EXH. SEF-1T
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____**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

DECEMBER 9, 2020

PUGET SOUND ENERGY

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF SUSAN E. FREE

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PUGET SOUND ENERGY

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF SUSAN E. FREE

I. INTRODUCTION

Q. Please state your name, business address, and present 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").

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

A. Yes. Please see the First Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-2.

Q. What is the nature of this prefiled direct testimony in this proceeding?

A. This prefiled direct testimony describes adjustments for changes in PSE's power supply and fixed production costs that are included in the proposed Power Cost Baseline Rate ("Baseline Rate"), including the rate impact of: (1) increasing gas prices, (2) new power purchase agreements ("PPA"), (3) increasing costs of existing PPAs, (4) new and renewed transmission agreements, and (5) decreasing loads. These increases are being offset by decreases in production plant and regulatory assets.

The total rate increase resulting from these adjustments is $78.5 million, an average increase of 3.69 percent over the rates set in PSE's 2019 general rate case in Dockets UE-190529, *et al*.

In addition, this prefiled direct testimony presents the results of the collaborative that addresses reporting of PSE's Green Direct Program and documents the assignment of program costs and benefits as directed by the Commission in its Final Order 08 in Dockets UE-190529, *et al*.[1]

II. POWER COST ONLY RATE CASES

Q. What is a power cost only rate case?

A. A power cost only rate case ("PCORC") is a component of the Power Cost Adjustment Mechanism ("PCA") that was initially approved in a settlement in PSE's 2001 general rate case, Dockets UE-011570 and UG-011571.[2] The PCA distinguishes between power costs and all other costs included in general rates and categorizes power costs between variable power costs and fixed production costs.[3] A PCORC is a periodic, expedited, rate proceeding that trues up all power costs and allows new resources into the PCA Power Cost Baseline Rate.[4]

The use of the PCORC has been reviewed and affirmed by the Commission and parties on multiple occasions, since its inception in 2002. In 2007, the

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1 *WUTC v. Puget Sound Energy*, Dockets UE-190529, *et al*., Order 08, at ¶296 (July 8, 2020) (the "2019 GRC Final Order").

2 *See WUTC v. Puget Sound Energy*, Dockets UE-011570 & UG-011571 (consolidated), Twelfth Supp. Order (June 20, 2002).

3 *See* Free, Exh. SEF-3, at 29.

4 *See id.* at 30.

Commission upheld PSE's use of the PCORC in response to challenges by Public Counsel and the Industrial Customers of Northwest Utilities.[5]

More recently, the PCA mechanism and PCORC were modified in a revised settlement agreement entered into by parties and approved by the Commission in Docket UE-130617. The Second Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-3, provides the 2015 Commission order approving the settlement, including Appendix A with its Attachment A ("2015 PCA Settlement"). Among other things, the 2015 PCA Settlement authorizes the continued use of a PCORC as a method for adjusting rates for power costs.[6] Additionally, the parties agreed to a five-year moratorium through January 2022 in which the PCA and PCORC would continue unchanged from the manner agreed to in the 2015 PCA Settlement.[7]

Q. How is the Power Cost Baseline Rate adjusted?

A. Independent of the yearly accounting and adjustment for power cost variances provided for within the PCA mechanism, PSE may also apply to the Commission to true up the Power Cost Baseline Rate to all power costs identified in a PCORC. In order to true up the Baseline Rate, the 2015 PCA Settlement requires, among other things, testimony and exhibits that include:[8]

- Adjustments to the fixed rate components of the Baseline

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5 *See WUTC v. Puget Sound Energy*, Dockets UE-072300 & UG-072301 (consolidated), Order 13 (Jan. 15, 2009).

6 *See* Free, Exh. SEF-3, at 30 (2015 PCA Settlement item 6).

7 *See id.* at 7, 20, 21.

8 *Id.* at 30.

Rate; and

- Adjustments to the variable rate components of the Baseline Rate.

This prefiled direct testimony provides this required information in support of PSE's present application to true up its Baseline Rate through this PCORC.

Q. Are there elements of the PCORC that PSE would specifically like to address?

A. Yes. There are several elements of the PCORC that should be noted. First, the PCORC is intended to be an expedited proceeding, which provides for a final order within six months after filing. In Order 13 in PSE's 2007 general rate case, the Commission accepted a proposal by PSE and Commission Staff to extend the expected procedural schedule for a PCORC from five to six months.[9] No changes were made to this expedited schedule in the 2015 PCA Settlement.

Second, PSE is permitted to update power costs once during the course of a PCORC. In the 2015 PCA Settlement, parties agreed to the filing of one power cost update during a PCORC proceeding, with an additional update allowed as part of the compliance filing if the Commission determines the update is necessary due to changes in gas costs and orders that such update be made as part of the compliance filing.[10]

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[9] *WUTC v. Puget Sound Energy*, Dockets UE-072300 & UG-072301 (consolidated), Order 13, at ¶¶ 44 & 45 (Jan. 15, 2009).

[10] *See* Free, Exh. SEF-3, at 30.

Third, for a period of five years ending December 31, 2022, the 2015 PCA Settlement prevents PSE from filing a PCORC or general rate case within six months of the rate effective date of the PCORC.[11] Other than this change, there were no changes made to the PCORC mechanism.[12]

Q. Given the abbreviated schedule for a PCORC, what is a reasonable expectation for how the procedural calendar for this proceeding might be structured?

A. Based on procedural calendars that have previously been set in PSE's PCORC proceedings,[13] PSE would begin by conducting a work shop sometime in January to help familiarize parties with the content and structure of the filing. PSE would update power costs in a supplemental filing at the beginning of February as discussed in more detail in the Prefiled Direct Testimony of Paul K. Wetherbee, Exh. PKW-1CT. A settlement conference would be scheduled for the end of February with response testimonies due at the beginning of March. PSE's rebuttal and parties' cross-answering testimonies would be submitted approximately three weeks later with the hearing to follow at the beginning of April. There have typically been two rounds of briefings, which in this case could occur by the end of April. To adhere to the expected six-month timeline and consistent with previous PCORC procedural calendars, an order issued by Friday, May 21, 2021

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[11] Free, Exh. SEF-3, at 20, 33.

[12] *See id.* at 20, 33.

[13] Per Paragraph 48 of Order 13 in Docket UE-072300, discovery responses are due within five business days. Prior procedural calendars have reduced response times to four business days once response testimonies are filed.

would allow for a compliance filing to occur for rates to be effective June 1, 2021, the beginning of the rate year used in this proceeding.

III. OVERVIEW OF PSE'S REQUEST

A. PSE's Revenue Deficiency

Q. Please provide an overview of the deficiency PSE is requesting to recover in this proceeding.

A. PSE's overall deficiency in this proceeding is $78.5 million,[14] which is calculated in the Third Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-4. This equates to a 3.69 percent rate increase.[15] Section VII of this prefiled direct testimony provides a description of the calculation of the deficiency.

