

**EXH. GA-14T
DOCKETS UE-240004/UG-240005 et al.
2024 PSE GENERAL RATE CASE
WITNESS: GILBERT ARCHULETA**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**Docket UE-240004
Docket UG-240005**

In the Matter of the Petition of

PUGET SOUND ENERGY

**For an Accounting Order Authorizing
deferred accounting treatment of
purchased power agreement expenses
pursuant to RCW 80.28.410**

**Docket UE 230810
(consolidated)**

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF

GILBERT ARCHULETA

ON BEHALF OF PUGET SOUND ENERGY

SEPTEMBER 18, 2024

PUGET SOUND ENERGY

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

GILBERT ARCHULETA

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PUGET SOUND ENERGY

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
GILBERT ARCHULETA**

I. INTRODUCTION

**Q. Are you the same Gilbert Archuleta who submitted Prefiled Direct
Testimony on February 15, 2024 on behalf of Puget Sound Energy in this
proceeding?**

A. Yes, on February 15, 2024, I filed the Prefiled Direct Testimony of Gilbert
Archuleta, Exhibit GA-1T and twelve supporting exhibits (Exh. GA-1T through -
Exh. GA-13).

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony responds to the response testimony filed by non-company
parties in this proceeding that address Puget Sound Energy's ("PSE") Demand
Response program, projects, and performance incentive mechanism. Specifically,
my rebuttal testimony responds to the testimony of:

- Paul Koenig, Exh. PK-1T, and Chris McGuire, Exh. CRM-1Tr,
submitted on behalf of WUTC Staff,
- Bradley G. Mullins, Exh. BGM-1T, submitted on behalf of Alliance of
Western Energy Consumers ("AWEC"),
- Lauren McCloy, Exh. LCM-1T, submitted on behalf of Joint
Environmental Advocates ("JEA"), and
- Shaylee Stokes, Exh. SNS-1T, submitted on behalf of The Energy
Project ("TEP").

1 **II. PSE SHOULD EARN A RETURN ON ITS PRUDENT DEMAND**
2 **RESPONSE PURCHASED POWER AGREEMENTS (“PPA”)**

3 **Q. Did PSE demonstrate that its Demand Response PPAs are prudent?**

4 A. Yes. No party has suggested that PSE’s Demand Response PPAs were not
5 prudent.

6 **Q. If no party disputes the PPAs’ prudency, should PSE earn a return on its**
7 **PPAs?**

8 A. Yes. PSE has demonstrated that it should earn a return on the Oracle, AutoGrid,
9 and Enel X PPAs (collectively, “DR PPAs or “PPAs”) because 1) they are
10 prudent, 2) a return on such purchases is authorized and contemplated by statute,
11 and 3) the parties expressly agreed to such recovery in PSE’s 2024 Revenue
12 Requirement Settlement agreement, which was approved with conditions in PSE’s
13 2022 general rate case.¹

14 Notwithstanding the above justification, several parties expressed concern related
15 to PSE’s request to earn a rate of return on these DR PPAs. Staff witness McGuire
16 presents testimony in support of PSE’s request to earn a rate of return on the DR
17 PPAs, but recommends that the return be based on PSE’s embedded cost of debt
18 instead of PSE’s fully authorized rate of return.

¹ See *WUTC v. Puget Sound Energy*, Dockets UE-220066, UG-220067, and UG-210918 (consolidated), Final Order 24/10 at ¶ 258 (Dec. 22, 2022).

1 Public Counsel witness Gorman and AWEC witness Bradley Mullins present
2 testimonies requesting that the Commission deny PSE any return on the DR PPA,
3 contrary to Staff witness McGuire's recommendation. Gorman does state in his
4 testimony, however, that if the Commission is inclined to allow a return on certain
5 of PSE's PPAs as proposed in this proceeding, it should do so at PSE's embedded
6 cost of debt. This latter point aligns with Staff witness McGuire's
7 recommendation.

8 **Q. Please explain your statement above that a return on such purchases is**
9 **authorized and contemplated by statute.**

10 A. Current Washington law under RCW 80.28.410(2)(b) allows the Commission to
11 approve rates of return on certain PPAs within the range of PSE's authorized rate
12 of return at the high-end and its approved embedded cost of debt on the low-end.
13 In its initial testimony, PSE requested that the Commission consider authorizing a
14 return on certain of PSE's PPAs at the higher end of the range, more specifically
15 at its approved rate of return. PSE requested a return on the DR PPAs for two
16 reasons in this proceeding. First, earning returns on PPAs on the margin makes
17 PSE indifferent to whether it purchases energy and capacity versus building and
18 owning facilities that are included in rate base and earn a full rate of return. See
19 the Prefiled Rebuttal Testimony of Matt Steuerwalt, Exh. MS-4T, for additional
20 support. Second, in its attempt to continually manage credit metrics and its overall
21 credit profile, PSE believes that earning a return on PPAs has significant policy
22 benefits to manage credit metric pressures in discussions with the rating agencies.

