PUBLIC COUNSEL
RESPONSE TO REQUEST FOR INFORMATION

Docket No(s).: UE-240004 & UG-240005
Requester: ALJ Bijan Hughes
Type: Bench Request
Request No.: BR-3
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Prepared by: Public Counsel
Preparers Email: PCCSeaEF@atg.wa.gov
Responder/Witness: Michael P. Gorman
Responder Email: mgorman@consultbai.com

BENCH REQUEST NO. 3

1. Referring to Public Counsel witness Gorman's response testimony (MPG-1CT at 24:1 – 25:7), Gorman argues that "Increasing the common equity ratio of the ratemaking capital structure increases the utility's revenue requirement to recognize the existence of PPAs and their debt-like characteristics" and later suggests that PSE's proposed return on its PPAs would "impose a double cost impact on customers for the existence of PPAs."

   a. Is Public Counsel stating that the sole reason for the Company's proposed increase in equity ratio is due to these PPAs?

   b. How exactly does this proposed change in equity ratio interact with allowing a return on PPAs?

   c. How would Public Counsel measure this interaction?

2. Is Public Counsel satisfied with the correction PSE made regarding the labelling of workpapers for Adjustment No. 6.41 - Regulatory Assets and Liabilities? If not, what does Public Counsel recommend on this issue?

3. Please elaborate on the differences or lack thereof between the deferral of major resource costs under CETA and the functioning of a Clean Generating Resources tracker.

PUBLIC COUNSELS RESPONSE TO BENCH REQUEST NO. 3

1. a. No. The Company's proposed increase of its common equity ratio in this case has not been proven to be necessary. Mr. Gorman opined that the ratemaking capital structure already balanced the leverage risk of PSE PPA contracts.
   PSE manages its regulatory capital structure to balance its total leverage risk including on balance sheet debt and off-balance sheet financial obligations, including PPA contracts. This leverage balancing means that PSE will increase its capital structure equity ratio to balance the debt equivalence of PPA agreements. By increasing its ratemaking capital structure equity ratio, PSE increases its cost of capital and revenue requirement. So, customers pay higher rates to cover the utility's increased cost of capital to balance the debt equivalent of PPA agreements. Mr. Gorman concluded that the PPA debt equivalent leverage was properly balanced by PSE's capital structure, and customers will pay a higher cost of capital and rates to reflect the leverage risk of PPA contracts.

   b. Allowing a return on a PPA is intended to support the utility's financial strength in recognition of the PPA debt equivalence. The PPA debt equivalent increases the total leverage risk of the utility. In effect, a return on a PPA will increase the

utility's cash flows to support credit metrics cash flow coverages of total leverage. Increasing the equity ratio in the ratemaking capital structure will produce the same improvements to the utility's cash flow coverages of total leverage. An increase in the equity ratio will increase cost to customers and increase the utility cash flow. A return on a PPA does the same thing. Both methods increase the utility's cash flow and improve the utility's cash flow coverages of total leverage. However, only one option is needed. Hence, allowing both a higher equity ratio in the ratemaking capital structure, and also an equity return on a PPA will double charge customers to improve the utility's cash flow coverage of total leverage higher than needed to balance the utility's PPA debt equivalence and maintain adequate cash flow coverage of total leverage risk. Only one of the two increased charges to customers is needed to fairly compensate the utility for its total leverage risk.

c. Public Counsel believes the more direct measure of ensuring adequate management of leverage risk by the utility and fair charges to customers is to balance its ratemaking capital structure debt and equity components by recognizing the off-balance sheet debt equivalence of financial contractual agreements, such as a PPA. Offering a return on a PPA has no direct cost benefit to customers, and it will simply increase the cost of the PPA agreement to ratepayers.

2. Yes, Public Counsel is satisfied with the correction PSE made to the labeling of workpapers for Adjustment No. 6.41-Regulatory Assets and Liabilities.

3. The major difference between deferral of CETA-related costs and the functioning of a Clean Generating Resources tracker is the timing of when the resource costs will be used to increase customers' bills and when the same resources provide operating benefits to customers. Deferring the major resource costs under CETA allowed the utility to seek recovery of those deferred costs after the resource is placed in-service and begins to provide operating benefits to customers. The proposed function of the Clean Generating Resources tracker is that customers can start paying costs of the resource before it is in-service and before the resource starts to provide operating benefits to customers. The primary distinction is whether or not customers should pay resource costs before the resource is producing operating benefits to customers. Based on this distinction, a deferral would align the timing of benefits and costs to customers, whereas a Clean Generating Resources tracker would not align the timing of resource costs charges to customers with the resource producing operating benefits to customers.