

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

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

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.

**REDACTED**

**CROSS-ANSWERING TESTIMONY OF BRADLEY G. MULLINS**

**ON BEHALF OF**

**ALLIANCE OF WESTERN ENERGY CONSUMERS**

**September 18, 2024**

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1 **I. INTRODUCTION AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Bradley G. Mullins, and my business address is Tietotie 2, Suite 208,  
4 Oulunsalo, Finland FI-90460.

5 **Q. ARE YOU THE SAME WITNESS THAT CAUSED TO BE FILED RESPONSE**  
6 **TESTIMONY IN THIS DOCKET?**

7 A. Yes. On August 6, 2024, I caused to be filed in this docket Response Testimony on  
8 behalf of the Alliance of Western Energy Consumers (“AWEC”).

9 **Q. WHAT IS THE PURPOSE OF YOUR RESPONSE TESTIMONY?**

10 A. I respond to Staff witness Willson’s recommendations to include Climate Commitment  
11 Act Allowance (“CCA”) costs in operational plant dispatch decisions, Staff witnesses  
12 McGuire and Koenig’s recommendation that PSE be permitted to earn a return on its  
13 Demand Response (“DR”) Power Purchase Agreements (“PPAs”) at the Company’s cost  
14 of debt, Staff witness Koenig’s and Intervenor’s Performance Incentive Mechanism  
15 (“PIM”) proposals, and Joint Energy Advocates’ (“JEA”) bill assistance proposal.

16 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

17 A. My principal recommendations are as follows:

- 18 • *Inclusion of CCA Costs in Dispatch Decisions:* I recommend the Washington Utilities  
19 and Transportation Commission (“Commission”) reject Staff’s recommendation to  
20 include allowance costs for wholesale sales in PSE’s forecast of Net Power Supply  
21 Expense (“NPSE”) and to reject Staff’s recommendation that the Commission  
22 determine a prudence review process for CCA costs as part of this proceeding.
- 23 • *Clean Generation Resources Rate Adjustment, Wildfire Prevention Tracker,*  
24 *Decarbonization Rate Adjustment:* I continue to recommend that the Commission  
25 reject each of these newly proposed trackers as a matter of policy. In the event that the  
26 Commission declines to reject these trackers outright, I separately address proposed  
27 changes to the Clean Generation Resources Rate Adjustment. Dr. Lance Kaufman’s  
28 testimony makes substantive recommendations related to the Wildfire Prevention  
29 Tracker and the Decarbonization Rate Adjustment.

- 1 • *Construction Work in Progress (“CWIP”) in Rate Base:* I recommend that the  
2 Commission decline to adopt JEA’s proposal to consider CWIP on a case-by-case basis  
3 in future proceedings based on its proposed criteria. Consistent with my Response  
4 Testimony, I continue to recommend the Commission deny PSE the ability to recover  
5 CWIP. If the Commission is inclined to consider allowing PSE to recover CWIP on a  
6 case-by-case basis as recommended by JEA, I recommend that the Commission address  
7 procedural and policy considerations as part of a future proceeding.
- 8 • *Return on PPAs:* I recommend the Commission reject Staff’s recommendation that the  
9 Commission allow PSE to earn a return on the three DR PPAs, calculated at the  
10 Company’s authorized cost of debt, and continue to recommend that the Commission  
11 deny PSE’s request for a return on its DR PPAs.
- 12 • *DR PIM:* I recommend that the Commission reject PSE’s proposal to increase the PIM  
13 incentive cap to \$3 million and retain the current cap of \$1 million.
- 14 • *Bill Assistance Program:* I recommend that the Commission deny JEA’s bill assistance  
15 program proposal.

16 **II. CCA COSTS**

17 **Q. WHAT IS STAFF’S RECOMMENDATION FOR THE INCLUSION OF CCA**  
18 **COSTS IN PSE’S FORECAST NPSE AND OPERATIONS DECISIONS?**

19 A. Staff’s recommendations, at least in part, appear dependent on as-of-now unavailable  
20 interpretations and programmatic decisions from the Department of Ecology (“Ecology”)  
21 related to CCA program implementation. AWEC interprets Staff’s testimony to have the  
22 following two specific recommendations for this proceeding:

- 23 • Rather than deferring CCA allowance costs associated with wholesale sales, PSE  
24 should include forecast CCA allowance costs associated with wholesale sales in this  
25 general rate case. This would result in an adjustment to PSE’s forecasted NPSE of  
26 [REDACTED] million for 2025 forecasted power costs and [REDACTED] million for 2026 forecasted  
27 power costs.<sup>1</sup>

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<sup>1</sup> Wilson, Exh. JDW-1T at 26:6-8.

