

**MULTI-YEAR RATE PLAN
ANNUAL REPORT
REGARDING PLANT INVESTMENT AND
METRICS REPORTING**

PUGET SOUND ENERGY
DOCKETS UE-220066 AND UG-220067
(CONSOLIDATED)

MARCH 31, 2023

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BACKGROUND

Pursuant to paragraphs 53 and 60 of the Multiparty Settlement Agreement (“Settlement Agreement”) approved in consolidated Dockets UE-220066 and UG-220067 (“2022 GRC”) and paragraphs 237 and 243 of Final Order 24 (“Final Order”) in the 2022 GRC, Puget Sound Energy (“PSE”) submits this Multi-Year Rate Plan (“MYRP”) Annual Report. This report provides the first annual report to the Commission on the items identified in the Settlement Agreement and the Final Order. These include:

- I. Review of PSE’s actual 2022 investments made compared to what was used to set rates for the first year of the MYRP. This portion of the report is discussed in more detail below.
- II. An update on PSE’s efforts related to the Inflation Reduction Act (“IRA”) and the Infrastructure Investment and Jobs Act (“IIJA”). This portion of the report is discussed in more detail below.
- III. Reporting on the metrics identified in paragraph 60 of the Settlement Agreement as required by paragraph 93 in the Final Order. These metrics can be found in **Attachment A** to this Annual Report.

I. 2022 CAPITAL INVESTMENT REVIEW PROCESS

The Settlement Agreement provides that PSE’s annual review process will be based on the process described in the testimony of Susan E. Free, Exh. SEF-1Tr. This review covers the portion of PSE’s 2022 plant investment that was based on forecasts and included in rates that became effective in January 2023. This initial filing provides the following information as indicated on page 49 of Exh. SEF-1Tr.

- A. Actual plant closings categorized in the same manner as they were categorized in the 2022 GRC so that they can be compared to the forecasted amounts used when setting rates. See **Attachment B** to this Annual Report.
- B. In service dates for Specific investments. See **Attachment C** to this Annual Report.
- C. Narrative explanations for any significant deviations between actual and forecasted investment. See **Attachment D** to this Annual Report. Attachment D also discusses project benefits that were discussed in the 2022 GRC.
- D. A proposal for any tariff change needed for amounts to be refunded to customers based on actual amounts incurred. This is discussed in more detail below.

Further, page 33 of Exh. SEF-1Tr indicates a calculation will be performed demonstrating whether PSE’s actual plant investments on a portfolio basis are within reason to what was used for setting rates. The calculation uses actual plant closing information to recalculate the revenue requirement that is subject to refund (“STR”) and compares it to the actual STR revenue set in electric and gas Schedules 141R using forecasted amounts. This portfolio threshold calculation is also included in **Attachment B** and a summary of the calculation is presented in Table 1 below.

Table 1 – Portfolio Threshold Calculation¹

(in millions)	Electric			Natural Gas		
	Approved	Actual	Act > Fcst (Fcst> Act)	Approved	Actual	Act > Fcst (Fcst> Act)
Description	b	c	d	e	f	g
1 Rate Base	\$ 466.8	\$ 478.3	\$ 11.4	\$ 263.9	\$ 236.3	\$ (27.6)
2 Authorized Rate of Return	7.16%	7.16%	0.00%	7.16%	7.16%	0.00%
3 Grossed up Rate of Return	33.4	34.2	0.8	18.9	16.9	(2.0)
4 Depreciation	7.1	9.3	2.3	4.6	4.0	(0.6)
5 Taxes	(4.2)	(5.7)	(1.5)	(2.7)	(2.4)	0.3
6 Total Expenses	2.8	3.6	0.7	1.9	1.6	(0.3)
7 Operating Income Requirement	36.3	37.8	1.6	20.7	18.5	(2.2)
8 Approved Conversion Factor	0.752355	0.752355	-	0.754801	0.754801	-
9 Revenue Requirement STR	\$ 48.2	\$ 50.3	\$ 2.1	\$ 27.5	\$ 24.5	\$ (3.0)
10 If line 9<0, then threshold			n/a			\$ (2.2)
11 Exceeds threshold			n/a			\$ (0.8)
12						
13 <u>Threshold Calculation:</u>						
14 2023 Approved Rate Base			\$ 682.0			\$ 334.5
15 Fifty Basis Point Threshold			0.50%			0.50%
16 Line 9 should not be less than			\$ (4.5)			\$ (2.2)

As can be seen in column d, line 9 on Table 1, electric rates were set lower by \$2.1 million than they otherwise would have been if actual information had been used. Under the terms of the Settlement Agreement, no further portfolio analysis is performed in this situation and no refund is warranted for electric rates, as they were not set too high, based on the portfolio review.

