EXH. MS-4T
DOCKETS UE-240004/UG-240005 et al.
2024 PSE GENERAL RATE CASE
WITNESS: MATT STEUERWALT

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket UE-240004** **Docket UG-240005** **(*consolidated)***
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

MATT STEUERWALT

ON BEHALF OF PUGET SOUND ENERGY

SEPTEMBER 18, 2024

PUGET SOUND ENERGY

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I. INTRODUCTION

Q. Are you the same Matt Steuerwalt 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 Matt Steuerwalt, Exhibit MS-1T and two supporting exhibits (MS-1T through MS-3).

Q. What is the purpose of your rebuttal testimony?

A. First, my rebuttal testimony addresses the role Puget Sound Energy ("PSE") and the Commission play in the clean energy transition in response to testimony from Commission Staff witness Chris McGuire.

Second, I respond at a high level to several parties' testimony, which, if accepted by the Commission, would impair PSE's ability to make progress in the clean energy transition while also providing safe and reliable electricity and natural gas service to customers. Specifically, I respond to proposals from other parties who advocate the Commission should reject PSE's proposal to include construction work in progress ("CWIP") in rate base treatment, reject PSE's gas depreciation proposal, go backwards and implement historical ratemaking, and reject proposals for PSE's rate adjustment mechanisms and tracker. I echo the testimony of Lauren McCloy on behalf of the Joint Environmental Advocates ("JEA") that "[i]t

is difficult to see how PSE can meet CETA's 2030 clean energy standard (and support decarbonization of the transportation and building sectors) without financial support to enable the Company to make significant investments that are necessary."[1]

Third, I respond to concerns about affordability as part of the Clean Energy Transformation Act ("CETA"), as addressed in the testimony of Commission Staff witness Chris McGuire[2] and Public Counsel witness Michael P. Gorman.[3]

Fourth, I respond to testimony from JEA regarding PSE's decarbonization study, compliance with the Climate Commitment Act ("CCA"), and proportionate share of emissions reductions.

Finally, I provide an overview of PSE's revised performance metrics based on the recently released Commission policy statement addressing performance metrics.

II. COLLABORATION BY ALL INTERESTED PARTIES AND THE COMMISSION IS NEEDED TO SUCCESSFULLY TRANSITION TO CLEAN ENERGY

Q. Commission Staff witness Chris McGuire broadly commented on PSE's framing of certain issues in the case, specifically, PSE's reference to partnering with the state of Washington and the Commission on the clean energy transition.[4] How do you respond?

[1] McCloy, Exh. LCM-1T at 4:20-22.
[2] McGuire, Exh. CRM-1Tr at 7:16-9:3.
[3] Gorman, Exh. MPG-1CT at 6:1-7:20, 10:4-13:21.
[4] McGuire, Exh. CRM-1Tr at 5:9–7:8.

A. I concur with McGuire that the referenced PSE testimony is intended to convey that PSE has been working, and will continue to work, cooperatively with the Commission to achieve clean energy goals mandated by state law such as CETA and the CCA. In that collaboration, it is the utility's role to attempt to meet the requirements of CETA and CCA in the most cost-effective manner possible. The Commission must continue to regulate in the public interest, recognizing that the public interest now requires the Commission to authorize funding that is necessary for PSE to transition to cleaner energy while also maintaining the safety and reliability of its gas and electric systems. If the funding for the clean energy transition is not authorized in rate proceedings, PSE's ability to move forward with the clean energy transition will necessarily be impaired. Forward looking ratemaking allows the Commission to effectively set the budget for the pace and scale of the transition. And more broadly, to the extent rates are not sufficient to fund utility activities, PSE will not be able to undertake those actions. As discussed later in my testimony, several of the proposals by parties in this case are insufficient for PSE to move forward with the clean energy transition at the currently required pace while maintaining safety and reliability.

Q. How do you respond to McGuire's testimony in which he says "PSE presents a false dilemma in which the commission must approve its requested rate increase or the clean energy transition will inevitably need to be put on hold or slowed"?[5]

A. I disagree this is a "false dilemma." As JEA witness McCloy notes:

> This is not an empty threat . . . . It is difficult to see how PSE can meet CETA's 2030 clean energy standard (and support decarbonization of the transportation and building sectors) without financial support to enable the Company to make significant investments that are necessary.[6]

Either PSE will have the cash flow and the operating and maintenance resources to proceed to stay on track for the ambitious policy objectives the legislature has established, or it will not. The approach taken depends on the Commission and the rates authorized in this case. There are benefits and drawbacks to both approaches. A slower transition may result in lower rates for customers in the near term but leave more to do and higher costs for future customers. A faster transition will bring the benefits of a clean energy transition sooner and will increase the likelihood PSE can meet 2030 statutory requirements.

[5] McGuire, Exh. CRM-1Tr at 8:12-14.
[6] McCloy, Exh. LCM-1T at 4:19-22.

Q. How do you respond to McGuire's skepticism that certain of PSE's proposals in this case are necessary?[7]

A. I appreciate that Commission Staff, and perhaps other parties, are still adjusting to the significant expansion of the public interest and the substantial requirements imposed on utilities to achieve the state's ambitious clean energy and climate policies, and the equity requirements embedded in them. It has now been more than three years since the public interest was redefined and multiyear rate plans were authorized, over five years since CETA was enacted, and more than three years since the CCA was passed. While we are still learning how best to meet these requirements, they are not optional. They require new tools and new approaches, or we will not succeed.

I disagree with the generalized assumption that the proposals included in PSE's proposed multiyear rate plan are unnecessary. The multiyear rate plan proposal in this case is carefully balanced to allow PSE to move forward with the clean energy transition consistent with the pace the legislature has established, while still having the financial resources to provide safe and reliable service to its customers. PSE's multiyear rate plan is also focused on addressing the cost to customers in this case, and includes programs to assist low-income, energy burdened and vulnerable populations. The Prefiled Rebuttal Testimony of Jamie

[7] McGuire, Exh. CRM-1Tr at 7:10–9:3.

L. Martin, Exh. JLM-1CT, discusses the financial impacts of removing various proposals from PSE's case.

III. PSE'S ABILITY TO MEET CLEAN ENERGY TARGETS AND DECARBONIZATION GOALS WILL BE COMPROMISED IF THE PROPOSALS BY COMMISSION STAFF, PUBLIC COUNSEL AND INTERVENORS ARE ACCEPTED BY THE COMMISSION

Q. Do you have overarching concerns about the response testimony and how it addresses proposals put forth by PSE in its direct case?

A. Yes. PSE has demonstrated the cash flow and credit metric risks it faces as it moves forward with funding the clean energy transition. The proposals PSE put forth in this case are intended to allow PSE to move forward with its CETA and CCA obligations, while also maintaining safe and reliable electricity and natural gas services for its customers. PSE is using the many levers available to it as provided by the legislature and allowed by prior Commission practice—CWIP in rate base, earning returns on PPAs, accelerated gas depreciation, among others—to fund this transition while maintaining safe and reliable core services. I am concerned about the rejection of these proposals by parties; these ratemaking tools will be needed if PSE is to fund the clean energy transition. Especially concerning are the intervenor proposals to return to historical rate making. I discuss these in more detail below.

A. Earning a Return on PPAs Is Authorized By Law and Appropriate

Q. Do parties in this case address PSE's proposal to earn a return on the AutoGrid, Enel X and Oracle demand response power purchase agreements?

