

**BEFORE THE WASHINGTON
UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Complainant,

v.

PUGET SOUND ENERGY

Respondent.

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

**RESPONSE TESTIMONY OF ANDREA C. CRANE
ADDRESSING THE SETTLEMENT STIPULATIONS
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT**

Exhibit ACC-19T

September 9, 2022

**RESPONSE TESTIMONY OF ANDREA C. CRANE
ADDRESSING THE SETTLEMENT STIPULATIONS**

EXHIBIT ACC-19T

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

TABLE OF CONTENTS

I. INTRODUCTION 1

II. PURPOSE OF TESTIMONY 3

III. PERFORMANCE BASED RATEMAKING 9

V. DECARBONIZATION AND TARGETED ELECTRIFICATION ISSUES 13

LIST OF TABLES

Table 1. Electric Base Revenue Increase 4

Table 2. Gas Base Revenue Increase 5

Table 3. Electric Base Revenue Increase with Tracker Revenue 6

Table 4. Gas Base Revenue Increase with Tracker Revenue..... 6

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Andrea C. Crane, and my business address is 2805 East Oakland Park Boulevard, #401, Ft. Lauderdale, FL 33306.

Q. Did you previously file testimony in this proceeding?

A. Yes. On July 28, 2022, I filed Response Testimony on behalf of the Public Counsel Unit of the Washington Attorney General’s Office (Public Counsel).¹ My Response Testimony discussed various revenue requirement recommendations regarding the multi-year rate plan (MYRP) proposed by Puget Sound Energy (PSE or Company) in this case. In addition, my Response Testimony discussed Public Counsel’s recommendations regarding the Company’s Performance Based Ratemaking (PBR) proposals and Performance Incentive Mechanisms (PIMs).

Q. Please summarize the conclusions and recommendations contained in your Response Testimony filed on July 28, 2022.

A. I sponsored a number of revenue requirement adjustments in my Response Testimony. My analysis also included Dr. Woolridge’s recommended capital structure and cost of capital, David Garrett’s recommended depreciation rates, Glenn Watkins’ recommended billing determinants and associated margins, Shay Bauman’s recommended continued deferral of the return associated with Advanced Metering Infrastructure (AMI), Dr. Earle’s disallowance of costs associated with the Tacoma

¹ Response Testimony of Andrea C. Crane, Exh. ACC-1CT.

1 Liquefied Natural Gas (LNG) facility and related pipeline upgrades, and Stephanie
2 Chase's Information Technology (IT) adjustments.

3 In my Response Testimony, I also discussed the Colstrip tracker proposed by
4 the Company and recommended that the Commission deny recovery of costs related
5 to dry ash investment, as well as any costs that are found to extend the life of the
6 Colstrip facility. I also recommended that the Commission reject the Company's
7 proposal to accelerate the amortization of major overhaul costs incurred during the
8 MYRP and I recommended that major overhaul costs that were not amortized by the
9 end of 2025 be permanently excluded from utility rates.

10 With regard to PBR issues and PIMs, in my Response Testimony I stated that
11 Public Counsel was not opposed to any of the performance metrics that the Company
12 proposed to track during the MYRP. However, I did recommend that four additional
13 metrics be tracked:

- 14 ➤ Average annual bill, by rate class
- 15 ➤ Rate Base per customer
- 16 ➤ Operating and Maintenance costs per customer
- 17 ➤ Number and percentage of residential disconnections for non-payment, by
18 month, in total and for Named Communities

19 I also recommended that the Commission reject both of the PIMs proposed by the
20 Company. Instead, I recommended that the Commission find that it was premature to
21 approve any PIMs at this time, and that the issue of PIMs should be revisited at the
22 end of the MYRP based on the outcome of the generic proceeding being conducted in
23 Docket U-210590, which is examining issues surrounding MYPRs, PBR, and PIMs.

