

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

<p>WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,</p> <p style="padding-left: 40px;">Complainant,</p> <p>v.</p> <p>PUGET SOUND ENERGY,</p> <p style="padding-left: 40px;">Respondent.</p>	<p>DOCKETS UE-240004 & UG-240005 (<i>Consolidated</i>)</p> <p>ORDER 09</p>
<hr/> <p>In the Matter of the Petition of</p> <p>PUGET SOUND ENERGY</p> <p style="padding-left: 40px;">Petitioner,</p> <p>For an Accounting Order Authorizing deferred accounting treatment of purchased power agreement expenses pursuant to RCW 80.28.410.</p>	<p>DOCKET UE-230810</p> <p>ORDER 07</p> <p>FINAL ORDER</p>

SUMMARY

Synopsis: The Commission rejects the tariff sheets filed by Puget Sound Energy (PSE or the Company) on February 15, 2024, including the Company’s proposed multi-year rate plan. The Commission, considering the full record, authorizes and requires PSE to file tariff sheets reflecting a two-year multi-year rate plan that will result in the following: for the Company’s electric operations, an increase in revenue of approximately \$326.6 million, or 11.5 percent in rate year 1 and approximately \$203.3 million, or 6.4 percent in rate year 2 including changes to other price schedules; and for natural gas operation an increase in revenue of approximately \$109.8 million, or 10.6 percent in rate year 1 and approximately \$21.1 million, or 1.8 percent in rate year 2, in accordance with the decisions below.¹

¹ The revenue requirement numbers calculated by the Commission are based on exhibits filed by the Company and/or parties that do not comply with WAC 480-07-510(3)(h) and therefore the

The Commission adjusts the Company's return on equity to 9.80 percent for rate year 1, and 9.90 percent for rate year 2. The Commission accepts PSE's blended cost of debt of 5.34 percent for rate year 1 and 5.37 percent for rate year 2. The Commission rejects the Company's proposed capital structure and authorizes and sets rates with a capital structure of 49.0 percent equity, 51.0 percent debt for rate year 1 and 50 percent equity and debt for rate year 2. This results in a rate of return for PSE of 7.52 percent for rate year 1 and 7.64 percent for rate year 2. The Commission authorizes adjustments to power costs consistent with this Order.

Commission is unable to confirm all calculations are appropriately capturing all necessary adjustments.

TABLE OF CONTENTS

I. BACKGROUND.....	5
II. DISCUSSION AND DECISION.....	8
A. STANDARD OF REVIEW	8
B. PARTIES’ POSITIONS ON PSE’S PROPOSED TARIFFS.....	10
C. Multi-Year Rate Plan: Contested Issues.....	14
D. Cost Of Capital	26
E. Performance Based Ratemaking.....	34
F. Climate Commitment Act Costs	40
1. CCA Costs in Dispatch.....	40
2. Review of CCA Costs	44
G. Equity	47
1. Background.....	47
2. General Equity	48
3. Equity Burden Formula.....	53
4. DEA Methodology	55
5. Disconnection Policies	58
6. Language Access.....	61
7. Low-Income Needs, Affordability, and Energy Burden Analysis	63
H. Return on PPAs.....	68
I. Wildfire Costs.....	71
J. CGR Tracker and Construction Work In Progress (CWIP).....	76
K. Cost of Service.....	83
1. Natural Gas Cost of Service Study	84
2. Electric CCOS.....	90
3. COSS Results, Parity and Rate Design	92
4. Residential Customer Rates and Basic Charges	97
5. Billing Determinants	101
L. Decarbonization.....	103
1. Non-Pipeline Alternatives	103
2. Accelerated Gas Depreciation	105

M.	Electrification.....	108
1.	Targeted Electrification Pilot Phase 2, General Electrification, and Electrification PIM	108
2.	Schedule 141DCARB Tracker.....	112
N.	Pilots.....	115
1.	Pilot Information Access	115
O.	Power Costs	116
1.	PCORCs, Power Cost Update Processes.....	117
2.	Short-term CETA Acquisitions	120
3.	Sinclair Cogen PPA.....	120
4.	WEIM Neutrality Charges.....	121
5.	Chelan PSA.....	122
P.	CEIP Deferral	125
Q.	Forecasted Expenses	127
1.	Management Reserves and Reserve Contingency	128
2.	<i>O&M Labor Escalation, Non-Labor O&M Escalation, and Non-Labor A&G Expenses</i>	134
R.	Incentive Compensation.....	137
1.	Long Term Incentive Plan Adjustment (6.37 (E)/ 11.37 (G)).....	137
2.	Annual Goals and Incentive Plan.....	139
S.	Misc. issues.....	141
1.	Storm Expense Normalization	141
2.	Colstrip Retirement Liability.....	142
3.	AMI Amortization.....	145
4.	Alternative Fuels Readiness Program	147
T.	Uncontested issues	149
1.	Special Contracts.....	149
2.	Clay Basin Storage.....	149
3.	Colstrip Fuel Cost	150
4.	Western Energy Imbalance Market Costs	150
III.	Findings of Fact	151
IV.	Conclusions of Law.....	158
V.	ORDER	162

I. BACKGROUND

- 1 **PROCEDURAL HISTORY.** On February 15, 2024, Puget Sound Energy (PSE or Company) filed with the Washington Utilities and Transportation Commission (Commission) revisions to its currently effective Tariff WN U-60, Tariff G, Electric Service, and its currently effective Tariff WN U-2, Natural Gas. The Company characterizes this filing as a general rate case (GRC). The Commission commenced an adjudication in this proceeding in consolidated Dockets UE-240004 and UG-240005.
- 2 On September 29, 2023, in Docket UE-230810, PSE filed with the Commission a petition seeking an Accounting Order authorizing the Company to defer the costs associated with three demand response power purchase agreements pursuant to Revised Code of Washington (RCW) 80.28.410 to track and preserve them for later ratemaking treatment. On March 8, 2024, PSE filed a revised petition adding the benefits of the PPAs to its request for deferred accounting and modifying the requested start date of the deferral period from July 2023 to September 2023.
- 3 On March 5, 2024, the Commission entered Order 01 in Dockets UE-240004 and UG-240005, suspending the GRC and ordering the Dockets be consolidated for further investigation and adjudication.²
- 4 On March 29, 2024, in Order 03/01, the GRC was consolidated with Docket UE-230810, as the Commission found that the dockets raise issues and legal principles the Commission could most efficiently consider through consolidation.
- 5 On April 2, 2024, the Commission convened a virtual prehearing conference before Administrative Law Judges Michael Howard and Bijan Hughes.
- 6 On April 18, 2024, the Commission issued Order 04/02, memorializing the prehearing conference proceedings and granting intervention to the following parties: the Alliance of Western Energy Consumers (AWEC); The Energy Project (TEP); the Joint Environmental Advocates (JEA); Walmart, Inc. (Walmart); Nucor Steel Seattle, Inc. (Nucor); Federal Executive Agencies (FEA); Fred Meyer Stores, Inc. and Quality Food Centers, Divisions of the Kroger Co. (Kroger or Fred Meyer); and Microsoft Corporation (Microsoft) (collectively, Intervening Parties or Intervenors).³ The Commission staff (Staff) and the Public Counsel Unity of the Washington Attorney General's Office

² Dockets UE-240004 & UG-240005, Order 01 at ¶¶ 6-7 (Mar. 5, 2024).

³ Dockets UE-240004, UG-240005, & UE-230810, Order 04/02 at ¶ 4 (Apr. 18, 2024).

(Public Counsel) both participated in the prehearing conference and are statutory parties to the proceeding.

- 7 Order 04/02 also set forth a procedural schedule for this proceeding and granted case certification status to AWEC, TEP, NWECC, and Front and Centered, the latter two of which are members of JEA.⁴
- 8 On May 8, 2024, Staff filed a Motion to Consolidate Proceedings (Motion), requesting the Commission consolidate UE-240004, UG-240005, and UE-230810, with Docket UE-230968, a docket considering risk-sharing under the Climate Commitment Act (CCA). JEA is comprised of five organizations with joint representation. The members of JEA in the GRC (GRC JEA) include Front and Centered, NW Energy Coalition (NWECC), and Sierra Club. JEA members in the CCA risk-sharing docket (CCA JEA) include Climate Solutions, NWECC, and Washington Conservation Action (WCA).
- 9 On May 15, 2024, PSE filed a Response to Motion to Consolidate Proceeding (PSE's Response). That same day, TEP filed a Response to Motion to Consolidate Proceedings (TEP's Response). Neither PSE nor TEP supported or opposed the motion, but both parties asked that if the proceedings were to be consolidated then procedural steps be taken to limit participation of those members of the CCA JEA to only the CCA risk-sharing issue.⁵
- 10 Also on May 15, 2024, JEA filed an Opposition to Staff's Motion. Both the GRC JEA and the CAA JEA urged the Commission to deny Staff's Motion to consolidate PSE's GRC with the CAA risk-sharing docket.
- 11 On June 11, 2024, the Commission issued Order 08/06 in this matter and Order 04 in Docket UE-230968, denying Staff's Motion.
- 12 Beginning on November 4, 2024, the Commission held a two-day evidentiary hearing in this matter before the Commissioners, with Administrative Law Judges James E. Brown II and Bijan Hughes presiding.
- 13 The parties submitted initial and responsive briefs in the proceeding on December 4, 2024, and on December 11, 2024, PSE filed a Motion to Strike Portions of JEA's and Staff's Briefs.

⁴ Order 04/02, at ¶ 13.

⁵ PSE's Response at ¶¶ 2-3; TEP's Response at ¶¶ 3-4.

- 14 On December 17, 2024, JEA filed a Response to PSE’s Motion to Strike and on December 18, 2024, Staff filed its Response to PSE’s Motion to Strike.
- 15 On December 19, 2024, Electrify America, LLC, who is not an intervenor in the proceeding, filed comments with the Commission in this Docket.
- 16 **PARTY REPRESENTATIVES.** Donna L. Barnett, Sheree Strom Carson, Pamela J. Anderson, David S. Steele, and Byron C. Starkey of Perkins Coie LLP represent PSE. Nash Callaghan, Liam Weiland, Cassandra Jones, Colin O’Brien, and Lisa W. Gafken represent the Commission staff (Staff).⁶ Tad Robinson O’Neill represents Public Counsel. Yochanan Zakai of Shute, Mihaly & Weinberger LLP represents The Energy Project (TEP). Sommer Moser and Corinne O. Olson of Davison Van Cleve, P.C. represent the Alliance of Western Energy Consumers (AWEC). Jan Hasselman of Earthjustice represents Front and Centered, Sierra Club, and NW Energy Coalition (NVEC), collectively referred to as the Joint Environmental Advocates (JEA). Justina A. Caviglia of Parsons Behle & Latimer represents Walmart. Damon E. Xenopoulos, Shaun C. Mohler, Joseph R. Briscar, and Laura W. Baker of Stone Mattheis Xenopoulos & Brew, PC represent Nucor Steel Seattle, Inc. (Nucor). Rita M. Liotta of the U.S. Navy represents the Federal Executive Agencies (FEA). Kurt J. Boehm and Jody Kyler Cohn of Boehm, Kurtz & Lowry represent Fred Meyer Stores, Inc. and Quality Food Centers, Divisions of The Kroger Co. (Kroger). Tyler C. Pepple of Davison Van Cleve, P.C. represents Microsoft Corporation.
- 17 **COMMISSION DETERMINATIONS.** Based on the decisions we make in this Order, we authorize an increase in PSE’s revenue requirement of \$326.6 million, or 11.5 percent in rate year 1 and approximately \$203.3 million, or 6.4 percent in rate year 2 including changes to other price schedules, for the Company’s electric operations and an increase in revenue of approximately \$109.8 million, or 10.6 percent in rate year 1 and approximately \$21.1 million, or 1.8 percent in rate year 2, for its natural gas operations. Summaries of both the electric and natural gas revenue requirements are attached hereto at Appendix A (electric) and Appendix B (natural gas). The revenue requirements calculated by the Commission are based on exhibits filed by the Company and parties, but that do not comply with WAC 480-07-510(3)(h).⁷ The lack of fully functioning

⁶ In formal proceedings such as this, the Commission’s regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners’ policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

⁷ WAC 480-07-510(3)(h) provides, in relevant part: “Electronic files must be fully functional and include all formulas and linked spreadsheet files. Electronic files that support exhibits must use

models, with formulas, may result in discrepancies in the revenue requirement calculations. Any discrepancies may be addressed in a corrected order following the Company or other parties filing a motion for clarification.

18 **PRELIMINARY MATTERS.** On December 11, 2024, PSE filed a Motion to Strike Portions of JEA’s Post-Hearing Brief and Staff’s Post-Hearing Brief (Motion to Strike).⁸ PSE asserts JEA and Staff improperly cite to evidence included in another docket and not in the record of this proceeding.⁹ JEA argues that the parts of its brief at issue do not introduce new evidence but provide comparative examples and references to closely related dockets.¹⁰ Staff argues that the citations and discussion with which PSE takes issue, are in fact in the record, and any mistaken citation of another docket is harmless, as the same evidence was presented in this proceeding.¹¹ No other parties filed a response to PSE’s Motion to Strike. Upon review and consideration, we deny PSE’s Motion to Strike. Staff correctly notes that the issues addressed in Staff’s Brief are in fact in the record and provides citations for the Commission. We agree with Staff that the errors are harmless. As for JEA, we agree that a Motion to Strike is inappropriate, and that recommendations or proposals from parties do not constitute introducing new evidence, and JEA’s proposals will be given their due weight as the Commission considers the issues in this proceeding in this Final Order.¹²

II. DISCUSSION AND DECISION

A. STANDARD OF REVIEW

- **Regulating in the public interest and determining equitable, fair, just, reasonable, and sufficient rates**

logical file paths, as necessary, by witness and must use identifying file names consistent with the naming requirements in WAC [480-07-140](#).”

⁸ Dockets UE-240004, UG-240005, & UE-230810, PSE’s Motion to Strike Portions of JEA’s and Staff’s Briefs (Motion to Strike) (Dec. 11, 2024).

⁹ PSE’s Motion to Strike, at ¶¶ 1, 5-14.

¹⁰ Dockets UE-240004, UG-240005, & UE-230810, JEA’s Response to PSE’s Motion to Strike Portions of JEA’s and Staff’s Briefs, ¶¶ 5-11 (JEA’s Response) (Dec. 17, 2024).

¹¹ Dockets UE-240004, UG-240005, & UE-230810, Staff’s Response to PSE’s Motion to Strike Portions of JEA’s and Staff’s Briefs, ¶¶ 5-9 (Staff’s Response) (Dec. 18, 2024).

¹² See, Dockets UT-960369 *et al.*, *In re Pricing Proceeding for Interconnection, Unbundled Element, Transport and Termination, and Resale*, Order 23, ¶ 8 (Apr. 10, 2000).

- 19 The Legislature has entrusted the Commission with broad discretion to determine rates for regulated industries. Pursuant to RCW 80.28.020, whenever the Commission finds, after a hearing, that the rates charged by a utility are:
- unjust, unreasonable, unjustly discriminatory or unduly preferential, or in any wise in violation of the provisions of the law, or that such rates or charges are insufficient to yield a reasonable compensation for the service rendered, the commission shall determine the just, reasonable, or sufficient rates, charges, regulations, practices or contracts to be thereafter observed and in force, and shall fix the same by order.¹³
- 20 For proposed rates, as in this case, the Commission may enter an order under this same standard as if the proposed rates were already effective.”¹⁴
- 21 As a general matter, the burden of proving that a proposed increase is just and reasonable is upon the public service company.¹⁵ The burden of proving that the presently effective rates are unreasonable rests upon any party challenging those rates.¹⁶
- 22 More recently, in 2019, the Legislature expanded the traditional definition of the public interest standard. As Washington state transitions to a clean energy economy, the public interest includes: “The equitable distribution of energy benefits and reduction of burdens to vulnerable populations and highly impacted communities; long-term and short-term public health, economic, and environmental benefits and the reduction of costs and risks; and energy security and resiliency.”¹⁷ In achieving these policies, “there should not be an increase in environmental health impacts to highly impacted communities.”¹⁸
- 23 In 2021, the Legislature again expanded upon the public interest standard in the context of reviewing multiyear rate plans. RCW 80.28.425 provides that “[t]he commission’s consideration of a proposal for a multiyear rate plan is subject to the same standards applicable to other rate filings made under this title, including the public interest and fair, just, reasonable, and sufficient rates.” The statute continues, “In determining the public interest, the commission may consider such factors including, but not limited to, environmental health and greenhouse gas emissions reductions, health and safety

¹³ See also RCW 80.01.040(3) (providing that the Commission shall “[r]egulate in the public interest”).

¹⁴ See RCW 80.04.130(1).

¹⁵ RCW 80.04.130(1).

¹⁶ *WUTC v. Pacific Power and Light Company*, Cause No. U-76-18 (Dec. 29, 1976) (internal citations omitted).

¹⁷ RCW 19.405.010(6).

¹⁸ *Id.*

concerns, economic development, and equity, to the extent such factors affect the rates, services, and practices of a gas or electrical company regulated by the commission.”¹⁹

- 24 Following the passage of RCW 80.28.425, the Commission indicated its commitment to considering equity while regulating in the public interest: “So that the Commission’s decisions do not continue to contribute to ongoing systemic harms, we must apply an equity lens in all public interest considerations going forward.”²⁰ The Commission also indicated that regulated companies should be prepared to address equity considerations in future cases: “Recognizing that no action is equity-neutral, regulated companies should inquire whether each proposed modification to their rates, practices, or operations corrects or perpetuates inequities.”²¹
- 25 During general rate case proceedings, the Commission may determine the prudence of utility actions by reviewing whether the utility made reasonable business decisions in light of the facts and circumstances known or that reasonably should have been known to the utility at the time decisions were made.²² What is reasonable requires assessment of choices made, in light of circumstances and possible alternatives, based on industry norms and practices.²³ Prudence does not require a single, ideal decision, but requires the utility to make a reasonable decision among a number of alternatives that the Commission might find prudent.²⁴

B. PARTIES’ POSITIONS ON PSE’S PROPOSED TARIFFS

- 26 Puget Sound Energy’s proposed two-year rate plan requests authorizations that include: (i) a Rate Year 1 (RY1) revenue requirement increase of \$196 million for gas, which represents an increase of 19.0 percent over+ existing rates; (ii) a Rate Year 2 (RY2) revenue requirement increase of \$25.4 million for gas, which represents an increase of 2.1 percent over RY2; (iii) a RY1 revenue requirement of \$192.2 million for electric, which represents an increase of 6.74 percent over existing rates; (iv) a RY2 revenue requirement of \$285.2 million for electric, which represents an increase of 8.48 percent over RY1; (v) a return on equity (ROE) of 9.95 percent in RY1 And 10.5 percent in RY2; (vi) a blended debt rate of 5.34 percent in RY1 and 5.37 percent for RY2 ; (vii) a rate of

¹⁹ *Id.*

²⁰ *WUTC v. Cascade Natural Gas Corporation*, Docket UG-210755 Order 10 ¶ 58 (August 23, 2022).

²¹ *Id.*

²² *WUTC v. Puget Sound Energy, Inc.*, Docket UE-031725, Order 12 at ¶ 19 (Apr. 7, 2004).

²³ *See, id.*

²⁴ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG—090705 (*consolidated*), Order 11 at ¶ 337 (Apr. 2, 2010).

return (ROR) of 7.65 percent for RY1 and 7.99 percent for RY2; and (viii) a capitalization structure change that would increase PSE's equity component of cost of capital to 50 percent in RY1 and 51 percent in RY2. PSE contends that its proposed cost of capital and capital structure is necessary because it faces a substantial need to acquire capacity and renewable and non-emitting resources, which is incremental to its ongoing need to fund investments that maintain the safety and reliability of PSE's electric and natural gas services.²⁵ On rebuttal, PSE seeks to increase the RY1 revenue request to \$392.7 million for electric and \$198.5 million for natural gas. For RY2, PSE states that the revenue request is updated to an increase of \$195.3 million for electric with a revised increase of \$26.3 million for natural gas.²⁶

- 27 Commission Staff recommends that the Commission authorize a two-year rate plan with a revenue requirement increase to electric operations of \$110.47 million in RY1 and \$275.46 million in RY2 for a total net increase of approximately \$385.93 million and an increase to gas operations of \$150.65 million in RY1 and \$6.27 million in RY2 for a total net increase of approximately \$156.93 million.²⁷ Staff's recommended combined increase to revenue requirement is approximately \$542.86 million over the course of the two-year rate plan. Staff further recommends a capital structure of 51.50 percent debt and 48.50 percent equity and a 9.5 percent ROE for both years, with a ROR of 7.36 percent in RY1 and 7.37 percent in RY2.²⁸
- 28 Public Counsel recommends that the Commission reject PSE's terms and adopt Public Counsel's recommendation on cost of capital and capital structure.²⁹ Public Counsel argues that increasing PSE's authorized ROE above the current level is unsupported by the evidence. Public Counsel recommends the Commission authorize an ROE of 9.375 percent.³⁰ Public Counsel also proposes a capital structure of 49 percent equity resulting

²⁵ PSE's Post-Hearing Brief, at ¶ 18.

²⁶ Free, Exh. SEF-28T at 5:6-13, 6:8-15. This represents an increase from the Company's direct filing of \$110.6 million for electric and \$3.4 million for natural gas over the course of the MYRP. The Commission notes that Free does not include the RY2 projected electric revenue requirement associated with the schedules outside the base rates in their rebuttal testimony. Free's testimony reflects an overall increase for electric of \$170.0 million. There are no RY2 schedule adjustments for natural gas.

²⁷ Kermode, Exh. DPK-5r; Kermode, Exh. DPK-7r.

²⁸ Kermode, Exh. DPK-5r; Kermode, Exh. DPK-7r.

²⁹ Public Counsel's Post-Hearing Brief, at ¶ 11.

³⁰ Public Counsel's Post-Hearing Brief, at ¶ 11; Woolridge, Exh. JRW-1CT at 6:13-19; Response Testimony of J. Randall Woolridge, Exh JRW-1T at 109:6-21.

in an ROR of 6.99 percent.³¹ Public Counsel argues that the Company's proposal would result in ratepayers bearing higher rates than necessary or fair because of the excessive ROE. On the other hand, Public Counsel argues that approving its recommendations would result in fairer rates for customers.³²

- 29 AWEC recommends the Commission make various adjustments to PSE's filed position, including setting rates based on capital projects placed in service as of the rate effective date of each year of the rate plan, rejecting accelerated depreciation on gas plant, and establishing an ROE of 9.2 percent. AWEC also makes recommendations to reallocate mains, which would significantly decrease natural gas rates in the Company's cost of service study (COSS) for large volume customers.
- 30 JEA requests that the Commission approve a multiyear rate plan that will accelerate decarbonization of the Company's gas and electric systems, setting PSE on a course for a managed, equitable transition.³³ JEA offer three broad principles to assist the Commission in catalyzing the transition of PSE's gas system to one that will satisfy the requirements of state law and meets the needs of the moment, while maintaining reasonable rates. First, JEA suggests that the Commission should direct PSE to rapidly scale up its efforts to encourage electrification among its gas customers. Second, JEA proposes that the Commission should require PSE to evaluate non-pipe alternatives when justifying new investments in gas assets.³⁴ Lastly, JEA recommends that the Commission should hold PSE to its promise to ensure that the transition is fair and equitable, by adopting the recommendations made by PSE's own consultants and as supplemented by JEA's witnesses.³⁵
- 31 TEP recommends a variety of proposals related to low-income customers and equity, including: reporting requirements for arrearage and disconnection data; the expansion of the Company's proposed Low-Income Electrification Pilot to all gas customers; the reform of disconnection policies; the introduction of a professional facilitator for PSE's Low Income Advisory Committee (LIAC); and the creation of a language access plan by a date certain.

³¹ Public Counsel's Post-Hearing Brief, at ¶¶ 12-28; See also Table Impact of Public Counsel ROR Recommendation (Electric) and Table 3 Impact of Public Counsel ROR Recommendation (Gas).

³² Public Counsel's Post-Hearing Brief, at ¶ 27.

³³ JEA's Post-Hearing Brief, at ¶ 1.

³⁴ JEA's Post-Hearing Brief, at ¶ 2.

³⁵ JEA's Post-Hearing Brief, at ¶ 2.

- 32 As a large customer of PSE Walmart opposes the electric and gas rate increase.³⁶ Walmart recommends “the Commission approve a capital rate structure...that reflects the Company’s projected equity/debt ratio,” and keep its ROE at 9.40 percent,³⁷ given the average ROE nationwide is 9.5 percent,³⁸ and “the average ROE for vertically integrated utilities electric utilities authorized from 2022 through the present is 9.69 percent.”³⁹ To support its position, Walmart highlights “the proposed increase in authorized ROE is an increase to the revenue requirement of approximately \$42 million” in RY1, “or approximately (11%),” and for RY2 “\$77.5 million, or approximately or 11 percent of the overall \$699 million increase.”⁴⁰
- 33 Similarly, “as one of the largest consumers of electricity” in PSE’s service territory, the FEA obtains “electric service from the Company primarily on Schedule 49.”⁴¹ FEA asserts that the revenue requirement and cost of service should be based on customer class.⁴² In this case FEA is concerned with cost of service and rate design issues, specifically the following: (1) the classification and allocation of electric generation fixed costs and allocation of electric wheeling expenses in FERC account 565; (2) class allocation of electric distribution poles and wire costs; (3) class allocation of any changes in electric base rate revenues; and (4) PSE’s proposed rate design for the High Voltage Service class and new electric service riders.⁴³
- 34 Kroger is exclusively concerned with PSE’s proposed Schedule 26 electric rate design in this case. Kroger recommends that the Commission adopt a Schedule 26 rate design for a two-year rate plan with higher basic charges, lower energy kilowatt-hour charges, and higher summer and winter charges.⁴⁴ This recommendation would result in allocating over both years of the two-year rate plan a higher percentage of costs to customers, a

³⁶ Walmart operates “nineteen retail facilities...that take electric service primarily on the Company’s Large Demand Service (“Schedule 26”), General Service (“Schedule 24”) and Small Demand General Service (“Schedule 25”),” and it “operates 31 locations on Schedule 31 and 41 gas schedules.” Walmart’s Post Hearing Brief at ¶ 1.

³⁷ McGovern, Exh. JLM-1T at 10:14-15; Walmart’s Post Hearing Brief at ¶¶ 1-2.

³⁸ McGovern, Exh. JLM-1T at 12:13.

³⁹ McGovern, Exh. JLM-1T at 15:6-7.

⁴⁰ McGovern, Exh. JLM-1T at 11:16-18.

⁴¹ FEA’s Post Hearing Brief at ¶ 1.

⁴² Al-Jabir, Exh. AZA-1T at 5:1.

⁴³ FEA’s Post Hearing Brief at 1.

⁴⁴ Kroger’s Post-Hearing Brief, at 4-5.

lower percent to energy, and a higher percent to demand compared to PSE's proposed Schedule 26 rate design.⁴⁵

35 Microsoft "has a narrow interest in this docket:" to address an error PSE made in its class cost of service study to "credit Microsoft for approximately \$8.3 million in contribution in aid of construction (CIAC).⁴⁶" PSE acknowledged this error and updated its cost of service study on rebuttal, and now Microsoft requests the Commission properly credit Microsoft for its CIAC payments.⁴⁷ Microsoft makes no other recommendations with respect to PSE's request for a revenue requirement increase, increased ROE or revised capital structure.

36 Like Microsoft, Nucor has a narrow interest in the docket, addressing only natural gas service cost allocation and rate spread. Specifically, Nucor recommends first, an allocation that would remove small and medium natural gas mains from Schedules 85/85T, 86/86T, and 87/87T, and second, changes to Schedule 88T to bring it to full cost of service.

C. Multi-Year Rate Plan: Contested Issues

37 PSE filed its two-year rate plan pursuant to RCW 80.28.425. PSE seeks to increase the RY1 revenue request to \$392.7 million for electric and \$198.5 million for natural gas. For RY2, Free states that the revenue request is updated to an increase of \$195.3 million for electric with a revised increase of \$26.3 million for natural gas.⁴⁸ For electric, the primary driver for the changes is related to power cost updates.⁴⁹ For gas the modest difference is associated with the deferral of the increased UTC regulatory fee and Adjustment 11.01 – *Revenues and Expenditures*.⁵⁰ Additionally, Witness Steuerwalt gives three reasons for the timing and filing of PSE's rate case: 1) PSE's need to continue acquiring clean energy resources to comply with the Clean Energy Transformation Act (CETA) while adding peak capacity; 2) increased costs to service customers due to continued high inflation;

⁴⁵ Kroger's Post-Hearing Brief, at 5-6.

⁴⁶ Microsoft's Post Hearing Brief at ¶ 2; *see also* Wilcox, Exh. CDW-1T at 2:2-8.

⁴⁷ Microsoft's Post Hearing Brief at ¶ 2.

⁴⁸ Free, Exh. SEF-28T at 5:6-13, 6:8-15. This represents an increase from the Company's direct filing of \$110.6 million for electric and \$3.4 million for natural gas over the course of the MYRP. The Commission notes that Free does not include the RY2 projected electric revenue requirement associated with the schedules outside the base rates in their rebuttal testimony. Free's testimony reflects an overall increase for electric of \$170.0 million. There are no RY2 schedule adjustments for natural gas.

⁴⁹ Free, Exh. SEF-28T at 5:6-14.

⁵⁰ Free, Exh. SEF-28T at 73:9-75:17.

and 3) the Company's need to compete for debt and equity financing given its recent inability to earn its currently authorized rate of return.⁵¹

- 38 Additionally, Steuerwalt testifies that the Company has taken cost containment measures to mitigate the rate increases requested in this filing. Steuerwalt maintains PSE has reduced headcount in targeted areas, enacted a company-wide hiring freeze, strategically reduced outside vendor services, and managed its operations and maintenance (O&M) expenditures, among other initiatives. Further, Steuerwalt highlights the testimony of other PSE witnesses regarding the Company's philosophy of lean operations and pursuit of federal funding opportunities.⁵²
- 39 PSE witness Kensok describes the Company's five-year financial planning and budgeting process, referred to as "a robust capital spending authorization process."⁵³ Kensok testifies that PSE "regularly monitor[s] variances in budget forecast to actual costs to enable continuous planning and support reallocation decisions and help ensure the delivery of benefits to customers."⁵⁴ Kensok discusses the Company's budget process and reprioritization efforts in great detail.
- 40 Additionally, Kensok explains that when the Company must adjust spending, "the objective is to reprioritize or defer investments within the financial constraints,"⁵⁵ and "reallocate capital and expenses...within reasonable guardrails...while still approximating the spend levels approved by the Commission in this proceeding."⁵⁶ The Company's current 2024 projected capital expenditures are approximately 30 percent higher than forecasted in PSE's 2022 GRC.⁵⁷
- 41 PSE witness Susan E. Free provides testimony regarding the "lessons learned" following the first provisional plant review process from the Company's 2022 GRC. Free states this first review, approved by the Commission on September 14, 2023, resulted in no refund for electric customers and a small refund due to natural gas customers.⁵⁸ Free argues that

⁵¹ Steuerwalt, Exh. MS-1Tr at 7:16-9:10.

⁵² Steuerwalt, Exh. MS-1Tr at 9:17-10:7.

⁵³ Kensok, Exh. JAK-1CTr at 9:17-18.

⁵⁴ Kensok, Exh. JAK-1CTr at 6:8-11.

⁵⁵ Kensok, Exh. JAK-1CTr at 16:11-14.

⁵⁶ Kensok, Exh. JAK-1CTr at 17:2-6.

⁵⁷ Kensok, Exh. JAK-1CTr at 21:12-18.

⁵⁸ Free, Exh. SEF-1T at 4:14-5:6. The Commission notes that PSE utilizes separate schedules for provisional plant until the annual review process is complete (Schedules 141N and 141R for electric and gas, respectively). The annual provisional plant review for 2022 was filed in Dockets

portfolio reviews provide the flexibility to manage capital additions while ensuring costs are prudently incurred.⁵⁹

- 42 In describing the supporting revenue requirement exhibits, Free testifies that PSE only considered plant as provisional for projects placed into service on or after January 1, 2025.⁶⁰
- 43 Staff witness McGuire makes two recommendations to change the provisional plant review process for PSE. First, Staff requests extending the provisional plant review period from four to six months.⁶¹ Second, Staff proposes to eliminate the threshold for provisional plant refunds. McGuire testifies that since the first MYRP filings under the state's MYRP statute, Staff now believes that applying a threshold of 0.5 percent above authorized ROR is an inappropriate application of the used and useful provision of RCW 80.04.250 and the Commission's Used and Useful Policy Statement issued in Docket U-1905321. McGuire argues that RCW 80.04.250 is applicable to all earnings under the MYRP, not a subset of earnings associated solely with provisional plant. According to McGuire, applying this threshold may inappropriately allow a utility to keep revenues collected from customers for plant that is not used and useful.⁶² Therefore, Staff proposes the Commission order refunds for any amount of provisional plant under the Commission-authorized level during each rate year. McGuire notes that Staff also made this proposal in the 2023 PacifiCorp GRC, which the Commission approved as part of a multiparty settlement agreement.⁶³
- 44 Further, McGuire raises concerns about protecting customers from "windfall spending cushions" that arise from significant plant forecasting or accounting errors. McGuire references an error related to advanced metering infrastructure (AMI) plant, for which the Company did not adjust its portfolio-level plant during the 2023 provisional plant review process to account for the \$132.6 million error.⁶⁴ However, despite this concern, Staff

UE-230230 and UG-230323 and initially set for adjudication. In that filing, PSE proposed to hold the natural gas refund until the 2024 filing to determine if a refund to customers remained due. However, Staff and the Company later agreed on a refund amount of \$1.4 million (slightly more than PSE's original filing) and the Commission authorized that refund be made in conjunction with the Company's next purchased gas adjustment in November of 2023. *See* Order 02 in Dockets UE-230320 and UG-230323 (*consolidated*).

⁵⁹ Free, Exh. SEF-1T at 5:9-17.

⁶⁰ Free, Exh. SEF-1T at 44:14-16.

⁶¹ McGuire, Exh. CRM-1Tr at 14:9-13.

⁶² McGuire, Exh. CRM-1Tr at 14:17-16:2.

⁶³ McGuire, Exh. CRM-1Tr at 17:6-18:3.

⁶⁴ McGuire, Exh. CRM-1Tr at 12:17-13:14.

maintains its support for a portfolio review of provisional plant. McGuire argues that the “Company should not be penalized for adaptively managing its investment plan and appropriately responding to changing circumstances.”⁶⁵

45 Finally, McGuire contests PSE’s designation of traditional pro forma and provisional plant. While response testimony was due in August 2024 in this case, well before the end of the calendar year, McGuire argues that parties should be given the opportunity for a full prudency review of all 2024 plant before the plant is considered used and useful and no longer subject to refund.⁶⁶ Further, McGuire contends the level of used and useful 2024 plant is incorporated into the valuation of 2025 plant additions.⁶⁷ Therefore, Staff recommends the Commission consider all 2024 plant as provisional and subject to refund.⁶⁸

46 AWEC witness Mullins asserts that the MYRPs and associated provisional plant review process result in greater administrative burden, create capital spending budgets that are difficult to challenge shifting risk to ratepayers, and are not required but permitted under the MYRP Statute. Mullins calls for the Commission to limit the forecasted capital allowed in rates and revise the provisional plant review process from a portfolio approach to a project-by-project review.⁶⁹

47 Mullins argues the statutory changes that shift determination of a utility’s revenue requirement away from the modified historical test year and limited pro forma adjustments have not curbed the frequency of rate cases, reduced the administrative burden, or provided appropriate protection against utility cost escalations. Mullins contends the rate cases have become more complicated, contain aggressive forecasting assumptions, provide no incentive for utility cost containment, and provide for a review period that is irrelevant so long as the utility spends within the approved budget.⁷⁰

48 For these reasons, Mullins recommends a ‘course correction’ to limit capital project costs to plant in service on or before the rate effective date for each rate year within the MYRP. Mullins argues that not only is the statutory language allowing MYRPs permissive and

⁶⁵ McGuire, Exh. CRM-1Tr at 12:12-13.

⁶⁶ McGuire, Exh. CRM-1Tr at 10:1-13.

⁶⁷ McGuire, Exh. CRM-1Tr at 11:1-9.

⁶⁸ McGuire, Exh. CRM-1Tr at 10:17-18.

⁶⁹ Mullins, Exh. BGM-1T at 14:10-15:13.

⁷⁰ Mullins, Exh. BGM-1T at 9:12-20, and 10:14-11:2.

not mandatory, but that the Commission’s Used and Useful Policy Statement also affirmed its intent for the continued use of the modified historical test year approach.⁷¹

49 For RY1, AWEC recommends limiting capital expenditures to those in service (i.e., used and useful) on or before December 21, 2024. However, Mullins recognizes this approach still requires projected costs and therefore recommends that PSE submit a compliance filing with an attestation confirming that all estimated plant through December 21, 2024,⁷² was placed in service. Additionally, Mullins proposes the Commission require this attestation on a project-by-project basis with a refund for any underspent project with costs exceeding \$1 million. Further, AWEC argues that if the Commission does not accept AWEC’s recommendation either to limit capital additions or require an attestation process, the Commission should still adopt a project-by-project methodology for the provisional plant review filing.⁷³ Mullins contends this same process can be applied to RY2.⁷⁴

50 Mullins contends this approach eliminates the need for the after-the-fact capital review process, thus mitigating the administrative burden of MYRPs. Mullins is unable to provide the revenue requirement impact of AWEC’s recommendation due to “the complicated capital modeling that PSE performed” and recommends “that the Commission require PSE to perform the updated rate base calculations as a part of its compliance filing, subject to party review.”⁷⁵

51 PSE disagrees with AWEC’s positions on the MYRP on rebuttal. Steuerwalt contends that AWEC’s proposal will hinder the transition to clean energy.⁷⁶ Further, Steuerwalt notes that the recent passage of ESHB 1589 restates the legislature’s intent to transition from traditional cost-of-service regulation to more forward-looking MYRPs.⁷⁷

⁷¹ Mullins, Exh. BGM-1T at 12:15-13:18, referencing RCW 80.04.250 and paragraph 20 of the Commission’s Used and Useful Policy Statement.

⁷² The Commission notes the date references of December 21, 2024, appear to reflect the rate effective date for Avista’s 2024 GRC. Witness Mullins’ testimony in both cases is nearly identical and the Commission assumes these dates were missed in preparing testimony for this proceeding. The suspension date for PSE’s rate case is January 16, 2025.

⁷³ Mullins, Exh. BGM-1T at 13:21-14:7.

⁷⁴ Mullins, Exh. BGM-1T at 15:6-13.

⁷⁵ Mullins, Exh. BGM-1T at 15:15-20.

⁷⁶ Steuerwalt, Exh. MS-4T at 9:17-10:1.

⁷⁷ Steuerwalt, Exh. MS-4T at 10:14-17.

- 52 Free accepts McGuire’s classification of all 2024 plant as provisional and subject to refund pending the review process in March 2025. Free recognizes that December 2024 is included in the valuation of 2025 plant (first month of the averages-of-monthly-average calculation), and that depreciation changes for 2024 remain estimates. Therefore, Free concedes that parties should have the opportunity to fully review 2024 plant during the provisional review and on rebuttal reclassifies that plant as provisional.⁷⁸ While PSE does not prefer permanently extending the four-month review period to six-months, the Company does not oppose Staff’s proposal.⁷⁹
- 53 Free disagrees with Staff’s proposal to evaluate specific capital projects for forecasting or accounting errors during the provisional plant review. Free argues that Staff’s proposal is contradictory to its support of a portfolio review, removes the incentive for managing projects at the lowest reasonable cost, does not allow PSE the opportunity to adaptively respond to changing circumstances, and lacks definition of what is considered an “error.”⁸⁰
- 54 In response to Staff’s AMI example, Free takes issue with McGuire’s characterization of the plant being “erroneously” included in rates and the claim that the Company requested the Commission to disregard the variance.⁸¹ Free argues that when “timing differences” and factors such as ADFIT are considered, the actual revenue requirement for the AMI plant is approximately \$1 million higher than the Company forecast in the 2022 GRC. Free testifies that the Company provided this information to Staff prior to the deadline for response testimony.⁸²
- 55 The Company opposes Staff’s proposal to change the refund threshold for provisional plant. Free argues that requiring a refund for any dollar amount below the exact amount of authorized provisional plant does not promote capital spending efficiency, eliminates utility operational flexibility, and does not consider a materiality threshold for plant that is used and useful.⁸³ Additionally, Free argues that if Staff’s proposal for applying the 0.5 percent threshold were applied, PSE would not have refunded natural gas customers for the 2023 provisional plant.⁸⁴ Free challenges Staff’s argument that the Commission accepted Staff’s threshold position in the 2023 PacifiCorp GRC, arguing the Commission

⁷⁸ Free, Exh. SEF-28T at 9:11-23.

⁷⁹ Free, Exh. SEF-28T at 16:6-11.

⁸⁰ Free, Exh. SEF-28T at 12:8-13:7.

⁸¹ Free, Exh. SEF-28T at 13:8-17.

⁸² Free, Exh. SEF-28T at 14:1-15:26.

⁸³ Free, Exh. SEF-28T at 16:16-19, 20:13-15, and 18:5-12.

⁸⁴ Free, Exh. SEF-28T at 19:12-19.

approved a settlement agreement for which details about specific negotiation results are not known.⁸⁵ Finally, Free posits that the combination of an appropriate threshold and portfolio review has been proven effective.⁸⁶

56 Free wholly disagrees with witness Mullins's testimony, arguing that the traditional rate making paradigm is not conducive to the substantial investment required to meet the clean energy mandates. Additionally, Free contends the MYRP framework is not the underlying cause for continual rate case filings; rather it's the Company's inability to earn its authorized rate of return.⁸⁷ Further, Free refutes AWEC's claim that customer protections are diminished through MYRPs, referencing earnings sharing mechanisms, significant low-income protections, and the provisional plant review process.⁸⁸

57 Free takes issue with AWEC's argument that the use of forecasts is inappropriate for ratemaking purposes. First, Free asserts the Company provides "volumes of data" to support the requested level of rate base, and that "ample opportunity" is provided to parties through the adjudicatory process to evaluate that data. Further, Free maintains that forecasts and budgets inherently change over time and that using a modified historical test year does not change that fact.⁸⁹

58 Additionally, Free provides testimony opposing AWEC's proposal to conduct capital review on a project-by-project basis with a refund threshold for projects exceeding \$1 million, arguing those proposals suffer some of the same shortfalls as Staff's positions. Free maintains that under AWEC's proposal, the Company would have no incentive to control individual project costs, offset justifiably higher costs for other projects, or manage investments with the necessary flexibility to address changing operational conditions.⁹⁰

Commission Decision

59 The pertinent language of the Multi-Year Rate Plan statute, RCW 80.28.425(1) is as follows:

[E]very general rate case filing of a gas or electrical company must include a proposal for a multiyear rate plan as provided in this chapter. The

⁸⁵ Free, Exh. SEF-28T at 19:22-20:8.

⁸⁶ Free, Exh. SEF-28T at 20:20-21:3.

⁸⁷ Free, Exh. SEF-28T at 21:26-22:12, 25:12-15.

⁸⁸ Free, Exh. SEF-28T at 25:4-5-7.

⁸⁹ Free, Exh. SEF-28T at 23:5-24:12.

⁹⁰ Free, Exh. SEF-28T at 27:5-28:8.

commission may, by order after an adjudicative proceeding as provided by chapter 34.05 RCW, approve, approve with conditions, or reject, a multiyear rate plan proposal made by a gas or electrical company or an alternative proposal made by one or more parties, or any combination thereof. The commission's consideration of a proposal for a multiyear rate plan is subject to the same standards applicable to other rate filings made under this title, including the public interest and fair, just, reasonable, and sufficient rates. In determining the public interest, the commission may consider such factors including, but not limited to, environmental health and greenhouse gas emissions reductions, health and safety concerns, economic development, and equity, to the extent such factors affect the rates, services, and practices of a gas or electrical company regulated by the commission.⁹¹

60 Additionally, prior to the Multi-Year Rate Plan statute, RCW 80.28.020 conferred broad powers upon the Commission to establish just, reasonable, and sufficient rates for regulated utility companies.⁹²

61 In this case, as in the recently adjudicated Avista General Rate Case,⁹³ AWEC in effect raises the question of whether a utility's MYRP should be treated as a traditional rate case filing. AWEC witness Mullins argues that the principles of traditional ratemaking have protected ratepayers, and that the current approach shifts more costs to customers, resulting in proposed major rate increases from the companies.⁹⁴

62 Mullins also asserts that MYRPs have increased the regulatory burden, have been more complicated, and have been filed no less frequently than previous rate cases. Mullins argues that the new multi-year rate plan policy has encouraged utilities to submit filings with forecasting assumptions that are increasingly aggressive, at a time when ratepayers continue to struggle with inflationary cost pressures.⁹⁵

63 The Company disputes AWEC's assertions, arguing that the underlying cause for increasing rates is actually the Company's inability to earn its authorized rate of return.⁹⁶ The Company also cites to customer protections, including earnings sharing mechanisms,

⁹¹ RCW 80.28.425(1).

⁹² RCW 80.28.020; *see also* RCE 80.01.040(3).

⁹³ *WUTC v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-240006 & UG-240007 (*consolidated*), Order 08 (Dec. 21, 2024).

⁹⁴ Mullins, Exh. BGM-1T at 9:5-9.

⁹⁵ Mullins, Exh. BGM-1T at 9:12-20.

⁹⁶ Free, Exh. SEF-28T at 21:26-22:12, 25:12-15.

significant low-income protections, and the provisional plant review process.⁹⁷ Finally, the Company asserts that AWEC's position will hinder the transition to clean energy.⁹⁸

64 Upon review of the evidence, testimony, and the law, we agree with PSE. Under state law and policy, Washington embarks on an era of transition to clean energy as well as regulatory reform in rate making. The multi-year rate plan is one of many tools the Legislature has provided to assist that transition, including allowing recovery in rates for up to four years beyond the rate effective period.⁹⁹ It is not for the Commission to buck state law and policy and attempt to turn back the clock. AWEC's recourse is to make its case to the Legislature. In the meantime, we will implement the multi-year rate plan statute with the public interest in mind. Accordingly, we conclude that it is in the public interest to leave intact and accept a two-year MYRP for PSE.

65 We now turn to the issues related to provisional plant. Staff proposes to extend the provisional plant review period from four to six months, on a permanent bases.¹⁰⁰ The Company does not oppose Staff's proposal.¹⁰¹ In this light, we accept Staff's proposal and extend the provisional plant review process from four to six months.

66 Next, Staff recommends that that there be no threshold allowed when determining whether a refund is due in the annual capital reviews.¹⁰² Staff requests the Commission accept Staff's position, consistent with the terms reached in the PacifiCorp 2023 settlement, which the Commission approved.¹⁰³

67 After consideration and review of the record, we are persuaded by Staff's argument on the elimination of the threshold of 0.5 percent above authorized ROR. According to U-190531, the Commission's Used and Useful Policy Statement:

“Used” means that the investment (plant) is in service, and “useful” means that a company has demonstrated that its investment benefits Washington ratepayers. With few exceptions, the Commission has required plant to be in service no later than the suspended effective date to be included in rate base. Typically, that meant plant would be in service before the tariff revisions become effective, which generally marks the beginning of the

⁹⁷ Free, Exh. SEF-28T at 25:4-5-7.

⁹⁸ Steuerwalt, Exh. MS-4T at 9:17-10:1.

⁹⁹ See RCW 80.04.250.