A. Yes. Commission Staff witness Chris McGuire agrees that PSE should earn a return on the PPA, but at PSE's authorized cost of debt.[8] JEA witness Lauren McCloy does not question the prudence of the demand response PPAs, but prefers an outcome-based performance incentive mechanism ("PIM") over PSE earning a return on the PPAs.[9] Public Counsel witness Gorman and The Energy Project ("TEP") witness Stokes oppose PSE earning a return on the PPAs.[10]

Q. How do you respond to these witnesses?

A. First, as a threshold matter, in RCW 80.28.410, the legislature expressly authorized the earning of a return on PPAs that are executed in connection with PSE's clean energy action plan. The purpose of this is to make companies indifferent to acquiring or building a new resource versus entering into a PPA for the clean resource. Notably, the statute allows the Commission to consider a range of returns on PPAs. As discussed in the Prefiled Rebuttal Testimony of Jamie L. Martin, Exh. JLM-1CT, these customer-scale PPAs that will have higher administrative costs and are likely to have equitable benefits to PSE's low-income

[8] McGuire, Exh. CRM-1Tr at 80:1-4.
[9] McCloy, Exh. LCM-1T at 16:1-4.
[10] Gorman, Exh. MPG-1CT at 25:20–26:13; Stokes, Exh. SNS-1T at 56:21–58:7.

and vulnerable population customers, are the type of PPAs that should earn a return at a higher end of the range set in statute.

Q. How do you respond to JEA's alternative proposal that the Commission should authorize an outcome based PIM rather than earning a return on these two demand-response PPAs?[11]

A. The legislature expressly authorized utilities such as PSE to earn a return on PPAs for clean energy resources. JEA's proposal would undermine and negate the legislative policy decision reflected in RCW 80.28.410. Moreover, earning a return and PIMs serve different purposes. Much like decoupling, allowing a utility to earn a return on a PPA removes a financial disincentive—here, the incentive to build or buy resources rather than enter into PPAs. It does not provide an incentive. In contrast, the PIM incents exceptional performance (and sometimes penalizes under performance). Here, where the legislature expressly authorized the ability to earn a return on a PPA, rather than authorizing a PIM, and where the goal is to remove disincentives to executing PPAs, it makes sense to follow the law and allow PSE to earn a return on its demand response PPAs.

[11] McCloy, Exh. LCM-1T at 17:21–18:19.

Q. Do you have any further response to Public Counsel[12] and TEP[13] who oppose PSE earning a return on the demand response PPAs?

A. PSE witness Jamie Martin addresses Public Counsel's testimony that earning on a PPA is unjustified and does not produce a reasonable cost impact on customers.[14] TEP's position ignores the extensive testimony in PSE's direct case supporting a return on these PPAs,[15] and also ignores the legislative intent to encourage utilities to enter into PPAs as part of their clean energy action plans, which I discussed above.

B. The Historical Test Year Proposal by Mullins Is Contrary To Law and Will Impede Progress with the Clean Energy Transition

Q. How do you respond to the proposals by the Alliance of Western Energy Consumers ("AWEC") witness Bradley Mullins that, among other things, the Commission should roll back its approach to multiyear rate plans and set rates on an historical test year basis rather than allowing projections of plant for the rate years?[16]

A. PSE witnesses Jamie L. Martin and Susan E. Free both address this position in more detail.[17] However, I would point out, from a high-level perspective, many of AWEC's positions seem designed to thwart the ability of PSE and the state of

[12] Gorman, Exh. MPG-1CT at 25:20–26:13.
[13] Stokes, Exh. SNS-1T at 55:8–58:7.
[14] Martin, Exh. JLM-1CT.
[15] *See* Doyle, Exh. DAD-1CT at 90:9–97:3; Free, Exh. SEF-1T at 84:5-17, 90:8–91:19.
[16] Mullins, Exh. BGM-1T at 8:5–12:3.
[17] *See* Martin, Exh. JLM-1CT; Free, Exh. SEF-28T.

Washington to move forward with the clean energy transition. PSE has documented and testified to the significant need for energy and capacity in the upcoming years, due to the state's requirements for clean energy.[18] PSE must be able to project its resource needs into the future, as a multiyear rate plan allows, and to be flexible through the use of power cost only rate cases and annual power cost updates if it is to have the financial resources to meet the clean energy goals.

Q. Didn't the legislature settle this question by authorizing forward looking rate making?

A. Yes. The law requires general rate cases to include proposals for multiyear rate plans ranging from two to four years in length.[19] It further requires the Commission, when approving a multiyear rate plan, to separately approve rates for the initial rate year and each subsequent year included in the multiyear rate plan.[20] This necessarily requires projections of plant, revenues, and expenses into the future. Most recently, in ESHB 1589, the legislature reiterated that RCW 80.28.425 "began that regulatory transition from traditional cost-of-service regulations, with investor-owned gas and electrical companies using forward-looking multiyear rate plans."[21] In summary, there is no escaping the requirement for forward-looking ratemaking, or the need for such an approach if PSE is to successfully transition to cleaner energy while providing safe and reliable service

[18] *See* Jacobs, Exh. JJJ-1T at 8:17-12:2.
[19] RCW 80.28.425(1)(3).
[20] RCW 80.28.425(3)(a).
[21] ESHB Sec. 1, subsection (3).

to its customers. The law does not allow for a return to historical test-year ratemaking, and the Commission should not be enticed into such a poor choice.

C. CWIP in Rate Base Is Authorized By Law and Appropriate For CETA-Eligible Projects

Q. Do parties address PSE's proposal that the Commission authorize CWIP in rate base for PSE's Beaver Creek facility?

A. Yes, Commission Staff, Public Counsel, AWEC, TEP, and JEA, all provide testimony on this topic. I provide a high-level response from a policy perspective. PSE witness Jamie Martin provides a financial response, reiterating the importance of CWIP in rate base to allow PSE to finance the clean energy investments required to transition to 100 percent clean energy.[22] Additionally, PSE witness Susan Free addresses issues raised by TEP with respect to CWIP in rate base treatment.[23]

Q. Do you have any response to McGuire's recitation of legislative history of CWIP in rate base?[24]

A. Yes, I agree that the legislature amended RCW 80.04.250 in the 1990s to explicitly allow CWIP in rate base, after the Washington Supreme Court had ruled that the prior version of that statute did not allow the recovery of CWIP in rate base.[25] I also agree that very few regulated entities requested CWIP in rate

[22] *See* Martin, Exh. JLM-1CT.
[23] *See* Free, Exh. SEF-28T.
[24] McGuire, Exh. CRM-1Tr at 86:8–87:16.
[25] McGuire, Exh. CRM-1Tr at 86:8-12.

base after the law change.[26] I further agree with Mr. McGuire that CWIP in rate base is allowed in Washington. It is a tool the Commission can authorize[27] to assist with the massive funding needed to meet the clean energy transition.

Q. Do you agree with assertions by TEP witness Stokes[28] and JEA witness Gehrke[29] that CWIP in rate base should be reserved for the certificate of necessity process?

A. No. The fact that ESHB 1589, passed in 2024, expressly allows, but does not require, large combination utilities to use a certificate of necessity process for large projects, and expressly allows large combination utilities to request CWIP in rate base as part of the certificate of necessity application, does not limit the use of CWIP in rate base to that situation, nor does it change the fact that CWIP in rate base has been, and is, authorized under Washington's used and useful statute, RCW 80.04.250.

