EXH. WAG-4T
DOCKETS NOS. UE-240004/UG-240005
2024 PSE GENERAL RATE CASE
WITNESS: WILLIAM GEHRKE

BEFORE THE WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION Complainant, v. PUGET SOUND ENERGY Respondent.	DOCKET NOS. UE-240004 and UE-20005 *(Consolidated)*

CROSS ANSWERING TESTIMONY OF

WILLIAM GEHRKE

ON BEHALF OF

NW ENERGY COALITION

September 18, 2024

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EXHIBIT LIST

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is William Gehrke, and I am a Senior Technical Analyst at the NW Energy Coalition ("NWEC" or the "Coalition"). My business address is 811 1st Ave., Suite 305, Seattle, WA 98104.

Q. On whose behalf are you testifying?

A. I am submitting cross-answering testimony on behalf of the Joint Environmental Advocates ("JEA").

Q. What is the purpose of this cross-answering testimony?

A. The purpose of my cross answering is to respond to issues raised in my direct testimony that other intervenors also discussed. This includes the Direct Testimony of Dr. Robert Earle[1], Wesley Franks[2], David Garret[3], Lance D. Kaufman[4], Chris McGuire[5], Bradley Mullins[6] and Shaylee Stokes[7].

Q. Did anything from other parties in their direct testimony cause you to change your recommendations in your response testimony?

A. Yes, in one relatively minor respect. In response to testimony from AWEC, Staff, and Public Counsel, I have modified my recommendation with respect to the Clean

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[1] Exh. RLE-1CT.

[2] Exh. WF-1T.

[3] Exh. DJG-1T.

[4] Exh LDK-1T.

[5] Exh. CRM-1Tr.

[6] Exh. BGM-1T.

[7] Exh. SNS-1T.

Generation Tracker, and now recommend that the Clean Generation Tracker be approved with a sunset date of January 1, 2031. In all other respects, I stand by my response testimony.

II. DEPRECIATION

a. DEPRECATION EXPENSE

Q. What is JEA's position on depreciation expense for the rate case?

A. JEA recommends that the Commission adopt the depreciation expense amounts detailed in WAG-3, which constitutes a modified depreciation schedule relative to the one proposed by PSE.

Q. What did Public Counsel witness Earle state about PSE's 2023 IRP?

A. Public Counsel Witness Earle testified that PSE's claims about a significant reduction in gas usage are contradicted by the PSE 2023 Gas Utility Integrated Resource plan.[8] Public Counsel Witness Earle also noted that PSE's plan results in little reduction in gross demand emissions and that PSE is not planning on using electrification to reduce gas demand.[9]

Q. What is JEA's response to Witness Earle's statements about the 2023 IRP?

A. JEA witness Cebulko evaluated the reference scenario from its 2023 Decarbonization Study, which is similar to the preferred and reference scenarios in the Company's 2023 Gas IRP.[10] PSEs preferred, and reference portfolios relied

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[8] Exh. RLE-1CT at 12:11-16.

[9] Exh. RLE-1CT at 8:5-6.

[10] Exh. BTC-1T at 12-13.

primarily on compliance instruments to comply with the CCA. JEA witness Cebulko found that the reference and preferred portfolios do not appear to comply with the CCA.[11]

Q. What is your response to Witness Earle's statement that PSE is not planning on pursuing electrification to reduce gas demand?

While Earle is correct that the IRP says what it says, I do not believe that the IRP adequately describes the future. Electrification will have to be pursued as a significant component of PSE's CCA compliance pathways. Electrification reduces natural gas use on PSE's natural gas system, which reduces PSE's Climate Commitment Act compliance obligation. The Energy Decarbonization Pathways report states that "electrification is an efficient, off-the shelf approach to decarbonizing heating in most cases." [12] This sets it apart from other options that PSE must consider to meet the CCA requirements. Low-carbon fuels like RNG face constraints due to competition from various market sectors and LDCs. The amount of hydrogen that can be blended into the distribution system is limited without new pipeline investments. Offsets or allowances can be utilized for compliance, but the number of compliance instruments available to PSE decreases as the statewide emission baseline for the CCA decreases over time. Furthermore, compliance instruments are not a long-term solution for decarbonization.

