EXH. SEF-18
DOCKETS UE-22___/UG-22___
2022 PSE GENERAL RATE CASE
WITNESS: SUSAN E. FREE

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket UE-22____** **Docket UG-22____**

SEVENTEENTH EXHIBIT (COLSTRIP TRACKER) TO THE PREFILED DIRECT TESTIMONY OF

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

JANUARY 31, 2022

PUGET SOUND ENERGY

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PUGET SOUND ENERGY

SEVENTEENTH EXHIBIT (COLSTRIP TRACKER) TO THE PREFILED DIRECT TESTIMONY OF SUSAN E. FREE

I. BACKGROUND AND PROPOSAL

Q. Why is PSE proposing a tracker mechanism for Colstrip in this proceeding?

A. Order 08[1] in PSE's 2019 general rate case ("GRC") ("Order 08) required PSE to establish a tracking mechanism for the decommissioning and remediation ("D&R") costs for Colstrip Units 3 and 4. The Commission ordered:

> PSE to file in its next GRC a proposed plan for the recovery of D&R costs for Colstrip Units 3 and 4 that complies with CETA. PSE should include in that plan its assessment of PTCs available to offset D&R costs for Colstrip Units 3 and 4. We further require PSE and Staff to work together to establish a tracking mechanism for D&R costs for all 4 units, and to present that mechanism for Commission approval in the Company's next GRC.

Q. Please describe the timing of the tracker.

A. PSE is proposing that a separate schedule, Schedule 141C, be used. PSE proposes this tracker become effective concurrent with the effective date of the first rate year in the multi-year rate plan, January 1, 2023. The tracker would then be updated annually beginning on January 1, 2024, until remediation efforts at the Colstrip facilities have been completed. Based on studies completed by Geosytnec

[1] UE-190529/UG-190530 Order 01 ¶425.

and approved by the Montana Department of Environmental Quality ("MDEQ"), this is estimated to be 2071. *See* Exh. RJR-29.

Q. What costs is PSE proposing to recover in the tracker?

A. PSE is proposing that the tracker include all Colstrip Units 1-4 rate base and operational costs, with the exception of variable power costs and transmission related costs, specifically:

<u>Rate Base</u>

- Gross plant, accumulated depreciation, retirements and accumulated deferred income taxes ("ADIT") including excess deferred income taxes ("EDIT") for Units 3 and 4;
- Colstrip 1 and 2 D&R costs;
- Colstrip 1 and 2 plant regulatory asset and the associated ADIT; and
- Monetized production tax credits ("PTC"), PTC accrued interest, Montana Transition Fund, and the associated ADIT.

<u>Expenses</u>

- Units 3 and 4 depreciation expense;
- Units 1-4 O&M expense;
- Property and liability insurance expense; and
- Montana energy tax expense.

<u>Taxes</u>

- Reversal of EDIT and flow-through items;

- The tax benefit of the U.S. Treasury Grant ("Treasury Grant") amortization expense; and
- Federal income tax ("FIT") expense impact.

Q. Why is PSE requesting to include plant-related items in the tracker and not just D&R as determined in Order 08?

A. Despite the approach of December 31, 2025 when Washington utilities must remove coal from its allocation of electricity,[2] there remains much uncertainty regarding all aspects of Colstrip, not just the recovery of D&R costs. In 2020 under Docket UE-200115, PSE filed an application for approval to sell its interests in Colstrip Unit 4. Although PSE eventually withdrew its application, the proceeding made clear that divesting PSE's interests in Colstrip will be very complicated while Colstrip is being recovered in base rates. Moving rate base and operating expense cost recovery for Colstrip to a separate price schedule that is not part of base rates will allow for greater flexibility to take advantage of future opportunities that may arise to remove coal from PSE's allocation of electricity.

Q. Why is PSE not requesting similar treatment for the variable costs of Colstrip?

A. PSE is able to change its power cost baseline through Schedule 95. Therefore, the flexibility already exists to change power costs to address Colstrip variable costs without having to change base rates.

[2] RCW 19.405.030(1)(a).

Q. Can you provide an example of how the recovery of costs associated with a power cost resource was moved outside of base rates as the costs were coming to an end?

A. Yes. In its 2009 general rate case, the costs of a regulatory asset associated with a power purchase agreement with Tenaska were moved to a separate price schedule as the regulatory asset was set to fully amortize by 2011. In that proceeding, the Industrial Customers of Northwest Utilities[3] and Commission Staff proposed that the costs be moved into a separate schedule to allow the costs to be removed from rates in a timely manner and with the least amount of administrative burden. After adopting some modifications offered by PSE, the Commission approved the modified proposal stating that ratepayers would benefit from timely removal from rates without having to wait until PSE's next general rate case.[4]

Q. Are there other factors the Commission should consider when deciding on PSE's request to move rate base and operating expense recovery for Colstrip into a separate schedule?

A. Yes. D&R components, including Treasury Grants and PTC[5] are embedded within plant components of rate base and are generally recovered together. PTCs can be used for offsetting either unrecovered plant costs or D&R. Therefore,

[3] The Industrial Customers of Northwest Utilities has since been merged into the Alliance of Western Energy Consumers, or AWEC.

[4] UE-090704 Order 11 Paragraphs 175-180.

[5] The settlement agreement approved in Docket UE-170033 allows PSE to offset unrecovered plant and decommissioning and remediation costs with a combination of Treasury Grants and PTCs.

keeping D&R and plant costs in the same rate recovery mechanism allows for the continued ability to apply PTCs to both unrecovered plant costs and D&R. Additionally, it provides the flexibility to utilize current and future recovery mechanisms for plant and D&R related balances regardless of the exact timing of some of these expenses, as explained in further detail below.