1 • The Commission should begin reviewing the “prudence of PSE’s CCA allowance use  
2 and transactions in annual power cost review proceedings,”<sup>2</sup> because doing so is  
3 efficient and reflects the intertwined nature of a utility’s decisions on how to utilize  
4 no-cost allowances and unit dispatch and power purchase decisions.<sup>3</sup> However Staff  
5 also supports a prudence review after the four-year compliance period as an  
6 alternative recommendation.<sup>4</sup>

7 **Q. DOES AWEC HAVE CONCERNS WITH STAFF’S RECOMMENDATIONS?**

8 A. Yes. AWEC will address legal and policy issues and concerns regarding CCA costs in  
9 briefing. Notwithstanding, AWEC is concerned that Staff’s recommendation that PSE  
10 include forecast CCA allowance costs for forecasted wholesale sales results in  
11 unnecessary upward rate pressure for customers without a strong basis for doing so.

12 **Q. DOES PSE CONSIDER CCA COSTS IN ITS FORECAST NPSE AND**  
13 **OPERATIONS DECISIONS?**

14 A. Yes. Staff is correct that PSE’s power cost forecast does not include *direct* costs of  
15 allowance purchases that may be necessary in order to comply with the CCA. Rather,  
16 these are costs that the Company continues to defer in Docket No. UE-220974.  
17 However, PSE does not ignore the CCA for purposes of setting its NPSE forecast. The  
18 Company’s NPSE forecast reflects a reduction in forecasted secondary sales that results  
19 from a CCA cost adder for those sales to cover estimated allowance costs which is  
20 partially offset by lower fuel costs for PSE’s gas-fired generators.<sup>5</sup> The Company takes

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<sup>2</sup> *Id.* at 27:3-5.

<sup>3</sup> *Id.* at 29:1-8.

<sup>4</sup> *Id.* at 29:11-30:5.

<sup>5</sup> Mueller, Exh. BDM-1T at 26:1-10.

1 the same general approach for actual resource dispatch decisions, considering the cost of  
2 CCA allowances such that generation not covered by no-cost allowances is only sold into  
3 the wholesale market if the revenue from those sales is enough to cover the cost of  
4 emissions allowances that must be purchased.<sup>6</sup>

5 **Q. WHY DOES STAFF RECOMMEND INCLUDING ALLOWANCES IN NPSE?**

6 A. Staff makes this recommendation because it finds that this ratemaking treatment  
7 “ensures customers are being charged for the costs of the CCA associated with the power  
8 they use in the period closest possible to when the usage occurs.”<sup>7</sup> Staff also raises  
9 concerns about the potential level of CCA allowance costs that PSE may face,<sup>8</sup>  
10 exacerbated by the fact that Ecology may not implement a “true-up” process that allows  
11 PSE a one-for-one true-up of no-cost allowances to cover all of PSE’s retail load.<sup>9</sup> Staff  
12 also notes that dispatch practices should be optimally designed to manage emissions.<sup>10</sup>

13 **Q. DO YOU AGREE?**

14 A. No, at least not at this time. Including CCA costs in NPSE would result in customers  
15 paying higher net power costs for costs that may not materialize. As Staff acknowledges,  
16 Ecology’s rules allow PSE to use no-cost allowances for emissions associated with  
17 wholesale sales. If PSE has a surplus of allowances that it may deposit for compliance,  
18 then forecasting allowance costs for wholesale revenues in forecast NPSE would result in  
19 an unnecessary over-charge to customers that, given the function of PSE’s annual Power

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6 *Id.* at 29:19-30:15.

7 Wilson, Exh. JDW-1T at 12:17-19 (internal citation omitted).

8 *Id.* at 13:1-5.

9 *Id.* at 16:1-7.

