EXH. SEF-1T
DOCKET UE-24____
2023 PCA COMPLIANCE FILING
WITNESS: SUSAN E. FREE

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY For Approval of its 2023 Power Cost Adjustment Mechanism Report	Docket UE-24____

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

APRIL 30, 2024

PUGET SOUND ENERGY

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF SUSAN E. FREE

TABLE OF CONTENTS

PUGET SOUND ENERGY

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF SUSAN E. FREE

LIST OF EXHIBITS

PUGET SOUND ENERGY

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF SUSAN E. FREE

I. INTRODUCTION

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

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

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

A. Yes, SEF-2 provides a comprehensive overview of my education, relevant employment experience, and professional qualifications.

Q. Please summarize the contents of your testimony.

A. In this prefiled direct testimony I provide a background of PSE's Power Cost Adjustment Mechanism ("PCA" or "PCA Mechanism") and a summary of the results contained within the PCA Mechanism Report ("PCA Annual Report") for the Twelve Months Ended December 31, 2023, for which PSE is requesting approval. I also discuss PSE's forecast of its 2024 PCA imbalance and the benefits to customers of PSE's proposal for passing back the 2023 customer payable and recovering the estimated 2024 customer receivable together once this

PCA review is complete ("recovery proposal"). Finally, I provide required reporting associated with PSE's Green Direct Program which is administered under Schedule 139 Voluntary Long Term Renewable Energy Purchase Rider ("Green Direct Program").

Q. Are there other PSE witnesses sponsoring testimony in this Annual PCA Compliance Filing?

A. Yes, there are three other witnesses who are filing testimony in this Annual PCA Compliance Filing. They are:

Philip Haines, PSE Director of Energy Supply Merchant, who provides an overview of power cost management and governance structures.

Brennan D. Mueller, Manager of Energy Analysis, who discusses the reasons for the variance between the approved baseline power costs and those power costs actually experienced during the PCA period that have given rise to the 2023 PCA imbalance for sharing. Brennan Mueller also testifies to the forecast of the 2024 PCA period imbalance for sharing.

Cara G. Peterman, Director, Chief Risk Officer and Corporate Treasurer, who discusses additional considerations beyond the benefits to customers the Washington Utilities and Transportation Commission ("WUTC" or "Commission") should consider in support of approving PSE's recovery proposal.

II. BACKGROUND REGARDING THE PCA MECHANISM

Q. What purpose does a PCA mechanism serve?

A. A PCA mechanism is meant to balance risks between customers and the Company by sharing costs and benefits if power costs deviate significantly from amounts being recovered in rates.[1]

Q. Please provide a brief summary of PSE's PCA Mechanism.

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

Subsequently, PSE and the parties to the 2002 PCA Settlement entered into a PCA Collaborative that was initiated as part of the Settlement terms from PSE's 2013 Power Cost Only Rate Case, Docket UE-130617 ("2013 PCORC"). PSE, WUTC Staff, and Public Counsel ("Settling Parties") entered into a settlement stipulation involving modifications to PSE's PCA Mechanism ("2015 PCA

---

[1] *See WUTC v. Puget Sound Energy,* Dockets UE-011570/UG-011571 (consolidated), Twelfth Supplemental Order at ¶ 22 (June 20, 2002).

Settlement").[2,3] The Commission approved the 2015 PCA Settlement in Order 11 of PSE's 2013 PCORC ("Order 11"). As a result, beginning January 2017, PSE's PCA Mechanism was changed to track only variable power costs, and fixed production and delivery costs were included in PSE's decoupling mechanism approved in PSE's 2017 general rate case, Docket UE-170033. Accordingly, as of January 1, 2017, PSE reports only the variable power costs in its PCA Annual Compliance filings.

Q. Please describe the general method for measuring PSE's PCA imbalance for sharing.

A. The imbalance for sharing is calculated on a calendar year basis.[4] The power costs in rates are compared to actual allowed power costs, and the difference represents the imbalance for sharing. Sharing bands are then applied to allocate the imbalance between customers and the Company, with the customer portion representing the payable to or receivable from customers for the PCA period.

Q. Please provide an overview of the sharing bands in PSE's PCA Mechanism.

A. The sharing bands are asymmetrical in the second band in that, if the power costs are under-recovered, PSE and customers share the under-recovery equally, but if power costs are over-recovered, customers are assigned sixty five percent of the

[2] The Alliance of Western Energy Consumers (then known as the Industrial Customers of Northwest Utilities) was a party to the 2013 PCORC but opposed the 2015 PCA Settlement.

[3] Attached as Exhibit A to PSE's Petition in this proceeding.