Q. JEA witness Gehrke proposes the Commission consider CWIP in rate base on a project by project basis.[30] Do you agree with this approach?

A. No, I do not. PSE is using Beaver Creek as a test case for the Commission in this proceeding, but PSE is asking the Commission to authorize CWIP in rate base

[26] McGuire, Exh. CRM-1Tr at 86:17-87:3.
[27] McGuire, Exh. CRM-1Tr at 88:11-20.
[28] Stokes, Exh. SNS-1T at 66:11–17.
[29] Gehrke, Exh. WAG-1T at 14:10-13.
[30] Gehrke, Exh. WAG-1T 13 at 1-10.

treatment for rate recovery for *all* CETA-eligible owned resources going forward, as discussed in the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1T.

PSE witness Martin addresses concerns about JEA's proposed project-by-project approval of CWIP in rate base in her rebuttal testimony. As she notes, uncertainty as to whether CWIP in rate base will be authorized for clean energy projects may limit the ability of PSE to move forward with proposed projects due to financing concerns. Ultimately, this will impede PSE's ability to move forward with the clean energy transition at the pace set forth by the legislature and the Commission.

Q. How do you respond to claims by Commission Staff witness McGuire[31] and Public Counsel witness Gorman[32] that CWIP in rate base harms lower-income customers and has the potential to create intergenerational inequity?

A. I defer to PSE witness Jamie Martin to address McGuire's argument that PSE did not use the appropriate discount rate to reflect the opportunity costs for lower income customers.[33] I disagree with the intergenerational inequity concerns expressed by Commission Staff and Public Counsel. In this case, CWIP in rate base would begin accruing in January 2025, and would stop accruing when the Beaver Creek facility is placed in service, which is currently projected to be August 2025. Thus, the intergenerational inequity that would occur in that short

[31] McGuire, Exh. CRM-1Tr at 98:5-17.
[32] Gorman, Exh. MPG-1CT at 20:1–21:13.
[33] Martin, Exh. JLM-1CT.

time frame would be de minimis. Yet the additional cash flow would be very beneficial to PSE, as discussed in more detail by Ms. Martin. And going forward, the ability to have financing to move aggressively on clean energy projects is a benefit to all PSE customers, including lower-income customers.

D. PSE's Gas Depreciation Proposal Is a Reasonable Approach That Is Within the Commission's Authority

Q. AWEC witness Lance D. Kaufman testifies that PSE's gas depreciation rates should not be changed until after PSE develops an Integrated System Plan that identifies PSE's decarbonization plan.[34] Do you agree?

A. No. He relies on language in ESHB 1589, recently signed into law that requires the Commission to set a depreciation schedule that depreciates all gas plant in service as of July 1, 2024, by a date no later than January 1, 2050.[35] The mandate to accelerate gas depreciation in ESHB 1589 requires this be done consistent with an approved Integrated System Plan. However, the Commission has long had the power to set depreciation rates, and has in the past shortened depreciable lives on plant, including PSE's Colstrip coal fired generation plant, without specific legislation authorizing such accelerated depreciation. ESHB 1589 should not be interpreted to take away a power that the Commission has traditionally utilized, such as setting appropriate depreciation rates. Notably, PSE's proposal for accelerated gas depreciation in this case is more moderate than what is required in

[34] Kaufman, Exh. LDK-1CT at 8:1-20.
[35] Kaufman, Exh. LDK-1CT at 8:6-12.

ESHB 1589, and serves as a step in the direction required by ESHB 1589. Ultimately, by taking this more moderate step now, the depreciation required pursuant to PSE's filed integrated system plan will have a less dramatic impact on customers. Mr. Allis discusses the issue at length in his rebuttal testimony.[36]

Q. Are there lessons to be learned from PSE's experience with depreciation on the Colstrip coal-fired generation plant?

A. Yes. In PSE's 2007 general rate case, Public Counsel and Commission Staff sought to lengthen the service lives of Colstrip Units 1-4 from 40 years to 60 years in order to benefit customers by keeping depreciation costs lower than they otherwise would have been. PSE disagreed with this approach, but ultimately, as part of a settlement covering multiple issues, agreed to the extension. A decade later, the short-sighted nature of this approach was on full display, as parties in PSE's 2017 general rate case grappled with the 2022 closing date for Colstrip Units 1 and 2 and the need to address depreciation of the plant over a very tight time frame. As the Commission stated in its final order in the 2017 general rate case:

> Staff settlement witnesses Schooley and Cheesman testified concerning the difficulty of projecting the lives of coal-fired production plant. Though they do not refer to it, this difficulty is clearly evidenced by the unintended consequences of the Commission's decision in PSE's 2007 general rate case with respect to the depreciable lives for Colstrip Units 1 & 2. Had the Commission accepted PSE's original depreciation study in that case we would not be facing today the significant financial consequences of a decision in 2008 that proved with the passage of time to be

[36] *See* Allis, Exh. NWA-4T.

> ill-advised. Instead, Colstrip Units 1 & 2 would have been fully depreciated by 2019, and Units 3 & 4 would have been fully depreciated by 2024 and 2025. Informed by this experience, the Settlement Stipulation reconciles with recent decisions to close Units 1 & 2, reflects a more focused view with respect to Colstrip Units 3 & 4, and reduces the potential risk of large unrecoverable plant balances and the likelihood of facing intergenerational inequities for Units 3 and 4.[37]

The lesson learned from Colstrip is that it is better to begin the accelerated depreciation of gas plant now, when there is a more reasonable runway for depreciation, than to wait and deal with the accelerated depreciation on a tightly compressed timeline with the specter of substantial stranded costs, which places a greater burden on customers.

Q. Does Commission Staff have a position on PSE's proposal to accelerate the depreciation on gas plant?

A. Commission Staff does not have a specific position on this proposal. However, Commission Staff witness Chris McGuire asks the Commission to keep the record open in the event that I-2066 is approved in November, and if so, to remove the accelerated depreciation of PSE's gas plant from the revenue requirement.[38]

Q. Do you agree with McGuire's proposal to remove accelerated depreciation if I-2066 is approved in November?

A. No. As I stated previously, the Commission has the power to set depreciation rates. It is clear that whether or not I-2066 is approved, there will be increased

[37] *WUTC v. PSE,* Dockets UE-170033/UG-170034, Order 08, ¶110 (December 5, 2017).
[38] McGuire, Exh. CRM-1Tr at 28:9–29:2.

electrification driven by customer choice and significant state and federal incentives. PSE's proposal to accelerate that depreciation now, rather than waiting until the eleventh hour to do so, will ultimately benefit customers, particularly low-income customers. In contrast, delaying the depreciation, and leaving a smaller gas customer base—many of which are likely to be low-income customers—responsible for stranded costs in the future, would be inequitable. Therefore, parties' arguments against accelerated depreciation for lack of legislative requirements are not relevant and should be disregarded. Moreover, the accelerated deprecation provides PSE important cash flow to achieve legislative mandates and decarbonization goals. This is discussed in more detail in the Prefiled Rebuttal Testimony of Ned W. Allis, Exh.-NWA-4T and the Prefiled Rebuttal Testimony of Jamie L. Martin, Exh. JLM-1CT.