10 *Id.* at 34:1-18.

1 Cost Adjustment, may not be returned to customers. Given the rate impacts already  
2 facing PSE's customers from this general rate case as well as a multitude of other  
3 proceedings, I recommend avoiding additional upward rate pressure on customers for  
4 costs that may not in fact materialize as forecast.

5 **Q. SHOULD THE COMMISSION BE CONCERNED ABOUT SIGNIFICANT**  
6 **DEFERRAL BALANCES?**

7 A. Perhaps. AWEC is also concerned about significant deferral balances and the rate  
8 impacts that would result from amortization of those balances to customers over a short  
9 period of time. Staff's proposal, however, does not result in substantial cost savings  
10 overall for customers because it simply moves costs from one method of cost recovery to  
11 another. As described above, this may result in customers paying higher costs than they  
12 otherwise would under the current ratemaking treatment by including costs on a forecast  
13 basis that may not materialize, and that if over-paid, would not be returned to customers  
14 on a dollar-for-dollar basis given the function of PSE's Power Cost Adjustment. Given  
15 this risk, the concern that deferral balances may be substantial is outweighed by the  
16 concern that customers could overpay for costs that may not materialize.

17 **Q. SHOULD THE COMMISSION BE CONCERNED THAT ECOLOGY HAS NOT**  
18 **FORMALLY DETERMINED HOW A "TRUE-UP" OF ALLOWANCES WOULD**  
19 **BE DETERMINED?**

20 A. No. The Commission should allow PSE to retain the business risk of too few no-cost  
21 allowances to cover its retail load if Ecology does not adopt a true-up mechanism that  
22 allows PSE to obtain no-cost allowances to cover its full retail load obligation over the  
23 compliance period. Staff's recommendations shift the risk (and cost) of uncertainty with

1 the true-up mechanism onto customers without any benefit to PSE’s customers. It is not  
2 a foregone conclusion that if PSE were to face increased costs due to the need to purchase  
3 additional allowances, those costs would appropriately be borne in full by customers.

4 **Q. DOES ECOLOGY “INTEND[] FOR THE NO-COST ALLOWANCES**  
5 **ALLOCATED TO WASHINGTON UTILITIES TO BE EXPOSED TO**  
6 **MARKETS”?**<sup>11</sup>

7 A. This is unknown. Staff’s assumption on future Ecology actions, legal interpretations and  
8 policy directives has no bearing on its determination of CCA costs in this case. Electric  
9 utilities maintain the option of depositing no-cost allowances for compliance during the  
10 first compliance period.<sup>12</sup> While Ecology has an obligation to adopt rules addressing an  
11 allocation schedule of no-cost allowances for the second compliance period by October 1,  
12 2026,<sup>13</sup> there are no final agency rules at this time.

13 **Q. DOES AWEC RECOMMEND THE COMMISSION PERFORM A PRUDENCE**  
14 **REVIEW FOR CCA COSTS?**

15 A. Yes. Just as with any cost, PSE is responsible for prudently managing CCA costs and its  
16 implementation of the CCA. If PSE does in fact face substantial CCA costs in a “bad  
17 case,” PSE will have to demonstrate that its decisions leading to that outcome were  
18 prudent based on the information that it had at the time the decision was made. If PSE’s  
19 dispatch practices are not “optimally designed” to manage CCA cost risk,<sup>14</sup> again, the  
20 Commission has the authority to determine that the Company’s actions were imprudent

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11 *Id.* at 16:19-17:20.

12 RCW 70A.65.120(3)(a).

13 RCW 70A.65.120(3)(b).

14 Wilson, Exh. JDW-1T at 34:1-18.



1 and to levy an appropriate remedy at that time based on the record in the relevant  
2 proceeding.

