

**Exh. CRM-10T
Dockets UE-240004, UG-240005,
UE-230810
Witness: Chris McGuire**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**DOCKETS UE-240004,
UG-240005 and UE-230810
(Consolidated)**

CROSS-ANSWERING TESTIMONY OF

CHRIS McGUIRE

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

*Response to Joint Environmental Advocates Witness William Gehrke's Arguments in
Support of PSE's Proposed Clean Generation Tracker (Schedule 141CGR)*

September 18, 2024

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1
2
3 **I. INTRODUCTION**

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

5 A. My name is Chris McGuire, and my business address is 621 Woodland Square Loop SE,
6 Lacey, Washington 98503. My business mailing address is P.O. Box 47250, Olympia,
7 Washington 98504-7250. My email address is chris.mcguire@utc.wa.gov.

8 **Q. Are you the same Chris McGuire who submitted response testimony on behalf of**
9 **Commission Staff on August 6, 2024, in these dockets?**

10 A. Yes.

11
12 **II. SCOPE AND SUMMARY OF CROSS-ANSWERING TESTIMONY**

13
14 **Q. What is the purpose of your cross-answering testimony?**

15 A. The purpose of my cross-answering testimony is to respond to the testimony of Joint
16 Environmental Advocates (JEA) witness William Gehrke (WAG-1T). Specifically, I
17 address the soundness of the arguments put forth by witness Gehrke in support of PSE's
18 proposed clean generation resources (CGR) tracker, Schedule 141CGR.

19
20 **Q. Please summarize your conclusions and recommendation.**

21 A. I conclude that the three arguments put forward by JEA in support of PSE's CGR tracker
22 are not sound or compelling. Therefore, I continue to recommend that the Commission

1 deny PSE's request to establish Schedule 141CGR and instead include the costs of the
2 Beaver Creek project in the calculation of PSE's base rates.

3
4 **Q. Have you prepared any exhibits in support of your cross-answering testimony?**

5 A. No.

6
7 **III. STAFF'S RESPONSE TO JEA WITNESS GEHRKE'S ARGUMENTS IN**
8 **SUPPORT OF PSE'S PROPOSED CGR TRACKER (SCHEDULE 141CGR)**

9
10 **Q. Please describe the position of JEA witness William Gehrke regarding PSE's**
11 **proposed clean resources tracker (Schedule 141CGR).**

12 A. JEA supports PSE's proposal to establish a CGR tracker.¹

13
14 **Q. Why does JEA witness Gehrke support PSE's proposal to establish Schedule**
15 **141CGR?**

16 A. Witness Gehrke notes three reasons for JEA's support of the clean resources tracker.

17 Those reasons are:

- 18 1. PSE's proposed tracker is similar to deferring major CETA project costs for future
19 rate recovery which PSE is authorized to do pursuant to RCW 80.28.410,²
20 2. Relative to a deferral, the tracker would more closely track revenue with
21 associated expenses,³ and

¹ Gehrke, Exh. WAG-1T, 17:2.

² *Id.*, at 17:3-5.

³ *Id.*, at 17:5-7.

1 3. The tracker will help PSE make investments in clean energy to meet state policy.⁴

2
3 **Q. Do you agree with witness Gehrke that PSE's proposed tracker is similar to**
4 **deferring major CETA project costs pursuant to RCW 80.28.410?**

5 A. No. Deferral pursuant to RCW 80.28.410 is relevant only to costs of CETA-compliant
6 resources that the utility incurs *between rate cases* (i.e., costs that the Company incurs
7 before it has had a reasonable opportunity to include those costs in rates). PSE is
8 requesting to include costs in its proposed CGR tracker that the Company has identified
9 in this rate case (i.e., costs that, through a multiyear rate plan, the Company has a
10 reasonable opportunity to include in base rates before they are incurred).

11 RCW 80.28.410(1) specifies that:

12 “The deferral begins with the date on which the resource begins commercial
13 operation... and continues for a period not to exceed thirty-six months. However,
14 if... the electrical company files a general rate case or other proceeding for the
15 recovery of such costs, deferral ends on the effective date of the final decision by
16 the commission in such a proceeding.”
17

18 PSE would not begin incurring costs for its Beaver Creek project – i.e., the only costs
19 PSE includes in its proposed CGR tracker – prior to rates resulting from this GRC going
20 into effect. PSE anticipates that the Beaver Creek facility will be placed in service in
21 August of 2025, which is several months after the January 16, 2025, statutory suspension
22 date of this case. Therefore, contrary to JEA’s assertion, the costs PSE has included in its
23 proposed CGR tracker are fundamentally different from the costs that would qualify for
24 deferral under RCW 80.28.410. Indeed, the costs of the Beaver Creek project would not

⁴ *Id.*, at 17:7-8.

1 even qualify for deferral under RCW 80.28.410. RCW 80.28.410 requires that deferral
2 end on the date the underlying costs are embedded in rates. In this case, that date is on or
3 around January 15, 2025. PSE does not anticipate the Company will begin incurring costs
4 for Beaver Creek until August of 2025, which is well after the date deferral must end.