PSE's proposal will still allow for D&R expenditures to be tracked separately from plant expenditures in the proposed tracker, as detailed below.

Q. Would the inclusion of more than just D&R costs in the tracker create any conflict with respect to what has already been authorized in prior rate cases related to Colstrip 1-4 D&R?

A. Order 08 in PSE's 2017 GRC established the order of priority by which PSE shall utilize monetized PTCs as follows:

1. to fund community transition planning funds of $5 million for the benefit of citizens in Colstrip, Montana;
2. to recover unrecovered plant balances for Colstrip Units 1 through 4; and
3. to fund and recover prudently incurred decommissioning and remediation costs for Colstrip Units 1 through 4."[6]

The reason PSE agreed to the order of priority was to preserve the ability to utilize monetized PTCs for unrecovered plant without having to wait for all D&R spending, which will take decades to occur. After the settlement regarding PTCs became effective, the legislature passed the Clean Energy Transformation Act

[6] UE-170033/UG-170034 Order 08 ¶112.

("CETA") which allows for the recovery of both prudently incurred unrecovered plant[7] and D&R.[8] Therefore, the original need for the order of priority no longer exists. Further, the Montana Transition Fund and the unrecovered plant for Colstrip Units 1 and 2 have already been funded by PTCs. PSE believes that including the plant items in the tracker that will already include both PTCs and D&R provides for a more flexible approach for the use of PTCs. Accordingly, PSE proposes that coincident with the establishment of the tracker, the Commission amend the order of priority, specifically to consolidate items ii and iii of the authorized PTC utilization priority. Revised wording for the order of priority is presented in Section IV.B, below.

PSE does not believe this amendment to the prioritization would be in conflict with the intentions behind the initial order, rather, it would more effectively implement the Commission's desire to track all of the costs outlined above. The timing of when these costs will be incurred is uncertain and this will allow flexibility in utilizing PTCs and result in less disruptive rate impacts as detailed in my testimony below.

The only impact of the proposed change would be to allow PSE to utilize monetized PTCs for D&R costs at the outset of this tracker rather than waiting

[7] RCW 19.405.030(3).
[8] RCW 19.405.030(1)(b).

until the unrecovered plant balance on Units 3 and 4 is known, which will potentially not be until December 2025.

II. EXPLANATION FOR ADJUSTMENT 6.53 IN EXH. SEF-6

Q. Please explain PSE's adjustment to remove the rate base, production O&M, depreciation and taxes from the base rates revenue requirement.

A. An explanation of each component of the adjustment and how it was calculated for the following will be discussed below:

- Rate base
- Production O&M
- Depreciation
- Property and liability insurance
- Montana energy taxes
- Taxes

A. Removal of Rate Base in Exh. SEF-6 Adjustment 6.53

Q. What rate base components exist for Colstrip?

A. The following rate base components exist for Colstrip:

1. Net utility plant less ADIT (including EDIT) for Colstrip Units 3 and 4;

2. Regulatory asset and associated ADIT for the unrecovered plant for Colstrip Units 1 and 2;

3. D&R for Colstrip Units 1 through 4;

4. Treasury Grants that offset D&R for Colstrip Units 1 and 2;

5. Asset retirement obligations and associated ADIT for Colstrip Units 1 through 4; and

6. Monetized PTCs that will offset unrecovered plant and D&R for all four units, and associated ADIT.

Q. Please explain each component of rate base removed from the base rates revenue requirement and how they were calculated.

A. The following provides an overview of the amounts included in Adjustment 6.53 that provide for the removal of each of the above rate base components from the base rates revenue requirement.

a. Net Utility Plant less ADIT for Colstrip Units 3 and 4

Lines 28-33 represents actuals as of September 30, 2021 plus forecasted plant balances for Colstrip Units 3 and 4 generation only assets[9] as of each reporting period, including gross plant, accumulated depreciation and deferred taxes. Only Colstrip's generating assets are being proposed to be included in the tracker as RCW 19.405.030(2) allows for transmission assets to remain in service beyond December 31, 2025 provided they continue to be used and useful. The forecast of the existing test year plant balances on lines 28, 29 and 32 are calculated in Adjustment 6.29 – Test Year Plant Roll Forward. Additionally, forecasted plant

[9] FERC accounts 311 through 317.

balances for new additions on lines 30, 31 and 33 are calculated in Adjustment 6.31 – Programmatic Provisional Proforma. The Asset Retirement Cost ("ARC") that is discussed in item iii below is also included in this net utility plant balance. Mr. Roberts provides testimony on the actual and forecasted plant additions for Colstrip in his Prefiled Direct Testimony, Exh. RJR-1CT.

b. Regulatory Asset and associated ADIT for the unrecovered plant for Colstrip Units 1 and 2

Lines 36-37 relate to the test year regulatory asset and related accumulated deferred income taxes for unrecovered plant related to Colstrip Units 1 and 2, which was approved in PSE's 2019 general rate case[10] and which will be offset by PTCs, as established by the order of priority detailed above.

c. Decommissioning and Remediation for Colstrip Units 1 through 4

Lines 17-20 relate to end of period ("EOP") balances as of December 31, 2021 for Colstrip Units 1 and 2 D&R, including Treasury Grants utilized to offset D&R spend (line 17), amounts recognized for GAAP[11] purposes for asset retirement obligations ("ARO")[12] and accretion for Colstrip Units 1 and 2 (line 18), and expenditures on Colstrip Units 1 and 2 D&R (lines 19 and 20). Mr. Roberts discusses the D&R spend in Exh. RJR-1CT. The Colstrip ARC and ARO Activity

[10] Order 08 ¶¶ 416-417.

[11] Generally Accepted Accounting Principles.