The deficiency is comprised of two categories. First are variable power costs that are tracked in PSE's PCA mechanism. The variable power costs are predominantly supported by the Prefiled Direct Testimony of Paul K. Wetherbee, Exh. PKW-1CT. The deficiency for variable power costs is $88.4 million.[16]

Second are fixed production costs, which are recovered through the Fixed Power Cost Revenue Decoupling Adjustment in PSE's Revenue Decoupling Adjustment Mechanism under Electric Tariff Schedule 142. There is a surplus of $9.9 million

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[14] *See* Free, Exh. SEF-4, at 1:42.
[15] *See id.* at 1:46.
[16] *See id.* at 1:26.

for fixed production costs.[17] Therefore, the overall deficiency requested in this proceeding is $78.5 million.[18]

The Sixth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-7, provides an overview of the overall deficiency by detailed category.

Q. How have variable power costs changed since the 2019 general rate case?

A. As discussed in the Prefiled Direct Testimony of Paul K. Wetherbee, Exh. PKW-1CT, variable power costs total $760.4 million, which is $8.7 million higher than the $751.7 million approved in PSE's 2019 general rate case.[19]

Q. How does the change in total power costs impact this power cost only rate case?

A. Although the $8.7 million increase in variable power costs represents a 1.2 percent increase, the increased power costs are being used to serve the rate year load in this case that is a full ten percent lower than the rate year load in the 2019 general rate case, thus increasing the unit cost of power. Please see the Prefiled Direct Testimony of Paul K. Wetherbee, Exh. PKW-1CT, for a discussion of the causes for the increasing unit cost of power. The increasing unit cost of power (i.e., the combined impact of higher costs and lower loads) results in a total revenue deficiency for variable power costs of $88.4 million.[20]

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17 *See id.* at 1:40.
18 *See id.* at 1:42.
19 *See* Wetherbee, Exh. PKW-3C.
20 *See* Free, Exh. SEF-7, at 1:59.

B. Declines in Customer Load

Q. Please explain what PSE has observed and is forecasting related to declines in customer load.

A. PSE's load in the current test year[21] is four percent lower than the test year load from the 2019 general rate case.[22]

As described in more detail below, the test year and the rate year loads for the current case exclude loads totaling 679,000 MWhs and 723,000 MWhs, respectively, for PSE's customers taking service under Schedule 139 Voluntary Long Term Renewable Energy Purchase Rider, whereas Schedule 139 customer loads were included in PSE's 2019 general rate case loads. Nonetheless, even if Schedule 139 loads were not removed in this proceeding, test year delivered loads are flat between rate cases.

Q. What is the reason for lower loads?

A. According to PSE's officially approved forecast, for the current case, loads are projected to be lower for the rate year than loads for the test year. This is primarily due to the assumptions regarding the economic impact of the COVID-19 pandemic.

Economic assumptions included in the load forecast are that the economic downturn is greatest in 2020 and gradually recovers from 2021 to 2023. These

[21] The test year for this case is July 1, 2019, through June 30, 2020.
[22] *See* Free, Exh. SEF-7, at 1:42.

assumptions are based on the May 2020 Moody's Analytics economic outlook (the time at which the forecast was developed). The impacts of the economic downturn are disproportionate among customer classes with the commercial class loads being impacted more than other classes, such as residential. The forecast for commercial loads is largely driven by economic projections of employment, which has been severely affected by the COVID-19 pandemic and is projected to continue to be affected for the next several years.

Q. What factors have caused the decline in load between the 2019 general rate case and PCORC rate years?

A. The decline in load between rate years developed gradually starting before the filing of PSE's 2019 general rate case. Table 1 below depicts the decline in load between the two rate years.

Table 1. Decline in Load Between GRC and PCORC Rate Years

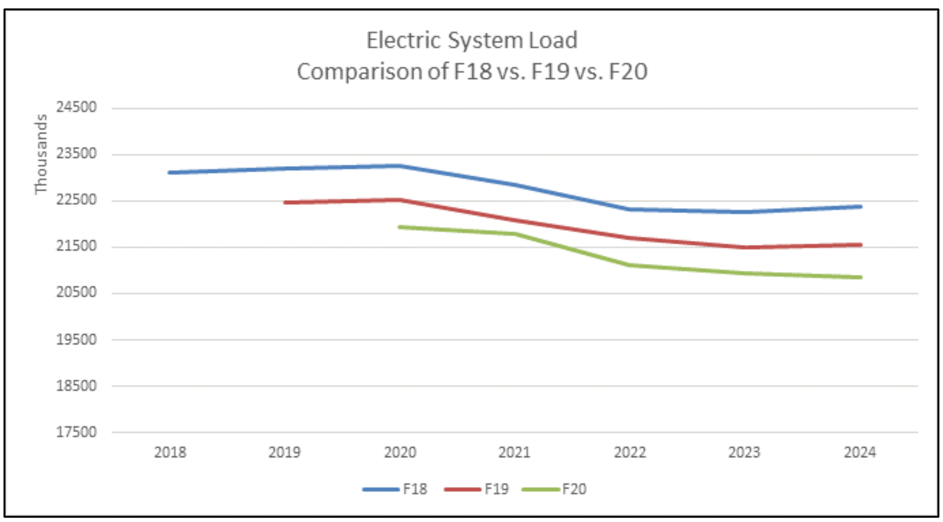
Description	Reference	Full Load in MWhs	% Change
GRC RY May 2020 - April 2021 based on F18	a	23,152,655	
PCORC RY June 2021 - May 2022 based on F20	b	21,526,352	
Decrease	c = b – a	(1,626,303)	-7%
Green Direct	d	(723,147)	-3%
Total PCORC MWh in PKW Testimony	e = b + d	20,803,205	
Total Difference with Green Direct Adjustment	f = c + d	(2,349,450)	-10%

The 2019 general rate case rate year load was 23.15 billion kWh and was based on PSE's F18 forecast, which was approved in July of 2018. Using the same F18 forecast, the period of the PCORC rate year within that forecast was expected to be 2.8 percent below the GRC rate year level due in large part to anticipated economic softening.

PSE's next forecast, the F19 forecast, was approved in June 2019.[23] This updated forecast assumed similar growth rates as the F18 forecast, but was characterized by a downward shift in overall load of approximately three to four percent, as the F18 forecast proved to have been over-forecasting commercial loads. Changing to the F19 forecast resulted in a further reduction to the forecast for the period covered by the PCORC rate year by another 2.8 percent, for a total 5.6 percent difference from the general rate case rate year levels.

The load forecast used for this proceeding, the F20 forecast, was approved in July 2020 and forecasted a further decline from the GRC rate year from the F18 forecast of 1.3 percent. Overall, these changes between approved forecasts make up approximately seven percent of the ten percent decrease. Figure 1 below depicts the changes between forecasts.

