

**Exh. BAE-1T  
Dockets UE-220066, UG-220067,  
UG-210918  
Witness: Betty A. Erdahl**

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY,**

**Respondent.**

**DOCKETS UE-220066, UG-220067,  
UG-210918 (*Consolidated*)**

**In the Matter of the Petition of**

**PUGET SOUND ENERGY**

**For an Order Authorizing Deferred  
Accounting Treatment for Puget Sound  
Energy's Share of Costs Associated with  
the Tacoma LNG Facility**

**TESTIMONY OF**

**BETTY A. ERDAHL**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

***Testimony in Support of the Revenue Requirement and All Other Issues Settlement  
and the Tacoma LNG Settlement***

**August 26, 2022**

**TABLE OF CONTENTS**

**I. INTRODUCTION ..... 1**

**II. SETTLEMENT AGREEMENT..... 2**

    A. Summary of Staff’s Support of the Settlement.....2

    B. Discussion of Settlement .....3

        1. Revenue Requirement ..... 3

        2. Cost of Capital..... 5

        3. Equity ..... 5

        4. Advanced Metering Infrastructure (AMI)..... 9

        5. Colstrip Tracker and Decommissioning and Remediation (D&R) Costs 9

        6. Clean Energy Implementation Plan (CEIP) Tracker..... 11

        7. Transportation Electrification Plan (TEP) Tracker ..... 11

        8. Energize Eastside (EE)..... 12

        9. Corporate Capital Planning ..... 12

        10. Delivery and Distribution System Planning (DSP)..... 13

        11. Distributional Equity Analysis ..... 14

        12. Power Costs..... 15

        13. Performance Based Ratemaking (PBR)..... 19

        14. Metrics..... 19

**III. Tacoma Liquefied Natural Gas (LNG)..... 20**

1 I. INTRODUCTION

2

3 Q. Please state your name and business address.

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

8

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

10 A. I am employed by the Washington Utilities and Transportation Commission  
11 (Commission) as a Regulatory Analyst in the Energy Section of the Regulatory  
12 Services Division.

13

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

15 A. I have been employed by the Commission since June 1991.

16

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

18 A. I graduated from Washington State University in 1988 with a Bachelor of Arts  
19 degree in Accounting. I have also completed relevant coursework such as the “Basics  
20 of Regulation” offered by New Mexico State University; the Rate Making Process  
21 Technical Program; the USTA class on Understanding Separations, Access Charges,  
22 and Settlements; and Utility Ratemaking: The Fundamentals and the Frontier. Before

1 joining the Commission in June 1991, I worked for two years as an accountant in the  
2 financial sector.

3 **Q. Have you testified previously before the Commission?**

4 A. Yes. I testified on behalf of Commission Staff (Staff) in numerous dockets related to  
5 rate filings by telecommunications, gas, and electric companies.

6

7 **II. SETTLEMENT AGREEMENT**

8

9 **A. Summary of Staff's Support of the Settlement**

10

11 **Q. Has Staff reached agreement with some or all of the parties to resolve the 2022**  
12 **general rate case filed by Puget Sound Energy (PSE)?**

13 A. Yes. Staff has reached three agreements with some combination of the parties to  
14 resolve all of the issues in this case. Those agreements are the Green Direct  
15 settlement stipulation, the Tacoma LNG settlement stipulation, and the general  
16 stipulation that resolves all other issues. I discuss Staff's support for the Tacoma  
17 LNG and general stipulations, which I refer to collectively as the "Settlement."

18

19 **Q. Please explain why Staff believes the Settlement is in the public interest.**

20 A. The Settlement reflects a reasonable outcome for revenue requirement and a number  
21 of sizable policy issues over the two years of the multi-year rate plan (MYRP),  
22 including, but not limited to: cost of capital, equity, Automated Metering  
23 Infrastructure (AMI), Colstrip, a Clean Energy Implementation Plan (CEIP) Cost

1 Tracker, PSE’s Transportation Electrification Plan (TEP), Energize Eastside (EE),  
2 Corporate Capital Planning, Delivery System Planning (DSP), power costs, low  
3 income assistance, Performance Based Regulation (PBR), a Time Varying Rates  
4 Pilot, gas line extension, distributional equity analysis, and metrics. It strikes a  
5 balance between the needs of the Company and its customers while addressing new  
6 regulatory requirements by incorporating equity components.

