

**EXH. PAH-19CT
DOCKETS UE-240004/UG-240005 et al.
2024 PSE GENERAL RATE CASE
WITNESS: PHILIP A. HAINES**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

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

In the Matter of the Petition of

PUGET SOUND ENERGY

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

**Docket UE 230810
(consolidated)**

PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF

PHILIP A. HAINES

ON BEHALF OF PUGET SOUND ENERGY

**SHADED INFORMATION IS DESIGNATED AS
CONFIDENTIAL PER Protective Order in
Dockets UE-240004 and UG-240005**

SEPTEMBER 18, 2024

**REDACTED
VERSION**

PUGET SOUND ENERGY

**PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF
PHILIP A. HAINES**

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1 **PUGET SOUND ENERGY**

2 **PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF**
3 **PHILIP A. HAINES**

4 **I. INTRODUCTION**

5 **Q. Are you the same Philip A. Haines who submitted Prefiled Direct Testimony**
6 **on February 15, 2024, on behalf of Puget Sound Energy (“PSE”) in this**
7 **proceeding?**

8 A. Yes, on February 15, 2024, I filed the Prefiled Direct Testimony of Philip A.
9 Haines, Exhibit PAH-1CT and seventeen supporting exhibits (PAH-2 through
10 PAH-18).

11 **Q. What is the purpose of your rebuttal testimony?**

12 A. My rebuttal testimony addresses the Response Testimony of Robert L. Earle,
13 PhD., Exh. RLE-1CT, witness for Public Counsel who recommends that the
14 Commission disallow \$3,562,650 per year of the costs associated with PSE’s HF
15 Sinclair PSR Cogen (“HF Sinclair”) power purchase agreement (“PPA”), for the
16 life of the contract. My testimony centers on Public Counsel witness Dr. Earle’s
17 testimony because his was the only testimony to recommend disallowance of a
18 new resource presented in my direct testimony. Dr. Earle’s testimony conflicts
19 with Commission policy and the Commission’s prudence standard. He lacks
20 experience with transacting bundled resources in the Pacific Northwest and his

1 flawed assertions regarding PSE's use of available market alternatives call for the
2 Commission to give his testimony little weight.

3 PSE maintains that it employed a sound valuation methodology to obtain the HF
4 Sinclair resource at the lowest reasonable cost. The Commission should reject
5 Public Counsel's recommendation for the following reasons:

- 6 (i) No party claims that any of the new resources introduced in Exh. PAH-
7 1CT, including the HF Sinclair PPA, are imprudent;
- 8 (ii) Dr. Earle fails to offer a real market alternative to the capacity valuation
9 methodology or market comparisons that PSE applied to value the
10 bundled resource opportunities discussed in Exh. PAH-1CT, and
- 11 (iii) Dr. Earle's contention that the true value of capacity is a single data point
12 in PSE's valuation of bundled resources undermines his argument that the
13 underlying data that PSE used for capacity pricing is not valid and creates
14 an internal "echo chamber."

15 II. HF SINCLAIR PPA CAPACITY VALUATION

16 A. Overview

17 **Q. Your direct testimony proposed cost recovery for the HF Sinclair PPA.¹ Do**
18 **any parties claim that PSE's decision to enter into the HF Sinclair PPA was**
19 **imprudent?**

20 A. No. No party claimed that PSE's decision to enter into the HF Sinclair PPA was
21 imprudent, and my direct testimony presented a comprehensive demonstration of
22 the need, value, alternatives considered, and management oversight of PSE's
23 process to acquire the resources resulting from HF Sinclair PPA. While no party

¹ Haines, Exh. PAH-1CT at 68:7-9.

1 challenges prudence of PSE’s decision, Public Counsel nonetheless recommends
2 that the Commission disallow \$3,562,650 per year of the HF Sinclair PPA’s costs,
3 contending that PSE’s capacity valuation methodology is “problematic.”²

4 **Q. Please restate the valuation methodology PSE used to competitively bid for**
5 **bundled resources presented in this proceeding.**

6 A. As discussed in Exh. PAH-1CT, the components that PSE applies to bundled
7 resource valuations include 1) capacity resource adequacy or the value that PSE
8 expects to pay to add capacity to its portfolio, and 2) flexibility and optimization,
9 or a methodology used to capture the estimated benefits of optimized dispatch,
10 flexibility, and ancillary services.

