

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**Docket UE-240004
Docket UG-240005
(consolidated)**

In the Matter of the Petition of

PUGET SOUND ENERGY

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

**Docket UE 230810
(consolidated)**

REDACTED VERSION

**BRIEF OF
PUGET SOUND ENERGY**

DECEMBER 4, 2024

**SHADED INFORMATION IS DESIGNATED AS
CONFIDENTIAL PER PROTECTIVE ORDER IN
DOCKETS UE-240004/UG-240005 ET AL.**

PUGET SOUND ENERGY

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I. INTRODUCTION

1. Puget Sound Energy (“PSE”), the Commission, and the State of Washington are transitioning to a clean energy and decarbonized future, consistent with recent legislation—specifically, the Clean Energy Transformation Act (“CETA”) and the Climate Commitment Act (“CCA”). The evidence in this case shows the steps PSE has taken, and is taking, to implement the transition to clean energy while also continuing to provide safe, reliable, and equitable electric and natural gas services. PSE must be a financially healthy utility to meet this dual mandate, and the proposals set forth in this case are necessary to improve PSE’s financial strength so the company can deliver on the policy objectives the state has established.
2. For several years, PSE has been working closely with interested parties and the Commission to address the needs of the energy-burdened and low-income customers it serves in anticipation of the transition to clean energy. The evidence in the record demonstrates that due to the considerable progress made through the implementation of bill discount rates and energy assistance programs, the vast majority of PSE’s customers are not considered energy burdened, even with the full rate increases proposed in this case. Additionally, PSE has made significant progress to utilize an equity lens for its business operations, and leads many of its peers across the country in incorporating equity.
3. With the needs of the most vulnerable populations being addressed, the Commission can confidently employ the tools PSE proposes in this case—tools provided by the Legislature and previously used and acknowledged by the Commission—to improve PSE’s financial health as it works to meet the requirements of the dual mandate. The reality is that PSE must invest \$9.5 billion in incremental capital expenditures to transition to clean energy while providing safe and reliable electric and natural gas services to its customers. A full suite of tools is needed to achieve this dual mandate.
4. The suite of tools PSE proposes will improve its cash flow and credit metrics and position PSE to attract debt and equity on reasonable and cost effective terms. The Legislature

and the Commission have authorized construction work in progress (“CWIP”) in rate base treatment; PSE proposes to use this to finance CETA-eligible generation resources, which will provide PSE more certainty as it considers the financing of these clean and non-emitting resources. Accelerated depreciation of PSE’s gas assets is also an important component of PSE’s request; it is a tool the Commission has used in the past to minimize long-term customer costs and risks and avoid stranded assets that result from state-policy changes. PSE also proposes to utilize the tools authorized by the Legislature to earn a return on a number of small scale clean energy power purchase agreements (“PPA”) in this case. PSE has also proposed a Wildfire Prevention Tracker, which is important for transparency—demonstrating to the rating agencies and the public that the Commission takes wildfire risk seriously. PSE’s proposed decarbonization tracker will provide for timely cost recovery for decarbonization projects and avoid embedding these projects in base rates while PSE and interested parties learn more about these projects and their costs.

5. The operations and maintenance (“O&M”) spending requested in this case is reasonable, and it is essential if PSE is to meet its dual mandate. PSE has made sharp cuts in its O&M spending to address cash flow issues in the past, but those cuts are not sustainable for PSE to deliver reliability and clean energy safely at the scale and pace the Legislature has required. PSE has a long, well-documented history of controlling its O&M costs; PSE has some of the lowest O&M costs per customer of its peers and in the region. Moreover, PSE has demonstrated that O&M spending for the MYRP is fully allocated. Cuts to O&M spending will require dollar for dollar cuts to the work performed by PSE on behalf of its customers.

6. PSE’s credit metrics need to be above downgrade thresholds if it is to transition to clean energy and meet associated state requirements while providing safe and reliable service to its customers in an equitable manner. The evidence demonstrates that PSE does not currently have the financial strength to meet the dual mandate, absent the relief requested in this case. PSE has been in downgrade territory for several years according to Moody’s and S&P, and the evidence shows the patience of the ratings agencies is running out. Despite the legal obligation that PSE

must have a fair opportunity to earn its authorized rate of return, it has not been able to earn its authorized return for the past six years and only once in over a decade. Multiyear rate plans, in and of themselves are not risk reducing. Regulatory support from the Commission is needed, and PSE respectfully requests the Commission use the tools available, and proposed in this case, as we work together to achieve the state’s clean energy goals.

II. LEGAL STANDARDS

A. PSE Must Have the Opportunity to Earn a Fair Rate of Return To Maintain Its Financial Integrity

7. The ultimate legal question in a general rate case is whether the rates and charges proposed by a utility are fair, just, reasonable, and sufficient.¹ In making these determinations, the Commission is bound by the statutory and constitutional mandate that a regulated utility is entitled to (i) reasonable and sufficient compensation for the service it provides,² and (ii) the opportunity to earn “a rate of return sufficient to maintain its financial integrity, attract capital on reasonable terms, and receive a return comparable to other enterprises of corresponding risk.”³
8. Regarding the constitutional mandate, the U.S. Supreme Court has set the standard for how this Commission should determine whether a rate of return is appropriate in *Federal Power Commission v. Hope Natural Gas*⁴ and *Bluefield Water Works & Improvement Co. v. PSC of West Virginia*.⁵ The Commission has articulated these constitutional standards in prior cases:

These standards entitle a utility to a rate of return that is no less and no more than:

[C]ommensurate with returns on investments in other enterprises having corresponding risk. That return, moreover, should be sufficient to assure

¹ RCW 80.28.020; *People’s Org. for Wash. Energy Res. v. WUTC*, 104 Wn.2d 798, 808 (1985) (en banc) (“POWER”); see also RCW 80.28.425(1) (the Commission can also consider equitable factors to the extent such factors affect the rates, services, and practices of a gas or electrical company regulated by the commission).

² POWER, 104 Wn.2d at 808; *Puget Sound Traction Light & Power Co. v. Pub. Serv. Comm’n*, 100 Wash. 329, 334 (1918) (en banc); RCW 80.28.010(1).

³ *WUTC v. Avista Corp.*, Dockets UE-991606 and UG-991607, Third Supp. Order ¶ 324 (Sept. 29, 2000) (citing *Duquesne Light Co. v. Barasch*, 499 U.S. 299, 310 (1989); *Fed. Power Comm’n v. Hope Nat. Gas*, 320 U.S. 591, 64 S. Ct. 281 (1944); *Bluefield Water Works & Improvement Co. v. PSC of W. Va.*, 262 U.S. 679, 43 S. Ct. 675 (1923)).

⁴ 320 U.S. 591, 64 S. Ct. 281 (1944).

⁵ 262 U.S. 679, 43 S. Ct. 675 (1923).

confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.⁶

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures.⁷

9. In this case, PSE is competing for debt and equity capital as it seeks to acquire substantial clean energy resources to comply with CETA. As the evidence shows, PSE's credit metrics are in downgrade range⁸ and its authorized return on equity is in the lowest quartile when compared to its peers.⁹ PSE cannot successfully compete for debt and equity capital, of the magnitude required, in its current condition. Under *Hope* and *Bluefield* and the Commission's past precedent, the Commission must authorize a return that reflects PSE's risk profile. Specifically, PSE's ROE must be set to recognize the risks it faces as it transitions to clean energy while maintaining the safety and reliability of its core electric and natural gas services. PSE has presented evidence demonstrating that it has not been able to earn its authorized rate of return for several years. The proposals in this case are designed to allow PSE to move out of downgrade territory, compete with its peers for debt and equity capital, and have a fair opportunity to earn its authorized rate of return and improve its cash flow position and credit metrics.

B. The Legislature Has Enacted Flexible Mechanisms for the Commission To Use To Facilitate the Clean Energy Transition

10. Washington's ratemaking structure has undergone significant changes in recent years that allows for and encourages a more flexible approach to ratemaking, which is necessary for the transition to clean energy, while at the same time adding protections for customers. The

⁶ *WUTC v. PacifiCorp d/b/a Pac. Power & Light Co.*, Dockets UE-050684 et al., Order 04 ¶ 235 (Apr. 17, 2006) (quoting *Hope*, 320 U.S. at 603).

⁷ *Id.* (quoting *Bluefield*, 262 U.S. at 692-93).

⁸ See Peterman, Exh. CGP-1CT at 37:11-19; Martin, Exh. JLM-1CT at 13:6-17, 17:1 -18:3 (Figures 1 and 2, Table 1).

⁹ See Doyle, Exh. DAD-1CT at 32:15-17, 41:10-18, 42:1-5, 46:1-4, 49:9-15; Exh. DAD-4.

Legislature’s 2019 passage of CETA proclaimed that it is “the policy of the state to eliminate coal-fired electricity, transition the state’s electricity supply to one hundred percent carbon-neutral by 2030, and one hundred percent carbon-free by 2045.”¹⁰ The Legislature recognized “that utilities in the state have an important role to play in this transition, and must be fully empowered, through regulatory tools and incentives, to achieve the goals of this policy.”¹¹ Flexible regulatory mechanisms are available and should be used: “[t]he legislature recognizes and finds that the utilities and transportation commission’s statutory grant of authority for rate making includes consideration and implementation of performance and incentive-based regulation, multiyear rate plans, and other flexible regulatory mechanisms where appropriate to achieve fair, just, reasonable, and sufficient rates and its public interest objectives.”¹²

11. With the passage of CETA in 2019 and the CCA in 2021, the Legislature recognized the sea change in regulatory philosophy that will be required if Washington is to decarbonize and transition to clean energy. In 2021, the Legislature enacted RCW 80.28.425, which requires every general rate case filing of a gas or electrical company to include a proposal for a multiyear rate plan.¹³ The Commission’s consideration of a proposed multiyear rate plan is subject to the same standards as traditional general rate cases, i.e., whether the proposed rates are fair, just, reasonable, and sufficient and in the public interest.¹⁴ “In determining the public interest, the commission may consider such factors including, but not limited to, environmental health and greenhouse gas emissions reductions, health and safety concerns, economic development, and equity, to the extent such factors affect the rates, services, and practices of a gas or electrical company regulated by the commission.”¹⁵

12. The multiyear rate plan statute treats projected plant differently than projected operating expenses. Consistent with RCW 80.04.250, plant must be used and useful during the rate

¹⁰ RCW 19.405.010(2).

¹¹ RCW 19.405.010(5).

¹² *Id.*

¹³ *See* RCW 80.28.425(1).

¹⁴ *Id.*

¹⁵ *Id.*

effective period, and if not, it is subject to refund. In contrast, because operating expenses are not subject to the used and useful rule,¹⁶ operating expenses are not subject to refund.¹⁷ Moreover, because the Commission must project the revenues and operating expenses into future rate years, the statute provides and reinforces that the Commission in “projecting the revenues and operating expenses of a gas or electrical company . . . may use any standard, formula, method, or theory of valuation reasonably calculated to arrive at fair, just, reasonable, and sufficient rates.”¹⁸

13. Importantly, through all this change, customers are protected. PSE’s rates are subject to refund, and if PSE does not put plant into service in a prudent manner, then the Commission may order refunds.¹⁹ If PSE earns above its authorized rate of return during a multiyear rate plan, it must defer all revenues that are in excess of .5 percent higher than the rate of return authorized by the Commission for refunds to customers or another determination by the Commission.²⁰ The Commission must develop performance measures to assess PSE’s operating under a multiyear rate plan.²¹ And bill discount rates have been established for PSE’s most vulnerable customers.²²

C. Prudence

14. The Commission has long recognized the standard for considering whether plant investments made by utilities are prudent. Although the Commission reviews the prudence of such investments retrospectively, the review is based on what a reasonable utility knew or should have known at the time the decision was made to move forward with the project.²³ With new laws allowing for multiyear rate plans, the Commission further recognizes that a threshold

¹⁶ *POWER*, 104 Wn.2d at 815; *Wash. Att’y Gen.’s Office v. WUTC*, 4 Wn. App. 2d 657, 687 (Wash. Ct. App. 2018).

¹⁷ Compare RCW 80.28.425(3)(b) to RCW 80.28.425(3)(c), (d). Notably, the Commission’s Policy Statement on Property that Becomes Used and Useful After Rate Effective Date, by its own terms applies to property that is used and useful, not operating expenses. See *In the Matter of the Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date* (“Used and Useful Policy Statement”), Docket U-190531 at ¶ 2 (Jan. 31, 2020). Further, the Used and Useful Policy Statement is advisory only. See RCW 34.05.230(1) (“Current interpretive and policy statements are advisory only.”); WAC 480-07-920(1) (“Interpretive and policy statements are advisory only and are not binding on the commission or any person.”).

¹⁸ RCW 80.28.425(3)(d) (emphasis added).

¹⁹ RCW 80.28.425(3)(b).

²⁰ RCW 80.28.425(6).

²¹ RCW 80.28.425(7).

²² RCW 80.28.425(2).

²³ *WUTC v Puget Sound Energy*, Docket UE-031725, Order 12 ¶ 19 (Apr. 7, 2004).

prudence determination is appropriate to determine whether the plant can go into rates provisionally, subject to refund.²⁴ Prudence is part of the investment threshold question,²⁵ which should include an analysis of need, consideration of alternatives, and review of the general level of spending. Parties and the Commission have an opportunity to review the prudence of costs expended when the project is complete, in the annual review, with rates subject to refund if the costs for the project were not prudently incurred.²⁶ Similarly, the prudence of power cost resources can be reviewed in the annual power cost review. Additionally, the Commission has recognized that there is a range of reasonableness when prudence is considered, for example, for the cost of a resource, the terms of contracts, and the timing of the need and the resource.²⁷

III. PSE'S PROPOSALS ARE NEEDED TO IMPROVE CASH FLOW AND CREDIT METRICS TO ATTRACT DEBT AND EQUITY CAPITAL ON REASONABLE TERMS

15. Numerous PSE witnesses testify to PSE's risky financial condition, including its cash flow struggles, credit metrics bogged in downgrade range for several years, and its failure to earn its authorized return for many years.²⁸ While this should be concerning to the Commission in any economic and policy environment, it is especially troubling now, as PSE must acquire substantial renewable and non-emitting resources to comply with CETA, acquire resources to address capacity concerns related to the loss of coal-fired power after 2025,²⁹ and continue to maintain a safe and reliable electric and natural gas system. PSE proposes a package of tools intended to improve PSE's financial health as it moves forward in the clean energy transition. A financially strong PSE can invest in technology to reduce greenhouse gas emissions, acquire renewable and non-emitting sources of energy, and take the necessary steps to meet the mandates of the CETA and CCA. With strong financial and credit positions, PSE can move to improve the reliability of

²⁴ *In the Matter of the Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date*, Docket U-190531 ¶¶ 35, 38, 44, 46 (Jan. 31, 2020).

²⁵ *Id.* ¶ 35.

²⁶ *See WUTC v. Puget Sound Energy*, Docket UE-220066 et al., Order 24/10 ¶ 219 (Dec. 22, 2022).

²⁷ *See, e.g., WUTC v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG-090705 (consolidated), Order 11 at ¶ 333, 337 (Apr. 2, 2010).

²⁸ *See* Martin, Exh. JLM-1CTr at 12:1-14:8; Doyle, Exh. DAD-1CT at 19:19-20:3, 21:16-21, 24:1-25:3, 33:1-36:3.

²⁹ *See* Jacobs, Exh. JJJ-1T at 8:17-14:4, Exh. JJJ-3.

its electric system through grid modernization, which includes investing in a more resilient and reliable grid, more aggressively. Further, PSE can continue to enhance the safety of its gas system and take steps to reduce methane emissions. In short, customers benefit substantially when PSE is financially strong.³⁰

16. Despite the considerable benefits that result from a financially healthy company, the proposals put forward by other parties ignore these benefits, and their proposals fail to address concerns with respect to PSE's cash flow and credit metrics. They provide no analysis of the effects their proposals will have on PSE's credit metrics and cash flow. They ignore the evidence PSE provided demonstrating that its credit metrics are stubbornly mired in downgrade range despite the implementation of its first multiyear rate plan, and that rating agencies are losing patience.³¹ They further ignore and do not address PSE's need to raise billions through debt, equity, and retained earnings to meet the clean energy transition.³² In this regard, their proposals are not supported by substantial evidence and should be rejected as a matter of law.³³ In contrast, PSE witness Martin quantifies the effect of other parties' proposals on PSE's cash flow, and, as shown below, demonstrates that the other parties' proposals are inadequate to address PSE's credit metric concerns.³⁴ The evidence in this case demonstrates that PSE cannot compete to raise the substantial debt and equity financing with the cash flow and credit metrics that will result from other parties' proposals in this case.

³⁰ Doyle, Exh. DAD-1CT at 23:10-18.

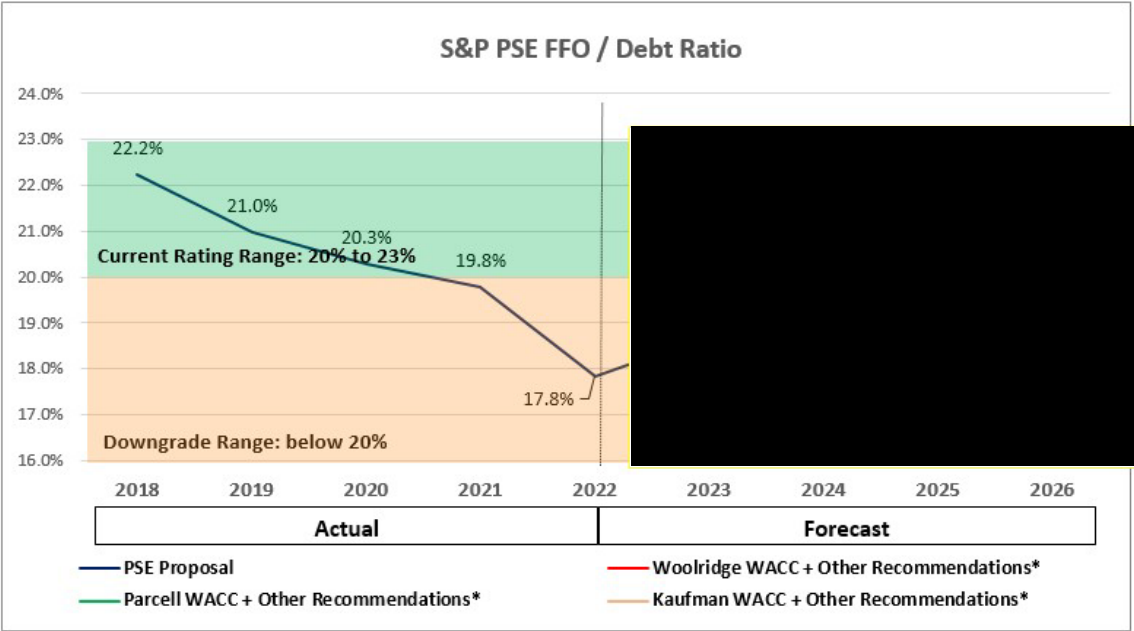
³¹ Doyle, Exh. DAD-3 at 1.

³² Doyle, Exh. DAD-1CT at 57:18-58:8.

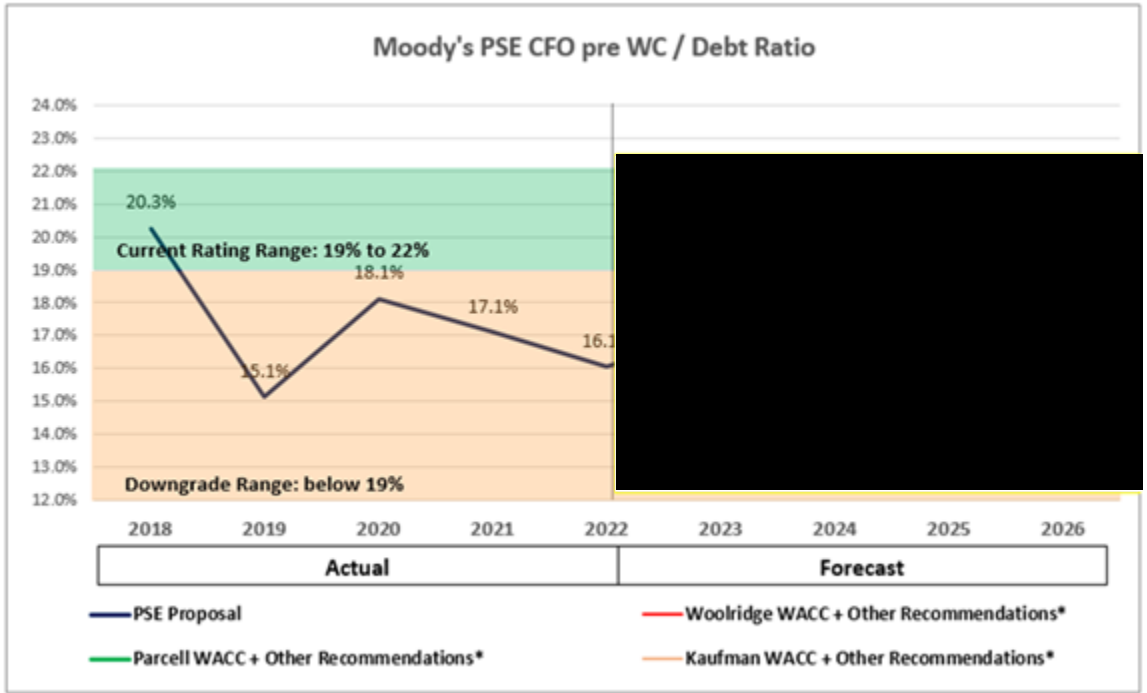
³³ See, e.g., *WUTC v. Puget Sound Pilots*, Docket TP-190976, Order 09 ¶ 285 (Nov. 25, 2020) (disallowing an argument where a party "fails to support its argument with specific evidence"); *WUTC v. Avista Corp.*, Dockets UE-140188, UG-140189 (consolidated), Order 04 ¶ 8 (July 21, 2014) (rejecting an argument where, "other than conclusory statements," a party "fails to provide any evidence" of their claim); *WUTC v. Pacific Tel. & Telegraph Co.*, Docket Nos. U-8971, U-9011 (consolidated), 1958 WL 105483 (July 11, 1958) (a party's assumption in rebuttal testimony "fails for lack of evidence" of its claim).