7 Based on Staff’s extensive review of the Company’s filing, Staff believes the  
8 Settlement, taken as a whole and with consideration of the issues that Staff would  
9 contest if the case were fully litigated, produces rates that are fair, just, reasonable,  
10 and sufficient and makes significant progress toward ensuring equitable outcomes  
11 for all of PSE’s customers. Staff therefore concludes that the Settlement meets the  
12 standard for approval set out by the Commission in WAC 480-07-700.

13  
14 **B. Discussion of Settlement**

15  
16 **1. Revenue Requirement**

17  
18 **Q. Please discuss the revenue requirement increases that were agreed to by the**  
19 **Settling Parties.**

20 A. The Settling Parties agree to the following revenue changes for the MYRP effective  
21 January 1, 2023 (Rate Year 1) and January 1, 2024 (Rate Year 2):

22 a) Electric: a \$223 million increase for Rate Year 1, or 9.7 percent; and a \$38  
23 million increase for Rate Year 2, or 1.5 percent. PSE’s initial request was \$310.6

1 million and \$63 million for the first and second years of the rate plan, respectively.

2 b) Natural Gas: a \$70.6 million increase for Rate Year 1, or 6.4 percent; and  
3 an \$18.8 million increase for Rate Year 2, or 1.6 percent. PSE's initial request was  
4 \$143 million and \$28.6 million, for the first and second years of the rate plan,  
5 respectively.

6 The revenue requirement increases include, but are not limited to:

- 7 a) Partial write-off of PSE's COVID deferral petitions, Dockets UE-200780  
8 and UG-200781;
- 9 b) Removal of proposed recovery of renewable natural gas costs from the  
10 MYRP;
- 11 c) The Company's proposed depreciation rates and expenses;
- 12 d) Exclusion of O&M costs for CEIP and TEP (which are included in  
13 respective trackers); and
- 14 e) Reduction to PSE's proposed gas O&M increases by 20 percent.

15 The Settlement is in the public interest because ratepayers will be paying  
16 \$112.6 million less for electric service and \$82.2 million less for gas service over the  
17 two years of the MYRP. Staff believes that these reductions in overall costs result in  
18 rates that are fair, just, reasonable, and sufficient. PSE will receive revenues that it  
19 believes will allow it to meet its public service obligations, and its customers will  
20 pay significantly less than they would have over the life of the rate plan, something  
21 that Staff believes is important in the post-pandemic economic landscape. Further,  
22 the agreed to revenue requirement increases are part of an overall multiparty  
23 settlement that reflects significant compromises by the Settling Parties on multiple

1 issues.

2

3 **Q. What is the estimated impact of the Settlement's revenue requirement increases**  
4 **on a residential customers' monthly bill with average energy usage?**

5 A. The *estimated* impact on an electric customer's bill with a monthly average usage of  
6 831 kWh will be \$10.83 for Rate Year 1 and \$1.71 for Rate Year 2. The *estimated*  
7 impact on a gas customer's bill with a monthly average usage of 64 therms will be  
8 \$4.93 for Rate Year 1 and \$1.27 for Rate Year 2.

9

10 **2. Cost of Capital**

11

12 **Q. Is the agreed upon cost of capital, cost of debt, and capital structure in the**  
13 **public interest?**

14 A. Yes. The agreed upon return on equity (ROE), 9.4 percent, is in the public interest  
15 and is a reasonable compromise taking into consideration the Settlement as a whole  
16 and additional multiple factors. First, my review of Staff witness Parcell's testimony  
17 indicates that the Settlement ROE number is close to the median for regulated  
18 electric and gas utilities, indicating it is reasonable. Second, while the MYRP offers  
19 PSE the chance at more timely recovery of expenses, reducing its risk, both inflation  
20 and interest rates are on the rise in 2022, which increases the risks to PSE. Given all  
21 that, leaving PSE's ROE at 9.4 percent reflects a reasonable balance of the interests  
22 of PSE and its customers.

