

**EXH. JAP-SEF-JJJ-1JT
DOCKETS UE-220066/UG-220067 et al.
2022 PSE GENERAL RATE CASE
WITNESS: JON A. PILIARIS
SUSAN E. FREE
JOSHUA J. JACOBS**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**Docket UE-220066
Docket UG-220067**

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**

Docket UG-210918

JOINT TESTIMONY (NONCONFIDENTIAL) OF

JON A. PILIARIS, SUSAN E. FREE AND JOSHUA J. JACOBS

**ON BEHALF OF PUGET SOUND ENERGY IN SUPPORT OF THE
MULTIPARTY SETTLEMENT STIPULATIONS AND AGREEMENTS**

AUGUST 26, 2022

PUGET SOUND ENERGY

**JOINT TESTIMONY (NONCONFIDENTIAL) OF
JON A. PILIARIS, SUSAN E. FREE AND JOSHUA J. JACOBS**

CONTENTS

I. INTRODUCTION1

II. THE SETTLEMENTS SATISFY PSE'S INTEREST AND THE PUBLIC INTEREST5

 A. Summary of the Key Provisions of the Settlements From PSE’s Perspective5

 B. Two-Year Rate Plan Helps to Restore PSE’s Financial Health.....8

 C. Annual Power Cost Updates are Vital to Maintaining PSE’s Financial Health.....11

 D. Separate Rate Trackers Will Provide Parties More Certainty on Costs to be Recovered and Transparency in Who Pays.....14

 E. The Settlements Provide Clarity for the Process of Setting Rates Subject to Refund and Final Prudence Review.....20

 F. The Revenue Requirement Settlement Allows for Prudency Determination on Many PSE Investments and Acquisitions Since PSE’s Last GRC.....22

 G. Settlements Clarify Treatment of Regulatory Assets Through the Next MYRP23

 H. The Revenue Requirement Settlement Advances Equity Among PSE’s Customers.....25

 I. The Revenue Requirement Settlement Provides Enhanced Support for Customers with Low Income28

 J. The Revenue Requirement Settlement Advances PSE’s Efforts to Decarbonize its Energy Systems.....30

 K. Other Elements of the Revenue Requirement Settlement.....35

L. The Settlements are in the Public Interest	41
III. THE LIMITED OPPOSITION TO THE SETTLEMENTS LACK MERIT	44
A. PSE’s Investments in the Energize Eastside Project Were Prudently Incurred	44
B. PSE’s Investments in the Tacoma LNG Project Were Prudently Incurred	45
C. The ROE and Capital Structure in the Revenue Requirement Settlement are Very Reasonable in the Current Market Environment.....	48
IV. CONCLUSION.....	50

1 **PUGET SOUND ENERGY**

2 **JOINT TESTIMONY (NONCONFIDENTIAL) OF**
3 **JON A. PILIARIS, SUSAN E. FREE AND JOSHUA J. JACOBS**

4 **SUPPORTING THE MULTIPARTY SETTLEMENT STIPULATIONS**
5 **AND AGREEMENTS**

6 **I. INTRODUCTION**

7 **Q. Are you the same Jon A. Piliaris who submitted Prefiled Direct Testimony on**
8 **January 31, 2022 on behalf of Puget Sound Energy in this proceeding?**

9 A. Yes, on January 31, 2022 I filed the Prefiled Direct Testimony of Jon A. Piliaris,
10 Exhibit JAP-1T and four supporting exhibits (JAP-2 through JAP-5).

11 **Q. Are you the same Susan E. Free who submitted Prefiled Direct Testimony on**
12 **January 31, 2022 on behalf of Puget Sound Energy in this proceeding?**

13 A. Yes, on January 31, 2022 I filed the Prefiled Direct Testimony of Susan E. Free,
14 Exhibit SEF-1T and twenty four supporting exhibits (SEF-2 through SEF-25). On
15 June 27, 2022 I filed revised testimony and exhibits (SEF-1Tr, SEF-3r, SEF-4r).

16 **Q. Are you the same Joshua J. Jacobs who submitted Prefiled Direct Testimony**
17 **on January 31, 2022 on behalf of Puget Sound Energy in this proceeding?**

18 A. Yes, on January 31, 2022 I filed the Prefiled Direct Testimony of Joshua J.
19 Jacobs, Exhibit JJJ-1T and eight supporting exhibits (JJJ-2 through JJJ-9).

1 **Q. What is the purpose of your Joint Testimony?**

2 A. This joint testimony addresses “Puget Sound Energy’s (“PSE” or “the Company”)
3 support for (i) the Settlement Stipulation and Agreement on Revenue
4 Requirement and All Other Issues Except Tacoma LNG and PSE’s Green Direct
5 Program(“Revenue Requirement Settlement”; and (ii) the Settlement Stipulation
6 and Agreement on Tacoma LNG (“Tacoma LNG Settlement”). Together, we
7 refer to these as the “the Settlements.” The Settlements are being filed with the
8 Commission on August 26, 2022, with this supporting testimony.

9 In addition to PSE, the following parties have joined in the Tacoma LNG
10 Settlement: (i) the regulatory staff of the Washington Utilities and Transportation
11 Commission (“Commission Staff”),¹ (ii) Alliance of Western Energy Consumers
12 (“AWEC”), (iii) Walmart, Inc. (“Walmart”), (iv) Kroger, Co. (“Kroger”), and (v)
13 Nucor Steel Seattle, Inc. (“Nucor”).

14 In addition to PSE, the following parties have joined in the Revenue Requirement
15 Settlement and are referred to as the “Settling Parties”: (i) Commission Staff, (ii)
16 AWEC, (iii) Federal Executive Agencies (“FEA”), (iv) Walmart, (v) The Energy
17 Project, (vi) Kroger, (vii) NW Energy Coalition, (viii) Sierra Club, (ix) Front and
18 Centered, (x) Microsoft and (xi) Nucor.

¹ In formal proceedings, such as this, the Commission’s regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners’ policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. See RCW 34.05.455.

1 This Joint Testimony sets forth PSE’s testimony as to why the Settlements are
2 supported by PSE, in the public interest, and should be approved by the
3 Commission. Ms. Free addresses revenue requirement issues. Mr. Jacobs
4 addresses clean energy and decarbonization issues. Mr. Piliaris addresses other
5 issues that are included in the Settlements.

6 **Q. Are other PSE witnesses testifying in support of the Settlements?**

7 A. Yes; in addition to this policy and revenue requirement testimony, the following
8 witnesses are testifying on behalf of PSE:

- 9 • Joint Financial Witnesses: Cara G. Peterman, Ann E. Bulkley, Todd A. Shipman:
10 These witnesses will testify in support of the return on equity and equity level
11 agreed to by the Settling Parties in the Revenue Requirement Settlement.
- 12 • Dan’l R. Koch: Mr. Koch will provide support for the prudence and cost recovery
13 of the Energize Eastside project as agreed to by the Settling Parties in the
14 Revenue Requirement Settlement.
- 15 • Ronald J. Roberts: Mr. Roberts will provide support for the prudence of the
16 Tacoma Liquefied Natural Gas Facility (“Tacoma LNG Facility”) as agreed to by
17 the Full Settling Parties in the Tacoma LNG Settlement.

18 **Q. Please summarize why the Settlements satisfy the public interest.**

19 A. As discussed within this testimony, the Settlements address both the long-
20 standing historic and recently enacted aspects of Washington’s public interest

1 standard. The agreed-upon revenue requirement and provision for timely changes
2 to rates for updates to PSE’s power costs helps to ensure that the Company has
3 the financial health required to provide safe and adequate service. Since its last
4 general rate case, PSE has made more than \$3 billion in investments that are
5 already providing safe and reliable service to PSE’s customers. The Settlements
6 allow for recovery of these used and useful investments as well as the additional
7 investments projected during the two-year rate plan that will allow PSE to safely
8 supply and reliably deliver its increasingly cleaner energy supply over the coming
9 decades.

10 The Revenue Requirement Settlement builds on PSE’s existing work in the area
11 of equity, allowing PSE to take important steps to integrate equity considerations
12 into its corporate-wide allocation of financial resources and in its delivery system
13 planning, so that resources may be distributed and prioritized to those customers
14 who are historically and currently marginalized. The Revenue Requirement
15 Settlement builds upon an already strong foundation for supporting customers that
16 are least able to afford utility services by including a greater level of support for
17 low-income customers than provided in PSE’s initial filing, as detailed in
18 subsection L, later in this Testimony.

19 The Revenue Requirement Settlement also furthers the public interest as it relates
20 to environmental health and reductions in GHG emissions, with commitments that
21 will result in an updated decarbonization study, development and implementation
22 of an electrification pilot, and the incorporation of a Targeted Electrification

1 Strategy. Each of these commitments, explained in more detail in subsection L,
2 includes distinct efforts to incorporate energy justice to ensure that strategies lead
3 to actions that will reduce systematic harm and achieve equitable outcomes.

4 **II. THE SETTLEMENTS SATISFY PSE'S INTEREST AND**
5 **THE PUBLIC INTEREST**

6 **A. Summary of the Key Provisions of the Settlements From PSE's Perspective**

7 **Q. Why is PSE supporting the Settlements?**

8 A. The Settlements reflect a fair, reasonable and delicately crafted resolution of a
9 significant number of issues in this very complex case. RCW 80.28.425 requires
10 utilities to file as part of their general rate cases (“GRC”) multiyear rate plans
11 (“MYRPs”) with associated performance measures. While the Washington
12 Utilities and Transportation Commission (“Commission”) has offered guidance
13 on the implementation of MYRPs through its policy statement in Docket U-
14 190531 (“Used and Useful Policy Statement”), this guidance has yet to be put into
15 practice, nor have the more recent and robust requirements for performance
16 measures associated with these MYRPs.² PSE and the Settling Parties have
17 reached a compromise that does just that, producing an outcome that is fair, just,
18 reasonable and that provides sufficient financial resources for the utility to carry
19 out its very important mission of providing safe, reliable, affordable and
20 increasingly cleaner energy in a more equitable way.