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[11] Exh. BTC-1T at 12:8-9.

[12] U – 210553, Washington Energy Decarbonization Pathways, Final Report, Page 139.

Q. What is your response to Witness Earle's statement that PSE is not planning on reducing the use of the distribution system to decline over time?

A. Witness Earle is referencing a specific scenario from PSE's 2023 integrated resource plan, which relies on compliance instruments to comply with the CCA. Electrification of PSE's system will reduce the usage of its distribution system, decreasing either gas throughput and/or customer count. It will also require less reliance on compliance instruments.

Q. Please summarize Public Counsel witness Garret's testimony on depreciation expense.

A. Public Counsel witness Garret evaluated how PSE's proposed service life described the historical mortality characteristics of each account and concluded that the Company's estimated service lives differ significantly from its observed historical data. Based on this analysis, Public Counsel provided new deprecation rates. The net result of Public Counsel witness Garret's testimony is a 0.3% percentage increase in the depreciation accrual.

Q. What is your response to Public Counsel witness Garret's testimony?

A. JEA does not agree with this recommendation. Public Council's deprecation recommendation would not significantly increase PSE's distribution accounts and is largely consistent with the existing depreciation rates. Witness Garret's testimony is based on an analysis of historical data. Witness Garret assumes the status quo for deprecation rates, which mitigates rates impacts for customers, but does not address the needs of the energy transition and/or legal requirements. JEA generally agrees with Public Counsel and other parties that changes to the rate of

gas asset depreciation should reflect PSE's actual plans and progress toward retiring gas assets in response to legal requirements and the needs of the energy transition. In order to achieve this balance, we have made recommendations that would moderate the pace of depreciation in this rate case while accelerating investments in electrification.

Q. What did AWEC state about increasing depreciation expense and PSE's requirement to file an integrated system plan (ISP)?

A. AWEC witness Kaufman recommends that PSE's deprecation rates be kept the same until an ISP identifying PSE's decarbonization plan is filed.[13] AWEC witness Kaufman also states that approving accelerated depreciation of PSE's gas plant without an ISP would result in rate shock.

Q. What is your response to AWEC's argument around waiting until PSE's ISP is filled?

A. JEA does not agree with this recommendation. ESHB 1589 requires PSE's next multiyear rate plan to adopt depreciation schedules which depreciate natural gas assets by 2050. If this requirement remains in place, AWEC's recommendation would result in additional rate pressure for customers in a future multiyear rate plan due to delaying an increase in depreciation expense. JEA believes it is more prudent to start now rather than delay further and risk greater rate shocks in the future.

[13] Exh. LDK-1T at 17:10-11.

Q. What did AWEC state about the risk of calculating depreciation rates?

A. AWEC argued that over-estimating depreciation rates results in future generations paying an inequitably low share of depreciation expense.[14]

Q. What is your response to AWEC's testimony?

A. While this is a potentially an accurate statement, the reverse situation is also true. Underestimating depreciation rates would result in future generations paying a higher share of depreciation expense. JEA's recommendation seeks to balance these competing considerations.

Q. What did the Energy Project witness Stokes state about depreciation expense in the case?

A. The Energy Project witness Stokes recommends that the Commission not adopt PSE's proposed deprecation proposal because it would immediately burden customers and provide a windfall to PSE's investors.[15] As an alternative, witness Stokes recommends a more gradual approach to avoid rate shock for natural gas customers.[16] Witness Stokes testified that PSE's initial deprecation proposal was too large of a rate increase for low-income customers to bear.

Q. What is your response to the Energy Project's position?

A. JEA understands and shares the Energy Project's concerns with the cost impact of increasing deprecation rates in alignment with PSE's proposal. JEA's primary recommendation is a more moderate increase to depreciation expense for

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[14] Exh. LDK-1T at 14:10-11

[15] Exh. SNS-1T at 54:4-6.

[16] Exh. SNS-1T at 54:9-12.

customers in the multiyear rate plan. JEA's proposal seeks to balance two competing factors: the rate burden on current ratepayers and the risk of rate implications on future ratepayers.

