

**Exh. KBS-1CT  
Dockets UE-190529/UG-190530 and  
UE-190274/UG-190275 (*consolidated*)  
Witness: Kathi B. Scanlan  
REDACTED VERSION**

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY,**

**Respondent.**

**DOCKETS UE-190529  
and UG-190530 (*consolidated*)**

**In the Matter of the Petition of**

**PUGET SOUND ENERGY**

**For an Order Authorizing Deferral  
Accounting and Ratemaking Treatment  
for Short-life UT/Technology Investment**

**DOCKETS UE-190274 and  
UG-190275 (*consolidated*)**

**TESTIMONY OF**

**Kathi B. Scanlan**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

*Green Direct Program*

**November 22, 2019**

**CONFIDENTIAL PER PROTECTIVE ORDER – REDACTED VERSION**

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## LIST OF EXHIBITS

- Exh. KBS-2 Electric Green Direct Adjustment Staff-12.03
- Exh. KBS-3 Gas Green Direct Adjustment Staff-12.03
- Exh. KBS-4 PSE Responses to Staff Data Request Nos. 071 and 123
- Exh. KBS-5C PSE Response to Staff Data Request Nos. 094, 095C, and 096C
- Exh. KBS-6 PSE Response to Staff Data Request Nos. 182 and 183
- Exh. KBS-7 PSE Responses to Staff Data Request Nos. 097 and 106

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Kathi Scanlan, and my business address is 621 Woodland Square Loop  
5 SE, Lacey, Washington, 98503. My business mailing address is P.O. Box 47250,  
6 Olympia, Washington, 98504-7250. My business email address is  
7 kathi.scanlan@utc.wa.gov.

8

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

10 A. I am employed by the Washington Utilities and Transportation Commission  
11 (Commission) as the Acting Senior Resource Planning Manager in the Conservation  
12 and Energy Planning Section of the Regulatory Services Division.

13

14 **Q. How long have you been employed by the Commission?**

15 A. I have been employed by the Commission since June 2018.

16

17 **Q. Please state your qualifications to provide testimony in this proceeding.**

18 A. I earned a Master of Engineering Management degree at Saint Martin's University in  
19 Lacey, Washington. I also obtained a Bachelor of Arts degree in Economics and  
20 Physics (Dual Major) from Claremont McKenna College in Claremont, California.  
21 Before joining the Commission, I gained over 10 years of regulatory experience at  
22 the Washington Department of Ecology. While employed at the Commission, I  
23 completed the Annual Institute of Regulatory Law and Economics (IRLE) Seminar

1 in 2019, and the 58th Annual Regulatory Studies Program at the Institute of Public  
2 Utilities at Michigan State University in August of 2016. I also completed the Public  
3 Utilities Reports Guide’s “Principles of Public Utilities Operations and  
4 Management” in October of 2016.

5  
6 **Q. Have you testified previously before the Commission?**

7 A. Yes. I presented testimony on behalf of Commission Staff (Staff) in Dockets UE-  
8 170485 and UG-170486, Avista Corporation’s 2017 general rate case, including  
9 recommendations regarding pro forma rate base adjustments, modified historical test  
10 year and pro forma policy, and pro forma O&M offsets. Additionally, I have  
11 provided Staff’s recommendations to the Commission at numerous open meetings.

12

13 **II. SCOPE AND SUMMARY OF TESTIMONY**

14

15 **Q. What is the scope and purpose of your testimony?**

16 A. I address various regulatory and accounting issues with the Green Direct Program,  
17 which is discussed by Puget Sound Energy’s (“PSE” or “Company”) witness  
18 William Einstein.

19

20 **Q. Please summarize your recommendations.**

21 A. Staff makes two recommendations to the Commission.

22 First, non-energy costs for Green Direct that are fixed in nature, such as plant  
23 costs, should be excluded from general rate cases or expedited rate filings so that

1 non-Schedule 139 customers are not allocated such costs. To this end, Staff  
2 recommends that the Commission accept two new restating adjustments for a capital  
3 project related to Green Direct: Staff's adjustment 12.03, which removes \$211,405  
4 from electric rate base (Exh. KBS-2), and adjustment 12.03, which removes  
5 \$105,392 from gas rate base (Exh. KBS-3).

6 Second, Staff suggests that the Commission require PSE to work with Staff  
7 and other stakeholders to establish a more transparent and appropriate mechanism(s)  
8 for tracking all costs and benefits related to service under Schedule 139, including  
9 accounting treatment and considerations for examining variable and fixed costs and  
10 revenues, including liquidated damages.

