BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent.	DOCKETS UE-240004 & UG-240005 (*Consolidated*)
In the Matter of the Petition of PUGET SOUND ENERGY Petitioner, For an Accounting Order Authorizing Deferred Accounting Treatment of Purchased Power Agreement Expenses Pursuant to RCW 80.28.410	DOCKET UE-230810

POST HEARING BRIEF

ON BEHALF OF THE

ALLIANCE OF WESTERN ENERGY CONSUMERS

(REDACTED)

December 4, 2024

TABLE OF CONTENTS

I. INTRODUCTION 1

II. ARGUMENT 1

A. The Commission should set rates based on capital projects placed in service as of the rate effective date of each year of the rate plan. 1

B. The Commission should reject PSE's proposal to accelerate depreciation of its natural gas system. 5

C. The Commission should establish a return on equity of 9.2 percent for PSE. 11

D. The Commission should reject PSE's proposed Decarbonization Rate Adjustment and associated Targeted Electrification Pilot Phase 2, as well as its proposed Clean Generation Tracker and Wildfire Prevention Tracker. 14

1. The Commission should reject PSE's proposed tracker schedules outright as a matter of policy. 14

2. If the Commission approves PSE's proposal to undertake a Targeted Electrification Pilot Phase 2 and is inclined to adopt a Decarbonization Rate Adjustment, AWEC's cost allocation recommendations should also be adopted. 16

3. Because the Commission should reject PSE's request to recover Construction Work in Progress in rates, PSE's Clean Generation Resources Tracker is moot. 20

4. If the Commission approves PSE's request for a Wildfire Prevention Tracker, adjustments to the allocation of costs to customer classes are necessary. 24

E. The Commission should adopt AWEC's proposal to eliminate PSE's Schedule 141COL as of December 31, 2025, and transfer remaining balances into a separate regulatory liability account accruing interest at the AFUDC rate. 26

F. PSE's annual Power Cost Adjustments proposal shifts risk from PSE onto customers, removes PSE's incentive to manage power costs between rate cases, and is administratively burdensome. 29

G. The Commission should adjust PSE's Net Power Supply Expense to account for Congestion Neutrality Charges. 31

H. The Commission should reject Staff's proposal to include CCA Costs in Net Power Cost Dispatch as well as forecast CCA allowance costs associated with wholesale sales in rates. 34

1. The Commission should reject Staff's proposal to include CCA allowance costs in forecast net power cost dispatch. 34

i. There is no statute, rule or formal requirement that PSE include CCA costs in dispatch for both retail and wholesale sales when forecasting NPSE. 34

ii. Key implementation questions before Ecology remain. 35

iii. Staff's proposal inappropriately shifts the cost of uncertainty in Ecology's implementation of CCA requirements away from shareholders and onto customers. 37

iv. The Commission should determine the appropriate dispatch practice for all investor-owned electric utilities ("IOUs") in its generic CCA Implementation Proceeding (Docket U-230161). 38

2. The Commission should reject Staff's proposal to include forecast CCA allowance costs associated with wholesale sales transactions in NPSE. 39

3. The Commission should refrain from determining how it will review the prudence of CCA related costs at this time. 40

I. PSE has failed to provide compelling evidence in support of its request to earn a return on demand response Power Purchase Agreements. 41

J. The Commission need not issue additional guidance on short-term CETA acquisitions in this case. 45

K. The Commission should adopt AWEC's recommended changes to PSE's Gas Cost of Service Study. 46

1. The Commission should approve direct assignment of gas mains to Schedule 87/87T. 46

i. PSE's initial COSS over-allocates costs to Schedule 87/87T. 47

ii. PSE's concerns regarding direct assignment of mains to Schedule 87/87T are unpersuasive. 48

iii. The Company's version of direct assignment to Schedule 87/87T is grossly inaccurate. 50

iv. If necessary, the Commission should exercise its discretion to waive elements of WAC 480-85-060 to achieve appropriate cost allocations for Schedule 87/87T...… 51

v. If the Commission does not adopt AWEC's proposed changes to PSE's COSS, Nucor's proposed method of allocating mains to Schedule 87/87T should be adopted. 52

2. Stranded costs due to fuel switching should be functionalized to distribution, classified as customer, and allocated using the CUST allocation factor. 53

L. The Commission should adopt AWEC's proposed changes to rate spread for natural gas customers. 54

1. Electric Rate Spread 54

2. Gas Rate Spread 54

i. PSE's erroneous method of setting Schedule 88T to cost of service should be rejected. 55

M. The Commission should adopt AWEC's recommended changes to PSE's proposed Gas Rate Design. 56

N. The Commission should reject a number of JEA's proposals. 57

1. JEA's bill assistance program proposal is unsupported by sufficient detail and raises concerns of cost-shifting among ratepayers. 57

2. JEA's targeted electrification PIM and general electrification program proposal is premature considering Washington legislation and if adopted, will result in rate impacts that are contrary to the public interest 58

III. CONCLUSION 60

TABLE OF AUTHORITIES

Cases

Ass'n of Bus. Advocating Tariff Equity v. MISO, Inc., Opinion No. 569, 169 F.E.R.C. P 61,129, 61,767 (2019). 11

Ass'n of Bus. Advocating Tariff Equity v. MISO, Inc., Opinion No. 569-A, 171 F.E.R.C. P. 61,154, 62,197 (2020). 12

MISO Transmission Owners v. FERC, 45 F.4th 248, 264 (D.C. Cir. 2022) 12

Office of Attorney Gen., Pub. Counsel Unit v. Wash. Utils. & Transp. Comm'n, 4 Wn. App. 2d 657, 681 (Aug. 7, 2018). 36

Statutes

RCW 19.280.030 42

RCW 19.405.030 26

RCW 70A.65.120(3)(a). 36

RCW 70A.65.120(3)(b) 37

RCW 80.28.410. .... 41, 42

Regulations

WAC 173-446-230(2)(h). 39

WAC 480-07-110 47

WAC 480-85-060 .... 24, 47, 56

WAC 480-85-070 46

Administrative Authorities

Re Commission-led workshop series on the Climate Commitment Act, Docket U-230161 (Mar. 15, 2023) 38

Re Commission-led Workshop Series on the Climate Commitment Act, Notice Rescinding Policy Statement, Docket U-230161 (Aug. 19, 2024) 38

Re Commission-led Workshop Series on the Climate Commitment Act , Docket U-230161, Policy Statement Addressing the Issues and Impacts of the Climate Commitment Act (Aug. 15, 2024) 38

Re 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 No. U-190531, Used and Useful Policy Statement (Jan. 31, 2020).......... 4

Re In the Matter of the Commission Inquiry into Customer Choice for Advanced Meter Installation, Docket U-180117 (April 10, 2018) 25

Re In the Matter of the Petition of Puget Sound Energy, Inc., Docket No. UE -121373, Order No. 08 (Jun. 25, 2013) 44

Re In the Matter of Puget Sound Energy's Clean Energy Implementation Plan Pursuant to WAC 480-100-640, Docket UE-210795, Order 14 (Nov. 8, 2024). 45

Re In the Matter of Portland General Electric Company, Request for a General Rate Revision, Docket No. UE 435, Opening Brief of the Alliance of Western Energy Consumers (2024) 3

Re In the Matter of The Revisions to Tariff WN U-60 and WN U-2 of Puget Sound Energy For Proposed New Tariff Revisions, Electric Schedule 171, and Natural Gas Schedule 171, Optional Non-Communicating Meter Service, Dockets Nos. UE-180860 and UG-180861, Order 01 (January 1, 2019) 17

Re MCI Telecommunications Corporation vs. GTE Northwest, Inc., Docket No. UT-970653, Second Supplemental Order Dismissing Complaint (Oct. 22, 1997) 15

Re Washington Utilities and Transportation Comm'n vs. Puget Sound Energy, Docket Nos. UE-220066, UG-220067 and UG-210918 (Consolidated), Order 24/10, Appendix A (Dec. 22, 2022) 18

Re US West Commc'ns., Inc. for an Order Approving Capital Recovery Methodology and Related Accounting, Docket No. UT-920085, Third Supplemental Order at 8 (Apr. 15, 1993) 14

Re Washington State Attorney General's Office and the Industrial Customers of Northwest Utilities vs. PacifiCorp, Docket No. UE-110070, Order 01 (Apr. 27, 2011) 14, 15

Re Washington Utilities and Transportation Comm'n vs Avista Corporation, Docket Nos. UE-090134, UG-090135 and UG-060518 *(Consolidated),* Order 10.. 23

Re Washington Utilities and Transportation Comm'n vs Avista Corporation, Docket Nos. UE-200900, UG-200901, UE-100894 (Consolidated), Order 08-05 (Sept. 27, 2021).. 12

Re Washington Utilities and Transportation Comm'n vs PacifiCorp, Docket UE-130043, Order 05 (Dec. 4, 2013). 31

Re Washington Utilities and Transportation Comm'n vs. Puget Sound Energy, Docket Nos. UE-240004, UG-240005, and UE-230810 (*Consolidated*), Order 04/02 (Apr. 18, 2024).. 1

I. INTRODUCTION

1 Pursuant to the Washington Utilities and Transportation Commission's ("Commission") Order 04/02 in the above-referenced dockets, the Alliance of Western Energy Consumers ("AWEC") files this Post-Hearing Brief. AWEC's recommendations in this case are set forth below, and for the reasoning discussed herein, should be adopted by the Commission in this case.

II. ARGUMENT

A. The Commission should set rates based on capital projects placed in service as of the rate effective date of each year of the rate plan.

2 As Puget Sound Energy ("PSE" or "Company") did in its last Multi-Year Rate Plan ("MYRP"), the Company projects provisional capital additions through the term of its proposed rate plan.[1] Also like the last MYRP, these provisional additions would be subject to an after-the-fact capital review process that would, among other things, compare PSE actual net plant investment with the level of investment assumed in the Commission's approved rates.[2] This review would be done on a "portfolio" basis, meaning that the reasonableness of PSE's investments would not necessarily be judged by whether it placed in service the projects it forecasts in this case but whether the overall level of its capital investment was in line with the amount it forecasts in this case.[3]

3 AWEC opposes PSE's approach to its capital forecast because it effectively results in the establishment of rates based on an un-auditable budget. Specifically, PSE has forecast its planned capital additions through 2026, for which AWEC and other parties have very little basis to determine is reasonable or not. Further, at the time of PSE's proposed capital review process,

---

[1] Free, Exh. SEF-1T at 5:9-17, 7:8-15.
[2] *Id.*
[3] *Id.*

so long as PSE spends at or below its capital forecast, it will be difficult to evaluate whether PSE's investments were prudent regardless of whether that spend went toward the projects it used to form the basis for its budget forecast since PSE will have spent within the limits of its budget that established its rates in the first place. This creates a circular problem in which the prudence of PSE's capital investments is determined in large part by PSE's own budget which is itself essentially a black box. This is not a just and reasonable means of establishing the Company's revenue requirement.

4 Instead, AWEC recommends that the Commission approve rates for rate year 1 ("RY1") based on capital demonstrated to be in service by the rate-effective date. This would be done by PSE filing an attestation for each project placed in service greater than $1 million.[4] To the extent the cost of any project is less than forecasted, PSE would reduce its revenue requirement accordingly.[5] The process for projects placed in service during rate year 2 ("RY2") would operate similarly in that PSE would file a project-specific attestation for all projects above $1 million prior to the rate effective date of RY2.[6] This approach eliminates the need for a resource-intensive after-the-fact capital review process and also addresses the problems discussed above with respect to a portfolio-based review approach.

5 PSE opposes AWEC's recommendation, arguing that it is "irresponsible and utterly tone-deaf."[7] The Company claims that its approach to establishing rates based on budgeted assumptions is reasonable and verifiable because it is supported by "volumes of data and testimony."[8] The amount of paper PSE has filed, however, is not relevant to the evidentiary

---

4 Mullins, Exh. BGM-1T at 14:1-7.
5 *Id.*
6 *Id.* at 15:5-13.
7 Free, Exh. SEF-28T at 22:5-6.
8 *Id.* at 23:5-7.

soundness of its proposal. Rates based on a budget internally developed by the utility are inherently flawed. Such a construct has the effect of making the regulated the regulator and bases the reasonableness of the Company's investments on its own internal recommendations. While PSE points to other jurisdictions that use a future test year for ratemaking,[9] a future test year does not necessarily require the establishment of rates based on utility budgets. PSE cites Oregon, for instance, but the only utility in that state that uses budgets to establish its revenue requirement is Portland General Electric, and that methodology is currently being challenged in that utility's ongoing general rate case, both by AWEC and the Oregon Public Utility Commission Staff.[10]

6 PSE also suggests that AWEC's recommendation would perpetuate PSE's inability to earn its authorized return.[11] This, however, is an odd argument because PSE simultaneously appears to argue that the existing MYRP framework is also insufficient to allow it to earn its authorized return.[12] The reality is that, as PSE itself admits, it is not entitled to earn its authorized return, it is only entitled to the opportunity to earn that return.[13] If PSE believes that it is not being afforded this opportunity, either under the MYRP framework or the previous one, it should take its position to court on the basis that it is being awarded confiscatory rates. That PSE has not done so either before or after the MYRP statute was passed is evidence itself that the Commission has not been derelict in its duties in this regard.

---

[9] *Id.* at 24:1-4.

[10] *See* OPUC Docket No. UE 435, AWEC Opening Brief at 50-51 (citing Exhibits AWEC/505 through AWEC/508) & Exh. Staff/100, Beitzel/3:14-4:2 ("PGE's Test Year forecast for this rate case is built on its 2024 budget….PGE's use of its 2024 budget rather than an examination of actual costs suggests a lack of discipline to Staff").

[11] Free, Exh. SEF-28T at 22:9-17.

[12] *Id.* at 25:12-13.

[13] *Id.* at 25:13-15 (internal citations omitted).

7 PSE further states in response to AWEC's recommendation to perform capital reviews on a project-by-project basis that such an approach is unrealistic because circumstances change that may modify the need and timing for projects.[14] AWEC does not dispute this, but it is not an argument against a project-by-project review. The projects at issue are all capital projects, so if prudent utility practice dictates that PSE change course and invest in a project that is different from what it forecast in its rate plan, this just means PSE will take some regulatory lag on the project until it can be included in rates in the Company's next rate plan. That is no different from the standard ratemaking process (which, to PSE's benefit, also allows the Company to earn on an undepreciated rate base as of the date rates were last set). It is also preferable to the alternative created by PSE's last MYRP in which the Company can effectively establish its own prudent level of capital investment.

