

**EXH. SEF-5
DOCKET UE-23____
2022 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 2022 Power Cost
Adjustment Mechanism Report**

DOCKET UE-23____

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

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

APRIL 28, 2023

1 **PUGET SOUND ENERGY**

2 **FOURTH EXHIBIT (NONCONFIDENTIAL) TO THE**
3 **PREFILED DIRECT TESTIMONY OF SUSAN E. FREE**

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

7 Overview

8 The accounting and reporting for PSE’s Voluntary Long Term Renewable Energy
9 Purchase Rider under Schedule 139 (“Green Direct Program”) presented in Exh.
10 SEF-4 has been prepared in order to adhere to the following requirements as
11 provided in the excerpts below:

12 **RCW 19.29A.090 (5)**

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

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

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

1 PCA Tracking Related to the Green Direct Program

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

- 7 • The cost of the Power Purchase Agreements (“PPA”) with the
8 Skookumchuck Wind Energy (“Skookumchuck”) project and the
9 Lund Hill Solar (“Lund Hill”) project that are used to serve Green
10 Direct customer loads are not included in the power cost baseline rate
11 or the rate request.
12
- 13 • As the variable costs of the program are not included, the
14 corresponding loads associated with Green Direct customers are not
15 included in the loads that are used to calculate baseline power costs in
16 SEF-3 page three.
17

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

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

- 24 I. If PPA generation is lower than Green Direct customer usage (“short”)

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

- 27 II. If PPA generation is greater than Green Direct customer usage (“long”)

28 *Under this scenario, there will be payments under the PPAs for energy*
29 *purchased that is not used by Green Direct customers.*
30

1 that is needed to determine proper REC treatment is shown on lines 10 and
2 11.

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

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

8 The journal entries that occur based on the information presented in lines 4
9 through 21 described above are shown on lines 23 through 31. Within these
10 lines the information under the additional subheadings “Mechanism” and
11 “When” in columns D and E should be interpreted as follows:

12 “Mechanism” indicates whether the journal entries can be
13 initially booked directly to Green Direct and are therefore
14 already properly isolated (as indicated by “GD”) or the
15 entries are initially booked as part of a portfolio entry and
16 thus require an additional entry in the second section in
17 order to be appropriately neutralized (as indicated by
18 “PCA”).

19 “When” indicates under which scenario the entries are
20 booked. “Always” indicates it is relevant under all
21 scenarios. “Long” indicates it only occurs in a long
22 scenario. And “Short” indicates it only occurs in a short
23 scenario.

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

1 **Scenario 1 – Short Position (PPA generation is less than Green Direct**
2 **Usage)**

3 A short position occurs when the generation of the PPAs falls short of Green
4 Direct Program customer usage. Cumulative generation of the PPAs for
5 2022 is less than the Green Direct usage by 60,632,040 kWhs as shown in
6 column T line 8 of page one of Exh. SEF-4. The process that is followed
7 under this scenario is described as follows.

8 **Payment for PPAs**

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

13 **Market Purchases of Energy to Cover the Short Position**

14 In order to cover the additional usage, PSE will need to purchase
15 additional energy on the market. The market purchases will be made as
16 part of PSE's portfolio purchases and not be separately identifiable.
17 This is reflected on line 28 with a PCA designation as a charge to FERC
18 555 with portfolio purchases and is valued at the Market Rate per kWh
19 on line 21.

20 **Reclassify Short Purchase from PCA to the Green Direct Program**

21 Due to the preceding entry, there is now a Green Direct Program related
22 cost in the portfolio used to serve non-participating customers.
23 Therefore, an entry is required to reclassify these purchases out of the
24 PCA to the Green Direct Program. This entry is shown on lines 39 and
25 40 and is valued at the Market Rate per kWh shown on line 21.

26 **Check Total is Zero**

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

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

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

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

5 In this instance, Green Direct Program customers will only use a portion
6 of the generation from the PPAs and therefore, the payment for the PPA
7 will be split into two parts. The first part up to the usage of Green
8 Direct customers would go to the separate Green Direct order in FERC
9 555 with a GD designation as shown on line 25.

10 **Payment for PPAs Above the Amount of Green Direct Program**
11 **Usage**

12 The second part of the payment for the PPAs would go to another FERC
13 555 order, also with a GD designation that is only used in long scenarios
14 as shown on line 26.

15 **Presumed Sale of Excess PPA Generation**

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

20 **Reclassify Long Sale from PCA to the Green Direct Program**

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

27 **Check Total is Zero**

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

30 **Scenario 3 –Purchases of RECs**

31 **Banking RECs in a Long Position**

1 A quarter-end in which the Green Direct Program's year-to-date position
2 is long would result in PSE owning unapplied RECs from the PPAs
3 related to the Green Direct Program. In these instances, PSE would
4 value the RECs and consider recording them on PSE's books as a debit
5 to FERC 555 and a credit to FERC 253 to hold them until they can be
6 applied to future Green Direct Program usage. This is shown on row 59
7 with a GD designation and is valued based on the indicative December
8 31, 2022 price of a Green-e WA/PNW REC generated in 2022 at a
9 weighted average price per banked REC reflected on line 17. This entry
10 would be an accrual that reverses in the next month until the position is
11 evaluated again at the next quarter-end.

12 **Purchasing RECs in a Short Position**

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

22 **Summary of Reporting**

23 As shown on lines 48 through 51, the following summarizes the outcome of
24 the 2022 Green Direct report:

25 Although generation was short for the twelve months of 2022, generation was
26 cumulatively long since inception at the quarter-end December 2022, and RECs
27 from the PPAs were banked outside of the PCA.

28 **Other Reporting and Tracking Considerations**

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

1 **Fixed Costs of the Program**

2 PSE committed¹ that the fixed costs of the program such as administrative costs
3 and depreciation related to billing software will be tracked in separate orders and
4 will be excluded from the revenue requirement when setting rates in a general rate
5 case or other proceeding. PSE has included supplemental reporting on the
6 amount of Green Direct fixed costs for 2022 on page two of Exh. SEF-4 as a
7 requirement to which PSE previously committed².

8 **Liquidated Damages**

9 The balance and activity of PSE’s liquidated damages received under the
10 Skookumchuck project are reported on page three of Exh. SEF-4 as PSE
11 committed to in Docket UE-200865.³

¹ UE-190529 Exh SEF-17T 89:18-23

² UE-200980 Exh. SEF-9 6:29-31

³ ¶14 in Revised Accounting Petition in UE-200865