¹⁰⁰ McGuire, Exh. CRM-1Tr at 14:9-13.

¹⁰¹ Free, Exh. SEF-28T at 16:6-11.

¹⁰² McGuire, Exh. CRM-1Tr at 15:10-16.

¹⁰³ Staff's Brief, at ¶ 19.

rate year. Changes to RCW 80.04.250(3), however, permit the valuation of property that becomes used and useful up to 48 months after the rate-effective date, provided that it is both placed in service and benefitting customers in Washington within the prescribed timeframe.¹⁰⁴

68 Moreover, the Commission’s Policy Statement provides that:

with the changes to RCW 80.04.250(3), we find that the requirements for pro forma adjustments discussed above hold true for requests for rate-effective period property, although they cannot be reviewed completely prior to rates going into effect. Accordingly, we must replace the traditional prospective review with a retrospective review for rate-effective period property requests.¹⁰⁵

69 In its brief, Staff points out PSE’s interpretation and reliance on RCW 80.28.425(3)(d), which provides that:

In ascertaining and determining the fair value of property of a gas or electrical company pursuant to (b) of this subsection and projecting the revenues and operating expenses of a gas or electrical company pursuant to (c) of this subsection, the commission may use any standard, formula, method, or theory of valuation reasonably calculated to arrive at fair, just, reasonable, and sufficient rates.¹⁰⁶

70 Staff adds that subsection (3)(d) references subsection (3)(b), which makes clear that the discretion described under (3)(d) applies only to property “that is or will be used and useful under RCW 80.04.250[.]”¹⁰⁷ Staff adds the MYRP statute makes clear that the Commission’s discretion on the valuation of property assumes as a prerequisite that the property is (or will be) used and useful. Staff observes that “at the evidentiary hearing, PSE admitted that it would not expect to be allowed to retain any difference between estimated costs and actual costs for traditional pro forma adjustments.”¹⁰⁸ Given the Commission’s guidance in the Used and Useful policy statement that provisional pro forma adjustments are subject to the same standards applied retrospectively, we agree

¹⁰⁴ *In the Matter of the Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date* (“Used and Useful Policy Statement”), Docket U-190531 at ¶ 26 (Jan. 31, 2020); See also, *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket UE-130043, Order 05, 31 ¶ 79 (Dec. 4, 2013).

¹⁰⁵ Used and Useful Policy Statement, Docket U-190531 at ¶ 27.

¹⁰⁶ RCW 80.28.425(3)(d).

¹⁰⁷ See RCW 80.28.425(3)(b) referencing RCW 80.04.250.

¹⁰⁸ Free, TR 261:7-262:25.

with Staff the same is true for provisional pro forma adjustments. That is, PSE should not expect to be allowed to retain any difference between estimated costs and actual costs for provisional pro forma adjustments.

- 71 Thus, we agree with Staff’s proposed amendment to the terms of the annual capital review refund process to ensure that the process for reviewing provisional pro forma plant is consistent with RCW 80.04.250. We accept Staff’s proposed amendment to eliminate the threshold of 0.5 percent above authorized ROR for PSE.
- 72 Concerning AWEC’s proposal that PSE conduct its provisional plant review on a project-by-project basis and that the Company submit a compliance filing attesting that all estimated plant was in service as of December 21, 2024, we reject this proposal.¹⁰⁹ AWEC argues that this approach eliminates the need for a resource intensive after-the-fact capital review process and also addresses the concerns AWEC raises with respect to a portfolio-based review approach.¹¹⁰
- 73 PSE argues that AWEC’s proposals suffer some of the same shortfalls as Staff’s positions, contending AWEC’s approach would, among other things, remove its incentive to control individual project costs.¹¹¹ PSE opines that AWEC’s proposal would not allow the Company to operate prudently and flexibly in addressing emergent needs.
- 74 We reject AWEC’s proposal that the Company submit a compliance filing attesting that all estimated plant was in service as of December 21, 2024. As we stated in our Used and Useful Policy Statement (construing RCW 80.04.250(3)), and in recent cases, the Commission may “permit the valuation of property that becomes used and useful up to 48 months after the rate-effective date, provided that it is both placed in service and benefitting customers in Washington within the prescribed timeframe.”¹¹² Estimating plant in service as of December 21, 2024, would be contrary to our stated precedent and policy. Such a proposal would restrict the Company financially in initiating projects to

¹⁰⁹ The Commission notes the date references of December 21, 2024, appear to reflect the rate effective date for Avista’s 2024 GRC. Witness Mullins’ testimony in both cases is nearly identical and Policy Staff assumes these dates were missed in preparing testimony for this proceeding. The suspension date for PSE’s rate case is January 15, 2025.

¹¹⁰ AWEC’s Brief, at ¶ 4.

¹¹¹ Free, Exh. SEF-28T at 27:5-28:8.

¹¹² *In the Matter of the Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date* (“Used and Useful Policy Statement”), Docket U-190531 at ¶ 26 (Jan. 31, 2020); See also, *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket UE-130043, Order 05, 31 ¶ 79 (Dec. 4, 2013).

the benefit of its customers, by confining valuation to a small window instead of a 48-month valuation window. For these reasons, we reject AWEC's attestation proposal.

75 We also reject AWEC's proposal to complete provisional plant review based on project-by-project basis. AWEC's proposal would prevent the Company from adaptively managing its investment plan and appropriately responding to changing circumstances. As the Commission has stated previously, and most recently in *WUTC v. Avista Corp. d/b/a Avista Utils.*,¹¹³ the ratemaking process and the fixing of just and reasonable rates involves a balancing of investor and the consumer interests.¹¹⁴ To that point, on balance we agree that the Company must maintain some flexibility.¹¹⁵ As Staff witness McGuire stated:

Requiring the Company to stick rigidly to its forecasted capital plan could lead to bad business decisions and the Company should not be penalized for adaptively managing its investment plan and appropriately responding to changing circumstances. Examining the level of plant on a portfolio level allows for adaptive management while still ensuring that, in the aggregate, customers only pay for plant that is used and useful during the rate-effective period.¹¹⁶

76 This goes to the heart of our role and oversight of the ratemaking process. Consequently, we reject AWEC's proposal for a provisional plant review based on project-by-project basis. We determine that the Company's portfolio approach for provisional plant review is in the public interest.

77 However, we do have further instruction and guidance relating to provisional plant review filings. Consistent with our direction in the recent Avista GRC Order, we require the Company to take additional actions when making these filings. First, the filings should clearly indicate whether the provisional plant is identified in the Clean Energy Implementation Plan (CEIP), if so, where it is identified, and whether it is required for CETA or CCA compliance. Second, the filing must identify each new project not included in the Company's GRC filing and provide a narrative for the business need for those projects. Third, project cost information must be provided on both an annual and cumulative rate-effective period basis. Fourth, a narrative should be attached to the filing that describes the filing structure and how the worksheets relate and function together.

¹¹³ *WUTC v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-240006 & UG-240007 (*consolidated*), filed Revisions to Tariff WN U-28 (Electric) and Tariff WN U-29 (Natural Gas) (Jan. 18, 2024).

¹¹⁴ Federal Power Com. v. Hope Natural Gas Co., 320 U.S. 591, 603.

¹¹⁵ See RCW 80.28.010(2).

¹¹⁶ McGuire, Exh. CRM-1T at 9:19 – 10:3.

Fifth, the provisional plant review filing must maintain consistent project naming conventions from the GRC filing.

78 Finally, the provisional plant review filing will be addressed through the Open Meeting Process. The reason for requiring provisional plant filings to be presented through the Open Meeting process is to maintain flexibility, further streamline the process, and adhere to the intent of the changed statutes, but also ensure transparency and clarity, to ensure confidence in the process, and to address the concerns of the parties and other stakeholders in the process. The Commission will continue to monitor this process moving forward and assess whether further changes are needed at a later time.

D. Cost Of Capital

79 In this proceeding, PSE requests a hypothetical capital structure, as well as to incrementally increase both the equity component and the return on equity (ROE) over each year of the rate plan. Staff, Public Counsel, AWEC, and Walmart, all contest the Company’s proposed changes to the hypothetical capital structure and ROE. JEA proposes that the Commission reduce PSE’s ROE for the Company’s natural gas system, asserting a differentiated ROE create an incentive for the Company to reduce growth of the gas system.¹¹⁷ No party contests the cost of short- or long-term cost of debt that results in a blended debt rate of 5.34 percent in RY1 and 5.37 percent for RY2.¹¹⁸

Table 1 – Cost of Capital Positions (RY1) - percentages

Component	PSE	Staff¹¹⁹	Public Counsel	AWEC	Walmart
Short-Term Debt	1.81	2.04	1.55	1.81	
Long-Term Debt	48.19	49.46	49.45	49.19	
Equity	50.00	48.50	49.00	49.00	49.00
Return on Equity	9.95	9.50	9.38	9.20	9.40
Rate of Return	7.65	7.36	6.99	7.19	

¹¹⁷ Cebulko, Exh. BTC-1T at 93:5-94:2

¹¹⁸ Public Counsel modifies the cost of debt used in its analysis by averaging the Company’s proposed cost of debt for both years of the rate plan to correlate with Public Counsel’s proposal to maintain its recommended ROE of 9.38 percent for both years. Woolridge, Exh. JRW-1CT at 32:3-3-15.

¹¹⁹ Staff uses the capital structure approved in PSE’s fully litigated 2019 rate case rather than the 2022 case which resulted in a multi-party settlement, which included cost of capital.

Table 2 – Cost of Capital Positions (RY2) - percentages

Component	PSE	Staff	Public Counsel	AWEC	Walmart
Short-Term Debt	1.19	2.04	1.55	1.81	
Long-Term Debt	47.81	49.46	49.45	49.19	
Equity	51.00	48.50	49.00	49.00	49.00
Return on Equity	10.50	9.50	9.38	9.20	9.40
Rate of Return	7.99	7.37	6.99	7.22	

80 In its initial filing, PSE requested the Commission increase PSE’s ROE from 9.40 to 9.95 percent in RY1, with an additional increase to 10.50 percent for RY2. Further, PSE contends the equity component of its hypothetical capital structure should increase from 49.0 to 50.0 percent in RY1, with an additional increase to 51.0 percent for RY2.¹²⁰

81 PSE witnesses Doyle and Peterman testify that the Company has not been able to earn its authorized ROR primarily due to continuing regulatory lag despite the improvement made by the 2022 multi-year rate plan approved by the Commission, stagnated cash flow from the persisting impacts of the Tax Credit and Jobs Act of 2017, and the outcome of its 2019 rate case.¹²¹ Further, while Peterson maintains the Company’s analysis supports an ROE of 10.5 percent for both rate years, the Company requests a phased approach in deference to the Commission’s preference for gradualism.¹²² Doyle cites “unprecedented equity financing requirements,”¹²³ and its projected need for \$9.5 billion of capital investment over the next five years to further justify the Company’s requests.¹²⁴ Finally, Doyle claims the proposed equity ratio will “eliminate the necessity to raise approximately another \$200 million of equity, and relieve incremental financing pressure from an already monumental financing burden.”¹²⁵

82 PSE witness Bulkley relies on five models to support the Company’s ROE recommendations: Discounted Cash Flow (DCF), Capital Asset Pricing Model (CAPM), an empirical approximation to the CAPM (referred to as the ECAPM), Risk Premium methodologies, and an Expected Earnings analysis. These models produce a range of

¹²⁰ Steuerwalt, Exh. MS-1Tr at 6:14-17; Bulkley, Exh. AEB-1Tr at 9:15-21; Doyle, Exh. DAD-1CT at 43:20-44:5; Peterman, Exh. CGP-1CT at 10:14-11:7.

¹²¹ Doyle, Exh. DAD-1CT at 24:10-11, 25:1-3; Peterman, Exh. CGP-1CT at 26:1-27:3.

¹²² Peterman, Exh. CGP-1CT at 18:13-15.

¹²³ Doyle, Exh. DAD-1CT at 57:21-23.

¹²⁴ Doyle, Exh. DAD-1CT at 14:1-9.

¹²⁵ Doyle, Exh. DAD-1CT at 58:10-14.

ROE results from 8.81 to 11.90 percent.¹²⁶ However, Bulkley places more weight on the CAPM, ECAPM, and risk premium analyses which rely on current and projected interest rates in determining the Company's recommended cost of equity.¹²⁷

- 83 For the proxy group, Bulkley utilizes a combined group of investment-grade, dividend-paying utilities covered in Value Line's Electric and Natural Gas Distribution Utilities. Bulkley testifies that all the proxy utilities earn the majority of their revenues from regulated utility operations, own generation assets included in rate base and were not a party to a merger or transformative transaction.¹²⁸
- 84 Staff witness Parcell uses a subset of PSE's proxy group companies.¹²⁹ Parcell, like PSE, utilizes a combined group of investment-grade, dividend paying utilities. However, Parcell also applies a market cap range of \$1 to \$10 billion that eliminates 12 utilities from PSE's proxy group.¹³⁰
- 85 Staff recommends a ROE of 9.5 percent, with a range of 9.25 to 10.1 percent based on the midpoints of their DCF, CAPM, Comparable Earnings, and Risk Premium methodologies.¹³¹ However, Parcell argues that current Federal Reserve monetary policy artificially inflates the CAPM results. Parcell contends that a reasonable ROE of 9.5 appropriately considers the "risk-reducing attributes of SB 5295, as well as the Commission's long-standing principle of gradualism."¹³²
- 86 Additionally, Parcell disputes PSE's argument regarding the continued cash flow implications of the Tax Credit and Jobs Act of 2017, and the outcome of the 2019 GRC. Parcell opines that both events occurred approximately five years ago and should not be considered by the Commission as justification for a higher ROE or equity ratio in this proceeding.¹³³
- 87 Parcell asserts the Commission should authorize the capital structure adopted in the most recent fully litigated PSE rate proceeding, which contained an equity component of 48.5

¹²⁶ Bulkley, Exh. AEB-1Tr at 97-98, Table 5.

¹²⁷ Bulkley, Exh. AEB-1Tr at 34:5-15.

¹²⁸ Bulkley, Exh. AEB-1Tr at 30:2-17; AEB-4.

¹²⁹ Staff's proxy group also includes one utility that is not included in the PSE group (Otter Tail Corp) based on Parcell's proxy group criteria. Parcell, Exh. DCP-8.

¹³⁰ Parcell, Exh. DCP-1T at 31:16-22.

¹³¹ Parcell, Exh. DCP-1T at 3:4-12, 4:14-21.

¹³² Parcell, Exh. DCP-1T at 5:1-11.

¹³³ Parcell, Exh. DCP-1T at 60:18-61:10.

- percent. In further support, Parcell argues the Company’s actual equity ratios over the past five years have been relatively stable, with the 2023 “regulatory” equity ratio at 49.3 percent.¹³⁴
- 88 Public Counsel recommends a ROE of 9.38 percent with a range of 8.25 to 9.9 percent relying on the results of a DCF and CAPM analysis for three different proxy groups.¹³⁵ Public Counsel witness Woolridge employs separate electric and natural gas proxy groups, consisting of 24 and eight utilities respectively, and applies their modeling inputs to PSE’s proxy group for comparison purposes.¹³⁶ Woolridge primarily relies on the DCF results contending “the CAPM provides a less reliable measure of a utility’s equity-cost rate because it requires an estimate of the market-risk premium.”¹³⁷ Therefore, Woolridge asserts that a range 9.0 to 9.75 percent is appropriate and uses the midpoint of that range to arrive at Public Counsel’s recommended ROE of 9.38 percent.¹³⁸
- 89 Regarding the capital structure, Public Counsel recommends the Commission maintain the common equity ratio of 49.0 percent. Woolridge argues this ratio reflects PSE’s actual capitalization structure, is consistent with Commission practice, and more analogous with the capital structures of the proxy groups employed by Public Counsel and PSE.¹³⁹
- 90 Further, Woolridge opines that multiple pieces of supportive legislation, such as SB 5295 (multi-year rate plan) and the recent decarbonization bill, recovery of the LNG facility costs, and authorized collection of the Climate Commitment Act costs, provide credit positive outcomes for PSE in future years.¹⁴⁰ Additionally, Woolridge testifies that despite PSE’s concerns regarding its cash flow and credit metrics, these concerns “are already considered by credit agencies in rating PSE’s credit worthiness and financial risk” and “a lower ROE may not have a significant impact on risk”.¹⁴¹
- 91 AWEC recommends a ROE of 9.2 percent with a range of 7.92 to 9.98 percent based on their DCF, CAPM, and ECAPM models adopting PSE’s proxy group.¹⁴² However,

¹³⁴ Parcell, Exh. DCP-1T at 25:2-12, 29:10-18.

¹³⁵ Woolridge, Exh. JRW-1CT at 6:10-19.

¹³⁶ Woolridge, Exh. JRW-1CT at 28:2-29:20.

¹³⁷ Woolridge, Exh. JRW-1CT at 39:13-23.

¹³⁸ Woolridge, Exh. JRW-1CT at 109:17-22.

¹³⁹ Woolridge, Exh. JRW-1CT at 32:7-15.

¹⁴⁰ Woolridge, Exh. JRW-1CT at 107:4-108:6.

¹⁴¹ Woolridge, Exh. JRW-1CT at 108:11-20.

¹⁴² Kaufman, Exh. LDK-1CT at 39:3-6, 43:8-10, 71 at Table 1.

Kaufman includes additional analysis of market data, surveys of institutional investors, and contemplates non-diversifiable risk in determining AWEC's reasonable ROE range of 8.0 to 9.5 percent, and final recommendation of 9.2 percent.¹⁴³

92 Kaufman recommends the Commission employ PSE's forecasted equity ratio of 49 percent but provides no further arguments to substantiate AWEC's position.¹⁴⁴

93 In cross answering, Walmart witness McGovern agrees with Public Counsel and AWEC's equity ratio recommendation of 49 percent. McGovern contends the Company failed to demonstrate the need for its proposed hypothetical capital structure.¹⁴⁵ McGovern also recommends the Commission maintain PSE's current ROE of 9.4 percent based on three factors: the impact of a higher ROE on customer rates; the fact that the Company's proposed ROE would place PSE in the 95th percentile of recently authorized utility ROEs; and the reduced risk associated with the Company's request for additional trackers.¹⁴⁶

94 JEA witness Cebulko recommends the Commission reduce PSE's ROE for projects associated with connecting new customers and expanding the natural gas system, claiming that the continued expansion and growth of the natural gas system is no longer in the public interest and carries a high risk of producing stranded assets.¹⁴⁷ While Cebulko prefers the cost of debt as the ROE for the gas system, Cebulko recommends a reduction of 0.75 percent, recognizing PSE's obligation to serve and maintain a safe and reliable gas system, and that setting ROE at cost of debt would violate the Commission's preference for gradualism.¹⁴⁸

95 On rebuttal, PSE witnesses Bulkley, Peterman, Martin, and Shipman refute various facets of other parties' cost of capital witnesses. Peterman contends the non-Company party cost of capital proposals would reduce cash flow between \$27 million to \$41 million in 2025, and \$64 million to \$81 million in 2026.¹⁴⁹ Peterman argues those impacts ignore

¹⁴³ Kaufman, Exh. LDK-1CT at 37:12-38:2, 71:4-6.

¹⁴⁴ Kaufman, Exh. LDK-1CT at 72:2-5.

¹⁴⁵ McGovern, Exh. JLM-1T at 10:8-16.

¹⁴⁶ McGovern, Exh. JLM-1T at 17:8-15.

¹⁴⁷ Cebulko, Exh. BTC-1T at 93:5 – 94:2.

¹⁴⁸ Cebulko, Exh. BTC-1T at 102:1-19.

¹⁴⁹ Peterman, Exh. CGP-11CT at 6:7-9. These figures are before corrections made by Peterman on other cost of capital witness models.

PSE's need for increased cash flow and the historic levels of spending required to comply with CETA requirements.¹⁵⁰

- 96 While the outcome of PSE's 2020 rate case signaled a positive regulatory outcome for that proceeding, Shipman testifies that continued constructive regulatory decisions must continue to maintain the positive momentum.¹⁵¹ Further, Shipman opines the rating agencies are "now more prone to change ratings,"¹⁵² and "in practice[,] negative regulatory decisions are more likely to prompt a rating action than positive ones."¹⁵³
- 97 Martin further refutes the testimony of Staff and Public Counsel regarding the risk reducing nature of multi-year rate plans eliminating the need for an increased equity ratio.¹⁵⁴ Martin argues the risk-reducing attributes related to legislative provisions can only be assessed based on implementation.¹⁵⁵ Further, Martin challenges Staff witness Parcell's argument that the TCJA is irrelevant in assessing the current cash flow needs of the Company. Martin maintains that the TCJA remains the governing tax code and therefore is relevant for selecting the ROE and equity ratios in this proceeding.¹⁵⁶
- 98 Additionally, referencing Shipman's rebuttal testimony, Martin testifies that "the credit metrics resulting from [non-Company party] recommendations would fall below ratings agency expectations and in some cases below downgrade triggers."¹⁵⁷
- 99 Bulkley disagrees with various aspects of the modeling employed by the non-Company parties' ROE analyses. However, Bulkley clarifies that the "differences in the results of our respective cost of equity models are largely not a function of proxy group differences, but rather methodological differences regarding the inputs to the cost of equity models."¹⁵⁸
- 100 PSE objects to JEA's proposal to differentiate the ROE for gas system expansions.¹⁵⁹ Specifically, PSE argues that it has a legal obligation to serve customer growth and that a

¹⁵⁰ Peterman, Exh. CGP-11CT at 4:14-15.

¹⁵¹ Shipman, Exh. TAS-5CT at 2:8-13,

¹⁵² Shipman, Exh. TAS-5CT at 1-2.

¹⁵³ Shipman, Exh. TAS-5CT at 4:10-12.

¹⁵⁴ Martin, Exh. JLM-1CT at 6:7-8:2.

¹⁵⁵ Martin, Exh. JLM-1CT at 8:9-10.

¹⁵⁶ Martin, Exh. JLM-1CT at 24:8-15.

¹⁵⁷ Martin, Exh. JLM-1CT at 17-19.

¹⁵⁸ Bulkley, Exh. AEB-19T at 24:4-9.

¹⁵⁹ Martin, Exh. JLM-1CT at 30:5-6.

reduction in ROE would be a penalty, not a performance-based incentive.¹⁶⁰

Alternatively, if the Commission grants JEA's proposal, PSE argues the Commission should provide a higher return for clean energy resources and other investments that promote public policy.¹⁶¹

Commission Decision

- 101 In determining cost of capital, the Commission is guided by the longstanding precedent of the *Hope*¹⁶² and *Bluefield*¹⁶³ cases. The Commission will analyze service on debt as well as the return to the equity owner, which should be commensurate with returns on investments in other enterprises having corresponding risks. That return should be sufficient to assure confidence in the financial integrity of the enterprise, to maintain its credit and to attract capital.¹⁶⁴ Moreover, "what the company is entitled to ask is a fair return upon the value of that which it employs for the public convenience. There must be a fair return upon the reasonable value of the property at the time it is being used for the public."¹⁶⁵
- 102 Based on this guidance of the *Hope* and *Bluefield* cases, in *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, the Commission provided that "a utility's cost of capital has three main components: capital structure, return on equity, and cost of debt. Taking all these factors into account, it is possible to describe the utility's overall rate of return (ROR), also known as the weighted average cost of capital (WACC)."¹⁶⁶
- 103 After reviewing the evidence and testimony, although we find that PSE has carried its burden of proof for an increase in ROE, we reject PSE's specific proposed ROE for each rate year under the principle of gradualism. In its brief, PSE asserts that its proposed ROE step increase to 9.95 in RY1 and then to 10.5 percent in RY2 is in line with the principle of gradualism and our precedent. We disagree. In PSE's 2019 GRC, we cited to the language from Avista's 2017 GRC, which reads:

160 Martin, Exh. JLM-1CT at 28:14-18.

161 Martin, Exh. JLM-1CT at 28:4-13.

¹⁶² *Fed. Power Comm'n v. Hope Nat. Gas Co.*, 320 U.S. 591, 64 S. Ct. 281, 88 L. Ed. 333 (1944).

¹⁶³ *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n*, 262 U.S. 679, 43 S. Ct. 675, 67 L. Ed. 1176 (1923).

¹⁶⁴ *Federal Power Com. v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944).

¹⁶⁵ *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n*, 262 U.S. at 690.

¹⁶⁶ *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Dockets UE-230172 & UE-210852, Order 08, ¶ 112 (Mar. 19, 2024); See also *Bluefield*, 262 U.S. at 689-90.

When considering changes to a regulated utility's authorized ROE, we endeavor to avoid material adjustments, upward or downward, in authorized levels to provide stability and assurance to investors and others regarding the regulatory environment supporting the financial integrity of the utility. Based on the evidence produced by the various expert witnesses, we generally determine whether modest increases or decreases, if any, to currently authorized levels are appropriate given the evidence produced in the immediate proceeding.¹⁶⁷

- 104 Despite PSE's persuasive arguments regarding the risk-increasing realities of the clean energy transition and the funding needed for such a transition generally,¹⁶⁸ at this time we find that approving an ROE at 9.95 percent in RY1 and 10.5 percent in RY2, a 101-basis point increase from the Company's current 9.4 percent ROE, is against the gradualism principle.
- 105 We reject JEA's proposal to reduce PSE's ROE for natural gas system expansions, finding the request inconsistent with the Company's obligation to serve new and existing customers.
- 106 We also reject the ROEs recommended by Staff, Public Counsel, AWEC, and Walmart. The parties' witnesses have utilized analytical tools with which we are well-acquainted, including DCF, CAPM, ECAPM, RP, and CE. The models yielded results for ROE ranging from as low as 7.54 percent calculated by AWEC to as high as 11.9 percent calculated by PSE. We observe that the range of results is similar to PSE's rate case in Docket UE-190529 wherein we noted "the disparity in outcomes is directly attributable to the experts' selection of proxy groups and their reliance on different sources for growth rates, discount rates, and risk premiums."¹⁶⁹ The difference here, at least, is that the witnesses' analyses produced a 436-basis point range of possible returns rather than the 600-basis point range from the 2019 PSE GRC.
- 107 We note that only Staff proposed to raise PSE's ROE to 9.5 percent. While Walmart offers to maintain the Company's ROE at its current level of 9.4 percent, Public Counsel and AWEC seek to lower PSE's ROE to 9.375 percent and 9.2 percent, respectively.¹⁷⁰

¹⁶⁷ *WUTC v. Puget Sound Energy*, Dockets UE-190529 and UG-190530, Final Order 08, ¶ 105 (July 8, 2020) citing *Wash. Utils. and Transp. Comm'n v. Avista Corp., d/b/a Avista Utils.*, Dockets UE-170485 and UG-170486 (*Consolidated*), Final Order 07 ¶ 68 (Apr. 26, 2018).

¹⁶⁸ Staff's Post-Hearing Brief, at ¶ 53; PSE Post-Hearing Brief, at ¶ 19 and Doyle, Exh. DAD-1CT at 38:19-21.

¹⁶⁹ *WUTC v. Puget Sound Energy*, Dockets UE-190529 and UG-190530, Final Order 08, ¶ 102 (July 8, 2020).

¹⁷⁰ We note, however, that both Public Counsel and AWEC's ROE recommendations in this case are higher than ROE recommendations these parties have made in prior cases.

We find that these proffered ROEs are too low to address the current conditions facing PSE.

108 We recognize that some upward adjustment is needed to ensure the Company remains able to provide reliable and adequate service to its customers, continues to meet its statutory obligation to transition to clean energy, per its CETA requirements, and remains credit worthy and able to acquire capital for continued operations. Balancing these competing interests goes to the heart of the Commission's responsibility.¹⁷¹

109 Based on the above, we approve raising PSE's ROE to 9.8 percent for electric and gas operations in RY1 and to 9.9 percent in RY2. While we maintain a hypothetical capital structure of 49 percent common equity for RY1, we approve a capital structure containing a 50 percent common equity for RY2, with resulting RORs of 7.52 percent for RY1 and 7.64 percent for RY2. In summary, we believe our approval of PSE's proposed ROE, capital structure, and ROR serves two purposes. First, we remain consistent with the principles of gradualism and protect the ratepayers from rate shock. Second, approving a higher ROE, capital structure, and resulting ROR allows the Company the opportunity to maintain its credit rating, attract needed capital, continue to be a viable utility providing service to its ratepayers, and continue working toward CETA compliance. Pursuant to the precedent established in the *Hope* and *Bluefield* cases, we believe the approved ROE, capital structure, and ROR strike the appropriate balance between investor and consumer interests, and therefore is in the public interest.

E. Performance Based Ratemaking

110 On August 2, 2024, the Commission published its Policy Statement regarding initial reported performance metrics in Docket U-210590.¹⁷² In the August Policy Statement, the Commission identified a set of 21 initial metrics on which it would require regulated electric and gas companies to report, including metrics required by RCW 80.28.425(7) for multi-year rate plans. As part of the August Policy Statement, the Commission explained that while the Commission agreed that it was appropriate to adopt a more limited set of reporting metrics to reduce the number of metrics and quantity of reported data, a comprehensive performance based ratemaking (PBR) framework could not be established with finality at this juncture.¹⁷³ The Commission further acknowledged that it

¹⁷¹ *Federal Power Com. v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944); *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n*, 262 U.S. at 690.

¹⁷² *In re Proceeding to Develop a Policy Statement Addressing Alternatives to Traditional Cost of Service Rate Making*, Docket U-210590, Policy Statement Addressing Initial Reported Performance Metrics, (Aug. 2, 2024) (Policy Statement Addressing Initial Reported Performance Metrics).

¹⁷³ Policy Statement Addressing Initial Reported Performance Metrics at 3 ¶ 10, 5-6 ¶¶ 18-19.

was still in the process of gaining experience with the metrics and the data necessary to report on the metrics, and encouraged interested parties to propose additional metrics as part of MYRP proceedings for additional consideration.¹⁷⁴

- 111 Following the release of the August Policy Statement, PSE revised its position on reported metrics. With respect to PBR metrics, PSE proposed to limit its reporting to the metrics contained in the August Policy Statement, with one exception regarding the reporting of distributable energy resources (DER), which PSE requests be reported seasonally, rather than annually.¹⁷⁵ PSE maintained its request for a demand response (DR) performance incentive mechanism (PIM) from its initial testimony, requesting a DR PIM with a target of 149 MW by the end of November 2026-2027 winter season with an incentive cap of \$3 million.¹⁷⁶
- 112 Staff disagrees with PSE's proposal to limit reported metrics to only the metrics contained in the August Policy Statement stating that the August Policy Statement metrics do not represent an exhaustive list. Staff recommends the Commission require PSE to report on four additional metrics that the Commission required PacifiCorp to report as part of its 2023 GRC.¹⁷⁷ These four metrics include: 1) number and percentage of households with a high energy burden; 2) average excess burden per household; 3) number and percentage of residential electric disconnections for nonpayment by month; and 4) average connection times for new services requested associated with new construction of single and multi-family housing.¹⁷⁸
- 113 TEP requests that the Commission order PSE to continue reporting two additional metrics related to arrearages and disconnections. The first metric concerns total residential arrearages and average age of arrears by month measured by location and for known low-income households, Highly Impacted Communities, and Vulnerable Populations.¹⁷⁹ The second metric tracks the number and percentage of residential disconnect notices, disconnections for nonpayment, and reconnections by month and zip code, for known low-income households, Highly Impacted Communities, and Vulnerable Populations.¹⁸⁰ TEP maintains that these are necessary because, absent a Commission order in this proceeding, PSE will not be required to report this information and notes that PSE agreed

¹⁷⁴ Policy Statement Addressing Initial Reported Performance Metrics at 5 ¶¶ 16, 6 ¶¶ 19.

¹⁷⁵ Steuerwalt, Exh. MS-4T at 40:16 – 41:12, Archuleta, Exh. GA-14T at 9:8-15.

¹⁷⁶ Archuleta, Exh. GA-14T at 4:23-25; 6:9-11.

¹⁷⁷ Staff's Post-Hearing Brief, at ¶¶ 106-107.

¹⁷⁸ Staff's Post-Hearing Brief, at ¶ 107 (citing McGuire, Exh. CRM-1T at 19:16 – 20:9).

¹⁷⁹ TEP's Post-Hearing Brief, at ¶ 13.

¹⁸⁰ TEP's Post-Hearing Brief, at ¶ 13.

at hearing to continue providing this data.¹⁸¹ TEP also requests that PSE be required to post PBR metric data on its website.¹⁸²

114 With respect to PSE's suggested DR PIM, Staff, TEP, JEA, and AWEC each recommend that the Commission not accept the DR PIM as proposed. Staff disagrees with PSE's proposed target for its DR PIM, instead recommending that the DR PIM target be set at 207 MW and include a requirement that PSE provide at least 30 percent of the DR energy benefit to Named Community customers.¹⁸³ Staff further suggests modifying the incentive structure such that the incentive reflects a portion of the DR programs costs equal to the average of three ratios: 1) the percent of additional DR benefits going to Named Communities above the required 30 percent threshold, 2) the percent of additional DR MW acquired beyond the 207 MW target, and 3) PSE's weighted average cost of capital percentage, as determined by the Commission in this proceeding.¹⁸⁴ Staff agrees with PSE's proposal to increase the incentive cap to \$3 million, provided that the DR amounts associated with the PIM are cost effective, including costs, benefits, and the PIM incentive itself, and that PSE report on its DR PIM, including a third-party evaluation report on the DR program's achievements relative to the PIM.¹⁸⁵

115 TEP opposes PSE's DR PIM in its entirety, but in the event that the Commission does approve a DR PIM, recommends that the Commission establish a higher MW threshold for incentives, include a penalty for failing to meet the proposed target, and require PSE to provide 30 percent of its DR program benefits to Named Communities before it receives an incentive reward.¹⁸⁶ TEP further argues that the Commission should maintain a combined incentive cap of \$1 million for both the DR PIM and return on DR PPAs.¹⁸⁷ AWEC does not oppose a DR PIM, but like TEP, recommends that the Commission establish a high MW threshold for incentives and maintain a \$1 million incentive cap.¹⁸⁸

¹⁸¹ TEP's Post-Hearing Brief, at ¶¶ 13-14, 18; Hutson, TR 211:11-24; 212:23 – 213:3.

¹⁸² Colton, Exh. RDC-1T at 48:19 – 49:3.

¹⁸³ Koenig, Exh. PK-1T at 15:18 – 16:8, 17:7-10.

¹⁸⁴ Koenig, Exh. PK-1T at 17:13 – 18:1.

¹⁸⁵ Koenig, Exh. PK-1T at 18:15 – 19:2, 19:17 – 20:4. On rebuttal, Staff further indicated that it would not oppose a \$1 million cap for the DR PIM in lieu of its original recommendation of \$3 million, provided that PSE is allowed to earn a return on qualifying DR PPAs, but does not abandon its recommendation for a \$3 million DR PIM incentive cap. Koenig, Exh. PK-6T at 4:7-9, 5:5-18.

¹⁸⁶ Stokes, Exh. SNS-1T at 60:8-12, 61:9-11.

¹⁸⁷ Stokes, Exh. SNS-1T at 62:10-11.

¹⁸⁸ Mullins, Exh. BGM-1T at 33:6-7; Mullins, Exh. BGM-6CT 17:12-15.

116 JEA does not oppose maintaining a DR PIM, but disagrees with the incentive target proposed by PSE, instead recommending that a higher target be set in order to incentivize PSE to achieve additional DR beyond the amount that is already contracted for.¹⁸⁹ JEA further contends that the DR PIM should be based on PSE's program's contribution toward resource adequacy and incorporate an incentive target for 2026-2027 of 482 MW (winter) and 422 MW (summer).¹⁹⁰ JEA also supports incorporating penalty mechanisms into PIMs in order to disincentivize "business as usual" activities, but does not propose a specific penalty mechanism with respect to the DR PIM.¹⁹¹

Commission Decision

117 The Commission commends the Parties for their ongoing efforts to further develop and hone the metrics on which PSE will be required to report during its MYRP. As noted in the August Policy Statement, the process of selecting and refining reported metrics is iterative, and the Commission encourages the continued efforts of the Parties to both revise existing metrics and propose new metrics for consideration.¹⁹² The Commission fully anticipates that PBR metrics will continue to be reviewed and refined and looks forward to additional robust discussion.

118 As an initial matter, the Commission rejects PSE's proposal to limit the metrics on which it will be required to report to those contained in the August Policy Statement. As explained in the Policy Statement, the metrics that were developed in that proceeding were not intended to be a final, comprehensive set of metrics for all utilities, and the Commission fully encouraged parties to suggest new or additional metrics in the context of a multi-year rate plan proceeding.¹⁹³ Furthermore, while the Commission remains sensitive to redundant reporting requirements, as utilities continue to report various metrics, the reported data may demonstrate that further adjustments and metrics are necessary to adequately and efficiently monitor a utility's operations and progress with

¹⁸⁹ McCloy, Exh. LMC-1T at 17:14-17.

¹⁹⁰ McCloy, Exh. LMC-1T at 17:4-6; 18:13.

¹⁹¹ Thuraisingham-Thompson, Exh. MT-CT-1T at 40:3-9. Although JEA in briefing recommends that the Commission approve a DR PIM penalty mechanism as proposed by Staff, Staff witness Koenig did not specifically propose a DR PIM penalty mechanism, but rather indicated that Staff would not oppose such a mechanism and that it could function similarly to the electrification penalty mechanism recommended by JEA witness Cebulko. JEA's Post-Hearing Brief, at ¶¶ 67, 72; Koenig, Exh. PK-6T at 8:15 – 9:12.

¹⁹² Policy Statement Addressing Initial Reported Performance Metrics, 3 ¶ 10.

¹⁹³ Policy Statement Addressing Initial Reported Performance Metrics, 3 ¶ 10, 5 ¶ 16.

state energy policies.¹⁹⁴ Therefore, it is inappropriate to limit reported PBR metrics to those identified in the August 2024 Policy Statement.

- 119 In reviewing the proposed changes to the reported metrics, the Commission has attempted to balance considerations of efficiency regarding the scope and quantity of data required by the metrics with the need to establish a reasonable baseline of data to evaluate utility performance. The Commission generally agrees that the original number of metrics that the Company was required to report on was relatively cumbersome and in some cases provided limited analytical value.¹⁹⁵ The Commission also considered additional modifications to reported metrics to consolidate and simplify the collection of data where possible and avoid duplicative reporting. Similarly, in evaluating new or modified metrics proposed by the Parties, the Commission reviewed whether the reported data would be helpful to evaluate utility performance and whether the requested data could be found in existing reporting requirements.
- 120 Having considered all of the Parties' arguments regarding PBR metrics, the Commission determines that it is reasonable to require PSE to report on the metrics contained in the August 2024 Policy Statement, reduce the number of overall metrics reported to avoid duplication, and require the Company to report on several modified or new metrics. Appendix C, attached to this Order, contains a description of the changes to PBR metrics in this proceeding as well as additional reasoning for the decision to require, retain, modify, or remove a particular metric.
- 121 As shown in Appendix C, the Commission has reduced the number of PBR metrics on which PSE will be required to report to 27. These metrics consist of six metrics that have been refined or proposed during this proceeding and the 21 metrics contained in the August Policy Statement, including the metrics established pursuant to RCW 80.28.425(7).¹⁹⁶ In many cases, metrics were removed because the same information can be found in other reporting required by the Commission, such as information reported as part of Customer Benefit Indicators, or were already incorporated into other required PBR metrics. The Commission also authorized the removal of metrics where no party opposed removal, as the lack of opposition suggests that the metric provides little value in reviewing PSE's operations. Similarly, the Commission declined to require a metric if the proposed measurement involved too many factors outside PSE's control because the metric would provide limited insight into the effect of PSE's operational decisions.

¹⁹⁴ Policy Statement Addressing Initial Reported Performance Metrics, 4 ¶ 12.

¹⁹⁵ Steuerwalt, Exh. MS-1T at 44:15-19.

¹⁹⁶ Policy Statement Addressing Initial Reported Performance Metrics, 7 ¶ 22 – 21 ¶ 82.

- 122 Turning to the DR PIM, the Commission approves Staff’s proposed DR PIM, with an incentive cap of \$1 million. The Commission agrees that setting the DR PIM target based on the MW amount PSE has already contracted to acquire is contrary to the policy goal unpinning PIMs, because a PIM is intended to reward exemplary or innovate actions, rather than “business as usual” activities.¹⁹⁷ However, the Commission also finds that the alternative targets proposed by JEA, 482 MW (winter) and 422 MW (summer), are too high for PSE to realistically achieve over the course of the MYRP, given that the targets more than double the MW amount of DR that PSE presently expects to achieve by the end of the MYRP.¹⁹⁸ Staff’s proposed target of 207 MW strikes an appropriate balance of incrementally encouraging PSE to continue expanding its DR program while maintaining a target that the Company could reasonably achieve.¹⁹⁹
- 123 The Commission finds that PSE has not demonstrated that an increase of the incentive cap from \$1 million to \$3 million is warranted on this record. Although PSE states that the incentive cap should be increased due to the higher MW target, increased costs, and expanded programs, it does not provide any analysis of costs and benefits associated with these considerations beyond general assertions.²⁰⁰ Moreover, given that Staff’s version of the DR PIM represents a modification of PSE’s existing DR PIM, the Commission is hesitant to increase the incentive cap for the DR PIM prior to evaluating PSE’s performance under the modified PIM. The Commission also declines to implement a penalty incentive as part of PSE’s DR PIM because no party provided specific details on how such a penalty should operate, and it is reasonable to allow PSE to adjust to the modified DR PIM without the looming threat of a penalty.
- 124 While the Commission indicated a preference for collaboratively developed metrics in the August Policy Statement, the Commission expressly declined to foreclose the option of implementing metrics proposed during a company’s general rate case.²⁰¹ Although a collaborative process may give the Commission more confidence that a PIM is reasonable and appropriate, the Commission will not limit its authority to implement a PIM to only those that have gone through such a process. Furthermore, the Commission

¹⁹⁷ *In re Proceeding to Develop a Policy Statement Addressing Alternatives to Traditional Cost of Service Rate Making*, Docket U-210590, Interim Policy Statement Addressing Performance Metrics and Goals, Targets, Performance Incentive Mechanisms, and Penalty Mechanisms, 12 ¶ 29 (April 12, 2024).

¹⁹⁸ McCloy, Exh. LCM-1T at 19:13.

¹⁹⁹ Koenig, Exh. PK-1T at 15:18 – 16:8.

²⁰⁰ Archuleta, Exh. GA-14T at 6:9-16.

²⁰¹ Policy Statement Addressing Initial Reported Performance Metrics, 7 ¶ 21. The Commission further observes that this statement was with respect to performance metrics, rather than performance incentive mechanisms, and is therefore not entirely applicable to the DR PIM.

is not persuaded that the other policy goals that PSE cites in support of its own DR PIM proposal are otherwise absent from Staff's proposal.²⁰² If anything, Staff's proposal goes further than PSE's with respect to advancing state energy policy goals by directly incorporating equity considerations into the incentive structure.²⁰³ Similarly, the Commission does not agree with PSE's conclusory assertions that Staff's proposal is premature, or that the data relied on by Staff for its proposed MW target is insufficiently reliable or robust.²⁰⁴

125 Although the Commission retains the DR PIM for the duration of this rate plan, we will work to establish a foundation for future PIM creation or modification through the Commission's Performance Based Regulation Docket (U-210590). This will allow the Commission, regulated utilities, and all interested parties the ability to collaboratively discuss the many facets for such incentives and their processes (*i.e.*, targets, incentives, penalties, modifications, and the degree of revenues subject to PIMs). Furthermore, the Commission rejects the request to require PSE to post all of its reported PBR metric data on its website pending additional discussion and review in future proceedings in Docket U-210590.²⁰⁵

F. Climate Commitment Act Costs

126 PSE currently includes allowance costs in dispatch for wholesale power sales but not for generation serving retail load on the assumption that the Washington Department of Ecology (Ecology) will provide a one-for-one true-up for retail load no-cost allowances. Staff recommends that PSE include allowance costs in dispatch for both retail and wholesale load, claiming that Ecology will likely not have a full true-up for retail load. PSE acknowledges that this would be the better option if it was known that Ecology would not fully true-up utilities for retail load, but the Company argues that there is no reliable indication either way from Ecology.

1. CCA Costs in Dispatch

127 While Climate Commitment Act (CCA) costs are discussed in the context of our review of Power Costs in Section II.O. below, we address them separately in this decision. PSE currently includes CCA allowance costs in dispatch for wholesale power sales but not for generation serving retail load on the assumption that the Washington Department of

²⁰² PSE's Post-Hearing Brief, at ¶ 142.

²⁰³ Koenig, Exh. PK-1T at 16:11 – 17:4.

²⁰⁴ Archuleta, Exh. GA-14T at 5:16 – 6:6.

²⁰⁵ Policy Statement Addressing Initial Reported Performance Metrics, 3-4 ¶ 11 (noting a utility comment that not all metric data is appropriate to post on the utility's external facing websites).

Ecology (Ecology) will provide a one-for-one true-up for retail load no-cost allowances.²⁰⁶

- 128 Staff recommends the Commission require PSE to account for CCA compliance costs in all dispatch decisions, whether to serve customer load or to sell into the wholesale market.²⁰⁷ Staff witness Wilson admits there is uncertainty surrounding how the Department of Ecology (Ecology) will treat the no-cost allowance allocation and adjustment process, but points to this uncertainty as one of several reasons CCA costs should be included in all thermal dispatch, because without clarity, failure to do so could result in worse outcomes for customers than doing so.²⁰⁸
- 129 On rebuttal, PSE witness Mueller concedes that it may be reasonable to account for CCA costs in dispatch of resources serving retail load, but only if Ecology determines that retail load allowances are not trued-up on a one-to-one basis, which PSE does not believe is the intent of the CCA or Ecology.²⁰⁹ Without further clarity from Ecology, PSE argues against Staff's proposal, noting that PSE already considers CCA costs in the dispatch for resources supplying only wholesale sales.²¹⁰ PSE argues that it anticipates to receive no-cost allowances to cover all emissions from serving retail electric demand, but will need to purchase allowances for emissions connected to sales of surplus energy to other market participants. Accordingly, PSE argues their approach is "lower risk" and the difference between including CCA costs in wholesale only versus wholesale and retail dispatch exceeds \$100 million over the two-year rate period.²¹¹
- 130 Public Counsel and AWEC both oppose Staff's proposal to include CCA costs in all dispatch. While Public Counsel shares some of Staff's concerns, Public Counsel witness Earle argues the inability to accurately forecast allowances should preclude their inclusion in power costs, as typically adjustments for operating or maintenance expenses, and other forecast adjustments are based on long histories with reliable forecasts.²¹²

²⁰⁶ Mueller, Exh. BDM 1-T, at 26:1-31:12; BDM-11C.

²⁰⁷ Wilson, Exh. JDW-1T at 35:15-37:22, 38:17-39:5.

²⁰⁸ Staff's Post-Hearing Brief, at ¶¶ 91-93, *citing* Wilson, Exh. JDW-1T at 35:1-37:22 (Wilson explains uncertainty and greater risk to assuming a guaranteed true-up).

²⁰⁹ Mueller, Exh. BDM-23CT at 25:14-29:11.

²¹⁰ PSE's Post-Hearing Brief, at ¶ 91, *citing* Mueller, Exh. BDM-23CT at 24:16-17.

²¹¹ PSE's Post-Hearing Brief, at ¶¶ 91-92.

²¹² *See*, Earle Exh. RLE-6T at 14:17-15:5.