8 PSE also claims that AWEC's position is contrary to the Commission's Used and Useful Policy Statement.[15] But nothing in this Policy Statement requires a portfolio capital review based on budgeted assumptions. In fact, this Policy Statement was not intended to modify "the Commission's longstanding ratemaking practice [] to set rates using a modified historical test year with post-test-year rate-base adjustments using the known and measurable standard, the matching principle, and the used and useful standard …."[16] As part of this, the Commission emphasized that the "actual amount of the [revenue] change must also be 'measurable.' This has historically meant that the amount cannot be an estimate, projection, *product of a budget forecast*, or some similar exercise of informed judgment concerning future revenue, expense, or rate base."[17] For rate-effective period investments, the Commission confirmed that it would

---

14 *Id.* at 27:14-28:13.
15 *Id.* at 26:17 (internal citations omitted).
16 Docket No. U-190531, Policy Statement ¶ 21 (Jan. 31, 2020) ("Used and Useful Policy Statement").
17 *Id.* ¶ 23 (emphasis added).

consider these "consistent with its longstanding ratemaking practices and standards,"[18] and that the MYRP statute "does not guarantee recovery of specific, programmatic, or projected plant."[19] It further identified as one of its goals to "[s]upport streamlined processes by requiring additional process only when necessary."[20] On this issue, the Commission stated that it "will reject requests that either cannot be audited or are unreasonably burdensome to review."[21] That is the case with PSE's after-the-fact capital review process.[22] If the Commission approves a two-year rate plan, AWEC's recommendations address this burdensome process by eliminating the need for a resource-intensive after-the-fact capital review process.

B. The Commission should reject PSE's proposal to accelerate depreciation of its natural gas system.

9 Despite having completed a full depreciation study just two years ago in conjunction with its last MYRP,[23] in this case PSE proposes once again to update the depreciation rates of its natural gas assets. AWEC recommends that the Commission reject PSE's proposal as premature and unjustified and maintain the existing depreciation rates at least until PSE files an Integrated System Plan ("ISP"). AWEC is joined in its opposition to PSE's plan by Public Counsel,[24] and The Energy Project ("TEP").[25]

10 PSE's changes to its natural gas depreciation rates increase costs for customers by $71 million, a 48 percent increase relative to current depreciation rates.[26] This is a major contributor to the significant rate increases all natural gas rate schedules are facing in this case, topped out

---

[18] *Id.* ¶ 29.
[19] *Id.* ¶ 28.
[20] *Id.*
[21] *Id.* ¶ 29.
[22] Mullins, Exh. BGM-1T at 9:10-20.
[23] Allis, Exh. NWA-1T at 3:4-5.
[24] Garret, Exh. DJG-1T at 3:5-4:2.
[25] Stokes, Exh. SNS-1T at 54:3-14.
[26] Kaufman, Exh. LDK-1CT at 5:1-2.

by the 40 percent rate increase to Schedule 87T in the first year of the MYRP.[27] PSE justifies this increase on its expectation that natural gas usage will decline in the future.[28] Specifically, PSE points to the most recent Washington State Building Code update, natural gas bans in Seattle and Shoreline, and the fact that PSE's natural gas line extension allowance will be reduced to $0 in 2025.[29]

11 As the Commission is well aware, there is extraordinary uncertainty associated with natural gas use in PSE's service territory and the state more broadly. Just since PSE filed this case, ESHB 1589 was signed into law – which among other things required PSE to depreciate its gas plant by 2050 – and portions of that law were then repealed and amended by passage of Initiative 2066, as well as portions of the State Building Code that PSE relies on in part to justify its new depreciation rates. PSE claims that none of this activity matters and the Commission should still approve the Company's updated depreciation rates,[30] but such a position strains credibility. Any party that suggests it has a good handle on the future of natural gas use in PSE's service territory following the flurry of activity in this area in 2024 is kidding itself. As AWEC pointed out in testimony, even PSE's own decarbonization forecast models *increases* to gas customer counts in two of the four scenarios it studied, including PSE's preferred scenario.[31]

12 PSE also argues that there is effectively no harm from adopting its proposal in the face of the currently uncertain legal and regulatory landscape because this will avoid the potential need to more quickly accelerate natural gas plant later, which will have an even greater impact on customer rates.[32] PSE also notes that such an outcome would disproportionately impact low-

---

[27] Taylor, Exh. JDT-12 tab 1, cell T22.
[28] Jacobs, Exh. JJJ-1T at 3:17-19.
[29] *Id.* at 4:1-8.
[30] Steuerwalt, Exh. MS-4T at 14:7-17:12.
[31] Kaufman, Exh. LDK-1CT at 12:15-13:4.
[32] Steuerwalt, Exh. MS-4T at 15:5-17:12.

income customers. First, there is clearly harm from adopting the Company's proposal as it results in a major rate impact to customers and is based on the most extreme decarbonization scenario PSE studied.[33] Second, the Company's argument is a red herring. AWEC's recommendation is for PSE to maintain existing depreciation rates at least until it files its first ISP under ESHB 1589 (which remains a requirement). This plan must be filed by January 1, 2027. Assuming it takes the Commission the full 12 months allowed under the law to approve the ISP, updated depreciation rates would go into effect on January 1, 2028, three years later than PSE is proposing in this case. PSE's own expectation is that "natural gas energy usage [will] decline at an average annual rate of 1.2 percent in the next five years (2024-2028)."[34] Thus, waiting three years to approve updated depreciation rates, and gain additional clarity on the impact of recent laws on PSE's natural gas system, will result in a cumulative decline in natural gas usage of only 3.6 percent. This is hardly "waiting until the eleventh hour" to take action if, indeed, action is required.[35]

13 PSE's stated concern for low-income customers during this transition process also rings hollow when the low-income advocate in this proceeding, TEP, opposes PSE's recommendation. On this issue, the industrial customers AWEC represents and the low-income customers TEP represents profile similarly. These groups of customers are the least likely to be able to transition away from natural gas, either due to financial means or technical feasibility. And yet, both groups' organizations oppose PSE's plan.

14 The reality is that PSE's proposal is not being pursued out of concern for any particular customer group, it is being pursued out of concern for its own financial interests. The real reason

---

33 Kaufman, Exh. LDK-1CT at 13:11-14:15.
34 Jacobs, Exh. JJJ-1T at 3:18-19.
35 Steuerwalt, Exh. MS-4T at 17:2-4.

PSE is pursuing accelerated depreciation is presented by Company Witness Steuerwalt in his rebuttal testimony: "the accelerated depreciation provides PSE important cash flow to achieve legislative mandates and decarbonization goals."[36] Although PSE is not specific about what "legislative mandates and decarbonization goals" it is referring to, it is not hard to conclude that PSE is referring primarily to its obligations under CETA, which the Company has stated repeatedly in this case requires significant capital investment. But even if PSE is correct that it requires improved cash flow to meet CETA's requirements, it is inappropriate for PSE to increase this cash flow on the backs of natural gas customers in order to meet an *electric* decarbonization mandate.

15 For this reason, in addition to the premature nature of PSE's proposal, AWEC's opposition is grounded in customer equity. PSE not only proposes to use natural gas customers to fund its electric system decarbonization requirements, but its proposal is also inequitable among natural gas customer classes. This is because PSE changes only when depreciation dollars are recovered, not from whom they are recovered.[37] This is inequitable because 60 percent of PSE's forecasted decrease in gas usage is attributable to the residential class.[38] Meanwhile, the 40 percent attributable to industrial customers is not evenly distributed among industrial rate schedules, where the largest rate schedules are the least likely to electrify.[39] Moreover, PSE's proposal does not account for the fact that an electrifying customer will avoid the stranded costs that it causes because those costs will be recovered from remaining gas customers.[40]

---

[36] *Id.* at 17:8-10.
[37] Kaufman, Exh. LDK-1CT at 7:3-4.
[38] *Id.* at 6:6-8.
[39] *Id.* at 6:6-13.
[40] *Id.* at 6:14-20.

16 As a consequence, if the Commission nevertheless agrees with PSE that it should begin accelerating depreciation of the Company's gas system, AWEC recommends that the Commission limit accelerated depreciation to services and meters, which lowers PSE's requested increase to gas depreciation expense to $13.1 million.[41] In addition, this additional cost should be allocated to the rate schedules PSE forecasts will electrify by functionalizing these costs to distribution and allocating them using the customer allocation factor.[42]

17 PSE's arguments against AWEC's recommendations to limit accelerated depreciation are not convincing. In response to Dr. Kaufman's observation that PSE has offered no evidence that mains will become obsolete with declining throughput, for instance, Company Witness Allis admits that "the precise mechanism by which electrification will occur is unknown today" and then speculates that "there would need to be some degree of zonal electrification", which would entail the retirement of mains.[43] Mr. Allis states that he bases this opinion on "PSE's analyses" and "many other utilities facing the same set of issues," but offers no example of any circumstance in which "zonal electrification" and associated retirement of gas mains has occurred.[44]

18 Similarly, Dr. Kaufman critiqued PSE's use of the "units of production" ("UoP") method of depreciation to justify shortening the lives of mains and regulating stations, which essentially determines that the value of these assets will decline commensurate with a decline in units of production.[45] As Dr. Kaufman noted, the UoP method is reserved for assets that have a fixed volume of use over their lifetime, like coal mines, whereas the distribution assets at issue here do

---

41 *Id.* at 16:15-20.
42 *Id.* at 31:1-19.
43 Allis, Exh. NWA-4T at 18:12-16.
44 *Id.* at 18:16-18.
45 Kaufman, Exh. LDK-1CT at 11:6-17.

not have a fixed volume and are a demand service, not a volumetric service.[46] In response, PSE merely asserts, without justification or evidence, that Dr. Kaufman's position, while "historically [] true" is "not true in a scenario where throughput declines significantly."[47] Mr. Allis asserts that if "half as much gas is sold through a main, then the functionality and value would also decline" but offers no explanation as to why this is true.[48] As Dr. Kaufman points out, even if PSE believed the UoP method is appropriate, "it should be based on annual peak demand rather than annual volume" to recognize the demand-based nature of the assets, and in "PSE's preferred decarbonization scenario … peak demand is not expected to decline."[49]

19 Finally, with respect to the allocation of the costs of accelerated depreciation based on customer count, PSE argues that AWEC raises a broader policy question that should not be resolved in a single utility's rate case.[50] But PSE itself has teed-up that policy issue by proposing accelerated depreciation in the first place. PSE's proposal to assign those costs indiscriminately is its own policy proposal, so the Commission cannot avoid making some type of policy determination with regard to who should bear the costs of accelerated depreciation, unless it rejects PSE's request for accelerated depreciation in the first place. PSE also argues that AWEC's recommendation would result in customers who cannot afford to switch being allocated a greater proportion of accelerated depreciation costs.[51] The Commission could consider a mechanism that insulates low-income customers from these increased costs, which AWEC would not object to, so long as it is also recognized that AWEC's recommendation insulates other customers from these costs who also are unable to transition away from natural gas – namely

---

[46] *Id.* at 11:11-14.
[47] Allis, Exh. NWA-4T at 19:4-6 (internal citations omitted).
[48] *Id.* at 19:6-7.
[49] Kaufman, Exh. LDK-1CT at 11:14-17.
[50] Taylor, Exh. JDT-8T at 17:15-17.
[51] *Id.* at 17:22-23:2.

industrial customers. AWEC's underlying intention is to require the customers that are allegedly causing the need for accelerated depreciation to pay for those costs, particularly before they leave the system and will be effectively insulated from those stranded costs. AWEC is open to mechanisms to achieve that, but PSE's proposal is not one of them.

C. The Commission should establish a return on equity of 9.2 percent for PSE.

20 In this case, PSE requests a return on equity ("ROE") of 9.95 percent in RY1 and 10.05 percent in RY2, an increase of 55 and 65 basis points to its currently authorized 9.4 percent ROE, respectively.[52] This recommendation is based on the analyses performed by PSE's witness Ann Bulkley, which include a discounted cash flow ("DCF") analysis, capital asset pricing model ("CAPM") analysis, Risk Premium analysis, and Expected Earnings analysis. The testimony of AWEC's witness Dr. Kaufman shows that these analyses are either flawed in their inputs or do not appropriately measure investors' expected return and should be discarded.

21 Specifically, the Commission should disregard Ms. Bulkley's Risk Premium and Expected Earnings analyses, as both models have been rejected by the Federal Energy Regulatory Commission ("FERC"). Specifically, FERC has found that the Expected Earnings model is not consistent with "market-based approaches to determine base ROE" on which the Supreme Court's *Hope Natural Gas* decision was premised.[53] This is because the Expected Earnings model measures the expected return on a utility's book value, and "book value does not reflect the value of any investment that is available to an investor in the market …."[54] With respect to the Risk Premium model, FERC has found that it is "largely redundant with the CAPM" and also that it "is likely to provide a less accurate current cost of equity estimate than

---

[52] Doyle, Exh. DAD-1CT at 7:16-18.

[53] *Ass'n of Bus. Advocating Tariff Equity v. MISO, Inc.*, Opinion No. 569, 169 F.E.R.C. P 61,129, 61,767 (Nov. 21, 2019).

[54] *Id.*

the DCF or CAPM because it relies on previous ROE determinations, whose resulting ROE may not necessarily be directly determined by a market-based method ….”[55] While FERC subsequently reversed its decision to exclude the Risk Premium model on rehearing,[56] that decision was then vacated by the D.C. Circuit and FERC has not issued a subsequent ruling.[57]

22 In addition, PSE's DCF and CAPM models generate abnormally high ROE estimates for PSE due to several biased assumptions. First, PSE applies an unrealistically high growth rate in its constant growth DCF model. Specifically, it uses short-term growth rates as the long-term growth rate.[58] The Commission has rejected this assumption, for good reason.[59] As Dr. Kaufman shows, this assumption is unrealistic, as there is no evidence to suggest that a company's sustainable perpetual growth rate can significantly exceed the growth rate in the economy.[60] PSE's single-stage DCF with its outsized growth rate yields an ROE recommendation of between 9.76 percent and 10.16 percent using mean and median short-term growth rates.[61] By contrast, Dr. Kaufman's use of an average of short- and long-term growth rates in his three-stage DCF analysis, which is supported by the academic literature, produces a DCF estimate of between 8.96 percent and 9.24 percent.[62]

23 Second, PSE's CAPM (and ECAPM) analysis uses systematically biased betas. Beta measures the correlation between an investment's return and the overall market return.[63] Thus, a beta less than one typically indicates that the investment is lower risk than the market generally

---

55 *Id.* at 61,796.