[4] *See* Exhibit A to PSE's Petition, p. 14, item 3a.

over-recovery and PSE is assigned thirty five percent.[5] PSE's sharing bands are demonstrated in the following table.

Table 1 – PCA Sharing Bands

Sharing Level	Band Limit	Over Recovered		Under-Recovered	
		Company	Customer	Company	Customer
Dead-band to first band	+/-$17,000,000	100%	0%	100%	0%
First band to second band	+/-$40,000,000	35%	65%	50%	50%
Second band	+/- No limit	10%	90%	10%	90%

Q. What happens each year after the imbalance for sharing is calculated and the sharing bands are applied?

A. Once the imbalance for sharing is calculated and the sharing bands are applied, the customer payable or receivable for the PCA period is known. The PCA Mechanism requires PSE to return a customer payable to customers when it exceeds $20 million.[6] This is commonly referred to as "the threshold." The PCA Mechanism also contains a provision that allows the Company to elect to recover a customer receivable that exceeds $20 million.[7] The customer deferral balances accrue monthly interest at the rate provided for in WAC 480-90-233(4), commonly referred to as the FERC[8] rate, which is updated quarterly.[9]

---

[5] *Id.*, p. 13, item 2a-c.
[6] *Id.,* p. 14, item 3a.
[7] *Id.*, p. 14, item 3b.
[8] Federal Energy Regulatory Commission.
[9] See Exhibit A to this Petition, p. 13, item 2d.

Q. Has PSE previously set rates to clear a customer deferral balance?

A. Yes. For almost two decades, the customer deferral balance did not exceed the threshold and the balance offset itself from year to year and remained at a minor receivable or payable. Consequently, during that time, no rate was set to recover or pass-back the balance. Calendar year 2019 was the first year in which PSE experienced a large under-collection, and in December 2020, a rate to recover the customer receivable was set for the first time. Then, the following three PCA periods through calendar year 2022 also resulted in large under-collections, and PSE has maintained or increased the rate to recover these customer receivables since that time. This is demonstrated in Table 2 provided later in my testimony.

III. 2023 PCA PERIOD POWER COSTS

Q. Please explain how PSE tracked its 2023 PCA Period power costs and treated any resulting imbalance.

A. As in past PCA periods, each month PSE calculates the power costs subject to PCA sharing. These total allowable costs are compared to the approved baseline power cost rate, multiplied by the actual delivered load excluding Green Direct customers, and any difference is allocated to PSE or customers based on the different levels of sharing.

Q. Did the approved baseline power cost rate used to calculate the PCA imbalance for sharing change during the 2023 PCA Period?

A. Yes, the rate from PSE's 2020 PCORC in Docket UE-200980 was in effect for the first ten days of January in the 2023 PCA period, and as of January 11, 2023, PSE's 2022 general rate case baseline rate from Docket UE-220066 was in effect through the rest of the 2023 PCA period. The 2022 general rate case baseline rate of $46.514 can be found in column C, row 46, on page 6 of Exh. SEF-3, and the 2020 PCORC baseline rate of $38.983 can be found in column H, row 43, on page seven of Exh. SEF-3.

Q. What is the actual average power cost rate experienced for the 2023 PCA Period?

A. As shown on page two of Exh. SEF-3, the calculated average variable power cost rate experienced for the 2023 PCA Period is $43.852 per MWh.

Q. Why did the total allowable costs on page two, line 27, of Exh. SEF-3 differ from the total allowable costs in effect during the 2023 PCA Period presented on page 6, line 27, of Exh. SEF-3?

A. The total variable allowable costs differed from the baseline power costs in effect during the 2023 PCA Period due to changes in the variable components of the PCA Mechanism. These changes are discussed in the Prefiled Direct Testimony of Brennan D. Mueller, Exh. BDM-1CT.

Q. Were there any adjustments made under the Restatement Methodology[10] for power costs in 2023?

A. No. No instances occurred during 2023 that required adjustment under the Restatement Methodology.

Q. How much did the actual power costs differ compared to the average baseline power costs in effect during the 2023 PCA Period?

A. Actual power costs were lower than the average baseline power costs included in rates during the 2023 PCA Period by $51.1 million (after adjustment for Firm Wholesale and the Green Direct Program). See column R, row 40, on page three of Exh. SEF-3. PSE's share of this over-recovery of power costs is $26.2 million. Customers' share of this over-recovery of power costs is $24.9 million. See columns I and J on row 37, page one, of Exh. SEF-3.

Q. Please provide a summary of prior PCA customer receivables, which to date have been approved for collection by the Commission.