For natural gas, column g, line 9 on Table 1 shows that rates subject to refund were actually set higher than they otherwise would have been if actual information had been used. Under the terms of the Settlement Agreement, PSE would provide a refund for the amount rates were set above the portfolio threshold,² which in this case is only \$800,000 as shown on line 11. However, PSE is proposing in this review that a refund not be ordered at this time. There are two reasons that justify this treatment.

¹ Amounts reflected in this table represent amounts from Exhs. SEF-23 and SEF-24 updated to use the authorized rate of return and weighted average cost of date for 2022.

² Exh. SEF-1Tr, page 32, lines 9 through page 33 line 21.

First, unlike 2024 rates which are only recovering 2024 plant investment, rates that are subject to refund in 2023 are set to recover both 2022 and 2023 plant investment. Considering that rates subject to refund in 2023 are recovering both 2022 and 2023 forecasted plant investment, it follows that holding the 2022 amount, which is a very minor amount, until next year's review when all the plant being recovered in 2023 is known is reasonable. Second, at \$800,000, the amount of the refund is very small. On \$1.2 billion of annual gas revenues, it represents an average 0.07 percent credit for all natural gas customers. Ultimately, if the cumulative results for 2022 and 2023 together are still above the threshold in next year's review, then the required refund will encompass both 2022 and 2023 and can be passed back to customers at that time. However, if the cumulative results show that PSE is above the threshold then no refund related to the portfolio threshold should be required for either period.

Given that PSE is recommending no refund for 2022 investment, there is only one tariff change required for each electric and natural gas under the Settlement Agreement ("Tariff Transfer Filings").³ Exh. SEF-1Tr provides that each year, regardless of whether or not a refund is required, rates would be moved from the refundable Schedule 141R tariff and transferred into the non-refundable Schedule 141N tariff to recognize the portion of the costs that have been reviewed and are no longer subject to refund. The Tariff Transfer Filings will have no impact to customer rates as they merely serve to transfer the rates from one rate schedule to another. PSE will submit the Tariff Transfer Filings by April 28, 2023 which is during the first half of the four month review period.

Additionally, PSE requests that the Commission allow that, in future Annual Report filings, for any necessary tariff filings resulting from the report, PSE be allowed to file such filings at the end of the review conducted by parties rather than with the filing of the report on March 31st. In compiling this year's report, it became clear that filing the tariff sheets at the end of the review made more administrative sense, as it is not until the end of the review that actual amounts to include in the tariff filings will be known with certainty.

ADDITIONAL INFORMATION FOR SECTION I.A. – I.C. ABOVE

I.A. Actual Plant Closings:

1. Actual plant closings categorized in the same manner as they were categorized in the MYRP are presented in **Attachment B**, tab "Electric Closings Summary" and tab "Gas Closings Summary". These tabs reflect \$507.9 million of Electric Plant Closings and \$247.0 million of Gas Plant Closings for 2022. Estimated plant closings totaling \$763.4 million were included in rates subject to refund. These estimated plant closings were presented in Exhibit I to the Settlement Agreement.

³ All tariff filings that may result from an annual review are discussed in Exh. SEF-1Tr.

2. The support for Table 1 above is presented in **Attachment B**, tab “STR RR Recalc”.
3. The detail of the recalculated revenue requirement compared with the compliance revenue requirement and calculation of the variance between the two is presented in **Attachment B**, tab “Rev Req Comparison”.

I.B. Closing Dates for Specific Investments:

Specific investments were originally presented in Attachment I to the Settlement Agreement. For 2022 there were six specific investments that were planned to be in service. Each is listed below. Further information on these investments is provided in **Attachment C** to this Annual Report.