56 *Ass'n of Bus. Advocating Tariff Equity v. MISO, Inc.*, Opinion No. 569-A, 171 F.E.R.C. P. 61,154, 62,197 (May 21, 2020).

57 *MISO Transmission Owners v. FERC*, 45 F.4th 248, 264 (D.C. Cir. 2022).

58 Kaufman, Exh. LDK-1CT at 45:17-20.

59 Docket Nos. UE-200900, UG-200901, UE-100894 (*Consolidated*), Order 08-05 ¶ 104 (Sept. 27, 2021).

60 Kaufman, Exh. LDK-1CT at 46:1-7 (quoting Grabowski & Pratt (2014) Cost of Capital Applications and Examples, Fifth Edition John Wiley & Sons, Inc., Hoboken, New Jersey at 461).

61 Bulkley, Exh. AEB-1T at 41 (Table 3).

62 Kaufman, Exh. LDK-1CT at 45:13.

63 *Id.* at 46:14-17.

and, as such, investors require a lower return.[64] PSE uses *Value Line* adjusted betas that trend toward one.[65] This suggests that utilities have a similar risk profile to the market as a whole, which not only seems unlikely given that they are regulated monopolies, but is also not supported by industry studies.[66] Moreover, PSE's *Value Line* data are improperly influenced by anomalous stock market behavior that occurred during the COVID-19 pandemic.[67]

24 Third, PSE's market risk premium used in its CAPM (and ECAPM) is excessive because it is based on a "dividend discount model" using "short-term analyst growth forecasts and a biased selection of firms."[68] As already noted, it is flawed to assume a short-term growth rate will equal the long-term growth rate. Additionally, PSE performs its analysis on a group of firms that have growth between 0 percent and 20 percent.[69] This decision establishes asymmetric growth limits (i.e., eliminates the possibility of negative growth) which, in turn, results in arbitrary outcomes.[70] As evidence of this, PSE's equity risk premium of 8.46 percent is significantly higher than nearly all third party estimates, which place it between 3 percent and 6 percent.[71] As Dr. Kaufman shows, PGE's market risk premiums greatly exceed the average of consensus estimates of 4.81 percent.[72]

25 For these reasons, the Commission should give little weight to PSE's ROE models and should give primary weight to the models advanced by AWEC, Public Counsel, and Staff. These models result in a recommended ROE range between 9.0 percent to 10.8 percent from Staff, 8.25

---

64 *Id.*
65 *Id.* at 47:8-16 (emphasis added).
66 *Id.* at 52:2-5.
67 *Id.* at 47:19-49:5 (emphasis added).
68 *Id.* at 61:17-19 (internal citations omitted).
69 *Id.* at 62:2.
70 *Id.* at 62:7-15.
71 *Id.* at 63 (Table 17), 61:18-19.
72 *Id.* at 63 (Table 17).

percent to 9.9 percent from Public Counsel, and 7.54 percent to 9.98 percent from AWEC.[73] The average of these ranges is 9.245 percent, just above AWEC's recommended 9.2 percent.

D. The Commission should reject PSE's proposed Decarbonization Rate Adjustment and associated Targeted Electrification Pilot Phase 2, as well as its proposed Clean Generation Tracker and Wildfire Prevention Tracker.

1. The Commission should reject PSE's proposed tracker schedules outright as a matter of policy.

26 PSE proposes to establish three new rate tracking mechanisms that would function outside of the MYRP, the Clean Generation Resources Rate Adjustment, the Wildfire Prevention Tracker, and the Decarbonization Rate Adjustment.[74] AWEC opposes the trackers as they constitute single-issue ratemaking and are unnecessary with MYRPs. The trackers would shift risk away from PSE shareholders onto customers, thereby reducing the Company's incentive to manage costs during its MYRP. AWEC further opposes adoption of Staff's proposed criteria at this time. The Commission need not adopt a policy framework for evaluating trackers in order to determine that PSE's proposed trackers are unreasonable in the first instance. Public Counsel similarly opposes Staff's criteria.[75]

27 It is well-established that such single-issue ratemaking is disfavored because "it may distort the 'matching principle,' whereby costs and revenues are balanced at a single point in time to determine fair, just, reasonable, and sufficient rates.'"[76] The Commission has further concluded that single-issue ratemaking is considered not to be in the public interest,[77] and has

---

73 Bulkley, Exh. AEB-19T at 5 (Figure 1).
74 Steuerwalt, Exh. MS-1Tr at 34:8-12 (internal citations omitted).
75 Earle, Exh. RLE-6T at 16:18-20.
76 Docket No. UE-110070, Order No. 01 ¶ 42 (Apr. 27, 2011) (internal citations omitted).
77 *See Re US West Commc'ns., Inc.*, Docket No. UT-920085, Third Supplemental Order at 8 (Apr. 15, 1993). (Concluding that "authorization of the ELG method for computing intrastate depreciation is not in the public interest, as it amounts to single issue ratemaking.").

explicitly stated that it "generally will not engage in single issue or 'piecemeal' ratemaking."[78]

The Commission has gone on, explaining that:

> The ultimate determination to be made by the Commission in a rate proceeding is whether the proposed rates and charges are fair, just, reasonable, and sufficient…The Commission has consistently held that these questions are resolved by a comprehensive review of the company's rate base and operating expenses, determining a proper rate of return, and allocating rate changes equitably among ratepayers. Changes to the access rates could have a substantial effect on the Company's overall results of operations and therefore should not be addressed in a single-issue rate proceeding.[79]

Notably, the Commission has also stated that single-issue ratemaking can be "poor ratemaking practice" and "not legally sustainable."[80] Commission precedent on single-issue ratemaking weighs in favor of rejection of PSE's tracker proposals.

28 The Commission should further reject PSE's proposal because the trackers shift risk away from PSE shareholders onto customers, thereby reducing the Company's incentive to manage costs during its MYRP. As explained by Staff witness McGuire, variance risk that is typically and appropriately borne by the utility is shifted onto ratepayers through the implementation of a tracker.[81] It is necessary for a utility to maintain this risk because such exposure "is an important element of incentive based regulation; specifically, the utility's exposure to the risk that cost increases will impact earnings negatively incentivizes the utility to control its costs and pursue cost efficiency."[82] PSE's proposed trackers will remove this incentive exposing ratepayers to increased risk and likely increased rates.

---

78 Docket No. UT-970653, Second Supplemental Order Dismissing Complaint, at 6 (Oct. 22, 1997) (internal citations omitted).

79 *Id.*

80 Docket No. UE-110070 Order 01 ¶ 42 (Apr. 27, 2011) (determining that because PacifiCorp was attempting "to adjust rates considering a single item on the revenue side of the Company's books" and ignore a settlement the Company agreed to, this was not a case where single-issue ratemaking should be allowed).

81 McGuire, Exh. CRM-1Tr at 34:1-7.

82 *Id.* at 34:20-23.

29 For these reasons, AWEC recommends that the Commission reject each of PSE's proposed tracker mechanism and require PSE to recover these costs as a component of base rates.[83]

2. <u>If the Commission approves PSE's proposal to undertake a Targeted Electrification Pilot Phase 2 and is inclined to adopt a Decarbonization Rate Adjustment, AWEC's cost allocation recommendations should also be adopted.</u>

30 AWEC remains opposed, at this time, to PSE's proposal to extend its Targeted Electrification Pilot into a Phase 2.[84] Even after the passage of Initiative 2066,[85] ESHB 1589 requires the Commission to consider decarbonization efforts on PSE's system on a holistic basis with specific requirements for decarbonization measures which have not been fully developed.[86] PSE's Phase 2 does not take these requirements into account nor does the Company indicate how its efforts will or should be informed by remaining ESHB 1589 requirements.[87] Additionally, PSE will be unable to use the learnings from Phase 2 in order to inform its Targeted Electrification Strategy, further begging the question of whether this effort will result in meaningful customer benefits.[88] For these reasons, the Commission should decline to move forward with Phase 2 at this time.

31 If the Commission decides to move forward with PSE's proposal for a Targeted Electrification Pilot Phase 2 and to allow cost recovery pursuant to its proposed Decarbonization Rate Adjustment, which it should not, then changes to PSE's proposed cost allocations are necessary. PSE proposes to spread costs recovered under this schedule to all of its gas and

---

83 Mullins, Exh. BGM-1T at 24:20-23.
84 Kaufman, Exh. LDK-1CT at 19:5-20:9.
85 *See* Kaufman, Exh. LDK-9.
86 Kaufman, Exh. LDK-1CT at 19:9-13.
87 *Id.* at 19:11-13.
88 *Id.* at 19:13-17.

electric customers.[89] The only costs included in this schedule at this time are costs associated with PSE's proposed Targeted Electrification Pilot Phase 2, but as the Company acknowledged at the evidentiary hearing, this schedule could be used beyond Targeted Electrification Pilot Phase 2 costs in the future.[90] AWEC continues to oppose expansion of the Targeted Electrification Pilot at this time, as described below. Because the Decarbonization Rate Adjustment would allow for other programmatic costs to be included in the future, AWEC addresses the tracker itself in this section, and its substantive concerns with the Targeted Electrification Pilot Phase 2 in a subsequent section.

32 Accordingly, if the Commission decides to move forward with Phase 2, a different allocation of costs to customers is necessary than that proposed by PSE. As discussed in the preceding section of this brief, the Commission uses principle-based ratemaking to set fair, just, reasonable and sufficient rates, including the principle of cost causation, "or, simply, to 'let the cost follow the cost causer.'"[91] PSE's proposal to allocate the costs of its Targeted Electrification Pilot Phase 2 to all of its natural gas and electric customers is wholly violative of the long-held principle of cost causation. PSE also argues that Phase 2 will "provide[] equitable access to customer decarbonization."[92] But there is nothing equitable about PSE's proposal for Phase 2.

33 PSE proposes that all of its natural gas customers should pay Phase 2 costs, but only its dual fuel-customers are eligible to participate.[93] PSE does not provide electric service to a substantial amount of its natural gas customers. PSE was not specific regarding how many, if any, industrial customers would be eligible to participate in its Targeted Electrification Pilot

---

[89] Mickelson, Exh. CTM-1T at 63:7-8.
[90] Hearing Tr. Vol. II at 247:1-14.
[91] Dockets Nos. UE-180860 and UG-180861, Order 01 (January 1, 2019) ¶ 17; 2019 Wash. UTC LEXIS 9.
[92] Kaufman, Exh. LDK-3C at 54.
[93] Mannetti, Exh. JM-1CT at 15:7-8.

Phase 2, nor has the Company "include[d] a specific breakout between commercial and industrial budgets."[94] In response to AWEC's Data Request 25, the Company confirmed that it "is still evaluating the eligibility for unbundled gas customers" and even if permitted to participate, "[b]enefit quantitative analysis was not performed for these customers."[95] Similarly, Choice/Retail Wheeling Customers on electric Schedules 449/459 would not directly benefit from Phase 2 unless the customer was also a gas customer,[96] and that "[b]enefit quantitative analysis was not performed for these customers."[97] These realities beg the question of whether *any* industrial customers will actually be able to benefit from PSE's Targeted Electrification Phase 2, despite being allocated costs of the Pilot. Nevertheless, PSE doubled down on its proposal to allocate costs to industrial customers, including Choice/Retail Wheeling electric customers and unbundled gas customers on Schedule 87T.[98] But saddling customers with costs, even if relatively minor given the scale of its request in the rate case, that do not provide direct customer benefits should be avoided. PSE's allocation of costs for Phase 2, if approved, should be allocated consistent with the costs incurred for its current Targeted Electrification Pilot. That is, "[c]osts will be spread to each electric rate schedule based on the schedule's share of Total Electrification Pilot program funding expended for that schedule. For clarity, costs will not be allocated to Schedule 449 customers."[99]

34 PSE's justification for Phase 2 is an attempt to "reduce gas use, thus reduc[ing] [PSE's] Climate Commitment Act [(CCA")] compliance obligation (fewer allowances needed)."[100] But

---

94 Kaufman, Exh. LDK-3C at 6.
95 *Id.* at 7.
96 *Id.* at 7; Hearing Tr. Vol. II at 250:24-251:18.
97 Kaufman, Exh. LDK-3C at 7.
98 Mickelson, Exh. CTM-13T at 34:10-12.
99 *In re Puget Sound Energy*, Docket Nos. UE-220066, UG-220067 and UG-210918 (consolidated), Order 24/10, Appendix A at ¶ 67, g (Dec. 22, 2022).
100 Kaufman, Exh. LDK-3C at 50.

this justification further underscores why certain rate schedules and customers should be excluded from bearing the costs of Phase 2. PSE does not hold a CCA compliance obligation for its Schedule 449/459 electric customers,[101] nor does it hold a CCA compliance obligation for its Emissions-Intensive, Trade-Exposed ("EITE") natural gas customers.[102] And as previously noted, the Company has not determined whether its Schedule 87T customers, if they happen to be dual-fuel customers of PSE, would even be eligible to participate. Confusingly, PSE argues that these customers should still bear Phase 2 costs because "they still gain from projects in gas-constrained areas that help avoid costly distribution system upgrades,"[103] and that they will benefit from "basic supply and demand dynamics" through PSE's need to buy fewer CCA allowances in order to meet its compliance obligations.[104] Clearly, electric Schedule 449/459 customers do not benefit from avoided gas distribution system upgrades, and PSE has provided no evidence in support of its contention that Schedule 87T customers will benefit from such. Under AWEC's class cost of service ("CCOS") model of directly assigned distribution mains for Schedule 87T customers, Schedule 87T customers are unaffected by distribution system upgrades caused by other customers, and thus to not experience the alleged benefits associated with Phase 2. As to the potential that indirect benefits would even possibly accrue to these customers through basic supply and demand, many factors contribute to the costs of complying with the CCA, some of which remain unsettled as described in the portion of this brief responding to Staff's proposal to include CCA costs in net power cost forecast dispatch. Beyond this general conclusion, PSE has offered no evidence or compelling testimony that demonstrates

---

101 Hearing Tr. Vol. II at 250:24-251:18.
102 PSE Schedule 111, *available at:* https://www.pse.com/-/media/Project/PSE/Portal/Rate-documents/Gas/gas_sch_111.pdf?rev=c28ae1b97962437ba83514e3d6adb60c&sc_lang=en.
103 Mickelson, Exh. CTM-13T at 34:20-35:1.
104 *Id.* at 35:1-6.

a causal link between the direct costs it seeks to include in rates and the alleged benefits accruing to the customers who bear those costs.