1 Finally, I concluded that Public Counsel’s recommendations relating to the
2 Company’s revenue requirement and PBR proposals would promote equity and result
3 in rates that are more just and reasonable than those in PSE’s initial filing.

4 **Q. Did parties subsequently execute two settlement agreements in this proceeding?**

5 A. Yes. On August 26, 2022, PSE filed two settlement agreements with the Commission.
6 The first settlement agreement, Settlement Stipulation and Agreement on Revenue
7 Requirement and All Other Issues Except Tacoma LNG and Green Direct (Main
8 Settlement or Settlement), addresses the Company’s electric and gas revenue
9 increases, power costs, rate spread and rate design, Colstrip costs, PBR and incentive
10 mechanisms, decarbonization and targeted electrification, low-income and equity
11 issues, and others. The second settlement agreement, Settlement Stipulation and
12 Agreement on Tacoma LNG (LNG Settlement), addressed issues related to recovery
13 of the Tacoma LNG facility. Public Counsel is not a party to either of these
14 agreements.

15 II. PURPOSE OF TESTIMONY

16 **Q. What is the purpose of your Settlement Response Testimony?**

17 A. The purpose of my Settlement Response Testimony is to provide Public Counsel’s
18 position on several aspects of the Main Settlement, including the gas and electric
19 revenue requirements, the PBR and PIM proposals, and the decarbonization and
20 targeted electrification provisions. Public Counsel is generally either supportive of, or
21 does not oppose, these portions of the Main Settlement. Public Counsel will file
22 additional testimony on cost of capital and capital structure issues, terms in the Main
23 Settlement that Public Counsel opposes. In addition, Public Counsel opposes the

1 Tacoma LNG Settlement and will file testimony in opposition to that agreement as
2 well.

3 **Q. How do the revenue increases reflected in the Main Settlement compare with the**
4 **revenue increases proposed by Public Counsel in its Response Testimony?**

5 A. The Main Settlement is based on a two-year rate plan instead of the three-year plan
6 proposed in the original application. Moreover, in comparing the revenue increases
7 agreed to by the parties in the Settlement with the increases recommended by Public
8 Counsel, it is important to distinguish between base revenue increases and net
9 revenue increases. The Settlement presents the revenue increases as net revenue
10 increases.

11 The Settlement explicitly provides for net electric revenue increases of \$223
12 million in year one and of \$38 million in year two, rather than base rate increases.
13 Expressed as base revenue increases, the Settlement includes electric revenue
14 increases of \$209.6 million in 2023 and of \$37.4 million in 2024.

15 **Table 1. Electric Base Revenue Increase**

Electric: (\$ Millions)	2023	2024	2025
Proposed Base Revenue Change (initial filing)	\$330.0	\$62.7	\$10.2
Main Settlement net revenue change	\$223	\$38	NA
Main Settlement base revenue change ²	\$209.6	\$37.4	NA

16 With regard to the gas utility, the Company's filing included base revenue
17 increases of \$165.5 million in 2023 and of \$29.9 million in 2024. The Settlement
18 includes explicit gas revenue increases of \$70.6 million in year one and of \$18.8

² Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and Green Direct, Exhibit B (filed Aug. 26, 2022) (hereinafter "Main Settlement").

1 million in year two, but again, these are net increases not base revenue increases. As
2 shown below, the base revenue gas increase is somewhat larger than the overall
3 increase stated in the Main Settlement.

