BEFORE THE WASHINGTON

UTILITIES & TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Complainant,

v.

PUGET SOUND ENERGY

Respondent.

DOCKETS UE-220066, UG-220067, and UG-210918 (*Consolidated*)

RESPONSE TESTIMONY OF ANDREA C. CRANE
ON BEHALF OF
WASHINGTON STATE OFFICE OF ATTORNEY GENERAL
PUBLIC COUNSEL UNIT

Exhibit ACC-1CT

July 28, 2022

Shaded Information is Designated as Confidential per Protective Order in Dockets UE-220066, UG-220067 and UG-210918 (*Consolidated)*

REDACTED VERSION

RESPONSE TESTIMONY OF ANDREA C. CRANE

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EXHIBITS LIST

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Exhibit AAC-18	Crane Plant Adjustments

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Andrea C. Crane, and my business address is 2805 East Oakland Park Boulevard, #401, Ft. Lauderdale, FL 33306.

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

A. I am President of The Columbia Group, Inc., a financial consulting firm that specializes in utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and undertake various studies relating to utility rates and regulatory policy. I have held several positions of increasing responsibility since I joined The Columbia Group, Inc. in January 1989. I became President of the firm in 2008.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Public Counsel Unit of the Washington Attorney General's Office (Public Counsel).

Q. Please describe your professional qualifications.

A. Since joining The Columbia Group, Inc., I have testified in over 400 regulatory proceedings in the states of Arizona, Arkansas, Connecticut, Delaware, Florida, Hawaii, Kansas, Kentucky, Maryland, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Vermont, Washington, West Virginia and the District of Columbia. These proceedings involved electric, gas, water, wastewater, telephone, solid waste, cable television, and navigation utilities. A list of dockets in which I have filed testimony over the past five years is included in Exhibit ACC-2.

Prior to my association with The Columbia Group, Inc., I held the position of

Economic Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987 to January 1989. From June 1982 to September 1987, I was employed by various Bell Atlantic (now Verizon) subsidiaries. While at Bell Atlantic, I held assignments in the Product Management, Treasury, and Regulatory Departments.

Q. What is your educational background?

A. I received a Master of Business Administration degree, with a concentration in Finance, from Temple University in Philadelphia, Pennsylvania. My undergraduate degree is a B.A. in Chemistry from Temple University.

Q. What exhibits are you sponsoring in this proceeding?

A. I am sponsoring the following exhibits:

Exhibit ACC-2	List of Prior Testimonies
Exhibit ACC-3	Puget Sound Energy Response to WUTC Staff Data Request No. 99, (workpaper SEF-3E-8G-ConversionFactor Tabs 4.01E and 4.01G)
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II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. I was engaged by Public Counsel to review the Multi-Year Rate Plan (MYRP) application filed by Puget Sound Energy (PSE) for its electric and gas applications, and to develop recommendations to the Washington Utilities and Transportation Commission (WUTC or Commission) regarding its requested revenue increases and Performance-Based Regulatory (PBR) Plan.

Q. Please summarize the Company's application in this proceeding.

A. On January 31, 2022, PSE filed for a three-year MYRP for both its electric and gas operations. On June 27, 2022, the Company revised its electric utility claim to include the impact of its Green Direct Program credit. The Company is proposing the following revenue increases:

Table 1. Requested Electric Base Revenue Increase

Electric:	2023	2024	2025
Cum. Base Revenue Increase	$330,013,401	$392,679,559	$402,865,299
Annual Base Revenue Change	$330,013,401	$62,666,158	$10,185,740
Other Revenue Changes	$17,051,598	$358,282	$40,968,220
Net Revenue Change	$347,064,999	$63,024,440	$51,153,960
Percent Change	15.19%	2.44%	1.93%

Table 2. Requested Gas Base Revenue Increase

Gas:	2023	2024	2025
Cum. Base Revenue Increase	$165,483,178	$195,373,105	$218,700,287
Annual Base Revenue Change	$165,483,178	$29,889,927	$23,327,182
Other Revenue Changes	($22,490,173)	($1,351,282)	($16,014)
Net Revenue Change	$142,993,005	$28,538,645	$23,311,168
Percent Change	12.98%	2.29%	1.83%

With regard to electric operations, the "Other Revenue Changes" are primarily composed of a) resetting the PCORC, which reduces revenues, b) the impact of the Green Direct Program credit, and c) moving the Colstrip costs to a tracking mechanism. With regard to the gas utility, the "Other Revenue Changes" primarily relate to resetting the gas cost recovery rider to zero. In both utilities, there are also smaller adjustments to synchronize the revenue requirement schedules with the rate design schedules, which requires an additional adjustment for "Change in Load."

Q. Is the Company's filing consistent with recent legislation in Washington?

A. Yes, it is. The Revised Code of Washington (RCW) 80.28.425 requires utilities that file a base rate case after January 1, 2022, to propose a MYRP for a period of up to four years. In addition, the statute requires that the Commission determine a set of performance measures that will be used to assess a company's performance under a MYRP.

Q. Has the Company also proposed a series of metrics and Performance Incentive

Mechanisms (PIMs)?

A. Yes, as discussed in the testimony of Dr. Mark N. Lowry, the Company is proposing to track a series of performance metrics over the course of the MYRP. In addition, PSE proposes two PIMs, which would provide the Company with incentive awards if it meets certain targets. Dr. Lowry's proposed performance metrics are in addition to the metrics currently tracked and reported by the Company.

Q. How is the remainder of your testimony organized?

A. In Section III of my testimony, I address the difficulties inherent in a review of a MYRP and I discuss the practical challenges faced by Public Counsel and other parties in this case. In Section IV, I provide specific revenue requirement recommendations for the Commission. In Section V, I discuss the Company's proposed PBR plan and its proposed PIMs. I provide a brief summary of Public Counsel's conclusions and recommendations in Section VI.

III. MULTI-YEAR RATE PLAN ISSUES

Q. Please describe the Company's MYRP proposal in this case.

A. PSE proposes a three-year MYRP for its electric and gas operations. The Company's proposal includes electric base rate increases of $330.013 million in 2023, of $62.666 million in 2024, and of $10.156 million in 2025. The revenue requirement impact of each adjustment is shown in the testimony of Susan E. Free, Exhibit SEF-13, page 2. As shown in that exhibit, power costs account for $177.6 million, or approximately 54 percent, of the Company's requested 2023 base revenue increase of $330.0 million. Years 2 and 3 of the MYRP are driven primarily by projected plant additions.

Over the period of the MYRP, electric ratepayers would pay an additional $1.125 billion in electric utility base rates.

The Company's gas utility proposal includes base rate increases of $165.483 million in 2023, of $29.890 million in 2024, and of $23.327 million in 2025. Thus, over the three-year period, gas utility ratepayers would pay an additional $579.556 million in base utility rates under the Company's proposal.

The Company's filing is based on a test year ending June 30, 2021. PSE then made a series of restating and pro forma adjustments to bring their results through to December 31, 2021. In addition, the Company included a 2022 "Gap Year." Therefore, the 2023 rate change includes the impact of a) actual test year results, b) restating adjustments, c) pro forma adjustments, and d) Gap Year adjustments.

Q. What are the challenges that arise in evaluating a MYRP?

A. The MYRP results in specific challenges from both a practical and technical standpoint. Because of the nature of the MYRP, the overall modeling is much more complex than would be found in an ordinary rate case. There are approximately 140 separate workpapers that support the revenue requirement in some manner, most of which are linked in the Company's system. Since these workpapers are not linked in my system, I am unable to accurately quantify the impact of my revenue requirement adjustments.

As an example, assume that Public Counsel recommends a plant disallowance in 2023. In addition to impacting the gross plant reflected in rate base, that adjustment will also impact depreciation expense, the depreciation reserve, the accumulated deferred income tax reserve, operating income, income taxes and property taxes. The calculation is further complicated by the fact that adjustments for the depreciation reserve, accumulated deferred income tax reserve, income taxes and property taxes will be different in each year. Moreover, the Company has proposed a different capital structure each year. Its proposed cost of capital increases each year, which further complicates the calculation of an accurate annual revenue requirement.

In addition to difficulties with determining the appropriate rate base under a MYRP, in this case we have also had difficulties reviewing certain operating expenses. In many cases, the restating and pro forma adjustments made to the test year were then replaced with the Company's budgeted data for 2023, 2024, and 2025, as well as for the Gap Year. This means that the impact of certain pro forma adjustments – such as incentives, wage increases, insurance, and others are essentially overridden by the budgeted data used in 2023–2025.

Q. Have you been able to quantify the revenue requirement impact of the adjustments recommended by Public Counsel?

A. While Public Counsel has quantified specific revenue, expense, rate base, and cost of capital adjustments, I am not able to determine the overall impact of these adjustments on the Company's revenue requirement during each year of the MYRP with the degree of accuracy that would be present in a traditional rate case. I have provided an estimate of the overall impact of our adjustments on each year of the MYRP. However, in many cases, the revenue requirement impacts are broadly estimated and should not be used by the Commission as anything more than a general guide regarding the relative impact of our adjustments.

Q. Have you asked the Company to run Public Counsel's adjustments through their MYRP model to more accurately determine the overall impact of your adjustments on the Company's revenue requirement?

A. We have had some informal discussions in this regard. However, there was not sufficient time to compile all of Public Counsel's adjustments and to make a formal request for modeling prior to the filing date of Public Counsel's Response Testimony. However, now that Public Counsel has completed its review of the Company's filing, we will be requesting that the Company rerun its models to more accurately quantify the impact of Public Counsel's adjustments.

