Exhibit No. AZA-9T
Dockets UE-240004|UG-240005|UE-230810
Witness: Ali Al-Jabir

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent.	DOCKETS UE-240004 and UG-240005
In the Matter of the Petition of PUGET SOUND ENERGY Petitioner, For an Accounting Order Authorizing deferred accounting treatment of purchased power agreement expenses pursuant to RCW 80.28.410	(*consolidated*) DOCKET UE-230810

CROSS-ANSWERING TESTIMONY OF ALI AL-JABIR

ON BEHALF OF

THE FEDERAL EXECUTIVE AGENCIES

September 18, 2024

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ali Al-Jabir. My business address is 5151 Flynn Parkway, Suite 412 C/D, Corpus Christi, Texas, 78411.

Q. DID YOU PREVIOUSLY FILE RESPONSE TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. I am appearing on behalf of the Federal Executive Agencies ("FEA"). Our firm is under contract with The United States Department of the Navy ("Navy") to perform cost of service, rate design and related studies. The Navy represents the Department of Defense and all other Federal Executive Agencies in this proceeding. The FEA is one of the largest consumers of electricity in the service territory of Puget Sound Energy ("PSE" or "the Company") and takes electric service from the Company primarily on Schedule 49.

Q. WHAT IS THE PURPOSE OF YOUR CROSS-ANSWERING TESTIMONY?

A. My cross-answering testimony focuses on five topics. First, I address the cost classification and allocation method for generation fixed costs that was proposed in the response testimony of David E. Dismukes on behalf of the Public Counsel Unit of the Washington State Office of the Attorney General ("Public Counsel"). Second, I address the testimony of Glenn A. Watkins of the Staff of the Washington Utilities and Transportation Commission ("Commission Staff") with respect to the cost allocation of wheeling expenses in FERC Account 565. Further, I respond to the electric revenue allocation proposals set forth in the testimonies of Mr. Watkins and Mr. Dismukes. In addition, I address the recommendations set forth in the testimonies of the following witnesses with regard to the new electric tracker mechanisms proposed by PSE: Commission Staff witnesses Chris McGuire and Wesley Franks; Public Counsel witness Michael P. Gorman; Alliance of Western Energy Consumers ("AWEC") witnesses Lance D. Kaufman and Bradley G. Mullins; and Joint Environmental Advocates ("JEA") witnesses Bradley Cebulko and William Gehrke. Finally, I provide revised versions of certain of my response testimony exhibits to reflect corrections to the Company's electric class cost of service study ("CCOSS").

The fact that I am not addressing other issues raised in the response testimony filed by the parties to this proceeding should not be construed as an endorsement of the positions taken by these parties with regard to such issues.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.

A. My conclusions and recommendations can be summarized as follows:

1. The Commission should reject the allocation method for fixed generation costs proposed in the response testimony of Public Counsel witness Mr. Dismukes. Mr. Dismukes' proposal to classify 43% of fixed generation costs as energy-related is inconsistent with sound cost causation principles. Moreover, Mr. Dismukes inappropriately relies on a false comparison to the Thermal Peak Credit allocation method to criticize the results of the Company's Renewable Future Peak Credit calculation. Furthermore, PSE's approach to classifying fixed generation costs using the Renewable Future Peak Credit method in this case uses the same approach that was approved by the Commission in a fully litigated rate case involving Avista Utilities (Docket UE-200900). Therefore, the cost allocation approach proposed by Mr. Dismukes is inconsistent with Commission precedent on this issue.

2. The Company's system peak demands, which occur during the winter months, drive the need for additional generation capacity. Demands during moderate-load times, whatever time of day or month of year, do not cause new generating capacity to be built because there is excess capacity on the system during those times. Therefore, PSE's production fixed costs should be classified as entirely demand-related and these costs should be allocated to the customer classes exclusively based on those classes' contribution to the utility system peaks in the months of November and December of 2022 and January and February of 2023 (the "4 CP method"). The 4 CP method provides a much better reflection of cost causation than classification or allocation methods that utilize energy usage to any significant degree.

3. The Commission should reject the recommendation of Commission Staff witness Mr. Watkins to classify and to allocate the wheeling expenses in FERC Account 565 on an energy basis. The wheeling of electricity over the transmission grid is enabled by the fixed capital investment in the transmission system. Therefore, it is appropriate to classify and to allocate the wheeling expenses in FERC Account 565 on a 12 coincident peak ("CP") demand basis, consistent with the Company's proposed allocation of other demand-related transmission costs in this proceeding. My recommended approach is also consistent with the Commission's cost allocation rules.

4. The Commission should apply an electric base rate revenue allocation method that maximizes movement toward cost-based rates and that minimizes cross-subsidies among rate classes.

5. The Commission should reject the electric revenue allocation proposals of the Commission Staff and Public Counsel because they either exacerbate or fail to remedy the misalignment between costs and rates that would apply to the High Voltage Service class under PSE's revenue allocation proposal. Instead, the Commission should approve the electric revenue allocation proposal set forth in my response testimony. My proposal would appropriately move the High Voltage Service class to cost-based rates with a parity ratio of 1.0 in this proceeding, without imposing substantial incremental costs on PSE's other customers.