² The Commission is undertaking a broad examination of how best to implement these new statutory requirements within Docket U-210590.

1 **Q. What are the key elements of the Settlements from PSE’s perspective?**

2 A. While there are many elements of the Settlements that are of interest to the
3 Settling Parties, the ones that follow are the most important to PSE:

- 4 • A two-year rate plan that is generally consistent in construction with the
5 Commission’s guidance in its Used and Useful Policy Statement that
6 produces an agreed upon level of revenues sufficient to address the
7 unsustainable level of capital and operational cost cutting undertaken by
8 PSE in response to the outcome of its last rate case in Dockets UE-190529
9 and UG-190530.³
- 10 • Updates to the rates recovering PSE’s power costs in 2023, as part of the
11 compliance filing at the end of this case, and again for rates effective in
12 2024, that allow the Company to reflect many important factors driving
13 these costs. These factors include, but are not limited to, updates to PSE’s
14 purchased power agreements (“PPAs”), natural gas and wholesale power
15 prices, rates charged for transmission services by the Bonneville Power
16 Administration (“BPA”), and the impacts to the assumed dispatch of
17 PSE’s owned and controlled resources related to its compliance with
18 ESSB 5126, generally referred to as the Climate Commitment Act
19 (“CCA”).
- 20 • Support for separate tariff filings to track and recover the costs associated
21 with: (1) PSE’s CEIP, (2) programs filed in support of its Commission-
22 acknowledged Transportation Electrification Plan (“TEP”), (3) the
23 recovery of the Company’s investments in the Tacoma LNG Facility and
24 (4) the recovery of Commission-approved costs associated with its joint-
25 ownership stake in the Colstrip Generating Facilities.
- 26 • Support for the cost of numerous projects and programs to enter rates
27 provisionally, subject to refund. These include PSE’s investments in its
28 Energize Eastside Project, Tacoma LNG Facility, advanced metering
29 infrastructure (“AMI”) and grid modernization, pipeline replacement, and
30 others.
- 31 • Support for the final prudence of a number of projects, programs and
32 PPAs including, among others, PSE’s final Get to Zero (“GTZ”)
33 investments,⁴ the development and construction of the Lake Hills –

³See Prefiled Direct Testimonies of Kazi K Hasan, Exh. KKH-1CTr at 5-6.

⁴See Prefiled Direct Testimony of Suzanne L. Tamayo, Exh. SLT-1T at 14-19.

1 Phantom Lake Transmission Line and Bellingham Substation Project,⁵ the
2 execution of a 350 MW PPA for the output from the Clearwater Wind
3 project,⁶ a 95 MW PPA for output from the Rock Island and Rocky Reach
4 Hydroelectric Projects,⁷ a 43 MW PPA for output from the Wells
5 Hydroelectric Projects,⁸ and a 250 MW contract for summer peak load
6 hour energy.⁹

- 7 • The recovery of a number of regulatory assets, including but not limited
8 to, undepreciated investments associated with PSE’s automated meter
9 reading (“AMR”) system,¹⁰ losses associated with the sale of its water
10 heating business,¹¹ the debt component on the deferral associated with
11 PSE’s AMI investments and the recovery of deferred costs associated with
12 distribution upgrades undertaken in part to support the ability to deliver
13 vaporized natural gas from the Tacoma LNG Facility to PSE’s gas
14 distribution system.¹²
- 15 • A greater emphasis on elevating consideration of equity in PSE’s
16 corporate-wide allocation of financial resources and in its delivery system
17 planning. These efforts will be informed by an agreed upon pilot to
18 perform a distributional equity analysis, as well as a Commission Staff-led
19 process to further refine this analysis for inclusion in future utility
20 corporate decision-making and delivery system planning.
- 21 • A greater level of support for low-income customers, including some
22 modifications to PSE’s proposal for a bill discount rate, more
23 accommodation for these customers within PSE’s proposed time-varying
24 rate pilot, commitments to extend funding for low-income weatherization
25 programs, planned development of an AMP and a commitment to continue
26 PSE’s existing credit and collection processes through the conclusion of
27 the proceeding being conducted in Docket U-210800.
- 28 • Finally, a commitment to further the study and implementation of the
29 decarbonization of PSE’s energy systems, particularly its natural gas
30 system. This commitment will result in an updated decarbonization study
31 that includes updated assumptions for targeted electrification, the
32 development and implementation of an electrification pilot and the

⁵ See Prefiled Direct Testimony of Roque B. Bamba, Exh. RBB-1T at 13-21.

⁶ See Prefiled Direct Testimony of Colin P. Crowley, Exh. CPC-1HCT at 5-15.

⁷ See Prefiled Direct Testimony of Zacarias C. Yanez, Exh. YCZ-1CT at 20-30.

⁸ See Prefiled Direct Testimony of Zacarias C. Yanez, Exh. YCZ-1CT at 4-20.

⁹ See Prefiled Direct Testimony of Paul K. Wetherbee, Exh. PKW-1CT at 22-27.

¹⁰ See Prefiled Direct Testimonies of Ned W. Allis, Exh. NWA-1T at 18-20 and Susan E. Free, Exh. SEF-1Tr at 106-111.

¹¹ See Prefiled Direct Testimonies of William T. Einstein, Exh. WTE-1CT, Section VIII, and Exh. SEF-1Tr at 98.

¹² See Prefiled Direct Testimonies of Roque B. Bamba, Exh. RBB-1T Section III.C, and Exh. SEF-1Tr. Section III.C.1.

1 incorporation of a Targeted Electrification Strategy (informed by the study
2 and pilot) into PSE’s Natural Gas Integrated Resource Plan (“IRP”) and
3 Biennial Conservation Plan.

4 **B. Two-Year Rate Plan Helps to Restore PSE’s Financial Health**

5 **Q. Please explain the basic elements of the MYRP that will help restore PSE’s**
6 **financial health.**

7 A. The ability of PSE to utilize its forecasted revenues, plant and operations and
8 maintenance (“O&M”) expense to set rates for 2023 and 2024 is a foundational
9 component of the MYRP. The Prefiled Direct Testimony of Susan E. Free, Exh.
10 SEF-1Tr, starting at page 19, addresses the importance of allowing all of PSE’s
11 forecasted plant and O&M to serve as the basis for setting rates during the
12 MYRP. This, coupled with the customer protections provided by the annual
13 review and the earnings sharing mechanism, is a foundational aspect of the
14 MYRP that will help PSE to restore its financial health.

15 **Q. Please expand on how the two-year rate plan under the Settlements helps to**
16 **restore PSE’s financial health.**

17 A. The Settlements will provide much needed relief to improve PSE’s financial
18 health. They will provide PSE with the ability to sufficiently fund its core
19 operations while positioning itself to achieve its Clean Energy Transformation
20 Act (“CETA”) obligations under RCW 19.405 and its gas decarbonization efforts.
21 Multiple witnesses provided testimony in PSE’s initial case regarding the need for

1 rate relief to improve its financial health. The list below provides a sampling of
2 the testimony:

- 3 • Adrian J. Rodriguez, PSE’s previous Senior Vice President - Regulatory
4 and Strategy, discusses how the proposed MYRP will assist PSE in
5 overcoming its current financial challenges in Exh. AJR-1T, Section III.
- 6 • Kazi K. Hasan, PSE’s Senior Vice President and the Chief Financial
7 Officer, discusses the financial challenges PSE currently faces and how
8 the proposed MYRP will help PSE to improve its financial strength while
9 providing service that benefits customers and carries out state energy
10 policy in Exh. KKH-1C, Sections II and IV.
- 11 • Dan’l R. Koch, PSE’s Vice President, Operations, discusses the
12 investment included in the MYRP that is required to perform core services
13 and other non-discretionary work to maintain the safety and improve
14 reliability of the electric and gas systems in Exh. DRK-1T, beginning on
15 page 18.
- 16 • Cara G. Peterman, PSE’s Corporate Treasurer, discusses PSE’s existing
17 credit ratings performance and how the proposed MYRP will be credit
18 positive to PSE’s current performance in Exh. CGP-1CT, Sections IV and
19 V.
- 20 • Susan E. Free discusses how PSE’s current rates are insufficient in Exh.
21 SEF-1Tr, Section IV.

22 **Q. If PSE is accepting in the Settlements an amount less than it requested in its**
23 **revised filing, will the Settlements still allow PSE to address the challenges**
24 **referenced above?**

25 A. Yes. PSE originally filed a request for a three-year MYRP and the Settlements
26 shorten this by one year to provide a two-year MYRP. In light of the continued
27 uncertainty in the economy and regulatory environment, with rapidly evolving
28 state energy policies, it is suitable to enter into a shorter MYRP. Additionally,
29 even though PSE is accepting less in the Settlements, the agreement calls for the

1 ability of PSE to recover its investments in its CEIP and its TEP in separate rate
2 schedules that can be filed after the CEIP and TEP programs are approved by the
3 Commission and their costs and benefits are more certain. This is discussed in
4 greater detail in Section II.D below.

