EXH. SEF-5
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____**

FOURTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

APRIL 30, 2024

PUGET SOUND ENERGY

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

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

Overview

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

RCW 19.29A.090 (5)

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

Paragraph 296 of Order 08 in Docket UE-190529

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

PCA Tracking Related to the Green Direct Program

In order to adhere to the above requirements, PSE proposed the following within its 2020 Power Cost Only Rate Case "PCORC" (Docket UE-200980) and which remained unchanged in the settlement agreement included in Appendix C to Final Order 24/10 in PSE's 2022 general rate case, Docket UE-220066:

- The cost of the Power Purchase Agreements ("PPA") with the Skookumchuck Wind Energy ("Skookumchuck") project and the Lund Hill Solar ("Lund Hill") project that are used to serve Green Direct customer loads are not included in the power cost baseline rate or the rate request.

- As the variable costs of the program are not included, the corresponding loads associated with Green Direct customers are not included in the loads that are used to calculate baseline power costs in SEF-3C, page three.

PSE conducts the following process on a monthly basis to properly segregate these costs and benefits from actuals for ratemaking and reporting purposes.

There are three fundamental scenarios that could occur under which accounting and tracking are required. While all scenarios may or may not occur in a PCA period, each is described below:

I. If PPA generation is lower than Green Direct customer usage ("short")

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

II. If PPA generation is greater than Green Direct customer usage ("long")

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

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

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

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

The first section on page one of Exh. SEF-4C, lines 4 through 35, represents information and entries related to the Green Direct Program that occurred naturally as part of PSE's existing accounting processes.

The second section of Exh. SEF-4C, lines 37 through 61, represents the additional entries that were made in order to neutralize and isolate any Green Direct costs and benefits that occur naturally as part of PSE's accounting processes shown in the first section. A $0 on line 45 which adds together all of the lines with PCA designations under the "Mechanism" subheading (lines 27, 28 and 39) checks to ensure that there are no Green Direct Program costs or benefits included in the PCA.

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

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

Lines 12 through 17 present RECs that result from either the PPAs or from purchases made by PSE.

Lines 19 through 21 present prices for the PPAs and market power (at the average day ahead index for the month) that are used in the additional entries presented in the second section of the report.

The journal entries that occur based on the information presented in lines four through 21 described above are shown on lines 23 through 31. Within these lines the information under the additional subheadings "Mechanism" and "When" in columns D and E should be interpreted as follows:

> "Mechanism" indicates whether the journal entries can be initially booked directly to Green Direct and are therefore already properly isolated (as indicated by "GD") or the entries are initially booked as part of a portfolio entry and thus require an additional entry in the second section in order to be appropriately neutralized (as indicated by "PCA").
>
> "When" indicates under which scenario the entries are booked. "Always" indicates it is relevant under all scenarios. "Long" indicates it only occurs in a long scenario. And "Short" indicates it only occurs in a short scenario.

A description of these journal entries under each scenario as well as the additional entries that are in the second section on lines 37 through 41 that were used to neutralize and isolate associated costs and benefits labeled as “PCA” under the “Mechanism” heading are described as follows:

<u>Scenario 1 – Short Position (PPA generation is less than Green Direct Usage)</u>

A short position occurs when the generation of the PPAs falls short of Green Direct Program customer usage. Cumulative generation of the PPAs for 2023 is less than the Green Direct usage by 17,807,132 kWhs, as shown in column T, line eight, of page one of Exh. SEF-4C. The process that is followed under this scenario is described as follows:

<u>Payment for PPAs</u>

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

<u>Market Purchases of Energy to Cover the Short Position</u>

In order to cover the additional usage, PSE will need to purchase additional energy on the market. The market purchases will be made as part of PSE’s portfolio purchases and not be separately identifiable. This is reflected on line 28 with a PCA designation as a charge to FERC 555 with portfolio purchases and is valued at the Market Rate per kWh on line 21.