6. The Commission should reject the Company's proposal to create new trackers in the form of Schedule 141WFP, Schedule 141DCARB and Schedule 141CGR. Instead, PSE should include the costs associated with these proposed riders in its electric base rates.

7. I agree with the Staff's conclusion that trackers are problematic because they significantly shift the risk of cost recovery between base rates cases from PSE's investors to its customers. This reduction in the Company's cost recovery risk reduces its motivation to control the costs recovered through trackers. I also agree with Staff that trackers are not justified in circumstances where the associated costs are within the PSE's ability to control. Consequently, I agree with Staff's recommendation to reject the three new electric trackers that PSE proposed in this proceeding. I also support the recommendations of Public Counsel and AWEC to reject PSE's proposed Schedule 141CGR, Schedule 141WFP and Schedule 141DCARB.

8. The Commission should reject the recommendation of Staff witness Chris McGuire to establish a balancing account for the costs that PSE included in the proposed wildfire cost tracker. Including wildfire costs in a balancing account, as Staff proposes, would reduce the Company's incentive to mitigate wildfire risk in a cost-effective manner, to the determent of its customers. If the Commission is concerned that PSE could inappropriately cut wildfire prevention costs if such costs are included in base rates, it is not necessary to establish a balancing account to

address this risk. Instead, the Commission could proactively monitor the Company's wildfire programs by requiring PSE to provide an annual report regarding these programs. This approach would better protect ratepayer interests while ensuring that wildfire prevention programs are adequately funded.

9. AWEC witness Lance Kaufman recommends that, if the Commission approves PSE's proposed wildfire cost tracker, Special Contract customers and High Voltage Service customers should be excluded from any allocation of wildfire prevention costs because they are already directly assigned the cost of the underground distribution facilities that serve them. I agree with Mr. Kaufman that undergrounding wires largely eliminates the wildfire risk associated with these facilities. Moreover, I agree that it would be inappropriate to allocate a portion of the distribution component of the Company's wildfire prevention costs to the High Voltage Service class given that PSE already directly assigns these undergrounded distribution facility costs to High Voltage Service customers. Consequently, in the event that the Commission approves PSE's proposed Wildfire Prevention Tracker, I agree with Mr. Kaufman that excluding High Voltage Service customers from the allocation of these wildfire prevention costs is consistent with cost causation principles, specifically with regard to the distribution component of such costs.

10. JEA witness William Gehrke supports the establishment of PSE's proposed Schedule 141CGR (Clean Generation Resources Rate Adjustment) because, in his view, it will help the Company make investments in clean energy to meet state policy. I disagree with Mr. Gehrke's argument that the Commission should approve proposed Schedule 141CGR to encourage the Company to make investments in clean energy to meet state policy. A tracker mechanism is not needed to encourage the Company to make these investments.

11. JEA witness Bradley Cebulko agrees with PSE's proposal to recover the costs of the Company's electrification initiatives through the Company's proposed Schedule 141DCARB (Decarbonization Rate Adjustment), but only as a temporary approach in this particular case. In the long run, he recommends that PSE's electrification program costs be recovered through base rates. Mr. Cebulko also takes issue with PSE's proposed allocation of electrification program costs between gas and electric customers. Mr. Cebulko asserts that a reasonable approach would be to equally allocate these costs 50% to electric customers and 50% to gas customers. I agree with Mr. Cebulko's primary recommendation that the cost of PSE's electrification programs should be recovered through base rates. However, I disagree with Mr. Cebulko's assertion that Schedule 141DCARB should be approved only in this proceeding as a temporary measure. A better and more consistent approach that complies with sound public policy principles would be to include PSE's electrification program costs in base rates commencing with this proceeding and in all future base rate proceedings. I agree with Mr. Cebulko that it would be more reasonable to allocate PSE's electrification program costs equally between the Company's electric and gas systems.

12. Staff witness Watkins pointed out that the Company discovered a minor error in its electric CCOSS and corrected that error as part of its response to Microsoft Data Request No. 3. For the sake of accuracy, I have updated my CCOSS analysis to reflect the corrections to PSE's CCOSS contained in its response to Microsoft Data Request No. 3. These corrections are incorporated into my revised Exhibits AZA-3 through AZA-6 that are being filed in conjunction with my cross-answering testimony. The corrections to the Company's CCOSS were not significant enough to alter the parity ratios for the High Voltage Service class. Therefore, PSE's corrections to its CCOSS do not lead me to revise the class revenue allocation proposal set forth in my response testimony. I continue to recommend that the High Voltage Service class be moved to full cost parity in this case. Applying my revenue allocation proposal to the Company's revised CCOSS shows that my revenue spread proposal results in minimal incremental rate increases to PSE's other electric customer classes, as shown in revised Exhibit AZA-6.

