BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Dockets UE-260005 & UG-260006
Puget Sound Energy
2026 General Rate Case

PUBLIC COUNSEL DATA REQUEST NO. 034:

Re: PCAM. Demonstrable value. Piliaris, Exh. JAP-8 at 22.

Have you performed any analysis that quantified the demonstrable value or harm to customers of the PCAM? If so, please provide. If not, please quantify the demonstrable value or harm to customers of the PCAM in 2024. If the demonstrable value to customers of the PCAM is not quantifiable, please state as much.

Response:

Puget Sound Energy ("PSE") notes at the outset that Public Counsel Data Request No. 034 poses to PSE the same question PSE posed to each of the other parties as Data Request No. 002. As reflected in the responses of Public Counsel (pages 49-51 of the Seventh Exhibit to the Prefiled Direct Testimony of Jon A. Piliaris, Exh. JAP-8), AWEC (page 64 of Exh. JAP-8), Commission Staff (pages 74 and 75 of Exh. JAP-8), and The Energy Project (page 80 of the Twenty-Second Exhibit to the Prefiled Direct Testimony of Jon A. Piliaris, Exh. JAP-23), no party was able to provide a complete quantification of the demonstrable value of the power cost adjustment mechanism ("PCAM") to customers. As with PSE's Response to Public Counsel Data Request No. 033 regarding factors within PSE's control, PSE's response below is consistent with those of the other parties in this proceeding, but PSE goes further by also addressing the question of demonstrable harm, which this data request raises and which the other parties have conspicuously declined to engage with in any meaningful way.

Analysis Performed

PSE has not performed a formal standalone analysis that comprehensively quantifies the net demonstrable value or harm to customers of the PCAM as a whole. However, the record in this proceeding contains substantial financial data from which significant conclusions can be drawn, and Mr. Piliaris' testimony addresses the value and harm question at length. That analysis and the supporting data are summarized below.

Demonstrable Value to Customers

To the extent the PCAM bands provide demonstrable value to customers, that value manifests primarily in two ways that can be partially quantified from the existing record.

1. **Short-term affordability through cost sharing.** In years where PSE's actual power costs exceed the PCAM baseline by enough to trigger the sharing bands, customers benefit from the deadbands and sharing bands by paying less than the full variance. For 2024 specifically, the total power cost variance was approximately $123.3 million. Of that amount, customers were required to absorb approximately $86.5 million through the sharing mechanism, and PSE absorbed approximately $36.8 million. Without the deadbands and sharing bands, as Public Counsel noted on pages 49-51 of Exh. JAP-8, customers would have been required to pay the additional $36.8 million that PSE absorbed instead. That figure ($36.8 million) represents the most concrete, directly quantifiable benefit to customers from the PCAM bands in 2024.

2. **Rate stability in years of modest variance.** In years where PSE's power cost variance falls within the deadband, customers pay the same rate regardless of actual cost fluctuations, providing a degree of insulation from rate volatility. As reflected in the record, this outcome was consistently achieved from 2004 through 2018, during which the PCAM balance offset itself from year to year without triggering a rate adjustment. The monetary value of that rate stability to customers is difficult to quantify precisely because doing so would require constructing a counterfactual scenario in which the PCAM Bands did not exist and estimating the rate impacts that would have resulted. No party has performed that analysis, and PSE does not believe it is feasible to do so with precision using the available data.

Beyond these two categories, other parties have pointed to economic efficiency and cost-control incentives as additional sources of value, but none have been able to quantify those benefits. The claimed incentive effect of the PCAM bands on PSE's power cost management behavior remains entirely unquantified and, as PSE has argued, is not meaningfully separable from the outcomes that would result from prudent utility management in the absence of the bands.

Demonstrable Harm to Customers

This is where the analysis becomes most important and most revealing because the question of harm to customers from the PCAM bands has been largely ignored by the other parties in this proceeding, despite being directly relevant to any honest assessment of the mechanism's net value.

