

**EXH. SEF-5
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____

**FOURTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF**

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

APRIL 30, 2021

1 **PUGET SOUND ENERGY**

2 **FOURTH EXHIBIT TO THE PREFILED**
3 **DIRECT TESTIMONY OF SUSAN E. FREE**

4 **EXPLANATION OF THE ACCOUNTING AND REPORTING FOR THE**
5 **VOLUNTARY LONG TERM RENEWABLE ENERGY PURCHASE RIDER**
6 **UNDER SCHEDULE 139**

7 Overview

8 The accounting and reporting for PSE's Voluntary Long Term Renewable Energy
9 Purchase Rider under Schedule 139 ("Green Direct") presented in Exh. SEF-4 has
10 been prepared in order to adhere to the following requirements as provided in the
11 excerpts below:

12 **RCW 19.29A.090 (5)**

13 All costs and benefits associated with any option offered by an electric utility
14 under this section must be allocated to the customers who voluntarily choose
15 that option and may not be shifted to any customers who have not chosen
16 such option.

17 **Paragraph 296 of Order No. 08 in Docket UE-190529**

18 [T]he tracking system for Green Direct costs and benefits should address
19 over- and under-generation of PPAs relative to Green Direct customer
20 demand in a manner that ensures Green Direct program participants benefit
21 exclusively from the sale of over-generation and prohibits non-participants
22 from subsidizing costs of additional power to serve Green Direct customers,
23 respectively, for any costs determined prudent only for Green Direct
24 customers.

1 PCA Tracking Related to the Green Direct Program

2 In order to adhere to the above requirements, PSE has proposed the following
3 within its 2020 Power Cost Only Rate Case “PCORC” (UE-200980):

- 4 • The cost of the Power Purchase Agreements (“PPA”) with the
5 Skookumchuck Wind Energy (“Skookumchuck”) project and the Lund
6 Hill Solar (“Lund Hill”) project that are used to serve Green Direct
7 customer loads are not included in the power cost baseline rate or the
8 rate request.
9
- 10 • As the variable costs of the program are not included, the
11 corresponding loads associated with Green Direct customers are not
12 included in the loads that are used to calculate baseline power costs in
13 SEF-3 page three.
14

15 The above treatment is required because if Green Direct customer costs and
16 loads are included in baseline power costs, it would be excessively difficult
17 to achieve the appropriate ring fencing that is required by statute and
18 emphasized in the Commission’s 2019 general rate case order. However,
19 even though the costs and loads can be excluded, the physical energy under
20 the PPAs cannot be segregated from PSE’s portfolio which results in the
21 inclusion of certain costs and benefits of the program being initially included
22 in actual amounts recorded on PSE’s books. Therefore, PSE has proposed
23 the following process to properly segregate these costs and benefits from
24 actuals for ratemaking and reporting purposes.

1 There are three fundamental scenarios that could occur under which
2 accounting and tracking are required. While not all scenarios occurred in
3 2020, we will describe them all below. They are:

4 I. If PPA generation is lower than Green Direct customer usage (“short”)

5 *Under this scenario, PSE will be required to purchase energy to satisfy*
6 *Green Direct customer load above the PPA generation.*

7 II. If PPA generation is greater than Green Direct customer usage (“long”)

8 *Under this scenario, there will be payments under the PPAs for energy*
9 *purchased that is not used by Green Direct customers.*

10 *Additionally, the excess energy purchased under the PPAs will presumably*
11 *be sold on the market.*

12 III. If Renewable Energy Credits (“RECs”) are required to be purchased

13 periodically in a cumulative short scenario or banked in a cumulative
14 quarter-end long scenario.

15 *Under this scenario, there will be RECs that will need to be recorded on*
16 *the balance sheet until they are used.*

17
18 The first section on page one of Exh. SEF-4, lines 4 through 34, represent
19 information and entries related to Green Direct that occurred naturally as part
20 of PSE’s existing accounting processes.