Q. Do you have any other concerns about the MYRP?

A. Yes, I do. Although the Company is proposing a MYRP, one troubling aspect of the Company's filing is that PSE is proposing certain undefined off-ramps. On pages 16–18 of testimony, Jon Piliaris states that current inflationary pressures were not considered in developing the annual revenue requirements included in the MYRP. The Company proposes "revisiting this issue with a specific proposal either through supplemental testimony, approximately one month before response testimony is due, or as part of its rebuttal testimony in this case." The Company did not file supplemental testimony addressing this issue. Moreover, if the Company includes a specific proposal as part of its rebuttal testimony, the procedural schedule does not provide the other parties with an opportunity to respond.

In addition, on page 20 of testimony, Piliaris discusses the "unforeseen" cost impacts of the Climate Commitment Act (CCA), and again states that some mechanism to handle these costs will be required. At this time, the Company does not propose a specific mechanism but suggests that options include a) a price schedule adjustment, b) filing a petition for deferral, or c) some combination of the two.

Q. Are you concerned about the Company's proposals to update its claim as part of its rebuttal testimony and/or to provide a specific mechanism at some point in the future to address the cost impacts of the CCA?

A. Yes, I am. If a MYRP is approved, ratepayers should have certainty regarding their base rates over the next three years. Allowing the Company to implement a MYRP without this rate surety inappropriately transfers all risk from the Company to ratepayers during the MYRP.

Under the Company's proposal, it would benefit from the framework of a MYRP but also be free to request additional adjustments for inflation, CCA impacts, and potentially for other items as well. If the Company is unable to operate within the MYRP framework, then the Commission should reject the proposed MYRP and authorize rates in the traditional manner.

Q. Does the Company's MYRP proposal include a process for review and true-up of projected costs?

A. Yes, it does. PSE is proposing to implement two new base rate tariffs – Schedule 141N would be that portion of its revenue requirement that is not subject to true-up and refund, while Schedule 141R would be amounts that are subject to review and refund. The Company is proposing that all estimated plant-related costs would be subject to true-up and refund, to the extent such costs exceed a 50-basis point rate of return threshold.

PSE is proposing to make an annual true-up filing by March 31st of each year to review the actual investment made during the prior year and to confirm that the actual costs were reasonable. PSE requests that the Commission examine these costs on a portfolio basis, rather than on a project-by-project basis. The Company is proposing a three-month review process. At the end of the review period, the revenue requirement associated with refundable amounts either would be transferred from Schedule 141R to Schedule 141N, or would be refunded.

Q. Do you have any comments on the proposed true-up mechanism?

A. Yes, while I generally support the true-up process being recommended by the Company, I recommend two adjustments. First, I recommend that the threshold for refunds be reduced, so that all amounts over the projected revenue requirement associated with capital additions be subject to refund. Permitting a 50-basis point "cushion" would allow PSE to earn approximately 100 basis points above its authorized equity return prior to any refunds being issued. In my view, allowing the Company to earn an additional 100 basis points on equity provides an incentive for PSE to overstate its projected plant additions.

Second, I am concerned that a three-month review period may not provide adequate time for the parties to review the actual data from the prior year, determine if all of the capital expenditures were prudent and reasonable, identify the amounts that should be transferred from Rate 142R to Rate 142N, and determine new tariffs. I am recommending a review period of at least four months, which is the period agreed to by various parties in the stipulation recently submitted in the Avista general rate case. [1]

IV. RECOMMENED REVENUE REQUIREMENT ADJUSTMENTS

Q. Please identify the Public Counsel witnesses that are sponsoring adjustments in this case that impact the revenue requirement calculation.

A. Dr. J. Randall Woolridge is sponsoring testimony on cost of capital and capital structure issues. Dr. Robert Earle is sponsoring testimony on power costs, the Tacoma LNG project, and the Green Direct Program credit. Shay Bauman is sponsoring testimony on Advanced Metering Infrastructure (AMI). Stephanie Chase is sponsoring testimony related to IT investments and low-income issues. Glenn Watkins is sponsoring testimony on pro forma revenues, rate spread and design, and associated variable costs. David Garrett is sponsoring testimony on depreciation. Finally, I am sponsoring several revenue requirement adjustments. I have incorporated the recommendations of other Public Counsel witnesses in my revenue requirement recommendation. The revenue requirement impact of each of Public Counsel's electric utility adjustments is shown in the Electric Revenue Requirement Summary Schedule, Exhibit ACC-4, page 1. A similar schedule is showing the revenue requirement impact of Public Counsel's gas adjustments is shown in Exhibit ACC-5, page 1.

Q. Please describe the revenue requirement adjustments that impact both electric and gas operations.

[1] Full Multiparty Settlement Stipulation at 10, *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-220053, UG-220054, and UE-210854 (*Consolidated*) (filed June 28, 2022).

A. Public Counsel is recommending electric and gas adjustments relating to the WUTC Annual Filing Fee, Capital Structure and Cost of Capital, Depreciation Expense, AMI Investment, COVID Deferrals, Projected Operating and Maintenance (O&M) costs, Programmatic Plant Additions, Projected Plant Additions, and Specific Plant Additions.

Q. Please describe your adjustment relating to the WUTC Annual Filing Fee.

A. In its filing, PSE included a revenue conversion factor of 0.752355 for its electric operations and of 0.754801 for its gas operations. The revenue conversion factor is used to gross up the operating income deficiency to a revenue requirement basis. The revenue conversion factor includes bad debt expense, the WUTC annual filing fee, the state utility tax, and federal income taxes.

After the case was filed, the WUTC annual filing fee was increased from 0.2 percent to 0.4 percent through Senate Bill 5634.[2] In response to Staff Data Request No. 99, attached herein as Exhibit ACC-3, the Company quantified the impact of this change on its revenue requirement. In addition to the impact related to the revenue conversion factor, the change in the filing fee rate also impacted the WUTC annual filing fee expense included in the MYRP. On my electric summary schedule at Exhibit ACC-4, page 1, I have made an adjustment on Line 1 to reflect the impact of the increase in the WUTC filing fee rate for the electric utility. A similar adjustment for the gas utility is shown in Exhibit ACC-5, page 1, at Line 1. These adjustments include both the impact on the Company's revenue conversion factor as well as the impact on the annual WUTC expense. In addition, I have utilized the updated

[2] S. B. 5634, 67th Leg., 2022 Reg. Sess. (Wash. 2022).

conversion factors of 0.750775 for electric and of 0.753221 for gas to determine the revenue requirement impact of Public Counsel's other adjustments.

Q. What capital structure and cost of capital did the Company utilize in this case?

A. PSE included a capital structure that included 49.0 percent common equity in 2023, 49.5 percent common equity in 2024, and 50.0 percent common equity in 2025. In addition, it is requesting an authorized cost of equity of 9.90 percent. The Company's projected debt costs range from 4.98 percent in 2023 to 5.08 percent in 2025. However, based on the changes in capital structure each year, the Company's weighted average cost of debt is 2.54 percent for each year of the MYRP.

Q. What is the capital structure and cost of capital that Dr. Woolridge is recommending?

A. Dr. Woolridge is recommending the following capital structure and cost rates, to apply in all three years of the rate plan:

Table 3. Public Counsel Recommended Cost of Capital

Capital	Ratio	Cost	Weighted Cost
Short-term Debt	1.66%	2.09%	0.03%
Long-term Debt	49.84%	5.07%	2.53%
Common Equity	48.50%	8.80%	4.27%
Total Capital	100.00%		6.83%

At Exhibit ACC-4, page 2, and Exhibit ACC-5, page 2, I have made adjustments to reflect the impact of Dr. Woolridge's recommended capital structure and cost rates on the Company's proposed electric and gas revenue increase proposals. In addition, I have quantified the impact of Public Counsel's other adjustments using Dr. Woolridge's capital structure and cost rates.

Q. Did the Company propose new depreciation rates in this case?

A. Yes, it did. Company witness Ned Allis sponsored the depreciation study submitted by PSE in this case. As shown in Free's Exhibit SEF-20, the Company's proposed depreciation rates result in the following revenue requirement increases:

Table 4. Impact of Company Proposed Depreciation Rates

	2023	2024	2025
Common Plant	$641,923	$676,418	$710,656
Electric	$12,417,732	$11,912,617	$10,942,092
Gas	$18,952,703	$21,835,151	$22,739,953
Total	$32,012,359	$34,424,187	$34,392,701

Public Counsel witness Garrett is recommending various adjustments to the Company's depreciation study. Recommendations summarized in Garrett's testimony result in the following adjustments to the Company's depreciation expense, based on utility plant balances at June 30, 2021:

Table 5. Impact of Public Counsel Proposed Depreciation Rates

Common Plant	($44,639)
Electric	($17,884,261)
Gas	($18,074,798)
Total	($36,003,698)

I have reflected these adjustments in Exhibit ACC-4, page 3 and in Exhibit ACC-5, page 3, for the electric and gas utilities respectively. However, these adjustments are likely understated in my revenue requirement model, since Garrett's adjustment is based on plant balances at the end of the test year. Given the significant plant additions projected during the MYRP, these proposed rates will likely result in a larger reduction to the Company's revenue requirements than the adjustments incorporated in my revenue requirement recommendation.

Q. How are costs associated with the AMI project currently being handled for ratemaking purposes?

A. PSE began implementation of AMI in 2016, and the project is anticipated to be completed in 2023. In prior cases, the Commission deferred a final determination on the prudence of the AMI project and ordered PSE to defer the return associated with its AMI investment. In this case, PSE is seeking authorization to begin to recover the return on its AMI investment in base rates. In addition, the Company is seeking to amortize the deferred return balance over a period of three years. The Commission has permitted PSE to recover the depreciation expense associated with the AMI project, so depreciation expense is not part of the current deferral.