Figure 1. Electric System Load



[23] As general rate cases take many months to prepare prior to filing, the F19 forecast, which was approved the same day the general rate case was filed, was not approved in time to be utilized in the 2019 general rate case.

Seven percent of the decline in rate year loads is due to the gradual change in approved forecasts over time as discussed above. The remaining three percent is due to the removal of Green Direct loads.

C. Fixed Production Costs Have Decreased

Q. How have fixed production costs changed since the 2019 general rate case?

A. Fixed production costs have decreased since the 2019 general rate case. In this proceeding, the impact on the deficiency for the decline in fixed production costs is $9.9 million,[24] which is primarily due to declines in production rate base.[25]

These declines are the result of updating rates for the retirement of Colstrip Units 1 and 2 and using Production Tax Credits ("PTCs") to more than fully offset the unrecovered plant balance for these units. Additionally, the decline in rate base is due to growth in accumulated depreciation that exceeds the net additions to production rate base since the 2019 general rate case.

D. The PCORC Will True Up PSE's Baseline Rate

Q. Why is it important to true up PSE's Baseline Rate in this proceeding?

A. PSE's Baseline Rate should be updated so that the rate customers pay for power costs are set as near as possible to PSE's actual power costs. If the Baseline Rate is not trued up in this proceeding, under-recoveries and customer deferrals will continue. PSE under-recovered power costs in 2019, resulting in a current PCA

[24] *See* Free, Exh. SEF-4, at 1:40.
[25] *See* Free, Exh. SEF-7, at 1:11 & 20.

receivable of $42 million. The Commission approved this receivable in PSE's power cost report in Docket UE-200398 and granted recovery of this receivable in Docket UE-200893. PSE has also under-recovered its power costs in 2020, with a year-to-date under-recovery as of September 30, 2020 of $51.5 million and a customer deferral of $21.8 million.[26] Truing up the Baseline Rate in this proceeding will counteract the continued growth of receivables from customers under the PCA mechanism.

Furthermore, the Commission has expressed its desire to set power cost rates as close as possible to the rate year levels.[27] Although power costs were recently set in PSE's 2019 general rate case, increases in gas costs, reductions in load, and newly-acquired resources that were outside of the GRC rate year are continuing to drive PSE's under-recoveries. As such, the true-up of PSE's Baseline Rate in this proceeding is an efficient and appropriate method for re-aligning PSE's Baseline Rate with its expected power costs to minimize customer deferrals from power cost under-recovery.

[26] Amounts are before interest and revenue sensitive items.
[27] *See, e.g.*, *WUTC v. Puget Sound Energy*, Dockets UE-111048 & UG-111049, Order 08 (May 7, 2012).

E. The PCORC Will Not Cause PSE to Over-Earn

Q. Historically, have PCORC proceedings incorporated discussion or monitoring of revenues and costs that are not set in a PCORC?

A. No. The parameters for a PCORC do not address revenues or costs that are not set in a PCORC. In prior proceedings, neither PSE nor any intervening party have previously sought to monitor revenues or costs that are not set in a PCORC.

Q. What is the reason for referencing non-PCORC items in this prefiled direct testimony?

A. Under the PCA Settlement agreements that were approved by the Commission and created the PCORC in 2002, and modified the PCORC in 2015, it is neither necessary nor appropriate to discuss or monitor non-PCORC related items in a PCORC. However, in recent cases, Commission Staff has advocated that a company is required to establish that its current rates are not fair, just, reasonable, and sufficient as a "threshold requirement".[28] Although this PCORC is largely driven by the need to realign PSE's Baseline Rate to its anticipated costs, which is important whether or not Staff's proposed "threshold requirement" is met, PSE will provide additional information to demonstrate that PSE is under-earning and is not expected to over-earn if the Commission grants PSE's PCORC rate request.

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[28] *See, e.g. WUTC v. Puget Sound Energy*, Dockets UE-180532 and UG-180533; *WUTC v. Cascade Natural Gas Co.*, Docket UG-200568.

Q. Will PSE's recent rate change from its 2019 general rate case coupled with the increase requested in this proceeding result in PSE over-earning?

A. No. The Tenth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-11, presents an analysis that shows PSE is not expected to over-earn as a result of its requested rate increase in this proceeding, even when considering its recent GRC rate change. Page one of Exh. SEF-11 provides a comparison of a high level estimate of PSE's earnings after consideration of its GRC rate change[29] compared to the incremental revenues requested in this proceeding.[30] The negative amount of $2.4 million resulting from this comparison[31] indicates that PSE will be under-earning despite the increase requested in this case.

Q. Please explain how PSE prepared the analysis in the Tenth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-11.

A. Fundamentally, the analysis in Exh. SEF-11 takes an estimate of PSE's current under-earnings, which incorporates expected net new revenues from PSE's recent general rate case.[32] It then determines the amount of incremental revenues that would result if PSE's PCORC request is granted[33] to ensure that it would also not result in PSE over-earning. The negative amount of $25.8 million[34] reflects PSE's expectation that it will not over-earn as a result of new rates from its general rate

[29] *See* Free, Exh. SEF-11, at 1:9-15.
[30] *See id.* at 1:18-24.
[31] *See id.* at 1:27.
[32] *See id.* at 1:15.
[33] *See id.* at 1:24.
[34] *See id.* at 1:15.

case. The negative amount of $2.4 million[35] reflects PSE's expectation that it will not over-earn if the rates PSE is requesting in this proceeding are granted.

Q. How did PSE determine the current estimated under-earnings on page one, line 11, of the Tenth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-11?

A. Line 11 on page one the Tenth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-11, is supported by the amounts provided on page six of the exhibit. Page six provides an estimate of what PSE's earnings sharing[36] would be if measured on the twelve months ended June 30, 2020, the test year in this proceeding. The calculation reflects that PSE would under-earn by over 60 basis points.[37] This earnings short-fall represents $46.3 million of under-earnings.[38]

Q. What adjustments were made in determining the current estimated under-earnings on page six?

A. PSE's earnings sharing mechanism is based for the most part on actual results.[39] Therefore, only a few adjustments of material consequence are required to actual results (i.e., adjusting to include the tax benefit of interest[40] and adjusting taxes to

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35 *See id.* at 1:27.
36 Calculated in the same manner as PSE's earnings sharing mechanism that is tied to its decoupling mechanism.
37 *See* Free, Exh. SEF-11, at 6:43.
38 *See id*. at 6:45.
39 *WUTC v. Puget Sound Energy*, Dockets UE-170033 & UG-170034, Order 08 at ⁋ 313 (Dec. 5, 2017).
40 *See* Free, Exh. SEF-11, at 6:28.

the current effective tax rate[41]). Additionally, an adjustment for the equity adder for the Centralia Coal Transition PPA that is included in PSE's revenues, for which there is no recorded cost on PSE's books, is made in its earning sharing mechanism.[42]

Q. What other adjustment did PSE make to the current estimated under-earnings calculation?

A. During the twelve months ended June 30, 2020, PSE deferred depreciation expense on its Advanced Metering Infrastructure investment pursuant to a settlement agreement in PSE's 2018 Expedited Rate Filing in Docket UE-180899. In PSE's 2019 general rate case, the Commission ordered that PSE could no longer defer these expenses.[43] Accordingly, PSE made an adjustment to reverse the deferrals which occurred during the period,[44] in recognition that depreciation expense for AMI investment will no longer be deferred.

