

**EXH. SEF-9
DOCKET UE-20____
2020 PSE PCORC
WITNESS: SUSAN E. FREE**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent

Docket UE-20____

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

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

DECEMBER 9, 2020

1 **EXPLANATION OF THE ACCOUNTING AND REPORTING FOR**
2 **THE VOLUNTARY LONG TERM RENEWABLE ENERGY**
3 **PURCHASE RIDER UNDER SCHEDULE 139**

4 **A. Overview**

5 The accounting and reporting for PSE’s Voluntary Long Term Renewable
6 Energy Purchase Rider under Schedule 139 (“Green Direct”) presented in this
7 exhibit have been prepared to adhere to the following requirements as
8 provided in the excerpts below:

9 RCW 19.29A.090 (5)

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

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

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

22 **B. PCA Tracking Related to the Green Direct Program**

23 In order to adhere to the above requirements, PSE is proposing the following
24 in this case:

- 25 • The cost of the Power Purchase Agreements (“PPAs”) with the
26 Skookumchuck Wind Energy (“Skookumchuck”) project and the Lund
27 Hill Solar (“Lund Hill”) project that are used to serve Green Direct
28 customer loads are not included in the power cost baseline rate or the
29 rate request in this proceeding.
30
31 • As the variable costs of the program are not included, the
32 corresponding loads associated with Green Direct customers are not
33 included in the test year or rate year loads that are used to develop the
34 revenue requirement and rates in this proceeding.

35 The above treatment is requested because if Green Direct customer costs and
36 loads are included in base rates, it would be excessively difficult to achieve

1 the appropriate ring fencing that is required by statute and emphasized in the
2 Commission's 2019 general rate case order. However, even though the costs
3 and loads can be excluded from base rates, the physical energy under the
4 PPAs cannot be segregated from PSE's portfolio which results in the inclusion
5 of certain costs and benefits of the program being initially included in actual
6 amounts recorded on PSE's books. Therefore, PSE is proposing the following
7 process to properly segregate these costs and benefits from actuals for
8 ratemaking and reporting purposes.

9 The schedule on page seven of this exhibit ("reporting example") provides an
10 illustrative example of how PSE will account for and report on the over- or
11 under-generation of the PPAs relative to Green Direct customer load. The
12 amounts included in the example are fictional amounts used for illustration
13 only.

14 There are three fundamental scenarios that could occur under which
15 accounting and tracking are required and each of these scenarios have been
16 incorporated into the illustrative reporting example. They are:

- 17 1. If PPA generation is lower than Green Direct customer usage
18 ("short")

19
20 *Under this scenario, PSE will be required to*
21 *purchase energy to satisfy Green Direct customer*
22 *load above the PPA generation.*

- 23
24 2. If PPA generation is greater than Green Direct customer usage
25 ("long")

26
27 *Under this scenario, there will be payments under*
28 *the PPAs for energy purchased that is not used by*
29 *Green Direct customers.*

30
31 *Additionally, the excess energy purchased under*
32 *the PPAs will presumably be sold on the market.*

- 33
34 3. If Renewable Energy Credits ("RECs") are required to be purchased
35 periodically in a cumulative short scenario or banked in a cumulative
36 quarter-end long scenario.

37
38 *Under this scenario, there will be RECs that will*
39 *need to be recorded on the balance sheet until*
40 *they are used.*

1 The first section of the illustrative reporting example, lines 4 through 34,
2 represent information and entries related to Green Direct that will occur
3 naturally as part of PSE's existing accounting processes.

4 The second section of the illustrative reporting example, lines 36 through 51,
5 represent the additional entries that will be made in order to neutralize and
6 isolate any Green Direct costs and benefits that occur naturally as part of
7 PSE's accounting processes shown in the first section. A \$0 on line 45, which
8 adds together all of the lines with PCA designations under the "Mechanism"
9 subheading (lines 26, 27 and 38) checks to ensure that there are no Green
10 Direct costs or benefits included in the PCA.

11 The first section contains information on load, generation, RECs, and PPA
12 and market prices that are relevant to the entries that naturally occur when
13 accounting for PSE's portfolio power costs.