[12] An ARO is a legal obligation associated with the retirement of an asset, where the company is legally responsible for such things as removing equipment or cleaning up hazardous materials at some future date. An overview of accounting for AROs and ARCs is provided in Section III.A.ii below and in Exh. SEF-1T.

Offset 1 and 2 account on line 18 is necessary for GAAP purposes, as PSE must recognize accretion expense and the change in the estimate of the legal obligation ("valuation adjustments") for its ARO. Typically, for assets that are still in service, these entries are funded through PSE's existing depreciation expense included in rates. However, Colstrip Units 1 and 2 have not been funded by depreciation since December 2017 when the 2017 general rate case settlement removed decommissioning and remediation from depreciation rates for these units, as these costs were authorized to be funded by the Treasury Grants. Therefore, for GAAP purposes, these adjustments, which represent PSE's estimates of future remediation, have been recorded as reductions to the Treasury Grants. However, for rate making purposes, only actual expenditures have been applied against the Treasury Grants. Therefore, these accounts remove the GAAP accounting increases to the ARO for accretion expense and valuation adjustments that were recorded against the Treasury Grants, as they are inappropriate for rate making.

d. U.S. Treasury Grants that offset Colstrip Units 1 and 2 D&R

Treasury Grants were discussed above in section iii.

e. Asset Retirement Obligations for Colstrip Units 1 through 4

Lines 23-25 represent Colstrip Units 1-4 test year ARO balances and the related accumulated deferred income taxes.

f. Monetized PTCs

Lines 40-44 relate to actual and forecasted monetized PTCs, the related forecasted actual and accrued interest on amounts not included in rate base and the related accumulated deferred income taxes. Forecasted amounts are based on amounts determined in Adjustment 6.55 – Monetize PTCs for Colstrip.

B. Removal of Production O&M in Adjustment 6.53

Q. How have Colstrip production O&M amounts been removed from the base rates revenue requirement?

A. In the pro forma period, PSE has removed test year Colstrip production O&M on line 54. The incremental adjustment for forecasted Colstrip production O&M in the gap year and rate years that is included in Adjustment 6.22 – Proforma O&M is removed as well. Mr. Mark C. Carlson discusses Production O&M in his Prefiled Direct Testimony, Exh. MCC-1CT.

C. Removal of Depreciation Expense

Q. How have Colstrip depreciation amounts been removed from the base rates revenue requirement?

A. On line 55, PSE has removed forecasted depreciation expense consistent with the removal of the related generation only plant as noted above. The amount removed in the pro forma period as of December 2021 are the resulting test year amounts as adjusted in Adjustments 6.20 – AMA to EOP Depreciation and 6.29 – Test

Year Plant Roll Forward. Forecasted depreciation amounts for new additions after the test year are calculated in Adjustment – 6.31 Programmatic Provisional Pro forma and are also removed as part of line 55. Finally, PSE has included the reduction to depreciation expense for forecasted retirements as calculated in Adjustment "6.30 Provisional Proforma Retirements Depreciation."

D. Removal of Property and Liability Insurance and Montana Energy Tax

Q. How have Colstrip property and liability insurance and Montana energy tax amounts been removed from the base rates revenue requirement?

A. On lines 56 and 57, PSE has removed the Colstrip property and liability insurance amounts as determined for the restating and pro forma periods in Adjustment 6.14 – Property and Liability Insurance. PSE has removed the Montana energy tax amounts as determined for all periods in Adjustment 6.46 – Montana Tax.

E. Federal Income Taxes

Q. How have Colstrip related federal income tax amounts been removed from the base rates revenue requirement?

A. Colstrip related federal income taxes ("FIT") consist of the reduction in FIT on the above noted expenses (production O&M, depreciation, property and liability insurance and Montana energy taxes), EDIT reversals, tax flow-through impacts and Treasury Grant amortization tax items.

The removal of FIT deductions is shown on line 60 and is calculated by taking 21 percent of the related expenses. The removal of EDIT reversals and flow-through impacts is shown on line 58 and are based on the projected amounts as included in Adjustment 6.29 – Test Year Plant Roll Forward. The removal of the tax benefit of Treasury Grant amortization is shown on line 59 and is based on test year tax impacts as provided in Adjustment 6.04 – Federal Income Tax as this tax category was not further adjusted beyond the test year amounts.

III. HISTORICAL TREATMENT OF ITEMS TO BE INCLUDED IN THE COLSTRIP TRACKER AND TRUE-UP MECHANISM

Q. Are all the same amounts that have been removed from PSE's base rates revenue requirement included in the tracker revenue requirement?

A. Not in all cases. PSE is proposing a number of changes in the recovery method for the various components related to Colstrip rate base and operating expenses included in the tracker.

Q. Please explain each component of the tracker and how it will be recovered or passed-back within the tracker.

A. The following provides a list and an explanation of each component of the tracker:

1. Unrecovered costs including plant, decommissioning, remediation, Treasury Grants and PTCs;
2. Production O&M;

3. Property and liability insurance;
4. Montana energy taxes;
5. Rate base; and
6. Federal income taxes.

A. Unrecovered Plant and D&R Costs

Q. How have Colstrip plant costs historically been treated in general rates cases for recovery in rates?

A. Historically, the categories of Colstrip plant costs have been recovered as follows:

a. Plant

Plant costs, excluding ARCs, have historically been recovered through depreciation rates, which are studied and set in a general rate case.