23

**3. Equity**

1

2 **Q. Which terms in the Settlement were specifically added to ensure that the MYRP**  
3 **is consistent with the equity requirements in RCW 80.28.425(1) and RCW**  
4 **19.405.040(8)?**

5 A. As discussed further below, the Commission has interpreted equity broadly, making  
6 equity a concept relevant to nearly all aspects of a settlement. As the Commission  
7 recently stated in the 2021 Cascade GRC order, no action is equity-neutral.<sup>1</sup> With  
8 that in mind, the following conditions—while not an exhaustive list of terms that  
9 impact equity—were specifically included to ensure the MYRP both meets statutory  
10 requirements and makes significant progress toward equitable outcomes: Corporate  
11 Capital Planning (Section III.B.), Delivery and Distribution System Planning  
12 (Section III.C.), Distributional Equity Analysis (Section III.M.), and finally,  
13 Proposed Metrics- Advancing Equity in Utility Operations (Section III.O.63). Here,  
14 Staff provides a general discussion of the equity terms, the specific terms are  
15 outlined in greater detail below.

16

17 **Q. How does the Settlement make progress towards equitable outcomes?**

18 A. Staff believes the Settlement terms make significant progress towards equitable  
19 outcomes for PSE’s customers by requiring PSE to take specific, concrete steps  
20 toward achieving equity. The Commission laid out further guidance on expectations  
21 around equity as a factor for determining whether a utility filing is in the public

---

<sup>1</sup> *Wash. Utils. and Transp. Comm’n v. Cascade Natural Gas Corporation*, Docket UG-210755, Order 09, 19, ¶ 58 (Aug. 23, 2022) (Cascade 2021 GRC Order).



1 interest as part of the final order in the Cascade 2021 GRC.<sup>2</sup> The Commission found  
2 that “all public interest considerations going forward...must apply an equity lens,”  
3 and as such, “regulated companies should inquire whether each proposed  
4 modification to their rates, practices, or operations corrects or perpetuates  
5 inequities.”<sup>3</sup> It maintained that doing so will involve incorporating the principles of  
6 RCW 43.06D.020,<sup>4</sup> as well as adhering to four core tenets of energy justice:  
7 distributional, procedural, recognition, and restorative.

8 Staff believes the terms in this Settlement make progress towards equitable  
9 outcomes in the following ways: (1) the terms are a first step into an expanded  
10 discussion on programmatic guidance; and (2) the terms apply an equity lens to  
11 PSE’s operations, thus reflecting the principles of equity and the tenets of energy  
12 justice reflected in the Cascade GRC order.

13  
14 **Q. Please elaborate.**

15 A. First, Staff acknowledges that there is very little targeted guidance for regulated  
16 companies on how to practically incorporate larger principles of equity into their  
17 proposals. Although the Commission recently provided general guidance in the  
18 Cascade GRC order,<sup>5</sup> the Commission declined “to provide specific programmatic  
19 guidance” on how to incorporate these principles and tenets into regulated

---

<sup>2</sup> *Id.* at 16, ¶ 52.

<sup>3</sup> Cascade 2021 GRC Order at 19, ¶ 57-58.

<sup>4</sup> Cascade’s GRC Final Order adopted these principles of equity from RCW 43.06D.020 into its regulatory framework. *See* Cascade 2021 GRC Order at 17, ¶ 54. The principles are that equity: 1) requires developing, strengthening, and supporting policies and procedures that distribute and prioritize resources to those who have been historically and currently marginalized, including tribes; 2) requires the elimination of systemic barriers that have been deeply entrenched in systems of inequality and oppression; and 3) achieves procedural and outcome fairness, promoting dignity, honor, and respect for all people.

<sup>5</sup> Cascade 2021 GRC Order at 18, ¶ 56.

