

**EXH. SEF-1T
DOCKET UE-20____
2019 PCA PERIOD 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-20____

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

APRIL 30, 2020

PUGET SOUND ENERGY

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
SUSAN E. FREE**

TABLE OF CONTENTS

I. INTRODUCTION1
II. BACKGROUND REGARDING THE PCA MECHANISM.....2
III. 2019 PCA PERIOD POWER COSTS.....3
IV. CONCLUSION.....9

LIST OF EXHIBITS

- 1. Exh. SEF-2 Professional Qualifications
- 2. Exh. SEF-3 PCA Annual Report – with 2018 amounts as originally filed in Docket UE-190324
- 3. Exh. SEF-4 PCA Annual Report – with 2018 amounts reflected at amounts expected to be approved in Docket UE-190324

1 **PUGET SOUND ENERGY**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **SUSAN E. FREE**

4 **I. INTRODUCTION**

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

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

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

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

13 **Q. What are your duties as Director of Revenue Requirement and Regulatory**
14 **Compliance?**

15 A. As Director of Revenue Requirement and Regulatory Compliance, I am
16 responsible for strategy, policy, direction and coordination of PSE’s interests on
17 state regulatory issues. I oversee state regulatory processes and compliance
18 requirements, including audits, rate cases and regulatory proceedings. I represent
19 PSE in regulatory issues with state regulators and other constituents. I negotiate
20 rate and tariff issues with customers, agencies, stakeholders and regulators.

1 **Q. Please summarize the contents of your testimony.**

2 A. In this prefiled direct testimony I provide a background of PSE's PCA
3 Mechanism and a summary of the results contained within the PCA Mechanism
4 Report ("PCA Annual Report") for Twelve Months Ended December 31, 2019,
5 for which we are requesting approval. Two versions of the PCA Annual Report
6 are provided in this filing as the Second and Third Exhibits to my Prefiled Direct
7 Testimony, Exh. SEF-3 and Exh. SEF-4. As discussed in more detail in Section
8 III, PSE is presenting two PCA Annual Reports in this compliance filing. Page
9 four is the only page that differs between the two reports. Exh. SEF-3 reflects
10 2018 amounts as originally filed in the 2018 Annual PCA Compliance Filing in
11 UE-190324 and Exh. SEF-4 reflects 2018 at amounts that PSE anticipates will be
12 approved in UE-190324.

13 **II. BACKGROUND REGARDING THE PCA MECHANISM**

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

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

1 A PCA Collaborative was initiated as part of the Settlement terms from the 2013
2 Power Cost Only rate case, Docket UE-130617 (“2013 PCORC”). After fourteen
3 months of collaboration, PSE, WUTC Staff, and Public Counsel (“Settling
4 Parties”) reached a settlement stipulation involving modifications to PSE’s PCA
5 mechanism (“2015 PCA Settlement”).¹ The Commission approved the 2015 PCA
6 Settlement in Order 11 of PSE’s 2013 PCORC (“Order 11”). As a result,
7 beginning January 2017, the power cost baseline rate is comprised of both
8 variable power costs, which will continue to be tracked in the PCA mechanism,
9 and fixed production and delivery costs, which are now included in the
10 decoupling mechanism approved in PSE’s most recent general rate case, Docket
11 UE-170033. Accordingly, as of January 1, 2017, PSE reports only the variable
12 portion of the power cost baseline rate. The period of the twelve months ended
13 December 31, 2016 was the last PCA compliance filing submitted pursuant to the
14 2002 PCA Settlement.

15 III. 2019 PCA PERIOD POWER COSTS

16 **Q. Please explain how PSE has tracked its 2019 PCA Period power costs.**

17 A. Each month PSE calculates the power costs subject to PCA sharing. These total
18 allowable costs are compared to the approved baseline power cost rate multiplied
19 by the actual delivered load. Any difference is allocated to PSE or customers
20 based on the different levels of sharing defined in the PCA Mechanism per the

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.

