

Docket No. UG-230968 - Vol. III

WUTC v. Puget Sound Energy

October 9, 2024



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BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of)
)
WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,)
) No. UG-230968
Complainant,)
)
and)
)
PUGET SOUND ENERGY,)
)
Respondent.)

EVIDENTIARY HEARING, VOLUME III
BEFORE ADMINISTRATIVE LAW JUDGE AMY BONFRISCO

October 9, 2024

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Pages 44 - 180

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1 JUDGE BONFRISCO: Today is October
2 9th, 2024 and the time is 9:00 a.m. My name is Amy
3 Bonfrisco and I'm an Administrative Law Judge with the
4 Washington Utilities & Transportation Commission, and I'm
5 presiding over this matter along with Commission Judge
6 Brown.

7 We are here today for an evidentiary hearing in
8 docket 230968. This is a case captioned, In the matter
9 of WUTC versus Puget Sound Energy.

10 First, I would like to start by taking appearances
11 by party, and I would like to start with PSE counsel.

12 MS. BARNETT: Good morning. Donna
13 Barnett with Perkins Coie on behalf of Puget Sound
14 Energy.

15 MR. CALLAGHAN: Thank you, Your Honor.
16 Nash Callaghan, Assistant Attorney General on behalf of
17 Commission Staff.

18 JUDGE BONFRISCO: Great. And Public
19 Counsel?

20 MR. O'NEILL: Good morning, Your
21 Honor. Tad Robinson O'Neill on behalf of Public Counsel.

22 JUDGE BROWN: And do you have a
23 representative from the Joint Environmental Advocates
24 present?

25 MS. GRAVOTTA: Yes, Your Honor.

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1 Noelia Gravotta on behalf of Joint Environmental
2 Advocates.

3 JUDGE BONFRISCO: And what about
4 Alliance of Western Energy Consumers, do we have a
5 representative present today?

6 MS. MOSER: Good morning, Your Honor.
7 Sommer Moser with Davison Van Cleve on behalf of AWEC.

8 JUDGE BONFRISCO: Perfect. I want to
9 provide a brief road map of our plans today. We are
10 going to begin with addressing prefiled exhibits and
11 testimony, addressing any objections, and we will then
12 allow the parties an opportunity to provide brief opening
13 statements limited to ten minutes. We will then turn to
14 the cross-examination of the witnesses following parties'
15 agreed order of presentation, and then we will take each
16 of the witnesses individually.

17 From what I saw in the proposed order of
18 presentation and time estimates, it appears the parties
19 estimate there will be approximately an hour and 80
20 minutes of cross-examination today.

21 Am I echoing? Okay. And just as a side note, if we
22 could just mute technically just so it doesn't echo in
23 here and unmute when you are speaking that would be
24 great, just to have a record. Thank you.

25 And so taking that into account, you know, with

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1 breaks and everything else, I think it's likely we are
2 going to end before noon today, but can tentatively plan
3 on taking a break at 10:30 or after questions by the
4 parties.

5 I also want to remind parties, like I just said,
6 about when you are speaking online then you can unmute
7 yourself, and then basically when you are not having a
8 speaking role just keep it on mute so we don't have
9 parties talking over one another.

10 And then if there is any technical issues or anybody
11 drops from the line, you know, just flag that either by
12 raising your hand online or making a note in the comments
13 through Zoom and we can address that.

14 Before I proceed, are there any housekeeping
15 matters? Okay. Great. So I want to turn to exhibits
16 and the admission of the prefiled exhibits.

17 On October 4th, I circulated an exhibit list that
18 included all the prefiled testimony, including cross
19 exhibits filed and encouraged the parties to stipulate to
20 any of those exhibits. And they didn't object in
21 advance, nobody has objected in advance that I'm aware
22 of, so I just want to confirm that the parties don't have
23 any concerns with the current ordering of the witnesses.

24 Hearing none, let the record reflect there's no
25 objections and we will go ahead and admit the prefiled

1 testimony.

2 MS. BARNETT: Your Honor, I thought
3 you just meant the witnesses.

4 I just wanted to make a couple clarifications on the
5 exhibits. I believe that the exhibit list -- I just
6 wanted to clarify for Puget Sound Energy there was -- on
7 the top of the exhibit list we referenced tariff sheets,
8 and I just wanted to clarify it looked like that was a
9 hyperlink so we couldn't see exactly what document was
10 linked, so we just wanted to clarify that those tariff
11 sheets are the ones that are currently in effect and not
12 the previous version or versions of Schedule 111.

13 JUDGE BONFRISCO: The hyperlinks were
14 from the November 22nd, 2023 date.

15 MS. BARNETT: Okay. The tariff sheets
16 that we -- well, probably all of them should be in the
17 record, but the ones that I specifically was trying to
18 submit as exhibits are the ones that are currently
19 effective.

20 JUDGE BONFRISCO: And I now have --
21 when you -- let me pull up that real quick, that
22 hyperlink because I believe it's what we have in the
23 record. So I would have appended what was previously
24 filed in the record.

25 MS. BARNETT: I just didn't know if

1 there were multiple versions in the record.

2 COMMISSIONER RENDAHL: It appears to
3 be the one received on November 22nd, 2023, and the
4 intent was to have current tariffs. Did you submit those
5 as an exhibit through one of the witnesses? It's usually
6 the filing that the --

7 MS. BARNETT: Right. I don't know if
8 they weren't appended as a separate exhibit I think we
9 can reference them anyway through like a brief if we need
10 to just because they are -- they are currently on -- in
11 effect, so I don't think we need to -- I don't think it's
12 necessary to list them as a separate exhibit just to
13 reference them that they exist.

14 JUDGE BONFRISCO: And basically I
15 grabbed that from your original proposed exhibit list, so
16 part of why that's included in the final exhibit list was
17 just to reflect that because that was -- that was in the
18 exhibit list you submitted at the time of filing.

19 MS. BARNETT: I didn't intend to link
20 it to anything. I just like listed what -- the tariff,
21 the general tariff, but if that's the only one in the
22 record that's one I intended.

23 JUDGE BONFRISCO: That is the only one
24 in the record, so if PSE intends anything additional like
25 Commissioner Rendahl said you would just want to file

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1 that.

2 MS. BARNETT: Thank you. And one
3 other thing. I think that Exhibit RLE-7X was listed as
4 public but I believe that's a confidential exhibit, so I
5 think maybe it should be RLE-7CX; is that correct?

6 JUDGE BONFRISCO: You are correct. I
7 believe there are -- because we have the RLE -- the 6X,
8 and I believe now that you point that out, it would also
9 be the RLE-8X because those are both Public Counsel's
10 responses to the data request. Is that what you are
11 cross-referencing?

12 MS. BARNETT: I believe it's 7X in
13 particular is confidential. I'm not sure. I don't have
14 all the exhibits open in front of me. The one that stuck
15 out to me was RLE-7 is a confidential document.

16 JUDGE BONFRISCO: Okay. We will make
17 a note of that and make sure that is updated accordingly
18 in the record.

19 MS. BARNETT: Thank you.

20 CHAIR DANNER: Sorry, just in regard
21 to 7 or also 8?

22 JUDGE BONFRISCO: I guess I would want
23 to clarify that with JEA because those are Public
24 Counsel's responses to JEA's data request so I believe
25 those would also be marked confidential, Mr. O'Neill and

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1 Ms. Gravotta if you could address that.

2 MS. GRAVOTTA: So my understanding is
3 that Public Counsel's response to data questions are not
4 confidential. They don't contain confidential
5 information.

6 JUDGE BONFRISCO: Public Counsel, what
7 is your view?

8 MR. O'NEILL: I am pulling it up right
9 now.

10 JUDGE BONFRISCO: Thank you for taking
11 that up, Ms. Barnett, for PSE.

12 MR. O'NEILL: I'm not seeing anything
13 designated as confidential. I'm not seeing that
14 designated them as confidential.

15 MS. BARNETT: RLE-7X, should be -- as
16 I understand it's the testimony of Dr. Earle.

17 MR. O'NEILL: The data request
18 referenced in his testimony that's where the C comes
19 from, but they are themselves, the answers are not
20 confidential. And I don't think we designated them as
21 confidential either.

22 JUDGE BONFRISCO: And that's correct.
23 When they submitted the exhibits they were submitted as
24 nonconfidential which is why it's reflected this way.

25 MS. BARNETT: I'm just looking at the

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1 exhibit list so 6 and 8 are the data request responses,
2 but 7 is the testimony, right?

3 JUDGE BONFRISCO: So just to clarify,
4 6X, 8X, and 9X are all data requests, and 7X is the
5 testimony of Mr.

6 Earle, so you are correct. I think Mr. Robinson was
7 addressing, just to clarify --

8 MR. O'NEILL: I thought you were
9 talking about the data requests. His testimony is --

10 MS. BARNETT: That was 7. That's the
11 only one I think is wrong.

12 JUDGE BONFRISCO: Just to clarify for
13 the record, we will correct that to reflect RLE-7XC and
14 the other cross exhibits will remain labeled as is.

15 MS. BARNETT: Thank you.

16 JUDGE BONFRISCO: With that, the next
17 thing I want to touch on is if we need to go into a
18 closed proceeding at all today because we are going to be
19 addressing any confidential information, I would need
20 each of the counsel to indicate to me anybody who is
21 present that hasn't signed a confidentiality agreement so
22 that we can make sure they are excluded from the room.
23 And let's see, from what I can see on the record it
24 appears that, Ms. Barnett, I did receive your filing on
25 that confidentiality agreement, so thank you for that.

1 And I do have all the confidentiality agreements for
2 counsel and their respective staff, but if there's
3 anybody else present just alert me at that time so we can
4 plan accordingly.

5 I will also provide a copy of the exhibit list to
6 the court reporter, that final corrected copy so she has
7 that.

8 And the next thing I want to address, is there any
9 objections to PSE's motion to file the revised rebuttal
10 testimony of Jamie L. Martin, and that's marked as
11 Exhibit JLM-1CTR?

12 MR. CALLAGHAN: No objection from
13 Commission Staff, Your Honor.

14 MR. O'NEILL: No objection from Public
15 Counsel.

16 JUDGE BONFRISCO: And JEA?

17 MS. GRAVOTTA: No objection from JEA.

18 JUDGE BONFRISCO: Hearing none then i
19 will enter that revised testimony into the record. And
20 are there any other outstanding issues before we move
21 into opening statements?

22 Okay. As I indicated, I am going to allow each
23 party the opportunity to provide a ten-minute opening
24 statement, so first I would like to start with PSE, Ms.
25 Barnett.

1 MS. BARNETT: Thank you, Judge, and
2 good morning, Commissioners.

3 Today Puget Sound Energy presents evidence to
4 support its Climate Commitment Act risk-sharing
5 mechanism, that PSE is not in favor of a Climate
6 Commitment Act sharing mechanism. PSE submitted one
7 because the Commission ordered it to do so.

8 Risk sharing mechanisms can be effective tools to
9 incentivize the utility to limit costs that are within
10 its control, such as power costs. But as explained by
11 PSE, Senior Vice President of External Affairs, Matt
12 Steuerwalt, who was integral in the design and passage of
13 the legislation, the Climate Commitment Act is not like a
14 power cost mechanism. It is a powerful legislative
15 mandate to reduce greenhouse gases, and it can carry
16 significant costs.

17 It requires PSE and other covered entities to buy
18 compliance instruments in a market that PSE cannot
19 control. The Climate Commitment Act was modeled on
20 California's cap-in-trade program, which does not include
21 a risk-sharing mechanism.

22 When Washington legislators passed the Climate
23 Commitment Act they did not even consider a risk-sharing
24 mechanism. A risk-sharing mechanism is not appropriate
25 when the utility cannot control the risks. This violates

1 the regulatory principle of risk and reward.

2 PSE can and will encourage customers to reduce
3 greenhouse gas emissions, but PSE is obligated to serve
4 customers and provide as much natural gas as they demand.
5 PSE cannot force a customer to conserve, reduce
6 emissions, or switch from natural gas to electricity.

7 Imposing a risk-sharing mechanism on PSE that
8 evaluates performance based on the emissions of its
9 natural gas customers means PSE could be financially
10 penalized for doing exactly what it is obligated to do.
11 Punishing a utility for fulfilling its duty to serve not
12 only violates the regulatory compact, but imposing a
13 risk-sharing mechanism deviates from the longstanding
14 regulatory principle behind it.

15 Utilities should be able to recover costs necessary
16 to meet customer loads. PSE currently recovers Climate
17 Commitment Act costs through a tracker executed through
18 PSE's natural gas tariff Schedule 111. It is based on
19 forecasted compliance costs and is revised and trued up
20 annually. It is an adjustment mechanism, the sort of
21 which has been used by utilities and this Commission for
22 years to recover discreet costs, flatten volatility, and
23 reduce risks.

24 As explained by Todd Shipman, an expert in utility
25 credit rating and capital markets, trackers such as PSE's

1 Schedule 111 can reduce risks by allowing costs to be
2 tracked and recovered accurately without subjecting the
3 utility to volatility that can occur when it sometimes
4 over earns and sometimes under earns.

5 A utility that tracks and recovers costs accurately
6 through a tracker is less risky and more attractive to
7 investors than a utility whose earnings rise and fall as
8 costs are incurred and then recovered later following a
9 rate case.

10 PSE's Senior Vice President and Chief Financial
11 Officer, Jamie Martin is here, and has explained in
12 testimony how reducing volatility, reduces capital costs
13 for PSE specifically. It protects PSE's cash flow,
14 earnings, and return on equity. Reducing capital costs
15 benefits all customers.

16 The Schedule 111 contains additional protections for
17 low income, highly impacted, and vulnerable communities.
18 Matt Steuerwalt discusses this in his rebuttal testimony.
19 The tracker includes equity considerations, such as seven
20 million dollars in 2024 for targeted decarbonization
21 project to specifically benefit low income and vulnerable
22 customers.

23 The Commission should continue to allow PSE to
24 recover Climate Commitment Act costs through Schedule 111
25 without imposing a risk-sharing mechanism, but if the

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1 Commission does impose a risk-sharing mechanism, then PSE
2 would accept the mechanism described by PSE witness Chris
3 Michelson. PSE's risk-sharing mechanism is largely
4 approved by Staff, but it contains a more reasonable and
5 measured financial earnings test than either Staff's or
6 the Joint Environmental Advocates proposal.

7 PSE's risk-sharing mechanism contains fewer
8 operational challenges than Staff's and it is supported
9 by extensive analyses, both financial and scientific.

10 Both of the alternative risk sharing mechanisms in
11 this case contain flaws in their development and
12 implementation. They include arbitrary caps and
13 especially in the Joint Environmental Advocates' case
14 could result in extreme reductions in PSE's earnings.

15 In summary, PSE's Schedule 111 should continue
16 without a risk-sharing mechanism, but if one is imposed
17 then the Commission should approve PSE's mechanism
18 because it is the only one that has been thoroughly
19 analyzed, is well thought out, and can be sensibly
20 implemented.

21 Thank you for your attention today, and we look
22 forward to your questions.

23 JUDGE BONFRISCO: Thank you, Ms.
24 Barnett. I would like to turn to Staff's opening
25 statement. Please proceed, Mr. Callaghan.

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1 MR. CALLAGHAN: Thank you, Your Honor.
2 Good morning, Your Honor, and good morning,
3 Commissioners.
4 Over the last few years within the Commission's
5 community there's been a growing discussion about the
6 prevalence of tracking mechanisms. It's safe to say that
7 somewhere the pendulum may have swung too far in one
8 direction, or at the very least that we should all
9 reexamine whether these mechanisms are properly balancing
10 the interests of all parties.
11 The case before the Commission today brings that
12 issue directly into focus. With that background in mind,
13 Staff proposes a framework for evaluating proposed
14 tracking mechanisms that hopes the Commission will adopt
15 in this case.
16 Now that framework is not a deviation from past
17 Commission decisions. Staff isn't asking the Commission
18 to consider a policy shift today. Staff's proposal just
19 makes explicit the logic that the Commission has
20 implicitly used in prior cases.
21 The framework described in Mr. McGuire's testimony
22 is simply how Staff believes the Commission currently
23 applies the public interest standard when it evaluates
24 proposed tracking mechanisms.
25 Staff believes that now is the time for the

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1 Commission to make this standard explicit so that going
2 forward all parties have a clear understanding of how the
3 Commission evaluates proposed trackers and any related
4 risk or cost sharing mechanisms.

5 Parties have argued that it would be inappropriate
6 for the Commission to adopt that framework in this case,
7 but that simply isn't true. It is black letter law that
8 an agency can vet policy through adjudication and the
9 Commission has done so many times throughout its history.

10 Again, Staff doesn't see its recommendation as a
11 policy shift, but even if it were adopting a policy shift
12 then any adjudication would be completely appropriate.

13 Now I am not going to go through Staff's entire
14 recommendation, but one thing I do want to emphasize
15 today is that the premise of Staff's recommendation is a
16 recollection that approving a schism passthrough tracking
17 mechanism shifts risk from the company onto customers.
18 Everything else in Staff's proposed standard is just a
19 logical extension of that key recognition.

20 And, again, that core insight is not anything new.
21 It's something that the Commission has already implicitly
22 recognized in past cases. And the Commission, in fact,
23 explicitly cited this concern as the reason it set the
24 risk-sharing mechanism issue for adjudication.

25 In Order 1 of the previous docket, UG-230470, the

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1 Commission stated, quote, We recognize, however, that the
2 proposed tariff inappropriately places all the risks
3 associated with CCA's compliance through allowances on
4 PSE's natural gas customers, unquote.