11  
12 **Q. Please identify other members of Staff who have testimony related to Green Direct.**

13 A. My colleague Ms. Jing Liu addresses pro forma power costs related to Green Direct  
14 and provides testimony.

15  
16 **Q. Have you prepared any exhibits in support of your testimony?**

17 A. Yes. I prepared Exhibits KBS-2 through KBS-7. Exh. KBS-2 shows Staff's rate base  
18 adjustment for electric. Exh. KBS-3 shows Staff's rate base adjustment for gas. Exh.  
19 KBS-4 shows PSE's acceptance of the aforementioned Staff adjustments in its  
20 response to Staff's data requests. Exh. KBS-5C illustrates the delayed timing related  
21 to the Skookumchuck wind project, including PSE's accrued and projected  
22 liquidated damages related to the project. Also due to the delayed timing of  
23 Skookumchuck wind project, Exh. 6 highlights PSE's commitment to update

1 Schedule 139 rates when the online date of the project is known with a high degree  
2 of certainty. Lastly, Exh. KBS-7 shows remaining questions with the tracking and  
3 accounting related to PSE’s Green Direct Program going forward.

4  
5 **III. GREEN DIRECT REGULATORY FRAMEWORK**

6  
7 **Q. Please describe PSE’s Green Direct Program.**

8 A. As detailed in the testimony of Mr. Einstein,<sup>1</sup> PSE’s Green Direct Program allows  
9 certain large volume PSE customers to choose to purchase “long-term, bundled  
10 green energy” from “specific alternative energy sources.”<sup>2</sup> PSE provides service to  
11 Green Direct customers under Schedule 139.<sup>3</sup>

12  
13 **Q. Do any unique regulatory requirements apply to Schedule 139?**

14 A. Yes. PSE offered Schedule 139 pursuant to RCW 19.29A.090, which requires  
15 utilities to offer customers the chance to purchase electricity supplied by alternative  
16 energy sources.<sup>4</sup> RCW 19.29A.090 requires that electric utilities ensure that “all  
17 costs and benefits associated with any option offered by an electric utility under this  
18 section must be allocated to the customers who voluntarily choose that option.”  
19 Accordingly, PSE must account for all Green Direct costs and benefits, recovering  
20 them for, or sharing them with, Green Direct customers.

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<sup>1</sup> Einstein, Exh. WTE-1CT at 10:4-9.

<sup>2</sup> *In re Tariff Revisions Filed by Puget Sound Energy*, Docket UE-160977, Order 01, 1, ¶ 2 (Sept. 28, 2016) (“Green Direct Order”).

<sup>3</sup> See Green Direct Order at 1, ¶ 1.

<sup>4</sup> *Id.*

1 **IV. GREEN DIRECT REVIEW**

2

3 **Q. How did Staff review the Green Direct Program in this case?**

4 A. Staff began by reviewing the PSE filings and Commission orders addressing the  
5 Green Direct Program, which are found in Dockets UE-160977, UE-180088, UE-  
6 180269, UE-180544, UE-180674, and UE-180851. Staff then examined the risks of  
7 cross-subsidization between Schedule 139 customers and other customer classes.  
8 Finally, Staff investigated the compensation PSE received related to delays in the  
9 completion of one of the Green Direct resources, the Skookumchuck Wind Energy  
10 Project.

11

12 **Q. How did Staff investigate potential cross-subsidization between Schedule 139  
13 customers and other customers within other classes?**

14 A. Through several data requests, Staff examined whether any actual costs attributable  
15 to Schedule 139 customers were included in PSE's 2018 test year. Staff asserts that  
16 optimal economic efficiency occurs when costs and benefits are aligned. When there  
17 is misalignment, there is a risk of cross-subsidization by other PSE ratepayers not  
18 participating in the voluntary Green Direct Program. In the case of capital  
19 expenditures for software improvements directly related to Schedule 139 customers,  
20 Staff contends PSE ratepayers should not be subsidizing these benefits. Schedule 139  
21 customers alone should bear these costs and reap the benefits.



1 **Q. How did Staff investigate the liquidated damages payments PSE received**  
2 **because of delays in bringing the Skookumchuck Wind Energy Project online?**

3 A. Staff reviewed PSE’s *Amended and Restated Power Purchase Agreement between*  
4 *Puget Sound Energy and Skookumchuck Wind Energy Project, LLC*, as shown in Mr.  
5 William Einstein’s Exh. WTE-03C. Staff also issued data requests related to the  
6 delays of the Skookumchuck project, and requested PSE provide updated  
7 energization and commercial operation dates from the developer.