Specifically, Public Counsel points to volatility in both the California and Washington carbon allowance markets, with recent prices fluctuating wildly.²¹³

- 131 Pointing to the remaining uncertainty around Ecology’s treatment of true-ups and the need for consistency across utilities, AWEC argues against Staff’s proposal. AWEC argues that resolution of this issue could be achieved through a consistent solution for all utilities in the Commission’s pending CCA proceeding, Docket U-230161.²¹⁴ No other party takes a position, for or against, Staff’s proposal.

Commission Decision

- 132 The emissions reductions required by Washington law – through both the CCA and CETA – create a situation where Washington’s regulated utilities are faced with being first movers. While this can be an awkward position for regulated companies generally, we commend PSE for some of the steps taken thus far, including having the foresight to account for CCA costs in wholesale dispatch. PSE took this step without being required to do so by the Commission, based on the Company’s interpretation of the CCA and the rules and guidance that have followed the CCA’s passage. However, here we are faced with the question as to whether the Commission should require PSE to also consider these costs more broadly, in all dispatch decisions.
- 133 As all parties agree, compliance and enforcement rules, policies, and guidance from Ecology and the Commission are still being developed. Because of this, there is still uncertainty in some issues in how utilities must follow the law and how they might achieve their statutorily required goals.²¹⁵ Staff argues the uncertainty weighs in favor of proactively mandating CCA costs in all dispatch decisions to lower risks.²¹⁶ In contrast, PSE argues, its current approach is the least risk option based on its understanding of Ecology’s guidance and rules.²¹⁷ However, without further clarity on how true-ups will be conducted, the record does not necessarily support either approach as the “least risk” option.
- 134 Due to this uncertainty, the Commission is faced with maintaining a balance, ensuring that the Commission fulfills its duties to regulate rates in the public interest, provide guidance for the regulated community, and retain flexibility for the Commission and the

²¹³ Earle, Exh. RLE-6T at 11:3-12:18.

²¹⁴ Earle Exh. RLE-6T at 14:17-15:5.

²¹⁵ See, Wilson, Exh. JDW-1T at 35:15-37:22, 38:17-39:5; Earle Exh. RLE-6T at 14:17-15:5; and Earle Exh. RLE-6T at 14:17-15:5.

²¹⁶ See, Wilson, Exh. JDW-1T at 35:1-36:37:8.

²¹⁷ Muller, Exh. BDM-23CT at 28:17-20.

regulated community to achieve ultimate CCA compliance. All of this must be done in a way that achieves the mandates of CCA and CETA, while maintaining affordable and reliable service.

- 135 Staff's proposal to include CCA costs in dispatch would increase PSE's power costs by more than \$100 million over the rate effective period.²¹⁸ While the Commission sees merit to Staff's approach, we are concerned that the proposal is not fully developed and would result in disparate treatment with the approaches taken with other utilities. Further, we agree with Public Counsel that attempting to forecast these costs in dispatch, and collect those costs through the Power Cost Adjustment (PCA), is an approach likely to be mired by arguments over forecast methodologies and costs of allowances used in forecasts.²¹⁹ As Earle shows, the price point used for calculating CCA costs remains unpredictable.²²⁰ At this time, the Commission notes that there is a lack of trading data on which the Commission can reasonably rely to determine a single price point for CCA allowances for inclusion in dispatch decisions.²²¹ In addition, Washington allowance prices doubled from their starting point, before reverting again to the starting price, over the length of this case.²²² Because of the uncertainty of pricing, the limited record of allowance prices, and the lack of clarity regarding treatment of allowance true-ups, we decline to require CCA allowance prices and costs in dispatch, market purchases, and market sales at this time.
- 136 The Commission finds that CCA allowance prices and costs in dispatch, market purchases, and market sales, and the Commission's policy surrounding their inclusion in net power expenses and PCAs, should be addressed in Docket U-230161 so that policy and implementation is consistent for all regulated utilities, and each impacted utility has an opportunity to comment on the issue.
- 137 However, utilities subject to the CCA, including PSE, should consider accounting for the prices and costs as Staff has proposed. The Commission will continue to monitor how PSE and other regulated electric utilities are addressing CCA compliance in their decision making moving forward and will ultimately determine whether those actions were prudent when the companies seek cost recovery and a prudence determination of CCA costs. PSE will need to demonstrate the impacts of the CCA on their decisions including dispatch, market purchases, and market sales moving forward, as they will carry the

²¹⁸ See, PSE's Post-Hearing Brief, at ¶ 92; see also, Mueller, Exh. BDM-23CT at 26:13-28:13.

²¹⁹ Earle, Exh. RLE-6T at 2:4-3-7; see also Public Counsel's Post-Hearing Brief, at ¶ 87.

²²⁰ Earle, Exh. RLE-6T at 11:5-12:18.

²²¹ Earle, Exh. RLE-6T at 12:1-4.

²²² Earle, Exh. RLE-6T at 12:1-4.

burden to show that both the Company's approach to compliance and the costs incurred in pursuing that approach are prudent.

138 On this point, the Commission acknowledges and takes notice that since the evidentiary hearing in this matter, Ecology has provided guidance which to some degree clarifies how Ecology will treat true-ups of 2023 vintage allowances.²²³ We expect the utilities will continue to develop compliance strategies in response to the adoption of rules and guidance established by Ecology and the Commission, as we collectively move towards meeting the mandates of both the CCA and CETA.

2. Review of CCA Costs

139 In addition to proposing inclusion of CCA costs in all dispatch decisions, Staff also asks the Commission to require an annual review of PSE's CCA costs, at the time annual power costs are reviewed, to protect against imprudence and rate shock.²²⁴ Staff proposes that these costs would be reviewed as part of the PCA filing. Staff witness Wilson argues that in determining how to review prudence of CCA costs, the Commission should weigh the following five factors:

- a. Administrative simplicity;
- b. Necessity of reviewing the allowance price and other factors that should be considered in unit dispatch and power purchase decisions during the annual power cost proceeding;
- c. Consideration that decisions to transact (or not transact) in the carbon market and carbon auctions depend on the reasonableness of the carbon price estimate and carbon price forecast as it existed during the year;
- d. Consideration that it is preferable to account for the costs (or benefits) resulting from decisions to transact (or not transact) in the year in which those transactions affect power costs (e.g., using mark-to-market valuations for unused allowances); and

²²³ WA Dept. of Ecology, Publication 24-14-085, [*Information on adjustments to no-cost allowance allocation for electric utilities*](#) (Nov. 20, 2024).

²²⁴ Wilson, Exh. JDW-1T at 27:1-21.

- 140 Consideration that it will be easier to review the reasonableness of a utility's carbon price forecasting method after that method is exposed to a variety of real-world circumstances, which may take several years to manifest.²²⁵
- 141 Wilson argues that the first three factors weigh in favor of annual CCA cost review, while the fourth factor does not weigh heavily one way or another, and the fifth factor weighs in favor of review at the end of the four-year compliance period.²²⁶ PSE does not support an annual CCA cost review and prudence determination at this time, and recommends continued deferral and review in the existing Docket UE-220974.²²⁷
- 142 As with Staff's proposal to include CCA costs in dispatch, Public Counsel and AWEC object. Public Counsel argues that prudence reviews should be aligned with the CCA compliance period, which lasts four years, plus ten months.²²⁸ AWEC also expresses concerns regarding how an annual review would work in the context of a four-year compliance period, and expresses concerns that the lack of complete guidance from Ecology may make it difficult if not impossible to judge prudence now, when it remains unclear as to how certain CCA allowance mechanisms will function throughout the full life cycle of the four-year compliance period.²²⁹

Commission Decision

- 143 Public Counsel and AWEC oppose annual review and prudence determinations of CCA costs, arguing that an annual prudence determination is impractical due to the four-year compliance period plus ten months in which the utilities must comply with allowance submission requirements and that prudence reviews would be impractical without finality from Ecology concerning how true-ups and other nuances will function.²³⁰ We agree.
- 144 RCW 70A.65.120 and 70A.65.130 discuss the allocation of allowances to both electric and natural gas investor-owned utilities, respectively. RCW 70A.65.200 discusses penalties and enforcement. All three sections reference and frame compliance, allowance allocations, and penalty enforcement around the "compliance obligation" and "compliance period." RCW 70A.65.020(19) defines "compliance obligation" to mean "the requirement to submit to the department the number of compliance instruments equivalent to a covered or opt-in entity's covered emissions during the compliance

²²⁵ Wilson, Exh. JDW-1T at 28:4-17.

²²⁶ Wilson, Exh. JDW-1T at 28:18-22.

²²⁷ Mueller, Exh. BDM-23CT at 33:5-34:5.

²²⁸ Earle, Exh. RLE-6T at 7:9-17, 9:2-3.

²²⁹ AWEC's Post-Hearing Brief, at ¶ 75.

²³⁰ See, e.g., Earle, Exh. RLE-6T at 7:9-17, 9:2-3, see also, AWEC's Post-Hearing Brief, at ¶ 75.

period.” RCW 70A.65.020(20) defines “compliance period” to mean “the four-year period for which the compliance obligation is calculated for covered utilities.” In sum, the compliance obligation, the penalties for failure to meet the obligations, and final counts of compliance instruments are measured at the conclusion of the four-year compliance period.

145 Over the course of the compliance period, a wide array of factors impacts a utility’s ability to reach its compliance obligation, the cost of compliance and subsequent penalties, and operations.²³¹ Additionally, as Earle illustrates, the costs themselves are highly volatile without a clear historical record on which forecasts in PCAs are typically required.²³² Therefore, we find that the costs are unlikely to be known and measurable with finality until the “compliance obligation” date and because of the added lack of clarity from Ecology, it would be premature to conduct prudence reviews of CCA costs and compliance on an annual basis.

146 To do otherwise poses risks of inappropriately shifting costs to customers before final compliance obligations are known. Moving forward, as the first compliance period comes to a close and the rules surrounding compliance become more developed, the Commission may be able to perform more frequent reviews in later compliance periods. At this time, however, the Commission finds the potential perils of annual compliance reviews outweigh the benefits put forward by Staff.

147 While we do not adopt Staff’s proposal for annual compliance reviews, Staff’s arguments and witness Wilson’s five factors presented for consideration do weigh in favor of increased scrutiny of CCA costs on an annual basis.²³³ Washingtonians will ultimately be responsible for some portion of CCA costs at the conclusion of the current compliance period. Additionally, decisions are being made now about resource acquisition, compliance instrument purchases, and many other factors that will impact whether PSE ultimately achieves its obligations.

148 Accordingly, the Commission finds that during PSE’s annual submission of updates to its CCA tracker tariff, the Company shall submit and present information pertaining to where CCA costs are being included in decision making, including, but not limited to Integrated Resource Plans (IRPs), Clean Energy Implementation Plans (CEIPs), dispatch, power purchases, carbon market transactions, and capital projects. This annual report will be addressed and acknowledged through the Open Meeting process and will help the

²³¹ See, e.g., Earle Exh. RLE-6T at 12:19-13:11, 13:20-14:8 (Earle discusses the complexities of forecasting, incentives to overestimate costs, underspend, and review).

²³² Earle, Exh. RLE-6T at 11:3-12:18.

²³³ See, Wilson, Exh. JDW-1T at 28:4-22.

Commission assess a utility's progress and decision making leading up to the Commission's prudence determination at the conclusion of the compliance period. The Commission believes this additional requirement will improve review, further administrative simplicity, and assist in building a robust record as to unit dispatch, power purchase decisions, carbon market transactions, and general prudence at the end of the compliance period.

G. Equity

1. Background

149 Many of the equity goals and requirements the Commission approved in PSE's 2022 General Rate Case (2022 GRC)²³⁴ and Appendix A of the Revenue Requirement Settlement in that case,²³⁵ stem from PSE's agreement to incorporate the four tenets of equity²³⁶ into its capital planning process by:

- (1) developing a Corporate Capital Planning process for equitable outcomes;
- (2) conducting system planning in coordination with the CEIP process;
- (3) creating an investment decision optimization tool (iDOT);
- (4) developing methods for a Distributional Equity Analysis (DEA) pilot program; and
- (5) incorporating equity in PSE's targeted electrification pilot.

150 While PSE maintains it has incorporated energy equity into numerous business use cases,²³⁷ and worked in collaboration with the Equity Advisory Group (EAG) to update its iDOT tool with Customer Benefit Indicator (CBI) metrics from the CEIP,²³⁸ several requirements from the 2022 GRC are still pending. Specifically, these include ongoing revisions and refinements to PSE's iDOT tool,²³⁹ continued community outreach to

²³⁴ See *WUTC v. PSE*, Dockets UE-220066 *et. al.*, Order 24/10 at 67-72 ¶¶ 220-236 (Dec. 22, 2022).

²³⁵ See *WUTC v. PSE*, Dockets UE-220066 *et. al.*, Order 24/10, Appendix A, (Revenue Requirement Settlement) at 14-16 ¶¶ 24-26 (Dec. 22, 2022).

²³⁶ The four tenets of equity are distributional justice, procedural justice, recognition justice, and restorative justice. See also *WUTC v. Cascade Nat. Gas Corp.*, Docket UG-210755, Order 09 ¶ 56 (Aug. 23, 2022).

²³⁷ Hutson, Exh. TAH-1T, Table 1, at 7-8.

²³⁸ Hutson, Exh. TAH-1T, at 9:9-15.

²³⁹ Hutson, Exh. TAH-1T, at 10:5-7.

identify DEA goals and metrics,²⁴⁰ and conducting a higher percentage of home weatherization assessments and fuel switching upgrades in Named Communities for PSE targeted electrification project.²⁴¹

2. General Equity

151 To demonstrate its commitment to the four tenets of equity as a priority in its planning and operations, PSE identified priority populations,²⁴² and developed Equity Investment Zones (EIZs)²⁴³ within its service territories to prioritize its investments to Named Communities within geographic areas “disproportionately impacted by longstanding disinvestment and environmental burdens.”²⁴⁴ To illustrate the location of the EIZs using these criteria, PSE identified EIZs including:

- (1) Census Block groups surrounding military bases in Bremerton and Whidbey Island;
- (2) Census Block groups in South King County (that include the highest degree of Highly Vulnerable customers subject to environmental harms);
- (3) Census Block groups in Skagit agricultural valley (known for its agricultural industry and high representation of Spanish speaking populations);
- (4) Seventeen federally recognized and five non-federally recognized Tribes; and
- (5) Kittitas Valley (that is subject to extreme heat and high wildfire risk).²⁴⁵

152 In addition to creating EIZ’s depicting the locations of priority populations, to comply with CETA requirements, PSE worked in consultation with the EAG to develop a geographic information system (GIS) mapping framework identifying where highly impacted communities and vulnerable populations were in its gas and electric service

²⁴⁰ Hutson, Exh. TAH-1T, at 12:20-21.

²⁴¹ Hutson, Exh. TAH-1T, at 14:6-8.

²⁴² Priority Populations is a term used by Lawrence Berkeley National Labs that refers to a set of electric or gas utility customers who typically experience disparities or inequities relative to other populations and continue to suffer for disproportionate systemic costs and burdens from energy extraction, generation, transmission and distribution. Hutson, Exh. TAH-1T, at 17:15-17.

²⁴³ An Equity Investment Zone (EIZ) is “a geographic coordinating area with unifying features such as exposure to air pollution, extreme heat, and existing social networks such as military families or Tribes.” Hutson, Exh. TAH-1T, at 20:1-5.

²⁴⁴ Hutson, Exh. TAH-1T, at 19:13 and 20:1-7.

²⁴⁵ Hutson, Exh. TAH-1T, at 21:1-5 and 22-23.

areas from 2019 to 2023.²⁴⁶ PSE also provides a detailed list of all the community members in Named Communities, Tribes, Advisory Groups, and other organizations, with which it has engaged with to address its energy equity goals to direct “at least 30 percent of clean energy benefits,” to Named Communities.²⁴⁷

153 While Staff acknowledge PSE’s progress on its current processes to advance equity, Staff witness Harmon identifies gaps in the Company’s implementation of its equity programs and provides the following recommendations for each of the four tenets of equity the Company addressed in its testimony.²⁴⁸

(1) Recognition Justice: To demonstrate that the root causes of historic and systemic inequities are being rectified in an “intentional way beyond mapping current conditions,²⁴⁹” Staff recommends the Commission order PSE to:

- (a) Conduct on-going research of the historical, cultural and institutional dynamics” and publish that information on its website with the headings “Who We Are” and “In Your Community” no later than nine months after the Final Order date in this docket;
- (b) Work in collaboration with “EAG and Named Communities at the Involve, Collaborate, and Empower public participation levels” to update and maintain the content of the two web-pages;²⁵⁰ and
- (c) Demonstrate how this research informs PSE’s on-going equity related work in future GRCs by detailing each proposed change as it relates to the Company’s rates, practices and operations.²⁵¹

(2) Procedural Justice: To ensure proceedings are fair, equitable, and inclusive for marginalized and vulnerable populations that participate in CEIP, IRP and Integrated System Plan (ISP) processes, Staff recommends the Commission order PSE to:

- (a) “Post guidelines, instructions, and templates on the company’s CEIP, IRP, ISP webpages” for interested parties to effectively participate in these proceedings;
- (b) “Provide more non-English accessible materials both in print and online,” and

²⁴⁶ Hutson, Exh. TAH-1T, at 24:3-11. *See also* Figures 3 and 4 on 25-26.

²⁴⁷ Hutson, Exh. TAH-1T, at 30-31.

²⁴⁸ Harmon, Exh. BLH-1T at 13:13 – 23:5.

²⁴⁹ Harmon, Exh. BLH-1T at 14:14-5.

²⁵⁰ Harmon, Exh. BLH-1T at 16:1-3.

²⁵¹ Harmon, Exh. BLH-1T at 16:4-8.

begin a process of “translating downloadable documents from its website into language based on service area demographics and other languages requested by customers.”

- (c) Work with EAG to increase engagement in PSE dockets and empower members to participate in Commission proceedings; and
- (d) Incorporate, engage and participate with Staff, Equity and Low-Income Advisory Groups, using the five levels of public participation of the International Association for Public Participation (IAP2) spectrum.²⁵²

(3) Distributive Justice: To reconcile the inconsistent information PSE provided in its testimony on the percentage of clean energy benefits it provides Named communities, Staff recommend that the Commission order PSE to:²⁵³

- (a) Improve its data analysis and include the “quantification of the benefits and burdens to Named Communities,” in all of its future rate cases;
- (b) Develop and “submit an action plan to provide over 30 percent of DR energy benefit[s] to Named Community customers,” and submit this action plan as a compliance filing;
- (c) Plainly state equity expectations and goals and “the expected means of achieving those goals,” in its contracts terms with vendors and have liquidated damage clauses in its contracts if the goals are not met.

(4) Restorative Justice: To remedy other existing inequities that exist, Staff recommends that the Commission order “PSE to examine its hiring and employment practices within nine months” of the Final Order in this docket and then “develop and implement a plan to remedy those inequities.”

154 While TEP does not provide any specific recommendations with respect to how PSE has integrated the four tenets of equity across its organization, TEP witness Stokes recommends PSE be required to hire a third-party facilitator to ensure PSE is sufficiently collaborating with the LIAC in accordance with the IAP2 spectrum.²⁵⁴ Stokes explains that the LIAC emerged following a settlement reached in PSE’s 2017 GRC²⁵⁵ and that its objectives are:

- “(i) to keep customers connected to their energy service;
- (ii) to provide assistance to more customers than currently served;

²⁵² Harmon, Exh. BLH-1T at 17:1 – 18:14.

²⁵³ Harmon, Exh. BLH-1T at 19:8-20.

²⁵⁴ See https://www.iap2.org/resource/resmgr/pillars/iap2_spectrum_2024.pdf

²⁵⁵ Stokes, Exh. SNS-1T at 7:15.

(iii) to lower the energy burden of PSE’s Home Energy Lifeline Program (HELP) participants; and
(iv) to collect data necessary to assess program effectiveness and inform ongoing policy discussion.”²⁵⁶

155 Specifically, Stokes proposes an independent third-party facilitator in response to concerns with how PSE operates and consults with LIAC, maintaining that PSE use this forum “to communicate decisions it has already reached,”²⁵⁷ instead of demonstrating a willingness to receive or incorporate suggestions.²⁵⁸

156 Stokes provides several examples of PSE failing to inform or consult the LIAC on relevant decisions.²⁵⁹ Arguing that PSE’s repeated actions have eroded TEP’s confidence in the LIAC’s ability to develop functional policies and practices outside of formal Commission proceedings, TEP recommends the Commission order PSE to hire an independent third-party facilitator to conduct the LIAC meeting to efficiently resolve issues, using the “collaborate” level of the IAPC2 spectrum.²⁶⁰ Additionally, TEP recommends that the Commission require PSE to include optional demographic questions in its energy assistance applications so that LIAC and other key stakeholders can assess the effectiveness of the Company’s programs and inform ongoing policy discussions.²⁶¹

157 JEA supports TEP’s recommendation to hire an independent facilitator for LIAC meetings using the collaborate level of the IAP2 spectrum to create a comfortable and structured environment so that constructive communication and engagement is fostered.²⁶² JEA also agrees with TEP’s recommendation that the Commission require PSE to include optional demographic questions in its energy assistance applications.²⁶³

158 While PSE witness Wallace indicates that the Company welcomes a neutral facilitator to conduct its LIAC meetings, it conditions acceptance of this recommendation on PSE being reimbursed for these meetings through Schedule 129, at an estimated cost of

²⁵⁶ *Wash. Utils. and Transp. Comm’n. v. Puget Sound Energy*, Dockets. UE-170333 & UG-170334, Multiparty Settlement Stipulation and Agreement, at ¶ 107 (Sept. 15, 2017) (“2017 PSE GRC”). The settlement terms were adopted in a subsequent Commission order. 2017 PSE GRC, Order 08, at ¶ 8 (Dec. 5, 2017).

²⁵⁷ Stokes, Exh. SNS-1T at 8:3-8.

²⁵⁸ Stokes, Exh. SNS-1T at 8:10-13.

²⁵⁹ Stokes, Exh. SNS-1T at 8:18 – 12:12.

²⁶⁰ Stokes, Exh. SNS-1T at 12:15-18; 15:15 – 16:8.

²⁶¹ Stokes, SNS-1T at 18:16-20.

²⁶² Thuraingham and Thompson, Exh. MT-CT-6T at 2:9 – 3:16.

²⁶³ Thuraingham and Thompson, Exh. MT-CT-6T at 3:17 – 4:10.

\$170,000 -240,000 per year.²⁶⁴ PSE explains that the estimated costs would include facilitation, meeting support, and equity forum listening event coordination and planning.²⁶⁵

Commission Decision

- 159 First, with respect to EIZ's, we commend PSE for its innovative approach, commitment to prioritizing investments to priority populations, and for the extensive GIS mapping frameworks it has developed to identify where highly impacted communities and vulnerable populations are situated in its gas and electric service areas. PSE's GIS maps will serve as a critical tracking tool to demonstrate the progress made in the Company's implementation of its energy equity goals, ability to meet regulatory requirements, and to distribute resources to those communities with the highest needs, while also ensuring equitable access to energy that is affordable, safe, reliable, and sustainable. We are also impressed with the progress PSE has made in integrating the four tenets of equity across its organization.
- 160 However, we agree with Staff that additional improvement in data analysis is necessary to evaluate the effectiveness of PSE's equity goals as well as the impacts and quantification of benefits and burdens to Named Communities. We also agree with Staff, TEP, and JEA, that PSE must conduct meaningful and equitable engagement with LIAC and all the other advisory committees with which it works, using the five levels of public participation in the IAP2 spectrum to provide a platform to collect optional demographic data for all its energy assistance applications. For this reason, we adopt TEP's recommendation that PSE be required to hire an independent third-party facilitator to conduct LIACs meetings applying the IAP2 Spectrum. Additionally, the Commission directs PSE to engage with the EAG, LIAC, and Commission Staff applying the same IAP2 Spectrum at the Consult, Involve, Collaborate and Empower public participation levels and to only use the inform level as needed to brief advisory group members prior to a meeting. We also direct PSE to include the LIAC members in the process of selecting a third-party facilitator to ensure the facilitator selected will ensure appropriate engagement with the LIAC.²⁶⁶

²⁶⁴ Wallace, Exh. CLW-10T at 5:13-6:7.

²⁶⁵ Wallace, Exh. CLW-10T at 6:3-5.

²⁶⁶ The various utility company advisory groups have been established through settlement agreements, rules, and by order. Each of the advisory groups is intended to provide an opportunity, outside of litigated proceedings, for utility companies, Staff, Public Counsel and interested entities to engage on topics in a collaborative manner, and to bring projects and proposals forward to the Commission for decision without litigation. We recognize, however, that

161 Next, we accept Staff witness' Koenig's recommendation and direct PSE to quantify, develop, and submit a compliance filing report reflecting the thirty percent DR energy threshold for Named Community customers and to submit this action plan as a compliance filing in this docket within ninety days of the effective date of this order.

162 However, with that said, the Commission believes the outstanding concerns brought forth by Staff witness Harmon concerning PSE's implementation of equity, are better suited for the Commission-led work in Docket A-230217. Primarily, the Commission desires to preserve and build upon PSE's innovative processes and to further refine Staff, TEP, and JEA's recommendations in a more holistic manner so that all investor-owned utilities grappling with operationalizing equity can work in tandem with Commission Staff, advisory groups, and other interested parties to further implement more equitable processes. The Commission therefore directs Staff, PSE, TEP, JEA, and other interested parties to continue collaborating in Docket A-230217 to further develop, hone, and ensure consistent implementation of broad equity goals, strategy, and implementation as recommended by Staff.

3. Equity Burden Formula

163 To measure and track reduced energy burden for customers, PSE proposed two new metrics to evaluate the Company's performance over the duration of the multi-year rate plan, which include:

- (1) "median percentage reduction in energy burden from energy assistance, among high energy burden customers who receive energy assistance;" and
- (2) "median percentage reduction in energy burden from energy assistance, among high "percentage of high energy customers who received energy assistance."²⁶⁷

164 PSE explains that measuring "its median percentage reduction of energy burdened customers that receive energy assistance from its portfolio of assistance programs," would be "a sentinel metric," to assess if it is "equitably distributing" energy benefits to

not all issues and proposals will be resolved in this collaborative manner, understanding that some issues will require the Commission to reach a decision among differing positions. We do not consider the lack of agreement on a proposal within advisory groups to indicate the lack of good faith by a utility to engage. However, not engaging in a good faith discussion or not providing opportunities for review among advisory group members can build distrust and is indicative of a process that is not collaborative, or conducive to collegial discussion.

²⁶⁷ Hutson, Exh. TAH-1T at 41:5-9. *See also* Table 4 Summary of Proposed Equity-Related Performance Metrics.

those customers in an energy burdened status.²⁶⁸ PSE further advocates for “using the median, rather than the mean,” so that the statistic is less influenced by outliers.²⁶⁹ While Staff agrees with PSE that the two metrics are complementary, Staff raises concerns about the way the metrics are defined and interact.²⁷⁰ Specifically, Staff is concerned that when comparing two customers receiving the same nominal benefit, the customer with the smaller energy burden will be recorded as having a larger percentage reduction, which will show strong results for participating customers with lighter energy burdens but may exacerbate inequalities.²⁷¹

165 In addition to the problem with metric definition, Staff identifies other complications with PSE’s calculations that have the potential to “inflate the Energy Burden Efficacy metric.”²⁷² Despite PSE updating the metric in response to a data request, Staff maintains that the new metric definition and calculation suffer from similar problems because the calculation only “measures energy assistance relative to median customer income rather than any reduction in burden.”²⁷³ Instead, Staff recommends improving the Energy Burden Efficacy metric by creating a third metric that would narrow “the standard deviation among high energy burden customers who receive energy assistance, while also increasing the number of customers who receive energy assistance,” to improve the median and prevent inequities among participating customers.²⁷⁴

166 On rebuttal, PSE witness Hutson withdrew the two proposed metrics, noting that many of the metrics need to be re-evaluated so that they are consistent with the metrics from the Commission’s recent Policy Statement in PBR Docket U-210590.²⁷⁵ Hutson commended Staff for identifying the mistake in its initial proposed calculation of the Energy Burden Efficacy metric,²⁷⁶ and amended the “Energy Burden” formula to examine energy burdens by the lowest income to measure the true extent of energy assistance.²⁷⁷ However, Hutson concludes that energy burden and energy burden reduction computations still require maintaining all three variables of household energy bills,

²⁶⁸ Hutson, TAH-1T at 42:4-8 and 43:1-2.

²⁶⁹ Hutson, TAH-1T at 43:11-14.

²⁷⁰ Harmon, BLH-1T at 23:16-19 and 24:1-3.

²⁷¹ Harmon, BLH-1T at 24:9-15.

²⁷² Harmon, BLH-1T at 25:1-6.

²⁷³ Harmon, BLH-1T at 26:4-6.

²⁷⁴ Harmon, BLH-1T at 26:14-16 and 27:1-2.

²⁷⁵ Hutson, TAH-10T, at 24:3-15.

²⁷⁶ Hutson, TAH-10T, at 25:4-9.

²⁷⁷ Hutson, Exh. TAH-10T at 26:10-12.

energy assistance and income to ensure PSE meets the energy burden reduction goals intended by CETA.²⁷⁸

Commission Decision

167 While Staff’s recommendation to amend the Energy Burden Formula is worthy of additional consideration, the Commission declines to adopt these changes. The existing metrics and definitions currently in use are more closely aligned with CETA than Staff’s proposed amendments. More importantly, further modifications to the energy burden definition in this docket would result in inconsistencies between investor-owned-utilities and with consumer-owned-utilities across the state who are not under the Commission’s jurisdiction. Therefore, for these reasons, we reject Staff’s recommendations.

4. DEA Methodology

168 In the Commission’s order approving a multiparty partial settlement in PSE’s 2022 GRC, PSE was required to conduct a pilot distributional equity analysis (DEA) and apply the methods used to develop the DEA to its proposed 80 MW of distributed energy resources (DER) as a pilot.²⁷⁹ While PSE agreed in the settlement to participate in a Staff-led process to refine the methods for a DEA, the Commission conditioned its approval of the settlement, in part, on a Commission-led process.²⁸⁰

169 PSE “partnered with Lawrence Berkeley National Labs (LBNL) to develop a publicly available decision support tool and an accompanying practical guide for enhancing traditional cost-effectiveness tests for distributed energy resources [DERs] with recognition of distributional equity considerations.”²⁸¹ PSE initiated this work with LBNL in July 2023 to conduct a DEA pilot on PSE’s community solar project which is a key piece of PSE’s 80 MW DER portfolio.

170 Staff acknowledges PSE’s work in evaluating PSE the two community solar projects using the LBNL DEA, but notes that Stipulations from the 2022 GRC²⁸² require PSE to “apply certain methods to its proposed 80 MW of distributed energy resources and

²⁷⁸ Hutson, TAH-10T, at 26:13-17.

²⁷⁹ See TAH-4, at 1-2.

²⁸⁰ *WUTC v. Puget Sound Energy*, Dockets UE-220066 & UG-220067 (*consolidated*), Final Order 24/10, ¶¶ 232-36 (Dec. 22, 2022).

²⁸¹ Hutson, TAH-1T at 12:2-6.

²⁸² See Dockets UE-220066, UG-220067, and UG-210918, Final Order 24/10, 72, ¶ 232 (Dec. 22, 2022).

submit a compliance filing within 15 months of the final order date.²⁸³ Staff asserts that since PSE has only conducted its analysis on 250 kilowatts rather than the entire 80 MW portfolio,²⁸⁴ it has not satisfied the conditions of Final Order 24/10 in the 2022 GRC. To rectify this issue, Staff recommends the Commission require PSE to conduct a DEA on the entirety of its 80 MW DER portfolio to allow Staff and interested parties the opportunity to evaluate the distributional equity of its investments or to fully ensure equitable outcomes. Staff further recommends PSE submit the findings, results, and any learnings from the DEA in this docket no later than January 31, 2027, and incorporate them into the first Integrated System Plan (ISP).²⁸⁵

Commission Decision

- 171 The Commission acknowledges that in Final Order 24/10 of the 2022 GRC, we indicated that a Commission-led collaborative proceeding would be established to address these issues. Accordingly, the Commission initiated Docket A-230217 to address the application of equity and justice for regulated companies' processes and decisions. On September 23, 2023, the Commission provided notice of a workplan for this docket and indicated that this work would take approximately two years to complete.²⁸⁶
- 172 Furthermore, Section B (sub-part a) of the Settlement Stipulation and Agreement On Revenue Requirement and All Other Issues Except Tacoma LNG and Green Direct (Paragraph 24) requires PSE to submit a compliance filing in Docket UE-220066 et al., demonstrating a Plan for Equitable Outcomes and how the Enterprise Project Portfolio Management (EPPM) tool will be used to apply an equity lens to the Corporate Capital Allocation framework. Section B (sub-part b) requires PSE to demonstrate how it has incorporated equity into the Corporate Spending Authorizations (CSA) once the Company has completed its pilot DEA, participating in the Commission Staff-led process and has received approval from the Commission for its [DEA] methods.²⁸⁷ On December 31, 2024, the Commission entered Order 36/22 in response to PSE's third petition in docket UE-220066 et al., amending the language from Section B (sub-part b) requiring a compliance filing by the end of the MYRP. Order 36/22 extends the deadline for PSE to

²⁸³ Franks, Exh. WF-1T at 11:12-15.

²⁸⁴ Franks, Exh. WF-1T at 11:15-19.

²⁸⁵ Franks, Exh. WF-1T at 3:12-15.

²⁸⁶ See Notice of Opportunity to File Written Comments in Docket A-230217 Page 3. (Accessed January 7, 2025)

²⁸⁷ See *Docket UE-220066 et. al.*, Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and Green Direct, Page 15, Part C, Paragraph 25.

submit this compliance filing no later than six months after the compliance filing is submitted to the Commission related to Section B (sub-part a).²⁸⁸

- 173 Section L (paragraph 50) of the Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and Green Direct requires PSE to develop methods and process for a pilot DEA and apply those methods to its proposed 80 MW of DER, as proposed in its 2021 IRP and CEIP. Section L (paragraph 51) requires PSE to participate in the Commission Staff-led process to refine DEA methodologies once the DEA pilot has been completed. The Commission acknowledges that PSE has completed a DEA pilot as demonstrated in the Compliance Filing submitted in Docket UE-220066 et al on July 19, 2024.
- 174 To address PSE's concerns with the pace and cadence of the on-going Commission-led work on Equity in Docket A-230217, the Commission agrees to amend language in Final Order 24/10 and the Settlement Stipulation and remove references to "Commission-led process" and "request Commission approval." The Commission understands this language may prevent PSE from pursuing DEA or other equity related work until the Commission formalizes a methodology in Docket A-230217. As such, we feel by removing this restrictive language PSE will be allowed to continue innovating and pursuing more equitable outcomes simultaneously as the Commission proceeds in Docket A-230217. We note, however, that the underlying settlement intends participation in a Staff-led process. We do not intend to preclude such a process from occurring. Further, we note that PSE will still be required to participate in Docket A-230217 once this work resumes.
- 175 On balance, although we expect PSE to pursue equity work without the express consent of the Commission, we decline to reject or approve the DEA methodology PSE developed for the two solar projects evaluated in this pilot. While we applaud PSE for completing this pilot in a timely fashion, we expect DEA methodologies to be fully explored, and we anticipate formal guidance on acceptable DEA methodologies will be provided later in Docket A-230217. Although the Commission does not reject or approve the methodology used in PSE's inaugural DEA, the Commission finds that the pilot did not include the entire 80 MW of PSE's solar portfolio as PSE agreed to in Section L (paragraph 50) of the Settlement Stipulation in the 2022 GRC.²⁸⁹ The Commission finds that 250 kW of the entire 80 MW portfolio is not a significant sample size and thus orders

²⁸⁸ See *WUTC v. Puget Sound Energy*, Dockets UE-220066 and UG-220067 (*Consolidated*) Order 36, Docket UG-210918 Order 22, at (Dec. 31, 2024) at 5 ¶ 16.

²⁸⁹ See *Docket UE-220066 et. al.*, Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and Green Direct, Page 27, Part C, Paragraph 50.

PSE to conduct a DEA on at least 80 MW of DERs. If PSE cannot satisfy this 80 MW requirement as it agreed to in the 2022 GRC, we order PSE to notify the Commission of this inability, and to work with Staff and other interested parties to come to an agreement on an acceptable sample size for a DEA or submit a request to amend the requirements as set forth in the 2022 GRC Settlement Stipulation.

5. Disconnection Policies

176 TEP witness Stokes argues that PSE’s disconnection policies are inequitable and should be reformed because these policies incorporate disconnection history and a customer’s arrearage when assigning a customer credit score.²⁹⁰ Stokes explains that PSE uses the customer’s credit code as a determinant of “propensity to pay,” which is then calculated using an algorithm based on eight factors, where “a lower credit score deems the customer as having a higher propensity to pay.”²⁹¹ Customers with a credit score of one or two do not enter PSE’s dunning process²⁹² whereas customers with a score of three or four are eligible to enter the dunning process.²⁹³ Under this framework, as of July 2024, TEP maintains that approximately 26 percent of PSE customers had a score of three or four, and of that 26 percent figure, about “1 in 4 were vulnerable to disconnection,” in part because of their arrearage and disconnection history and that the vast majority of those customers identified as members of vulnerable populations or highly impacted communities.²⁹⁴ By disproportionately subjecting these vulnerable and highly impacted customers to disconnection for non-payment, TEP concludes that PSE’s policies “create and perpetuate severe unreasonable burdens.”²⁹⁵ TEP further argues that these inequitable policies violate the principle of distributional justice,²⁹⁶ recommending the Commission order the Company to do two things. First, “remove all provisions from its disconnection

²⁹⁰ Stokes, Exh. SNS-1T at 23:14 and 24:7-9.

²⁹¹ Stokes, Exh. SNS-1T at 24:15-22 and 26:1-5. These eight factors used to calculate credit codes include: (1) account creation date; (2) total open balance; (3) last payment date; (4) credit history; (5) all open items aging; (6) prior obligation history; (7) prior obligation amount; and (8) collection history.

²⁹² The Dunning process refers to a credit and collections action PSE takes when an account is considered past-due. Under this process, PSE conducts targeted outreach to all customers who have an arrearage balance above \$250 more than 90 days overdue. These customers received targeted telephone and written communications regarding their past due balance, customer bill assistance, arrearage management. However, if no action is taken the customer becomes eligible for service disconnection.

²⁹³ Stokes, Exh. SNS-1T at 25:9-10. *See also* PSE Response to TEP DR 053.

²⁹⁴ Stokes, Exh. SNS-1T at 25:8-16. Stokes notes that for customers with a score of 3 or 4, 36 percent are known-low-income, and 29 percent are in highly impacted communities.

²⁹⁵ Stokes, Exh. SNS-1T at 27:19-20.

²⁹⁶ Stokes, Exh. SNS-1T at 29:14-16 and 32:10-20.

policies that prioritize customers for dunning,” and instead base disconnection on: (1) a customer’s current arrearage amount; and (2) duration of time in arrears.²⁹⁷ Second, conduct a robust equity review of its disconnection policies in consultation with LIAC and the EAG, and finally that PSE use hard copies via U.S. mail for its targeted outreach and dunning disconnection notices.²⁹⁸

177 PSE rejects TEP’s assertions that its disconnection policies are inequitable and maintains that if a customer enters the dunning process, there are protections, and programs to help get that customer back on track.²⁹⁹ PSE witness Wallace testifies that PSE has been growing its assistance programs with “the introduction of the Bill Discount Rate in 2023,”³⁰⁰ its “new arrearage management program” (AMP), and “Past Due Bill Forgiveness Program,”³⁰¹ which was rolled out in October 2024.³⁰² PSE further highlights that its “dunning policies and procedures consider customers who are taking ownership of their account management and those who are not,” to help customers displaying good payment behaviors, by using “a third party technology, Total Solutions Inc. (TSI) for propensity pay modeling.”³⁰³ PSE explains that TSI’s segmenting has additional safety nets and protections because it provides a snapshot of a customer’s rolling history of behaviors that are consistent or improve over time, to prevent those customers actively managing their account from entering the dunning process, “which is exactly what the Company wants.”³⁰⁴

178 PSE also rejects TEP’s recommendations to prioritize disconnections based on current arrearage amount and length of time in arrearage on the basis that this “proposed change would have a negative impact on thousands of customers, who would then enter the dunning process, whereas with PSE’s existing methodology they would not.”³⁰⁵ To

²⁹⁷ Stokes, Exh. SNS-1T at 32:10-20.

²⁹⁸ *Id.*

²⁹⁹ Wallace, Exh. CLW-10T at 13:4-9.

³⁰⁰ PSE notes that its new Bill Discount Rate program “streamlines the application process through self-declaration of income and online eligibility tools” and that it also updated its HELP program to take advantage of the same self-declaration process. Wallace, Exh. CLW-1T at 6:3-10.

³⁰¹ The arrearage management plan is a payment plan option to help qualifying residential customers reduce unpaid balances on their bill and the Past Due Bill Forgiveness program forgives 1/12 of a customer’s past due amount after twelve on-time payments are made. Wallace, Exh. CLW-1T at 18:14-15 and [PSE | Past Due Bill Forgiveness](#).

³⁰² Wallace, CLW-10T at 13:12-15.

³⁰³ Wallace, CLW-10T at 14:1-5.

³⁰⁴ Wallace, CLW-10T at 14:14-20.

³⁰⁵ Wallace, CLW-10T at 15:14-16.

support this contention, PSE provides a detailed summary of customer’s TSI segment scores in Table 1 to demonstrate that if TEP’s recommendations were adopted, approximately 69 percent of all of its customers classes “would not have the necessary additional safeguards in place.”³⁰⁶ Finally, PSE maintains that it complies with the requirements in WAC 480-100-128 and 480-90-128 for disconnection notices and “already sends hard copy notices to customers in the dunning process” together with email if a customer has selected this form of communication as their preference.³⁰⁷

Commission Decision

- 179 As the Commission noted in Dockets UE-220066 and UG-220067 (*Consolidated*) Order 32 and Docket UE-210918 Order 18, when there is a clear increase in arrearages over time and a marginal impact in collecting such arrearages, a phased dunning approach is warranted,³⁰⁸ but only after customers have received targeted outreach informing them of the Company’s “bill assistance, arrearage management, and other programs for which they may be eligible.”³⁰⁹ We also note that the Commission’s rules include significant customer protections, including preventing a prior obligation from allowing a customer to obtain service. Accordingly, we reaffirm the effectiveness of the dunning process as in the public interest because it motivates customers to obtain assistance, take prompt action on past-due balances, and avert service disconnection. For these reasons and PSE’s testimony and evidence, we reject TEP’s proposal to prioritize customers for disconnection based on the current arrearage amount and the duration of current arrears.
- 180 While the Commission acknowledges PSE’s acceptance of TEP’s recommendation³¹⁰ to review its disconnection practices in consultation with LIAC and the EAG,³¹¹ we are not ordering PSE to comply with any specific timelines as recommended in TEP’s testimony.³¹² However, we do require PSE to submit a letter to the Commission documenting its collaboration with these advisory groups within six months of the date of this order.

³⁰⁶ Wallace, CLW-10T at 16:1-5.

³⁰⁷ Wallace, CLW-10T at pg. 17:7-11.

³⁰⁸ *WUTC v. Puget Sound Energy*, Dockets UE-220066 and UG-220067 (*Consolidated*) Order 32, Docket UG-210918 Order 18, at (May 16, 2024) at 15 ¶ 49.

³⁰⁹ Dockets UE-220066, UG-220067 (*Consolidated*) Order 32, Docket UG-210918 Order 18, at 17 ¶ 56.

³¹⁰ Wallace, CLW-10T at 16:6-9.

³¹¹ Stokes, Exh. SNT-1T at 32:16-17.

³¹² Stokes, Exh. SNS-1T at 33:8-15.

6. Language Access

- 181 PSE witness Wallace testifies that approximately 8.5 percent, or 131,000, of its customers do not speak English as a primary language but rather speak Spanish, Chinese, Russian, Vietnamese, Korean, or Hindi, and of that figure, approximately 40 percent, or 52,000 customers, are estimated low-income customers.³¹³ While PSE strives to reach multi-lingual customers through a mix of communication tactics, including social media posts, community news articles, direct mail, radio, and QR code handouts, ³¹⁴ it has added multi-language translation support on its website where customers can select from seven different languages through a drop-down menu at the top of all of PSE’s webpages.³¹⁵ The seven real time browser-based translation languages include English, Spanish, Chinese (simplified), Russian, Vietnamese, Korean, and Hindi.³¹⁶ PSE is also advertising in Spanish on the Propel Electronic Benefits Transfer application, and has also partnered with nonprofit organizations to educate the multi-lingual community about its assistance programs.³¹⁷ For instance, PSE witness Steuerwalt highlights that when PSE rolled out its Bill Discount Program, the Company hosted over “200 in-person, in-language events in partnership with community-based organizations,” and marketed the program materials in Spanish, Vietnamese, Chinese, Korean, Russian, Marshallese, and Khmer.³¹⁸
- 182 Although TEP witness Stokes acknowledges PSE improved its language access services by adding multi-language support for its websites, Stokes argues the Company has “no formal policies or guiding documents regarding when to provide services in a language other than English.”³¹⁹ Further, because “PSE does not collect or store a customer’s preferred language,”³²⁰ and instead “gauges language preferences by assessing Google data reporting browser language settings of customers who view the website,”³²¹ TEP maintains these practices “fail to effectively serve,” and “count PSE customers who speak a language other than English.”³²² To mitigate this issue and ensure that customers who seek bill assistance, arrearage and disconnection relief, or other basis services can access

³¹³ Wallace, Exh. CLW-1T at 8:22.

³¹⁴ Wallace, Exh. CLW-1T at 9:6-12.

³¹⁵ Wallace, Exh. CLW-1T at 9:1-5.

³¹⁶ *Id.*

³¹⁷ Wallace, Exh. CLW-1T at 9:13-19.

³¹⁸ Steuerwalt, Exh. MS-1T at 11:11-13 and 11:15-17.

³¹⁹ Stokes, Exh. SNS-1T at 35:8-15.

³²⁰ Exh. SNS-15 (PSE Response to TEP DR 044).

³²¹ Stokes, Exh. SNS-1T at 35:1-12.

³²² Stokes, Exh SNS-1T at 36:7.

this information, TEP recommends the Commission require PSE: (1) to “collect and track customer language preferences;” and (2) “develop a language access plan” in partnership with the advisory groups that would provide information and communications in a customer’s preferred language.³²³

183 On rebuttal, PSE argues that in addition to the language access improvements on its website, the Company continues to translate informational material for various programs and services.³²⁴ Examples cited include: (1) offering “interpretation services in Spanish and Vietnamese for select virtual events;”³²⁵ and (2) “conducting in-person outreach and events staffed by multi-lingual team members in geographies where audiences could benefit from increased language access.”³²⁶ While PSE recognizes that it does not have a formal access plan, it argues such a plan “is unnecessary,” because it is collecting customer language preference data this year, and plans to use that data to “target in-language marketing communications and engagement with customers stated preferred language, through its PSE owned channels.”³²⁷ Further, PSE states it intends “to create a formal language access plan in 2025.”³²⁸

Commission Decision

184 We commend PSE for the progress it has made in providing multi-language translation support in seven different languages on its website and are supportive of its ongoing efforts to offer interpretation services at select virtual events and to staff its in-person events with multi-lingual team members. We also applaud PSE for its commitment to continue to translate informational materials for more of its programs and services, especially given that approximately 8.5 percent, or 131,000 of its customers do not speak English as a primary language. However, despite PSE’s efforts in furthering its procedural justice practices, we disagree with PSE that a formal language access plan is unnecessary as it continues to improve language accessibility.

³²³ Stokes, Exh. SNS-1T at 5:2-5 and 36:14-16.

³²⁴ Hutson, Exh. TAH-10T at 39:18-19.