5 Next I would like to clarify Staff's primary
6 recommendation because based on the rebuttal and cross
7 answering testimony it appears that we have not
8 communicated it clearly.

9 Staff's primary recommendation is not that the
10 Commission should decide today whether Schedule 111
11 should continue at the end of the company's next GRC
12 filing. Our recommendation is that the Commission order
13 PSE to include these costs in base rates in the company's
14 initial filing, but the company in that proceeding could,
15 of course, still make its case that Schedule 111 should
16 continue.

17 In other words, Staff is hoping that in this case
18 the Commission adopts the framework that Staff lays out
19 in Mr. McGuire's testimony, and if the Commission does,
20 Staff believes PSE should have the opportunity to explain
21 how Schedule 111 meets that standard in it's next GRC.

22 Most of the criticism from the other parties is
23 actually premature on this point because Staff isn't
24 arguing that these costs should be included in base
25 rates, Staff's argument is that costs being in base rates

1 is the default assumption, and that absent the
2 demonstration that a tracking mechanism is in the public
3 interest that is how they should be treated.

4 Finally, I want to address PSE's primary
5 recommendation. PSE's primary recommendation is to
6 approve Schedule 111 as a pure passthrough to its
7 customers with no risk-sharing mechanism. This is even
8 on rebuttal PSE recognizes that the company's choices do
9 impact the overall cost of base per CCA allowances.

10 PSE even implies that the Commission may lack the
11 authority to order a risk-sharing mechanism in this case.
12 Staff will address that specific argument more in it's
13 post hearing brief, but spoiler alert, that's incorrect.
14 The Commission absolutely has the authority to order a
15 risk-sharing mechanism in this case.

16 And as I mentioned earlier, the Commission has been
17 clear since at least July of last year that it believes a
18 risk-sharing mechanism of some kind is needed. That's
19 the whole reason we are having this adjudication.

20 PSE has had a good amount of time to reconsider its
21 primary recommendation and the company has chose to stay
22 the course. Now PSE is free to make whatever argument it
23 wants, but I think the Commission should be clear in the
24 final order that the stance PSE has consistently taken on
25 this issue over the last year is out of line with the

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1 Commission's transition to performance based rates. The
2 order in this case should act as a reminder that tracking
3 mechanisms are a privilege, not a right, and the
4 Commission can and will ensure that these mechanisms, if
5 approved, are creating the proper incentives for
6 utilities. Thank you.

7 JUDGE BONFRISCO: Thank you, Mr.
8 Callaghan. Public Counsel, if you could proceed with
9 your opening statement.

10 MR. O'NEILL: Thank you, Your Honor.
11 When the legislature passed the Climate Commitment Act it
12 included in its findings sections, which is now codified
13 as 70A.65.005(2), that the legislature with the Act --
14 the legislature updated the State's greenhouse gas
15 emissions limits that are set to be achieved by 2030,
16 2040, and 2050, based on current science and emission
17 trends to support local and global efforts to avoid the
18 most significant impacts from climate change.

19 Meeting these limits will require a coordinated,
20 comprehensive, and multi sectorial implementation of
21 policies, programs, and laws as other enacted policies
22 are insufficient to meet the limits.

23 The legislature, through this statutory language,
24 clearly indicated that the CCA was intended to be a part
25 of a suite of regulatory and statutory efforts to address

1 climate change.

2 In the context of this proceeding, this means that
3 the Utility Commission has its full panoply of regulatory
4 tools, and it should direct them to accomplish the goals
5 the legislature set out, which is to reduce greenhouse
6 gas emissions to meet the limits set in various statutes
7 that have passed since.

8 Puget Sound Energy is incorrect, and in the
9 testimony you will hear they do have control over how
10 they purchase allowances, which allowances they purchase,
11 when they purchase them, on what market they purchase,
12 and how they plan for purchasing them. That is what the
13 incentive mechanism must be aimed at, incentivizing Puget
14 Sound Energy to be prudent, and making it pure
15 passthrough costs removes that incentive and is against
16 the public interest. Thank you.

17 JUDGE BONFRISCO: Thank you. I would
18 like to turn now to Joint Environmental Advocates, and
19 Ms. Gravotta, if you could just pronounce your name for
20 the record.

21 MS. GRAVOTTA: Noelia Gravotta. You
22 were saying it perfectly.

23 JUDGE BONFRISCO: Perfect. Thank you.
24 Please continue.

25 MS. GRAVOTTA: Thank you, Your Honor,

1 and thank you Commissioners. The legislature passed the
2 Climate Commitment Act or CCA to make sure the State
3 plays its role in addressing climate crisis. The CCA
4 sets the state's emissions cap and increases over time
5 and uses financial incentives for regulated entities,
6 including gas utilities, to reduce their emissions.

7 Despite this, PSE's 2023 IRP indicates that it does
8 not plan to immediately reduce emissions. Its planned
9 carbon emission trajectory shows that PSE's natural gas
10 operations will only account for 82 percent of Washington
11 state's total carbon emission target by 2050.

12 The company will primary seek to comply with the CCA
13 by buying emissions allowances until at least mid
14 century. PSE 2023 IRP reproduced in Exhibit 5 of Mr.
15 Gehrke's cross answering testimony shows that PSE's net
16 allowance purchases will more than double by 2030 and
17 continue to remain through 2050.

18 PSE wants to treat the cost of those purchases as a
19 passthrough directly to customers, even though these
20 ongoing purchases are the result of the company's choice
21 not to reduce emissions. PSE says that customers are
22 ultimately responsible for their emissions, but that
23 ignores the fact that it is the regulated entity, that it
24 has an arsenal of resources to meaningfully work towards
25 reducing emissions.

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1 It is a dual fuel utility with multimillion dollar
2 operating budget, and capable technical staff and
3 strategists, and it can add or remove generation and
4 transmission infrastructure, and construction rates and
5 customer incentive to promote or disperse the adoption of
6 efficiency and electrification measures.

7 Customers do not have even a remotely similar
8 ability to modify their energy system to reduce
9 emissions. In the order to PSE in docket UG-230470 the
10 Commission stated, quote, The CCA is meant to serve as a
11 price signal to both utilities and their customers
12 encouraging both to modify their behavior to reduce
13 carbon emissions. Their mechanism should share risks
14 such that all parties are encouraged to reduce their
15 emissions and in turn the costs required for CCA
16 compliance, unquote.

17 JEA's proposed risk sharing mechanism does just
18 that. The mechanism disincentivizes the purchase of
19 allowances priced near or at the price field and is the
20 highest cost of CAA compliance. This forces PSE to
21 consider alternate pathways and to consider not just
22 short term compliance costs, but costs that accrue over
23 the median and long term if it chooses to continue
24 growing its emissions as opposed to decarbonizing its
25 operations, as well as the company can be incentivized

1 to, quote, modify its behavior to reduce carbon
2 emissions, unquote, by investing in the future of its
3 business and the wellbeing of its customers in a climate
4 change world.

5 So what does the evidence in the docket show so far?
6 I want to highlight three key points. First, it's clear
7 that the Commission is correct that PSE must experience
8 price signals from the CCA to encourage it to reduce
9 emissions. JEA's witness Ms. McCloy provided testimony
10 about the intent and structure of the CCA. To further
11 support the fact that PSE must partake in CCA compliance
12 risks and cannot treat these costs as a passthrough. PSE
13 continues to resist the Commission's order by insisting
14 that it should bear no risk of compliance under the CCA.

15 Second, it's evident that both PSE and Staff's
16 risk-sharing mechanisms fail to achieve the objectives
17 put forth in the Commission's order. PSE's witness Mr.
18 Mickelson laid out a proposal that establishes sharing
19 bands, wherein PSE would share ten percent in the first
20 band, twenty percent in the second band, but notably only
21 where the company earned about its authorized rates of
22 return.

23 PSE's mechanism appears designed to passthrough all
24 costs as Staff's witness Mr. McGuire noted. Our witness,
25 Mr. Gehrke, explained why PSE's mechanism is unlikely to

1 be triggered, including the use of average and local
2 compliance price compared to prices on the secondary
3 market, PSE's regulatory expertise, and PSE's ability to
4 access new cost allowances and price ceiling reserve
5 options.

6 PSE's witnesses did not refute that PSE's model is
7 unlikely to result in risk sharing but rather focused on
8 why the company should not bear risks.

9 Staff witness Mr. McConnell proposed a risk-sharing
10 mechanism that adopts PSE sharing bands but modifies the
11 earning test to become a sharing cap.

12 Mr. Gehrke critiqued his focus on various risks.
13 And also the Public Counsel's witness Mr. Earle explained
14 how Staff's proposal would virtually never be triggered,
15 making it a risk-sharing mechanism in name only.

16 Given the evidence in front of this Commission, it
17 is clear that PSE and Staff approaches do not achieve the
18 goals set out in this docket.

19 And now to my third point. The Commission has in
20 front of it a workable risk-sharing mechanism that does
21 set out to meet the goals of this docket and of the CCA,
22 and it is our proposal. Mr. Gehrke has outlined a
23 risk-sharing proposal that focuses on dissuading high
24 cost allowance purchases and drives PSE to consider
25 alternatives.

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1 We proposed relatively conservative model that seeks
2 to balance customer interest with company concerns about
3 investments and financial performance. PSE can reduce
4 its risk exposure by decarbonizing its system and not
5 relying on additional purchases as its central compliance
6 method in the median and long term.

7 Our model has been critiqued by Public Counsel's
8 witness as insufficient and incentivizes PSE. We
9 certainly have no objection to modifying our proposal to
10 be a strong incentive to decarbonize.

11 In the interest of helping the Commission find
12 points of agreement between parties focused on consumer
13 advocacy and environmental advocacy, we agree that our
14 model can be modified to incorporate some of Public
15 Counsel's concerns. One option is removing the earnings
16 test. Another is to adjust the statistical analysis to
17 better represent the distribution of allowance prices.

18 That said, there are key points of difference
19 between our model and Public Counsel's proposal. As you
20 will have an opportunity to hear today, Public Counsel's
21 approach is optimized to push PSE towards a lower cost
22 option in the short term. We agree that this is one
23 important consideration, but it should not be the primary
24 driver. Our proposal focuses on longer term abatement
25 risks so that PSE is incentivized to reduce emissions to

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1 meet the goals of the CCA. We think that investing in
2 decarbonization is a more prudent, and ultimately more
3 equitable use of PSE funds than using customer money for
4 the next 30 years. It's important to start making
5 decisions and begin applying incentives to PSE. Waiting
6 for further development in this policy docket simply
7 delays what is sorely needed, a price signal from PSE to
8 act rather than to offload responsibility onto customers.

9 In summary, the evidence before the Commission
10 highlights the need for clear direction to PSE. You have
11 already told them that they share the responsibility for
12 reducing climate forcing emissions. It doesn't seem like
13 they heard that message. We think it's time for you to
14 impose clear direction on their responsibilities under
15 the CCA, and we urge you to give our proposal careful
16 consideration. Thank you, very much.

17 JUDGE BONFRISCO: Thank you, Ms.
18 Gravotta. I just want to check, does AWEC have -- I
19 don't believe they are presenting any testimony, correct?

20 MS. MOSER: That is correct, Your
21 Honor.

22 JUDGE BONFRISCO: Ms. Barnett, it's my
23 understanding PSE doesn't plan to conduct any cross; is
24 that correct?

25 MS. BARNETT: That's correct.

1 JUDGE BONFRISCO: Okay. And
2 additionally it's my understanding that Public Counsel
3 and Joint Environmental Advocates has also not reserved
4 any time for cross of PSE witnesses; is this correct?

5 MR. O'NEILL: I had reserved fifteen
6 minutes for Mr. Steuerwalt.

7 JUDGE BONFRISCO: Okay. Let me check
8 my records. Yes, I apologize. That's correct. I see
9 that. Fifteen minutes, I have that. My apologies.

10 So let's begin -- I think just for -- let's begin
11 with Staff cross-examination of PSE's witnesses and then
12 Staff, I will ask you to call in each PSE witness and
13 introduce them and then I will go ahead and swear them in
14 and then I can have you proceed with your examination.

15 MR. CALLAGHAN: Thank you, Your Honor.
16 Commission Staff calls Matt Steuerwalt.

17 JUDGE BONFRISCO: And is Mr.
18 Steuerwalt present virtually?

19 THE WITNESS: No, I'm in person.

20 JUDGE BONFRISCO: Perfect.

21 THE WITNESS: It's been a little while
22 since I did this. Is this where I sit?

23 JUDGE BONFRISCO: Yes. Mr.
24 Steuerwalt, if you could turn on the push button, that
25 should light it up.

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1 And then I will just ask that you state your name
2 and just speak closely into the microphone so we can have
3 a clear record. So I am going to go ahead and swear you
4 in?

5 THE WITNESS: I sure can, but I cannot
6 get a light on the push button.

7 JUDGE BONFRISCO: Oh, there's no
8 light? Thank you.

9 UNIDENTIFIED SPEAKER: Would it be
10 possible to have a camera on the witness so we can see?

11 JUDGE BONFRISCO: I don't believe we
12 have that technological setup. He would have to have his
13 laptop on and he does not have that.

14 MS. BARNETT: Would you like me to --

15 JUDGE BONFRISCO: Do you have a
16 laptop, Ms. Barnett?

17 MS. BARNETT: Yes.

18 JUDGE BONFRISCO: Thank you for
19 helping out. We can hear you. Thank you. It looks like
20 we can see you. It looks good.

21
22 MATT STEUERWALT, witness herein, being
23 first duly sworn on oath,
24 was examined and testified
25 as follows:

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1 THE WITNESS: I do.
2 JUDGE BONFRISCO: Okay. Great. The
3 witness is yours, Mr. Callaghan.
4 MR. CALLAGHAN: Thank you, Your Honor.
5
6 CROSS-EXAMINATION
7 BY MR. CALLAGHAN:
8 Q Good morning, Mr. Steuerwalt. Do you have copies of your
9 initial testimony and rebuttal testimony with you?
10 A I do. Thank you for asking.
11 Q Could you please turn to rebuttal testimony on Page 19
12 and let me know when you are there?
13 A I am there.
14 Q Here you state that PSE's primary recommendation is still
15 to approve Schedule 11 without a risk-sharing mechanism;
16 is that correct? Lines 17 to 18.
17 A This testimony says PSE recommends the Commission decline
18 to order a risk-sharing mechanism in the proceeding.
19 Q Is that a yes?
20 A Yes.
21 Q All right. And one of your arguments is that the CCA
22 does not require the Commission to approve a risk-sharing
23 mechanism; is that accurate?
24 A That is accurate.
25 Q But the CCA does not require the Commission to approve

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1 any kind of tracking or adjustment mechanism related to
2 CCA allowance costs either, does it?

3 A No.

4 Q Could you turn to your initial testimony at Page 11 and
5 let me know when you are there.

6 A The initial, not the rebuttal?

7 Q Yes.

8 A Okay. I am there.

9 Q Here you say that PSE is concerned with the legality of
10 developing a risk-sharing mechanism for the CCA, correct?

11 A I actually am -- we are concerned with the legality, the
12 ability, and the time to develop a sharing mechanism.

13 Q Okay. So it does that PSE is concerned with the legality
14 of developing a risk-sharing mechanism?

15 A Yep.

16 Q Is it PSE's position that it would be beyond the
17 Commission's authority to order a risk-sharing mechanism
18 for Schedule 111?

19 A It is our position that nothing in the CCA requires the
20 Commission to order a risk-sharing mechanism or
21 authorizes the Commission to order a risk-sharing
22 mechanism. I believe the Commission has plenty of its
23 own authority to set rates in some fashion.

24 Q Okay. Does that include setting -- ordering a risk-
25 sharing mechanism for Schedule 111?

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1 A I believe the Commission could order that. I don't
2 believe the Commission should have ordered that.

3 Q Okay. And you would agree that the Commission has the
4 authority to order risk-sharing mechanisms related to
5 other kinds of costs, correct?

6 A I would.

7 Q Okay. Are you familiar with PSE's power cost adjustment
8 mechanism on the electric side?

9 A I have a somewhat limited familiarity with it. I can
10 talk to some parts of it, but there are other people that
11 can talk to it in much better detail.

12 Q Are you aware whether or not that mechanism has sharing?

13 A That mechanism does indeed have sharing.

14 Q Okay. Moving on. Another argument that PSE makes in
15 favor of its primary recommendation is that PSE is
16 required to comply with the CCA and so these costs are
17 necessary to serve customers, correct?

18 A I'm thinking about your question.

19 PSE is indeed the compliance entity for natural gas,
20 natural gas emissions, most of the natural gas greenhouse
21 gas emissions, although not all of them under the CCA.

22 And what was the second part? I'm sorry.

23 Q So one argument that PSE makes is that it's required to
24 comply with the CCA and so these costs are necessary to
25 serve customers, and therefore PSE should just have a

1 pure passthrough mechanism.

2 A These are -- when we incur costs to comply with a state
3 obligation such as the CCA, those costs should be passed
4 on the customers.

5 Q Does PSE have a legal obligation to serve its retail
6 customers in its natural gas service territory?

7 A Yes.

8 Q Okay. So every cost that the company incurs in order to
9 serve customers could be characterized as a compliance
10 cost, couldn't it?

11 A I think the -- well, I think that the record would show
12 that parties would assume that not every cost is a
13 compliance cost. The parties might well argue that some
14 of the things we incur costs on were not to the benefit
15 of customers.

16 Q But if PSE has an obligation to serve, isn't every cost
17 it incurs in order to complete that service a compliance
18 cost with its -- related to its obligation to serve?