8

9 **V. GREEN DIRECT COSTS AND BENEFITS**

10

11 **Q. Do you have any concerns with regard to tracking costs and benefits related to**  
12 **the Green Direct Program?**

13 A. Yes. To comply with RCW 19.29A.090, the Company must be able to demonstrate  
14 that all variable and fixed costs and related benefits (revenues) in Schedule 139 can  
15 be tracked separately and identifiably. At this time, staff questions whether the  
16 proper tracking mechanisms are in place to provide a holistic view of the Green  
17 Direct Program. Staff identified three issues associated with Skookumchuck and  
18 Lund Hill PPA costs and benefits (revenues) and outlines its concerns below:

19 1. **Cross-subsidization.** Staff identified \$340,639 of billing software  
20 improvements in electric and gas rate base related to Green Direct Schedule  
21 139 customers. These costs should be borne by Schedule 139 customers only,  
22 and not by the general ratepayer population.

1           2. **Skookumchuck liquidated damages.** Due to the ongoing delay at the  
2           Skookumchuck project, PSE accrued revenue in the form of liquidated  
3           damages. PSE has not received approval for the intended use for these  
4           associated revenues, nor has it received approval by the commission for the  
5           associated accounting or tracking mechanism(s).

6           3. **Tracking of costs and benefits going forward.** At this time, the tracking  
7           mechanism for liquidated damage benefits appears in flux. PSE has not  
8           proposed or received approval for a proper tracking system for all Green  
9           Direct related costs, both fixed and variable, and benefits (revenues).

10  
11           **A.     Cross-subsidization**

12  
13           **Q.     Above, you testified that Staff reviewed the Green Direct Program for potential**  
14           **cross-subsidization. Did Staff find any?**

15           A.     Yes. Staff found evidence of cross-subsidization between participating and non-  
16           participating Green Direct customers.

17  
18           **Q.     What was the nature of the cross-subsidization?**

19           A.     In 2018, PSE recorded software related to the Green Direct program to a common  
20           future use capital order. If these costs are not reversed and booked correctly, PSE  
21           ratepayers not participating in the voluntary Green Direct Program will pay for  
22           billing software improvements for which they receive no direct benefit.

23

1 **Q. What were the dollar amounts involved in the cross-subsidization?**

2 A. In 2018, PSE capitalized \$105,392 and \$211,405 related to Schedule 139 projects for  
3 natural gas and electric operations, respectively.<sup>5</sup>

4

5 **Q. What does Staff recommend with regard to the cross-subsidization it found?**

6 A. As required by statute, all costs and benefits should be borne by the Schedule 139  
7 customers.<sup>6</sup> Staff proposes removing these costs through its electric restating  
8 adjustment 12.03 and gas restating adjustment 12.03 (Exhs. KBS-2 and KBS-3). The  
9 impact of Staff's adjustments is a decrease to the revenue requirement of \$20,623 on  
10 electric and \$10,244 on gas.

11

12 **Q. Does PSE agree with Staff's removal of these rate base items?**

13 A. Yes. In its response to Staff Data Request No. 071, PSE stated, "In its rebuttal  
14 testimony, or at the next available opportunity, PSE will remove this rate base  
15 item."<sup>7</sup>

16

17 **B. Skookumchuck Liquidated Damages**

18

19 **Q. What is the Skookumchuck Wind Energy Project?**

20 A. PSE selected the 20-year PPA with Skookumchuck Wind Energy Project LLC, in  
21 development by RES America Developments Inc., to be built in Lewis County,

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<sup>5</sup> Scanlan, Exhs. KBS-2 and KBS-3.

<sup>6</sup> RCW 19.29A.090(5).

<sup>7</sup> Scanlan, Exh. KBS-4.

1 Washington as the first renewable energy project for Green Direct. At full output, it  
2 accounts for the first 43 aMW of energy (137 megawatts (MW)) of the 85 aMW  
3 allowed by the Commission for the green direct program.<sup>8</sup>  
4

5 **Q. When was PSE supposed to begin receiving energy supplied by the**  
6 **Skookumchuck wind farm for Schedule 139 customers?**

7 A. According to Mr. Einstein, Skookumchuck was forecasted to begin serving  
8 customers in the first quarter of 2019.  
9