³⁴ See Martin, Exh. JLM-1CTr at 20:13-23:2.

S&P Key Credit Metric Based on WACC and Other Proposals



Moody's Key Credit Metric Based on WACC and Other Proposals



SHADED INFORMATION IS DESIGNATED AS CONFIDENTIAL PER PROTECTIVE ORDER IN DOCKETS UE-240004/UG-240005 ET AL.

IV. PSE’S COST OF CAPITAL PROPOSAL IS REASONABLE

17. The Commission should accept PSE’s proposed return on equity, capital structure, and overall rate of return. They are supported by the evidence and reasonable, while proposals from Commission Staff, Public Counsel, and AWEC contain several flaws and are backwards looking—they fail to recognize the risk-increasing realities of the clean energy transition and the funding needed for the transition. PSE’s proposed capital structure and rate of return are shown below:

PSE’s Proposed Capital Structure and Cost of Capital for Rate Year 1			
Capital Source	Capitalization Ratios	Cost Rate	Weighted Cost Rate*
Short-Term Debt	1.81%	5.07%	0.11%
Long-Term Debt	48.19%	5.27%	2.56%
Common Equity	50.00%	9.95%	4.98%
Total Capital	100.00%		7.65%

PSE’s Proposed Cost of Capital and Capital Structure for Rate Year 2			
Capital Source	Capitalization Ratios	Cost Rate	Weighted Cost Rate*
Short-Term Debt	1.19%	4.08%	0.06%
Long-Term Debt	47.81%	5.36%	2.57%
Common Equity	51.00%	10.50%	5.36%
Total Capital	100.00%		7.99%
* Weighted short-term debt rate includes 0.01% of commitment and amortization fees. Weighted long-term debt rate includes 0.01% of amortization of reacquired debt.			

18. PSE faces a substantial need to acquire capacity and renewable/non-emitting resources, which is incremental to its ongoing need to fund investments that maintain the safety and reliability of PSE’s electric and natural gas services. PSE witnesses Martin and Doyle testify to

the substantial debt *and equity* financing that will be needed in the coming years.³⁵ This is a significant change from prior years. The need for substantial equity financing to enable the utility to meet the dual mandate requires a return on equity that appropriately reflect the risks PSE is facing. Along with other proposals PSE makes in this case, PSE’s proposed rate of return will help to alleviate the credit metric pressures PSE is currently experiencing and allow PSE to compete for debt and equity capital on reasonable terms, which will benefit customers and allow PSE to transition to clean energy. Specifically, PSE’s proposed return on equity and equity ratio are important tools in addressing PSE’s cash flow needs and credit metric pressures and, ultimately, access to debt and equity capital on reasonable terms. For these reasons, PSE’s proposal is in the public interest and should be accepted by the Commission.

A. PSE’s Proposed Return on Equity Will Support PSE’s Ability to Attract Needed Capital at Reasonable Terms

19. PSE requests a return on equity of 9.95 percent in rate year one and 10.50 percent in rate year two. PSE is requesting a stepped increase in the return on equity over the two years of the multiyear rate plan period in recognition of the Commission’s preference for gradualism.³⁶ This increase in ROE is needed to attract capital at reasonable terms as PSE invests capital generally necessary to transition to clean energy, acquire clean capacity resources, and maintain safe and reliable electric and natural gas systems.³⁷ Using several cost of equity models, PSE witness Ann Bulkley demonstrates the reasonableness of PSE’s proposed return on equity.³⁸

Notably, when updated on rebuttal, Bulkley demonstrated that her DCF, CAPM, and ECAPM analyses have all *increased* since the filing of direct testimony in February 2024; and while the results of her Risk Premium and Expected Earnings analysis have decreased slightly

³⁵ Doyle, Exh. DAD-1CT at 57:24-58:8; Martin, Exh. JLM-1CTr at 12:3-16.

³⁶ Doyle, Exh. DAD-1CT at 37:12-38:16.

³⁷ *Id.*

³⁸ Bulkley, Exh. AEB-1T at 32:4-56:8.

since the filing of direct testimony, they continue to support PSE's request for an ROE of 9.95 percent for rate year one, and an ROE of 10.50 percent in rate year two.³⁹

20. Bulkley testifies that the change in market conditions since PSE's last rate case justify the requested increased ROE.⁴⁰ Both short term and long term interest rates have increased since PSE's rebuttal filing in 2022.⁴¹ In contrast, none of the parties who challenge PSE's proposed return on equity adequately address the change in capital market conditions since PSE's last rate proceeding.⁴² Despite an increase in long-term interest rates of 130 basis points since PSE filed rebuttal in its 2022 general rate case, Commission Staff witness Parcell recommends a cost of equity only 25 basis points higher than his recommendation in the last proceeding, while Public Counsel witness Woolridge and AWEC witness Kaufman recommend an ROE that is *lower* than the ROE authorized for PSE in the 2022 case.⁴³ Both Parcell's and Woolridge's cost of equity analyses demonstrate that the cost of equity has *increased* since PSE's 2022 rate proceeding, yet their recommended ROEs lag far behind what their models support.⁴⁴ Woolridge, who professes in this case and past cases to rely primarily on the results of his DCF model,⁴⁵ proposes an ROE that is inconsistent with his DCF model results. While his DCF model results increased by 97 basis points, he recommends an ROE that would increase only 58 basis points from his recommended ROE in PSE's 2022 case—which at 8.80 percent was well below the ROE of 9.40 percent authorized by the Commission in that case.⁴⁶

21. Despite the risks placed on PSE as it enables the state of Washington's transition to clean energy, and the change in capital markets since PSE's last rate case, Parcell, Woolridge, and Kaufman all recommend ROEs for PSE below the average authorized ROEs for other vertically

³⁹ Bulkley, Exh. AEB-19T at 9, Figure 2, 7:15-9:2; see Bulkley, Exh. AEB-20 through Exh. AEB-26.

⁴⁰ See Bulkley, Exh. AEB-19T at 10:1-21:17.

⁴¹ *Id.* Core inflation has declined since the last rate proceeding as a result of the increase in interest rates, although inflation continues to remain above the Federal Reserve's long-term target value of 2.0 percent. *Id.* at 10:12-14.

⁴² Bulkley, Exh. AEB-19T at 5:10-6:9.

⁴³ Bulkley, Exh. AEB-19T at 11:3-12:4; See *WUTC v. Puget Sound Energy*, Dockets UE-220066 *et al.*, Final Order 24/10 ¶ 48 (Dec. 22, 2022).

⁴⁴ See Bulkley, Exh. AEB-19T at 11:3-12:4, 12:5-17:7.

⁴⁵ Woolridge, Exh. JRW-1T at 6:15-17; Bulkley, Exh. AEB-19T at 14:6-9.

⁴⁶ Bulkley, Exh. AEB-19T at 12:5-17:7.

integrated electric and natural gas utilities across the U.S.⁴⁷ The suggestion by Parcell and McGuire that PSE has a lower business risk as a result of multiyear rate plans and various cost recovery mechanisms, and thus should have a lower ROE, is not supported by any analysis on their part.⁴⁸ In fact, the Commission rejected such a piecemeal approach to return on equity in which decrements are made to reflect risk reducing mechanisms, when it declined to reduce PSE's return on equity due to the adoption of decoupling mechanisms.⁴⁹ As the Commission determined, "cost of capital analysis cannot achieve the level of granularity necessary to support a discrete adjustment to ROE to account for particularized risks—up or down."⁵⁰

22. Also inconsistent with Commission practice and state law is JEA witness Cebulko's request that the Commission assign a lower ROE to gas assets.⁵¹ There are multiple reasons why the Commission should decline to do so. As discussed above, the Commission should not attempt to granularly parse ROE, assigning higher or lower ROEs to individual plant assets depending on public policies. The Commission has not done so in the past. If the Commission were to assign a lower ROE to gas assets, to discourage gas usage, it should logically assign higher ROEs to clean energy resources. Notably, neither JEA, nor any other party, presents evidence to support such a decision. Finally, PSE has an obligation to serve customers who request gas service.⁵² Seeking to disincentivize PSE to provide a service requested by a customer is not consistent with the public interest or the duty to serve. The Commission should not attempt to use return on equity as a means of parsing risks of pieces of the utility.

B. Capital Structure and Overall Rate of Return

23. PSE proposes a hypothetical capital structure through which PSE's equity level is increased to 50.00 percent for the first year of the multiyear rate plan, and 51.00 percent for the

⁴⁷ Bulkley, Exh. AEB-19T at 19:4-15.

⁴⁸ *Id.*

⁴⁹ *WUTC v. Puget Sound Energy*, Dockets UE-121697 and UG-121705 (consolidated), Order 15 ¶ 155 (June 29, 2015).

⁵⁰ *Id.* ¶ 156.

⁵¹ *See* Cebulko, Exh. BTC-1T at 93:6-103:14.

⁵² RCW 80.28.110.

second year of the multiyear rate plan.⁵³ This will allow PSE to be closer to the equity level of its peers, but notably still below.⁵⁴ As Bulkley testifies, although, PSE's equity ratio lags behind the proxy group, PSE's overall financial risk over the multiyear rate plan would be greater than the average financial risk of the operating companies owned by the proxy group.⁵⁵

24. PSE has financed the business with a higher level of regulated equity than its authorized level for four of the last five years, which demonstrates PSE's commitment to financing the business at the authorized equity levels or greater.⁵⁶ However, equity financing will need to increase substantially in this time period, and returns must be commensurate with the risk profile PSE presents, which is not currently the case. In this environment with massive capital expenditures required, and the need to dramatically increase financing through debt, equity, and retained earnings, the Commission should recalibrate its safety and economy standard to recognize the risk-increasing realities of the dual mandate for the rate of return, and approve PSE's proposed hypothetical equity level and its overall rate of return requested in this case.⁵⁷

25. For several years, PSE has been cash flow negative—meaning the costs that PSE recovers through rates and the return of and on rate base are not sufficient to cover all of the funding needs of the business (operations and maintenance expenses, capital expenditures, working capital, regulatory liabilities, etc.). As a result, PSE must finance the rest of the needs of the business with incremental funding via debt (i.e., short- and long-term debt) and equity.⁵⁸ Without a credit supportive order in this case, the cost of both debt and equity financing will increase and access to equity financing will be jeopardized.

26. PSE has been mired in the rating agencies' downgrade range for several years, which demonstrates that multiyear rate plans in and of themselves, are not risk reducing. With the

⁵³ Doyle, Exh. DAD-1CT at 38:5-10.

⁵⁴ See Bulkley, Exh. AEB-1T at 93:4-18 (the equity ratio for operating subsidiaries of Bulkley's proxy group over most recent eight quarters ranged from 45.52 percent to 66.21 percent, with a mean of 54.99 percent).

⁵⁵ *Id.* at 93:15-18.

⁵⁶ See Peterman, Exh. CGP-1CT at 37:2-9.

⁵⁷ Doyle, Exh. DAD-1CT at 51:11-60:3.

⁵⁸ Peterman, Exh. CGP-1CT at 20:7-13.

additional financial pressures resulting from CETA, PSE must improve its cash flow and credit metrics to avoid a downgrade. The manner in which the Commission implements the multiyear rate plan is of paramount importance in terms of PSE's cash flow, credit metrics and ability to compete for debt and equity capital.

27. PSE's Treasurer, Cara Peterman, identifies the errors in cost of capital recommendations by Woolridge,⁵⁹ Parcell,⁶⁰ and Kaufman.⁶¹ She demonstrates how each of their cost of capital proposals, combined with their position on other PSE proposals in this case, will negatively impact PSE's cash flow⁶² and PSE's credit metrics.⁶³ She testifies to the additional costs PSE and customers will bear if PSE faces a downgrade in its credit rating.⁶⁴ PSE witness Shipman testifies to the difficulty companies face, when downgraded, to return to their previous credit rating.⁶⁵
28. Public Counsel's capital structure and rate of return contain several flaws. First, Woolridge incorrectly calculates cost of debt. When corrected, his cost of capital increases from 6.99 percent to 7.32 percent.⁶⁶ Second, Woolridge repackages his same equity ratio recommendation from PSE's 2022 case, which has not been sufficient to maintain proper credit health for PSE, as PSE's current credit metrics hover below downgrade thresholds.⁶⁷ The Commission has previously noted that the company's historical capitalization does not present a compelling reason to adopt Public Counsel's proposal.⁶⁸ Third, Woolridge's equity ratio comparisons are improperly deflated and erroneous. He uses parent companies rather than stand-

⁵⁹ See Peterman, Exh. CGP-11CT at 15:14-17:3.

⁶⁰ See Peterman, Exh. CGP-11CT at 32:12-34:3.

⁶¹ See Peterman, Exh. CGP-11CT at 52:10-53:10.

⁶² Peterman, Exh. CGP-11CT at 6:5-7:2.

⁶³ Peterman, Exh. CGP-11CT at 7:3-14:14.

⁶⁴ See Peterman, Exh. CGP-11CT at 24:1-25:17.

⁶⁵ See Shipman, Exh. TAS-5CT at 3:15-4:17.

⁶⁶ See Peterman, Exh. CGP-11CT at 16:14-17:3. Woolridge incorrectly calculates the cost of long-term debt. He manufactures a single cost of capital to apply across both rate years and erroneously calculates a cost of debt that is far too low—4.70 percent rather than the actual 5.32 percent average. He compounds the errors by omitting: (i) commitment fees, (ii) amortization of short-term debt issue cost to the weighted short-term debt cost rate, and (iii) amortization of reacquired debt to the weighted long-term debt cost rate, all of which have been approved by the Commission in prior cases. *Id.*

⁶⁷ See Peterman, Exh. CGP-11CT at 8:8-9:3.

⁶⁸ *WUTC v. Puget Sound Energy*, Dockets UE-220066 and UG-220067 (consolidated), Final Order 24/10 ¶ 126 (Dec. 22, 2022).

alone regulated utilities in his data set; he does not calculate the common equity balances on an AMA basis but uses a specific point in time, which skews the results. He inexplicably ignores his analysis of equity balances that fall within a range of 40.0 percent to 43.2 percent and instead recommends a 49.0 equity level.⁶⁹ His testimony and analyses are not credible and should be rejected by the Commission. Moreover, Public Counsel witness Gorman's attempts to minimize PSE's financial risks should be disregarded. Multiyear rate plans are not risk reducing, in and of themselves as evidenced by PSE's credit metrics and continued inability to earn its authorized return. Among other errors, he misuses the concept of stable outlooks and ignores the warning that without appropriate recovery mechanisms, credit may be negatively affected.⁷⁰

29. Commission Staff witness Parcell likewise errs in his cost of capital calculation. First, in straining to justify a capital structure for PSE of 48.5 percent equity he incorrectly claims PSE's authorized equity ratio is 48.5 percent, when in reality it is 49.0 percent.⁷¹ Second, he uses an incorrect year-end long-term debt balance, rather than the AMA long-term debt balance, which inaccurately influences the ratio of long-term debt to short-term debt. Correcting these errors increases his cost of capital from 7.36 to 7.38 in 2025 and from 7.37 to 7.39 in 2026.⁷² Additionally, rather than use PSE's *regulated* capital structure as approved by the Commission in his analyses, he uses six different capital structures, several of which improperly include non-regulated entities. Further, his own proxy group has a common equity ratio of 52.0, which he brushes off as a "slightly higher" equity ratio than the 48.5 percent equity ratio he proposes for PSE. In fact, the equity ratio difference totals \$30.9 million of lost net income for PSE over the two-year rate plan, which is significant.⁷³

⁶⁹ See Peterman, Exh. CGP-11CT at 32:12-33:7.

⁷⁰ See Peterman, Exh. CGP-11CT at 46:10-52:4.

⁷¹ See Peterman, Exh. CGP-11CT at 35:5-8.

⁷² See Peterman, Exh. CGP-11CT at 33:8-34:3.

⁷³ See Peterman, Exh. CGP-11CT at 37:17-39:2.

30. AWEC witness Kaufman omits PSE’s short-and long-term commitment and amortization fees that have always been included in PSE’s authorized capital structure.⁷⁴ He provides no justification for his 49 percent equity ratio, and when combined with his recommended ROE of 9.2, the lowest proposed in the case, PSE would remain at or near the fourth quartile thus impeding PSE’s ability to attract debt and equity capital at a time when capital needs are substantial.⁷⁵

31. As PSE has demonstrated throughout the case, improved cash flow is critical for the utility’s financial health. The hypothetical capital structure PSE requests is a tool that would allow for improved cashflow and associated improvements to credit metrics. The Commission has previously approved hypothetical capital structure⁷⁶ and it is appropriate to do so in this case for the reasons discussed above. If the Commission does not approve a hypothetical capital structure, it should not increase the equity ratio at this time. Doing so would divert cash away from funding the customer and societal benefits of CETA and CCA.

V. PSE’S SUITE OF MECHANISMS IS REASONABLE AND NECESSARY TO MEET THE DUAL MANDATE

32. PSE has proposed a suite of tools to help improve its credit metrics, provide transparency and timely cost recovery, and allow it to successfully meet the requirements of the dual mandate. Some of these tools are trackers, which the Commission has allowed in past cases. Trackers can benefit both customers and PSE. Customers can benefit from trackers by avoiding embedding certain costs in base rates, truing up actual costs on an annual basis, and gaining additional

⁷⁴ See Peterman, Exh. CGP-11CT at 52:11-53:10.

⁷⁵ See Peterman, Exh. CGP-11CT at 54:3-14.

⁷⁶ See, e.g., *WUTC v. Cascade Nat. Gas Corp.*, Docket UG-210755, Order 09 (August 23, 2022) (“The Commission has used actual, pro forma, or imputed capital structures to strike the right balance and determine overall rate of return on a case-by-case basis. In past cases, we have used a hypothetical capital structure primarily as a means to address financial hardship or tight capital markets.”); *WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-170485 and UG-170486 (consolidated), Order 07 ¶ 110 (April 26, 2018); *WUTC v. Puget Sound Energy*, Dockets UE-011570 & UG-011571 (consolidated), Twelfth Supplemental Order (June 2002) and Thirteenth Supplemental Order (Aug. 2002) (authorizing a hypothetical equity ratio 40.0 percent for PSE when the actual capital structure for PSE included an equity ratio of less than 32.0 percent); *WUTC v. Puget Sound Energy*, Dockets UE-040640 & UG-040641 (consolidated), Order 06 ¶ 27 (Feb. 18, 2005) (noting that the appropriate capital structure can either be PSE’s historical capital structure, projected capital structure, or a hypothetical capital structure).

transparency over spending. PSE can also benefit from trackers through more timely recovery and transparency into spending. PSE's proposals for rate recovery using trackers are appropriate to propose in a rate proceeding.⁷⁷ However, if the Commission wishes to set broad policy guidelines for trackers with implications for regulated companies, it should do so in a policy docket, where all interested parties (from all different industries that use trackers) are equitably included and may participate in the policy discussion.⁷⁸

A. Trackers and Risk Sharing Mechanisms in General

33. As discussed above, the Commission has recognized that trackers and other risk reducing mechanisms have proliferated, they are built into the proxy groups used to analyze ROE, and accordingly their use should not result in decrements to ROE. As the Commission stated:

We believe it is correct that cost of capital analysis cannot be expected to produce results that support measurement of decrements to ROE ostensibly due to approval of one risk mitigation mechanism or another. Nor would cost of capital analysis be adequate to the task of identifying increments to ROE that might be considered due to some measure of additional risk a company takes on at some point in time. The Commission has never tried to account separately in its ROE determinations for specific risks or risk mitigating factors, nor should it. Circumstances in the industry today and modern regulatory practice that have led to a proliferation of risk reducing mechanisms being in place for utilities throughout the United States make it particularly inappropriate and unnecessary to consider such an undertaking. The effects of these risk mitigating factors was by 2013, and is today, built into the data experts draw from the samples of companies they select as proxies.

In sum, we find persuasive the expert opinions of Dr. Morin and Mr. Gorman and find that the risk reducing effect of decoupling is reflected adequately in the data derived from the companies in their respective proxy groups. We reject the idea of a separate decrement to ROE to account for the same risk reduction.⁷⁹

⁷⁷ Steuerwalt TR. 88:14-17.

⁷⁸ Steuerwalt, TR. 88:16-89:3.

⁷⁹ *WUTC v. Puget Sound Energy*, Dockets UE-121697 and UG-121705 (consolidated), Order 15 ¶¶ 155-156 (June 29, 2015) (citations omitted).

34. Ignoring this clear direction, Commission Staff claims that PSE is being compensated through its ROE to assume the variance risk related to the various trackers currently in operation and proposed in this case.⁸⁰ This approach is flawed for several reasons. First, as discussed above, the Commission has never tried to account separately in its ROE determinations for specific risks or risk mitigating factors, “nor should it.”⁸¹ The cost of capital and peer group studies it considers when setting ROEs implicitly capture the risk reducing impacts of tracker mechanisms. Thus, PSE is not being compensated for variance risk and is not over-compensated in its ROE if trackers are approved, as McGuire suggests. Moreover, from a practical standpoint, if the Commission were to require risk sharing mechanisms in PSE’s existing and proposed tracker mechanisms, as McGuire proposes, PSE’s cost recovery would become more volatile, as would PSE’s cash flows, earnings, and return on equity relative to its peers.⁸² As such, the Commission can approve PSE’s trackers and decline to construct a risk sharing mechanism, as such a mechanism would disadvantage PSE as compared to its peers.