Q. What did Staff state about equity implications around how potential changes in natural gas customer counts affect natural gas rates?

A. Staff witness Franks stated, "[t]here is a risk that the cost of fixed assets will be spread to fewer and fewer natural gas customers as more customers electrify and demand shrinks."[17] Staff witness Franks also states," [t]he potential risk of higher rates burdening those unable to transition from natural gas is likely to disproportionately be borne by low-income customers and customers in named communities. "[18]

Q. What is your response to Staff Witness Franks's statement?

A. JEA concurs with Witness Franks' statements, which inform JEA's compromise proposal. Increased depreciation of natural gas assets in this general rate case serves as a mechanism to mitigate the prospective disparity between a utility's anticipated revenue requirement and the revenue generated from a diminished customer base.

Q. What did the Staff state about depreciation expense in this rate case?

A. Staff witness McGuire notes that ESHB 1589 requires PSE to depreciate all gas plant in service as of July 1, 2024, by January 1, 2050, in any multiyear rate plan.[19]

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[17] Exh. WF-1T at 12:11-12.

[18] Exh. WF-1T at 12:14-17.

[19] Exh. CRM-1T at 22: 5-7.

Witness McGuire states that, given the requirements of ESHB 1589, the more time that elapses before deprecation rates are updated, the more the costs of increased deprecation rates will be concentrated on future generations of customers.[20] Witness McGuire noted Witness McGuire also noted that ESHB 1589 does not apply to this multiyear rate plan.

Q. What is your response to witness McGuire's testimony?

A. We agree. Beginning to address this risk by increasing depreciation expense in this proceeding is essential. While a rate impact is associated with higher depreciation rates, this is offset by more moderate rate increases for all customers in the event of a decline in customer count and throughput over time due to fuel switching. A secondary benefit of increased depreciation expenses is that it reduces customers' payments to investors and associated taxes compared to a longer depreciation recovery term.

Q. What is JEA's recommendation on depreciation expense for natural gas assets?

A. JEA recommends that the Commission carefully consider the adoption of a depreciation schedule that balances incrementalism and reasonableness, and that coordinates the rate of depreciation with the pace of investment in electrification strategies that enable PSE to reduce the size and cost of its gas system. JEA's proposed depreciation schedule fulfills these criteria by offering a moderate

[20] Exh. CRM-1T at 23:3-8.

approach compared to PSE's proposal while still addressing future fixed-cost risks for all customers through an increase in depreciation expense.

b. DEPRECATION COST ALLOCATION

Q. What is a cost-of-service study?

A cost-of-service study is a study that evaluates the costs of service associated with different rate schedules. The cost-of-service study allocates cost responsibility to each class of service in manner that reflects the costs of providing service to each class. A three-step process occurs to create a cost-of-service study. The first step is cost functionalization, which separates plant and expenses FERC accounts into specific categories based on various characteristics of utility operation. Energy utilities are required to keeping records according to standard Federal Energy Regulatory Commission (FERC) accounts. PSE's natural gas system has following functional cost categories: production, storage, transmission, distribution, and sales and customer-specific costs.

The second step is cost classification. In this step, the cost functionalized plant and expenses FERC accounts are classified based on the primary factor that determine the amount of costs incurred. There are three main cost classification factors: the number of customers using the system, the need to handle peak customer demand, and the amount of gas that customers use, which are categorized as customer costs, demand costs, and commodity costs respectively.

The third step is cost allocation. At this time, each FERC account is sorted into a specific functionalized and classified cost element. These costs are allocated on customer, demand, commodity or revenue allocation factors, which selected

based on previous steps in the process. The allocation factors assign cost responsibility to specific rate schedules.

Q. Did PSE file a cost-of-service study?

A. Yes. PSE filed a cost-of-service study as part of this general rates case. PSE used the cost-of-service study in its initial proposal to allocate costs between customer classes.