The plant assets are offset by accumulated depreciation as collected so only the net balance is included in rate base. Traditionally, the ARC, which is discussed in more detail in item iii, has been included in the net utility plant balances for ratemaking purposes. Section IV of my testimony explains PSE's proposal to use cash based amounts in the tracker instead of the GAAP related ARCs and AROs.

b. Regulatory asset and associated ADIT for the unrecovered plant for Colstrip Units 1 and 2

The regulatory asset for Colstrip Units 1 and 2 was incorporated into rates in PSE's 2020 power cost only rate case in Docket UE-200980. As mentioned below, sufficient monetized PTCs to offset the regulatory asset balance were incorporated into rates at the same time, effectively bringing the balance of the regulatory asset to zero.

c. Remediation

The ARC associated with the operation of the underlying assets are estimated on a net present value basis at the outset of the facility's in-service date and collected over the period of the facilities operation through depreciation rates, which are studied and set in general rate cases similar to plant depreciation.[13] As the estimated cost of the remediation changes, the ARC is updated in subsequent depreciation studies until the plant is no longer in use. An ARC asset is recorded and offset by accumulated depreciation as collected so only the net balance is included in rate base.

In conjunction with the creation of an ARC asset, an ARO of the same value on a net present value basis is created, which is an offset to rate base and increases as the liability is accreted toward its future value and decreases as PSE spends money to remediate the facility. The accretion expense is also included in the depreciation that PSE recovers through its studied depreciation rates. Thus, when combined with the net ARC asset, the net amount of funds collected or spent on the remediation effort is included in rate base.

[13] The manner in which PSE accounts for and includes ARC depreciation expense, as well as ARO accretion, in its depreciation studies is discussed in Exh. SEF-1T as well as by Mr. Ned W. Allis in his Prefiled Direct Testimony, Exh. NWA-1T.

d. Decommissioning

Decommissioning associated with the operation of the underlying asset is estimated at the outset of the facility's in-service date and collected over the period of the facility's operation through depreciation rates which are studied and set in general rate cases similar to plant depreciation. As the estimated cost of the remediation changes, decommissioning is updated in subsequent depreciation studies until the plant is no longer in use.

Unlike the two components above, there is no asset created for this cost, and only the depreciation collected through rates is included as an offset to rate base.

e. U.S. Treasury Grants

The Treasury Grants have been included in rates as a rate base offset since they were received from the U.S. Treasury and were approved for use as an offset to Colstrip Units 1 and 2 D&R in PSE's 2017 general rate case.[14]

f. Monetized PTCs

Monetized PTCs were approved for use as an offset to unrecovered plant and D&R for all four units in PSE's 2017 general rate case.[15] For monetized PTCs that have not been incorporated into rates, PSE has been accruing interest at its net of tax authorized rate of return grossed up for federal income taxes.[16] PTCs were included in rates as an offset to Colstrip unrecovered plan for the first time

[14] Docket UE-170033 Order 8 paragraph 145.
[15] *Id.* at ¶ 134.
[16] *See WUTC v. Puget Sound Energy*, Dockets UE-170033 & UG-170034, Order 08 ¶ 106 (Dec. 5, 2017), Append B, ¶ 25.

in PSE's 2020 PCORC when PTCs monetized as of PSE's 2019 tax return filed in 2020 were incorporated. Any monetized PTCs not yet incorporated into rates will continue to accrue interest.

B. Production O&M

Production O&M has historically been set in rates based on test year amounts adjusted for any known and measurable changes, such as contractual rate changes, third party budgets, or major maintenance events.

C. Property and Liability Insurance

Property and liability insurance has historically been set in rates based on test year amounts adjusted for any known and measurable changes, such as contractual rate changes.

D. Montana Energy Taxes

Montana energy taxes have historically been set in rates based on test year amounts adjusted for the generation of the Colstrip units as included in the forecasted rate year power costs.

IV. PROPOSED TREATMENT FOR ITEMS TO BE INCLUDED IN THE COLSTRIP TRACKER AND TRUE-UP MECHANISM

Q. Have you provided a calculation of the first year revenue requirement that is included in Schedule 141C in this proceeding?

A. Yes. Exh. SEF-19 includes the determination of the revenue requirement for Schedule 141C for the first rate year, 2023, and provides an example for how the revenue requirement would be determined for the remaining years the tracker would be in effect.

Q. On what basis is PSE proposing the previously discussed items be included in the tracker?

A. The tab titled "Unrecovered Costs" in Exh. SEF-19 provides components that would be included in the tracker. For demonstration purposes, this schedule is presented through 2050, the time period PSE is requesting be used for the recovery of costs in the tracker. The following provides a description of the basis for the determination of the costs for tracker year one (2023).

A. Unrecovered Plant and D&R Costs

a. Plant

Test Year Plant (lines 24-25): Colstrip Units 3 and 4 plant balances to include in the tracker were determined based on test year balances as of June 30, 2021 with the additional accumulated depreciation that will occur through December 31, 2022 based on amounts in Adjustment 6.29 – Test Year Plant Roll Forward, which used current depreciation rates as approved in PSE's 2019 general rate case. Through 2023, these amounts are the same as what was removed from the base rates revenue requirement with the exception that the ARC is not included in the net plant balances in the tracker. As the ARC is related to D&R, I discuss its proposed treatment in more detail in the D&R section below. PSE is proposing that plant costs be recovered on a one-year lag in the tracker as is discussed in more detail in Section IV.A.i below. Accordingly, the amounts being included for test year net plant are at EOP for the prior year rather than an average of the monthly averages ("AMA") for the current year which represents another difference between amounts removed from base rates and amounts included in the tracker. A final difference is due to the tracking of accumulated depreciation after 2022 being tracked on a separate line (line 17) using a terminal life calculation of depreciation. A terminal life calculation[17] will target the full depreciation of the facility by 2025 more accurately than can be done through standard depreciation rates.