35. Importantly, when PSE witness Shipman testified in another proceeding that “*all else equal*” he would expect a tracker to reduce cost of capital whenever the next opportunity arises,⁸³ one must recognize that all else is *not* equal. As the Commission has recognized, these risk reducing mechanisms are prevalent and already reflected in the proxy groups—so a separate decrement to ROE for a tracker should not be calculated,⁸⁴ just as there was no separate upward adjustment to ROE when CETA and CCA became law. In fact, PSE’s authorized ROE has decreased since 2018, despite the passage of these laws.⁸⁵ Moreover, Shipman’s prior testimony that adjustment mechanisms benefit customers reflects the positive impact on credit ratings—and ultimately potentially on cost of debt—that result when the Commission approves trackers and

⁸⁰ See McGuire, Exh. CRM-1Tr at 33:18-22.

⁸¹ *WUTC v. Puget Sound Energy*, Dockets UE-121697 and UG-121705 (consolidated), Order 15 ¶¶ 155-56 (June 29, 2015).

⁸² See Martin, Exh. JLM-1CTr at 39:1-32:7.

⁸³ See Martin, Exh. JLM-3Xr at 3:12-25.

⁸⁴ *WUTC v. Puget Sound Energy*, Dockets UE-121697 and UG-121705, Order 15 ¶ 155 (June 29, 2015).

⁸⁵ *WUTC v. Puget Sound Energy*, Dockets UE-170033 and UG-170034 (consolidated), Order 08 ¶ 83 (Dec. 5, 2017).

other mechanisms. As Shipman, a former S&P analyst, testified: “under most circumstances any actions that the Commission takes to improve a company’s ability to reduce the volatility of its earnings and cash flow is going to re[d]ound to the benefit of rate payers.”⁸⁶

B. Clean Generation Resource Tracker and CWIP in Rate Base

36. The Commission should approve PSE’s proposed Clean Generation Tracker, Schedule 141CGR (“CGR Tracker”), which will allow for the recovery of the fixed costs associated with the building or purchase of large utility scale CETA compliant generation resources. In this case, PSE is proposing to recover the Beaver Creek Wind Project (“Beaver Creek”) in the CGR Tracker, and PSE is also proposing to recover CWIP in rate base in the tracker—for Beaver Creek and for *all* CETA-eligible owned resources going forward. The CGR Tracker is necessary to improve PSE’s cash flows and allow PSE to maintain credit metrics for reasonable access to capital markets. Approval of the CGR Tracker is in the public interest because it will provide more timely cash flow to match the construction schedules as PSE undergoes an exponential increase in its acquisition of clean generation resources.⁸⁷

37. Approving CWIP in rate base treatment on a project-by-project basis, as JEA proposes, could hinder PSE’s ability to move forward opportunistically and aggressively to meet the CETA 2030 and 2045 targets.⁸⁸ PSE would not know whether CWIP in rate base was available to finance a project until *after* deciding to proceed with the project. But in some cases, deciding to proceed with the project might be rejected as unviable depending on PSE’s cash flow constraints at that time, whereas it may be a viable alternative with CWIP in rate base financing.⁸⁹

38. In addition to improving cash flow for PSE so that it can move forward on clean energy projects, PSE has demonstrated that, on the whole, CWIP in rate base treatment costs customers less than the traditional AFUDC treatment and avoids larger step rate increases in favor of more

⁸⁶ Martin, Exh. JLM-3Xr at 4:6-10.

⁸⁷ Free, Exh SEF-1T at 7:20-8:15.

⁸⁸ Martin, Exh. JLM-1CTr at 63:8-10.

⁸⁹ Martin, Exh. JLM-1CTr at 63:3-10.

gradual changes.⁹⁰ Efforts to parse individual customers' opportunity costs, in the name of equity, miss the big picture. All customers benefit from a transition to clean energy—especially low-income and vulnerable customers. Current and projected negative impacts of climate change on low-income and vulnerable populations are well documented. PSE's investments in decarbonizing its system are in the long-term interest of all customers, including vulnerable low-income customers.

C. Accelerated Depreciation of Gas Assets

39. PSE's proposal to accelerate depreciation of gas assets serves two important functions. First, it more closely aligns gas asset lives to reflect Washington's public policy objectives as set forth in the CCA. It is a moderate proposal, consistent with principles of gradualism, which shortens service lives for many accounts by ten years and will help to mitigate the risk of stranded costs and higher rates for remaining customers that could result from widespread electrification of energy uses currently served by gas.⁹¹ Second and equally important, it is another tool that is available to the Commission to increase PSE's cash flow and facilitate the transition to clean energy.⁹² It is consistent with the public interest and should be approved.

40. PSE witness Ned Allis, a depreciation expert, discusses the need to adjust the depreciation rates for gas assets based on changes in law. "[T]he rate at which the Company's gas investments are recovered through depreciation needs to increase to incorporate the realities of shorter service lives and reduced gas throughput that will result from Net Zero by 2050. Moreover, the sooner this increase is implemented the less costly it will be to customers, particularly remaining gas customers."⁹³ While several different approaches were considered,

⁹⁰ Doyle, Exh. DAD-1CT at 68:6-19.

⁹¹ See Allis, Exh. NWA-1T at 4:3-15.

⁹² See Martin, Exh. JLM-1CTr at 52:8-10.

⁹³ Allis, Exh. NWA-1T at 4:3-8.

Allis considers PSE's proposed approach to be gradual in nature and fairly balances the short- and long-term impacts to different generations of customers.⁹⁴

41. PSE's proposal relies on the Commission's inherent and historical authority to set depreciation rates; it was proposed before the passage of House Bill 1589 ("HB 1589") and should not be affected by the passage of Initiative No. 2066, which repealed certain sections of HB 1589. Moreover, the accelerated depreciation rate proposed by PSE in this case is more gradual than the accelerated depreciation consistent with HB 1589 and necessary to meet the ambitious climate requirements established by the state.⁹⁵

42. PSE's history with depreciation of coal plants is instructive and serves as a warning in this case. The Commission has recognized the unintended and negative consequences that resulted from trying to keep depreciation costs of the Colstrip coal fired generation plant artificially low while ignoring the policy direction of the state and upcoming phase out of coal plant usage in the state. In PSE's 2007 general rate case, Public Counsel and Commission Staff sought to lengthen the service lives of Colstrip Units 1-4 from 40 years to 60 years in order to benefit customers by keeping depreciation costs lower than they otherwise would have been. PSE disagreed with this approach, but ultimately, as part of a settlement covering multiple issues, agreed to lengthen the service lives. A decade later, the short-sighted nature of this approach was on full display, as parties in PSE's 2017 general rate case grappled with the 2022 closing date for Colstrip Units 1 and 2 and the need to address depreciation of the plant over a very tight time frame.⁹⁶ In approving accelerated depreciation rates the Commission acknowledged the ill-advised history that had occurred:

Staff settlement witnesses Schooley and Cheesman testified concerning the difficulty of projecting the lives of coal-fired production plant. Though they do not refer to it, this difficulty is clearly evidenced by the unintended

⁹⁴ Allis, Exh. NWA-1T at 4:9-13.

⁹⁵ See RCW 80.86.010 (the Commission may adjust depreciation schedules to ensure that all gas plants in service as of July 1, 2024 are fully depreciated by January 1, 2025).

⁹⁶ Steuerwalt, Exh. MS-4T at 15:5 -16:14.

consequences of the Commission's decision in PSE's 2007 general rate case with respect to the depreciable lives for Colstrip Units 1 & 2. Had the Commission accepted PSE's original depreciation study in that case we would not be facing today the significant financial consequences of a decision in 2008 that proved with the passage of time to be ill-advised. Instead, Colstrip Units 1 & 2 would have been fully depreciated by 2019, and Units 3 & 4 would have been fully depreciated by 2024 and 2025. Informed by this experience, the Settlement Stipulation reconciles with recent decisions to close Units 1 & 2, reflects a more focused view with respect to Colstrip Units 3 & 4, and reduces the potential risk of large unrecoverable plant balances and the likelihood of facing intergenerational inequities for Units 3 and 4.⁹⁷

43. The lesson learned from Colstrip is that it is better to begin the accelerated depreciation of gas plant now, when there is a more reasonable runway for depreciation, than to wait and deal with the accelerated depreciation on a tightly compressed timeline with the specter of substantial stranded costs, which places greater burden on customers.⁹⁸

44. Additionally, PSE's proposed accelerated depreciation is, from a financial perspective, a cash flow enhancing mechanism.⁹⁹ PSE's suite of proposals—accelerated gas depreciation, CWIP in rate base, return on equity, capital structure, etc.—provides a carefully balanced approach to bolster cash flows, improve credit metrics, and improve PSE's overall financial integrity as PSE prepares to undertake an unprecedented level of capital expenditures to provide safe, reliable, and efficient gas and electric utility services while moving forward with a transition to clean energy under CETA.¹⁰⁰ In contrast, JEA witness Gehrke's proposal to accelerate depreciation by five years is insufficient, as it reduces PSE's gas accelerated depreciation request by \$43.8 million, from \$76.9 million to \$33.1 million,¹⁰¹ while subjecting customers to increased risks of stranded gas assets due to inadequate depreciation rates.

⁹⁷ *WUTC v. Puget Sound Energy*, Dockets UE-170033 and UG-170034 (consolidated), Order 08 ¶ 110 (Dec. 5, 2017).

⁹⁸ Steuerwalt, Exh. MS-4T at 16:10-14.

⁹⁹ Martin, Exh. JLM-1CTr at 67:6-8. Contrary to TEP witness Stokes' contention, there is no short-term financial windfall to PSE's shareholders, as PSE's AMA rate base would decrease, which would have a short term financial detriment to PSE's shareholders in terms of decreased AMA rate base, resulting in reduced returns, reduced net income, and reduced earned returns on equity across PSE's two-year rate plan. *Id.* at 67:8-15.

¹⁰⁰ Martin, Exh. JLM-1CTr at 68:16-69:3.

¹⁰¹ Martin, Exh. JLM-1CTr at 68:12-14.

D. Earning a Return on CETA Eligible PPAs and the Consolidated Deferred Accounting Petition in Docket UE-230810

45. PSE's request to earn a return on demand response PPAs is reasonable, consistent with the law, and should be approved by the Commission. RCW 80.28.410 expressly authorizes the earning of a return on PPAs that are executed in connection with PSE's clean energy action plan. Additionally, the settlement agreement in PSE's 2022 multiyear rate plan stated that demand response PPAs would be eligible for potential earning on the PPAs.¹⁰² No party disputes the prudence of the demand response PPAs for which PSE seeks to earn a return.
46. PSE witness Martin testified to the rationale for allowing a return on these PPAs. First, earning returns on PPAs, on the margin, makes PSE more indifferent to whether it purchases energy and capacity versus building and owning facilities that are included in rate base and earn a full rate of return. Second, in its attempt to continually manage credit metrics and its overall credit profile, PSE believes that earning a return on PPAs has significant policy benefits to manage credit metric pressures in discussions with the rating agencies.¹⁰³
47. Commission Staff supports earning a return on PPAs at the cost of debt. However, these customer scale distributed energy resources and demand response PPAs are the type of PPAs that should earn a return at the higher end of the spectrum. These PPAs have a much higher administrative burden, and most likely have a higher equity value per MW, than contracting for utility scale resources to meet resource needs. For this reason, the demand response PPAs for which PSE seeks a return should earn at the higher end of the range of earnings. It is reasonable to assume that the Legislature included a range of allowable returns based on the assumption that some resources are more deserving of the higher end of the range than others.¹⁰⁴
48. In the accounting petition consolidated in this case, PSE is requesting recovery of the deferral of the return on the qualifying PPA that PSE booked after the underlying PPAs were

¹⁰² *WUTC v. Puget Sound Energy*, Dockets UE-220066, UG-220067, and UG-210918 (consolidated), Settlement Stipulation and Agreement on Revenue Requirement ¶ 32 (Aug. 26, 2022).

¹⁰³ Martin, Exh. JLM-1Ctr at 47:2-18.

¹⁰⁴ Martin, Exh. JLM-1Ctr at 46:18-47:18.

included in rates (after December 2023). Commission Staff witness McGuire claims that the statute does not allow such treatment, based on a narrow reading of RCW 80.28.410. Susan Free addresses this in her rebuttal testimony.¹⁰⁵

49. PSE filed its deferred accounting petition in Docket UE-230810 a few months before filing this general rate case and also filed its annual update to the power cost baseline rate. PSE made clear in its deferred accounting petition that it was seeking to defer the recovery of the contract costs of the demand response PPAs until they were included in rates in PSE's power cost baseline rate update in January 2024 but would not request recovery of the return on the PPAs in the power cost update but would request that recovery in its next multiyear rate plan,¹⁰⁶ i.e., the current case. After the power cost update was approved, PSE included only the contract cost of the PPAs in rates beginning January 2024 and discontinued the deferral of those PPA costs at that time; PSE continued deferring the return to allow consideration of this issue by the Commission in the current general rate case and allow more time for parties to be heard on the issue of recovery of a return on a PPA under RCW 80.28.410, an issue of first impression.¹⁰⁷

50. The question before the Commission is whether RCW 80.28.410 allows certain costs related to PPAs to be included in rates (here, the PPA contract costs) while other costs continue to be deferred until a later, more thorough examination of the costs occurs in a general rate case. The answer is yes, based on the language and intent of the statute and past Commission practice. RCW 80.28.410 states, in relevant part:

(1) An electrical company may account for and defer for later consideration by the commission costs incurred in connection with major projects in the electrical company's clean energy action plan pursuant to RCW 19.280.030(1)(l), or selected in the electrical company's solicitation of bids for delivering electric capacity, energy, capacity and energy, or conservation. The deferral in this subsection begins with the date on which the resource begins

¹⁰⁵ Free, Exh. SEF-28T at 42:6-44:18.

¹⁰⁶ *In the Matter of the Petition of Puget Sound Energy for an Order Authorizing Puget Sound Energy's Accounting Treatment for the costs and return for Clean Energy Action Plan compliant Power Purchase Agreements pursuant to RCW 80.28.410*, Docket UE-230810, Petition of Puget Sound Energy ¶ 11 (Sept. 29, 2023).

¹⁰⁷ Docket UE-230810, Open Meeting Memo at 3 (Mar. 28, 2024).

commercial operation or the effective date of the power purchase agreement and continues for a period not to exceed thirty-six months. However, if during such a period the electrical company files a general rate case or other proceeding for the recovery of *such costs*, deferral ends on the effective date of the final decision by the commission in such a proceeding¹⁰⁸

51. The logical interpretation of the statute’s intent is to prevent double recovery that would result if a company continues to defer a cost that is already being recovered in rates. There is no double recovery here. Subsection (1) of the statute provides how the costs should be treated and provides for the cessation of the costs allowed to be deferred. “If during such a period the electrical company files a general rate case or other proceeding for the recovery of *such costs*, deferral ends on the effective date of the final decision by the commission in such a proceeding.”

52. Subsection 2 of the statute defines the costs that are subject to deferral as “all operating and maintenance costs, depreciation, taxes, cost of capital associated with the applicable resource or the execution of a power purchase agreement.” Each of the costs that are defined by the statute are individual inputs in a revenue requirement calculation. There is no requirement in the statute that the four specific costs it defines must be treated the same from a deferral or ratemaking perspective throughout the life of the contract.¹⁰⁹

53. The contract costs of the PPAs are being recovered through power cost rates effective January 2024. The deferral for “such costs” ends when those contract costs are recovered in rates. In contrast, PSE did not file to seek recovery of the return on the PPAs in its power cost filing but continued to defer the return on the PPAs. Under PSE’s proposed treatment, no double recovery would occur.

54. The Commission has treated underlying costs and the return on those costs as separate inputs in the revenue requirement that can receive different treatment. In PSE’s 2019 general rate case, the Commission allowed recovery of depreciation expense on AMI while requiring PSE to

¹⁰⁸ RCW 80.28.410 (emphasis added).

¹⁰⁹ Free, Exh. SEF-28T at 44:8-11.

continue to defer the return on the AMI plant until a future rate case when PSE demonstrated additional benefits.¹¹⁰ Just as the return and the depreciation on the AMI plant could be split into two separate elements of the revenue requirement, with the depreciation on plant being recovered in rates and the return on the plant continuing to be deferred, the Commission has discretion to do the same in this case. The depreciation expense for the AMI capital plant is synonymous with the contract costs for the PPAs.¹¹¹ The statute does not prevent separation of deferred costs, so long as the costs which are being recovered in rates are not the costs that continue to be deferred. PSE requested to continue deferring the return so that parties would have a full opportunity in this case to address this issue of first impression in terms of how a return on PPA should be implemented. PSE should not be penalized for taking this approach.

E. Wildfire Prevention Tracker

55. Wildfire risk is a growing concern to PSE, the state of Washington,¹¹² and credit rating agencies,¹¹³ even in the wetter environment of Western Washington.¹¹⁴ For this reason, PSE has proposed a Wildfire Prevention Tracker that allows PSE to recover costs for wildfire prevention as set forth in its Wildfire Mitigation Plan, filed annually with the Commission. The Wildfire Prevention Tracker will allow for transparency into the work PSE is doing to mitigate the risk of wildfire in its service territory. Murphy testifies to the work planned that would be funded through the Wildfire Prevention Tracker, including situational awareness investments, fault reduction investments, fault protection investments, and communications and outreach expenditures.¹¹⁵ The proposed tracker would be updated annually to reflect costs associated with

¹¹⁰ See *WUTC v. Puget Sound Energy*, Dockets UE-190529 and UG-190530 (consolidated), Order 08 ¶¶ 153-57 (July 8, 2020) (“[W]e allow into rates the test year AMI costs, deferral for the return of, and pro forma adjustments through December 31, 2019, but continue to require PSE to defer recovery of the return on these investments in a deferral account”).

¹¹¹ Free, Exh. SEF-28T at 44, n. 64.

¹¹² See RCW 76.04.505.

¹¹³ Peterman, Exh. CGP-1CT at 44:15-47:17.

¹¹⁴ Murphy, Exh. RM at 3:2-4:8. See 2SH.B. 1578, 68th Leg., 2023 Reg. Sess., § 1(1) (July 23, 2023) (“[J]ust as the forests on the east side of the state are being impacted by climate change, western Washington forests, too, are seeing increasing vulnerabilities to forest health and resilience.”); see also RCW 76.04.505(1).

¹¹⁵ Murphy, Exh. RM-1T at 29-42.

the Wildfire Mitigation Plan. No party opposes the spending on wildfire risk prevention, other than Commission Staff, which opposes recovery of increased wildfire insurance rates for which PSE filed a deferred accounting petition nearly a year ago. Additionally, Commission Staff opposes the use of a tracker to recover wildfire prevention costs.¹¹⁶

56. Commission Staff argues for a balancing account rather than a tracker. While Commission Staff claims its proposal would align PSE with Avista, it would not. Commission Staff's proposal for PSE would move wildfire costs into base rates through a balancing account, but would not true up the balancing account on an annual basis as Avista has been allowed to do.¹¹⁷ If the Commission would allow PSE to true up the costs in the balancing account annually, then PSE could accept a balancing account, but as Susan Free testifies, a balancing account with an annual true-up is really no different from PSE's tracker proposal.¹¹⁸ As such, PSE requests the Commission approve PSE's proposed wildfire prevention tracker.

F. Decarbonization Rate Adjustment, Schedule 141 DCARB

57. PSE requests the Commission approve the proposed Decarbonization Tracker, Schedule 141DCARB.¹¹⁹ The sole purpose of the tracker is to provide an instrument for the Commission and parties to determine the appropriate level of investment for decarbonization activities that do not necessarily meet standard cost-effectiveness parameters that are required for other PSE investments recovered in base rates.¹²⁰ PSE intends to recover work done as part of the Targeted Electrification Pilot Phase 2 ("TEP2") in the Decarbonization Tracker.¹²¹ The TEP2 is designed to align with PSE's clean energy goals, support the company's compliance with the CCA, and inform the development of a targeted electrification strategy that will inform PSE's future

¹¹⁶ See McGuire, Exh. CRM-1Tr at 59:5-11.

¹¹⁷ Free, Exh. SEF-28T at 36:12-37:14; *WUTC v. Avista Corp.*, Dockets UE-200900, UG-200901, and UE-200894 (consolidated), Final Order 08/05 ¶ 258 (Sept. 27, 2021).

¹¹⁸ Free, Exh. SEF-28T at 37:15-38:2.

¹¹⁹ The revenue requirement calculation for the tracker is found in Exh. SEF-23.

¹²⁰ Free, Exh. SEF-28T at 35:7-10.

¹²¹ Free, Exh. SEF-1T at 23:12-15.

planning, including its initial Integrated System Plan.¹²² The programs that will be pursued under the proposed pilots¹²³ come with uncertainty regarding participation levels. Allowing recovery through a tracker, which provides for a true-up, will ensure that PSE does not over or under recover these costs, which would only be invested in with Commission approval.¹²⁴ This tracker will provide a transparent process and solution for determining how fast the Commission would like to go in funding programs that promote decarbonization, an important public policy for the state.¹²⁵ Moreover, when funding for O&M spending is tight, or reduced, it is precisely this kind of work that PSE is likely to be unable to deliver.¹²⁶ In summary, the Decarbonization Tracker will help promote PSE's decarbonization efforts that benefit low-income and vulnerable populations, it is consistent with the public interest, and should be approved.

