EXH. SEF-1T
DOCKET UE-21____
2020 PCA COMPLIANCE FILING
WITNESS: SUSAN E. FREE

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of **PUGET SOUND ENERGY** **For Approval of its 2020 Power Cost Adjustment Mechanism Report**	**DOCKET UE-21____**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

APRIL 30, 2021

PUGET SOUND ENERGY

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PUGET SOUND ENERGY

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I. INTRODUCTION

Q. Please state your name, business address, and position with Puget Sound Energy.

A. My name is Susan E. Free. My business address is 355 110th Ave. NE, Bellevue, WA 98004. I am the Director of Revenue Requirements and Regulatory Compliance for Puget Sound Energy ("PSE" or "the Company").

Q. Have you prepared an exhibit describing your education, relevant employment experience, and other professional qualifications?

A. Yes, I have. It is Exh. SEF-2.

Q. Please summarize the contents of your testimony.

A. In this prefiled direct testimony I provide a background of PSE's PCA Mechanism and a summary of the results contained within the PCA Mechanism Report ("PCA Annual Report") for the Twelve Months Ended December 31, 2020, for which PSE is requesting approval. I also discuss PSE's proposal for recovering the 2020 customer deferral balance. Finally, I provide reporting associated with PSE's Green Direct Program as committed to by PSE in previous proceedings.

II. BACKGROUND REGARDING THE PCA MECHANISM

Q. Please provide a brief summary of the Power Cost Adjustment Mechanism.

A. At inception, as authorized by the Commission, PSE's PCA Mechanism accounted for differences in PSE's modified actual power costs relative to a power cost baseline. The calculation was performed using the methodology shown in PCA Exhibit B from the Settlement Stipulation approved in the Commission's Twelfth Supplemental Order in Docket UE-011570 ("2002 PCA Settlement"). That mechanism accounted for a sharing of costs and benefits that were graduated over four levels of power cost variances. The 2002 PCA Settlement defined the specific sharing levels and conditions.

Subsequently, PSE and the parties entered into a PCA Collaborative that was initiated as part of the Settlement terms from the 2013 Power Cost Only rate case, Docket UE-130617 ("2013 PCORC"). PSE, WUTC Staff, and Public Counsel ("Settling Parties") entered into a settlement stipulation involving modifications to PSE's PCA mechanism ("2015 PCA Settlement").[1,2] The Commission approved the 2015 PCA Settlement in Order 11 of PSE's 2013 PCORC ("Order 11"). As a result, beginning January 2017, the PCA mechanism was changed to track only variable power costs, and fixed production and delivery costs were included in the decoupling mechanism approved in PSE's 2017 general rate case,

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1 The Alliance of Western Energy Consumers (then known as the Industrial Customers of Northwest Utilities) was a party to the 2013 PCORC but opposed the 2015 PCA Settlement.

2 Attached as Exhibit A to PSE's Petition in this proceeding.

Docket UE-170033. Accordingly, as of January 1, 2017, PSE reports only the variable power costs in its PCA Annual Compliance filings.

III. 2020 PCA PERIOD POWER COSTS

Q. Please explain how PSE has tracked its PCA Period power costs and has treated any resulting imbalance.

A. Each month PSE calculates the power costs subject to PCA sharing. These total allowable costs are compared to the approved baseline power cost rate, multiplied by the actual delivered load, and any difference is allocated to PSE or customers based on the different levels of sharing defined in the PCA Mechanism per the 2015 PCA Settlement. Any difference allocated to customers is recorded in FERC Account 182.3, Other regulatory assets, unless it is determined to be an over-collection at a PCA period end, at which time the costs are transferred to FERC Account 254, Other regulatory liabilities.

Under the PCA Mechanism, the deferred amount at the time of the next PCA annual true-up filing, along with any projected imbalance through the next proposed rate year, could be considered in the determination of any rate change for the subsequent PCA period. Amounts deferred, when authorized, would be amortized to FERC Account 557, Other power supply expense as they are recovered from or refunded to customers. PSE accrues interest monthly on any deferred balance (debit or credit) at the interest rate calculated in accordance with WAC 480-90-233(4).[3]