³²⁵ Hutson, Exh. TAH-10T at 40:1-4. Examples of select virtual events include informational sessions about voluntary renewables, electric vehicle, energy efficiency, and bill assistance programs.

³²⁶ Hutson, Exh. TAH-10T at 40:3-5. For instance, from December 2023 to March 2024, PSE held eight events at Latino markets in South King County to increase participation in its Community Solar program.

³²⁷ Hutson, Exh. TAH-10T at 43:6-9.

³²⁸ Hutson, Exh. TAH-10T at 43:12-13.

185 Therefore, to ensure that PSE’s underlying goals, strategy, and practices for collecting and tracking language preferences are conducted in collaboration and partnership with the relevant advisory groups, we adopt TEP’s recommendation to require PSE to develop a formal language access plan (LAP). However, given PSE’s commitment to work on such a plan, we reject the specific timelines TEP proposes for PSE to develop the LAP and defer to PSE, and the members of its EAG, LIAC and other key advisory group participants to devise the most appropriate timeline.

7. Low-Income Needs, Affordability, and Energy Burden Analysis

186 As an update and extension of the 2020 Energy Burden Analysis (2020 EBA) the Company undertook pursuant to RCW 19.405.120, PSE Witness Jhaveri examines the results of the updated 2022 Energy Burden Analysis (2022 EBA). Jhaveri explains that PSE relies on the EBA to better estimate the number of low-income customers in its service territories, their energy burden, and level of energy assistance required to mitigate that burden.³²⁹ Results from the 2022 EBA analysis,³³⁰ show that 46 percent, or 1,167,000 of PSE’s residential customers “meet the low-income criterion of 80 percent area median income (AMI),³³¹” and are eligible for multiple low-income assistance programs. Additionally, the 2022 EBA shows that “16.2 percent are estimated to be energy burdened”³³² and that approximately “98% of these energy-burdened households are estimated to be low income.”³³³ Accordingly, based on these updated results, Jhaveri confirms 15.8 percent of PSE’s residential customer base is considered low-income and energy burdened, and that of those customers, approximately 60 percent, (or 111,000) are electric only customers, 21 percent (or 39,400) are natural gas only customers, and 19 percent (or 34,000) are dual fuel customers.³³⁴

187 PSE provides both an overview of its methodology for estimating customer energy burdens³³⁵ and a summary of the key results from its 2022 EBA,³³⁶ and explains how it has integrated both equity and affordability considerations into a variety of energy and

³²⁹ Jhaveri, Exh. BDJ-1T at 15:13-18.

³³⁰ Jhaveri, Exh. BDJ-3r at 14.

³³¹ RCW 19.405.020(25).

³³² Jhaveri, Exh. 16 BDJ-1Tr at 16:1-9. In other word this means that the proportion of the annual income these customers spend on energy costs (electricity, natural gas, and other heating fuels) is over six percent.

³³³ Jhaveri, Exh. BDJ-1Tr at 16:1-9.

³³⁴ Jhaveri, Exh. BDJ-1Tr at 16:9-11 and Jhaveri, Exh. BDJ-3r at 14.

³³⁵ Jhaveri, Exh. BDJ-1Tr at 19-21.

³³⁶ Jhaveri, Exh. BDJ-1Tr at 24-31.

low-income assistance programs it offers.³³⁷ For instance, from January 2020 to December 2023, PSE assisted approximately 100,235 residential customers to obtain energy assistance in some form between the PSE HELP program, Low Income Heating Assistance Program (LIHEAP), Customer Assistance for Covid Arrearage Program (CACAP), Washington Department of Commerce’s COVID Relief Funds, and PSE’s Warm Home Fund.³³⁸ PSE further notes that with the help of these assistance programs, the estimated median energy burden of its customers decreased from 7.9 percent to 4.1 percent in 2022.³³⁹

- 188 While JEA commends PSE’s 2022 EBA for its comprehensive nature and the guidance it provides to other utilities on how to better understand low-income and energy burdened customers,³⁴⁰ it offers two recommendations. First, JEA recommends that future EBAs be refined by including “customers with fewer than twelve months of usage data,” to capture those customers experiencing housing affordability issues.³⁴¹ Second, JEA recommends that PSE “simulate energy burden over time as a function of factors that increase customer bills,” by providing climate projections that estimate warmer or colder seasons, tailoring outreach and communications related to disconnections and bill assistance options, and support partner utility action agencies that assist with these efforts.³⁴²
- 189 TEP witness Colton, however, provides a “hyper-granular” analysis of the un-affordability that PSE customers currently face in light of the Company’s proposed rate increases for RY1 and RY2 and proposes a stratification framework for analyzing energy burden data. Colton also presents data and analysis demonstrating how affordability and equity can be incorporated into PSE’s existing performance metrics by underscoring the importance of census tract reporting. However, Colton raises concerns related to low-income affordability and PSE’s 2022 EBA. Colton proposes that PSE be required to use a stratified approach for multiple variables to isolate specific customer needs by breaking down geographic data to the Census Tract level, and then breaking down income levels of each Census Tract into quintiles.³⁴³ Colton explains that by calculating a Bill-to-income

³³⁷ Jhaveri, Exh. BDJ-1Tr at 33-34.

³³⁸ Jhaveri, Exh. BDJ-1T at 35:10-15.

³³⁹ Jhaveri, Exh. BDJ-1T at 36:3-6 and Wallace, Exh. CLW-1T.

³⁴⁰ Thuraisingham and Thompson, MT-CT-1T at 22:13-15.

³⁴¹ Thuraisingham and Thompson, MT-CT-1T at 23:9-15.

³⁴² Thuraisingham and Thompson, MT-CT-1T at 24:1-13.

³⁴³ Colton, Exh. RDC-1T at 10-12. The Census Bureau rank orders incomes from the highest to lowest in each geographical area. It then divides the rank ordering into five equal parts, each part of which is referred to as a “quintile”. The “First Quintile,” also frequently known as the “Bottom Quintile” or Lowest Quintile represents one-fifth of the population with the lowest income.

Ratio for each PSE Census tract at PSE's proposed 2026 rates, he can "assess whether PSE's bills would exceed an affordable level, and by what degree."³⁴⁴ Colton did not determine the impact of PSE's proposed rates on median (or average) households, but rather focuses on vulnerable households and provides a summary of his findings in Table 3.³⁴⁵ In his analysis, Colton found that, across census tracts in PSE's service territory, for electric service "...the unaffordability of PSE bills is not only "deep," but is widespread,"³⁴⁶ and that the same is true for PSE's natural gas customers.³⁴⁷

190 To address the unaffordability issues facing the Company's low-income customers, and that PSE's equity objectives "may change from time-to-time and from place to place," Colton recommends that the Commission establish specific quantitative equity goals for PSE to pursue.³⁴⁸ However, recognizing this may not be possible to establish in a short period of time, Colton recommends that PSE be subject to an ongoing review of the full set of its equity and affordability metrics to ensure PSE meets its specific quantitative targets outlined in the Company's performance metrics.³⁴⁹

191 Next, regarding PSE's 2022 EBA, TEP recommends that PSE "incorporate energy burden at different tiers of income throughout its EBA," where the top tier would comply with the statutory definition of low income.³⁵⁰ Colton maintains that this tiered analysis³⁵¹ should be applied to PSE's definition of an energy burdened household by applying a graduated approach rather than viewing the energy burden as a "yes/no toggle," to ensure the resulting conclusions are complete and "differentiate between the level and degree of energy burdens."³⁵² Within each tier, Colton recommends that PSE be instructed "to examine the number and percentage of customers in various demographic groups, including known low-income, estimated low-income, highly impacted communities,

Colton notes that Q1 incomes in Washington State can reasonably be expected to be less than 80% of Area Median Income (AMI).

³⁴⁴ Colton, Exh. RDC-1T at 11:9-12.

³⁴⁵ Colton, Exh. RDC-1T at 12:1-8.

³⁴⁶ Colton, Exh. RDC-1T at 13:1-3.

³⁴⁷ Colton, Exh. RDC-1T at 16:3-4 and 17:1.

³⁴⁸ Colton, Exh. RDC-1T at 52:1-2.

³⁴⁹ Colton, Exh. RDC-1T at 52:13-21.

³⁵⁰ Colton, Exh. RDC-1T at 53:1-3, 53:18-19, and 55:8-9.

³⁵¹ Colton, Exh. RDC-1T at 58:15-20. The recommended analysis should include the following tiers: (1) Affordable (<6%); (2) High energy burden (6-10%); (3) Very High energy burden (10-15%); and (4) Extreme energy burden (>15%).

³⁵² Colton, Exh. RDC-1T at 56:1-3 and 56:15-16.

vulnerable populations, and deepest need.”³⁵³ Colton also recommends that PSE make two modifications to the way it considers bills in its EBA to define the input data based on the statutory definitions codified in CETA and “further explain what billing data” PSE uses,³⁵⁴ and that its EBA calculation also include “total home energy burdens,” and “single fuel home energy burdens.”³⁵⁵ Finally, to promote transparency, Colton recommends that PSE publish the EBA and post it to its website and present its findings to the LIAG and EAG.³⁵⁶

192 On rebuttal, PSE witness Jhaveri rejects TEP’s proposal that its EBA should be modified and maintains that the Department of Commerce should be the final arbiter of what goes into an EBA since this report is required under RCW 19.405.120.³⁵⁷ While PSE recognizes the value of simulating energy burden, it declines to do so as there are too many variables to account for in this process, and it questions the accuracy of such a process.³⁵⁸ Jhaveri also rejects TEP’s recommendations to consider single-fuel home energy burdens in addition to home energy burden on the basis that such modification would be “inconsistent with RCW 19.405.020(17), which defines energy burden as the share of annual household income used to pay annual home energy bills.”³⁵⁹ Given that the statute does not refer to single fuel, and the Commission has provided guidance on this issue in its Policy Statement Addressing Initial Reported Performance Metrics, by “defining high energy burden as greater than 6 percent for both single and dual customers,”³⁶⁰ PSE argues that there are significant technical issues for it to overcome, including: (1) calculating single-fuel energy burdens for electricity and natural gas; and (2) having a mechanism to accurately measure these burdens.³⁶¹ Finally, since PSE already updates its EBA on an annual basis it is amenable to providing an annual update of the study on its website and sharing the results of its EBA with members of the LIAC and EAG.³⁶²

³⁵³ Colton, Exh. RDC-1T at 58:16-20.

³⁵⁴ Colton, Exh. RDC-1T at 59:1-8.

³⁵⁵ Colton, Exh. RDC-1T at 59:19-20.

³⁵⁶ Colton, Exh. RDC-1T at 61:18-21.

³⁵⁷ Jhaveri, Exh. BDJ-4T at 3:15-16 and 4:16-20.

³⁵⁸ Jhaveri, Exh. BDJ-4T at 12:8-16.

³⁵⁹ Jhaveri, Exh. BDJ-4T at 5:6-8.

³⁶⁰ *Policy Statement Addressing Initial Reported Performance Metrics*, Docket U-210590, at ¶¶ 39-41(Aug. 2, 2024).

³⁶¹ Jhaveri, Exh. BDJ-4T at 6:14-22.

³⁶² Jhaveri, Exh. BDJ-4T at 11:2-4 and 11:13-14.

Commission Decision

- 193 TEP’s analysis demonstrates the geographic nature and extent of energy burden within PSE’s territory and uncovers the depth of existing un-affordability by segmenting the population by income quintiles and fuel type.³⁶³ While the insights gained from this robust analysis have immense value for the Commission, PSE, and external parties, we agree with PSE that any modification to the EBA reports or calculations should come from the Department of Commerce or be codified in RCW 19.405.120 instead of implemented individually by investor-owned utilities.³⁶⁴ Primarily, this is to ensure PSE’s calculation complies with the guidance provided by the Department of Commerce,³⁶⁵ and is implemented consistently “for the purposes of standardization across the state and nationally.”³⁶⁶
- 194 Additionally, because it is undisputed that the Company’s EBA will continue to evolve over time and its low-income customers’ energy burdens will change, we adopt PSE’s recommendation to account for the effects its energy assistance programs in its next iteration of EBA and direct the Company to incorporate these modifications in its next annual report. The Commission believes the insights provided from the stratification framework are invaluable and we appreciate PSE’s willingness to work with Staff and other interested groups to further develop reporting views of the data depicting stratification and income tiers.³⁶⁷ This work will be integral to conducting a holistic assessment of the scale of energy burden that can be further evaluated in the current Commission-led rulemakings in Docket(s) U-210800 (for arrearage and assistance data) and U-210590 (for PBR metrics).
- 195 On balance, we find that the above revisions and expanded reporting are sufficient at this time and would like to acknowledge the on-going work that PSE and other investor-owned utilities are conducting in coordination with the Department of Commerce as required by RCW 19.405.120 to fully evaluate energy burden and assistance offerings.³⁶⁸

³⁶³ Colton, Exh. RDC-1T at 11-18.

³⁶⁴ Jhaveri, Exh. BDJ-4T at 4:16-20.

³⁶⁵ Washington Department of Commerce, Guidelines for RCW 19.405.120, Version 03.09.202, available at <https://www.commerce.wa.gov/wp-content/uploads/2020/03/Guidelines-for-19.405.120.pdf>.

³⁶⁶ Jhaveri, Exh. BDJ-4T at 4:19-20.

³⁶⁷ Jhaveri, Exh. BDJ-4T at 4:20 and 5:1-2.

³⁶⁸ See [Energy assistance for low-income households – Washington State Department of Commerce](#)

H. Return on PPAs

- 196 PSE proposes to include a rate of return on three separate demand response (DR) power purchase agreements (PPAs) connected with its Clean Energy Action plan (CEAP) using the Company's proposed pretax rate of return of 7.65 percent in RY1 (2025) and 7.99 percent in RY2 (2026).³⁶⁹ Additionally, under the terms of the 2022 GRC Settlement, PSE seeks a determination that these DR PPAs are prudent.³⁷⁰ PSE cites to a statutory change from 2019 in RCW 80.28.410(2)(b) as providing authoritative guidance to the Commission for allowing returns on PPAs, such that the Commission may allow: "for the duration of a power purchase agreement, a rate of return of no less than the authorized cost of debt and no greater than the authorized rate of return of the electrical company."³⁷¹ PSE Witness Doyle emphasizes that allowing such returns would benefit credit metrics, as credit agencies have considered the cost of PPAs as debt, despite the history of full rate recovery.³⁷² PSE witness Doyle acknowledges that any rate of return, even if lower than that requested, would be welcome relief for the Company.³⁷³ Additionally, PSE proposes a pro forma adjustment to recover its deferred return on these PPAs accumulated in 2023 and 2024, to be amortized over a two-year period.³⁷⁴ PSE witness Free states that the deferred costs associated with these PPAs began recovery on January 1, 2024, through approval of PSE's 2024 power cost update, but that the deferred costs currently being recovered did not include any return component.³⁷⁵
- 197 Staff does not contest the inclusion of a rate of return on the Company's PPAs, arguing only that the cost of debt is the appropriate rate for the Commission to apply. Staff Witness McGuire acknowledges the range authorized by the statute but argues that any return at the higher end of the range would require adequate justification, which PSE has not provided.³⁷⁶ Staff also recommends the Commission reject the requested deferred return on these PPAs between January 1, 2024, and the effective date of this decision.³⁷⁷ McGuire argues that, because the PPAs were included in rates beginning January 1, 2024, without any associated return, "RCW 80.28.410 does not permit utilities to continue

³⁶⁹ Doyle, Exh. DAD-1CT at 91: 1-11.

³⁷⁰ Archuleta, Exh. GA-1T at 40: 7-10.

³⁷¹ Doyle, Exh. DAD-1CT at 91:19-22, quoting RCW 80.28.410(2)(b).

³⁷² Doyle, Exh. DAD-1CT at 93: 4-22.

³⁷³ Doyle, Exh. DAD-1CT at 96: 1-14.

³⁷⁴ Free, Exh. SEF-1T at 91: 14-19.

³⁷⁵ Free, Exh. SEF-1T at 91: 1-4.

³⁷⁶ McGuire, Exh. CRM-1Tr at 79-80.

³⁷⁷ McGuire, Exh. CRM-1Tr at 102: 8-14.

deferring a return on the PPAs beyond the date the underlying PPAs themselves were included in rates.”³⁷⁸ Staff’s proposal to remove the deferred return results in a reduction in electric revenue requirement of approximately \$0.4 million in RY1 and RY2.³⁷⁹ Regarding PSE’s return going forward, Staff originally characterized its recommended change to use PSE’s cost of debt as “only trivially” impacting PSE’s pro forma power cost Adjustment 6.38. However, following PSE’s identification of an incorrect debt percentage in the calculation, Staff acknowledges that the actual impact of its proposal on the Power Costs adjustment is a reduction of \$874,140 in RY1 and \$36,371 in RY2.³⁸⁰

198 Public Counsel, AWEC, JEA, and TEP all oppose inclusion of a return on DR PPAs.³⁸¹ The opposing parties argue that: (1) PPAs are traditionally a pass-through expense in rates;³⁸² (2) the DR PIM provides incentives that would be duplicated;³⁸³ and (3) the price of PPAs already includes a return on capital for the resource owners, such that ratepayers would pay twice for the cost of capital.³⁸⁴ If the Commission were to grant a return, Public Counsel urges the Commission to set the return at a rate no higher than the cost of debt.³⁸⁵

199 On rebuttal to JEA, PSE witness Steuerwalt argues that allowing a return on a PPA is not an incentive in competition with DR PIMs. Instead, it is better considered as the removal of a financial disincentive to enter into a PPA rather than build or buy a resource --- similar to decoupling.³⁸⁶ Also, Free disputes Staff’s proposed removal of the deferred return and argues that Staff incorrectly interprets RCW 80.28.410.³⁸⁷ Free states that “[t]here is no requirement in the statute that the four specific costs it defines must be treated the same from a deferral or ratemaking perspective throughout the life of the

³⁷⁸ McGuire, Exh. CRM-1Tr at 77: 10-18.

³⁷⁹ McGuire, Exh. CRM-1Tr at 81: 15 – 82: 2.

³⁸⁰ Kermode, Exh. DPK-1TR at 17: 12-16. *See also* McGuire, Exh. CRM-1TR at 81:15 – 82:7; Free, Exh. SEF-50.

³⁸¹ Gorman, Exh. MPG-1CT at 26:1; Mullins, Exh. BGM-1T at 30: 3-4; McCloy, Exh. LCM-1T at 16: 2-4; Stokes, Exh. SNS-1T at 57:17-20, 58: 3-4.

³⁸² Mullins, Exh. BGM-1T at 30: 4-6.

³⁸³ Mullins, Exh. BGM-1T at 30: 7-11; McCloy, Exh. LCM-1T at 15: 21-22.

³⁸⁴ Stokes, Exh. SNS-1T at 57:22-25.

³⁸⁵ McCloy, Exh. LCM-1T at 26: 6-8.

³⁸⁶ Steuerwalt, Exh. MS-4T at 8.

³⁸⁷ Free, Exh. SEF-28T at 43: 12 – 44: 18.

contract.”³⁸⁸ Free contends that because PSE did not include any return in rates, it is not precluded from continuing to defer and seek recovery of these costs.³⁸⁹

Commission Decision

- 200 The Commission finds it appropriate to allow a return on PSE’s three DR PPAs. The plain language of RCW 80.28.410 gives the Commission the discretion to allow such costs to be deferred and is intended to incentivize PPAs, as they often are the lowest cost resource. The PPAs at issue are for resources PSE must procure to meet its CETA requirements and no party disputes that these PPAs are the lowest reasonable cost resources available. The statute contemplates the Commission allowing a return in a range between the Company’s cost of debt and the authorized rate of return. *See* RCW 80.28.410(2)(b). The Commission understands that the return is meant to incentivize procurement of resources at the lowest reasonable cost to aid the utilities in meeting Washington’s long-term decarbonization goals. In reviewing the record, we conclude that PSE did not present a case warranting allowance of the authorized rate of return, specifically why the PPAs in question merit the highest rate of return, and as such, we agree with Staff that the lower end of the spectrum, the cost of debt, is appropriate here. We find that the appropriate cost of debt, as proposed by Staff, is a blended debt rate of 5.34 percent in RY1 and 5.37 percent for RY2.
- 201 As for the deferred costs, we reject Staff’s proposed adjustment to remove recovery of the deferred return from January 1, 2024, through the effective date of this case. We find such costs to be permitted under RCW 80.28.410, not prohibited, and we agree with PSE’s interpretation regarding the distinct nature of the costs identified in the statute. Moreover, these specific costs were properly held over as a novel issue, and we decline to penalize PSE by removing the deferral. As stated above, we agree with Staff that the deferred return and associated return beginning September 2023 through the effective date of this case should be authorized at PSE’s cost of debt.
- 202 Finally, we note that such returns as authorized here are not guaranteed. We acknowledge the incentives for utilities to build additional resources, instead of purchasing them. While companies are already obligated to acquire resources at the lowest reasonable cost, we wish to alleviate the financial disincentive for doing so through PPAs by allowing a return, as provided by statute.

³⁸⁸ Free, Exh. SEF-28T at 44: 9-11.

³⁸⁹ Free, Exh. SEF-28T at 44: 12-13.

I. Wildfire Costs

- 203 PSE recognizes that wildfire risk is a growing concern even in the wetter environment of Western Washington.³⁹⁰ For this reason, PSE proposes to recover forecasted capital and O&M costs, including insurance premiums attributable to wildfire, that are needed to implement PSE's Wildfire Mitigation Plan through a Wildfire Prevention tracker (WFP tracker).³⁹¹ PSE asserts the WFP tracker will allow for transparency into the work the Company is doing to mitigate the risk of wildfire in its service territory.³⁹²
- 204 PSE proposes that the WFP tracker be updated annually, including forecasted rate base, depreciation and O&M, insurance premiums, and a one-time deferral of increased insurance premiums attributable to wildfire filed in Docket UE-231048, if approved by the Commission. The WFP tracker would apply to all electric rate schedules, including special contracts.³⁹³ PSE witness Murphy's testimony provides an overview of PSE's wildfire risk and risk mitigation efforts. Murphy details specific investments PSE plans during the MYRP to mitigate wildfire risk.³⁹⁴ The specific investment details are not contested.
- 205 Staff recommends the Commission exclude PSE's requested recovery of the deferral balance associated with the Company's petition for deferred accounting in Docket UE-231048, on which the Commission has not yet ruled.³⁹⁵ The deferral balance is \$5.4 million in amortization expense included in RY1 and RY2.³⁹⁶ Staff witness McGuire claims that since PSE has not been authorized to defer those costs, and the Commission has not consolidated Docket UE-231048 with this proceeding, that the issue is not ripe for consideration here.³⁹⁷ Staff's recommendation reduces the revenue requirement by \$8.0 million in 2025 and \$5.8 million in 2026.³⁹⁸
- 206 Initially, both Staff and Public Counsel argued that the costs associated with the WFP tracker are more appropriately recovered through base rates in an MYRP, and that an

³⁹⁰ PSE's Post-Hearing Brief, at ¶ 55; Peterman, Exh. CGP-1CT at 44:15-47:17; Murphy, Exh. RM-1T at 3:2-4:8.

³⁹¹ PSE's Post-Hearing Brief, at ¶ 55; Free, Exh. SEF-1T at 18:15-19:1.

³⁹² PSE's Post-Hearing Brief, at ¶ 55.

³⁹³ Free, Exh. SEF-1T at 19:11-20:5.

³⁹⁴ Murphy, Exh. RM-1T.

³⁹⁵ McGuire, Exh. CRM-1T at 4:12-16, 105:6-10.

³⁹⁶ McGuire, Exh. CRM-1T at 104:16-19.

³⁹⁷ McGuire, Exh. CRM-1T at 104:19-105:4.

³⁹⁸ McGuire, Exh. CRM-1T at 105:12-16.

additional tracker is not necessary.³⁹⁹ While Staff argues that a balancing account would be more appropriate than a tracker,⁴⁰⁰ Staff indicates in its brief that the Commission should accept PSE's proposed WFP tracker.⁴⁰¹

207 Gorman recommends that the Company use stated insurance premiums to set rates for the MYRP to protect against short-term unexpected variation in prices for wildfire insurance.⁴⁰² Gorman also recommends that the Commission consider insurance alternatives, such as self-insurance through a trust fund reserve, if third-party insurance becomes too expensive or unavailable.⁴⁰³

208 AWEC opposes the WFP tracker, as with PSE's other proposed trackers, arguing that the tracker will shift risk away from PSE shareholders onto customers, thereby reducing the Company's incentive to manage costs during its MYRP.⁴⁰⁴ AWEC also claims that the WFP tracker constitutes single issue ratemaking and is unnecessary with MYRPs.⁴⁰⁵ AWEC argues that "[i]t is well-established that such single-issue ratemaking is disfavored because 'it may distort the 'matching principle,' whereby costs and revenues are balanced at a single point in time to determine fair, just, reasonable, and sufficient rates.'"⁴⁰⁶ AWEC points out that "the Commission has further concluded that single-issue ratemaking is considered not to be in the public interest, and has explicitly stated that it "generally will not engage in single issue or 'piecemeal' ratemaking."⁴⁰⁷ AWEC also argues that customers that are only served by underground distribution facilities, such as Special Contract and High Voltage 46/49 customers, should be excluded from cost allocation for wildfire costs.⁴⁰⁸

³⁹⁹ McGuire, Exh. CRM-1Tr at 4:11-12; Gorman, Exh. MPG-1T at 33:15-22.

⁴⁰⁰ McGuire, Exh. CRM-1Tr at 59:5-22; see also PSE's Post-Hearing Brief, at ¶ 56.

⁴⁰¹ Staff's Post-Hearing Brief, at ¶ 7.

⁴⁰² Gorman, Exh. MPG-1T at 34:1-7.

⁴⁰³ Gorman, Exh. MPG-1T at 34:8-20.

⁴⁰⁴ Mullins, Exh. BGM-1T at 24:7-17.

⁴⁰⁵ Mullins, Exh. BGM-1T at 24:7-17; AWEC's Post-Hearing Brief, at ¶ 26.

⁴⁰⁶ AWEC's Post-Hearing Brief, at ¶ 27, citing Docket No. UE-110070, Order No. 01 ¶ 42 (Apr. 27, 2011).

⁴⁰⁷ AWEC's Post-Hearing Brief, at ¶ 27, citing *See Re US West Commc'ns., Inc.*, Docket No. UT-920085, Third Supplemental Order at 8 (Apr. 15, 1993) (internal citations omitted) and Docket No. UT-970653, Second Supplemental Order Dismissing Complaint, at 6 (Oct. 22, 1997) (internal citations omitted).

⁴⁰⁸ Kaufman, Exh. LDK-1T at 22:8-24:2.

- 209 Like AWEC, FEA recommends the Commission reject inclusion of the WFP tracker on the grounds that it shifts regulatory risk from PSE's investors to its customers.⁴⁰⁹ FEA agrees with AWEC that Special Contract and High Voltage customers should be excluded from cost allocation for wildfire costs.⁴¹⁰
- 210 On rebuttal, PSE maintains that the Commission should grant the Company's request to recover its deferral of wildfire costs in Docket UE-231048, rejecting Staff's argument that the dockets have not been consolidated.⁴¹¹ Witness Free claims that the Company's petition has been outstanding for nine months and that the Company cannot control whether it is presented to the Commission for approval. Free also argues that Staff could have used discovery in this case to evaluate the merits of PSE's petition and that the amount of the deferral is not in question. Finally, Free notes that the Commission has chosen to approve recovery of deferrals under similar circumstances before.⁴¹²
- 211 PSE witness Martin rejects Public Counsel's recommendations for rejecting the WFP tracker and using stated premiums from insurance companies to set rates, citing the limited availability of coverage options over the MYRP.⁴¹³ Martin also rejects Public Counsel's recommendation to self-insure against wildfire risk, quoting Warren Buffett who characterizes self-insurance as the "insurer of last resort."⁴¹⁴
- 212 PSE rejects AWEC's proposal to exclude special contract and high voltage customers from the WFP tracker, arguing that all customer classes are affected by wildfire and benefit from wildfire prevention.⁴¹⁵

Commission Decision

- 213 In Avista's 2020 rate case, the Commission determined that Avista's circumstances concerning wildfires were extraordinary and justified exercising the Commission's discretion to use regulatory tools such as balancing accounts, trackers, or deferrals.⁴¹⁶ As such, the Commission found that Avista had shown that use of a wildfire balancing

⁴⁰⁹ Al-Jabir, Exh. AZA-9T at 20:6-9.

⁴¹⁰ Al-Jabir, Exh. AZA-9T at 4:5-18.

⁴¹¹ Free, Exh. SEF-28T at 81:3-7.

⁴¹² Free, Exh. SEF-28T at 81:8-82:3.

⁴¹³ Martin, Exh. JLM-1T at 63:14-65:17.

⁴¹⁴ Martin, Exh. JLM-1T at 66:1-15.

⁴¹⁵ Mickelson, Exh. CTM-13T at 32:13-34:5.

⁴¹⁶ *Avista Corp*, Dockets UE-200900 & UG-200901, Order 08/05, 39 ¶ 256.

account was justified, and that implementation of the account would remove much uncertainty regarding wildfire expenses, both for the Company and for customers:⁴¹⁷

- 214 Our intent in authorizing the account is to track and review actual wildfire expense, encourage the utility to take actions to address the increasing threat of wildfires to the utility and its customers with the knowledge that prudent expenditures will be recovered and at least a portion will be included in rates currently authorized for recovery, and ensure fairness to Avista's customers by monitoring the incremental wildfire expenses collected from them.⁴¹⁸
- 215 In Avista's recently decided 2024 rate case, we approved increasing Avista's Wildfire Expense Balancing Account baseline to \$8.3 million over its two-year MYRP.⁴¹⁹
- 216 The Commission has recognized Washington electric utilities are in an unprecedented and uncertain time in terms of risks and costs associated with wildfires. During this time of uncertainty, we accept PSE's proposal to recover the costs for its Wildfire Mitigation Plan through the WFP tracker, rather than base rates.
- 217 AWEC argues that the proposed WFP tracker is actually single-issue ratemaking. We disagree. The annual true-up or reconciliation element of the tracker, which allows deferral balances to be returned to ratepayers or recovered by the Company, removes the WFP tracker from being considered a single-issue ratemaking mechanism. The WFP tracker is a tool that allows the Company to recover necessary expenses related to wildfires in real time, and as we said in the 2020 Avista rate case, to remove much uncertainty regarding wildfire expenses, both for the Company and for customers.⁴²⁰ Consequently, at present we authorize the WFP tracker to operate outside GRCs. We direct that PSE true up deferral balances in the account annually for return to ratepayers or recovery by the Company, with the first true up to occur on or about January 30, 2026. Going forward, we find it appropriate to evaluate the use of trackers in a separate docket or proceeding that involves all affected utilities, not in a general rate proceeding involving one utility.
- 218 As none of the other Parties have contested the wildfire costs themselves, we accept and approve the Company's wildfire costs.

⁴¹⁷ *Avista Corp*, Dockets UE-200900 & UG-200901, Order 08/05, 39 ¶ 257.

⁴¹⁸ *Avista Corp*, Dockets UE-200900 & UG-200901, Order 08/05, 39 ¶ 257.

⁴¹⁹ *WUTC v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-240006 & UG-240007 (*consolidated*), filed Revisions to Tariff WN U-28 (Electric) and Tariff WN U-29 (Natural Gas) at ¶ 625 (Jan. 18, 2024).

⁴²⁰ *Avista Corp*, Dockets UE-200900 & UG-200901, Order 08/05, 39 ¶ 257.

219 FEA and AWEC recommend removing Special Contract and High Voltage Service customers from the cost allocation of wildfire costs for the tracker, which includes customers that are only served by underground distribution facilities. A similar argument was raised in *WUTC v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-240006 & UG-240007. In that case we said, “as we have seen with the unpredictable nature of wildfires, what may be non-fire risk area today may turn into a fire-risk area tomorrow. Avista’s standard undergrounding and standard vegetation management protects against this very real, possible outcome, given the unpredictability of wildfires.”⁴²¹ Although the class of customer FEA and AWEC seek to exclude may be in a less vulnerable disposition from other customers, given the unpredictable nature of wildfires, it would not be in the public interest to exclude that class of customers from sharing in the costs of the WFP tracker. Therefore, we reject FEA’s and AWEC’s argument that Special Contract and High Voltage Service customers should be excluded from the cost allocation of wildfire costs for the tracker.

220 Finally, we address Staff’s recommendation to exclude PSE’s requested recovery of the deferral balance associated with the Company’s petition for deferred accounting in Docket UE-231048, as the Commission has not acted on the petition, and the matter has not been consolidated with this proceeding. As PSE notes, this petition has been pending for nine months with no action by the Commission. PSE notes that the Commission has chosen to approve recovery of deferrals under similar circumstances before.⁴²² In that prior case, the Commission stated:

This places us in a somewhat untenable position. On the one hand, given that no one contests the accounting treatment PSE proposes in this proceeding, which is identical to, albeit independent of, what it asks in its petition, we could approve it. On the other hand, we are troubled that we are asked to approve accounting treatment ... when our expert accounting staff has not shared with us its view on the matter.⁴²³

221 While we do not grant the recovery of the deferral balance in this proceeding, we follow the course of action this Commission has previously taken and order the Commission

⁴²¹ *WUTC v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-240006 & UG-240007 (*consolidated*), filed Revisions to Tariff WN U-28 (Electric) and Tariff WN U-29 (Natural Gas) at ¶ 624 (Jan. 18, 2024); *Avista Corp.*, Dockets UE-200900 & UG-200901, Order 08/05, 39 ¶ 257.

⁴²² Free, Exh. SEF-28T at 81:8-82:3, citing *WUTC v. Puget Sound Energy*, Dockets 111048 et al., Order 08 ¶ 236 (May 7, 2012).

⁴²³ *WUTC v. Puget Sound Energy*, Dockets 111048 et al., Order 08 ¶ 235 (May 7, 2012)

Staff to bring this matter to us in an open meeting with its recommendation in Docket UE-231048 within 30 days of this Order.⁴²⁴

J. CGR Tracker and Construction Work In Progress (CWIP)

- 222 PSE proposes that it earn Construction Work in Progress (CWIP) in rate base for resources under construction that are included in its proposed Clean Generation Resources tracker (“CGR tracker”) instead of the traditional Allowance for Funds Used During Construction (AFUDC) method. As PSE witness Doyle explains, AFUDC and CWIP in rate base are both methods utilities apply to recover financing costs during construction of an asset, but they differ in terms of the timing of recovery.⁴²⁵ In the AFUDC method, the Commission will determine a rate of interest for the financing costs for a construction project the utility may recover during construction. While the plan is under construction, the utility will include its construction costs in a CWIP account and calculates AFUDC by multiplying the amounts in CWIP by the AFUDC rate.⁴²⁶ When the utility places the plant in service, it includes both the AFUDC amounts and the CWIP amounts for the plant in rate base for recovery from customers.⁴²⁷ Under the CWIP in rate base methodology, a utility recovers the construction costs for plant, CWIP, in rate base during construction, and earns a return on the CWIP amounts before the plant is completed and in service.⁴²⁸
- 223 The only project for which PSE requests CWIP in rate base treatment in this proceeding is the Beaver Creek Wind Project. To justify the proposal, Doyle argues that Beaver Creek would be a large, well-defined project with a short construction period, allowing PSE and the Commission to test the effectiveness of CWIP in rate base, since it has not been used since the 1980s.⁴²⁹
- 224 For the Beaver Creek Wind Project, PSE proposes that the Commission allow the Company to place AFUDC accrued as of December 31, 2024, into rate base, ceasing AFUDC accrual after that date.⁴³⁰ PSE would begin accounting for plant investment through CWIP in rate base on January 1, 2025 and earn the weighted average cost of

⁴²⁴ See *WUTC v. Puget Sound Energy*, Dockets 111048 et al., Order 08 ¶ 236 (May 7, 2012).

⁴²⁵ Doyle, Exh. DAD-1T at 60:9-13.

⁴²⁶ Doyle, Exh. DAD-1T at 60:15 – 61:3.

⁴²⁷ Doyle, Exh. DAD-1T at 61:3-6.

⁴²⁸ Doyle, Exh. DAD-1T at 61:8-14.

⁴²⁹ Doyle, Exh. DAD-1CT at 62:13-63:19.

⁴³⁰ Allowing the Company to transfer the balance of AFUDC into rate base results in immediately earning the full rate of return on that balance effective January 1, 2025.

capital (WACC) approved by the Commission in this proceeding for the remainder of the construction period.⁴³¹ PSE estimates that the overall reduction in revenue requirement over the life of the Beaver Creek Wind Project will be \$3.7 million if the Company's hybrid AFUDC-CWIP proposal is approved.⁴³²

- 225 For all other projects that are placed into the CGR tracker, Schedule 141CGR, PSE proposes collecting CWIP in rate base.⁴³³ PSE would manage the accounting of CWIP and AFUDC internally to ensure that no "double dipping" of construction costs would occur in the case of Beaver Creek.⁴³⁴
- 226 Doyle claims that CWIP in rate base would support PSE's financial position while meeting CETA goals.⁴³⁵ The financial benefits to PSE would include lower capitalized costs, increasing cash flows, avoiding outside financing, improved cash earnings, potential reductions in financing costs, lower rates of return required by investors, and reduced financial risks associated with new infrastructure investment.⁴³⁶ Doyle argues that PSE needs to improve its cash flow to make debt payments, pay contractors and vendors, meet operating expenses and taxes, and carry accounts receivable, which future AFUDC funds do not fulfill.⁴³⁷ Peterman provides additional financial support asserting that authorizing CWIP in rate base will be viewed favorably by credit rating agencies.⁴³⁸
- 227 Doyle details PSE's analysis to assess the rate effects of allowing CWIP in rate base,⁴³⁹ including the derivation of appropriate discount rates to assess the opportunity cost of capital for ratepayers.⁴⁴⁰ Doyle claims that the analysis demonstrates that under a range of ratepayer assumptions, PSE's proposed hybrid treatment of AFUDC and CWIP for Beaver Creek is less costly than traditional AFUDC treatment.⁴⁴¹ Doyle claims that the CWIP in rate base method will reduce the rate impact of Beaver Creek when it goes into

⁴³¹ Doyle, Exh. DAD-1CT at 61:15-62:7.

⁴³² Doyle, Exh. DAD-1CT at 79:10-11.

⁴³³ Free, Exh. SEF-1T at 13:13-14:4.

⁴³⁴ Smith, Exh. SWS-1T at 5:19-6:18.

⁴³⁵ Doyle, Exh. DAD-1CT at 63:20-64:9.

⁴³⁶ Doyle, Exh. DAD-1CT at 64:10-65:19, 66:1-68:5.

⁴³⁷ Doyle, Exh. DAD-1CT at 70:6-71:7.

⁴³⁸ Peterman, Exh. CGP-1CT at 33:16-40:9.

⁴³⁹ Doyle, Exh. DAD-1CT at 78:5-88:14.

⁴⁴⁰ Doyle, Exh. DAD-1CT at 82:13-87:9. PSE settled on an opportunity cost of capital of 4.82 percent for customers and performed an additional analysis with an opportunity cost of capital of 6.25%, claiming that it is a reasonable range for approximation.

⁴⁴¹ Doyle, Exh. DAD-1CT at 88:4-14.

service, since customers will pay less in financing costs over the life of the project and the addition of the plant will be incremental with CWIP, as opposed to adding both plant and AFUDC only when the plant is used and useful.⁴⁴² Doyle contends that this would prevent a “sharp spike” in rates, fulfilling the regulatory objective of “gradualism”.⁴⁴³

- 228 Providing historical context for CWIP in rate base, Doyle testifies that the last notable use of the method was the massive investment in nuclear projects in the Pacific Northwest from the mid-1960s to the early 1980s, responding to economic pressures that caused financing costs above the net income generated by projects.⁴⁴⁴ Doyle argues that PSE now faces similar conditions to the early 1980’s when the Commission authorized the use of CWIP for Puget Sound Power & Light Company during construction of a nuclear reactor and Colstrip. Doyle claims that Puget Sound Power & Light Company (then) and PSE (now) have a similar bond rating, weakened cash flows, and similarly face large infrastructure investments to meet state policy.⁴⁴⁵
- 229 Doyle argues the Commission has the authority to allow CWIP in rate base under RCW 80.04.250, which was amended after the Washington Supreme Court found CWIP not to be used and useful in the *POWER* case, and that the Commission has recognized its authority to do so in PSE’s 2011 GRC final order.⁴⁴⁶
- 230 JEA recommends the Commission adopt a policy granting CWIP in rate base for renewable or non-emitting electric generating resources on a case-by-case basis,⁴⁴⁷ but does not make a recommendation on PSE’s request for CWIP in rate base for Beaver Creek Wind.⁴⁴⁸ JEA does not recommend that the Commission grant PSE approval for CWIP in rate base for all CETA-associated resources, but instead on a project-by-project basis where the Commission weighs the risks for customers.⁴⁴⁹ JEA witness Gehrke

⁴⁴² Doyle, Exh. DAD-1CT at 68:6-70:5.

⁴⁴³ Doyle, Exh. DAD-1CT at 77:9-78:4.

⁴⁴⁴ Doyle, Exh. DAD-1CT at 71:8-73:3.

⁴⁴⁵ Doyle, Exh. DAD-1CT at 73:4-75:10.

⁴⁴⁶ Doyle, Exh. DAD-1CT at 76:3-77:8, citing *People’s Org. for Wash. Energy Res. v. WUTC*, 101 Wn.2d 425, 430, 679 P.2d 922 (1984) (“*POWER*”).

⁴⁴⁷ Gehrke, Exh. WAG-1T at 2:16-18.

⁴⁴⁸ On cross, JEA witness Gehrke clarifies that JEA does not support CWIP in rate base for Beaver Creek.

⁴⁴⁹ Gehrke, Exh. WAG-1T at 13:1-10.

argues that utilizing CWIP in rate base may be necessary in some cases, proposes criteria for when CWIP in rate base would be appropriate.⁴⁵⁰

- 231 JEA's five criteria include: (1) whether the project is associated with an important state public policy objective; (2) the financial condition of the utility and how it would be affected by being granted CWIP in rate base for a project; (3) the rate impact of CWIP in rate base on customers; (4) public input; and (5) the development risk of the facility.⁴⁵¹
- 232 Staff, Public Counsel, and other intervening parties explicitly oppose the inclusion of CWIP in rate base.⁴⁵²
- 233 On rebuttal, PSE Witnesses Martin⁴⁵³ and Steuerwalt⁴⁵⁴ claim that intergenerational equity concerns regarding Beaver Creek are unfounded, since CWIP is scheduled to be in place for less than a year and are outweighed by the reduced long-term cost and benefits to PSE.
- 234 Shipman supports authorizing CWIP in rate base given rating agency views on the effect of adjustment clauses, claiming the method has a credit-enhancing effect on cash flow and mitigates volatility of earnings that ultimately leads to lower rates for customers.⁴⁵⁵
- 235 Regarding the cost of capital, Peterman argues that response testimony opposing PSE's request for CWIP in rate base offers no mechanisms to recover costs or acknowledge the effects on PSE's credit metrics.⁴⁵⁶
- 236 Free claims that the evidence in this rate case demonstrates that PSE has not earned its authorized rate of return since 2017, countering TEP's argument that CWIP in rate base treatment would lead to high investor profits at the expense of ratepayers. Free cites RCW 80.28.425(6) as protection for ratepayers against earnings that are 0.5 percent higher than PSE's authorized rate of return.⁴⁵⁷

⁴⁵⁰ Gehrke, Exh. WAG-1T at 13:11-14:19.

⁴⁵¹ Gehrke, Exh. WAG-1T at 14:20-16:12.

⁴⁵² McGuire, Exh. CRM-1T at 95:1-8, Gorman, Exh. MPG-1CT 23:1-7, Stokes, Exh. SNS-1T at 67:5-18, Mullins, Exh. BGM-1T at 27:11-14.

⁴⁵³ Martin, Exh. JLM-1CTr at 52:14-53:11, 57:12-17.

⁴⁵⁴ Steuerwalt, Exh. MS-4T at 13:10-14:4.

⁴⁵⁵ Shipman, Exh. TAS-5CT at 13:21-14:8.

⁴⁵⁶ Peterman, Exh. CGP-11CT at 5:3-6:4.

⁴⁵⁷ Free, Exh. SEF-28T at 45:15-46:2.

- 237 Free also claims that TEP's citation to the Final Order in PSE's 2011 rate case is ultimately supportive of PSE's argument, and that "the Commission viewed [CWIP in rate base] as appropriate tools in times of high general inflation or high levels of plant additions."⁴⁵⁸
- 238 Similarly, Free claims that TEP's citation of CPUC's findings on CWIP in rate base were filed in a FERC docket that ultimately approved CWIP for SoCal Edison over protest from CPUC. Free argues that PSE faces similar conditions as SoCal Edison in that proceeding.⁴⁵⁹
- 239 Regarding AWEC's argument that a utility's incentive to manage construction is eliminated under SWIP in rate base, Martin argues that CWIP and AFUDC practices do not impact a utility's motivation or provide incentive to manage its construction portfolio because all costs are recovered absent a prudence disallowance. Martin also notes that PSE's construction project managers are not affected by ratemaking and cost recovery mechanisms, and that AWEC witness Mullins provides no evidence for the argument.⁴⁶⁰
- 240 Martin also claims that Mullins' arguments regarding prudency determination are not relevant, as prudency determinations are made through the provisional plant process regardless of which methodology is employed.⁴⁶¹
- 241 In response to Staff witness McGuire's question of short-term impacts on the Company's cost of capital associated with utilizing CWIP in rate base, Martin asserts that PSE did not testify as to any impacts. However, Martin contends that Commission approval of CWIP in rate base will signal supportive regulation to rating agencies.⁴⁶²
- 242 Responding to Staff's equity concerns about PSE's analysis of CWIP in rate base, Martin claims that equity concerns cannot be viewed in a vacuum and that Staff's equity concerns fail to consider PSE's progress towards CETA and expanded low-income assistance programs.⁴⁶³ PSE witness Hutson claims that the Commission declined to provide "specific programmatic guidance," and that the Commission should instead evaluate PSE's work on equity in a holistic manner.⁴⁶⁴

⁴⁵⁸ Free, Exh. SEF-28T at 46:12-47:7.

⁴⁵⁹ Free, Exh. SEF-28T at 48:7-49:2.

⁴⁶⁰ Martin, Exh. JLM-1CTr at 55:1-56:10.

⁴⁶¹ Martin, Exh. JLM-1CTr at 56:11-57:3.

⁴⁶² Martin, Exh. JLM-1CTr at 58:10-59:3.

⁴⁶³ Martin, Exh. JLM-1CTr at 60:1-61:3.

⁴⁶⁴ Hutson, Exh. TAH-10T at 47:3-18.