4 **Table 2. Gas Base Revenue Increase**

Gas: (\$ Millions)	2023	2024	2025
Proposed Base Revenue Change (initial filing)	\$165.5	\$29.9	\$23.3
Main Settlement net revenue change	\$70.6	\$15.8	NA
Main Settlement ³ base revenue change	\$95.0	\$20.1	NA

5
6 The base revenue increases reflected in the Main Settlement do not include
7 many costs that were included in base rates in the Company's initial filing but which
8 will now be recovered through a rider. These include costs associated with
9 implementation of the Clean Energy Implementation Plan (CEIP) and costs
10 associated with Transportation Electrification Plans (TEP). In addition, if the
11 Commission approves the LNG Settlement, those costs would also be recovered
12 through a rate rider instead of through base rates.⁴ For electric rates, PSE originally
13 included \$42.9 million of 2023 costs and \$16.2 million of 2024 costs that will now be
14 recovered through the CEIP and TEP riders. In addition, for natural gas rates, the
15 Company originally included approximately \$32.8 million in base rates associated
16 with the Tacoma LNG facility for 2023 and \$32.4 million for 2024. When
17 adjustments are made to reflect these costs that may be recovered through rider
18 mechanisms, the base revenue increases reflected in the Main Settlement are

³ *Id.*, Exhibit E.

⁴ The proposal is to recover Tacoma LNG costs through a separate tracker that would be aligned with the annual Purchased Gas Adjustment (PGA) filing.

1 significantly higher than those explicitly stated. The tables below compare the impact
2 of the Settlement with the impact of Public Counsel’s analysis filed on July 28, 2022,
3 for electric and gas.

4 **Table 3. Electric Base Revenue Increase with Tracker Revenue**

Electric: (\$ Millions)	2023	2024	2025
Proposed Base Revenue Change (initial filing)	\$330.0	\$62.7	\$10.2
Main Settlement Base Revenue Change + Potential CEIP and TEP Tracker Revenue	\$252.5	\$53.6	NA
Impact of Public Counsel’s Analysis	\$215.7	\$28.6	(\$26.8)

6 **Table 4. Gas Base Revenue Increase with Tracker Revenue**

Gas: (\$ Millions)	2023	2024	2025
Proposed Base Revenue Change (initial filing)	\$165.5	\$29.9	\$23.3
Main Settlement Base Revenue Change + Potential Tacoma LNG Tracker Revenue	\$125.9	\$52.5	NA
Impact of Public Counsel’s Analysis	\$71.8	\$15.8	\$15.4

7
8 **III. REVENUE REQUIREMENT ISSUES**

9 **Q. Does Public Counsel support the base revenue increases proposed in the Main**
10 **Settlement?**

11 A. Public Counsel is opposed to the capital structure and return on equity on which the
12 proposed revenue increases are based, as discussed in Dr. Woolridge’s Settlement
13 Response Testimony.⁵ Public Counsel is not taking a position with regard to other
14 aspects of the base electric and gas revenue requirements agreed to among the parties

⁵ J. Randall Woolridge, Exh. JRW-13T.

1 to the Main Settlement. Public Counsel does support certain provisions of the
2 Settlement that impact the electric and gas base revenue requirements, including the
3 following provisions:

- 4 • Shifting of \$70 million in reliability spending from 2023 to 2024
- 5 • Removal of renewable natural gas program costs
- 6 • Continued deferral of the equity return on AMI projects
- 7 • Implementation of separate trackers for CEIP and TEP costs
- 8 • Reductions to 2023 and 2024 gas utility capital and operating costs
- 9 • Delayed spending for the Energize Eastside project
- 10 • Partial write-off of the COVID deferral
- 11 • Adoption of Company proposed depreciation rates until the next base rate
12 case
- 13 • Regulatory assets as outlined in the Main Settlement

14 In addition, Public Counsel supports the billing determinants used to develop
15 rates per the Settlement, although I note that the increase in billing determinants was
16 not used to develop the overall revenue increases agreed to in the Settlement.