35 PSE ends its justification by effectively arguing that longstanding ratemaking principles aside, these costs are minimal to industrial customers.[105] But PSE's unprincipled basis for saddling customers - who derive no direct benefit, and at best, potential and very attenuated indirect benefits – with these costs is a clear departure from the principle of cost causation. In this case, the Commission should maintain "let[ting] the cost follow the cost causer," and assign costs to those customer classes that will directly benefit from reduced CCA compliance costs – which are those customers for which PSE holds a CCA compliance obligation – and those customers that are able to participate in the program. By PSE's own admission, allocations along these lines would not include electric Schedule 449/459 and natural gas Schedule 87T and special contracts, including EITE customers.

3. Because the Commission should reject PSE's request to recover Construction Work in Progress in rates, PSE's Clean Generation Resources Tracker is moot.

36 AWEC maintains its recommendation that the Commission deny PSE's request to adopt a Clean Generation Resources ("CGR") Tracker in this case.[106] PSE argues that allowing it to recover Construction Work in Progress ("CWIP") for investments included in its CGR Tracker will benefit the Company by allowing it to "have cash flow"[107] which will allow the Company to be nimble in acquiring large, CETA-compliant resources outside of the MYRP process.[108] At hearing, the Company clarified that it would seek to include CWIP in rates, by proposing rate

[105] *Id.* at 35:7-10.
[106] Mullins, Exh. BGM-1T at 24:18-25:2.
[107] Hearing Tr. Vol. II at 268:6-7.
[108] *Id.* at 268:13-18; 275:12-17.

recovery in the CGR Tracker, for any wind and solar project, and possibly others.[109] The Company also confirmed that the CGR Tracker is only needed if the Commission also allows the Company to recover CWIP amounts for the resources that would be included in its proposed tracker.[110] If the Commission does not allow PSE to recover CWIP in rates, then there is no need for the Commission to approve the CGR Tracker.

37 Under current ratemaking treatment, financing costs associated with utility-owned plant are tracked and recovered through Accumulated Funds Used During Construction ("AFUDC"). Under this approach, financing costs are capitalized to the project and then recovered over the life of the asset.[111] This aligns costs with the period of time over which the asset is used and useful in the provision of service.[112] In this case, PSE seeks to shift recovery of financing costs for its owned assets away from an AFUDC approach to CWIP, which results in PSE recovering financing costs prior to plant being placed into service and providing benefits to customers.[113]

38 PSE's proposal changes – on a large scale – the way that the Company will recover financing costs for most Company-owned generating resources to meet its retail load. This represents a significant policy shift in the way that capital costs are recovered, and it is to the detriment of ratepayers. Of the non-Company parties that addressed this issue in testimony, not one supports the inclusion of CWIP in rates in this case.[114] The Commission should reject PSE's proposal to recover CWIP in rates for several reasons.

---

[109] *Id.* at 275:18-276:11.
[110] *Id.* at 267:23-268:7.
[111] Mullins, Exh. BGM-1T at 25:13-14.
[112] *Id.* at 25:14-15.
[113] *Id.* at 25:18-20.
[114] *Id.* at 27:11-14; McGuire, Exh. CRM-1Tr at 4:4-10; Gorman, Exh. MPG-1CT at 5:1-4; Stokes, Exh. SNS-1T at 6:19-7:2; Gehrke, Exh. WAG-4Tr at 12:2-7.

39 First, recovering CWIP in rates base results in intergenerational inequity because it charges customers for a plant investment prior to the date that the investment is placed into serve and therefore providing benefits to customers.[115] And future customers that reap the benefits of plant in service are not bearing the full cost of the resource.[116] The Commission has long-sought to mitigate such intergenerational inequity.[117] PSE does not substantively rebut this point – instead summarily concluding with no additional discussion that intergenerational equity issues do not exist, and if they do, they are "offset by the positive impacts of rate mitigation."[118] However, as discussed below, PSE has failed to demonstrate that there are positive impacts of rate mitigation.

40 Second, the Commission has no way to determine that CWIP costs are prudent prior to inclusion in rates – such a review would only take place after a resource was placed into service. This could result in customers bearing costs for investments that do not yield service or benefits.[119] PSE argues that given the provisional treatment of plant, customers pay financing costs through either AFUDC or CWIP prior to when a final prudence determination is made.[120] However, under AFUDC the funds are not expended until after the plant is placed into service, as opposed to CWIP, in which case the funds are expended prior to the in service date. And certainly, there are established provisions in the Commission's Used and Useful Policy Statement for refunding provisional plant revenue requirements in a general rate case if an expenditure is found to be imprudent, but there are no corresponding provisions for refunding CWIP if an amount is paid for a plant that is later found to be imprudent.

---

115 Mullins, Exh. BGM-1T at 25:16-26:4.
116 *Id.* at 25:22-26:3.
117 *Id.* at 26:3-4.
118 Martin, Exh. JLM-1CTr at 53:6.
119 *Id.* at 26:15-16.
120 Martin, Exh. JLM-1CT at 56:11-57:3.

41 Third, inclusion of CWIP through rate base also reduces the utilities' incentives to effectively manage construction costs because the "the risks associated with construction delays, cost overruns, or project cancellations are also transferred from the utility and its investors to ratepayers."[121] PSE argues that as a regulated utility, PSE naturally "has an interest in keeping costs as low as possible for customers because it is the prudent and appropriate thing to do, and keeping costs in line with budgets builds trusts with the Commission and intervenors and demonstrates that PSE is a prudent manager of investments made on behalf of customers."[122] But the fact is that PSE's fiduciary duty is to its shareholders[123] and the Company maximizes shareholder value by making capital investments upon which it earns a rate of return. This – along with PSE's status as a monopoly – are precisely why regulators like the Commission exist and why economic incentives are necessary in setting rates.

42 Finally, PSE's claims that customers will ultimately pay less over the life of the asset are unpersuasive. As AWEC pointed out after reviewing PSE's example, the comparison drawn is misleading because the difference is attributable to the timing – variations in interest rates – not necessarily a systematic benefit to ratepayers.[124] PSE attempts to rebut AWEC's position, but simply relies on the mathematical calculations that it provided which were the basis for AWEC's criticism in the first place.[125] The Company's logic is circular, and thus should be rejected.

---

121 Mullins, Exh. BGM-1T at 26:9-11.

122 Martin, Exh. JLM-1CT at 56:4-8.

123 *See e.g. In re Avista*, Docket Nos. UE-090134, UG-090135 and UG-060518 (consolidated), Order 10 at fn. 161 (Dec. 22, 2009) ("We note that Avista's directors owe a fiduciary duty to the corporation's shareholders to oversee with diligence and reasonable care the actions of the corporation. Simply stated, the directors must act *affirmatively and in good faith*, to protect the interests of the Company and its stockholders, and to refrain from doing anything that would injure the Company or deprive the Company of profit or an advantage that might properly be brought to the Company for it to pursue. The directors owe no fiduciary duty to protect the interests of the ratepayers.").

124 Mullins, Exh. BGM-1T at 26:17-27:10.

125 Martin, Exh. JLM-1CT at 57:4-11.

43 PSE has not provided compelling evidence that its customers are better off paying CWIP and shifting the Company's CETA-compliant resource procurement to its proposed CGR Tracker. As such, its request should be denied.

4. If the Commission approves PSE's request for a Wildfire Prevention Tracker, adjustments to the allocation of costs to customer classes are necessary.

44 AWEC's recommendation remains that the Commission should reject PSE's proposal to establish a Wildfire Prevention Tracker for the reasons set forth above. However, if the Commission determines that a Wildfire Prevention Tracker is warranted, then the Special Contract and Schedule 46/49 customers should be excluded from bearing the costs recovered pursuant to the Wildfire Prevention Tracker, consistent with how these costs would be recovered if included in base rates.[126]

45 The costs to be recovered in PSE's Wildfire Prevention Tracker are predominantly comprised of wildfire insurance and capital carrying costs.[127] PSE's wildfire prevention plan is largely focused on reducing PSE's electric system faults that cause wildfire through electric arcs and sparks, largely through undergrounding wires, installing protectors for overhead wires and investing in fault protection facilities.[128] These activities are conducted on both the transmission and distribution system, but the distribution system accounts for 97.8 percent of capital spending.[129] Moreover, Special Contract and High Voltage Schedule 46/49 customers are only served by underground distribution facilities that are directly assigned to those customers.[130]

---

126 Kaufman, Exh. LDK-1CT at 23:17-18.
127 *Id.* at 22:12-15.
128 *Id.* 1CT at 23:9-12.
129 *See id.* at 23:12-14.
130 *Id.* at 23:15-17.

46 PSE nevertheless proposes to allocate these costs using the 2024 GRC Renewable Peak Credit Demand Component, which it argues is consistent with the Commission's cost of service rules under WAC 480-85.[131] However, PSE's proposal to use the 2024 GRC Renewable Peak Credit Demand Component is not required by the Commission's cost of service rules.[132] WAC 480-85-060 functionalizes the renewable peak credit as generation – not transmission or distribution. PSE also argues that its proposed allocations are "grounded in the principle of cost causation, ensuring that costs are allocated to those who benefit from the investments."[133]

47 "The Commission practices principle-based ratemaking to set rates that are fair, just, reasonable and sufficient. One of those principles is the concept of cost causation, whereby the customer (or class of customers) that causes a cost pays that cost to the extent possible."[134] AWEC agrees that the principle of cost causation is important to preserve. PSE's proposal in the tracker, however, is in fact a departure from the cost causation principles that would apply if these costs were included in base rates. PSE justifies its stance by arguing that "[w]ildfire prevention is a critical initiative that benefits the entire electrical system and all customer classes by enhancing grid reliability and safety"[135] and that "[e]xcluding certain customer classes undermines the principle of equitable cost-sharing for necessary system-wide improvements."[136] These arguments fail in both logic and sound policy. The Special Contract and High Voltage Schedule 46/49 customers are not, in fact, wholly excluded from bearing these costs. They contribute to the system by directly paying for the costs associated with the underground

---

131 *Id.* at 23:2-4.
132 *Id.* at 23:4-5.
133 Mickelson, Exh. CTM-13T at 33:17-19.
134 Docket U-180117, *re In the Matter of the Commission Inquiry into Customer Choice for Advanced Meter Installation* ¶ 13 (Apr. 10, 2018); Wash. UTC LEXIS 77 at 9.
135 Mickelson, Exh. CTM-13T at 32:17-33:2.
136 *Id.* at 33:2-4.

distribution plant that serves them. Absent this treatment, these costs would be borne by all rate classes. Therefore, if the Commission approves PSE's proposal to establish a Wildfire Prevention Tracker, it should exclude the Special Contract and High Voltage 46/49 customers from the allocation of these costs pursuant to that tracker. AWEC's proposed treatment is consistent with the principle of cost causation.

E. The Commission should adopt AWEC's proposal to eliminate PSE's Schedule 141COL as of December 31, 2025, and transfer remaining balances into a separate regulatory liability account accruing interest at the AFUDC rate.

48 Consistent with the Clean Energy Transformation Act ("CETA") requirements, PSE must cease serving its customers with electricity generated at Colstrip before January 1, 2026.[137] To address this reality, PSE's Schedule 141COL was established in order to ensure that ratepayers fully paid for rate base and operating expenses for Colstrip.[138] However, PSE's total liability balance for Colstrip is $100,713,506 as of the 12-months ending June 30, 2023,[139] and is spread out over a number of different accounts, not all of which are reflected in rates for Schedule 141COL,[140] which are designed to collect a revenue requirement of $52,580,820.[141] When Colstrip is removed from rates, the on-going operating expenses and depreciation expenses included in Schedule 141COL will cease.[142] At that point, the net regulatory liability balance is "expected to grow by approximately $80,000,000 to $180,000,000, relative to June 30, 2023 levels"[143] which will render the revenue requirement to be collected under Schedule 141COL to be a "materially negative sur-credit of approximately $18,000,000 due to ratepayers each

---

137 *See* RCW 19.405.030.
138 Mullins, Exh. BGM-1T at 4:3-4.
139 *Id.* at 3:14-15.
140 *Id.* at 16-18.
141 *Id.* at 4:4-5.
142 *Id.* at 4:8-10.
143 *Id.* at 4:10-12.

year."[144] PSE did not address this material reduction in the revenue requirement for Schedule 141COL[145] and did not make a proposal for how to handle the regulatory liability balances as part of this proceeding.[146]

49 However, it is appropriate to address the ratemaking treatment for Colstrip as part of this proceeding. The most recent estimates of PSE's decommissioning and remediation liability for Colstrip Units 3 and 4 is estimated to be substantially less than the approximate expected Colstrip regulatory liability – just over $14 million – without considering additional interest accrued on the balance.[147] While there is uncertainty about final decommissioning and liability costs on the record in this case, PSE has confirmed that its decommissioning and remediation liabilities are limited to those incurred specifically during its time period of ownership.[148]

50 PSE "strenuously objects to all facets" of this proposal, and recommends the Commission outright reject it. As strenuous as it may be, however, the merits of PSE's objections lack any meaningful substance. PSE offers only two unsupported and inaccurate assertions to support its objection. First, PSE argues that the current treatment for the post-2025 regulatory liability balances is beneficial to customers.[149] This assertion is irrelevant as it is misleading. AWEC has made its proposal because the regulatory liability balances at the end of 2025 will exceed the expected decommissioning and remediation costs,[150] although the final decommissioning and remediation costs are uncertain. Absent a change to the mechanism, the PSE tracker will be a sur-credit in 2025 to refund the return on rate base associated with regulatory liability balance.[151]

---

144 *Id.* at 4:12-16.
145 *Id.* at 4:17-5:2.
146 *Id.* at 5:3-10.
147 *Id.* at 5:11-19.
148 Free, Exh. SEF-28T at 57:23-58:1-8.
149 *Id.* at 51:16-17.
150 Mullins, Exh. BGM-1T at 5:13-19.
151 *Id.* at 4:6-16.

