EXH. CTM-6
DOCKET UG-230968
WITNESS: CHRISTOPHER T. MICKELSON

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent.	Docket UG-230968

**SECOND EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF**

CHRISTOPHER T. MICKELSON

ON BEHALF OF PUGET SOUND ENERGY

SEPTEMBER 12, 2024

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket No. UG-230968

Washington Utilities & Transportation Commission v. Puget Sound Energy

PSE DATA REQUEST NO. 001 TO THE JOINT ENVIRONMENTAL ADVOCATES:

(Opening Testimony of William Gehrke, Exh. WG-1T at 27:21 – 29:4)

Please provide a working model of the Joint Environmental Advocates' proposed earnings test with all formulae and links intact, preferably in MS Excel format.

Response:

Refer to JEA's response to PSE DR 1 Attachment A (Exh WG-3 Confidential).

<u>PSE DATA REQUEST NO. 002 TO THE JOINT ENVIRONMENTAL ADVOCATES</u>:
(Opening Testimony of William Gehrke, Exh. WG-1T at 27:21 – 29:4)

Please describe in detail the calculation and application of the Joint Environmental Advocates' proposed earnings test.

<u>Response:</u>

JEA's proposed earning test would require the following analysis.

1. Do the sharing bands of JEA's risk-sharing mechanism indicate the potential for PSE to share compliance costs based on incurred unit costs in the compliance period?
   If no, then PSE would not share in CCA compliance costs.
   If yes, divide the total costs subject to band alpha by the number of years in the compliance period. This resulting number in the calculation is called the compliance period allocator. Then, move to question two below in this list.

2. For each year of the compliance period, did the financial earnings test from the risk-sharing mechanism indicate that PSE's actual return on equity (ROE) exceeded the Company's authorized ROE less 50 basis points? For instance, if the authorized ROE is 9.4, then PSE's actual ROE would need to be greater than 8.9 for any risk sharing to occur.

   If no, then PSE does not share CCA compliance costs for that year.

   If yes, address question 3 for each year that satisfied the condition in question 2.

3. Apply the compliance period allocator from question 1 to each year of the compliance period, subject to the earnings test limits below.
   a. With this mechanism, PSE's ROE cannot be less than 50 basis points, compared to the authorized ROE, after applying the compliance period allocator to a year. All remaining costs are charged to customers.
   b. If PSE's rate of return is greater than 50 basis points above the Company's authorized rate of return (ROR), the compliance period allocator does not apply to earnings above 50 basis points of authorized rate of return. This section is due to RCW 80.28.425(6).

<u>PSE DATA REQUEST NO. 003 TO THE JOINT ENVIRONMENTAL ADVOCATES</u>

(Opening Testimony of William Gehrke, Exh. WG-1T at 27:21 – 29:4)

Please provide an illustrative example of how the Joint Environmental Advocates' proposed earnings test would have worked for the four-year period 2020-2023 using the Commission Basis Reports for PSE's natural gas operations for the period.

<u>Response:</u>

JEA objects to this data request under WAC 480-07-400 because the requested discovery is not relevant to the proceeding and is unduly burdensome. Nonetheless, JEA is providing the requested illustrative example in JEA Response to PSE Data Request No. 4 Attachment A, with additional caveats about the limited relevancy of this data request.

The CCA was not in effect during three out of the four years requested. Therefore, the earnings test is not relevant or applicable to the CCA risk-sharing mechanism during those years.

Because this docket concerns a statute that only came into effect in 2023, JEA did not evaluate PSE's natural gas commission basis reports in 2020, 2021, and 2022. The years 2020 and 2021 in particular are complex because of the COVID-19 pandemic's impact on regulatory and revenue matters for utilities. Review of the natural gas commission basis reports would require at a minimum three workdays from JEA's expert to scrutinize the underlying inputs and adjustments in the reports, and likely require additional data from PSE. Given the timelines for DR responses and JEA's expert availability, JEA could not feasibly complete such review. This burden is not justifiable in light of the request's lack of relevance.

The above means that, in answering this DR, JEA is providing an illustrative example without performing a complete review of PSE's commission basis reports in 2020, 2021, 2022.

PSE DATA REQUEST NO. 004 TO THE JOINT ENVIRONMENTAL ADVOCATES

(Opening Testimony of William Gehrke, Exh. WG-1T at 27:21 – 29:4)

What would have been PSE's financial sharing portion under the Joint Environmental Advocates' proposed earnings test for the four-year period 2020-2023 using the Commission Basis Reports for PSE's natural gas operations for the period? Please assume the same compliance costs and sharing band amounts for all four-years as reflected in Exhibit WG-3 (PCU Example).