3 **Q. IS IT NECESSARY TO DETERMINE HOW THE ULTIMATE PRUDENCE**  
4 **REVIEW OF CCA COSTS WILL BE PERFORMED AT THIS TIME?**

5 A. No. AWEC has concerns about the Commission committing at this time to undertake a  
6 prudence review on an annual basis as part of PSE's annual power cost filings. Whether  
7 this is an appropriate approach bears further discussion and is more appropriately  
8 considered as part of Docket U-230161, the Commission's docket to develop policies  
9 related to the CCA, or another generic policy proceeding. As Staff acknowledges that  
10 many elements of programmatic design and implementation are still to be determined by  
11 Ecology, meaning there is still a great deal of uncertainty about what the prudent actions  
12 may or may not be. Additionally, Staff also acknowledges that the CCA has four-year  
13 compliance periods. While Staff identified five factors that guided its primary  
14 recommendation for annual prudence reviews,<sup>15</sup> AWEC is concerned that committing to  
15 annual prudence reviews now may create different compliance incentives that ultimately  
16 put upward pressure on rates because the Company is managing to Commission  
17 expectations about market participation in a single year based on a single year's  
18 allowance pricing instead of taking a holistic look at compliance over a four-year period.

19 **Q. WILL THERE BE A SHORTFALL IN NO-COST ALLOWANCES TO COVER**  
20 **ITS FULL RETAIL LOAD?**

21 A. Since the rules regarding the true-up process have not been finalized, the risk of a  
22 shortfall in no-cost allowances is unknown. Staff raises the concern that PSE's increased

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<sup>15</sup> *Id.* at 28:4-17.

1 emissions for 2025 associated with retail load could result in at least a [REDACTED] million, or  
2 [REDACTED] percent increase in PSE's 2025 actual power costs – presumably the cost of acquiring  
3 allowances for the increased load not covered by no-cost allowances via a true-up from  
4 Ecology.<sup>16</sup> Staff argues that this impact could be exacerbated by PSE's participation in  
5 the allowance market.<sup>17</sup> However, as Staff also concedes, we do not yet know how or  
6 when Ecology will design a true-up mechanism or what programmatic changes may  
7 come for future compliance periods, nor is it clear whether and to what extent PSE will  
8 participate in Washington's allowance market on behalf of its electric customers in the  
9 first compliance period (which again is the only compliance period that overlaps with the  
10 MYRP). Staff's recommendations related to this issue are based on the Commission  
11 obtaining clarity from Ecology,<sup>18</sup> and seem to be aimed at the Commission addressing the  
12 prudence of PSE's CCA-related costs in a future proceeding which would include a  
13 determination on CCA costs in dispatch for both forecast power cost and operations.

14 **Q. IS IT REASONABLE FOR THE COMMISSION TO CONSIDER FINAL**  
15 **AGENCY ACTIONS FROM ECOLOGY WHEN DETERMINING WHETHER A**  
16 **UTILITY'S CCA-RELATED COSTS ARE PRUDENT?**

17 A. Yes. When Ecology issues final agency guidance – through a rulemaking or other  
18 process – related to the questions and issues posed by Staff, it would be appropriate for  
19 the Commission to consider such guidance when determining whether a utility's actions  
20 were prudent. It would not be appropriate, however, for the Commission to make such  
21 determinations based on informal interviews or merely anticipated policy positions from

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<sup>16</sup> *Id.* at 33:6-19.

<sup>17</sup> *Id.* at 33:18-20.

<sup>18</sup> *Id.* at 38:2-39:5.

1 Ecology staff. If the anticipated policy position from Ecology staff is ultimately wrong,  
2 the cost to ratepayers could be significant. Thus, waiting until such policy decisions are  
3 made is the most practicable course of action.

4 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION TO THE COMMISSION?**

5 A. I recommend that the Commission decline to adopt Staff's proposals to increase PSE's  
6 2025 and 2026 forecast NPSE to reflect the forecast allowance costs associated with  
7 wholesale sales and decline to adopt a formal prudence review process at this time.

8 **III. CLEAN GENERATION RESOURCES RATE ADJUSTMENT**

9 **Q. DID STAFF, PUBLIC COUNSEL, OR ANY INTERVENORS ADDRESS PSE'S**  
10 **REQUEST FOR THREE NEW TRACKER SCHEDULES?**

11 A. Yes. In addition to AWEC, Staff, Public Counsel, The Energy Project ("TEP") and Joint  
12 Environmental Advocates ("JEA") each addressed PSE's request for new tracker  
13 schedules. Staff, Public Counsel, TEP and AWEC all recommended that the  
14 Commission decline to adopt any of PSE's three proposed trackers. JEA did not address  
15 PSE's request for the Wildfire Prevention Tracker, but did testify in support of the Clean  
16 Generation Resources Rate Adjustment and Decarbonization Rate Adjustment. My cross-  
17 answering testimony addresses the Clean Generation Resource Rate Adjustment  
18 consistent with my Response Testimony. AWEC's response to JEA's proposal to  
19 approve the Decarbonization Rate Adjustment is set forth in Dr. Kaufman's Cross-  
20 Answering Testimony.