VI. PSE'S O&M SPENDING IS LEAN AND FULLY ALLOCATED

58. PSE has demonstrated its projected O&M expenses are reasonable, and the Commission should decline to cut PSE's requested O&M expense, as requested by Commission Staff and Public Counsel. PSE operates leanly and its O&M per customer spending is in the lowest quartile nationwide, below its peers and the region.¹²⁷ It is not sustainable for PSE to further reduce O&M spending by \$24 million in 2025 and 2026, as proposed by Commission Staff, or by more than \$60 million in 2025 and 2026 as proposed by Public Counsel.¹²⁸ PSE witness Martin describes how reductions to PSE's requested O&M spending levels will result in reductions in activity. While PSE will not make changes that reduce the safety of its operations, PSE may struggle to maintain service levels and reliability if O&M spending is reduced. PSE will certainly be unable to continue to deliver the pace and scale of the work necessary to support the transition

¹²² See Mannetti, Exh. JM-9T at 15:13-16:9; 8:3-9:3; 9:10-20.

¹²³ As discussed in more detail below, these include three low-income and equity-based programs, a targeted electrification of natural gas-constrained geographic area pilot, an income-qualified heat pump rebate pilot, and a commercial and industrial targeted electrification grant pilot. See Mannetti, Exh. JM-9T at 5:15-6:7.

¹²⁴ Free, Exh. SEF-28T at 36:2-5.

¹²⁵ See Free, Exh. SEF-28T at 35:11-13.

¹²⁶ Free, Exh. SEF-28T at 35:17-20; Martin, Exh. JLM-1CTr at 33:9-13.

¹²⁷ Huizi, Exh. TRH-1T at 4:5-10 (Figure 1).

¹²⁸ Huizi, Exh. TRH-1T at 7:10-16.

to clean energy.¹²⁹ In short, additional cuts to O&M spending are not viable if PSE is to transition to clean energy while maintaining safe and reliable utility service.¹³⁰

59. Public Counsel and Commission Staff both apply illogical reasoning in support of their proposals to cut PSE's O&M spending. Both cite to PSE's ability to operate leanly in support of their proposals to cut PSE's O&M budget.¹³¹ Under their reasoning, a company that has been spending liberally should be allowed more O&M spending because it has not shown the ability to control spending, whereas a company with strong financial stewardship—like PSE—should be required to cut more because it has shown the ability to do so. The Commission should reject these nonsensical arguments that would punish PSE for its sound financial management.

A. Public Counsel's Proposed O&M Adjustment Should be Rejected

60. Public Counsel witness Meyer erroneously claims that PSE uses a two-year inflation rate to escalate one year of costs; PSE witness Theresa Huizi rebuts his claim. PSE's 2024 budget was set at unsustainable 2023 levels and did not include any inflationary costs¹³² in large part to address cash flow issues.¹³³ Therefore, PSE used a two-year compounding escalation factor to calculate its 2025 spend to bring the 2023 budget—held flat for 2024—to reasonably expected level of spend for 2025¹³⁴ in order to restore the expense to a level of funding that approximates the costs expected to occur during the multiyear rate plan.¹³⁵

61. Meyer further errs by claiming that PSE is double-counting labor expense by failing to account for employee attrition.¹³⁶ However, PSE forecasts labor expenses based on number of hours needed to complete the work, not on headcount or FTEs. This method of modeling labor costs is agnostic to the actual head count or FTE a company needs to carry.¹³⁷ Moreover, Meyer

¹²⁹ See Martin, Exh. JLM-1CTr at 43:19-44:17.

¹³⁰ *Id.*

¹³¹ See McGuire, Exh. CRM-1T at 122:5-123:3; Meyer, Exh. GRM-1T at 24:18-19.

¹³² Huizi, Exh. TRH-1T at 26:17-27:3.

¹³³ See Doyle, Exh. DAD-1CT at 20:17-21:10.

¹³⁴ Huizi, Exh. TRH-1T at 26:2-4.

¹³⁵ Huizi, Exh. TRH-1T at 26:2-4, 26:17-27:3.

¹³⁶ Meyer, Exh. GRM-1T at 27:9-15.

¹³⁷ Huizi, Exh. TRH-1T at 27:12-28:16.

relies on historical labor costs, which is much less relevant than realistically anticipating the increased work that needs to be done in order for PSE to meet its regulatory and legal policy requirements. Meyer’s reliance on historical amounts to calculate reasonable expenses for 2025 and 2026 fails to account for PSE’s already-existing labor cost deficit and the increased costs required in the immediate future.¹³⁸

62. Additionally, Meyer’s proposed cut to administrative and general (“A&G”) non-labor costs¹³⁹ should be rejected. PSE witness Free details the reasons for the increases in the FERC 920 account for the rate years as compared to 2023 in Table 4 of her testimony and the accompanying testimony.¹⁴⁰ Some of the costs in this account are related to trackers not included in this case, such as the Colstrip Tracker. Some are incremental CEIP costs. Some are AMI-related costs that were inadvertently and incorrectly assigned to FERC Account 920 instead of FERC account 902. As Free notes, assigning the AMI-costs to the wrong FERC account had no impact on the revenue requirement. Meyer’s focus on an increase in one FERC account, in isolation, is not a sound basis for his harsh cuts to O&M expense.¹⁴¹ His proposed adjustment is arbitrary in that it holds PSE’s level of O&M expense for this category of costs at 2023 amounts for electric and 2025 amounts for gas, which fails to address the level of O&M expense that is necessary for the rate years.¹⁴²

B. Commission Staff’s Proposed Cuts to O&M Spending Should Be Rejected

63. Commission Staff witness McGuire’s challenge to a portion of PSE’s O&M spending, specifically PSE’s use of a reserve contingency¹⁴³ and management reserve,¹⁴⁴ should be

¹³⁸ Huizi, Exh. TRH-1T at 29:5-10.

¹³⁹ Meyer, Exh. GRM-1CT at 30:1-32:6.

¹⁴⁰ See Free, Exh. SEF-28T at 62:2-69:2.

¹⁴¹ Meyer, Exh. GRM-1CT at 30:1-32:6.

¹⁴² Free, Exh. SEF-28T at 68:7-13.

¹⁴³ Reserve contingencies are sometimes established for a project or program based on best estimates of total O&M expense for that project or program, particularly when cost center, WBS, and cost element detail cannot be reliably predicted at the time the budget is established. Huizi, Exh. TRH-1T at 9:19-10:3. Reserve contingencies in PSE’s O&M budget are one of the tools that allows PSE to manage to its O&M budgets and remain flexible and agile to meet its goals. Huizi, Exh. TRH-1T at 12:4-6.

rejected. McGuire proposes to disallow a portion of PSE’s pro forma management reserve expenses in 2025 and 2026 claiming they represent unforeseen costs, and he proposes to remove PSE’s reserve contingency because it represents unforeseen and unplanned expenses and is not known and measurable. McGuire’s proposal is not consistent with the law or Commission practice and ignores facts that invalidate his position. Specifically, McGuire argues for disallowance of these O&M expenses by ignoring the fact that they were fully allocated, known, and shared with parties more than six months before the start of the rate year.

1. The Commission should not apply a rigid known and measurable standard to forward looking O&M expenses.

64. McGuire’s proposed disallowance relies on a rigid application of the known and measurable standard.¹⁴⁵ Under McGuire’s methodology, all O&M spending for a multiyear rate plan must be known and measurable before the direct case is filed.¹⁴⁶ In this case, that means O&M spending must be identified up to and exceeding two years before the spending will occur. In a three- or four-year rate plan, the spending would be even more dissociated from the budgeting. Given the dynamic nature of PSE’s budgeting process and the flexibility needed to run its business,¹⁴⁷ it is not reasonable to require O&M spending to be fully allocated and remain static for multiple years before the spending is incurred.

65. The Commission is not bound to a rigid known and measurable standard for determining operating expenses. Rather, in “projecting the revenues and operating expenses of a gas or electrical company[...] the commission may use any standard, formula, method, or theory of valuation reasonably calculated to arrive at fair, just, reasonable, and sufficient rates.”¹⁴⁸ The

¹⁴⁴ Management reserves are sometimes established at the corporate level as part of the bottom-up corporate budgeting process until they can be refined and allocated to the lowest level of detail after having gone through the appropriate governance process. This process results in clarity into detailed spending at the cost center, work breakdown structure (“WBS”), and cost element levels based on the areas most in need of these additional funds. Huizi, Exh. TRH-1T at 16:4-9.

¹⁴⁵ WAC 480-07-510(3)(c)(ii) (“Pro forma adjustments give effect for the test period to all known and measurable changes that are not offset by other factors.”)

¹⁴⁶ McGuire, Exh. CRM-1Tr at 111:1-12; Free, TR. 255:18-256:7; Huizi, TR. 110:12-111:22.

¹⁴⁷ See Kensok, Exh. JAK-1CT at 16:15-17:6.

¹⁴⁸ RCW 80.28.425(3)(d).

Commission followed this approach even before passage of RCW 80.28.425. In 2013, the Commission authorized a multiyear rate plan for PSE that included annual escalation factors, stating that “[w]e determine that the escalation factors reasonably represent the levels of growth in non-production costs that PSE may expect over the term of the rate plan.”¹⁴⁹ The “escalation factor” increased electric delivery costs by three percent and natural gas delivery costs by 2.2 percent annually. The escalation factor was comprised of non-production rate base, depreciation, and “all other expenses” which included O&M expenses, administrative and general expenses and customer service. The “all other expenses” were based on CPI less productivity factor.¹⁵⁰ They were not known and measurable, and the Commission did not apply its known and measurable standard to the operating expenses in that multiyear rate plan. Because O&M expenses are not bound by used and useful standard, they fall within the Commission’s discretion to authorize in whatever manner it sees fit.¹⁵¹

2. PSE O&M costs are fully allocated and known.

66. Even applying the known and measurable standard to O&M expenses, PSE has demonstrated that the O&M spending challenged by McGuire meets this standard. With respect to reserve contingencies, the funds had been allocated to specific, known projects and programs—in this case CEIP-related costs¹⁵²—when PSE filed its direct case, and by June 2024, all funds had been allocated to the lowest level of detail, at the work breakdown structure (“WBS”) and cost element levels. Regarding the management reserves, these funds were allocated to programs and projects at the lowest level of detail, the WBS level by June 2024.¹⁵³ The full allocation of reserve contingencies and management reserves was made available to parties in PSE’s Response to WUTC Staff Data Request No. 149 and Attachment A thereto.¹⁵⁴ In

¹⁴⁹ *WUTC v. Puget Sound Energy*, Dockets UE-121697 and UG-121705 (consolidated), Dockets UE-130137 and UG-130138 (consolidated), Order 07 ¶ 158 (June 25, 2013).

¹⁵⁰ *Id.* n. 186.

¹⁵¹ *POWER*, 104 Wn.2d at 815; *Wash. Att’y Gen.’s Office*, 4 Wn. App. 2d at 687.

¹⁵² Huizi, TR.120:13-121:12; Exh. TRH-1T at 10:18-11:6.

¹⁵³ Huizi, Exh. TRH-1 at 21:11-22:4, Exh. TRH-4, Exh. TRH-5, TR. 111:3-21.

¹⁵⁴ Huizi, Exh. TRH-4, Exh. TRH-5.

Table 1 of her testimony, shown below, Huizi further demonstrated how the refinement of the budget and allocation of management reserves occurred between the initial case filing in February 2024 (SEF), and PSE’s Response to WUTC Staff Data Request No. 149 in June 2024. This table shows that \$31.8 million of management reserves remained to be allocated to the WBS level at the time PSE filed its direct case, but by June, after the refinement process reflected in Exh. TRH-4 and Exh. TRH-5, the funds were fully allocated.

Allocation of Management Reserves for Multiyear Rate Plan

Line	WBS Element Description	Planning Cost Element	2025		2026		2025		2026	
			Staff 149	SEF	Staff 149	SEF	Staff 149 v SEF	Staff 149 v SEF		
			c	d	e	f	g	h		
1	Mgmt Reserve & Corp Contingen	Outside Services Legal	\$ -	\$ (37,110,452)	\$ -	\$ 21,080,922	\$ 37,110,452	\$ (21,080,922)		
2	Mgmt Reserve & Corp Contingen	Outside Services Other	1,461,968	15,803,904	822,129	17,275,488	(14,341,936)	(16,453,359)		
3	Mgmt Reserve & Corp Contingen	Miscellaneous Expense	(353,008)	-	(400,760)	-	(353,008)	(400,760)		
4	Enterprise Risk Tracking OM	Outside Services-Service Prov		5,308,725		15,173,490	(5,308,725)	(15,173,490)		
5	Enterprise Risk Tracking OM	Outside Services Other		(17,704,296)		(19,267,608)	17,704,296	19,267,608		
6	Enterprise Risk Tracking OM	Payroll Taxes OH		(278,388)		(282,192)	278,388	282,192		
7	Enterprise Risk Tracking OM	Benefits OH		2,178,780		2,274,312	(2,178,780)	(2,274,312)		
8			\$ 1,108,960	\$ (31,801,727)	\$ 421,369	\$ 36,254,412	\$ 32,910,686	\$ (35,833,043)		

67. All of the data contained in columns C and E of the table above, were included in Attachment A to PSE’s Response to WUTC Staff Data Request No. 149.¹⁵⁵ McGuire did not consider this updated data, which refutes his claim that the spending is not known or foreseen.¹⁵⁶

68. Notably, the amounts of the reserves that were unallocated to WBS, the lowest level of detail, at the time of PSE’s initial filing were very small in the context of PSE’s overall O&M budget. Management reserves that were unallocated in the initial filing totaled \$4.5 million for 2025 and 2026, which is 0.25 percent of total O&M spending across the two-year rate plan. All of this was allocated by June 2024.¹⁵⁷ Reserve contingencies, which *were* allocated to projects and programs even at the time of the direct filing, albeit not at the WBS level of detail, totaled

¹⁵⁵ Huizi, TR.118:9-119:10; Exh. TRH-1T at 21:11-22:4.

¹⁵⁶ Further, McGuire’s proposed disallowance did not consider the full complement of reserves and contingencies in the table above, some of which are positive and some of which are negative.

¹⁵⁷ Huizi, Exh. TRH-1T at 22:5-23:3. McGuire incorrectly identifies the total amount of management reserves for 2025 and 2026 as \$65 million, but he pulls numbers from the wrong tabs in the work book as discussed by Huizi, Exh. TRH-1T at 19:16-21:10. *See* Exh. TRH-3.

\$7.7 million in 2025 and \$6.9 million in 2026, which is less than one percent of the total O&M expenses in both 2025 and 2026. Thus, over 99 percent of PSE's budget was reserve contingency-free at the time of PSE's direct filing and was 100 percent reserve contingency free as of June 2024.¹⁵⁸

69. Finally, PSE has demonstrated that it closely monitors its O&M spending.¹⁵⁹ When demand exceeds budget, PSE must make difficult decisions about what to fund, and it is reasonable and not surprising that PSE spends to its budgeted level each year.¹⁶⁰ While spending to budget might be a concern if PSE's budgeted O&M spending was inflated, the lean nature of its O&M budget should alleviate any concern the Commission has in this regard.

VII. PSE'S RESTATING AND PRO FORMA ADJUSTMENTS ARE APPROPRIATE AND SHOULD BE ACCEPTED BY THE COMMISSION

A. Non-Contested Adjustments

70. The Commission should accept PSE's uncontested adjustments in this case.¹⁶¹ Complete listings of the contested and uncontested adjustments are provided in Exh. SEF-39.

B. Contested Adjustments and Updated Adjustments Addressed in Rebuttal

1. Wildfire Insurance Premium Deferral Amortization

71. PSE filed a deferred accounting petition nearly one year ago seeking to defer the cost of its wildfire insurance premium, which significantly increased in 2023. The wildfire insurance premium has been paid. The deferred accounting petition and its attachments are also provided as evidence in this case.¹⁶² PSE requests to amortize the deferral of the wildfire insurance premium in its proposed Wildfire Mitigation tracker.¹⁶³ While no party challenges the reasonableness or

¹⁵⁸ Huizi, Exh. TRH-1T at 15:3-12.

¹⁵⁹ Huizi, Exh. TRH-1T at 13:16-14:2; Exh. TRH-5; TR. 114:17-25, 115:18-116:2.

¹⁶⁰ Kensok, Exh. JAK-1CT at 34:1-35:1 (Figures 1 & 2).

¹⁶¹ The rebuttal testimony of Ms. Free provides a discussion of uncontested adjustment in which PSE's adjustments differs from other parties' adjustments and the reasons for the differences. *See* Free, Exh. SEF-28T 95:14-17; Exh. SEF-39.

¹⁶² *See* Free, Exh. SEF-26, Exh. SEF-27.

¹⁶³ Free, Exh. SEF-28T at 81:3-82:3.

appropriateness of these costs, Commission Staff argues that they should not be recovered in this case because PSE did not seek to consolidate the deferred accounting petition with this rate case.

72. The Commission has authority to order deferred accounting in a rate case, whether or not a deferred accounting petition has been filed or approved by the Commission.¹⁶⁴ In this case, a deferred accounting petition was filed, both in Docket UE-231048 and also as exhibits in this case, thus placing the deferred accounting request squarely before the Commission. It is puzzling why this straightforward deferred accounting petition has not been brought to an Open Meeting by Commission Staff, and the Commission has previously expressed concern with delays in reviewing deferred accounting petitions.¹⁶⁵ Because deferral of these costs is reasonable, and the Commission has authority to order deferred accounting, amortization, and recovery of deferrals in a general rate case, PSE respectfully requests the Commission approve the deferral and allow amortization and recovery of the wildfire premium increase in the wildfire tracker.

2. Adjustment to Revenues for Forecasted Load Assumptions

73. Public Counsel witness Watkins claims that PSE's normalized and forecasted Residential sales and base rate revenues are unreasonably understated, and thus proposes to increase assumed revenues for the Residential Class (Rate Schedule 23) for the test year and each year of the multiyear rate plan. PSE witness Allison E. Jacobs, Exh. AEJ-1T, points out the many flaws in Watkin's modeling methodology.¹⁶⁶ It understates PSE's natural gas forecasted load, and should be rejected by the Commission.

3. Normalized Storm Expense

74. PSE's normalized storm expense threshold of \$10 million is reasonable, based on the historical six-year average adjusted for inflation.¹⁶⁷ Accordingly, the Commission should reject

¹⁶⁴ See, e.g., *WUTC v. Puget Sound Energy*, Dockets UE-111048 and UG-111049, Order 08 ¶ 235 (May 7, 2012).

¹⁶⁵ *Id.* ¶¶ 234-236.

¹⁶⁶ Jacobs, Exh. AEJ-1T at 2:5-11:2.

¹⁶⁷ See Free, Exh. SEF-28T at 84:11-85:9. Storm costs are a mix of labor and non-labor. Using a blend of PSE's proposed inflation escalation factors for 2025 of 7.83 percent for labor and 1.57 percent for non-labor from Exh. GRM-9 at 2, rate year 1 would be \$9.4 million and after applying a blend of the 2026 escalation factors of 3.20 percent for labor and 1.81 percent for non-labor, would be \$9.6 million. Free, Exh. SEF-28T n. 128.

Public Counsel’s proposal to reduce this adjustment by \$1 million and use \$9 million for the threshold. Regardless of what the Commission decides on this issue, it is important that the Commission make clear in its order that the amount included in rates from their decision will be the new threshold to use for the level above which PSE can defer qualifying storm costs under its storm deferral mechanism.¹⁶⁸

4. Annual Goals and Incentive Plan

75. PSE’s Goals and Incentive Plan is consistent with past cases and is fundamentally the same plan reviewed by the Commission several times since 2004 and most recently approved in the 2019 general rate case.¹⁶⁹ Only one party, Public Counsel, opposes PSE’s Goals and Incentive Plan. Public Counsel witness Meyer proposes disallowing 50 percent of the Goals and Incentive Plan because he incorrectly attributes 50 percent to financial goals and 50 percent to non-financial goals.¹⁷⁰ Further, he claims that customers do not benefit when PSE meets financial goals. The Commission has rejected these arguments in the past. The Commission should allow recovery of PSE’s annual Goals and Incentive Plan because it provides benefits to customers and is a balanced approach to employee compensation.

76. PSE’s plan does not have two separate measures, as suggested by Meyer.¹⁷¹ PSE’s plan uses a matrix or table approach for funding, with ten safety, customer service and reliability measures on the vertical axis, and one financial measure (EBITDA)¹⁷² on the horizontal axis, with funding determined by the results of all eleven measures.¹⁷³ Also, in order to fund any awards, two thresholds must be met—a threshold performance on safety, customer service, and reliability (minimum six of ten achieved) and a threshold performance on EBITDA (minimum of

¹⁶⁸ Free, Exh. SEF-28T at 84:11-85:9.

¹⁶⁹ Hunt, Exh. TMH-12T at 7:7-9; *WUTC v. Puget Sound Energy*, Docket Nos. UG-040640 *et al.*, Order 06 ¶¶ 141-146 (Feb. 18, 2005); *WUTC v. Puget Sound Energy*, Docket Nos. UE-190529 *et al.*, Final Order 08/05/03 ¶¶ 313-316 (July 8, 2020).

¹⁷⁰ Hunt, Exh. TMH-12T at 10:3-5.

¹⁷¹ Meyer, Exh. GRM-1CT at 18.

¹⁷² EBITDA is earnings before interest, taxes, depreciation, and amortization.