19 A I don't know how to answer your question better than I
20 did the first time. I can -- because the hypothetical is
21 so broad for me, I don't know that I have a better answer
22 for you.

23 Q Okay.

24 MR. CALLAGHAN: No further questions.

25 JUDGE BONFRISCO: Okay. Thank you.

1 And, Mr. Callaghan, can you please call PSE's next
2 witness that you plan to call, and I will swear them in.

3 MR. CALLAGHAN: Your Honor, I believe
4 that Public Counsel has reserved time for
5 cross-examination of Mr. Steuerwalt.

6 JUDGE BONFRISCO: Yes, my apologies.

7 MS. BARNETT: Can I ask a redirect,
8 please?

9 JUDGE BONFRISCO: Yes, my apologies.
10 Thank you. Actually, let me allow Public Counsel to
11 proceed with his arguments and then we will do a
12 redirect. We will have a redirect after Public Counsel
13 crosses the witness.

14 CROSS-EXAMINATION

15 BY MR. O'NEILL:

16 Q Good morning, Mr. Steuerwalt.

17 A Good morning.

18 Q In your rebuttal testimony you reference the drafting
19 process for House Bill 1589, do you recall that
20 testimony?

21 A If you will give me a moment I will look. Do you have a
22 page and line reference for me?

23 Q It would be useful if I did, but I did not write it down.

24 A I think I have it on Page 3 of the rebuttal. Is that the
25 reference that you are looking for?

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1 Q It is.

2 A Okay.

3 Q You heard my opening statement; is that correct?

4 A I was in the room but was actually talking with one of my
5 colleagues about a different matter.

6 Q Would you agree with me that the legislature intended the
7 CCA to be part of a suite of legislative enactments to
8 combat climate change?

9 A Yes.

10 Q And the House Bill 1589, when was that passed?

11 A That was enacted this year.

12 Q In the spring, correct?

13 A March or April.

14 Q And when did the Commission order PSE to propose a
15 risk-sharing mechanism?

16 A I don't know off the top of my head.

17 Q It was in November of last year, correct?

18 A I don't know off the top of my head.

19 Q Okay. Are you aware of the statutory construction maxim
20 that the courts presume legislature is aware of actions
21 of other regulatory entities such as the Commission?

22 A No.

23 Q In your -- in House Bill 1589, I am going to go ahead and
24 pull this up so we can all see it, and I will attempt to
25 share my screen.

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1 A You are testing my eyesight.

2 Q I will see if I can adjust that as well. This is the
3 House Bill 1589 as it was passed by the legislature, and
4 you can see that there. If you go to the first section
5 of that bill, so Section 4, in Subsection 4 the
6 legislature found that as Washington transitions to a
7 hundred percent clean electricity, and as the State
8 implements the Washington Climate Commitment Act,
9 switching from fossil fuel based heating equipment and
10 other fossil fuel based appliances, high efficiency non
11 emitting equipment, will reduce climate impact and fuel
12 price prices for consumers in the long term. This new
13 paradigm requires a thoughtful transition to decarbonize
14 the energy system to ensure that all customers benefit
15 from the transitions, that customers are protected, are
16 not subject to sudden price shocks, and continue to
17 receive needed energy services.

18 Did I read that correctly?

19 A That's how I read it.

20 Q The last sentence says this transition will require
21 careful and integrated planning by and between utilities
22 and the Commission and customers as well as new
23 regulatory tools.

24 Did I read that correctly?

25 A I agree.

1 Q So in 1589 that was passed, you would agree with me that
2 the legislature has identified as a public policy
3 minimizing price shocks and transitioning to a new
4 fossil -- non fossil fuel based economy -- or energy
5 system, would you agree with me?

6 A I would say they have a legislative intent to avoid
7 sudden price shocks and to decarbonize the energy system,
8 which I think is slightly different than your raising
9 of -- I can't remember the exact words that you used.

10 Q That's fair. I will take what your testimony is as it
11 is.

12 I have highlighted the first part of Subsection 2,
13 which is what I want to direct your attention to. The
14 legislature found that as the State transitions to
15 cleaner sources of energy large combination utilities are
16 an important part of that in helping their customers make
17 smart energy choices, including actively supporting the
18 replacement of fossil fuel based space and watering
19 equipment and other fossil fuel based equipment with high
20 efficiency non emitting equipment.

21 Do you agree with me that the utilities such as
22 Puget Sound Energy are an important partner in helping
23 customers make smart energy choices?

24 A I believe that when the legislature wrote this language
25 they were referring to the section below that requires

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1 the company to have an education program and removes the
2 company's energy efficiency programs for residential gas
3 customers at the end of this year or next. I can't
4 recall, and then sunsets the company's commercial gas
5 conservation program to a later date. I believe this is
6 directly tied to that requirement.

7 Q So you would read it with that limitation?

8 A I would.

9 Q It goes on to say in that same section, programs to
10 accelerate the adoption of efficient, non emitting
11 appliances have the potential to allow large combination
12 utilities to optimize to use energy infrastructure,
13 improve the management of energy loads, better manage the
14 integration of variable energy resources, reduce
15 greenhouse gas emissions from the building sector, to
16 mitigate the environmental impacts of utility operations
17 and power purchases, and improve the health outcome for
18 occupants.

19 Did I read that correctly?

20 A You did.

21 Q It's true that PSE is the entity that has the ability to
22 optimize the use of energy infrastructure, correct?

23 A I think it's true that both the customers and the utility
24 have the ability to optimize the use of energy
25 infrastructure. I believe, in fact, that there are a

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1 number of growing programs on the energy efficiency side
2 designed to have customers make smart energy choices.

3 Q You would characterize that as a shared ability between
4 the customers and the utility?

5 A I would.

6 Q Would you characterize the utility as having a shared
7 ability to improve the management of energy loads?

8 A Yes. Again, I think that's a place where new technology
9 is providing customers the opportunity to participate in
10 the management of loads, and for us to be able to try to
11 call on those resources as we can.

12 Q Do you agree that it is the utility that has the ability
13 to better manage the integration of variable renewable
14 energy resources?

15 That's not something that customers can do?

16 A Why would you say that?

17 Q I don't know. You tell me.

18 A I think that we will increasingly see customer
19 participation at the scale of small customers and very
20 large customers in the management of infrastructure
21 designed to increase global demand and to meet the needs
22 of the system as a whole. And we are developing programs
23 and the Commission is approving those programs to do just
24 that, those kind of things.

25 Q You would agree that the utility, at least, is a partner

1 in that process?

2 A Oh, absolutely.

3 Q The last sentence of the section is the legislative
4 clarity is important for utilities to offer programs and
5 services, including incentives in the decarbonization of
6 homes and buildings for their customers.

7 Did I read that correctly?

8 A You did.

9 Q You would agree with me that the legislature has clearly
10 stated a policy of encouraging decarbonization?

11 A Yes.

12 Q If the risk management mechanism in this case, the
13 Climate Commitment Act case that we are dealing with
14 would incentivize the company to better accomplish those
15 steps toward the goals, would you agree with me that that
16 is a good idea?

17 A If the risk-sharing mechanism would incentivize us to
18 achieve those goals.

19 I would agree with that if I thought the
20 risk-sharing mechanism would indeed incentivize us to
21 achieve those goals, and to go back to your Section 4
22 stuff, to achieve the other public policy goals of the
23 Act, not all of which are decarbonation.

24 Q One of the things that 1589 authorized the Commission to
25 do is gave it new regulatory tools. I'm not certain it's

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1 new, but certainly identified them as eligible for Puget
2 Sound Energy, the only utility that actually qualifies
3 under the decarbonation bill. One of those is
4 accelerated depreciation of gas assets; is that correct?
5 A I would agree with you that that is not a new regulatory
6 tool.
7 Q But is it referenced in the statute?
8 A It is in the statute.
9 Q Explicitly?
10 A Yes.
11 Q As a tool that can be used for Puget Sound Energy?
12 A Yes.
13 Q Does Puget Sound Energy plan to utilize its -- that
14 statutory mechanism to ask for accelerated depreciation
15 of gas assets?
16 A In a different proceeding that before this Commission we
17 have indeed asked to shorten the depreciation life on the
18 gas business.
19 Q You would agree with me what that means in practical
20 terms is that rate payers are going to pay more money up
21 front for gas assets? They are going to pay faster?
22 A I would suggest that what it means is that existing rate
23 payers will pay for the infrastructure they have before
24 many of them depart from the system leaving the remaining
25 rate payers to pay for the rest of the cost.

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1 Q Which I think is my point. You project that gas
2 customers are going to leave the system?

3 A We see, as a result of other public policies, that the
4 addition of new gas customers has slowed considerably. I
5 believe there is evidence in the other proceedings about
6 the change in the loads on the gas system, which are
7 declining. And I don't know that I can predict the pace
8 and scale of those transitions, but they appear to be
9 underway.

10 Q And the market in which you anticipate at whatever speed
11 it's ultimately going to be departure from customers
12 leaving gas assets, doesn't it make sense for the -- just
13 financial sense for the company to accelerate its
14 decarbonization efforts to shift consumers to
15 electricity, for example?

16 COMMISSIONER RENDAHL: Please, Mr.
17 Steuerwalt, if you could speak more directly into the
18 microphone as folks online are having a hard time hearing
19 you.

20 THE WITNESS: I'm sorry, Commissioner
21 Rendahl. I will endeavor to be more clear. I'm still a
22 little foggy. You guys start early. And I have
23 completely lost the thread. Could we go back to the
24 question?

25 Q (By Mr. O'Neill) Sure. I will see if I can reask the

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1 question.

2 It's rational for a company in Puget Sound's space
3 to begin making steps toward decarbonization because you
4 are projecting the carbon market is going to shrink in
5 terms of customers using natural gas?

6 A I think those are a number of different thoughts that I'm
7 not sure I would put together. Again, I don't know that
8 we have a projection for the long term about the pace and
9 scale of customer departure on the gas system.

10 I know that in the current rate case we have
11 projections about the high loads and some assumptions
12 about the growth or lack thereof in the system.

13 Your next phrase was is it a reasonable thing to do
14 to accelerate the departure of customers.

15 Q I think I meant accelerate decarbonization efforts by the
16 company.

17 A I would say there should be efforts to decarbonize at the
18 lowest reasonable cost for customers.

19 Q Fair. And do you agree with me that if the company is
20 going to undertake those efforts that it should be
21 incentivized to achieve the least cost method to
22 accomplish that goal?

23 A I don't think we are asking to be incentivized to
24 decarbonize. I think we are being required to do that.
25 And I don't think we perceive that we should be

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1 incentivized. In fact, should the Commission decide to
2 adopt our risk-sharing mechanism it does not include an
3 incentive for the company. It's -- we don't think that's
4 a necessary thing.

5 Q We should just trust you to get it right?

6 A No, I'm not saying that at all, sir. I'm saying we
7 have -- the Commission has the regulatory authority using
8 its existing mechanisms to examine whether we are making
9 cost effective choices to comply with CCA for customers.

10 Q I would like to shift to one other topic before I let you
11 go. If you turn to Page 15 of your testimony, the
12 rebuttal testimony.

13 A Sure. Hang on one second. I am there.

14 Q And Lines 16 to 18 is where I want to focus your
15 attention, if I could.

16 A I'm there.

17 Q I clicked on the button and it took me up to the top of
18 the document and away from where I was going to ask the
19 questions, so I apologize.

20 A I'm here all day.

21 Q So is everybody else.

22 You say that PSE has structured its compliance,
23 meaning the CCA compliance, accordingly, including
24 eliminating low income burden and prioritizing investment
25 of revenues in projects that address high energy burden

1 in low income communities.

2 Did I read that correctly?

3 A Yes.

4 Q Do you know how many individuals in Puget Sound Energy's
5 service territory that your third party data suggests
6 qualify for one of your low income programs?

7 A I do not.

8 Q Would it surprise you that the number is 245,000,
9 approximately?

10 A I don't have any context for even evaluating whether
11 that's a big number or a small number.

12 Q Do you know how many individuals are currently enrolled
13 in a discount program?

14 A I do not.

15 Q Are you aware there is another proceeding before the
16 Commission in which the company is asking to reduce the
17 number of individuals enrolled in the program from 70,000
18 to -- well, to reduce by 53,000, so 17, are you aware of
19 that?

20 A I'm aware there is another proceeding about who is
21 eligible and has identified as being a low income
22 customer, yes.

23 Q Have you ever heard of the concept of penetration rates?

24 A I think if you were to give me an example I could
25 probably make my way through that.

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1 Q Sure. So let's assume there is a projected need in the
2 community and your program is reaching a certain number
3 of people, and you could calculate that as a percentage
4 and then call that a penetration rate. In other words,
5 your program reaches a certain percentage.

6 A Sure.

7 Q Do you know what PSE's penetration rate is?

8 A For what.

9 Q For reaching low income customers?

10 A I do not.

11 Q Would you agree with me that if you reach a mere fraction
12 it's not fair to say that you have eliminated the low
13 income burden?

14 A No, I would not.

15 Q You disagree with me?

16 A I would.

17 MR. O'NEILL: Okay. That's all the
18 questions I have. Thank you.

19 JUDGE BONFRISCO: Thank you, Mr.
20 Robinson O'Neill.

21 Ms. Barnett, you can proceed with your redirect.

22 MS. BARNETT: Thank you.

23

24 REDIRECT EXAMINATION

25 BY MS. BARNETT:

1 Q Mr. Steuerwalt, you heard counsel for Staff ask you about
2 your legal concern of passing through -- of implementing
3 a risk-sharing mechanism. When you expressed concern
4 about the legality of imposing a risk-sharing mechanism,
5 what are your concerns?

6 A I'm concerned -- the company is concerned, excuse me,
7 that the CCA did not contemplate such a mechanism, and
8 had it been contemplated the remainder of the bill might
9 have looked different as well.

10 Q Counsel for Staff also asked you about some costs that I
11 think -- I'm trying to paraphrase the question -- was
12 based on your PSE general duty to serve are all costs
13 passthrough to customers, and I apologize if I'm
14 mischaracterizing the question.

15 My question is, would you expect to pass through
16 costs to customers that were not deemed prudent, were
17 adjudicated imprudent, for example?

18 A No.

19 Q And my last question, counsel for Public Counsel asked
20 you about customers' ability to share in both the load
21 and their consumption of natural gas. If there is this
22 sharing of -- increased sharing on the part of customers,
23 why is it appropriate to pass through all the CCA costs
24 rather than share the risks?

25 A The CCA is a different mechanism than requiring than us

1 to serve our customers for all of the natural gas that
2 they demand. I don't think policy makers contemplated a
3 universe in which the question of whether we were
4 supposed to continue to serve customers was at issue. I
5 think people thought you are going to keep serving
6 customers. We are going to impose this compliance
7 obligation on you as a way of not imposing a compliance
8 obligation on 900,000 individual customers, right, and
9 you are going to have to serve them with whatever
10 resource they demand.

11 MS. BARNETT: I have no further
12 redirect.

13 JUDGE BONFRISCO: Thank you, Ms.
14 Barnett. I would like to turn back to Mr. Callaghan, if
15 you could please call PSE's next witness and I will swear
16 them in.

17 MR. CALLAGHAN: Thank you, Your Honor.
18 Commission Staff calls Jason Kuzma.

19 JUDGE BONFRISCO: Oh, hold on one
20 moment. Mr. Steuerwalt, you may be excused. Thank you.

21 THE WITNESS: Thank you.

22 JUDGE BONFRISCO: Mr. Callaghan, if
23 you could call PSE's next witness.

24 MR. CALLAGHAN: Thank you, Your Honor.
25 Commission Staff calls Jason Kuzma.

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JUDGE BONFRISCO: Mr. Kuzma, if you
could raise your right hand.

JASON KUZMA, witness herein, being
first duly sworn on oath,
was examined and testified
as follows:

THE WITNESS: Yes.

JUDGE BONFRISCO: Okay. Thank you.
And you may proceed, Mr. Callaghan.

CROSS-EXAMINATION

BY MR. CALLAGHAN:

Q Good morning, Mr. Kuzma. Do you have a copy of your
rebuttal testimony available?

A Yes.

Q Can you turn to Page 3, Lines 17 to 19, and let me know
when you are there.

A I'm there.

Q Here you state, quote, PSE is aware that a compliance
strategy that relies exclusively upon the purchase of
compliance instruments would be insufficient for PSE's
natural gas operations.

What do you mean when you say that relying on
purchasing compliance instruments would be insufficient?

1 A That is looking at the long term issue with respect to
2 the natural gas industry. As you noted earlier, PSE is
3 expecting reductions in customers, also reductions in
4 loads. PSE has, in HB-1589 a mechanism of an integrated
5 system plan that will allow for Puget to put forth
6 mechanisms that can facilitate decarbonization efforts on
7 the -- for gas customers.

8 And the intent there is that we understand -- I know
9 there was criticism from the Joint Environmental
10 Advocates that Puget has an IRP that addressed 82 percent
11 I believe is what they said of the total carbon emissions
12 would be from Puget. Now that is based upon a rule that
13 is an integrated resource plan that is, you know, adopted
14 prior to a lot of the decarbonization efforts and
15 reflects what the obligations were probably prior to
16 that.

17 We recognize that there will be a decarbonization
18 and Puget will have to put together programs for that and
19 we can't just completely rely on compliance, although
20 right now that is in many respects one of the few tools
21 that we do have at this moment that's been approved.

22 Q Thank you. So PSE recognizes that in the long run, as a
23 practical matter, the company will need to take
24 significant steps to reduce the emissions from its
25 natural gas system in order to comply with the CCA,

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1 correct?