Q. How did PSE allocate depreciation expense?

A. PSE's cost of service study allocated depreciation expense by function in proportion to their associated plant accounts. The categories of depreciation expense are natural gas production, storage, distribution, general and common plant. The largest category of depreciation expense in the cost-of-service study is distribution. In PSE's cost of service study, distribution depreciation expense is allocated 60.6% to residential, 31.3% to commercial and industrial classes (Schedule 31 and 31T) and 8.1% to other customer classes.[21]

Q. What is AWEC's position on the cost allocation of depreciation expense?

A. AWEC proposed that an alternative cost allocation to be used for any increase of depreciation expense in this proceeding. AWEC witness Kaufman recommended that the CUST cost allocator be used to allocate any increase in depreciation expense. Specially, AWEC witness Kaufman recommends that the costs be functionalized to distribution, classified as customer, and allocated using the CUST allocation factor. The CUST allocator is used to allocate the costs of FERC

[21] Exh. JDT-1T, Page "B – COS Results (PSE)", Lines 207.

accounts customer service and informational expenses among customers classes. The results are very significant: AWEC's cost allocation adjustment would allocate any increase to depreciation expense 93.18% to the residential class, 6.64% to the commercial and industrial classes (Schedule 31 and 31T), and 0.18% to other customer classes. In other words, AWEC's proposal shifts much of the burden of increased depreciation expense from its customers to residential ratepayers.

Q. Why does AWEC recommend using the CUST allocator to allocated increased depreciation costs?

A. AWEC witness Kaufman argues that projections of customer count are driving PSE's proposal to increase depreciation expense.[22] Therefore, AWEC proposes that customer count should be used to allocate costs associated with increased depreciation expense. [23]

Q. What is JEA's response to AWEC on depreciation expense cost allocation?

A. JEA disagrees with AWEC's recommendation. Increasing depreciation expenses affects the timing of when utility assets are recovered from customers not the utilization of a utility assets. AWEC has not established a change in the use of the utility assets and associated depreciation expense. The Commission should continue to allocate depreciation expense in proportion to the associated plant account as detailed in PSE's cost of service study.

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[22] Exh. LDK-1T at 31:4-6.

[23] Exh. LDK-1T at 31:4-6.

III. RATEMAKING MECHANISMS

Q. What ratemaking measures does JEA recommend that the Commission adopt?

A. JEA recommends that the Commission: a) temporarily adopt the Clean Generation Resource Tracker (CGR Tracker); b) reject construction work in progress (CWIP) in Beaver Creek's rate base; and c) adopt a framework for determining whether a specific project should qualify for CWIP in a base approach going forward.

a. CLEAN GENERATION RESOURCES TRACKER

Q. What is PSE's proposed Clean Generation Resources tracker?

A. PSE's proposed Clean Generation Resources tracker will allow it to recover the fixed costs of building or purchasing large utility-scale CETA-compliant generation resources.[24] The rates initially set for each project will be based on forecasts but will be subject to a true-up mechanism.[25] Once a project under the CGR tracker has reached commercial operation and been placed in service, it will be included in base rates in PSE's next multiyear rate plan.[26] PSE is requesting that the CGR tracker be an ongoing mechanism for cost recovery.[27] PSE is requesting the CGR tracker as a way to improve its cash flow during a resource acquisition period.

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[24] Exh. SEF-1T at 13:15-17.

[25] Exh. SEF-1T at 16:5-6.

[26] Exh. SEF-1T at 18:3-7.

[27] Exh. SEF-1T at 15:9-11.

Q. Why is PSE undergoing a period of resource acquisition?

A. The Clean Energy Transformation Act establishes three clean energy standards that PSE must demonstrate compliance with:

(1) PSE must remove coal power from rates by the end of 2025.

(2) PSE's electricity must be "greenhouse gas neutral" by 2030. Per RCW 19.405.040, eighty percent of this standard must be achieved through the use of non-emitting electric generation and electricity from renewable resources, and twenty percent may be met through alternative compliance options.