Forecasted Colstrip Unit 3 and 4 Plant Additions (lines 26-27): The forecasted new plant additions after June 30, 2021 to include in the tracker, including gross and accumulated depreciation balances as of January 1, 2023, are the same as amounts removed from base rates in Adjustment 6.53, which came from the Colstrip amounts in Adjustment 6.31 – Programmatic Provisional Proforma.

[17] This term is being used to describe the determination of depreciation expense on new and existing assets over the remaining life of the facility. A new asset in 2023 will have a 2 ½ year remaining life. A new asset in 2024 will have roughly a 1 ½ year remaining life.

Starting with the January 1, 2023 balances, the net book value ("NBV") is set to be recovered ratably over three years using terminal depreciation as discussed above. Additional planned capital expenditures beyond 2022 are set to be recovered over the remaining years to 2025. Any additions in 2025 will be offset with PTCs per the order of priority detailed above.

Proposed Treatment for Plant Balances: Accumulated depreciation on lines 25 and 27 for both categories discussed above[18] does not change after December 31, 2022, as depreciation recovered through rates is tracked on line 17, Plant Collected in the Tracker Recovery section. The Plant Collected amount is calculated on line 32 and is based on a terminal life calculation, which takes the unrecovered balance as of each year end divided by the number of years remaining until December 2025, when all plant must be removed from rates per CETA.

Under PSE's proposal, as of December 31, 2025, all plant, existing and projected, will be recovered in the tracker as shown below.

[18] Existing test year plant and post-test year new additions.

	Table 1 - Forecasted Recovery of Plant	12/31/2025
1	Tracker Recovery:	
2	Plant Collected	$ (128,804,440)
3	Plant Collected (PTCs)	(13,811,569)
4	Estimated Plant and A/D:	
5	Gross Plant	543,208,902
6	Recovered Plant (A/D)	(446,828,228)
7	Gross Plant (New Adds)	47,101,010
8	Recovered Plant (A/D New Adds)	(865,676)
9	Total	$ 0

As noted above, PSE forecasts utilization of approximately $13.8 million in PTCs to offset unrecovered plant at December 2025, although this amount will likely change based on actual amounts recovered through the tracker and the actual additions between July 2021 and December 2025. As discussed below, plant cost recovery is on a one-year lag so only actual amounts will be included in rate recovery. Although PSE is proposing that estimates of December 2022 balances be used in the first year of the tracker with rates beginning January 1, 2023, the estimates would be trued up to actuals in the subsequent years tracker filing.

b. Regulatory Asset and associated ADIT for the unrecovered plant for Colstrip Units 1 and 2

Colstrip Units 1 and 2 unrecovered plant have previously been fully offset by PTCs as part of PSE's 2020 PCORC[19] and no further recovery is needed. This treatment has been reflected by including the Colstrip Units 1 and 2 unrecovered

[19] *See WUTC v. Puget Sound Energy*, Docket UE-200980, Order 05 ¶ 22 (Jun. 1, 2021).

plant regulatory asset balance on line 15 along with the monetized PTC balance to reflect the fact that that portion of the monetized PTC balance is no longer available as it has been used to offset the regulatory asset balance.

c. Decommissioning, Remediation, Treasury Grants and PTCs

Mr. Roberts provides the definitions of D&R and a summary of the history of the remediation process in his prefiled direct testimony.

Units 1-4 D&R Cost Estimates and Basis for Recovery in the Tracker (lines 3 and 9):

Remediation Cost Estimates:

In order to comply with the Montana Administrative Order on Consent ("AOC"), Talen Montana ("Talen") was required to complete the following steps on behalf of PSE:

- Step 1: Talen was required to prepare "Site Characterization Reports" for each of the three areas that described the existing conditions, including the extent of the contamination. The reports were also required to provide a description of what had been done to date to address the contamination, and how effective those measures have been in remediating the contamination.
- Step 2: Talen was required to prepare Cleanup Criteria and Risk Assessment Reports. These reports identified the standards that Talen will have to meet to achieve its remediation of the contamination.
- Step 3: Talen was required to prepare Remedy Evaluation Reports, which evaluate different options for remediation of the contamination.

Remedy Evaluation Reports for the three environmental impact sites at the Colstrip facility, as designated by the AOC, have been completed and have received preliminary conditional approval by the Montana Department of Environmental Quality “MDEQ” as detailed below:

Report	Based On	DEQ Review Status
Plant Site Remedy Evaluation	Alternative 4	Approval October 2018
Units 1 and 2 Remedy Evaluation Integrated Report	Alternative 10	Approval with additional options October 2021
Units 3 and 4 Remedy Evaluation	Alternative 4	Conditional approval February 2020

The costs outlined in the above reports have been used as the basis for remediation costs presented in Exh. SEF-19. These reports were updated in 2021 estimating all currently known expenditures to be incurred to remediate the Colstrip facility utilizing 2019 nominal financial estimates, which are estimated to be spent over 50 years through 2071. PSE provided this information in its 2021 Annual Colstrip Report filed on December 1, 2021 under Docket UE-170033 and they have been provided by Mr. Roberts in Exh-RJR-29.

As the estimates are in 2019 nominal dollars, PSE has escalated these estimated expenditures based on the time period they are expected to be incurred and a 2.5 percent inflation rate.[20]

[20] Consistent with assumptions in PSE’s most recent Integrated Resource Plan filed in Docket UE-200304.

Amounts to Include in the Tracker for Remediation:

In addition to future remediation costs outlined above, PSE is including actual remediation expenditures not included in the above estimates, less amounts collected through rates to date, as an offset to the estimated and actual remediation into the amount to collect in the tracker for remediation.