Q. What is Public Counsel's recommendation regarding the AMI project?

A. As discussed in Bauman's testimony on page 20, "Public Counsel recommends the Commission continue to reserve a final prudency determination until a future rate case, when the AMI project is actually complete and all benefits can be presented accurately for evaluation." I have included two adjustments related to Public Counsel's recommendation. First, I have eliminated the return on AMI investment that was included in the Company's revenue requirement for each year of the MYRP. My adjustment is based on the net plant at the start of Rate Year 1 included in Adjustments 6.24 and 11.24 to Susan Free's testimony for the electric and gas utilities respectively. In addition, I have excluded return on the gross plant additions for each year of the MYRP. I have also estimated the additions to the reserve for depreciation for each year, to determine the net plant on which a return is based. I then applied Dr. Woolridge's proposed cost of capital in order to quantify the return component.

My electric adjustment is shown in Exhibit ACC-4, page 4, and my gas adjustment is shown in Exhibit ACC-5, page 4.

In addition, I have also eliminated the amortization expense associated with the deferred balance. Recovery of AMI deferrals should not be authorized until the Commission rules on the prudency of the underlying investment, and approves recovery of any deferral. My adjustments to eliminate the amortization expense are shown in Exhibit ACC-4, page 5 and Exhibit ACC-5, page 5 for the electric and gas utilities respectively.

Q. Please discuss your adjustment relating to the Company's COVID deferral.

A. On September 3, 2020, PSE filed a petition requesting authorization to defer certain costs associated with the COVID-19 pandemic. This request was approved in Dockets UE-200780 and UG-200781. In this case, PSE has proposed an adjustment to recover costs deferred through March 31, 2022, over a two-year period.

Q. What types of costs does the Company seek to recover?

A. PSE seeks to recover both direct costs and "foregone revenues." It has partially offset these costs with savings that it experienced during the deferral period. For the electric utility, the Company is seeking total deferred costs of $1,606,230, or $803,115 annually for the first two years of the MRYP. PSE is seeking recovery of deferred costs $499,777, or $249,888 annually, for the gas utility.

Q. Do you recommend that recovery of these costs be approved?

A. No, I do not, for several reasons. First, savings associated with the COVID-19 pandemic were greater than the direct costs claimed in the deferral. The largest component of the deferral relates to "foregone revenues" for late payment fees and disconnection fees. It is not reasonable to require ratepayers, many of whom suffered financially during the past two years despite disconnection moratoriums, to absolve the Company of any burden for these costs. These costs represent non-recurring costs and PSE shareholders should bear some of the burden for extraordinary costs incurred during the pandemic. Moreover, PSE was not conducting disconnections during the moratorium and no disconnection or late fees could be lawfully levied. PSE is not entitled to revenues from disconnection or late fees that would have been unlawful to impose. In addition, given the Company's overall revenues, these deferred costs are not only non-recurring, but also immaterial to the Company's financial integrity. For all these reasons, I recommend that the Company's request to recover this deferral from ratepayers be denied. My adjustments are shown in Exhibit ACC-4, page 6 for the electric utility and in Exhibit ACC-5, page 6 for the gas utility.

Q. How did the Company project operating and maintenance costs during the MYRP?

A. The Company used budgeted data in the MYRP, instead of projections that were directly linked to its historic test year. It based its projections on a combination of Base O&M and Incremental O&M. Its Base O&M adjustment reflects an increase of 13.9 percent from the test year to 2023, and then annual increases of 2 percent thereafter. The Incremental O&M is projected to increase from a total for both utilities of $64.2 million in 2023 to $84.3 million in 2025, an increase of 31.3 percent. Moreover, the vast majority of the Incremental O&M relates to Administrative and General (A&G) Expenses. The Company includes Incremental A&G O&M of $44.9 million in 2023, of $48.5 million in 2024, and of $58.5 million in 2025.

Q. Does the Company's O&M budget reflect significant costs for new employees and vacant positions?

A. Yes, it does. As shown in Exhibit ACC-6, PSE's response to Public Counsel Data Request No. 32, the Company included 53 new positions in its MYRP, relative to the number of positions that were reflected in its test year budget. However, actual positions at December 2021 were well below those reflected in the test year budget. As shown in Exhibit ACC-7, PSE's response to Public Counsel Data Request No. 31, PSE had 3,196 actual employees at December 31, 2021, well below the 3,348 positions included in its test year budget. Therefore, the Company has included significant new positions in its MYRP even though it apparently has not filled many of its current vacant positions.

Q. Should the Commission be especially cautious in evaluating a MYRP that is based on budgeted data?

A. Yes, it should. In this case, PSE proposes what amounts to the use of three future test periods, based on budgeted data, during the term of the MYRP. Companies frequently include unrealistic costs projections in their projected organizational budgets. This is especially problematic if those projections are used to set utility rates, as PSE seeks here.

Q. What do you recommend?

A. I have not adjusted the Base O&M that is included in the Company's claim. However, I reflected an adjustment to the Incremental A&G O&M costs included in the MYRP. Specifically, I am recommending that the Commission disallow 50 percent of these costs. Given the significant number of vacancies, as well as the number of new positions being requested, a significant disallowance of O&M costs is warranted. While not all of the new or vacant positions relate to A&G, A&G expense constitutes the largest expense category over the period of the MYRP. Similarly, not all of the Incremental A&G increase relates to vacant or new positions. Nevertheless, given uncertainty regarding future O&M costs, especially A&G costs, and the significant cost increases being claimed during the MYRP, I recommend that the Commission reduce the Company's claim. I am not recommending any disallowance to other categories of Incremental O&M such as Other Power Supply Expenses, Transmission Expenses, Distribution Expenses, Customer Accounts Expense, and Customer Service Expense. My adjustment to reduce the Incremental A&G O&M is shown in Exhibit ACC-4, page 8 for the electric utility and in Exhibit ACC-5, page 8, for the gas utility.

Q. Is the Company projecting significant plant additions in this case?

A. Yes, PSE is proposing cumulative plant additions of $2.837 billion for the electric utility and of $1.499 billion for the gas utility, as shown below:

Table 6. Proposed Electric Plant Additions

Electric ($000)	Pro Forma	Gap Year	2023	2024	2025
Programmatic	$137,362	$278,179	$195,610	$567,587	$528,061
Customer Driven	$35,713	$4,065	$4,047	$8,832	$11,853
Specific	$23,415	$92,270	$21,439	$113,725	$254,067
Projected	$85,734	$119,437	$68,834	$162,876	$124,055
Annual Additions	$282,224	$493,950	$289,930	$853,121	$918,035
Cumulative Additions	$282,224	$776,174	$1,066,104	$1,919,225	$2,837,260

Table 7. Proposed Gas Plant Additions

Gas ($000)	Pro Forma	Gap Year	2023	2024	2025
Programmatic	$45,363	$123,742	$78,212	$244,232	$173,511
Customer Driven	$56,058	$120,233	$51,144	$95,041	$85,648
Specific	$2	$240,670	$-	$2,056	$17,587
Projected	$22,844	$31,180	$19,159	$50,813	$41,843
Annual Additions	$124,267	$515,825	$148,514	$392,142	$318,589
Cumulative Additions	$126,267	$640,092	$788,607	$1,180,748	$1,499,337

This constitutes an increase of approximately 25 percent over the actual gross electric plant at June 30, 2021, and an increase of almost 31 percent over the actual gross gas plant at June 30, 2021.

Q. Is the Company proposing to true-up its actual versus projected capital additions during the MYRP?

A. It is. However, the Commission should not permit the Company to charge excessive utility rates even if those rates are eventually subject to a true-up. Instead, ratepayers have the right to expect that utility rates will reflect those plant additions necessary for the provision of safe and adequate utility service. Moreover, including excessive capital costs in rates provides the wrong incentive to the Company. The Commission should be mindful of the fact that shareholder earnings increase with every dollar of plant investment. PSE is not unique among utility companies in using growth in rate base as the springboard for earnings growth. If the Commission permits the Company to include excessive investment in rates, even if that investment is subject to true-up, the Company will have an incentive to spend up to the capital expenditures approved in this case. To provide appropriate incentives, the Commission should examine the Company's claims in light of past capital investment levels. The Commission should also examine and consider new programs proposed by the utility, particularly those that relate to new legal requirements and safety concerns. However, the Commission should not provide PSE with a blank check during the period of the MYRP.

Q. How are the Company's capital investment programs categorized?

A. The Company identifies four areas of capital investment — Programmatic, Customer-driven Programmatic, Specific, and Projected.

Q. Are you recommending adjustments to the Company's proposed capital additions during the period of the MYRP?

A. I am not recommending any adjustment to the Customer-driven Programmatic investment programs reflected in the Company's claim. However, I am recommending adjustments to the Programmatic, Projected, and Specific capital investment categories.

Q. Please describe your adjustment to the Programmatic capital additions projected by PSE during the MYRP.

A. With regard to Programmatic plant additions, the 2024 and 2025 projected additions are significantly higher than Programmatic additions in prior years. For the period 2017–2021, electric Programmatic plant additions averaged $269.6 million, while the Company has included 2024 additions of $567.6 million and 2025 additions of $528.1 million. With regard to the gas utility, Programmatic plant additions averaged $110.6 million for the period 2017–2021. In this case, PSE is proposing Programmatic plant additions of $244.2 million in 2024 and of $173.5 million in 2025. Even after the adjustment to remove the AMI investment discussed above, PSE has included electric and gas Programmatic plant additions that are far in excess of historic levels.

I am recommending that the 2024 and 2025 Programmatic plant additions for both the electric and gas utility be limited to 10 percent above the 2017–2021 average additions. This would result in electric Programmatic plant additions of $296.6 million and in gas Programmatic plant additions of $121.6 million, in both 2024 and 2025. In quantifying the revenue requirement impact of my adjustments, I first removed the AMI investment that was the subject of a prior adjustment in order not to double-count the impact of removing the return on AMI investment. My adjustments to Programmatic plant investment are shown in Exhibit ACC-4, page 8 for the electric utility and in Exhibit ACC-5, page 8 for the gas utility.[3]

Q. In quantifying your plant adjustments, did you also reflect the impact on depreciation expense and accumulated deferred income taxes?