Classification and Allocation of Generation Fixed Costs

Q. PLEASE SUMMARIZE THE RESPONSE TESTIMONY OF PUBLIC COUNSEL WITNESS DAVID E. DISMUKES WITH RESPECT TO THE CLASSIFICATION AND ALLOCATION OF GENERATION FIXED COSTS.

A. Mr. Dismukes takes issue with the Company's specific application of the Renewable Future Peak Credit methodology. Specifically, he contends that PSE incorrectly applied this methodology by dividing the cost of the demand (storage) resource by the sum of the demand and energy (wind) resource costs to determine the demand component of generation fixed costs. Mr. Dismukes asserts that PSE should have only included the cost of the wind resource in the denominator of its Renewable Future Peak Credit Calculation.

Mr. Dismukes argues that correcting the Company's calculations to include only the cost of the wind resource in the denominator results in classifying 57% of generation fixed costs as demand-related and 43% as energy-related. By contrast, the Company's

Renewable Future Peak Credit calculation classifies 70% of generation fixed costs as demand-related and 30% as energy-related.[1/]

Q. DO YOU AGREE WITH THE WITH THE CRITIQUE OF THE COMPANY'S RENEWABLE FUTURE PEAK CREDIT CALCULATION OFFERED BY MR. DISMUKES?

A. No. Mr. Dismukes attempts to draw a false analogy to the Thermal Peak Credit allocation method that was applied in Washington in the past to classify fixed generation costs. He asserts that the Renewable Future Peak Credit method should be calculated in essentially the same manner as the Thermal Peak Credit method, except that the calculation should simply substitute the ratio of battery to wind resource costs for the ratio of simple cycle combustion turbine ("CT") costs to combined cycle gas turbine ("CCGT") costs that was used in the Thermal Peak Credit method.

However, the Company's testimony makes it clear that it did not apply the Renewable Future Peak Credit Method by developing a simple ratio of battery storage to wind resource costs. Instead, it applied the Renewable Future Peak Credit Method by estimating the cost of a hybrid renewable and storage resource with planning attributes comparable to a CCGT on the PSE system. The Company classified all of the battery storage costs of this hybrid resource as demand-related, as well as a portion of the renewable wind resource costs, based on the wind resource's Effective Load Carrying Capacity ("ELCC"). The Company treated the remaining wind energy costs as energy-related. The resulting demand-related and energy-related costs were used to

[1/] Response Testimony of David E. Dismukes on behalf of Public Counsel (Exhibit DED-1T), August 6, 2024, pages 17-21.

develop PSE's proposed 70% demand and 30% energy classification of fixed generation costs.[2/]

Thus, it is clear that PSE's calculation of the demand-related and energy-related components of generation fixed costs is not directly comparable to the calculations underlying the Thermal Peak Credit method. Therefore, Mr. Dismukes inappropriately relies on a false comparison to the Thermal Peak Credit allocation method to criticize the results of the Company's Renewable Future Peak Credit calculation.

Q. HAS THE COMMISSION PREVIOUSLY APPROVED THE COMPANY'S APPROACH TO CLASSIFYING GENERATION FIXED COSTS USING THE RENEWABLE FUTURE PEAK CREDIT METHOD?

A. Yes. Staff witness Watkins testified that PSE's Renewable Future Peak Credit calculations are consistent with the calculation method that the Commission has approved for other utilities in Washington. Specifically, PSE's approach to classifying fixed generation costs using the Renewable Future Peak Credit method in this case uses the same approach that was approved by the Commission in a fully litigated rate case involving Avista Utilities (Docket UE-200900).[3/] Therefore, the calculation approach favored by Mr. Dismukes is inconsistent with Commission precedent on this issue.

Q. ARE THERE MORE FUNDAMENTAL REASONS TO REJECT MR. DISMUKES' PROPOSAL TO CLASSIFY 43% OF GENERATION FIXED COSTS AS ENERGY-RELATED?

A. Yes. As I discussed in my response testimony, the central cost driver for generation investment is the system peak demand. It is the Company's system peak demands, which occur during the winter months, which drive the need for additional generation

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2/ Prefiled Direct Testimony of Christopher T. Mickelson (Exhibit CTM-1T) at pp. 18 – 20.

3/ Testimony of Glenn A. Watkins on behalf of Staff of the Washington Utilities and Transportation Commission (Exhibit GAW-1T), August 6, 2024, page 14.

capacity. Therefore, Mr. Dismukes' proposal to classify 43% of generation fixed costs as energy-related is inconsistent with the cost drivers for generation investment.

Utilities identify a need for new generation resources when generating capacity is required to meet peak day demands and capacity reserve requirements. These reserve margin requirements are tied to the utility's highest peak demands in the year. Demands during moderate-load times, whatever time of day or month of year, do not cause new generating capacity to be built because there is excess capacity on the system during those times. Moreover, generation capital costs are fixed, sunk costs that do not vary with the amount of energy consumed by customers. Economic principles dictate that such fixed, sunk costs should be allocated on a demand basis, not on an energy basis.