Q. How did PSE determine the $20.4 million of new GRC revenues?[45]

A. Because the twelve months ended June 30, 2020, does not include the new revenues from PSE's GRC that became effective October 15, 2020, an adjustment needs to be made to the under-earnings estimate[46] to include the new revenues

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[41] *See id* at 6:15-18, 32 & 35.
[42] *See id* at 6:21-22.
[43] *WUTC v. Puget Sound Energy*, Dockets UE-190529 & UG-190530, Order 10 at ⁋ 7 (July 31, 2020).
[44] *See* Free, Exh. SEF-11, at 6:25-26.
[45] *See id*. at 1:13.
[46] *See id*. at 1:11.

from the GRC that are not offset by new costs from the GRC that are also not reflected in the twelve months ended June 30, 2020. Page three of the exhibit provides the determination for the $20.4 million of net new GRC revenues reflected on page one, line 13. Line 7 of page three reflects the $56.5 million of electric deficiency prior to mitigation that was granted in PSE's GRC compliance filing. This amount is supported on line 71 of page four.

Page four depicts the amounts included in PSE's GRC compliance filing filed on September 23, 2020, compared to the amounts included in Revised Appendix A in Order No. 10. The mitigation amounts on lines 72 and 73 of page four are not used as they represent amounts that have no impact on net operating income; the decrease in revenues is matched with a corresponding decrease in costs that occurs when the rates became effective and thus these items have no impact on earnings.

Q. Please continue describing how PSE determined the net new GRC revenues on page three of the Tenth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-11.

A. Similar to the mitigation revenues on lines 72 and 73 of page four, there are other revenue amounts that will cover costs that will begin when the rates became effective for which there is no corresponding cost in the twelve months ended June 30, 2020. Lines 10 through 12 on page three lists certain of those costs, namely AMI, "Get to Zero" ("GTZ") and new storm amortizations, that should be removed from the $56.5 million of GRC increase as they have no impact on earnings. These amounts are supported on pages four and five of the Tenth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-11.[47]

After reduction for new costs, the net new GRC revenues are $20.4 million, as shown on line 14 of page three. These net new GRC revenues will not create over-earnings when compared to the current estimated under-earnings of $46.3 million as shown on line 15 of page one.

Q. Please explain how PSE determined the incremental PCORC revenues on line 24 of page one of the Tenth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-11.

A. PSE is currently substantially under-recovering its power costs in the PCA, and PSE expects this under-recovery to continue. Please see the Eleventh Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-12C, for PSE's Response to an informal data request from Public Counsel in Docket UE-200893, which provides additional information related to PSE's expected PCA under-recoveries. Due to this expected under-recovery, the $88.4 million of additional variable PCA revenues will be used to mitigate these under-recoveries, thus making the revenues subject to the PCA sharing bands.

Page two of Exh. SEF-11 provides the determination of the share of the additional PCORC revenues that would accrue to PSE when taking the PCA sharing bands into consideration. Line 11 on page two of Exh. SEF-11 shows that due to the

[47] New storm amortization is from Exh. SEF-11, page five, line 61, divided by the conversion factor for revenue sensitive items on page six.

sharing bands, $33.3 million of the requested variable increase accrues to PSE. Once the $9.9 million of fixed production cost reduction from Exh. SEF-4, line 40, is taken into consideration, a net $23.5 million of incremental PCORC revenues results, as shown on Exh. SEF-11, page one, line 24.

Q. What can be concluded from the analysis presented in Exh. SEF-11?

A The analysis demonstrates that PSE does not expect to over-earn even after new revenues from its recent general rate case and this PCORC request are taken into consideration.

IV. DEVELOPMENT OF THE UPDATED POWER COST BASELINE RATE

Q. Please describe the adjustments used to determine the new Power Cost Baseline Rate.

A. The Fourth Exhibit to the Prefiled Direct Testimony, of Susan E. Free, Exh. SEF-5, summarizes the adjustments used to determine the new Power Cost Baseline Rate. As stated earlier, the PCA makes a distinction between: (i) power and production costs, as determined in a PCORC; and (ii) all the other costs included in general rates.

In both a general rate case and a PCORC, PSE uses a future rate year to determine the variable power costs and then pro forms those costs back to the test year using a production factor, an overview of which is provided in the Seventh Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-8. Please see the Fourth

Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-5, for a summary of the power cost adjustments and production costs using this methodology. As previously discussed, the rate year used for these adjustments is June 1, 2021, through May 31, 2022, and the test year is the period July 1, 2019, through June 30, 2020.

Q. Please explain the Fourth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-5.

A. The first column of page one of the Fourth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-5, titled "Test Year 12 months ended June 30, 2020," shows the rate base, power costs and production costs from the test year that will be considered in setting the Baseline Rate. The columns to the right of this first column show the impact of the adjustments PSE is proposing for the rate year. These adjustments are presented in more detail on the succeeding pages referenced in the title of each column. The total of the test year amounts plus the adjustments is shown in the column titled "Adjusted Amounts" on page two of the Fourth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-5. This column represents the costs to be used in determining the Baseline Rate, which in turn is used to calculate the required rate increase or decrease. These are the same amounts shown in the Fifth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-6, "Exhibit A-1 Baseline Rate."

Q. Please explain how this filing was prepared.

A. Consistent with prior PCORCs, PSE used the following steps to determine the revenue requirement for this proceeding:

1. **<u>Test Year Results of Operation</u>** – PSE started with the test year results of operations for the twelve months ended June 30, 2020. PSE's production and transmission rate base was developed using the historical average of the monthly average ("AMA") of the balances for the 13 months ended June 30, 2020. As is discussed later, to be consistent with the treatment of rate base in PSE's 2019 general rate case, the average net plant in service balances were adjusted to the end of period ("EOP") balances as of June 30, 2020. As is noted below, reflecting plant rate base on an EOP basis increases the revenue surplus for fixed production costs in this proceeding. Expenses were based on actual results during the test period consistent with fixed and variable costs as reported in PSE's 2019 general rate case Exhibit A-1.

2. **<u>Adjustments</u>** – PSE prepared adjustments to adjust the test year operating results to reflect the results on a basis the Commission accepts for determining rates in a power cost only rate case. The adjustments are necessary to annualize ongoing costs that PSE began to incur part way through the test year and to adjust the balances to normalized levels consistent with historical ratemaking practices.