1 companies' proposals, instead stating that "we will expand upon our discussion in  
2 future proceedings."<sup>6</sup>

3 As such, the terms of this Settlement lay a foundation for how regulated  
4 utilities should assess, propose, analyze, and implement equitable rates, practices,  
5 and operations. The goal is to give the Commission very specific first attempts that it  
6 can evaluate when providing guidance on equity in the future.

7 Second, the equity specific sections of this Settlement, explained below,  
8 discuss how the terms apply an equity lens, and thus adhere to the principles and  
9 tenets discussed in the Cascade GRC order.

10 Further, Staff reiterates that an understanding of equity, applied to utility  
11 rates, investments, practices, and operations, will continue to evolve. Staff urges the  
12 Commission to accept the terms of this Settlement as a needed starting point, such  
13 that the data and information collected through the timely implementation of these  
14 terms can inform decisions in the future. Moreover, while Staff believes that these  
15 terms allow the Company to move towards distributional, procedural, recognition  
16 and restorative justice, PSE still holds the responsibility for ensuring that when  
17 implementing the terms, it reduces, rather than perpetuates, systemic harm.<sup>7</sup> These  
18 terms create a path forward, but PSE must be held accountable for achieving the  
19 results and actual impacts of the terms.

20  
21  
22

---

<sup>6</sup> Cascade 2021 GRC Order at 19, ¶ 59.

<sup>7</sup> *Id.* at 18, ¶ 55.

1                   **4.     Advanced Metering Infrastructure (AMI)**

2  
3   **Q.     Are the AMI deferral and amortization Settlement terms in the public interest?**

4   A.     Yes. The AMI Settlement terms are in the public interest because they strike a  
5           balance between the needs of PSE and its customers. This is comparable to Staff’s  
6           litigation position. The Settlement allows PSE to receive a return *of* its AMI  
7           investment, but it will continue to defer the return *on* that investment until it  
8           adequately demonstrates that it is maximizing systemic and customer AMI benefits  
9           as part of its AMI benefits progress report. This allows PSE to recover costs incurred  
10          for a major investment while still providing financial incentive for the Company to  
11          implement AMI in a way that maximizes both Company and customer benefits.  
12          Additionally, Staff supports the explicit consideration of equity as part of AMI  
13          reporting metrics. While not specifically identified in the Settlement, Staff expects  
14          that PSE will consult with appropriate advisory groups in identifying customer  
15          benefits and equity issues that may arise when implementing AMI.

16  
17                   **5.     Colstrip Tracker and Decommissioning and Remediation (D&R)**

18                   **Costs**

19  
20   **Q.     Are the terms of the Settlement related to Colstrip and D&R costs in the public**  
21           **interest?**

22   A.     Yes. Staff believes that the Colstrip Tracker is in the public interest because it: (1)  
23           facilitates the Clean Energy Transformation Act (CETA) compliance with respect to

1 D&R costs<sup>8</sup> (*see* RCW 19.405.030(1)(b)) allowing a future determination of their  
2 prudence; (2) improves transparency because a tracker identifies the costs and therefore  
3 improves parties' ability to review/challenge new Colstrip costs prior to Commission  
4 approval; and (3) allows for ratemaking flexibility during these uncertain times for  
5 Colstrip by removing these costs from base rates to evaluate later.

6 The Settling Parties agree that the revenue requirement and Colstrip Tracker  
7 (Schedule 141-C) would specifically exclude all costs related to the Dry Ash  
8 Disposal System and major maintenance costs amortized beyond 2025. For other  
9 Colstrip costs, the Settling Parties retain the right to challenge these costs when PSE  
10 files annual tariff revisions to the tracker. These terms are in the public interest by  
11 ensuring that Colstrip costs embedded within rates are prudent and not intended to  
12 extend the life of the plant beyond 2025, considering the CETA requirements related  
13 to coal-fired resources.<sup>9</sup>

14 Finally, the Settling Parties accept PSE's estimated D&R costs and its  
15 proposed allocation factor for Microsoft's buyout. This term is in the public interest  
16 because it gives one of PSE's ratepayers certainty, while protecting PSE's remaining  
17 ratepayers from having to pay more if the D&R costs exceed PSE's estimates.