Q. Are there any changes required to the PCA imbalance calculation as compared to prior years?

A. Yes. Upon the inception of Phase 1 of PSE's Schedule 139 Voluntary Long Term Renewable Energy Purchase Rider ("Green Direct Program") which began in November 2020, based on RCW 19.29A.090(5) and paragraph 296 in the Commission's Final Order No. 08 in Docket UE-190529, PSE is required to ensure there is no cross subsidization of costs between participating and non-participating customers. Therefore, PSE has excluded the costs associated with the Green Direct Program from total allowable power costs[4] and baseline power costs[5] in order to ensure Green Direct Program PPA costs were not included in total allowable costs as discussed in more detail in Section V below. As shown in Exh. SEF-4, total Green Direct PPA costs excluded from allowable costs in the imbalance calculation were $4,164,376.[6] PSE has also ensured that associated customer loads were removed from baseline power costs by removing their load from the total delivered load used to calculate baseline power costs. The

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3 As established in the original PCA Settlement, Exhibit A to the Settlement Stipulation in UE-011570, and remaining unchanged in the PCA collaborative initiated as part of UE-130617.

4 Column R row 21 on page three of Exh. SEF-3.

5 Column R row 32 on page three of Exh. SEF-3.

6 The sum of amounts in column T, rows 24 and 25, on page one of Exh. SEF-4.

adjustment to remove customer loads from baseline power costs was completed in rows 25 and 30 on page three of Exh. SEF-3 and totaled $752,159.

Q. How did PSE value the November and December 2020 Green Direct load that was removed from total load in calculating total baseline costs?

A. In paragraphs 237 and 294 of Order No. 08 in Docket UE-190529, the Commission ordered PSE to remove the Green Direct Power Purchase Agreements from power costs, and utilized PSE's $13.1 million estimate of the net reduction to power costs for purposes of setting the revenue requirement. In the 2020 PCA, PSE used the average monthly replacement power costs per MWh that were used to determine the $13.1 million estimate to value the Green Direct load removed from baseline power costs. This calculation can be found on row 30 on page three of Exh. SEF-3.

Q. Did the approved baseline power cost rate change during the 2020 PCA Period?

A. Yes. On March 29, 2019, under Docket UE-190223, PSE filed a change to update rates in Schedule 95 on May 1, 2019, to reflect the loss of load, and the resulting increase in unit costs that occurred with Microsoft taking service under the special contract.[7] The updated baseline rate of $33.034, found in column G row 43 on

[7] Consistent with the Multiparty Settlement Agreement in Dockets UE-170033 and UG-170034, Order 08, page 25, Paragraph 92 (as well as Appendix H).

page six of Exh. SEF-3, was in effect at January 1, 2020 through October 14, 2020.

On October 15, 2020, in Docket UE-190529, rates from PSE's 2019 GRC went into effect, including a change to its baseline rate to recognize the updated variable power costs as approved in the proceeding. The updated baseline rate found in column M row 43 on page six of Exh. SEF-3 was updated to $34.753 and was in effect through December 7, 2020.

On December 7, 2020, in Docket UE-200907, rates from PSE's filing to revise Tariff Schedule 142 to correct the categorization of certain costs between fixed production and delivery for PSE's Revenue Decoupling Adjustment Mechanism went into effect, including a change to its overall baseline rate to recognize the updated fixed and delivery as approved in the proceeding. These changes impacted only the fixed costs in the baseline rate. Therefore, the variable component of the updated baseline rate found in column S row 43 on page six of Exh. SEF-3 remained $34.753 as it was previously and was in effect through the remainder of the 2020 PCA Period.

Q. What is the actual average power cost rate experienced for the 2020 PCA Period?

A. As shown on page two of Exh. SEF-3, the calculated average variable power cost rate experienced for the 2020 PCA Period is $37.252 per MWh.

Q. Why did the total allowable costs on page two, line 27, of Exh. SEF-3 differ from the total allowable costs in effect during the 2020 PCA Period presented on page six, line 27, of Exh. SEF-3?

A. The total variable allowable costs differed from the baseline power costs in effect during the 2020 PCA Period due to changes in the variable components of the PCA mechanism, which are discussed in the Prefiled Direct Testimony of Paul K. Wetherbee, Exh. PKW-1CT.

Q. Were there any adjustments made under the Restatement Methodology (Section 11 of Attachment A to the 2015 PCA Settlement)[8] for power costs in 2020?

A. No. No instances occurred during 2020 that required adjustment under the Restatement Methodology.

Q. How much did the actual power costs differ compared to the average baseline power costs in effect during the 2020 PCA Period?

A. Actual power costs were higher than the average baseline power costs included in rates during the 2020 PCA Period by $76.1 million (after adjustment for Firm Wholesale and the Green Direct Program). See column R row 41 on page three of Exh. SEF-3. PSE's share of this under-recovery of power costs is $32.1 million. The customers' share of this under-recovery of power costs is $44.0 million. See columns H and I on row 30 on page one of Exh. SEF-3.