2 A That's an interesting question. I would say that the
3 intent of the CCA is to send a signal to encourage
4 decarbonization by people that have emissions, and that
5 would get passed through to customers and so customers
6 will have incentive and Puget will have incentive through
7 the regulatory body here at the Commission to help
8 customers along that decarbonization route.

9 So, yeah, in the long run, it does -- it's not
10 necessarily PSE's choice to decarbonize customers. We do
11 not have that choice, but we think that customers will
12 eventually start to make that choice, whether through
13 mandate, statutory rulemaking, but also through our
14 meeting of customers' needs as the loads decrease due to
15 the decarbonization efforts our -- we purchase compliance
16 obligations will all decrease.

17 Q All right. And so to summarize that, earlier in your
18 answer on Page 3 you say, quote, PSE recognizes that
19 compliance with the CCA will require complex and
20 multifaceted decarbonization efforts across many
21 industries, including natural gas utilities, correct?

22 A Yes, that's correct.

23 Q Okay. So could you turn to Page 79 of your rebuttal
24 testimony and let me know when you are there.

25 A Okay.

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1 Q So here you give a hypothetical in which CCA costs are
2 placed into base rates and PSE pays ten percent more for
3 allowances than what was forecast when those costs were
4 set in base rates, leading to under recovery, correct?

5 A That's correct.

6 Q All right. And on the next page you summarize the point
7 of your hypothetical by saying small changes in large
8 numbers have large results; is that correct?

9 A Yes.

10 Q But doesn't this hypothetical demonstrate that if PSE
11 were motivated to reduce the costs it pays for CCA
12 allowances, even if PSE were only successful in reducing
13 that average allowance cost by five or ten percent, that
14 small reduction would have a large impact on the costs
15 that ultimately get passed on to PSE's customers,
16 wouldn't it?

17 A No.

18 Q No? Why?

19 A Because your isolating it to CCA compliance costs and
20 there's a whole suite of other costs that are ignored in
21 that situation. So if we have -- the problem that Puget
22 has at this point is that we have one tool to comply, and
23 that's the compliance tool. We can put together other
24 programs and I believe we heard JEA mention it earlier in
25 their opening testimony that they could -- there could be

1 other mechanisms that are more cost -- that are of a
2 higher cost to customers in the short term or today, and
3 so those costs might get passed through differently, so
4 you can't simply look at one part of the calculus.

5 It's a complicated calculus that what is the total
6 cost to customers, and that is something that, at this
7 point, we really don't have a lot of direction on, and
8 that's something we hope to in the ISP try to get
9 established with the Commission a mechanism that would
10 allow us to sort of say what is an appropriate suite of
11 mechanisms that we can offer to customers to reduce
12 decarbonization and meet the CCA.

13 So, yes, our CCA compliance obligation costs might
14 go down, but it might be that customers are paying more
15 because they entered into a bill assistance program to,
16 you know, electrify their home to switch -- a fuel
17 switch.

18 So I can't answer your question on, you know, an
19 individual point because all of the costs need to be
20 factored into the customer.

21 Q But under your hypothetical, wouldn't you agree that what
22 this demonstrates is that to the extent that PSE is able
23 to get a lower cost per CCA allowance that that lower
24 average cost would have a big impact, if you hold demand
25 constant?

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1 A Again, I would not agree with that. And the reason that
2 I wouldn't agree with that is that you are making an
3 assumption that on the CCA compliance costs Puget can do
4 anything other than purchase at an auction, so by
5 definition Puget will be buying CCA compliance costs at
6 auction.

7 And so basically all you are proving there is that
8 our actual costs might be less than what was projected
9 going into that compliance year, but that doesn't prove
10 anything other than the projections are wrong.

11 And that's the problem with putting it into a base
12 rate, is that nobody knows what the compliance costs for
13 the next year are until they actually occur. So we are
14 making a guess going into that year that's based on
15 the -- I mean, Puget has done a fantastic job, in my
16 estimation, to this date meeting the compliance
17 obligation on a prudent basis, and so I don't think
18 anything in this proceeding will effectively change
19 Puget's obligations or activities going forward.

20 I know that there has been discussion here about
21 passthroughs, but a passthrough always has prudence
22 risks, and Puget always considers those. And so that's
23 our fundamental point in this proceeding is that we
24 should be able to forecast what those prices are, true
25 them up to what the actuals are subject to some type of

1 prudence review.

2 Q Okay. So you are mentioning a prudence review of the CCA
3 allowance costs. Doesn't a prudence review imply that
4 the decisions that the Commission -- that PSE makes
5 related to the auctions and the CCA allowance costs,
6 doesn't that imply that PSE does have some amount of
7 control over its decision to impact how much customers
8 ultimately pay for CCA allowances?

9 A Far less than you would assume. For example, this year
10 every auction that we have uncured we have actually lost
11 allowances on a net basis because of the way the auctions
12 have been set up. We are not able to purchase a
13 sufficient number of allowances at auctions to meet our
14 actual needs. So we have a very limited ability to
15 actually control the costs other than to buy as much as
16 we can in every auction.

17 Q Okay. So your position is that PSE's ability to
18 influence to cost it pays for CCA allowances on average
19 is limited, but doesn't your hypothetical on Page 79
20 demonstrate that even if it does have a limited ability,
21 even a small chance of PSE being able to reduce the
22 costs, the average cost of CCS allowances, that would
23 have a significant impact on PSE's customers if
24 successful, correct?

25 A No.

1 Q No?

2 A No. And the reason is that when you put a cost into base
3 rates it's a projection. It's a projection based on we
4 have really no idea what next year's compliance
5 obligations will be or costs will be. They were really
6 high the first year. They were low this year, and who
7 knows what they will be next year.

8 So all you are doing there is Puget will go out and
9 comply and the actual costs will be higher or lower than
10 what is put in the base rates. There is no ability --
11 it's not like a person's salary that Puget can say the
12 salary next year is going to be X. We know that that
13 cost is, so if that person is retired or laid off or
14 promoted then we know that there's a difference going to
15 happen.

16 Here we just know there's going to be a cost. We
17 have an idea of what the cost might be, and if it comes
18 in five or ten percent lower that is, in some part,
19 likely due to some activity that Puget did, but it might
20 just also be the market. That's just a function of
21 dealing with a market. We don't know what the cost will
22 be next year.

23 Q Right. So you would agree that PSE's decisions have the
24 ability to result in lower or higher average CCA
25 allowance costs?

1 A Compared to the average market cost, yes. We can make
2 sure that our costs are in line with what the market
3 costs are, but we don't control the market. That's the
4 problem with putting it in base rates is that what is the
5 market cost? That's what we are projecting. We don't
6 know what that is. We can tell you that we can try to
7 keep it on the low side. Last year we were below what
8 the average price throughout the year was, so we, in my
9 mind, met our prudence standard. We showed we did a
10 wonderful job in trying to manage that risk, with a lot
11 of difficulty we had in that process.

12 I'm saying we don't control the market. We can
13 control our activities within the market so on a margin,
14 yeah, we can sort of say we can try to be, you know,
15 within X percent of whatever the average costs are, but
16 at the end of the day we don't control that market. That
17 market is determined by activities of the state,
18 activities of other participants in the market. There's
19 a fair number of Wall Street participants in the market.
20 It's a complicated market.

21 And going forward, on top of that, I mean, if we
22 have engaged with other jurisdictions you have added that
23 complication in as a factor. You know, I don't really
24 know how to factor in how to address what the projected
25 cost of a two state, one province market might look like.

1 Q So what you are saying is there is a lot of uncertainty
2 here and we are just doing the best we can with our
3 forecasts, right?

4 Whether these costs are in base rates or in the
5 tracking mechanism, right, the forecast is just the best
6 that we can do, correct?

7 A Right. And that's why we would have to suggest that
8 there would be the true up mechanism so that -- subject
9 to prudence review so that you could take a look and make
10 sure that Puget did what it could to try to manage those
11 costs to keep them within a reasonable range around
12 whatever the market averages. But at the end of the day,
13 if the market surges by 30 percent our costs are going to
14 surge by about 30 percent.

15 Q Okay. Fair enough. But to the extent that PSE'
16 decisions can have any impact on the amount that it pays
17 for the average CCA allowance cost, even a small change
18 would have a large impact on the cost that customers pay,
19 right?

20 A In the aggregate, yes, because of Puget's costs --
21 compliance costs would be in the aggregate large, yes.

22 MR. CALLAGHAN: Thank you. No further
23 questions.

24 JUDGE BONFRISCO: Thank you. Any
25 redirect, Ms. Barnett?

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MS. BARNETT: No thank you.

JUDGE BONFRISCO: Okay. Thank you.

At this point, we are at about 10:21. I just want to take a pulse if we want to take a break or if we want to, you know, I know we tentatively planned for 10:30.

COMMISSIONER RENDAHL: Your Honor, I would appreciate a break.

JUDGE BONFRISCO: Okay. We will take a ten-minute break -- or ten minutes, is that good? So we will be back at 10:32 a.m. Thank you.

(Recess 10:22 a.m. to
10:38 a.m.)

JUDGE BONFRISCO: Okay. We are back on the record. Mr. Callaghan, if you would like to call PSE's next witness.

MR. CALLAGHAN: Thank you, Your Honor. Commission Staff calls Todd Shipman.

JUDGE BONFRISCO: Mr. Shipman, could I have you raise your right hand.

TODD SHIPMAN, witness herein, being first duly sworn on oath, was examined and testified as follows:

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THE WITNESS: I do.

JUDGE BONFRISCO: Okay. Mr.

Callaghan, you may proceed with your examination.

MR. CALLAGHAN: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. CALLAGHAN:

Q Good morning, Mr. Shipman, can you hear me?

A Yes.

Q Do you have a copy of your rebuttal testimony with you?

A Yes, I do.

Q So before we begin, is your argument in your rebuttal testimony that approving adjustment mechanisms ultimately lowers the cost of capital, and that lower cost of capital benefits customers more than any harm that might be caused by approving a given adjustment; is that a fair summary?

A No. I would say we are not recognizing any harm to employing adjustment mechanisms, but other than that I would agree with your statement.

Q Okay. Thank you. So after the Commission approves an adjustment mechanism, assuming all else is equal, that should reduce the approved cost of capital whenever the next opportunity arises, correct?

A Yes, all else being equal.

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1 Q Okay. So is your argument that approving an adjustment
2 mechanism is always a net benefit to customers because
3 adjustment mechanisms result in a lower rate of return?

4 A I would say most of the time. I can't think of every
5 circumstance off the top of my head that supports a
6 blanket statement, but I would say under most
7 circumstances any actions that the Commission takes to
8 improve a company's ability to reduce the volatility of
9 its earnings and cash flow is going to rebound to the
10 benefit of the rate payers.

11 Q All right. Could you turn to Page 7, Lines 6 through 9
12 of your rebuttal testimony and let me know when you are
13 there.

14 A I am there.

15 Q So here you state, quote, Cost of capital experts
16 recognize the risk reducing effects of adjustment
17 mechanisms; is that accurate?

18 A Yes.

19 Q All right. So you would disagree with the argument that
20 the approval of an adjustment mechanism has no bearing on
21 an expert witness' recommendation on cost of capital,
22 correct?

23 A Yes.

24 Q Have you reviewed the rebuttal testimony of PSE's witness
25 Jamie Martin?

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1 A Yes.

2 Q Do you have a copy of it readily available?

3 A No.

4 Q You don't?

5 A No.

6 Q Okay. All right. So just based on your recollection,
7 doesn't witness Martin argue the opposite of what you are
8 arguing in parts of her rebuttal testimony?

9 A That's best to ask her.

10 Q Okay. So what's PSE's position in this case? Should the
11 approval of an adjustment mechanism impact the
12 Commission's next cost of capital decision or not?

13 A I don't know what the position is on that.

14 Q Okay. Moving on, could you turn to your rebuttal
15 testimony, Page 7, Line 5, and let me know when you are
16 there.

17 A I'm there.

18 Q In this answer you state, quote, Utilities have the same
19 incentive to control costs whether the relationship of
20 costs to revenue is positive, neutral, or negative; is
21 that accurate?

22 A Yes.

23 Q Are you arguing that the utility has the same incentive
24 to control specific costs that are subject to a pure
25 passthrough adjustment mechanism compared to if those

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1 same costs were embedded in rates?

2 A Yes. I think their incentive to control costs is
3 constant. They have a profit motive to try to maximize
4 profits and to the extent that they can reduce costs,
5 it's in your best interest.

6 Q But if a specific set of costs are subject to a pure
7 passthrough mechanism, to the extent they reduce those
8 costs, doesn't that get passed back to the customer?

9 A Yes, it gets passed through the customers.

10 Q So in that case reducing those costs would not be
11 beneficial to the utility, would it, from a financial
12 perspective?

13 A I think it's in their best interest to keep their rates
14 as low as possible. For one thing, it would encourage,
15 you know, people to use their product and that's what
16 most companies strive to do. I would not disagree with
17 the idea that a passthrough mechanism perhaps does not
18 have the same -- doesn't present the same urgency to
19 control costs, but I think a utility like any other
20 company wants to have the lowest price for their product
21 in order to please their customers.

22 Q All right. So what I think I have heard from your
23 response is that you said it doesn't have the same
24 urgency. So it's not the exact same incentive in the
25 case of a pur passthrough versus those same costs being

1 embedded in the rates?

2 A I would agree with that.

3 Q Okay. So starting on Page 7, Line 5 you state, quote,
4 Utility managers have shown a deal for cost cutting for a
5 variety of different reasons; is that accurate?

6 A Yes.

7 Q Okay. So, again, are you arguing here that a utility
8 manager would have the same incentive to cut costs when
9 they have a full passthrough adjustment compared to if
10 those same costs were embedded in rates?

11 A That's not the issue I was addressing in this section of
12 my testimony.

13 Q Okay. Can you point me to any evidence in the record
14 that supports the claim that you are making on Page 7,
15 Line 15?

16 A Okay.

17 Q Does your testimony cite any prior Commission decisions
18 that come to the same conclusion that you have on this
19 point?

20 A No.

21 MR. CALLAGHAN: Nothing further.

22 Thank you, Your Honor.

23 COMMISSIONER RENDAHL: So that
24 concludes your questions?

25 MR. CALLAGHAN: Yes.

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JUDGE BONFRISCO: Any redirect?

MS. BARNETT: Yes, just quickly, I think. Thank you, Your Honor.

REDIRECT EXAMINATION

BY MS. BARNETT:

Q Mr. Shipman, you heard counsel for Staff ask you about the passing through costs through a tracker versus costs embedded in rates, and how would you describe the company's ability to control costs related to the Climate Commitment Act compliance?

A My understanding would be that it's limited, that the activities there are really based off of -- or involve costs that are set by a market.

Q Thank you. And regarding the passing through of costs through the tracker, if CCA costs and compliance are increasing risk to a company, PSE, would getting a passthrough on those costs, how would that affect PSE's risk? Would that reduce? Increase? Keep it flat?

A Having a separate tracker mechanism would reduce the risk.

MS. BARNETT: No further questions.

JUDGE BONFRISCO: Thank you. So, Mr. Callaghan, it looks like your next witness is Christopher Mickelson. Could you please call Mr. Mickelson?

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1 MR. CALLAGHAN: Thank you, Your Honor.
2 Commission Staff calls Christopher Mickelson.
3 JUDGE BONFRISCO: Okay. Mr.
4 Mickelson, can I go ahead and swear you in?
5 THE WITNESS: Yes.
6 JUDGE BONFRISCO: Okay. If you could
7 raise your right hand.
8
9 CHRISTOPHER MICKELSON, witness herein, being
10 first duly sworn on oath,
11 was examined and testified
12 as follows:
13 THE WITNESS: I do.
14 JUDGE BONFRISCO: Thank you. You may
15 proceed, Mr. Callaghan.
16 MR. CALLAGHAN: Thank you, Your Honor.
17
18 CROSS-EXAMINATION
19 BY MR. CALLAGHAN:
20 Q Good morning, Mr. Mickelson.
21 A Good morning.
22 Q Do you have copies of your initial and rebuttal testimony
23 with you?
24 A I do.
25 Q Okay. Could you turn to Page 4 of your rebuttal

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1 testimony and let me know when you are there.

2 A I'm there.

3 Q All right. Beginning on Line 5 you criticize Staff's
4 earning test proposal by saying that it is unclear what
5 the ten basis point caps that Staff's proposal is applied
6 to; is that correct?

7 A Correct.

8 Q Would PSE's position on Staff's proposal be different
9 depending on whether the ten basis point cap applies to?

10 A I don't think our position would be different. It's
11 more -- it's on the responsibility of the parties to
12 provide a clear, precise proposal so people can
13 understand what they analyze.

14 Q All right. If the Commission had a clear sense of what
15 Staff was proposing, it could make that explicit in the
16 order in this case, correct?

17 A Make what clear?

18 Q What the ten basis point cap applies to?

19 A Yes. However, there's additional items that should be
20 looked at which I have in my rebuttal and those questions
21 should also be addressed.

22 Q Okay. The Commission in its order in this case could
23 clarify all those issues depending on what risk-sharing
24 mechanism or earnings test it decides to adopt here,
25 correct?