---

<sup>8</sup> For an in-depth discussion on CETA compliance and D&R cost recovery, *see Wash. Utils. and Transp. Comm'n v. Puget Sound Energy*, Dockets UE-190529 & UG-190530, Final Order 08/05/03, 123, ¶ 424 – 125, ¶ 430 (July 8, 2020) (PSE 2019 GRC Order).

<sup>9</sup> RCW 19.405.030.

1                   **6.      Clean Energy Implementation Plan (CEIP) Tracker**

2

3   **Q.    Is the Settlement term requiring a tracker for the Company’s CEIP costs in the**  
4           **public interest?**

5   A.    Yes. The Settlement term regarding the CEIP tracker is in the public interest because  
6           it disallows recovery of CEIP costs in general rates. Instead, the costs are recovered  
7           through a tracker. Staff had concerns about the high level of uncertainty regarding  
8           which investments PSE might ultimately make as part of its Distributed Energy  
9           Resources (DER) preferred portfolio and energy storage demonstrations,<sup>10</sup> as well as  
10          the cost of those investments. The use of a tracker alleviates these concerns because  
11          it provides time for the Commission and other interested parties to review those  
12          investments for prudence prior to inclusion of the costs in rates.

13

14                   **7.      Transportation Electrification Plan (TEP) Tracker**

15

16   **Q.    Is a tracker for the Company’s TEP costs in the public interest?**

17   A.    Yes. Similar to the treatment of CEIP costs, moving TEP costs to a tracker prevents  
18          PSE from immediately recovering its transportation electrification (TE) investments,  
19          which is advantageous for the same prudence reasons noted above. Additionally, the  
20          TE sector is a fast-evolving one, with additional Federal and State dollars being  
21          invested, along with the enactment of new and revised policies. These could  
22          significantly impact the sector over the duration of this MYRP. While the TEP laid

---

<sup>10</sup> Rector, Exh. ASR-1T at 38:16-22, 53:4-9.

1 out in significant detail the Company's TE plans over the next several years, it is still  
2 a plan, and plans can change. The additional opportunity for interested parties to  
3 make a prudence determination on these investments is therefore helpful.  
4

5 **8. Energize Eastside (EE)**  
6

7 **Q. Please explain why including Energize Eastside project costs in rates**  
8 **provisionally is in the public interest.**

9 A. Allowing EE costs to enter rates provisionally is consistent with Staff's litigation  
10 position and in the public interest because it reflects a reasonable balance between  
11 the interests of PSE and its customers. Allowing costs in rates provisionally provides  
12 revenue for the Company to use to meet its public service obligations, while at the  
13 same time giving interested parties and the Commission the ability to review final  
14 costs and prudence of the project after it is put in service, allowing the provisional  
15 costs to be refunded to customers if significant cost overruns occur, or if prudence  
16 issues arise.  
17

18 **9. Corporate Capital Planning**  
19

20 **Q. Please explain the Corporate Capital Planning terms and how they are in the**  
21 **public interest.**

22 A. The Corporate Capital Planning terms require PSE to make a compliance filing at the  
23 end of the MYRP demonstrating that: (1) PSE's Board of Directors and senior

1 management have a process or procedure in place for how to plan for equitable  
2 outcomes; and (2) PSE used Corporate Spending Authorizations (CSAs) that require  
3 sponsors to consider equitable distribution. The Settlement reflects Staff's litigation  
4 position and is in the public interest because it requires PSE to incorporate an equity  
5 lens into its Corporate Capital Planning process, which governs the enterprise-wide  
6 planning and allocation of funds from the five-year budget, including the CSA  
7 process. These terms incorporate elements of distributional and procedural justice,  
8 which are principles in RCW 43.06D.020 and tenets in the Cascade GRC order.  
9 Further, while these terms do not explicitly mention systemic barriers that have been  
10 deeply entrenched in systems of inequality and oppression, as noted in RCW  
11 43.06D.020, they should move the Company toward monitoring how it can eliminate  
12 barriers when integrating feedback from persons affected by its decisions.