For the foregoing reasons, it is a customer's demand at the time of the system peak demand during the winter months that is the cost causative factor in driving incremental generation investment on the PSE system. A CP cost allocation method is consistent with cost causation principles because it recognizes the fact that generation capacity additions are driven by the growth in system peak demand and that these additions must be sized to meet the system peak demand. For any given utility system, the capital costs are not a function of the number of kWh generated, but are fixed and therefore are properly related to system demands, not to kWh sold. Therefore, a CP allocation method properly reflects the cost drivers that lead to the construction of generation facilities. This determines the sizing of such incremental facilities.[4/] Accordingly, Mr. Dismukes' proposal to classify 43% of fixed generation costs as energy-related is inconsistent with sound cost causation principles.

[4/] Response Testimony of Ali Al-Jabir on behalf of the FEA (Exhibit AZA-1T), August 6, 2024, pages 10 - 14.

Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE CLASSIFICATION AND ALLOCATION OF FIXED GENERATION COSTS IN THIS PROCEEDING?

A. For the reasons set forth above, the Commission should reject the classification method for generation fixed costs proposed by Mr. Dismukes. Instead, as discussed in my response testimony in this proceeding, PSE's generation fixed costs should be classified as entirely demand-related and these costs should be allocated to the customer classes exclusively based on the 4 CP method. This allocation method relies on the contribution of the customer classes to the utility system peaks in the months of November and December of 2022 and January and February of 2023. The 4 CP method provides a much better reflection of cost causation than classification or allocation methods that utilize energy usage to any significant degree.

<u>Classification and Allocation of Wheeling Expenses</u>

Q. PLEASE SUMMARIZE THE TESTIMONY OF STAFF WITNESS GLENN A. WATKINS WITH RESPECT TO THE CLASSIFICATION AND ALLOCATION OF WHEELING EXPENSES IN FERC ACCOUNT 565.

A. Mr. Watkins supports PSE's requested exemption from the Commission's cost allocation rules as it relates to the treatment of wheeling expenses in FERC Account 565. Specifically, Mr. Watkins supports the Company's proposal to classify these expenses as energy-related. By contrast, the Commission's rules require that these expenses be classified as demand-related and allocated in the same manner as transmission plant. In support of his position, Mr. Watkins contends that wheeling expenses are not a function of peak demand. Instead, he asserts that these expenses relate to the supply of energy and are not incurred to meet capacity requirements on the PSE system.[5/]

Q. DO YOU AGREE WITH MR. WATKINS' POSITION WITH RESPECT TO THE CLASSIFICATION AND ALLOCATION OF WHEELING EXPENSES?

A. No. As I explained in my response testimony, the wheeling of electricity over the transmission grid is enabled by the fixed capital investment in the transmission system. Therefore, the allocation method for wheeling expenses should follow the allocation of fixed transmission costs. Accordingly, it is appropriate to classify and to allocate the wheeling expenses in FERC Account 565 on a 12 CP demand basis.[6/] This approach is consistent with the Company's proposed allocation of other demand-related transmission costs in this proceeding, and it is also consistent with the Commission's cost allocation rules.

Q. WHAT ABOUT MR. WATKINS' ARGUMENT THAT WHEELING EXPENSES RELATE TO THE SUPPLY OF ENERGY RATHER THAN CAPACITY?

A. This argument misses the mark. Wheeling costs relate to the use of the transmission system. The investment in that system is a fixed, demand-related cost that does not vary with the amount of energy transported under a wheeling contract. Wheeling costs are not an extension of the production of energy simply because transmission service involves the movement of energy across the Company's system. PSE's embedded transmission facility costs will not change if the volume of wheeled energy fluctuates,

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5/ Testimony of Glenn A. Watkins on behalf of Staff of the Washington Utilities and Transportation Commission (Exhibit GAW-1T), August 6, 2024, pages 11-12.

6/ Response Testimony of Ali Al-Jabir on behalf of the FEA (Exhibit AZA-1T), August 6, 2024, page 15.

provided the loading of the transmission elements remains within acceptable operating limits.

For the foregoing reasons, wheeling expenses in FERC Account 565 should be classified as demand-related and allocated on a 12 CP demand basis.

Electric Revenue Allocation

Q. PLEASE SUMMARIZE THE COMMISSION STAFF'S ELECTRIC REVENUE ALLOCATION RECOMMENDATION.

A. The Commission Staff agrees with PSE's proposed electric revenue allocation. Specifically, Staff witness Watkins argues the Company's electric revenue spread reflects cost of service study results and moves classes closer to parity in a gradual manner. He concludes that PSE's proposed electric revenue spread is reasonable and consistent with sound ratemaking practices.[7/]

Q. WHAT IS THE ELECTRIC REVENUE ALLOCATION PROPOSAL OF PUBLIC COUNSEL?

A. Public Counsel witness Dismukes argues that the electric revenue distribution should be modified to be based on his alternative CCOSS results. He also asserts that the electric revenue spread should be modified to limit the rate increase for any single customer class to 1.15 times the overall electric system average increase.[8/]

7/ Testimony of Glenn A. Watkins on behalf of Staff of the Washington Utilities and Transportation Commission (Exhibit GAW-1T), August 6, 2024, page 18.