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

18 Lines 13 through 16 present assumed RECs that result from either the PPAs or
19 from purchases made by PSE.

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

23 The journal entries that occur based on the information presented in lines 4
24 through 20 described above are shown on lines 22 through 30. Within these
25 lines the information under the additional subheadings "Mechanism" and
26 "When" should be interpreted as follows:

27 "Mechanism" indicates whether the journal entries can be
28 initially booked directly to Green Direct and are therefore
29 already properly isolated (as indicated by "GD") or the entries
30 are initially booked as part of a portfolio entry and thus
31 require an additional entry in the second section in order to be
32 appropriately neutralized (as indicated by "PCA").

33 "When" indicates under which scenario the entries are
34 booked. "Always" indicates it is relevant under all scenarios.
35 "Long" indicates it only occurs in a long scenario. And
36 "Short" indicates it only occurs in a short scenario.

1 A description of these journal entries under each scenario as well as the
2 additional entries that are in the second section on lines 36 through 41 that
3 will be used to neutralize and isolate associated costs and benefits labeled as
4 “PCA” under the “Mechanism” heading are described as follows:

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

6 The month of January illustrates a short position where the generation of the
7 PPAs falls short of Green Direct customer usage by 11.5 million kWhs (line
8 8).

9 Payment for PPAs

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

14 Market Purchases of Energy to Cover the Short Position

15 In order to cover the additional 11.5 million kWhs used, PSE will need
16 to purchase additional energy on the market. The market purchases will
17 be made as part of PSE’s portfolio purchases and not be separately
18 identifiable. This is reflected on line 27 with a PCA designation as a
19 charge to FERC 555 with portfolio purchases and is valued at the
20 Market Rate per kWh on line 20.

21 Reclassify Short Purchase from PCA to Green Direct

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

27 Check Total is Zero

28 The above entries in the short scenario are sufficient as shown by the
29 \$0 on line 45.

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

31 The month of March illustrates a long position where the generation of the
32 PPAs is greater than the Green Direct usage by 4.1 million kWhs.

33 Payment for PPAs Up to the Amount of Green Direct Usage

34 In this instance, Green Direct customers will only use a portion of the
35 generation from the PPAs and therefore, the payment for the PPA will
36 be split into two parts. The first part up to the usage of Green Direct

1 customers would go to the separate Green Direct order in FERC 555
2 with a GD designation as shown on line 24.

3 Payment for PPAs Above the Amount of Green Direct Usage

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

7 Presumed Sale of Excess PPA Generation

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

12 Reclassify Long Sale from PCA to Green Direct

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

19
20 Check Total is Zero

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

23 Scenario 3 – Banking or Purchases of RECs

24
25 *Banking RECs in a Long Position*

26 The month of September illustrates a quarter-end in which the Green
27 Direct program's year-to-date position is long which would result in
28 PSE owning unapplied RECs from the PPAs related to the Green Direct
29 program. In these instances, PSE would value the RECs and record
30 them on PSE's books as a debit to FERC 555 and a credit to FERC 253
31 to hold them until they can be applied to future Green Direct usage.
32 This is shown on row 41 with a GD designation and is valued at an
33 assumed price of \$3.00 per banked REC reflected on line 16. This entry
34 would be an accrual that reverses in the next month until the position is
35 evaluated again for the next quarter-end.

36
37 *Purchasing RECs in a Short Position*

38 As the quantity of RECs required to cover usage is analyzed on a long
39 term basis and not month to month, it is not required that PSE purchase
40 RECs monthly for short positions. However, if it is determined that
41 REC purchases are required, their costs would be recorded at their
42 purchase price to a Green Direct order in FERC 557 with a GD

1 designation as shown on line 30. This is illustrated in the month of
2 December.
3

4 Summary of Illustrative Reporting Example

5 As shown on lines 48 through 51, the following summarizes the outcome of
6 following the illustrative reporting example:
7

8 If generation is short for the month, entries will be made to move
9 purchases out of the PCA.

10 If generation is long for the month, entries will be made to move the sale
11 of the excess generation out of the PCA.