1 **Q. PLEASE SUMMARIZE JEA’S RECOMMENDATIONS REGARDING PSE’S**  
2 **PROPOSED CLEAN GENERATION RESOURCES RATE ADJUSTMENT.**

3 A. JEA supports PSE’s request for a Clean Generation Resources Rate Adjustment as a  
4 matter of policy, because it concludes that it will facilitate cost-recovery for CETA-  
5 compliant resources, subject to true-up until costs are placed into base rates in a  
6 subsequent general rate case proceeding. JEA argues that CETA allows for the deferral  
7 of major project costs associated with Clean Energy Action Plans, and that PSE’s  
8 proposal in this case is similar to deferring major CETA project costs except that the  
9 tracker “more closely tracks revenues associated with expenses associated with CETA-  
10 generating resources.”<sup>19</sup>

11 **Q. DO YOU AGREE WITH JEA THAT PSE’S REQUEST IS SUBSTANTIALLY**  
12 **SIMILAR TO DEFERRING MAJOR CETA PROJECT COSTS FOR FUTURE**  
13 **RATE RECOVERY?**

14 A. No. While CETA *allows* for the deferral of major project costs associated with a Clean  
15 Energy Action Plan, it does not mandate that the utility be afforded such extraordinary  
16 ratemaking relief. Rather, under a deferral, the Commission maintains discretion to reject  
17 a utility’s request for deferral. If the Commission were to approve PSE’s Clean  
18 Generation Resources Rate Adjustment, that would be the ratemaking mechanism for  
19 which these types of investments are recovered. As I stated in my Response Testimony,  
20 the multi-year rate plan and a utility’s ability to recover forecast capital projects on a  
21 provisional basis pursuant thereto eliminates regulatory lag for investments that are  
22 anticipate during the term of a MYRP, and the CETA rate adjustment would create yet

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<sup>19</sup> Gehrke, Exh. WAG-1T at 17:5-7.

1 another regulatory process for capital review, without any corresponding benefit to  
2 customers.<sup>20</sup> Further, allowing dollar-for-dollar recover of costs even prior to their  
3 ultimate inclusion in base rates removes the utility’s incentive to manage costs between  
4 rate cases. There is simply no upside to PSE’s customers that would derive from the  
5 Commission’s approval of the Clean Generation Resources Rate Adjustment.

#### 6 IV. CWIP

7 **Q. PLEASE SUMMARIZE JEA’S PROPOSAL RELATED TO CWIP IN RATE**  
8 **BASE.**

9 A. JEA recommends that the Commission consider whether to allow CWIP in rate base on a  
10 case-by-case basis based on its evaluation of five criteria: (1) “[t]he project is associated  
11 with an important state public policy objective,” (2) “the financial condition of the utility,  
12 and how CWIP in rate base impacts PSE’s financial condition,” (3) “the impact that  
13 CWIP in rate base has had on customers,” (4) “public input,” and (5) “the development  
14 risk of the facility, and how development risk is linked to CWIP in rate base.”<sup>21</sup> JEA  
15 explains that its proposal is “based on the concept that CWIP included in the rate base  
16 must yield specific public interest benefits to justify its authorization for a project,”<sup>22</sup> and  
17 recommends that the Commission consider such requests from PSE as part of “the  
18 certificate of necessity process.”<sup>23</sup> AWEC assumes that the certificate of necessity  
19 process referenced here is that as set forth in ESHB 1589 Section 5, which allows PSE to  
20 seek a certificate of necessity for certain resource acquisitions.

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20 Mullins, Exh. BGM-1T at 24:5-17.

21 Gehrke, Exh. WAG-1T at 14:20-16:12.

22 *Id.* at 14:1-3.

23 *Id.* at 14:10-13.