1. Goldendale Generating Station Major Maintenance Event inventory return.
2. Mint Farm Generating Station Major Maintenance Event.
3. Bainbridge Transmission Line project.
4. Sammamish Juanita 115kV Transmission Line project.
5. Thurston Transmission Capacity project.
6. Marine Crossing project.

I.C. Narrative Explanations for Significant Variances:

Actual plant closings versus the forecast used to set rates is summarized in the table below. Narrative explanations for the causes for the majority of the net - \$8.6 million variance shown below are included in **Attachment D** to this Annual Report.

Table 2 – Comparison of Actual Gross Plant vs. Allowed

(in millions)		
Line	Description	Gross Plant
1	Electric	
2	Approved	\$ 488.2
3	Actual	\$ 507.9
4	Over / (Under)	\$ 19.6
5		
6	Natural Gas	
7	Approved	\$ 275.2
8	Actual	\$ 247.0
9	Over / (Under)	\$ (28.2)
10		
11	Combined	
12	Approved	\$ 763.4
13	Actual	\$ 754.8
14	Over / (Under)	\$ (8.6)

The minor impacts on the components of the revenue requirement that was set subject to refund versus what would have been set using actual amounts is shown below in Table 3. The total in Table 3 agrees to line 9 in Table 1. The \$0.9 million combined variance shown below is a very minor variance considering the \$75.7 million of revenue requirement that was set in rates subject to refund.

Table 3 – Total Deficiency (Surplus) vs. Approved

(in millions)		Deficiency (Surplus)		
Line	Description	Electric	Gas	Combined
1	Rate Base Higher (Lower) than Approved	\$ 1.9	\$ (2.7)	\$ (0.8)
2	Accumulated Depreciation (Higher) Lower than Approved	(0.2)	0.1	(0.2)
3	Accumulated Deferred Income Taxes (Higher) Lower than Approved	(0.6)	0.0	(0.6)
4	Net Depreciation and Amortization Higher (Lower) than Approved	1.1	(0.5)	0.5
5	Tax Benefit of Interest (Higher) Lower than Approved	(0.1)	0.2	0.1
6	Total Deficiency (Surplus) vs. Approved	\$ 2.1	\$ (3.0)	\$ (0.9)

II. UPDATE ON THE IRA AND IIJA PROCESS

The Infrastructure Investment and Jobs Act (IIJA) was passed in November 2021. Recognizing the breadth of opportunities available under IIJA, PSE hired external consulting support to evaluate areas of optimal benefit to customers through alignment to PSE's plans and strategic needs in light of new state legislation. The

consultant also provided insight to best practices for federal grants obtained from successful American Recovery and Reinvestment Act grant awards with past clients. Under direction from PSE's Strategic Implementation Office, the consultant began working with a large cross-section of PSE leaders in December 2021 to build an approach for the IIJA application process. From December 2021 to February 2022, PSE evaluated all grant sections where a utility could directly receive funding as well as areas where utilities could partner or be a sub-grantee. IIJA opportunities with the greatest alignment to PSE included:

1. Grid Flexibility⁴
2. Grid Resilience⁵
3. Hydroelectric Fleet⁶
4. Middle Mile Broadband⁷
5. Energy Efficiency and Electric Vehicles⁸
6. Hydrogen Hub⁹

Early in 2022 when the consultant work was culminating, a Funding Opportunity Announcements (FOA) had not yet been made available for most grants and specific requirements were unknown. PSE projects and programs were assessed for readiness and impact against general grant descriptions and some scoring criteria that had been released by the Department of Energy. Based on this scoring process, PSE decided to move forward with grant applications in four areas: Grid Flexibility, Grid Resilience, Hydroelectric Fleet, and Hydrogen Hub.