5 **Q. What other aspects of the MYRP are important for PSE’s financial health?**

6 A. As discussed in more detail below, the ability to update PSE’s power costs for
7 rates in 2023 as well as 2024 will go a long way to restoring PSE’s financial
8 health. For several years, PSE has carried large deferral balances for under-
9 recovery in its Power Cost Adjustment (“PCA”) Mechanism that has contributed
10 toward liquidity issues discussed by Ms. Peterman. The ability to update rates for
11 power costs during the MYRP is an important part of the MYRP to restore PSE’s
12 financial health.

13 **Q. Please provide a summary of the revenue requirement agreed to in the**
14 **Revenue Requirement Settlement.**

15 A. The table below provides a summary of the net revenue change agreed to in the
16 Revenue Requirement Settlement. A detailed discussion of how the revenue
17 requirement models were updated to reflect the agreed-upon net revenue change
18 and the corresponding updated revenue requirement exhibits is sponsored by Ms.
19 Free and is included in Exhibits A through N to the Revenue Requirement
20 Settlement.

Description	2023			2024			Full MYRP		
	Electric	Gas	2023	Electric	Gas	2024	Electric	Gas	MYRP
Net Revenue Change per Settlement	\$ 223.0	\$ 70.6	\$ 295.2	\$ 38.0	\$ 18.8	\$ 56.8	\$ 260.9	\$ 89.4	\$ 350.3

C. Annual Power Cost Updates are Vital to Maintaining PSE’s Financial Health

Q. Please describe the agreement in the Revenue Requirement Settlement related to the recovery of power costs.

A. The Settling Parties agree that PSE will update its power costs for recovery in 2023 as part of its compliance filing at the conclusion of this case, and that PSE will file by October 1, 2023 to update power costs again for rates effective January 1, 2024. As part of these filings, PSE will update inputs to its power cost projections including: costs associated with its Mid-Columbia hydro contracts, upstream pipeline capacity contracts, changes to outage schedules, updated rates for services from the BPA, variable operations and maintenance costs, impacts to dispatch logic related to compliance with the CCA, updates to hedges and physical supply contracts, updates to projected natural gas prices, changes to terms for current resources, inclusion of new and updated resources (including transmission contracts) and, only in the case of the update for 2024, updates to its load forecast. In return, PSE agrees to not file a Power Cost Only Rate Case (“PCORC”) during the two-year rate plan. PSE also agrees to provide details by August 1, 2023 explaining any complex changes to the calculation of its PCA baseline rate for rates effective in 2024. Finally, the Revenue Requirement Settlement allows for any distributed energy resource (“DER”) PPAs for distributed generation, battery resources or demand response costs to be eligible

1 for recovery through future PSE PCORCs, within its PCA mechanism and/or its
2 annual power cost updates provided for in the Settlement. Moreover, the Settling
3 Parties agree that these DER resources are also eligible for potential earning on
4 PPA pursuant to RCW 80.28.410.

5 **Q. Does the Revenue Requirement Settlement also speak to the prudence of**
6 **PSE's power supply costs?**

7 A. Yes. The Settling Parties accept as part of the Revenue Requirement Settlement
8 that all power supply resource costs (including transmission contracts) for which
9 PSE sought a prudence determination in its initial 2022 GRC filing are deemed
10 prudent. Further, the Revenue Requirement Settlement provides for a prudence
11 review of resources in the existing annual PCA Compliance Filing and allows for
12 the review of prudence of new resources in each year of the MYRP in the annual
13 PCA Compliance Filing following when the new resource is included in rates.
14 This slightly accelerates the review of these resources versus the current approach
15 of waiting until the following year, after these resources have already contributed
16 to deferrals, to be evaluated in these annual compliance filings. However,
17 Settling Parties will have the right to recommend delaying a prudence
18 determination of a particular resource until the following year, as well as to
19 challenge actual deferrals in the following year's compliance filing. It is PSE's
20 understanding that this right to delay is intended to allow further time for review
21 for resource acquisitions that may be unusually complex or where all of the

1 information necessary to conduct a full prudence review is not available during
2 the review process.

3 **Q. Why does PSE consider this a key element of the Revenue Requirement**
4 **Settlement?**

5 A. The ability to update PSE's power costs on a timely basis, as provided in the
6 Revenue Requirement Settlement, is one of the most important provisions for the
7 Company. As discussed in the Prefiled Direct Testimony of Janet K. Phelps, Exh.
8 JKP-1T, PSE has repeatedly under-recovered its power costs in recent years,
9 largely due to the lack of an ability to receive timely updates to its power costs for
10 rate recovery.¹³ In the absence of more timely recovery, PSE expects these issues
11 to continue through this decade as it procures increasingly cleaner resources to
12 comply with the CETA¹⁴ and acquires increasing amounts of capacity resources
13 to reduce its exposure to spot market prices¹⁵ and reduced market liquidity.¹⁶ As
14 discussed by Mr. Hasan, PSE is unable to continue to absorb these under-
15 recoveries.¹⁷ These important power cost provisions in the Revenue Requirement
16 Settlement address this chronic and increasingly problematic financial concern for
17 PSE.

¹³ See Prefiled Direct Testimony of Janet K. Phelps, Exh. JKP-1T at 50-51.

¹⁴ See Prefiled Direct Testimony of Joshua J. Jacobs, Exh. JJJ-1T at 8.

¹⁵ See Prefiled Direct Testimony of Kyle C. Stewart, Exh. KCS-1T at 7-10.

¹⁶ See *id.* at 4-7.

¹⁷ See Prefiled Direct Testimony of Kazi K. Hasan, Exh. KKH-1CTr at 4-15.

1 **D. Separate Rate Trackers Will Provide Parties More Certainty on Costs to be**
2 **Recovered and Transparency in Who Pays**

3 **Q. Please briefly describe the agreement in the Settlements to recover certain**
4 **costs in rate trackers.**

5 A. As noted earlier, the Settlements have several provisions for removing costs from
6 PSE's initial pre-filed case for later recovery in rate trackers. These include
7 trackers to recover costs related to PSE's CEIP, Tacoma LNG Facility, and TEP.
8 In addition, Settling Parties agree to support PSE's recovery of certain costs
9 related to its ownership interest in the Colstrip Generating Facilities through the
10 rate tracker discussed in the Prefiled Direct Testimony of Susan E. Free, Exh.
11 SEF-1Tr, and Exh. SEF-18.

12 **Q. Please explain in more detail the proposed rate schedule tracker for PSE's**
13 **CEIP-related costs.**

14 A. In recognition of the fact that PSE does not yet have a Commission-approved
15 CEIP and, therefore, there is some degree of uncertainty as to the amount and type
16 of costs the Company will incur to fulfill its CEIP-obligations, the Settling Parties
17 agree to move the recovery of certain costs into a future cost tracker. This tracker
18 would recover costs not otherwise recovered through PSE's conservation tracking
19 Schedule 120, through its power cost recovery mechanisms or through base rates.
20 The amounts and types of costs removed from proposed base rates in this case
21 have been isolated and identified as detailed in the table below. PSE would
22 update its estimates of these costs, as necessary, for inclusion in the rate tracker

1
2
3
4
5
6
7
8
9
10

based on the outcome of the proceeding to approve its CEIP in Docket UE-210795.

CEIP Item	Remove from GRC 2023	Remove from GRC 2024
Total rate base*	\$ (18,502,604)	\$ (58,214,758)
Settlement Rate of Return	7.16%	7.16%
Settlement Weighted Average Cost of Debt	2.55%	2.55%
Federal Tax Rate	21%	21%
Return on net plant rate base	(1,324,786)	(4,168,177)
Impact on NOI for removal of:		
Operating and maintenance expenses (O&M)	19,947,500	22,831,000
Depreciation expense	1,314,111	3,847,821
Tax Benefit of Interest	(98,693)	(310,518)
Total before revenue sensitive fees and taxes	(22,487,705)	(30,536,480)
Conversion Factor	0.752355	0.752355
Total revenue requirement	<u>\$ (29,889,752)</u>	<u>\$ (40,587,860)</u>
Total net revenue change	<u>\$ (29,889,752)</u>	<u>\$ (10,698,108)</u>

*The below projects were removed for inclusion in the future tracker.
WBS 87: Custs. Relationship Mgmt (CRM) Platform (Electric Portion Only)
WBS 5: PSE 2030 Digital Experience
WBS 53: DER Circuit Enablement Virtual Power Plan (Electric Portion Only)
WBS 31: Hosting Capacity and Customer Portal
WBS 85: ADMS/DMS - ADMS DER Mgmt Sys (DERMS)
WBS 38: E Volt/Var Optimization
WBS 44: DER Circuit Enable DERs Microgrids
WBS 88: DER Innovation Process (Electric Portion Only)
W_K.10038.01.01.01: Customer Sited Energy Storage Demos (74 percent of total costs)
W_K.10038.02.01.01: Rooftop Solar Program (74 percent of total costs)
W_X.10006.01.01.01: Customer Sited Energy Storage Pilot (74 percent of total costs)
WBS 7: Demand Response

Similar to how they would have been handled if left for recovery within base rates, these costs recovered through this tracker will be first projected, then tracked, and finally subject to review and refund. PSE will work with the Settling Parties in developing this cost tracker by April 1, 2023. It is expected that this tracker would continue through the conclusion of PSE’s next GRC and will not allocate any costs to customers served under Schedules 448, 449, 458 and 459. Given that these CEIP-related costs should be known with greater certainty by

1 then, it is expected that they will be recovered through the Company's base rates
2 (including potentially Schedules 141N and 141R) in its next MYRP.