(3) PSE's electricity must be 100 percent clean by 2045. As described in RCW 19.405.050, this standard must be met using a combination of non-emitting electric generation and electricity from renewable resources. [28]

In response to these compliance requirements, PSE is going to have to be in acquisition mode in the midterm. In the 2024 All-Source request for proposal, PSE is seeking 2.3 million MWh of CETA-compliant clean energy in 2030 and approximately 1755 MW of additional summer and 1573 MW of additional winter capacity to meet peak needs in 2029. In PSE's 2023 clean energy implementation plan update, the Company estimated 6,717 MW of zero-emission resources under its preferred portfolio to meet Washington's decarbonization mandate. Based on the 2023 CEIP update, PSE will acquire more renewable and zero-emission resources than the utility has historically acquired.

[28] Exh. LCM-1T at 3-4.

Q. What is JEA's position on the CGR Tracker?

A. JEA recommends that the Commission adopt the CGR tracker, subject to a sunset date, which is detailed later in this testimony.

Q. What issues did Staff raise around trackers?

A. Staff witness McGuire presented a general policy framework for determining when the use of trackers is appropriate, in Staff's view. [29] Staff applied this framework to the proposed Clean Generation Resources Tracker based on Beaver Creek. Based on Staff's review of the CGR tracker regarding Beaver Creek, Staff recommends that the Commission deny PSE's request to establish Schedule 141CGR and instead include the revenue requirement associated with Beaver Creek in calculating base rates.

Q. What did Public Counsel state on the CGR Tracker?

A. Public Counsel opposes the creation of the GGR tracker for recovering the cost of CETA resources. Public Counsel argues that a tracker is not needed due to the multiyear rate-setting process.[30] Public Counsel witness Gorman recommends that the Commission allow PSE to recover the cost of CETA plant investments from the multiyear rate case process.[31]

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[29] Exh. CRM-1Tr at 46-49.

[30] Exh. WF-1T at 12:11-12.

[31] Exh. MPG-1CT at 33:1.

Q. What did AWEC state on the CGR Tracker?

A. AWEC witness Mullins argues that PSE's proposed CGR tracker is single-issue rate-making, shifting risk from PSE's shareholders to customers. AWEC recommends that the Commission reject the CGR tracker.

Q. What is your position on other parties concerns on the CGR tracker?

A. I agree with Witness Mullins that the CGR tracker is single issue ratemaking. However, PSE is allowed to defer costs associated with CETA resources, which is a form of single-issue ratemaking that allows PSE to track costs between commercial operation and being placed into base rates. I disagree that the CGR tracker eliminates the risk of cost recovery for capital investments for PSE.

Q. Does PSE's proposed CGR tracker eliminate the risk of cost recovery regarding capital investments from CETA?

A. No. The CGR tracker enables PSE to record revenue and expenses concurrently before they are incorporated into base rates. It is generally anticipated that a new utility-scale wind facility will have a useful life of 30 years, while a new utility-scale solar facility will have a useful life of 20 years. Once a new CETA-eligible resource is integrated into base rates, its costs become subject to the multiyear rate plan process. At this point, PSE assumes the variance risk of the expenses in base rates, meaning the CGR tracker does not shift 100 percent of the variance risk to customers.

Q. Will the CGR tracker harm rate affordability?

A. I do not believe so. The CGR tracker includes a true-up mechanism that will not allow the Company to over-recover costs associated with a new CETA resource.

Q. What cost recovery tools does CETA provide to PSE?

A. Under RCW 80.28.410, PSE can account for and defer for later consideration by the Commission costs incurred in connection with major projects in PSE's clean energy action plan or its RFP processes. PSE can defer O&M, deprecation, taxes, and capital costs associated with a resource or power purchase agreement. RCW 80.28.410 deferrals are allowed from the date of commercial operation and end on the final decision date by the Commission in the next general case proceeding.

Q. Has PSE used the deferrals to track costs associated with CETA?

A. Yes. In UE-230131, PSE received authorization to have an accounting petition to track PSE's Clean Energy Implementation Plan costs. In UE-230810, PSE used a deferral to track expenses associated with three demand response contracts.

Q. What issues do deferrals present to customers?

A. Deferral balances accumulate until addressed in the utilities' subsequent General Rate Case. Depending on the commencement of commercial operations for the CETA resource, the revenue linked to the new CETA resource, and the timing of its inclusion in a general rate case, the deferrals associated with CETA could introduce rate volatility for customers. When deferred CETA costs are evaluated for prudence, presented for rate recovery in a general rate case, and placed into base rates, customers bear the costs of prudently incurred expenses related to historical deferred costs and future costs. Deferrals can lead to rate volatility due to customers paying for a historic and estimated service cost.