8/ Response Testimony of David E. Dismukes on behalf of Public Counsel (Exhibit DED-1T), August 6, 2024, pages 28-29

Q. ARE THE ELECTRIC REVENUE ALLOCATION PROPOSALS OF THE COMMISSION STAFF AND PUBLIC COUNSEL REASONABLE IN YOUR OPINION?

A. No. As I discussed in my response testimony, the revenue allocation and class rate design in this proceeding should be mainly driven by the goal of achieving cost-based rates. In my view, the electric revenue allocation proposals of the Commission Staff and Public Counsel do not exhibit sufficient movement towards cost-based rates, particularly with regard to the High Voltage Service class (Schedules 46 and 49).

Q. PLEASE DISCUSS YOUR SPECIFIC CONCERNS REGARDING THE STAFF'S ELECTRIC REVENUE ALLOCATION PROPOSAL AS IT IMPACTS THE HIGH VOLTAGE SERVICE CLASS.

A. As I explained in my response testimony, the High Voltage Service class is above cost of service under the Company's cost of service study in this proceeding and provides a significant cost subsidy to other customer classes. Moreover, this subsidization pattern is not a new phenomenon. As I discussed, the High Voltage Service class has consistently been required to subsidize PSE's other customer classes over many years, dating back to at least the test year ending September 2016 in Docket No, UE-170033.[9/] This demonstrates that the High Voltage Service class has been subsidizing the rates of other customer classes for an extended time and underscores the need to take aggressive action to minimize the magnitude of class cross-subsidization in this case.

In light of these facts, it would be inappropriate to set the parity ratio for the High Voltage Service class at 1.08, as proposed by the Company and endorsed by Staff. Instead, the Commission should adopt an electric class revenue allocation that

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9/ Response Testimony of Ali Al-Jabir on behalf of the FEA (Exhibit AZA-1T), August 6, 2024, page 22 and Exhibit AZA-7.

immediately moves the High Voltage Service class to cost-based rates and a parity ratio of 1.0 in this proceeding. The High Voltage Service class can be moved to parity without imposing significant additional costs on the other electric customer classes.

Q. PLEASE EXPLAIN YOUR SPECIFIC CONCERNS WITH THE ELECTRIC REVENUE ALLOCATION PROPOSAL OF PUBLIC COUNSEL.

A. Public Counsel proposes to cap the rate increase for any single customer class at 1.15 times the overall electric system average increase. By contrast, the Company proposes to cap class rate increases at 1.50 times the electric system average increase for any class that is more than 20% below full parity. Both proposals would have the effect of limiting the rate increase to irrigation customers and shifting costs to other customer classes. However, the imposition of Public Counsel's lower rate increase cap of 1.15 times the system average increase would shift additional costs to the High Voltage Service class relative to the Company's proposal.

The impact of Public Counsel's electric revenue distribution proposal on the revenue allocation to the High Voltage Service class is summarized in Exhibit AZA-10. As shown in this exhibit, Public Counsel's proposal would impose a total rate increase of $14.84 million on the High Voltage Service Class. By contrast, PSE's proposal would increase the total High Voltage Service class rates by $14.48 million. Thus, Public Counsel's proposed class revenue allocation would increase the cost burden on the High Voltage Service Class by $359,000 relative to PSE's proposal.

Exhibit AZA-10 shows that, all else being equal, Public Counsel's proposal would make a bad situation worse by magnifying the cost increase imposed on the High Voltage Service class relative to PSE's proposal, despite the fact that the High Voltage Service class has been subsidizing other customers on the PSE system for many years.

This result is inconsistent with the goal of maximizing the movement to cost-based rates. Therefore, Public Counsel's proposal is a step in the wrong direction.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING THE ELECTRIC REVENUE ALLOCATION PROPOSALS OF THE COMMISSION STAFF AND PUBLIC COUNSEL IN THIS PROCEEDING.

A. The Commission should adopt an electric revenue allocation method that maximizes movement toward cost-based rates and that minimizes cross-subsidies among rate classes. I recommend that the Commission reject the electric revenue allocation proposals of the Commission Staff and Public Counsel because they either exacerbate or fail to adequately remedy the misalignment between costs and rates that would apply to the High Voltage Service class under PSE's revenue allocation proposal. Instead, the Commission should approve the electric revenue allocation proposal set forth in my response testimony. My proposal would appropriately move the High Voltage Service class to cost-based rates with a parity ratio of 1.0 in this proceeding, without imposing substantial incremental costs on PSE's other customers.

<u>Proposed New Electric Riders</u>

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR CROSS-ANSWERING TESTIMONY?

A. A number of witnesses in this proceeding filed testimony regarding PSE's proposal to establish three new electric tracker mechanisms: Schedule 141WFP (Wildfire Prevention Tracker), Schedule 141DCARB (Decarbonization Rate Adjustment) and Schedule 141CGR (Clean Generation Resources Rate Adjustment). In this section of my testimony, I respond to the positions and arguments raised in these testimonies with respect to these proposed new electric riders. Specifically, I address the recommendations set forth in the testimonies of the following witnesses with regard to the new electric tracker mechanisms proposed by PSE: Commission Staff witnesses Chris McGuire and Wesley Franks; Public Counsel witness Michael P. Gorman; AWEC witnesses Lance D. Kaufman and Bradley G. Mullins; and JEA witnesses Bradley Cebulko and William Gehrke.