3 **Q. Please describe the proposed cost tracker for TEP costs.**

4 A. Similar to the tracker for CEIP-related costs, the Settling Parties have agreed to
5 remove TEP-related costs from the rate plan revenue requirement in this case for
6 recovery in a future rate tracker. Also similar to the CEIP costs, these TEP-
7 related costs have been isolated and identified as detailed in the table below.
8 Much like the CEIP, the costs associated with PSE's implementation of its TEP
9 can only be roughly estimated at this time, prior to the formal tariff filings
10 necessary to implement these programs. At the time PSE makes these
11 programmatic tariff filings, which will contain more firm estimates of projected
12 program costs, it will file corresponding tariff filings to recover these costs. PSE
13 anticipates this will operate much like the CEIP tracker, as well as the Company's
14 existing conservation tracker rates, that recover a projection of costs with a
15 subsequent true-up for actual results. Settling Parties retain all rights to challenge
16 these program costs when PSE files tariff revisions for the tracker. As with the
17 CEIP tracker, no TEP costs will be allocated to customers served under Schedules
18 448, 449, 458 or 459.

TEP	Remove from GRC 2023	Remove from GRC 2024
Item		
Total rate base	\$ (4,734,679)	\$ (14,886,573)
Settlement Rate of Return	7.16%	7.16%
Settlement Weighted Average Cost of Debt	2.55%	2.55%
Federal Tax Rate	21%	21%
Return on net plant rate base	<u>(339,003)</u>	<u>(1,065,879)</u>
Operating and maintenance expenses (O&M)	6,372,873	8,299,949
Depreciation expense	582,547	1,970,140
Tax Benefit of Interest	(25,255)	(79,405)
Incentive Rate of Return	39,046	180,187
Total before revenue sensitive fees and taxes	<u>(7,308,214)</u>	<u>(11,436,749)</u>
Conversion Factor	0.752355	0.752355
Total revenue requirement	<u>\$ (9,713,784)</u>	<u>\$ (15,201,267)</u>
Total net revenue change	<u>\$ (9,713,784)</u>	<u>\$ (5,487,483)</u>

1

2

Q. Please describe the proposed tracker for the recovery of Tacoma LNG

3

Facility costs.

4

A. Similar to the tracker for CEIP and TEP-related costs, the Settling Parties have agreed to remove the Tacoma LNG Facility-related costs from the rate plan revenue requirement in this case for recovery in a future rate tracker, which will be aligned with the PGA filings. The estimated Tacoma LNG Facility costs have been isolated and identified in the Tacoma LNG Settlement. The Tacoma LNG Facility costs consist of the return, depreciation and operating expenses and recovery of deferred costs. The deferred costs are part of an accounting petition originally filed in Docket UG-210918, subsequently consolidated into Docket UG-220067. This petition requested deferral of the return, depreciation and operating expenses for the Tacoma LNG Facility as well as carrying charges on

5

6

7

8

9

10

11

12

13

1 the depreciation and O&M deferral starting with its commercial operation date
2 until the day prior to the effective date of new rates recovering these costs, as now
3 proposed through the Tacoma LNG Facility tracker. Similar to the CEIP and TEP
4 trackers, PSE anticipates the Tacoma LNG Facility tracker will recover a
5 projection of these costs with a subsequent true-up for actual results. As the
6 facility has reached commercial operation, the costs are largely known at this time
7 with the exception of operating expenses. The Settling Parties retain all rights to
8 challenge these program costs when PSE files tariff revisions for the tracker.

9 **Q. What changes, if any, did the Revenue Requirement Settlement make to**
10 **PSE's original proposal for a tracker for Colstrip-related costs?**

11 A. The Revenue Requirement Settlement supports the tracker implemented through
12 Schedule 141C, as proposed by Ms. Free in Exh. SEF-18, with two exceptions. As
13 a compromise, PSE has agreed to remove the recovery of costs associated with
14 Colstrip's dry ash disposal system in this case, and it has also agreed to amortize
15 all major maintenance expenses over three years, regardless of when they occur.
16 These modifications to PSE's original proposal remove from customer rates dry
17 ash disposal costs and the amortization of major maintenance costs that extend
18 beyond 2025. While PSE continues to believe that its investments in Colstrip's
19 dry ash disposal system were prudent and that the Company should be entitled to
20 fully recover the costs of prudently incurred major maintenance costs, it is
21 forgoing the recovery of these costs from its customers in this case in support of
22 the broader Settlements.

1 **Q. Why are these elements of the Settlements important to PSE?**

2 A. PSE recognizes the inherent challenges presented by requesting to recover costs
3 associated with its CEIP and TEP before the associated and underlying programs
4 are known with more certainty. At the same time, these programs are important
5 catalysts for implementing the state's broader energy policy and climate goals
6 and, as such, PSE believes it is strongly in the public interest to allow for timely
7 recovery of these costs. These Settlements pave the way for this timely recovery
8 in much the same way as approval of these costs for inclusion of a rate plan,
9 subject to review and refund, could have provided for timely recovery of these
10 costs. Further, moving the recovery of Tacoma LNG Facility costs in a tracker
11 allows for more transparent ratemaking treatment for these costs and broader
12 support for the Settlements. Finally, as discussed in the Prefiled Direct Testimony
13 of Ms. Free, Exh. SEF-1Tr, approval of PSE's proposed tracker for the recovery
14 of Colstrip costs provides for the recovery of PSE's Colstrip-related costs on or
15 before December 31, 2025.

16 **Q. Does the Commission need to rule on the rates to be set in the tracker as part**
17 **of this case?**

18 A. Except for the proposed Colstrip tracker (Schedule 141C), where PSE is
19 requesting approval of the rates within the tracker in this case, these provisions of
20 the Settlements do not require any further determination by the Commission on
21 the rates to be included in the tracker. The Commission will have the opportunity

1 to review the design and functioning of the trackers, as well as the costs included,
2 when the respective trackers are filed in the future.

3 **E. The Settlements Provide Clarity for the Process of Setting Rates Subject to**
4 **Refund and Final Prudence Review**

5 **Q. Please describe the agreement in the Revenue Requirement Settlement to**
6 **allow provisional pro forma investment into rates subject to refund.**

7 A. The Revenue Requirement Settlement provide that rates will be set subject to
8 refund, in rate Schedule 141R, and an annual review will be performed as
9 proposed by PSE. PSE's proposal is discussed in Ms. Free's Prefiled Direct
10 Testimony, Exh. SET-1Tr, beginning at page 28.

11 **Q. Please summarize the proposed process for setting PSE's costs into rates.**

12 A. The process will set in rates the estimated utility plant related items beyond 2021,
13 and they will be set subject to refund. By March 31 of each year from 2023
14 through 2025, PSE will make a filing for the review of investment made in the
15 prior calendar year. PSE's original proposal was for the review to take three
16 months, but the Revenue Requirement Settlement provides for a four-month
17 filing. As discussed in more detail in Ms. Free's testimony in PSE's initially filed
18 case, the review will be conducted on a portfolio basis and will utilize the
19 guidance in RCW 80.28.425(6) to establish whether rates were fairly set when
20 comparing PSE's actual plant additions to the plant additions used to set rates.
21 This testimony also provides justification for why a portfolio review approach is

1 appropriate. The review process will also provide for the ability for parties to
2 review selected investments for final prudence. Finally, Ms. Free’s testimony in
3 Exh. SEF-1Tr, starting at page 48, discusses the process for transferring cost
4 recovery from Schedule 141R to Schedule 141N when the associated rates are no
5 longer subject to refund.

6 **Q. What major PSE investments are being included in rates subject to refund**
7 **and final prudence review?**

8 A. The Settlements support cost recovery for numerous projects and programs to
9 enter rates provisionally, subject to refund. These include PSE’s investments in
10 its Energize Eastside Project, AMI¹⁸ and grid modernization, and pipeline
11 replacement, among others. As noted elsewhere in this testimony, costs
12 associated with PSE’s Tacoma LNG Facility will be recovered through a separate
13 tracker but will also be subject to refund as part of the approval of tracker rates.

14 **Q. Why is it important that these costs be allowed into rates subject to refund**
15 **and final review?**

16 A. RCW 80.28.425(3)(b) provides that “[t]he commission shall ascertain and
17 determine the fair value for rate-making purposes of the property of any gas or
18 electrical company that is or will be used and useful under RCW 80.04.250 for
19 service in this state by or during each rate year of the multiyear rate plan.” The

¹⁸ As noted elsewhere in the Settlement and this testimony, the equity return on AMI investments will continue to be deferred until at least 2025.

1 plant being placed into rates as part of these Settlements will be used and useful
2 by or during each of the rate years of this multiyear rate plan. Therefore, it is
3 proper and lawful to include the recovery of these costs in rates at this time,
4 subject to refund and review. Moreover, consistent with the Commission's Used
5 & Useful Policy Statement, inclusion of this plant for recovery during each rate
6 year satisfies part of PSE's obligations to prove their prudence (*i.e.*, the
7 underlying need, evaluation of alternatives and the selection of these alternatives
8 to meet the need).¹⁹ This serves to help streamline the subsequent, final prudence
9 review by largely narrowing its focus to the timing and cost of bringing these
10 investments into service for PSE customers.