- 243 Steuerwalt and Martin concur with Staff witness McGuire's findings that the Commission has the authority to allow CWIP in rate base in Washington.⁴⁶⁵
- 244 Addressing Public Counsel's claim that PSE did not outline the costs and benefits to customers for including CWIP in rate base, Martin cites sections of testimony from PSE witness Doyle illustrating that CWIP in rate base is less expensive than AFUDC, reduces long-term financing costs, and mitigates rate impacts to customers.⁴⁶⁶
- 245 Martin also rejects Public Counsel's argument that the MYRP and PSE's stable credit ratings alone are sufficient justification for the Commission to deny the Company's proposal. Martin testifies that "stable ratings and outlooks and existing regulatory mechanisms in the state of Washington have little if any bearing on whether the Commission should approve or deny PSE's CWIP in rate base proposal."⁴⁶⁷
- 246 Responding to JEA witness Gehrke's concerns about delays in construction, Martin states that, absent a prudency disallowance, most construction costs are recovered by a utility under CWIP in rate base or AFUDC regardless of delays.⁴⁶⁸ Martin rejects JEA's assertion that PSE should seek approval for CWIP in rate base in the context of a certificate of necessity process, citing Staff witness McGuire's testimony.⁴⁶⁹ Steuerwalt argues that ESHB 1589 allows *but does not require* large combination utilities to use a certificate of necessity process for large projects and does not limit the use of CWIP in rate base to that situation.⁴⁷⁰ Martin also rejects JEA's proposed framework for approving CWIP in rate base on a case-by-case basis. Martin argues that the uncertainty of receiving CWIP authorization on an individual project basis would significantly alter PSE's decision-making process and evaluation of potential projects.⁴⁷¹
- 247 JEA witness Gehrke clarifies on cross-answering testimony that JEA recommends the Commission not adopt CWIP in rate base for the Beaver Creek project.⁴⁷² JEA agrees with Staff that CWIP in rate base would disproportionately affect low-income

⁴⁶⁵ Steuerwalt, Exh. MS-4T at 11:14-12:3; Martin, Exh. JLM-1CTr at 62:1-8.

⁴⁶⁶ Martin, Exh. JLM-1CTr at 51:13-52:13.

⁴⁶⁷ Martin, Exh. JLM-1CTr at 54:4-18.

⁴⁶⁸ Martin, Exh. JLM-1CTr at 61:4-19.

⁴⁶⁹ Martin, Exh. JLM-1CTr at 62:1-8.

⁴⁷⁰ Steuerwalt, Exh. MS-4T at 12:4-13.

⁴⁷¹ Martin, Exh. JLM-1CTr at 62:9-63:13.

⁴⁷² Gehrke, Exh. WAG-4T at 18:5-10.

customers.⁴⁷³ JEA views the Beaver Creek project as a typical utility resource acquisition that does not require extraordinary ratemaking consideration.⁴⁷⁴

248 On behalf of JEA, Gehrke urges the Commission to adopt the framework proposed in their response testimony, on the grounds that the criteria will provide flexibility for the Commission to approve or reject CWIP in rate base for distinct projects while elevating the public interest standard.⁴⁷⁵ Gehrke argues that the proposed JEA framework addresses the concerns raised by AWEC and Public Counsel .⁴⁷⁶

249 While AWEC claims that JEA's proposed criteria attempts to provide the Commission with a public interest lens for assessing whether CWIP in rate base should be granted, witness Mullins argues JEA does not address the issues of construction incentives, prudence, and intergenerational equity.⁴⁷⁷

Commission Decision

250 After reviewing the testimony, evidence and briefs on this issue, we are not persuaded that it is in the public interest to allow CWIP in rate base on plant that would be placed into PSE's proposed CGR tracker generally, or the Beaver Creek Wind Project specifically. Because we deny a blanket allowance of CWIP in rate base at this time, the question of the proposed CGR tracker effectively becomes moot. Therefore, we also reject PSE's proposed CGR tracker.

251 RCW 80.04.250 expressly allows CWIP to be included in rate base. RCW 80.04.250(2) provides:

The commission has power upon complaint or upon its own motion to ascertain and determine the fair value for rate making purposes of the property of any public service company used and useful for service in this state by or during the rate effective period and shall exercise such power whenever it deems such valuation or determination necessary or proper under any of the provisions of this title. The valuation may include consideration of any property of the public service company acquired or constructed by or during the rate effective period, *including the reasonable costs of construction work in progress, to the extent that the*

⁴⁷³ Gehrke, Exh. WAG-4T at 19:8-11.

⁴⁷⁴ Gehrke, Exh. WAG-4T at 20:1-7.

⁴⁷⁵ Gehrke, Exh. WAG-4T at 20:8-22.

⁴⁷⁶ Gehrke, Exh. WAG-4T at 21:1-18.

⁴⁷⁷ Mullins, Exh. BGM-6CT at 12:1-7.

commission finds that such an inclusion is in the public interest and will yield fair, just, reasonable, and sufficient rates. [emphasis added]

- 252 Although the Commission is authorized to allow CWIP in rate base and has done so in the past, we decline to authorize it here. The Beaver Creek Wind Project is nearing completion, and thus is not a good candidate for application of CWIP in rate base.
- 253 Staff makes an interesting point that the function CWIP in rate base once served has been supplanted by the MYRP.⁴⁷⁸ We believe that perhaps Staff goes too far with this argument, as the Commission is authorized to allow CWIP should it find that doing so is in the public interest. However, already in this order we have provided the Company with the means to adaptively manage its investment plan and appropriately respond to changing circumstances when we determined and held that the Company's portfolio approach for Provisional Plant review is in the public interest. Part of the Provisional Plant review process includes CETA-eligible resources.
- 254 We also reject PSE's proposal for a CGR tracker. There are a number of other methods for plant recovery in rates that the Legislature has adopted in recent years, and a blanket approval for CWIP in rate base goes too far. PSE has not provided the Commission with sufficient evidence to approve CWIP in rate base so broadly. Further, with respect to the CGR tracker, and trackers generally, we will evaluate the use of trackers in a separate docket or proceeding that involves all affected utilities, not in a general rate proceeding involving one utility.
- 255 As we reject CWIP in rate base as a blanket approval for CETA resources, therefore, we also reject the CGR tracker as not in the public interest.
- 256 However, we agree with JEA that the Commission may consider CWIP in rate base on a case-by-case basis in the future. For guidance, we may consider projects that are (1) commercially feasible and that therefore entail less relative risk and (2) are of shorter relative duration, i.e., within the timeline of an MYRP or CEIP.

K. Cost of Service

- 257 Assessing the cost of service, i.e., the cost of serving customers, is fundamental to and a key component of determining fair, just, reasonable, and sufficient rates.⁴⁷⁹ Cost of service studies assist the parties in proposing, and the Commission in determining, critical issues such as the basic monthly charge (BMC), cost allocation, rate design, and other charges. This Commission has a long-standing precedent of not simply

⁴⁷⁸ Staff's Post-Hearing Brief, at ¶ 7.

⁴⁷⁹ See, *Fed. Power Comm'n v. United Gas Pipe Line Co.*, 386 U.S. 237, 243 (1967).

mechanically applying results from any one cost of service study (COSS), but instead exercises judgment, considering equity, fairness, economic conditions, gradualism, and rate stability in determining rates.⁴⁸⁰

258 To “streamline, improve, and promote efficiency in analyzing rate cases by clarifying presentations and prescribing preferred methods [.]” the Commission adopted a new chapter of rules, 480-85 WAC, governing utility cost of service models.⁴⁸¹ Since its adoption in 2020, 480-85 WAC has established the requirements for COSS filed at the Commission.

259 In this case, the parties submitted multiple studies relating to both electric and natural gas cost of service. PSE presents two cost of service studies for both electric and natural gas services.⁴⁸² For both electric and natural gas services, PSE submits one study that is in strict compliance with 480-85 WAC. The second study seeks exemption from 480-85 WAC. For the electric cost of service study, PSE seeks exemption regarding treatment of FERC Account 565 (Transmission of Electricity of Others), seeking to reclassify these costs as energy rather than transmission.⁴⁸³ For the natural gas cost of service study, PSE seeks exemption regarding the allocation of FERC Account 870 (Distribution Supervision & Engineering – Operations), seeking to reclassify these costs as distribution rather than transmission.⁴⁸⁴ We discuss cost of service studies submitted by other parties, as well as related proposals from all parties in greater depth below, in relation to their corresponding contested issue.

1. Natural Gas Cost of Service Study

260 As noted above, PSE submitted two natural gas cost of service studies as part of its initial filing.⁴⁸⁵ Three alternative studies were subsequently submitted from AWEC, Nucor, and PSE.⁴⁸⁶ Regarding natural gas cost of service, AWEC argues that all three subsequent studies better allocate mains than PSE’s cost of service study filed on direct. In contrast to the later studies, AWEC asserts PSE’s initial study over-allocates costs to Schedules

⁴⁸⁰ See, *In re Amending WAC 480-07-510 and Adopting Chapter 480-85 WAC*, Dockets UE-170002 & UG-170003, General Order R-599 at ¶ 31 (Jul. 7, 2020).

⁴⁸¹ *In re Amending WAC 480-07-510 and Adopting Chapter 480-85 WAC*, Dockets UE-170002 & UG-170003, General Order R-599 at ¶ 31 (Jul. 7, 2020).

⁴⁸² Mickelson, Exh. CTM-1T at 23:7-14, Exh. CTM-5; Taylor Exh. JDT-1T at 14:13-15:9.

⁴⁸³ Mickelson, Exh. CTM-1T at 23:7-14, Exh. CTM-5.

⁴⁸⁴ Taylor, Exh. JDT-1T at 14:13-15:9.

⁴⁸⁵ Taylor Exh. JDT-1T at 14:13-15:9.

⁴⁸⁶ Kaufman, Exh. LDK-1T at 32:1-2; Higgins, Exh. KCH-1T at 20:13-15; and Taylor, Exh. JDT-8T at 19:3-4.

87/87T, because it allocates costs for main lines two inches and smaller to these rate schedules despite them being served exclusively by mains over two inches.⁴⁸⁷ AWEC's witness Kaufman also argues that because Schedule 87/87T are similar to the new Schedule 88T, and because no party has disputed directly assigning mains to 88T, that Schedule 87/87T should be treated similarly or the Commission should decline to do so for Schedule 88T.⁴⁸⁸ On rebuttal, PSE witness Taylor agrees with the general idea presented by AWEC regarding Schedules 87/87T and notes it appears reasonable, but that the Company's natural gas cost of service study was conducted consistent with WAC 480-85, and ultimately suggests the Commission make a determination.⁴⁸⁹

261 Nucor asserts that under PSE's initial natural gas studies, Schedules 85/85T, 86/86T, 87/87T, and 88T are inappropriately allocated costs. Specifically, Nucor argues that prior to PSE's 2022 settled GRC, Schedules 85/85T, 86/86T, and 87/87T were not allocated using costs associated with small mains and Schedules 87/87T were excluded from medium mains because those mains do not serve those classes.⁴⁹⁰ Nucor also argues that Schedule 88T, which only supplies PSE's affiliate, Puget LNG, contains costs that are under-allocated in relation to the costs incurred for this schedule.⁴⁹¹

262 Nucor argues that due to Schedules 85/85T, 86/86T, and 87/87T being allocated costs associated with small and medium mains, those schedules will see substantial rate increases, with Schedule 87/87T seeing a 64.7 percent increase in total rate base compared to the 2019 GRC methodology.⁴⁹² Nucor notes that while the increases are substantial for the noted schedules, residential ratepayers experience only a 0.8 percent decrease in base rates due to this new allocation methodology.⁴⁹³

263 Nucor recommends grouping the distribution mains into three size categories with each category allocated using the peak and average method among the subset of customer classes that utilize that size main:

- a. Small – Less than 2 inches,
- b. Medium – 2-3 inches,

⁴⁸⁷ Kaufman, Exh. LDK-1T at 24:6-9, 26:8-27:1.

⁴⁸⁸ Kaufman, Exh. LDK-1T at 30:5-7.

⁴⁸⁹ Taylor, Exh. JDT-8T at 9:18-10:20.

⁴⁹⁰ Higgins, Exh. KCH-1T at 4:2-14.

⁴⁹¹ Higgins, Exh. KCH-1T at 17:1-18:14.

⁴⁹² Higgins, Exh. KCH-1T at 8:25-9:9.

⁴⁹³ Higgins, Exh. KCH-1T at 8:25-9:9.

c. Large – Greater than 4 inches.⁴⁹⁴

- 264 Further, Nucor recommends that Schedules 85/85T, 86/86T, and 87/87T, be excluded from the allocation of small mains, and 87/87T be excluded from the allocation on medium mains consistent with the previous methodology.⁴⁹⁵ AWEC adopts this approach in cross-answering testimony as consistent with cost causation principles.⁴⁹⁶ Nucor also argues that PSE's natural gas COSS under allocates costs to Schedule 88T, and recommends correcting for under assignment of gross plant and accumulated depreciation associated with Upgrades 2 and 3, resulting in an increase from \$516,784 to \$1,339,325.⁴⁹⁷ PSE acknowledges an error and corrects the allocation to \$728,000 on rebuttal.⁴⁹⁸
- 265 Despite PSE's upwards correction, Nucor maintains that PSE's COSS fails to properly assign the full costs of distribution upgrades and service to Schedule 88T, and recommends the rate base and depreciation expense associated with LNG-related distribution upgrades be separately tracked and assigned to Schedule 88T, and that other distribution mains serving the LNG facility be allocated using the peak and average allocator.⁴⁹⁹
- 266 Public Counsel's witness Dismukes recommends different revenue allocations that limit rate increases to any customer class to 1.25 times the overall system average, increases the revenue allocation to Large Volume customers to 1.15 times the system average, and hold Exclusive Interruptible rates in Schedule 88T constant.⁵⁰⁰ While Nucor, AWEC, and Public Counsel submit various recommendations, PSE notes that with its rebuttal COSS that the parties are not significantly apart from one another.⁵⁰¹ PSE also asserts that AWEC and Nucor's studies fail to comply with 480-85 WAC, and therefore requests the Commission approve the Company's study as submitted on rebuttal.⁵⁰²

⁴⁹⁴ Higgins, Exh. KCH-1T at 9:18-20.

⁴⁹⁵ Higgins, Exh. KCH-1T at 10:1-3.

⁴⁹⁶ Kaufman, Exh. LDK-8T at 13:3-12.

⁴⁹⁷ Higgins, Exh. KCH-1T at 16:8-14.

⁴⁹⁸ Taylor, Exh. JDT-8T at 14:13-15:9 and Exh. JDT-15.

⁴⁹⁹ Higgins, Exh. KCH-9T at 8:3-13.

⁵⁰⁰ Dismukes, Exh. DED-1T at 29:13-23.

⁵⁰¹ Taylor, Exh. JDT-8T at 21:1-8, *see* Table 2.

⁵⁰² Taylor, Exh. JDT-8T at 22:9-22.

267 Staff supports the Commission accepting PSE’s recommended natural gas cost of service study with the exemption sought by PSE.⁵⁰³ Staff supports PSE’s exemption regarding the allocation of FERC Account 870 (Distribution Supervision & Engineering – Operations), seeking to reclassify these costs as distribution rather than transmission, because FERC Account 870 is properly functionalized as distribution.⁵⁰⁴ Staff opposes the proposals to reallocate costs based on the size of natural gas mains as contrary to the Commission rules and prior refusal to allow main pipe diameter to be used in allocating costs.⁵⁰⁵ Further, Staff asserts the rate spread resulting from PSE cost of service study reasonably reflects the study results and moves customer classes closer to parity in a reasonable and gradual manner.⁵⁰⁶

Commission Decision

268 Having reviewed the record and relevant natural gas cost of service studies submitted by the parties, the Commission accepts PSE’s natural gas cost of service study and grants PSE’s requested exemption regarding reclassifying allocation of FERC Account 870 (Distribution Supervision & Engineering – Operations) as distribution rather than transmission. In doing so we agree with PSE and Staff, that PSE’s natural gas COSS complies with 480-85 WAC and that the study is reasonable for ratemaking purposes.

269 As Staff and PSE argue, the promulgation of 480-85 WAC took place over several years, in which numerous interested parties participated in the rulemaking discussions to consider the minimum filing requirements for electric and natural gas cost of service studies.⁵⁰⁷ The Commission’s COSS rules are intended to “streamline, improve, and promote efficiency in analyzing rate cases, clarity of presentation, and ease of understanding.”⁵⁰⁸

270 We agree with Staff that PSE’s natural gas COSS materially complies with the intent of 480-85 WAC, is reasonable to all customer classes, and is representative of the compromise made in Dockets UE-170002 and UG-170003.⁵⁰⁹

⁵⁰³ Staff’s Post-Hearing Brief, at ¶¶ 111-12.

⁵⁰⁴ See, Watkins, GAW-1T at 24:5-7.

⁵⁰⁵ Staff’s Post-Hearing Brief, at ¶¶ 114-17, *citing* Dockets UE-170002 & UG-170003, Order R-599 at 16-17, ¶¶ 58, 60-61 (Jul. 7, 2020); Higgins, Exh. KCH-1T at 6:17-7:12.

⁵⁰⁶ Watkins, Exh. GAW-1T at 25:11-28:4.

⁵⁰⁷ See, PSE’s Post-Hearing Brief, at ¶ 155; Staff’s Post-Hearing Brief, at ¶¶ 114-17.

⁵⁰⁸ WAC 480-85-010.

⁵⁰⁹ See, Watkins, Exh. GAW-1T at 13:14-14:17, 24:20-25:7.

- 271 We also agree and accept PSE’s request for exemption as it relates to FERC Account 870 (Distribution Supervision & Engineering – Operations). WAC 480-85-070 provides the Commission may grant exemptions to 480-85 WAC consistent with WAC 480-07-110. In determining whether an exemption should be granted, the Commission uses the public interest standard and may consider “whether the effect of applying the rule to the requesting person would be contrary to the underlying purposes of the rule and the public interest.”⁵¹⁰
- 272 PSE argues, and both Staff and Nucor agree, that the exemption for FERC Account 870 (Distribution Supervision & Engineering – Operations) will result in each customer class paying its fair share of costs incurred to serve them.⁵¹¹ PSE, Staff, and Nucor agree that these costs are properly functionalized as distribution related, on the basis that Account 870 costs relate to the distribution system.⁵¹²
- 273 It does not appear from the record that any party takes issue with the reclassification and the reclassification has minimal impacts on cost allocation.⁵¹³ Accordingly, the Commission finds that the requested exemption for FERC Account 870 (Distribution Supervision & Engineering – Operations) is consistent with the public interest, is reasonable, and is supported by the record.
- 274 As for the recommended allocation adjustments recommended by Public Counsel, AWEC, and Nucor, we decline to make such adjustments.
- 275 First, Public Counsel recommends limiting rate increases to any single customer class to 1.25 times the system average, increasing the revenue allocation to Large Volume customers to 1.15 times the average increase, and holding Exclusive Interruptible rates constant.⁵¹⁴ PSE’s witness Taylor argues the recommendations are unsupported and therefore should be rejected.⁵¹⁵ We agree. A review of the record shows that Public Counsel’s recommendations are largely unsupported and therefore should be rejected.
- 276 Next, AWEC and Nucor request a number of adjustments related to allocation of costs for small and medium mains, and for varying treatment of Schedule 88T. AWEC and Nucor argue that their respective adjustments are consistent with WAC 480-85-060,

⁵¹⁰ WAC 480-07-110(2)(c).

⁵¹¹ Taylor, Exh. JDT-8T at 4:13-20; Watkins, Exh. GAW-1T at 24:5-7; Higgins, Exh. KCH-1T at 3:16-17.

⁵¹² See, Taylor, Exh. JDT-1T at 15:3-9; Watkins, Exh. GAW-1T at 24:6-7.

⁵¹³ Higgins, Exh. KCH-1T at 20:1-2.

⁵¹⁴ Dismukes, Exh. DED-1T at 29:13-23.

⁵¹⁵ Taylor, JDT-8T at 22:1-8.

specifically that Table 4 of WAC 480-85-060(3), provides that allocation of distribution mains should be done via direct assignment to a single customer class where practical, and that all other costs should be assigned based on design day and annual throughput. AWEC and Nucor argue that Schedules 85/85T, 86/86T, and 87/87T, be excluded from the allocation of small mains, and that Schedule 87/87T be excluded from the allocation of medium mains because those customer classes do not utilize small and medium mains respectively.⁵¹⁶ Alternatively, they suggest that if the Commission does not find the allocation consistent with 480-85 WAC, that an exemption or waiver be granted under WAC 480-85-070.

- 277 In response PSE argues the methodology is inconsistent with 480-85 WAC.⁵¹⁷ Additionally, both PSE and Staff argue the promulgation of 480-85 WAC was a collaborative process in which AWEC participated, and that this is not the proper venue for revisiting the rules.⁵¹⁸ More pointedly, Staff argues that during the rulemaking process in Dockets UE-170002 and UG-170003, PSE asked for clarification regarding whether main pipe diameter could be used to allocate costs, and that during the adoption hearing, AWEC requested clarification on the same point.⁵¹⁹ Despite both PSE and AWEC raising the issue, the Commission did not adopt the requests for clarification to allow main pipe diameter to be used to allocate cost.⁵²⁰
- 278 We agree with PSE and Staff. While PSE characterizes WAC 480-85-060 as disallowing AWEC and Nucor's proposed allocation of mains, it is not clear that such an allocation is prohibited by the plain language in Table 4 of WAC 480-85-060(3), particularly if there were a sufficient showing that direct costs could be assigned. However, the record here does not support directly assigning costs as prescribed by Nucor and AWEC. As AWEC notes in its post-hearing brief, AWEC and PSE assert that mains can be directly assigned, at least to Schedule 87/87T customers, and PSE witness Taylor admits such an allocation may be reasonable.⁵²¹ However, as Taylor notes, there are several remaining questions regarding AWEC's analysis, including failure to consider back-looped pipelines.⁵²² Taylor also notes that AWEC's analysis and PSE's own resulted in significantly different

⁵¹⁶ Higgins, Exh. KCH-1T at 10:1-3; Kaufman, Exh. LDK-8T at 13:3-12.

⁵¹⁷ Taylor, JDT-8T at 22:1-8.

⁵¹⁸ See, PSE's Post-Hearing Brief, at ¶ 155.

⁵¹⁹ TR. 356:9-24; Higgins, Exh. KCH-1T at 6:17-7:12; Higgins, Exh. KCH-11X at 15-17

⁵²⁰ Staff's Post-Hearing Brief, at ¶ 116.

⁵²¹ Taylor, JDT-8T at 9:18-22.

⁵²² Taylor, JDT-8T at 10:1-20.

estimates of replacement costs, and pipe length would need to be verified to confirm what portions could be directly assigned.⁵²³

279 Further, as Staff points out, the method by which Nucor and AWEC recommend allocating costs – based on main pipe size – is not currently permissible. The Commission adopted Staff’s comments in the order adopting and promulgating 480-85 WAC, which stated “[t]he rules are clear and do not allow for use of main pipe diameter to allocate costs to some classes but not others.”⁵²⁴ While that language is not contained within the rule itself, it is persuasive. Accordingly, we view Nucor and AWEC’s proposals as attempts to petition for rule change. As this proceeding is not the proper forum for doing so, the parties should petition the Commission to amend 480-85 WAC. For the aforementioned reasons, the Commission declines to adopt AWEC and Nucor’s proposals related to allocation of costs based on main pipe size and accepts PSE’s rebuttal natural gas COSS.

280 We do agree, however, with Nucor’s proposals as it relates to Schedule 88T, specifically (1) to separately track and assign rate base and depreciation expense to Schedule 88T in the COSS and (2) use book costs rather than replacement costs when assigning Upgrade 2 and 3 costs to Schedule 88T.⁵²⁵ We are persuaded by Nucor’s arguments that doing so will bring Schedule 88T to full cost of service and that doing so is in the public interest. Accordingly, we require PSE to update Schedule 88T as proposed by Nucor in the Company’s compliance filing before rates become effective. If the Company cannot do so, PSE must update rates through a compliance filing within thirty (30) days of this Order.

2. Electric CCOS

281 As with natural gas, PSE submitted two studies, one strictly in compliance with 480-85 WAC, and one seeking exemption for classification of FERC Account 565 (Transmission of Electricity by Others).⁵²⁶ As with the natural gas COSS, Staff recommends the Commission accept the PSE study with the proposed exemption, noting FERC Account 565 addresses wheeling of energy costs that are not a function of peak demand and therefore relate to energy rather than distribution.⁵²⁷ Staff also supports PSE’s proposal to increase Special Contracts, Retail Wheeling, and Firm Resale to full cost of service, while gradually moving all other classes closer to parity, and finally allocating revenue

⁵²³ Taylor, JDT-8T at 12:6-23.

⁵²⁴ General Order R-599 at ¶ 53; App’x A.

⁵²⁵ Higgins, Exh. KCH-1T at 17:1-19:3

⁵²⁶ Mickelson, Exh. CTM-1T at 23:7-14, Exh. CTM-5.

⁵²⁷ Watkins, Exh. GAW-1T at 11:19-12:2.

associated with the Targeted Electrification Project based on funding allocated to the program.⁵²⁸

282 FEA argues that PSE's requested exemption to classify FERC Account 565 (Transmission of Electricity by Others) on an energy basis is flawed and should be rejected.⁵²⁹ FEA urges the Commission to allocate these costs on a 12 coincident peak (CP) demand basis, consistent with PSE's proposed allocation of other demand-related transmission costs.⁵³⁰

283 Kroger, Walmart, and AWEC do not take issue with the Company's electric COSS.⁵³¹

Commission Decision

284 The Commission accepts PSE's electric COSS, as corrected on rebuttal, and grants PSE an exemption for the treatment of FERC Account 565 (Transmission of Electricity by Others).⁵³² In doing so we agree with PSE, Staff and others, that PSE's electric COSS complies with 480-85 WAC and that the study is reasonable for ratemaking purposes.

285 As Staff and PSE argue, and as we discussed above, the promulgation of 480-85 WAC was a process that took place over several years, in which numerous interested parties participated and that this is not the proper venue for revisiting the rules.⁵³³ The Commission's COSS rules are intended to "streamline, improve, and promote efficiency in analyzing rate cases, clarity of presentation, and ease of understanding."⁵³⁴

286 We agree with Staff that PSE's electric COSS materially complies with the intent of 480-85 WAC, is reasonable to all customer classes, and is representative of the compromise made in Dockets UE-170002 and UG-170003.⁵³⁵

287 We also agree and accept PSE's request exemption as it relates to FERC Account 565 (Transmission of Electricity by Others). WAC 480-85-070 provides the Commission may grant exemptions to 480-85 WAC consistent with WAC 480-07-110. In determining

⁵²⁸ Watkins, Exh. GAW-1T at 15:7-22.

⁵²⁹ Al-Jabir, Exh. AZA-1T at 14:18-23.

⁵³⁰ Al-Jabir, Exh. AZA-1T at 15:24-27.

⁵³¹ See, Kaufman, Exh. LDK-1T at 33:4-5; Mickelson, Exh. CTM-13T at 9:22-10:3.

⁵³² See, CTM-13T at 2:9-21. Mickelson explains PSE stands by original COSS, but corrects to recognize Microsoft's contributions in aid of construction and an error related to Schedule 7.

⁵³³ See, PSE's Post-Hearing Brief, at ¶ 155; Staff's Post-Hearing Brief, at ¶¶ 114-17.

⁵³⁴ WAC 480-85-010.

⁵³⁵ See, Watkins, Exh. GAW-1T at 13:14-14:17, 24:20-25:7.

whether an exemption should be granted, the Commission uses the public interest standard and may consider “whether the effect of applying the rule to the requesting person would be contrary to the underlying purposes of the rule and the public interest.”⁵³⁶

288 PSE argues, and Staff agrees, that costs in FERC Account 565 (Transmission of Electricity by Others) are incurred for wheeling electricity over transmission lines owned by other utilities on behalf of PSE customers. PSE and Staff agree that these costs are not typically demand related and historically are charged to customers as variable power costs through the power cost adjustment.⁵³⁷

289 FEA is the only party who takes issue with the requested exemption and argues against it because the proposal deviates from Commission rule, and because wheeling of electricity is enabled by sunk costs in transmission and is more consistent to allocate fixed costs based on demand than as a variable power cost.⁵³⁸ We disagree.

290 The Commission finds that the requested exemption for FERC Account 565 (Transmission of Electricity by Others) is consistent with the public interest, is reasonable, and is supported by the record. We agree that wheeling of electricity has historically not been used to meet peak demand, but most commonly relates to the supply of energy, and therefore should be classified accordingly.

3. COSS Results, Parity and Rate Design

291 PSE uses the results of its electric and natural gas COSSs to inform the calculations in the Company’s proposals for rate spread and rate design. PSE’s proposed revenue allocation calculations for both electric and natural gas service, which the Company updated on rebuttal, are shown in Tables 3 and 4 below.

Table 3: Proposed Electric Revenue Allocation⁵³⁹

Customer Class	Schedule	Parity Ratio
Residential	7	0.99
General Service <51 kW	8/24	1.05

⁵³⁶ WAC 480-07-110(2)(c).

⁵³⁷ Mickelson, CTM-1T at 15:13-17, 18:1-7; Watkins, Exh. GAW-1T at 11:19-12:2.

⁵³⁸ Al-Jabir, Exh. AZA-1T at 15:20-27.

⁵³⁹ Mickelson, Exh. CTM-1T at 26:18-27-1.

General Service 51-350kW	7A/11/25/29	0.99
General Service >350kW	12/26	0.99
Primary Service, General	10/31	1.00
Primary Service, Irrigation	35	0.51
Primary Service, Schools	43	0.99
High Voltage Service	46/49	1.08
Lighting Service	50-59	1.03
Retail Wheeling	449/459	1.42
Special Contract	SC	0.90
Firm Resale	5	1.21

Table 4: Proposed Natural Gas Revenue Allocation⁵⁴⁰

Customer Class	Schedule	Parity Ratio
Residential	16/23/53	1.08
C & I	31/31T	0.85
Large Volume	41/41T	0.96
Interruptible	85/85T	0.88
Limited Interruptible	86/86T	1.23
Non-Exclusive Interruptible	87/87T	0.61
Exclusive Interruptible	88/88T	1.00
Special Contracts	-	2.08

⁵⁴⁰ Taylor, Exh. JDT-8T at 23:11.

- 292 Relating to electric allocation, Mickelson notes that the Company's allocation reflects a requirement from the 2022 GRC to remove approximately \$16.9 million in costs related to the Targeted Electrification Pilot, of which 97.97 percent of these costs were allocated to residential customers.⁵⁴¹
- 293 On electric rate design, PSE opines that CETA is a driver of electric system growth and that the Company aims to provide precise pricing signals to incentivize the right investments on both sides of the meter. This entails aligning pricing components such as customer charges, demand charges, and energy charges with the outcomes of electric cost of service study.⁵⁴²
- 294 For its natural gas revenue allocation, PSE's witness Taylor notes the F2023 projection forecast resulted in a \$64.6 million increased revenue requirement due to decreased customer demands as compared to the 2022 GRC. The natural gas COSS is based on the actual volume of sales and transportation terms for the 12 months of operations ending June 30, 2023.⁵⁴³ The Company utilized the F2023 projection forecast to project future rate years and removed Schedule 87T to reflect the cessation of service for a large customer that ceased operations in 2023.⁵⁴⁴
- 295 PSE claims that use of its recommended electric COSS gradually moves all rate classes closer to parity.⁵⁴⁵ Staff witness Watkins testifies that PSE's electric COSS and allocations "reasonably reflects cost of service study results and moves classes closer to parity in a gradual manner. As a result [PSE's] approach is reasonable and consistent with sound ratemaking practices."⁵⁴⁶ Staff similarly finds that while PSE proposes customer classes receive different percentages of natural gas system increases, the rate spread is based on normalized and forecasted usages and revenues, moves classes close to parity in a gradual manner, and is reasonable and consistent with ratemaking practices.⁵⁴⁷
- 296 Public Counsel's witness Dismukes argues that PSE's use of the Renewable Future Peak Credit (RFPC) to allocate generation plant is inconsistent and results in an overstatement

⁵⁴¹ Mickelson, Exh. CTM-1T at 28:4-12, *referencing* Docket UE-220066, UG-220067, and UG-210918, Final Order 24/10 App. A. ¶ 67.g (Dec. 22, 2022).

⁵⁴² Mickelson, Exh. CTM-1T at 29:13-22.

⁵⁴³ Taylor, Exh. JDT-1T at 5:14-15.

⁵⁴⁴ Taylor, Exh. JDT-1T at 6:13-16.

⁵⁴⁵ Mickelson, Exh. CTM-1T at 25:18-26:17.

⁵⁴⁶ Watkins, Exh. GAW-1T at 18:17-21.

⁵⁴⁷ Watkins, Exh. GAW-1T at 25:11-28:4.

of class peak contribution relative to annual energy use.⁵⁴⁸ Dismukes argues PSE's methodology results in generation classification with a demand component of 70 percent and an energy component of 30 percent.⁵⁴⁹ Dismukes asserts this classification results from PSE estimating costs of new battery storage as both an energy storage asset and a wind farm asset.⁵⁵⁰ When corrected, the demand component decreases to 57 percent and the energy component increases to 43 percent, which Dismukes argues should be corrected and the resulting allocation split accepted.⁵⁵¹

297 FEA witness Al-Jabir also takes issue with PSE's use of the RFPC. Al-Jabir recommends that rather than accepting PSE's proposed methodology, the Commission should order 100 percent allocation of fixed production costs based on each class's demand during the four system peaks from November 2022 through February 2023.⁵⁵² PSE argues against both Public Counsel and FEA, stating the Company's proposed methodology is consistent with the methodology the Commission approved in 480-85 WAC, furthering State and Commission policy goals, while properly valuing capacity and energy provided by renewables on a modern grid.⁵⁵³ Additionally, PSE notes that Public Counsel's proposal lowers residential costs, while increasing costs for all other classes, and FEA's proposal is the inverse – increasing residential costs – while lowering costs for all other classes.⁵⁵⁴

298 Additionally, FEA proposes using a 1 Non-coincident Peak (NCP) Method, rather than PSE's proposed 12 NCP Method for allocating costs associated with distribution poles and wires, as recorded in FERC Accounts 364 and 365.⁵⁵⁵ FEA argues that in addition to a change in methodology, the costs should be allocated based on primary and secondary distribution voltage levels, and argues that together, its recommendations are more consistent with cost causation principles.⁵⁵⁶

⁵⁴⁸ Dismukes, Exh. DED-1T at 19:8-20:2.

⁵⁴⁹ Dismukes, Exh. DED-1T at 20:15-20.

⁵⁵⁰ Dismukes, Exh. DED-1T at 20:3-14.

⁵⁵¹ *See*, Dismukes, Exh. DED-1T at 21:1-5.

⁵⁵² Al-Jabir, Exh. No. AZA-1T at 11:3-7.

⁵⁵³ Mickelson, Exh. CTM-13T at 11:10-21.

⁵⁵⁴ Mickelson, Exh. CTM-13T at 11:8-14:13.

⁵⁵⁵ Al-Jabir, Exh. AZA-1T at 16:1-25.

⁵⁵⁶ Al-Jabir, Exh. AZA-1T at 17:1-23.

- 299 PSE argues both proposals from FEA would undo years of progress on cost of service and revert to practices prior to adoption of 480-85 WAC, which is not in the public interest.⁵⁵⁷
- 300 Microsoft took issue with PSE's original electric class cost of service studies for failing to credit Microsoft for approximately \$8.3 million in contributions in aid of construction.⁵⁵⁸ However, Microsoft acknowledges that PSE agreed this error existed and corrected it in its rebuttal cost of service study. Microsoft agrees with PSE's corrections and asks the Commission to properly credit Microsoft for its contributions in aid of construction.⁵⁵⁹
- 301 Kroger and Walmart each make recommendations concerning allocation of electric service revenues. However, those recommendations relate more to the basic monthly charge and are addressed separately below.
- 302 Similarly, AWEC and Nucor make arguments related to natural gas cost allocation. Those issues too are addressed separately above.

Commission Decision

- 303 In determining rate spread, cost of service studies are only one factor the Commission considers, along with gradualism, rate stability, affordability, and public policies concerning economic conditions and development.⁵⁶⁰ Among the proposals submitted by the various parties, we agree that PSE's proposed revenue allocation addresses historical under- and over-recovery issues, aligns more closely with cost of service, and implements rate changes in a fair distribution to all classes, so as to gradually increase rates.⁵⁶¹
- 304 Staff recommends the Commission adopt the rate spread PSE proposed for both electric and natural gas, noting PSE's approach is "reasonable and consistent with sound ratemaking practices."⁵⁶² We agree. Accordingly, the Commission accepts the rate spread and resulting parity ratios as proposed by the Company's rebuttal class cost of service studies for electric and natural gas.

⁵⁵⁷ Mickelson, CTM-13T at 8:11-10:3.

⁵⁵⁸ Wilcox, Exh. CDW-1T at 2:2-8.

⁵⁵⁹ Microsoft's Post-Hearing Brief, at ¶¶ 2-3, *citing* Wilcox, Exh. CDW-3 at 2; Mickelson, Exh. CTM-13T at 5:7-9.

⁵⁶⁰ *WUTC v. PacifiCorp*, Docket UE-140762, Order 08 at 85-86 (Mar. 25, 2015).

⁵⁶¹ *See*, PSE's Post-Hearing Brief, at ¶ 159-60.

⁵⁶² Staff's Post-Hearing Brief, at ¶¶ 119-20.

305 We next address the various proposals offered by FEA and Public Counsel. FEA proposes a separate methodology for allocating costs related to distribution poles and wires, and Public Counsel and FEA argue separately for variations to the RFPC methodology. We disagree with all three proposals. Regarding FEA's proposal to use a 1 NCP Method for allocating distribution poles and wires, along with allocators based on primary and secondary voltage levels, we agree with PSE that such a shift is not consistent with 480-85 WAC, and FEA has not provided sufficient justification for such an exemption.⁵⁶³ In fact, PSE argues that doing so would inequitably shift costs to residential ratepayers. While neither PSE nor FEA provides quantifiable support for their positions, we cannot find that adopting FEA's proposal is in the public interest and therefore it is denied.

306 Similarly, we decline to adopt the proposals of FEA and Public Counsel relating to the RFPC methodology. PSE's methodology is the same as was approved in Dockets UE-200900, UG-200901, and UE-200894, in relation to an Avista GRC. We do not find FEA or Public Counsel's proposals in this case persuasive enough to warrant deviating from our reasoning in our recent order on Avista's GRC, and find PSE's methodology in this case reasonable.⁵⁶⁴ We are also persuaded that adopting either Public Counsel's or FEA's proposal would unreasonably shift costs in favor of residential ratepayers to the detriment of all other rate classes, or in favor of all other customer classes to the detriment of residential ratepayers.⁵⁶⁵ Accordingly, we reject FEA's and Public Counsel's proposals to amend the RFPC methodology.

4. Residential Customer Rates and Basic Charges

307 On rebuttal, PSE revises its Electric rate impact estimates and notes a proposed MYRP with revised electric revenue increases of \$392.7 million (13.77 percent) in 2025 (RY1) and \$170.0 million (5.20 percent) in 2026 (RY2). With these revenue increases, PSE's proposal would result in the average residential customer using 800 kWh per month to see a monthly increase of \$16.04 per month in 2025 (RY1) and an additional \$7.46 per month in 2026 (RY2) when compared to current electricity rates.⁵⁶⁶ PSE proposes to increase the basic monthly residential charge by 30 percent in each rate year. The resulting increases to the basic monthly charge are shown in Table 5.

⁵⁶³ PSE's Post-Hearing Brief, at ¶ 156.

⁵⁶⁴ See, *WUTC v. Avista Util.*, Docket UE-200900, UG-200901, & UE-200894 (*consolidated*), Final Order 08/05 ¶¶ 310-315 (Sep. 27, 2021).

⁵⁶⁵ See PSE's Post-Hearing Brief, at ¶ 157.

⁵⁶⁶ Mickelson, Exh. CTM-18.

Table 5: Proposed Residential Electric Rate Increase for MYRP⁵⁶⁷

Charge	Current	RY1	RY2
Basic Monthly Charge	\$7.49	\$9.74 (30%)	\$12.66 (30%)
<600 kW	\$0.122/kWh	\$0.139/kWh (14.1%)	\$0.145/kWh (4.1%)
>601 kW	\$0.141/kWh	\$0.158/kWh (12.2%)	\$0.164/kWh (3.6%)

308 PSE witness Taylor offers testimony on the Company’s natural gas cost of service study, as well as proposed Rate Spread and Rate Design further discussed by witness Curt D. Puckett. Taylor notes that PSE is requesting revenue rate increases of approximately \$196 million (18.96 percent) in 2025 or rate year 1 (RY1) and \$25.3 million increase (2.07 percent) in 2026 or RY2.⁵⁶⁸ Similar to its proposal for electric service, PSE proposes significant increases to its residential basic service charge in each rate year. With the submission of an updated cost of service study on rebuttal, the resulting changes to the basic minimum charge are shown in Table 6.

Table 6: Proposed Residential Natural Gas Rate Increases for MYRP⁵⁶⁹

Charge	Current	RY1	RY2
Basic Monthly Charge	\$12.50	\$14.86 (18.9%)	\$17.67 (18.9%)
Per Therm	\$0.456	\$0.701 (53.9%)	\$0.682 (-2.8%)

309 PSE justifies its increase to the electric basic monthly customer charge by arguing that the proposed rates better reflect the fixed costs incurred to serve customers, and that the increases will provide better price signals to both high and low usage customers to promote energy efficiency and grid utilization.⁵⁷⁰ To offset impacts to low-income customers, PSE proposes increasing funds for Schedule 129, PSE’s bill discount program, in RY1 and RY2.⁵⁷¹

⁵⁶⁷ Mickelson, Exh. CTM-18.

⁵⁶⁸ Taylor, Exh. JDT-1T at 32, Table 3.

⁵⁶⁹ See, Taylor, Exh. JDT-8T at 25, Table 4.

⁵⁷⁰ Mickelson, Exh. CTM-1T at 31:11-17.

⁵⁷¹ See, Mickelson, Exh. CTM-13T at 35:13-36:3.

- 310 For the electric basic monthly charge, Staff argues that PSE included various overhead costs into the calculation, resulting in an overinflated increase.⁵⁷² Watkins argues that expenses of general plant, depreciation, and administrative and general expenses , totaling \$167.5 million, should be excluded from the basic charge.⁵⁷³ After conducting their own accounting analysis, Staff concludes actual costs are lower than the current basic monthly charge.⁵⁷⁴ However, Staff recommends maintaining the electric basic monthly charge at current levels.⁵⁷⁵
- 311 For the natural gas basic monthly charge, Staff similarly argues PSE inappropriately included overhead costs, resulting in an overinflated calculation.⁵⁷⁶ After conducting their own analysis, Staff recommends a single increase of \$1.50 in RY1 for the residential basic monthly charge for natural gas service and accepts PSE's proposed fixed customer charges for Commercial and Industrial customers.⁵⁷⁷
- 312 Public Counsel argues against PSE's proposed increases for residential basic monthly charges for both electric and natural gas.⁵⁷⁸ Witness Dismukes argues that the proposed increases for both electric and natural gas service would be higher than the regional averages, negatively impact energy efficiency goals, burden low-use customers, and are unnecessary because PSE has a decoupling mechanism allowing it to reconcile differences in revenues per customer.⁵⁷⁹
- 313 TEP recommends the Commission reject PSE's proposed increases to both electric and natural gas basic monthly charges for residential customers, arguing that accepting the increases would disproportionately harm low-income customers. If the Commission finds an increase warranted, TEP recommends the increase should be limited to \$0.25.⁵⁸⁰ TEP Witness Colton supports this position, providing a study that discusses the impacts on

⁵⁷² Watkins, GAW-1T at 21:15-20.

⁵⁷³ Watkins, GAW-1T at 22:1-5. Watkins cites this figure at \$166.4 million, but this appears to be in error and the total for residential plant plus A&G expenses equals \$167.5 million.

⁵⁷⁴ Watkins, GAW-1T at 23:7-16.

⁵⁷⁵ Staff's Post-Hearing Brief, at ¶ 123, *citing* Watkins, Exh. GAW-1T at 23:13-16.

⁵⁷⁶ Watkins, Exh. GAW-1T at 30:15-22.

⁵⁷⁷ Watkins, Exh. GAW-1T at 31:12-20.

⁵⁷⁸ Dismukes, Exh. DED-1T at 5:20-6:9 (electric), 6:12-20 (natural gas).

⁵⁷⁹ Dismukes, Exh. DED-1T at 5:20-6:9 (electric), 6:12-20 (natural gas).

⁵⁸⁰ Colton, Exh. RDC-1T at 74:14-22.

PSE’s low-income customers, who typically consume less energy and therefore basic monthly charge increases limit their ability to control monthly bills.⁵⁸¹

314 Kroger’s witness Bieber asserts that the proposal to increase the basic monthly charge and seasonal demand charges for electric customers by 30 percent is not reflective of actual costs for Schedule 26 customers.⁵⁸² Bieber argues the proposed rates would result in intra-class subsidization with customers with high load factors subsidizing lower load factor customers. To mitigate these concerns, Kroger recommends a different rate design, shown in Table 7.⁵⁸³ On rebuttal, PSE witness Mickelson states the Company “is willing to continue gradually aligning customer and demand charges for Schedule 26 with their respective COS unit results in subsequent GRCs.”⁵⁸⁴ Walmart supports Kroger’s proposal, recommending that the Commission should the approve Kroger’s proposed rate design.⁵⁸⁵

Table 7: Kroger Co. Proposed Rate Design for Schedule 26⁵⁸⁶

Charge	Test Year (PSE)	RY1	RY2
Basic Monthly Charge	\$109.08	\$218.16	\$436.32
Energy Charge (kWh)	\$0.057457	\$0.071114	\$0.068453
Winter Demand (kW)	\$12.23	\$16.27	\$21.63
Summer Demand (kW)	\$8.15	\$10.84	\$14.42

Commission Decision

315 The Commission finds Staff’s proposals for adjustments to the basic monthly charge for electric and natural gas persuasive, and agrees that the basic monthly charge should increase for residential natural gas customers by \$1.50 in RY1 and should not increase in RY2.⁵⁸⁷ We also agree with Staff that the basic monthly charge should remain unchanged

⁵⁸¹ See, Colton, Exh. RDC-1T at 71:14-15.

⁵⁸² Bieber, Exh. JB-1T at 5:98-103.

⁵⁸³ Bieber, Exh. JB-1T at 5:94-96, Table JB-1.

⁵⁸⁴ Mickelson, Exh. CTM-13T at 31:14-17.

⁵⁸⁵ McGovern, Exh. JLM-1T at 20:9-10.

⁵⁸⁶ Bieber, Exh. JB-1T at 5:94-96, Table JB-1.

⁵⁸⁷ Watkins, Exh. GAW-1T at 31:12-15.

for residential electric customers.⁵⁸⁸ Finally, as supported by Staff, the Commission accepts PSE's proposed increase to fixed customer charges for Commercial and Industrial natural gas customers.⁵⁸⁹

316 Staff and Public Counsel's testimony is persuasive that PSE's calculation of customer costs for electric Residential and Small General Service, and natural gas Residential Service contains indirect costs and is therefore overinflated.⁵⁹⁰ Consistent with Commission policy, such charges should include only direct costs such as metering and billing.⁵⁹¹ Accordingly, we accept Staff witness Watkins' calculations of the direct customer costs for both natural gas and electric, which show a slight raise in the basic monthly charge is warranted for Residential natural gas customers, and that there is no need to increase Residential and Small General Service electric customer charges at this time. Further, PSE's proposed increase in the monthly charge for Commercial and Industrial natural gas customers appears to be warranted.

317 With respect to Kroger's rate design recommendation related to Schedule 26 customers, we find Kroger's testimony and arguments persuasive. We acknowledge PSE's general willingness "to continue gradually aligning customer and demand charges for Schedule 26..."⁵⁹² In response to Kroger's compelling argument, Walmart's support, and PSE's general acceptance of this proposal, the Commission finds Kroger's proposed Rate Design shown in Table 7, above, balances the Company's needs by allowing recovery of costs incurred for providing service to Schedule 26 customers, while preventing rate shock.