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8 See pp. 18-19 of Exh. A to PSE's Petition in this proceeding.

IV. RECOVERY OF CUSTOMER RECEIVABLE

Q. Did PSE have a customer deferral balance at the end of 2019?

A. Yes. The customer deferral including interest approved as part of UE-200398 was $41.7 million.[9]

Q. Did PSE request and begin collecting this balance from customers in 2020?

A. Yes. PSE requested recovery of the full customer deferral balance of $41.7 million within UE-200893 and was granted approval to begin recovery of this balance over one year beginning December 1, 2020.

Q. Is this reflected in any of the exhibits in this proceeding?

A. Yes. On row 29 on page one of Exh. SEF-3, PSE has included a row labeled "PCA Period 18 Rec" to reflect the balance being recovered from customers and to remove it from the cumulative customer deferral balance presented as of December 31, 2020.

Q. What is the customer deferral balance as of December 31, 2020, when excluding those amounts being collected already?

A. As shown in column K, row 30, on page one of Exh. SEF-3, the customer deferral including interest as of December 31, 2020 is $46.0 million.

Q. Does the above referenced customer deferral agree to the balance recorded on PSE's books as of December 31, 2020?

9 This amount is before the gross up for revenue sensitive fees and taxes.

A. No. The need for the adjustment to remove Green Direct loads from baseline power costs for November and December that was discussed above was not identified until after the books had been closed and PSE's financial results had been reported. The amount of the adjustment was $752,000. In its 2021 results, PSE has posted the correction to its books so that the accounts that track the 2020 customer deferral and interest agree to the $46.0 million customer deferral reflected in this annual report.

Q. Does PSE propose to collect the customer deferral balance at this time?

A. No, not as a part of this compliance filing.

Q. When does PSE propose to collect the current customer deferral?

A. PSE proposes to recover this balance (when grossed-up for inclusion in rates totals $48.4 million) beginning December 1, 2021, by allowing the rates that were approved for recovery of the 2019 deferral over one year in UE-200893 to remain in effect for an additional thirteen months, from December 1, 2021 through December 31, 2022, so that they may begin to recover the 2020 deferral without a required rate change to customers.[10] Any residual balance at December 31, 2022 – which would essentially be a combined residual balance for both the 2019 and 2020 customer deferrals – could then be returned to the overall customer deferral at that time for consideration of recovery or pass back in a future period.

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10 Providing for one additional month during a high load period such as December will allow PSE to collect approximately the additional customer deferral amount existing in 2020 as compared to 2019.

Q. Even though PSE has not proposed to change the rates as approved in UE-200893, will there be any updates to the Schedule 95 tariff?

A. Yes. Attached as Exh. SEF-7 is an example of the proposed Schedule 95 tariff that would be filed to change the proposed effective date to December 1, 2021 through December 31, 2022.

Q. Does PSE propose any changes to other tariff schedules as part of the recovery of the 2020 imbalance?

A. Yes. Even though PSE is proposing to not change existing rates that were approved in Docket UE-200893, a change to tariffed rates is still required. As noted previously, Phase 1 of the PSE Green Direct Program commenced in November 2020 and following this date, Green Direct customers were excluded from the PCA mechanism. Thus, any imbalance following this period should not be charged to those Phase 1 Green Direct Program customers and should only be charged to all other customers.

Q. How does PSE propose to ensure that Phase 1 Green Direct customers pay for only the portion of the 2020 imbalance for which they are responsible?

A. During 2020, only Phase 1 customers were participating in the Green Direct program. Phase 2 of Green Direct did not begin until March 1, 2020. When the rate was set in Docket UE-200893, Phase 1 Green Direct customers ("Phase 1 customers") were assigned \$0.7 million of the total \$41.7 million to be collected and under PSE's proposal, this amount was and will continue to be included in

Schedule 95. Forty two percent of the 2020 imbalance resulted from the months of November and December.[11] Therefore, Phase 1 customers are only responsible for fifty eight percent of the balance.

Q. If the Schedule 95 rates from last year that were set in Docket UE-200893 will not be changed, how does PSE propose to ensure that Phase 1 customers will only pay for 58 percent of the 2020 imbalance?