Rather than refunding the carrying charge on the regulatory liability balances through a tracker, AWEC believes it is prudent for the balances to be transferred to an interest accruing account. The benefit of this approach is that it avoids uncertainty associated with the final decommissioning and remediation expenditures.[152] It also provides PSE with much needed cashflow, as it avoids it having to immediately refund carrying charge monies on the regulatory liability balances, and reserves those amounts until there is more certainty surrounding the final decommissioning and remediation liability. AWEC selected the AFUDC rate as the interest rate for the account for this reason.[153]

51 Second, PSE argues that AWEC's recommendation is not fully vetted and inconsistent with the 2022 GRC Settlement.[154] It is not clear what additional vetting PSE is referring to, but AWEC's recommendation was straight-forward and PSE had the opportunity in this case, through discovery and cross examination, to further vet the details of aspects of AWEC's proposal. This is the case where that vetting is supposed to occur, and PSE's own failure to do so should not weigh against approval of AWEC's recommendation. Finally, the 2022 GRC Stipulation was silent on the treatment of the carrying charges on regulatory liability balances following the Colstrip retirements, particularly in the circumstances faced today where the decommissioning and remediation liability has been fully accrued.

52 Finally, PSE states that there is no value in transferring the balances to a single regulatory liability.[155] AWEC disagrees. The value in a single regulatory liability account is transparency. Currently, the regulatory liability balances are spread across many different accounts and tracking them is difficult. Over long periods of time it will inherently be more transparent and

---

[152] *Id.* at 6:1-12.
[153] *Id.* at 7:9-17.
[154] Free, Exh. SEF-28T at 52:1-3.
[155] *Id.* at 54:13-20.

more straightforward if there were a single account for regulators to track as opposed to the dozen or so account being used today. While PSE may not see value in this approach, AWEC, as a party responsible for reviewing this information, does. At a very minimum, PSE makes no arguments to suggest consolidating the balances would in any way be unreasonable.

53 As such, AWEC maintains its recommendation to eliminate PSE's Schedule 141COL as of December 31, 2025, and transfer remaining balances into a separate regulatory liability account accruing interest at the AFUDC rate.

F. PSE's annual Power Cost Adjustments proposal shifts risk from PSE onto customers, removes PSE's incentive to manage power costs between rate cases, and is administratively burdensome.

54 PSE proposes an annual power cost update process whereby the PCA baseline is updated 90 days prior to the start of each calendar year with rate changes effective on January 1 of each year.[156] For calendar year 2025, PSE would update its power cost forecast in a compliance filing at the conclusion of this general rate case proceeding.[157] PSE further proposes that PCORCs will "continue to be needed for timely updates to PSE's fixed production costs and to minimize the amount of time a new resource costs spend in deferral."[158]

55 However, as AWEC testified, PSE's annual power cost update proposal will shift risk away from PSE's shareholders and onto customers by removing the incentive for PSE to manage power costs between rate cases.[159] PSE failed to address AWEC's concerns in rebuttal testimony and therefore, they remain valid and uncontested. AWEC further explained that PSE's proposal

---

156 Mueller, Exh. BDM-23CT at 4:15-20.
157 *Id.* at 4:15-20.
158 *Id.* at 10:20-11:1.
159 Mullins, Exh. BGM-1T at 28:4-6.

erodes the administrative efficiency of the MYRP and would result in additional work and filings.[160]

56 PSE's claims that it can mitigate administrative inefficiencies are unpersuasive. PSE proposes to introduce an "additional filing each year to update its power costs forecast and establish a new PCA variable baseline rate,"[161] but will remove these considerations from general rate case and PCROC proceedings.[162] According to PSE, "[t]he 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."[163] Contrary to PSE's assertion, it is inarguable that additional proceedings require additional time and resources. A purpose of a MYRP is "*to motivate efficient operations*, and thus low-cost service, while maintain reliability and customer service."[164] PSE's proposal negates a purpose of a MYRP by doing away with the efficiency aspect.

57 Further, PSE's proposal to retain the option for a PCORC is an attempt to erode the potential value of the MYRP by proposing another option for the Company to unilaterally decide when to seek additional rate recovery from customers outside the MYRP process.[165] Although PSE seeks to better align the costs in rates with its forecast of actual expense,[166] as AWEC explained, if PSE's proposal is adopted, the Company could file and the Commission could issue

---

160 *Id.* at 28:6-8.
161 Mueller, Exh. BDM-23CT at 7:14-15
162 *Id.* at 7:15-17.
163 *Id.* at 7:17-20.
164 Regulatory Assistance Project, *Performance-Based Regulation" Considerations for the Washington Utilities and Transportation Commission*, at 8 *available at:* https://www.google.com/url?sa=t&source=web&rct=j&opi=89978449&url=https://apiproxy.utc.wa.gov/cases/GetDocument%3FdocID%3D35%26year%3D2021%26docketNumber%3D210590 (emphasis added).
165 Mullins, Exh. BGM-1T at 28:11-13.
166 Mueller, Exh. BDM-23CT at 9:10-12.

a final order on a MYRP, setting rates based on a forecast of expenses and revenues for each rate year, only to have PSE then file a PCORC to bring in additional resources.[167]

58 As such, PSE's proposal must be recognized for what it is –an attempt to remove any regulatory lag associated with its investments. Such an attempt is contrary to Commission precedent and disrupts the careful balance between PSE and its ratepayers – as the Commission has previously recognized, "some degree of regulatory lag in its ratemaking practice… is a factor in encouraging utilities to operate efficiently."[168] Ultimately, PSE's proposal shifts cost discipline away from the Company at customers' risk and has not provided the adequate justification necessary to support the additional administrative burden associated with its proposal. Based on the record before the Commission, PSE's proposal should be rejected.

G. The Commission should adjust PSE's Net Power Supply Expense to account for Congestion Neutrality Charges.

59 The Commission should adopt AWEC's recommendation for a $6.7 million downward adjustment to PSE's Net Power Supply Expense ("NPSE") to reflect the value of congestion "neutrality charges" that result from Energy Imbalance Market ("EIM") settlement transactions and greenhouse gas ("GHG") payments that are not otherwise captured in Aurora based on a four-year average.[169] PSE opposes AWEC's recommendation, generally arguing that the Company's EIM methodology used in its power cost forecast "relies on an EIM price forecast that includes the impact of transmission constraints and losses—it therefore already reflects the full value of EIM transfers."[170]

---

167 Mullins, Exh. BGM-1T at 28:19-21.
168 Docket No. UE-130043 Order No. 05 at 71:181 (Dec. 4, 2013).
169 Mullins, Exh. BGM-1T at 21:6-8.
170 Mueller, Exh. BDM-23CT at 16:10-12.

60 Neutrality charges are EIM settlements designed to account for items such as congestion and losses.[171] The charges arise because the sum of the energy imbalance settlements paid and those received do not sum to zero.[172] Neutrality charge settlements are described in the California Independent System Operator's ("CAISO") Business Practice Manual ("BPM") for Settlements and Billing.[173] Neutrality "charges correspond to the three components of locational marginal price – congestion, losses and energy."[174] "Because of the effects of congestion and losses, there are unique prices throughout the system and the charges assessed for purchasing imbalance energy will tend to be at higher prices than for supplying it, resulting in net revenues to the overall market footprint."[175] However, these higher revenues are not retained by CAISO – instead, it allocates these revenues using one of the three neutrality charges.[176] Importantly for purposes of PSE's NPSE, these neutrality charge settlements are not reflected in the Company's sub-hourly dispatch modeling in this case, even though they constitute a separate benefit that should inure to customers.[177]

61 PSE argues that AWEC's proposal amounts to double-counting EIM neutrality charges and should therefore be rejected.[178] PSE alleges that its EIM methodology used to forecast net power costs already estimates benefits from neutrality payments because the "[t]he EIM methodology used in PSE's power cost model relies on an EIM price forecast that includes the impact of transmission constraints and losses"[179] The very fact that these prices include the effects of congestion and losses, however, is why the neutrality charges need to be considered in

---

171 Mullins, Exh. BGM-1T at 19:15-20:2.
172 *Id.* at 21:6-8.
173 Mullins, Exh. BGM-5.
174 Mullins, Exh. BGM-1T at 21:8-11.
175 *Id.* at 21:23-22:2.
176 *Id.* at 22:2-6.
177 *Id.* at 22:7-11.
178 Mueller, Exh. BDM-23CT at 16:20-17:3.
179 *Id.* at 16:10-11.

the EIM forecast. As AWEC Witness Mr. Mullins explained, the reason that neutrality charges are required is due to the fact that "LMPs are different at each point or node in the system," due to factors like congestion and losses.[180] AWEC and PSE agree on this point. Because there are unique prices throughout the system, the charges assessed for purchasing imbalance energy will be different than the charges assessed for supplying it, resulting in net revenues (or cost) to the overall market footprint.[181] The benefit of neutrality charges are not derived by paying or receiving an LMP that includes the effects of congestion and losses. To the contrary, it is the fact that those LMPs are being paid and received is what necessitates the additional neutrality charge. PSE's assertion that the benefit neutrality charges are already somehow reflected in the LMPs in its model is therefore patently false because the benefits of the neutrality charge could never be embedded in the individual LMPs. The neutrality charges occur at the level of the overall EIM footprint and are cannot be isolated to the LMP at any particular node.[182] PSE's approach to forecasting the EIM using sub hourly dispatch in Aurora does not consider or calculate the net revenues or net cost to the overall EIM footprint associated with congestion and losses; therefore, it does not consider neutrality charges in the level of benefits that it calculates. As such, AWEC recommends the Commission reject PSE's assertion and adopt its recommendation related to neutrality charges.

---

[180] Mullins, Exh. BGM-1T at 21:15
[181] *Id.* at 21:23-22:2.
[182] *Id.* at 21:23-22:2.

H. The Commission should reject Staff's proposal to include CCA Costs in Net Power Cost Dispatch as well as forecast CCA allowance costs associated with wholesale sales in rates.

1. The Commission should reject Staff's proposal to include CCA allowance costs in forecast net power cost dispatch.

62 Staff proposes to increase PSE's NPSE in this case by $13.7 million for 2025 and $5.2 million in 2026, due to the inclusion of CCA allowance costs in dispatch for both retail and wholesale sales included in PSE's Aurora run.[183] Confusingly, Staff makes this recommendation in an effort to hedge what *may* be substantial CCA compliance costs if the Washington Department of Ecology ("Ecology") does not true-up no-cost allowances to cover PSE's actual emissions associated with serving its retail load. Staff's recommendation conflates NPSE impacts and operational impacts, and its rationale is marred by its misunderstandings of the CCA and its inappropriate reliance on an informal interview with an unnamed staff person from Ecology. In effect, customers will pay increased NPSE in order to achieve emissions reductions *on paper* that will have no bearing on how the Company *actually* operates its system or its actual emissions. Adding a CCA allowance costs to forecast NPSE simply does not contribute in any way to the Company's ability to comply with the CCA based on currently known rules and formal guidance from Ecology. By Staff's own admissions, its proposal lacks substantial evidentiary support and as a matter of sound policy, should be rejected by the Commission.

i. There is no statute, rule or formal requirement that PSE include CCA costs in dispatch for both retail and wholesale sales when forecasting NPSE.

63 It is an uncontested fact that there is no formal obligation at this time that would require PSE or any other investor-owned utility to include CCA allowance costs in dispatch for either retail or wholesale sales when setting net power cost rates. It is also uncontested that there are

183 Wilson, Exh. JDW-24T at 3 (Table 1 and Table 2).

no rules that dictate specific operational decisions by investor-owned electric utilities to reduce emissions in order to comply with the CCA. As such, there is no legal requirement that PSE include CCA costs in dispatch for either its wholesale or retail sales when determining its net power costs for the duration of the MYRP.

64 Nevertheless, as a matter of policy, AWEC supports PSE's approach to include a shadow price for CCA allowance costs associated with wholesale sales, as the Company is likely to incur a compliance obligation associated with wholesale sales and its operational decisions should reflect that reality. PSE has indicated that it already does this,[184] and so no additional changes are necessary.

ii. Key implementation questions before Ecology remain.

65 Staff's recommendation hinges greatly on whether, and if so how, Ecology will design a true-up mechanism to adjust the number of no-cost allowances allocated to electric utilities, including PSE, for operations with the amount of no-cost allowances needed to cover emissions associated with serving retail load. AWEC and Staff are in agreement that this is a critical implementation issue that should inform the Commission's decision, once known, regarding how CCA costs should be reflected for ratemaking purposes. Since the evidentiary record in this case closed, Ecology issued a Publication 24-14-085, titled "Information on adjustments to no-cost allowance allocation for electric utilities," wherein Ecology confirmed that (1) it will not adjust its 2023 allowance allocation schedule except for entities with an adverse verification statement, except adjustments made to account for administrative costs, (2) it will not adjust previously allocated vintage 2023 no-cost allowances and will not request that utilities return previously allocated vintage 2023 no-cost allowances as part of any adjustment, and (3) that it will allocate

---

[184] Wilson, Exh. JDW-7 (PSE's Response to Staff DR No. 213, part (a)).

additional no-cost allowances for administrative costs associated with calendar year 2023.[185] In this publication, Ecology did not provide any formal indication of how a true-up mechanism would be designed for 2024 and beyond. However, at its October 16, 2024, Open Meeting on no-cost allowance allocation for electric utilities, Ecology Staff stated that it would be working hard to establish "a lot more clarity" on a number of topics including the true-up mechanism within the next year and concentrated within the next three to six months.[186]

66 Staff's informal interview with an unnamed Ecology staff person simply does not provide a sufficient evidentiary basis for the Commission to draw conclusions about a true-up design for 2024 and beyond that can be used for purposes of setting NPSE in this case. A reviewing court reviews findings made by the Commission for substantial evidence supporting such findings. "Substantial evidence is evidence sufficient to persuade a fair-minded person of their truth."[187] While this is a "highly deferential" standard in favor of the Commission,[188] it seems very unlikely that a reviewing court would consider the Commission's reliance on an informal interview from an Ecology staff person, as opposed to formal Agency guidance adopted by rule or policy statement consistent with the requirements of the Washington Administrative Procedures Act, as an appropriate basis of reliance when approving fair, just, reasonable and sufficient rates in this case.

67 Similarly, there is simply not substantial evidence to support Staff's assertion that Ecology "intends for the no-cost allowances allocated to Washington utilities to be exposed to

---

185 Information on adjustments to no-cost allowance allocation for electric utilities, Publication 24-14-085. Published Nov. 20, 2024, which can be accessed at https://apps.ecology.wa.gov/publications/documents/2414085.pdf.