A. Table 2 below provides a summary by PCA period, of the customer share of the PCA imbalances that have been approved for collection thus far. Amounts shown as authorized to be set as surcharges in Schedule 95 ("Schedule 95 Supplemental rate") are grossed up for revenue sensitive fees and taxes. In order to avoid as much change in ratepayer bills as possible, PSE has previously attempted to only alter the time period for collection rather than change the rates that were already

[10] *See* Exhibit A to the Petition at pp. 17-18.

in effect. Table 2 references the collection periods, which span between 11 to 13 months. Using this method, PSE has had to change rates only one time, for the 2022 imbalance when the receivable increased roughly $30 million from what had been included in rates, to just over $76 million.

Table 2 – Recovery of Historical PCA Customer Deferrals

Imbalance Year	Amount		Collection Period	Docket
2019 Imbalance (PCA 18)	Imbalance →	(41,730,425)	Dec-20 to Nov-21 (12 months)	UE-200893
	RSI→	0.951115		
	Grossed Up→	($43,875,267)		
	In Millions→	($43.9)		
2020 Imbalance (PCA 19)	Imbalance →	(46,009,289)	Dec-21 to Dec-22 (13 months)	UE-210300
	RSI→	0.951115		
	Grossed Up→	($48,374,054)		
	In Millions→	($48.4)		
2021 Imbalance (PCA 20)	Imbalance →	(38,358,394)	Jan-23 to Nov-23 (11 months)	UE-220308
	RSI→	0.949115		
	Grossed Up→	($40,414,906)		
	In Millions→	($40.4)		
2022 Imbalance (PCA 21)	Imbalance →	(72,601,627)	Dec-23 to Dec-24 (13 months)	UE- 230313
	RSI→	0.950348		
	Grossed Up→	($76,394,781)		
	In Millions→	($76.4)		

Q. What is the customer deferral balance as of December 31, 2023, when excluding those amounts already being collected?

A. As shown in column L, row 38, on page one of Exh. SEF-3, for the first time since the surcharge has been triggered, the customer deferral including interest as of December 31, 2023, is a ***payable*** to customers that is high enough to trigger a refund. The amount owed, including cumulative interest, is $21.1 million, or $22.2 grossed up for revenue sensitive fees and taxes. This customer payable exceeds the trigger amount provided for in the PCA mechanism and must be returned to customers.[11] Accordingly, as I discuss in more detail below, PSE is providing a proposal within this filing for how the 2023 customer payable will be returned to customers.

Q. How has PSE typically cleared its prior customer deferral balances?

A. PSE has set or maintained a rate to recover its previous customer receivables as demonstrated in Table 2 above. The time periods to begin recovery for each year's receivable balance have occurred after WUTC Staff has reviewed the filing and the Commission has issued its final order in the annual review. Because time periods have shifted to recover past balances, the most recent collection period is from December 2023 through December 2024 to collect the 2022 PCA customer receivable of $76 million. However, if PSE were to implement a recovery period that coincides more closely to the PCA annual review process, it would typically be recovering or passing back any current period customer deferrals beginning closer to October of the year after the deferral balances are known.

Q. If PSE were to follow a typical pattern of setting a rate to clear the customer deferral balances after the PCA review is complete, what would be the impact for the current PCA period?

A. Line 9 on page 8 of Exh. SEF-3 demonstrates how moving from collecting $76.4 million in rates to passing back $22.2 million results in over a $98.6 million swing (see line 9) between the revenue requirements at the point the rates are changed.

[11] See Exhibit A to this Petition, p. 14, item 3a.

Q. Are there other items that should be taken into consideration as PSE determines how to pass back the 2023 PCA customer payable?

A. Yes. The next section of my testimony provides discussion of additional items to consider when determining how to pass back the 2023 PCA customer payable.

IV. 2024 PCA PERIOD POWER COSTS

Q. What other developments have occurred as PSE considers how to return the $22.2 million 2023 PCA customer payable?

A. In January 2024 the region experienced an extreme cold weather event lasting six days when temperatures were extraordinarily low. The event sent regional power prices to sustained highs, with Mid-C day-ahead power trading near the $1,000 price cap for six days straight. Brennan D. Mueller provides further discussion on this event and its impacts on power costs in Exh. BDM-1CT.

As of the most current power cost forecast, which includes updates for actual activity through March 2024, the anticipated customer share of the 2024 PCA under recovery is forecasted to be a receivable of $98.2 million[12] from customers, which is $90.3 million[13] before interest and gross up from revenue sensitive fees and taxes. $59.2 million of this amount is due to that January cold weather event.[14] And $75.2 million of the amount is already known.[15] Therefore, although

---

[12] Line 8 on page 8 of Exh. SEF-3. Amount includes the customer share of the forecasted 2024 imbalance, forecasted interest and is grossed up for revenue sensitive items.