Q. How do you respond to TEP witness Stokes who testifies that the Commission should reject PSE's proposal for gas plant depreciation because the increased spending would burden low-income customers?[39]

A. Witness Stokes seems to disregard the fact that increasing electrification and declining gas usage will result in higher costs per customer to recover the fixed costs that are already prudently included in rates for all customers. Indeed, PSE's load forecasts continue to project declining use,[40] and no party disputes this conclusion. Low-income customers face a scenario where they will pay an

[39] Stokes, Exh. SNS-1T at 5:18–6:7.
[40] Taylor, Exh. JDT-1T 7:12-20.

increasing share of costs as other customers with the means exit the system. Shorter depreciation lives ensure those customers who currently benefit from the system pay for it. The Commission can rely on its existing tools for ensuring low-income customers continue to pay reasonable rates.

E. Commission Staff's Proposed Tracker Policy Standards Should be Addressed in a Rulemaking or Policy Docket Where They Can Be Fully Vetted By All Interested Parties

Q. What is Commission Staff witness McGuire's position with respect to PSE's tracker and rate adjustment proposals in this case?

A. McGuires opposes the Clean Generation Resources tracker[41] and the Decarbonization Rate Adjustment[42], and admits that PSE's proposed Wildfire Prevention Plan Adjustment Rider meets his criteria to be included in a tracker, but instead proposes the Commission approve a balancing account in base rates for now with a re-evaluation in a later GRC of whether a performance incentive mechanism or a cost recovery mechanism with a risk sharing component are more warranted.[43] For each of these proposals, his position is to include the costs in base rates rather than in a tracker or rate adjustment mechanism.

[41] McGuire, Exh. CRM-1Tr at 55:1-9.
[42] *Id.* at 66:8-17.
[43] *Id*. at 58:16–61:21.

Q. Does McGuire make any overarching proposals with respect to trackers in this case and more generally?

A. Yes, he proposes standards for the Commission to apply in this case and for all trackers in the future.[44]

Q. How do you respond to McGuire's broad policy recommendations for trackers in general?

A. This is a general rate proceeding for PSE. It is not a proceeding to evaluate the broad and far-reaching implications of considering or instituting policy for how and why trackers should be employed by the Commission. Nor is it the proceeding to determine whether risk sharing mechanisms are or are not appropriate assuming other trackers are included in base rates in the future, as McGuire suggests in his proposal. The Commission should reject McGuire's attempts, in this proceeding, to 1) institute any form of new tracker ratemaking policy, 2) move costs from PSE's proposed trackers and rate adjustment mechanisms into base rates, 3) institute any form of ratemaking policy regarding whether risk-sharing mechanisms should be required when trackers are used. If the Commission is interested in exploring McGuire's policy proposal, it should do so in another docket where all interested and potentially impacted parties have the opportunity to participate, examine the proposal completely, and have their

[44] *Id.* at 45:4-9.

positions heard under a comprehensive record to evaluate the far-reaching implications of such a proposal.

Q. Does PSE have any further response to McGuire's proposal with respect to PSE's tracker and rate adjustment mechanisms?

A. Yes. PSE witnesses Jamie L. Martin and Susan E. Free respond to these proposals in more detail in their respective rebuttal testimony.

IV. AFFORDABILITY IN THE CONTEXT OF THE CLEAN ENERGY TRANSITION

Q. Commission Staff witness Chris McGuire[45] and Public Counsel witness Michael Gorman[46] both refer to the concept of affordability in their testimonies. Do you wish to comment?

A. Yes. PSE takes seriously its responsibilities under CETA and is committed to meeting those responsibilities at the lowest reasonable cost. That said, it must be recognized that CETA is a legislative mandate, and the responsibilities it imposes upon PSE are incremental to PSE's continuing responsibility to provide safe, reliable, and efficient utility services to its customers. There are real costs associated with moving forward with the clean energy transition while also maintaining safe and reliable service.

[45] McGuire, Exh. CRM-1Tr at 8:1–9:3.
[46] Gorman, Exh. MPG-1CT at 6:1–7:20.

Q. How does Commission Staff witness McGuire address the concept of affordability?

A. On page 8 of McGuire's testimony, he states, "the commission should always remember that affordability is a key aspect of CETA; the legislature clearly concluded that the clean energy transition could be accomplished on the timeline set by the law *while also* remaining relatively affordable for customers. The commission has come to the same conclusion."[47]

Q. What does CETA, as cited by McGuire, say about affordability?

A. The section of the statute quoted by McGuire does not specifically use the term "affordability." It does, however, require that "In implementing this chapter, the state must prioritize the maximization of family-wage job creation, seek to ensure that all customers are benefiting from the transition to a clean energy economy, and provide safeguards to ensure that the achievement of this policy does not impair the reliability of the electricity system or impose unreasonable costs on utility customers."[48] In other words, the legislature expects utilities and the Commission to meet CETA's clean energy requirements in such a way that customers benefit, reliability is preserved and costs to customers, while not zero, are reasonable.

[47] McGuire, Exh. CRM-1Tr at 8:3-7.
[48] RCW 19.405.010(2).

Q. Does McGuire point to other authorities in support of his "affordability" criterion?

A. Yes. McGuire cites to Commission orders in footnote 6 and 7 of his testimony as support for his "affordability" criterion.[49] The Commission orders do not address "affordability." Rather, the orders he cites demonstrate that the appropriate and intended legislative and regulatory construct for evaluating the incremental cost impacts of meeting the legislative mandates of CETA is whether or not it imposes unreasonable costs on utility customers and whether or not the proposed costs are the most cost-effective.[50]

Q. Please elaborate on your concerns.

A. Employing affordability as a measure, could have chilling implications for meeting the legislatively mandated policy objectives of CETA. A simple example illustrates this point. Assume in the extreme that none of the incremental cost impacts of CETA are approved by the Commission and are excluded from the rates PSE collects from customers. In this extreme example, there is a more

[49] McGuire, Exh. CRM-1Tr at 8:1-4, n. 6, n. 7.

[50] *Id.* (citing Docket UE-210795, Order 08, 92, ¶ 340 which states: "Under CETA, the utility must, to the maximum extent possible, achieve its targets at the lowest reasonable cost. The Commission has accordingly found that "[i]n most cases, the actual costs of achieving those targets, not the annual incremental cost threshold amount, will determine the real cost impact of CETA on customer rates."" (citations omitted)); *In the Matter of Adopting Rules Relating to Clean Energy Implementation Plans and Compliance with the Clean Energy Transformation Act,* Dockets UE-191023 & UE-190698 (Consolidated), General Order 601, 39, ¶ 105 (Dec. 28, 2020) ("We expect utilities to propose reasonable interim targets and meet the statutory standards of -.040(1) and -.050(1) in a cost-effective manner. Like the Legislature, we believe this is achievable without imposing unreasonable costs on customers. In most cases, the actual costs of achieving those targets, not the annual incremental cost threshold amount, will determine the real cost impact of CETA on customer rates. We believe those actual amounts will be less than the incremental cost threshold amount calculated under WAC 480-100-660.")