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- 1 A Yes. It's in the Commission's power to decide a lot of
2 things that the company would have to comply with.
- 3 Q Okay. So if the Commission does approve a risk-sharing
4 mechanism with an earnings test and PSE has any lingering
5 questions about the way it's supposed to work, is it safe
6 to assume that the company would move to clarify the
7 order?
- 8 A Do you mind rephrasing that?
- 9 Q Yes. So if PSE had any -- if there was any confusion
10 about what the Commission was requiring PSE to do for
11 Schedule 111, would PSE take steps to resolve that
12 confusion, to get clarity?
- 13 A Within all Commission orders we -- PSE complies with, and
14 if there's any unclarity we typically will ask for the
15 Commission to clarify but, yes, in essence.
- 16 Q Okay. You call Staff's proposed earnings cap drastic and
17 arbitrary on Page 4 of your rebuttal testimony; is that
18 right?
- 19 A Can you point to a line? I found it. Line 17.
- 20 Q Is that correct?
- 21 A Yes, because it's not clear how Staff came about with the
22 ten point basis point on an annual basis.
- 23 Q Okay. Do you have a copy of Exhibit CTM-5 with you?
- 24 A I might. I do.
- 25 Q Could you review this exhibit and then let me know when

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1 you are done.

2 A It's multiple data requests from PSE to Staff.

3 Q Thank you. In this data request response Staff is
4 providing an example of how its earnings cap would have
5 worked if it had been in place from 2020 to 2023,
6 correct?

7 A That's correct. However, this one in part of the record,
8 if I didn't ask these requests, this was not part of the
9 initial response testimony of Staff.

10 Q Okay. And in this response the hypothetical maximum cost
11 to PSE over the four years would have been a little over
12 five million dollars; is that correct?

13 A I assume you are referencing data request number three
14 from PSE?

15 Q Yes.

16 A That would be correct, under the hypothetical. It was
17 for illustrative purposes only, and it doesn't reflect
18 what actual market conditions are right now.

19 Q Fair enough. Is the ballpark amount of a little over
20 five million dollars over four years really drastic in
21 light of the total potential CCA cost that might be
22 passed through rates to customers?

23 A In this hypothetical, I would say no. However, what the
24 actual application, and what that would look like or
25 result in I cannot answer.

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1 Q Okay. Do you have a copy of your initial testimony?

2 A I do.

3 Q Could you turn to Page 18 and let me know when you are
4 there.

5 A I'm there.

6 Q Here you describe PSE's proposed earnings test, correct?

7 A Correct.

8 Q And one feature of PSE's proposed earnings test is that
9 if PSE earns anything below its authorized rate of return
10 that PSE pays nothing under the proposed risk-sharing
11 mechanism, correct?

12 A That is correct. That is the proposal to not increase
13 the financial harm to the company and take away possible
14 cash flow for other carbon -- decarbonization efforts or
15 other means.

16 Q Has PSE provided any historical perspective on how often
17 it has earned above its authorized return on the gas
18 side?

19 A Within the filing I'm not sure if we have or haven't. I
20 know -- I believe in the past we have indicated those
21 kind of things.

22 Q Okay. Do you have a general sense of how often PSE has
23 earned above its authorized return in let's say the last
24 10 or 20 years?

25 A I do not. Unfortunately, I have kind of been out of the

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1 state for most of that time period, but I would likely to
2 guess it's probably not often.

3 Q One person said the risk-sharing mechanism is to create
4 incentives for the utilities, wouldn't you agree?

5 A I would not agree.

6 Q You would not agree with that one purpose of the
7 risk-sharing mechanism is to create incentives for a
8 utility?

9 A For risk sharing? No, that would be more of a
10 performance incentive mechanism.

11 Q Okay. Doesn't this kind of earnings test dampen any
12 incentive created by the risk-sharing mechanism?

13 A What do you mean by that?

14 Q Well, you have just testified that based on your
15 recollection PSE does not often earn above its authorized
16 return on the gas side. Doesn't PSE's proposed earnings
17 test then really limit the incentive created by the
18 risk-sharing mechanism?

19 MS. BARNETT: Objection,
20 mischaracterizes the testimony. I believe Mr. Mickelson
21 said he was not aware of the natural gas rate earnings in
22 the past, and that the risk-sharing mechanism did not
23 create incentive, he said that was a performance
24 incentive mechanism.

25 JUDGE BONFRISCO: Staff, could you

1 rephrase that?

2 MR. CALLAGHAN: Yes. Thank you, Your
3 Honor. And I will sustain that objection.

4 Q (By Mr. Callaghan) Mr. Mickelson, if the purpose of a
5 risk-sharing mechanism is to create incentives for a
6 utility, doesn't PSE's proposed earnings test reduce the
7 incentive created by the risk-sharing mechanism itself?

8 A I would say no. This allows the company to have an
9 opportunity to earn an authorized return, but this
10 financial earnings test only gets triggered if we are
11 under that, and thus doesn't create additional harm
12 financially to the company. When this does apply, then
13 the company helps reduce the price signals that customers
14 get.

15 Q But if historically PSE knows that it often does not end
16 up earning its authorized rate of return, then doesn't it
17 also know that under this earnings test it's unlikely
18 that it will be required to share in any of the costs
19 incurred for CCA allowance?

20 A No. That would be a false perception because just like
21 stock market returns you don't just look at historical
22 and assume that will apply going forward.

23 Q So your argument is that PSE does not have any idea of
24 going forward whether it's likely to earn above its
25 authorized rate of return or not?

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1 A The company's goal is always to strive to earn its
2 authorized rate of return. Whether we meet that it's
3 multiple conditions apply so I cannot truly answer that.
4 Q So your testimony is you don't have a sense of how likely
5 it is in the future that PSE will earn above it's
6 authorize rate of return?
7 A I'm sorry. I don't have a crystal ball.
8 MR. CALLAGHAN: Okay. No further
9 questions, Your Honor.
10 JUDGE BONFRISCO: All right. Any
11 redirect?
12 MS. BARNETT: No, thank you, Your
13 Honor.
14 JUDGE BONFRISCO: Thank you. With
15 that then, Mr. Callaghan, would you like to call -- it
16 looks it's PSE's last witness.
17 MR. CALLAGHAN: Thank you, Your Honor.
18 Commission Staff calls Jamie Martin.
19 JUDGE BONFRISCO: Hello, Ms. Martin.
20 If you could raise your right hand.
21
22 JAMIE MARTIN, witness herein, being
23 first duly sworn on oath,
24 was examined and testified
25 as follows:

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THE WITNESS: I do.

JUDGE BONFRISCO: All right. Thank
you. Mr. Callaghan, you may proceed.

MR. CALLAGHAN: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. CALLAGHAN:

Q Good morning, Ms. Martin. Do you have a copy of your
rebuttal testimony?

A Yes, I do.

Q In your rebuttal testimony you opposed Staff's primary
recommendation, correct?

A That's correct.

Q And your argument opposing Staff's proposed framework
doesn't address the specifics of any of Staff's proposed
criteria, correct?

A I'm not sure I follow your question. Could you rephrase
it, please?

Q Yes. So in your criticism of Staff's proposed primary
recommendation you don't specifically criticize Staff's
criteria one, criteria two, et cetera, correct?

A I think the premise of my testimony is that the
elimination of a Schedule 111 mechanism isn't the right
path for these types of costs. And by making that
argument in my testimony, it's implicit that the

1 subsequent items in Staff's proposal, from my
2 perspective, do not make sense.

3 Q Okay. So your rebuttal is focused on Staff's premise
4 that, in general, absent specific circumstances, it is
5 not in the public interest to approve tracking
6 mechanisms; is that accurate?

7 A Sorry. Do you have a reference point for my testimony?

8 Q I'm not citing a specific part of the testimony, but I
9 guess my question is, you are attacking the premise that
10 without a specific public interest demonstration, Staff's
11 premise that it's not in the public interest to approve a
12 tracking mechanism, you are attacking that premise,
13 correct?

14 A What I'm arguing is that retaining a Schedule 111
15 mechanism for these specific costs is the right thing to
16 do given where we are in implementation of CCA, and more
17 broadly as I reference later in my testimony.

18 Q Okay. So setting aside your argument about whether
19 Staff's primary recommendation is within the scope of
20 this proceeding or not, is it fair to say that the main
21 point of your rebuttal testimony is essentially that
22 Staff is incorrect that shifting variances from the
23 company onto the customers is a problem that the
24 Commission needs to address in this case; is that a
25 reasonably accurate summary?

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- 1 A Parts of what I articulate in my testimony is that what
2 Staff suggests is variant interest and considered in
3 returns on equity isn't accurate.
- 4 Q Okay. And your reasoning is that shifts in variances
5 from the company to the customer are already accounted
6 for in return on equity analysis and ultimately
7 Commission decisions on higher rates; is that correct?
- 8 A Again, is there a specific part of my testimony you are
9 referencing?
- 10 Q Let's turn to Page 7, Lines 10 through 13 and let me know
11 when you are there.
- 12 A I'm there.
- 13 Q Okay. So I will repeat my question. Your reasoning in
14 rebuttal is that shifts in variances from the company to
15 customer are already accounted for in return on equity
16 analysis and Commission decisions on higher rates; is
17 that accurate?
- 18 A I don't think the testimony referenced that we are
19 looking at right now is specifically related to that.
- 20 Q So here you state, In other words the risk reducing
21 impacts of adjustment mechanism and approved returns on
22 equity established by regulatory bodies are largely
23 imbalanced because the latter incorporates the existence
24 of the former. Am I reading that right?
- 25 A You are reading that right.

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1 Q All right. That's essentially saying that the impacts of
2 adjustment mechanisms are already accounted for in return
3 on equity decisions; isn't it?

4 A The context of this statement is important and so when
5 you look at the other components of how I wrote about
6 this in my testimony the point here is that the existence
7 of adjustment mechanisms are a component of how returns
8 on equity are set across a set of tiered utilities.
9 Adjustment mechanisms are a common regulatory tool and
10 approved returns on equity consider those in aggregate,
11 often not in isolation, and that is reflected in cost of
12 capital across utilities.

13 There's other components in my testimony that
14 describe how this specific situation in regards to CCA
15 compliance is risky in and of itself. It's certainly new
16 amongst all of the jurisdictions that consider ROEs in
17 the United States specifically.

18 And the existence of adjustment mechanisms are
19 appropriate when there is a risk introducing set of
20 activities that a utility needs to participate in because
21 of a policy decision or regulatory decision.

22 Q But isn't your discussion on ROE and how the Commission
23 decides returns on equity and overall rate of return,
24 isn't the relevance of that for this case that the
25 Commission does not need to worry about the issues that

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1 Commission Staff is bringing up because those risks are
2 already accounted for in return on equity analysis?

3 Isn't that the argument you are making?

4 A The argument I'm making is that the cost should not --
5 the cost of CCA compliance should not be in base rates,
6 they should remain an adjustment mechanism because an
7 adjustment mechanism is an appropriate place for those
8 costs.

9 Q Okay. So could you turn to Page 4 and let me know when
10 you are there.

11 A I'm on Page 4.

12 Q All right. On Lines 7 to 11 you state that Staff
13 incorrectly suggests that ROE compensates utilities for
14 variances, and that this statement is quote, represents a
15 fundamental misunderstanding of bedrock principles
16 related to risk and returns in regulatory law; is that
17 correct?

18 A Yes. That's correct.

19 Q That's a strong statement, wouldn't you agree?

20 A I think it's a comprehensive statement.

21 Q All right. So is it your opinion that Commission
22 approved ROE does not or is not intended to compensate
23 inventors for variances?

24 A Part of what I am articulating here is that the variance
25 risk introduced in Staff's testimony isn't consistent

1 with how risk and returns are considered inside of
2 regulated activities.

3 Q So are you saying that ROE -- that ROE analysis does or
4 does not consider variances?

5 A I think it's important to define variance risk.

6 Q Okay.

7 A Staff's definition of variance risk in this case seems to
8 be the costs -- the difference between forecasted cost
9 and actual costs.

10 Q Based on that definition, is your opinion that Commission
11 approved ROE does or does not compensate investors for
12 variances?

13 A The question is very broad, and so I think it's important
14 to understand we have to talk in the specifics about what
15 ROE compensates for with regard to the difference between
16 forecasted and actual costs. ROEs are designed to ensure
17 utilities have the opportunity to be compensated for the
18 suite of risks that they face given the environment in
19 which they operate.

20 The difference between forecasted cost and actual
21 costs is certainly embedded in there, but it's not the
22 only thing that's considered. I think when jurisdictions
23 are setting ROEs, the type of costs, the ability to
24 protect and control those costs, the known and unknowns
25 associated with those costs are all really important

1 characteristics of what goes into the definition of a
2 variance risk. They can't, in my opinion, be done so
3 broadly.

4 Q So I think what you said was it's embedded in there along
5 with other risks, so are you saying that you do think
6 that ROE compensates investors for variances?

7 A Not for the risk we are talking about in this proceeding.

8 Q All right. So your -- so is your opinion that ROE does
9 not compensate for variance risk as Commission Staff has
10 defined it?

11 A I don't know that I can give you a better answer than
12 what I just gave you, but the variance risk associated
13 with the volatility in CCA compliance costs are different
14 than other types of costs as I was describing in my
15 answer previously.

16 Q So but here I'm just asking about variance risk in
17 general.

18 A Okay. Yes, and my -- the way I'm trying to answer your
19 question is to say that variance risk, as defined by
20 Staff, I don't agree with the definition of the variance
21 risk that Staff's position indicates. It's too broad in
22 my opinion, and that's why I'm giving you the answers
23 that I'm giving you at this time.

24 Q Okay. So in that same answer, again on Page 4, Lines 12
25 through 16, you state, quote, Establishing return on

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1 equity is a regulatory concept in the quest of capital
2 attraction which involves the comparison of risks among
3 alternative investments, unquote.

4 Wouldn't variance risk as Staff has defined it be
5 one of the risks that a potential investor consider when
6 they compare a specific utility to other to other
7 potential investments?

8 A I think that utility investors look at a number of things
9 when they look at the risk profile of a particular
10 investment opportunity inside of a utility space. I
11 think they look at the types of compliance requirements
12 the utility has, the construct of the regulatory
13 environment, the ability for the utility to earn a fair
14 return, the ability of a utility to deliver for its
15 customers, and deliver for its debt and equity holders.
16 And, again, the definition of Staff's variance risk in
17 its testimony, I think, is very broad and so to say
18 anything specific about it is difficult for me.

19 JUDGE BONFRISCO: Ms. Martin, if I
20 could have you bring the microphone closer I'm getting
21 input they are having a difficult time hearing you.
22 Thank you.

23 THE WITNESS: You're welcome. Is that
24 better?

25 JUDGE BONFRISCO: Yes.

1 Q (By Mr. Callaghan) So do you believe that an investor
2 would not consider the potential difference between
3 actual cost and the level of costs embedded in rates when
4 deciding whether or not to invest in a specific utility?

5 A I believe that an investor would consider the ability of
6 the utility to manage its costs or earn a fair return and
7 recover those costs timely and completely based on its
8 prudent operations.

9 Q Okay. So it's not a fundamental misunderstanding of
10 bedrock principles of regulatory law to say that variance
11 risk is something that an investor would consider, is it?

12 A I'm back to saying that the definition of variance risk
13 as offered in Staff's testimony is too broad and there
14 are many factors that an investor would consider in
15 determining whether to invest in a utility, and the
16 principles associated with risk evaluation and
17 establishing returns are much more broad than variance
18 risk.

19 Q Okay. But are you saying that variance risk as Staff has
20 defined it is not something that is considered in ROE
21 analysis?

22 A It's a component of.

23 Q Okay. So could you turn to Page 8 of your rebuttal
24 testimony and let me know when you are there.

25 A I'm on Page 8.

1 Q All right. In Footnote 14 you cite two articles from S&D
2 Global Market Intelligence, and you provide a hyperlink
3 to the 2017 article; is that right?

4 A Yes.

5 Q Have you read the article that you cite here?

6 A Yes.

7 Q Can you recall whether or not this article gives an
8 opinion on whether or not adjustment mechanisms are
9 beneficial to utilities?

10 A It's been -- I can't recall the guts of the article. If
11 you want to talk about it specifically you can bring it
12 up.

13 Q Do you recall whether or not this article states, quote,
14 A defining characteristic of an adjustment clause is that
15 it effectively shifts the risk associated with the
16 recovery of the expense in question from shareholders to
17 customers because if the clause operates as designed, the
18 company is able to change its rates to recover its cost
19 on a current basis without any negative on the bottom
20 line, and without the expense and delay that accompanies
21 a rate case filing?

22 A I don't recall. I don't have the article in front of me.

23 Q Okay. But do you agree with that statement?

24 A Can you read it again?

25 Q Yes. A defining characteristic of an adjustment clause

1 is that it effectively shifts the risk associated with
2 the recovery of the expense in question from shareholders
3 to customers because if the clause operates as designed,
4 the company is able to change its rates to recover its
5 cost on a current basis without any negative on the
6 bottom line, and without the expense and delay that
7 accompanies a rate case filing.

8 A Could you repeat the question?

9 Q Do you agree with that statement?

10 A I would add subject to a prudence review.

11 MR. CALLAGHAN: I have no further
12 questions, Your Honor.

13 JUDGE BONFRISCO: Thank you. Do I
14 have any redirect from PSE?

15 MS. BARNETT: Yes, briefly. Thank
16 you.

17 JUDGE BONFRISCO: Okay.

18
19 REDIRECT EXAMINATION

20 BY MS. BARNETT:

21 Q Ms. Martin, you heard Staff counsel asked you about the
22 variance risk definition that Staff had. What can --
23 could just please articulate your concerns with that
24 definition?