Q. How do you expect PSE to respond if it does not approval for the CGR tracker?

A. PSE will likely attempt to minimize regulatory lag and collect customers' cost of service for CETA resources. One tool that PSE has to reduce regulatory lag is to defer the costs of CETA resources for future rate recovery from customers. During periods of high resource acquisition, multiple deferrals for new resources will be accumulated until a prudence review and a general rate case occur, which could lead to rate pressure on customers in a future rate case.

Q. Why is the CGR tracker acceptable to JEA?

A. While JEA acknowledges the concerns of AWEC, Public Counsel and Staff, the CGR tracker appears to be the least unfavorable option to temporarily enhance cash flow for PSE during a significant resource acquisition process. As with other issues, the Commission is called on to balance competing objectives. We believe that the proposed balance is reasonable.

Q. Why does JEA recommend that the CGR tracker expire in 2031?

A. While PSE will undergo a period of resource acquisition in the near term, the Company does not need to utilize a CGR tracker indefinitely. JEA also acknowledges the concerns around the CGR tracker from Staff, AWEC, and Public Counsel. Therefore, JEA does not recommend that the Commission adopt the CGR tracker as a long-term rate mechanism. JEA recommends that the CGR tracker sunset to the addition of new resources on January 1, 2031. This choice is informed by the alignment of this date with the next major deadline for CETA compliance in the 2030 calendar year. After this date, the CGR tracker would sunset to allow

new resources to be added, and PSE would have to expressly request reauthorization for the tracker. JEA is open to different sunset dates.

b. CONSTRUCTION WORK IN PROGRESS ("CWIP") IN RATE BASE

Q. Please summarize JEA's testimony on CWIP.

A. JEA recommends that the Commission not adopt the CWIP in rate base for the Beaver Creek project because of its impact on customers, and the characteristics of Beaver Creek. For future CWIP resources, JEA recommends that the Commission adopt the framework established in WG-1T for evaluating CWIP for future projects.

Q. What did PSE seek around CWIP in rate base for Beaver Creek?

A. PSE has sought to recover CWIP in rate base for Beaver Creek, in order to mitigate the impact of a large construction program on its cash flow.

Q. What did Staff state on CWIP in rate base for Beaver Creek?

Staff opposes PSE using CWIP in rate base for Beaver Creek. Staff witness McGuire states that including CWIP in the rate base would disproportionately impact PSE's low-income customers and, as a result, lead to inequitable outcomes for those customers.[32] When analyzing the net present value calculation of AFUDC vs CWIP in the rate base for customers, PSE assumed an average customer discount rate of 4.82 percent.[33] Staff witness McGuire argues that lower-

[32] Exh. CRM-1T at 90-91.

[33] Exh. SEF-25.

income customers have a higher cost of capital than average-income customers.[34] A higher discount rate in the analysis makes AFUDC more valuable than CWIP. Therefore, Staff argues for Beaver Creek that if CWIP were included in the rate base, customers with a high opportunity cost of capital, such as low-income customers, would be harmed.[35] Instead of granting CWIP in rate base for Beaver Creek, Staff recommends that the Commission order PSE to use AFUDC for Beaver Creek.[36]

Q. Do you agree with Staff's testimony on CWIP for Beaver Creek?

A. Yes. JEA agrees with Staff's testimony on how CWIP in rate bate would affect low-income customers. After considering the characteristics of Beaver Creek and Staff's arguments in testimony, JEA opposes CWIP in rate base for Beaver Creek.

Q. What type of facility is Beaver Creek?

A. Beaver Creek is a conventional onshore wind facility. In the press, PSE stated, "It's a really fast project. It was almost shovel-ready, which is one of the things that made it so attractive."[37] It is clear that Beaver Creek is not a resource with a lengthy construction period causing financial stress on PSE. The statement contradicts PSE's assertion that including CWIP in Beaver Creek's rate base is essential for cash flow purposes due to the project's short construction period.