Q. PLEASE SUMMARIZE YOUR UNDERSTANDING OF STAFF'S POSITION WITH RESPECT TO THE COMPANY'S PROPOSED NEW TRACKERS.

A. Staff witness Wesley Franks opposes the establishment of a new Decarbonization Rate Adjustment. He points out that this proposed tracker is not necessary to advance a specific public policy or to address an extreme risk of cost variance. He states that PSE has an incentive to electrify its system in order to increase revenues and to reduce its environmental compliance costs. He also asserts that the costs that PSE proposes to include in the decarbonization tracker are within the Company's ability to control and to manage.[10/]

Staff witness Chris McGuire testifies that trackers are generally inconsistent with the public interest, primarily because they shift risk from the utility and onto ratepayers and eliminate utility cost control incentives. He states that establishing a new tracker is in the public interest only when the Commission concludes that establishing a new tracker serves a specific public interest purpose. He provides specific examples of circumstances that could merit the establishment of a new tracker, including advancing a specific public policy goal, alleviating intergenerational inequities and reducing the risk of potentially large cost variances that are outside of the utility's ability to control. Mr. McGuire applies these criteria to PSE's proposed new trackers and

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[10/] Testimony of Wesley Franks on behalf of Staff of the Washington Utilities and Transportation Commission (Exhibit WF-1T), August 6, 2024, pages 30 - 32.

concludes that the Commission should deny the Company's requests to establish proposed Schedule 141CGR, Schedule 141WFP and Schedule 141DCARB. However, he recommends that the Commission establish a balancing account for the costs that PSE included in the proposed wildfire cost tracker.[11/]

Q. DO YOU AGREE WITH STAFF'S RECOMMENDATIONS WITH RESPECT TO PSE'S PROPOSED NEW TRACKERS?

A. I agree with the Staff's conclusion that trackers are problematic because they significantly shift the risk of cost recovery between base rates cases from PSE's investors to its customers. This reduction in the Company's cost recovery risk reduces its motivation to control the costs recovered through trackers. I also agree with Staff that trackers are not justified in circumstances where the associated costs are within the PSE's ability to control. The Company has not submitted evidence demonstrating that fluctuations in the costs associated with its proposed new trackers are dictated by market dynamics or other external forces that are beyond the Company's ability to hedge or to otherwise manage. For these reasons, I agree with Staff's recommendation to reject the three new electric trackers that PSE proposed in this proceeding.

Where I differ with Staff is with regard to Mr. McGuire's recommendation to establish a balancing account for PSE's wildfire costs. Mr. McGuire testified that balancing accounts and trackers are effectively the same thing. The only difference is that a balancing account would allow the Company to track and to defer variances in wildfire costs relative to the amounts included in base rates and to recover the deferral balance in its next base rate case. By contrast, a tracker would allow PSE to recover

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[11/] Testimony of Chris McGuire on behalf of Staff of the Washington Utilities and Transportation Commission (Exhibit CRM-1T), August 6, 2024, pages 3 and 29 - 34.

such cost variances through an annual true-up mechanism. Mr. McGuire contends that a balancing account for PSE's wildfire costs is justified because addressing wildfire risk is an important public policy goal, and he is concerned that base rate treatment of wildfire costs would incentivize the Company to cut wildfire prevention costs.[12/]

Q. PLEASE EXPLAIN YOUR CONCERNS WITH STAFF'S RECOMMENDATION TO ESTABLISH A BALANCING ACCOUNT FOR PSE'S WILDFIRE PREVENTION COSTS.

A. As Mr. McGuire explained, a balancing account is generally equivalent to a tracker mechanism. I don't think a balancing account or a tracker mechanism can be justified simply because the programs underlying the proposed balancing account or tracker serve an important public policy goal. Certainly, addressing wildfire risk is an important public policy objective. However, the Company should retain an incentive to advance this objective cost-effectively. Including wildfire costs in a balancing account, as Staff proposes, would reduce the Company's incentive to mitigate wildfire risk in a cost-effective manner, to the determent of its customers.

PSE engages in other projects and programs that advance important public policy goals, such as investments in maintaining system reliability and preserving power quality. The Company recovers these reliability-related costs through base rates, without a dedicated tracker or balancing account. I see no reason to treat wildfire costs differently based on the public policy objective served by the Company's wildfire management programs.

Moreover, as I explained in my response testimony, PSE's regulatory risk associated with base rate costs is reduced through the multi-year rate plan process that

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12/ Testimony of Chris McGuire on behalf of Staff of the Washington Utilities and Transportation Commission (Exhibit CRM-1T), August 6, 2024, pages 55 - 57.

already protects PSE from cost increases between base rate cases to a significant degree. This reduction in the Company's risk profile applies to all costs, including wildfire costs, which the Commission decides to include in the Company's base rates.