A. No, I did not. As discussed in Section III of my testimony, adjustments to gross plant impact many other areas of the revenue requirement. My adjustments to Programmatic, Projected, and Specific plant investment reflect only the elimination of return on gross plant additions. I did not have the information necessary to quantify the impact of my adjustments on the depreciation reserve, on accumulated deferred income tax reserve, or on depreciation expense. However, I expect that the revenue requirement impact of the reserve additions would be largely offset by the impact on depreciation expense. As discussed earlier in my testimony, Public Counsel will work with PSE to quantify the impact of our adjustments using the Company's model as this case progresses.

[3] Workpapers for my plant adjustments are provided in Exhibit ACC-18.

Q. What adjustments are you recommending to the Company's claims for Projected electric and gas plant additions?

A. PSE did not track historic levels of "Projected" plant additions. However, for both its electric and gas utilities, the Company's estimated 2024 additions are considerably higher than additions proposed for the Gap Year or the first year of the MYRP. The 2024 additions are also considerably above those projected for 2025. For example, in the electric utility, the Company projects average annual Projected additions of $119.9 million for July 1, 2021, through December 31, 2023. However, in 2024, PSE has included Projected plant investment of $163.0 million, declining to $124.1 million in 2025. For the gas utility, the Company projects average annual Projected additions of $25.6 million for July 1, 2021, through December 31, 2023, increasing to $50.8 million in 2024 and then declining to $41.8 million in 2025.

As discussed in Chase's testimony, Public Counsel is recommending that three Information Technology (IT) projects be eliminated from the Company's claim. These include the Third Party Risk Adjustment program, the Radio Replatform project, and the SAP S/4 HANA project.

It is my understanding that two of these projects—the Third Party Risk Adjustment program and the Radio Replatform project, are included in the Company's Projected plant adjustment category. As shown in Exhibit SLT-5, pages 4–5, the Company estimated that $10.5 million for the Third Party Risk Assessment program and $10.0 million for the Radio Replatform project would be placed in service in 2025. Therefore, I have removed these costs from the Company's 2025 plant additions. My adjustment is based on an allocation of 65.94 percent to electric and of 34.06 percent to gas, based on the Company's four-factor allocation. This results in 2025 gross Projected plant additions of $110.5 million to electric and of $33.3 million to gas.

In addition, I am recommending that the Commission also include $110.5 million of Projected electric additions and $33.3 million of Projected gas additions in the Company's MYRP for 2024, resulting in adjustments of $52.4 million for electric and $17.5 million for gas. My adjustments are shown in Exhibit ACC-4, page 9, for the electric utility and in Exhibit ACC-5, page 9, for the gas utility.

Q. What adjustments are you recommending to the Specific category of plant investment during the MYRP?

A. With regard to Specific electric and gas capital projects, I am recommending disallowance of costs for projects that will not begin until 2024 or 2025. My adjustment is not based on the merits of the individual projects but on concerns about whether these projects will be completed within the period of the MYRP. At this time, I believe that these projects are too speculative to be included in rates because they occur in the latter part of the MYRP and start dates are often delayed. In addition, Chase's testimony raises specific concerns about one of these projects—the SAP S/4 HANA project. Public Counsel's adjustments result in gross plant disallowances of approximately $4 million in 2024 and of $41 million in 2025 for the electric utility and of $1.8 million in 2024 and $6.7 million in 2025 for the gas utility. My adjustments are shown in Exhibit ACC-4, page 10 for the electric utility and in Exhibit ACC-5, page 10 for the gas utility. Public Counsel is also recommending disallowance of the Tacoma LNG project, which is a Specific project, but those costs are in the Gap Year.

Q. What is the total level of capital investment that you recommend be disallowed?

A. My recommendations will result in disallowance of approximately 26.5 percent of the investment claimed by the Company over the period of the MYRP, excluding the AMI project.

Q. In addition to the adjustments discussed above that impact both the electric and gas utility, is Public Counsel recommending any adjustments that only impact one utility?

A. Yes, Public Counsel is recommending three adjustments that only impact the electric utility – Power Costs, Pro Forma Revenue, and Storm Amortization. In addition, Public Counsel is recommending certain adjustments to costs related to the Tacoma LNG facility that only impact the gas utility.

Q. Please describe the power cost adjustment proposed by Public Counsel.

A. As discussed in the testimony of Dr. Earle, Public Counsel is recommending that the Commission disallow costs associated with [redacted]. Dr. Earle's recommendation results in an additional expense disallowance [redacted]. Since Dr. Earle's recommended disallowance is based on confidential information, I have not included it in my overall revenue requirement recommendation shown in Exhibit ACC-4, page 1. However, Public Counsel recommends that Dr. Earle's recommended disallowance be adopted by the Commission and incorporated into the final revenue requirements authorized in this case. The revenue requirement impact of Dr. Earle's recommendation is a further reduction from what is shown in Exhibit ACC-4, page 1, of [redacted] [redacted].

Q. Please discuss Public Counsel's adjustment related to pro forma revenues.

A. The Company's filing includes a significant reduction of approximately $55 million to pro forma electric revenue in the Gap Year. Much of this adjustment (approximately $49 million) relates to reductions in residential usage. Public Counsel witness, Watkins is sponsoring an adjustment to the Company's billing determinants to reflect additional sales in each year of the MYRP relative to the levels proposed by PSE. In addition, Watkins estimated the additional variable costs that will incur as a result of these additional sales. I have incorporated the net margins resulting from Watkins' adjustment into my revenue requirement recommendations for each year of the MYRP. My adjustments are shown in Exhibit ACC-4, page 11.

Q. Please describe the Company's electric adjustments relating to Storm costs.

A. The Company included two adjustments in its filing. First, in Adjustment 6.48, the Company reflected a $10 million threshold of annual normalized storm damage expense in its revenue requirement claim for the MYRP period. In addition, in Adjustment 6.51, the Company seeks authorization for a four-year amortization of new storm deferral balances of $49.6 million. In this adjustment, the Company has also recognized that certain previously-approved costs will be fully amortized during the term of the MYRP.

Q. Are you recommending any adjustments to the Company's claim?

A. I am not recommending an adjustment to the level of normalized storm damage expense. However, I recommend amortizing new storm deferrals over a period of five years, instead of over the four-year period proposed by the Company. In the past, the Commission has selected amortization periods ranging from four to six years for storm damage costs. Given the magnitude of the new storm deferrals, I believe that a five-year period is more appropriate and will mitigate the impact on ratepayers. My adjustment is shown in Exhibit ACC-4, page 12.

Q. Please discuss Public Counsel's recommended adjustments to the Tacoma LNG Facility and Associated Upgrades.

A. PSE is deferring costs associated with the Tacoma LNG Facility and Associated pipeline upgrades. In Adjustments 11.48 and 11.50, the Company seeks recovery of these deferrals. In addition, the Company seeks to include all costs associated with the Tacoma LNG facility and associated upgrades in prospective rates.

As discussed in Dr. Earle's testimony, Public Counsel recommends that the Commission deny the Company's request for recovery of the Tacoma LNG facility and related pipeline upgrades. Therefore, at Exhibit ACC-5, page 11, I have eliminated this investment from the Company's revenue requirement. I have also made an adjustment to eliminate associated operating costs and depreciation expense. Finally, at Exhibit ACC-5, page 12, I have also eliminated recovery of previously deferred costs associated with the LNG facility and associated upgrades.

Q. What is the impact of Public Counsel's recommendations to PSE's requested revenue increase for each year of the MYRP?

A. Public Counsel's recommendations reduce PSE's requested rate increases. For electric base revenues, Public Counsel's recommendations result in the following lower base revenue increases for each year of the MYRP, as shown in Exhibit ACC-4, page 1.

Table 8. Public Counsel Electric Utility Analysis

Electric Base Rate Increase:	2023	2024	2025
Company Proposal	$330,013,401	$62,666,158	$10,185,740
Impact of Public Counsel Recommendations ($)	$215,740,657	$28,568,882	($26,790,094)
Difference Between Company Proposal and Impact of Public Counsel's Recommendations ($)	($114,272,744)	($34,097,276)	($36,975,834)
Impact of Public Counsel Recommendations (%)	9.44%	1.14%	-1.06%

These amounts *exclude* the impact of Dr. Earle's power cost adjustment. The revenue requirement impact of Dr. Earle's power cost recommendation is a further reduction to the electric revenue requirement of [redacted], making the impact of Public Counsel's recommendations in [redacted]. The difference between PSE's proposal and the impact of Public Counsel's recommendations would be [redacted].

For gas base revenues, Public Counsel's recommendations result in the following lower base revenue increases for each year of the MYRP, as shown in Exhibit ACC-5, page 1:

Table 9. Public Counsel Gas Utility Analysis

Gas Base Rate Increase:	2023	2024	2025
Company Proposal	$165,483,178	$29,889,927	$23,327,182
Impact of Public Counsel Recommendations ($)	$71,775,549	$15,791,481	$15,423,413

Shaded Information is Designated as Confidential per Protective Order in Dockets UE-220066, UG-220067 and UG-210918 (Consolidated)

Gas Base Rate Increase:	2023	2024	2025
Difference Between Company Proposal and Impact of Public Counsel's Recommendations ($)	($93,707,629)	($14,098,446)	($7,903,769)
Impact of Public Counsel Recommendations (%)	6.52%	1.35%	1.30%

Q. Do you support the Company's proposal to move all costs associated with Colstrip into a tracker?

A. Yes, I do. While I am generally opposed to the use of trackers, I am not opposed to a tracker mechanism in this case, given the unique circumstances of the Colstrip facility and the requirement that costs be removed from rates after 2025. However, Public Counsel is opposed to the recovery of any costs associated with dry ash investment, or recovery of any capital costs that are intended to extend the operational life of the facility. We reserve our right to oppose recovery of any such costs that may be included in the tracker.