[13] *See* Exh. BDM-7C at cell Q42.

[14] *Id.* at cell F42. Amount does not include interest and is not grossed up for revenue sensitive fees and taxes and is comparable to the $90.3 million referenced in the previous footnote.

[15] *Id.* at cell H42.

this figure will change by the end of December 2024, as Brennan Mueller testifies, PSE does not believe much can occur by the end of the year to alleviate PSE's very material under-recovery.

Q. What impact would customers experience on their bills if PSE were to follow a traditional approach to clearing its forecasted 2024 PCA customer receivable?

A. As discussed above in Section III of my testimony, under a traditional approach ("sequential clearing"), PSE would wait to change rates until the current rate period is over, which means customers would then be receiving a reduction in the revenue requirement of $98.6 million[16] in 2025 for the 2023 PCA customer payable, which represents roughly a 3.5 percent decrease.[17] Once the Commission approved PSE's 2024 PCA customer receivable in late 2025 or January 2026, customers would see an increase in the revenue requirement of $120.4 million[18] which is roughly a 4.4 percent overall increase.[19] Simply put, following sequential clearing of the PCA customer deferrals would result in many undesirable ratemaking consequences such as rate instability. Therefore, sequential clearing should be avoided.

[16] Line 8 on page 9 of Exh. SEF-3, 2023 column.
[17] Using $2.8 billion of annual electric revenues.
[18] Removal of the $22.2 million pass-back for the 2023 PCA customer payable and addition of the $98.2 million 2024 PCA customer receivable. See line 9 on p. 7 of Exh. SEF-3.
[19] $120.4 million ÷ ($2.8 billion - $98.6 million).

Q. Please expand on the negative customer impacts that would occur under a sequential clearing approach for clearing the PCA customer deferrals.

A. The scenario discussed above will result in rate volatility and rate shock, as rates decrease significantly when passing back the 2023 PCA customer payable and then increase more than they decreased when collecting the 2024 PCA customer receivable. Additionally, as the 2023 PCA customer payable is being passed-back by itself, PSE would be sending inaccurate price signals to customers in light of the expected $120.4 million change in revenue requirement expected for the recovery of the 2024 PCA customer receivable the following year. The Commission has long recognized that avoiding rate volatility is in the public interest.[20] Likewise, it has recognized that providing accurate price signals is also in the public interest.[21]

Q. What recommendations do you have for promoting rate stability and accurate price signals while clearing the PCA customer deferrals?

A. The next section of my testimony outlines PSE's recovery proposal for clearing the PCA customer deferrals.

---

[20] *In the Matter of the Petition of Northwest Natural Gas Co.*, Docket UG-220735, Order 01 Granting Accounting Petition at ¶ 9 (Oct. 27, 2022) (appreciating an "innovative proposal to mitigate some of the rate shock to customers); *WUTC v. Pacificorp*, Docket UE-111190, Order 07 Approving and Adopting Settlement (Mar. 30, 2012) (recognizing the importance of the principles of rate stability and gradualism.); *see also Wash. State Attorney General's Office v. WUTC*, 128 Wn. App. 818, 820, 116 P.3d 1064 (2005) (upholding the Commission's balancing of interests regarding utility rates, including goals "to avoid rate shock and establish relatively stable rates over a reasonable period.").

[21] *In the Matter of the Petition of Avista Corporation*, Docket UG-060518, Order 04 Approving Decoupling Pilot Program (Feb. 1, 2007) (Balancing fixed-cost recovery on an annual basis via a surcharge or credit mechanism diminishes the value of rates as a means to send appropriate price signals to customers.").

V. RECOVERY PROPOSAL TO PASS-BACK / RECOVER PCA IMBALANCES

Q. What is the best approach for clearing the customer deferral balances given the circumstances?

A. PSE believes that collecting the 2024 forecasted PCA customer receivable at the same time it passes back the 2023 PCA customer payable will provide the most advantages to customers.