Response:

JEA objects to this data request under WAC 480-07-400 because the requested discovery is not relevant to the proceeding. The CCA was not in effect during three out of the four years requested. Therefore, the earnings test is not relevant or applicable to the CCA risk-sharing mechanism during those years.

Nonetheless, JEA is providing the requested data in JEA Response to PSE Data Request No. 4 Attachment A, with additional caveats about the limited relevancy of this data request. Because this docket concerns a statute that only came into effect in 2023, JEA did not evaluate PSE's underlying inputs and adjustments in the natural gas commission basis reports in 2020, 2021, and 2022. This means that, in answering this DR, JEA is providing an requested information without performing a complete review of PSE's commission basis reports in 2020, 2021, 2022.

<u>PSE DATA REQUEST NO. 005 TO THE JOINT ENVIRONMENTAL ADVOCATES</u>

(Opening Testimony of William Gehrke, Exh. WG-1T at 27:21 – 29:4)

Under the Joint Environmental Advocates' proposed earnings test, if PSE's authorized return on equity for a year were 9.4 percent, and PSE's Commission Basis Reports for natural gas operations for the same year reports a return on equity of 8.91 percent (i.e., 49 basis points lower than the authorized return on equity):

(a) What portion of CCA costs in "band alpha" would PSE pay?

(b) What portion of CCA costs in "band alpha" would customers pay?

<u>Response:</u>

(a) 30% of the total costs in "band alpha" will be allocated over the years in the compliance period to determine the compliance period allocator. The company will bear the cost of the compliance period allocator in each year of the compliance period. As per the earnings test, PSE will cover costs up to an amount equal to 1 basis point of authorized return on equity for that year. If the 1 basis point of return on equity is lower than the compliance period allocator, customers will be responsible for covering the remaining cost.

(b) Customers would pay all remaining costs in band alpha. That is, customers would pay 70% costs in band alpha, and costs remaining after applying the earnings test.

PSE DATA REQUEST NO. 006 TO THE JOINT ENVIRONMENTAL ADVOCATES

(Opening Testimony of William Gehrke, Exh. WG-1T at 27:21 – 29:4)

Under the Joint Environmental Advocates' proposed earnings test, if PSE's authorized return on equity for a year were 9.4 percent, and PSE's Commission Basis Reports for natural gas operations for the same year reports a return on equity of 8.90 percent (i.e., 50 basis points lower than the authorized return on equity):

(a) What portion of CCA costs in "band alpha" would PSE pay?

(b) What portion of CCA costs in "band alpha" would customers pay?

Response:

(a) Due to JEA's earning test, PSE would not pay for any costs in band alpha.

(b) Customers would pay for 100% of costs in band alpha.

PSE DATA REQUEST NO. 007 TO THE JOINT ENVIRONMENTAL ADVOCATES

(Opening Testimony of William Gehrke, Exh. WG-1T at 27:21 – 29:4)

Under the Joint Environmental Advocates' proposed earnings test, if PSE's authorized return on equity for a year were 9.4 percent, and PSE's Commission Basis Reports for natural gas operations for the same year reports a return on equity of 8.89 percent (i.e., 51 basis points lower than the authorized return on equity):

(a) What portion of CCA costs in "band alpha" would PSE pay?

(b) What portion of CCA costs in "band alpha" would customers pay?

Response:

(a) Due to JEA's earnings test, PSE would not pay for any costs in band alpha.

(b) In this scenario, Customers would pay for 100% of costs in band alpha.

<u>PSE DATA REQUEST NO. 008 TO THE JOINT ENVIRONMENTAL ADVOCATES</u>

(Opening Testimony of William Gehrke, Exh. WG-1T at 27:21 – 29:4)

Under the Joint Environmental Advocates' proposed earnings test, if PSE's authorized return on equity for a year were 9.4 percent, and PSE's Commission Basis Reports for natural gas operations for the same year reports a return on equity of 9.91 percent (i.e., 51 basis points above the authorized return on equity):

(a) What portion of CCA costs in "band alpha" would PSE pay?

(b) What portion of CCA costs in "band alpha" would customers pay?