17 **Q. What is Public Counsel’s most significant concern about the proposed revenue**
18 **increases reflected in the Main Settlement?**

19 A. In my Response Testimony, I recommended significant adjustments to the projected
20 capital expenditures included in both the electric and gas revenue requirements
21 proposed in the Company’s original filing for 2024 and 2025. The Main Settlement is
22 only a two-year agreement and does not include 2025. However, the Settlement still
23 reflects significant expenditures for 2024, especially for the electric utility. While the

1 Settlement includes a reduction to certain capital additions for the gas utility, the
2 same is not true for the electric utility. Virtually all of the electric capital additions
3 contained in the Company's original filing are included in the electric revenue
4 increases reflected in the Main Settlement, except for costs that will now be recovered
5 through tracker mechanisms. I recognize that there will be a true-up process to adjust
6 rates if the Company does not meet its proposed level of capital expenditures.
7 Nevertheless, as stated in my Response Testimony, the high bar set in this case will
8 provide an incentive for PSE to spend up to the amount authorized by the
9 Commission. For these reasons, Public Counsel cannot support the revenue
10 requirements provided for in Settlement. However, Public Counsel does not oppose
11 the revenue increases, except for the cost of capital impacts discussed by
12 Dr. Woolridge.

13 **Q. Does Public Counsel support the change from a three-year to a two-year rate**
14 **plan?**

15 A. For purposes of this case, Public Counsel supports the two-year MYRP reflected in
16 the Main Settlement. A three-year rate plan would have provided greater protection
17 and rate surety to PSE ratepayers. However, given the relatively high capital
18 expenditure targets included in the Settlement, a two-year rate plan will allow all
19 parties the opportunity to gain some experience with the mechanics of the MYRP
20 while being able to reevaluate the MYRP and rate levels after two years, if PSE files
21 another base rate case at that time. In addition, it will allow the parties to propose
22 other changes after two years. For example, it will provide the opportunity for parties
23 to propose prospective new depreciation rates or terminate certain trackers if

1 circumstances warrant.

2 **Q. Does Public Counsel support the provisions reflected in the Main Settlement**
3 **relating to Colstrip?**

4 A. Yes, Public Counsel supports the Colstrip tracker and other provisions relating to
5 Colstrip, including the removal of capital investments associated with the dry ash
6 facilities. Public Counsel also supports the amortization of major maintenance costs
7 over three years and the provision that costs amortized after 2025 will not be
8 recovered in rates. Public Counsel will continue to review major maintenance
9 expenses and capital additions to ensure that costs related to extending the life of the
10 Colstrip facility will not be charged to ratepayers. Public Counsel also supports the
11 Colstrip settlement provisions addressing Microsoft's Colstrip obligation in an up-
12 front, one-time payment since the parties agree that any unrecovered costs that would
13 otherwise be allocated to Microsoft will not be recovered from other customers.

14 **III. PERFORMANCE BASED RATEMAKING**

15 **Q. Please summarize the PBR provisions proposed by PSE in its original filing.**

16 A. In its original filing, PSE proposed to add additional performance metrics to those
17 metrics that are currently being reported. The Company proposed a significant
18 number of additional performance metrics in the areas of Service Quality Indices,
19 Demand Side Management, Electric Vehicles, Greenhouse Gas Emissions, Advanced
20 Metering Infrastructure, and Equity. PSE proposed targets for some, but not all, of
21 these additional metrics.

22 In addition, PSE proposed to implement two PIMs. First, PSE proposed to
23 implement a Demand Response PIM. Under the Company's proposal, PSE would

1 earn a payment equal to a percentage of total projected costs attributable to Demand
2 Response resources added that year. Incremental Demand Response resources would
3 include both new Demand Response programs as well as additional load for a
4 previously implemented program. The cost of the additional resources would be
5 estimated over their useful life, not to exceed 10 years. These annual costs would be
6 discounted at the Company's weighted average cost of capital. The Company
7 proposed a reward of 15 percent of program costs if the Company achieved between
8 90 percent and 110 percent of its annual target, which was five MW in 2023, six MW
9 in 2024, and 12 MW in 2025. The Company proposed a reward of 25 percent if the
10 Company achieved between 110 percent and 150 percent of its target.