5. Billing Determinants

318 Staff witness Watkins claims that the Company's forecasted usages per customer (UPC) are understated for the residential class.⁵⁹³ These amounts are used to develop total forecasted usage billing determinants.⁵⁹⁴ Watkins develops a residential natural gas UPC

⁵⁸⁸ Watkins, Exh. GAW-1T at 23:4-16.

⁵⁸⁹ Watkins, Exh. GAW-1T at 31:16-20.

⁵⁹⁰ Watkins, Exh. GAW-1T at 21:1-20 and 30:9-13.

⁵⁹¹ *Wash Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-140762, Order 08 at 91, ¶ 216 (Mar. 25, 2015).

⁵⁹² Mickelson, Exh. CTM-13T at 31:14-17.

⁵⁹³ Watkins, Exh. GAW-1T at 5:19-6:2.

⁵⁹⁴ Watkins, Exh. GAW-1T at 3:19-4:2.

model using historical heating degree day (HDD) data while accepting the Company's definition of "normal" weather over the forecast horizon.⁵⁹⁵

319 While Staff's calculation of forecast UPC is lower than any recent year, Watkins asserts it is more realistic than the projections put forth by PSE, which are lower than Staff's.⁵⁹⁶ Watkins recommends an adjustment to Rate Schedule 23 for the test year and each year of the MYRP to correct this issue, adding to PSE's forecasted revenues an additional \$12.8 million to the test year, \$27.6 million to Rate Year 1, and \$29.6 million to Rate Year 2.⁵⁹⁷

320 PSE witness Jacobs rejects Staff's analysis of UPC, testifying that Staff's model does not accurately capture the relationship between energy consumption and temperature.⁵⁹⁸ Jacobs provides supporting detail for the Company's claim regarding the statistical concepts that underpin PSE and Staff's models, including the correlation of independent variables in the analysis.⁵⁹⁹ Jacobs provides graphical context of this issue in Figures 1 and 2 of Exh. AEJ-1T to show that Staff's model results in non-temperature sensitive load tracking with temperature, unlike PSE's model.⁶⁰⁰ Jacobs rebuts Staff's claim that Watkins' model is superior to the Company's by comparing the two forecasts to weather normalized actual data as well as actual data for natural gas residential UPC.⁶⁰¹

Commission Decision

321 The Commission accepts the Company's natural gas residential UPC. The Commission finds PSE's rebuttal testimony compelling, specifically the underlying statistical mechanisms used in the Residential natural gas UPC models. The Commission is swayed by PSE witness Jacob's demonstration of forecasts for non-temperature sensitive loads such as water heater, cooking, and dryer usage.⁶⁰²

⁵⁹⁵ Watkins, Exh. GAW-1T at 7:5-8:8.

⁵⁹⁶ Watkins, Exh. GAW-1T at 9:1-10:6.

⁵⁹⁷ Watkins, Exh. GAW-1T at 10:8-11:6.

⁵⁹⁸ Jacobs, Exh. AEJ-1T at 3:8-14.

⁵⁹⁹ Jacobs, Exh. AEJ-1T at 3:15-7:5.

⁶⁰⁰ Jacobs, Exh. AEJ-1T at 7:6-9:4.

⁶⁰¹ Jacobs, Exh. AEJ-1T at 9:7-10:6.

⁶⁰² Jacobs, Exh. AEJ-1T at 7:1-14.

L. Decarbonization

322 Several parties make proposals recommending actions to further PSE's work towards decarbonization and electrification in this proceeding. As we review these proposals, we evaluate them considering state policies and legislative direction under the Clean Energy Transformation Act (CETA), Climate Commitment Act (CCA), and ESHB 1589, but are also mindful of the need to balance the changes to state law arising from the passage of Initiative Measure No. 2066, or I-2066.

323 Washington voters approved I-2066 in the recent General Election. In pertinent part, the initiative places limits on the Commission's authority to approve, or approve with conditions, multiyear rate plans. Specifically, section 4 of the initiative amends RCW 80.28.425, adding the following limitations:

(12) The commission shall not approve, or approve with conditions, a multiyear rate plan that requires or incentivizes a gas company or large combination utility to terminate natural gas service to customers.

(13) The commission shall not approve, or approve with conditions, a multiyear rate plan that authorizes a gas company or large combination utility to require a customer to involuntarily switch fuel use either by restricting access to natural gas service or by implementing planning requirements that would make access to natural gas service cost-prohibitive.

324 While the election occurred and its results were certified following the hearing and prior to the parties' submission of briefs in this proceeding, the initiative has the force of law, and the Commission must follow the initiative's directives, unless and until the effect of initiative is stayed or reversed by a court of law.

1. Non-Pipeline Alternatives

325 JEA propose in responsive testimony that the Commission should require PSE to consider non-pipeline alternatives (NPAs) when evaluating non-emergency gas pipeline capital expenditures.⁶⁰³ JEA Witness Cebulko distinguishes between resource planning and justifying investments.⁶⁰⁴ During the hearing, the Commission requested the parties provide briefing on the impact of the passage of I-2066 on the proposals and issues raising in this proceeding, such as the proposal for PSE to pursue NPAs.⁶⁰⁵

⁶⁰³ BTC-1T at 88:16 – 93:4.

⁶⁰⁴ BTC-1T at 90:16 – 91:10.

⁶⁰⁵ Transcript, Vol. III, at 367-368.

- 326 JEA recommends that its proposal “does not rely on House Bill 1589, and approving the proposal is consistent with Initiative 2066.”⁶⁰⁶ JEA argues that “directing PSE to analyze NPAs in justifying future investments is not the same as requiring involuntary electrification or incentivizing PSE to terminate gas service in this multiyear rate plan.”⁶⁰⁷ JEA further argues that “the repeal of House Bill 1589’s affirmative requirements to consider NPAs in Integrated System Planning does not prohibit PSE from conducting that analysis, or the Commission from directing it.”⁶⁰⁸
- 327 JEA notes that PSE unquestionably maintains the duty to “identify the lowest-risk most policy-aligned alternatives.”⁶⁰⁹ JEA asserts that among these policies is the CCA, which impacts the reasonableness of future investment decisions; whether a repair or a replacement is appropriate depends on the “useful life” of the asset.⁶¹⁰ “NPAs can consist of a portfolio of different demand or supply side resources to meet a need without major gas infrastructure investments.”⁶¹¹ At bottom, JEA argues the costs of long term capital investments in gas infrastructure will likely be disproportionately felt by the most vulnerable members of society, asserting that PSE should carry the burden to prove that such investments do not ignore cheaper, policy aligned alternatives.⁶¹²
- 328 PSE requests that the Commission reject JEA’s proposal. PSE points to ESHB 1589 as indicative of the Legislature’s preference.⁶¹³ PSE does not represent that it is unable to conduct these analysis, instead arguing that NPAs are not viable solutions in most cases.⁶¹⁴ However, JEA notes in its briefing that PSE’s assertion “misses the point.”⁶¹⁵ JEA argues that NPAs need not replace every capital investment, but that the act of analyzing NPAs provides the cost justification to pursue or not pursue a gas capital investment.⁶¹⁶ JEA argues that if PSE only did NPA analysis for some projects, then it would not identify new opportunities or alternatives.⁶¹⁷ Finally, JEA notes that, at the

⁶⁰⁶ JEA’s Post-Hearing Brief, at ¶ 54.

⁶⁰⁷ JEA’s Post-Hearing Brief, at ¶ 54.

⁶⁰⁸ JEA’s Post-Hearing Brief, at ¶ 54.

⁶⁰⁹ JEA’s Post-Hearing Brief, at ¶ 54.

⁶¹⁰ JEA’s Post-Hearing Brief, at ¶ 50.

⁶¹¹ JEA’s Post-Hearing Brief, at ¶ 50 n.119.

⁶¹² JEA’s Post-Hearing Brief, at ¶ 48.

⁶¹³ PSE’s Post-Hearing Brief, at ¶ 113.

⁶¹⁴ PSE’s Post-Hearing Brief, at ¶ 113.

⁶¹⁵ JEA’s Post-Hearing Brief, at ¶ 52.

⁶¹⁶ JEA’s Post-Hearing Brief, at ¶ 52.

⁶¹⁷ JEA’s Post-Hearing Brief, at ¶ 52.

hearing, PSE conceded that past NPA analysis had provided valuable information, even if the analysis did not result in an NPA being utilized.⁶¹⁸

Commission Decision

- 329 We accept JEA’s proposal to require that PSE evaluate non-pipeline alternatives when considering capital additions to the natural gas system outside of emergency and maintenance repairs. PSE maintains the duty to acquire the lowest-risk resources, consistent with state policies, including CCA and directives in HB 1589, to the extent they have not been repealed under I-2066. As part of that duty, PSE must show that it has evaluated NPAs for gas system investments. As JEA notes in its brief, the cost of gas infrastructure in future years will be borne by all of PSE’s customers, but as customers begin to leave the system for various reasons, the most vulnerable customers will bear a higher burden. In keeping with the public interest test for our review of multi-year rate plans, distributional equity principles require that we consider minimizing such costs and burdens. Requiring the Company to pursue NPAs of its non-emergency gas system investments meets this need.
- 330 Under I-2066, as discussed above, the Commission may not “approve, or approve with conditions, a multiyear rate plan that requires or incentivizes a gas company or large combination utility to terminate natural gas service to customers”, or “approve, or approve with conditions, a multiyear rate plan that authorizes a gas company or large combination utility to require a customer to involuntarily switch fuel use either by restricting access to natural gas service or by implementing planning requirements that would make access to natural gas service cost-prohibitive.” We do not interpret a requirement for PSE to conduct NPAs in its review of gas system capital investments to result in termination of gas service or to require fuel switching. The review of NPAs does neither and, given other provisions of HB 1589 that are not repealed or modified by the initiative, we do not find JEA’s proposal prohibited by law.

2. Accelerated Gas Depreciation

- 331 PSE advocates for an accelerated depreciation schedule for the Company’s gas assets due to the regulatory changes brought about by the CCA and CETA.⁶¹⁹ Witness Allis proposes accelerating the depreciation of gas assets, resulting in depreciation rates gradually increasing so as to avoid leaving future customers with stranded assets and inequitable financial burdens. PSE further suggests use of the Units of Production method

⁶¹⁸ JEA’s Post-Hearing Brief, at ¶ 52, citing Transcript, Vol. II, at 181:1-6.

⁶¹⁹ Allis, Exh. NWA-1T at 14:8-12.

to adjust depreciation rates based on gas throughputs, to allow for a more equitable distribution of costs as gas demand declines over time.⁶²⁰

- 332 Staff disagrees and argues that PSE has not provided clear evidence that accelerated depreciation is warranted. Staff acknowledges that selecting the correct schedule to depreciate assets is a difficult balance between gradualism and generational inequity, in which current ratepayers may pay too much if acceleration is too fast and future ratepayers may pay too much if it is too slow.⁶²¹ Further, this complicated question is confounded by the recent passage of I-2066, which would make PSE’s rationale appear to be impermissible.⁶²² Witness Franks addresses equity in conjunction with decarbonization, noting that PSE conducted a depreciation study on the natural gas system and proposes to “shorten the service [life] of several accounts by as much as 10 years.”⁶²³ Witness Franks posits that doing so would invariably raise rates for Named Community customers to an unknown degree because PSE failed to conduct any type of analysis on the equity impacts of this proposal in the depreciation study.⁶²⁴ Thus, Staff argues that there is insufficient information at this time to make a decision on the appropriate depreciation cadence.
- 333 Public Counsel also disagrees with PSE’s proposal for accelerated depreciation of gas assets. Specifically, witness Earle points to the Company’s 2023 Gas Integrated Resource Plan as not reflecting significant reductions in gas demand through 2050.⁶²⁵ Moreover, Earle points to alternative fuels like Renewable Natural Gas and Green Hydrogen as requiring the ongoing use of gas infrastructure – such that the system assets at issue appear likely to remain in service for longer than the Company claims.⁶²⁶ Further, Public Counsel witness Garrett provides analysis using a retirement rate method of depreciation, a standard actuarial approach, which uses observed survivor curves based on historical data to calculate service life; this data driven analysis suggests the Company’s proposed accelerated depreciation would be inappropriate.⁶²⁷
- 334 TEP also opposes the proposed accelerated depreciation – citing concerns with PSE’s ability to predict the shrinking of the gas system, especially given that the Legislature

⁶²⁰ Allis, Exh. NWA-1T at 22:2-23:5.

⁶²¹ McGuire, Exh. CRM-1T at 24: 10-18.

⁶²² McGuire, Exh. CRM-1T at 23: 3-7.

⁶²³ Franks, Exh. WF-1T at 13:5.

⁶²⁴ Franks, Exh. WF-1T at 13:12-14.

⁶²⁵ Earle, Exh. RLE-1T at 8.

⁶²⁶ Earle, Exh. RLE-1T at 11:1-10.

⁶²⁷ Garrett, Exh. DJG-1T at 7:16-11:19.

declined to eliminate the Company's obligation to serve gas customers in ESHB 1589.⁶²⁸ TEP witness Stokes argues that programs that provide financial assistance or alternative rate designs are better suited to protect customers from the economic impacts of PSE's decarbonization efforts.⁶²⁹

- 335 AWEC Witness Kaufman also calls for the Commission to reject the proposed accelerated depreciation as premature. Kaufman asserts that PSE has not yet developed a comprehensive Integrated System Plan that outlines the steps it will take to meet its decarbonization goals, making it unclear how these accelerated depreciation rates fit into a broader, long-term strategy.⁶³⁰ Kaufman posits that allocation of future depreciation costs would be better based on customer counts rather than throughputs, and would more fairly distribute costs according to the number of customers affected.⁶³¹
- 336 JEA disagrees with Public Counsel's reliance on PSE's 2023 IRP --- pointing out that the rapid pace of the energy transition means that reliance on historical data would lead to underestimating the depreciation needs for gas assets.⁶³² JEA further disagrees with AWEC's recommendation to wait until PSE submits its Integrated System Plan, noting that ESHB 1589 already mandates the depreciation of gas assets by 2050, which can be used to find an increase in depreciation as prudent.⁶³³ JEA disagrees with waiting, claiming a failure to make aggressive adjustments now would lead to the need to make even greater adjustments in the future.⁶³⁴

Commission Decision

- 337 We decline to approve either PSE's proposal for accelerated depreciation of natural gas assets or JEA's proposal for a more aggressive schedule of accelerated depreciation. While we find the Company and JEA's proposals persuasive in part, we believe it appropriate to pause such plans for further evaluation.
- 338 First, we must consider accelerated depreciation of gas assets in light of the passage of I-2066, which repeals Section 7 of ESHB 1589, the requirement for the Commission to approve in a multi-year rate plan accelerated depreciation of all gas assets by 2050. To be

⁶²⁸ Stokes, Exh. SNS-1T at 52:5-9.

⁶²⁹ Stokes, Exh. SNS-1T at 53-4.

⁶³⁰ Kaufman, Exh. LDK-1T at 2:1-4.

⁶³¹ Kaufman, Exh. LDK-1T at 24:9.

⁶³² Gehrke, Exh. WAG-4T at 3-4.

⁶³³ Gehrke, Exh. WAG-4T at 5:14-20.

⁶³⁴ Gehrke, Exh. WAG-4T at 7: 1-5. *See also* JEA's Post-Hearing Brief, at ¶ 12.

clear, the repeal of the affirmative requirement to propose and approve accelerated depreciation is not tantamount to a limitation of the Commission's general authority to set rates, which includes the ability to approve accelerated depreciation. While accelerating depreciation does not result in removal of gas assets, or fuel switching, it could increase the cost of such assets for customers. As we note with other proposals in this case impacted by the passage of I-2066, the passage of the initiative creates legal uncertainties, such that it is appropriate to allow any legal challenges to the initiative to resolve before pursuing actions addressed by the initiative, such as accelerated depreciation.

339 Further, we find there is insufficient information in the record at this point to justify accelerated depreciation of gas assets. In addition, given the arguments by Staff and TEP, we do not find PSE's proposal to be in the public interest at this time as the Company has not adequately evaluated the potential rate impacts to vulnerable populations or highly impacted communities, i.e., Named Communities. We therefore accept Staff's recommendation to require PSE to examine the impacts and cost burden analysis for expedited natural gas asset depreciation on Named Communities and overburdened customers by January 2027 and incorporate these findings into the first Integrated System Plan.

M. Electrification

1. Targeted Electrification Pilot Phase 2, General Electrification, and Electrification PIM

340 PSE requests the Commission approve its proposed Targeted Electrification Pilot Phase 2 (TEP Phase 2) for its dual-fuel service territory with a budget of \$22.3 million over the two-year MYRP. PSE proposes that this amount be recovered through a new rate schedule, the proposed Schedule 141DCARB tracker, which is discussed in more detail below. The Phase 2 Pilot consists of six main components:

- (1) Low-Income Heat Pump Direct Installation Pilot;
- (2) Small Businesses Heat Pump Pilot in Named Communities;
- (3) Multi-Family Heat Pump Rebate Pilot in Named Communities;
- (4) Targeted Electrification of Natural Gas-Constrained Geographic Area Pilot;
- (5) Income-Qualified Heat Pump Rebate Pilot; and,
- (6) Commercial and Industrial Targeted Electrification Grant Pilot.⁶³⁵

⁶³⁵ Mannetti, Exh. JM-1CT at 15:15 – 16:9.

- 341 PSE asserts that TEP Phase 2 builds on the momentum from phase one of the Company's Targeted Electrification Pilot, promotes clean energy, and provides an opportunity to continue exploring targeted electrification efforts.⁶³⁶ The Company explains that TEP Phase 2 will provide ongoing benefits to customers both directly through the pilot's implementation and in the form of additional data and analysis that can be applied to future projects.⁶³⁷ On rebuttal, the Company urges the Commission to reject the non-Company parties' recommendations regarding TEP Phase 2.⁶³⁸
- 342 Staff recommends that the Commission order PSE to conduct a distributional equity analysis (DEA) of its proposed TEP Phase 2. Staff argues that PSE has not demonstrated that its TEP Phase 2 proposal has incorporated analysis to track whether Named Communities will bear a disproportionate share of the burdens associated with or are denied access to benefits from the pilot.⁶³⁹ Staff further suggests that in conducting the DEA analysis, PSE follow DEA best practices and consult with Staff, interested parties, and the Company's advisory group, and that PSE make a compliance filing detailing the findings of its analysis.⁶⁴⁰
- 343 The Energy Project indicates its support for the Low-Income Heat Pump Direct Installation Pilot component of TEP Phase 2, but recommends the Commission require PSE to expand the eligibility for the Low-Income Pilot program to all of PSE's gas customers, rather than limiting it to those in PSE's dual-fuel territory.⁶⁴¹
- 344 JEA is generally in favor of TEP Phase 2, but raises concerns that the program does not embrace more ambitious electrification goals and omits effort to promote the adoption of electric heating appliances.⁶⁴² JEA Witness Cebulko contends that PSE's Phase 2 efforts are insufficient to keep the Company on track to meet its CCA commitments.⁶⁴³ Cebulko recommends the Commission require PSE to undertake a general electrification effort that would include programs for new construction as well as existing customers who either convert to all electric or hybrid systems without new gas furnaces.⁶⁴⁴ JEA recommends the Commission establish an electrification target for PSE to balance against

⁶³⁶ Manetti, Exh. JM-1CT at 20:20 – 21:15.

⁶³⁷ Manetti, Exh. JM-1CT at 23:12 – 24:15.

⁶³⁸ Manetti, Exh. JM-9T at 5:16 – 11:22.

⁶³⁹ Franks, Exh. WAF-1T at 23:20 – 24:16.

⁶⁴⁰ Franks, Exh. WAF-1T at 25:19 – 26:6.

⁶⁴¹ Stokes, Exh. SNS-1T at 22:12 – 23:8. *See also* TEP Post-Hearing Brief, at ¶¶ 22-24.

⁶⁴² Cebulko, Exh. BTC-1T at 45:21 – 46:3.

⁶⁴³ Cebulko, Exh. BTC-1T at 45:1 – 46:3.

⁶⁴⁴ Cebulko, Exh. BTC-1T at 3:12-15.

utility disincentives for electrification, ensure appropriate short and medium-term scaling, and utilize utility portfolio targets, standards, and related incentives.⁶⁴⁵ Specifically, JEA recommends that the Commission require PSE to electrify 182,000 customers in its gas service territory by the end of 2030.⁶⁴⁶

- 345 Based on its proposed electrification target, JEA further recommends that the Commission establish a PIM for PSE to electrify 7,500 incremental customers in 2025 and 15,000 incremental customers in 2026.⁶⁴⁷ The electrification PIM would include an incentive tied to the annual electrification program budget if PSE achieves at least 90 percent of the target, scaling up to a maximum of 130 percent of the electrification target, and provide no incentive should the Company fail to meet at least 90 percent of the target.⁶⁴⁸ Finally, JEA proposes that for purpose of the PIM, the number of electrifications be multiplied based on 1) the customer's service area, 2) whether the customer is a new or existing customer, and 3) whether the electrification is full or hybrid.⁶⁴⁹
- 346 JEA also recommends the Commission reduce PSE's ROE for projects associated with connecting new customers and expanding the natural gas system.⁶⁵⁰ We address this issue within Section D concerning Cost of Capital.
- 347 AWEC opposes PSE's TEP Phase 2 proposal, arguing that it fails to consider related legal requirements, that the pilot's timing does not align with PSE's plan to file its targeted electrification strategy, that the pilot and its associated benefits are not fully developed, and that the pilot was not developed in a cost-effective manner.⁶⁵¹ AWEC recommends that if the Commission does approve the pilot, it exclude cost recovery from Schedules 87T, 449, 459, energy intensive trade exposed customers, and special contracts because PSE has not demonstrated that these categories of customers will benefit from the pilot.⁶⁵² AWEC also disagrees with JEA's proposal for a general electrification

⁶⁴⁵ Cebulko, Exh. BTC-1T at 45:21 – 46:3.

⁶⁴⁶ Cebulko, Exh. BTC-1T at 48:16-17.

⁶⁴⁷ Cebulko, Exh. BTC-1T at 49:9 – 50:14.

⁶⁴⁸ Cebulko, Exh. BTC-1T at 51:11 – 52:1.

⁶⁴⁹ Cebulko, Exh. BTC-1T at 52:14 – 53:1.

⁶⁵⁰ Cebulko, Exh. BTC-1T at 93:5-94:2.

⁶⁵¹ Kaufman, Exh. LDK-1T at 19:7 – 20:9.

⁶⁵² Kaufman, Exh. LDK-1T at 20:12 – 22:7.

program and an electrification PIM, maintaining that the costs associated with those proposals are not in the public interest.⁶⁵³

348 Concerning JEA’s electrification proposal, PSE witness Steuerwalt disagrees that PSE’s plan to purchase CCA allowances will be insufficient. PSE posits that its decarbonization study shows that costs are greater than benefits.⁶⁵⁴ More generally though, Steuerwalt rejects the premise that PSE is obligated to reduce a proportionate share of emissions under the CCA.⁶⁵⁵ PSE requests that the Commission allow this work to continue through the upcoming 2027 Integrated System Planning process, where stakeholders will have an opportunity for engagement on this issue. Steuerwalt further argues that any decision on PSE’s CCA compliance strategy would benefit from a final determination of whether Washington will link its carbon market with California.⁶⁵⁶

Commission Decision

349 While the Commission does not object to the Company’s ongoing electrification efforts where cost-effective, the Commission declines to approve the TEP Phase 2 program as part of this proceeding. In light of I-2066 and its restrictions on approving incentives in a multi-year rate plan for terminating gas service or establishing incentives for fuel switching, the Commission finds it would be prudent for PSE to consult further with its Energy Efficiency Advisory Group to determine whether the TEP Phase 2 proposal requires any further refinement or modification considering the requirements in I-2066, including consideration of The Energy Project’s proposal to expand the low-income electrification program to include gas-only customers.

350 While JEA urges the Commission to proceed with the TEP Phase 2 proposal and electrification more broadly notwithstanding I-2066, the Commission notes that JEA’s proposals are motivated by a desire to overcome utility disincentives related to electrification and include an incentive mechanism tied to ongoing electrification by the Company.⁶⁵⁷ In light of the passage of I-2066, we are not persuaded that TEP Phase 2 should be approved as presented in this proceeding and similarly reject JEA’s proposed

⁶⁵³ Kaufman, Exh. LDK-8T at 11:13 – 12:20.

⁶⁵⁴ Steuerwalt, Exh. MS-4T at 26:17-28:2.

⁶⁵⁵ Steuerwalt, Exh. MS-4T at 29:1-40:2.

⁶⁵⁶ Steuerwalt, Exh. MS-4T at 28:3-13.

⁶⁵⁷ Post-Hearing Brief of JEA, at ¶¶ 7-13, 25; Cebulko, Exh. BTC-1T at 47:5, 48:8, 51:1 – 54:16. See also Cebulko, Exh. BTC-1T at 50:17-22 (noting that “PSE has a financial incentive to increase the number of gas customers connected to its systems, even if full electrification of the new customer site was superior option for the customer and for the public interest. . . . Additionally, for existing gas customers sites, PSE may not have a strong incentive to even partially electrify those customers due to reduced margins on sale of gas.”).

general electrification proposal and electrification PIM related to the TEP Phase 2 proposal. Although the Commission declines to approve the TEP Phase 2 proposal, the Commission clarifies that it does not disapprove of efforts related to voluntary electrification and supports additional discussion of a refined proposal in a future GRC, where the Commission will have the benefit of full testimony and briefing regarding how such a plan could promote state emissions policy goals in light of I-2066.

351 Further, as PSE suggests, the benefits of future electrification also are appropriately addressed as part of the Company's 2027 Integrated System Plan process. In addition to consultation with the Company's Energy Efficiency Advisory Group, it would be prudent to consider a general electrification plan in the process of developing the Company's 2027 integrated system plan. To the extent that a component of the requested electrification plan would have required an analysis of non-pipeline alternatives, we do not find that analyses of non-pipeline alternatives are necessarily prohibited by I-2066 in the abstract. Indeed, earlier in this Order, we direct the Company to conduct NPA analyses on future natural gas distribution projects.

2. Schedule 141DCARB Tracker

352 PSE proposes a tracker under Schedule 141DCARB to recover incremental decarbonization costs that are not recovered in base rates in this multi-year rate plan.⁶⁵⁸ PSE claims that there are few alternatives that meet traditional cost-effectiveness tests under standard prudence requirements. Witness Free claims that a separate tariff can be used to pursue such alternatives.⁶⁵⁹ The Schedule 141DCARB tracker would apply to all electric and natural gas schedules, and would include a return on forecasted rate base, depreciation, income tax, and O&M.⁶⁶⁰ Similar to PSE's Schedule 141TEP – Transportation Electrification Plan Adjustment Rider, PSE would make a 30-day filing once a year to true-up projected and actual expenses and set rates.⁶⁶¹ PSE proposes that the DCARB tracker remain in place as long as PSE is pursuing decarbonization.⁶⁶²

353 Staff opposes the formation of a tracker for decarbonization. Witness McGuire acknowledges that trackers, under certain circumstances, can be in the public interest.⁶⁶³

⁶⁵⁸ Free, Exh. SEF-1T at 23:7-17.

⁶⁵⁹ Free, Exh. SEF-1T at 24:1-10.

⁶⁶⁰ Free, Exh. SEF-1T at 24:11-18.

⁶⁶¹ Free, Exh. SEF-1T at 24:18-21.

⁶⁶² Free, Exh. SEF-1T at 25:1-3.

⁶⁶³ McGuire, Exh. CRM-1T at 32:16-33:2.

The circumstances Staff provides when a tracker is appropriate include:⁶⁶⁴ advancing⁶⁶⁵ ameliorating potential intergenerational inequities,⁶⁶⁶ and addressing a high variance risk outside of a utility's control.⁶⁶⁷ Staff identifies a need for policy standards addressing the authorization of trackers⁶⁶⁸ and recommends that before the Commission accepts a tracker, it should meet at least one of the three criteria. McGuire also argues that intergenerational inequity and high variance risks are not addressed by establishing a tracker for decarbonization costs.⁶⁶⁹ Staff witness Franks argues that establishing a DCARB tracker would not advance a public policy goal beyond PSE's existing incentives.⁶⁷⁰

- 354 On rebuttal, PSE witness Free argues that the DCARB tracker meets Staff's Criterion 1 because it advances an important public policy goal that PSE would otherwise be unable to pursue under standard rate recovery if it were competing for other sources of funding within the rate base.⁶⁷¹ Free also notes that the costs and participation levels for decarbonization efforts are uncertain, and would benefit from a true-up mechanism.⁶⁷²
- 355 Public Counsel also opposes a DCARB tracker. Witness Gorman claims that PSE's proposal for a separate decarbonization rate adjustment is unreasonable, and that the Company has not established that the multi-year rate plan is insufficient for recovering decarbonization costs.⁶⁷³
- 356 AWEC also opposes the proposed DCARB tracker, claiming that it inappropriately shifts risk from PSE shareholders to customers.⁶⁷⁴ Witness Mullins questions the point of

⁶⁶⁴ McGuire, Exh. CRM-1T at 34:6-14.

⁶⁶⁵ McGuire, Exh. CRM-1T at 35:5-37:7 (examples of conservation costs and the replacement of high-risk natural gas pipes, and notes that these goals can also be accomplished through PIMs.).

⁶⁶⁶ McGuire, Exh. CRM-1T at 37:9-39:20 (cites to PSE Schedule 111 as an example of a tracker addressing an intergenerational inequity, allowing large CCA costs to be managed before existing rates could be changed.).

⁶⁶⁷ McGuire, Exh. CRM-1T at 40:1-41:19 (points to the Commission's authorizations of Power Cost Adjustment Mechanisms (PCAMs) as an example of a tracker that allows a utility to manage high volatility while not passing 100 percent of variance risk to ratepayers.).

⁶⁶⁸ McGuire, Exh. CRM-1T at 28:10-19.

⁶⁶⁹ McGuire, Exh. CRM-1T at 62:8-63:5.

⁶⁷⁰ Franks, Exh. WF-1T at 31:1-32:13.

⁶⁷¹ Free, Exh. SEF-28T at 35:3-20.

⁶⁷² Free, Exh. SEF-28T at 36:1-5.

⁶⁷³ Gorman, Exh. MPG-1T at 35:1-20.

⁶⁷⁴ Mullins, Exh. BGM-1T at 24:5-21, 24:13-17.

spending time litigating a multi-year rate plan if major cost drivers are ultimately recovered in separate trackers, outside of the rate plan.⁶⁷⁵

- 357 On rebuttal, PSE rejects AWEC's proposal to exclude electric Schedules 449 and 459, gas Schedule 87T, energy intensive trade exposed industries, and special contracts from the DCARB tracker, arguing those customers will also benefit from measures that prevent costly distribution system upgrades. As PSE reduces its need to purchase carbon allowances, Mickelson argues that customers from those classes will be better able to purchase their own.⁶⁷⁶
- 358 FEA witness Al-Jabir recommends that the Commission reject PSE's proposal for a DCARB tracker. However, if the Commission determines that the new tracker is appropriate, FEA supports the proposed cost allocation and rate design.⁶⁷⁷ FEA witness Al-Jabir testifies that the Commission should limit the use of riders and trackers because they shift regulatory risk from PSE's investors to its customers⁶⁷⁸ and notes that PSE already has 14 electric riders that apply to all customer classes, and proposes to raise that number to 17 in this case.⁶⁷⁹
- 359 JEA supports the temporary use of the DCARB tracker for the recovery of PSE's Phase 2 electrification efforts for this rate case, but recommends that the program costs be recovered through base rates in the future. JEA witness Cebulko claims that recovery of program costs through base rates will provide greater simplicity, transparency, consistency, fairness in evaluation, and timeliness in cost recovery.⁶⁸⁰
- 360 In cross answering testimony, both FEA and AWEC continue to object to a DCARB tracker, even on a temporary basis as JEA recommends.⁶⁸¹
- 361 Walmart concurs with Staff's position and recommends that the Commission reject a DCARB tracker.⁶⁸² If the Commission approves any new trackers, Walmart recommends that the Commission consider PSE's return on equity in the context of the reduced

⁶⁷⁵ Mullins, Exh. BGM-1T at 24:10-13.

⁶⁷⁶ Mickelson, Exh. CTM-13T at 34:13-35:11.

⁶⁷⁷ Al-Jabir, Exh. AZA-1T at 29:6-24.

⁶⁷⁸ Al-Jabir, Exh. AZA-1T at 26:9-15.

⁶⁷⁹ Al-Jabir, Exh. AZA-1T at 26:16-24.

⁶⁸⁰ Cebulko, Exh. BTC-1T at 66:1-68:8.

⁶⁸¹ Kaufman, Exh. LDK-8T at 9:10-20; Al-Jabir, Exh. AZA-9T at 21:15-22:21.

⁶⁸² McGovern, Exh. JLM-1T at 6:11-7:12.

shareholder risk.⁶⁸³ Walmart also recommends that if any tracker is approved, that cost recovery be subject to a band and overall earnings test.⁶⁸⁴

Commission Decision

362 We reject PSE's proposed DCARB tracker, Schedule 141DCARB. For the same reasons discussed above relating to PSE's proposed TEP Phase 2, we decline to adopt PSE's proposal for a tracker to recover the costs of that proposed program. The restrictions in I-2066 on approving incentives in a multi-year rate plan for terminating gas service or establishing incentives for fuel switching would appear to create limits on the policy goals articulated in support of adopting a DCARB tracker.

363 Further, we decline to set general policy criteria for establishing trackers in this proceeding.

N. Pilots

1. Pilot Information Access

364 JEA requests that the Commission require PSE to make information related to its ongoing and future pilots available on its website for public access and review. This proposal would include PSE's: (i) time varying rate (TVR) pilot, (ii) distributional equity analysis (DEA) pilot, (iii) targeted electrification pilot, and (iv) distributed energy resource (DER) public engagement pilot.⁶⁸⁵ JEA states that publishing information related to what PSE pilots are active, the pilot's purpose, and the pilot's timeline will provide valuable information to customers and facilitate greater customer engagement with PSE's pilot programs.⁶⁸⁶

365 With respect to the TVR, DEA, and targeted electrification pilots, PSE asserts that it has already developed a public engagement strategy for each of the pilots and that absent an indication that its strategy is failing, there is no need to include additional information on the Company's website.⁶⁸⁷ As to the DER public engagement pilot, PSE states that it will provide updates to relevant advisory bodies and interested parties that advise PSE as it implements the pilot, and that it would be counterproductive to provide wide-spread information related to a pilot that only includes a small subset of customers from Named

⁶⁸³ McGovern, Exh. JLM-1T at 7:13-15.

⁶⁸⁴ McGovern, Exh. JLM-1T at 7:4-6.

⁶⁸⁵ Thuraingham-Thompson, Exh. MT-CT-1T at 27:5-9, 30:9-11.

⁶⁸⁶ JEA Post-Hearing Brief, at ¶ 64.

⁶⁸⁷ Hutson, Exh. TAH-10T at 45:8-13.

Communities.⁶⁸⁸ PSE further suggests that requiring the Company to provide pilot program information on its website will cause PSE to incur further costs associated with posting and maintaining the information.⁶⁸⁹

366 In response to the Company’s testimony that it would file its TVR pilot evaluation, measurement, and verification (EM&V) report with the Commission in early 2026, TEP requests that the Company provide its report to other parties in order to facilitate collaboration and provide PSE with feedback.⁶⁹⁰ PSE has agreed to “utilize and share the final EM&V report with interested parties as part of collaborative efforts to inform a final proposal for TVR” and “reach out to interested parties to establish a collaborative workshop to review the EM&V findings and begin discussion of their full implications for a full-scale residential TVR.”⁶⁹¹

Commission Decision

367 The Commission agrees with JEA’s recommendation to require PSE to host information related to its pilots on its website. As described in JEA’s post-hearing briefing, the information that would be hosted on PSE’s website will be limited to information regarding whether a pilot is active, the pilot’s purpose, and the pilot’s timeline.⁶⁹² This information is limited in scope, is not likely to cause confusion for PSE’s customers, and promotes the public interest by facilitating greater communication and engagement with PSE’s customers. PSE must report to the Commission and its EAG within six months on the completion of this action. Additionally, the Commission appreciates PSE’s willingness to collaborate with additional parties regarding the review of its TVR EM&V report and looks forward to reviewing the Company’s filing after it incorporates feedback from interested parties as part of the workshop discussed in PSE’s testimony.

O. Power Costs

368 Except for a few contested issues discussed below, PSE’s power costs were not a significant issue in this proceeding. The issues, as discussed further below and in Section F. CCA Costs, primarily involve the power costs review process, inclusion of CCA costs in dispatch and prudence reviews, treatment of short-term CETA resources, and other minor adjustments to the treatment of EIM neutrality charges and the Sinclair PSR Cogen

⁶⁸⁸ Hutson, Exh. TAH-10T at 45:18 – 46:5.

⁶⁸⁹ Steuerwalt, Exh. MS-4T at 43:13-15.

⁶⁹⁰ Stokes, Exh. SNS-1T at 68:3 – 69:10.

⁶⁹¹ Jhaveri, Exh. BDJ-4T at 22:4-13.

⁶⁹² JEA Post-Hearing Brief, at ¶ 64.

PPA. The largest of these adjustments is the inclusion of additional CCA costs, which the Commission rejects as discussed in Section F.

1. PCORCs, Power Cost Update Processes

369 PSE proposes to implement an annual power cost update, occurring each year for this rate case and every year thereafter.⁶⁹³ PSE witness Mueller describes that the proposal indefinitely continues the annual power cost update process agreed to in settlement and adopted in the final order of the PSE 2022 General Rate Case.⁶⁹⁴ PSE proposes several minor language updates.⁶⁹⁵ Additionally, PSE proposes extending the parties' review, by three months, for preliminary power cost forecasts and methodology changes by filing preliminary versions on April 30 for the following year, aligned with the annual Power Cost Adjustment (PCA) filing. PSE would then file its final power cost forecast and variable baseline rate 90 days before the start of the rate effective date.⁶⁹⁶

370 Further, PSE requests a prudence determination at the earliest opportunity in a given year, whether that would occur in PSE's annual PCA filing, a general rate case, or a Power Cost Only Rate Case (PCORC) filing.⁶⁹⁷ PSE argues that maintaining the PCORC as the annual power cost update would not address updates to fixed costs of the Company's owned resources.⁶⁹⁸ However, the Company clarifies that variable power costs updates would be removed from general rate cases and PCORCs under its proposed changes.⁶⁹⁹

371 Staff supports PSE's proposed power cost update process, including the 2025 power cost forecast update through a compliance filing in this proceeding rather than a separate filing on October 2, 2024. Staff recommends the Commission require PSE to include the offsetting benefits of changes, Energy Imbalance Market (EIM) revenues, rate credit dividend distributions, and any other new or additional revenues in its PCA filings.⁷⁰⁰

372 Further, Staff supports PSE's prudence review proposal of new resources during the annual power cost update, with the caveat of providing all parties with the option to

⁶⁹³ Mueller, Exh. BDM-1T at 42:15-43:2.

⁶⁹⁴ Mueller, Exh. BDM-1T at 42:3-46:4.

⁶⁹⁵ Mueller, Exh. BDM-1T at 46:5-18.

⁶⁹⁶ Mueller, Exh. BDM-1T at 47:5-19.

⁶⁹⁷ Mueller, Exh. BDM-1T at 48:1-13.

⁶⁹⁸ Mueller, Exh. BDM-1T at 48:14-49:5.

⁶⁹⁹ Mueller, Exh. BDM-1T at 49:6-15.

⁷⁰⁰ Wilson, Exh. JDW-1T at 8:1-10.

request deferral of PPA resource acquisitions or proposed changes to power cost calculations until the next general rate case or PCA filing.⁷⁰¹ Staff witness Wilson claims that this allows parties and the Commission additional time to assess any complex changes or additions.⁷⁰²

- 373 PSE does not oppose Staff's proposal to allow for the deferral of prudency reviews for new PPAs from the annual power cost update to the next general rate case or PCORC filing.⁷⁰³ Regarding Staff's proposal to allow for the deferral of prudency reviews for changes to proposed forecasting methodology changes from the annual power cost update to the next general rate case or PCORC filing, Mueller argues that forecast methodologies have not historically been subject to a prudence review. Mueller claims that parties would have the ability to review any changes to PSE's forecast methodology throughout the annual power cost update process.⁷⁰⁴
- 374 Public Counsel Witness Earle recommends the Commission consider any authorized annual power cost updates as provisional and subject to a full prudency determination in the next GRC. Earle contends that provisional approval allows PSE to put costs into rates while giving intervenors ample opportunity to address concerns.⁷⁰⁵ Earle also recommends that the Commission consolidate any annual power cost update with a PCORC or GRC should they happen during the same year.⁷⁰⁶
- 375 Earle argues that the proliferation of proceedings impedes procedural justice, as each proceeding incurs a set of fixed costs and burdens on intervening parties. For intervenors representing vulnerable populations and highly impacted communities, this could result in a loss of the ability to represent the rights and interests of their represented groups.⁷⁰⁷
- 376 PSE Witness Mueller asserts that PSE is expecting a high volume of resource additions to comply with CETA. Mueller argues that Public Counsel's recommendation to defer all final prudency determinations to general rate cases would be burdensome on all parties.⁷⁰⁸ Mueller also argues that PSE's proposal will reduce time spent dealing with

⁷⁰¹ Staff's Post-Hearing Brief, at ¶ 80.

⁷⁰² Wilson, Exh. JDW-1T at 9:6-11:8.

⁷⁰³ Mueller, Exh. BDM-23CT at 6:17-7:2.

⁷⁰⁴ Mueller, Exh. BDM-23CT at 7:3-11.

⁷⁰⁵ Earle, Exh. RLE-1T at 14:11-15:5.

⁷⁰⁶ Earle, Exh. RLE-1T at 13:17-22.

⁷⁰⁷ Earle, Exh. RLE-1T at 12:1-13:17.

⁷⁰⁸ Mueller, Exh. BDM-23CT at 8:8-9:2.

regulatory filings for variable power costs to once per year, solely to the PCA Annual Review filing, instead of also in general rate cases and PCORCs.⁷⁰⁹

- 377 AWEC witness Mullins recommends that the Commission reject PSE's request for annual PCA updates beyond the timeline of any MYRP approved by the Commission. Mullins argues that the decision to allow for power cost updates should remain a policy decision for consideration by the Commission based on the circumstances of each proceeding.⁷¹⁰
- 378 Further, Mullins argues that annual power cost updates shift cost discipline away from the Company and increase risk to customers.⁷¹¹ Mullins testifies that allowing PSE "another bite at the apple" with another mechanism to recover costs further disincentivizes PSE from controlling power costs between rate cases.⁷¹²
- 379 On rebuttal, Mueller rejects AWEC's argument that PSE is not motivated to manage power costs between rate cases. Conversely, Mueller claims that establishing annual power cost updates increases the Company's incentive to manage power costs because the costs are passed through the sharing bands in the Power Cost Adjustment Mechanism (PCAM).⁷¹³

Commission Decision

- 380 It is unclear to the Commission if the workload benefits of PSE's proposal would offset the lack of review for PSE's costs simultaneously. Further, we are sensitive to the concerns of Public Counsel and AWEC that the proliferation of proceedings could have the effect of increasing fixed litigation costs to the detriment of participants representing smaller, disadvantaged segments of ratepayers.
- 381 It is a difficult balance between efficiency and procedural equity, but in the absence of a clear showing of increased judicial economy, we are hesitant to stray from the status quo. We agree with Public Counsel that the number of filings and their complexity is putting a strain on the ability of non-Company parties, especially when taken in context of the number of regulated companies.⁷¹⁴ Because of this, the number of proceedings should be streamlined to ensure due process is given to all parties, who may not have the resources

⁷⁰⁹ Mueller, Exh. BDM-23CT at 7:12-8:7.

⁷¹⁰ Mullins, Exh. BGM-1T at 29:1-7.

⁷¹¹ Mullins, Exh. BGM-1T at 29:7-8.

⁷¹² Mullins, Exh. BGM-1T at 27:15-28:23.

⁷¹³ Mueller, Exh. BDM-23CT at 9:3-10:10.

⁷¹⁴ Public Counsel's Post-Hearing Brief, at ¶ 82.

of PSE or other companies, but must advocate for their clients across a number of proceedings for a number of companies, not just PSE. As a result, we cannot wholly accept PSE's proposal to change the status quo of prudency determinations for power costs. Therefore, we maintain the status quo of future prudency determinations for power costs to occur in PCORC or PCAM updates. We also reject the removal of variable power costs from rate cases. However, we accept AWEC's proposal to allow annual power cost updates only for the duration of an MYRP.

2. Short-term CETA Acquisitions

382 AWEC witness Kaufman recommends that the Commission direct PSE to remove the CETA premium from power costs in RY1 and RY2, and direct PSE to only procure short-term CETA-compliant energy if the total cost of the energy is lower than the net energy cost of CETA-compliant wind energy if PSE had built the resource.⁷¹⁵ Kaufman cites the Commission's order from Docket UE-210795, where the Commission adopted PSE's interim CETA target for 2025 but stated that PSE should not make acquisitions at an unreasonable cost to customers.⁷¹⁶ Further, Kaufman argues that short term resources do not help PSE meet CETA requirements in the long term, that PSE will still need to find resources after the short-term contracts expire,⁷¹⁷ and that PSE should focus on acquiring economic CETA-compliant resources instead.⁷¹⁸

Commission Decision

383 In AWEC's post-hearing brief, AWEC acknowledges PSE witness Mueller's clarification that the Company's net power supply expense forecast for the MYRP does not include a CETA premium. Given this, and the Commission's Order 14 in Docket UE-210795, AWEC does not find additional guidance from the Commission necessary in this proceeding.⁷¹⁹ Accordingly, we view this as an uncontested issue and decline to comment further on the matter.

3. Sinclair Cogen PPA

384 PSE witness Haines provides testimony regarding the Sinclair PSR Cogen PPA for which PSE seeks recovery in this proceeding, including contract information and rationale for

⁷¹⁵ Kaufman, Exh. LDK-1CT at 76:1-5. We note that witness Kaufman includes a specific confidential cost per Mwh in his testimony at BGM-1TC at 76:2-3.

⁷¹⁶ Kaufman. LDK-1CT at 74:1-15.

⁷¹⁷ Kaufman. LDK-1CT at 75:9-17.

⁷¹⁸ Kaufman. LDK-1CT at 76:7-11.

⁷¹⁹ AWEC's Post-Hearing Brief, at ¶ 86.

entering the contract. The resource consists of cogenerating gas turbines that have a combined nameplate capacity of 140 MW.⁷²⁰

385 In a discussion concerning confidential material, Public Counsel witness Earle recommends excluding a portion of the costs of the Sinclair PSF Cogen PPA, approximately \$3.6 million, from forecasted power costs in RY1 and from PSE's 2025 Power Cost Adjustment Mechanism (PCAM) review.⁷²¹

386 PSE witness Haines dismisses Public Counsel's arguments and recommendation that the Commission disallow a portion of costs associated with the capacity value of the Sinclair PSF Cogen PPA. Haines claims that Public Counsel provided no actionable alternatives for PSE's methodology of evaluating market capacity.⁷²²

387 Haines provides additional testimony detailing the capacity valuation methodology PSE used and asserts that the Chelan Slice 38 capacity value is different than that of the Sinclair PSF Cogen PPA because they are two distinct resource types.⁷²³

Commission Decision

388 We reject Public Counsel's recommendation to disallow a portion of costs related to the Sinclair Cogen PPA. Without recounting the specifics of the confidential information at issue; we find that PSE successfully rebutted Public Counsel's challenge of a portion of the costs, and that ultimately Public Counsel's failure to propose an alternative methodology is fatal to its recommended disallowance.

