
19 555 with portfolio purchases and is valued at the Market Rate per kWh
20 on line 21.

21 **Reclassify Short Purchase from PCA to the Green Direct Program**

22 Due to the preceding entry, there is now a Green Direct Program related
23 cost in the portfolio used to serve non-participating customers.
24 Therefore, an entry is required to reclassify these purchases out of the
25 PCA to the Green Direct Program. This entry is shown on lines 39 and
26 40 and is valued at the Market Rate per kWh shown on line 21.

27 **Check Total is Zero**

28 The above entries in the short scenario are sufficient as shown by the \$0
29 on line 46.

1 **Scenario 2 – Long Position (PPA generation > Green Direct Program**
2 **Usage)**

3 A long position occurs when the cumulative generation of the PPAs for the
4 period is greater than the Green Direct Program usage. Cumulative
5 generation of the PPAs for 2021 is greater than the Green Direct usage by
6 163,503,742 kWhs

7 **Payment for PPAs Up to the Amount of Green Direct Program**
8 **Usage**

9 In this instance, Green Direct Program customers will only use a portion
10 of the generation from the PPAs and therefore, the payment for the PPA
11 will be split into two parts. The first part up to the usage of Green Direct
12 customers would go to the separate Green Direct order in FERC 555 with
13 a GD designation as shown on line 25.

14 **Payment for PPAs Above the Amount of Green Direct Program**
15 **Usage**

16 The second part of the payment for the PPAs would go to another FERC
17 555 order, also with a GD designation that is only used in long scenarios
18 as shown on line 26.

19 **Presumed Sale of Excess PPA Generation**

20 As there has been excess generation from the PPAs this generation would
21 presumably be sold as part of PSE's portfolio transactions. This long-
22 position only transaction with a PCA designation is reflected on line 27
23 and is valued at the Market Rate per kWh on line 21.

24 **Reclassify Long Sale from PCA to the Green Direct Program**

25 Due to the preceding entry, there is now a Green Direct related benefit in
26 the portfolio used to serve non-participating customers. Therefore, an
27 entry is required to reclassify these sales that are recognized in FERC 456
28 out of the PCA to the Green Direct Program. This long-position only
29 entry is shown on lines 39 and 41 and is valued at the Market Rate per
30 kWh shown on line 21.

1 **Check Total is Zero**

2 The above entries in the long scenario are sufficient as shown by the \$0
3 on line 46.

4 **Scenario 3 –Purchases of RECs**

5 **Banking RECs in a Long Position**

6 A quarter-end in which the Green Direct Program's year-to-date position
7 is long would result in PSE owning unapplied RECs from the PPAs
8 related to the Green Direct Program. In these instances, PSE would
9 value the RECs and consider recording them on PSE's books as a debit
10 to FERC 555 and a credit to FERC 253 to hold them until they can be
11 applied to future Green Direct Program usage. This is shown on row 42
12 with a GD designation and is valued based on the indicative December
13 31, 2021 price of a Green-e WA/PNW REC generated in 2021 at [REDACTED]
14 per banked REC reflected on line 17. This entry would be an accrual
15 that reverses in the next month until the position is evaluated again at the
16 next quarter-end.

17 **Purchasing RECs in a Short Position**

18 A quarter-end in which the Green Direct program's year-to-date position
19 is short would result in PSE to be in a position to purchase RECs on
20 behalf of the Green Direct Program customers. As the quantity of RECs
21 required to cover usage is analyzed on a long term basis (rather than
22 month-to-month), it is not required that PSE purchase RECs monthly for
23 short positions. However, if it is determined that REC purchases are
24 required for the long-term horizon, their costs would be recorded at their
25 purchase price to a Green Direct order in FERC 557 with a GD
26 designation as shown on line 31.

27 **Summary of Reporting**

28 As shown on lines 49 through 52, the following summarizes the outcome of the

29 2021 Green Direct report:

30 As generation was cumulatively long at a quarter-end December 2021, RECs from
31 the PPAs were banked outside of the PCA.

32 Other Reporting and Tracking Considerations.

1 Other items related to the Green Direct program are also reported in
2 subsequent tabs as follows.

3 **Fixed Costs of the Program**

4 PSE committed¹ that the fixed costs of the program such as administrative costs
5 and depreciation related to billing software will be tracked in separate orders and
6 will be excluded from the revenue requirement when setting rates in a general rate
7 case or other proceeding. PSE has included supplemental reporting on the amount
8 of Green Direct fixed costs for 2021 on page two of Exh. SEF-4 as a requirement
9 to which PSE previously committed.²

10 **Liquidated Damages**

11 The balance and activity of PSE's liquidated damages received under the
12 Skookumchuck project is reported on page three of Exh. SEF-4 as PSE committed
13 to in Docket UE-200865.³

1 See Docket UE-190529, Free, Exh. SEF-17T 89:18-23.

2 See Docket UE-200980, Free, Exh. SEF-9 6:29-31.

3 See Docket UE-200865, Revised Accounting Petition at ¶ 14.