In addition, the Company is proposing accelerated recovery of major overhaul costs that are incurred during the MYRP, so that all such costs can be charged to ratepayers by the end of 2025. This would result in amortizing costs for the Unit 4 overhaul, which is due to occur in the spring of 2025, over 18 months. The Unit 3 overhaul, scheduled for the spring of 2025, would be amortized over six months. Public Counsel opposes this proposal. Instead, I recommend that any major overhaul costs be amortized over a four-year period, which is the current interval for major maintenance overhauls, as discussed in the testimony of PSE Witness Mark A. Carlson at page 8.[4] I further recommend that shareholders (or other owners) absorb

[4] Mark A. Carlson, Exh. MAC-1CT at 8.

any costs that are not amortized by the end of the MYRP. Ratepayers should not be required to fund 100 percent of these overhaul costs, which are intended to keep the plant operating for a multi-year period, when they will not benefit from Colstrip after 2025.

V. PERFORMANCE BASED RATEMAKING

A. Introduction

Q. Has the Washington legislature enacted legislation requiring an examination of the existing regulatory framework for utilities?

A. Yes, it did. In 2021, as part of Senate Bill 5295 ("2021 Legislation"), which addressed multi-year rate plans, the Washington legislature enacted legislation requiring the Commission to examine alternatives to traditional cost of service regulation. The 2021 Legislation required the Commission to open a proceeding to address alternatives to traditional cost of service regulation, including performance based regulation. Specifically, the legislation provides:

> (1) To provide clarity and certainty to stakeholders on the details of performance-based regulation, the utilities and transportation commission <u>is directed to conduct a proceeding to develop a policy statement addressing alternatives to traditional cost of service rate making</u>, including performance measure or goals, targets, performance incentives, and penalty mechanisms. As part of such a proceeding, the utilities and transportation commission must consider factors including, but not limited to, lowest reasonable cost planning, affordability, increases in energy burden, cost of service, customer satisfaction and engagement, service reliability, clean energy or renewable procurement, conservation acquisition, demand side management expansion, rate stability, timely execution of competitive procurement practices, attainment of state energy and emissions reduction policies, rapid integration of renewable energy resources, and fair compensation of utility employees.[5] (Emphasis added.)

[5] Engrossed Substitute S. B. 5295, 67th Leg., 2021 Reg. Sess. § 1 (Wash. 2021) (emphasis added).

Q. What is the status of this proceeding?

A. This generic proceeding (Docket U-210590) was initiated on October 11, 2021, by the Commission's Notice of Opportunity to File Written Comments. The Commission subsequently issued a Workplan, which contains a schedule for five phases of investigation and the following timeline:

Table 10. Docket U-210590 Timeline

Topic	Anticipated Date
Phase 1 - Performance Metrics	October 2021 - March 2023
Phase 2A – Reporting and Review	April 2023 – December 2023
Phase 2B – Multiyear Rate Plans Revenue Adjustment Mechanism	April 2023 – March 2024
Phase 3 – Performance Incentive Mechanisms	January 2024 – December 2024
Phase 4 – Alternatives to Traditional Cost of Service Regulation	January 2025 – December 2025
Phase 5 – Continuous Policy Process	January 2025 - Ongoing

Q. What are the statutory requirements that govern MYRP and PBR?

A. In addition to requiring that the Commission implement a proceeding to address alternatives to traditional cost of service regulation, the 2021 Legislation also requires every general rate case filing made after January 1, 2022, by an electric or gas company to include a proposal for a MYRP. Moreover, the legislation requires that if a MYRP is approved, the Commission must "determine a set of performance measures that will be used to assess a gas or electrical company operating under a multiyear rate plan."[6] Specifically, the legislation provides that:

> The commission must, in approving a multiyear rate plan, determine a set of performance measures that will be used to assess a gas or electrical company operating under a multiyear rate plan. These performance measures may be based on proposals made by the gas or

[6] Engrossed Substitute S. B. 5295, 67th Leg., 2021 Reg. Sess., § 2(7) (Wash. 2021).

> electrical company in its initial application, by any other party to the proceeding in its response to the company's filing, or in the testimony and evidence admitted in the proceeding. In developing performance measures, incentives, and penalty mechanisms, the commission may consider factors including, but not limited to, lowest reasonable cost planning, affordability, increases in energy burden, cost of service, customer satisfaction and engagement, service reliability, clean energy or renewable procurement, conservation acquisition, demand side management expansion, rate stability, timely execution of competitive procurement practices, attainment of state energy and emissions reduction policies, rapid integration of renewable energy resources, and fair compensation of utility employees.

Q. Does the Company's rate filing include provisions for a MYRP and related performance measures?

A. Yes, it does. PSE is proposing a three-year MYRP as part of this proceeding. In addition, the Company is proposing to track various performance metrics, and to implement two PIMs.

B. Outline of Company Proposals

Q. Is PSE currently required to track any performance metrics?

A. Yes, the Company is currently required to track performance metrics, including several reliability and customer service performance metrics that PSE is proposing in this case. As shown in Table 2 to Dr. Lowry's testimony,[7] PSE already tracks the following metrics:

- Complaints per 1,000 Customers
- Customer Satisfaction – Customer Service
- Customer Satisfaction – Field Service
- Calls Answered within 60 Seconds

[7] Direct Testimony of Mark N. Lowry, Exh. MNL-1T at 23, Table 2.

- Percent of Appointments Kept
- Average Gas Emergency Response Time
- Average Electric Emergency Response Time
- System Average Interruption Frequency Index (SAIFI) – All Current Year
- System Average Interruption Frequency Index (SAIFI) – Excluding IEEE[8] Defined Major Events Adjusted to Exclude Catastrophic Days
- System Average Interruption Duration Index (SAIDI) – All Current Year
- System Average Interruption Duration Index (SAIDI) – Excluding IEEE Defined Major Events Adjusted to Exclude Catastrophic Days

Q. Does the Company have targets associated with these metrics?

A. The Company has targets for all of these currently tracked metrics except for SAIFI and SAIDI All Current Year metrics. The Company is not proposing to implement targets for these two measures because these metrics, which track all outages, are "difficult for a utility to control due to their sensitivity to severe storms, wildfires, and other volatile external events."[9]

The current targets for the remaining metrics were established in prior proceedings before the Commission, in some cases dating back to 1997.[10] The most recent target, for calls answered within 60 seconds, was authorized in Dockets UE-170033 and UG-170034.

Q. Is the Company proposing to make any changes to the performance metrics that are currently being tracked?

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[8] Institute of Electrical and Electronics Engineers.
[9] Crane, Exh. ACC-8 (Puget Sound Energy Response to Public Counsel Data Request No. 127).
[10] Crane, Exh. ACC-9 (Puget Sound Energy Response to The Energy Project Data Request No. 9).

A. The Company is proposing minor changes to two performance metrics related to service quality, as described on pages 49–51 in the testimony of Catherine A. Koch. First, with regard to SAIDI, it is proposing to transition from the IEEE Standard 2003 to the IEEE Standard 2012 and to move the baseline required by WAC 480-100-388 from 2003 to 2014 performance. These changes do not affect the current benchmark of 155 minutes.

PSE also proposes to make these same changes to its SAIFI service quality index. In addition, it is proposing to change the methodology used to measure SAIFI catastrophic events to align with the methodology used for SAIDI. This will reduce the current benchmark from 1.3 to 1.2.

Q. Is the Company proposing to terminate certain measures that it is currently tracking?

A. Yes, it is. The Company currently provides an Annual Service Quality and Electric Service Reliability Report that includes numerous performance metrics in addition to those proposed by Dr. Lowry as part of the Company's PBR proposal in this case. As discussed on page 54 of testimony by C. Koch, the Company is proposing to discontinue tracking of two SAIFI measures and two SAIDI that were previously required pursuant to Docket UE-110060 and WAC 480-100-393. These measures include SAIFI and SAIDI five-year averages (excluding certain events) and SAIFI and SAIDI non-five percent exclusion major event days. I am not opposed to eliminating these measures, as I believe that other proposed metrics will provide similar data.

Q. Has the Company met its reliability and customer service targets over the past five years?

A. As shown in the response to Public Counsel Data Request No. 155,[11] prior to 2021, the Company had met its reliability and customer service targets in all areas except for SAIDI Excluding IEEE-Defined Major Events Adjusted to Exclude Catastrophic Days. PSE missed that metric in 2017 and 2020. In 2021, the Company failed to achieve its targets in three areas – Average Electric Emergency Response Time, SAIFI Excluding IEEE-Defined Major Events Adjusted to Exclude Catastrophic Days and SAIDI Excluding IEEE-Defined Major Events Adjusted to Exclude Catastrophic Days, as shown in Exhibit ACC-10.

Q. Are the current performance metrics subject to rewards or penalties?

A. The current performance metrics are not subject to any rewards. In some cases, the current metrics are subject to penalties. In addition to penalties associated with the Company's reliability and customer service metrics, PSE also has customer guarantees relating to missed appointments and the duration of outages. A $50 credit is provided to customers if PSE fails to meet a scheduled appointment, if a power outage exceeds 120 consecutive hours, and if a power outage is longer than 24 hours during a non-major storm.

Q. How much has the Company incurred in penalties related to its 2021 performance?

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[11] Crane, Exh ACC-10 (Puget Sound Energy Response to Public Counsel Data Request No. 155).

A. As shown in Attachment B to the Company's response to Public Counsel Data Request No. 118,[12] PSE was assessed penalties of $613,636 relating to its failure to meet the Electric Emergency Response Time and $129,808 relating to its failure to meet the SAIFI metric. It was also assessed $15,200 for failure to meet scheduled appointments and $18,100 as compensation for non-major storm outages exceeding 24 hours. The Company is currently appealing its penalty relating to its Electric Emergency Response Time, arguing in Docket UE-220216 that its 2021 results were impacted by unusual and exceptional circumstances, including multiple weather events, the COVID pandemic, and employment challenges.[13]

Q. Is the Company also proposing to introduce new performance metrics in this case?

A. Yes, it is. PSE is proposing to add additional performance metrics regarding Service Quality Indices, Demand Side Management, Electric Vehicles, Greenhouse Gas Emissions, Advanced Metering Infrastructure, and Equity.