If the Commission is concerned that PSE could inappropriately cut wildfire prevention costs if such costs are included in base rates, it is not necessary to establish a balancing account to address this risk. Instead, the Commission could proactively monitor the Company's wildfire programs by requiring PSE to provide an annual report regarding these programs. If the Commission identifies evidence of inappropriate cost cutting in its review of these annual reports, it has the power to sanction the Company in future base rate cases for such deficiencies through a reduced return on equity or other means. This approach would better protect ratepayer interests while ensuring that wildfire prevention programs are adequately funded.

Consequently, I recommend that the Commission reject the Staff's proposal to establishing a balancing account for PSE's wildfire costs.

Q. PLEASE SUMMARIZE PUBLIC COUNSEL'S POSITION REGARDING THE COMPANY'S PROPOSED NEW RIDERS.

A. Public Counsel witness Michael Gorman recommends that the Commission reject PSE's proposed Schedule 141CGR, Schedule 141WFP and Schedule 141DCARB. Mr. Gorman argues that the proposed trackers are not necessary in combination with the multi-year rate-setting process that PSE employs to recover base rate costs. With regard to proposed Schedule 141CGR, Mr. Gorman also asserts that the proposed rider does not give sufficient priority to managing rate affordability. Further, he points out that Scheduled 141CGR is not needed to strengthen the Company's credit metrics or to sustain an investment grade bond rating.[13/]

Q. DO YOU AGREE WITH MR. GORMAN'S POSITION WITH RESPECT TO THE PROPOSED NEW TRACKERS?

A. Yes. Mr. Gorman correctly notes that PSE's multi-year rate plan allows the Company to timely recover its costs in base rates through appropriate adjustments to forecasted costs for each year of the multi-year rate plan period. This multi-year rate setting process eliminates the need to establish these new trackers. I also agree with Mr. Gorman that managing rate affordability is an important public policy objective. Rate affordability can be best assured by relying on the base rate recovery mechanism to recover PSE's costs, in order to retain appropriate incentives for cost control between base rate cases. Accordingly, I support Mr. Gorman's recommendation to reject PSE's proposed Schedule 141CGR, Schedule 141WFP and Schedule 141DCARB.

Q. WHAT IS AWEC'S POSITION REGARDING THE COMPANY'S PROPOSED NEW TRACKERS?

A. AWEC witness Bradley Mullins testifies that PSE's proposed trackers constitute single issue ratemaking and inappropriately shift risk away from the Company's shareholders and onto customers. He recommends that the Commission reject each of PSE's proposed tracker mechanisms in this case and require the Company to recover the costs associated with the proposed trackers as a component of base rates.[14/]

AWEC witness Lance Kaufman recommends that the Commission reject the proposed Wildfire Prevention Tracker. If the Commission declines to reject this tracker,

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[13/] Response Testimony of Michael P. Gorman on behalf of Public Counsel (Exhibit MPG-1CT), August 6, 2024, pages 26 – 35.

[14/] Response Testimony of Bradley G. Mullins on behalf of the Alliance of Western Energy Consumers (Exhibit BGM-1T), August 6, 2024, pages 23 – 25.

he recommends that Special Contract customers and High Voltage Service customers be excluded from any allocation of wildfire prevention costs because they are already directly assigned the cost of the underground distribution facilities that serve them.[15/]

Q. WHAT IS YOUR RESPONSE TO AWEC'S TESTIMONY REGARDING PSE'S PROPOSED TRACKERS?

A. I agree with Mr. Mullins that the proposed trackers allow for single issue ratemaking and unduly shift the risk of cost recovery to ratepayers. Therefore, I support his recommendation to reject PSE's proposed Schedule 141CGR, Schedule 141WFP and Schedule 141DCARB.

Mr. Kaufman points out that customers in the High Voltage Service class are only served by underground distribution facilities that constitute a low fire risk. He also observes that such underground distribution facilities are directly assigned to High Voltage Service customers. I agree with Mr. Kaufman that undergrounding wires largely eliminates the wildfire risk associated with these facilities. Moreover, I agree that it would be inappropriate to allocate a portion of the distribution component of the Company's wildfire prevention costs to the High Voltage Service class given that PSE already directly assigns these undergrounded distribution facility costs to High Voltage Service customers. Consequently, in the event that the Commission approves PSE's proposed Wildfire Prevention Tracker, I agree with Mr. Kaufman that excluding High Voltage Service customers from the allocation of these wildfire prevention costs is consistent with cost causation principles, specifically with regard to the distribution component of such costs.

[15/] Response Testimony of Lance D. Kaufman on behalf of the Alliance of Western Energy Consumers (Exhibit LDK-1T), August 6, 2024, pages 22 – 24.