1 **Q. DOES AWEC HAVE CONCERNS WITH JEA’S PROPOSAL?**

2 A. Yes. As set forth in my Response Testimony, recovering CWIP in rate base would result  
3 in intergenerational inequity, reduce utility incentives to efficiently manage construction,  
4 and would allow for the possibility that customers will end up paying for investments that  
5 do not yield any service or benefit.<sup>24</sup> While JEA’s proposed criteria purports to provide  
6 the Commission with a public interest lens for considering individual CWIP proposals, it  
7 ignores these basic tenets of ratemaking.

8 **Q. DOES THE COMMISSION NEED TO ADDRESS THE SPECIFIC ELEMENTS**  
9 **OF JEA’S PROPOSAL IN THIS CASE?**

10 A. No. JEA recommends that the Commission consider CWIP requests on a case-by-case  
11 basis as part of the certificate of necessity process. AWEC agrees that in its  
12 implementation of ESHB 1589, a discussion of the appropriate process and criteria that  
13 would be necessary in order for the Commission to grant a certificate of necessity will be  
14 important. However, the Commission should refrain from articulating specific criteria,  
15 guidance or expectations related to ESHB 1589 as part of this case.

16 **V. DEMAND RESPONSE PPAS AND PIM**

17 **Q. PLEASE SUMMARIZE YOUR RESPONSE TO PARTIES REGARDING**  
18 **DEMAND RESPONSE PPAs.**

19 A. I oppose Staff’s recommendation that the Commission allow PSE to earn a return on the  
20 three DR PPAs, calculated at the Company’s authorized cost of debt rather than its  
21 authorized rate of return for September to December 2023.<sup>25</sup> As set forth in my Response

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<sup>24</sup> Mullins, Exh. BGM-1T at 25:16-26:16.

<sup>25</sup> Koenig, Exh. PK-1T at 2:11-16.

1 Testimony, I concur with JEA and TEP’s conclusions that the Commission not authorize  
2 return on the DR PPAs.<sup>26</sup> PSE has offered no reasonable justification for its proposal to  
3 doubly reward shareholders, whom already have an incentive to achieve demand  
4 response targets through the Company’s PIM. Additionally, return on PPAs is not  
5 mandated by statute or the 2022 general rate case settlement, and is contrary to traditional  
6 ratemaking principles and Commission precedent.

7 **Q. WHAT REASONING DOES STAFF PROVIDE IN SUPPORT OF ITS**  
8 **RECOMMENDATION?**

9 A. Staff supports PSE’s request to defer the DR PPA expenses between September and  
10 December 2023,<sup>27</sup> asserting that the expenses qualify for deferral under RCW 80.28.410  
11 because they were identified in PSE’s CEAP,<sup>28</sup> and because the deferral period  
12 “corresponds to the period spanning the date PSE initially filed its accounting petition up  
13 to the date PSE began recovering the going-forward PPA expenses in rates.”<sup>29</sup> Staff  
14 supports PSE’s request to defer a return on the DR PPAs for September to December  
15 2023, citing RCW 80.28.410.<sup>30</sup> Staff opposes PSE’s request to defer a return on these  
16 PPAs from January 2024 forward,<sup>31</sup> asserting that “RCW 80.28.410 does not permit  
17 utilities to continue deferring a return on the PPAs beyond the date the underlying PPAs  
18 themselves are included in rates.”<sup>32</sup> Finally, Staff recommends that the Commission

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26 Mcloy, Exh. LCM-1T at 16:3-4; Stokes, Exh. SNS-1T at 58:3-4.

27 McGuire, Exh. CRM-1T at 69:3-4, 72:5-15.

28 *Id.* at 71:3-4, 12-18, 72:5-6.

29 *Id.* at 72:12-15.

30 *Id.* at 73:6-8.

31 *Id.* at 74: 1-3.

32 *Id.* at 74:11-13.