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[34] Exh. CRM-1Tr at 97:1-10.

[35] Exh. CRM-1Tr at 96:14-17.

[36] Exh. CRM-1Tr at 107:15-19.

[37] https://billingsgazette.com/news/state-regional/columbus-wind-farm-puget-sound-energy-montana/article_c31f304e-953c-11ee-bbd9-fb470aaaa2c4.html.

Q. What is JEA's position on granting CWIP for Beaver Creek?

A. JEA opposes the inclusion of CWIP the Beaver Creek project's rate base. Beaver Creek is a standard onshore wind project that does not require extraordinary rate-making considerations. JEA views Beaver Creek as a typical utility resource acquisition. JEA agrees with the equity arguments made by Staff Witness McGuire on CWIP. JEA acknowledges that CWIP imposes financial burdens on low-income customers and recommends that the WUTC use AFUDC for Beaver Creek.

Q. What is JEA's position on CWIP in rate base for future projects?

A. JEA recognizes that CWIP can help PSE's cash flow during a period of increased resource acquisition. JEA believes that including CWIP in the rate base is an extraordinary measure that may be appropriate in the future in unique circumstances for specific projects. In Exhibit WAG-1T, Pages 14-16, JEA presented five criteria for assessing a CWIP proposal. These criteria provide flexibility for the Commission to approve or reject CWIP for a specific project. PSE is able to submit a request for a certificate of necessity for a new renewable or non-emitting electric generating facility. During the process of obtaining the certificate of public necessity, PSE can ask the Commission to approve CWIP for a specific project based on a public interest standard. In our opening testimony, JEA presented a framework for the Commission to evaluate the public interest standard for CWIP, with the goal of ensuring that decisions are not solely based on the impact of CWIP in rate base on PSE's financial situation. We urge the Commission to adopt that framework.

Q. What did Public Counsel and AWEC state on CWIP generally?

A. Public Counsel and AWEC also oppose the granting of the CWIP to PSE, albeit for different reasons that Staff. Public Counsel witness Gorman argues that including CWIP in the rate base violates the matching principle for customers who fund CWIP in the rate base but do not benefit from Beaver Creek.[38] Witness Gorman also argues that a current return on CWIP lowers its investment risk relative to traditional ratemaking practices and should be accompanied by a reduced return on equity.[39] AWEC witness Mullins stated that AWEC opposes CWIP on the grounds of concerns of intergenerational inequity[40] and the imposition of near-term rate pressure on customers associated with resource acquisition. [41]

Q. What is JEA's response to AWEC and Public Counsel's concerns with CWIP?

A. JEA acknowledges the concerns raised by AWEC and Public Counsel regarding CWIP. These concerns are taken into account in JEA's proposed framework. The third criterion of JEA's proposed framework will enable the Commission to assess the impact of CWIP on customers. In a future proceeding involving CWIP where the public interest standard is being evaluated, Public Counsel and AWEC will have the opportunity to present arguments regarding the effects of CWIP on customers.

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[38] Exh. MPG-1T at 20: 3-6.

[39] Exh. MPG-1T at 21:1-4.

[40] Exh. BGM-1T at 26:8-9.

[41] Exh. BGM-1T, at 26: 8-9.

Q. What are the advantages of JEA's criteria?

A. JEA's criteria for CWIP provide the Commission with discretion to approve or disapprove CWIP for specific projects based on the facts of each project. JEA acknowledges that including CWIP in rate base enhances cash for PSE during the construction phase of projects. However, it is essential to emphasize that the financial condition of PSE should not be the exclusive factor for the Commission to consider when determining the appropriate timing for transitioning away from AFUDC. Therefore, JEA proposed several criteria to guide a public interest standard.

Q. Please summarize JEA's testimony on ratemaking issues.

A. JEA recommends that the Commission adopt PSE's CGR tracker with a sunset date of January 1, 2031. JEA recommends that the Commission adopt JEA's proposed public interest principles for CWIP.

IV. CONCLUSION

Q. Does this conclude your testimony?

A. Yes.