4. WEIM Neutrality Charges

389 PSE witness Mueller details the stakeholder engagement process PSE conducted to determine the updated power cost forecasting methodology in 2022. This update included PSE's participation in the California Independent System Operator's (CAISO) Western Energy Imbalance Market (WEIM) within the AURORA model.⁷²⁴

390 AWEC witness Mullins recommends that the Commission reduce PSE's power cost forecast by the four-year annual amount of WEIM neutrality charges.⁷²⁵ Mullins claims

⁷²⁰ Haines, Exh. PAH-1CT at 28:7-36:17; PAH-9.

⁷²¹ Earle, Exh. RLE-1CT at 2:21-6:2.

⁷²² Haines, Exh. PAH-19CT at 8:6-19.

⁷²³ Haines, Exh. PAH-19CT at 4:5-8:5.

⁷²⁴ Mueller, Exh. BDM-1T at 33:16-35:2; BDM-13.

⁷²⁵ Mullins, Exh. BGM-1T at 23:7-12; BGM-3C.

that PSE does not include neutrality charges in its modeling of the WEIM, without which the Company's power cost forecast will be understated.⁷²⁶

391 PSE witness Mueller opposes AWEC's recommendation regarding WEIM settlement neutrality charges, arguing that PSE's power cost model already reflects the full value of WEIM transfers. According to Mueller, the manner of execution of all WEIM transfers in PSE's WEIM power cost model results in no difference between prices paid and prices received, generating no surplus revenue that must be distributed. Mueller states that adopting AWEC's recommendation would result in double-counting WEIM neutrality charges in the power cost forecast.⁷²⁷

Commission Decision

392 We reject AWEC's recommendation to lower power costs due to WEIM neutrality charges. We agree with PSE that the Company's power cost model already reflects the full value of WEIM transfers and that adopting AWEC's recommendation would unreasonably result in double-counting of WEIM neutrality charges in the power cost forecast.⁷²⁸

5. Chelan PSA

393 PSE negotiated an updated Power Sales Agreement (PSA) with the Chelan Public Utility District (PUD) (Chelan PSA) for 2031-2051 for which the Company seeks a prudence determination in this case, as directed by the Commission in the Company's 2022 Power Cost Adjustment filing. PSE provides contractual information and other analysis supporting its claim that the Company's execution of the Chelan PSA was prudent.

394 PSE witness Yanez provides background for the Chelan PSA and requests that the Commission find the Chelan PSA prudent.⁷²⁹ Yanez cites previous Commission guidance that the Company seek a prudence determination for the Chelan PSA in this rate case.⁷³⁰

395 Yanez reviews PSE's understanding of the Commission's prudence standard, highlighting the criteria that assesses reasonable management decisions with available information and filling established needs, and claims that PSE has met the prudence

⁷²⁶ Mullins, Exh. BGM-1T at 20:10-22:14. Neutrality charges arise when the sum of the energy imbalance settlements do not sum to zero due to locational marginal pricing, creating excess revenues in the market. Those excess revenues are redistributed to market participants.

⁷²⁷ Mueller, Exh. BDM-23CT at 15:6-17:3.

⁷²⁸ See, Mueller, Exh. BDM-23CT at 15:6-17:3.

⁷²⁹ Yanez, Exh. ZCY-1CT at 21:13-21.

⁷³⁰ Yanez, Exh. ZCY-1CT at 12:10-4.

standard.⁷³¹ Yanez provides a general summary of the contract terms for the Chelan PSA and claims that the terms of the contract are similar to those of the existing Chelan PSA, which expires in 2031.⁷³² Yanez also provides background for PSE's capacity needs and PSE's internal analysis of the Chelan PSA.⁷³³

- 396 Yanez claims that PSE chose to execute the Chelan PSA eight years before the existing agreement expires because it is critical to the fulfillment of PSE's capacity needs and regulatory requirements and that there was a risk Chelan PUD would market PSE's existing share to other entities had the Company not engaged so early.⁷³⁴
- 397 Yanez testifies that PSE management was informed of the decision to execute the Chelan PSA, a requirement for determining prudence.⁷³⁵
- 398 Staff witness Wilson argues that the Commission should find the Chelan PSA signed by PSE to be imprudent, unless accompanied by limitations on cost recovery from the contract.⁷³⁶ The Chelan PSA is a 20-year contract from 2031 to 2051 where PSE receives a 25 percent share of two hydroelectric projects owned by Chelan PUD.⁷³⁷
- 399 Witness Wilson describes the Chelan PSA as having two components: a fixed annual charge and a cost-indexed charge that can increase without limitation due to capital improvements and other expenses.⁷³⁸ Wilson testifies that PSE has no ability under the contract to dispute the costs or exit the Chelan PSA if the price becomes unreasonable.⁷³⁹ Wilson claims that he has not seen any contracts where the buyer is exposed to unlimited costs without an exit right, and that PSE would be exposed to large expenses, such as unforeseen relicensing or civil works costs.⁷⁴⁰

⁷³¹ Yanez, Exh. ZCY-1CT at 2:11-4:6.

⁷³² Yanez, Exh. ZCY-1CT at 4:4-7:2 (The full terms of the Chelan PSA contract are included in ZCY-4C).

⁷³³ Yanez, Exh. ZCY-1CT at 7:3-9:8, 13:5-20:4.

⁷³⁴ Yanez, Exh. ZCY-1CT at 10:1-12:9.

⁷³⁵ Yanez, Exh. ZCY-1CT at 20:5-13 (PSE's presentation to the Company's Energy Management Committee is included in ZCY-3HC).

⁷³⁶ Wilson, JDW-1T at 49:1-10.

⁷³⁷ Wilson, JDW-1T at 48:11-18.

⁷³⁸ Wilson, JDW-1T at 49:12-17.

⁷³⁹ Wilson, JDW-1T at 50:1-3.

⁷⁴⁰ Wilson, JDW-1T at 50:5-51:15.

- 400 Wilson argues that PSE customers bear disproportionately more risk than Chelan PUD customers under the Chelan PSA, and estimates in a worst-case scenario that annual production costs could rapidly increase before Chelan PUD discontinues the project.⁷⁴¹ Wilson also claims that it is unreasonable to expect that Chelan PUD will act prudently by avoiding excessive investments, since it is not obligated to consider the commercial interests of customers such as PSE.⁷⁴² Wilson claims that PSE should have negotiated a reasonable cap on the cost-based portion of the Chelan PSA contract and an exit clause for excessive costs.⁷⁴³
- 401 On rebuttal, Yanez argues that, aside from minor differences, the pricing provisions of the Chelan PSA are similar to PSE's existing agreement with Chelan PUD.⁷⁴⁴ Further, Yanez testifies that it is reasonable to expect Chelan PUD to act prudently, avoiding excessive investments, as excessive investments would intrinsically raise rates for Chelan PUD's own customers. Yanez also claims that Staff offers no support or explanation for the speculative concern about unforeseen costs, citing PSE's own extensive history working with Chelan PUD.⁷⁴⁵
- 402 Further, Yanez dismisses Staff's analysis of what Chelan PUD would be willing to pay to operate the hydroelectric projects in which PSE is investing as unreasonable and recommends that the Commission reject it. Yanez also characterizes Wilson's analogy comparing the Chelan PSA to market hedging as inappropriate.⁷⁴⁶ Yanez claims that Staff's characterization of the Chelan PSA as inappropriately shifting risk to PSE customers is incorrect, and that there is no need for guardrails on the contract.⁷⁴⁷

Commission Decision

- 403 We reject Staff's recommended disallowance of the Chelan PSA as imprudent, and accept the prudence of the contract given the specific facts of the case. We recognize Staff's concerns that if there were extraordinary expenses under the contract, that under the terms of the contract, PSE's customers would be responsible for a portion of the costs. However, we also are cognizant that Chelan PUD has an independent duty to act

⁷⁴¹ Wilson, JDW-1T at 52:1-53:13.

⁷⁴² Wilson, JDW-1T at 50:5-14.

⁷⁴³ Wilson, JDW-1T at 54:16-55:2.

⁷⁴⁴ Yanez, Exh. ZCY-5CT at 3:3-18.

⁷⁴⁵ Yanez, Exh. ZCY-5CT at 5:1-7:18.

⁷⁴⁶ Yanez, Exh. ZCY-5CT at 8:1-12:5. Yanez' testimony includes significant discussions of confidential cost information. The Commission need not discuss this information here as our decision can be explained in discussing the parties' high-level arguments.

⁷⁴⁷ Yanez, Exh. ZCY-5CT at 12:6-14.

prudently for its own customers. Ultimately, we find Staff's concerns speculative. Whatever negative externalities PSE and its customers may experience in the hypothetical scenario Staff offers, Chelan's customers would experience these negative impacts to a greater degree.

P. CEIP Deferral

404 On February 28, 2023, PSE filed a petition requesting deferred accounting treatment for its Clean Energy Implementation Plan (CEIP) program to allow deferral of ongoing net expenses for later true-up and recovery under a separate tracker (Schedule 141CEI) in Docket UE-230131.⁷⁴⁸ The Commission approved the development of the tracker mechanism in the Order approving and adopting the 2022 GRC Settlement. As a part of the settlement, the Company agreed to include the initial true-up and prudence determination in its next GRC (this current proceeding), following which Schedule 141CEI would expire.⁷⁴⁹ On July 17, 2023, the Company filed its proposed Schedule 141 tariff pages in Docket UE-230591, requesting rates effective September 1, 2023. The Commission granted the accounting petition, and rates went into effect, as requested, following the August 24, 2023, open meeting.

405 In this proceeding, PSE requests to postpone the true-up and prudence review of Schedule 141CEI until the Company's next GRC proceeding. Company witness Free contends the actual costs remain unknown due to the timing of the initial filing in this proceeding. Therefore, PSE proposes to delay embedding these costs in base rates and set the Schedule 141 CEI rate to zero "at the appropriate time."⁷⁵⁰ Free argues the timing was an oversight during the settlement discussions,⁷⁵¹ and "believes this request does not substantively change the spirit of the settlement."⁷⁵² However, PSE requests recovery of the deferred expenses accumulated through August 2023 over the course of this MYRP, including the return on those expenses.⁷⁵³

⁷⁴⁸ *In the matter of Puget Sound Energy, For an Accounting Order Authorizing Deferred Accounting Treatment of the Company's Clean Energy Implementation Plan Costs*, Docket UE-230131.

⁷⁴⁹ *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-220066, UG-220067, & 210918, Final Order Appendix A, Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and PSE's Green Direct Program at pg. 7 (j). The order granting the petition excluded power costs from the tracker mechanisms. *Id* at 8 (k), and 17 at 28, and 18 at 30.

⁷⁵⁰ Free, Exh. SEF-1T at 93:17-94:4.

⁷⁵¹ Free, Exh. SEF-1T at 93:10-15.

⁷⁵² Free, Exh. SEF-1T at 94:8-9.

⁷⁵³ Free, Exh. SEF-1T at 91:22:92:13.

- 406 Staff witness Franks opposes PSE’s proposal to delay the expiration of Schedule 141 CEI until the Company’s next GRC filing. Franks argues that a delay is not in the public interest and that a true-up at the time actual costs are known minimizes intergenerational inequities and more closely align rates with actual costs.⁷⁵⁴ Staff recommends the Commission require PSE to file a tariff revision no later than March 31, 2025, for the final true-up to settle the deferral balance.⁷⁵⁵ Franks references Staff Data Request No. 028, indicating the Company’s willingness to consider a stand-alone filing “if the Commission were to provide approval of such an approach.”⁷⁵⁶
- 407 In their joint testimony, JEA witnesses Thuraisingham and Thompson respond to Staff’s recommendation regarding the CEIP deferral, and also express equity concerns with potential midyear rate increases. Specifically, JEA argues that “truly progressive rate structures,” should “be paired with bill assistance programs that keeps monthly bills affordable,” consider features of customer economic and energy security, and coincide with seasonal usage to “address demand response and conservation goals.⁷⁵⁷ JEA also recommends the Commission consider “procedural safeguards” afforded by prudence determinations occurring in the context of a GRC rather than a stand-alone filing.⁷⁵⁸ While JEA does not put forth a specific recommendation, they assert the true-up design must “equitably distribute benefits and reduce burdens.”⁷⁵⁹

Commission Decision

- 408 We approve PSE’s request to postpone the true-up and prudence review of Schedule 141 CEI until the next GRC and limit recovery of deferred expenses to those accumulated through August 2023. While this is a shortened true-up period, it will mitigate the impacts of intergenerational inequities, more closely align rates with actual costs from that period and would eliminate a potential mid-year rate increase. We reject Staff’s recommendation for a stand-alone filing in March 2025 and instead agree with PSE and JEA in continuing Schedule 141CEI until the next GRC. We find value in having the review occur through the GRC process to afford the Company and all parties the opportunity to conduct a thorough prudence review that equitably distributes benefits and reduces administrative and cost burdens.

⁷⁵⁴ Franks, Exh. WF-1T at 34:6-14.

⁷⁵⁵ Franks, Exh. WF-1T at 34:19-35:1.

⁷⁵⁶ Franks, Exh. WF-1T at 35:1-6.

⁷⁵⁷ Thuraisingham and Thompson, Exh. MT-CT-6T at 14:8-21.

⁷⁵⁸ Thuraisingham and Thompson, Exh. MT-CT-6T at 14:11-13.

⁷⁵⁹ Thuraisingham and Thompson, Exh. MT-CT-6T at 15:20-22.

Q. Forecasted Expenses

- 409 PSE uses an annual five-year planning process overseen by its Business Planning Committee of the Board of Directors, which results in an operating plan and financial statement projections and produces forecasts for all major financial outputs.⁷⁶⁰ At the conclusion of its planning process, the PSE Board approves a five-year plan, including capital and operation and maintenance (O&M) plans.⁷⁶¹ As part of its forecasting analysis, PSE has developed a dynamic cost escalation methodology and applies that method to different aspects of its forecast planning to reflect inflation factors that apply to different categories of costs, including O&M.⁷⁶² PSE acknowledges that its dynamic cost methodology differs from its prior global cost escalation methodology, under which cost escalators remained relative static over time, and contends that such change is necessary because of recent increased price variability.⁷⁶³ Under its new methodology, PSE employees that participate in the financial planning process forecast expense in “real” dollars, unit and unit price projections in 2023 dollars, except where there are known and measurable cost increases, which are then escalated based on cost escalators developed by a third party to achieve an inflation adjusted cost projection for the multi-year rate plan.⁷⁶⁴
- 410 PSE states that it has historically been able to effectively manage its O&M expenditures to stay within its approved budget, noting that its actual O&M expenditures have only deviated by 1.7 percent over the last decade.⁷⁶⁵ However, PSE asserts that it decided to significantly reduce O&M spending targets as part of its 2023 budgeting process in order to avoid falling significantly below its allowed rate of return under its existing multi-year rate plan.⁷⁶⁶ Specifically, in order to accommodate increases to capital expenditures in 2023, PSE made efforts to avoid additional hiring, such as maintain an employee level of 3,400 even though its projections supported a staffing level of 3,600, and curtailing use of outside services.⁷⁶⁷
- 411 PSE proposes several pro forma adjustments to incorporate the forecasted O&M expenses from its Board-approved budget, which are contained in Adjustments 6.22 and

⁷⁶⁰ Kensok, JAK-1CT at 3:8-15.

⁷⁶¹ Kensok, JAK-1CT at 5:3-6.

⁷⁶² Kensok, JAK-1CT at 10:17 – 11:19.

⁷⁶³ Kensok, JAK-1CT at 12:5-14.

⁷⁶⁴ Kensok, JAK-1CT at 12:17 – 13:4.

⁷⁶⁵ Kensok, JAK-1CT at 34:3-7.

⁷⁶⁶ Kensok, JAK-1CT at 35:9-14.

⁷⁶⁷ Kensok, JAK-1CT at 37:10 – 40:9.

11.22. Certain portions of these adjustments are contested by Staff and Public Counsel. In particular, PSE proposes pro forma adjustments that include forecasted amounts related to management reserves and a reserve contingency.⁷⁶⁸ PSE's pro forma adjustments also include forecasted labor and non-labor O&M expenses, as well as administrative and general (A&G) expenses, which incorporate the application of cost escalation factors developed for PSE by Pacific Economics Group (PEG).⁷⁶⁹

1. Management Reserves and Reserve Contingency

412 Staff recommends that the Commission remove from PSE's Adjustments 6.22 and 11.22 forecasted amounts related to management reserves and a reserve contingency. In response to Staff Data Requests, the Company explains that its management reserves refer to funds allocated by management "to potentially offset any unforeseen or unplanned expenses," and its reserve contingency is "established to offset unforeseen detailed expenses."⁷⁷⁰ Staff contends that the management reserves and reserve contingency fail to satisfy the Commission's pro forma "known and measurable" standard because both are intended to address unforeseen expenses.⁷⁷¹

413 In its response to Staff Data Requests, PSE's explains that after its Board of Directors approves projected spending, including amounts identified as management reserves, the Company then allocates the board-approved management reserves across the Company's cost centers.⁷⁷² This process leads Staff to assume that the various management reserves amounts identified in PSE's workpapers do not match the \$65 million in management reserves approved by PSE's Board because the workpapers capture the management reserves part way through the process of allocating the amounts to different cost centers.⁷⁷³ Staff further observes that the Company's operations and maintenance (O&M) workpapers contain negative amounts assigned to different cost centers, and that while the Company's workpapers and data request responses contain inconsistent O&M expense items, they all contain the same overall level of expense equal to the Company's board-approved budget.⁷⁷⁴ Staff concludes that the \$65 million management reserves

⁷⁶⁸ McGuire, Exh. CRM-1Tr at 110:7-8.

⁷⁶⁹ Meyer, GRM-1CT at 21:8-10, 23:6-8, 30:2-5.

⁷⁷⁰ McGuire, Exh. CRM-1Tr at 110:18-19 (citing McGuire, Exh. CRM-4), 120:1 (citing McGuire, Exh. CRM-8).

⁷⁷¹ McGuire, Exh. CRM-1Tr at 111:1-12, 120:8-14.

⁷⁷² McGuire, Exh. CRM-1Tr at 113:13-16.

⁷⁷³ McGuire, Exh. CRM-1Tr at 113:16-19.

⁷⁷⁴ McGuire, Exh. CRM-1Tr at 114:10 – 115:15.

included in PSE's board-approved budget for 2025 and 2026 do not represent specific O&M expenses that the Company forecasted for those years.⁷⁷⁵

- 414 Staff further asserts that PSE's allocation of management reserves to various specific business units during this rate case does not make the expenses known and measurable: the reserves represent amounts allocated to unforeseen or unplanned expenses and are still reflected as management reserves in PSE's supporting workpapers.⁷⁷⁶ Based on this review of PSE's workpapers and responses to data requests, Staff recommends that the Commission find that the management reserves fail to satisfy the pro forma "known and measurable" standard.⁷⁷⁷ While Staff argues that the Commission would be justified in removing the full \$65 million, in consideration of arriving at reasonable end-results, Staff recommends that the Commission should remove \$15,803,904 for 2025 and \$17,275,488 for 2026 attributable to PSE's pro forma O&M expense management reserve at the time its case was filed.⁷⁷⁸
- 415 Similarly, Staff recommends that the Commission remove expenses attributable to PSE's reserve contingency as not known and measurable because those expenses are intended to offset unforeseen expenses that are not representative of specific costs identified in the Company's budget.⁷⁷⁹ Based on the Company's workpapers, Staff recommends removing \$7,706,551 in 2025 and \$6,890,560 in 2026 attributable to the reserve contingency from PSE's pro forma O&M expenses.⁷⁸⁰ The combined effect of Staff's recommendations regarding the management reserves and reserve contingency is to reduce PSE's pro forma O&M expenses by \$17.8 million in 2025 and \$17.9 million in 2026, for electric operations, and \$5.7 million in 2025 and \$6.2 million in 2026 for natural gas operations.⁷⁸¹ Staff maintains that these reductions are reasonable because the Company has demonstrated that it can control costs such that they are well below its board-approved budget by a greater margin that Staff recommends be removed.⁷⁸²
- 416 In response to Staff's arguments regarding management reserves and reserve contingency, PSE contends that Staff is conflating the standards applicable to recovery of plant investment with those for O&M, and states that the Commission has broad

⁷⁷⁵ McGuire, Exh. CRM-1Tr at 115:22 – 116:1.

⁷⁷⁶ McGuire, Exh. CRM-1Tr at 116:17 – 117:3.

⁷⁷⁷ McGuire, Exh. CRM-1Tr at 117:10-11.

⁷⁷⁸ McGuire, Exh. CRM-1Tr at 118:1 - 119:18.

⁷⁷⁹ McGuire, Exh. CRM-1Tr at 120:1-14.

⁷⁸⁰ McGuire, Exh. CRM-1Tr at 121:3-8.

⁷⁸¹ McGuire, Exh. CRM-1Tr at 121:20-23.

⁷⁸² McGuire, Exh. CRM-1Tr at 122:8 – 3.

discretion to approve undefined O&M expenses, citing prior attrition adjustments and RCW 80.04.250.⁷⁸³ PSE further maintains that RCW 80.28.425(3)(d) also affords the Commission broad authority in the context of a multi-year rate plan to determine the appropriate amount of O&M expenses to include in rates, even in the absence of precise detail.⁷⁸⁴

417 According to PSE, a reserve contingency is established for a project or program based on “best estimates of total O&M expense for that project or program, particularly when cost center, [work breakdown structure], and cost element detail cannot be reliably predicted at the time the budget is established.”⁷⁸⁵ PSE further explains that it is impossible to know with complete certainty the details of every expenditure at the time the budgets are prepared and therefore relies on reserve contingencies.⁷⁸⁶ PSE further emphasizes that while detailed expense drivers may not be fully known at the time that the budgets are set, the programs and projects associated with the budget are known and that PSE has provided details associated with the allocation of the reserve contingency to specific projects and programs.⁷⁸⁷

418 PSE argues that Staff’s proposal to remove the reserve contingency is unreasonable because 1) removal will impede the Company’s progress on its CEIP, 2) Staff has failed to consider the complexities of PSE’s budget process, 3) PSE is not merely relabeling its budgets and forecasts, and 4) the known and measurable standard is not relevant to the reserve contingency.⁷⁸⁸ PSE further objects to Staff’s characterization of its budget allocation and refinement process as a “relabeling” exercise.⁷⁸⁹ Finally, PSE states that its reserve contingency consists of less than one percent of its total O&M expense requested in this rate case.⁷⁹⁰

419 Similar to its arguments on reserve contingencies, PSE argues that the Commission should reject Staff’s analysis on management reserves because Staff fails to recognize the complexities of PSE’s budget process and that PSE is not merely relabeling its budgets and forecasts.⁷⁹¹ PSE states that the Company intentionally matches its budget details to

⁷⁸³ Free, Exh. SEF-28T at 60:10 – 61:2.

⁷⁸⁴ Free, Exh. SEF-28T at 61:5-15.

⁷⁸⁵ Huizi, Exh. TRH-1T at 9:19 – 10:3.

⁷⁸⁶ Huizi, Exh. TRH-1T at 10:13-17.

⁷⁸⁷ Huizi, Exh. TRH-1T at 11:16 – 12:13.

⁷⁸⁸ Huizi, Exh. TRH-1T at 13:2 – 14:6.

⁷⁸⁹ Huizi, Exh. TRH-1T at 14:9 – 15:2.

⁷⁹⁰ Huizi, Exh. TRH-1T at 15:5-12.

⁷⁹¹ Huizi, Exh. TRH-1T at 16:14 – 17:17.

its board-approved O&M budget and refines its budget detail from reserve contingencies and management reserves to specific programs because doing so results in prudent cost control.⁷⁹² The Company further explains that its management reserves consist of \$15.8 million in 2025 and \$17.3 million in 2026, and urges the Commission to reject Staff’s conclusion that the Company’s management reserves consist of \$65 million for both years.⁷⁹³ PSE states that its 2025 and 2026 O&M budgets are now fully allocated and that its management reserves account for approximately 1.8 percent and 1.9 percent, respectively, of its 2025 and 2026 O&M expenses.⁷⁹⁴ Finally, the Company urges the Commission to reject Staff’s recommendation with respect to reserve contingency and management reserves because Staff has focused its analysis on older budgetary details rather than budget refinement and allocation shown by PSE and fails to consider PSE’s overall budget management practices.⁷⁹⁵

Commission Decision

420 The Commission accepts Staff’s proposed adjustment with respect to PSE’s Adjustments 6.22 and 11.22 for forecasted amounts related to management reserves and a reserve contingency. At the evidentiary hearing, PSE acknowledged that it was seeking traditional pro forma treatment of its Adjustments 6.22 and 11.22, which include the management reserves and reserve contingency.⁷⁹⁶ Pursuant to Commission rule, a pro forma adjustment gives effect for the test period to all known and measurable changes that are not offset by other factors.⁷⁹⁷ Importantly, the rule does not distinguish between different types of pro forma adjustments, with the effect that all pro forma adjustments, whether capital or O&M adjustments, are subject to this standard. Under this standard, an event that causes a change to revenue, expenses, or rate base must be “known” to have occurred during or after the historical 12 months of actual results of operations.⁷⁹⁸ The “known” component of the standard requires that the effect of the event will be in place during the rate effective period.⁷⁹⁹ Furthermore, the amount of the change must be “measurable,” which traditionally has meant that the amount cannot be an estimate,

⁷⁹² Huizi, Exh. TRH-1T at 18:9 – 19:15.

⁷⁹³ Huizi, Exh. TRH-1T at 20:7 – 21:10.

⁷⁹⁴ Huizi, Exh. TRH-1T at 21:12 – 22:10.

⁷⁹⁵ Huizi, Exh. TRH-1T at 23:7 – 24:17.

⁷⁹⁶ Free, TR 254:15-19.

⁷⁹⁷ WAC 480-07-510(3)(c)(ii).

⁷⁹⁸ *WUTC v. Avista Corp.*, Dockets UE-090134 & UG-090135, Order 10, 21 ¶ 45 (Dec. 22, 2009).

⁷⁹⁹ *WUTC v. Avista Corp.*, Dockets UE-090134 & UG-090135, Order 10, 21 ¶ 45 (Dec. 22, 2009).

projection, a product of a budget forecast, or some similar exercise of judgment, even informed judgment, concerning future revenue, expense, or rate base.⁸⁰⁰ However, the Commission “retains significant discretion to apply flexibly the requirement[] that pro forma adjustments be known and measurable,” particularly in the context of a multi-year rate plan.⁸⁰¹

421 In its briefing, PSE directs the Commission’s attention to the order entered in PSE’s 2013 expedited rate filing (ERF), in which the Commission authorized an escalation factor that included an escalation of O&M costs, arguing that the case establishes that the Commission is not bound by the known and measurable standard when evaluating O&M expenses.⁸⁰² However, in the present rate case, PSE is proposing a traditional pro forma adjustment with respect to the management reserves and reserve contingency, not an escalation factor, and PSE does not otherwise explain why the analysis applicable to an escalation factor should apply to a pro forma analysis. Indeed, in the same order, the Commission rejected another party’s request to consider a pro forma adjustment as part of an ERF, explaining:

The ERF, however, is not generally an appropriate vehicle for making this sort of known and measurable change. Unlike a restating adjustment, a pro forma adjustment can require considerable investigation and analysis, unsuitable in the context of an expedited rate case designed only to update rates following a general rate case in which pro forma adjustments are considered and made.⁸⁰³

422 This language not only indicates that the Commission did not consider O&M a pro forma adjustment during the ERF, but also that the Commission intended to generally adhere to the “known and measurable” standard for pro forma adjustments. As such, PSE’s reliance on the 2013 ERF order is unavailing, as it does not suggest that the Commission has

⁸⁰⁰ *WUTC v. Avista Corp.*, Dockets UE-090134 & UG-090135, Order 10, 21 ¶ 45 (Dec. 22, 2009).

⁸⁰¹ *WUTC v. Avista Corp.*, Dockets UE-160228 & UG-160229, Order 06, 48 ¶ 82 (Dec. 15, 2016). See also RCW 80.28.425(3)(d) (“In [. . .] projecting the revenues and operating expenses of a gas or electrical company pursuant to (c) of this subsection, the commission may use any standard, formula, method, or theory of valuation reasonably calculated to arrive at fair, just, reasonable, and sufficient rates.”).

⁸⁰² Post-Hearing Brief of PSE, at ¶ 65 (citing *WUTC v. Puget Sound Energy*, Dockets UE-121697 and UG-121705 (consolidated), Dockets UE-130137 and UG-130138 (consolidated), Order 07, 60 ¶ 137 n. 186, 70 ¶ 158 (June 25, 2013)).

⁸⁰³ *WUTC v. Puget Sound Energy*, Dockets UE-121697 and UG-121705 (consolidated), Dockets UE-130137 and UG-130138 (consolidated), Order 07, 87 ¶ 207 (June 25, 2013).

altered its pro forma “known and measurable” standard in the context of a multi-year rate plan.

- 423 In its testimony and discovery, PSE describes a reserve contingency as being established for a project or program “based on best estimates of total O&M expenses,”⁸⁰⁴ while a management reserve is intended “to potentially offset any unforeseen or unplanned expenses.”⁸⁰⁵ From this, it is clear that the reserve contingency and management reserve are both the product of budget forecasts or informed estimates that are incompatible with a traditional pro forma adjustment.⁸⁰⁶ PSE attempts to argue that the reserve contingency and management reserve are known and measurable because they have been allocated to specific projects and programs, but this does not address the fundamental defect that the management reserve and reserve contingency are themselves a product of a budget forecast and estimate.⁸⁰⁷ Although a budget forecast and estimate may be further refined and allocated to specific programs with granular detail, they are still nonetheless budget forecasts and estimates not suitable for pro forma treatment under Commission standards.
- 424 Although the Commission retains discretion to apply its “known and measurable” standard flexibly, the Commission is not persuaded that it should relax its traditional standard to allow PSE to attempt to insulate itself from future uncertainty at the expense of the ratepayers by including O&M expenses beyond what it determined necessary. Including additional “reserve” amounts within the O&M budgets removes incentives for the Company to reasonably control costs at the expense of the ratepayers and drifts too close to guaranteeing the Company its rate of return, rather than affording PSE a reasonable opportunity to earn its rate of return.⁸⁰⁸ Similarly, while the Commission has broad discretion in determining multi-year rate plan expenses under RCW 80.28.425(3)(d), the Commission agrees with Staff that PSE has failed to demonstrate how traditional pro forma treatment of the management reserves and reserve contingency, which precludes the possibility of refund to customers, satisfies this standard based on the

⁸⁰⁴ Huizi, Exh. TRH-1T at 9:19 – 10:3.

⁸⁰⁵ McGuire, Exh. CRM-4.

⁸⁰⁶ *WUTC v. Avista Corp.*, Dockets UE-090134 & UG-090135, Order 10, 21 ¶ 45 (Dec. 22, 2009).

⁸⁰⁷ Post-Hearing Brief of PSE at ¶ 66.

⁸⁰⁸ *WUTC v. Washington Natural Gas Company*, Docket UG-920840, Fourth Supp. Order at 5 (September 27, 1993) (“Rates should be established for utility service which allow the company an opportunity to recover the reasonable costs of providing that service, and which are at the lowest level which will meet those costs.”).

record in this proceeding.⁸⁰⁹ In future filings, the Company should be prepared to explain not only its process of allocating its board-approved budget to specific projects and programs, but also propose an appropriate methodology to reasonably and thoroughly review and evaluate forecasted expenses, including possible alternatives to a traditional pro forma adjustment. Without such a methodology, the Commission is simply being asked to approve a budget without meaningful review or oversight.

2. O&M Labor Escalation, Non-Labor O&M Escalation, and Non-Labor A&G Expenses

425 Public Counsel contests PSE’s use of a two-year compounding escalation factor for its non-labor and labor O&M costs, as well as the Company’s labor forecast. Public Counsel observes that PSE uses a two-year compounding escalation factor to calculate its 2025 labor and non-labor O&M costs because PSE held O&M labor costs constant at 2023 levels in 2024 to address financial pressures, and that PSE forecasts its labor cost increases by a 7.83 percent growth rate and its non-labor costs using a 1.57 percent growth rate in 2025.⁸¹⁰ For non-labor O&M expenses, Public Counsel argues that the use of a two-year compounding escalation factor is inappropriate because the Company has demonstrated the ability to manage those costs, non-labor O&M costs are expected to be lower in 2024 relative to 2023, the escalation factor undoes efficiencies gained in 2024, and that it unreasonably burdens customers.⁸¹¹ Public Counsel recommends applying a one-year 0.78 percent inflation rate escalator to PSE’s 2024 non-labor O&M costs, resulting in rate year one non-labor O&M cost decrease of approximately \$2,361,000 and an associated small incremental adjustment to PSE’s forecasted 2026 non-labor O&M expenses.⁸¹²

426 Public Counsel further contends that PSE’s 7.83 percent inflation rate applied to its labor forecast between 2024 and 2025 is excessive because the rate is not limited to wage increases for employees, but represents a labor expense ceiling as a result of salary

⁸⁰⁹ Post-Hearing Brief of Staff at ¶ 10. The Commission further disagrees with PSE’s suggestion that Staff’s analysis with respect to its reserve contingency and management reserve expenses attempts “to bring a level of precision to the rate making process that is not required.” Free, Exh. SEF-28T at 61:14-15. As noted above, “a pro forma adjustment can require considerable investigation and analysis,” and such rigorous analysis promotes the public interest by developing a more complete record for Commission review. *WUTC v. Puget Sound Energy*, Dockets UE-121697 and UG-121705 (consolidated), Dockets UE-130137 and UG-130138 (consolidated), Order 07, 87 ¶ 207 (June 25, 2013).

⁸¹⁰ Meyer, Exh. GRM-1CT at 23:6-16.

⁸¹¹ Meyer, Exh. GRM-1CT at 24:10 – 25:23.

⁸¹² Meyer, Exh. GRM-1CT at 26:2 – 16.

increases and projected new hires.⁸¹³ Public Counsel states that in response to discovery, PSE explained that it does not use employee headcount or full-time equivalents (FTE) in its forecasting process, but still uses new employee hires to make up the difference between its projected 3.5 percent merit increases and the 7.83 percent labor cost increase.⁸¹⁴ Public Counsel expresses concern that PSE's labor forecast is based on an unknown number of employees, stating that such employees are not known and measurable and therefore should be excluded from the test year labor expense.⁸¹⁵ Public Counsel also notes that PSE's labor forecast does not appear to address potential employee attrition.⁸¹⁶ Public Counsel recommends that the unfilled positions be removed from the forecasted labor expense, resulting in a \$9,841,000 reduction to labor O&M costs in rate year one and a \$320,000 reduction to labor O&M costs in rate year two.⁸¹⁷

427 Public Counsel also disagrees with PSE's Administrative and General (A&G) non-labor forecast expenses. Public Counsel explains that PSE's A&G account is projected to experience significant non-labor expense increases for 2025 and 2026 electric operations and 2026 gas operations relative to historical expenses.⁸¹⁸ Public Counsel maintains that PSE has not adequately explained the basis for these increases and recommends that they be adjusted downward to reflect the highest level of expenses experienced in the last three years.⁸¹⁹ Public Counsel's recommendation results in a \$61,964,568 revenue decrease in 2025 and a \$55,479,465 revenue decrease in 2026 for electric operations.⁸²⁰ For gas operations, Public Counsel's recommendation would result in no change for the 2025 rate year and a \$8,522,257 revenue decrease in 2026.⁸²¹

428 PSE explains that the Company's 2024 operating budget was set at 2023 levels and did not include any inflationary costs, thus its proposed escalation factor is intended to account for that exclusion.⁸²² PSE further disputes Public Counsel's characterization of its labor forecast as using unfilled positions, stating that its labor expense is based on the

⁸¹³ Meyer, Exh. GRM-1CT at 26:19 – 27:2.

⁸¹⁴ Meyer, Exh. GRM-1CT at 27:9-29.

⁸¹⁵ Meyer, Exh. GRM-1CT at 27:9-11.

⁸¹⁶ Meyer, Exh. GRM-1CT at 28:15-20.

⁸¹⁷ Meyer, Exh. GRM-1CT at 28:22 – 29:13.

⁸¹⁸ Meyer, Exh. GRM-1CT at 30:8-12.

⁸¹⁹ Meyer, Exh. GRM-1CT at 31:10 – 32:3.

⁸²⁰ Meyer, Exh. GRM-1CT at 32:3-8.

⁸²¹ Meyer, Exh. GRM-1CT at 32:3-8.

⁸²² Huizi, Exh. TRH-1T at 25:10-14.

forecasted number of hours needed to complete necessary work rather than FTEs.⁸²³ The amount of labor hours are then multiplied by an activity rate based on average salaries of the required staff who will complete the necessary work.⁸²⁴ Similarly, PSE notes that because it based its labor forecast on the number of hours needed to complete work, it did not account for attrition, which would not affect the amount of necessary work hours.⁸²⁵ Finally, PSE argues that Public Counsel's reliance on historical labor costs is inappropriate, because the historical labor costs do not incorporate considerations of future work necessary to comply with regulatory and legal policy requirements or PSE's present labor cost deficit.⁸²⁶

429 With respect to non-labor A&G expenses, PSE explains that the data on which Public Counsel relied was provided in an unadjusted form, and states that the increase from 2023 actual unadjusted non-labor costs to 2025 unadjusted non-labor forecasted costs is the result of costs that are not included in this rate case, incremental increases over 2023, and an offsetting decrease to a related FERC account where comparable amounts were previously held in 2023.⁸²⁷ PSE recommends that the Commission reject Public Counsel's proposed adjustment to non-labor A&G expenses because Public Counsel's analysis is based on a review of the FERC 920 account in isolation and does not consider the level of O&M expenses necessary during the multi-year rate plan.⁸²⁸

Commission Decision

430 The Commission rejects Public Counsel's proposed adjustments to PSE's labor and non-labor O&M expenses and PSE's non-labor A&G expenses. PSE has provided a reasonable explanation for its use of a two-year escalation factor based on its decision to hold its 2024 O&M budget at 2023 levels. Similarly, given that PSE forecasted its labor expenses based on work hours rather than FTEs or employee headcount, the Commission finds that the Company's labor forecast arrives at a reasonable result given the cost controls the Company initiated in 2024. Additionally, the Commission is persuaded by PSE testimony and evidence regarding the unsustainability of its temporary labor reductions in 2024 and the need to comply with future regulatory and legal requirements. We do not find that reliance solely on historical labor costs will result in fair, just, reasonable, and sufficient rates based on the record developed in this proceeding.

⁸²³ Huizi, Exh. TRH-1T at 26:5-13.

⁸²⁴ Huizi, Exh. TRH-1T at 27:19 – 28:2.

⁸²⁵ Huizi, Exh. TRH-1T at 27:14 – 28:16.

⁸²⁶ Huizi, Exh. TRH-1T at 29:3-12.

⁸²⁷ Free, Exh. SEF-28T at 63:9 – 64:12. See also, Free, Exh. SEF-28T at 64:20 – 67:21.

⁸²⁸ Free, Exh. SEF-28T at 68:9 – 69:2.

Consequently, based on the record developed in this proceeding, the Commission determines that it is reasonable and in the public interest to exercise its discretion to flexibly apply its “known and measurable” standard with respect to PSE’s labor forecast and O&M escalator, in addition to its discretion under RCW 80.28.425(3)(d).

Furthermore, PSE’s explanation of its non-labor A&G expenses provided on rebuttal demonstrates that its non-labor A&G forecast is reasonable, and in light of that explanation, Public Counsel has not demonstrated that its proposed adjustment to non-labor A&G expenses would result in fair, just, reasonable, and sufficient rates.

R. Incentive Compensation

1. Long Term Incentive Plan Adjustment (6.37 (E)/ 11.37 (G))

431 PSE witness Hunt provides an overview regarding the Company’s compensation and benefit programs and pressures the Company faced due to a continued tight labor market, wage pressures, and continuing high health care costs. PSE witness Free testifies to how PSE calculated the adjustments throughout its MYRP.

432 Hunt proposes including for ten percent of its forecasted Long Term Incentive Plan (LTIP) expenditure in this proceeding a CETA-related goal to gauge the Company’s progress toward clean energy targets.⁸²⁹ PSE explains that it is requesting recovery of this expense based on its Environmental, Social and Governance Goal (ESG) for the 2023-2025 cycle so that it can provide benefits to its shareholders and customers by ensuring its executives are focused on ESG issues important to the community.⁸³⁰ Specifically, “to take action against one cause of climate change,” by reducing “carbon intensity,” which PSE reasons is in the public interest.⁸³¹

433 Free further testifies that PSE estimates \$12 million for the initial LTIP funding level, which includes a three percent escalation factor per year,⁸³² and 10 percent of that funding be included in base rates as an O&M expenditure to allocate the costs between electric and natural gas based on customer counts.⁸³³ Free recognizes the Commission previously excluded LTIP in PSE’s 2009 GRC and that the Company has not included LTIP expenses in rates since that time.⁸³⁴

⁸²⁹ Hunt, Exh. TMH-12T at 15:6-7.

⁸³⁰ Hunt, Exh. TMH-1T at 20:9-20.

⁸³¹ Hunt, Exh. TMH-1T at 20:9-20 and PSE Post-Hearing Brief at ¶ 78.

⁸³² Free, Exh. SEF-1T at 82:19.

⁸³³ Free, Exh. SEF-1T at 83:1-4.

⁸³⁴ Free, Exh. SEF-1T at 83:1-4.

- 434 Public Counsel opposes the inclusion of LTIP costs in rates and argues that the Commission should reject the proposal for PSE to recover ten percent of its executive compensation expense for several reasons.⁸³⁵ First, Public Counsel argues that the LTIP “is tied to three performance measures, with fifty-five percent tied to PSE’s Total Return, thirty-five percent tied to strategic initiatives, and ten percent tied to achievement of environmental goals,” which it reasons is designed to align with the interests of the executives and shareholders.⁸³⁶ Second, historically LTIP expenses have been excluded from the cost of service so that such costs are not borne by customers. To support this contention Public Counsel cites Docket UE-090704,⁸³⁷ and references the Commission’s Order in PSE’s 2009 GRC, in which the LTIP expense, previously referred to as Supplemental Excess Benefit Retirement Plan (SERP), were excluded from the rates.⁸³⁸
- 435 Third, while Public Counsel acknowledges that the LTIP recovery in this case is based on a new set of performance goals derived from CETA,⁸³⁹ it argues that it is “inappropriate to ask customers to pay incentive compensation that will increase earning for shareholders as PSE grows rate base.”⁸⁴⁰ Finally, “because achievement of the environmental goals is uncertain, the true cost of PSE’s long-term incentives is not known and measurable,” and should be “excluded from ratemaking cost of service,”⁸⁴¹ so that shareholders do not encumber the cost if executives fail to meet the target.⁸⁴²
- 436 The impact of Public Counsel’s recommendation is a reduction in the revenue requirement of \$563,097 for electric and \$403,759 for natural gas during RY1, with further reductions in RY2 of \$19,708 for electric and \$14,143 for natural gas.
- 437 On rebuttal, PSE witness Hunt argues that the LTIP is a distinctly different program than PSE’s former SERP program in that the LTIP has been modified to issue in cash instead of stock.⁸⁴³ Hunt further argues that the LTIP meets prior Commission guidance regarding incentive plan cost recovery because it is market competitive, reasonable, and

⁸³⁵ Reply Brief of Public Counsel at ¶ 31.

⁸³⁶ Reply Brief of Public Counsel at ¶ 32.

⁸³⁷ Reply Brief of Public Counsel at ¶ 32.

⁸³⁸ Meyer, Exh. GRM-1CT at 8:14-9:2.

⁸³⁹ Reply Brief of Public Counsel at ¶ 32.

⁸⁴⁰ Meyer, Exh. GRM-1CT at 11:12-18.

⁸⁴¹ Reply Brief of Public Counsel at ¶ 33 and Exh. GRM-1CT at 12:9-11.

⁸⁴² Meyer, Exh. GRM-1CT at 12:16-21 and 13:1-4.

⁸⁴³ Hunt, Exh. TMH-12T at 12:5-12, 14:3-7, and 16:16-20.

provides benefit to customers.⁸⁴⁴ For these reasons, Hunt maintains that it is not necessary for operational expenses, such as the LTIP, to meet the known and measurable principle given the Commission's broad discretion for O&M costs.⁸⁴⁵ As such, he recommends the LTIP costs be included in rates.

Commission Decision

438 In weighing the parties' arguments, the Commission rejects PSE's proposal to recover ten percent of its LTIP expenses associated with its ESG goal because there are already significant CETA and CCA related costs being borne by customers and the inclusion of this incentive would only compound such costs. More importantly, if the Commission were to allow LTIP into rates based on PSE's CETA goals, the allowance of this expense would create incentives for the Company and other investor-owned utilities to base larger percentages of LTIP on CETA and other statutory requirements. When specific goals, such as reducing carbon intensity, are statutory and regulatory requirements, customers should not bear the cost of incentivizing Company executives to meet those goals. Therefore, we deny PSE's request to recover ten percent of its LTIP in rates to meet its CETA goals.

2. Annual Goals and Incentive Plan

439 PSE witness Hunt argues that its annual Goals and Incentive Plan are consistent with those considered in past cases, and are "fundamentally the same plan reviewed by the Commission several times since 2004 and most recently approved in the 2019 general rate case."⁸⁴⁶ PSE maintains that the Commission should allow recovery of this plan because it provides "a balanced approach to employee compensation" and focuses on safety, reliability, service quality, customer service and operational efficiency.⁸⁴⁷ Specifically, Hunt explains that maintaining a portion of employee pay as a risk mitigates salary growth by keeping base wages at a lower level than would otherwise occur and that incentives do not contribute to compounding salary growth from year to year.⁸⁴⁸ He further reasons that a comprehensive and competitive compensation and benefit package attracts experienced talent by providing customers with "high-quality and efficient

⁸⁴⁴ Hunt, Exh. TMH-12T at 13:11-14.

⁸⁴⁵ Hunt, Exh. TMH-12T at 18:8-10.

⁸⁴⁶ Hunt, Exh. TMH-12T at 7:7-9; *WUTC v. Puget Sound Energy*, Docket Nos. UG-040640 et al., Order 06 ¶¶ 141-146 (Feb. 18, 2005); *WUTC v. Puget Sound Energy*, Docket Nos. UE-190529 et al., Final Order 08/05/03 ¶¶ 313-316 (July 8, 2020).

⁸⁴⁷ PSE Post Hearing Brief at ¶ 75-76.

⁸⁴⁸ Hunt, Exh. TMH-1T at 34:9-21.

service.”⁸⁴⁹ More importantly, because “the MYRP assumptions for PSE’s Goals and Incentive Plan are based on PSE achieving target EBITDA [Earnings Before Interest, Taxes, Depreciation, and Amortization] and all ten safety, customer service and reliability goals,” Hunt reasons that these goals would allow the Company “to reach its allowed rate of return, which has not occurred since 2017.”⁸⁵⁰

440 PSE’s “adjustment, which impacts all periods, uses a four-year average of incentive compensation paid to employees, which is allocated between electric and natural gas operations,”⁸⁵¹ and “includes a specific level of expense for incentive payments.”⁸⁵² PSE uses this specific methodology to recover incentive payments, and “has replaced the specific amount of incentives in the forecasted O&M with the four-year averaging normalization methodology.”⁸⁵³

441 Public Counsel contests a portion of PSE’s Goals and Incentive Plan and proposes disallowing 50 percent of the allowance by removing the target for incentive-based EBITDA performance, which would “result in a reduction of approximately \$4.5 million for PSE’s electric revenue requirement and approximately \$1.7 million for PSE’s gas revenue requirement.”⁸⁵⁴ While Public Counsel acknowledges that a similar plan was approved in PSE’s 2019 case, it argues that “the Commission should reconsider its position in the current case” given these “incentive payments are based on financial performance,” and not tied to service quality, reliability, public or employee safety.⁸⁵⁵ Public Counsel also reiterates its prior argument that customers will not benefit because the customer will bear the costs regardless of whether the Company meets or misses its financial goals.