11 This is the same methodology that PSE introduced in its 2022 general rate case
12 for the Colville Slice Agreement and the Chelan Slice 35 Agreement. The
13 Commission approved that methodology as part of the Settlement Agreement in
14 that case, and the Commission pointed out then that no party challenged prudence
15 of power cost investments. “The Settling Parties agree to the prudence of the
16 resources described in PSE’s initial filing. No party challenges this Settlement
17 term.”³

18 Despite applying the same valuation methodology that was unopposed and
19 approved just recently, and even though Public Counsel makes no claim that

² Earle, Exh. RLE-1CT at 5:20-21.

³ *WUTC v. Puget Sound Energy, Inc.*, UE-220066, UG-220067, & UG-210918 (Consolidated), Final Order 24/10 at ¶ 258 (December 22, 2022).

1 PSE's decision to enter into the HF Sinclair PPA was imprudent, Public Counsel
2 recommends against recovery of resource costs because Dr. Earle does not
3 approve of PSE's use of certain valuation comparators simply because they came
4 from PSE.

5 **B. PSE Capacity Valuation Methodology and Market Liquidity**

6 **Q. Why did PSE develop a capacity valuation methodology in its bidding**
7 **strategy?**

8 A. As discussed in more detail in Exh. PAH-1CT, the Pacific Northwest capacity
9 market is not liquid. To clarify, an illiquid capacity market means that unlike
10 energy pricing, a public capacity index is non-existent, leaving PSE and other
11 market participants without a public benchmark from which to price capacity.
12 Public Counsel does not refute this. With no capacity-only comparators available,
13 PSE implemented the capacity valuation methodology summarized above,
14 including bilateral market comparisons. The methodology that PSE employed to
15 calculate an estimated value range for capacity as a component of a bundled
16 energy product, derives from PSE's expertise and experience as a market
17 participant. In other words, PSE's capacity value range represents a range of what
18 other market participants might pay for capacity as a component of a bundled
19 energy product based upon PSE's market acumen.

20 PSE's capacity valuation methodology supplied a range of values as a component
21 of a competitive bidding strategy that PSE used to evaluate each unique resource

1 acquisition opportunity. These values included comparator bids from PSE. Public
2 Counsel provides no alternative comparators (because there are none), and simply
3 raises the fact that PSE was a market participant for the resources the company
4 used as references for valuation. Yet, Public Counsel provides no explanation
5 why this is a bad thing. As explained more fully below, being an active participant
6 in the market is a good thing.

7 **Q. What gives PSE confidence that its capacity value range is competitive?**

8 A. PSE's valuation strategy is demonstrably competitive because the applied value
9 range has resulted in both successful and unsuccessful bids for bundled resources.
10 Put another way, PSE's capacity value range is reasonable because other market
11 participants are bidding in the same range.

12 This serves as a market signal that successful competitors are pricing bundled
13 energy products with a capacity component, at a value equal to or greater than
14 how PSE valued a resource. At the same time, PSE's losing bids support PSE's
15 contention that competitive capacity valuations require diligent tracking and
16 updating to reflect the illiquid and dynamic market conditions for capacity
17 products in the Pacific Northwest; recent experience supports a trend in a rising
18 value for capacity. Please see the Prefiled Rebuttal Testimony of Brennan D.
19 Mueller, Exh. BDM-23CT, for a discussion on more recent market purchases and
20 the increasing trend in the value of capacity in the Pacific Northwest.