¹⁷³ See Hunt Exh. TMH-11 at 3; Hunt Exh. TMH-12T at 7:11-14.

percent of target EBITDA).¹⁷⁴ Assumptions for PSE’s Goals and Incentive Plan are based on PSE achieving target EBITDA and all ten safety, customer service and reliability goals. These goals help focus employees on achieving a target level of financial performance in concert with ten other nonfinancial goals. As a target level of performance, the goal is built from PSE’s business plan that would ideally allow PSE to reach its allowed rate of return, which has not occurred since 2017.¹⁷⁵ Moreover, Meyer is wrong to suggest that financial measures only benefit shareholders. Customers benefit from a financially healthy company,¹⁷⁶ and an efficiently run company. A financially sound utility is better able to provide reliable service and can obtain clean energy resources at the most advantageous prices, which benefits customers.¹⁷⁷

5. Long Term Incentive Plan

77. PSE is requesting recovery of ten percent of its Long Term Incentive Plan (“LTIP”)—the portion tied to an environmental measure (carbon intensity). This is an operational goal that is intended to help gauge PSE’s progress towards clean energy targets.¹⁷⁸ PSE witness Hunt explains why PSE is requesting recovery in this case for the first time. Since 2020, PSE’s LTIP grants have been expressed as target dollar awards and not as phantom stock shares. The calculation of LTIP value is now based on the amount granted and the performance results. This has made the LTIP program distinctly different from prior stock or stock equivalent-based plans and more like the annual Goals and Incentive Plan. More importantly, PSE leadership and the Board diversified the goals being measured in the LTIP plan, starting with the 2023-2025 cycle, in recognition of the transformational challenges faced by PSE. As previously discussed, incentive plans help to communicate the important long-term company goals and focus employee attention on attaining these goals, and this is true of the LTIP plan with new environmental and

¹⁷⁴ See Hunt Exh. TMH-12T at 7:9-18.

¹⁷⁵ Hunt, Exh. TMH-12T at 9:1-7.

¹⁷⁶ See, e.g., Doyle, Exh. DAD-1CT at 22:7-9 (“A strong credit profile is correlative with access to lower interest rates, which can provide significant savings in debt costs over the life of the bond.”).

¹⁷⁷ See Hunt, Exh. TMH-12T at 4:10-14.

¹⁷⁸ See Hunt, Exh. TMH-12T at 15:6-7.

strategic initiative goal categories. PSE proposes to include 10 percent of the LTIP expense in rates based on the Environmental, Social, and Governance (“ESG”) goal which is a long-term goal of importance to PSE management, shareholders and customers.¹⁷⁹

78. Public Counsel is the only party who opposes PSE recovery of ten percent of LTIP, related to environmental measure of carbon reduction. Meyer incorrectly categorizes a reduction in carbon intensity as a financial goal and overlooks the benefits to customers. Reducing carbon intensity benefits the community at large, including customers, by helping to take action against one cause of climate change. Also, when PSE establishes and meets ESG goals, such as reduced carbon intensity, it increases PSE’s standing in the eyes of community members, including prospective employees, who value organizations with strong environmental values.¹⁸⁰ PSE’s recovery of ten percent of LTIP expense is in the public interest and should be approved.

6. AMI Deferral Amortization

79. The Commission should reject Public Counsel’s proposed adjustment to the AMI deferral amortization. PSE has proposed to amortize the debt and equity returns over a three year period, whereas Public Counsel proposes to amortize these over a six year period. Susan Free discusses why Public Counsel’s proposed amortization is improper in her testimony.

80. First, PSE has already started recovering the debt return on its AMI investment as part of its last rate case. Therefore, PSE’s current incremental new request only relates to the amortization of the deferral of its equity return component over three years.¹⁸¹ Second, although Public Counsel witness Meyer claims that a six-year amortization period is more appropriate due to the length of deferral, Meyer’s recommendation of a longer amortization period exacerbates the issue of intergenerational inequity.¹⁸² So far, customers who are receiving the benefits of PSE’s AMI infrastructure have not been paying the full cost of the project because the

¹⁷⁹ Hunt, Exh. TMH-12T at 14:3-16.

¹⁸⁰ Hunt, Exh. TMH-12T at 16:7-12.

¹⁸¹ See Free, Exh. SEF-1T at 74:3-25; Exh. SEF-28T at 90:15-18.

¹⁸² Free, Exh. SEF-28T at 91:5-13.

Commission required PSE to continue deferring the return on AMI until PSE could demonstrate use cases for the project.¹⁸³ On the flip side, PSE has not been able to include in rates its equity return on this plant for several years, despite the fact that the plant has been in service for several years—beginning in 2016, eight years ago. For these reasons, PSE requests the Commission deny Meyer’s proposal and approve PSE’s adjustment as filed.

7. GTZ Deferral Amortization

81. Public Counsel witness Meyer’s proposal for the amortizations and GTZ T2 depreciation deferral and the associated deferred carrying costs are inconsistent with the Commission’s final order in PSE’s 2022 general rate case and should be rejected. Due to a mislabeling errors on a PSE’s workpaper, Meyer’s claims that the amortization will end in January 2026, rather than January 2027. PSE corrected the mislabeled workpaper on rebuttal. These two deferrals were approved for recovery through January 2027. Exh. SEF-51 provides exhibits to joint testimony and work papers in support of the settlement from PSE’s 2022 general rate case compliance filing for these regulatory assets. The Commission approved the settlement, and therefore approved amortization through January 2027.¹⁸⁴ Public Counsel agrees with the correction in its response to Bench Request No. 3. Therefore, this adjustment is no longer contested.

8. Regulatory Fee

82. PSE updated the regulatory fee on rebuttal to reflect the increased regulatory fee pursuant to HB 1589. Initiative 2066 did not change Section 13 of the house bill, therefore the fee remains in effect and this update should be accepted by the Commission in order to prevent PSE from having to continue to defer the changed fee throughout the multiyear rate plan.

9. Finance Leases

83. PSE updated its revenue requirement on rebuttal to include expenses associated with three finance leases, the Kent Service Center, the Puyallup Service Center, and the Puyallup

¹⁸³ *WUTC v. Puget Sound Energy*, Docket Nos. UE-190529 *et al.*, Final Order 08/05/03 ¶¶ 155-156 (July 8, 2020).

¹⁸⁴ *See* Free, Exh. SEF-28T at 92:1-93:8.

Operations Training Center that were inadvertently excluded from the original filing. PSE provided notice to parties of the inadvertent omission and its plans to include this adjustment in its rebuttal filing.¹⁸⁵ Susan Free provides additional testimony explaining the inadvertent omission.¹⁸⁶ PSE requests the Commission approve the adjustment as filed on rebuttal.

10. Power Cost Update

84. PSE's proposed changes to its power cost forecast update various forecast inputs and assumptions that have changed since PSE's initial filing. PSE's updated forecast of 2025 power costs provided in rebuttal testimony is \$1,165 million, which is \$49 million (4.4 percent) higher than power costs currently included in rates and \$183.10 million (18.5 percent) higher than the 2025 forecast presented in PSE's initial filing.¹⁸⁷ These updates include natural gas prices, transmission contract rates, planned outage schedules, variable O&M costs, the impact on dispatch for the price of CCA allowances, and the costs and benefits of new power purchase agreements.¹⁸⁸ PSE's updates aligned with current market conditions and the most recent information available regarding the costs PSE actually expected to incur at the time of its filing.¹⁸⁹ Given the dynamic nature of variables affecting power costs, PSE proposes additional updates to its power cost forecast as part of a compliance filing at the end of this proceeding, with subsequent updates prior to the start of each calendar year thereafter.¹⁹⁰ Commission Staff supports PSE's proposed power cost update process.¹⁹¹ PSE's updates are based on objective and verifiable data sources and are consistent with the Commission's ratemaking principles of using the best available information to establish fair and accurate rates.¹⁹²

¹⁸⁵ See Free, Exh. SEF-49C.

¹⁸⁶ See Free, Exh. SEF-28T at 70:17-72:8.

¹⁸⁷ Mueller, Exh. BDM-23CT at 17:8-16.

¹⁸⁸ Mueller, Exh. BDM-23CT at 5:14-27.

¹⁸⁹ Mueller, Exh. BDM-23CT at 9:5-7.

¹⁹⁰ Mueller, Exh. BDM-23CT at 4:14-6:11.

¹⁹¹ Wilson, Exh. JDW-1T at 4:16.

¹⁹² *WUTC v. Puget Sound Energy, Inc.*, Docket UE-040640, et al., Order 06 at ¶ 108 (Feb. 18, 2005) (“[P]ower costs determined in general rate proceedings and in PCORC proceedings should be set as closely as possible to costs that are reasonably expected to be actually incurred during short and intermediate periods following the conclusion of such proceedings.”).

85. PSE's changes reflect the most current and accurate information available regarding its power supply portfolio, market conditions, and regulatory compliance costs. PSE's changes also incorporate certain recommendations from Commission Staff and other parties that improve the accuracy and transparency of PSE's forecast methodology. The Commission should approve PSE's proposed changes and reject the adjustments proposed by AWEC and Public Counsel.

a. New Power Cost Resources

86. PSE's proposed changes to its power cost forecast account for new power purchase agreements that PSE has executed since its initial filing in February 2024. These PPAs provide PSE with additional capacity, clean energy, and resource adequacy benefits that are essential to meet PSE's obligations under CETA and the CCA. PSE is not seeking a prudence determination for these new resources now, however, and instead intends to seek a prudence determination for the new resources at the next available opportunity.¹⁹³ PSE's inclusion of these PPAs in its power cost forecast is consistent with the Commission's practice of allowing utilities to recover the costs of new resources that are reasonably known and measurable at the time of filing.

87. Further, at the evidentiary hearing when questioned directly by the Commissioners, witnesses for Commission Staff,¹⁹⁴ Public Counsel¹⁹⁵ and AWEC¹⁹⁶ all generally acknowledged that they had sufficient opportunity to review PSE's power cost updates, including the new resources that had been acquired since PSE filed direct testimony in February. As explained by witness John Wilson, Commission Staff understood that a prudence review of any specific PPAs would occur in the review phase at the end of PSE's rate year one. That is indeed what PSE intends, and Commission Staff found PSE's overall methodology and process to be appropriate.¹⁹⁷ As additionally explained by AWEC witness Bradley Mullins, PSE let the parties

¹⁹³ Mueller, Exh. BDM-23CT at 19:21-22.

¹⁹⁴ Wilson, TR. 167:8-17.

¹⁹⁵ Earle, TR. 301:10-13.

¹⁹⁶ Mullins, TR. 328:14-24.

¹⁹⁷ Wilson, TR. 167: 17.

know in advance through the discovery process that additional power cost resources had been secured, so they were no surprise to the parties.¹⁹⁸

b. PSE has incorporated other parties' recommendations

88. PSE's proposed changes to its power cost forecast incorporate certain recommendations from Commission Staff and other parties that improve the accuracy and transparency of PSE's forecast methodology. These recommendations include:

- Using a marginal price of fuel for Colstrip dispatch decisions, which better reflects the true marginal cost of fuel than the average price and ensures that estimated coal fuel costs in PSE's power cost forecast are tied directly to the coal volumes projected to be consumed in that same forecast.¹⁹⁹
- Revisiting the valuation of PSE's Clay Basin natural gas storage capacity once additional actual operational data is available and utilizing that data to establish normal operating parameters for the facility.²⁰⁰
- Including certain Energy Imbalance Market (EIM) costs and benefits that were omitted from PSE's initial power cost forecast, such as flexible ramping payments, administrative charges, transaction fees, and interest charges or payments associated with EIM settlements.²⁰¹

89. PSE has either incorporated these recommendations in its updated power cost forecast or agreed to include them in future forecasts. PSE has also provided sufficient explanation and documentation to support its forecast methodology and to address any questions or concerns raised by other parties. PSE's adoption of these recommendations demonstrates PSE's willingness to collaborate with stakeholders and to enhance the reliability and transparency of its power cost forecast.

90. On the other hand, the adjustments proposed by AWEC and Public Counsel are not reasonable. AWEC's adjustment to include additional EIM benefits in PSE's power cost forecast would result in a double-counting of these benefits and overstate PSE's EIM participation

¹⁹⁸ Mullins, TR. 328 8-24.

¹⁹⁹ Mueller, Exh. BDM-23CT at 11:7-12:7.

²⁰⁰ Mueller, Exh. BDM-23CT at 12:8-16.

²⁰¹ Mueller, Exh. BDM-23CT at 13:1-15:5.

value.²⁰² Public Counsel's adjustment to exclude the costs of new PPAs from PSE's power cost forecast would ignore the actual costs PSE will incur to provide reliable and clean service to its customers and would undermine PSE's resource planning and acquisition efforts.²⁰³ Both AWEC's and Public Counsel's adjustments would create a mismatch between PSE's forecasted power costs and its actual power costs, which would harm PSE's financial integrity and its customers' interests. For these reasons, the Commission should approve PSE's proposed changes to its power cost forecast and reject the adjustments proposed by AWEC and Public Counsel. PSE's proposed changes are reasonable, necessary, and consistent with the Commission's statutory obligations and policy objectives.

c. CCA Costs in Dispatch Decisions

91. The Commission should reject Commission Staff's request to direct PSE to include CCA allowance costs in all dispatch decisions. PSE currently considers CCA allowance costs in the dispatch decisions for resources supplying only wholesale sales.²⁰⁴ This position is based on the guidance to date provided by the Washington State Department of Ecology ("Ecology") regarding its no-cost allowance allocation and adjustment process.²⁰⁵ PSE expects to ultimately receive no-cost allowances for all emissions associated with serving its retail electric demand, but PSE expects it will have to purchase allowances for any emissions associated with its sales of surplus energy to the wholesale market. Commission Staff, however, recommends that PSE include the cost of CCA allowances in the cost used to make dispatch decisions for all of its emitting resources, regardless of whether those resources are being dispatched to serve PSE's retail electric demand or being used to support sales of surplus energy in the wholesale market.²⁰⁶
92. The difference in PSE's and Staff's approach is substantial. Commission Staff's recommendation increases power costs by more than \$100 million over the two years of PSE's

²⁰² Mueller, Exh. BDM-23CT at 15:6-17:3.

²⁰³ Earle, Exh. RLE-1CT at 2:14-19.

²⁰⁴ Mueller, Exh. BDM-23CT at 24:16-17.

²⁰⁵ Mueller, Exh. BDM-23CT at 24:17-19.

²⁰⁶ Wilson, Exh. JDW-1T at 5:10-15.

multiyear rate plan. If Commission Staff’s understanding of Ecology’s future treatment of no-cost allowances is correct, however, that increase will be more than offset by a net benefit from assumed sales of surplus no-cost allowances. If PSE’s understanding of Ecology’s future treatment of no-cost allowance is correct, that increase is not offset by lower emissions costs. The difference between Commission Staff’s and PSE’s outcomes depends entirely on Ecology’s future no cost allowance allocation. While there is uncertainty regarding how Ecology intends to run its CCA program in the future, PSE’s understanding is based on written and publicly available comments from Ecology²⁰⁷ as well as a July 15, 2024 order issued by the U.S. District Court for the Western District of Washington.²⁰⁸ Staff’s understanding is based on a single interview with an Ecology staff person, which PSE was not privy to and which Ecology has not confirmed or clarified in any official communication.²⁰⁹ PSE’s treatment of CCA allowance costs should be approved because it is the lower risk option. The significant increase to power costs that occurs with Commission Staff’s recommended approach would occur regardless of how Ecology ultimately implements its allowance adjustment. This certain increase to PSE’s power supply cost may or may not be offset by benefits from sales of surplus no-cost allowances. PSE’s approach avoids these certain cost increases until more is known about Ecology’s adjustment of no-cost allowances. No other party has expressed support for Commission Staff’s position regarding CCA allowance costs. AWEC witness Mullins agrees that Commission Staff’s proposal “would result in customers paying higher net power costs for costs that may not materialize.”²¹⁰ “Staff’s recommendations shift the risk (and cost) of uncertainty with the true-up mechanism onto customers without any benefit to PSE’s customers.”²¹¹ If the Commission were to include the allowance costs, which PSE opposes, it should also include proceeds from sales.

²⁰⁷ Wilson, Exh. JDW-1T at 16:6-7 and Exh. JDW-7.

²⁰⁸ See Wilson, Exh. JDW-7.

²⁰⁹ Wilson, Exh. JDW-1T at 26:6-8. See also Mueller, Exh. BDM-23CT at 26:5-12 and Wilson, Exh. JDW-1T at 16:9-18.

²¹⁰ Mullins, Exh. BGM-6CT at 4:14-15.

²¹¹ Mullins, Exh. BGM-6CT at 5:23-6:1.

d. Social Cost of Greenhouse Gas Emissions

93. Similarly, the Commission should not direct PSE to include other external costs in its dispatch decisions, such as the social cost of greenhouse gas emission (“SCGHG”). Dispatch decisions must reflect the actual costs incurred when a generating unit is dispatched. External social costs, like the SCGHG are relevant to longer-term decisions regarding how a resource portfolio will evolve over time, including retirements of existing resources and acquisitions of new ones.²¹² Including the SCGHG in PSE resource dispatch decisions could increase annual power costs by more than \$400 million with only a relatively small offsetting benefit from lower CCA allowance purchase costs.²¹³ Furthermore, it is unlikely that such a policy would reduce overall carbon emissions in the region, and it could even increase them.²¹⁴

11. Adjustment to Revenues for Schedule 88T

94. PSE updated its pro forma gas revenues on rebuttal to reflect the Commission’s decision in Docket UG-230393, Schedule 141LNG filing,²¹⁵ which was issued after PSE filed its direct case. PSE witness John Taylor and Suan Free discuss the impact of this change.²¹⁶

VIII. PRUDENCE DETERMINATIONS

A. Prudence Determinations are Appropriate for Projects No Party has Challenged

95. No party has opposed the prudence of the following resources and the Commission should determine that they are prudent: Beaver Creek Wind Project,²¹⁷ Baker Hydroelectric Projects,²¹⁸ Fredrickson Tolling Agreement,²¹⁹ demand response PPAs (AutoGrid, Oracle, EnelX),²²⁰ AMI investment,²²¹ Bainbridge Island Project,²²² Sedro-Wooley – Bellingham #4

²¹² Mueller, Exh. BDM-23CT at 30:15-22.

²¹³ Mueller, Exh. BDM-23CT at 32, Table 4.

²¹⁴ Mueller, Exh. 23CT at 32:6-33:4.

²¹⁵ *WUTC v. Puget Sound Energy*, Docket No. UG-230393, Order 07 (Apr. 24, 2024) (“Order 07”).

²¹⁶ See Free, Exh. SEF-28T at 76:1-9; Taylor, Exh. JDT-8T at 13:12-17 and 15:11-22.

²¹⁷ Crowley, Exh. CCC-1HCT at 97:12-121:3.

²¹⁸ Hogan, Exh. JPH-1CT at 2:12-28:8 (including Baker Hydroelectric Projects, Seepage Reduction project, Spillway Stabilization, and Lower Baker Dam Crest Improvement).

²¹⁹ St. Clair, Exh. SJS-1CT at 1-24.

²²⁰ Archuleta, Exh. GA-1T at 23:18-40:4.

²²¹ Bamba, Exh. RBB-1T at 14:19-33:14.

²²² Bamba, Exh. RBB-1T at 34:7-40:8.

11kV Project,²²³ Goldendale and Mint Farm capital expenditures,²²⁴ Vantage Wind PPA,²²⁵ IT investments,²²⁶ short-term capacity agreements,²²⁷ Colville Slice Agreement Extension,²²⁸ new and renewed transmission contracts,²²⁹ and wildfire mitigation capital investments.²³⁰

B. The Chelan Power Sales Agreement Is Prudent and Commission Staff's Proposal Should Be Rejected

96. PSE requests that the Commission approve full recovery of the costs associated with the Chelan Power Sales power purchase agreement with Public Utility District No. 1 of Chelan County (“Chelan PUD”) for a 25 percent share of the output of the Rocky Reach and the Rock Island Hydroelectric Projects (the “Chelan PSA”). The Chelan PSA effectively renews and extends the 2006 power sales agreement with Chelan PUD that expires in October 2031 (the “2026 Chelan PSA”).

97. PSE has a long history with both projects, dating back to the construction of the Rock Island Project. Under the 2006 Chelan PSA, PSE currently purchases a 25 percent share (approximately 480 MW of capacity) of the output of both the projects. The 2006 Chelan PSA expires in 2031.²³¹ The 2006 Chelan PSA is a core component of PSE’s existing clean energy resources. Output from the projects has for decades been the backbone of PSE’s existing resource base, providing seasonal and daily load shaping energy and capacity benefits in addition to necessary ancillary services.²³² PSE expects to have a significant capacity need in 2031 and beyond, and this capacity need assumes that PSE would continue to purchase 25 percent of the output of the projects.²³³ Failure to continue the 2006 Chelan PSA would effectively increase

²²³ Bamba, Exh. RBB-1T at 40:10-45:2.

²²⁴ Carlson, Exh. MAC-1CT at 10:17-13:21.

²²⁵ Crowley, Exh. CCC-1HCT at 89:10-97:9.

²²⁶ Fellon, Exh. BEF-1T at 23-40.

²²⁷ Haines, Exh. PAH-1CT at 43.

²²⁸ Haines, Exh. PAH-1CT at 50.

²²⁹ Haines, Exh. PAH-1CT at 57-68.

²³⁰ Murphy, Exh. RM-1T at 31-41.

²³¹ Yanez, Exh. ZCY-1CT at 5:4.

²³² Yanez, Exh. ZCY-1CT at 10:1-11:2.

²³³ Yanez, Exh. ZCY-1CT at 7:3-8:15, Figure 1.