"affordable" result in the short term. But, in this extreme example, PSE would make little if any progress toward meeting its obligations to comply with CETA, in particular the statutory mandates for 2030 and 2045. Making little if any progress toward meeting its obligations to comply with CETA is an inappropriate and unreasonable outcome: CETA is the law in the state of Washington and PSE must comply. From this example, it is easy to see that achieving the most "affordable" results are mutually exclusive from meeting CETA targets in the abstract. In reality, meeting CETA targets will undoubtedly have some incremental rate impact on PSE's customers, above and beyond the rates required to provide safe, reliable, and efficient utility service to its customers. PSE is committed to managing the impacts from CETA by proposing and implementing cost-effective conservation, demand response and new resource acquisitions to avoid incurring unreasonable costs on behalf of its customers. This is exactly what CETA requires and is consistent with how the Commission has interpreted it.

Q. Public Counsel witness Michael Gorman raises the issue of affordability, in similar fashion as McGuire.[51] Do you wish to comment?

A. Yes. Similar to McGuire, Public Counsel witness Gorman equates the concept of affordability with PSE's compliance with CETA in the context of the clean energy transformation. As discussed above, proposing cost effective initiatives, projects, and solutions to ensure that utility customers are not unreasonably

[51] Gorman, Exh. MPG-1CT at 6:1–7:20.

charged in the process of complying with CETA represent the requirements of the law and the Commission's interpretation thereof. Accordingly, Gorman's arguments regarding affordability are misguided.

Q. Do you wish to respond further?

A. Yes. On page 6 of his testimony, Gorman states, "The implementation of regulatory mechanisms that increase customer bills to support stronger cash flows and earnings that PSE alleges are needed to support improved credit ratings metrics and financial integrity is unsupported by the evidence."[52] PSE disagrees. PSE's initial and rebuttal testimony are replete with extensive data and analysis demonstrating that the proposals made in this filing are necessary to support improved credit ratings metrics and PSE's overall financial integrity.[53] The Prefiled Rebuttal Testimony of Jamie L. Martin, Exh. JLM-1CT, addresses this in further detail. Gorman cannot ignore the vast majority of the PSE's extensive testimony in this regard to make a contrary claim.

Furthermore, on page 7 of his testimony, Gorman places a negative connotation on multiyear rate plans when he states, "A multi-year rate plan already imposes increased great pressure on customers, which benefits the utility by reducing regulatory lag through rate adjustments…"[54] Yet in other parts of his testimony, Gorman extols the virtues and benefits of multiyear rate plans as a risk reducing

[52] Gorman, Exh. MPG-1CT at 6:15-18.
[53] Doyle, Exh. DAD-1CT at 66:15–68:5; Peterman, Exh. CGP-1CT at 33:7-15.
[54] Gorman, Exh. MPG-1CT at 7:1-3.

panacea.[55] Gorman cannot have it both ways. PSE is required by law to file multiyear rate plans, and this fact has no logical or rational bearing on the concept of affordability.

Q. Do you have additional thoughts on "affordability" in the context of the clean energy transition?

A. Yes. As noted above, "affordability" per se is not a criteria established by CETA; the law and the Commission are focused on avoiding the imposition of unreasonable costs on utility customers while ensuring the utility meets its clean energy obligations in an equitable manner. A helpful tool in considering the reasonableness of costs is the Energy Burden Analysis, mandated by CETA, and presented by PSE witness Birud D. Jhaveri in Exh. BDJ-3. This study demonstrates that PSE's median energy burden is 2.4 percent, and the median energy burden for PSE's low-income customers is 4.4 percent. Both of these metrics are well below the six percent standard set by the Department of Commerce to determine energy burden and assistance needs. The Commission can look to this analysis to ensure energy burden is not unreasonable for customers, and utilize tools like the Bill Discount Rate and Arrearage Management Program for customers that are demonstrably experiencing energy burden. Such a focus will also result in enhanced equity as those energy-burdened customers shoulder a smaller share of the reasonable costs of the clean energy transition.

[55] Gorman, Exh. MPG-1CT at 10:6-20; 16:10–18:2; 28:17–29:2.

V. PSE'S REBUTTAL TO DECARBONIZATION AND CCA COMPLIANCE ISSUES RAISED BY JEA

A. Cebulko's Critique of PSE's Decarbonization Study is Flawed

Q. JEA witness Bradley Cebulko recommends electrification of PSE's gas customers. Do state policies, particularly the CCA, require PSE's gas utility to achieve a specific level of emission reduction through electrification, as opposed to acquiring allowances, as suggested by Mr. Cebulko?

A. No. The CCA does not require utilities to achieve specific emission reduction targets. The Department of Ecology is required to sell PSE allowances at the ceiling price. This does not mean PSE should ignore emission reductions. But it also does not mean that PSE should pursue an extremely costly general electrification program as proposed by Cebulko. Electrifying gas end uses is a very costly solution for reducing emissions. PSE's updated gas decarbonization study, filed at the end of 2023 in response to stipulation O in the settlement in Docket UE-220066 *et al.*, demonstrates electrification of gas loads under several pathways is not close to being cost effective on its own.

Q. Do you agree with Cebulko's concerns that CCA allowances will be insufficient, thereby creating the need for the Commission to develop a general electrification program?

A. No. Cebulko's testimony did not take into consideration that the Department of Ecology was directed to, and currently is working toward, linking with the California carbon market. Having access to a much bigger carbon market can still

achieve the state's emission reduction goals without going down the expensive pathway of electrifying gas loads that will require significant expansion of the electric system.

Q. Was PSE's updated decarbonization study, filed in Docket UE-220066/UG-220067, reasonable?

A. Yes. The study was framed properly, consistent with the stipulation agreement. The study examined four different pathways for electrifying gas appliances. The study shows the cost of each pathway is significantly higher than the benefit. Mr. Cebulko testifies there are numerous things he does not understand about the study, however, there was limited discovery on this topic. PSE witness Phillip Popoff provides rebuttal testimony that clarifies many of the points about which Cebulko testified he does not understand.

Q. What should the Commission take away from PSE's updated decarbonization study?

A. Electrifying gas end-uses is currently an expensive alternative compared to purchasing allowances to comply with the CCA. Absent a clear mandate that gas end-uses must be electrified, the Commission should proceed very carefully down that path. PSE has proposed a gas decarb tracker for precisely this purpose. A general electrification program surfaces important policy issues the Commission should address, regarding who pays for incentives and how inter- and intra-class

cost shifting are addressed. These issues are addressed in more detail in the Prefiled Rebuttal Testimony of Phillip J. Popoff, Exh. PJP-1T.

Q. How should the Commission address a general electrification program?

A. The Commission should allow PSE and stakeholders to work through the upcoming 2027 Integrated System Planning ("ISP") process. The ISP will examine realistic electrification strategies in much more detail than the decarbonization study. Concurrently, the Department of Ecology will be coordinating with California to join that bigger market. The Commission can then make a much more informed decision about how, or whether, to move forward with general electrification programs with much more complete information, including how different electrification pathways would affect gas and electric customer bills, the magnitude of cost shifting from each, and the impact on emissions.

B. The Proportionate Share of Emissions Reductions Position, Endorsed By JEA Witnesses, Is Inconsistent with Washington Law

Q. JEA witnesses Lauren McCloy[56] and Bradley Cebulko[57] address CCA compliance in their respective testimonies. Do you wish to respond?

A. Yes, I have concerns with references to proportionate share of emissions reductions[58] referenced by Lauren McCloy.[59] Though more subtly stated, JEA witness Bradley Cebulko also supports a proportionate share view of emissions reductions.