11 The second proposed PIM was based on the number of Electric Vehicle (EV)
12 chargers used under managed load programs or time of use rates. Under the
13 Company's proposal, it would establish a target level of installations and a reward
14 payment rate for each year of the MYRP. The Company would earn a reward for each
15 installation that exceeded the target, but would not be penalized if it failed to achieve
16 its targets.

17 **Q. What recommendations did you make in your Response Testimony regarding**
18 **the Company's PBR proposals?**

19 A. In my Response Testimony, I supported the performance metrics that the Company
20 proposed to track. In addition, I recommended that the Commission require PSE to
21 track several affordability metrics. Specifically, I recommended that PSE be required
22 to track:

23 ➤ Average annual bill, by rate class

- 1 ➤ Rate Base per customer
- 2 ➤ Operating and Maintenance costs per customer
- 3 ➤ Number and percentage of residential disconnections for non-payment, by
- 4 month, in total and for Named Communities

5 Furthermore, I recommended that the Commission reject the two PIMs
6 proposed by the Company. I stated that authorization of PIMs was premature, until
7 the resolution of the generic proceeding that is currently investigating various issues
8 relating to alternative forms of ratemaking, including PBR. In addition to these
9 general concerns, I also expressed specific concerns with the two PIMs proposed by
10 PSE, and discussed various flaws in the underlying design of these PIMs.

11 **Q. Please summarize the provisions in the Main Settlement relating to PBR and**
12 **PIMs.**

13 A. In addition to the performance metrics that PSE proposed to track as part of its PBR
14 proposal, the parties agreed that the Company would also track a number of
15 additional metrics. These additional metrics relate to 1) a resilient, reliable, and
16 customer-focused distribution grid, 2) environmental improvements, 3) customer
17 affordability, and 4) advancing equity in utility operations. These additional metrics
18 include performance metrics that are similar to those recommended in my Response
19 Testimony.

20 In addition, the Main Settlement provides for the implementation of one PIM,
21 related to Demand Response. The PIM is based on a target of 40 MW of Demand
22 Response by 2024. The initial reward threshold is 105 percent of target and the
23 reward will be based on a percent of DR program costs equal to the Company's

1 authorized weighted average cost of capital (WACC). For Demand Response above
2 115 percent of target, the PIM reward will be 15 percent of Demand Response costs.
3 No additional reward will be earned if the Company achieves more than 150 percent
4 of its Demand Response target. The Main Settlement also provides that incentives
5 under the Demand Response PIM will be capped at \$1 million during the MYRP, and
6 the PIM will terminate at the end of Rate Year 2 unless otherwise ordered by the
7 Commission.

8 **Q. Does Public Counsel support the PBR and PIM provisions of the Main**
9 **Settlement?**

10 A. Yes, it does. Public Counsel supports the additional performance metrics that have
11 been agreed to by the parties. In addition, Public Counsel supports the elimination of
12 the EV PIM. While Public Counsel still has concerns about any PIM that is based on
13 a percentage of program costs, Public Counsel is supportive of the Demand Response
14 PIM for purposes of resolving this proceeding.

15 **Q. Why does Public Counsel now support the proposed PIM relating to Demand**
16 **Response?**

17 A. The Demand Response PIM included in the Main Settlement is a vast improvement
18 over the PIM that was initially proposed by PSE. First, the proposed target of 40 MW
19 of Demand Response is significantly greater than the Demand Response targets that
20 were proposed initially. Second, the reward thresholds are higher than those
21 originally proposed. Under the Company's original proposal, a reward could be
22 earned if the Company achieved just 90 percent of its target. PSE must now reach 105
23 percent of a much higher target in order to earn a reward. Third, the two reward

1 levels, based on the WACC and 15 percent, are lower than those proposed by PSE in
2 its filing of 15 percent and 25 percent. Fourth, the overall reward is capped during the
3 period of the MYRP. All of these provisions provide additional protection to
4 ratepayers. Moreover, the Demand Response PIM will terminate at December 31,
5 2024, unless specifically continued by the Commission. The limited duration of the
6 PIM, together with the changes to the target, reward thresholds, and reward payments
7 allow Public Counsel to accept the proposed PIM at this time. Public Counsel will
8 continue to work with the other stakeholders in Docket U-210590 to address issues
9 relating to performance-based regulation, including establishing performance
10 incentives and penalty mechanisms, as required pursuant to Senate Bill 5295.