186 Recording of Open Meeting, accessed at Cap-and-Invest: No-cost allowance allocation for electric utilities (Oct. 16, 2024) (discussion beginning at 30:00).

187 *Office of Attorney Gen., Pub. Counsel Unit v. Wash. Utils. & Transp. Comm'n*, 4 Wn. App. 2d 657, 681 (Aug. 7, 2018).

188 *Id.*

the markets"[189] or that Ecology intends "that the utilities have an opportunity for financial gains or losses that would either be passed through to their customers or reflected on their balance sheets."[190] In fact, related to the first CCA compliance period, these interpretations ignore the plain language of the CCA, which allows utilities to deposit the entirety of no-cost allowances for compliance, should they so choose, for the first compliance period.[191] The first compliance period in this case includes PSE's RY1 and RY2 and there simply is no guidance or statutory requirement that PSE consign any amount of no-cost allowances to market. Future requirements that some or all no-cost allowances allocated to electric utilities must be consigned pursuant to RCW 70A.65.120(3)(b) are highly speculative at best as again, there has been no rulemaking imposing such a requirement that could apply to the term of the MYRP contemplated in this case.

iii. Staff's proposal inappropriately shifts the cost of uncertainty in Ecology's implementation of CCA requirements away from shareholders and onto customers.

68 Staff's proposal establishes a price – that customers must pay beginning with the rate effective date in this case – for the risk that Ecology will not implement a one-for-one true-up of allocations to cover emissions from retail load. There is no dispute that PSE's customers will pay substantially more NPSE resulting from changing the stack of resources in PSE's power cost forecast. This risk appears warranted, from Staff's perspective, because PSE's exposure risk for no-cost allowances to cover its retail load will be reduced by a reduction in its emissions in the absence of a one-for-one true-up mechanism.[192] Alternatively, Staff opines that if Ecology's true-up design allows PSE to keep more no-cost allowances than needed to serve its retail load,

---

189 Wilson, JDW-1T at 16:19-20.
190 *Id.* at 16:20-17:2.
191 RCW 70A.65.120(3)(a).
192 Wilson, Exh. JDW-1T at 25:1-11; 35:2-13.

the Company can monetize the value of these in the allowance market.[193] Neither of these circumstances warrant Staff's proposed treatment in this case.

69 Staff's proposal for NPSE fails to consider that PSE's compliance obligation will be incurred based on *actual* emissions. Assuming PSE receives sufficient no-cost allowances to cover its retail electric demand, customers will not see a direct benefit associated with reduced emissions. In fact, if NPSE is artificially increased above what is needed to prudently manage the Company's power costs to comply with the CCA, then there is a windfall to shareholders. This would occur if PSE's NPSE is increased to account for allowance costs in dispatch, but Ecology's true-up mechanism is designed such that no-cost allowances are allocated to cover all emissions associated with retail sales. The issue is again that key CCA implementation design questions remain unanswered from Ecology. Rates should not be increased to saddle customers with that risk.

iv. The Commission should determine the appropriate dispatch practice for all investor-owned electric utilities ("IOUs") in its generic CCA Implementation Proceeding (Docket U-230161).

70 The Commission opened Docket U-230161 in March 2023 in part because "…the Commission, IOUs and all those interested persons engaged in proceedings involving the IOUs must better understand the impact of the CCA on the IOUs and the customers they serve."[194] On August 15, 2024, the Commission issued its Policy Statement Addressing the Issues and Impacts of the Climate Commitment Act,[195] which was then rescinded four days later.[196] Importantly, in issuing its Notice Rescinding the Policy Statement, the Commission recognized that additional

---

193 *Id.* at 22:8-10.

194 Docket U-230161, Notice of Workshop at 2 (Mar. 15, 2023).

195 Docket U-230161 – Policy Statement Addressing the Issues and Impacts of the Climate Commitment Act (Aug. 15, 2024).

196 Docket U-230161 – Notice Rescinding Policy Statement (Aug. 19, 2024).

input is needed from interested parties. Docket U-230161 is the appropriate forum to discuss what a consistent and appropriate approach to CCA implementation should be for electric investor-owned utilities, including whether and which costs should be included in net power cost forecasts and when and how a prudence review should take place. At this time, as Staff recognizes, there simply is not enough guidance from Ecology on key CCA implementation issues – such as the true-up – that is critical for the Commission to consider prior to ordering specific ratemaking treatment. As Staff also acknowledges, guessing wrong on how a true-up will function or other implementation issues can result in substantial cost risk to customers.[197]

2. The Commission should reject Staff's proposal to include forecast CCA allowance costs associated with wholesale sales transactions in NPSE.

71 Staff also proposes that PSE cease deferring estimated CCA allowance costs via the deferral approved in Docket UE-220974 and instead include estimated CCA allowance costs in base rates in this case.[198] Given outstanding implementation issues, including the function of a true-up and the provision of no-cost allowances to cover administrative costs, it is premature at this time to include anticipated allowance costs associated with wholesale sales in PSE's net power costs.

72 As Staff acknowledges, if PSE is allocated more no-cost allowances from Ecology than it needs to cover obligations associated with its retail load, Ecology's rules permit PSE to "use[] no-cost allowances to cover emissions associated with wholesale sales."[199] In this case, PSE's allocation of no-cost allowances for 2023 exceeds its compliance obligation associated with serving retail load,[200] meaning that PSE has excess no cost-allowances. As discussed above,

---

197 Wilson, Exh. JDW-1T at 25:5-8.
198 *Id.* at 12:1-14.
199 Wilson, Exh. JDW-1TC at 20:4-5.
200 *See* Ecology Publication 23-02-031 "Allocation to electric utilities 2023-2026" (April 2023, revised

Ecology's recent guidance indicates that it will not true-up PSE's 2023 allocation of no-cost allowances. While the true-up mechanism for future years is still unknown, at this time, Staff's concern about significant costs associated with purchasing no-cost allowances is clearly mitigated.

73 Staff's proposal also fails to acknowledge and account for the fact that the CCA also contemplates the provision of additional no-cost allowances to cover administrative costs of the program which could also be used to cover its compliance obligation.[201]

74 Finally, ratemaking treatment for compliance costs associated with wholesale sales transactions should also be discussed in Docket U-230161, consistent with the reasoning discussed in the preceding section.

3. The Commission should refrain from determining how it will review the prudence of CCA related costs at this time.

75 Staff proposes the Commission engage in an annual review process to review the prudence of PSE's CCA related costs as part of the Company's Power Cost Adjustment ("PCA") mechanism. Given the outstanding, formal guidance from Ecology on how key aspects of the cap-and-invest program will function for investor-owned electric utilities, it is premature for the Commission to adopt a specific prudence review process. It is also unclear how an annual prudence review would work with the four-year compliance periods applicable to the CCA. A better understanding of the different compliance incentives that annual versus compliance period prudence reviews would create is necessary, and AWEC is concerned that Staff's proposal could put upward pressure on rates without a clear benefit to customers. Accordingly, AWEC recommends the Commission consider the appropriate prudence review process as part of its

October 24, 2024), accessed at https://apps.ecology.wa.gov/publications/documents/2302031.pdf; Mueller, Exh. BDM-1T at 29:16-18; Wilson, Exh. JDW-1T at 21:4-10.

201 WAC 173-446-230(2)(h).

general investigation in Docket U-230161. Alternatively, the Commission should wait to consider this question until PSE seeks cost recovery for CCA-related compliance costs for its electric operations.

I. PSE has failed to provide compelling evidence in support of its request to earn a return on demand response Power Purchase Agreements.

76 In this proceeding PSE is seeking to earn a rate of return on three demand response Power Purchase Agreements ("PPA"), the AutoGrid PPA, Oracle PPA, and Enel X PPA.[202] Staff recommends that the Commission allow PSE to earn a return on the three demand response PPAs, calculated at the Company's authorized cost of debt rather than its authorized rate of return for September to December 2023.[203]

77 PSE has failed to provide reasonable justification in support of its proposal to reward shareholders for CETA-compliant PPAs. AWEC therefore recommends that the Commission reject PSE's proposal, which would result in a $1,271,326 reduction to power supply expenses in RY1 and an additional $93,588 reduction in RY2. JEA and TEP similarly oppose PSE's proposal.[204] AWEC further recommends the Commission reject Staff's recommendation.

78 PSE currently has a Performance Incentive Mechanism ("PIM") capped at $1 million over the course of 2022 MYRP[205] that provides PSE's shareholders with incentives to achieve demand response targets. Additionally, a return on demand response PPAs is neither mandated by statute[206] nor the revenue requirement settlement in PSE's 2022 general rate case that the

---

202 Archuleta, Exh. GA-1T at 29:13-14; 34:9-10; 39:16-17.
203 Koenig, Exh. PK-1T at 2:11-16.
204 Mcloy, Exh. LCM-1T at 16:3-4; Stokes, Exh. SNS-1T at 58:3-4.
205 Archuleta, Exh. GA-1T at 18:14-15.
206 *See* RCW 80.28.410.

Company cites in support of its proposal.[207] Furthermore, these demand response PPA's are CETA compliant and therefore provide additional benefit to the Company.

79 Nonetheless, PSE requests that the Commission ignore these facts and instead exercise its discretion in a manner that contradicts general ratemaking principles such that customers bear the burden of additional costs with no incremental benefit. Notably, "*[t]he Commission requires that companies recognize the principles of cost causation in pricing*…Other factors, such as effectiveness in yielding total revenue requirements under the fair return standard, fairness in the apportionment of total costs of service among different consumers, and efficiency in discouraging wasteful use of services while promoting all justified types and amounts of use*, in view of the relationships between costs incurred and benefits received*, *remain an important part of the rate-setting process*."[208]

80 Nevertheless, PSE argues that a return on these demand response PPAs is reasonable pursuant to "paragraph 32 of the Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and Green Direct, approved in PSE's last general rate case, Dockets UE-220066/UG-220067: 'The cost of any DER PPA for distributed generation, battery resources and demand response costs are eligible for recovery through PSE's PCORC, PCA Mechanism and/or annual power cost update and are eligible for potential earning on PPAs pursuant to RCW 80.28.410.'"[209] However RCW 80.28.410 is permissive and allows a utility to "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)(I)…(2) The costs that an electrical company may account for and defer for later

[207] Archuleta, Exh. GA-1T at 29:15-30:2; 34:9-16; 39:18-40:4.
[208] Docket No. UT-970066 Order (Jan. 22, 1998) *citing* Docket No. UT-950200, Fifteenth Supplemental Order at 80-82 (Apr. 1996) (emphasis added).
[209] Archuleta, Exh. GA-1T at 29:16-30:2.

consideration by the commission pursuant to subsection (1) of this section include…(a) [t]he electrical company's authorized return on equity for any resource acquired." Because PSE has failed to provide substantial evidence in support of its proposal, it is reasonable that the Commission determine in its discretion that a return on the demand response PPAs is not warranted.

81 In its rebuttal testimony, PSE asserts that a return on the demand response PPAs is appropriate for two reasons, both of which fall short of providing the required justification to support the Company's proposal. "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."[210]

82 Regarding PSE's first point, it is AWEC's understanding that PSE is asserting that earning a return on PPAs is preferable to energy and capacity purchases because the financial benefit to shareholders, regardless of whether such a decision is least cost least risk for customers. However, as a matter of policy and in accordance with RCW 80.01.040(3), the Commission should reject any proposal that results in PSE acting in a manner that does not further the public interest. Notably, the PIM provides an incentive for shareholders to achieve demand response targets. Furthermore, although PSE may have a preference for ownership over PPA if the authorized ROE exceeds the amount needed by investors, this incentive can be managed more fairly by reducing ROE rather than allowing a return on PPAs.

---

[210] Martin, Exh. JLM-1CTr at 46:18-47:5.

83 Regarding PSE's second point, it is AWEC's understanding that PPAs affect PSE's credit because they are considered a form of debt by credit rating agencies. Therefore, the impact of PPAs on credit ratings should be managed in the same way that the impact of debt on credit ratings is managed, namely through an appropriate balance between debt and equity, and an appropriate ROE. However here, PSE is offering shareholders a return on PPAs to manage credit risk, which is equivalent to offering an investor return on debt. Such an outcome is clearly illogical and must be recognized as such.

84 In PSE's attempt to provide double recovery for its shareholders for the demand response PPAs, the Company cites to Docket UE-121373.[211] However there, the Commission stated that "PSE is not entitled to recover an equity return on any other PPA. As the Washington Legislature made clear, this imputed equity return is a unique contract incentive provided by statute exclusively for the purchase of coal transition power as part of the legislative plan to accelerate the retirement of the last remaining coal-fired generating facility in the state of Washington."[212] It is clear that Docket UE-121373 was a fact-specific instance in which the Commission permitted a return on a PPA and is therefore insufficient evidence to justify PSE's current proposal.

85 Citing RCW 80.28.410, Staff recommends that the Commission allow PSE to earn a return on the three demand response PPAs, calculated at the Company's authorized cost of debt rather than its authorized rate of return for September to December 2023.[213] Staff reasons that RCW 80.28.410 "provides a range of possible rates that the Commission may consider for calculating the return on qualifying PPAs."[214] As noted above, a return on PPAs is not mandated

---

[211] *See* PSE Response to Public Counsel Data Request No. 054.
[212] Docket No. UE -121373, Order No. 08 at 5-6 ¶ 3 (June 25, 2013).
[213] Koenig, Exh. PK-1T at 2:11-16; McGuire, Exh.CRM-1T at 73:6-8.
[214] McGuire, Exh.CRM-1T at 76:1-2

by RCW 80.28.410. Nonetheless, AWEC does not dispute that RCW 80.28.410 allows for such a possibility. However, as AWEC explained in its pre-filed testimony, the initial determination for the Commission is whether a return on the demand response PPAs is appropriate in the first instance.[215] Accordingly, because PSE has failed to provide the evidence required to support its proposal, the Commission need not determine where in the range of possible rates PSE's return on the demand response PPAs should fall. Rather, the Commission should conclude that based on the evidence on the record, PSE has failed to provide the justification necessary to support a return on its demand response PPAs in the first instance.