V. ADJUSTMENTS TO TEST YEAR POWER COSTS

Q. Please describe each of the adjustments presented in the Fourth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-5.

A. The adjustments are:

<u>A. Power Cost – Adjustment-1 (Exh. SEF-5, pages three through five)</u>

The increase to test year power costs is included on page three of the Fourth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-5, and totals $58.4 million. Test year amounts were determined as discussed above and are also summarized on page four of the same exhibit. Rate year amounts are determined on page five of the same exhibit. Variable amounts included on page five have been adjusted to test year power cost levels by application of the production factor.

Q. How was the production factor determined and applied?

A. As discussed in the overview provided in the Seventh Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-8, the production factor is determined by dividing the test year normalized delivered load by the projected rate year delivered load. The factor is then applied to the variable power costs that were developed based on the projected rate year total load. The application of the production factor is necessary as the rates are developed using the test year normalized delivered load. If a production factor is not applied, the rates developed on test year loads when applied to the rate year loads on which they will be collected, will result in an amount that is different than the approved power cost amounts. Therefore, adjusting the requested variable power costs by the ratio of the test year to rate year loads allows for the correct amounts when applying the resultant rates to the rate year loads.

Q. How does the production factor adjustment typically affect the variable power costs?

A. Typically, PSE has experienced overall growth in its load forecast and when there is expected growth in load, the production factor will be less than one and will decrease the amount requested for variable power costs from the level of power costs that are authorized.[48] However, in situations where a decrease in load is forecasted, the production factor will be greater than one and will therefore increase the amount requested for variable power costs from the level of power costs that are authorized. The Commission has previously acknowledged the production factor can either increase or decrease power costs depending on whether load is growing or decreasing.[49] PSE is forecasting lower load for the reasons stated earlier in my testimony. Therefore, PSE's production factor in this case results in an increase to the amount of variable power costs requested in this proceeding in order to provide for recovery of the allowed amounts considering the anticipated loss in load.

Q. Please explain how the production factor was calculated.

A. Please see the Third Exhibit to the Prefiled Direct Testimony of Birud D. Jhaveri, Exh. BDJ-4, for the determination of the production factor. Test year normalized delivered load is 19,685,487 MWh. Included in this amount is a test year adjustment to increase loads by 125,765 MWh to normalize for warmer than normal weather that occurred during the test year. This weather normalization adjustment has been calculated in the same manner as that approved in PSE's 2019 general rate case. Rate year normalized delivered load, which is based on PSE's approved F20 load forecast, is 19,359,468 MWh. Both amounts exclude

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[48] In this context, "authorized" power costs means the level of power costs prior to the production factor being applied.

[49] *See WUTC v. Puget Sound Energy*, Dockets UE-090704 & UG-090705, Order 11 at ¶¶ 219, 224-226 (Apr. 2, 2011).

the load associated with PSE's customers who take service under Schedule 139, the need for which is discussed below.

The resulting production factor is 1.01684, which is presented on page five of the Fourth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-5. This production factor represents the fact that the rate year loads are expected to be lower than the test year loads by approximately 1.7 percent.

Q. Please continue to explain the power cost adjustment.

A. Lines one through nine on page five of the Fourth Exhibit to the Prefiled Direct Testimony of Susan E., Free, Exh. SEF-5, represent the rate year pro forma power costs presented in the Second Exhibit to the Prefiled Direct Testimony of Paul K. Wetherbee, Exh. PWK-3C.

Line eleven on page five of the Fourth Exhibit to the Prefiled Direct Testimony of Susan E., Free, Exh. SEF-5, represents the production operations and maintenance costs ("production O&M") presented in the Eighth Exhibit to the Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-9. Benefits and taxes on PSE labor have been included in the power costs and production O&M amounts presented by Mr. Wetherbee and Mr. Roberts. As benefits are presented on a separate line of the Baseline Rate,[50] they have been removed from amounts presented by these witnesses to avoid a double count. Because no adjustments were made to labor

[50] *See* Free, Exh. SEF-5, at 1:15a & 15d.

related items, the amount of benefits and taxes that are removed is the same for the test year and the rate year.

Line twelve on page five of the Fourth Exhibit to the Prefiled Direct Testimony of Susan E., Free, Exh. SEF-5, presents the transmission expenses that are related to the Third AC, Northern Intertie, and Colstrip transmission lines that are included as part of PSE's production related costs. Consistent with prior PCORCs and GRCs, this category of costs is left at its historical test year level.

The variable transmission income adjustment on line thirteen on page five of the Fourth Exhibit to the Prefiled Direct Testimony of Susan E., Free, Exh. SEF-5, captures revenue earned under PSE's Open Access Transmission Tariff ("OATT") for third-party reservations on those same transmission lines. Consistent with prior PCORCs and GRCs, these revenues are included in the Baseline Rate by re-pricing the most recent three-year average of transmission volume across the respective lines at the most current OATT tariff rate. An adjustment is also made to transmission income for the recent inclusion of transmission to meet Microsoft loads under its special contract.

Line fourteen on page five of the Fourth Exhibit to the Prefiled Direct Testimony of Susan E., Free, Exh. SEF-5, includes the return on equity of the Coal Transition PPA that was approved in Docket UE-121373. The amount of

$1.23/MWh used to calculate the equity return is the amount accepted in PSE's 2019 general rate case,[51] which is based on a federal tax rate of 21 percent.

Q. How were power costs and the load related to the Green Direct Program treated?

A. As noted in the Prefiled Direct Testimony of William T. Einstein, Exh. WTE-1CT, PSE is not including either of the two Green Direct PPA resources[52] in the Baseline Rate in this proceeding. Accordingly, Schedule 139 customer loads were also excluded from electric customer loads in calculating the production factor and the deficiency in this proceeding. Ultimately, it is necessary to exclude these resources from the Baseline Rate costs and loads if the associated costs to customers participating in the Green Direct program are to be properly isolated.

B. Montana Energy Tax – Adjustment-2 (Exh. SEF-5, page six)

Q. Please describe the Montana Energy Tax adjustment.

A. This adjustment adjusts the taxes due in the state of Montana that are assessed on Colstrip generation. This adjustment compares the forecast generation of the Colstrip plants that underlies the determination of rate year power costs at the current Montana tax rate to the actual tax expensed in the test year. As Colstrip Units 1 and 2 were retired halfway through the test year, this adjustment also

[51] *See* 2019 GRC Final Order at ¶ 55.
[52] Skookumchuck Wind Project and Lund Hill Solar Project.

serves to remove the portion of the test year expense that related to the retired units. This adjustment decreases expense by $0.3 million.