Grid Flexibility and Grid Resilience

Department of Energy combined Grid Flexibility and Grid Resilience into a single FOA called Grid Resilience and Innovation Partnerships Program (GRIP)¹⁰. In July 2022, PSE contracted with a different consultant to provide support in the application development for grid flexibility (Smart Grid) and grid resilience under the GRIP funding opportunity. This consultant was selected primarily based on project approach, success with other grant opportunities, pricing, and flexibility to be responsive to timing milestones set by the Department of Energy (DOE). On March 16, 2023, PSE submitted a Smart Grid grant application for the maximum possible

⁴ Deployment of Technologies to Enhance Grid Flexibility - Bipartisan Infrastructure Law Section 40107

⁵ Preventing Outages & Enhancing the Resilience of the Electric Grid - Bipartisan Infrastructure Law Section 40101

⁶ Hydroelectric Incentive Programs - Bipartisan Infrastructure Law Section 40332 and 40333

⁷ Enabling Middle Mile Broadband Infrastructure - Title IV Section 60401

⁸ Energy Efficiency Revolving Loan Fund – Section 40502; Weatherization Assistance Program – Section 40551; Energy Conservation at Federal Facilities – Section 40554; Energy Efficiency and Conservation Block Grants - Section 40552; Grants for Charging and Fueling Infrastructure – Section 11401; National EV Charging Network (Electric Vehicle Formula Program) – Division J; Clean School Buses – Section 71101; Port Infrastructure Development Program and Reduction of Emissions at Ports – Division J and Section 11402; Clean Transit Buses – Section 30018

⁹ Clean Hydrogen Hubs - Bipartisan Infrastructure Law Section 40314

¹⁰ <https://www.energy.gov/gdo/grid-resilience-and-innovation-partnerships-grip-program>

award of \$50 million. The portfolio of work for this application spans from 2024-2026. PSE plans to meet the following objectives through its Smart Grid application:

- Bolster PSE’s infrastructure through foundational investments that prepare the system for a clean energy future
- Enhance automation and control of distribution and transmission assets to improve ability to prevent outages and recover from them more quickly
- Channel nearly 50% of project investments into disadvantaged communities (DAC)

By April 6, 2023, PSE will submit a Grid Resilience grant application for the maximum possible award of \$100 million. The portfolio of work for this application spans from 2024-2026. PSE plans to meet the following objectives through its Grid Resilience application:

- Improve reliability of distribution circuits that have experienced higher frequency (or duration) of service disruption than the threshold Customer Minutes Interrupted (CMI) metric.
- Replace aging conductors that are anticipated to cause reliability concerns in the near future;
- Proactively underground conversion of overhead lines to strategically mitigate reliability concerns;
- Improve resilience of our assets in high wildfire risk areas

Hydroelectric Incentives Program

PSE anticipates applying for a grant for projects at Baker Dam under the Hydroelectric Incentives Program. The DOE solicitation for this grant application is expected in summer 2023 at which time PSE will work to submit its grant under the required parameters set by the DOE.

Hydrogen Hub

In April 2022, PSE joined the Pacific Northwest Hydrogen Association as a partner and potential sub-grantee for a Hydrogen Hub application. In December 2022, the Pacific Northwest Hydrogen association received an “encourage” response from DOE in relation to a submitted concept paper. By April 7, 2023, the Pacific Northwest

Hydrogen Association will submit a grant application for a Hydrogen Hub¹¹ including PSE as a sub-grantee. PSE is a partner in 2 of the proposed projects in the hub.

If awarded, all IIJA grant funds require some level of PSE matching depending on the specific program. All grant funds are expected to be paid to PSE as reimbursement for completed work, and the payment schedule is expected to be negotiated after award.

Should awards occur during the pendency of the multiyear rate plan, PSE will either file an accounting petition to address the manner in which any IIJA grant funds are treated or will follow Commission guidance should a work shop have been held by that time. The petition and/or Commission recommended treatment should consider that spending to achieve the awards may be on projects that are not included in rates in a Company's multiyear rate plan, and as such the incremental spending should receive the same treatment as the associated grant. Existing accounting industry guidance suggests the accounting for a grant received by a regulated utility will depend on how the regulator treats the grant. The regulator can treat the grant as a reduction of utility plant to be recovered through rate base, with depreciation reduced over the life of the property. Because the accounting would follow the prescribed regulatory treatment, it would be best to have guidance from the Commission on treatment prior to having to account for any grants.

PSE did not pursue grant opportunities for middle mile broadband, energy efficiency, or electric vehicles. Upon evaluation, the middle mile broadband grant opportunity was not well aligned with PSE's business model or strategic focus. Energy efficiency grants were not available to PSE as a direct recipient. Similarly, PSE is not directly eligible for Electric Vehicle (EV) funds. However, PSE is working to support customers who are pursuing the EV elements of the IIJA. PSE has provided letters of support to municipalities and other eligible entities such as transit agencies and school districts for EV fleet grant applications.