1 In this connection, McGuire quotes PSE witness Doyle's initial testimony as
2 follows:

3 As explained by PSE witness Doyle, PSE allows that the policy
4 benefits of allowing the Company to earn a return on qualifying
5 PPAs would still be achieved if return were calculated at PSE's
6 authorized cost of debt. Witness Doyle further states that the
7 'potential policy benefits [relating to rating agency discussions to
8 manage credit metric pressures] are more important than the
9 ultimate rate of return the Commission approves' and that 'PSE
10 would be supportive of any rate of return the Commission orders
11 equal to either PSE's authorized cost of debt or its authorized rate
12 of return, or anywhere in between.'²

13 Later in McGuire's testimony he makes a pro forma adjustment to reduce PSE's
14 revenue requirement request to account for the reduced rate of return that he
15 recommends. However, PSE witness Jamie L. Martin presents rebuttal testimony
16 to justify why PSE should earn a return at its full authorized rate of return.
17 Accordingly, this adjustment remains contested between PSE and Staff as
18 discussed by PSE witness Susan E. Free.

19 **III. PSE'S PROPOSED UPDATE TO ITS PERFORMANCE INCENTIVE**
20 **MECHANISM ("PIM") IS A REASONABLE AND MEASURED**
21 **IMPROVEMENT TO ITS CURRENT PIM**

22 **Q. How did PSE select 149 MW as a PIM target?**

23 A. As stated in my Prefiled Direct Testimony, Exh. GA-1T, PSE has proposed a new
24 PIM that includes reaching a DR target of 149 MW by the end of the November
25 2026-2027 winter season. The target is based on PSE's contracted winter season

² McGuire, Exh. CRM-1Tr at 80:9-14.

1 DR for 2026 and is a substantial increase over PSE's 2025 CEIP target of 86 MW.
2 Non-company parties propose various alternative targets, but PSE's target of 149
3 MW is a reasonable yet ambitious increase in DR. Other parties' targets are either
4 wholly unreasonable or are based on more tenuous estimates.

5 **Q. Why are other targets wholly unreasonable?**

6 A. JEA proposes a PIM target for 2026-2027 of 482 MW (winter) and 422 MW
7 (summer). Even JEA acknowledges that such an amount is not so much a target as
8 a "stretch goal" that would "incentivize PSE to build the foundation for a robust
9 program to support its 2027 ISP filing."³ JEA's proposal is more than twelve
10 times the amount of PSE's 2024 PIM target of 40 MW. Establishing an unrealistic
11 "stretch goal" will do nothing but set PSE up for failure. PSE's PIM target should
12 be a reasonable first step toward a long-term managed transition to clean energy,
13 as recognized by JEA witness McCloy.⁴ PSE's strong yet achievable PIM target
14 is just that.

15 **Q. Why should Staff's proposed PIM target be rejected?**

16 A. As I mentioned above, PSE's PIM target of 149 MW is a substantial improvement
17 in demand response. Staff proposes instead to completely replace PSE's current
18 DR program using a complicated ratio-based structure that will only activate if
19 PSE achieves 207 MWs of DR and provides more than 30 percent of energy

³ McCloy, Exh. LCM-1T at 18:18-19.

⁴ McCloy, Exh. LCM-1T at 20:10-12.

benefits to Named Communities. Staff's "reworking" of the PIM is a premature departure from the approved PIM program that came out of PSE's 2022 GRC. Staff's target of 207 MWs is based on a small subset of years pulled from PSE's 10-year Annual Incremental Resource Additions Preferred Portfolio. Staff's target and complete reworking of the PIM program is not superior to PSE's proposal, which is based on direct data for DR achievements PSE expects to reach in 2026.

Q. What are other positions on PSE's DR target?

A. AWEC provided testimony regarding PSE's PIM, but has no issue with PSE's target of 149 MW. Rather, AWEC's complaint with PSE's target is that it includes a corresponding increase to the incentive cap from \$1 million to \$3 million. However, PSE's increased incentive cap is justified for several reasons. PSE's PIM is an expanded program altogether, building off the progress, achievements, and lessons learned since PSE's existing 2022 GRC PIM was approved. The PIM is a program with a higher target, increased costs, and includes expanded programs. PSE's proposal reasonably balances risks and incentives in a tested and approved structure.

TEP is opposed to any DR PIM.⁵ TEP submitted testimony that PSE should receive a financial penalty for failing to meet its DR target, but PSE should receive no financial incentive for meeting its target, "First, the Commission should decide on the total amount of financial incentive it wants to provide PSE

⁵ Stokes, Exh. SNS-1T at 63:5-7.