C. Rate Base AMA to EOP – Adjustment-3 (Exh. SEF-5, page seven)

Q. Please describe the Rate Base AMA to EOP adjustment.

A. Consistent with rate base treatment in PSE's 2019 general rate case, this adjustment adjusts rate base balances from the average of the monthly averages basis to their end of period balances. As discussed below, this adjustment is applied to (i) production plant, (ii) Colstrip Units 1 and 2 regulatory assets, and (iii) transmission rate base.

1. Production Plant

This adjustment adjusts the test year AMA amounts for production rate base to their end of period values as of June 30, 2020 and reduces rate base by $85.6 million.[53] The Colstrip Units 1 and 2 net plant in service was retired halfway through the test year. Therefore, although not specifically shown, the bulk of this adjustment, $51.9 million, represents the removal of the net book value that was included in the test year AMA production rate base that related to the retired units.

Also not specifically shown but included in the production rate base is the regulatory asset account totaling $15.0 million that is required to track the

[53] *See* Free, Exh. SEF-5, at 7:18.

Colstrip Unit 3 and 4 decommissioning and remediation costs that have been incurred through June 30, 2020 as required by paragraph 424 of Order No. 08 in PSE's 2019 general rate case.[54]

Finally, because production rate base is declining, its reflection on an end of period basis comprises $7.7 million of the $9.9 million revenue surplus[55] associated with fixed production costs that is offsetting the variable power cost increase in this proceeding.

2. Colstrip Units 1 and 2 Regulatory Asset

A regulatory asset for the stranded plant associated with Colstrip Units 1 and 2 was established during the test year pursuant to the settlement agreement in PSE's 2017 general rate case in Docket UE-170033. Accordingly, amounts on lines 22 through 25 on page seven of the Fourth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-5, adjust the regulatory asset balance in the test year to an end of period amount and increase rate base by $68.1 million. This adjustment serves to pro form the balance of the regulatory asset to its balance as of October 15, 2020— the point at which the regulatory asset stopped depreciating coincident with the effective date of rates from PSE's 2019 general rate case, which removed recovery of depreciation expense for the units from

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[54] Both amounts referenced are supported in the work papers included in support of this prefiled direct testimony.

[55] Determined by removing the EOP adjustment for production plant from the Fourth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-5, and comparing the resulting deficiency to the amount of the deficiency prior to the removal.

PSE's rates. The adjustment to introduce the PTCs that offset this end of period regulatory asset balance is made in Adjustment-10. Adjustment-10 also removes the level of depreciation expense that was used in the test year to amortize the regulatory asset.

<u>3. Transmission Rate Base</u>

Similar to the adjustment to production rate base discussed above, the part of the adjustment shown on lines 30 through 44 on page seven of the Fourth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-5, adjusts the test year AMA amounts for transmission rate base to EOP values as of June 30, 2020. This part of the adjustment reduces rate base by $483,000.

<u>D. Depreciation Expense AMA to EOP – Adjustment-4 (Exh. SEF-5, page eight)</u>

Q. Please describe the Depreciation Expense AMA to EOP adjustment.

A. As was done in the 2019 general rate case, this adjustment adjusts test year depreciation expense as if the end of period balances were in effect for the entire test period. There are three categories of depreciable assets that are included in this adjustment based on the depreciation methodology from the depreciation study in PSE's 2017 general rate case. The three categories are: (i) Standard, (ii) Not Studied, and (iii) Underlying Asset. Each of these categories, along with the methodologies used to calculate the adjustment to depreciation expense for purposes of determining EOP expense, is described in Table 2 below.

Table 2. Summary of Methodologies Used to Adjust Depreciation Expense

Type	Treatment	Justification
Standard	June 2020 balance x depreciation rate in effect each month of the restating period	These accounts were studied in the last depreciation study and so standard treatment can be used when determining end of period depreciation expense.
Not Studied (includes Asset Retirement Cost ("ARC") Depreciation and Asset Retirement Obligation ("ARO") Accretion)	June 2020 depreciation expense is used for each month of the restating period	An end of period adjustment recognizes the change in the depreciable balance over the restating period. But since this category of assets was not studied, in the last depreciation study, no change in depreciation rates occurred and so using June's depreciation amount uses the most current expense.
Underlying Asset	June 2020 depreciation expense is used for each month of the restating period	Treated the same as not studied as it is related to ARC Depreciation and ARO Accretion

The impact of adjusting depreciation expense as outlined in Table 2 above reduces depreciation expense for production by $8.2 million[56] and transmission by $0.1 million.[57] The Colstrip Units 1 and 2 net plant in service was retired halfway through the test year. Accordingly, an $8.4 million reduction to depreciation is included in these amounts for the removal of depreciation expense associated with these units.

This adjustment makes a corresponding adjustment to rate base for the change in the depreciation expense related to the production and transmission assets except

[56] *See* Free, Exh. SEF-5, at 8:10.
[57] *See id*. at 8:23.

for those related to Colstrip Units 1 and 2. This adjustment to accumulated depreciation results in a minor increase to rate base of $0.1 million.[58]

E. Remove Energy Imbalance Market – Adjustment-5 (Exh. SEF-5, page nine)

Q. Please describe the Energy Imbalance Market adjustment.

A. This adjustment removes the rate base and amortization included in Adjustment-3 and Adjustment-4 associated with PSE's participation in the Energy Imbalance Market ("EIM"). As approved in PSE's 2019 general rate case, both the EIM benefits and the related EIM fixed costs are removed from the calculation of revenue requirement and both are included in PSE's PCA mechanism imbalance calculation. This treatment is followed in order to properly match the fixed costs with the variable benefits. The EIM benefits are not known and measurable and are not modeled in PSE's Aurora power costs supported in the Prefiled Direct Testimony of Paul K. Wetherbee, Exh. PKW-1CT. Therefore, the associated EIM capital, operating and amortization costs are also removed from the revenue requirement. Fixed costs[59] and the true EIM benefits as they occur will continue to be included in the PCA imbalance calculation so that they are properly matched. The impact of this adjustment is a decrease in expense of $2.2 million and a decrease to rate base of $0.1 million.

[58] *See* Free, Exh. SEF-5, at 8:15 & 28.

[59] The fixed EIM costs that would have been included in the revenue requirement total $3.9 million as detailed in the Ninth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-10. These amounts will be used in the calculation of PSE's PCA imbalance when the PCORC rates become effective.

F. Remove Wild Horse Solar – Adjustment-6 (Exh. SEF-5, page ten)

Q. Please describe the Wild Horse Solar adjustment.

A. This adjustment removes the rate base and depreciation expense included in Adjustment-3 and Adjustment-4 associated with the solar project at Wild Horse. This power project is a demonstration project, and PSE is not requesting recovery of the costs associated with it at this time. This adjustment decreases expense for electric operations by $0.2 million and decreases rate base by $1.4 million.

G. Property Insurance – Adjustment-7 (Exh. SEF-5, page eleven)

Q. Please describe the Property Insurance adjustment.

A. This adjustment restates the test year to reflect the most current premiums for production property insurance expense and increases expense for electric operations by $0.1 million.