Q. What new Service Quality performance metrics is the Company proposing?

A. With regard to Service Quality, PSE is proposing the following additional performance metrics:

- SAIFI for Highly Impacted Communities and Vulnerable Populations (collectively, "Named Communities"); SAIFI for Named Communities

[12] Crane, Exh ACC-11 (Puget Sound Energy Response to Public Counsel Data Request No. 118).
[13] *In re: the Petition of Puget Sound Energy for Penalty Mitigation Associated with Service Quality Index No. 11 – Elec. Safety Response Time Annual Performance for Period Ending Dec. 31, 2021*, Docket UE-220216 (filed Mar. 29, 2022). Public Counsel is a party in that docket.

Excluding IDD Defined Major Events Adjusted to Exclude Catastrophic Days;

- SAIDI for Named Communities; and
- SAIDI for Named Communities Excluding IDD Defined Major Events Adjusted to Exclude Catastrophic Days.

No performance targets are proposed for any of these new Service Quality metrics. However, it is interesting to note that the historical data presented in the proposed PSE Scorecard in Dr. Lowry's testimony, shows superior performance in each and every year in Named Communities versus the system-wide results.[14] This finding is curious in light of the fact that the Company indicated in response to Staff Data Request No. 288 that it first calculated a SAIDI and SAIFI for Named Communities in September 2021.[15]

Q. What performance metrics is PSE proposing for Demand Side Management?

A. With regard to Demand Side Management, PSE is proposing the following additional metrics:

- Peak Load Management Savings – MW (Target 5 MW);
- Peak Load Management Savings Attributable to Residential Customers – MW;
- Annual Energy Efficiency Savings – Electric – MWh (Target 239,026 MWh);
- Annual Energy Efficiency Savings – Gas – Therms (Target 3,572,307 therms); and

[14] Lowry, Exh MNL-1T at 23, Table 2.
[15] Crane, Exh ACC-12 (Puget Sound Energy Response to WUTC Staff Data Request No. 288).

- Number of Customers Participating in Electric and Gas Energy Efficiency Programs (including low-income programs) in Named Communities

The Company does not propose targets for the Peak Load Management. Savings Attributable to Residential Customers or the Number of Customers Participating in Electric and Gas Energy Efficiency Programs who are located in Named Communities. Targets are proposed for the other three Demand Side Management performance metrics. The Peak Load Management Savings targets are the same targets that were presented by the Company in its Clean Energy Implementation Plan (CEIP). The Annual Energy Efficiency Savings for electric and gas were approved by the Commission in Dockets UE-210822 and UG-210823.[16]

Q. Please discuss the Electric Vehicle (EV) performance metrics being proposed by PSE.

A. PSE is proposing the following four performance metrics relating to Electric Vehicles:

- Number of Light Duty Electric Vehicles in Service Territory;
- Number of EV Chargers used in Managed Load Programs or Time of Use Rates (Single-Family Residential) (Target 5,000);
- Number of EV Chargers used in Managed Load Programs or Time of Use Rates (Fleet) (Target 47); and
- Number of Public Charging Ports Serving Named Communities.

[16] *In re: Puget Sound Energy 2020-2029 Ten-Year Achievable Elec. Conservation Potential and 2022-2023 Biennial Conservation Target Under RCW 19.285.040 and WAC 480-109-010*, Dockets UE-210822, Order 01 (Jan. 18, 2022); *In re: Puget Sound Energy 2022-2023 Biennial Acquisition Target Under RCW 80.28.380*, Docket UG-210823, Order 01 (Jan. 18, 2022). *See also,* Crane, Exh. ACC-9 (Puget Sound Energy Response to The Energy Project Data Request No. 9).

The Company proposes targets for two of the four EV performance metrics, those associated with the number of EV chargers (residential and fleet) used in managed load programs or time of use rates. The targets proposed for these two metrics are based on targets submitted to the Washington Joint Electric Vehicle Supply Equipment (EVSE) Stakeholder Group and assume that that the Company's time of use proposals as well as its EV programs will be approved as submitted. It is my understanding that these targets are still preliminary and have not been finalized.

Q. Please discuss the Greenhouse Gas Emissions performance metric being proposed by PSE.

A. PSE is proposing one performance metric relating to Greenhouse Gas Emissions, specifically CO_2 Emissions from Company-owned Electric Operations. The Company is not proposing a target for this performance metric.

Q. Please discuss the Advanced Metering Infrastructure (AMI) performance metrics that PSE is proposing.

A. PSE is proposing the following four performance metrics relating to AMI:

- AMI Bill Read Success Rate – Electric (Target – 99.5 percent beginning 2024);
- AMI Bill Read Success Rate – Gas (Target – 99.5 percent beginning 2024);
- Remote Switch Success Rate (Target – 99 percent beginning 2024); and
- Reduced Energy Consumption from Voltage Reductions (kWh) (Target – 6 million).

The target for Reduced Energy Consumption from Voltage Reductions was approved by the Commission in Docket UE-210822.[17]

Q. Please describe the additional equity metrics being proposed by PSE.

A. The Company is proposing two equity metrics. First, it is proposing to track the number of low-income customers receiving bill assistance for both gas and electric customers. Second, it is proposing to track the share of bill assistance customers who are in Named Communities. The Company is not proposing a target for either of these performance metrics.

Q. Is PSE proposing to implement any PIMs as part of this proceeding?

A. Yes, the Company is proposing to implement two PIMs. First, PSE proposes to implement a Demand Response PIM. Under the Company's proposal, PSE would earn a payment equal to a percentage of total projected costs attributable to Demand Response resources added that year. Incremental Demand Response resources would include both new Demand Response programs as well as additional load for a previously-implemented program. The cost of the additional resources would be estimated over their useful life, not to exceed 10 years. These annual costs would be discounted at the Company's weighted average cost of capital. Under the Company's proposal, PSE would earn a reward if the Company achieves 90 percent of its target. The Company's reward would be 15 percent of program costs if the Company achieves between 90 percent and 110 percent of its annual target. The reward would

[17] *In re: Puget Sound Energy's 2020-2029 Ten-Year Achievable Elec. Conservation Potential and 2022-2023 Biennial Conservation Target Under RCW 19.285.040 and WAC 480-109-010*, Docket UE-210822, Order 01 ¶ 25 (Jan. 18, 2022). *See also,* Crane, Exh. ACC-9 (Puget Sound Energy Response to The Energy Project Data Request No. 9).

be 25 percent if the Company achieves between 110 percent and 150 percent of its target. The proposed Demand Response targets were presented by the Company in its CEIP.

The second proposed PIM is based on the number of EV chargers used under managed load programs or time of use rates. Under the Company's proposal, it would establish a target level of installations and a reward payment rate for each year of the MYRP. The Company would earn a reward for each installation that exceeded the target, but would not be penalized if it failed to achieve its targets. The Company indicated that its proposed targets are based on the products and services submitted to the Washington Joint EVSE Stakeholder Group. Final targets will be established based on the approval of program funding in this case as well as on other proceedings that support the Company's Transportation Electrification Plan (TEP).

C. Evaluation of the Proposed Performance Metrics

Q. In evaluating the Company's proposal, is it reasonable to evaluate Performance Metrics separately from the proposed PIMs?

A. Yes, it is, for several reasons. First, as noted above, the current statute requires the Commission to determine a set of performance measures that will be used to assess a gas or electrical company operating under a multiyear rate plan. The Commission may, but is not required, to approve or authorize incentives or penalty mechanisms if it approves a MYRP. Section 2(7) of Senate Bill 5295 states:[18]

> In developing performance measures, incentives, and penalty mechanisms, the commission may consider factors including, but not limited to, lowest reasonable cost planning, affordability, increases in energy burden, cost of service, customer satisfaction and engagement,

[18] Engrossed Substitute S. B. 5295, 67th Leg., Reg. Sess., § 2(7) (Wash. 2021).

> service reliability, clean energy or renewable procurement, conservation acquisition, demand side management expansion, rate stability, timely execution of competitive procurement practices, attainment of state energy and emissions reduction policies, rapid integration of renewable energy resources, and fair compensation of utility employees.[19]

Thus, while the statute clearly requires the establishment of performance measures as part of any MYRP, it separately references both incentive and penalty mechanisms.

Second, establishing performance metrics is important in order to ensure that utility service does not deteriorate during a MYRP, when a utility may have a greater incentive to reduce costs. Performance metrics can therefore provide an objective measure of the impact of the MYRP on the Company's quality of service, as well as on other aspects of the Company's operations.

Third, the Company already has other tools to traditional cost of service regulation. Page 4 of testimony from Dr. Lowry alleges that,

> Dissatisfaction with the transitional cost of service approach to ratemaking ("COSR") has prompted the development of diverse alternative approaches that are collectively called 'alternative regulation' or 'Altreg'. These Altreg approaches vary in the incentives they provide to utilities to perform well. Altreg approaches that provide relatively strong performance incentives are called performance-based regulation.[20]

Dr. Lowry then outlines four "well-established approaches to PBR." These include decoupling, performance metrics, targeted incentives for underused practices, and MYRPs. Three of these four approaches are already being utilized by PSE as alternatives to cost of service regulation. PSE already has a decoupling mechanism in place, which establishes guaranteed annual revenues. It already reports on a variety of

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[19] *See also* RCW 80.28.425(7).
[20] Lowry, Exh. MNL-1T at 4:5–10.

performance metrics and in some cases, it is subject to penalties for inferior performance. The Company already utilizes what Dr. Lowry describes as underused practices such as pilot programs, trackers and associated rate riders, and cost deferrals. Finally, PSE is proposing a three-year MYRP in this case. Thus, all of the alternatives to traditional cost of service regulation are either currently being utilized by PSE, or will be if the MYRP is approved.