1 for acquiring demand response. TEP suggests zero dollars.”⁶ TEP provides no
2 alternative PIM or even an alternative target because it prefers to wait until the
3 Commission is comfortable with underlying data before setting a target.⁷

4 TEP’s position would mean regression, not progression. TEP’s position conflicts
5 with the other parties in this case and even its own support of the 2022 GRC
6 Settlement Agreement, which established a DR PIM. Accordingly, TEP’s
7 wholesale rejection of PSE’s DR PIM should be given little consideration.

8 **Q. Why is PSE’s PIM structure better than the completely revamped proposals**
9 **by Staff and JEA?**

10 A. Performance mechanisms that have been well developed, tested, and vetted are
11 generally preferred over proposals that are new and untested, or that have been
12 developed without the input from multiple parties and interested persons. The
13 Commission recognizes that PIMs can be an effective element of a performance
14 based ratemaking framework but has expressed a preference for metrics that are
15 well-developed and vetted by a collaborate process.⁸ Neither Staff’s nor JEA’s
16 PIM proposal was developed in collaboration with PSE, and neither party
17 discusses how its proposal was developed with any sort of collaboration with any

⁶ Stokes, Exh. SNS-1T at 61:15-16. *See also* Stokes, Exh. SNS-1T at 61:6.

⁷ *See* Stokes, Exh. SNS-1T at 59:12-13 and 60:1-3.

⁸ *In the Matter of the Proceeding Develop a Policy statement Addressing Alternatives to Traditional Cost of Service Rate Making*, Docket U-210590, Interim Policy Statement Addressing Performance Measures and Goals, Targets, Performance Incentives, and Penalty Mechanisms at ¶¶ 19-20 (April 12, 2024) and Policy Statement Addressing Initial Reported Performance Metrics at ¶ 21 (Aug. 2, 2024) (Declining to implement a metric that has not been vetted by a collaborate process.).

1 other interested person or party. On the other hand, PSE's DR PIM target of 149
2 MW is calculated in the same way as its established DR target in PSE's CEIP, and
3 the proposed PIM Incentive bands are based on previously agreed-upon and
4 existing PIM incentive bands.

5 **Q. Please explain how approval of PSE's PIM and DR PPAs will benefit Named**
6 **Communities.**

7 A. PSE's proposed PIM does not include a separate benefit for Named Communities,
8 but Named Communities will benefit along with other customers when PSE
9 achieves its incentive goal. For more information on PSE's progress on equity in
10 other areas, see the Prefiled Rebuttal Testimony of Troy Hutson, Exh. TAH-10T.

11 **IV. DEMAND RESPONSE METRICS**

12 **Q. Does PSE intend to retain the Total Electric Peak Load Management Savings**
13 **(MW) performance metric proposed in your initial testimony in this GRC**
14 **proceeding?**

15 A. Yes. In my prefiled direct testimony I proposed to modify the calculation to
16 measure winter and summer MW reductions, as opposed to one annual MW
17 reduction, in PSE's resource adequacy need attributable to all customer demand
18 response programs.⁹ The existing metric does not account for seasonality or that
19 the winter crosses from one calendar year into the next. My proposed adjustment

⁹ See Archuleta, Exh. GA-1T at 15:8-15.

1 will align the metric to the program performance, specifically in the winter
2 season.

3 **Q. Does Staff support the change in the calculation to the Demand Response**
4 **Metric?**

5 A. Yes. Staff witnesses Koenig and McGuire support revising the calculation to
6 reflect measuring winter and summer MW reductions as opposed to annual MW
7 reductions.¹⁰

8 **Q. How does PSE's proposed revision to the Demand Response metric align**
9 **with the Demand Response Metric in the Commission's Policy Statement**
10 **Addressing Initial Reported Performance Metrics in Docket U-210590**
11 **("Performance Metrics Policy Statement")?**

12 A. PSE's proposal slightly deviates from the Commission's Performance Metrics
13 Policy Statement because in the Policy Statement the Commission approved
14 reporting *annual* MW energy, not seasonal MW energy, produced from
15 dispatchable distributed energy resources.¹¹

¹⁰ See McGuire, Exh. CRM-1Tr at 19:8-9. See also Koenig, Exh. PK-1T at 25:19:22.

¹¹ See *In the Matter of the Proceeding to Develop a Policy Statement Addressing Alternatives to Traditional Cost of Service Rate Making*, Docket U-210590 at ¶ 47 (Aug. 2, 2024).

V. CONCLUSION

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Q. Does that conclude your prefiled rebuttal testimony?

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A. Yes.