11 **F. The Revenue Requirement Settlement Allows for Prudence Determination on**
12 **Many PSE Investments and Acquisitions Since PSE's Last GRC**

13 **Q. Please describe how the Settlements allows for the determination of prudence**
14 **for PSE investments made since its last GRC.**

15 A. As part of the Revenue Requirement Settlement, Settling Parties do not object to
16 the determination of prudence for all plant investments that were made through
17 2021 as proposed in PSE's direct case, aside from PSE's investments in coal ash
18 disposal at the Colstrip Generating Facility, and the Tacoma LNG Facility, for
19 which prudence is addressed in the Tacoma LNG Settlement. As stated earlier in
20 Section II.A of this testimony, this includes PSE's final GTZ investments, the
21 development and construction of the Lake Hills – Phantom Lake Transmission

¹⁹ See Docket U-190531, Policy Statement on Property that Becomes Used and Useful After Rate Effective Date, at ¶¶ 34-38 (Jan. 31, 2020).

1 Line and Bellingham Substation Project, the execution of a 350 MW PPA for the
2 output from the Clearwater Wind project, a 95 MW PPA for output from the Rock
3 Island and Rocky Reach Hydroelectric Projects, a 43 MW PPA for output from
4 the Wells Hydroelectric Projects, and a 250 MW contract for summer peak load
5 hour energy.

6 **Q. Why is it important that the Settlements address the prudence of these costs**
7 **in this proceeding?**

8 A. PSE put forward a full prudence showing for these expenditures in its initially
9 filed case, and judicial economy (and the public interest) is best served by
10 clarifying in this case that the Company has met its burden of proof to show that
11 these costs were prudently incurred.

12 **G. Settlements Clarify Treatment of Regulatory Assets Through the Next**
13 **MYRP**

14 **Q. Please describe what regulatory assets and liabilities are included in the net**
15 **revenue change from the Settlements and that will be amortizing during the**
16 **MYRP.**

17 A. The Settlements allow for the recovery of a number of regulatory assets including,
18 but not limited to, undepreciated investments associated with PSE's AMR
19 system,²⁰ losses associated with the sale of its water heating business,²¹ the debt

²⁰ See Prefiled Direct Testimonies of Ned W. Allis, Exh. NWA-1T at 18-20 and Susan E. Free, Exh. SEF-1Tr at 106-111.

²¹ See Prefiled Direct Testimonies of William T. Einstein, Exh. WTE-1CT, Section VIII, and Exh. SEF-1Tr at 98.

1 component on the deferral associated with PSE’s AMI investments and the
2 recovery of deferred costs associated with distribution upgrades undertaken in
3 part to support the ability to deliver vaporized natural gas from the Tacoma LNG
4 Facility to PSE’s gas distribution system.²² Exhibit N to the Revenue
5 Requirement Settlement provides a listing of the regulatory assets and liabilities
6 that are included in the net revenue change from the Settlements and that will be
7 amortizing during the MYRP, other than the deferrals included in the Tacoma
8 LNG Facility tracker.

9 **Q. Why is it important to clarify the treatment of PSE’s regulatory assets and**
10 **liabilities in this case?**

11 A. This clarity is important, as it provides transparency within PSE’s ratemaking
12 architecture regarding the treatment of these costs, including the period over
13 which these assets and liabilities are amortized and the extent to which they
14 contribute to the overall rates charged to PSE’s customers. Simply put, this helps
15 provide a complete picture of the costs the Commission is approving for recovery
16 by approving the Settlements.

²² See Prefiled Direct Testimonies of Roque B. Bamba, Exh. RBB-1T Section III.C, and Exh. SEF-1Tr, Section III.C.1.

1 **H. The Revenue Requirement Settlement Advances Equity Among PSE's**
2 **Customers**

3 **Q. How does the Revenue Requirement Settlement advance equity among PSE's**
4 **customers?**

5 A. The Revenue Requirement Settlement builds on a foundation to address equity
6 already established in PSE's initial case:

- 7 a) The testimony of Adrian J. Rodriguez, Exh. AJR-1T, discusses PSE's
8 overarching corporate activities to advance equity;
- 9 b) The testimony of Josh J. Jacobs, Exh. JJJ-1T, describes the many
10 substantive efforts to advance equity deliberately undertaken as part of
11 PSE's Clean Energy Implementation Plan, including the formation and
12 initial engagement with an Equity Advisory Group ("EAG"),
13 identification of vulnerable populations, development and application of
14 customer benefits indicators and associated metrics, the application of
15 benefits and burdens consideration to elements of the CEIP and extensive
16 public participation efforts.
- 17 c) The testimony of Birud D. Jhaveri, Exh. BDJ-1Tr, discusses PSE's
18 collaboration with the Low-Income Advisory Committee ("LIAC") and
19 EAG to develop a Bill Discount Rate that will equitably serve low-income
20 customers, which serves as the foundation for further commitments
21 described below.

1 d) The testimony of William T. Einstein, Exh. WTE-1T, discusses PSE's
2 collaborative efforts to develop a transportation electrification plan that
3 included deliberate engagement with highly impacted communities and
4 vulnerable populations to develop specific diversity, equity and inclusion
5 products and partnerships that result in more equitable outcomes for
6 customers.

7 The Revenue Requirement Settlement includes three inter-related provisions
8 related to customer equity that expand the scope and breadth of PSE's equity
9 work.

10 First, the Revenue Requirement Settlement commits PSE to make a compliance
11 filing in these dockets that demonstrates how the Company is incorporating
12 equitable outcomes into its corporate capital portfolio decision-making. As part of
13 this demonstration, PSE must show how sponsors of major capital projects and
14 programs considered the equitable distribution of benefits and reductions of
15 burdens in their development. PSE will use a collaborative approach with
16 appropriate advisory groups and customers to develop this incorporation of
17 equity.

18 Second, the Revenue Requirement Settlement requires PSE to coordinate its
19 delivery system planning with its CEIP process through more integrated system
20 planning, identifying ways to incorporate customer-sided resources in this
21 planning, and to solicit stakeholder input to identify options and priorities for
22 community-based resources that provide equitable treatment of measures that can

1 enhance distribution capacity, whether or not owned by the utility. More
2 specifically, PSE will incorporate equity-related factors (along with associated
3 weights) in the update to its primary distribution system planning tool, its
4 Investment Decision Optimization Tool (“iDOT”). The development of these
5 factors and weights must be done in collaboration with PSE’s EAG, IRP advisory
6 group (“IRPAG”) and customers, particularly those in named communities.

7 Third, PSE will develop methods and a process for a pilot distribution equity
8 analysis to be applied to the evaluation of the resources and programs contributing
9 to the 80 MW of DER proposed in its 2021 IRP and CEIP, or another agreed upon
10 alternative program if these resources are not approved in PSE’s CEIP. Within 15
11 months of the approval of PSE’s MYRP, PSE will make a compliance filing into
12 these dockets documenting the methods and results of this pilot. Following the
13 pilot, PSE agrees to participate and help fund the cost of a generic Commission
14 Staff-led proceeding to refine the methods for conducting a distributional equity
15 analysis. If and when approved by the Commission, PSE agrees to apply these
16 methods to the corporate capital portfolio decision-making and delivery system
17 planning processes described above.

18 In addition to the above, the Revenue Requirement Settlement includes over a
19 dozen equity-related metrics that will help build a broader foundation of
20 understanding to help inform PSE’s future efforts to improve the equitable
21 delivery of its energy services.

1 **Q. Why are these terms in the Revenue Requirement Settlement important to**
2 **PSE?**

3 A. First, and foremost, PSE takes seriously the need to equitably deliver energy
4 services to its customers. While PSE has made strides in a number of areas in this
5 regard, as summarized briefly above, the Revenue Requirement Settlement
6 advances and broadens these efforts further. Moreover, these terms further
7 demonstrate PSE's commitment to advancing the newly articulated public interest
8 standard related to equity in RCW 80.28.425.

9 **I. The Revenue Requirement Settlement Provides Enhanced Support for**
10 **Customers with Low Income**

11 **Q. Please describe how the Revenue Requirement Settlement provides enhanced**
12 **support for low-income customers.**

13 A. The Revenue Requirement Settlement builds upon the strong foundation already
14 provided in PSE's initial case, largely through the Prefiled Direct Testimonies of
15 Carol L. Wallace, Exh. CLW-1T, and Birud D. Jhaveri, Exh. BDJ-1Tr, that
16 included robust increases in funding for low-income bill assistance, a new low-
17 income bill discount rate ("BDR"), and a pilot arrearage management program.
18 The Revenue Requirement Settlement makes a number of modifications to PSE's
19 BDR proposal to increase the participation in the program to include customers
20 with more moderate incomes, enhances coordination of all low-income related
21 programs with PSE's LIAC, extends PSE's commitment to a base level of
22 funding for low-income weatherization assistance through its next GRC, and

1 clarifies that PSE will maintain its existing credit and collection practices through
2 the conclusion of the proceeding being undertaken in Docket U-210800. In
3 addition, PSE’s proposed time varying rate (“TVR”) pilot was extended to include
4 eligibility for all low-income customers up to 200 percent of the federal poverty
5 level or 80 percent of area median income, whichever is higher, as well as greater
6 availability to enabling technology and bill protection that will provide for more
7 equitable outcomes for these customers. Finally, the Revenue Requirement
8 Settlement includes the tracking and reporting of numerous low-income metrics,
9 which will provide valuable information to improve services provided to these
10 customers in the future.

11 **Q. Why are these terms important to PSE?**

12 A. PSE took seriously the need to protect its customers who are least able to afford
13 its services as part of its initial filing in this case. The Revenue Requirement
14 Settlement only strengthens PSE’s commitment to serve and assist customers in
15 need, particularly in the face of the proposed rate increases in this case. While
16 PSE recognized that these increases are high by historic standards, they are vital
17 to ensuring the Company has the financial health to carry out its obligations to
18 provide reliable and cleaner energy service in a more equitable fashion.