Q. Why do you believe Bradley Cebulko's testimony endorses proportionate share of emissions reductions?

A. Beginning on page 42 of his testimony, JEA witness Cebulko discusses CCA requirements and alleges that PSE's Targeted Electrification Pilot falls short of the CCA requirements.[60] However, the modeling scenarios he refers to in the decarbonization study looked at the proportional share of the state greenhouse gas goals.[61] This is what he is referring to as the "CCA requirements" throughout this section of his testimony – although he never explicitly says it. Based on these references, it is my understanding that he endorses proportionate share of

[56] McCloy, Exh. LCM-1T at 6:15–9:7.
[57] Cebulko, Exh. BTC-1T at 42:6–45:19.
[58] The requirement that covered entities must achieve their proportionate share of emissions reductions directly through the emissions associated with their business or sector.
[59] McCloy, Exh. LCM-1T at 7:5–9:7.
[60] See Cebulko, Exh. BTC-1T at 42:6–46:13 ("First and foremost, PSE's efforts should be guided by the objective of reaching electrification levels consistent with its decarbonization requirements under the CCA").
[61] Cebulko, Exh. BTC-1T at 43:3, 44:9.

emissions reductions on a sector basis. As I discuss below, PSE disagrees with this approach as inconsistent with the legislation and legislative intent.

Q. What are your concerns with this testimony, which would require PSE to achieve its proportional share of the state's emissions reduction goals?

A. JEA witnesses McCloy and Cebulko use this premise to assert that compliance with CCA is achieved primarily through emissions reductions directly by individual compliance entities in their own sector. I fundamentally disagree with the "proportional basis among sectors" viewpoint.

Q. Does the CCA require covered entities to comply with the CCA's goals primarily through emissions reductions?

A. No. JEA mischaracterizes the use of the phrase "proportional share" in the CCA and misunderstands the mechanism for compliance with the statute. The sole compliance obligation of a covered entity under the CCA is the submission of compliance instruments, whether allowances or offsets, to the Washington Department of Ecology in an amount equal to the greenhouse gas emissions for which the covered entity is responsible for a relevant compliance period. There is no language in the CCA that requires, nor even indicates a legislative intent to require, covered entities or any sector of covered entities to achieve a proportionate share of the state's greenhouse gas emissions targets. Indeed, any expectation that individual covered entities or sectors of covered entities would have obligations for direct emission reductions would be counter to the entire

theory and practice behind a cap-and-invest (or cap-and-trade) program. The point of a cap-and-invest program is to realize economic efficiencies while pursuing emissions reductions by creating an economy-wide cap on greenhouse gas emissions that allows the market to determine the lowest cost pathways to achieve acceptable emissions within the stated boundaries set in the cap-and-invest system. The premise of a cap-and-invest program is to alter the fundamentals of the market by placing a price on externalities (*i.e.,* emissions) to change market behaviors. In other words, a cap-and-invest program seeks to achieve state- or economy-wide emissions reductions to achieve certain emission goals but is agnostic to the sources of the emissions reductions and certainly does not mandate specific reduction requirements on individual covered entities.

For example, the Office of Air and Radiation of the U.S. Environmental Protection Agency discusses the theory behind cap-and-trade programs as follows:

> Cap and trade programs provide sources with flexibility in how they achieve their emission target, which is uncommon under traditional environmental policy approaches. The cap establishes the emission level for emission sources; the sources, however, are provided with the flexibility of choosing how they want to abate their emissions…The regulating authority does not need to approve each source's compliance choices because the cap, accompanied by emission measurement and reporting requirements, enable the regulating authority to focus on assessing compliance results (i.e., ensuring that each source has at least one allowance for each unit of pollution emitted). Cap and trade programs also allow sources to trade allowances, providing an additional option for complying with the emissions target. Sources that have high marginal abatement costs (i.e., the cost of reducing the next unit of emissions) can purchase additional allowances from sources that have low marginal abatement costs. In this way, both buyers and sellers of allowances can benefit. Sources with low costs can reduce their emissions

> below their allowance holdings and earn revenues from selling their excess allowances – a reward for better environmental performance. Sources with high costs can purchase additional allowances at a price that is lower than the cost to reduce a unit of pollution at their facility…[62]

Similarly, the Washington Department of Ecology discusses the theory behind the Cap-and-Invest Program that the agency implemented pursuant to the CCA as follows:

> [C]ap-and-invest uses the powers of supply and demand to incentivize businesses to cut their emissions, using whatever strategy they think is best.[63]

The International Emissions Trading Association ("IETA") describes the benefits of a cap-and-invest or cap-and trade program as follows:

> Emissions trading is one of the principal policy instruments available to manage industrial greenhouse gas (GHG) emissions by encouraging operational excellence and the deployment of new and existing technologies. Emissions trading is effective because:
>
> - It is economically efficient
> - It is specifically designed to deliver an environmental objective
> - It delivers a clear price signal[64]

[62] U.S. Environmental Protection Agency, Office of Air and Radiation, *Tools of the Trade: A Guide to Designing and Operating a Cap and Trade Program for Pollution Control*, EPA 430-B-03-002 (June 2003), available at https://www.epa.gov/sites/default/files/2016-03/documents/tools.pdf.

[63] Washington Department of Ecology, *Climate Commitment Act: A market-based solution*, available at https://ecology.wa.gov/Air-Climate/Climate-Commitment-Act#capandinvest.

[64] International Emissions Trading Association (IETA), *About – Our Principles*, available at https://www.ieta.org/about/.

Q. Do other jurisdictions overseeing cap-and-trade markets require proportionate reduction by covered entities?

A. No. Neither the California nor the Québec cap-and-trade program requires proportional reduction by covered entities. In legislative hearings, an express interest of the legislature and the Washington Department of Ecology was to follow the California program, both for purposes of future linkage and to learn from the successful and not so successful features of the California cap-and-trade program:

> And if we are going to go down that path [linkage] we have to go through a public process and [see] findings about whether that linkage is beneficial to the state before we make that decision. We carefully follow California's program. We want to see how it works, we want to learn from their successes, and from some of their not so successful features of their programs over the years. So we definitely pay attention to what they're doing and we would factor that into any decision about whether we link or not.[65]

The staff report of the California Air Resource Board ("ARB") regarding program implementation is a good example of an explanation of the fundamentals of such as market-based system. Specifically, the staff report includes a discussion of an overarching cap approach vs. a facility-specific or proportional share approach.

> The cap-and-trade program is a key element of this overall strategy. It creates a limit on the emissions from sources responsible for 85 percent of California's GHG emissions, establishes the price signal needed to drive long-term investment in cleaner fuels and more efficient use of energy, and *affords covered entities flexibility to seek out and implement the lowest-cost options to reduce emissions*.

[65] E2SSB 5126 - Concerning the Washington Climate Commitment Act: Hearings before the Washington State House Environment & Energy Committee, (Apr. 14, 2021) (Statement of Stu Clark, Washington Department of Ecology). https://tvw.org/video/house-environment-energy-committee-2021041204/?eventID=2021041204 (starting at 1:06:45).

In the cap-and-trade program, ARB will place a limit, or cap, on GHG emissions by issuing a limited number of tradable permits (called *allowances*) equal to the cap. Over time, the cap will steadily decline. The cap is enforced by requiring each source that operates under the cap to turn in one allowance or offset credit for every metric ton of carbon dioxide equivalent (MTCO2e) that it emits.

Because these allowances are tradable, individual emitters do not have specific emission limits. By establishing a limit for the program overall rather than for individual sources, the cap-and-trade program gives sources flexibility to make the most cost-effective choices about when and how to reduce emissions.