Q. Is PSE allowed to collect a PCA customer payable before it is final and approved by the Commission?

A. Yes. The PCA mechanism provides that a projected imbalance may be collected before it is final. Page two of the 2015 PCA Settlement states:

> To address financial needs and to provide Customers a price signal to reduce Energy consumption, a surcharge can be triggered when the Company determines that, for any upcoming 12 month period, the projected increase in the deferral balance for increased power costs will exceed $20 million. The surcharge will be implemented through a special filing subject to Commission approval detailing the events giving rise to the projected cost variance.[22]

This provision of the PCA Mechanism was in the original 2002 PCA Settlement and has existed from the inception of the mechanism. As mentioned earlier, for almost twenty years, the PCA customer deferral balances offset year to year, and only recently has PSE needed to recover or pass back imbalances. As such, the above provision has not previously been used. However, all these years later, it seems tailor-made for the current situation. The provision speaks to both

[22] *See* Exhibit A to the Petition, page 14, item 3b.

appropriate price signals as well as the financial needs of the Company, both of which provide justification for PSE's recovery proposal, as I discuss in more detail in this section of my testimony.

Q. Please discuss why the Commission should approve passing back the 2023 PCA customer payable and collecting the forecasted 2024 PCA customer receivable at the same time (i.e., "net clearing").

A. There are two justifications for why the Commission should allow net clearing. First, net clearing will provide greater benefits to customers than sequential clearing. Second, it is necessary for PSE's financial health.

A. Net Clearing Benefits Customers

Q. Please describe the benefits to customers of net clearing.

A. Net clearing provides many benefits to customers over sequential clearing, including:

Rate Stability
With net clearing, rates will remain more stable at about $76 million compared to current PCA rates at $76.4 million, while sequential clearing rates will first be reduced by $98.6 million, then increased by an estimated $120.4 million to clear the 2023 PCA customer payable and the 2024 PCA customer receivable, respectively.

Appropriate Price Signals
The closer in time the recovery is to the actual event that caused the costs to increase, the more likely customers will be able to correlate the event with the rate increase. If PSE is required to first lower its rates by $98.6 million or 3.5 percent, customers will not be receiving the right price signal of the upcoming 2024 customer deferral that is already evident customers will owe. The absence of appropriate price signals to customers would be highly detrimental especially in the face of additional known cost pressures outside of the PCA mechanism that will be further increasing PSE's rates, and which leads into

the next benefit of PSE's recovery proposal. Since so much of the proposed increase is tied to the January 2024 winter freeze, customers would more likely be able to make the connection to increased rates under the earlier start as opposed to waiting until 2026, or in this case, two years after the event took place.

Gradualism

Allowing PSE to utilize the pass-back of the 2023 PCA customer payable to partially offset the forecasted 2024 PCA customer receivable will provide for a gradual increase to rates considering other upcoming rate increases. Other upcoming rate and cost pressures aside from customer PCA deferrals include PSE's pending general rate case as a primary example. PSE has filed for an overall average 6.7 percent increase to become effective in January 2025.[23] The Commission has previously recognized gradualism as being in the public interest.[24]

Avoidance of Pancaking Rate Increases

As discussed in Section IV of my testimony, PSE's recovery proposal avoids customers having to experience a $120.4 million or 4.4 percent increase at the same time PSE's rates will be increasing in the second year of its proposed multiyear rate plan. By collecting the 2023 and 2024 PCA customer deferral balances together, it allows rates to remain more stable as PSE is currently recovering a similar sized customer receivable in current rates. As I discuss in more detail below, this effort to flatten the rate increase is also why PSE proposes to begin recovery of the net customer deferrals in October 2024, so as to dampen the impact of general rate case increase that will occur in January 2025.

Avoidance of Interest

Collecting the sizable forecasted 2024 PCA customer receivable earlier will reduce the interest cost associated with carrying the under-recovery until as late as the end of 2026. PSE is also paying interest on the $22 million customer payable for the 2023 PCA, but the 2024 PCA customer receivable far exceeds the payable. Please see Exh. SEF-6 for the calculation of the interest savings associated with PSE's recovery proposal. The benefit of the reduced interest alone is substantial, anticipated to save customers approximately $8.7 million.

---

[23] *See* Docket UE-240004.

[24] *WUTC v. Summit View Water Works, LLC*, UW-180801, Order 01 Allowing Revised Rates to Become Effective Subject to Conditions at ¶¶ 10-11 (Oct. 22, 2018) (recognizing the Commission's "long-standing consideration of gradualism in rates" and the importance of "implement[ing] rate changes gradually in order to avoid shock to ratepayers, as well as to companies.").

PSE believes that these many reasons alone are enough to approve its recovery proposal that utilizes net clearing. But there are additional considerations the Commission should take into account in its decision, as I discuss in the next section.

B. Net Clearing is Needed to Maintain PSE's Financial Health

Q. Please discuss how net clearing would help maintain PSE's financial health.

A. Cara Peterman provides testimony for how PSE's recovery proposal that utilizes net clearing will help maintain PSE's financial health. See Exh. CGP-1CT.