1 “deny PSE’s request to defer a return on the PPAs calculated at the Company’s full  
2 authorized ROR, and instead order the Company to calculate the return using the  
3 Company’s authorized cost of debt.”<sup>33</sup>

4 **Q. WHAT IS STAFF’S REASONING FOR ITS COST OF DEBT**  
5 **RECOMMENDATION?**

6 A. Citing RCW 80.28.410, Staff explains that the statute “provides a range of possible rates  
7 that the Commission may consider for calculating the return on qualifying PPAs.”<sup>34</sup>  
8 According to Staff, PSE has failed to provide evidence justifying a rate “at the upper end  
9 of that range.”<sup>35</sup> Staff explains that,

10 [I]t is not clear to Staff how the term of a PPA has any bearing on  
11 the Company’s capital costs. PSE does not pay for the full term of  
12 its PPAs up front. These PPAs are paid monthly, so PSE’s  
13 suggestion that they require long-term financing is an inaccurate  
14 representation and, to the matter at hand, not a valid reason for  
15 calculating a return at the top end of what is allowed under the law.<sup>36</sup>  
16

17 **Q. DO YOU AGREE WITH STAFF’S REASONING?**

18 A. Partially. I agree that PSE has failed to present evidence to justify PSE earning a return  
19 on the DR PPAs at the Company’s authorized rate of return. However, I disagree that  
20 PSE has provided evidence to support earning a return on at the Company’s authorized  
21 cost of debt. Although Staff is correct that the statute sets forth a range of possible rates  
22 that the Commission may consider for calculating the return on qualifying PPAs, a return  
23 on PPAs is not mandated by statute. The initial determination is whether a return on the

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33 *Id.* at 76:15-17.

34 *Id.* at 76:1-2.

35 *Id.* at 76:3-4.

36 *Id.* at 76:8-12.



1 DR PPAs is appropriate in the first instance. As explained in my Response Testimony,  
2 PSE has offered no reasonable justification to reward shareholders for these CETA-  
3 compliant PPAs given that shareholders already have a DR incentive through the PIM.  
4 The outcome of Staff's recommendation is double recovery for PSE's shareholders at the  
5 cost to customers with no corresponding benefit.

6 **Q. WHAT IS STAFF'S DEMAND RESPONSE PIM RECOMMENDATION?**

7 A. Staff opposes PSE's PIM MW target and alternatively recommends that the PIM target  
8 be 207 MWs, based on PSE's 10-year Annual Incremental Resource Additions Preferred  
9 Portfolio.<sup>37</sup> Staff reasons that the 207 MW target is appropriate because PSE's 149 PIM  
10 target "has no basis at all" and "it prevents PSE from being financially incentivized to  
11 achieve a DR MW threshold that it would have accomplished regardless of the PIM."<sup>38</sup>  
12 Staff recommends that the PIM be reworked to "substantially incentivize PSE to achieve  
13 its equity related requirements."<sup>39</sup> Staff's alternative PIM proposal is "a portion of DR  
14 program costs equal to the average of three ratios: Ratio 1: The percent of **additional** DR  
15 energy benefits going to Named Communities above the required 30 percent threshold.  
16 Ratio 2: The percent of **additional** DR MWs acquired beyond Staff's recommended 207  
17 MW target. Ratio 3: PSE's WACC percentage, as determined by the Commission in this  
18 case."<sup>40</sup>

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<sup>37</sup> Koenig, Exh. PK-1T at 15:9-10, 17-20.

<sup>38</sup> *Id.* at 16:1-8 (internal citations omitted).

<sup>39</sup> *Id.* at 16:18-19.

<sup>40</sup> *Id.* at 17:13-19 (emphasis original).

1 **Q. WHAT IS JEA’S DR PIM RECOMMENDATION?**

2 A. JEA supports authorizing and extending the DR PIM with modifications. Specifically,  
3 JEA recommends “that the PIM be based on PSE’s programs’ contribution towards  
4 resource adequacy” and “basing the PIM on metrics 16 and 17 approved in the last  
5 general rate case.”<sup>41</sup> JEA recommends that the DR PIM target be increased to  
6 “incentivize PSE to achieve demand response beyond the amount it has already  
7 contracted for,” in the amounts of 482 MW (winter) and 422 MW (summer) for 2026-  
8 2027.<sup>42</sup>

9 **Q. DO YOU AGREE WITH STAFF AND JEA’S PIM RECOMMENDATIONS?**

10 A. I agree that it is not necessary to reward PSE for meeting its statutory mandates and that a  
11 PIM target based on the megawatts PSE has contracted for is unreasonable. I therefore  
12 agree that it is reasonable to structure the PIM such that shareholders only receive an  
13 incentive for achieving additional megawatts beyond PSE’s statutory mandates and  
14 contracted amounts to the extent that doing so is cost-effective. I oppose implementing a  
15 PIM target that would incentivize the Company to procure resources that are not cost-  
16 effective, thereby ultimately benefiting shareholders at cost to customers.