21 The second section of Exh. SEF-4, lines 36 through 51, represent the
22 additional entries that were made in order to neutralize and isolate any Green
23 Direct costs and benefits that occur naturally as part of PSE’s accounting
24 processes shown in the first section. A \$0 on line 45 which adds together all

1 of the lines with PCA designations under the “Mechanism” subheading (lines
2 26, 27 and 38) checks to ensure that there are no Green Direct costs or
3 benefits included in the PCA.

4 The first section contains information on load, generation, RECs, and PPA
5 and market prices that are relevant to the entries that naturally occur when
6 accounting for PSE’s portfolio power costs.

7 Actual Green Direct usage is shown on line 6 and actual PPA generation is
8 shown on line 7. The resulting short and long position for each month is
9 shown on lines 8 and 9. The short and long position for each quarter end that
10 is needed to determine proper REC treatment is shown on lines 10 and 11.

11 Lines 13 through 16 present RECs that result from either the PPAs or from
12 purchases made by PSE.

13 Lines 18 through 20 present prices for the PPAs and market power (at the
14 average day ahead index for the month) that are used in the additional entries
15 presented in the second section of the reporting example.

16 The journal entries that occur based on the information presented in lines 4
17 through 20 described above are shown on lines 22 through 30. Within these

1 lines the information under the additional subheadings “Mechanism” and
2 “When” in columns D and E should be interpreted as follows:

3 “Mechanism” indicates whether the journal entries can be
4 initially booked directly to Green Direct and are therefore
5 already properly isolated (as indicated by “GD”) or the
6 entries are initially booked as part of a portfolio entry and
7 thus require an additional entry in the second section in order
8 to be appropriately neutralized (as indicated by “PCA”).

9 “When” indicates under which scenario the entries are
10 booked. “Always” indicates it is relevant under all scenarios.
11 “Long” indicates it only occurs in a long scenario. And
12 “Short” indicates it only occurs in a short scenario.

13 A description of these journal entries under each scenario as well as the
14 additional entries that are in the second section on lines 36 through 41 that
15 were used to neutralize and isolate associated costs and benefits labeled as
16 “PCA” under the “Mechanism” heading are described as follows:

17 **Scenario 1 – Short Position (PPA generation < Green Direct Usage)**

18 A short position is where the generation of the PPAs falls short of Green
19 Direct customer usage. Although the program was not in a short position
20 during 2020, the process that will be followed under this scenario is
21 described as follows.

22 **Payment for PPAs**

23 In this instance, Green Direct customers will use all of the generation
24 from the PPAs and therefore, the entire payment for the PPAs would go
25 to a separate Green Direct order in FERC 555 with a GD designation as
26 shown on line 24.

1 **Market Purchases of Energy to Cover the Short Position**

2 In order to cover the additional usage, PSE will need to purchase
3 additional energy on the market. The market purchases will be made as
4 part of PSE’s portfolio purchases and not be separately identifiable. This
5 is reflected on line 27 with a PCA designation as a charge to FERC 555
6 with portfolio purchases and is valued at the Market Rate per kWh on
7 line 20.

8 **Reclassify Short Purchase from PCA to Green Direct**

9 Due to the preceding entry, there is now a Green Direct related cost in the
10 portfolio used to serve non-participating customers. Therefore, an entry
11 is required to reclassify these purchases out of the PCA to Green Direct.
12 This entry is shown on lines 38 and 39 and is valued at the Market Rate
13 per kWh shown on line 20.

14 **Check Total is Zero**

15 The above entries in the short scenario are sufficient as shown by the \$0
16 on line 45.

17 **Scenario 2 – Long Position (PPA generation > Green Direct Usage)**

18 Both months of activity in 2020 illustrates a long position where the
19 cumulative generation of the PPAs for the two months is greater than the
20 Green Direct usage by 63,513,580 kWhs.