J. The Commission need not issue additional guidance on short-term CETA acquisitions in this case.

86 In its testimony, AWEC raised concerns about PSE's inclusion of a CETA premium in power costs for both RY1 and RY2.[216] During the evidentiary hearing in this case, PSE witness Mueller clarified that PSE's net power supply expense forecast in RY1 and RY2 does not include a CETA premium for resources. Instead, these CETA premiums were provided "as an informational bullet to inform that, as we work towards meeting our CEIP targets, we anticipate that there could be additional costs, but that was in the context of really iterating that there are no costs in our power costs at the time we develop the forecast except for those associated with contracts that [PSE has] already executed."[217] Premiums associated with short-term CETA-compliant resources were more directly addressed by the Commission's decision on PSE's recent Petition to Amend Orders 8 and 12 and Adjust PSE's Clean Energy Implementation Plan Annual Interim Targets for 2024 and 2025, in which the Commission made clear that PSE should not

215 Mullins, Exh. BGM-6CT at 14:23-15:1.
216 Kaufman, Exh. LDK-1CT at 75:1-8.
217 Hearing Tr.Vol. II at 281:20-282:1.

assume the Commission expects "rote adherence with interim targets,"[218] particularly when falling short of interim targets is due to "unreasonably expensive short-term energy purchases."[219] Given the Commission's order in that proceeding, AWEC does not find that additional guidance from the Commission is necessary in this proceeding. AWEC will address any prudent concerns with PSE's resource costs, including those acquired solely to meet CETA interim targets, in the appropriate future ratemaking proceedings.

K. The Commission should adopt AWEC's recommended changes to PSE's Gas Cost of Service Study.

1. The Commission should approve direct assignment of gas mains to Schedule 87/87T.

87 Cost of Service Studies ("COSS") are intended to identify the cost of serving each customer class as a basis for setting fair, just, reasonable and sufficient rates. PSE's proposed allocation of costs to Schedule 87/87T customers does not achieve an appropriate matching of costs and benefits for its Schedule 87/87T customers, and thus requires modification as recommended by AWEC.

88 PSE's COSS filed in its initial testimony allocates gas mains to Schedule 87/87T based on the Schedule's share of system peak and average use, which PSE argues is required by Commission rules.[220] Three alternative studies, subsequently produced by AWEC,[221] Nucor,[222] and PSE,[223] provide more precise assignment of mains to Schedule 87/87T and result in

---

[218] Docket UE-210795, Order 14 at ¶ 10 (Nov. 8, 2024) (internal citations omitted).
[219] *Id.*
[220] Taylor, Exh. JDT-8T at 6:19-7:6.
[221] Kaufman, Exh. LDK-1T at 32:1-2.
[222] Higgins, Exh. KCH-1T at 20:13-15. Nucor's exclusion of small diameter mains from Schedule 87/87T allocates zero feet of small diameter mains to is equivalent to Schedule 87/87T and thus it is mathematically equivalent to direct assignment of small diameter mains to Schedule 87/87T, as neither AWEC nor PSE directly assign small diameter mains to Schedule 87/87T. Kaufman, Exh. LDK-1CT at 28:1-4 and Exh. JDT-14.
[223] Taylor, Exh. JDT-8T at 19:3-4.

substantially lower costs to serve these schedules clearly demonstrating that more precise allocation of plant is possible. Contrary to PSE's assertions otherwise, doing so is also consistent with the Commission's allocation rules. However, if the Commission determines that AWEC's proposed allocation of natural gas plant to Schedule 87/87T is not consistent with its current allocation rules, the Commission retains the discretion to exempt "the provisions of any rule in this chapter in the same manner and consistent with the standards and according to the procedures set forth in WAC 480-07-110…" and should do so in this case.[224]

i. PSE's initial COSS over-allocates costs to Schedule 87/87T.

89 There are two factors that cause PSE's initial study to over-allocate costs to Schedule 87/87T. First PSE allocates mains two inches and smaller to Schedule 87/87T despite the fact that these customers are exclusively served by mains over two inches.[225] Second, PSE's allocation factors fail to account for the economies of scale associated with serving large customers.[226] WAC 480-85-060, Table 4 specifies that the allocation method for mains is to be "[d]irect assignment of distribution mains to a single customer class where practical. All other costs assigned based on design day (peak) and annual throughput (average) based on system load factor."[227] The method included in this rule requires that a determination first be made as to whether it is practical to directly assign costs. The peak and average allocation factor is only applied to the remaining costs that cannot be directly assigned. As discussed herein, PSE has admitted that mains can be directly assigned to Schedule 87/87T and has provided its own estimate of this assignment.

---

224 WAC 480-85-070.

225 *See* Kaufman, Exh, LDK-1T at 26:8-27:1. PSE similarly found no two-inch or smaller pipe directly allocatable to Schedule 87/87T. *See* Exh. JDT-14.

226 Kaufman, Exh. LDK-1T at 27:1-2.

227 WAC 480-85-060 Table 4.

90 AWEC's and PSE's approach to directly assigning these costs are functionally equivalent in that both methods count the number of feet of pipe serving the customer and assign the cost associated with this pipe to the customer. The studies differ only in the tabulation of feet of pipe. The fact that two parties succeeded in directly assigning the cost of mains to Schedule 87/87T demonstrates that it is practical to directly assign these costs.[228] The practicality of directly assigning mains is further supported by PSE's proposed treatment of Schedule 88T. The Schedule 88T customer is similarly situated to Schedule 87/87T customers with respect to distance to city gate stations, interconnectedness to PSE's greater distribution system, and use of shared mains.[229] PSE proposes to directly assign mains to Schedule 88T, and no party has disputed the practicality of this treatment, indicating that the treatment of Schedule 88T is reasonable and appropriate. If it is reasonable and appropriate to directly assign mains to Schedule 88T, it is reasonable and appropriate to directly assign mains to the similarly situated Schedule 87/87T customers.

ii. PSE's concerns regarding direct assignment of mains to Schedule 87/87T are unpersuasive.

91 PSE questions whether direct assignment accounts for "looped pipelines" and whether AWEC has correctly tabulated the pipe serving Schedule 87/87T.[230] PSE's concern regarding looped pipelines is speculative in that PSE offers no evidence that looped pipelines provide any material benefit to Schedule 87/87T.[231] Moreover, AWEC's model over-assigns the cost of primary mains serving the customer by assigning 100 percent of the main cost even when such

---

228 *See* Kaufman, Exh. LDK-1T at 32:1-2 and Taylor, Exh. JDT-8T at 19:3-4. Three parties, when one considers that Nucor's exclusion of two-inch and under pipes is mathematically equivalent to directly assigning zero two-inch and smaller pipe. *See* Higgins, Exh. KCH-1T at 20:13-15.

229 *See* Kaufman Exh. LDK-1CT at 25, which illustrates the interconnection of the Schedule 88T customer into PSE's distribution system, and Taylor, Exh. JDT-18CX at 3-12, which illustrates that Schedule 87/87T customers are similarly situated.

230 *See* Taylor, Exh. JDT-8T at 12:3-23.

231 Hearing Tr. Vol. II at 232:10-11.

mains serve non-Schedule 87/87T customers.[232] The over-assignment of direct mains provides a cost buffer against any potential benefit looped pipelines may provide to Schedule 87/87T. Schedule 88T is also integrated into PSE's greater distribution system[233] and to the extent that looped pipes constitute an impediment to direct assignment of costs, this impediment exists for both Schedule 88T and Schedule 87/87T.

92 PSE also questions whether AWEC accurately tabulated the feet of pipe serving Schedule 87/87T customers and proposes an alternative tabulation.[234] However, PSE's alternative tabulation suffers from multiple flaws, including double counting of pipe, and the counting of smaller diameter mains when more direct paths exist on large diameter mains, as discussed below. The direct assignment of Schedule 88T could also be subjected to criticism of the appropriateness of the assigned pipe. For example, Schedule 88T is not actually assigned any pipe connecting the Schedule 88T outside of two "upgrades," leaving the segments of pipe connecting these two upgrades out of Schedule 88T's assignment of costs.[235] The appropriate segments of pipe to directly assign to Schedule 88T could be disputed, but this potential for dispute does not render direct assignment of pipe to Schedule 88T impractical. Similarly, the presence of a dispute about the feet of pipe to directly assign to Schedule 87/87T does not render the direct assignment impractical.

93 When comparing AWEC's method of directly assigning pipe to Schedule 87/87T with PSE's method of directly assigning pipe to Schedule 88T, AWEC's method allocates a

---

232 Hearing Tr. Vol. III at 321:22-23.

233 *See* Kaufman Exh. LDK-1CT at 25 which illustrates the Schedule 88T customer's integration with PSE's system, including looped pipe.

234 Taylor, Exh. JDT-8T at 12:3-23.

235 Hearing Tr. Vol. II at 230:13-24. The only section of pipe assigned to Schedule 88T are the two sections identified as "Upgrade 1" and "Upgrade 2" in Kaufman Exh. LDK-1CT at 25 Table 3. *See* Taylor Exh. JDT-18CX at 36-38.

conservatively large share of costs to Schedule 87/87T.[236] AWEC allocates 100 percent of the cost of a direct main path between the customer and the nearest gate station.[237] PSE only allocates a portion of the system upgrades required to serve the customer and allocates none of the pre-existing pipe, even though such pipe is critical for Schedule 88T's service.[238] To the extent that PSE's direct assignment of costs to Schedule 88T, which disregards looping pipe[239] and the majority of mains in the direct between the gate station and the customer,[240] is accepted, AWEC's method of assigning mains to Schedule 87/87T, which assigns a conservatively high cost to the Schedules,[241] should also be adopted.

iii. The Company's version of direct assignment to Schedule 87/87T is grossly inaccurate.

94 PSE attempts to cast doubt on the validity of directly assigning pipe to Schedule 87/87T by independently tabulating the feet of pipe that serve this Schedule[242] and recalculating the COSS using the Company's direct assignment.[243] The Company's approach is grossly inadequate because it double counts pipe[244] and does not utilize the most direct path to customers.[245] PSE's tabulation of 8 inch pipe for customers 2 and 4, and 9 through 14, which are clearly erroneous, account for 74 percent of PSE's directly assigned 8-inch pipe and 98 percent

236 *See e.g.* Hearing Tr. Vol. III at 322:7-9.
237 Hearing Tr. Vol. III at 321:22-23.
238 Hearing Tr. Vol. II at 231:5-10.
239 *Id.* at 231:15-232:11.
240 *See* Hearing Tr. Vol. II at 229-231.
241 Hearing Tr. Vol. III at 321:22-322:9.
242 Taylor, Exh. JDT-14.
243 Taylor, Exh. JDT-8T at 19:3-4.
244 *See* Taylor, Exh. JDT-18CX at 4 and 6, which illustrate that Customers 2 and 4 utilize the same set of pipes, and page 19, which illustrates that the Company's tabulation of 8-inch pipe for these customers can only be accurate if the pipe in pages 4 and 6 are double counted.
245 Taylor, Exh. JDT-18CX. On page 4, Customers 2 illustrates that the most direct path utilizes a 12-inch pipe. Page 19, which illustrates that the Company's tabulation of 8-inch pipe can only be accurate if the path follows the 12-inch pipe in page 4. Dr. Kaufman confirms that the Company's updated schematics does not materially change the tabulation of pipe for customer 2 from his initial analysis. Hearing Tr. Vol. III at 321:13-21.

of 6-inch pipe.[246] This gross level of error renders the Company's calculations and parity ratios irrelevant.

iv. If necessary, the Commission should exercise its discretion to waive elements of WAC 480-85-060 to achieve appropriate cost allocations for Schedule 87/87T.

95 Pursuant to WAC 480-85-070, the Commission retains the discretion to waive and/or modify provisions of WAC 480-85-060 in response to a request or on its own initiative, if doing so is consistent with the public interest based on the individual circumstances present.[247] If the Commission determines that WAC 480-85-060 requires the allocation of costs to Schedule 87/87T as proposed by PSE in its initial COSS, then it should nevertheless find that modification of its allocation rule is consistent with the public interest. "The cost of service study is one factor among many the commission considers when determining rate spread and rate design. The commission may also consider, as appropriate, such factors as fairness, perceptions of equity, economic conditions in the service territory, gradualism, and rate stability."[248] In this case, PSE's proposed allocation of costs to industrial schedules, including Schedule 87/87T is not fair, does not result in equity among customer classes, fails to consider the economic conditions of its industrial customers, and results in substantial cost-shifts to larger customers. PSE does little to rebut the inequity in its proposal, and instead largely relies on incorrect application of the Commission's cost of service rules as opposed to a more substantive, principled approach.[249] At a time where PSE is working to decarbonize its natural gas system, and smaller customers may be leaving the system more quickly than has historically been the case, the principle of cost

---

246 AWEC's 74 percent is calculated as (32,222+ 55,303) / 118,907. *See* Exh. JDT-18CX page 19. PSE's tabulation of pipe for customers 9 through 14, which account for 98 percent (31,185+ 20,975) / 53,421 of PSE's directly assigned 6-inch pipe, suffer from similar flaws. *See* pages 11, 12, and 19.

247 WAC 480-07-110(1).

248 WAC 480-85-010(2).

249 *See* Taylor, Exh. JDT-8T at 6:19-8:6.

causation should dictate the allocation of costs among customer classes in order to ensure that fairness and equity remain balanced among customer classes. To do otherwise is to require industrial customers, who do not have the same ability to transfer off of PSE's gas system as smaller customers, to subsidize smaller customer classes. This is not consistent with the public interest. Staff may argue that AWEC's proposed allocation of mains skews to benefit industrial customers, but this is also not correct. As Dr. Kaufman demonstrated at hearing, AWEC's allocation proposal is consistent with the principle of cost causation, but nevertheless actually over-allocates costs to Schedule 87/87T.[250] If needed, waiver of WAC 480-85-060 is warranted in order to ensure that each customer class is paying its cost of service.

v. If the Commission does not adopt AWEC's proposed changes to PSE's COSS, Nucor's proposed method of allocating mains to Schedule 87/87T should be adopted.

96 Nucor also raises concerns with PSE's initial COSS's allocation of plant to schedules serving large customers, including Schedules 87 and 87T, but takes a slightly different approach to address its concerns than AWEC.[251] Nucor's primary recommendation is that Schedules 85, 85T, 86, 86T, 87 and 87T be excluded from the allocation of both small and medium mains, consistent with the Commission's past practice of allocations and cost causation principles,[252] and that the remaining mains be allocated using a weighted peak and average allocator consistent with PSE's allocation prior to its last general rate case.[253] Nucor's proposal represents a blend of my direct assignment of pipe under 12-inches and PSE's initial filing which only direct assigns pipe to Schedule 88T because my direct assignment model assigns no small diameter pipes to

---

250 Hearing Tr. Vol. III at 322:7-9.
251 Higgins, Exh. KCH-9T at 4:13-5:7.
252 *Id.* at 4:15-19 (internal citations omitted).
253 *Id.* at 4:20-5:2.