Q. Are PCA mechanisms designed to be supportive of a company's financial health?

A. Yes. The Commission has recognized in past orders that a company's financial health is part of the design of PSE's PCA Mechanism.

- In PSE's 2003 PCORC, which occurred when the PCA Mechanism was brand new, the Commission recognized that the mechanism was "designed to *promptly* and fairly *resolve cost-recovery issues* affecting ratepayers and *shareholders.*"[25] The reference to prompt recovery supports PSE's recovery proposal to recover the forecasted 2024 customer receivable before it is final as well as to begin recovery in October 2024.
- In PSE's 2004 general rate case, the Commission recognized that PSE must bear the cash flow consequences during periods of under recovery and that the PCA mechanism was meant to be fair to both shareholders and ratepayers.[26]

---

[25] *See WUTC v. Puget Sound Energy,* Docket UE-031725*,* Order 14 at ¶ 96 (May 13, 2004). Emphasis added.

[26] *See WUTC v. Puget Sound Energy,* Dockets UE-040640, *et al,* Order 06 at ¶ 106 (Feb. 18, 2005).

- In PSE's 2005 PCORC, the Commission recognized the PCA mechanism was designed to address the Company's financial stability.[27]

C. PSE'S Recovery Proposal

Q. What options did PSE consider when developing its recovery proposal?

A. PSE considered two options when determining its recommended approach to pass back the 2023 PCA customer payable. Both approaches net the forecasted 2024 PCA customer receivable of $98.2 million against the 2023 PCA customer payable of $22.2 million for recovery of the net $76 million receivable.[28] This compares to the $76.4 million that is currently in rates, essentially leaving the amount to be collected unchanged. The approaches were:

<u>Option 1: Collect combined 2023 and 2024 imbalances over 12 months in 2025</u>

Netting the 2023 and 2024 imbalances and collecting the $76 million leaves the total imbalance essentially unchanged and collects Schedule 95 supplemental rates beginning over 12 months instead of 13 months as is in rates currently, from January 1, 2025, through December 31, 2025. This method would allow for a smoother transition to recovering the combined deferral balances than would sequential clearing and satisfies many of the ratemaking principles discussed in Section V.A. However, it does not allow for as much gradualism as possible in light of the anticipated rate increases in

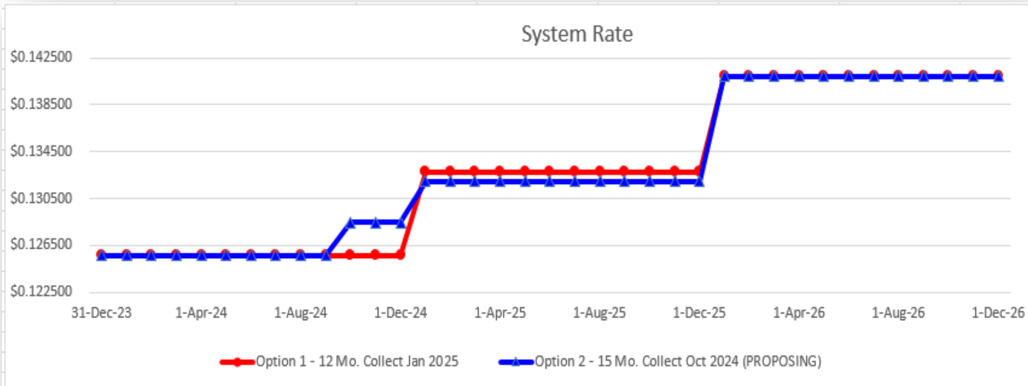
---

[27] *See WUTC v. Puget Sound Energy,* Docket UE-050870*,* Order 04 at ¶ 5 (Oct. 20, 2005).
[28] Line 8 on page 7 Exh. SEF-3, last column.

PSE's 2024 general rate case. It also delays addressing the Company's financial needs compared to the second option.

<u>Option 2: Begin collecting the net balance October 1, 2024, over 15 months.</u> The second option would also collect the net $76.0 million receivable and has all the benefits of the first option, but it provides better gradualism. This approach would begin collecting the $76.0 million net receivable on October 1, 2024, over fifteen months, through December 31, 2025. Extending the recovery period to fifteen months will align the end of the recovery period with the rate increase in the second year of PSE's multiyear rate plan in its 2024 general rate case. While beginning rate recovery of the PCA deferrals in October 2024 would result in a rate increase at that time, the rate increase would serve to better align rate levels with the future increases associated with PSE's general rate case and provides optimal gradualism; this is PSE's preferred option. Figure 1 below compares the two options. As one can see, Option 2 provides a step up in the latter half of 2024, which allows for a more moderate increase in 2025.