1 2015 PCA Settlement. Any difference allocated to customers is recorded in
2 FERC Account 182.3, Other regulatory assets.

3 Under the PCA Mechanism, the deferred amount at the time of the next PCA
4 annual true-up filing, along with the projected variable costs through the next
5 proposed rate year, could be considered in the determination of any rate change
6 for the subsequent PCA period. Amounts deferred, when authorized, would be
7 amortized to FERC Account 407.3, Regulatory debits or 407.4, Regulatory credits
8 as they are recovered from or refunded to customers. PSE accrues interest
9 monthly on any deferred balance (debit or credit) at the interest rate calculated in
10 accordance with WAC 480-90-233(4). Although the customer deferral is the
11 largest it has ever been, given the uncertainty created by the current COVID-19
12 pandemic and related impact on customers, PSE is not requesting recovery of the
13 amounts deferred under the PCA mechanism at this time. To avoid raising
14 customer rates, PSE will look to find alternative forms of recovery for this
15 receivable, such as the ones that will be offered in PSE's Response to Bench
16 Request No. 15 in Docket UE-190529 and UG-190530 (consolidated).

17 **Q. Did the baseline power cost rate change during the 2019 PCA Period?**

18 A. Yes. On May 1, 2018, in Docket UE-180282, PSE filed a change to its baseline
19 rate to recognize changes related to the Tax Cuts and Jobs Act. These changes
20 impacted only the fixed costs shown on the baseline rate. Therefore, the variable
21 component of the updated baseline rate found on page eight of Exh. SEF-3 and

1 Exh. SEF-4 remained \$32.895 as it was previously and was in effect at January 1,
2 2019, the beginning of the 2019 PCA Period.

3 On March 29, 2019, under Docket UE-190223, PSE filed a change to update rates
4 in Schedule 95 to reflect the loss of load, and the resulting increase in unit costs
5 that occurred with Microsoft taking service under the special contract.² The
6 variable component of the updated baseline rate of \$33.034, found in the final
7 column on page ten of Exh. SEF-3 and Exh. SEF-4, was in effect at May 1, 2019
8 through the remainder of the 2019 PCA Period.

9 **Q. What is the actual average power cost rate experienced for the 2019 PCA**
10 **Period?**

11 A. As shown on page five of Exh. SEF-3 and Exh. SEF-4, the calculated average
12 variable power cost rate experienced for the 2019 PCA Period is \$36.201 per
13 MWh.

14 **Q. Why do the total allowable costs on line 27 of page five of Exh. SEF-3 and**
15 **Exh. SEF-4 differ from the total allowable costs in effect during the 2019**
16 **PCA Period, as presented on line 27 of pages eight and ten of Exh. SEF-3 and**
17 **Exh. SEF-4?**

18 A. The total variable allowable costs differed from the baseline power costs in effect
19 during the 2019 PCA Period due to changes in the variable components of the

² Consistent with the Multiparty Settlement Agreement in Dockets UE-170033 and UG-170034, Order 08, page 25, Paragraph 92 (as well as Appendix H).

1 PCA mechanism, which are discussed in the prefiled direct testimony of Mr. Paul
2 K. Wetherbee, Exh. PKW-1CT.

3 **Q. Were there any adjustments made under the Restatement Methodology**
4 **(Section 11 of Attachment A to the 2015 PCA Settlement) for power costs in**
5 **2019?**

6 A. No. No instances occurred during 2019 that required adjustment under the
7 Restatement Methodology.

8 **Q. How did the actual power costs compare to the average baseline power cost**
9 **rates in effect during the 2019 PCA Period?**

10 A. Actual power costs were higher than the average baseline power cost in rates
11 effect during the 2019 PCA Period by \$67.2 million (after adjustment for Firm
12 Wholesale). See page six of Exh. SEF-3 and Exh. SEF-4. PSE's share of this
13 under-recovery of power costs is \$31.2 million. The customers' share of this
14 under-recovery of power costs is \$36.0 million. See page four of Exh. SEF-3 and
15 Exh. SEF-4.