An alternative to an overarching cap for covered entities and sectors would be to have facility-specific declining caps. This would ensure that each facility would reduce its proportional share of emissions. Under such an option, ARB would need to identify the specific facilities that would be covered by the program, conduct an appropriate analysis to support a specific cap for each facility, and consider whether the reduction requirements established by the declining cap for that facility would be cost-effective. Such a program would be extremely difficult to apply to imported electricity or to distributed use of fuels, so that the overall scope of the program would likely be need to be limited to industrial facilities and in-state power plants.

Facility-specific caps would diminish the flexibility of these facilities to meet the GHG reduction goals. In a standard cap-and-trade program, facilities can either reduce emissions or buy allowances from other facilities that do reduce emissions. Restricting trading leaves only one compliance option: reduce emissions on-site through increasing efficiency, modernizing equipment, changing to cleaner fuels, or reducing production. If the cap for all facilities declined at the same rate, individual facilities might not have cost-effective options, especially if they seek to expand production to meet increased demand. Establishing caps that decline at different rates at different facilities would require ARB staff to conduct a detailed analysis to determine what, if any, cost-effective options were available at each covered facility.

Reducing the flexibility of trading allowances would increase the cost of the program. With facility-specific caps, no market would exist that allowed entities to trade allowances and achieve the lowest-cost reductions. Facilities with large amounts of low-cost reductions would have little incentive to over-comply, while

> facilities with a limited number of reduction opportunities would have to implement expensive reduction strategies. Thus, staff has rejected this alternative because of the increased cost of implementing the program across the economy.[66]

Q. What conclusions should the Commission draw from these legislative and other sources?

A. The "proportional share" language in the CCA refers to covered entities in the aggregate and not to any specific individual covered entity. For example, the CCA requires the Washington Department of Ecology to evaluate the annual allowance budget periodically and make adjustments necessary to covered entities to achieve their proportionate share of the emissions reduction targets in RCW 70A.45.020:

> The department must complete evaluations by December 31, 2027, and by December 31, 2035, of the performance of the program, including its performance in reducing greenhouse gases. *If the evaluation shows that adjustments to the annual allowance budgets are necessary for covered entities to achieve their proportionate share of the 2030 and 2040 emission reduction limits identified in RCW 70A.45.020, as applicable, the department shall adjust the annual allowance budgets accordingly*. The department must complete additional evaluations of the performance of the program by December 31, 2040, and by December 31, 2045, and *make any necessary adjustments in the annual allowance budgets to ensure that covered entities achieve their proportionate share of the 2050 emission reduction limit identified in RCW 70A.45.020*. Nothing in this subsection precludes the department from making additional adjustments to annual allowance budgets as necessary to ensure *successful achievement of the proportionate emission reduction limits by covered entities*.[67]

[66] California Air Resource Board, Agency Proposed Regulation to Implement the California Cap-and-Trade Program, Part I, Volume I, Staff Report: Initial Statement of Reasons (Oct. 28, 2010) (italics added), available at https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2010/capandtrade10/capisor.pdf.

[67] RCW 70A.65.070(3).

This statutory language clearly addresses the collective emissions reductions of all covered entities and does not require any individual covered entity achieve any proportionate share. As discussed earlier, an important purpose of a cap-and-invest program is to allow market forces to determine which emissions reduction are least costly, which will, in turn, result in certain sectors or covered entities bearing a larger share of the overall proportionate share of the statewide entities than others. If the legislature had wanted to ensure proportional greenhouse gas reductions by individual covered entities, as suggested by JEA, the legislature could have mandated emission reduction targets for individual covered entities and foregone the complex system of transferable compliance instruments or linking with California and Québec cap-and-trade programs.

Q. Is there additional support in the legislative record for the position that compliance with the CCA does not require a proportionate share of greenhouse gas emission reductions by individual covered entities?

A. Yes. First and foremost, compliance is understood in the law to include the use of compliance instruments, either allowances or offset credits issued by the Washington Department of Ecology, to cover emissions during the compliance period. The Final Bill Report[68] expressly notes that "the program must track,

[68] Wash. Senate, Final Bill Report E2SSB4126, 2021. https://lawfilesext.leg.wa.gov/biennium/2021-22/Pdf/Bill%20Reports/Senate/5126-S2.E%20SBR%20FBR%2021.pdf

verify, and enforce compliance through the use of compliance instruments."[69]

Other statements in the Final Bill Report support this economy-wide approach:

> Cap and trade is a market-based, economy-wide approach to reduce pollution, which is comprised of two key components—a limit or cap on carbon emissions and tradable allowances.[70]

> The Governor must establish a comprehensive program to implement the state's climate commitment. The purpose of the comprehensive program is to provide accountability and authority for achieving the statewide emissions limits, to establish a coordinated and strategic statewide approach to climate resilience, and to build an equitable and inclusive clean energy economy.
>
> Implementing the state's climate commitment under the comprehensive program must be based on a set of specified principles, including being holistic; addressing emissions reductions from all relevant sectors and sources; supporting an equitable transition for vulnerable populations and overburdened communities, increasing climate resilience for communities and ecosystems through cross-sectoral coordination, planning and policies; applying scientific and technical information; implementing with sustained leadership, resources, clear governance, and prioritized investments at the scale necessary to meet emissions limits.[71]

Further, the following comments from the bill sponsor and representatives from the Department of Ecology support the market-based focus of the Cap-and-Invest Program:

> I fully acknowledge with profound respect there are those with strong philosophical opposition to any program that sees market forces as having a role a constructive role to play in reducing emissions. I fully acknowledge with respect those that believe market forces are inherently inequitable. For me as chair of this committee and a father of four, the fierce urgency of climate action compels us to find a path forward. I also acknowledge that in the past few years there've been two statewide ballot initiatives and multiple carbon pricing bills in legislature that have been

[69] *Id*. at 5.
[70] *Id*. at 1.
[71] *Id*. at 4.

> unsuccessful. I believe the answer is this very bill and this very package. It is a well-crafted market based program with a firm cap and reductions of emissions with regulatory oversight that puts environmental justice at its core and invests the money wisely in transportation and other key investments.[72]
>
> The legislation must create an economy wide market to ensure availability of least cost initial reduction opportunities…it must provide flexibility, but not a free pass for key sectors and industries.[73]

Q. Does the legislature's decision to require that natural gas utilities auction an increasing percentage of no cost allowances indicates that the CCA provisions are structured 1) primarily to reduce emissions and, in the interim, 2) to consider the financial logic of covering emissions with allowances?

A. No. The statutory language is clear that the legislature is requiring the Washington Department of Ecology to provide no-cost allowances to natural gas utilities to mitigate customer compliance costs associated with the CCA. The requirement to auction no cost allowances serves primarily as a source of funds to mitigate compliance costs for low income customers:

> (2)(a) Beginning in 2023, 65 percent of the no cost allowances must be consigned to auction for the benefit of customers, including at a minimum eliminating any additional cost burden to low-income customers from the implementation of this chapter. Rules adopted under this subsection must increase the percentage of allowances consigned to auction by five percent each year until a total of 100 percent is reached.