Figure 1: Recovery Proposal Comparison



Q. What is PSE asking the Commission to approve for recovery in this filing?

A. PSE proposes Option 2, to collect the 2024 forecasted PCA customer receivable at the same time it is passing back the 2023 PCA customer payable and to begin doing so effective October 1, 2024, after the Commission approves PSE's Petition.[29]

Q. What timeline is necessary to allow for rates to be changed on October 1, 2024?

A. The PCA timeline provides parties five months to review PSE's filing, which is a substantially similar length of time as a PCORC, which has historically taken five to six months to complete.

[29] PSE's PCA Annual Reports are to be filed in April each year and reviewed and approved by the Commission by September 30 of that year. See Exhibit A to the Petition, page 14, item 3.

D. Other Considerations

Q. How is PSE proposing to administer the early recovery of its forecasted 2024 PCA customer receivable?

A. PSE will true-up the forecasted 2024 PCA customer receivable to the amount allowed by the Commission in next year's PCA review. Depending on the size of the true-up, the residual balance can either be set in rates for recovery or pass back, or returned to customers beginning in October 2025 or it can be returned to the residual PCA customer deferral account for later dispensation.

Q. Please summarize the impacts of the proposed Schedule 95 Supplemental rates.

A. The recovery proposal presents a revenue increase of $75.9 million over October 2024 to December 2025 period. This translates to 1.81 percent overall increase from October 2024 to December 2024, since the proposed increase commences while the current Schedule 95 rate is in effect, and 0.10 percent overall increase from October 2024 to December 2025 (the full 15-month recovery period) due to the expiration of the current Schedule 95 rate post December 2024. A typical residential customer using 800 kWh on Schedule 7 will experience a $2.31, or 2.11 percent, increase per month from October 2024 to December 2024, and $(0.48), or 0.44 percent, decrease per month from October 2024 to December

2025.[30] These amounts include the changes to Schedule 139 discussed more fully below.

Q. When will the updates to the Schedule 95 tariff be submitted?

A. PSE has submitted the request to change rates with, or immediately following, this filing.

Q. Does PSE propose any changes to other tariff schedules as part of the recovery of the 2023 and 2024 imbalance?

A. Yes. In addition to proposing changes to the PCA Schedule 95 supplemental surcharge, PSE must update the supplemental credits for Green Direct customers. The PSE Green Direct Program customers and resources were excluded from the PCA Mechanism. Thus, the 2023 and estimated 2024 imbalance should not be charged to Green Direct Program customers and should only be charged to all other customers. The tariff changes to the Schedule 139 supplemental credit for Green Direct Program customers have also been submitted with this filing for approval by the Commission with the proposed effective dates of October 1, 2024, through December 31, 2024, and January 1, 2025, through December 31, 2025.

[30] Refer to NEW-PSE-PCA-WP-SEF-1T-SCH-95-Rate-Design-4-30-24.xlsx and NEW-PSE-PCA-WP-SEF-1T-SCH-139-SCH-95-2023-Imbalance-Collection-Credit-4-30-24.xlsx.

Q. Please summarize PSE's request related to recovery of the customer deferral.

A. Based on the many benefits to both customers and the Company, the Commission should approve PSE's recovery proposal. PSE requests that the Commission approve PSE's 2023 imbalance and the amount assigned to customers including interest. PSE also requests that the Commission approve PSE's proposed method to pass back the 2023 PCA customer payable as required under the PCA mechanism by netting it against the estimated PCA customer receivable for recovery through changes to Schedules 95 and 139 as discussed above and presented in Table 3 below. The estimated 2024 PCA customer receivable will be subject to true-up in next year's PCA review.

More specifically, PSE respectfully requests that, by September 30, 2024, upon resolution of this 2023 PCA Annual Compliance Filing, the Commission issue an order approving PSE's PCA Annual Report, as filed in this docket. PSE further requests that the Commission approve PSE's proposed methodology for passing back and recovering the customer deferral for both 2023 and 2024, which when grossed up for inclusion in rates, and interest is included, totals $76.0 million. The portion of the $76.0 million related to the estimated 2024 PCA customer receivable, or $98.2 million, will be subject to final review and approval in next year's PCA annual compliance filing to be filed in April 2025 once actual amounts are known. The difference between the forecasted imbalance recovered and the actual approved balance will be trued up either through pass-back or collection through the Schedule 95 supplemental surcharge or returned to the residual PCA customer deferral account for later dispensation.