25 A Sure. My concerns are that that definition is overly

1 broad in terms of what it indicates variance risk is.
2 The ROE is specifically designed to compensate utilities
3 for differences in forecasted versus actual costs, that
4 there's more to ROE -- and ROE setting to variance risk.
5 Q Thank you. And are you aware of how the Commission or in
6 what form the Commission issues or approves an ROE for a
7 utility?
8 A I am aware, yes.
9 Q How is that?
10 A My understanding is that in the state of Washington ROEs
11 are set inside of the rate plan and are evaluated on a
12 number of criteria and then set accordingly in that
13 proceeding.
14 Q Thank you. And is the CCA implementation costs and the
15 scale of those costs considered in PSE's ROE currently?
16 A I don't believe it is, no.
17 Q I believe you were asked about the California
18 cap-in-trade program or a report with other -- regarding
19 other states, are you aware in -- is California the only
20 other jurisdiction with a similar cap-in-trade program as
21 Washington?
22 A I know California definitely has a cap-in-trade program.
23 Q Are you aware of if the Commission, the California Public
24 Utilities Commission imposes a risk-sharing mechanism on
25 utilities in the -- like Staff or the Joint Environmental

1 Advocates are proposing in this case?

2 MR. CALLAGHAN: Objection, Your Honor.

3 This is outside the scope of my cross-examination.

4 JUDGE BONFRISCO: I am going to go
5 ahead and sustain that objection. If you could direct
6 more specifically from what was previously --

7 MS. BARNETT: And I believe the report
8 that Nash Callaghan was reading from was a report
9 regarding other overall jurisdictional applications of
10 risk-sharing mechanisms, and I'm asking a follow-up about
11 other jurisdictions implementing those risk-sharing
12 mechanisms.

13 JUDGE BONFRISCO: Mr. Callaghan, what
14 specifically do you believe is outside the scope?

15 MR. CALLAGHAN: Questions related to
16 the CCA. The article that I asked a question about is
17 from 2017 before the CCA existed. I did not ask Ms.
18 Martin about anything related to CCA costs.

19 CHAIR DANNER: Just to be clear, you
20 are talking about Footnote 14 in the testimony?

21 MR. CALLAGHAN: That's correct.

22 CHAIR DANNER: I have a date of 2022.

23 MR. CALLAGHAN: There are two reports.
24 The last one is the one I asked questions about.

25 MS. BARNETT: I believe my redirect

1 question was not specific to this CCA. It was whether
2 California applies a risk-sharing mechanism, if Ms.
3 Martin is aware of California imposing or applying a
4 risk-sharing mechanism in that jurisdictional utility.

5 MR. CALLAGHAN: Your Honor, my
6 cross-examination did not ask any questions related to
7 other jurisdictions.

8 MS. BARNETT: I'm fine with
9 withdrawing that because I believe it's in the record
10 anyway.

11 JUDGE BONFRISCO: Okay. Thank you.

12 MS. BARNETT: No further questions.

13 JUDGE BONFRISCO: Okay. Ms. Martin,
14 you may be excused. Thank you.

15 Oh, real quick, before I do that I want to make
16 sure, are there any questions from the bench? Okay. You
17 may be excused, Ms. Martin.

18 Okay. We are now going to move to Public Counsel's
19 cross-examination of Staff's witness.

20 Mr. Callaghan, if you could please introduce Staff's
21 witness that will be called and I will swear them in.

22 MR. CALLAGHAN: Thank you, Your Honor,
23 Chris McGuire.

24 JUDGE BONFRISCO: Oh, just to clarify,
25 I believe Public Counsel's witness is Robert Earle.

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1 MR. CALLAGHAN: Yes, Your Honor. I
2 was a little confused.

3 JUDGE BONFRISCO: No worries.

4 MR. CALLAGHAN: Commission Staff calls
5 Dr. Robert Earle.

6 JUDGE BONFRISCO: There you are, Mr.
7 Earle. Thank you. If you could raise your right hand.

8
9 ROBERT EARLE, witness herein, being
10 first duly sworn on oath,
11 was examined and testified
12 as follows:

13
14 THE WITNESS: I do.

15 JUDGE BONFRISCO: Thank you. You may
16 proceed, Mr. Callaghan.

17 MR. CALLAGHAN: Thank you, Your Honor.

18
19 CROSS-EXAMINATION

20 BY MR. CALLAGHAN:

21 Q Good morning, Dr. Earle. Can you hear me?

22 A Yes, I can you hear. Thank you.

23 Q Do you have a copy of your cross answering testimony with
24 you?

25 A I do.

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1 Q All right. Before we begin discussing specific questions
2 about your testimony I just want to ask a general
3 question. Do you disagree with Staff's general framework
4 for evaluating tracking mechanism proposals, or is your
5 position that you disagree with how Staff has applied
6 that framework in this case? And specifically I'm
7 thinking about Staff's primary recommendation or both.

8 A Okay. I will answer as best I can as it's a compound
9 question. So I think there is an issue is -- I think
10 what Staff has done in terms of bringing the issue of
11 trackers and thinking about it is that is definitely
12 commendable. I think there are things that Staff says
13 that are useful.

14 However, I think, and I believe I say this somewhere
15 in my testimony that their perspective is a bit limited.
16 And so Mr. McGuire developed the three criteria. And
17 these three criteria are limited by the perspective
18 especially, in my view, of considering whether costs are
19 forecastable or not, or to the degree in which you can
20 actually forecast the costs.

21 Q Thank you.

22 A And also whether an RSM can be developed to -- to -- as a
23 cost control.

24 Q Okay. Thank you. That's helpful.

25 So would it be fair to say that your main objection

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1 is not the criteria itself but the application, you still
2 do have some objections to the basic criteria, but would
3 you say that your cross answering testimony is mostly
4 focused Staff's application for the primary
5 recommendation?

6 A Well, I put it a little differently. I think that the
7 criteria proposed by staff need to be modified so that
8 it's clear that issues of the -- how well costs can be
9 forecasted, especially five, six years ahead of time need
10 to be -- that sort of issue needs to be incorporated into
11 the criteria.

12 Q Thank you. Could you turn to Page 14 of your cross
13 answering testimony, Lines 2 through 5?

14 A I'm there.

15 Q So here you state that none of Staff's criteria
16 considered the issue of whether costs can likely be
17 forecasted or how potentially significant those costs
18 would be embedded, is that what you are talking about
19 here?

20 A Yes.

21 Q Okay. Do you have a copy of Mr. McGuire's response
22 testimony available?

23 A I do.

24 Q Could you turn to Page 24 of that testimony and let me
25 know when you are there?

1 A Okay. All right.

2 Q Could you please -- the next two Q&As starting from Page
3 24, Line 5 and ending on Page 25, Line 2, and let me know
4 when you are finished reviewing that.

5 A Yes, I'm here.

6 Q Okay. Doesn't part of Mr. McGuire's proposed framework
7 cover the circumstances you are concerned about here?

8 A So I'm not -- I'm not sure that it does, partly because
9 there is -- to break it down there are two issues going
10 on with CCA allowance costs. There's the price and
11 there's the quantity.

12 And the price times the quantity gives you the total
13 cost. So in this case the utility has the ability to
14 control what its average price paid for allowances is.
15 And so that addresses the question -- I guess it's not
16 clear to me that this really, really addresses the issue
17 of forecastability of the cost, of the total cost of the
18 P times Q.

19 If I understand what he's saying is well, let's
20 see...if the utility doesn't have costs -- and he says
21 no. And then he says well, in circumstances where a high
22 risk variances weren't assessed in the tracker...he says
23 that the Commission should require these to establish an
24 RSM.

25 And I think that it would be more -- the three

1 criteria which, you know, if the Commission says these
2 are the criteria that should be it would be more clear if
3 embedded in his list of the three criteria that it was
4 clear that there were times when trackers may be needed
5 with appropriate RSMs in the criteria. And if that's
6 what this is intended, fine, but when I read the three
7 criteria it seems to me it seems to leave it out.

8 Q Okay. But if when Mr. McGuire talks about high variance
9 risk, if that's the equivalent of when you talk in your
10 testimony about something being difficult to forecast, is
11 high variance risk and something being difficult to
12 forecast are more or less synonyms of each other, would
13 Public Counsel still have an issue with this criteria?

14 A When you say "this criteria" you mean these two questions
15 and answer series you pointed me to or Mr. McGuire's list
16 of the three criteria?

17 Because according to what Mr. McGuire says he thinks
18 that a tracker with an RSM is less deplorable than
19 putting things into base rates. So I don't see how these
20 two question and answers really jive with my saying well,
21 the three criteria don't address the essential issue, and
22 therefore Mr. McGuire rejects having a tracker with an
23 RSM as its preferred solution.

24 Q Okay. But if the mention of high variance risk is
25 intended to mean something along the lines of in your

1 testimony when you say that something is difficult to
2 forecast, if those things are the same then your
3 criticism that Commission Staff's criteria doesn't fit
4 the circumstance wouldn't be accurate anymore, would it?

5 A No, not at all.

6 Q Okay. So with understanding that, you know, high
7 variance risk is --is -- entails that something is
8 difficult to forecast, would you say that you still have
9 a general issue with Staff's proposed criteria?

10 A Yes, because the way he has framed them does not make
11 that explicit.

12 Q Okay. But if it were explicit, would you still have an
13 issue with it?

14 A By it you mean his criteria?

15 Q Yes.

16 A I mean, I suppose that it depends on how it was -- how it
17 was framed. My focus in this case was on the issue how
18 well things can be forecast. I think fixing that in this
19 criteria would be a step forward.

20 Q Okay. So could you turn back to your rebuttal testimony
21 on Page 20, and let me know when you are there. I
22 apologize. Sorry. Page 25 to 27.

23 A Yes.

24 Q All right. Here in your testimony you lay out a general
25 idea of what you believe a proper risk-sharing mechanism

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1 might look like. And on the top of Page 27 you say that
2 the Commission should reject the current proposal and
3 direct the parties continue working to create an
4 effective risk-sharing mechanism; is that correct?

5 A Correct.

6 Q But didn't the parties already try this last year and it
7 didn't work out? Were you involved in the last docket?

8 A I was not.

9 Q Okay. So if the Commission -- I mean, the Commission has
10 already asked the parties to go and try and resolve this
11 issue of an appropriate risk-sharing mechanism, should it
12 really ask the parties to do the same thing again?

13 A Rather than giving up on protecting consumers, yes, I
14 think the Commission should.

15 Q Okay. If the Commission approved one of the proposed
16 risk-sharing mechanisms in this docket, but required a
17 reevaluation of Schedule 111 in PSE's next general rate
18 case, would that give Public Counsel time to flesh out
19 the general idea that you presented in your cross
20 answering testimony?

21 A So I think as I state, you know, we have two years before
22 the next compliance cycle, if I'm counting correctly.
23 PSE has applied for new rates for 2025 and 2026,
24 presumably in 2026 they will apply for 2027 and 2028, an
25 RSM should put in place for the next compliance period

1 which starts again, I believe, in 2027. I think that it
2 would be -- this is my own personal opinion, not speaking
3 for Public Counsel necessarily, I think that discussion
4 of an appropriate RSM would be useful to see if the
5 parties can come to some agreement before PSE files its
6 2026 -- given the likely number of other issues that will
7 be on their docket, in that docket.

8 Q So in between the end of this case and the next general
9 case or the next case where this risk-sharing mechanism
10 would be considered, is your opinion that it would be
11 better to have no risk-sharing mechanism, or to approve
12 one of the risk-sharing mechanisms that's been proposed
13 in this case?

14 A As I stated in my testimony, none of the risk-sharing
15 mechanisms proposed in this case are effective for
16 protecting consumers. So the Commission might go ahead
17 and approve one, but there really -- in terms of
18 protecting consumers, there's nothing behind them. The
19 ability for PSE's risk-sharing mechanism to actually
20 result in anything are basically zero.

21 Q So your position is -- Sorry. Go ahead.

22 A So I think the thing -- what I personally would worry
23 about, if the Commission says, well, we don't have one
24 that we like in front of us but let's approve something
25 just so we have one is the incumbency of that

1 risk-sharing mechanism becomes difficult to overcome,
2 even though, again, none of the ones proposed are going
3 to be effective at protecting consumers.

4 MR. CALLAGHAN: Okay. Thank you. No
5 further questions, Your Honor.

6 JUDGE BONFRISCO: Any redirect from
7 Public Counsel?

8 MR. O'NEILL: I do have a few
9 questions.

10
11 REDIRECT EXAMINATION

12 BY MR. O'NEILL:

13 Q I will start where Mr. Callaghan ended, which is on the
14 issue of timing whether or not there should be something
15 approved today.

16 Are you aware of the brief we issued, the policy on
17 the CCA that the Commission issued briefly this summer
18 and then recalled?

19 A I am.

20 Q Do you recall what that brief policy stated about this
21 proceeding in relation to how it would help set policy?

22 A I'm afraid I don't.

23 Q Okay. They said they were going to defer the decision of
24 a risk-sharing mechanism to this docket. I am going to
25 ask you to assume that's true.

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1 MS. BARNETT: Objection. Could you
2 restate what -- I'm sorry. I lost track of what you are
3 talking about.

4 MR. O'NEILL: The policy statement
5 deferred the issue of a risk-sharing mechanism that --

6 MS. BARNETT: The policy statement
7 that doesn't exist?

8 MR. O'NEILL: That was briefly issued,
9 yes.

10 MS. BARNETT: Yes, why are we -- I
11 object to testimony regarding a policy statement that
12 doesn't exist.

13 MR. O'NEILL: I -- well, I will let
14 the Commission.

15 JUDGE BONFRISCO: If you could
16 rephrase what you were trying to address.

17 MR. O'NEILL: Sure. The question I
18 want to ask is, if this docket is going to be a model for
19 other dockets, how important is it we get it right in
20 this docket, get an appropriate mechanism, and that's the
21 question I want to ask.

22 JUDGE BONFRISCO: I am going to
23 overrule the objection. You can go ahead and answer, Mr.
24 Earle.

25 THE WITNESS: Thank you, Your Honor.

1 I guess that's what I trying to mean by the incumbency
2 being adopted of any risk-sharing mechanism. Once it's
3 adopted are there potential arenas where the risk-sharing
4 mechanism is adopted will undoubtedly refer to this
5 docket, so I think it's vital that the Commission not
6 adopt an ineffective risk-sharing mechanism.

7 Q (By Mr. O'Neill) Okay. The last of my questions for you
8 have to do with Mr. Nash's questions about the
9 forecastability and the high variance cost that Mr.
10 McGuire testified about. You and I have spent how many
11 hours this year addressing the difficulty of forecasting
12 market costs? Do you know how many hours we have spent?

13 A Hundreds, I would say.

14 Q How capable would you be in forecasting the CCA market
15 costs in the next six months?

16 A I'd find it very difficult. I mean, it's always possible
17 to put together a forecast, but the accuracy of that
18 forecast is likely to be quite low. And so I don't -- I
19 wouldn't have much faith in my ability to forecast it.
20 Again, it's the old story of if I could forecast those
21 coasts I would probably be somewhere else.

22 Q Are you aware of anyone who has the ability for this
23 market, for the CCA allowance market, that would be able
24 to accurately forecast the costs until 2027 at the end of
25 the first compliance period?

1 A No. No. I'm not aware of any models out there. And
2 part of the issue is even for California the models are
3 that -- could attempt this are economy wide models, and
4 these models are very, very different from the sort of
5 models that is used for power forecast modeling.

6 Power forecast modeling goes back longer than I have
7 been around. It goes back to the '50s and '60s. And the
8 technique and the knowledge about how they act, and the
9 knowledge about how power corresponds very, very deep.

10 In contrast for CCA allowances, particularly for
11 Washington but also California, the models are very crude
12 because it's what they have to do is they have to look
13 at -- and I apologize for the terminology -- they have to
14 look at general equilibrium models of the whole economy
15 because Washington and California have economy wide
16 allowance regimes, so it's very difficult. And I don't
17 think honestly there are any good models out there that
18 provide an acceptable variance for allowance costs.

19 Q And is it possible in the future that we will come up
20 with models that would allow us to forecast allowance
21 costs?

22 A So I think models can get better, whether there will be
23 an ability to forecast them as accurately in terms of
24 operations and maintenance costs or other things -- or
25 other things like that that goes to base rates, I would

1 be surprised.

2 And as an analogy, if you consider fuel costs, we
3 look at fuel costs to go out one or two years and we know
4 they are going to be off. Sometimes we are surprised
5 about how much they are off. This is why the utilities
6 when it comes to power forecasts say we will look at
7 going two years forward, but the year before as late as
8 we can we want to update, and still those forecasts are
9 off.

10 Well, here we are talking about things that are
11 natural gas prices and we are talking about looking out
12 five to six years, which nobody with a straight face
13 would suggest we do that with fuel costs.

14 Q So I want to -- in terms of what is possible today, is it
15 your opinion -- what is your opinion about whether it is
16 possible to forecast costs that are accurately enough for
17 it to be productive to put them into rates?

18 A I don't think it's possible at all.

19 MR. O'NEILL: Nothing further.

20 JUDGE BONFRISCO: I just want to take
21 a quick poll. I know that Joint Environmental Advocates
22 also reserved 20 minutes to examine Mr. Earle, and it
23 looks like we do have two other witnesses after that, so
24 do we want to proceed or -- I kind of want to get a pulse
25 from the room as far as where we are for time.

1 prudent purchase and sale of allowances. Could you
2 please briefly summarize your response to that question?
3 A Sure. So the issue with that proposed RSM in their
4 interim primary or in their secondary recommendation,
5 which is an adaptation of PSE's own proposal, the problem
6 is that if you take average prices over time it would
7 take incredibly almost unbelievably egregious behavior
8 for the proposed limits of 75 percent and 97.5 percent to
9 have an effect.

