BEFORE THE WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

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

WG-6 EXHIBIT (NONCONFIDENTIAL) TO THE

CROSS ANSWERING TESTIMONY OF

WILLIAM GEHRKE

ON BEHALF OF JOINT ENVIRONMENTAL ADVOCATES

September 12, 2024

<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).

PSE DATA REQUEST NO. 005 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 8.91 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?

Response:

(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.

<u>PSE DATA REQUEST NO. 007 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 8.89 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?

<u>Response:</u>

(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.

PSE DATA REQUEST NO. 008 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 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?

Response:

(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).