Table 3 – Combined PCA 2023 and PCA 2024 Estimated Imbalances

2023 Imbalance (PCA 22)	Imbalance → RSI→ Grossed Up→ In Millions→	21,079,216 0.949348 $22,203,887 $22.2	Oct-24 to Dec-25 (15 months)	UE- 24XXXX
2024 ESTIMATED Imbalance (PCA 22)	Imbalance → RSI→ Grossed Up→ In Millions→	(93,219,368) 0.949348 ($98,193,042) ($98.2)	Oct-24 to Dec-25 (15 months)	UE- 24XXXX
2023-2024 COMBINED Imbalance (PCA 22)	Imbalance → RSI→ Grossed Up→ In Millions→	(72,140,152) 0.949348 ($75,989,155) ($76.0)	Oct-24 to Dec-25 (15 months)	UE- 24XXXX

VI. CLIMATE COMMITMENT ACT CONSIDERATIONS

Q. What considerations exist in this PCA filing related to the Climate Commitment Act ("CCA") related to PSE's electric operations?

A. Brennan Mueller discusses the impacts of the CCA on the 2023 and 2024 power costs, both for the CCA's impact on PSE's dispatch decisions as well as the estimated cost of CCA allowances to cover PSE's emissions associated with non-retail load. See Exh. BDM-1CT.

Q. Does this filing request recovery of CCA allowance costs?

A. No. This filing does not include a request to recover the allowance costs for 2023. Brennan Mueller discusses the challenges associated with estimating the emissions obligations that PSE will need to cover for 2023 and the status of the current estimate. PSE continues to defer allowance costs that have been estimated on a GAAP basis under the accounting petition approved under Docket UE-220974. While there appears to be an "over collection" from customers as part of this filing, PSE incurred electric emissions allowance obligations for 2023 pursuant to the CCA. PSE is unable to reflect this amount in the 2023 PCA Annual Report and, instead, it will be the subject of a future tariff filing. For more information on the electric emissions allowance obligations, see Exh. BDM-ICT.

VII. 2023 GREEN DIRECT REPORTING

Q. Why is PSE including Green Direct Reporting in this proceeding?

A. As part of Docket UE-160977, in which the Commission approved PSE's tariff Schedule 139 for its Green Direct program, the Commission noted that PSE "has committed to track all costs and benefits of Schedule 139 separately and identifiably in its Power Cost Adjustment mechanism."[31]

Q. What was the result of the proposed reporting in PSE's 2020 PCORC?

A. Parties reached a settlement agreement in PSE's 2020 PCORC, in which PSE's proposed tracking of costs and benefits associated with generation surplus or deficiency was accepted. This process is summarized in Exh. SEF-9 of PSE's 2020 PCORC.[32]

[31] Docket UE-160977, Order 1 at ¶ 10 (Sept. 28, 2016).
[32] *See also* Settlement Stipulation and Agreement in Docket UE-200980 at p. 4, item 1.g (April 2, 2021).

Q. What reporting has PSE included in this proceeding to satisfy the above?

A. PSE has included Exh. SEF-4C, which, on page one, provides the 2023 results of the costs and benefits associated with the power purchase agreements supporting the Green Direct Program. Exhibit SEF-4C also reports on the fixed costs and liquidated damages associated with the Green Direct program. See pages two and three of Exh. SEF-4C, respectively.

Q. Do you have an exhibit that explains the basis of this reporting and what information it provides?

A. Yes. Exh. SEF-5 is an explanation of the reporting included in Exh. SEF-4C, which follows the methodology agreed to in the PCORC settlement.

Q. Does Exh. SEF-4C show that PSE has complied with both RCW 19.29A.090(5) and Paragraph 296 of Order 08 in Docket UE-190529?

A. Yes. Exh. SEF-4C shows that all costs and benefits associated with PSE's Green Direct program were allocated to the customers who voluntarily chose that option and were not shifted to non-participating customers. Additionally, it shows costs and benefits associated with the over- and under-generation of the PPAs associated with the Green Direct Program were allocated exclusively to participating customers.[33]

[33] A $0 on page one, line 45, of Exh. SEF-4C provides a check that ensures costs and benefits are appropriately handled within the PCA Mechanism.

Q. Is PSE proposing to defer the costs and benefits of the Green Direct program reflected in Exh. SEF-4C?

A. No. Exh. SEF-4C is presented for reporting purposes only. The pricing structure of the Green Direct program is set to recover costs and benefits over the life of the program. Therefore, further adjustments or deferrals are unnecessary.

Q. Does PSE believe any further approvals are required with regard to reporting of PSE's Green Direct program?

A. No. PSE believes that by approving this Annual PCA Compliance Filing, the method and content of reporting for the Green Direct Program included in Exh. SEF-4C will be deemed adequate by the Commission.

VIII. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.