Decommissioning Cost Estimates:

Actual decommissioning for Colstrip Units 1 through 4 have been reported annually by PSE in the Annual Colstrip Report. Estimated future decommissioning for Colstrip Units 3 and 4 from 2021 forward is based on estimated amounts completed as part of PSE's depreciation study as presented by Mr. Allis. As the initial phase of decommissioning for Colstrip Units 1 and 2 has been significantly completed, actual decommissioning expenditures for Colstrip Units 1 and 2 are utilized. PSE has used these amounts as the basis of remediation to be recovered.

Amounts to Include in the Tracker for Decommissioning:

In setting the amount to collect in the tracker for decommissioning, PSE is including amounts collected through rates to date as an offset to total estimated and actual decommissioning.

As presented in Table 2 below, decommissioning and remediation expenditures, as detailed by Mr. Roberts in Exh. RJR-1CT, through September 30, 2021 are

$37,473,796 and $21,528,810 for Colstrip Units 1 and 2, and 3 and 4, respectively.

Table 2 - Decommissioning and Remediation Costs

	1&2	3&4
Legal Remediation Estimate	114,875,511	39,347,395
Non-Legal Estimate*	-	14,800,000
Total	**114,875,511**	**54,147,395**
Escalated Remediation Estimate	142,739,450	57,257,562
Escalated Non-Legal Estimate	-	17,163,463
Total Escalated Value	**142,739,450**	**74,421,024**
Plus: Paid-to-date	37,473,796	21,528,810
Total to Collect	**180,213,247**	**95,949,834**

*1&2 Non-Legal spend has already occurred and does not need to be estimated

The total estimated and actual D&R costs to be recovered as detailed above, are then included in the Unrecovered costs tab of Exh. SEF-19 lines 3 (Units 1 and 2) and 9 (Units 3 and 4).

Units 1-4 D&R Costs Recovered up until Tracker Recovery (lines 4-6, 10):

PSE must determine the amount of the above D&R cost estimates that have already been recovered.

<u>Units 3 and 4 D&R Recovered:</u>

Amounts recovered for Units 3 and 4 include 1) actual ARC depreciation (remediation), 2) accretion expense, and 3) decommissioning recovered through depreciation as of June 30, 2021. Amounts will continue to be collected for D&R, which are also included and are based on forecasted amounts to be recovered through December 31, 2022 using existing depreciation rates approved in PSE's 2019 general rate case. These recovered amounts are shown on lines 4 through 6. The net amount of D&R to collect for Units 3 and 4 is shown on line 7.

<u>Units 1 and 2 D&R Recovered:</u>

D&R for Units 1 and 2 is being recovered through Treasury Grants as detailed in Order No. 08 in in PSE's 2017 general rate case, Docket UE-170033. This is reflected on line 10. The net amount of D&R to collect for Units 1 and 2 is shown on line 11.

Units 1-4 Net D&R Costs To Be Recovered through the Tracker (line 13):

When netting estimated D&R costs with amounts collected through 2022, the total amount to be recovered through the tracker is presented below.

Table 3- Estimated Decommissioning and Remediation to Recover

Estimated D&R Costs and Recovery:				
3&4	**6/30/2021**	**9/30/2021**	**12/31/2021**	**12/31/2022**
Estimated Remediation and Cost of Removal	$ 95,949,834	$ 95,949,834	$ 95,949,834	$ 95,949,834
Recovered Remediation	(19,218,187)	(20,769,797)	(22,321,407)	(28,527,849)
Recovered Accretion Expense	(6,935,553)	(7,220,445)	(7,505,336)	(8,644,903)
Recovered Decom	7,205,877	7,735,904	8,265,930	10,386,037
Total 3&4	77,001,971	75,695,496	74,389,021	69,163,120
1&2				
Estimated Remediation & Cost of Removal	180,213,247	180,213,247	180,213,247	180,213,247
Recovered Remediation	(95,934,500)	(95,934,500)	(95,934,500)	(95,934,500)
Total 1&2	84,278,747	84,278,747	84,278,747	84,278,747
Total Unrecovered D&R Costs	$ 161,280,718	$ 159,974,243	$ 158,667,767	$ 153,441,866

Q. How does PSE propose to recover D&R for all four units in the tracker?

A. PSE proposes to offset the net D&R costs of $153.4 million at December 31, 2022 shown on line 13 of Exh. SEF-19, with available monetized PTCs (line 15) and recover the balance net of PTCs ratably through 2050.

Based on this methodology, the annual recovery of D&R is calculated on line 33 in the "Unrecovered Costs" tab of Exh. SEF-19. Line 33 considers the amounts from the prior year for unrecovered D&R costs on line 13 minus the PTCs reserved for D&R on line 15 minus the D&R collected on lines 19 and 20 divided by the years remaining for D&R recovery on line 40. These collected amounts on line 33 are then added to the D&R recovered for the current year in lines 19-20. This schedule demonstrates the estimated D&R will be fully recovered in 2050. The total amount recovered in the tracker for D&R of $25.7 million[21] in lines 19-20 in 2050, plus PTCs reserved for D&R on line 15 total $153.4 million which equals and fully offsets the net unrecovered D&R balance on row 13.

Q. Why is PSE proposing recovery of D&R through 2050?

A. Per the projected D&R spending from the MDEQ reports, 98 percent of the work to remediate is expected to be completed and paid for by 2050 and an average of approximately $200,000 is expected to be spent annually in the remaining 20

[21] Sum of lines 19 and 20 in 2050, the final year.

years. The amounts that are estimated to be spent after 2050 relate to ongoing monitoring of the remediating sites.

Q. Are customers harmed by paying for D&R costs before they are spent?

A. No. As noted in the explanation of rate base below, PSE will offset amounts collected from customers with actual expenditures within rate base. So, to the extent collections exceed expenditures, customers will receive the benefit of PSE's rate of return annually on the excess until the amounts are fully offset once the expenditures are made.