10 And to show this, I did the Monte Carlo simulation
11 where basically for just the year 2003, picked a number
12 of random trading days with some equal to PSE and said
13 okay, this is a blindfolded moneys throwing a dart at a
14 dart board, and in this instance you would expect some of
15 the outcomes to be very bad, well above the price, the
16 average market price, and you would expect other of the
17 options to be much lower than market price, and the
18 distribution of that follows along distribution.

19 It turns out that while given the market prices and
20 given the number of times they are trading on random
21 days, only .3 percent of the time is the 75 percentile
22 exceeded, and none of the time is it exceeded -- does it
23 exceed the 97.5 percent.

24 So in other words, they only kick in if PSE's
25 purchase of allowances is worse than 99.7 percent of

1 blindfolded monkeys. And I think a reasonable standard
2 would say, you know, they should be better than a lot of
3 the monkeys rather than better than almost none of them.
4 So that's the point, if that answers your question.

5 Q Thank you. Just one quick clarification. I think you
6 said in the year 2003, did you mean the year 2023?

7 A Yes. Thank you.

8 Q So you mentioned a Monte Carlo analysis. Can you explain
9 what a Monte Carlo simulation is?

10 A Sure. The idea is very simple. You have a hypothesis
11 and you test it by choosing random cases. And this
12 technique is widely used, and the hypothesis being tested
13 here is well, are the 75th and 97.5 percentiles of the
14 market an effective incentive for PSE?

15 Well, I don't know how PSE is going to trade, but I
16 say if we trade at random, how much of the time do we
17 violate the 75 percent and 97.5 percent? Presumably, PSE
18 is not going to trade at random, but if we do something
19 worse than PSE would ever do, how would it turn out?
20 Well it turns out that basically we wouldn't expect PSE
21 to violate the 75 percent or 97.5 percent at all.

22 Q So do you know whether PSE's proposed risk-sharing model
23 uses the same percentile threshold to trigger risk
24 sharing as that proposal?

25 A My understanding is that that proposal -- that Staff

1 basically adopt PSE's proposal with a new earnings cap.
2 And in the case of the primary proposal they say let's
3 use PSE's theme just for two years to the next rate case.
4 Q Does that mean you can apply the same Monte Carlo
5 analysis to PSE's risk-sharing mechanism?
6 A Absolutely. Absolutely. And the fact is that as you --
7 if you look at what's likely to happen in a whole
8 compliance period, so the compliance period plus the ten
9 months of true up, you are going to have more trading.
10 And so the percentages go down even more than in this one
11 year 2023 calculation I did.
12 Q So based on your analysis using the Monte Carlo
13 simulation for 2023, and now based on what you said about
14 the average over the four-year compliance period, do you
15 expect PSE to bear risk under Staff's or PSE's sharing
16 mechanism?
17 A I don't expect they would bear any risk at all.
18 Q Okay. Thank you. So I move on to our second topic,
19 which is how you distribute allowance price data to
20 establish sharing bands. If you could please refer to
21 your technical note on the use of normal distribution,
22 and I believe it's RLE-4C.
23 A Yes, I'm there.
24 Q If you could turn to Page 2. Actually, before you turn
25 to Page 2, could you just summarize your testimony

1 contained in this exhibit?

2 A Sure. It's a technical point, but PSE's proposed, Staff
3 adopted this as well, to use the model allowance prices
4 within normal distribution. And basically this is
5 given allowance prices so far and it appears to be in
6 error, and given the way allowance prices are likely to
7 evolve given what we know about commodity prices, that's
8 also an error.

9 And so the point of the this is to say well, if you
10 adopt one of these themes they need to corrected from use
11 of the normal distribution to model the allowance prices,
12 instead what they need to do is -- a better approach is
13 to use the actual empirical percentiles from what
14 actually happened in the market.

15 And I think that maybe the easiest way to get this,
16 and I did other statistical tests as well, is you --
17 confidential figure on Page 2, but it turns out that if
18 you calculate the bands using the empirical percentile
19 you get something very different from if you assume a
20 normal distribution, which I think in one case I think it
21 was a 97.5 percent, if you use the -- if it exceeds any
22 of the prices that actually occurred in the market, so
23 it's a technical error.

24 If one of the proposals is adopted then -- against
25 my recommendation, then it needs to be corrected.

1 Q Thank you. So on Page 2, Footnote 3, you referenced the
2 Shapiro Wealth and D'Agostino Pearson test for normality,
3 can you give a brief description of these tests?

4 A Sure. So the normal distribution is basically and I
5 think I described it in Footnote 4, is completely
6 determined by its mean or average and variance. Then you
7 plug those into the formula.

8 So the Shapiro Wealth says well, if it's a normal
9 distribution then the skew of the distribution should be
10 zero. That is, if you look at the graph on Page 1 it's
11 completely symmetrical. Skew just means something to the
12 left or right.

13 So what the Shapiro Wealth test does is it looks at
14 the skew units of it and it says is it reasonable that
15 from the samples we have a skew of this amount and it
16 still be normal distribution. And conclusion in this
17 case is no, you reject the hypothesis that it's a normal
18 distribution.

19 The D'Agostino Pearson test for normality is a
20 little bit different. Rather than looking at skewness it
21 looks at the fatness of the tail. So the tails on normal
22 distribution are not really fat and they are not really
23 thin, just right. And the pretiosus of a normal
24 distribution is three, and so essentially you go through
25 a similar procedure with D'Agostino Pearson, and you say

1 okay, what is the pretiosus of the normal distribution,
2 and it's three, and you say well, what is the pretiosus
3 of this other sample and is it reasonably different from
4 thee to get the hypothesis for normal. In this case, it
5 fails the test. Again, Figure 2 on Page 2 you can
6 eyeball it and see that it doesn't, but I did the formal
7 test as well.

8 Q Okay. Thank you. So just to clarify, you are saying you
9 ran the Shapiro test and the D'Agostino Pearson test and
10 a visual test on the distribution of allowance price
11 data, correct?

12 A That's correct. And all of that is in my work papers.

13 Q So based on the analysis you conducted in this testimony
14 did you find evidence, any evidence that the allowance
15 data was normally distributed?

16 A I did not.

17 Q So should normal be used if there is insufficient
18 evidence that the distribution of the underlying data is
19 normal?

20 A No, because that will result in a distortion of the
21 calculation of whatever percentile levels you want to
22 use.

23 Q So now I will turn your attention to Public Counsel's --
24 or rather your responses to JEA's data requests. And I
25 will direct you first to the response of data request

1 number two.

2 A I'm there.

3 Q So if allowance data has an --

4 JUDGE BONFRISCO: What exhibit number
5 is this?

6 MS. GRAVOTTA: Sorry about that. The
7 way I see it titled is PCDR-23.

8 MR. O'NEILL: I believe it's RLE-9X.

9 MS. GRAVOTTA: Oh, I apologize.

10 Q (By Ms. Gravotta) So did you prepare the responses to
11 that data request?

12 A I did.

13 Q So I was asking if allowance data has a nonnormal
14 distribution, would it be more accurate to use the direct
15 calculation of percentiles embedded in normal D scores to
16 calculate the percentiles of its nonnormal distribution?

17 A Yes.

18 Q And then if I can return you to your response to data
19 request three, which is contained in the same exhibit.

20 A I'm there.

21 Q I'm sorry. It's not the same exhibit, it's RLE-9X, my
22 apologies. And I apologize if you hear background noise
23 there's sirens going off.

24 So you were asked about replacing the 95.6
25 percentile calculation in JEA's Exhibit WD-3 with the

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1 calculations that you used. Given the evidence of the
2 record on the nonnormal distribution of allowance data
3 would that approach be more appropriate?

4 A It would.

5 Q And why is that?

6 A For the same reasons I have stated. The data shows a
7 very nonnormal distribution. Using the empirical
8 percentiles has a different result from using the normal
9 D scores. And this is important because you will end up
10 having cutoffs that are inaccurate in the sense of you
11 won't actually be matching.

12 Another way to think about this is the normal -- if
13 the allowance prices were normally distributed the
14 percentiles that you took empirically should be close to
15 normal D scores, but they are not. So that's sort of
16 another piece of evidence we are not really dealing with
17 with normally distributed data.

18 MS. GRAVOTTA: Thank you very much.

19 Before I proceed with the last topic of questioning, I
20 have a procedural question for the ALJ.

21 JUDGE BONFRISCO: Yes.

22 MS. GRAVOTTA: I referenced the
23 cross-examination exhibits, do I need to formally admit
24 these into the record or are they already admitted?

25 JUDGE BONFRISCO: They are already

1 admitted. That was partially why I did the follow-up to
2 file that from a prior correspondence yesterday.

3 MS. GRAVOTTA: Thank you, very much.

4 Q (By Ms. Gravotta) So, Dr. Earle, turning to our third
5 and final topic on the role of a risk-sharing mechanism
6 in this docket, so I will ask you to turn back to your
7 testimony to Page 6.

8 A I'm there.

9 Q So please tell me the purpose of Public Counsel's
10 suggested approach to a risk-sharing mechanism.

11 A The purpose of Public Counsel's approach is to protect
12 consumers, or to put it another way, to give PSE the
13 ability to -- to give Puget Sound Energy the incentive to
14 purchase in trade allowances in a prudent manner, one
15 that is beneficial to the consumers.

16 Q Would preventing PSE from acquiring high ceiling units
17 affect how much PSE spends overall in purchasing
18 allowances?

19 A It might. It's an interesting question. I mean, I'm an
20 economist on the one hand, on the other hand, on the
21 third hand. If all things being equal and they acquired
22 allowances more cheaply than pricing ceiling units that
23 would be beneficial.

24 There may be a larger question here. And as I tried
25 to frame it with Mr. Callaghan, there's a P issue, a

1 price issue, and a Q issue, a quantity issue. And what
2 Public Counsel is focused on is price. What we would
3 like to see in the average price paying for allowances to
4 be within the zone of reasonableness, where above that
5 zone there would be penalties and below that zone PSE
6 would get some incentives.

7 And this is something that I believe Mr. Kuzma
8 agrees that is under the control of PSE. PSE can't
9 control what market prices will be, but PSE can control
10 its trading, what it's average price looks like compared
11 to the market.

12 The true question on the other hand, I think, is a
13 difference issue, and that is how much -- how many
14 allowances are they actually out buying.

15 Q Can you elaborate on how PSE would purchase these
16 different quantities of allowances depending on whether
17 it was purchasing them at a price ceiling unit or at a
18 lower than price ceiling unit?

19 A So the quantity they need is going to depend on
20 consumption. And, you know, that's going to depend on a
21 number of factors, including weather, and including what
22 they do to address the consumption itself.

23 Q So just to recap, the way that Q would be affected in
24 this scenario is based on PSE's consumption of natural
25 gas, correct?

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1 A Correct, or their rate payers' consumption, sure.

2 Q Yes. And so if we are focusing on the P part of the
3 equation, would it be correct to say that limiting the
4 purchase of price ceiling units would reduce the P in the
5 equation?

6 A So it's a complicated question, so if you will allow me.
7 If you say I can't -- we are not going to let you
8 purchase price ceiling units and, you know, there is some
9 penalty for that, and there's a penalty for noncompliance
10 that Ecology imposes, then that would change their
11 behavior.

12 But I want to be -- I'm sorry to be picky, but I
13 want to be careful for the outlying -- what the different
14 cases, you know, could be in what a -- what a theme of
15 penalties might look like.

16 Q I understand. I would like to remove the question of
17 penalties from this. I'm specifically asking whether the
18 purchase of price ceiling units affects the P in this
19 equation?

20 A Sure.

21 Q Okay. And would you agree that reducing how much PSE
22 spends overall when purchasing allowances in turn affects
23 how much customers are charged?

24 A Sure.

25 Q Okay. Thank you. So now going to Lines 13 to 16 of Page

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1 6 of your testimony, can you explain how a risk-sharing
2 mechanism reduces overall allowance costs by ten percent
3 could result in a five percent reduction in customer
4 bills based on current rates?

5 A This was a projection that I developed in my work papers.
6 And the basic idea is looking out at 2030 we are -- the
7 exposure may be as much as five million metric tons for
8 PSE, and looking at what that might cost in terms of I
9 think I sued the changing projection of prices there.

10 If you do the arithmetic then it turns out that you
11 have a significant reduction on the rates residential
12 customers pay.

13 Q And I would like to clarify that statement a bit. So do
14 you mean that current customers bills would be five
15 percent lower if PSE's overall allowance cost were
16 reduced by ten percent this year?

17 A No. No. This is really a projection looking forward in
18 2030, looking at the fact that well, they are confining
19 all their allowances to -- all the no cost allowances for
20 sale. The assumption here is that the proceeds of those
21 no cost allowances don't go directly to customers but
22 they are used for -- they don't go to the general
23 customer base, but they go to things like low income,
24 electrification pilots, et cetera.

25 It's really looking forward the cost of allowances,

1 of all the allowances in 2030 could be quite significant,
2 and so therefore cost control is appropriate. And I'm
3 trying to here motivate the discussion of why an RSM is
4 important and why it's needed.

5 Q I understand. So to be clear, the percentages you
6 referred to, a ten percent reduction in allowance costs
7 resulting in potentially a five percent reduction in
8 customer bill costs is for the year 2030?

9 A It's for the year 2030, and it's talking about -- okay,
10 they have all sorts of things that go into their rates,
11 including allowance costs, and so this is the overall
12 rate not just allowance costs in terms of reduction.

13 Q And then at Lines 6 to 7 on that same page you say that
14 PSE's -- based on PSE's 2023 IRP the cost of purchasing
15 emissions by 2030 could increase residential customer
16 bills' by 18 to 33 percent, correct?

17 A Correct.

18 Q Is that the increase that would occur without a
19 risk-sharing mechanism in place?

20 A So this is -- this is basically saying well, again, in
21 2030 they need about five million allowances, saying
22 okay, what's the price of those allowances? This
23 calculation was done a bit differently. This was looking
24 at their sample bill data, and this is all in my work
25 papers, but basically take their sample bill, I forget

1 how many therms they attribute to a typical bill, but
2 there's so much emissions coming out at a projected cost,
3 and then we use these numbers and this is what we end up
4 with, we end up with the 18 to 33 percent increase.

5 Q So would a risk-sharing mechanism that reduces overall
6 allowance costs by ten percent theoretically result in an
7 increase to customer bills of 13 to 28 percent by 2030?

8 A Maybe. I haven't done the analysis that way, so it's --
9 what you are saying seems reasonable, but I didn't do the
10 analysis quite that way.

11 But clearly, if you reduce the amount then you are
12 going to benefit -- you are going to benefit customer
13 bills.

14 MS. GRAVOTTA: Thank you. I have
15 nothing further, Dr. Earle.

16 THE WITNESS: Thank you.

17 JUDGE BONFRISCO: Thank you, Ms.
18 Gravotta.

19 MR. O'NEILL: I have no redirect.

20 JUDGE BONFRISCO: Any other questions
21 from any of the other parties? Okay. Great. With that
22 then it looks like our next -- oh, Mr. Earle, you may be
23 excused. My apologies.

24 THE WITNESS: Thank you, Your Honor.

25 JUDGE BONFRISCO: It looks like the

1 next witness we have is Christopher McGuire, so Mr.
2 Callaghan, if you could call your next witness.

3
4 CHRISTOPHER MCGUIRE, witness herein, being
5 first duly sworn on oath,
6 was examined and testified
7 as follows:

8
9 THE WITNESS: I do.

10 JUDGE BONFRISCO: Okay. Thank you.

11
12 CROSS-EXAMINATION

13 BY MR. O'NEILL:

14 Q Good afternoon, Mr. McGuire. Were you in the room to
15 hear Mr. Callaghan's opening statement?

16 A I was.

17 Q He described what he called a misapprehension by the
18 parties about Staff's proposal, and I want to be really
19 clear here about your primary proposal. Are you
20 proposing that in this document the Commission embed CCA
21 costs and rates?

22 A No, that's not my recommendation, not in this proceeding.
23 What I'm recommending is that the Commission adopt
24 criteria for determining whether a cost recovery
25 mechanism or a tracker is appropriate, and apply those

1 criteria in this case. And if it does so, it will find
2 that the criteria have not been met, but I what I am
3 saying is that because those criteria have not been met,
4 the Commission should order the company to, in its next
5 general rate case, embed CCA compliance costs in base
6 rates, but give the company an opportunity to make the
7 case that the costs in question do, in fact, meet the
8 criteria that the Commission adopts.

9 And it is entirely possible that the cost in
10 question will meet Staff's proposed criterion three, the
11 criterion that states that if costs are -- if the
12 variance risk is so high that the company is exposed to
13 an excessive level of risk, such that its ability to earn
14 its authorized return will be substantially damaged then
15 they can make the case in that case, but they haven't
16 made the case here.

17 Q I want to be crystal clear. Are you -- when you say next
18 rate case, are you talking about the rate case that's
19 currently pending that's going to go to hearing in less
20 than a month?

21 A No, I am talking about the next general rate case that
22 the company files.

23 Q Okay. You also heard the testimony about the variance
24 risk and its definition with Mr. Earle?

25 A I did.

1 Q If it is not possible to forecast accurately CCA costs,
2 would you concede that that would meet criteria three of
3 your variance risk criteria for the need for a tracker?

4 A Well, first, it has not been shown on the record here
5 that CCA compliance costs are so difficult to forecast
6 that including forecasted compliance costs and base rates
7 would be damaging to the company.

8 But if you are asking me to answer the hypothetical
9 question that it can be shown that -- or if it is shown
10 that it is prohibitively difficult to forecast CCA
11 compliance costs and that those costs are largely outside
12 of the control of the company then, yes, in that scenario
13 the cost would meet Staff's proposed criteria, but,
14 again, that hasn't been shown on the record in this
15 docket.