H. Regulatory Assets and Liabilities – Adjustment-8 (Exh. SEF-5, page twelve)

Q. Please describe the Regulatory Assets and Liabilities adjustment.

A. This adjustment trues up the production related regulatory assets and liabilities, net of deferred federal income taxes, to their rate year AMA balances. The decrease to rate base is $25.5 million,[60] and the decrease to expense is $8.1 million.[61] All amounts, except for the addition of Unprotected Excess

[60] *See* Free, Exh. SEF-5, at 12:17.
[61] *See id*. at 12:35.

Deferred Income Taxes ("EDIT") were determined using the amortization schedules approved in prior rate cases. The regulatory assets and liabilities on lines 1 through 15 that contained unprotected EDIT in the test year have been adjusted to reclassify the EDIT from the respective regulatory asset and liability balances to line 16 where the new consolidated regulatory liability for production related unprotected EDIT is presented. Production related unprotected EDIT on line 16 has been included on a grossed-up basis, as directed in the 2019 GRC Final Order[62] and is offset by the associated deferred tax asset. The associated amortization of these balances is not included in this filing, as amortization of grossed up unprotected EDIT is passed-back through Schedule 141Z, which is not adjusted in a PCORC.

I. Colstrip 3&4 Depreciation Adjustment – Adjustment-9 (Exh. SEF-5, page thirteen)

Q. Please describe the Colstrip 3&4 Depreciation adjustment.

A. This adjustment adjusts the impact of implementing the limited depreciation study update approved in PSE's 2019 general rate case, which updated the depreciation rates to be based on a retirement date for Colstrip Units 3 and 4 of December 31, 2025. A corresponding adjustment is made to rate base for the change in the depreciation expense. The increase to expense for this adjustment is $16.9 million,[63] and the decrease to rate base is $13.4 million.[64] Lastly, as was

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62 *See* 2019 GRC Final Order at ¶ 325.
63 *See* Free, Exh. SEF-5, at 13:7.
64 *See id.* at 13:13.

discussed above, PSE has included in its production plant rate base the regulatory asset that is required to track the Colstrip Unit 3 and 4 decommissioning and remediation costs that have been incurred through June 30, 2020 as required by paragraph 424 of Order No. 08 in PSE's 2019 general rate case.

<u>J. Adjustment for Colstrip 1 and 2 Closure – Adjustment-10 (Exh. SEF-5, page fourteen)</u>

Q. Please describe the Colstrip 1 and 2 Closure adjustment.

A. Colstrip Units 1 and 2 fully ceased combustion of fuel on January 3, 2020. Therefore, the units were removed from production plant and transferred to a regulatory asset effective December 31, 2019. Consequently, the test year production plant balance was set to zero in Adjustment 3 – End of Period Rate Base as the plant balance was zero as of the end of the test year. The 2017 general rate case settlement agreement provided for the ability to use the regulatory liability associated with monetized PTCs to fund unrecovered plant for the units. Although, the units ceased operation, the regulatory asset continued to amortize as this depreciation was still in customer rates. Upon the rate effective date of PSE's 2019 general rate case, October 15, 2020, this amortization stopped as depreciation was no longer in customer rates.

This adjustment takes the modified regulatory asset balance from Adjustment-3 and offsets it with monetized PTCs. As can be seen on line 4 in the PTC Offset and Adjusted Rate Year columns, the amount of monetized PTCs available exceeds the Colstrip Units 1 and 2 regulatory asset by $31.4 million and PSE is incorporating these excess monetized PTCs into rate base with this adjustment. This adjustment also sets the amortization that was included in the test year to zero.[65]

Finally, as stipulated in the 2017 general rate case settlement agreement, PSE has been accruing carrying charges on PTCs once they are monetized and prior to their inclusion in rates. By bringing the full balance of monetized PTCs into rate base and more than fully offsetting the regulatory asset associated with Colstrip Units 1 and 2, as of the rate effective date from this proceeding, PSE will cease accruing interest on the value of the monetized PTCs included in this adjustment.

The effect of this adjustment is to reduce rate base by $119.0 million[66] and decrease expense by $9.3 million.[67]

K. Remove Green Direct Rate Base – Adjustment-11 (Exh. SEF-5, page fifteen)

Q. Please describe the Green Direct Rate Base adjustment.

A. This adjustment removes the rate base and depreciation expense included in Adjustment-3 and Adjustment-4 related to software installed for the Green Direct program as these costs are recovered through Schedule 139. Although these costs are not recorded in production or transmission related FERC accounts, they were included in the test year and then removed in this adjustment in order to be

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65 *See* Free, Exh. SEF-5, at 14:8.
66 *See id.* at 14:4.
67 *See id.* at 14:8.

transparent and clearly demonstrate that they are being removed and not included in this filing. The software was included in future use accounts in the test year as the project was complete but the Green Direct program had not yet begun. Therefore, the plant has not yet begun amortizing; thus, the only item requiring adjustment is rate base, which is reduced by $0.3 million.

L. SPI Biomass PPA Deferral – Adjustment-12 (Exh. SEF-5, page sixteen)

Q. Please describe the SPI Biomass PPA Deferral adjustment.

A. This adjustment defers the costs associated with the SPI Biomass PPA, as presented in the Prefiled Direct Testimony of Cindy L. Song, Exh. CLS-1HCT. This PPA is an eligible renewable resource under RCW 19.285.030(12)(a). Additionally, it was designed to have a capacity factor above 60 percent. Therefore, under these parameters, the cost of the PPA is eligible for deferral under RCW 80.80.060. The seventeen-year PPA will begin on January 1, 2021, and will run through the rate year and beyond. The deferral balance is determined by deferring from January 2021 through May 2021, the contract rate less an offset for the market power that is included in current rates that is being offset by the generation of the new PPA. The market power offset is based on the projected Mid-C flat rates for each month. The total balance of the deferral is $0.9 million. PSE proposes to amortize the deferral over two years. The $0.7 million on line 2, net of the associated accumulated deferred income taxes reflected on line 3 on page sixteen of the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-5, represents the rate year AMA balance of the regulatory asset. The amortization expense of $0.5 million is reflected on line 7.

As this regulatory asset will amortize to power costs, a production factor adjustment is taken on line 8. Overall, this adjustment increases expense by $0.5 million and increases rate base by $0.6 million.

VI. POWER COST BASELINE RATE

Q. Please describe the impact of the adjustments on the Baseline Rate.

A. The Fifth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-6, shows the impact of the above adjustments on the Power Cost Baseline Rate. The costs are allocated between fixed and variable costs, and the total costs are adjusted for revenue sensitive items. The total costs of $1,195,139,592 are divided by the test year delivered load of 19,685,487 MWh to calculate the new Baseline Rate of $60.712 per MWh before revenue sensitive items, and $63.832 per MWh after revenue sensitive items. As noted earlier, this rate is disaggregated between fixed and variable production costs. Grossed up variable costs totaled $807,663,977, which results in $41.028 per MWh. Grossed up fixed costs totaled $448,902,886, which results in $22.804 per MWh.