Finally, and most importantly, the Commission has already established a generic proceeding in Docket U-210590 to address additional issues relating to performance-based regulation, including establishing performance incentives and penalty mechanisms, as required per the statute.

This generic policy determination has been scheduled to first address performance metrics, with a policy statement to be issued in March 2023, followed by a policy statement on PIMs in December 2024. Therefore, while we are currently examining PSE's proposed performance measures and PIMs, we must do so in the absence of the Commission's policy statement that is designed to provide "clarity and certainty" on these proposed metrics. Therefore, I agree with Dr. Lowry at pages 20–21 of testimony that, "Cautious steps in the development of PIMs seem warranted until the Commission's generic proceeding advances."[21]

Q. Please discuss the process and criteria involved in selecting appropriate metrics that support and protect the consumer interest under PBR.

A. As discussed by Dr. Lowry at page 20 of direct testimony, prior to the Company's filing of this rate case, PSE held several meetings with WUTC Staff, Public Counsel,

[21] Lowry, Exh. MNL-1T at 19:23–24 and 20:1.

various green energy organizations, and other stakeholders to discuss possible performance metrics and PIMs that may be appropriate under the MYRP envisioned as part of this filing. As part of that collaborative process, which began late summer 2021, the parties concerned with the consumer interest questioned the need for PIMs, and objected to PSE receiving rewards for efforts it is already obligated and/or incentivized to do. Other parties were receptive to incentives that would encourage PSE to improve existing programs, create new programs, or target problems that would otherwise have a low priority with the Company. There was an overarching sense that PSE should not be rewarded without significant benefits also accruing to consumers, in the form of lower rates or improved environmental metrics.

Q. Do you generally believe that targets are beneficial in evaluating a utility's performance under a PBR mechanism?

A. I believe it depends on the metric being reviewed. In some cases, such as reliability and customer service metrics, a target is useful in terms of objectively quantifying an "acceptable" level of service. In other areas, specific targets may not be needed or it may be too early to establish meaningful targets. Recommendations regarding targets for each performance metric will be discussed later in my testimony.

Q. Do you believe that rewards and penalties are appropriate incentives for a regulated utility?

A. A penalty is certainly appropriate to compensate ratepayers if the level of service that they are receiving is inadequate. Ratepayers pay utility rates with the expectation that the utility will provide safe and reliable utility service. If the utility is not meeting this obligation, then penalties are an effective and efficient way to motivate the utility to correct these deficiencies.

However, a utility should not receive a reward simply because the level of reliability or customer service exceeds a particular target. In fact, ratepayers have the right to expect that a utility will strive for 100 percent reliability and 100 percent customer service satisfaction. While I am not proposing that PSE be held to a 100 percent standard, I do not believe that any rewards are appropriate in this area as long as customer service and reliability results are less than 100 percent.

There may be other areas where a reward mechanism could be appropriate. Rewards should be limited to areas that are beyond the basic provision of utility service and, in my view, rewards should not be used if the underlying costs are being incurred exclusively by ratepayers. Nor should rewards be used to provide incentives for actions that are already legally required. Rewards may be appropriate in some cases to provide an incentive for the utility to undertake programs or projects that are not necessarily part of its basic service obligation, especially if shareholders also have a financial commitment to the programs or projects being provided.

Q. Turning to the issue of Performance Metrics, are you recommending any adjustments to the metrics that the Company proposes to track?

A. With regard to the performance metrics that the Company proposes to track, I am not recommending any changes to the targets proposed by PSE. I agree with the Company's response to Public Counsel Data Request 157, whereby PSE indicated that "PSE believes the current targets are appropriate recognizing that the Commission will be developing a policy statement in March 2023 which includes performance measures, and it would be premature to develop targets without insights from this policy."[22] I do recommend, however, that the current targets are examined as part of the policy docket. Many of these targets are quite old, and it is likely that in some cases performance targets should be updated. While the proposed targets are appropriate for use during the MYRP, by the end of the MYRP, the Commission should have resolved the issues being addressed in the generic proceeding. As a result, I anticipate that there is likely to be some revision to the targets in the next base rate case.

In addition, in many areas, no targets are being proposed. By the end of the MYRP, the Commission should have adequate information to assess whether targets for these new metrics are appropriate, and if so, what specific targets are reasonable.

Q. Do you have any additional comments regarding current performance metrics?

A. Yes, in response to Staff Data Request No. 286, the Company acknowledged that any circuit that serves even one customer of a Vulnerable Population or one foot of distribution line in a Highly Impacted Community is defined as a Highly Impacted Community or Vulnerable Population circuit.[23] It also appears from the response to Staff Data Request No. 287, that this definition may result in as many as one-third of all circuits being classified as these circuits.[24] While I am not an engineer, this appears to be a rather broad definition and it may not provide a meaningful analysis of equity issues impacting Named Communities. Therefore, I recommend that the parties in the generic proceeding examine the classification of circuits and determine

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[22] Crane, Exh ACC-13 (Puget Sound Energy Response to Public Counsel Data Request No. 157).
[23] Crane, Exh. ACC-14 (Puget Sound Energy Response to WUTC Staff Data Request No. 286).
[24] Crane, Exh. ACC-15 (Puget Sound Energy Response to WUTC Staff Data Request No. 287).

the most appropriate way to identify and measure performance metrics in Named Communities.

Q. Are you recommending that any additional performance metrics be tracked during the period of the MYRP?

A. Yes, I am. In addition to the performance metrics proposed by PSE, I recommend that the Commission require the Company to track several affordability metrics. Specifically, I am recommending that PSE be required to track:

- Average annual bill, by rate class
- Rate Base per customer
- Operating and Maintenance costs per customer
- Number and percentage of residential disconnections for non-payment, by month, in total and for Named Communities

These metrics will provide the Commission with concise information regarding affordability and some of the drivers impacting the level of utility rates. In addition, it will provide the Commission with a monthly snapshot of the impact of utility rates on residential disconnections, as well as insight into how disconnections vary between the total customer populations generally and Named Communities specifically.

Q. Are there likely to be additional performance metrics that Public Counsel recommends be tracked?

A. Yes. As previously stated, there is a separate generic proceeding on the issue of PBR and alternatives to cost of service ratemaking. Although I am not involved in that proceeding, Public Counsel is a full participant and may recommend additional performance metrics in that case. Given the important policy issues surrounding PBR, I believe that it is preferable to limit my recommendations in this case with regard to the number and types of measures that should be tracked. Therefore, in addition to the measures proposed by PSE, I am only recommending the addition of the four affordability measures outlined above. Bauman discusses potential additional AMI metrics in testimony. Public Counsel's recommendation should be viewed as an interim measure during the next three years of the MYRP. A more permanent, and perhaps extensive, list of reporting metrics will be developed as part of the generic proceeding. In addition, the generic proceeding may also result in other changes to the existing cost of service regulation. However, it would be premature to recommend additional provisions at this time while the generic proceeding is still in its early stages.

D. Evaluation of Proposed Performance Incentive Mechanisms

Q. What do you recommend regarding the two PIMs that the have been proposed by PSE?

A. I recommend that the Commission deny the Company's request to establish the two proposed PIMs at this time. It is premature to establish any PIMs while the generic proceeding is ongoing. In addition to my concerns regarding the timeliness of implementing PIMs, I also have concerns regarding the two specific PIMs proposed by the Company.

Q. What general concerns do you have regarding the establishment of PIMs at this time?

A. As noted earlier, the Company already takes advantage of several incentive-type mechanisms such as decoupling, rate riders, and cost deferrals. These mechanisms provide incentives for the Company to promote certain programs, such as distributed generation and demand side management, and result in reduced risk for the Company's shareholders. Therefore, at this time, it is unclear why additional incentives are necessary. Nevertheless, the Commission has commenced a separate proceeding, as required pursuant to the 2021 legislation, to examine various issues regarding alternative regulatory mechanisms, and to determine what role, if any, there is in any such mechanism for PIMs. Until the issue of PIMs is addressed in that proceeding, there is no need to establish PIMs, which would result in incentive payments to the Company for certain outcomes. This would be a significant departure from the current regulatory scheme. Therefore, I recommend that the Commission exercise caution and wait for the resolution of this issue in the generic proceeding before approving any PIMs in this case. This recommendation is consistent with the recent stipulation agreed to among various parties in the Avista general rate case.[25]

Q. In addition to your general concerns about implementing PIMs at this time, what specific concerns do you have regarding the Company's proposed Demand Response PIM?

A. Not only do I believe that approval of any PIMs would be premature, but I also have objections to the specific PIMs proposed by the Company. PSE is proposing a Demand Response PIM that would reward the Company based on the incremental

[25] Full Multiparty Settlement Stipulation, *Wash. Utils. & Transp. Comm'n v. Avista Corp.,* Dockets UE-220053, UG-220054, and UE-210854 (*Consol.*) (filed June 28, 2022).

Demand Response target that the Company is able to achieve. The Company is proposing incremental Demand Response reduction targets of 5 MW in 2023, 6 MW in 2024, and 12 MW in 2025. The Company is proposing a reward of 15 percent of the total projected lifetime costs, if the Company achieves between 90 percent and 110 percent of its projected targets. If it achieves between 110 percent and 150 percent of its projected targets, the Company would earn a reward of 25 percent of the total projected lifetime costs. No additional reward would be earned if actual demand reductions exceeded 150 percent. The Company is proposing that lifetime costs include, but are not limited to, the Company's Demand Response setup costs, operating and maintenance expense, equipment costs, marketing costs, customer incentives, and administration costs. For purposes of this PIM, the projected lifetime of any Demand Response measure would be capped at 10 years. The Company is not proposing any penalties associated with this PIM in the event that it fails to achieve its projected demand savings.