PSE's capacity need from 735 MW to about 1,179 MW in 2031.²³⁴ Preliminary results of the 2023 Electric Progress Report indicate that PSE's capacity need is increasing, highlighting the continued importance of the Chelan PSA.²³⁵ PSE's decision to negotiate and enter into the Chelan PSA ahead of the expiration of the existing agreement is driven by the importance of the projects to PSE's portfolio.²³⁶

98. Given these important attributes and PSE's extensive electric supply resource needs, PSE has understood for some time that continued access to the projects' output would be a critical component of PSE's long-term electric portfolio management strategy.²³⁷ However, the 2006 Chelan PSA does not contain provisions for any right of first refusal, right of first offer, or extension beyond its current terms.²³⁸ When Chelan PUD informed PSE of its desire to reach an agreement in principle by the end of 2022, PSE saw an opportunity to secure access to the Projects' output through November 2051, securing the capacity, clean energy, and ancillary benefits through the 2045 transition to 100 percent clean energy Washington targets.²³⁹

99. The Chelan PSA is essentially an extension of the 2006 Chelan PSA where the pricing and quantity terms are the same. Both entitle PSE to purchase a 25 percent share of the projects.²⁴⁰ The contracts both commit PSE to pay for a 25 percent share of costs of operating the projects.²⁴¹ In addition to a 25 percent share of operating costs both contracts have an adder. The 2006 Chelan PSA has a one-time adder, while the Chelan PSA has a fixed annual payment.²⁴² Other minor differences include changes in Chelan PUD's credit requirements, changes in transmission terms, and operating practices reflecting physical limits at the projects.²⁴³

²³⁴ Yanez, Exh. ZCY-1CT at 8:9-12.

²³⁵ Yanez, Exh. ZCY-1CT at 8:12-14.

²³⁶ Yanez, Exh. ZCY-1CT at 10:1-11:9.

²³⁷ Yanez, Exh. ZCY-1CT at 11:7-10.

²³⁸ Yanez, Exh. ZCY-1CT at 11:10-12.

²³⁹ RCW 19.405.050(1); Yanez, Exh. ZCY-1CT at 11:12-17.

²⁴⁰ Yanez, Exh. ZCY-1C at 6:15-16.

²⁴¹ Yanez, Exh. ZCY-1C at 6:15-16.

²⁴² Yanez, Exh. ZCY-1CT at 6:18-20.

²⁴³ Yanez, Exh. ZCY-1CT at 6:20-7:2; Yanez, Exh. ZCY-5CT at 3:13-4:2.

100. While the 2006 Chelan PSA has been in effect since 2006 with nearly identical terms to the Chelan PSA, Commission Staff contends that PSE paying a percentage share of the costs of operating the projects equal to its 25 percent share of the projects' output with no cap on costs is unreasonable because Chelan PUD could make imprudent investments that significantly increase the costs of the Chelan PSA.²⁴⁴ Staff recommends that the Commission require PSE to file a special request to re-evaluate the prudence of the Chelan PSA if production costs exceed the forecast by a fixed amount.²⁴⁵ Commission Staff's proposal is based on an assumption that Chelan PUD will act irrationally in managing the projects.

101. In Docket UE-060266, the Commission determined that the 2006 Chelan PSA was prudent and supported by "substantial competent evidence showing the need and appropriateness of the Company's expenditures" and authorized recovery in rates.²⁴⁶ Although, in this case, Commission Staff witness Wilson contends he has not seen a contract without a cap on expenses,²⁴⁷ the 2006 Chelan PSA, which has been in effect for 18 years, is such a contract.²⁴⁸

102. Wilson's concern that Chelan PUD would incur unnecessary and excessive costs is entirely speculative. Chelan PUD is a customer-owned public utility district that takes pride in having some of the lowest electric rates in the nation.²⁴⁹ The governing body of Chelan PUD is a five-member elected board that has responsibility to approve the plans, budgets, and expenditures of Chelan PUD.²⁵⁰ PSE has extensive history, knowledge of, and experience with Chelan PUD and its operation of the projects.²⁵¹ There is no evidence that the Chelan PUD board would suddenly begin approving excessive unneeded investments in the projects since the

²⁴⁴ Wilson, Exh. JDW-1TC at 49:12-50:4.

²⁴⁵ Wilson, Exh. JDW-1TC at 55:4-56:8.

²⁴⁶ *WUTC vs. Puget Sound Energy*, Docket UE-060266, Order 08 ¶ 165 (Jan. 5, 2007) ("Order 08") (the 2006 Chelan PSA was 1 of 5 resource acquisitions at issue and 1 of 2 long-term power purchase agreements the Commission approved in Order 08).

²⁴⁷ Wilson, Exh. JDW-1TC at 51:8.

²⁴⁸ Yanez, Exh. ZCY-5CT at 6:4-11. Net cost contracts, like the 2006 Chelan PSA and the Chelan PSA, are common in the Pacific Northwest and help customers benefit from the historically lower operating costs of existing hydro projects while sharing in the cost to maintain those projects. *See* Yanez, Exh. ZCY-5CT at 1:18-2:1.

²⁴⁹ Yanez, Exh. ZCY-5CT at 6:15-17.

²⁵⁰ Yanez, Exh. ZCY-5CT at 6:17-7:1.

²⁵¹ Yanez, Exh. ZCY-5CT at 7:11-15; Yanez, Exh. ZCY-1CT at 14:3-8.

Chelan PUD customers are responsible for 65 percent of the operating and capital costs of the projects.²⁵² This provides assurance that any costs will be prudent and economically rational.²⁵³

103. Wilson provides an unpersuasive hypothetical scenario that he claims shows Chelan PUD would be willing to bear a percentage increase in annual production costs before it would decide to retire the projects.²⁵⁴ Even if Wilson's hypothetical scenario were true, the net benefits to PSE customers of the Chelan PSA would still be prudent.²⁵⁵ Moreover, Wilson's hypothetical scenario would so significantly increase the annual costs to Chelan PUD customers that, acting as a prudent utility, Chelan PUD would carefully evaluate resource alternatives before making a financial commitment of that magnitude.²⁵⁶

104. In sum, the 2006 Chelan PSA has provided excellent value to PSE customers and has become a critical part of PSE's clean energy portfolio. Failure to secure this proven resource beyond 2031 would hamper PSE's ability to meet its clean energy targets. The Commission should find that the Chelan PSA is prudent and reject Commission Staff's proposal.²⁵⁷

C. The HF Sinclair PSR Cogen Power Purchase Agreement Is Prudent and Public Counsel's Concerns are Unfounded

105. PSE requests that the Commission approve full recovery of the costs associated with the HF Sinclair PSR Cogen power purchase agreement, which provides PSE with 65 MW of firm, CETA-eligible capacity and energy from a cogeneration plant located within PSE's service territory near Anacortes. The HF Sinclair PPA is a valuable resource acquisition that meets PSE's capacity and energy needs at the lowest reasonable cost.

106. PSE's decision to enter into the HF Sinclair PPA was based on sound and competitive valuation methodology that considered multiple components and market comparisons, including capacity resource adequacy, flexibility and optimization, CETA/REC, and other adjustments.

²⁵² Yanez, Exh. ZCY-5CT at 7:16-8:10; Yanez, Exh. ZCY-1CT at 14:17-21.

²⁵³ Yanez, Exh. ZCY-5CT at 8:3-10.

²⁵⁴ Wilson, Exh. JDW-1TC at 3:3-4; Table 3 at 4:1-2.

²⁵⁵ Yanez, Exh. ZCY-5CT at 9:1-10:12; Yanez, Tr. 225:7-20.

²⁵⁶ Yanez, Exh. ZCY-5CT at 10:13-11:19.

²⁵⁷ Yanez, Exh. ZCY-5CT at 12:9-14.

PSE's capacity valuation methodology reflects PSE's expertise and experience as a market participant in the Pacific Northwest, where the capacity market is illiquid and dynamic. PSE's methodology resulted in both successful and unsuccessful bids for bundled resources, indicating that PSE's capacity value range is reasonable and aligned with other market participants.

107. PSE's capacity valuation methodology is the same as the one that the Commission approved in PSE's 2022 general rate case for the Colville Slice Agreement and the Chelan Slice 35 Agreement, both of which were found prudent as part of the Revenue Requirement Settlement Agreement in that case. The Commission noted then that no setting party challenged the prudence of PSE's power cost investments in that case, and no party in this proceeding has claimed that PSE's decision to enter into the HF Sinclair PPA was imprudent either.

108. Public Counsel's recommendation to disallow \$3,562,650 per year of the HF Sinclair PPA's costs should be rejected because it is unfounded and unsupported. Public Counsel simply selected the lowest value in PSE's capacity value range and determined, without analysis or support, that such is the true value of capacity. Public Counsel then makes immaterial comparisons with PSE's prior Chelan Slice 38 agreement instead of pointing out any flaw in PSE's methodology or presenting a better alternative.

109. Public Counsel's reliance on the Chelan Slice 38 agreement is flawed because it depends on a timing comparison²⁵⁸ – which has little to do with valuation in this context – but ignores relevant contrasts such as the difference in the types of facilities. PSE evaluated the HF Sinclair and Chelan 38 PPAs individually, while applying the same methodology and capacity value range to estimate the actual value for each respective bundled resource opportunity. Public Counsel expressed no concerns with that valuation methodology. Instead, Public Counsel picked

²⁵⁸ Public Counsel believes the Chelan Slice 38 and HF Sinclair agreements should be the same value because they were formulated near the same time. *See* Earle, Exh. RLE-1CT at 5-6.

four comparators to criticize for insignificant factors.²⁵⁹ Importantly, the four comparators Public Counsel relies on were merely four data points in PSE’s comprehensive valuation methodology.

110. Public Counsel witness Earle demonstrated the futility of Public Counsel’s argument in his own testimony on the witness stand. When questioned by Commissioners about Public Counsel’s alternative facility to evaluate the HF Sinclair PPA, Earle said the Chelan Slice 38 hydro project agreement was the appropriate alternative.²⁶⁰ But Earle’s answer highlights Public Counsel’s flawed argument. The Chelan Slice 38 agreement is not available because PSE already “bought it”, and PSE *still*, undisputedly, needed more capacity.²⁶¹ Unlike the analogy Earle attempts, power cost resources are not cars.²⁶² PSE cannot simply choose a \$60,000 car over an \$80,000 car if there are no \$60,000 cars available. Therefore, even if the Chelan Slice was the cheaper, \$60,000 car, its price is meaningless if it is not for sale.

111. Public Counsel does not claim that the decision to enter into the HF Sinclair agreement is imprudent, so Public Counsel's recommendation undermines the Commission's policy and prudence standard and should be rejected. The Commission should allow full recovery of the associated costs in rates. The HF Sinclair PPA is a valuable and cost-effective resource that provides PSE with firm and flexible capacity and energy, supports PSE's resource adequacy obligations, and contributes to PSE's clean energy transition.

D. PSE’s Gas Delivery System Investments are Prudent

112. PSE’s proposed gas plant delivery system expenditures in the multiyear rate plan are necessary so PSE can meet its obligations to provide safe and reliable gas service to its customers. Nearly all of its proposed expenditures are mandated by state or federal law (or both), or Commission order, and subject to mandatory reporting obligations to the Commission or federal agencies. No party challenges the prudence of PSE’s proposed gas plant investments in

²⁵⁹ For example, the PowerEx Peak Winter bid was based on too many component values; the WRAP CONE comparator was based on too few. *See* Haines, Exh. PAH-19CT at 7:16-18, citing Earle, Exh. RLE-1CT at 3:11-13.

²⁶⁰ Earle, TR. 308:16-19.

²⁶¹ Earle, TR. 304:9-10.

²⁶² *See* Earle, TR. 304:14-22.

this case. The JEA, however, make broad policy arguments regarding gas expenditures generally and without identifying any specific gas plant investments proposed in this case, contend that PSE’s “gas investment plan” is not aligned with customer and public interests and achieving state policies.²⁶³ While JEA raises some important policy questions, none address any of the proposed expenditures in this case, and the Commission should find that PSE’s proposed gas plant investments are prudent.

113. JEA also requests the Commission mandate that PSE consider non-pipeline alternatives (“NPAs”) in lieu of every proposed gas pipeline capital expenditure, except for emergency situations.²⁶⁴ The Commission should reject JEA’s proposal. NPAs are not a viable alternative to most gas pipeline situations. Moreover, the Legislature has already provided direction regarding NPAs in HB 1589 and the Commission should defer to the Legislature on this issue.

1. PSE’s expected gas plant expenditures are prudent.

114. PSE’s proposed gas plant expenditures in this case are nearly all non-discretionary. Non-discretionary investments are dictated by law or driven by requirements relative to timing and/or scope outside of PSE’s direct control.²⁶⁵ PSE’s non-discretionary expenditures in the multiyear rate plan include emergency repair, gas maintenance, public improvement, customer requests, and pipeline digital monitoring.²⁶⁶ These expenditures comprise over 90 percent of PSE’s expected gas capital spend in the upcoming multiyear rate plan.²⁶⁷ All are required by law and/or Commission order,²⁶⁸ and most are subject to mandatory reporting to the Commission or federal

²⁶³ Cebulko, Exh. BTC-1T at 77:5-6. JEA points to the Climate Commitment Act (Chapter 70A.65 RCW) and HB 1589 (H.R. 1589, 68th Leg., 2024 Reg. Sess. (Wa. 2024)), to show that PSE’s planned gas expenditures are inconsistent with Washington law and policy. Cebulko, Exh. BTC-1T at 76:14-77:6. But neither have any impact on PSE’s investments in this case. Landers, Exh. DJL-10T at 28:14-30:14.

²⁶⁴ Cebulko, Exh. BTC-1T at 81:10-93:4.

²⁶⁵ Landers, Exh. DJL-1Tr at 17:1-14; Landers, Exh. DJL-10T at 5:6-6:19.

²⁶⁶ Landers, Exh. DJL-10T at 5:1-5, Table 5.

²⁶⁷ Landers, Exh. DJL-10T at 6:20-7:4; Landers, Exh. DJL-21X (PSE Resp. to JEA DR No. 069); Landers, Exh. DJL-22X (Attachment A to PSE Resp. at to JEA No. 069).

²⁶⁸ Landers, Exh. DJL-10T at 7:5-15:16; Landers, Exh. DJL-21X (PSE Resp. to JEA DR No. 069); Landers, Exh. DJL-22X (Attachment A to PSE Resp. at to JEA No. 069).

agencies.²⁶⁹ Thus, JEA’s suggestion that PSE’s proposed expenditures are not aligned with state policy is incorrect. PSE must perform this work to adhere to state and federal requirements.²⁷⁰

115. Even the small percentage of PSE’s expected gas spend that is considered “discretionary” is also only discretionary in the sense that PSE has discretion on how it meets its mandatory obligation to serve.²⁷¹ For example, pipeline system reliability expenditures reinforce the pipeline system so that PSE can provide gas to customers.²⁷² System reliability investments proposed in this multiyear rate plan address the highest priority service reliability risks that manifest during peak load conditions.²⁷³ Where possible, PSE delays making pipeline system reliability investments by manually intervening, known as cold weather actions (“CWAs”), to provide uninterrupted service to firm natural gas service customers. CWAs consist of real-time adjustments to field equipment by on-site personnel or injection of supplemental gas, delivered by truck and trailer, into capacity constrained locations of the delivery system to maintain service to customers. CWAs, however, are not without risk.²⁷⁴ For example, should inclement weather create conditions such as icy roadways that prevent an injection truck from arriving at a CWA location on time, or operational requirements exceed capacity of available qualified personnel to

²⁶⁹ PSE submits annual reports to the Pipeline and Hazardous Materials Safety Administration (PHMSA), including the Distribution DOT annual report, Transmission DOT annual report, Distribution Continuing Surveillance report, and Transmission Integrity Management Program annual report. Additionally, the Company annually files revisions to its Gas Operating Standards (GOS) and Gas Field Procedures (GFP) and submits updates to the Company’s pipeline replacement plan (WUTC Docket PG-230419) every two years with the Commission. *See, e.g.*, WAC 480-93-180 (emergency response manual filing requirements); 49 CFR 192, Subpart P, 49 CFR 192.1005 (DIMP); 49 CFR 192, Subpart O, 49 CFR 192.907, MAOP Reconfirmation 49 CFR 192.624 (TIMP); RCW 81.88.160 (Pipes Act of 2020 filing requirements); Docket PG-230419 (Pipeline Replacement Plan requirements).

²⁷⁰ Landers, Exh. DJL-10T at 7:5-15:16; Landers, Exh. DJL-21X (PSE Resp. to JEA DR No. 069); Landers, Exh. DJL-22X (Attachment A to PSE Resp. at to JEA No. 069). Non-discretionary investments can be planned or unplanned. Landers, Exh. DJL-1Tr at 17:1-18:11; Landers, Exh. DJL-10T at 5:6-6:19. For planned non-discretionary investments, PSE has some discretion on timing on when non-discretionary investments are completed. For example, PSE’s gas maintenance expenditures are non-discretionary in that the Company must complete the work, but has discretion on timing. *See* Landers, Exh. DJL-10T at 8:17-10:9; Landers, Exh. DJL-3r, Appx. J-O; Exh. DJL-23X (PSE Resp. to JEA DR No. 70).

²⁷¹ *See* Landers, DJL-26X (PSE Resp. at JEA DR No. 76).

²⁷² Landers, Exh. DJL-10T at 18:16-19:18.

²⁷³ Landers, Exh. DJL-10T at 15:17-17:5.

²⁷⁴ Landers, Exh. DJL-10T at 17:6-18:15.

perform manual adjustments of the delivery system, customers will be placed at high risk of losing gas service at a time of greatest need for space heating.²⁷⁵

116. Puzzlingly, the only gas-related expenditure that JEA challenges is PSE's Alternate Fuels Readiness program,²⁷⁶ which accounts for only one percent of PSE's proposed gas spend.²⁷⁷ JEA claims that alternate fuels cannot scale to substantially meet PSE's emissions reduction goals, and that PSE did not provide adequate testimony describing the program.²⁷⁸ Neither of these criticisms are true. PSE provided detailed testimony explaining that the program supports pilot and demonstration projects essential for PSE to keep pace in its awareness of low-carbon fuel technologies, including renewable natural gas ("RNG") and hydrogen, and to inform gas system investment decisions such that pipeline infrastructure may be compatible with future energy resources that may be delivered by PSE's pipeline infrastructure.²⁷⁹

117. In the program, PSE will place into service a small one-megawatt hydrogen electrolyzer to evaluate use of natural gas-hydrogen blends in fueling existing electrical generation plants for reduced carbon emissions and to produce hydrogen for delivery system pipeline blending evaluations. The program will also pursue development of a pilot project utilizing hydrogen pyrolysis technology to serve industrial customers and increase awareness of opportunities for decarbonizing loads that are difficult to electrify.²⁸⁰ In addition, PSE will continue to participate in industry forums to maintain current knowledge of advancing technologies. PSE believes that both RNG and hydrogen have a place in decarbonizing the state's energy supply and that it has the responsibility to evaluate whether these resources could support customers in energy end-use

²⁷⁵ Landers, Exh. DJL-6 at 3-11:2.

²⁷⁶ Cebulko, Exh. BTC-1T at 4:8-10, 32:18-40:6.

²⁷⁷ Landers, Exh. DJL-10T at 6:20-7:4; Landers, Exh. DJL-21X (PSE Resp. to JEA DR No. 069); Landers, Exh. DJL-22X (Attachment A to PSE Resp. at to JEA No. 069).

²⁷⁸ Cebulko, Exh. BTC-1T at 32:18-40:6.

²⁷⁹ Landers, Exh. DJL-10T at 19:19-27:5; Landers, Exh. DJL-6 at 11:3-13:16.

²⁸⁰ Landers, Exh. DJL-10T at 23:1-24:3; Landers, Exh. DJL-27X (PSE Resp. to JEA DR No. 077); Landers, Exh. 28X (PSE Resp. to JEA DR No. 078); Landers, Exh. DJL-29X (PSE Resp. to JEA DR. No. 082 and No. 021, Attachments A-R).

transformation.²⁸¹ This work is consistent with the decarbonization “paradigm” JEA emphasizes in testimony.²⁸² The Commission should approve PSE’s Alternate Fuels Readiness program.

118. Finally, JEA expresses broadscale concern regarding the future of PSE’s gas infrastructure claiming that PSE is planning to “spend on its gas delivery system in all scenarios.”²⁸³ This is false. PSE is spending on its gas system only as necessary to meet its obligation to safely and reliably serve its gas customers.²⁸⁴ PSE is otherwise transitioning away from planning for future gas growth. Several projects identified previously to expand capacity of the gas delivery system have already been deferred indefinitely.²⁸⁵ And while in other contexts PSE has provided projections regarding forecasted gas capital costs under various scenarios,²⁸⁶ those projections are beyond the scope of the investments proposed in this case. Investments beyond this multiyear rate plan will be determined using PSE’s standard planning processes, as informed by PSE’s obligations to serve gas customers as required by law and Commission direction.²⁸⁷ JEA’s use of this proceeding to raise policy concerns regarding hypothetical future investments in gas is inappropriate and should be disregarded.

2. JEA’s proposal regarding non-pipeline alternatives is premature and would be duplicative to the requirements in HB 1589.

119. JEA asks the Commission to impose on PSE a requirement that the Company evaluate the feasibility of non-pipeline alternatives (“NPAs”) before it may recover for any gas capital expenditures, except those tied to emergency repair.²⁸⁸ JEA’s proposal is premature as NPAs are simply far too undeveloped to be a realistic alternative for most gas pipeline projects.

²⁸¹ Landers, Exh. DJL-10T at 24:4-25:17.

²⁸² Landers, Exh. DJL-10T at 26:1-27:2.

²⁸³ Cebulko, Exh. BTC-1T at 79:21-22.

²⁸⁴ Landers, Exh. DJL-10T at 34:1-7.

²⁸⁵ Landers, Exh. DJL-10T at 34:7-13.

²⁸⁶ Cebulko references PSE’s decarbonization study but conflates assumptions in the decarbonization study with the multiyear rate plan. *See* Popoff, Exh. PJP-1Tr, who addresses why Cebulko’s testimony regarding the decarbonization study is flawed. *See also* Popoff, Exh. PJP-3 (PSE Decarbonization Study).