16 Q The risks that you are referring to in the variance risk
17 here, being able to forecast versus actual, those apply
18 to consumers as well as to the company, correct?

19 A Not necessarily, no. That's a complicated question to
20 answer because if you are -- when we are talking about a
21 utility's exposure to risk and the relationship of that
22 risk to the utility's return on equity and, you know, how
23 changes in the utility's risk profile would impact return
24 on equity, we are talking about upside price risk
25 exclusively, the risk is that the utility's cost will

1 exceed the level of cost that is in rates, but if you are
2 asking whether -- if costs are embedded in base rates,
3 whether the variance risk is a risk that customers bear,
4 I would say the answer to that is no.

5 Q Well, let's be a little more practical then. In 2023,
6 CCA auction prices start a \$48 and they rose to \$63.03,
7 are you aware of that?

8 A I'm not aware of the specifics, no.

9 Q Roughly, subject to check, would you agree with me that
10 the prices started 48 and went up -- 45 and went up to
11 63?

12 A Yes.

13 Q If the company had forecasted its costs for base rates in
14 2023 based off of those costs, and then as actually
15 happened in 2024 costs dropped to \$25, less than half,
16 that would mean the company would over collect, correct?

17 A I wouldn't characterize it as over collecting. I would
18 characterize it as the utility's costs came in below
19 costs that were embedded in rates.

20 And I need to point out that that's not necessarily
21 in and of itself problematic. Affording a utility an
22 opportunity to improve its earnings through cost control,
23 through the desire to minimize its cost has long term
24 benefits to rate payers.

25 Q Do you think that PSE was behind the drop from \$60 to \$25

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1 in allowance prices?

2 A Can you explain what you mean by behind the drop?

3 Q You said that the company controls costs. Do you think
4 that the company controlled allowance costs from \$63 to
5 \$25 for allowance?

6 A You are equating costs and price here. I am making the
7 claim that the utility does have some ability to control
8 its costs. And if you are asking whether the utility has
9 some control to influence the price of allowances, no, it
10 can't influence the market price of allowances, but it
11 can choose when to purchase allowances, and it can
12 develop a strategy for when to purchase allowances, so no
13 I wouldn't say the utility is behind the drop.

14 Q But to go back to the example we just gave, if they had
15 based forecast based on the 2023 prices and began
16 collecting those costs in rates, under your proposal when
17 the price dropped to \$25 the consumers wouldn't get their
18 money back, the company would keep that money, right?

19 A So let's, I guess, just cut to the chase here. Your --
20 Public Counsel's primary concern is that if forecasted
21 costs were embedded in base rates, and those costs didn't
22 cost in reality, came in far below the costs embedded in
23 rates, that rate payers would be paying more than they
24 needed to, or they would be overpaying for PSE's
25 compliance with the CCA. However, Public Counsel's --

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1 Q If I could interrupt you here. I appreciate that you are
2 trying to put yourself in my shoes, my specific question
3 was, under your proposal would they get that money back?

4 A They could. Yeah, it's possible they could. And if you
5 let me explain.

6 Q Please do.

7 A First, I want to finish what I was just saying about the
8 concern about the customers paying too much for CCA
9 compliance. It seems to me that Public Counsel's
10 position is that rate payers should be shielded from the
11 risk that they pay too much for CCA compliance. The
12 problem is that when you attempt to shield customers from
13 downside price risks, you shield customers from paying
14 too much for CCA compliance, what you are doing when you
15 move those costs into a cost recovery mechanism or
16 tracker, is that you are exposing customers then to the
17 upside price risk that they weren't exposed to before,
18 and they -- customers will pay for the increases in price
19 that they would not have paid were the costs embedded in
20 base rates, and it exposes rate payers to a rate
21 instability that they wouldn't be exposed to otherwise.
22 So I do find it -- I do find Public Counsel's position a
23 little peculiar because it seems willing to -- it seems
24 willing to shift upside price risks by the rate payers,
25 and also create rate instability.

1 To answer your question of would customers get that
2 money back if prices plummeted. I guess it depends on
3 the degree to which prices plummet. If it is a modest
4 decrease in prices then there may be no reason to make
5 customers whole. If it is a large decrease in price then
6 there is always the opportunity to file a petition for
7 deferred accounting. Either the company could file such
8 a petition if it felt that, you know, the increase in
9 costs were material enough to be impactful to the
10 utility's earnings, or other interested parties can file
11 a petition for deferred accounting. And if the
12 Commission grants that petition the dollars that were
13 overpaid by rate payers would be set aside in an account
14 and then could be passed back to the rate payers later
15 on, so, yes, it's possible that rate payers can recoup
16 some of those overpaid funds, but it might not always be
17 necessary, though.

18 Q Looking forward, do you know what impact the election in
19 less than a month will have on the CCA allowance cost
20 going forward?

21 A No.

22 Q Do you know what impact the possible joinder -- assuming
23 it survives, the possible joinder between the CCA markets
24 in California and Canada and Washington will have on
25 prices?

1 A No.

2 Q You are aware that part of that linkage issue is that the
3 compliance period in California is different than in
4 Washington, three years versus four, did you know that?

5 A No.

6 Q Would that have an impact on prices if we changed the
7 compliance period?

8 A I don't know.

9 Q Now I want to focus a little bit on the secondary
10 proposal, which is to adopt the proposal from PSE.

11 As part of your review, did you review the actual
12 prices paid by PSE in 2023 for allowance costs?

13 And I don't want you to tell me what the number is
14 because I think that's protected information, I just want
15 to know if you reviewed that?

16 A No, I was not Staff's witness assigned to review PSE's
17 proposed risk-sharing mechanism. I was not the witness
18 that put forward Staff's proposed mechanism. I did not
19 do that portion of the review.

20 Q Do you know whether any of the purchases in 2023 would
21 have met the 75 percentile proposal by the company?

22 A I don't know. I did not do that analysis.

23 Q Do you know who did?

24 A Yeah, the witness Kody McConnell. I don't know if
25 Staff's witness McConnell performed the specific analysis

1 that you are describing right now, the Staff's witness
2 McConnell was the witness assigned to do the review and
3 analysis of the risk-sharing mechanism.

4 MR. O'NEILL: Okay. That's all the
5 questions I have. Thank you.

6 JUDGE BONFRISCO: Any redirect from
7 Staff?

8 MR. CALLAGHAN: Very briefly, Your
9 Honor.

10 JUDGE BONFRISCO: Okay.

11
12 REDIRECT EXAMINATION

13 BY MR. CALLAGHAN:

14 Q Public Counsel was asking you questions related to if CCA
15 costs were in base rates the potential for the company to
16 over recover, do you remember that?

17 A I do.

18 Q So under your proposed criteria, CCA-related costs would
19 on be in base rates if the Commission reviewed these
20 costs, reviewed a tracking proposal, and concluded that
21 it did not meet any of Staff's proposed criteria for
22 accepting a tracking mechanism, correct?

23 A That's correct.

24 Q So the circumstance that you were talking about where
25 there might be a deferred accounting petition for under

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1 or over recovery of some significant amount, that would
2 only be in the case where the Commission previously found
3 that CCA costs were -- had a low variance to the extent
4 that it could be included in base rates, and that would
5 be in the public interest?

6 A Yes.

7 MR. CALLAGHAN: Okay. No further
8 questions, Your Honor.

9 JUDGE BONFRISCO: Okay. Any questions
10 from any of the other parties? No? Okay.

11 Public Counsel, if you would like to call your next
12 witness. Oh, and you may be excused. My apologies.

13 MR. O'NEILL: Public Counsel calls
14 William Gehrke.

15 JUDGE BONFRISCO: Mr. Gehrke, will you
16 raise your right hand for me?

17
18 WILLIAM GEHRKE, witness herein, being
19 first duly sworn on oath,
20 was examined and testified
21 as follows:

22
23 THE WITNESS: I do.

24 JUDGE BONFRISCO: Thank you. You may
25 proceed.

CROSS-EXAMINATION

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BY MR. O'NEILL:

Q Good afternoon, Mr. Gehrke. Can you hear me?

A Yes, I can.

Q Have you had an opportunity to review Mr. Earle's testimony about your proposal?

A Yes, I have.

Q Were you able to adjust your model or analysis in any way after receiving the responses from Public Counsel on the calculation of the average prices?

A I was able in response to Dr. Earle's testimony, I wasn't able to make changes in response to average prices, but I do agree with Dr. Earle's point on the nonnormal distribution and how to calculate the percentiles, and I found the evidence, the statistical analysis presented by Dr. Earle that I had talked about prior to this hearing to be convincing.

So if I was to propose -- my proposal today, I would use a different -- I would use a percentile rather than a normal D score to calculate a percent -- to calculate a risk sharing band.

One more thing that I would be open to is Dr. Earle criticized the proposal that Joint Environmental Advocates made around the discontinuous nature of my model, and I think it would be appropriate to -- if

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1 the -- to add another sharing band, for example, from the
2 90th to the 97.5 percentile at a lower percentile, at a
3 lower percentile to address Dr. Earle's concern, but
4 those are the two changes I would make after reviewing
5 Dr. Earle's testimony.

6 Q Thank you. You actually understood and answered my
7 question even if I inartfully phrased it.

8 My next line of questions is, your proposal targets
9 the highest unit cost allowances, correct?

10 A Yes.

11 Q What are the advantages of targeting unit costs rather
12 than the average costs?

13 A So in PSE's last IRP the company presented its plan for
14 complying with the CCA, and it largely relied on
15 allowances to meet its compliance obligations. And if
16 you look at the quantity of allowances that PSE plans to
17 acquire, and the limits that PSE can have to acquire
18 allowances on the auction market, and, in general, how
19 much the cap is protected in decline over time, it's
20 likely that if the current structure would continue PSE
21 would have to rely on price ceiling unit purchases, which
22 are extremely high in cost, or would have to rely on
23 really high cost allowances to comply with CCA given its
24 current utility actions.

25 So if you wanted to discourage price ceiling units

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1 and you find that they are the highest short term cost
2 method of complying with the CCA, if you use a price -- a
3 unit cost approach you can specifically target those
4 allowances costs.

5 If you use an average cost, the price ceiling units
6 are averaged out in the calculation when assessing risks
7 in the models.

8 Q When is PSE projected to be having to purchase ceiling
9 units?

10 A That wasn't -- the exact time wasn't detailed in the
11 analysis. I think there's a lot of factors in there.
12 The time that PSE would have to acquire price ceiling
13 units basically depends on economy wide conditions.
14 PSE's natural gas operations is not the only covered
15 entity, and there's at a lot of dynamics on that exact
16 point.

17 Q How many ceiling units has PSE purchased so far?

18 A They haven't purchased any ceiling units, to my
19 knowledge.

20 Q I guess, do you know when the price control proposal that
21 you proposed -- like, when you would expect it to begin
22 to kick in?

23 A It's a forward looking approach. Price ceiling unit
24 purchases can only be conducted after the compliance
25 period is over, so it's impossible for PSE to have

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1 purchased price ceiling units at this time. You have to
2 have the compliance period be finished. PSE would have
3 to demonstrate that they cannot comply. They don't have
4 enough allowances to meet their obligations, so to answer
5 the question on when, I haven't seen an exact time when
6 they are going to do it.

7 I think one of the core things that the utility
8 regulatory frame was, is you provide incentives to the
9 utility ahead of time, and you give them notice on what
10 they are going to do in the future. And I think putting
11 it on now early in the compliance period while they are
12 being subject to CCAs sends a clear signal to PSE that if
13 they rely on price ceiling units there's going to be
14 risk-sharing consequences for shareholders on that.

15 Q But the first compliance period ends in 2027, correct?

16 A Yes.

17 Q So the first time you can purchase ceiling units is going
18 to be in 2027?

19 A Yes.

20 Q In the interim between then and now, does your proposal
21 create any incentive for PSE to keep its allowance
22 purchase prices low?

23 A No.

24 MR. O'NEILL: All right. Thank you.

25 That's all the questions I have.

1 JUDGE BONFRISCO: Thank you, Mr.
2 Gehrke. Does the Staff have any redirect?

3 MR. CALLAGHAN: No, this is Joint
4 Environmental Advocates' witness.

5 JUDGE BONFRISCO: I'm sorry. I'm
6 sorry. Does Joint Environmental Advocates have any
7 redirect? My apologies.

8 MS. GRAVOTTA: Yes, just one question.

9
10 REDIRECT EXAMINATION

11 BY MS. GRAVOTTA:

12 Q You spoke about how pricing units, the first opportunity
13 to purchase them would occur in 2027. And you also spoke
14 about the importance of providing incentives ahead of
15 time. So given these two pieces of your testimony, do
16 you think -- is it your opinion that by providing notice
17 to PSE ahead of time that it cannot -- it should not be
18 relying on price ceiling units but begin providing
19 incentives now?

20 A Yes. I think what it does is it provides PSE an
21 incentive to address the quantity of emissions that it
22 has. I think my model addresses primarily the quantity
23 of allowances that PSE plans on purchasing in the future,
24 and how they are going to address the Climate Commitment
25 Act.

1 I think other models have expressed the price and
2 how that interacts and what is the cost customers pay.

3 Q And one more thing. You noted that the price of
4 allowances depends on a variety of factors, including
5 economy wide conditions. Does PSE's purchasing behavior
6 and need for certain amounts of allowances depend solely
7 on economy wide factors?

8 A No. It also depends on the quantity of emissions that
9 PSE has, and it also -- I would add that as another
10 factor besides just the economy wide factors. And it
11 also -- and I think the extension of that is what
12 decarbonization measures PSE takes in response to the
13 CCA, and how that -- the quantity of allowances that PSE
14 will need in the future.

15 MS. GRAVOTTA: Thank you. I have not
16 further redirect.

17 JUDGE BONFRISCO: Thank you. And
18 questions from any of the other parties? Okay.
19 Questions from the bench?

20 CHAIR DANNER: I have a question. I
21 just want to make sure I understand. What happens if the
22 company buys allowances above the option ceiling price on
23 the secondary market? Under your proposal, it looks like
24 there wouldn't be a penalty.

25 Wouldn't this incentivize the company to buy more

1 expensive allowances from a secondary seller in order to
2 do that to avoid those penalties?

3 THE WITNESS: Thank you for the
4 question, Chair Danner. I think the way you do that is
5 you handle that through a prudence review, and I think
6 you look at the utility's actions when they make the
7 purchase.

8 If I was analyzing a document for the CCA, and I
9 found that PSE projected that the price ceiling unit
10 would be high, would be a set price, let's say an example
11 at 140, and they went out and purchased allowances at
12 that time at 145, I think you would say as a business if
13 they had the opportunity at the end of the compliance
14 period to buy at the price ceiling price at a fixed price
15 and they paid higher than that, you would charge that
16 incremental cost to the shareholders, that 140 to 145,
17 you charge the five dollars to customers and treat it as
18 a price ceiling unit in the model.

19 CHAIR DANNER: All right. Thank you.

20 JUDGE BONFRISCO: Any other questions?

21 No.

22 Okay. I just have a few other housekeeping -- oh,
23 with that, Mr. Gehrke, you may be excused.

24 I just have a few housekeeping items. Mr. Robinson
25 O'Neill, how much time do you think Public Counsel will

1 need to comply with public comments?

2 MR. O'NEILL: So there was some
3 confusion in the notice. That got left out so I had
4 requested until Tuesday, leave the record open until
5 Tuesday so if there are any -- if there was any confusion
6 we could get public comments in until Tuesday next week.
7 And then we intend to file on Friday next week, the 18th.
8 I did get a report and I think there's like 26 comments,
9 something like that. I would have to look and find it,
10 but I think it's manageable.

11 JUDGE BONFRISCO: Okay. So we will
12 put that at October. We want to receive that filing
13 after the 18th. We will just use it as a bench exhibit
14 and file it accordingly in the docket.

15 MR. O'NEILL: Our plan will be to file
16 it as a bench exhibit.

17 JUDGE BONFRISCO: And it'S just the
18 one. And as far post hearing briefs, I'm showing those
19 are due on November 7th, 2024. Do the parties have any
20 ideas how many pages you think you might anticipate in
21 the post hearing briefs?

22 MR. CALLAGHAN: Your Honor, I don't
23 imagine we would need more than 20 pages. If my memory
24 serves, the procedural schedule includes initial post
25 hearing briefs and reply briefs.

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1 JUDGE BONFRISCO: And I'm showing the
2 reply briefs, just for the record, are due on November
3 21st.

4 MR. CALLAGHAN: Okay. So I don't
5 imagine for initial briefs we would need more than 20
6 pages.

7 JUDGE BONFRISCO: PSE?

8 MS. BARNETT: I really don't know, but
9 isn't that something in the rules? Isn't there a limit?
10 I think we have a limit of 15?

11 JUDGE BONFRISCO: Yes. You have a
12 limit of 60 for the post hearing -- and for the -- you
13 are right, the reply is 15.

14 MS. BARNETT: So I can't -- I hope I
15 don't need all 60, but I can't guess at how much less
16 than that I would need.

17 JUDGE BONFRISCO: Okay. I guess with
18 that, are there any other questions -- and Public Counsel
19 it sounds like --

20 MR. O'NEILL: I am uninclined to argue
21 for a 60 page limit. I think I suspect that we would
22 need 20 pages would be appropriate.

23 JUDGE BONFRISCO: And what about JEA?

24 MS. GRAVOTTA: I'm of the same opinion
25 of Public Counsel.

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JUDGE BONFRISCO: Okay. Are there any
other questions from the parties? Okay. And if there's
nothing else to address then today we can be adjourned.
Thank you.

(Proceedings concluded
at 12:58 p.m.)

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