10 **Q. Did PSE begin taking service at that time?**

11 A. No. The project was delayed. According to Mr. Einstein's direct testimony, the  
12 project timeline was recently updated, with energy transmission forecasted to begin  
13 in late 2019. As shown in the Company's response to Staff's Data Request No. 094,  
14 PSE provided additional, updated estimated timelines and project milestones from  
15 the developer.<sup>9</sup> Given the delays and updated milestones outlined in Table 1, PSE  
16 committed to filing a separate adjustment to Schedule 139 to update the timing of the  
17 commencement of customer billing and better align customer pricing with the timing  
18 in the Power Purchase Agreements.<sup>10</sup>

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<sup>8</sup> *In re Tariff Revisions Filed by Puget Sound Energy, Inc.*, Docket UE-180851, Tariff WN U-60, Electric Tariff G, First Revised Tariff Sheet No. 139-A, § 2.d (Sept. 27, 2018).

<sup>9</sup> Scanlan, Exh. KBS-5C.

<sup>10</sup> Scanlan, Exh. KBS-6.

1

**Table 1: Updated Timeline - Skookumchuck Wind Project**

<b>Project Milestones</b>		<b>Estimated Completion Date</b>
1	All Turbine Deliveries Complete	October 22, 2019
2	All Foundations Complete	November 27, 2019
3	Project Pre-Commissioning Complete	January 3, 2020
4	Full Commissioning Complete; Ready-for-Grid	January 9, 2020
5	Guaranteed COD Conditions Completion	January 26, 2020
6	Final Completion	February 14, 2020

2

3 **Q. Did the Skookumchuck PPA provide for liquidated damages in the event of**  
4 **project delays?**

5 A. Yes. As part of the terms and conditions of the PPA, PSE structured the contract  
6 such that the project’s developer bears the production risk, including associated  
7 timelines for construction and operation. Liquidated damages provisions applied in  
8 this case because of the delay beyond the guaranteed commercial operation date.

9

10 **Q. Did PSE identify these liquidated damages payments in its direct case?**

11 A. No. Staff discovered these payments through meetings with Company  
12 representatives and received information through discovery.

13

14 **Q. Has PSE received liquidated damage payment due to the delay of the**  
15 **Skookumchuck project?**

16 A. Yes. PSE divulged that it had received [REDACTED] in liquidated damages through  
17 September 30, 2019. As shown in Table 2, including actuals accrued, PSE estimates

1 receiving approximately [REDACTED] dollars in liquidated damages related to the  
 2 Skookumchuck PPA.<sup>11</sup>

3 **Table 2: Liquidated Damages - Skookumchuck Wind Project**

	A*	P**	FERC Account	Month/Year	Amount
1	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
3	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
4	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
5	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
6	[REDACTED]	[REDACTED]	[REDACTED] <sup>12</sup>	[REDACTED]	[REDACTED]
7	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
8	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
			[REDACTED]	[REDACTED]	[REDACTED]

4 \*Actual (A), \*\*Projected (P)

6 **Q. How does PSE intend to allocate Skookumchuck liquidated damages?**

7 A. In response to Staff discovery, the Company indicated that it does not plan to report  
 8 liquidated damages in the Power Cost Adjustment mechanism (“PCA”) because only  
 9 variable production costs are recovered and traced through the PCA, as stipulated in  
 10 Order 11 in Docket UE-130617.<sup>13</sup> The Company asserts that because the project is  
 11 not in commercial operation, there is no contractual or tariff basis for allocating these  
 12 funds to Schedule 139 customers.<sup>14</sup> Further, PSE indicated that it has not allocated  
 13 Skookumchuck project liquidated damages as a credit against Green Direct Program

<sup>11</sup> Scanlan, Exh. KBS-5C.

<sup>12</sup> In mid-November, 2019, PSE indicated to Staff its intent to file an accounting petition for an order authorizing deferral accounting for liquidated damages under Schedule 139.

<sup>13</sup> Scanlan, Exh. KBS-7.

<sup>14</sup> *Id*

1 costs and does not believe that RCW 19.29A.090 gives express approval to  
2 unilaterally engage in deferred accounting.

3 With respect to the use of the liquidated damages accrued, PSE considered  
4 purchasing renewable energy credits (“RECs”) on behalf of participating customers  
5 prior to program commencement, where damages would be used for the benefit of  
6 participating customers, but PSE has not received authorization from the  
7 Commission for deferral of liquidated damages under Schedule 139 (KBS-6).

8

9 **Q. Does Staff agree with PSE’s proposed use of the liquidated damages?**

10 A. Staff has not reviewed PSE’s final petition or proposal with respect to liquidated  
11 damages but looks forward to working with the Company to ensure that all costs and  
12 benefits, including liquidated damages revenues, are appropriately allocated to  
13 Schedule 139 customers, as required by statute.