11 **V. DECARBONIZATION AND TARGETED ELECTRIFICATION**
12 **ISSUES**

13 **Q. Please describe the Settlement provisions relating to decarbonization and**
14 **targeted electrification.**

15 A. Pursuant to the Main Settlement, PSE has agreed to conduct an updated
16 Decarbonization Study within 12 months of a final Commission order in this case.
17 The study will take into account the recent performance of Cold Climate Heat Pumps
18 (CCHPs) and will include a study of both near-term and long-term costs and benefits
19 of electrification. The results of the study will be incorporated into the Company's
20 2025 Natural Gas Integrated Resource Plan and a compliance filing will be made by
21 January 2025.

22 In addition, PSE has agreed to undertake an 18-month electrification pilot
23 program targeted to residential and small commercial customers that will “deploy

1 strategies to maximize effective carbon reduction measures associated with the
2 deployment of electric-only heat pumps in homes and buildings with wood, oil,
3 propane, electric resistance, and gas heating.”⁶ The pilot has a target of 10,000
4 participants and may include rebates and incentives for fuel switching, remote and
5 in-home electrification assessments, and educational efforts. The Company will
6 prioritize low-income customers, highly-impacted and vulnerable populations, and
7 customers experiencing a high-energy burden in its pilot. PSE will make a
8 compliance filing by January 2025 associated with the pilot.

9 Finally, PSE agreed to use the information provided by both the updated
10 Decarbonization Study as well as the Targeted Electrification Pilot to develop a
11 Targeted Electrification Strategy that will seek to maximize “carbon emission
12 reductions consistent with legal requirements at the lowest reasonable cost”,⁷
13 including a fuel-switching rebate to incentivize gas customers to install electric-only
14 appliances. PSE also agreed to phase out promotional advertising targeted to new gas
15 customers and advertising encouraging customers to switch to natural gas. The
16 Company agreed to work with the Low Income Advisory Committee (LIAC) and its
17 Conservation Resources Advisory Group (CRAG) on various specific aspects of both
18 the Targeted Electrification Pilot and the Targeted Electrification Strategy to ensure
19 benefits for low-income participants and other vulnerable populations. The Main
20 Settlement includes a budget of up to \$15 million for these activities and allows the

⁶ Main Settlement at 37.

⁷ *Id.* at 40.

1 Company to defer these costs and seek recovery of the deferral in PSE's next base
2 rate case.

3 **Q. Does Public Counsel support the decarbonization and targeted electrification**
4 **provisions of the Main Settlement?**

5 A. Yes, while our Response Testimony did not specifically address these issues, Public
6 Counsel does support the decarbonization and targeted electrification provisions of
7 the Main Settlement. An updated Decarbonization Study will help to ensure that the
8 Company's decarbonization efforts are based on the most up-to-date technology and
9 cost estimates. The Targeted Electrification Pilot will provide valuable information
10 about the impact of incentives, particularly among low-income, highly-impacted,
11 vulnerable, and high-energy burden populations. The Targeted Electrification
12 Strategy will provide a framework for the Company to maximize carbon emission
13 reductions and to encourage electrification in a cost-effective and efficient manner.
14 While Public Counsel does have some concerns about the \$15 million budget for
15 these efforts, the Settlement provides for actual costs to be reviewed and considered
16 for recovery in the Company's next base rate case. For all these reasons, Public
17 Counsel believes that the decarbonization and targeted electrification provisions of
18 the Settlement are in the public interest.

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

20 A. Yes, it does.