5 Furthermore, PSE's request to recover the costs of its Beaver Creek project
6 through the CGR tracker demonstrates that recovering the costs of CETA-compliant
7 resources that the Company begins incurring between rate cases is not the primary
8 purpose of the CGR tracker. Rather, as PSE made clear in its direct case, the primary
9 purpose of the CGR tracker is to shift risk away from the Company.⁵

10
11 **Q. Do you agree with witness Gehrke that relative to a deferral, the tracker would**
12 **more closely track revenue with expenses associated with CETA-generating**
13 **resources?**

14 A. No. While I agree that matching revenues with associated expenses is a desired outcome
15 of the ratemaking process, in this case – for the resource PSE seeks to recover through
16 the CGR tracker (i.e., Beaver Creek) – there would be no deferral. Therefore, authorizing
17 a tracker would not produce better alignment of revenues and associated costs than
18 simply including the project in prospective base rates. As I explained above, PSE expects
19 the Beaver Creek wind facility to be placed in service well after the rate effective date of
20 this GRC. If Beaver Creek were included in base rates, there would be no costs that
21 would need to be deferred and, accordingly, there would be no delay in PSE's recovery
22 of Beaver Creek costs that a tracker could remedy.

⁵ See, e.g., Doyle, Exh. DAD-1CT, 10:16–11:3.

1 In short, for the costs PSE included in its proposed CGR tracker, JEA's argument
2 that the tracker would more closely track revenue with associated expenses simply is not
3 true.

4
5 **Q. But hypothetically speaking, if PSE were to begin incurring costs associated with a**
6 **newly acquired, CETA-compliant resource (that was not already embedded in**
7 **rates), wouldn't a tracker allow for a better alignment of revenues and associated**
8 **expenses than a deferral that the Company would seek to recover at a later date?**

9 A. Yes, but with potentially significant trade-offs. As I explained in my response testimony,
10 trackers shift risk from the utility and onto its ratepayers and disrupt the utility's incentive
11 to control its costs, potentially causing additional upward pressure on rates.

12 If perfectly aligning revenues with underlying costs in real time were the purpose
13 of utility rate regulation, we would simply provide utilities with dollar-for-dollar recovery
14 of all their costs through a pass-through tariff/tracker. However, we do not do that.
15 Allowing dollar-for-dollar pass-through recovery would be fundamentally inconsistent
16 with sound regulatory theory, which requires that ratemaking practices properly
17 incentivize utility efficiency and economy and compensate the utility's investors at a
18 level commensurate with the utility's exposure to financial risk. Authorizing trackers
19 weakens the incentive for utilities to pursue efficiency and economy and reduces the
20 utility's exposure to risk without reducing investor compensation accordingly.

21 In short, unless there is a very specific and clearly beneficial reason for
22 establishing a tracker, establishing a tracker would be bad ratemaking policy and very
23 likely inconsistent with the public interest. In Staff's view, aligning revenues with

1 underlying costs in real time is not by itself worth shifting risk onto ratepayers and
2 disrupting the utility incentive to pursue efficiency and economy. Therefore, JEA's
3 argument that authorizing PSE's proposed CGR tracker is beneficial because it would
4 better align revenues and underlying costs is not compelling and, for the costs PSE has
5 included in its proposed CGR tracker in this case, untrue.

6
7 **Q. Do you agree with witness Gehrke that PSE's proposed tracker would help PSE
8 make investments in clean energy to meet state policy?**

9 A. No. First, I must stress again that the only resource PSE has included in its proposed
10 CGR tracker is the Beaver Creek wind project, and there would be no delay in PSE's
11 recovery of the costs of that project if the costs were recovered through base rates rather
12 than through a tracker. With the multiyear rate plan statute, plant additions can be
13 included in rates for the same rate-effective period that the plant is projected to be in
14 service. As a result, the lag between when a utility begins incurring a plant-related cost
15 and when that cost is embedded in rates has been largely eliminated. Allowing the utility
16 to recover capital costs through a tracker would not reduce regulatory lag meaningfully
17 beyond the reduction in regulatory lag already achieved through the passage of the
18 multiyear rate plan legislation. Therefore, given that PSE is already provided prospective
19 recovery of its projected investments in clean energy resources, it is not clear to Staff
20 why PSE's proposed CGR tracker is needed or how it would do anything additional to
21 help PSE make investments in clean energy to meet state policy.

22 To the extent that PSE begins incurring costs associated with a newly acquired
23 CETA-compliant resource (and those costs are not already accounted for in existing

1 rates), RCW 80.28.410 already allows the Company to defer those costs – including the
2 cost of capital – thereby protecting the utility from financial pressure associated with
3 having to absorb those costs. Given that many of the financial pressures associated with
4 the need for electric utilities to make significant and sustained investments in clean
5 energy resources already have been relieved through pointed statutory changes – and,
6 furthermore, given that PSE is required by statute to comply with the state’s clean energy
7 mandates –PSE does not seem to need additional help in making investments in clean
8 energy to meet state policy. It is also not clear to Staff that authorizing PSE’s proposed
9 tracker would meaningfully help PSE make investments in clean energy to meet state
10 policy beyond the help already afforded by statute.

11
12 **Q. What is your recommendation on PSE’s proposed CGR tracker?**

13 A. Staff continues to recommend that the Commission deny PSE’s request to establish
14 Schedule 141CGR for the reasons described herein as well as in my response testimony.⁶
15 Rather than authorize PSE to recover the costs of its Beaver Creek project through a
16 tracker, Staff continues to recommend that the Commission include the costs of the
17 Beaver Creek project in the calculation of PSE’s base rates.

18
19 **Q. Does this conclude your testimony?**

20 A. Yes.

⁶ See McGuire Exh. CRM-1T, 49:19–52:9.