<u>Reclassify Short Purchase from PCA to the Green Direct Program</u>

Due to the preceding entry, there is now a Green Direct Program related cost in the portfolio used to serve non-participating customers. Therefore, an entry is required to reclassify these purchases out of the PCA to the Green Direct Program. This entry is shown on lines 39 and 40 and is valued at the Market Rate per kWh shown on line 21.

Check Total is Zero

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

Scenario 2 – Long Position (PPA generation is greater than Green Direct Program Usage)

A long position occurs when the cumulative generation of the PPAs for the period is greater than the Green Direct Program usage.

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

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

Payment for PPAs Above the Amount of Green Direct Program Usage

The second part of the payment for the PPAs would go to another FERC 555 order, also with a GD designation that is only used in long scenarios as shown on line 26.

Presumed Sale of Excess PPA Generation

If there has been excess generation from the PPAs, this generation would presumably be sold as part of PSE's portfolio transactions. This long-position only transaction with a PCA designation is reflected on line 27 and is valued at the Market Rate per kWh on line 21.

Reclassify Long Sale from PCA to the Green Direct Program

Due to the preceding entry, a Green Direct related benefit in the portfolio occurs and is used to serve non-participating customers. Therefore, an entry is required to reclassify these sales that are recognized in FERC 456 out of the PCA to the Green Direct Program. This long-position only entry is shown on lines 39 and 41 and is valued at the Market Rate per kWh shown on line 21.

Check Total is Zero

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

Scenario 3 –Purchases of RECs

Banking RECs in a Long Position

A quarter-end in which the Green Direct Program's year-to-date position is long would result in PSE owning unapplied RECs from the PPAs related to the Green Direct Program. In these instances, PSE would value the RECs and consider recording them on PSE's books as a debit to FERC 555 and a credit to FERC 253 to hold them until they can be applied to future Green Direct Program usage. This is shown on row 59 with a GD designation and is valued based on the indicative December 31, 2023 price of a Green-e WA/PNW REC generated in 2023 at a weighted average price per banked REC reflected on line 17. This entry would be an accrual that reverses in the next month until the position is evaluated again at the next quarter-end.

Purchasing RECs in a Short Position

A quarter-end in which the Green Direct program's year-to-date position is short would result in PSE being in a position to purchase RECs on behalf of the Green Direct Program customers. As the quantity of RECs required to cover usage is analyzed on a long term basis (rather than month-to-month), it is not required that PSE purchase RECs monthly for short positions. However, if it is determined that REC purchases are required for the long-term horizon, their costs would be recorded at their purchase price to a Green Direct order in FERC 557 with a GD designation as shown on line 31.

Summary of Reporting

As shown on lines 48 through 51, the following summarizes the outcome of the 2023 Green Direct report:

Although generation was short for the twelve months of 2023, generation was cumulatively long since inception at the quarter-end December 2023, and RECs from the PPAs were banked outside of the PCA.

Other Reporting and Tracking Considerations

Other items related to the Green Direct program are also reported in subsequent tabs of Exh. SEF-4C as follows:

Fixed Costs of the Program

PSE committed[1] that the fixed costs of the program such as administrative costs and depreciation related to billing software will be tracked in separate orders and will be excluded from the revenue requirement when setting rates in a general rate case or other proceeding. PSE has included supplemental reporting on the amount of Green Direct fixed costs for 2023 on page two of Exh. SEF-4C as a requirement to which PSE previously committed.[2]

Liquidated Damages

The balance and activity of PSE's liquidated damages received under the Skookumchuck project are reported on page three of Exh. SEF-4C as PSE committed to in Docket UE-200865.[3]

[1] Docket UE-190529, Exh SEF-17T at 89:18-23.
[2] Docket UE-200980, Exh. SEF-9 at 6:29-31.
[3] Docket UE-200865, Revised Accounting Petition at ¶ 14.