Schedule 87/87T, which is equivalent to Nucor's proposal.[254] Nucor's proposal to exclude industrial schedules from small and medium mains is a reasonable alternative to AWEC's proposal to directly assign main costs based on usage given this approach's consistency with cost causation principles.[255] AWEC views Nucor's method of excluding large customers from the allocation as a form of direct assignment because under direct assignment these customers would not be assigned small diameter mains. Nucor's method is therefore consistent with WAC 480-85. However, to the extent that the Commission does not find Nucor's method consistent with WAC 480-85 but find the model to be reasonable, AWEC requests that the find that a waiver from the Commission's cost of service rules in WAC 480-85, pursuant to WAC 480-85-070, is necessary. The Commission should grant this waiver as the exclusion of small diameter mains from large customer rates is consistent with the public interest in this case, as it ensures that large customers do not bear the cost of plant the provides no service to them.

2. Stranded costs due to fuel switching should be functionalized to distribution, classified as customer, and allocated using the CUST allocation factor.

97 PSE proposes to accelerate depreciation of certain plant accounts to reflect the stranded costs associated with decarbonization related plant retirements.[256] PSE's study shows that these costs are driven by customers stopping gas service.[257] AWEC's COSS functionalizes these costs as distribution costs and allocates these costs using the CUST allocator because the quantification of stranded costs focuses on the number of customers switching fuel from gas to electric.[258] Because the primary cost driver is the number of customers rather than the demand

254 Kaufman, Exh. LDK-1CT at 28:1-4.
255 Kaufman, Exh. LDK-8T at 13:8-12.
256 Kaufman, Exh. LDK-1CT at 30:16-20.
257 *Id.* at 31:3-4.
258 *Id.* at 31:1-8.

or average use of customers, these costs should be allocated using a factor that reflects customer count, such as the CUST allocator.[259] In order to effectuate this treatment, a waiver from the Commission's cost of service rules in WAC 480-85, pursuant to WAC 480-85-070, is necessary. The Commission should grant this waiver as AWEC's recommended treatment for stranded costs from fuel switching is consistent with the public interest in this case, as it will allow for costs from fuel switching to be allocated to the customers driving these costs.[260]

L. The Commission should adopt AWEC's proposed changes to rate spread for natural gas customers.

1. Electric Rate Spread

98 As set forth in AWEC's pre-filed testimony, AWEC continues to support PSE's proposal for electric rate spread as set forth in its initial testimony.[261]

2. Gas Rate Spread

99 AWEC's recommend rate spread is presented in the table below.[262] This rate spread reflects the Schedule 88T rate in PSE's initial filing rather than the revised rate presented in PSE's subsequent filings.

	AWEC COSS	Rate Spread
Residential (16,23,53)	1.08	100%
Comm. & Indus. (31,31T)	0.82	125%
Large Volume (41,41T)	0.95	100%
Interruptible (85, 85T)	0.85	125%
Limited Interruptible (86, 86T)	1.31	25%
Non-Exclusive Interruptible (87, 87T)	1.49	25%
Exclusive Interruptible (88T)	1.17	75%
Contracts	2.30	N/A
Total	1.00	100%

---

259 *Id.* at 31:4-8.
260 *Id.* at 31:9-19.
261 *Id.* at 33:4-5.
262 *See also* Kaufman, Exh. LDK-1CT at 32:12-14.

i. PSE's erroneous method of setting Schedule 88T to cost of service should be rejected.

100 PSE establishes Schedule 88T rates by setting RY1 and RY2 revenues equal to Schedule 88T results in its COSS. However, this is problematic for two reasons. First, the COSS reflects the test year costs rather than RY1 or RY2 costs.[263] Second, PSE fails to account for the fact that Schedule 88T's volume grows to 400 percent of test year therms in RY1 and RY2.[264] PSE's cost of service model shows that the cost to serve Schedule 88T is [redacted] per therm, but the rate actually proposed for Schedule 88T in RY2 is only [redacted] per therm.[265] This clearly illustrates that PSE's attempt to set Schedule 88T to cost of service is illusory.

101 If PSE's alleged method of setting rates equal to cost of service were accurate, the method would be sufficient to recover PSE's revenue requirement. However, PSE admits that if the same treatment applied to Schedule 88T were applied to all other schedules, PSE would grossly under-recover revenue.[266] AWEC's recommended treatment for Schedule 88T is to apply the percent of average increase model applied to other schedules to Schedule 88T. This recommendation should be applied to the Schedule 88T rates in effect at the time of PSE's initial filing rather than the updated rates in PSE's subsequent filing, or alternatively to apply the increase inclusive of Schedule 88T's 141D revenues, because these revenues recover Schedule 88T distribution costs that were transferred out of base rates subsequently to PSE's initial filing.[267]

---

263 *Id.* at 34:10-11.
264 Hearing Tr. Vol. II at 234:2-23.
265 Kaufman, Exh. LDK-1CT at 34:18.
266 Taylor, Exh. JDT-18CX at 49 part e; Hearing Tr. Vol. II at 232:13-18.
267 Hearing Tr. Vol. II at 233:10-20.

M. The Commission should adopt AWEC's recommended changes to PSE's proposed Gas Rate Design.

102 AWEC maintains its recommendation to make two changes to PSE's recommended rate design for Schedules 87/87T. First, to add storage commodity costs from the Cost-of-Service Study to the procurement charge for Schedules 87/87T.[268] Second, to escalate the procurement charge for Schedule 87 proportionally to base rate increases in RY1 and RY2. PSE's current rate design for Schedules 87/87T includes appropriately includes storage commodity costs in the procurement charge, but at 2023 costs.[269]

103 It is appropriate to increase the procurement charge to reflect cost increases in RY1 and RY2 related to storage commodity costs. Absent this treatment, the procurement charge will under-recover sales costs, resulting in a cost shift from bundled customers to unbundled customers.[270] PSE argues that AWEC's recommendation to escalate the procurement charge is inappropriate because "[b]y including these costs in the procurement charge, only sales customers would pay for this cost while both sales and transportation customers benefit from the use of Jackson Prairie system balancing."[271] PSE's criticisms are without merit pursuant to WAC 480-85-060. Accordingly, WAC 480-85-060 Table 4 requires that storage costs "classified as balancing are allocated to all customers based on winter sales. All remaining costs are allocated to sales customers with a ratio based on average winter sales that exceed average summer sales."[272] It is clear that these costs are intended to be assigned to sales and not transport customers.

---

[268] Kaufman, Exh. LDK-1CT at 36:16.
[269] *Id.* at 36:17-18.
[270] Kaufman, Exh. LDK-1CT at 36:19-23.
[271] Taylor, Exh. JDT-8T at 35:10-13.
[272] WAC 480-85-060 Table 4.

104 It is also appropriate to escalate the procurement charge for Schedules 87/87T proportionally to base rate increases in RY1 and RY2. PSE nevertheless argues that doing so "would exceed the procurement charge indicated by the COSS," and should therefore be rejected.[273] However, the COSS is based on test year costs, not rate year costs. This means that the COSS does not reflect the cost increases that drive the RY1 and RY2 revenue requirement increases.

N. The Commission should reject a number of JEA's proposals.

1. JEA's bill assistance program proposal is unsupported by sufficient detail and raises concerns of cost-shifting among ratepayers.

105 JEA proposes a "more aggressive form of bill assistance" in the form of "a reform to base rates themselves to make bills more affordable for customers with lower incomes."[274] JEA suggest an "income-graduated fixed charge…based on [customers] annual incomes."[275] AWEC opposes JEA's bill assistance program proposal based on general cost-shifting concerns and a failure on JEA's behalf to provide a detailed proposal.

106 JEA asserts that the increase in customers seeking bill assistance from 2022 to 2023 through PSE's Home Energy Lifeline Program demonstrates a demand and need to expand assistance programs.[276] JEA asserts that PSE should engaged with its Low-Income Advisory Committee ("LIAC") "to see if there are better and more aggressive forms of bill assistance that could be provided."[277] Although JEA states in the affirmative that it is recommending a proposal,[278] the details of the purported proposal are unknown. Rather, JEA cites a California

---

273 Taylor, Exh. JDT-8T at 35:17-18.
274 Thuraisingham and Thompson, Exh. MT-CT-1T at 37:6-8.
275 *Id.* at 37:9-12 (internal citations omitted).
276 *Id.* at 36:16-37:5.
277 *Id.* at 37:4-5.
278 *Id.* at 37:6-7.

proposal that was ultimately not adopted[279] and Sierra Club's proposal "which included a conservative definition of what would be allowed in a fixed charge, plus a more equitable distribution of charges based on income levels."[280] However, JEA goes on to acknowledge that "Washington is moving forward with its own efforts in equity."[281] JEA concludes that it will "continue to monitor similar proposals and recommend that PSE and the UTC do the same."[282]

107 Any policy-based program that ultimately affects the rates that all customers pay should go through a formal Commission process such that all customer advocate groups and interested persons may engage in the process. Additionally, JEA has provided no concrete bill assistance program proposal. As such, there is no evidence upon which AWEC, or the Commission, may determine the reasonableness of JEA's proposal.

2. JEA's targeted electrification PIM and general electrification program proposal is premature considering Washington legislation and if adopted, will result in rate impacts that are contrary to the public interest

108 JEA proposes the Commission establish a targeted electrification PIM[283] as well as supplemental measures to PSE's proposed Phase 2 targeted electrification efforts[284] If adopted, JEA's proposal will triple the cost of PSE's proposed budget for Phase 2 assuming 100 percent of PIMs are achieved, which would mean that PSE's budget for electrification efforts in this case would be set at $44.47 million in 2026, which is four times PSE's request for Phase 2.[285] The rate impact of JEA's proposed electrification budget for RY2 is 8 percent of current gas

---

279 *Id.* at 37:9-14.
280 *Id.* at 37:15-17.
281 *Id.* at 37:18.
282 *Id.* at 38:1-2.
283 Cebulko, Exh. BTC-1T at 51:3-9.
284 *See* Cebulko, Exh. BTC-1T at 54:17-62:23
285 Kaufman, Exh. LDK-8T at 10:15-19 *citing* Cebulko, Exh. BTC-1T at 60: Table 8.

revenue.[286] As described herein, JEA's proposal is unnecessary, uneconomic, and is therefore not in the public interest. AWEC opposes JEA's proposal.

109 JEA asserts that PSE is not incentivized to achieve electrification targets required by the CCA[287] and therefore asserts that a PIM "equal to 5 percent if 100 percent of the target is achieved"[288] is reasonable to address JEA's perceived issue. JEA reasons that PIMs are "fairly common practice in the industry for helping to overcome the utility disincentive for pursuing energy efficiency programs that are in the public interest" and cites to the settlement in PSE's 2022 general rate case wherein the Commission adopted a stipulation that established a PIM for demand response as further justification.[289]

110 JEA's assertion that PSE has an economic disincentive to electrify its natural gas system ignores the fact that reducing customers on the Company's gas system results in customer growth on its electric system. As AWEC explained in pre-filed testimony, while not all PSE gas customers are PSE electric customers, PSE targets its electrification efforts towards gas customers that are also PSE electric customers, and therefore electrification will result in PSE growing its electric rate base, while still recovering its return on and return of its gas rate base.[290] Additionally, JEA's cite to a previous settlement in support of its proposal falls short; stipulations are often compromised positions of the settlement parties and is therefore insufficient evidence to support JEA's proposal.

111 JEA's proposed supplemental measures to PSE's proposed Phase 2 targeted electrification efforts are premature at best and may have unintended consequences related to current

---

286 *Id.* at 11:2, calculated as $44.5 million / $554 million.
287 Cebulko, Exh. BTC-1T at 50:17-22.
288 *Id.* at 51:11-12.
289 *Id.* at 51:5-9.
290 Kaufman, Exh. LDK-8T at 11:7-10 *citing* Mannetti, Exh. JM-1CT at 5:4-6.

Washington legislation. AWEC addresses in detail the legal and policy questions related to PSE's decarbonization rate adjustment and targeted electrification pilot phase 2 earlier in this Post Hearing Brief.

112 Nonetheless, as AWEC explained in pre-filed testimony, JEA's concerns are likely addressed by Washington legislation, specifically CETA and CCA, both of which are aimed at addressing the decarbonization of Washinton's electric and natural gas systems.[291] Additionally, ESHB 1589 specifically addresses decarbonization of PSE's electric and natural gas operations. Finally, Washington Initiative No. 2066 was passed on November 5, 2024,[292] and as a result, the actions and incentives that can be taken and/or provided to encourage fuel-switching from PSE's natural gas system to electric service will be impacted. As AWEC explained in pre-filed testimony, it would be at best premature for the Commission to accept JEA's proposal given that any Commission guidance on this issue may conflict with the legislation noted above.[293] Additionally, determination of financial incentives for PSE's action beyond the current legislation should be left to the legislature. Notably, the Company similarly opposes JEA's proposal, stating that "[i]t is PSE's intent to comply with legal requirements, including the CCA, and to continue making progress towards electrification with approval of its proposed Targeted Electrification Pilot Phase 2."[294] For the reasons described herein, JEA's proposal is not in the public interest and should therefore be rejected.

III. CONCLUSION

113 For the foregoing reasons, AWEC requests that the Commission adopt the recommendations detailed above.

---

[291] Kaufman, Exh. LDK-8T at 11:13-15.
[292] Kaufman, Exh. LDK-9T.
[293] Kaufman, Exh. LDK-8T at 11:20-22.
[294] Mannetti, Exh. JM-9T at 9:4-7, 16-18.

Dated this 4th day of December 2024.

Respectfully submitted,

DAVISON VAN CLEVE, P.C.

/s/ Sommer J. Moser
Sommer J. Moser, OR State Bar No. 105260
Corinne O. Olson, OR State Bar No. 194200
Davison Van Cleve, P.C.
107 SE Washington St., Suite 430
Portland, OR 97214
sjm@dvclaw.com
coo@dvclaw.com
Telephone: (503) 241-7242

Attorneys for the Alliance of Western Energy Consumers