²⁸⁷ Landers, Exh. DJL-10T at 34:14-35:3.

²⁸⁸ Cebulko, Exh. BTC-1T at 88:16-89:10.

120. NPAs are defined as any alternative to pipeline replacement, including zonal electrification.²⁸⁹ PSE is actively evaluating the use of NPAs such as energy efficiency, demand response, and targeted electrification as alternatives to pipeline reinforcement.²⁹⁰ PSE's targeted electrification pilot is one example of this. However, only zonal electrification, which is the electrification of all loads served by a segment of a pipeline system, is a viable candidate to avoid pipeline replacement projects, but it remains unproven beyond only very small scale.²⁹¹ JEA witness Cebulko concedes this noting that zonal electrification is most achievable for projects with five or fewer customers.²⁹² This is consistent with PSE's experience²⁹³ and the examples referenced by JEA.²⁹⁴ JEA provides no evidence that the other so-called NPAs would fare any better as a viable alternative to pipeline replacement.²⁹⁵ In sum, until zonal electrification is possible on a scale larger than a handful of customers, NPAs will not be a realistic alternative to gas pipeline replacement. While PSE agrees that alternatives analysis is an important component of assessing prudence, PSE is not required to evaluate alternatives that are not reasonable or realistic.

121. The Legislature apparently recognized these limitations in HB 1589 as the NPA provisions in HB 1589 are focused on broadly assessing the feasibility and cost-effectiveness of NPAs but do not yet require utilities to take any specific actions to implement NPAs.²⁹⁶ Until NPAs are proven to be a legitimate alternative to gas infrastructure projects, the Commission

²⁸⁹ Cebulko, Exh. BTC-1T at 83:4-14.

²⁹⁰ Landers, Exh. DJL-10T at 38:4-9.

²⁹¹ Landers, Exh. DJL-10T at 38:18-39:14, 40:7-41:8.

²⁹² Cebulko, Exh. BTC-1T at 87:11-14.

²⁹³ PSE witness Landers explained at hearing the current challenges with utilizing NPAs as a legitimate solution to pipeline replacement. Landers, Tr. 177:2-181:6.

²⁹⁴ Limitations surrounding alternatives to pipeline replacement are discussed in sources referenced by Cebulko. *See* Landers, Exh. DJL-10T at 41:1-8.

²⁹⁵ Landers, Exh. DJL-10T at 42:16-43:9. Cebulko—who is not an engineer or trained in repairing gas pipelines—also suggests PSE should be conducting more pipeline repairs instead of replacement. Cebulko, Exh. BTC-1T at 81:11-83:3. Whether PSE repairs or replaces a damaged pipeline depends on the appropriate method of resolving the integrity or safety concern, as determined by its trained and qualified pipeline personnel. Landers, Exh. DJL-10T at 43:10-45:9.

²⁹⁶ HB 1589, 68th Leg., 2024 Reg. Sess., § 3(4)(m) (Wa. 2024); Landers, Exh. DJL-10T at 42:1-15; Landers, Tr. 185:5-186:6 (explaining that given the challenges of implementing zonal electrification, the requirements in HB 1589 will provide time to further evaluate the feasibility of NPAs).

should not mandate their assessment but should maintain the longstanding prudence requirement that PSE demonstrate that it has analyzed reasonable alternatives—including evaluating NPAs where feasible and if determined to be a legitimate alternative.

IX. OTHER ISSUES

A. PSE’s Steps to Reduce Energy Burden, Provide Low Income Assistance, and Operate its Business with an Equity Lens

1. PSE is providing assistance to low-income and energy burdened customers

122. PSE has a variety of energy assistance programs to assist low-income customers to reduce energy burden on customers.²⁹⁷ PSE also conducted an Energy Burden Analysis and used these results to design and target its energy assistance.²⁹⁸ These efforts will assist with mitigating the impact of the proposed rate increase. For example, PSE streamlined its Bill Discount Rate application process to make it easier for customers to receive relief and augmenting the PSE HELP program.²⁹⁹ After this change, applications increased by 297 percent and the use of PSE HELP funds increased by 222 percent.³⁰⁰ PSE HELP and the Bill Discount Rate combined reduces customers’ energy burden to an average of two percent or less for most low income and estimated low-income customers.³⁰¹

123. PSE has been working closely with interested parties to increase accessibility of its programs and improve its energy assistance services to customers. PSE worked with the Low-Income Advisory Committee (“LIAC”) to solicit feedback on PSE’s Bill Discount Rate and the Arrearage Management Plan. PSE adopted some of the recommendations from the LIAC and implemented those suggestions to PSE’s Arrearage Management Plan and the Bill Discount Rate.³⁰² PSE is also open to collecting demographic data on the PSE HELP/BDR application if

²⁹⁷ Wallace, Exh. CLW-5.

²⁹⁸ Jhaveri, Exh. BDJ-1T at 15:1-17:9; Exh. BDJ-3 (PSE’s Energy Burden Analysis).

²⁹⁹ Wallace, Exh. CLW 1T at 13:1-14:11; Exh. CLW-6 (Bill Discount Rate Tiers).

³⁰⁰ Wallace, Exh. CLW-1T at 15:1-13.

³⁰¹ Wallace, Exh. CLW-1T at 10:15-11:4.

³⁰² Wallace, Exh. CLW-10T at 3:8-4:3.

the information can be anonymized and not tied to a specific account or application.³⁰³ This process would balance PSE's need to keep customer data secure, and still allow Community Action Agencies to access the needed zip code level data.

124. PSE has made positive strides in increasing language accessibility and is gathering customer language preference data to improve these efforts. PSE currently provides language translation services for multiple languages on its website³⁰⁴ and has made certain applications available in Spanish.³⁰⁵ PSE is willing to develop a language access plan, but an expedited timeline is not reasonable or necessary given PSE ongoing efforts to increase language accessibility. PSE's emphasis on increasing the availability of Spanish-language materials is reasonable given PSE's language preference data and the technical capabilities of PSE's systems.³⁰⁶ Should the Commission order the creation of a language access plan, PSE should be provided a reasonable amount of time to engage communities and further evaluate the needs of its customers.

125. PSE's disconnection policies and procedures are targeted and provide customers with opportunities to get on track with their bill. PSE's propensity to pay model lowers the number of customers that would otherwise enter the dunning process.³⁰⁷ The propensity to pay model adds another layer of protection to customers who may have missed payments, but otherwise have a positive track record of paying on time.³⁰⁸ Currently, the majority of low-income customers are categorized under the model in a manner that would prevent them from entering the dunning process if they fall behind on a payment and reach the dollar threshold to enter the dunning process.³⁰⁹ Should the Commission order PSE to discontinue the use of the propensity to pay model, these customers lose this extra layer of protection.

³⁰³ Wallace, Exh. CLW-10T at 7:13-8:18.

³⁰⁴ Wallace, Exh. CLW-1T at 8:18-9:19.

³⁰⁵ Wallace, Exh. CLW-10T at 11:9-18.

³⁰⁶ Wallace, Exh. CLW-10T at 10:15-11:8; Exh. CLW-13 (PSE call center data showing Spanish is the highest language need second to English).

³⁰⁷ Wallace, Exh. CLW-10T at 13:2-18:15.

³⁰⁸ Wallace, Exh. CLW-10T at 14.

³⁰⁹ Wallace, Exh. CLW-10T at 15:10-16:5.

2. PSE is incorporating equity into all aspects of its business

126. PSE has made significant progress towards viewing its business operations through an equity lens. Since its previous rate case, PSE developed an equity framework and has used this framework to incorporate equity into its business through a variety of use-case examples.³¹⁰ PSE has worked with its Equity Advisory Group to develop a variety of equity frameworks,³¹¹ it has incorporated equity into the corporate and capital planning and corporate spending authorization processes,³¹² and developed a first-in-the-nation Distributional Equity Analysis (“DEA”) pilot.³¹³ PSE is ahead of many of its peers across the country in incorporating energy equity and is making steady progress considering the recency of equity requirements.³¹⁴

127. As part of its efforts to develop a framework to incorporate equity into its business, PSE, with input from the Equity Advisory Group, developed Equity Investment Zones (“EIZs”). EIZs are areas PSE has identified for specific attention in terms of investment or engagement. Additional mandates regarding PSE’s EIZs are unnecessary as PSE still provides resources and support to communities in need. EIZs are incremental to the statutorily defined named communities and are a mechanism for PSE to direct further attention.³¹⁵

128. PSE’s DEA pilot program was a first attempt to conduct such an analysis. The DEA provided valuable insight but is one of many tools available to PSE to evaluate equity impacts. Requiring a full DEA on an entire portfolio of disparate projects could delay the process and add regulatory burdens when further direction would be beneficial.³¹⁶

129. Other parties have proposed a variety of additional equity-based requirements on PSE, including additional research, modifications to certain programs, hiring practices, or

³¹⁰ Hutson, Exh. TAH-1T at 7 Table 1 (use-case examples of PSE incorporating equity).

³¹¹ Hutson, Exh. TAH-1T at 34:9-35:13.

³¹² Hutson, Exh. TAH-1T at 10:17-11:19.

³¹³ Hutson, Exh. TAH-1T at 12:1-13:4.

³¹⁴ Martinez, Exh. MM-1T at 4:1-12, 12:11-24:18, 25:13-26:18.

³¹⁵ Hutson, Exh. TAH-1T at 11:1-12:5.

³¹⁶ Hutson, Exh. TAH-10T at 18:1-22:2.

collaboration requirements.³¹⁷ PSE witness Hutson addressed these suggestions,³¹⁸ some of which PSE is willing to incorporate, and others lack specificity or are not fully developed to provide PSE or the Commission with guidance. While some of the ideas proposed by intervenors are worth additional consideration, the Commission has an Equity Docket (A-230217) that could address these concepts in a comprehensive manner with more specific guidance to utilities in the state. Similarly, the Commission issued equity-related metrics in the PBR Docket (U-210590). By adopting these metrics, the Commission, PSE, and its customers will have a uniform understanding and method for evaluating utility progress on these issues. The Commission should be hesitant to add more metrics before PSE has reported on the metrics in the PBR Docket and the efficacy of the metrics evaluated. While PSE has made good progress on incorporating equity into its business processes, additional requirements could overload and burden PSE's equity endeavors, and may direct PSE resources away from, or interfere with, the important equity work PSE continues to do.

B. PSE's Targeted Electrification Pilot Phase 2 is Reasonable

130. PSE has proposed a Targeted Electrification Pilot Phase 2 ("TEP2") that builds on the momentum and learnings from the first Targeted Electrification Pilot, which was approved by the Commission as part of the settlement agreement in Dockets UE-220066, et al.³¹⁹ The TEP2 consists of six specific efforts, including three low-income and equity-based programs, a targeted electrification of natural gas-constrained geographic area pilot, an income-qualified heat pump rebate pilot, and a commercial and industrial targeted electrification grant pilot.³²⁰ The TEP2 is designed to align with PSE's clean energy goals, support the company's compliance with the

³¹⁷ See, e.g., Harmon, Exh. BLH-1T; Franks, Exh. WF-1T; Thuraisingham and Thompson, Exh. MT-CT-1T; Stokes, Exh. SNS-1T.

³¹⁸ Hutson, Exh. TAH-10T.

³¹⁹ *WUTC v. Puget Sound Energy*, Dockets UE-220066, et al. Final Order 24/10, Appx. A, Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and PSE's Green Direct Program ¶¶ 65, 67 (Dec. 22, 2022) ("UE-220066 Settlement").

³²⁰ See Mannetti, Exh. JM-9T at 5:15-6:7.

CCA, and inform the development of a targeted electrification strategy that will inform PSE's future planning, including its initial Integrated System Plan.³²¹

131. PSE's proposal for the TEP2 is prudent and reasonable and should be approved by the Commission. The TEP2 will allow PSE to continue to explore the effectiveness of targeted electrification efforts and how to focus and leverage such efforts going forward to maximize customer benefits. The TEP2 will also enable PSE to maintain its existing programs contracts/relationships, such as the low-income weatherization agencies and the small business direct install program, which provide valuable services to customers who may otherwise face barriers to electrification. The TEP2 will also allow PSE to expand its market experience in areas where the company has limited knowledge, such as multi-family rebates, commercial/industrial opportunities, and targeted electrification in PSE dual fuel gas capacity constrained areas. These areas are important for PSE to understand and address, as they may present significant potential for reducing greenhouse gas emissions, avoiding or deferring future gas system investments, and enhancing customer choice and satisfaction. The TEP2 will also provide opportunities for PSE to engage with customers and contractors to learn more about their reasons for moving ahead, barriers they overcame, benefits they secured, and areas to improve the process. These learnings are critical to informing electrification program design, customer education needs, contractor training requirements, and grid integration challenges.³²²

132. By contrast, the Commission should reject JEA's, The Energy Project's, and AWEC's proposals relating to the Targeted Electrification Pilot, as they are either premature, impractical, or inconsistent with the state's policy goals. JEA's recommendation that PSE transition immediately from small-scale electrification pilots to scaled-up electrification programs is premature. JEA proposes a broad general electrification program that scales until 2030 with a performance incentive mechanism, expanded electrification targets, and semi-annual progress

³²¹ See Mannetti, Exh. JM-9T at 15:13-16:9; 8:3-9:3; 9:10-20.

³²² *Id.*; see also Mannetti, Exh. JM-1T at 20:18-21:10.

reports. But this proposal lacks input from stakeholders, disregards the reality that electrification is not yet demonstrably cost effective (as shown in PSE's most updated decarbonization study), is at odds with JEA's own proposals for accelerating the depreciation of the gas system, and lacks sufficient detail regarding how programs would balance the interests of different customer classes, regions, and sectors. JEA's proposal also assumes that PSE can achieve unrealistic and arbitrary electrification targets and performance incentives, without regard for the costs, benefits, risks, and barriers of electrification, and without regard for PSE's integrated planning process, which considers a range of resources and strategies to meet its clean energy obligations. Finally, JEA's proposal disregards the value of the TEP2 as a learning opportunity and a transitional step towards developing a comprehensive and holistic electrification strategy that is informed by data, analysis, and stakeholder feedback.³²³

133. The Energy Project's proposal that PSE expand its TEP2 to all income-qualified customers, regardless of whether they are in dual fuel or gas only territories, is not practical at this time. PSE is limiting its TEP2 activities to dual fuel territory because the cost for the TEP2 is borne by both electric and gas customers. Until a mechanism to recover costs from electric public utility districts/municipal utilities is developed, PSE believes this is a reasonable and practical approach, based on cost causation and cost allocation principles.³²⁴

134. AWEC's proposal to reject the TEP2 as "premature" is based on a mistaken premise that TEP2 is incompatible with HB 1589. The TEP2 is timely and appropriate, as it builds on the existing targeted electrification pilot that was approved by the Commission. The TEP2 is not intended to achieve the goals of HB 1589, which is a planning bill that does not require electrification; rather the TEP2 will provide valuable information and experience that will inform PSE's future planning and program development, including the ISP.³²⁵

³²³ See Mannetti, Exh. JM-9T at 9:4-20; *see generally* Steuerwalt, Exh. MS-4T at 29:9-40:2; Popoff, Exh. PJP-1T at 15:17-17:7.

³²⁴ Mannetti, Exh. JM-9T at 10:11-11:2.

³²⁵ *Id.* at 10:1-10; *see also* Popoff, Exh. PJP-1T at 15:17-17:7.

135. Finally, AWEC witness Kaufman’s theory that electric Schedules 449 and 459, and gas Schedule 87T should not pay for the TEP2 is basically incorrect. Decarbonization projects are designed to benefit all customers, some more directly than others, but all customers benefit from system-wide improvements and long-term societal benefits driven by decarbonization efforts.³²⁶

C. Multiyear Rate Plan Annual Reviews

136. There are several areas of agreement between Commission Staff and PSE regarding the multiyear rate plan annual review process. Both agree to a portfolio approach. PSE does not object to a six-month timeframe for the annual capital review as proposed by Commission Staff. And after discussion, agreement was reached on how 2024 capital additions, which impact both the 2023-2024 multiyear rate plan and the current case, should be treated. That said, PSE witness Free makes clear that 2024 plant capital additions should be subject to only one retrospective review, which would occur in 2025 as part of the 2023-2024 multiyear rate plan review.³²⁷

137. Although PSE and Commission Staff agree that the annual capital review that determine whether or not PSE should provide a refund should be based on the full portfolio of capital additions in base rates, McGuire then seeks to treat as an exception any projects that “under-run the forecast by a “significant” amount calling them an error.³²⁸ PSE disagrees with this one-sided approach that undermines the portfolio review. It is not clear why an under-run is an error and should be refunded while overruns are simple variances buried in the portfolio.³²⁹ McGuire’s use of an unresolved issue from a 2023 annual capital review that was still pending in another docket should be given little weight.³³⁰

138. Moreover, McGuire opposes a threshold for determining refunds, as is currently allowed in PSE’s 2023-2024 multiyear rate plan. Removing the threshold would discourage efficiency in

³²⁶ Mickelson, Exh. CTM-13T at 34:6-35:11.

³²⁷ Free, Exh. SEF-28T at 10:24-11:16.

³²⁸ McGuire, Exh. CRM-1Tr at 13:12-14.

³²⁹ See Free, Exh. SEF-28T at 12:4-14:10.

³³⁰ See Free, Exh. SEF-28T at 14:11-16:2; Exh. SEF-47; Exh. SEF 48.

spending and it would provide no incentive to minimize costs.³³¹ Importantly, the 50-basis threshold for refunds that PSE proposes, and which is currently in place, is not a threshold based on a rate of return on *all* of PSE's earnings. It is based on PSE's recalculated revenue requirement that is subject to refund compared to the actual refundable revenue requirement set.³³² More fundamentally, McGuire is wrong in claiming that the threshold approach allows recovery in rates for plant that is not used and useful. The actual plant placed in service *is* used and useful and can be validated as such in the annual capital reviews. The threshold is meant to measure whether or not the rates subject to refund were set materially correct based on the used and useful plant that was eventually placed in service during the rate effective period. Ultimately, the methodology used must result in rates that are fair, just, reasonable and sufficient,³³³ within the broad standard the Commission has discretion.³³⁴ PSE's proposed threshold uses RCW 80.28.425 as a guide, which includes a 50-basis point threshold before earnings sharing begins. A company should be allowed the flexibility, *within reason*, to make the right decisions on each of its projects without being concerned with whether it will result in having to refund rates.

139. The Commission should reject AWEC's proposals regarding the MYRP. Mullins takes a backward view and asks the Commission to return to modified historical ratemaking. He proposes that only plant that is in service at the start of the rate effective period be allowed in rates, but his model fails to remove the benefits such as additional accumulated depreciation and retirements that will occur through the rate years.³³⁵ In general, he ignores the transition to clean energy and the changing regulatory environment in Washington. PSE's underearning would be exacerbated with such a retreat into the past.³³⁶ His arguments that budgets and forecasts are not appropriate in setting rates ignore the substantial evidence PSE provides in this case to support its rate requests, and the second level of capital review that occurs on rates subject to refund. He

³³¹ Free, Exh. SEF-28T at 16:13-19.

³³² See Free, Exh. SEF-28T at 16:13-21:3.

³³³ Free, Exh. SEF-28T at 18:5-14.

³³⁴ See RCW 80.28.425(3)(d).

³³⁵ See Free, Exh. SEF-28T at 28:14-29:10.

³³⁶ Free, Exh. SEF-28T at 22:7-23:1.

also ignores the many states that use forward test years,³³⁷ and RCW 80.28.425, which gives discretion in how rates are set, including allowing the use of projections and estimates.

140. Mullins also proposes an unbalanced methodology for capital additions in which every project exceeding one million dollars that goes into service at a lesser amount will reduce rates, with no offset for projects with a higher cost.³³⁸ He proposes an unwieldy project by project review, rather than a portfolio review, which would not allow PSE to operate prudently and flexibly in addressing emergent needs of the company. As McGuire testified, “[r]equiring the Company to stick rigidly to its forecasted capital plan could lead to bad business decisions and the Company should not be penalized for adaptively managing its investment plan and appropriately responding to changing circumstances. Examining the level of plant on a portfolio level allows for adaptive management while still ensuring that, in the aggregate, customers only pay for plant that is used and useful during the rate-effective period.”³³⁹ For these reasons, Mullins’ proposals for the multiyear rate plan should be rejected.

D. PSE's Demand Response Performance Incentive Mechanism is the Superior, Measured Mechanism and is Consistent with CETA and Commission Policy

141. PSE proposes to update its demand response (“DR”) performance incentive mechanism (“PIM”) to reflect its increased DR target of 149 MW by the end of the 2026-2027 winter season, as well as its expanded scope of DR programs. PSE's proposed PIM is reasonable because it balances the risks and rewards of achieving an ambitious increase in DR resources over the course of the multiyear rate plan.³⁴⁰ PSE's proposed PIM is based on the same incentive structure and thresholds as the existing PIM approved by the Commission in PSE's 2022 general rate case, with adjustments to reflect the higher DR target and program costs.³⁴¹ It provides a modest incentive for PSE to exceed its DR target by five percent or more, and a higher incentive for PSE

³³⁷ Free, Exh. SEF-28T at 24:1-4.

³³⁸ Free, Exh. SEF-28T at 27:3-28:13.

³³⁹ McGuire, Exh. CRM-1Tr at 12:11-16.

³⁴⁰ See Archuleta, Exh. GA-14T at 6:15-16.

³⁴¹ See Archuleta, Exh. GA-14T at 6:14-15.

to exceed its DR target by 15 percent or more, up to a cap of \$3 million.³⁴² It does not provide any incentive for PSE to achieve less than its DR target, or for achievement levels above 150 percent of the target. It is designed to encourage PSE to pursue all cost-effective, reliable, and feasible DR resources, as required by CETA, and to provide benefits to customers through reduced peak demand, lower power costs, and enhanced system reliability.