Q. How are PTCs incorporated into the tracker?

A. PSE forecasts that all $240 million in PTCs will be monetized by the end of 2022 and available for use when the tracker starts in 2023. PSE has offset the available PTCs with the $5 million of PTCs that were used to contribute to the Montana Transition Fund,[22] plus added in PTC accrued interest of $17.5 million and less $110.9 million in unrecovered plant for Units 1 and 2[23] , leaving approximately $141.6 million in PTCs for remaining expenditures. These remaining PTCs are presented in line 15 of the "Unrecovered Costs" tab in Exh. SEF-19.

As detailed above, PSE proposes to amend the PTC order of priority so PTCs can be utilized for unrecovered plant balances and D&R simultaneously. This would

[22] Pursuant to paragraph 118 of the Multi-Party Settlement Stipulation and Agreement in Docket UE-170033, both the $5 million of shareholder funding and the $5 million of PTC funding for the Montana Transition Fund were remitted to Montana in December 2019.

[23] *See* lines 22, 31 and 32 in the "Rate Base (EOP)" tab of Exh. SEF-19.

allow PSE to initially offset the estimated unrecovered D&R spend that exceeds Treasury Grants and existing depreciation with available PTCs until the unrecovered plant balance for Colstrip Units 3 and 4 becomes known. Any unrecovered plant balances as of the closure date of the facility or December 31, 2025, whichever is first, will be offset by PTCs, reducing the available balance for D&R and increasing the D&R balance to be collected through the tracker. Based on PSE's estimates included in Exh. SEF-19, the unrecovered plant for Colstrip Units 3 and 4 would be approximately $13.8 million.

Q. Does the proposed change in order of priority impact PSE's use of PTCs?

A. To some degree. Due to the estimated timing of D&R spend occurring over the next 50 years through 2071, and plant having to be recovered by 2025, it is almost certain that PTCs will be utilized against any unrecovered plant before D&R. The effect of changing the order of priority to allow PTCs to offset against unrecovered plant or D&R at the start of the tracker will allow PSE to reduce the estimated amount of D&R to be collected when PTCs may or may not be available under the existing order of priority. Without this change it is unclear if PSE would be able to offset estimated D&R costs with PTCs when tracker rates start in 2023. The effect of having no PTCs to offset the unrecovered D&R until unrecovered plant for Units 3 and 4 is known would be to increase the net D&R to recover from $11.8 million (lines 13 and 15 in 2022) to $153.4 million. This would essentially increase the revenue requirement for the tracker in the early years as future D&R is being recovered without the benefit of being able to offset that recovery with the PTCs.

B. Operating Expenses

Q. How does the tracker propose to recover Colstrip operating costs, such as production O&M, property and liability insurance and Montana energy taxes?

A. The tracker proposes to recover the annual forecast of Colstrip production O&M costs, including the amortization of Unit 4 major maintenance deferred as part of PSE's 2019 general rate case[24] as well as future major maintenance events, property and liability insurance and Montana energy taxes beginning in 2023. Future major maintenance events are proposed to be treated in the same manner as utility plant assets in that they will utilize a terminal life calculation to set the amortization period over which they would be recovered. Mr. Carlson discusses the Colstrip Units 3 and 4 major maintenance events that are included in PSE's board approved plan and thus in the Production O&M amounts in the tracker. In each subsequent tracker year forecasted amounts netted with the true-up of actual prudently incurred costs from the prior year will be built into rates for recovery through 2025, after which these expenses will be removed from the tracker in compliance with CETA.

[24] Docket UE-190529 Order 08 ¶ 256.

Q. If costs other than D&R costs for coal fired generation are not allowed in rates after 2025, how is PSE proposing to handle the true-up for these costs at the end of the 2025 rate period?

A. PSE requests that it be allowed to apply the true up amount related to 2025 rate base return, depreciation and operating costs, which could represent a surcharge or a credit against the PTC balance within the tracker. If approved, this would result in a revised order of priority for the use of monetized PTCs as follows:

> **Current Order of Priority:**
>
> i. to fund community transition planning funds of $5 million for the benefit of citizens in Colstrip, Montana;
>
> ii. to recover unrecovered plant balances for Colstrip Units 1 through 4; and
>
> iii. to fund and recover prudently incurred decommissioning and remediation costs for Colstrip Units 1 through 4.[25]
>
> **Proposed Order of Priority:**
>
> i. to fund community transition planning funds of $5 million for the benefit of citizens in Colstrip, Montana; and
>
> ii. to recover unrecovered plant balances ("undepreciated plant") for Colstrip units 1 through 4 or fund and recover prudently incurred non-legal decommissioning and legal remediation costs for Colstrip units 1 through 4 or the final 2025 true up of rate base and operating costs within the Schedule 141C tracker, whichever occurs first.

[25] Dockets UE-170033/UG-170034 Order 08 ¶112.

C. Federal Income Taxes

Q. How are taxes related to Colstrip treated in the tracker?

A. All Colstrip related taxes are included in the tracker, including FIT impacts, flow-through items, plant-related ADIT and EDIT. As noted in the Prefiled Direct Testimony of Mr. Matthew R. Marcelia, Exh. MRM-1T, it is appropriate for ADIT and EDIT to follow the plant it is associated with and receive the same rate-making treatment.