16 **Q. What is the basis for the historical information from 2018 and earlier**
17 **presented on page four of Exh. SEF-3?**

18 A. The information for 2018 and prior presented on page four of Exh. SEF-3 is from
19 the original amounts filed by PSE in last year's PCA Compliance Filing under
20 Docket UE-190324.

1 **Q. Have the amounts filed in last year's PCA Compliance Filing been**
2 **approved?**

3 A. No. Last year's compliance filing has not yet been finalized. Docket UE-190324
4 was bifurcated, and the narrow issue of the 2018 Colstrip Units 3 and 4 outage
5 was considered in a separate proceeding under Docket UE-190882. In the final
6 order in Docket UE-190882, the Commission determined that 1) PSE's actual
7 power costs for purposes of calculating the imbalance should have been \$11.7
8 million lower, and 2) the final treatment of this amount as it relates to PSE's 2018
9 PCA annual compliance report should be determined in UE-190324. To that end,
10 PSE met with parties on April 7, 2020 and reached an agreement in principle in
11 which the \$11.7 million of disallowed costs will flow through the PCA
12 mechanism as was reflected in Exh. SEF-5 in UE-190882. However, the final
13 settlement agreement has not been filed as of the date of this year's compliance
14 filing.

15 **Q. Considering the 2018 PCA Annual report has not been approved, what**
16 **amounts are reflected for 2018 in the cumulative amounts presented in this**
17 **year's PCA Annual Report?**

18 A. Page four of the PCA Annual Report is the only page that reflects historical
19 amounts that are impacted by the 2018 PCA Annual Report. Because the
20 agreement in principle has not been approved in Docket UE-190324, PSE has
21 reflected 2018 amounts on page four of Exh. SEF-3 at the amounts that were
22 originally filed in Docket UE-190324. However, because PSE expects that

1 ultimately, the approved amounts from Docket UE-190324 will be as reflected in
2 Exh. SEF-5 from Docket UE-190882, I have also provided Exh. SEF-4 in this
3 docket to reflect page four of the annual report at amounts that PSE anticipates
4 will be the final 2018 amounts.

5 **Q. What is the distribution of the resulting cumulative imbalance for sharing at**
6 **the end of the 2019 PCA Period?**

7 A. Using the 2018 amounts as originally filed in Docket UE-190324, the cumulative
8 imbalance for sharing from inception of the mechanism through the end of the
9 2019 PCA Period was an under-collection of \$96.6 million. PSE's share of this
10 imbalance is \$57.1 million, with the remaining \$39.5 million assigned to the
11 customer. Considering the impact of interest, the total balance assigned to
12 customers is \$41.7 million: See Exh. SEF-3, page four.

13 Using the 2018 amounts PSE anticipates will be approved in Docket UE-190324,
14 the cumulative imbalance for sharing from inception of the mechanism through
15 the end of the 2019 PCA Period was an under-collection of \$84.9 million. PSE's
16 share of this imbalance is \$45.4 million, with the remaining \$39.5 million
17 assigned to the customer. Considering the impact of interest, the total balance
18 assigned to customers is \$41.7 million: See Exh. SEF-4, page four.

1 **Q. How should the fact that there are two versions of the 2019 PCA Annual**
2 **Report being presented in this compliance filing be handled?**

3 A. Based on the agreement in principle, if the 2018 PCA Annual Report utilizing
4 Exh. SEF-5 from UE-190882 is approved in Docket UE-190324, PSE requests
5 approval of the 2019 PCA Annual Report presented in Exh. SEF-4. If different
6 2018 amounts are ultimately approved in Docket UE-190324, PSE will refile the
7 2019 PCA Annual Report in this docket using the 2018 amounts ultimately
8 approved in Docket UE-190324 and the refiled report will be the report PSE will
9 request the Commission to approve.

10 **IV. CONCLUSION**

11 **Q. Does this conclude your testimony?**

12 A. Yes, it does.