12 If generation is cumulatively long at a quarter-end, then RECs from the
13 PPAs will be banked outside of the PCA.

14 If generation is cumulatively short, RECs will be purchased outside of
15 the PCA and recorded when necessary.
16

17 To conclude, PSE and Commission Staff determined through the collaborative
18 process that following this illustrative reporting example will ensure that the
19 accounting and reporting for the Green Direct program follows the statute and
20 the Commission's order.

21 **C. Other Reporting and Tracking Considerations**

22 Other considerations were addressed related to the Green Direct program in
23 PSE's 2019 general rate case.

24 Fixed Costs of the Program

25 PSE has already committed that the fixed costs of the program such as
26 administrative costs and depreciation related to billing software, will be
27 tracked in separate orders and will be excluded from the revenue requirement
28 when setting rates in a general rate case or other proceeding. This has been
29 accomplished in the current proceeding in Adjustment-5. PSE will include
30 supplemental reporting on the amount of Green Direct fixed costs for the
31 calendar in its annual PCA compliance filings.

32 Liquidated Damages

33 The resolution for treatment of liquidated damages received under the
34 Skookumchuck project has been determined in Docket UE-200865.

	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
4 Green Direct Monthly Assumed Actual Information						
5 Energy Costs						
6 PCA period Green Direct Customers delivered load usage (kWh)	62,050,000	62,050,000	62,050,000	62,050,000	62,050,000	62,050,000
7 PPA generation net of losses (kWh)	50,504,537	52,994,363	66,083,466	67,557,894	66,960,064	66,533,653
8 (Short)/Excess Renewable Energy Generated (kWh)	(11,545,463)	(9,055,637)	4,033,466	5,507,894	4,910,064	4,483,653
9	(short)	(short)	long	long	long	long
10 Cumulative (Short)/Excess Renewable Energy Generated (kWh)	(11,545,463)	(20,601,099)	(16,567,634)	(11,059,740)	(6,149,676)	(1,666,023)
11	(short)	(short)	(short)	(short)	(short)	(short)
12						
13 RECs						
14 PPA RECs for Green Direct Customers	50,505	52,994	66,083	67,558	66,960	66,534
15 RECs purchased for Green Direct Customers*						
16 RECs banked for Green Direct Customers 1						
17						
18 Power Prices						
19 PPA Rate per kWh	\$0.04161	\$0.04096	\$0.04039	\$0.03964	\$0.03904	\$0.03868
20 Market Rate per kWh (Average Day Ahead Index for the Month)	\$0.03217	\$0.09902	\$0.07731	\$0.01727	\$0.01459	\$0.02183
21						
22 Power Costs Originally Recorded						
23 Initial Amount:						
24 PPA Cost - Green Direct Customer Usage	\$2,101,546	\$2,170,403	\$2,505,933	\$2,459,654	\$2,422,360	\$2,400,152
25 PPA Cost - Generation Above Green Direct Usage	\$0	\$0	\$162,894	\$218,330	\$191,683	\$173,432
26 Sale of Excess PPA Generation	\$0	\$0	(\$311,827)	(\$95,142)	(\$71,640)	(\$97,894)
27 Mkt Purchases for Short	\$371,440	\$896,689	\$0	\$0	\$0	\$0
28						
29 Additional REC Costs Originally Recorded						
30 Green Direct Unbundled REC Purchases	\$0	\$0	\$0	\$0	\$0	\$0
31						
32						
33 *Measured on an annual basis						
34 1 Amounts measured quarterly						
35						
36 Required Journal Entries based on Monthly Actual Information						
37 Adjustment:						
38 Reclassing Short Purchases or Long Sales Out of PCA to GD	(\$371,440)	(\$896,689)	\$311,827	\$95,142	\$71,640	\$97,894
39 Green Direct Short Purchases	\$371,440	\$896,689	\$0	\$0	\$0	\$0
40 Green Direct Long Sales	\$0	\$0	(\$311,827)	(\$95,142)	(\$71,640)	(\$97,894)
41 Green Direct Excess REC Adjustment	\$0	\$0	\$0	\$0	\$0	\$0
42						
43 Total:						
44 Net Green Direct Power Costs	\$2,472,985	\$3,067,092	\$2,357,000	\$2,582,822	\$2,542,403	\$2,475,690
45 Net PCA Power Costs (this should be zero)	\$0	\$0	\$0	\$0	\$0	\$0
46						
47 <i>check: Should equal amount of REC transactions</i>	\$0	\$0	(\$0)	\$0	\$0	\$0
48 In Summary:						
49 <i>If generation is short for the month, move purchases out of PCA</i>						
50 <i>If generation is long for the month, move sales of excess generation out of PCA</i>						
51 <i>If generation is cumulatively long at a quarter end, bank recs; otherwise no recs to record</i>						

		Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Period to Date
4	Green Direct Monthly Assumed Actual Information							
5	Energy Costs							
6	PCA period Green Direct Customers delivered load usage (kWh)	62,050,000	62,050,000	62,050,000	62,050,000	62,050,000	62,050,000	744,600,000
7	PPA generation net of losses (kWh)	71,257,396	66,842,713	59,398,426	58,103,728	55,538,775	52,713,553	734,488,568
8	(Short)/Excess Renewable Energy Generated (kWh)	9,207,396	4,792,713	(2,651,574)	(3,946,272)	(6,511,225)	(9,336,447)	(10,111,432)
9	Cumulative (Short)/Excess Renewable Energy Generated (kWh)	long	long	(short)	(short)	(short)	(short)	
10		7,541,373	12,334,086	9,682,512	5,736,239	(774,986)	(10,111,432)	
11		long	long	long	long	(short)	(short)	
12								
13	RECs							
14	PPA RECs for Green Direct Customers	71,257	66,843	59,398	58,104	55,539	52,714	734,489
15	RECs purchased for Green Direct Customers*			9,683			10,111	10,111
16	RECs banked for Green Direct Customers 1						-	-
17								
18	Power Prices							
19	PPA Rate per kWh	\$0.03859	\$0.03888	\$0.03948	\$0.04056	\$0.04161	\$0.04189	
20	Market Rate per kWh (Average Day Ahead Index for the Month)	\$0.03102	\$0.03288	\$0.03149	\$0.03515	\$0.03655	\$0.03530	
21								
22	Power Costs Originally Recorded							
23	Initial Amount:							
24	PPA Cost - Green Direct Customer Usage	\$2,394,493	\$2,412,432	\$2,345,211	\$2,356,742	\$2,311,104	\$2,208,231	\$28,088,242
25	PPA Cost - Generation Above Green Direct Usage	\$355,311	\$186,335	\$0	\$0	\$0	\$0	\$1,287,986
26	Sale of Excess PPA Generation	(\$285,618)	(\$157,569)	\$0	\$0	\$0	\$0	(\$1,019,690)
27	Mkt Purchases for Short	\$0	\$0	\$83,493	\$138,718	\$238,007	\$329,553	\$2,057,900
28								
29	Additional REC Costs Originally Recorded							
30	Green Direct Unbundled REC Purchases	\$0	\$0	\$0	\$0	\$0	\$30,334	\$30,334
31								
32								
33	*Measured on an annual basis							
34	1 Amounts measured quarterly							
35								
36	Required Journal Entries based on Monthly Actual Information							
37	Adjustment:							
38	Reclassing Short Purchases or Long Sales Out of PCA to GD	\$285,618	\$157,569	(\$83,493)	(\$138,718)	(\$238,007)	(\$329,553)	(\$1,038,210)
39	Green Direct Short Purchases	\$0	\$0	\$83,493	\$138,718	\$238,007	\$329,553	\$2,057,900
40	Green Direct Long Sales	(\$285,618)	(\$157,569)	\$0	\$0	\$0	\$0	(\$1,019,690)
41	Green Direct Excess REC Adjustment	\$0	\$0	(\$29,048)	\$29,048	\$0	\$0	\$0
42								
43	Total:							
44	Net Green Direct Power Costs	\$2,464,186	\$2,441,198	\$2,399,656	\$2,524,508	\$2,549,111	\$2,568,119	\$30,444,772
45	Net PCA Power Costs (this should be zero)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
46								
47								
48	In Summary:							
49	<i>If generation is short for the month, move purchases out of PCA</i>							
50	<i>If generation is long for the month, move sales of excess generation out of PCA</i>							
51	<i>If generation is cumulatively long at a quarter end, bank recs; otherwise no recs to record</i>							