1. **Under-recovery of prudently incurred costs and their long-term consequences.** The most significant and quantifiable harm to customers from the PCAM bands is indirect but real and substantial. Over the past several years, the PCAM bands have prevented PSE from recovering hundreds of millions of dollars in prudently incurred power costs. As

documented on page 87 of Exh. JAP-8, PSE's total power cost under-recovery in calendar year 2025 alone was approximately $200 million, of which PSE's share under the sharing bands was approximately $44 million. This amount represents a reduction of 0.7 percent in PSE's authorized ROE. PSE's restated actual return on equity ("ROE") in 2023 and 2024 was 8.73 percent and 6.42 percent, respectively, both well below the authorized ROE of 9.4 percent. These are not abstract financial metrics; they represent capital that PSE was unable to earn and that is therefore unavailable to fund the infrastructure investments necessary to provide safe, reliable, and affordable service to customers over the long term.

The harm to customers from chronic utility under-earning is real, even if it is less immediately visible than a rate increase. When a regulated utility consistently earns below its authorized return, its financial profile deteriorates, its credit quality is impaired, and its cost of and challenges accessing capital increase. As Mr. Piliaris explains on pages 13–14 of Exh. JAP-8, rating agencies such as Moody's expect full and timely recovery of prudently incurred power costs as a condition of maintaining investment-grade credit ratings. PSE is currently embarking on one of the most significant and expensive capital programs in its history, in large part to support Washington State's ambitious clean energy objectives. Erosion in PSE's credit quality at this moment increases the cost of that capital program, and customers ultimately bear those increased costs through higher rates. That harm is difficult to quantify with precision, but it is clear in direction and not trivial.

2. **Perverse forecasting incentives.** A second category of harm to customers arises from the structural incentive the PCAM bands create for parties to advocate for a depressed power cost forecast. As Mr. Piliaris explains at page 33 of Exh. JAP-8, parties in this proceeding are financially benefited by successfully arguing for a lower baseline forecast, because a lower baseline increases the probability that PSE's actual costs will exceed the deadband and trigger the sharing mechanism. This dynamic generates substantial administrative and legal costs, in the form of extensive forecast litigation that is far more contentious than the corresponding gas cost forecast process, and introduces a systematic bias toward understating expected power costs. Both of those outcomes ultimately harm customers: the first by consuming regulatory resources that could be directed elsewhere, and the second by producing a baseline that may systematically underestimate the rates customers will actually need to pay over time, creating the conditions for recurring large variances and rate surcharges.

3. **Misallocation of uncontrollable risk.** A third, and arguably most fundamental, category of harm arises from the fact that the PCAM bands require PSE to absorb a portion of the power cost risk that, by definition, is outside its reasonable control. As documented in the record for calendar year 2024, approximately 80 percent of PSE's power cost variance for calendar year 2024 was attributable to a single extraordinary weather event in January that no forecast could have predicted and that no prudent operational decision by PSE could have prevented. Requiring PSE to absorb a share of costs driven by uncontrollable events, without adequate compensation through its authorized return, is not risk sharing in any meaningful sense; it is risk imposition. And because uncompensated risk imposition weakens PSE's financial position and raises its cost of capital, it ultimately flows through to customers as higher long-term costs, even as it appears to provide short-term rate relief.

Net Assessment

Taking the quantifiable elements together for 2024: the direct, identifiable benefit to customers from the PCAM Bands was approximately $36.8 million, the portion of the 2024 variance that PSE absorbed rather than passing through to customers. Against that benefit must be weighed the corresponding under-recovery of power costs to PSE the erosion of PSE's credit profile and the associated long-term capital cost implications, the administrative costs of forecast litigation, and the structural incentives toward forecast manipulation, none of which are precisely quantifiable but all of which are real.

Based solely on the quantifiable data, the 2024 and 2025 figures suggest that the cost to PSE — and ultimately to customers — of the sharing mechanism approaches or exceeds the direct short-term benefit in a high-variance year. In lower-variance years, the direct benefit to customers from the sharing bands is zero because variances within the deadband do not trigger the sharing mechanism. The rate stability benefit in those years is real, but, as all parties have acknowledged, not quantifiable.

PSE submits that this analysis illustrates precisely the problem it has identified throughout this proceeding. The demonstrable value of the PCAM bands to customers in any given year is a function of how large the power cost variance is and how much of it PSE absorbs — a calculation that can be performed after the fact, but that provides no basis for evaluating whether the mechanism is working as intended or producing net benefit over time. The demonstrable harm, by contrast, is cumulative, structural, and directionally clear. The Commission should not require PSE to continue bearing that harm based on an unquantified and unquantifiable claim that the bands provide incentive benefits that have never been demonstrated.