142. PSE's proposed PIM is also aligned with the Commission's policy on performance-based regulation. In Docket U-210590, the Commission identifies advancing clean energy transformation as one of the four overarching goals for performance incentives, and the Commission recognizes that PIMs can be an effective tool to motivate utilities to achieve certain outcomes that benefit customers and society.³⁴³ The Commission's policy statement also states that PIMs should be well-developed, vetted, and collaborative, and that they should balance costs and benefits, risks and rewards, and innovation and accountability.³⁴⁴ PSE's proposed PIM meets these criteria, as it is based on a well-established and vetted metric and incentive structure, developed in collaboration with parties in PSE's 2022 general rate case, and balances the costs and benefits, risks and rewards, and innovation and accountability of PSE's DR portfolio. The other incentive mechanisms presented in this proceeding by Staff and JEA have not been vetted or developed in collaboration with PSE or apparently any other interested person.³⁴⁵ “On the other hand, PSE’s DR PIM target of 149 MW is calculated in the same way as its established DR target in PSE’s CEIP, and the proposed PIM Incentive bands are based on previously agreed-upon and existing PIM incentive bands.”³⁴⁶

³⁴² See Archuleta, Exh. GA-1T at 20:6-12.

³⁴³ *In the Matter of the Proceeding Develop a Policy Statement Addressing Alternatives to Traditional Cost of Service Rate Making*, Docket U-210590, Interim Policy Statement Addressing Performance Measures and Goals, Targets, Performance Incentives, and Penalty Mechanisms at Appendix A and ¶ 29 (April 12, 2024).

³⁴⁴ *In the Matter of the Proceeding Develop a Policy Statement Addressing Alternatives to Traditional Cost of Service Rate Making*, Docket U-210590, Policy Statement Addressing Initial Reported Performance Metrics at ¶ 21 (Aug. 2, 2024) (declining to implement a metric that has not been vetted by a collaborate process).

³⁴⁵ See Archuleta, Exh. GA-14T at 7:15-8:1.

³⁴⁶ Archuleta, Exh. GA-14T at 8:1-4.

143. Staff's and JEA's PIM proposals are not only inconsistent with the Commission's policy on performance-base regulation, but they are also inferior to PSE's measured proposal. Staff's proposal is a premature, complete replacement of PSE's current DR program with a complicated ratio-based structure that will only activate if PSE achieves 207 MW of DR and provides more than 30 percent of energy benefits to Named Communities.³⁴⁷ Staff's target of 207 MW is based on a small subset of years pulled from PSE's 10-year Annual Incremental Resource Additions Preferred Portfolio, which is not a reliable or robust basis for setting a PIM target. Staff's target and complete reworking of the PIM program is not superior to PSE's proposal, which is based on direct data for DR achievements PSE reasonably expects to reach in 2026.³⁴⁸

144. JEA's PIM proposal is even more unrealistic. JEA proposes a PIM target for 2026-27 of 482 MW (winter) and 422 MW (summer), which are more than twelve times the amount of PSE's 2024 PIM target of 40 MW.³⁴⁹ JEA portrays its PIM not so much as a target, but as a "stretch goal" that would "incentivize PSE to build the foundation for a robust program to support its 2027 ISP filing."³⁵⁰ JEA's proposal is not a serious or credible PIM target, but rather a wishful aspiration that would set PSE up for failure. JEA's proposal does not reflect progress toward a long-term managed transition to clean energy that PSE's PIM target represents. JEA's proposal also does not account for the costs, risks, and feasibility of achieving such a drastic increase in DR in a short time frame.³⁵¹ Therefore, the Commission should approve PSE's proposed PIM as a reasonable, tested, and measured mechanism to incentivize PSE to achieve its DR target and to advance the state's clean energy goals and the public interest.

³⁴⁷ See, Koenig at Exh. PK-1T at 17:12-18:6.

³⁴⁸ See Archuleta, Exh. GA-14T at 6:3-6.

³⁴⁹ See Archuleta, Exh. GA-14T at 5:9-11.

³⁵⁰ McCloy, Exh. LCM-1T at 18:17-19.

³⁵¹ Regarding the other parties' testimonies about PSE's DR PIMs, AWEC is primarily concerned with PSE's proposal to increase the incentive cap to \$3 million. However, PSE's proposed increase is justified and supported by substantial evidence. See Archuleta, Exh. GA-14T at 6:8-16. TEP is opposed to any DR PIM and proposes no alternative PIM or even an alternative target. TEP's position would mean regression, not progression, and should be given little consideration. See Archuleta, Exh. GA-1T at 6:17-7:7.

E. Power Cost Annual Reviews

145. PSE has proposed process changes to its annual power cost updates and substantive changes and updates to its power cost forecast, as provided in the prefiled rebuttal testimony of Brennan Mueller, Exh. BDM-23CT. PSE's changes and updates should be approved as reasonable improvements that incorporate concerns expressed by other parties and provide for timely, yet sufficient, review of PSE's power cost resources.
146. PSE proposes a process by which the power costs included in its PCA variable baseline rate are updated 90 days prior to the start of each calendar year with the resulting rate change to take effect on January 1 of each year. This proposal is consistent with the annual update process in place for calendar years 2023 and 2024 according to the settlement agreement and final order in PSE's 2022 general rate case.³⁵² This allows the power costs included in rates to reflect the most current and accurate information available regarding the costs PSE actually expects to incur during the forecast period, which is consistent with Commission direction,³⁵³ and avoids the potential for large variances between forecasted and actual power costs that could result from using outdated or inaccurate assumptions.
147. PSE's proposal also provides an opportunity for parties to review and comment on any proposed changes to PSE's power cost forecast methodology and any new resources that PSE acquires to meet its resource adequacy and clean energy needs. PSE would file a preliminary forecast of power costs for the upcoming calendar year on April 30 of each year, along with discussion and details regarding any proposed methodology changes or new resources. Parties would have five months to review and evaluate PSE's proposal before PSE files a final forecast on October 1 of each year. The final forecast would incorporate any updates to various forecast inputs or assumptions, such as natural gas prices, transmission rates, planned outages, and CCA

³⁵² *WUTC v. Puget Sound Energy*, Dockets UE-220066 *et al.*, Final Order 24/10 ¶ 246 (Dec. 22, 2022).

³⁵³ See *WUTC v. Puget Sound Energy, Inc.*, Docket UE-040640, *et al.*, Order 06 at ¶ 108 (Feb. 18, 2005) (“[P]ower costs determined in general rate proceedings and in PCORC proceedings should be set as closely as possible to costs that are reasonably expected to be actually incurred during short and intermediate periods following the conclusion of such proceedings.”).

allowance costs. PSE would also seek a prudence determination for any new resources at the earliest opportunity following approval of its forecast, either in its annual PCA compliance filing, a general rate case, or a Power Cost Only Rate Case (“PCORC”).

148. PSE's proposal for annual power cost updates is beneficial because it improves the accuracy and transparency of PSE's power cost forecast and reduces the risk of over- or under-recovery of power costs. By updating its forecast with the most recent market conditions and resource costs, PSE ensures that the power costs included in rates are as close as possible to the actual costs that PSE incurs under normal conditions. This minimizes the potential for large power cost variances that could result from using stale or inaccurate assumptions and that could harm customers or shareholders. Moreover, by filing a preliminary and a final forecast, PSE provides parties with sufficient information and time to review and comment on PSE's forecast methodology and any changes or additions to PSE's resource portfolio. This enhances the transparency and accountability of PSE's power cost forecast and allows parties to raise any concerns or issues before the forecast is approved and implemented in rates.

149. Additionally, PSE's proposal maintains PSE's incentive to manage its power costs and to acquire cost-effective and reliable resources. Contrary to the claims of Public Counsel and AWEC, PSE's proposal does not increase administrative burden or erode the administrative efficiency of the multiyear rate plan. PSE's proposal introduces an additional filing each year to update its power cost forecast and establish a new PCA variable baseline rate. However, PSE's proposal also removes power cost forecast and PCA variable baseline rate considerations from both general rate cases and PCORCs. The additional time and effort parties would spend reviewing variable power costs in PSE's annual update process would at least nearly, if not fully, be offset by time and effort saved not reviewing those same power costs in other rate case filings. PSE's proposal does not affect the fixed power costs associated with the resources PSE owns and operates, which are subject to regulatory lag and prudence review. Therefore, PSE still has an

incentive to manage its fixed power costs and to acquire cost-effective and reliable resources, as these costs are not updated annually and are subject to PCORCs or general rate cases.

F. Schedule 141 CEI True-Up

150. PSE has accepted Commission Staff’s proposal that PSE make a filing by March 31, 2025 to effectuate the Schedule 141CEI true-up rather than waiting to conduct the true-up in PSE’s next general rate case. PSE further recommends that rates be effective May 1, 2025. PSE requests the Commission address this issue in the final order in this case.

G. Colstrip Tracker

151. The Commission should reject AWEC’s proposal to eliminate Schedule 141COL as of December 31, 2025 and to transfer the remaining balances to a separate regulatory liability account that would accrue interest. The Colstrip Tracker is outside the scope of this proceeding, and no other party proposes such a change. The Colstrip Tracker, (Schedule 141COL) was created in the 2022 multiyear rate plan settlement and was widely supported by settling parties, including AWEC, and non-settling parties such as Public Counsel.³⁵⁴

H. Performance Metrics

152. The Commission should adopt the performance metrics in PSE witness Steuerwalt’s rebuttal testimony, as they are consistent with the Commission’s guidance in its policy docket.³⁵⁵ The performance metrics in the policy statement are a “culmination of the docket participants” collaborative efforts.³⁵⁶ In light of this comprehensive set of performance metrics outlined in the policy statement and the lack of agreement from other parties regarding the original metrics proposed by PSE in this case, PSE withdrew its previously proposed metrics from consideration in this case and proposes to use the metrics contained in the Performance Metrics Policy Statement for reporting purposes for the duration of the rate plan.³⁵⁷ Further, the Commission

³⁵⁴ See Free, Exh. SEF-28T at 51:5-59:5.

³⁵⁵ See *Policy Statement Addressing Initial Reported Performance Metrics*, Docket U-210590 (Aug. 2, 2024).

³⁵⁶ *Id.* at ¶ 12.

³⁵⁷ Steuerwalt, Exh. MS4T at 41:4-9. One exception to this approach is the demand response performance metric, which PSE proposes be measured on a seasonal, rather than annual, basis. See Archuleta, Exh. GA-14T at 9:8-15.

should not require PSE to post performance metrics material on its website, which is not easily understood by customers.³⁵⁸ PSE prefers to report in the way endorsed by the Commission.³⁵⁹

I. Errors in Parties' Revenue Requirement Calculations

153. The Commission should take notice of errors in parties revenue requirement calculations addressed by Susan Free on rebuttal. They include the following:

- Commission Staff witness Parcell used an incorrect equity ratio for PSE and also calculated the cost of long-term debt incorrectly, using an incorrect year-end long-term debt balance rather than the AMA balance.³⁶⁰
- Commission Staff witness Kermode inadvertently picked up the Electric O&M amount instead of the Gas O&M account related to Schedule 141DCARB, PSE's proposed Decarbonization Tracker.³⁶¹

X. COST OF SERVICE, RATE SPREAD, AND RATE DESIGN

A. PSE's Cost of Service Study Methodology is Consistent with Ch. 480-85 WAC and Staff Finds the Results Reasonable Across All Classes

154. Chapter 480-85 WAC establishes the requirements for ("COSS") filed with the Commission, and PSE's COSS comply with these rules and guidance provide by Commission Staff during the rulemaking. The results are reasonable across all rate classes. Commission Staff agrees with PSE's approach.³⁶² In contrast, other parties' proposals are inconsistent with the WAC and should be rejected. AWEC argues that PSE should directly assign the costs of gas mains four inches and larger to Schedules 87 and 87T. Nucor argues that Schedules 85, 85T, 86, 86T, 87, and 87T should be excluded from the allocation of gas distribution mains smaller than two inches and that Schedules 87 and 87T should be excluded from the allocation of gas distribution mains two to three inches in size. FEA argues that PSE's electric COSS should revert to practices acceptable prior to the adoption of Chapter 480-85 WAC.

³⁵⁸ Steuerwalt, Exh. MS-4T at 42:13-43:2.

³⁵⁹ See *Policy Statement Addressing Initial Reported Performance Metrics*, Docket U-210590, ¶ 11 (Aug. 2, 2024).

³⁶⁰ See Free, Exh. SEF-28T at 77:17-78:9.

³⁶¹ See Free, Exh. SEF-28T at 76:15-77:2.

³⁶² Watkins, GAW-1T at 13:16-17, 14:16-17, 25:1-2, 28:3-4.

155. The COSS rules are the result of years of stakeholder meetings.³⁶³ A broad stakeholder base participated in the rulemaking and submitted comments and participated in the hearing, including AWEC, who proposed various methods for natural gas distribution mains classification and allocation.³⁶⁴ That docket was the proper venue for commenting on how COSS should be performed, and the method prescribed by those rules should not be revisited in this case. Commission Staff found that PSE’s electric and gas COSS comport with Chapter 480-85, the results of both COSS are “reasonable across all classes,” and the rate spread associated with base rates “is reasonable and consistent with sound ratemaking practices.”³⁶⁵ Commission Staff’s affirmation of PSE’s COSS and rate spread are consistent with Staff’s position during the rulemaking proceeding. In response to PSE questions during the rulemaking about the allocation rules for mains, Commission Staff stated that the “rules are clear and do not allow for the use of main pipe diameter to allocate costs to some classes but not others.”³⁶⁶ Yet AWEC and Nucor argue that main pipe diameter should be used to allocate costs to some classes but not others.

156. FEA argues that pole and wire costs should be allocated on the single highest non-coincident peak rather than 12 non-coincident peak, as required by Chapter 480-85 WAC; following FEA’s proposal would disproportionately burden certain customer classes, particularly residential customers. AWEC and Nucor also claim PSE failed to properly account for costs related to the Tacoma LNG facility. The Commission issued Order 07 in Docket UG-230393³⁶⁷ after PSE filed its direct testimony in this case. As explained by PSE witness Taylor,³⁶⁸ PSE’s rebuttal cost of service corrected an error in costs assigned to Schedule 88T and, as required by Order 07, increased the costs assigned to the four-mile 16-inch segment. PSE has accounted for

³⁶³ *In re Amending WAC 480-07-510 and Adopting Chapter 480-85 WAC*, Dockets UE-170002, UG-170003, General Order R-599 (July 7, 2020).

³⁶⁴ *Id.* at ¶¶ 10, 13, 24, 27, 53, 54.

³⁶⁵ Watkins, GAW-1T at 13:16-17, 14:16-17, 25:1-2, 28:3-4.

³⁶⁶ *In re Amending WAC 480-07-510 and Adopting Chapter 480-85 WAC*, Dockets UE-170002, UG-170003, General Order R-599, Appendix A (July 7, 2020).

³⁶⁷ *WUTC v. Puget Sound Energy*, Docket No. UG-230393, Order 07 (April 24, 2024) (“Order 07”).

³⁶⁸ See Taylor, Exh. JDT-8T at 13:1-15:22.

the costs of the Tacoma LNG facility as required by Order 07 and in accordance with the cost allocation methodology initially approved by the Commission in Docket UG-151663.³⁶⁹

157. PSE’s Renewable Future Peak Credit (“RFPC”) for allocating electric costs aligns with the goals of promoting clean energy and enhancing grid reliability, while resulting in rates that are just and reasonable. PSE achieves these results by having customer classes pay their fair share based on how they use the system, sending clear price signals. Public Counsel’s and FEA’s modifications to the RFPC would lead to inequitable cost shifting among customer classes. Public Counsel’s approach would reduce residential customers’ costs, while increasing all other classes; FEA’s proposal would do the opposite. Both should be rejected. As noted by Commission Staff, PSE used the same approach to the RFPC as the Commission recently approved in a fully litigated docket.³⁷⁰

158. Because PSE followed the methodology in Chapter 480-85 WAC for its gas and electric COSS, and the methodology was the result of years of stakeholder input and analysis, the Commission should find that PSE’s gas and electric COSS and rate spread are consistent with the rules and reasonable for ratemaking purposes.

B. PSE’s Proposed Revenue Allocation Aligns Revenues More Closely With the Cost of Service and the Rate Design Is Balanced

159. PSE’s proposed revenue allocation aligns revenues, and therefore rates, more closely with the actual cost to serve while considering the financial impact on different customer classes. PSE’s method provides a fair distribution of cost recovery across all classes, addressing historical under- or over-recovery issues and implementing changes gradually to prevent undue burden. PSE’s proposed rate design results in all classes experiencing an increase in monthly customer

³⁶⁹ See *In the Matter of the Petition of Puget Sound Energy, Inc. for (i) Approval of a Special Contract for Liquefied Natural Gas Fuel Service with Totem Ocean Trailer Express, Inc. and (ii) a Declaratory Order Approving the Methodology for Allocating Costs Between Regulated and Non-regulated Liquefied Natural Gas Services*, Docket UG-151663, Order 10 (Nov. 1, 2016).

³⁷⁰ *Watkins*, GAW-1T at 14:7-9, citing *WUTC v. Avista Util.*, Docket Nos. UE-200900, UG-200901, and UE-200894 (consolidated), Final Order 08/05 ¶ 311 (Sept. 27, 2021).

charges by up to 30 percent, and all applicable classes experiencing an increase in demand charges by up to 30 percent, to include more fixed costs. The remaining classes' revenue increases would be flat rate increases for volumetric charges to each tier, with some exceptions for Choice and Retail Wheeling customers, Special Contract customers, and Lighting Schedules.³⁷¹

160. PSE's approach balances the often-competing factors of parity, affordability, gradualism, and minimizing rate shock, while giving customers appropriate price signals that encourage conservation.³⁷² AWEC, FEA, and Public Counsel's proposals each favor certain factors over others, unduly burdening certain customer classes. AWEC and FEA favor parity for their respective customers, looking past the resulting rate shock to other customer classes. Without analysis supporting its position, Public Counsel's approach picks an arbitrary cap on the electric rate increase, ignoring cost causation principles and leading to an under recovery of electric service costs from classes that are under parity.³⁷³

161. For residential customers, PSE's proposed rate increases provide accurate pricing signals that reflect the cost of providing service by aligning customer charges, demand charges, and energy charges with the outcomes of the COSS. PSE's proposal to increase the residential electric customer charge to \$9.74 in the first rate year and \$12.66 in the second rate year reflects only a portion of the total customer-related costs of \$20.56, balancing the need for cost recovery with minimizing the impact on customers.³⁷⁴ The proposed increases are necessary to help PSE comply with the requirements of CETA and the CCA and will not burden customers. PSE is providing a variety of low-income assistance programs to help energy burdened customers, while also sending appropriate pricing signals about conservation and the cost of service.³⁷⁵

³⁷¹ Mickelson, Exh. CRM-1T at 39:2-11; Taylor, Exh. JDT-1T at 29:6-30:7.

³⁷² Mickelson, Exh. CRM-13T at 16:1-9; Taylor, Exh. JDT-8T at 31:9-34:14.

³⁷³ Mickelson, Exh. CRM-13T at 16:10-18:9; Taylor, Exh. JDT-8T at 21:9-22:22.

³⁷⁴ Mickelson Exh. CRM-13T at 21:4-23:13.

³⁷⁵ Mickelson, Exh. CRM-13T at 25:1-30:7; Taylor, Exh. JDT-8T at 27:9-31:8.

XI. BALLOT MEASURE 2066 AND ITS EFFECT ON THIS CASE

162. The passage of I-2066 by a margin of 51.7 percent to 48.3 percent should not have any impact on the Commission’s decision in this proceeding. I-2066 has a number of possible impacts—to building codes, to municipal government authority, to implementation of the Clean Air Act, and to a limited subset of the planning requirements for the 2027 ISP required by HB 1589. The Commission can address the planning requirements within its open rulemaking proceeding specifically pertaining to the ISP.

163. There are two other consequences should I-2066 take effect. First, PSE would be allowed to continue its gas conservation programs for residential customers in 2025. PSE has made a separate tariff filing to address this impact, and the Commission can use that filing to ensure the conservation program is consistent with law. Second, I-2066 repeals the requirement that the Commission “shall” accelerate the depreciation of the existing natural gas system by 2050.³⁷⁶ However, as discussed above, nothing about I-2066 changes the Commission’s authority to set depreciation rates—as it always has—to ensure those rates are fair just reasonable and sufficient. In this case, PSE has proposed modestly shortening the depreciation rates for gas assets, consistent with the state’s ambitious decarbonization requirements. Indeed, in the very same election, citizens decided to retain the CCA by a margin of 62 percent to 38 percent. This decision retains the requirement for PSE to continue to comply with the CCA by reducing emissions or acquiring and surrendering compliance instruments equal to its emissions over a four-year compliance period. If the Commission intends to read something into the results of this election, it could reasonably conclude that customers continue to want the option to utilize natural gas for some of their energy needs and continue to want overall greenhouse gases to be reduced. Shortening depreciation lives as the company proposes is consistent with the results of the November election.

³⁷⁶ HB 1589.

164. Finally, numerous news reports note a legal challenge to the constitutionality of I-2066 will be filed imminently. Irrespective of the merits of such a challenge, it will take months if not a full year to reach a resolution in the court system. The Commission should not be tempted to wait for a resolution to that proceeding to set depreciation rates and put those rates into effect, knowing full well it can—and will—adjust depreciation rates in PSE’s next MYRP.

XII. CONCLUSION

165. PSE respectfully requests the Commission grant the relief requested, as set forth above and in the testimony and evidence before the Commission.

DATED this 4th day of December, 2024.

Respectfully submitted

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