Q. PLEASE SUMMARIZE JEA'S RECOMMENDATIONS REGARDING THE COMPANY'S PROPOSED NEW TRACKERS.

A. JEA witness William Gehrke supports the establishment of PSE's proposed Schedule 141CGR (Clean Generation Resources Rate Adjustment) because, in his view, it will help the Company make investments in clean energy to meet state policy.[16]

JEA witness Bradley Cebulko agrees that the costs of PSE's electrification initiatives should be recovered through the Company's proposed Schedule 141DCARB (Decarbonization Rate Adjustment), but only as a temporary approach in this particular case. In the long run, he recommends that PSE's electrification program costs be recovered through base rates. Mr. Cebulko also takes issue with PSE's proposed allocation of electrification program costs between gas and electric customers. While the Company proposed to allocate 65% of these program costs to electric customers and 35% to gas customers, Mr. Cebulko asserts that a more reasonable approach would be to equally allocate these costs 50% to electric customers and 50% to gas customers.[17]

Q. WHAT IS YOUR RESPONSE TO JEA'S TESTIMONY REGARDING PSE'S PROPOSED NEW RIDERS?

A. I disagree with Mr. Gehrke's argument that the Commission should approve proposed Schedule 141CGR to encourage the Company to make investments in clean energy to meet state policy. As I discussed earlier in my testimony, the multi-year rate plan process reduces PSE's cost recovery risk by relying on forecasted rate years that permit cost adjustments for each year of the plan period. This rate setting mechanism already

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[16] Response Testimony of William Gehrke on behalf of the Joint Environmental Advocates (Exhibit WAG-1T), August 6, 2024, page 17.

[17] Response Testimony of Bradley Cebulko on behalf of the Joint Environmental Advocates (Exhibit BTC-1T), August 6, 2024, pages 65-69.

provides sufficient assurance that the Company can recover the cost of its clean energy investments through base rates. Therefore, a tracker mechanism is not needed to encourage the Company to make these investments.

With regard to Schedule 141DCARB, I agree with Mr. Cebulko's primary recommendation that the cost of PSE's electrification programs should be recovered through base rates. As I explained earlier, base rate recovery of these costs is appropriate to provide the Company with proper incentives for cost control and to reduce the risks imposed on customers.

However, I disagree with Mr. Cebulko's assertion that Schedule 141DCARB should be approved only in this proceeding as a temporary measure. I see no valid policy reason to establish a new tracker mechanism for electrification costs in this case, only to eliminate the tracker in a future PSE base rate case. A better and more consistent approach that complies with sound public policy principles would be to include PSE's electrification program costs in base rates commencing with this proceeding and in all future base rate proceedings.

I agree with Mr. Cebulko that it would be more reasonable to allocate PSE's electrification program costs equally between the Company's electric and gas systems. As Mr. Cebulko notes, a central focus of PSE's electrification programs is to comply with environmental requirements that pertain to the Company's gas distribution system. Therefore, gas customers should be allocated a larger share of the costs associated with these electrification programs, as recommended by Mr. Cebulko.

Revised Class Cost of Service Study Results

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR CROSS-ANSWERING TESTIMONY?

A. In his testimony, Staff witness Watkins pointed out that the Company discovered a minor error in its electric CCOSS and corrected that error as part of its response to Microsoft Data Request No. 3. As Mr. Watkins notes, the Company's correction has an immaterial impact on the CCOSS results.[18/]

For the sake of accuracy, I have updated my electric CCOSS analysis to reflect the corrections to PSE's CCOSS contained in its response to Microsoft Data Request No. 3. These corrections are incorporated into my revised Exhibits AZA-3 through AZA-6 that are being filed in conjunction with my cross-answering testimony. The other exhibits included with my response testimony were not impacted by the Company's corrected CCOSS and therefore do not require revision.

Q. DO THESE CORRECTIONS LEAD YOU TO CHANGE THE CLASS REVENUE ALLOCATION PROPOSAL SET FORTH IN YOUR RESPONSE TESTIMONY?

A. No. As shown in my revised Exhibits AZA-5 and AZA-6, the corrections to the Company's CCOSS were not significant enough to alter the parity ratios for the High Voltage Service class. Specifically, the parity ratio at present rates for the High Voltage Service class remains at 1.11, which is the same as the parity ratio in the Company's as-filed CCOSS. Moreover, PSE's parity ratio at proposed rates for the High Voltage Service class remains unchanged at 1.08.

[18/] Testimony of Glenn A. Watkins on behalf of Staff of the Washington Utilities and Transportation Commission (Exhibit GAW-1T), August 6, 2024, pages 12 - 13.

Therefore, PSE's corrections to its electric CCOSS do not lead me to revise the class revenue allocation proposal set forth in my response testimony. I continue to recommend that the High Voltage Service class be moved to full cost parity in this case. Applying my revenue allocation proposal to the Company's revised CCOSS shows that my revenue spread proposal results in minimal incremental rate increases to PSE's other electric customer classes. Specifically, my proposed revenue allocation would result in an incremental total electric rate increase of 0.13% or less to the other electric customer classes (including the residential and small commercial classes) relative to the Company's proposed revenue spread. This result is shown in revised Exhibit AZA-6.

Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?

A. Yes, it does.