PSE is evaluating the IRA provisions for potential benefits around EV and other customer products such as heat pumps, hydrogen production and investment, carbon capture and sequestration, and other areas aligned to PSE's strategic focus. Additionally, PSE is currently incorporating assumptions regarding IRA production and investment tax credits (PTCs and ITCs) that impact utility scale resources such as wind and solar into acquisition decisions. Such opportunities are not likely to be realizable within this multiyear rate plan. However, if they are, PSE would follow similar actions as discussed above with the understanding that PTCs and ITCs may require or be afforded different treatment based on their unique tax characteristics and restrictions.

¹¹ The Hydrogen Hub aims to produce and use clean hydrogen to help decarbonize the hardest to abate economic sectors. The hub consists of 8 projects across the Pacific Northwest that represent a geographic boundary and end-to-end service projects that include the production, liquefaction, storage, and dispensing to support local markets.

III. Metrics Reporting

Attachment A to this Annual Report provides the metrics that were agreed upon in Section N of the Settlement Agreement.

PSE circulated a draft of the metrics in Attachment A to this Annual Report to parties to the Settlement Agreement, as well as Public Counsel, in early March for review and comment prior to its submission on March 31. Interested parties subsequently met on three occasions in late March to discuss PSE's proposed approach to reporting on and calculating each metric. Based on these discussions, a number of changes were subsequently made to the metric calculations contained in Attachment A to this Annual Report. However, due to time constraints, a number of other agreed-upon changes were not able to be made prior to the filing of this report. As such, PSE has agreed to make the following updates to the metrics shown in Attachment A to this Annual Report.

- Recognizing that this is a contested issue in Docket UE-210795, PSE will update all metrics with reference to "vulnerable populations" to reflect the final definitions of vulnerable populations approved by the Commission in that docket. The metrics currently reported in this report use the definition of vulnerable populations included in PSE's filed CEIP, which categorize these populations as having high, medium or low levels of vulnerability.
- PSE will report metrics that reference highly impacted communities and vulnerable populations so that they are reported separately. Currently, the approach taken by PSE for many of these metrics was to report them in three categories: (1) highly impacted and low vulnerability, (2) highly impacted and medium vulnerability or (3) highly impacted and high vulnerability. The updated metrics will isolate highly impacted communities independently from the vulnerability of their populations. The reporting of metrics relative to vulnerable populations will be consistent with the final order in Docket UE-210795.
- PSE will report results for electric and gas service separately for metrics related to DER, demand side management, demand response and renewable energy where this was not already provided in the metrics reported in this Annual Report or where it is not otherwise clear that the metrics pertain only to electric or gas service. See, for example, metric #25 that currently reports a single metric for all customers, regardless of whether they are taking electric or gas service. PSE will update the reporting on this metric to delineate between customers taking electric and gas service.

- PSE will update metric #29 to include public charging ports owned by PSE, as well as third-parties, based on publically available information utilized by the Company. This metric currently only includes PSE-owned public charging ports.

Note that a number of the metrics included in Attachment A are not available for 2022, either because they do not (and will not) exist (e.g., many of the EV metrics whose programs have yet to begin) or because the data is not yet available for 2022 (e.g., greenhouse gas metrics that will not be reported to the Commission until June 2023, potentially with revised/final verified results reported by mid-September 2023). For the time being, PSE has provided in this report environmental metric data for 2021 as a placeholder.

That said, PSE commits to update the metrics in Attachment A for missing 2022 data, as well as for the agreed upon changes/updates discussed above, by June 15. This should allow enough time for additional 2022 data to become available, as well as to incorporate any potential changes in the definition of “vulnerable populations” resulting from the final order in Docket UE-210795. If this order is not available until late May, PSE may request additional time to incorporate changes to the definition of vulnerable populations.

Finally, PSE would like to particularly call out metrics #16 and #17, as they will form the basis of the Company’s performance under the pilot demand response performance incentive mechanism agreed to in the Settlement Agreement and approved in Docket UE-220066.