1 **J. The Revenue Requirement Settlement Advances PSE’s Efforts to**
2 **Decarbonize its Energy Systems**

3 **Q. How does the Revenue Requirement Settlement advance PSE’s efforts to**
4 **decarbonize its energy systems?**

5 A. This Revenue Requirement Settlement addresses issues related to the prudent and
6 cost effective pathways available to PSE to decarbonize customer end use gas
7 sales. It accomplishes this through a multi-staged approach. First, PSE will
8 conduct an updated decarbonization study aimed at maximizing carbon reductions
9 with more up-to-date assumptions on targeted electrification. Second, PSE will
10 concurrently develop an electrification pilot that will evaluate a range of impacts
11 to gas and electric delivery systems and PSE customers by deploying heat pump
12 technologies. Lastly, PSE will take insights from the updated study and Targeted
13 Electrification Pilot to develop a Targeted Electrification Strategy that will be
14 incorporated into subsequent Natural Gas IRP and Biennial Conservation Plan
15 processes.

16 **Q. What will the updated decarbonization study aim to achieve?**

17 A. PSE’s updated decarbonization study will build off the gas decarbonization study
18 prepared for PSE by E3 with more up-to-date assumptions regarding efficient
19 Cold Climate Heat Pumps for targeted electrification. The study will include
20 comparisons of cost to PSE customers and GHG emissions associated with
21 installing all electric versus dual fuel systems for new customers and existing gas
22 customers. The study will also aim to show how distributed energy resources can

1 help minimize impacts to peak loads, and how decarbonized fuels can
2 complement targeted electrification efforts to maintain reliability on the system
3 cost effectively.

4 **Q. Is there anything else that is important about the study effort?**

5 A. Yes. The study will also focus on identifying constraints within the gas and
6 electric delivery systems and how specifically electric heat pump technologies
7 and hybrid heating solutions can work in tandem to help minimize system
8 constraints while cost effectively decarbonizing systems. The study will also
9 include a focused effort to review the time to build out and the cost of incremental
10 electric system costs based on recent cost trends in energy and capacity, as well as
11 sensitivity analysis around electric system assumptions to understand how these
12 assumptions affect the viability of high electrification scenarios.

13 **Q. Please provide more detail on the Targeted Electrification Pilot.**

14 A. PSE will conduct an eighteen-month Targeted Electrification Pilot that is focused
15 on residential and small commercial customers. The pilot will deploy strategies to
16 maximize effective carbon reduction measures associated with the deployment of
17 electric-only heat pumps in homes and buildings with wood, oil, propane, electric
18 resistance and gas heating. The pilot will have a target of engaging 10,000
19 customers through rebates and incentives, remote and in-home targeted
20 electrification assessments, and education related to available electrification
21 incentives and programs.

1 **Q. How else will the Targeted Electrification Pilot benefit customers?**

2 A. The Targeted Electrification Pilot will identify barriers to heat pump adoption and
3 develop recommendations for improving the penetration of heat pump
4 technologies in PSE's service territory. Specifically, the pilot will identify
5 barriers to low-income customers and highly impacted communities and
6 vulnerable populations experiencing high energy burdens for accessing heat pump
7 technology and will assist in the development of policies and programs to support
8 their adoption of heat pump technologies in the future.

9 **Q. Please provide more detail on the Targeted Electrification Strategy that PSE**
10 **will develop through this Revenue Requirement Settlement.**

11 A. PSE will use the information and analysis from the Targeted Electrification Pilot
12 together with the updated decarbonization study to develop a Targeted
13 Electrification Strategy. The Targeted Electrification Strategy will focus on
14 maximizing carbon emission reductions consistent with legal requirements at the
15 lowest reasonable cost and will consider a comprehensive set of strategies,
16 programs, incentives, promotional materials, and other measures to encourage
17 electrification for new and existing customers. The strategy will include a
18 proposed budget, and plan for implementing the measures and strategies that were
19 studied in the electrification pilot and a proposal to limit or phase out incentives
20 for new gas appliances, based on an evaluation of their continued cost-
21 effectiveness and risk to ratepayers.

1 **Q. Why are these settlement terms important to PSE?**

2 A. These terms are important to PSE because they establish a pathway to address the
3 issues and concerns of stakeholders while developing a planned and prudent
4 approach to further decarbonizing PSE's energy systems. PSE's objective with
5 this approach is to identify real barriers to the clean energy transition, continue to
6 engage with stakeholders on addressing these barriers, and ultimately develop
7 programs and identify a range of investments that will be necessary to further
8 decarbonize systems in a prudent way.

9 **Q. How will PSE stakeholders continue to be engaged?**

10 A. Through the Revenue Requirement Settlement, PSE has identified a range of
11 existing stakeholder forums that will be leveraged to consult with stakeholders.
12 First, PSE has identified the Conservation Resources Advisory Group as a forum
13 for PSE to discuss how heat pump programs and fuel switching may have impacts
14 on PSE's energy efficiency programs and/or targets within PSE's Biennial
15 Conservation Plan. Next, PSE has identified the LIAC as a forum to help provide
16 guidance on how the Targeted Electrification Strategy can provide demonstrated
17 benefits to low-income participants. Finally, this work will be included in PSE's
18 2025 Natural Gas IRP, so consultation with PSE IRPAG will help to determine
19 how this work is reflected in PSE's long range resource planning.

1 **Q. What is the expected cost and timeline for this effort?**

2 A. PSE commits to an investment of up to \$15 million for these efforts through the
3 end of 2024, which will be deferred for consideration of recovery in PSE's next
4 GRC. From a timeline perspective, the decarbonization study will be completed
5 within 12 months of the Commission's final order in this case and the Targeted
6 Electrification Pilot will run for a period of 18 months. PSE will then develop the
7 Targeted Electrification Strategy, which will be the basis for a compliance filing
8 in this case to be filed with the Commission by January 2025. PSE will also
9 incorporate the elements of the Targeted Electrification Strategy in the PSE 2025
10 Gas IRP.

11 **Q. How does this portion of the Revenue Requirement Settlement benefit PSE**
12 **customers?**

13 A. There are several benefits to PSE customers as a result of this portion of the
14 Revenue Requirement Settlement and the subsequent work that will occur. First,
15 updating and further refining PSE's initial decarbonization study will enhance the
16 pathways analysis given technological considerations in addition to legislative
17 actions that may affect the costs or availability of appliances or alternative fuels
18 over the short and long-term time horizons. Next, the Targeted Electrification
19 Pilot will help PSE identify real challenges that exist in implementing these
20 solutions and lead to the development of programs, incentives or rebates, and
21 educational efforts that will be focused on supporting residential and small
22 commercial customers with a specific focus on helping our highly impacted

1 communities and vulnerable populations. Finally, it helps to clarify a reasonable
2 and planned approach to a targeted electrification pathway that focuses on the
3 proper programs, incentives, and investments to decarbonize energy systems in a
4 responsible and cost effective way that does not jeopardize system reliability or
5 leave any PSE customers behind in the clean energy transition.

6 **K. Other Elements of the Revenue Requirement Settlement**

7 **Q. Does the Revenue Requirement Settlement address any other issues?**

8 A. Yes. This Revenue Requirement Settlement addresses issues related to rate
9 spread and rate design, performance measures and incentives, natural gas line
10 extension allowances, decoupling, the identification of incremental CETA-related
11 costs, the handling of anticipated refunds from Northwest Pipeline, PSE's
12 proposed streamlining of reports, and electric vehicle supply equipment ("EVSE")
13 payment methods.

14 **Q. Please summarize how the Revenue Requirement Settlement addresses issues
15 related to rate spread and rate design.**

16 A. The Revenue Requirement Settlement address rate spread and rate design for
17 PSE's electric and natural gas rates. Settling parties agree to "split the difference"
18 between the natural gas rate spread proposed by PSE in the Prefiled Direct
19 Testimony of John D. Taylor, Exh. JDT-1T, and spreading rate increases simply
20 on the basis of an equal percent of margin. Further, the Settling Parties agree to
21 spread rate increases under natural gas Schedules 141R and 141N proportionally

1 with natural gas base rate increases. For electric service, the Settling Parties
2 accept PSE's rate spread proposal outlined in Mr. Jhaveri's testimony, Exh. BDJ-
3 1Tr.

4 Regarding natural gas rate design, the Settling Parties agree to accept the rate
5 design proposed by Mr. Taylor in Exh. JDT-1T, except that the residential basic
6 charge will be \$12.5 per month and except for certain changes for Schedule
7 87/87T. These changes include leaving the demand charge unchanged at \$1.45
8 per therm, the first through fifth volumetric block rates receiving an equal
9 percentage increase and the sixth volumetric block rate receiving only thirty-three
10 percent of the average rate increase across the base rate. In addition, Schedule
11 87/87T rates charged under Schedules 141R and 141N will be proportional to the
12 volumetric base rate increases. Finally, the billing determinants used to calculate
13 Schedule 87/87T rates will be set equal to test year weather normalized actual
14 volumes by block plus PSE's filed forecast of Puget LNG sales in each rate year.