VII. RATE CHANGE

Q. Please explain how PSE calculated the rate change required after taking into consideration the pro forma and restating adjustments.

A. The deficiency was calculated consistent with previous PCORCs and is presented in the Third Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-4. To calculate the deficiency associated with fixed and variable power costs, the required change in rates has been calculated using the difference between the approved fixed or variable Baseline Rate currently in effect from the 2019 general rate case as adjusted in Docket UE-200907[68] and the proposed fixed or variable Baseline Rate (each grossed up for revenue sensitive items). This is shown on lines 22 and 36 of the Third Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-4.

The difference between these two rates is multiplied by the normalized delivered load for the test period from the current filing. The result of this calculation is the requested change in revenue after being grossed-up for revenue sensitive items. Line 26 of the Third Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-4, reflects a deficiency associated with variable power costs of $88.4 million, and line 40 reflects a surplus for fixed production costs of $9.9 million.

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[68] Docket UE-200907 revised Schedule 142 to correct the categorization of certain costs between fixed production and delivery for PSE's Revenue Decoupling Adjustment Mechanism.

The combination of the fixed and variable calculations is the total deficiency being requested in this proceeding. This amount is reflected on line 42 of the Third Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-4, and totals $78.5 million.

Q. What conversion factor is being used to calculate the revenue deficiency?

A. PSE used the conversion factor of .951115 to calculate the revenue deficiency. This is shown on lines 17 and 31 on the Third Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-4, and is summarized on page seventeen of the Fourth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-5. This represents the electric conversion factor from the 2019 general rate case, which is the most current conversion factor in effect, and there has been no published change to the WUTC Filing Fee or State Utility Tax since this conversion factor was calculated.

VIII. GREEN DIRECT REPORTING

Q. What direction did the Commission provide with respect to the Green Direct PPAs in PSE's 2019 general rate case?

A. In the 2019 GRC Final Order, the Commission determined that the power costs associated with the two Green Direct PPAs—for the Skookumchuck Wind Project and the Lund Hill Solar Project—should not be included in the rate year power costs in that proceeding, as neither of the projects were yet in service, and that the Commission would revisit the question of prudency, including whether these

PPAs are prudent for all customers, once the PPAs are in service and providing power.[69] Additionally, the Commission ordered PSE to work collaboratively with Staff and other stakeholders to ensure that the costs and benefits of the Green Direct program are tracked and maintained separately pursuant to statute.[70]

Q. When will PSE customers begin receiving power through the Green Direct resources?

A. As discussed in the Prefiled Direct Testimony of William T. Einstein, Exh. WTE-1CT, PSE began receiving power for Green Direct customers under the PPA for the Skookumchuck Wind Project in November 2020, and PSE will begin receiving power for Green Direct customers under the PPA for the Lund Hill Solar Project in March 2021.

Q. Please summarize PSE's treatment of the PPA costs for the Green Direct resources included in this proceeding.

A. RCW 19.29A.090(5) requires that all costs and benefits associated with the Green Direct program 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. In order to comply with this statute, PSE is not including either of the Green Direct PPA resources in the Baseline Rate in this proceeding. Additionally, Schedule 139 customer loads were excluded from all other electric customer loads in calculating the Baseline Rate and the deficiency in this proceeding. The result

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[69] *See* 2019 GRC Final Order at ¶¶ 294-95.
[70] *See id*. at ¶ 296.

of these resources and the associated customer loads not being included in the Baseline Rate is to isolate the associated costs to customers participating in the Green Direct program as required by statute.

Q. Are there any challenges created by this required treatment?

A. Yes. As noted in the Prefiled Direct Testimony of William T. Einstein, Exh. WTE-1CT, it is possible that there could be de minimis instances of excess generation beyond the load of the Green Direct customers from year to year. Similarly, when the resource generation is less than the load of the Green Direct customers this shortfall will be covered by PSE's general portfolio. However, as the Commission's Final Order No 08, and RCW 19.29A.090(5) make clear, PSE is prohibited from cross-subsidization of costs between participating and non-participating customers. In order to comply with the statute and the Commission order, PSE must make adjustments in either scenario, excess or short energy produced by the resources, to avoid cross-subsidization. In order to validate that this cross-subsidization does not occur, PSE has committed to providing reporting in its PCA mechanism that will track program costs and benefits.

Q. What steps has PSE taken to determine the correct reporting?

A. PSE met with Commission Staff on September 3, 2020, to begin a collaborative to determine the proper reporting structure to ensure compliance with RCW 19.29A.090(5) and the Commission's order as noted above. A follow-up meeting occurred on October 7, 2020, in which PSE presented proposed reporting based on Staff comments received to date. PSE and Commission Staff were able to agree on reporting that both parties believe meets the standards set by statute and the Commission. Additionally, on October 19, 2020, PSE provided the reporting proposal to Public Counsel and AWEC who did not provide any objections. This proposal is attached as the Eighth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-9. PSE requests Commission approval of the proposed accounting and reporting presented in the Eighth Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-9.

Q. Does PSE anticipate any future filings with respect to the Green Direct program?

A. It is possible PSE will need to make additional filings with respect to the Green Direct program in the future. PSE believes it has complied with all aspects of the Commission's Final Order 08 in the 2019 general rate case so that service under the tariff can successfully commence in November 2020. As noted in the Prefiled Direct Testimony of William T. Einstein, Exh. WTE-1CT, PSE has also filed a tariff change under Docket UE-200817 which addressed the treatment of liquidated damages associated with Green Direct (discussed in more detail below) and realigned various customer terms to correspond to the terms in the PPA for the Skookumchuck Wind Project. This tariff change became effective on October 15, 2020.

Additionally, on October 14, 2020, PSE filed an updated accounting petition in Docket UE-200865, in which PSE proposed it would offset the deferred liquidated damages by approximately $2.6 million for REC purchases made for the benefit of Green Direct customers between July 1, 2019 and the commercial operation of the Skookumchuck Wind Project. The petition proposed that PSE would use the remaining $14.4 million of liquidated damages to offset the cost of the PPA to Green Direct customers and reduce the Schedule 139 Resource Option Charges as agreed to with Green Direct customers. This petition was granted on October 29, 2020. As noted within the petition, depending on PSE's ability to fully subscribe the program, PSE may need to file additional accounting petitions seeking approval of the treatment of any liquidated damages that remain if they are not fully passed back due to undersubscription of the program over its full twenty years. PSE does not anticipate this being necessary for at least ten years as Phases 1 and 2 of the program are currently fully subscribed for the first ten years.

IX. CONCLUSION

Q. Does this conclude your prefiled direct testimony?

A. Yes, it does.