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[72] Public Hearing: SB 5126 - Concerning the Washington Climate Commitment Act before the Washington State Senate Environment, Energy & Technology Committee (Jan. 19, 2021) (Statement of Senator Reuven Carlyle). https://tvw.org/video/senate-environment-energy-technology-committee-2021011336/?eventID=2021011336 (beginning at 11:00).

[73] *Id*. (Comments of Stu Clark, Washington Department of Ecology) (starting at 13:52).

> (b) Revenues from allowances sold at auction must be returned by providing nonvolumetric credits on ratepayer utility bills, prioritizing low-income customers, or used to minimize cost impacts on low-income, residential, and small business customers through actions that include, but are not limited to, weatherization, decarbonization, conservation and efficiency services, and bill assistance. The customer benefits provided from allowances consigned to auction under this section must be in addition to existing requirements in statute, rule, or other legal requirements.
>
> (c) Except for low-income customers, the customer bill credits under this subsection are reserved exclusively for customers at locations connected to a natural gas utility's system on July 25, 2021. Bill credits may not be provided to customers of the gas utility at a location connected to the system after July 25, 2021.[74]

The reduction in no-cost allowances and the increase in the number of no-cost allowances for consignment mirrors the structure and schedule implemented in the California cap-and-trade program. This was a deliberate choice and has no relationship as to whether a natural gas utility would comply with the CCA by purchasing compliance instruments, reducing greenhouse gas emissions, or a combination of the two. NW Energy Coalition testified to that effect in the legislative record asking "that revenue from allowances allocated to electric and natural gas utility utilities at no cost include additional consideration to help ensure benefits accrue to low and moderate income customers with priority for low-income customers with high energy burden."[75] To that end, PSE has structured its compliance accordingly, including eliminating low-income bill

[74] RCW 70A.65.130(2); *see also* Final Bill Report E2SSB 5126 at 11 (stating that the requirement that the allocation of no-cost allowances to natural gas utilities by the Washington Department of Ecology is for the benefit of the customers of the natural gas utilities).

[75] Public Hearing: SB 5126 - Concerning the Washington Climate Commitment Act before the Washington State Senate Environment, Energy & Technology Committee (Jan. 19, 2021) (Statement of Annabel Drayton, NW Energy Coalition). https://tvw.org/video/senate-environment-energy-technology-committee-2021011336/?eventID=2021011336.

burden and prioritizing investment of revenues in projects that address high energy burden in low-income communities.[76]

VI. PSE HAS REVISED ITS PERFORMANCE METRICS CONSISTENT WITH THE NEWLY ISSUED POLICY STATEMENT AND PARTIES' PROPOSALS TO THE CONTRARY SHOULD BE REJECTED

Q. Have other parties included responses to PSE's proposed metrics in this case?

A. Yes. Witnesses for Commission Staff,[77] The Energy Project,[78] and the JEA[79] all provided testimony regarding PSE's proposed metrics. In general, these parties object to the calculation of several of PSE's metrics and request that PSE be required to report many additional metrics. The specific details of these proposals are discussed in the rebuttal testimony of PSE witnesses Archuleta, August, Free, Hutson, Landers, and Wallace.

Q. How does PSE propose to address the matter of performance metrics for the duration of the rate plan period associated with this case?

A. On August 2, 2024, the Commission issued a Policy Statement Addressing Initial Reported Performance Metrics in Docket U-210590 ("Performance Metrics Policy Statement"). The Performance Metrics Policy Statement provides an initial set of performance metrics that utilities are to annually report pursuant to

[76] RCW 70A.65.130.
[77] *See* McGuire, Exh. CRM-1TR at 18:9–21:2; Koenig, Exh. PK-1T at 20: 16–25:22.
[78] *See* Colton, Exh. RDC-1T at 26:13–48:8; Stokes, Exh. SNS-1T at 39:11–49:15.
[79] *See* McCloy, Exh. LCM-1T at 17:12–18:19; Thuraisingham and Thompson, Exh. MT-CT-1T at 19:16–20:5.

performance based ratemaking objectives in Section 1 of Engrossed Substitute Senate Bill 5295. The performance metrics in the Performance Metrics Policy Statement are a "culmination of the docket participants' collaborative efforts." [80] In light of this comprehensive set of performance metrics outlined in the policy statement and the lack of agreement from other parties regarding the original metrics proposed by PSE in this case, PSE is withdrawing its previously proposed metrics from consideration in this case and proposes to use the metrics contained in the Performance Metrics Policy Statement for reporting purposes for the duration of this rate plan. One exception to this approach is the demand response performance metric discussed by PSE witness Gilbert Archuleta, which PSE proposes be measured on a seasonal, rather than annual basis, for the reasons discussed in the Prefiled Rebuttal Testimony of Gilbert Archuleta, Exh. GA-14T.

Q. Does the Commission's Performance Metrics Policy Statement prohibit other metrics from being adopted in this case?

A. No. However, the Commission's statement is comprehensive and, as I mentioned, a result of tremendous collaboration by a number of different interested parties, a more diverse set of parties than are represented in this case. While PSE sees future opportunities to evolve and mature performance metric reporting, it seems appropriate at this stage to begin reporting the newly issued metric list and look to

[80] Policy Statement Addressing Initial Reported Performance Metrics, Docket U-210590 at ¶ 12 (August 2, 2024).

future cases to implement changes based on the learnings from implementation of this initial set.

Q. Are there any other proposals with respect to performance metrics to which you wish to respond?

A. Yes. The Energy Project witness Colton proposes that PSE post its MYRP metrics on its website to increase transparency.[81] Similarly, JEA witnesses Thuraisingham and Thompson propose that PSE provide updates and information about its pilots, time varying rate pilot, distributional equity analysis pilot and targeted electrification pilot on its website and other public facility platforms for customer easy access.[82]

Q. Do you have any concerns with performance metrics being placed on the PSE website?

A. Yes. PSE views this information as not easily understood by customers. As such, PSE prefers to approach reporting of performance metrics in the manner endorsed by the Commission in the Performance Metric Policy Statement. Specifically, the Commission stated as follows:

> [U]ntil such time as the Commission completes Phase 2 of this proceeding, which will address reporting, and obtains the resources to develop its own external PBR website, any metric data within is expected to be reported as an appendix, or appendices, to the annual Commission Basis Reports (CBR). Commission policy staff will then submit a notice to this docket with information and links to each

[81] Colton, Exh. RDC-1T at 48:18–49:19.
[82] Thuraisingham and Thompson, Exh. MT-CT-1T at 27:3-9.

utility CBR with reference to the appropriate appendix for the required metrics.[83]

Q. What is PSE's position with respect to posting pilot information on its website?

A. Similar to performance metric results, PSE believes the results of pilots is not easily understood by customers and may cause confusion. However, as noted by PSE witness Troy A. Hutson, PSE will explore the feasibility and customer interest of providing this content on its website, and PSE will update the relevant advisory bodies and interested parties as pilots are implemented.[84]

Q. Do you have any further thoughts?

A. Yes. Before posting the results of performance metrics and pilot results on the PSE website, the Commission should hold a public comment hearing to gauge customers' interest and understanding of the data. It is also important to consider that the proposal will add cost to the case, as there will be additional expense required for posting and maintaining such information on the website.

VII. CONCLUSION

Q. Does that conclude your prefiled rebuttal testimony?

A. Yes.

[83] Policy Statement Addressing Initial Reported Performance Metrics, Docket U-210590 at ¶ 11 (August 2, 2024).

[84] Hutson, Exh. TAH-10T.