I have several concerns regarding this proposed PIM. First, demand reductions are not discretionary but instead are required as part of Washington legislation mandating that utilities develop a CEIP. Financial rewards should not be tied to actions that are mandated by state law.

Second, ratepayers will pay all costs associated with the Company's Demand Response programs, including both capital costs and operating costs. Therefore, since ratepayers are responsible for paying all costs associated with Demand Response programs, it is unreasonable to also require ratepayers to reward shareholders based on the results of those programs.

Third, it appears that the Demand Response targets that have been established for the three years of the MYRP may be artificially low. In its comments filed in response to PSE's 2021 Integrated Resource Plan, WUTC Staff noted that it was struggling "to reconcile estimates of DR potential provided by other stakeholders with the cost-effective DR selections in PSE's 2021 IRP. This is an area of ongoing review and discussion."[26] In response, PSE noted that it may update its targets, stating that the targets were minimum targets. "PSE is keeping the DR specific targets at the level anticipated by the 2021 IRP and CEAP. These targets define our minimum of what we intend to achieve in this first CEIP."[27]

The Company's proposed PIM would reward shareholders if the Company achieves just 90 percent of a low Demand Response target, in spite of the fact that *ratepayers* would bear all the associated costs. And, this proposed PIM would reward shareholders in spite of the fact that PSE is legally obligated to pursue all cost-effective energy efficiency measures pursuant to RCW 19.285.040.

Moreover, while shareholders would be rewarded if at least 90 percent of the target is achieved, the Company would not be penalized if it failed to achieve its Demand Response targets, regardless of the magnitude of the shortfall. This means that ratepayers would be paying all the costs for a program without any guarantee of results, and they would face higher costs even if the Company met only 90 percent of its proposed target.

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[26] Appendix C-2, Response to Comments on PSE's Draft CEIP, at 3, *In re: Puget Sound Energy Final Clean Energy Implementation Plan*, Docket UE-210795 (filed Dec. 17, 2021).
[27] *Id*. at 28.

Finally, a reward based on program costs provides the wrong incentive for the Company since the higher the program costs—which are paid by ratepayers—the higher the reward for shareholders. For all these reasons, the Company's proposed Demand Response PIM should be rejected by the Commission.

Q. Please describe the Company's proposed Electric Vehicle (EV) Managed Load PIM.

A. PSE is proposing a reward for exceeding its target number of EV chargers that are served under managed load programs or time of use rates. The targets would be based on the number of chargers that the Company plans to install each year based on its approved budgets, but no specific targets have been provided in the description of the PIM. As described in Exhibit MNL-5, pages 3–4 of Dr. Lowry's testimony, the Company would receive a reward for each installation in excess of the targets in each of three categories – single-family residential, Level 2 fleet chargers, and DC fast fleet chargers. The reward per installation would be based on the difference between the estimated present value of the five-year stream of incremental benefits and incremental costs attributable to serving a given type of charging load under a managed load program or time of use rates.

Q. Should the Commission approve the EV Managed Load PIM as proposed by the Company?

A. No, it should not. First, as discussed above, it is premature to implement PIMs at this time, given the ongoing generic proceeding on alternative forms of regulation and performance-based regulation. Second, the Company is already eligible for a "reward" for EV programs, as there is a legislatively mandated return premium of up to two percent for authorized EV programs. In its revenue requirement claim, PSE has included a premium of $815,233 associated with eligible transportation electrification plant over the period of the MYRP.[28] Third, as noted above for Demand Response programs, ratepayers are responsible for all costs associated with these programs, and shareholders bear no risk if the Company fails to achieve its targeted level of installations.

Finally, the Company has not provided specific targets for this PIM nor has it identified the proposed reward for installations. In response to Northwest Energy Coalition Data Request No. 125, PSE provided "conditional" targets for Level 2 and DC fast charger installations, but noted that it was unable to provide targets for single-family residential chargers. In addition, the Company stated that it:

> has not yet identified the sharing percentages and specific reward amounts. To do so, PSE must first identify the net benefit, per charger, of having those chargers participating in a load management program. In order to do so, PSE must first develop estimates of the load shift resulting from chargers participating in a load management product as well as the avoided costs associated with load shift. In order to develop estimates of the load shift, PSE will rely on the results from the currently running suite of Up & Go Electric pilot products and services, which conclude in December 31, 2022. In order to identify the avoided costs associated with load shift, PSE intends to use the avoided energy, capacity, and transmission and distribution costs in the most current Integrated Resource Plan at the time of proposing the specific reward amounts.[29]

Clearly, there is significant work to be done before this proposed PIM could be implemented. Even if the proposed EV Managed Load PIM did not suffer from all of the other deficiencies outlined above, there is not adequate data to implement this

[28] Crane, Exh ACC-16 (Puget Sound Energy Response to Public Counsel Data Request No. 26).
[29] Crane, Exh ACC-17 (Puget Sound Energy Response to Northwest Energy Coalition Data Request No. 125).

proposed PIM in this proceeding. Accordingly, I recommend that the Commission reject the EV Managed Load PIM.

V. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Q. Please summarize your recommendations with regard to the Company's revenue requirement.

A. The interrelated nature of PSE's proposed MYRP and the complexity of the Company's modeling have made it difficult to quantify the impact of Public Counsel's adjustments. Public Counsel recommends the following adjustments to the Company's revenue requirement:

- A capital structure consisting of 48.5 percent common equity, 1.66 percent short-term debt, and 49.84 percent long-term debt for each year of the MYRP as recommended by Public Counsel witness Dr. Woolridge.
- A cost of equity of 8.80 percent, a cost of short-term debt of 2.09 percent, and a cost of long-term debt of 5.07 percent for each year of the MYRP as recommended by Public Counsel witness Dr. Woolridge.
- Adoption of the depreciation rates recommended by Public Counsel witness Garrett.
- Adoption of the billing determinants recommended by Public Counsel witness Watkins.
- Adoption of the Power Costs recommended by Public Counsel witness Dr. Earle.
- Continued deferral of the return associated with AMI investment, as discussed by Public Counsel witness Bauman.

- Disallowance of costs associated with the Tacoma LNG facility and related pipeline upgrades, as discussed by Dr. Earle.
- Adjustments to the WUTC Filing Fee Factor, COVID Deferral, Projected O&M, Storm Amortization, and MYRP plant additions, including certain IT adjustments recommended by Public Counsel witness Chase.

Public Counsel is seeking the Company's assistance in accurately quantifying the impact of these adjustments for each year of the MYRP. However, we estimate that our adjustments will result in the following reduced base revenue increases for the electric utility: $215.7 million in 2023, $28.6 million in 2024, and an electric revenue reduction of $26.8 million in 2025, excluding Dr. Earle's power cost adjustment. When Dr. Earle's power cost adjustment is included, Public Counsel's analysis results in electric utility base revenue increases of [redacted]. We estimate that our adjustments will result in lower revenue increases for the gas utility of $71.8 million in 2023, $15.8 million in 2024, and $15.4 million in 2025.

Q. Please summarize your recommendations with regard to the proposed Colstrip tracker.

A. Public Counsel is not opposed to the removal of all Colstrip costs from base rates and the implementation of a tracker to recover Colstrip costs. However, we recommend that the Commission deny recovery of costs related to dry ash investment, as well as any costs that are found to extend the life of the facility. In addition, we recommend that major overhaul costs during the MYRP be amortized over four years and that shareholders or other parties absorb any costs not recovered by the end of 2025.

Q. Please summarize your recommendations regarding the Company's proposed performance metrics.

A. Public Counsel is not recommending any adjustment to the Company's proposed performance metrics and targets. However, Public Counsel is recommending that the following additional performance metrics also be tracked during the MYRP:

- Average annual bill, by rate class
- Rate Base per customer
- Operating and Maintenance costs per customer
- Number and percentage of residential disconnections for non-payment, by month, in total and for Named Communities

Q. Please summarize your recommendations regarding the Company's proposed PIMs.

A. Given the ongoing generic proceeding, it is premature to implement PIMs at this time. In addition, the proposed Demand Response PIM should be rejected because a) all associated Demand Response costs are borne by ratepayers, b) the proposed Demand Response targets appear low, and c) all cost-effective energy efficiency is mandated by statute.

The Company's proposed Electric Vehicle PIM should similarly be rejected. PSE is already rewarded for certain EV programs through a premium return on equity, in spite of the fact that ratepayers are responsible for all costs associated with these programs. Moreover, the Company does not have specific targets developed nor is it able to quantify the impact of an EV Managed Load program on avoided costs. For a variety of reasons, the EV Managed Load PIM should be rejected.

The issue of PIMs should be revisited at the end of the MYRP based on the outcome of the generic proceeding.

Q. Do the recommendations contained in your testimony promote equity among the ratepayers of PSE?

A. Yes, both the revenue requirement and PBR recommendations will promote equity and result in rates that are more just and reasonable than those in the Company's proposal, in several ways. First, Public Counsel's recommendations reflect lower costs to ratepayers and lower returns to shareholders than the costs and returns requested by PSE. Second, the MYRP proposed by Public Counsel is based on more reasonable projections and mitigates the incentive for PSE to inflate its rate base by excessive capital investment. Third, the MYRP proposed by Public Counsel defers return on AMI investment until benefits to shareholders can be demonstrated. Fourth, Public Counsel's recommendation to eliminate the Tacoma LNG project will ensure that ratepayers will not be charged for projects that are not necessary for the provision of utility service.

With regard to the PBR, Public Counsel supports the Company's proposals to track various metrics targeted to Highly Impacted Communities and Vulnerable Populations. This tracking will provide valuable information about the degree to which these communities are being served. Finally, eliminating the Company's proposed PIMs will ensure that shareholders will not be unduly enriched for actions that are either part of the Company's overall service obligation or which have not been proven to otherwise benefit ratepayers. For all these reasons, Public Counsel's recommendations promote equity and should be adopted.

Q. Does this conclude your testimony?

A. Yes, it does.