Commission Decision

442 The Commission rejects Public Counsel’s proposal to reduce PSE’s Goals and Incentive Plan adjustment by 50 percent. Consistent with prior cases, PSE uses a four-year average of incentive compensation paid to employees, which is allocated between electric and natural gas operations. Recovery of this expense in rates is appropriate because the forecasted O&M for this filing includes a specific level of expense for incentive

⁸⁴⁹ Hunt, Exh. TMH-1T at 35:1-5.

⁸⁵⁰ PSE Post Hearing Brief at ¶76; Hunt, Exh. TMH-12T at 9:1-18.

⁸⁵¹ Free, Exh. SEF-1T at 62:13-15.

⁸⁵² Free, Exh. SEF-1T at 62:17-18.

⁸⁵³ Free, Exh. SEF-1T at 62:20-21. See also SEF-13 at 1-2.

⁸⁵⁴ Public Counsel Post Hearing Brief at ¶ 31 and Meyer, Exh. GRM-1CT at 18:5-8.

⁸⁵⁵ Public Counsel Post Hearing Brief ¶ 31.

payments. Additionally, since PSE has used a specific methodology for recovering the incentive payments by replacing the specific amounts of incentives in the forecasted O&M with the four-year averaging normalization methodology, these adjustments are made for all periods after the restating period.⁸⁵⁶ We do not find a good reason to change our approach in allowing PSE to recover its Goals and Incentive Plan expense.

443 Therefore, because PSE is proposing, and the Commission is approving, a two-year multi-year rate plan and the previous two general rate cases were each in place for a two-year period, the average costs for the expense are normalized over that two-year period. These normalized periods result in the restating rate case expense totaling \$1.5 million for electric and \$1.3 million for natural gas.

S. Misc. issues

1. Storm Expense Normalization

444 PSE's proposed storm expense normalization adjustment is a restating adjustment that normalizes the \$8 million of storm expenses in the test year to the current \$10 million deferral threshold for inclusion in rates.⁸⁵⁷

445 Public Counsel witness Meyer contests PSE's adjustment, arguing the Company inappropriately includes storm costs above the six-year average the Commission has approved for storm expense normalization in prior cases. Meyer testifies that the Commission set a threshold for deferring storm costs for inclusion into rates in PSE's 2017 GRC Settlement Agreement at \$10 million.⁸⁵⁸ However, Meyer argues the Company "grosses up" the six-year average from \$8.98 million to \$10 million without supporting testimony as to why it deviates from the prior normalization methodology.⁸⁵⁹ As such, Meyer recommends "limiting the storm normalization adjustment" to "the six-year average storm costs amount of \$8.98 million, which would reduce PSE's electric revenue requirement by \$1.02 million."⁸⁶⁰

446 PSE witness Free refutes Public Counsel's claim of lack of support for inclusion of the normalized storm expenses of \$10 million.⁸⁶¹ Free references witness Kensok's direct testimony that generally discusses the inflationary impacts experienced by the Company,

⁸⁵⁶ Free, Exh. SEF-13 at 2.

⁸⁵⁷ Free, Exh. SEF-1T at 86:14-16.

⁸⁵⁸ Meyer, Exh. GRM-1CT at 7:3-8:15.

⁸⁵⁹ Mery, Exh. GRM at 7:7-8.

⁸⁶⁰ Meyer, Exh. GRM-1CT at 8:5-7.

⁸⁶¹ Free, Exh. SEF-28T at 84:16-17.

asserting a revised normalization adjustment of \$9.6 million. Free further requests that the Commission establish a new threshold for the Company's storm deferral mechanism at the amount approved in this case.⁸⁶²

Commission Decision

447 PSE requests not only an increase of the six-year normalized storm expense in this proceeding but also requests the Commission "round-up" these numbers essentially to match the six-year normalization expense and the storm expense deferral threshold. We decline to do so. The Commission agrees with Public Counsel that PSE has not supported a case for a \$10 million deferral threshold for the storm expense, or conflation with the six-year normalization adjustment. However, we do not find that Public Counsel's proposed \$8.98 million normalization adjustment is appropriate. PSE's testimony, which includes inflation, supports a threshold of \$9.4 million in RY1 and \$9.6 million in RY2 for the six-year storm expense normalization. However, we decline to round these numbers up, as the administrative economy of a round number does not outweigh the fiscal costs to ratepayers. As such the storm expense normalization adjustment should be set to \$9.4 million for RY1 and \$9.6 million in RY2.

2. Colstrip Retirement Liability

448 AWEC proposes that the Commission order PSE to transfer the balances associated with Colstrip into a single regulatory account, to accrue interest at the same rate as Allowance for Funds Used During Construction (AFUDC).⁸⁶³ AWEC argues that under the existing Colstrip Tracker mechanism (Schedule 141COL), PSE will need to issue significant refunds to customers after Colstrip operating and depreciation expenses are removed from rates at the end of December 2025.⁸⁶⁴ AWEC notes that PSE appears to have a sufficient regulatory liability to cover the forecasted unrecovered decommissioning and remediation (D&R) expenses associated with Colstrip, but acknowledges that there is still uncertainty regarding future costs, particularly in light of PSE's agreement with Northwestern Energy to transfer ownership of Colstrip Units 3 and 4.⁸⁶⁵ Finally, AWEC requests that the Commission order PSE to report on the Decommissioning and Remediation (D&R) liabilities related to Colstrip in all future rate cases, and for PSE to

⁸⁶² Free, Exh. SEF-28T at 84:11-15 and 85:9. Free explains the Company's calculation in rebuttal testimony at footnote 128. The final cost resulting from that calculation is \$9.6 million which remains below the \$10 million deferral threshold.

⁸⁶³ Mullins, Exh. BGM-1T at 3:8-11.

⁸⁶⁴ Mullins, Exh. BGM-1T at 4:8-16.

⁸⁶⁵ Mullins, Exh. BGM-1T at 5:13 – 6:12.

propose a mechanism to refund balances exceeding the expected D&R liability, if necessary.⁸⁶⁶

449 PSE strongly opposes AWEC's proposal, arguing that PSE's current Colstrip Tracker mechanism is beneficial to ratepayers and criticizing AWEC's proposal as lacking sufficient details and vetting relative to the existing mechanism.⁸⁶⁷ PSE states that while it did not present a revenue requirement reduction related to the Colstrip Tracker in this rate case, customers will benefit from a rate base reduction in the future as the tracker is adjusted.⁸⁶⁸ PSE disagrees with AWEC's claim that any costs refunded to ratepayers through the tracker would remove funds meant to be applied to Colstrip retirement costs, explaining that the balances in the tracker will be offset with ongoing spending related to Colstrip D&R.⁸⁶⁹ PSE also notes that AWEC's proposal will result in high rates to customers as a result of removing the regulatory liability balances associated with the Colstrip Tracker, which act as a rate base reduction.⁸⁷⁰

Commission Decision

450 The Commission declines to adopt AWEC's recommendation to require PSE to transfer the balances associated with Colstrip into a single regulatory account at the end of 2025. AWEC is correct that the current proceeding is an appropriate process to vet its proposal with respect to Colstrip regulatory liabilities. However, the Commission notes that no other party has indicated support for AWEC's proposal and the only party with a position, PSE, strongly disagrees. This is in contrast to the existing tracker mechanism, which was developed pursuant to Commission order and received general approval from all of the settling parties in PSE's 2022 general rate case, as well as Public Counsel.⁸⁷¹ While this consideration is by no means determinative, the broad approval of the existing mechanism, coupled with the lack of similar approval regarding AWEC's proposal in this proceeding, gives the Commission some pause.

451 Although AWEC claims that its proposal is based on the fact that regulatory liabilities balances at the end of 2025 will exceed expected D&R costs related to Colstrip, it acknowledges that there is present uncertainty regarding those future costs, particularly in

⁸⁶⁶ Mullins, Exh. BGM-1T at 7:19 – 8:3.

⁸⁶⁷ Free, Exh. SEF-28T at 51:14 – 52:3.

⁸⁶⁸ Free, Exh. SEF-28T at 52:11-19.

⁸⁶⁹ Free, Exh. SEF-28T at 53:2 – 54:12.

⁸⁷⁰ Free, Exh. SEF-28T at 55:4-13.

⁸⁷¹ *WUTC v. PSE*, Dockets UE-220066, UG-220067, & UG-210918, Order 24/10 at 82-83 ¶ 283 (Dec. 22, 2022).

light of the agreement between PSE and Northwestern Energy.⁸⁷² While AWEC attempts to characterize its approach as avoiding uncertainty, it appears from AWEC's testimony that its proposal, like the existing tracker mechanism, is a means to respond to uncertainty regarding future D&R costs.⁸⁷³ For example, although AWEC states that its approach will avoid the need to issue an immediate refund to customers, it does acknowledge that a refund may still be necessary under its proposed approach.⁸⁷⁴ PSE has also explained that the regulatory liabilities contained in the Colstrip Tracker will be offset by ongoing spending related to Colstrip D&R, which suggests that regulatory liabilities will not be passed back to the customer before they are allocated to Colstrip D&R costs and that any refunds will likely be relatively small.⁸⁷⁵ As such, the Commission does not find that uncertainty regarding future D&R costs related to Colstrip provide a sufficient basis to adopt AWEC's proposal.

452 While AWEC further contends that its proposal will result in greater transparency regarding tracking the funds associated with D&R balances after 2025,⁸⁷⁶ we are not persuaded on this record that we should require PSE to consolidate all of its regulatory liability balances related to Colstrip simply to facilitate another party review, when other, simpler available mechanisms will accomplish the same goal. Moreover, such transparency would come at a cost to the ratepayer, insofar as removing the rate base reduction associated with the Colstrip regulatory liability balances will cause rates to increase.⁸⁷⁷

453 Fundamentally, AWEC has not demonstrated on the record in this proceeding that its approach will result in sufficient benefits as to warrant revising the Colstrip Tracker mechanism recently agreed to in PSE's 2022 GRC. Although AWEC has suggested that its proposal would allow for interest to be earned on the remaining regulatory liability balances after being consolidated into a single account, it has not provided a quantitative estimation of the benefits that would flow to ratepayers under its proposal relative to maintaining the status quo.⁸⁷⁸ The Commission is further concerned that adopting AWEC's proposal will result in harm to ratepayers in the form of higher rates for uncertain benefit. Finally, the Commission notes that the existing Colstrip Tracker, which

⁸⁷² Mullins, Exh. BGM-1T at 6:3-12.

⁸⁷³ Mullins, Exh. BGM-1T at 6:3-12, 7:19 – 8:3.

⁸⁷⁴ Mullins, Exh. BGM-1T at 7:19 – 8:3.

⁸⁷⁵ Free, Exh. SEF-28T at 54:1-12.

⁸⁷⁶ Mullins, Exh. BGM-1T at 6:21 – 7:2.

⁸⁷⁷ Free, Exh. SEF-28T at 55:4-8.

⁸⁷⁸ Mullins, Exh. BGM-1T at 7:11-17.

allows for rates to be reset annually, will permit regular adjustments to rates and mitigate potential rate shock to customers, consistent with the principles of gradualism.⁸⁷⁹

3. AMI Amortization

- 454 PSE proposes two adjustments for Advanced Metering: Adjustment No. 6.41 - Regulatory Assets and Liabilities and Adjustment Nos. 6.24 and 11.24 - Advanced Metering Infrastructure (AMI) Plant and Deferral. For AMI plant and deferral, PSE witness Free claims that the Company has had to defer \$8.1 million related to debt and \$33.0 million of equity, which is being requested for recovery in this rate case.⁸⁸⁰ Free further details the structure of PSE's requested Adjustment Nos. 6.24 and 11.24, including a three-year amortization period for the deferral of the equity return on AMI plant. Free claims that the Company proposes a three-year amortization period due to the relative size of the deferrals.⁸⁸¹
- 455 PSE witness Bamba provides background for PSE's AMI investments⁸⁸² and argues that PSE's AMI investments have been prudent and deserve full recovery after recovery had been deferred in the 2019 and 2022 rate cases.⁸⁸³ These issues are not contested.
- 456 Free requests that if PSE is not granted recovery for the equity return on AMI, the Company be allowed to continue deferring its equity return.⁸⁸⁴ For regulatory assets and liabilities, Free claims that the adjustment includes multiple components, and those assets for which amortization expires part way through the rate years are adjusted appropriately.⁸⁸⁵ Free testifies that the Automated Meter Reading (AMR) regulatory asset was included as an estimate in PSE's last rate case, and is now updated to reflect actual amounts. PSE maintained the amortization period at the original 20-year period approved in the prior rate case.⁸⁸⁶
- 457 PSE witness Smith provides background into how estimates for the value of unrecovered AMR assets were calculated.⁸⁸⁷ Smith claims that the \$6.2 million and \$0.2 million

⁸⁷⁹ Free, Exh. SEF-28T at 56:7 – 57:22.

⁸⁸⁰ Free, Exh. SEF-1T at 73:15-74:1.

⁸⁸¹ Free, Exh. SEF-1T at 74:2-18.

⁸⁸² Bamba, Exh. RBB-1T at 14:18-16:19.

⁸⁸³ Bamba, Exh. RBB-1T at 17:1-34:14.

⁸⁸⁴ Free, Exh. SEF-1T at 74:19-25.

⁸⁸⁵ Free, Exh. SEF-1T at 87:1-13.

⁸⁸⁶ Free, Exh. SEF-1T at 87:14-22.

⁸⁸⁷ Smith, Exh. SWS-1T at 10:17-11:19.

increases in electric and gas AMR assets, respectively, results from improvements in PSE's accounting method for FERC account 370 and the inclusion of actual AMR removal expenditures.⁸⁸⁸ Smith states that the final AMR balance is not yet known and will likely need to be trued-up in the future.

458 In response, Public Counsel witness Meyer contests both adjustments for Advanced Metering. For AMI plant and deferral, Adjustments No. 6.24 and 11.24, Meyer recommends that, if the Commission grants recovery of deferred equity and debt, that it be amortized over six years instead of PSE's recommended three-year amortization period. Meyer claims that this is more consistent with the period over which the deferred return accumulated.⁸⁸⁹ Meyer claims that the result of this recommendation would be a reduction in PSE's electric cost of service by \$4.8 million and gas cost of service by \$2.4 million, approximately.⁸⁹⁰

459 For regulatory assets and liabilities, Adjustment 6.41, Meyer claims to have found an error in PSE's workpapers, where two amortizations that expire in January are included for the entire year of 2026, overstating PSE's revenue requirement for RY2.⁸⁹¹ Meyer recommends a reduction in the annual level of amortization expense to reflect the error, reducing PSE's electric amortization expense by approximately \$2.8 million.⁸⁹²

460 PSE clarifies that the Company's current incremental request only relates to the amortization of the deferral of its equity return component over three years.⁸⁹³ PSE argues that Public Counsel's proposal for a six-year amortization period would only exacerbate the issue of intergenerational inequity.⁸⁹⁴ While the plan has been in service for eight years, the Company has not been able to recover its equity return in rates.⁸⁹⁵ Further, PSE notes that the error Public Counsel identifies for Adjustment 6.41 reflects a

⁸⁸⁸ Smith, Exh. SWS-1T at 12:13-13:4.

⁸⁸⁹ Meyer, Exh. GRM-1CT at 20:9-14.

⁸⁹⁰ Meyer, Exh. GRM-1CT at 20:15-19.

⁸⁹¹ Meyer, Exh. GRM-1CT at 18:14-19:2. The amortizations in question are GTZ-T2 Depreciation UE-220066 (FERC 407.3) (Ending Jan 2026), and GTZ-T2 Carrying Charges UE-220066 (FERC 407.3) (Ending Jan 2026).

⁸⁹² Meyer, Exh. GRM-1CT at 19:10-15.

⁸⁹³ PSE's Post-Hearing Brief, at ¶ 80 citing Free, Exh. SEF-1T at 74:3-25; Exh. SEF-28T at 90:15-18.

⁸⁹⁴ PSE's Post-Hearing Brief, at ¶ 80 citing Free, Exh. SEF-28T at 91:5-13.

⁸⁹⁵ PSE's Post-Hearing Brief, at ¶ 80.

labeling error in a workpaper that should have identified recovery of GTZ Deferral Amortizations through January 2027 instead of January 2026.⁸⁹⁶

Commission Decision

- 461 The Commission's order in PSE's 2022 rate case allowed PSE to begin recovering the debt return on its AMI investment but required PSE to defer recovery of the equity return.⁸⁹⁷ In this case, PSE requests amortizing the previously deferred equity return over a three-year period.
- 462 After reviewing the testimony and arguments on this issue, we find the Company's proposal persuasive for both AMI adjustments. PSE's rebuttal testimony and evidence clarifies the error related to Adjustment 6.41. As to Adjustments No. 6.24 and 11.24 related to AMI plant and deferral, the AMI assets at issue in this proceeding have been in service for eight years. We take seriously the Company's argument about the impact of a longer amortization period upon intergenerational inequity. Therefore, we find that the amortization of the recovery of PSE's equity return component shall be set at three years.

4. Alternative Fuels Readiness Program

- 463 PSE requests \$3.0 million in its Pipeline Reliability and Monitoring budget for its Alternative Fuels Readiness Program (AFRP) to investigate the use of Renewable Natural Gas (RNG) and hydrogen blends in its system for demonstration and pilot projects. PSE witness Landers provides an estimate of PSE's gas capital expenditures from 2025-2026, including the \$3.0 million for the AFRP.⁸⁹⁸
- 464 Landers claims the AFRP will inform development of measures to allow PSE's gas system to safely accept alternative fuels, including clean hydrogen blends and RNG, and adds that the program focuses on demonstration and pilot projects in test environments to prepare PSE's workforce and customers.⁸⁹⁹
- 465 PSE witness Mannetti provides details regarding PSE's involvement with the Pacific Northwest Hydrogen Association (PNWHydrogen), including a grant application for capital funding through the U.S. Department of Energy.⁹⁰⁰

⁸⁹⁶ Free, Exh. SEF-28T at 92:1-93:2.

⁸⁹⁷ *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-190529 & UG-190530 et al., Final Order 08/05/03 ¶ 153 (July 8, 2020).

⁸⁹⁸ Landers, Exh. DJL-1T at 26, Table 5.

⁸⁹⁹ Landers, Exh. DJL-1T at 42:10-15.

⁹⁰⁰ Manetti, Exh. JM-1CT at 32:18-34:4.

- 466 JEA recommends the Commission reject the Company's \$3.0 million AFRP, arguing the Company has not shown the project is in the public interest.⁹⁰¹ JEA witness Cebulko claims that PSE does not provide basic details of AFRP, such as objectives and designs for pilots, or what the funds would pay for, nor does PSE explain how the pilots using hydrogen and RNG might scale to help PSE decarbonize its gas system.⁹⁰² Cebulko also argues that RNG and hydrogen are not scalable as fuels, and questions the affordability and safety of blending hydrogen.⁹⁰³
- 467 In turn, Landers claims PSE provided objectives, demonstrations, and pilots, including a one-megawatt green hydrogen electrolyzer installation at PSE's Frederickson generation facility, a hydrogen production pilot through pyrolysis at an industrial customer site, and other high-level planning and research.⁹⁰⁴ Landers pushes back against Cebulko's claims about scaling, and states the Company has a responsibility to fully evaluate both RNG and hydrogen.⁹⁰⁵

Commission Decision

- 468 We decline to approve PSE's request to include its \$3.0 million AFRP proposal in rates at this time. Based on the record in this proceeding, we find that PSE has not established why these costs should be passed to ratepayers.⁹⁰⁶ However, we take no stance on the need for or feasibility of RNG and hydrogen. We see merit in PSE's argument that the Company has a duty to explore all potential avenues to meet its CCA and CETA goals.⁹⁰⁷ Certainly, as PSE points out, hydrogen and RNG may be cost effective and safe for serving some industrial customers now. Additionally, as JEA notes, PSE's current plans to comply with CCA largely center on purchasing allowances.⁹⁰⁸ While we agree that PSE should explore other pathways, contrary to JEA's arguments against scalability of any one solution, the pathway to decarbonization will involve several solutions, each getting PSE part of the way towards its goals, such that it is unlikely a one-size fits all solution is workable. However, PSE has not made its case for customers to fund this

⁹⁰¹ Cebulko, Exh. BTC-1T at 4:8-10.

⁹⁰² Cebulko, Exh. BTC-1T at 39:16-40:6.

⁹⁰³ Cebulko, Exh. BTC-1T at 35:3-36:14; 38:1-15; 39:1-15.

⁹⁰⁴ Landers, Exh. DJL-10T at 22:1-16; 23:1-24:3.

⁹⁰⁵ Landers, Exh. DJL-10T at 24:4-25:2; 26:1-15.

⁹⁰⁶ Cebulko, Exh. BTC-1T at 4:8-10.

⁹⁰⁷ Landers, Exh. DJL-10T at 26:1-15.

⁹⁰⁸ Cebulko, Exh. BTC-1T at 33:5-10.

request for alternative fuels at this time, as the testimony lacks sufficient detail and analysis. Accordingly, we deny the Company's request for \$3.0 million for AFRP.

T. Uncontested issues

1. Special Contracts

469 Microsoft reviewed PSE's testimony, workpapers, and rate design models, and identified an error that improperly credits Contributions in Aid of Construction (CIAC) funds. Microsoft claims that some of those funds should be credited to Microsoft. Microsoft witness Wilcox notes that PSE acknowledged this error⁹⁰⁹ On rebuttal, PSE revises the electric COSS to correct the misallocation of Microsoft's CIAC payments.⁹¹⁰

470 The adjustment in question reduces the originally filed Special Contract class distribution charges by \$819,899.85 and \$89,289 for MYRP years 2025 and 2026, respectively, with additional adjustments for Schedule 141WFP Rate Plan charges.⁹¹¹

Commission Decision

471 We accept this uncontested change to correct the special contracts error identified by Microsoft and acknowledged by PSE.

2. Clay Basin Storage

472 PSE began to use or reserve a portion of Clay Basin Storage to store natural gas to support its electric system starting in May 2023. Staff witness Wilson notes that for purposes of identifying power costs, PSE "bases its modeled maximum annual storage based on its contractual maximum storage rights and its minimum storage based on a share of its historical operational target minimum".⁹¹² Wilson recommends that the Commission accept PSE's modeling methods for Clay Basin Storage on an interim basis until the Company gathers enough data to model this resource on a normalized historic cost basis, consistent with PSE's other modeling practices.⁹¹³ While Wilson agrees that PSE's assumptions appear reasonable, the assumptions are not supported by evidence. PSE finds Staff's recommendation to be reasonable and accepts it.⁹¹⁴

⁹⁰⁹ Wilcox, Exh. CDW-1T at 1:13-24, citing Exh. CDW-3, Microsoft Data Request No. 003.

⁹¹⁰ Mickelson, Exh. CTM-13T at 5:7-9.

⁹¹¹ Wilcox, Exh. CDW-1T at 3:5-14.

⁹¹² Wilson, Exh. JDW-1T at 44:18 – 45:2, citing Exh. JDW-16.

⁹¹³ Wilson, Exh. JDW-1T at 46:1-4.

⁹¹⁴ Mueller, Exh. BDM-23CT at 12:8-16.

Commission Decision

473 With PSE's concurrence in Staff's recommendation, we accept PSE's Clay Basin Storage modeling on an interim basis.

3. Colstrip Fuel Cost

474 PSE uses an average fuel price for the coal used to supply Colstrip instead of a marginal fuel price in dispatch modeling, asserting the method is more reasonable, because an average fuel price reflects the projected tier of fuel consumption the Company will likely experience.⁹¹⁵

475 Staff witness Wilson argues that PSE should instead use the marginal cost of fuel for all of 2025 and apply an out-of-model adjustment to account for the time when PSE is not yet at the tier price.⁹¹⁶ Wilson recommends that the Commission require PSE to update its 2025 power cost forecast using a marginal dispatch cost for Colstrip that includes CCA allowance costs and marginal fuel price costs.⁹¹⁷ Additionally, Wilson recommends that if PSE continues to use a suboptimal dispatch benchmark for Colstrip the actual dispatch decisions should be reviewed relative to market prices. In the event that additional power costs result from uneconomic dispatch, the Commission should disallow those costs as imprudent.⁹¹⁸ PSE accepts Staff's recommendation as reasonable on rebuttal.⁹¹⁹

Commission Decision

476 We accept Staff's recommendation regarding the update to PSE's marginal dispatch of coal for Colstrip. PSE shall update its power costs to reflect a marginal dispatch cost for Colstrip such that it includes CCA allowance costs and marginal fuel price costs. The Commission requires PSE in future power cost filings to demonstrate actual dispatch decisions relative to market prices.

4. Western Energy Imbalance Market Costs

477 Staff witness Wilson claims that PSE has omitted two WEIM-related items from its power cost forecast: (1) benefits from the WEIM flexible ramping market and (2) a broad category of expenses. Wilson states that \$95,000 in annual net benefits from the WEIM

⁹¹⁵ Wilson, Exh. JDW-1T at 39:16-40:15 (The tier price determines how much fuel is consumed by PSE before additional costs are added to the marginal unit of fuel.)

⁹¹⁶ Wilson, Exh. JDW-1T at 40:16-41:4.

⁹¹⁷ Wilson, Exh. JDW-1T at 41:12-17.

⁹¹⁸ Wilson, Exh. JDW-1T at 42:1-17.

⁹¹⁹ Mueller, Exh. BDM-23CT at 12:1-7.

flexible ramping program should be removed from the power cost forecast, and \$467,000 in expenses should be added.⁹²⁰ Wilson recommends that the Commission direct PSE to include a net \$372,000 in additional WEIM power costs to its forecast for RY1 and RY2 reflecting the net effect of the omitted items.⁹²¹ PSE finds Staff's recommendation to be reasonable and accepts it.⁹²²

Commission Decision

478 We accept Staff's recommendation and increase WEIM power costs (+\$372k) for RY1 and RY2.

III. Findings of Fact

479 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the Parties and the reasons therefore, the Commission now makes the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

- 480 (1) The Commission is an agency of the state of Washington vested by statute with the authority to regulate rates, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including electric and natural gas companies.
- 481 (2) PSE is a "public service company," an "electrical company," and a "gas company" as those terms are defined in RCW 80.04.010 and used in Title 80 RCW. PSE provides electric and natural gas utility service to customers in Washington.
- 482 (3) PSE's currently effective rates were determined by the Commission's Final Order approving a full multiparty settlement in *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-220066, UG-220067 & UG-210918 (*Consolidated*), Order 24/10 (Dec. 22, 2022).

⁹²⁰ Wilson, Exh. JDW-1T at 47:17-48:4. The broad category of expenses includes "transaction fees, penalties for under or over-reported generation or demand volumes, and interest charges or payments associated with timing differences between when charges or credits are incurred and when they are ultimately settled." Exh. JDW-1T at 48:1-4, citing Exh. JDW-17.

⁹²¹ Wilson, Exh. JDW-1T at 48:6-9.

⁹²² Mueller, Exh. BDM-23CT at 14:15.

- 483 (4) On February 15, 2024, PSE filed with the Commission revisions to its currently effective Tariff WN U-60, Tariff G, Electric Service, and its currently effective Tariff WN U-2, Natural Gas. The Company characterized this filing as a general rate case.
- 484 (5) PSE originally filed a request for an increase in its annual electric revenue requirement of approximately \$192.2 million in rate year one and \$258.2 million in rate year two. On rebuttal, PSE revised its electric rate impact estimates and proposed a MYRP with revised electric revenue increases of \$392.7 million in rate year one and \$195.3 million in rate year two.
- 485 (6) PSE originally filed a request for an increase in its annual natural gas revenue requirement of approximately \$196.0 million in rate year one and \$25.2 million in rate year two. On rebuttal PSE updated its pro forma gas revenues to reflect the Commission's decision regarding Schedule 141LNG in Docket UG-230393, which was issued subsequent to the filing of PSE's direct case. This had the impact of increasing requested revenue to \$198.5 million in rate year one, but increased the year two gas revenue estimate to \$26.3 million.
- 486 (7) On March 29, 2024, in Order 03/01, the GRC was consolidated with Docket UE-230810, as the Commission found that the dockets raise issues and legal principles the Commission could most efficiently consider by consolidating the dockets.
- 487 (8) On November 4, 2024, through November 5, 2024, the Commission held a two-day evidentiary hearing in this matter before the Commissioners, with Administrative Law Judges James E. Brown II and Bijan Hughes presiding.
- 488 (9) The Company's portfolio approach for Provisional Plant review is in the public interest.
- 489 (10) AWEC's proposal to conduct capital review on a project-by-project basis is not in the public interest.
- 490 (11) AWEC's proposal that the Company submit a compliance filing attesting that all estimated plant was in service as of December 21, 2024, is not in the public interest.
- 491 (12) A return on equity for PSE of 9.8 percent for RY1 and 9.9 percent for RY2 is reasonable and results in fair, just, reasonable, and sufficient rates.

- 492 (13) A capital structure for PSE of 49 percent equity and 51 percent debt for RY1 and 50 percent equity and 50 percent debt for RY2 is reasonable and results in fair, just, reasonable, and sufficient rates.
- 493 (14) An overall rate of return for PSE of 7.52 percent for RY1 and 7.64 percent for RY2 is reasonable and results in fair, just, reasonable, and sufficient rates.
- 494 (15) Staff's proposed rate of return of 9.5 percent is unreasonably low and not supported by persuasive cost of capital modeling.
- 495 (16) Public Counsel's proposed rate of return of 9.375 percent is unreasonably low and not supported by persuasive cost of capital modeling.
- 496 (17) AWEC's proposed rate of return of 9.2 percent is unreasonably low and not supported by persuasive cost of capital modeling.
- 497 (18) Walmart's proposed overall rate of return of 9.4 percent is unreasonably low and not supported by persuasive cost of capital modeling.
- 498 (19) The performance measures outlined in Appendix C and their related reporting requirements are fair, just, and reasonable, consistent with applicable law, in the public interest, and will provide necessary information to allow the Commission to evaluate PSE's operations during the MYRP.
- 499 (20) The issue of CCA allowance prices and costs in dispatch, market purchases, and market sales, and the Commission's policy surrounding their inclusion in net power expenses and PCAs should be addressed in Docket U-230161 so that policy and implementation is consistent for all regulated utilities, and each impacted utility has an opportunity to comment on the issue.
- 500 (21) Due to uncertainty of pricing, the limited record of allowance prices, and the lack of clarity regarding treatment of allowance true-ups, we decline to require CCA allowance prices and costs in dispatch, market purchases, and market sales at this time.
- 501 (22) It is premature to conduct prudence reviews of CCA costs and compliance on an annual basis, as these CCA costs are unlikely to be known and measurable with finality until the "compliance obligation" date and without clarity from Ecology.
- 502 (23) During PSE's annual submission of updates to its CCA tracker tariff, PSE shall submit and present information pertaining to where CCA costs are being included in decision making to include, but not be limited to Integrated Resource Plans

(IRPs), Clean Energy Implementation Plans (CEIPs), dispatch, power purchase, carbon market transactions, and capital projects. This annual report will be addressed and acknowledged through the Open Meeting process and will help the Commission assess a utility's progress and decision making leading up to the Commission's prudence determination at the conclusion of the compliance period.

- 503 (24) PSE has demonstrated sufficient evidence of its continued dedication to promoting equitable outcomes by: (a) developing EIZs within the Company's service territories; (b) retaining reporting requirements in accordance with U-210800; (c) collaborating with EAG to update its iDOT tool with Customer Benefit Indicator (CBI) metrics; and (d) obtaining customer demographic information for DER on an optional basis. However, the Commission finds it appropriate for PSE to take additional actions, as set forth in paragraphs 160-162, 174-175, 180, 185, and 194 above.
- 504 (25) It is appropriate to amend the restrictive language in Final order 24/10 and the Settlement Stipulation of the 2022 GRC Order that removes references to "Commission-led process" and "request Commission approval" so that PSE can conduct its DEA analysis on the entire 80 MW of the DER portfolio and pursue other equity related work while the Commission formalizes a methodology in Docket A-230217.
- 505 (26) Expanded reporting on PSE's energy burden stratification framework will be integral in conducting a holistic assessment of the scale of energy burden, but any further changes to the existing framework should be evaluated in the current Commission-led rulemakings in Docket(s) U-210800 (for arrearage and assistance data) and U-210590 (for PBR metrics).
- 506 (27) PSE must submit a compliance filing report reflecting the thirty percent DR energy threshold and an action plan as a compliance filing within ninety days of the effective date of this order.
- 507 (28) PSE may recover a return on its three Demand Response Power Purchase Agreements, at the cost of debt approved in this Order.

- 508 (29) PSE has not demonstrated that it is appropriate to recover ten percent of its Long-Term Incentive Plan expenditure associated with its Environmental, Social and Governance goal for 2023-2023.
- 509 (30) While Public Counsel has not demonstrated that it is appropriate to reduce PSE's Goals and Incentive adjustment by fifty percent, PSE has provided sufficient evidence to support recovery of this expense as appropriate in rates because of the forecasted O&M for this filing that uses a four-year average incentive compensation period.
- 510 (31) PSE's request to postpone the true-up and prudence review of Schedule 141 CEI is reasonable, with the requirement that the Company shall only be allowed to recover deferred expenses accumulated through August 2023, so that the true-up period is shortened and more closely aligns rates with actual cost.
- 511 (32) The storm expense normalization adjustment shall be set to 9.4 million for RY1 and \$9.6 million in RY2.
- 512 (33) PSE continues to face increased wildfire threats, risks, costs, and other circumstances justifying its recovery of wildfire costs and approval of the Company's Wildfire Prevention Tracker.
- 513 (34) The Commission has not yet reviewed the merits of PSE's requested recovery of the deferral balance associated with the Company's petition for deferred accounting in Docket UE-231048.
- 514 (35) A blanket approval of CWIP in rate base is not in the public interest.
- 515 (36) Without approval of PSE's request for CWIP in rate base, the request for a CGR tracker is moot.
- 516 (37) PSE's rebuttal natural gas cost of service study is reasonable and consistent with 480-85 WAC.
- 517 (38) An exemption from 480-85 WAC for FERC Account 870 (Distribution Supervision & Engineering – Operations) as distribution rather than transmission is consistent with the public interest, is reasonable, and is supported by the record.
- 518 (39) AWEC and Nucor's proposals for allocation of costs based on main pipe size are inconsistent with 480-85 WAC.

- 519 (40) PSE should separately track and assign rate base and depreciation expense to Schedule 88T in the cost of service study and use book costs rather than replacement costs when assigning Upgrade 2 and 3 costs to Schedule 88T.
- 520 (41) PSE should update Schedule 88T to: (1) separately track and assign rate base and depreciation expense to Schedule 88T in the COSS and (2) use book costs rather than replacement costs when assigning Upgrade 2 and 3 costs to Schedule 88T.
- 521 (42) PSE's electric cost of service study, as corrected on rebuttal, is reasonable.
- 522 (43) An exemption from 480-85 WAC for FERC Account 565 (Transmission of Electricity by Others) as energy is consistent with the public interest, is reasonable, and is supported by the record.
- 523 (44) The rate spread and resulting parity ratios as proposed by the Company's rebuttal class cost of service studies for electric and natural gas are reasonable.
- 524 (45) FEA's proposal to use 1 NCP Method for allocating distribution poles and wires, along with allocators based on primary and secondary voltage levels, is not consistent with 480-85 WAC, or in the public interest.
- 525 (46) The proposals of FEA and Public Counsel to adopt a different methodology than RFPC is not consistent with 480-85 WAC.
- 526 (47) Staff's proposals for adjustments to the basic monthly charge for natural gas are persuasive, such that the basic monthly charge should increase for residential natural gas customers by \$1.50 in RY1 and should not increase in RY2.
- 527 (48) The basic monthly charge should remain unchanged for residential electric customers.
- 528 (49) PSE's proposed increase to fixed customer charges for Commercial and Industrial natural gas customers is reasonable.
- 529 (50) PSE's proposal for the natural gas residential usage per customer is reasonable.
- 530 (51) To avoid additional proceedings and administrative strain on non-company parties, prudence reviews or power costs should continue to occur in PCORC or PCAM proceedings, and variable power costs should not be removed from rate cases.
- 531 (52) Annual power cost updates should only be allowed for the duration of an MYRP.

- 532 (53) The evidence in the record supports recovery of the costs of the Sinclair Cogen PPA.
- 533 (54) AWEC's recommendation to lower power costs due to EIM neutrality charges would unreasonably result in double-counting of EIM neutrality charges in the power cost forecast.
- 534 (55) PSE's Chelan PSA is prudent and its costs should be allowed in rates.
- 535 (56) The \$3.0 million AFRP proposal is not fully supported by the record.
- 536 (57) Given the recent passage of Initiative 2066, the record does not support approving PSE's TEP Phase 2 proposal.
- 537 (58) JEA's proposed Electrification PIM may not be consistent with Initiative 2066.
- 538 (59) JEA's proposal to require PSE to post information on its website regarding whether a pilot is active, the pilot's purpose, and the pilot's timeline is reasonable and promotes the public interest.
- 539 (60) PSE's and JEA's proposals for accelerated depreciation of gas assets do not adequately evaluate the potential rate impacts to vulnerable populations or highly impacted communities, i.e., Named Communities.
- 540 (61) The passage of Initiative 2066 raises concerns relating to requiring PSE to engage in a general electrification program as proposed by JEA.
- 541 (62) The passage of Initiative 2066 raises concerns relating to allowing PSE to establish its proposed DCARB tracker.
- 542 (63) The Commission finds that Staff's proposed adjustment with respect to PSE's Adjustments 6.22 and 11.22 removing \$15,803,904 for 2025 and \$17,275,488 for 2026 attributable to PSE's pro forma O&M expense management reserves and removing \$7,706,551 for 2025 and \$6,890,560 for 2026 attributable to the reserve contingency is reasonable, as those expenses are not known and measurable.
- 543 (64) Public Counsel's proposed adjustments to PSE's labor and non-labor O&M costs and A&G costs will not result in rates that are fair, just, reasonable, and sufficient.
- 544 (65) PSE should continue using the Colstrip Tracker mechanism agreed to in the settlement in PSE's 2022 GRC.
- 545 (66) PSE erred in its special contracts class distribution and in rebuttal corrected the error identified by Microsoft.

- 546 (67) PSE accepts Staff's recommendation to alter PSE's Clay Basin Gas Storage system.
- 547 (68) PSE's use of average fuel price for Colstrip should be replaced by Staff's recommended use of marginal cost for fuel for all of 2025, and PSE should apply an out-of-model adjustment to account for the time when PSE is not yet at the tier price.
- 548 (69) PSE omitted from its power cost forecast, benefits from the WEIM flexible ramping market and a broad category of expenses.
- 549 (70) PSE's equity return component on AMI assets should be amortized over three years.

IV. Conclusions of Law

- 550 Having discussed above all matters material to this decision, the Commission now makes the following summary conclusions of law, incorporating by reference pertinent portions of the preceding detailed conclusions:
- 551 (1) The Commission has jurisdiction over the subject matter of, and Parties to, this proceeding.
- 552 (2) PSE is an electric company, a natural gas company, and a public service company subject to Commission jurisdiction.
- 553 (3) At any hearing involving a proposed change in a tariff schedule the effect of which would be to increase any rate, charge, rental, or toll theretofore charged, the burden of proof to show that such increase is just and reasonable will be upon the public service company. RCW 80.04.130(4). The Commission's determination of whether the Company has carried its burden is adjudged based on the full evidentiary record.
- 554 (4) PSE proposed a multi-year rate plan as required by RCW 80.28.425.
- 555 (5) The Commission should deny AWEC's proposal for a Provisional Plant Review based on project-by-project basis.
- 556 (6) The Commission should deny AWEC's proposal that the Company submit a compliance filing attesting that all estimated plant was in service as of December 21, 2024.

- 557 (7) The Commission should accept Staff’s proposed amendment to eliminate the threshold of 0.5 percent above authorized ROR for PSE.
- 558 (8) The Commission should approve a return on equity for PSE of 9.8 percent for RY1 and 9.9 percent for RY2, as it is within the range of reasonableness and sufficient to attract investors.
- 559 (9) The Commission should approve capital structure for PSE of 49 percent equity and 51 percent debt for RY1 and 50 percent equity and 50 percent debt for RY2 as allowing fair, just, reasonable, and sufficient rates.
- 560 (10) The Commission should approve PSE’s overall rate of return of 7.52 percent for RY1 and 7.64 percent for RY2 as reasonable and resulting in fair, just, reasonable, and sufficient rates.
- 561 (11) The Commission is legally obligated by RCW 80.28.425(7) to determine a set of performance measures that will be used to assess PSE’s operations under the MYRP.
- 562 (12) The Commission’s determination of a set of performance measures need not be based upon a company’s initial filing, the record testimony and evidence, or the proposals made by a company or party throughout the proceeding.⁹²³
- 563 (13) The Commission should adopt the performance measures outlined in Appendix C and PSE should be authorized and required to make necessary and sufficient future compliance filings in accordance with the directions and conditions of this Order.
- 564 (14) PSE should be authorized and required to make an annual compliance filing to report the performance measures outlined in Appendix C for each year of the MYRP (beginning January 1 and ending December 31 of each year) as an appendix or appendices to its annual Commission Basis Reports.⁹²⁴
- 565 (15) Having reviewed the record and relevant natural gas cost of service studies submitted by the parties, the Commission accepts PSE’s natural gas cost of service study and grants PSE’s requested exemption regarding reclassifying allocation of FERC Account 870 (Distribution Supervision & Engineering –

⁹²³ See RCW 80.28.425(7).

⁹²⁴ Policy Statement Addressing Initial Reported Performance Metrics, 3-4 ¶ 11 (Aug. 2, 2024).

Operations) as distribution rather than transmission, as the requested exemption is reasonable, in the public interest, and supported by the record.

- 566 (16) The Commission rejects AWEC and Nucor's proposals related to allocation of costs based on main pipe size and accepts PSE's rebuttal cost of service study.
- 567 (17) PSE shall separately track and assign rate base and depreciation expense to Schedule 88T in the cost of service study and use book costs rather than replacement costs when assigning Upgrade 2 and 3 costs to Schedule 88T.
- 568 (18) PSE shall update Schedule 88T as follows: (1) to separately track and assign rate base and depreciation expense to Schedule 88T in the COSS and (2) use book costs rather than replacement costs when assigning Upgrade 2 and 3 costs to Schedule 88T; and update rates through the Company's compliance filing before rates become effective or through a compliance filing within thirty (30) days of this Order.
- 569 (19) PSE's electric cost of service study is reasonable, and the Commission accepts PSE's electric cost of service study, as corrected on rebuttal, and grants PSE an exemption for the treatment of FERC Account 565 (Transmission of Electricity by Others) as reasonable, in the public interest, and supported by the record.
- 570 (20) PSE's recommended rate spread and resulting parity ratios as proposed by the Company's rebuttal class cost of service studies for electric and natural gas is just and reasonable.
- 571 (21) FEA's proposal to use 1 NCP Method for allocating distribution poles and wires, along with allocators based on primary and secondary voltage levels, is not consistent with 480-85 WAC, or in the public interest.
- 572 (22) The proposals of FEA and Public Counsel for alternatives to the RFPC methodology are not consistent with WAC 480-85.
- 573 (23) The basic monthly charge shall increase for residential natural gas customers by \$1.50 in RY1 and shall not increase in RY2.
- 574 (24) The basic monthly charge shall remain unchanged for residential electric customers.
- 575 (25) PSE's proposed increase to fixed customer charges for Commercial and Industrial natural gas customers is reasonable.

- 576 (26) The Company's proposed natural gas residential usage per customer is reasonable.
- 577 (27) PSE's proposed removal of variable power costs from rate cases is unreasonable.
- 578 (28) AWEC's proposal to allow power cost updates for the duration of an MYRP is reasonable.
- 579 (29) PSE's costs related to the Sinclair Cogen PPA are sufficiently supported in the record and are prudent.
- 580 (30) AWEC's recommendation to lower power costs due to EIM neutrality charges would unreasonably result in double-counting of EIM neutrality charges in the power cost forecast.
- 581 (31) PSE's Chelan PSA is prudent.
- 582 (32) PSE's \$3.0 million AFRP proposal is not fully supported by the record.
- 583 (33) PSE maintains the duty to acquire the lowest risk, most policy aligned resources, and that as part of that duty PSE must show that it has evaluated non-pipeline alternatives when considering a capital addition to the natural gas system outside of emergency and maintenance repairs.
- 584 (34) The plain language of RCW 80.28.410 provides the Commission discretion to allow a return on power purchase agreements costs, and more that return to be deferred.
- 585 (35) PSE may earn a return on DR PPAs commensurate with PSE's cost of debt.
- 586 (36) PSE's Wildfire Costs and proposed Wildfire Prevention Tracker are in the public interest.
- 587 (37) Staff must bring PSE's requested recovery of the deferral balance associated with the Company's petition for deferred accounting in Docket UE-231048 before the Commission at an open meeting within 30 days of the effective date of this Order.
- 588 (38) Neither PSE's blanket CWIP in rate base proposal, nor the CGR tracker are not in the public interest.
- 589 (39) PSE's proposal to approve its TEP Phase 2 program may be inconsistent with I-2066.
- 590 (40) JEA's proposed electrification PIM may be inconsistent with I-2066.

- 591 (41) The Commission requires PSE to publish information regarding its targeted electrification, DEA public engagement, DER, and TVR pilots on its website consistent with the terms of this Order and report the publication of this information to its Equity Advisory Group and the Commission within 180 days of this Order.
- 592 (42) The Commission retains authority to accelerate depreciation of gas assets.
- 593 (43) The ultimate effects of Initiative 2066 on the Commission's authority in multi-year rate plans is not settled.
- 594 (44) PSE's proposal to allow accelerated depreciation of gas assets should be rejected until the Company examines the impacts and cost burden analysis on Named Communities and over burdened customers, and until the legal impacts of I-2066 are determined.
- 595 (45) JEA's proposal to require PSE to engage in a general electrification program may be inconsistent with I-2066 and should be rejected.
- 596 (46) PSE's proposal to create a DCARB tracker is moot with the Commission's rejection of its TEP Phase 2 program, and should be rejected.
- 597 (47) All pro forma adjustments, whether capital or O&M adjustments, are subject to the known and measurable standard. However, the Commission retains significant discretion to apply this requirement flexibly, particularly in the context of a multi-year rate plan.
- 598 (48) AWEC's proposal for PSE to transfer the balances associated with Colstrip into a single regulatory account is contrary to the settlement agreed to and approved in PSE's 2022 general rate case.
- 599 (49) PSE's request for a three-year amortization of the deferral of PSE's equity return component on its AMI assets is reasonable.

V. ORDER

THE COMMISSION ORDERS:

- 600 (1) The proposed tariff revisions Puget Sound Energy, filed in these dockets on February 13, 2024, and suspended by prior Commission order, are rejected.

- 601 (2) Puget Sound Energy is authorized and required to make compliance filings in this docket including all tariff sheets that are necessary and sufficient to effectuate the terms of this Order.
- 602 (3) The Commission Secretary is authorized to accept by letter, with copies to all Parties to this proceeding, filings that comply with the requirements of this Order.
- 603 (4) The Commission retains jurisdiction to effectuate the terms of this Order.

DATED at Lacey, Washington, and effective January 15, 2025.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



ANN E. RENDAHL, Commissioner



MILT DOUMIT, Commissioner

NOTICE TO PARTIES: This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-07-870.