15 Regarding electric rate design, the Settling Parties agree there will be no increase
16 to the electric residential basic monthly charge, that for all rate schedules with
17 demand charges, their Schedule 141R and 141N rates will include both demand
18 and energy components, and that the costs collected through each rate component
19 of these schedules will be proportional to costs collected from each rate
20 component in the projected underlying base rate schedules in 2023. Similarly, for
21 base rate schedules with demand charges, the design of Schedule 141C will
22 recover eighty percent of revenue through demand charges and twenty percent

1 through energy charges. Settling Parties also agree to split the difference between
2 PSE's forecasted billing determinants for base Schedules 7, 29 and 46, as
3 reflected in Mr. Jhaveri's testimony, Exh. BDJ-1Tr, and the forecasted billing
4 determinants for these schedules in the testimony of Public Counsel witness
5 Glenn A. Watkins, Exh. GAW-1T. This change to billing determinant will be
6 reflected in the power cost update made as part of the compliance filing in this
7 case, but are otherwise already reflected in the electric MYRP revenue
8 requirements in this case.

9 Lastly, the Settling Parties agree to increase the account limit for PSE's
10 Conjunctive Demand Service Option ("CDSO") under electric Schedules 26 and
11 31 from 5 to 15 accounts per customer and increase the participating load limit to
12 6 MW of winter demand per customer. To accommodate this increased load, PSE
13 agrees to increase the cap on the CDSO program size from 20 aMW to 30 aMW.

14 The Tacoma LNG Settlement addresses rate spread and rate design for PSE
15 related to Tacoma LNG costs. The Full Settling Parties agree that the Tacoma
16 LNG Revenue Requirement will be spread only to natural gas sales customers.
17 The Full Settling Parties further agree that distribution systems costs related to
18 Tacoma LNG will be recovered in base rates and that Tacoma LNG-related rates
19 will only be charged to natural gas sales customers.

1 **Q. How does the Revenue Requirement Settlement address the issue of**
2 **performance measures and incentives?**

3 A. Settling Parties agree to accept PSE’s proposed performance incentive mechanism
4 (“PIM”) for demand response (“DR”) as described by Dr. Mark N. Lowry in his
5 Prefiled Direct Testimony, Exh. MNL-1T, with several modifications. These
6 modifications include setting the initial reward threshold at 105 percent of the DR
7 target with the reward set equal to the DR program costs multiplied by PSE’s
8 approved weighted average cost of capital (“WACC”),²³ setting the second
9 reward threshold at 115 percent of the DR target with the reward set equal to the
10 DR program costs multiplied by fifteen percent, setting the DR target to 40 MW
11 by 2024, capping the total PIM incentive payments at \$1 million over the course
12 of the rate plan and ending this PIM at the end of the MYRP. Settling Parties
13 further agree that there will be no other PIM approved as part of this rate case.

14 Finally, the Settling Parties agree that, in addition to the metrics discussed by Dr.
15 Lowry in Exh. MNL-1T, PSE will report annually on 49 additional metrics in a
16 compliance filing filed in conjunction with PSE’s proposed annual review
17 process. Except for the DR PIM, there will be no targets or benchmarks at this
18 time. However, it is PSE’s understanding that this will not in any way impact the
19 Company’s obligations related to its pre-existing service quality indices, which
20 already include targets and penalties for failure to meeting them.

²³ This is equivalent to PSE’s approved rate of return on rate base in this case.

1 **Q. What does the Revenue Requirement Settlement say about natural gas line**
2 **extension allowances?**

3 A. The Settling Parties agree that PSE will provide in its compliance filing,
4 following the conclusion of this case, tariff revisions that reduce the natural gas
5 line extension allowance to reflect an amount based on the net present value
6 methodology using a two-year timeframe and updated inputs from this rate case
7 effective no later than when new state building codes take effect in 2023, reducing
8 this amount again using a one-year timeframe for allowances beginning in 2024
9 and finally reducing allowances to zero beginning in 2025.

10 **Q. What agreement was reached in the Revenue Requirement Settlement**
11 **related to the identification of incremental costs for purposes of CETA**
12 **compliance?**

13 A. The Settling Parties agree that there will be no determination regarding which
14 costs may be included in the projected incremental cost of compliance with CETA
15 in the GRC docket. The Settling Parties agree that any questions surrounding the
16 projected incremental cost of compliance will be addressed in PSE's CEIP Docket
17 UE-210795, per WAC 480-100-660(4).

18 **Q. How are the anticipated refunds from Northwest Pipeline handled in the**
19 **Revenue Requirement Settlement?**

20 A. The Settling Parties agree that PSE will amortize an estimated \$24.3 million
21 refund from Northwest Pipeline that is attributable to the Company's natural gas

1 customers over a 12-month period through its 2023 Purchased Gas Adjustment
2 filing. The Settling Parties also agree that PSE will amortize an estimated \$4.4
3 million refund from Northwest Pipeline that is attributable to the Company's
4 electric customers over the 12 months of 2023 as a credit against the forecasted
5 2023 power costs in this case.

6 **Q. What streamlining of reports was agreed to in the Revenue Requirement**
7 **Settlement?**

8 A. The Settling Parties agree to accept PSE's proposed streamlining of reporting as
9 discussed in the Prefiled Direct Testimony of Jon A. Piliaris, Exh. JAP-1T.
10 Further, as proposed in the testimony of Commission staff witness Deborah J.
11 Reynolds, Exh. DJR-1T, PSE agrees to update and file a matrix of filings, similar
12 to what it filed under Docket U-210151, within 30 calendar days of the date of the
13 Commission's final order in this case, and by January 1 each year thereafter.

14 **Q. What does the Revenue Requirement Settlement say about EVSE payment**
15 **methods?**

16 A. The Settling Parties agree that PSE will make minimum payment methods
17 available at all publicly available electric vehicle supply equipment, owned or
18 supported by the utility, to increase access to all customers. The minimum
19 payment methods should be consistent with California's EVSE Standards, §
20 2360.2, titled "Payment Method Requirements for Electric Vehicle Supply

1 Equipment.” It is the Settling Parties understanding that this standard does not
2 include the use of “swipe” cards.

3 **Q. What does the Revenue Requirement Settlement say about decoupling?**

4 A. The Settling Parties agree to PSE’s proposals for electric and natural gas
5 decoupling, as discussed in Mr. Jhaveri’s testimony, Exh. BDJ-1Tr.

6 **L. The Settlements are in the Public Interest**

7 **Q. Why do the Settlements satisfy the public interest?**

8 A. With the recent passage of ESSB 5295, codified in RCW 80.28.425, the public
9 interest standard used to guide Commission decision-making expanded beyond
10 providing “safe, adequate and efficient”²⁴ service to now include consideration of
11 customer equity, as well as environmental health and greenhouse gas emission
12 (“GHG”) reductions. As discussed within this testimony, the Settlements address
13 both the long-standing historic and recently enacted aspects of Washington’s
14 public interest standard.

15 The agreed-upon revenue requirement and provision for timely changes to rates
16 for updates to PSE’s power costs helps to ensure that the Company has the
17 financial health required to provide safe and adequate service, as discussed by
18 multiple PSE witnesses.²⁵ This will support over \$3 billion in new investment

²⁴ RCW 80.28.010(2).

²⁵ See Prefiled Direct Testimonies of Kazi K Hasan, Exh. KKH-1CTr at 4-36; Prefiled Direct Testimonies of Dan’l R. Koch, Exh. DRK-1T at 6-7.

1 since PSE’s last rate case that is already used and useful in providing safe and
2 reliable service to PSE’s customers, and provide the financial strength to support
3 billions more in investments during the rate plan. These investments are
4 necessary to help ensure that PSE can safely supply and reliably deliver its
5 increasingly cleaner energy supply over the coming decades.

6 To support the recently established equity considerations in the public interest
7 standard, the Revenue Requirement Settlement builds on PSE’s existing work in
8 the area of equity, as described in testimony in this case, by adding several
9 commitments that further the Commission’s stated principles on equity.²⁶

10 Through these commitments, PSE will take important steps to integrate equity
11 considerations into its corporate-wide allocation of financial resources and in its
12 delivery system planning, in an effort to distribute and prioritize resources to
13 those customers that are historically and currently marginalized, eliminate
14 systematic barriers and achieve both procedural and outcome fairness. PSE also
15 agrees as part of the Revenue Requirement Settlement to participate in, and
16 partially fund, a Commission Staff-led process to refine methods for distributional
17 equity analysis that can be used by utilities to further equity considerations in
18 their business decisions and planning processes.

19 Regarding equity and affordability, the Revenue Requirement Settlement builds
20 upon an already strong foundation for supporting customers that are least able to
21 afford utility services. This includes a greater level of support for low-income

²⁶ *WUTC v. Cascade Natural Gas Co.*, Docket UG-210755, Order 09 at ¶ 54 (Aug. 23, 2022).

1 customers than provided in PSE’s initial filing, including some modifications to
2 the Company’s proposal for a bill discount rate, more equitable accommodation
3 for these customers within PSE’s proposed time-varying rate pilot, commitments
4 to extend funding for low-income weatherization programs that will improve
5 access to these programs, planned development of an arrearage management plan
6 (“AMP”) to customize payment accommodations to unique customer
7 circumstances, and continued coordination of many of these efforts with the
8 Company’s community action agency partners.

9 Finally, to further the public interest as it relates to environmental health and
10 reductions in GHG emissions, the Revenue Requirement Settlement not only
11 acknowledges the prudence of PSE’s acquisition of hundreds of megawatts
12 (“MW”) of clean wind and hydroelectric resources, it requires PSE to further the
13 study and implementation of the decarbonization of its energy systems,
14 particularly its natural gas system. This commitment will result in an updated
15 decarbonization study that includes updated assumptions for targeted
16 electrification, the development and implementation of an electrification pilot and
17 the incorporation of a Targeted Electrification Strategy (informed by the study
18 and pilot) into PSE’s Natural Gas IRP and Biennial Conservation Plan. Each of
19 these commitments include distinct efforts to incorporate energy justice to ensure
20 that strategies lead to actions that will reduce systematic harm and achieve
21 equitable outcomes.