17 **Q. WHAT IS TEP’S RECOMMENDATION REGARDING THE DR PIM?**

18 A. TEP recommends the Commission reject PSE’s DR PIM “because the target is not based  
19 on appropriate data and the design is flawed.”<sup>43</sup> TEP asserts that “the target for any PIM  
20 should be a stretch for the utility,” which “the amount the utility has already contracted to

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<sup>41</sup> Mcloy, Exh. LCM-1T at 18:5-10.

<sup>42</sup> *Id.* at 17:14-15, 19:13.

<sup>43</sup> Stokes, Exh. SNS-1T at 58:5-7.

1 achieve is not.”<sup>44</sup> TEP recommends that “[if] the Commission decides to adopt a PIM  
2 over TEP’s objections, it should set a higher threshold at which incentives begin, and  
3 include penalties for failing to meet the target.”<sup>45</sup> TEP further recommends that “the  
4 Commission should decide on the total amount of financial incentive it wants to provide  
5 PSE for acquiring demand response. TEP suggests zero dollars...if the Commission  
6 disagrees and decides to allow an incentive, it should set a total cap for both the phantom  
7 cost of capital and the PIM together.”<sup>46</sup> “TEP recommends a combined cap of no more  
8 than \$1 million.”<sup>47</sup> According to TEP, “[i]f the Commission decides to allow financial  
9 incentives over TEP’s objection, all incentives should be contingent on PSE’s  
10 performance significantly surpassing the stated equity target.”<sup>48</sup>

11 **Q. DO YOU AGREE WITH TEP’S RECOMMENDATION?**

12 A. I agree that tying the DR PIM to the amount of megawatts PSE has contracted for is  
13 unreasonable and that retaining the \$1 million cap is appropriate. As explained above, I  
14 oppose a PIM that incentivizes PSE to procure DR in excess of the Company’s statutory  
15 mandates and not lowest reasonable cost.

16 **VI. JEA BILL ASSISTANCE PROGRAM**

17 **Q. PLEASE DESCRIBE JEA’S BILL ASSISTANCE PROPOSAL.**

18 A. JEA asserts that the increase in PSE customers seeking bill assistance through PSE’s  
19 Home Energy Life Program (“HELP”) demonstrates a demand for bill assistance

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44 *Id.* at 60:16-17.

45 *Id.* at 61:9-11.

46 *Id.* at 61:15-19.

47 *Id.* at 62:10.

48 *Id.* at 63:5-7.

1 programs and need for easier access and enrollment.<sup>49</sup> JEA asserts that PSE should  
2 engage with its Low-Income Advisory Committee (“LIAC”) to determine whether there  
3 are more aggressive forms of bill assistance that could be provided.<sup>50</sup> JEA recommends  
4 “a reform to base rates themselves to make bills more affordable for customers with  
5 lower incomes” in the form of an “income-graduated fixed charge.”<sup>51</sup>

6 **Q. DO YOU SUPPORT JEA’S BILL ASSISTANCE PROPOSAL?**

7 A. No. Generally, AWEC has cost-shifting concerns with JEA’s proposal and cautions the  
8 Commission against approval given the lack of detail provided. In support of its  
9 proposal, JEA cites a similar proposal in California, but notes that it was ultimately not  
10 adopted. JEA further acknowledges that Washington State is “moving forward with its  
11 own efforts in equity.”<sup>52</sup> Any policy-based program that ultimately effects the rates that  
12 all customers pay should go through a formal Commission process such that all customer  
13 advocate groups and interested persons may engage in the process.

14 **Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?**

15 A. Yes.

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49 Thuringham-Thompson, Exh. MT-CT-1T at 36:16-18, 37:1-3.

50 *Id.* at 37:4-5.

51 *Id.* at 37:9.

52 *Id.* at 37:18.