<u>Response:</u>

(a) 30% of the total costs in "band alpha" will be allocated over the years in the compliance period to determine the compliance period allocator. The Company will bear the cost of the compliance period allocator in each year of the compliance period. As per the earnings test, PSE will cover costs up to an amount equal to 101 basis points of authorized return on equity for that year. If the 101-basis point of return on equity calculation is lower than the compliance period allocator, customers will be responsible for covering the remaining cost. If the 101-basis point of return on equity calculation is higher than the compliance period allocator, the Company would only pay for the cost of compliance period allocator. In this scenario, JEA is making the assumption that 9.91% return on equity results in PSE's earnings being under 50 basis points above its authorized rate of return.

(b) In this scenario, Customers would pay the remaining portion of CCA costs in "band alpha". Customers would pay 70% costs in band alpha, and costs remaining after applying the earning test. In this scenario, JEA is making the assumption that 9.91% return on equity results in PSE's earnings being under 50 basis points above its authorized rate of return, because of requirements in RCW 80.28.425(6).

<u>PSE DATA REQUEST NO. 009 TO THE JOINT ENVIRONMENTAL ADVOCATES</u>

(Opening Testimony of William Gehrke, Exh. WG-1T at 27:21 – 29:4)

Under the Joint Environmental Advocates' proposed earnings test, if PSE's authorized return on equity for a year were 9.4 percent, and PSE's Commission Basis Reports for natural gas operations for the same year reports a return on equity of 9.89 percent (i.e., 49 basis points above the authorized return on equity):

(a) What portion of CCA costs in "band alpha" would PSE pay?

(b) What portion of CCA costs in "band alpha" would customers pay?

<u>Response:</u>

(a) 30% of the total costs in "band alpha" will be allocated over the years in the compliance period to determine the compliance period allocator.

Customers would pay 70% costs in band alpha, and costs remaining after applying the earning test. The Company will bear the cost of the compliance period allocator in each year of the compliance period. As per the earnings test, PSE will cover costs up to an amount equal to 99 basis points of authorized return on equity for that year. If the 99-basis point of return on equity calculation is lower than the compliance period allocator, customers will be responsible for covering the remaining cost. If the 99-basis point of return on equity calculation is higher than the compliance period allocator, the Company would only pay for the cost of the compliance period allocator. In this scenario, JEA is making the assumption that 9.89% return on equity results in PSE's earnings being under 50 basis points above its authorized rate of return.

(b) Customers would pay the remaining portion of CCA costs in "band alpha". In this scenario, JEA is making the assumption that 9.89 return on equity results in PSE's earnings being under 50 basis points above its authorized rate of return, because of requirements in RCW 80.28.425(6).

<u>PSE DATA REQUEST NO. 010 TO THE JOINT ENVIRONMENTAL ADVOCATES</u>

(Second Exhibit of William Gehrke, Exh. WG-3C)

Please provide all supporting work papers and linked documents for Exhibit WG-3.

<u>Response:</u>

JEA relied on the following documents:

1. 240220-GS Dec 2023CBR.xlsx from UG – 240220
2. 230968 PSE Resp PC DR 002_Attach A (C).xlsx from PSE's response to PC DR 2 in UG-230968

<u>PSE DATA REQUEST NO. 011 TO THE JOINT ENVIRONMENTAL ADVOCATES</u>

(Second Exhibit of William Gehrke, Exh. WG-3C)

Please explain in detail the note and its application for column b, row 10 (MS Excel cell d21) of the tab "Exh WG-3 (Earning Tst Ex PCU)". What is the 'adjusted net income'? How would the Joint Environmental Advocates' proposed earnings test apply 'up to' this amount?

<u>Response:</u>

The PSE's Commission Basis Report includes the Restated Return on Actual Equity for the Company. The note referenced in this data request specifies that the compliance period allocator cannot reduce PSE's authorized rate of return by less than or equal to 50 basis points below the Company's authorized ROE. The compliance period allocator is responsible for allocating costs to shareholders, which impacts the Company's net operating income. Details about the compliance period allocator can be found in WG-3 (Earning Allocation). Any costs allocated by the compliance period allocator should not reduce PSE's return on actual equity to less than or equal to 50 basis points below the Company's authorized ROE.

For example, in 2023, the Company reported a Return on Actual Equity of 7.86%. The Company's authorized return on equity is 9.4%. In this example, since PSE's 7.86% is return on actual equity is less than 8.90%, the Company does not share in any costs the "Alpha Band".

"Adjusted Net income" to refers Net Operating Income less interest expenses adjusted by the compliance period allocator. The compliance period allocator cannot reduce Company's Natural Gas Net Operating income less Interest Expense to be less than less than 50 basis points authorized ROE.