13  
14 **10. Delivery and Distribution System Planning (DSP)**

15  
16 **Q. Please explain the DSP terms and how they are in the public interest.**

17 A. The DSP terms require two things. First, PSE will take steps that move it toward an  
18 integrated system planning approach for distribution system investments. Second,  
19 PSE must develop new benefits and costs (with associated weights) related to equity  
20 for use in the optimization step in its replacement software for investment decision  
21 optimization tool (iDOT).

22 Again, the Settlement reflects Staff's litigation position and is in the public  
23 interest because it requires PSE to incorporate an equity lens into its DSP process,

1 which governs electric and gas transmission and distribution investment decisions.  
2 Developing new benefits and costs with associated weights related to equity for  
3 delivery system improvements and incorporating those benefits and costs into  
4 resource decisions will directly contribute to distributional justice. Further, these  
5 terms include a robust public participation process which aims to collaborate with  
6 advisory groups, customers, and Named Communities.<sup>11</sup> This will contribute to  
7 recognition and restorative justice by seeking to recognize and correct that affected  
8 communities have not been involved in creating the benefits and costs and associated  
9 weights in the current iDOT model. Without robust involvement from affected  
10 persons, this planning process may have perpetuated inequities.

11  
12 **11. Distributional Equity Analysis**

13  
14 **Q. Please explain the Distributional Equity Analysis terms and how they are in the**  
15 **public interest.**

16 A. The Distributional Equity Analysis term requires PSE to develop methods and  
17 process for a pilot distributional equity analysis. The methods developed will then be  
18 applied to the 80 MW of distributed energy resources proposed in the Company's  
19 2021 CEIP, assuming that those resources are ultimately approved by the  
20 Commission as part of the CEIP preferred portfolio. After the pilot, the Settlement

---

<sup>11</sup> "Named Communities" is an umbrella term that includes Highly Impacted Communities and Vulnerable Populations as those terms are defined in RCW 19.405.020 (23) and (40). Vulnerable populations are designated in an approved CEIP pursuant to WAC 480-100-640 and 480-100-655.



1 outlines an inclusive process in which PSE's distributional equity analysis methods  
2 will be refined and submitted to the Commission for approval.

3 Again, this Settlement term, which is consistent with Staff's litigation position,  
4 is in the public interest because it will result in a process that will be open to  
5 participation from other parties to refine the methods for a distributional equity  
6 analysis of benefits and burdens during the MYRP. That process is consistent with the  
7 Commission's commitment to procedural justice and to "providing an opportunity to  
8 participate in and have meaningful impact on decision-making processes."<sup>12</sup> Further,  
9 this term is in the public interest because it seeks to ensure that PSE will distribute and  
10 prioritize resources equitably, rather than based on the most favorable benefit-to-cost  
11 ratio.

## 12 **12. Power Costs**

13  
14  
15 **Q. Please explain why the Settlement terms updating power costs in the PCA  
16 baseline in the MYRP compliance filing are in the public interest?**

17 A. The power cost terms are in the public interest and consistent with Staff's testimony  
18 by requiring an annual update to power costs, thus improving the PCA baseline  
19 forecast by using more current information.

20 These terms achieve the following goals: (1) fulfilling PSE's need to reduce  
21 deferral balances to maintain appropriate cash flow; (2) promoting rate stability;<sup>13</sup>

---

<sup>12</sup> Cascade 2021 GRC Order at 18, ¶ 56.