A. Effective December 1, 2021 when the 2020 imbalance will begin to be collected, PSE proposes to change the credit that Phase 1 customers receive in Schedule 139 by an amount that equals 42 percent of the Schedule 95 rate that is currently in effect for Phase 1 customers from Docket UE-200893. Doing so will result in Phase 1 customers paying 100 percent in Schedule 95 and receiving 42 percent as a credit in Schedule 139 which will yield the appropriate 58 percent payment. Exh. SEF-6 provides an example of the Schedule 139 tariff that would be filed prior to December 1, 2021 to effectuate the proposed change in the Schedule 139 credit.

Q. Please summarize PSE's request related to recovery of the customer deferral.

A. PSE requests that should the Commission approve its customer deferral in this filing, it also approve PSE's proposal to recover the deferral as discussed above.

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[11] See Column Q, row 256, on page four of Exh. SEF-3.

V. 2020 GREEN DIRECT REPORTING

Q. Why is PSE including Green Direct Reporting in this proceeding?

A. As part of Docket UE-160977, which approved PSE's tariff filing for Schedule 139 ("Green Direct program"), the Commission noted PSE, "has committed to track all costs and benefits of Schedule 139 separately and identifiably in its Power Cost Adjustment mechanism."[12]

Q. What direction did the Commission provide with respect to this reporting in PSE's 2019 general rate case?

A. The Commission ordered PSE to work collaboratively with Staff and other stakeholders to ensure that the costs and benefits of the Green Direct program are tracked and maintained separately pursuant to statute.[13]

Q. What steps has PSE taken to determine the correct reporting?

A. PSE met with Commission Staff on September 3, 2020, to begin a collaborative to determine the proper reporting structure to ensure compliance with RCW 19.29A.090(5) and the Commission's order as noted above. A follow-up meeting occurred on October 7, 2020, in which PSE presented proposed reporting based on Staff comments received to that date. PSE and Commission Staff were able to agree on reporting that both parties believe meets the standards set by statute and the Commission. Additionally, on October 19, 2020, PSE provided the reporting proposal to Public Counsel and AWEC who did not provide any

12 Docket UE-160977, Order 1 at ¶ 10.

13 *See* 2019 GRC Final Order at ¶ 296.

objections. This proposal was included as the Eighth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-9 within PSE's 2020 Power Cost Only Rate Case ("PCORC"), UE-200980.

Q. What was the result of the proposed reporting in PSE's 2020 PCORC?

A. Parties reached a settlement agreement in the proceeding in which PSE's proposed tracking of costs and benefits summarized in the 2020 PCORC, Exh. SEF-9, associated with generation surplus or deficiency was accepted.[14] The Commission has not ruled on the PCORC settlement agreement at this time and should any changes be required to the proposed reporting, PSE will amend its 2020 PCA annual report as necessary.

Q. What reporting has PSE included in this proceeding to satisfy the above?

A. PSE has included Exh. SEF-4, which provides the 2020 results of the costs and benefits associated with the power purchase agreements supporting the Green Direct Program on page one of the exhibit. Exh. SEF-4 also provides reporting on the fixed costs and liquidated damages associated with the Green Direct program on pages two and three, respectively.

Q. Do you have an exhibit which explains the basis of this reporting and what information it provides?

A. Yes. Exh. SEF-5 is an explanation of the reporting included as Exh. SEF-4, which follows the methodology agreed to in the PCORC settlement.

[14] See Settlement Stipulation and Agreement filed April, 2, 2021 in Docket UE-200980 at 4, item 1.g.

Q. Does Exh. SEF-4 show that PSE has been in compliance with both RCW 19.29A.090 (5) and Paragraph 296 of Order No. 08 in Docket UE-190529?

A. Yes. Exh. SEF-4 shows that all costs and benefits associated with PSE's Green Direct program were allocated to the customers who voluntarily chose that option and were not shifted to non-participating customers. Additionally, it shows costs and benefits associated with the over- and under-generation of the PPAs associated with the Green Direct program were allocated exclusively to participating customers.[15]

Q. Is PSE proposing to defer the costs and benefits of the Green Direct program reflected in Exh. SEF-4?

A. No. Exh. SEF-4 is presented for reporting purposes only. The pricing structure of the Green Direct program is set in order to recover costs and benefits over the life of the program. Therefore, further adjustments or deferrals are unnecessary.

Q. Does PSE believe any further approvals are required with regard to reporting of PSE's Green Direct program?

A. No. PSE believes that by approving this Annual PCA Compliance Filing, the method and content of reporting for the Green Direct Program included in Exh. SEF-4 will be deemed adequate by the Commission and can be utilized on a going forward basis.

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[15] A $0 on line 45, page one, of Exh. SEF-4 provides a check which ensures costs and benefits are appropriately handled within the PCA mechanism.

VI. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.