1 **C. HF Sinclair Capacity Valuation and Public Counsel Recommendation**

2 **Q. What actionable market alternative did Public Counsel suggest that PSE use**
3 **in place of PSE’s self-referential market comparisons?**

4 A. As mentioned above, Public Counsel provided no actionable market alternative.
5 Rather, Public Counsel claims that PSE simply paid too much for the HF Sinclair
6 PPA, concluding that PSE should have valued the HF Sinclair PPA capacity at the
7 \$ [REDACTED] value⁴ because that is the value that PSE allocated to
8 capacity for the Chelan 38 bundled resource.⁵ Public Counsel’s recommendation
9 is ironic considering its position that PSE’s market comparators are unreliable.
10 Using Public Counsel’s assessment, PSE paid the exact right amount for the
11 Chelan 38 PPA but paid too much for the HF Sinclair PPA. The valuation for both
12 resources was based on the same methodology by the same company.

13 Outside of the effortless selection of the lowest value in PSE’s capacity value
14 range Public Counsel provides no evidence for arriving at the \$ [REDACTED]
15 [REDACTED] value as the true value of capacity. There is similarly no basis for Public
16 Counsel’s justification that the Commission disallow \$3,562,650 per year for the
17 life of the HF Sinclair PPA. Public Counsel’s recommendations to disallow the
18 HF Sinclair PPA costs has nothing to do with methodology.

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⁴ Earle, Exh. RLE-1CT at 06:12-14.

⁵ Earle, Exh. RLE-1CT at 06:09-11.

1 **Q. Why was the Chelan Slice 38 capacity value different than the HF Sinclair**
2 **PPA if the valuation methodology was the same for both resources?**

3 A. To begin, the two resources are different. HF Sinclair is a cogeneration plant, and
4 Chelan Slice 38 is a hydro facility, so there is a different profile for those
5 resources. Given that each resource offers a unique composite of bundled energy
6 products, PSE evaluated the HF Sinclair and Chelan 38 PPAs individually, while
7 applying the same methodology and capacity value range to estimate the actual
8 value for each respective bundled resource opportunity. Implicit capacity price
9 signals and experience in the wholesale energy market provided insight into the
10 commercial discretion PSE applied in calculating that [REDACTED]-month would
11 serve as a competitive bid for the capacity offered with the Chelan 38 PPA and
12 that [REDACTED]-month capacity value would be a competitive for the HF Sinclair
13 PPA.

14 It is important to remember that the four comparators addressed by Public
15 Counsel are just four data points in PSE's comprehensive valuation methodology.
16 Public Counsel cavils at each comparator: the PowerEx Peak Winter bid was
17 based on too many component values;⁶ the WRAP CONE comparator was based
18 on too few.⁷ The Market Capacity Average and November 2022 RFP are based on
19 estimated values based on information that was available to PSE at the time. Even
20 with Dr. Earle's numerous quibbles, Public Counsel offers no actionable

⁶ Earle, Exh. RLE-1CT at 3:11-13.

⁷ Earle, Exh. RLE-1CT at 4:9-11.

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1 alternative values for comparison. Moreover, PSE applied a Commission-
2 approved, competitive, and comprehensive valuation methodology to help make
3 an informed decision to secure a resource that is providing needed energy to its
4 customers. PSE's decision to enter into the HF Sinclair PPA was prudent, and the
5 Commission should allow full recovery of associated costs in rates.

6 **Q. Should the Commission reject Public Counsel's recommendation to disallow**
7 **PSE from recovering \$3,562,650 per year for the life of the HF Sinclair PPA?**

8 A. Yes. Public Counsel makes no claim that PSE's new resources are imprudent.
9 Therefore, its recommendation to disallow \$3,562,650 per year for the life the HF
10 Sinclair PPA, should be rejected on its face.

11 Setting aside an omission of imprudence, Public Counsel offers no actionable
12 market alternative to PSE's use of available market comparisons. Public Counsel
13 simultaneously claims that PSE's valuation methodology is unreliable and self-
14 preferential but provides no other methodology. Public Counsel's testimony falls
15 apart at the conceptual level when it states that PSE's value range is unreliable, at
16 the same time it states that PSE should have paid the lowest capacity value *in that*
17 *range* for HF Sinclair PPA. Both statements cannot be true. For all these reasons,
18 the Commission should give little or no weight to Public Counsel's testimony and
19 find the decision to enter into the HF Sinclair PPA was prudent.

1

III. CONCLUSION

2

Q. Does that conclude your prefiled rebuttal testimony?

3

A. Yes, it does.