<sup>13</sup> The Settlement implicitly rejects PSE's proposed modifications to the PCA contained within the pre-filed testimony of PSE witness Phelps that would promote rate instability, including the elimination of the \$20

1 and (3) minimizing administrative burden. For the PCA baseline to function as  
2 intended —mitigating risk and incentivizing the Company to manage power costs —  
3 accuracy is vital. Including the most up-to-date information<sup>14</sup> in the baseline forecast  
4 model increases the likelihood that the PCA baseline will more accurately reflect the  
5 power costs that PSE will incur during each rate year of the MYRP.<sup>15</sup>

6

7 **Q. Is the timing of the power cost update in the public interest?**

8 A. Yes. The Settlement improves Staff’s position in responsive testimony by increasing  
9 the review of power costs model inputs from 60 to 90 days, and adding an additional  
10 60 days of review for complex changes<sup>16</sup> that may occur within the model. Further,  
11 updating the PCA baseline through the MYRP compliance filing eliminates the need  
12 for additional filings (like PCORCs), thus improving administrative efficiency.  
13 Without these terms, PSE would have to file additional rate cases (PCORCs) during  
14 the pendency of the MYRP in order to update the PCA baseline.

15

---

million trigger threshold, new rates to credit/surcharge customers of the full PCA imbalance each year, an eight-month process for annually updating the PCA baseline and reviewing the prudence of any new resources added to the baseline, and PSE’s having the ability file PCORCs during the pendency of the MYRP. Navarro, Exh. HEN 1T at 2:18-3:2. In testimony, Staff recommended that the Commission approve Staff’s alternative process to annually update the PCA baseline through a MYRP compliance filing. The Settlement terms align with this recommendation.

<sup>14</sup> In the context of a PCORC, the Commission has stated that the goal is to “set the Company’s power cost baseline as close as possible to the forecasted power costs during the rate year, based on the *most up-to-date information*.” *WUTC v. PacifiCorp d/b/a Pacific Power & Light Company*, Docket UE-210402, Order 06 at ¶ 106 (March 29, 2022) (emphasis added).

<sup>15</sup> If PSE were to have a MYRP of three or four years it would be required to update its power costs pursuant to RCW 80.28.425. RCW 80.28.425 (“If the commission approves a multiyear rate plan with a duration of three or four years, then the electrical *company must update its power costs* as of the rate effective date of the third-rate year.”).

<sup>16</sup> The term complex changes is defined within paragraph 26 of the Settlement stipulation.

1 **Q. Why is evaluating prudence of new resources through the annual PCA filings in**  
2 **the public interest?**

3 A. Because the Commission must evaluate the prudence of PCA imbalances and  
4 deferrals during the pendency of the two-year MYRP, the Settlement terms stipulate  
5 that the prudence of new resources (contained within the compliance filing updates)  
6 that are added to the baseline rate that is effective on January 1 will undergo a  
7 prudence review in April of that same year during the annual PCA review filing. In  
8 this filing, the Commission will be considering the prudence of the past year's  
9 imbalance (the new resource would not yet have contributed to this imbalance). Any  
10 party may request a delay in a prudence determination for a new resource until the  
11 following year.<sup>17</sup> This term is in the public interest because the PCA annual review  
12 provides a 5-month period of time to assess the prudence of the prior calendar year's  
13 actual power cost imbalance (as opposed to forecasted values in the update process).

14 When combined with the condition allowing a one-year delay, this is a  
15 sufficient window of time to review the prudence of new resources contained within  
16 the update. Further, as provided in the Settlement, “[n]othing in this agreement limits  
17 the Settling Parties’ ability to review and contest prudence in future proceedings.”<sup>18</sup>

18  
19 **Q. Why is a PCORC stay-out throughout the pendency of the MYRP in the public**  
20 **interest?**

21 A. A PCORC stay-out throughout the MYRP is in the public interest because it reduces  
22 administrative burden and eliminates duplicative processes. If the Commission

---

<sup>17</sup> Settlement Stipulation at ¶ 26 (August 26, 2022).

<sup>18</sup> Settlement Stipulation at ¶ 25 (August 26, 2022).