14

15 **C. Overall Tracking of Green Direct Costs and Benefits**

16

17 **Q. How will PSE supply energy to Green Direct customers under Schedule 139?**

18 A. For Green Direct customers, green energy will not be supplied in real time but rather  
19 over the course of a year, and will be balanced to match the green power supply with  
20 the subscribed customer demand of 85 aMW. Revenues and costs will vary from  
21 year to year based on customer demand, weather, conservation measures  
22 implemented, and the variability of wind and solar projects anticipated by the

1 Company to supply green energy. Implementing the Green Direct Program going  
2 forward is essentially an annual tracking and true-up exercise.

3

4 **Q. Initially, in 2016, how did PSE propose to track costs?**

5 A. The Company committed to track costs and benefits of Schedule 139 separately and  
6 identifiably in its Power Cost Adjustment mechanism.<sup>15</sup>

7

8 **Q. Will the PCA track all Green Direct costs and benefits?**

9 A. No. The PCA will track only variable power costs. PSE proposes that the PCA will  
10 report the Green Direct Program's monthly variance between program usage and the  
11 generation of PPAs. The PCA will not track fixed costs associated with Green Direct  
12 or benefits (revenues), such as liquidated damages resulting from the Skookumchuck  
13 wind project delay.

14

15 **Q. Has PSE proposed a mechanism to track all Green Direct costs and benefits,  
16 including fixed costs and associated PPA liquidated damage revenues?**

17 A. No. In Docket UE-160977 the Company committed to track all costs and benefits of  
18 Schedule 139 separately and identifiably in its Power Cost Adjustment mechanism,  
19 and the Commission accepted that commitment in approving the schedule in Order  
20 01 in that docket. But this leaves out two cost and benefit categories: fixed costs,  
21 such as administrative and plant costs, and benefits (revenues) associated with  
22 liquidated damages.

---

<sup>15</sup> Green Direct Order at 2, n.2, and 3, ¶ 10.



1 **Q. What is Staff’s recommendation going forward regarding Green Direct costs**  
2 **and benefits?**

3 A. Staff suggests PSE work with the Commission and stakeholders to establish a more  
4 transparent mechanism(s) for tracking all costs and benefits (revenues) related to  
5 Schedule 139. PSE should establish a comprehensive, timely reporting mechanism to  
6 provide stakeholders a holistic view of the ongoing operations and accounting related  
7 to the Green Direct Program.

8 Staff recommends non-energy costs for Green Direct that are fixed in nature,  
9 such as administrative and plant costs, be excluded from general rate cases or  
10 expedited rate filings so that non-Schedule 139 customers are not allocated such  
11 costs.

12 For fixed costs, Staff suggests that the tracking and true-up timing should  
13 align with the filing of the PCA. For variable costs, the PCA should report the  
14 monthly variance between program usage and the generation of the PPAs. The REC  
15 and energy purchases to cover a shortage between the program usage and generation  
16 should be included in the PCA. And when generation exceeds program usage, the  
17 cost of energy should be included in the PCA and the use of RECs that are  
18 transferred to non-participating customers should be appropriately accounted for and  
19 tracked.

20 Finally, Staff recommends that one hundred percent of liquidated damages  
21 benefits (revenues) resulting from the Skookumchuck PPA be allocated to Green  
22 Direct customers because of the causal relationship between the creation of the

1 Green Direct Program and the execution of the PPA. All costs and benefits (revenue)  
2 should align with Green Direct program participants.

3  
4 **VI. CONCLUSION**

5  
6 **Q. What are Staff's recommendations to the Commission with regard to the Green**  
7 **Direct Program?**

8 A. Staff makes the following recommendations:

- 9 1. Accept two new restating adjustments for a capital project related to Green  
10 Direct: Staff's adjustment 12.03, which removes \$211,405 from electric rate  
11 base (Exh. KBS-2), and adjustment 12.03, which removes \$105,392 from gas  
12 rate base (Exh. KBS-3).
- 13 2. Require PSE to work with Staff and other stakeholders to establish a more  
14 transparent, complete, and timely tracking and reporting mechanism(s) for all  
15 costs and benefits related to service under Schedule 139, including  
16 accounting for variable and fixed costs and benefits (revenues).
- 17 3. Require that one hundred percent of liquidated damages resulting from the  
18 Skookumchuck project delays remain within Schedule 139.

19  
20 **Q. Does this conclude your testimony?**

21 A. Yes.