1 **III. THE LIMITED OPPOSITION TO THE SETTLEMENTS LACK MERIT**

2 **Q. Are any elements of the Settlements contested by parties to this case?**

3 A. Yes, there is opposition to the prudence of PSE’s investments in the Energize
4 Eastside and Tacoma LNG Projects, as well as the return on equity (“ROE”) and
5 capital structure underlying the Settlements. These issues are summarized below.

6 **A. PSE’s Investments in the Energize Eastside Project Were Prudently Incurred**

7 **Q. Do any parties contest the prudence of PSE’s Energize Eastside Project?**

8 A. Yes, CENSE opposes the prudence of this project. All other Settling Parties
9 support the Energize Eastside Project.

10 **Q. What is PSE’s Response to CENSE’s opposition?**

11 A. As discussed in the testimony of Dan’l R. Koch in support of the Revenue
12 Requirement Settlement, Exh. DRK-26T, the Energize Eastside project is an
13 important transmission project that will benefit communities on the eastside of
14 Lake Washington in PSE’s service area through improved reliability. PSE has
15 demonstrated through multiple studies that the Energize Eastside project is needed
16 to address summer and winter peak demand on the Eastside. Summer peak
17 demand continues to be a primary concern, as peak capacity in this area exceeded
18 the studied reliability load level in five of the past six summers. Furthermore,
19 even though winter peak need has not materialized as quickly as expected, based
20 on the 2021 Transmission Planning Assessment which concluded in December

1 2021, the assessment still shows an Energize Eastside need for winter peak
2 demand in the ten-year horizon.

3 In contrast to PSE’s studies, the Lauckhart-Schiffman study CENSE relies on has
4 been found to not be credible in multiple proceedings, including the Bellevue and
5 Newcastle siting and permitting proceedings, because the study fails to stress the
6 electric system as required by federal standards, uses an incorrect load growth for
7 the Eastside area, confuses planning standards with day-to-day operations, and did
8 not perform any summer analysis, among other problems.

9 **B. PSE’s Investments in the Tacoma LNG Project Were Prudently Incurred**

10 **Q. Do any parties contest the prudence of PSE’s Tacoma LNG Project?**

11 A. Yes; Public Counsel and the Puyallup Tribe of Indians (“Puyallup Tribe”) oppose
12 a finding that development and construction of the Tacoma LNG Project was
13 prudent.

14 **Q. How does PSE respond to Public Counsel and the Puyallup Tribe’s**
15 **opposition?**

16 A. PSE responds to Public Counsel and the Puyallup Tribe’s opposition in the
17 testimony of Ronald J. Roberts in support of the Multiparty Settlement for
18 Tacoma LNG, Exh. RJR-30T. Mr. Roberts explains that in developing and
19 constructing the Tacoma LNG Project, PSE closely adhered to the Commission’s
20 prudence standard. More specifically, Mr. Roberts’ testimony shows that: (1)

1 PSE identified a gas peak-day need (Exh. RJR-30T at 5-6); (2) PSE determined
2 that the Tacoma LNG Facility was the least cost resource to meet that peak-day
3 need (Exh. RJR-30T at 17-22); (3) PSE management informed the PSE Board of
4 Directors about the need for the Tacoma LNG Facility and the PSE Board of
5 Directors made the decision to go forward with construction of the Tacoma LNG
6 Facility (Exh. RJR-30T at 31-32), and (4) PSE kept extensive contemporaneous
7 records to allow the Commission to determine that its decision to develop and
8 construct the Tacoma LNG Facility was prudent (RJR-30T at 32). PSE responded
9 to Commission Staff's testimony concerning whether the Tacoma LNG Facility is
10 not fully used and useful by showing the Tacoma LNG Facility is used and useful.
11 *See* Exh. RJR-30T at 33-37.

12 **Q. Did PSE respond specifically to arguments Public Counsel made in its**
13 **response testimony opposing the project?**

14 A. Yes. PSE responded to Public Counsel's claim that PSE's load forecasts
15 produced inaccurate results by showing that PSE uses design day standards in its
16 load forecasts. Public Counsel's suggestion that planning be based on prior years'
17 actual maximum day sales is flawed. *See* Exh. RJR-30T at 6-12.

18 PSE also showed that Public Counsel's claim that the Tacoma LNG Facility is a
19 stop-gap measure and PSE could have implemented other temporary measures is
20 not correct. PSE intends to use the Tacoma LNG Facility as a long-term resource
21 and included the Tacoma LNG Facility in its resource stack for the entire 20-year
22 planning period. *See* Exh. RJR-30T at 12-14.

1 PSE responded to claims made by Public Counsel and the Puyallup Tribe that
2 PSE did not consider all available alternatives to the Tacoma LNG Facility and
3 showed that the “alternatives” suggested by Public Counsel and the Puyallup
4 Tribe were not viable alternatives. *See* Exh. RJR-30T at 23-30.

5 **Q. Did PSE respond specifically to arguments the Puyallup Tribe made in its**
6 **opposition?**

7 A. Yes. PSE responded to the Tribe’s claims that the Tacoma LNG Facility meets
8 PSE’s needs for only five years and that it was sized to meet six consecutive days
9 of need without any basis. As stated above, PSE intends to use the Tacoma LNG
10 Facility as a long-term resource and included the Tacoma LNG Facility in its
11 resource stack for the entire 20-year planning period. PSE has not suggested that
12 vaporization would occur on six consecutive days but has observed peak periods
13 of two and three days in several years. *See* Exh. RJR-30T at 14-16.

14 PSE responded to the Puyallup Tribe’s claims concerning human health impacts
15 and inequitable effects on surrounding communities by showing that the Tacoma
16 LNG Facility will not cause or contribute to human health impacts or inequitably
17 affect surrounding communities. *See* Exh. RJR-30T at 37-52. PSE responded to
18 the Puyallup Tribe’s claims concerning safety risks. *See* Exh. RJR-30T at 52-57.

19 PSE also responded to the Puyallup Tribe’s claims concerning “unnecessary”
20 costs by showing that PSE did not incur unnecessary costs in developing,

1 constructing, and defending its decision to construct the Tacoma LNG Facility.
2 See Exh. RJR-30T at 57-66.

3 **C. The ROE and Capital Structure in the Revenue Requirement Settlement are**
4 **Very Reasonable in the Current Market Environment**

5 **Q. Do any parties contest the return on equity and capital structure included in**
6 **the Revenue Requirement Settlement?**

7 A. Yes, PSE understands that Public Counsel may oppose the ROE and capital
8 structure included in the Revenue Requirement Settlement. This Settlement
9 supports a 9.40 percent ROE and an equity level of 49.0 percent. The Joint
10 Testimonies of Cara G. Peterman, Ann E. Bulkley, and Todd A. Shipman support
11 the ROE and equity level in the Revenue Requirement Settlement and respond to
12 opposition by Public Counsel.

13 **Q. What is PSE's response to Public Counsel's opposition?**

14 A. The results of the ROE estimation models based on market data through July 31,
15 2022, support, and are well above the 9.40 percent ROE that PSE has agreed to in
16 the Settlement. Moreover, as Ms. Bulkley testified, interest rates have increased
17 significantly since the filing of PSE's direct testimony, and inflation has reached
18 levels not seen in four decades and is expected to continue. Those changes in the
19 capital markets will have a direct and significant effect on the ROEs required by
20 investors. Despite this upward pressure on the cost of equity, PSE has agreed to

1 reduce its proposed ROE in this proceeding by 50 basis points and keep it
2 constant through the multiyear rate plan.

3 In contrast to this very reasonable position that PSE has agreed to in the Revenue
4 Requirement Settlement, Public Counsel has recommended an unreasonably low
5 ROE of 8.80 percent. Public Counsel's recommended ROE does not reflect the
6 investor-required ROE for an electric and natural gas utility and should be
7 rejected by the Commission. Specifically, Public Counsel's ROE
8 recommendation of 8.80 percent is below the low-end of the range of authorized
9 ROEs for any electric or natural gas distribution company since 2018. Public
10 Counsel's unreasonably low ROE would risk negative credit rating agency and
11 market reactions, as PSE witness Todd A. Shipman has testified. In contrast, Mr.
12 Shipman has opined that the Revenue Requirement Settlement would improve
13 credit health for PSE and will benefit customers.

14 Finally, with respect to the equity level of 49.0 percent in the Revenue
15 Requirement Settlement, this will begin to improve PSE's weighted cost of equity
16 relative to its peers, will enable the Company to finance its activities with less
17 debt (and incur less debt financing pressure), partially replace cash flows lost
18 from the lower Federal income tax rate resulting from the 2017 Tax Cut and Jobs
19 Act, and will help improve credit metrics sustainably into the future, all of which
20 combine to create a credit supportive regulatory outcome in this proceeding, as
21 Ms. Peterman testifies. Moreover, from a customer perspective, the Revenue
22 Requirement Settlement WACC will lower the overall rate of return that

1 customers pay by 23 basis points in 2023 and 28 basis points in 2024 compared to
2 what was included in Ms. Peterman's Direct Testimony. This has the impact of
3 reducing the annual revenue requirement to be collected from customers by \$26.5
4 million in 2023 and \$34.3 million in 2024.

5 **IV. CONCLUSION**

6 **Q. Does this conclude your Joint Testimony?**

7 **A.** Yes, it does.