1 adopts the Settlement’s proposal to update the PCA baseline, all of PSE’s variable  
2 power costs would be updated through this annual power cost filing. Thus, there are  
3 two ways that PSE can deal with new fixed costs – the first would be for PSE to have  
4 included these capital costs in the rate plan that the Commission is currently  
5 considering. The second would be to defer these costs. All of PSE’s new fixed costs  
6 must comply with CETA<sup>19</sup> which included a provision explicitly allowing these costs  
7 to be deferred. PSE should not have any power costs or new resources that are  
8 outside of these parameters.

9  
10 **Q. Why is the provision in the power cost terms regarding the cost recovery of**  
11 **DER Power Purchase Agreements (PPAs) in the public interest?**

12 A. The Settlement term is in the public interest because it clarifies that, “the cost of any  
13 DER PPA for distributed generation, battery resources and demand response costs  
14 are eligible for recovery through PSE’s PCORC, PCA Mechanism, and/or annual  
15 power cost update and are eligible for potential earning on PPA pursuant to RCW  
16 80.28.410.”<sup>20</sup> It also enables the Company to consider distributed resources in the  
17 same way it considers utility scale resources, thus eliminating the financial  
18 preference for Company-owned resources.

19  
20  
21  
22  

---

<sup>19</sup> RCW 80.28.410

<sup>20</sup> Settlement Stipulation at ¶ 29 (August 26, 2022).

1                   **13. Performance Based Ratemaking (PBR)**

2

3   **Q. Is the Settlement’s demand response performance incentive mechanism in the**  
4   **public interest?**

5   A. Yes, the Settlement’s Demand Response (DR) Performance Incentive Mechanism  
6   (PIM) is in the public interest because it will provide an incentive for PSE to  
7   overcome hurdles to implementing DR programs while not risking significant cost to  
8   customers. DR is a new, statutorily required, resource for the Company with  
9   significant barriers to implementation. Staff, in its litigation position, supported a DR  
10   PIM, but not the one presented by the Company.<sup>21</sup> The Settlement’s DR PIM will  
11   push PSE to implement over 40 MW of DR in 2023 and 2024 while capping the  
12   incentive at one million dollars over the rate plan.

13

14                   **14. Metrics**

15

16   **Q. Please explain why the proposed performance metrics are in the public interest.**

17   A. Taken together, the metrics proposed in the Settlement will help establish whether  
18   the Company’s investments are producing benefits for PSE’s customers and whether  
19   those benefits are being distributed equitably. The “Advancing Equity in Utility  
20   Operations” metrics (Section III.O.63) will be particularly helpful in gathering equity  
21   related data necessary to make future decisions. As a whole, the proposed metrics

---

<sup>21</sup> Snyder, Exh. JES-1T at 18:17-19:19.

1 will also help establish a baseline upon which PIMs could be built in future general  
2 rate cases.

3  
4 **III. Tacoma Liquefied Natural Gas (LNG)**

5  
6 **Q. Does Staff believe the Tacoma LNG settlement is in the public interest?**

7 A. Yes. The Tacoma LNG settlement is in the public interest because it preserves the  
8 parties' rights to determine what LNG facility<sup>22</sup> costs are prudent and may be  
9 recovered through a new tracker.

10 The Settlement also reflects a compromise among the various parties'  
11 positions and results in an agreed-upon approach to handling Tacoma LNG in this  
12 rate case.

13  
14 **Q. When will the determination be made regarding what costs are prudent and the  
15 amount to be recovered from ratepayers?**

16 A. This Settlement states that PSE will file a proposed tariff requesting recovery of  
17 Tacoma LNG Facility costs at the same time it submits its Purchased Gas  
18 Adjustment filing in 2023. A determination about costs will be made in this  
19 subsequent filing. The Settlement preserves all parties' ability to challenge the  
20 Tacoma LNG costs when PSE files the tariff pages. From Staff's perspective,  
21 Tacoma LNG will have been operational for a while by the time PSE files the tariff

---

<sup>22</sup> LNG distribution costs will be recovered in base rates.

1 pages, and all costs will be known and measurable, making it easier to apply the  
2 Commission's ratemaking standards to PSE's request for rate relief.

3

4 **Q. Does this conclude your testimony?**

5 A. Yes.