21 **Payment for PPAs Up to the Amount of Green Direct Usage**

22 In this instance, Green Direct customers will only use a portion of the
23 generation from the PPAs and therefore, the payment for the PPA will be
24 split into two parts. The first part up to the usage of Green Direct
25 customers would go to the separate Green Direct order in FERC 555 with
26 a GD designation as shown on line 24.

1 **Payment for PPAs Above the Amount of Green Direct Usage**

2 The second part of the payment for the PPAs would go to another FERC
3 555 order, also with a GD designation that is only used in long scenarios
4 as shown on line 25.

5 **Presumed Sale of Excess PPA Generation**

6 As there has been excess generation from the PPAs this generation would
7 presumably be sold as part of PSE’s portfolio transactions. This long-
8 position only transaction with a PCA designation is reflected on line 26
9 and is valued at the Market Rate per kWh on line 20.

10 **Reclassify Long Sale from PCA to Green Direct**

11 Due to the preceding entry, there is now a Green Direct related benefit in
12 the portfolio used to serve non-participating customers. Therefore, an
13 entry is required to reclassify these sales that are recognized in FERC 456
14 out of the PCA to Green Direct. This long-position only entry is shown
15 on lines 38 and 40 and is valued at the Market Rate per kWh shown on
16 line 20.

17 **Check Total is Zero**

18 The above entries in the long scenario are sufficient as shown by the \$0
19 on line 45.

20 **Scenario 3 –Purchases of RECs**

21 **Banking RECs in a Long Position**

22 The month of December 2020 illustrates a quarter-end in which the
23 Green Direct program’s year-to-date position is long which would result
24 in PSE owning unapplied RECs from the PPAs related to the Green
25 Direct program. In these instances, PSE would value the RECs and
26 consider recording them on PSE’s books as a debit to FERC 555 and a
27 credit to FERC 253 to hold them until they can be applied to future Green
28 Direct usage. This is shown on row 41 with a GD designation and is
29 valued based on the indicative December 31, 2020 price of a Green-e
30 WA/PNW REC generated in 2020 at \$6.50 per banked REC reflected on
31 line 16. This entry would be an accrual that reverses in the next month
32 until the position is evaluated again at the next quarter-end.

Purchasing RECs in a Short Position

1 Although the situation did not occur in 2020, this section discusses the
2 reporting that would occur in a short position if PSE is required to
3 purchase RECs on behalf of Green Direct customers. As the quantity of
4 RECs required to cover usage is analyzed on a long term basis (rather
5 than month-to-month), it is not required that PSE purchase RECs
6 monthly for short positions. However, if it is determined that REC
7 purchases are required for the long-term horizon, their costs would be
8 recorded at their purchase price to a Green Direct order in FERC 557
9 with a GD designation as shown on line 30.

Summary of Reporting

10 As shown on lines 48 through 51, the following summarizes the outcome of
11 the 2020 report:
12

13 As generation was long for both periods, entries were made to move the
14 sale of the excess generation out of the PCA.

15 As generation was cumulatively long at a quarter-end, RECs from the PPAs were
16 banked outside of the PCA.

Other Reporting and Tracking Considerations

17
18 Other items related to the Green Direct program are also reported in
19 subsequent tabs as follows.

Fixed Costs of the Program

20
21 PSE committed¹ that the fixed costs of the program such as administrative costs
22 and depreciation related to billing software will be tracked in separate orders and
23 will be excluded from the revenue requirement when setting rates in a general rate

¹ See Docket UE-190529, Exh SEF-17T at 89:18-23.

1 case or other proceeding. PSE has included supplemental reporting on the amount
2 of Green Direct fixed costs for 2020 on page two of Exh. SEF-4 as previously
3 committed to.²

4 **Liquidated Damages**

5 The balance and activity of PSE's liquidated damages received under the
6 Skookumchuck project is reported on page three of Exh. SEF-4 as PSE committed
7 to in Docket UE-200865.³

² See Docket UE-200980, Exh. SEF-9 at 6:29-31.

³ See ¶ 14 in Revised Accounting Petition in Docket UE-200865.