The tab entitled "Income Taxes" in Exh. SEF-19 details the operating expense impact of taxes on the tracker, specifically, FIT, EDIT reversal, flow-through items and Treasury Grant amortization tax impacts. FIT for all expenses included in the tracker are calculated at the statutory FIT rate of 21 percent. EDIT and flow-through reversals are based on forecasted reversals provided in Adjustment 6.29 – Test Year Plant Roll Forward. It is appropriate to use these same assumptions as the assumptions in this adjustment as test year plant is forecasted to be fully depreciated by 2025 in both PSE's base revenue requirement (prior to removal in Adjustment 6.53) and this tracker, and EDIT reverses in-line with the net plant balance. Related to line 10, PSE receives a permanent tax benefit when recognizing the amortization of the Treasury Grants. For tax purposes, amortization is considered to occur when PSE spends on D&R activities and Treasury Grants are used to offset the actual spending. The tax benefit is therefore set at 21 percent of forecasted D&R spend until the full Treasury Grant amount is amortized for tax purposes.

The inclusion of ADIT and EDIT balances in rate base is discussed in the following section.

D. Return on Rate Base Items

Q. Please explain the component of the tracker that provides a rate of return on rate base items.

A. Of the cost components included in the tracker, a number of items should be tracked and kept in-sync with the cost recovery for ratemaking, accounting, and tax purposes. PSE will track and maintain a balance that will consist of the plant NBV, D&R spent, Treasury Grants, and remaining PTCs net of associated ADIT and amounts already recovered. PSE will provide interest on this balance at its after-tax rate of return grossed up for federal income taxes. This treatment provides that customers receive the benefit in situations when the tracker is in a net liability position and that the Company earns a return while the tracker is in a net asset position. After 2025 the rate base calculation will solely relate to the D&R components including Treasury Grants and remaining PTCs.[26] PSE will refer to this balance that will earn interest as rate base.

[26] As noted previously, remaining PTCs consist of monetized PTCs less the transition fund and the regulatory asset for unrecovered plant on Units 1 and 2.

Q. What are the D&R components included in rate base?

A. The rate base components are presented in the tab titled "Rate Base (EOP)" in Exh. SEF-19. A description of these items and how they will be determined and tracked is provided as follows:

a. Plant

Q. What are the plant components included in rate base?

A. PSE includes the Colstrip Unit 3 and 4 plant assets, associated accumulated depreciation, and ADIT which includes EDIT (rows lines 13-19). Additionally, any amounts collected for plant recovery through the tracker (row line 16) are netted with the plant balances. Balances as of September 30, 2021 are actual amounts, and all subsequent amounts are forecasted.

PSE also includes the ADIT and EDIT ongoing balances in forecasted rate base. These are included in rows 18 and 19 of the rate base tab. These amounts are based on forecasted ADIT and EDIT end of period balances provided in adjustment "6.29 Test Year Plant Roll Forward" for existing plant as of the test year. Forecasted ADIT on new additions after the test year are based on the forecasted plant additions and the related tax and book depreciable lives.

b. Regulatory Assets for Unrecovered Plant

Q. What are the regulatory assets included in rate base?

A. PSE includes the regulatory assets related to unrecovered Colstrip Units 1 and 2 plant (line 22) which is offset by PTCs and the forecasted future Colstrip Units 3 and 4 unrecovered plant (line 23) along with the related ADIT (lines 25-26).

c. Decommissioning, Remediation and Treasury Grants

Lines 1 – 3 list the Colstrip Units 1 and 2 D&R related accounts to be included in rate base in the tracker including Treasury Grants, D&R actual expenditures, and amounts recovered through the tracker.

Lines 7-9 list the Colstrip Units 3 and 4 D&R related accounts to be included in rate base including amounts recovered to date for Colstrip Units 3 and 4 D&R (ARC depreciation, ARO accretion and the non-Legal Cost of Removal component of depreciation), D&R actual expenditures, and amounts recovered through the tracker.

Amounts through September 30, 2021 are actual amounts, and amounts after September 30, 2021 are forecasted based on PSE's five year plan and the associated estimated amounts to be recovered through the tracker.

Q. Why are the D&R components of rate base different than those in the adjustment to remove Colstrip from PSE's base revenue requirement?

A. The GAAP accounts associated with the Colstrip ARC and AROs are not cash based, therefore, PSE is not including these amounts in the balance on which interest is applied. Instead, the same underlying financial data is used but is being presented in a more straight-forward manner by classifying the underlying financial data into general categories that are cash based: costs (actual and estimated) and recovered costs (pre and post tracker). Below is a table which summarizes the D&R costs and recovered amounts being tracked, and where these are located in: 1) US GAAP reporting, and 2) the tracker.

Table 4 D&R Treatment[27]

Unit	Cost/Recovery Item	US GAAP Account	Tracker Account
1&2	Remediation Cost	Embedded in ARO Balance (debit)	D&R Spend - Tracked Separate (debit)
1&2	Remediation Inflation/Accretion	Embedded in ARO Balance (credit)	D&R Spend - (debit once actually paid)
1&2	Remediation Recovery	108-TGRANT RCW 80.84 (credit)	108-TGRANT RCW 80.84 (credit) Tracker Recovery (credit)
1&2	Decommissioning Costs	108-TGRANT RCW 80.84 (debit)	D&R Spend - Tracked Separate (debit)
1&2	Decommissioning Recovery	108-TGRANT RCW 80.84 (credit)	108-TGRANT RCW 80.84 (credit) Tracker Recovery (credit)
3&4	Remediation Cost	Embedded in ARO Balance (debit)	D&R Spend - Tracked Separate (debit)
3&4	Remediation Inflation/Accretion	Embedded in ARO Balance (credit)	D&R Spend - (debit once actually paid)
3&4	Remediation Recovery	Accumulated ARC Depreciation (credit)	Tracker Recovery (credit)
3&4	Decommissioning Costs	None recorded to date	D&R Spend - Tracked Separate (debit)
3&4	Decommissioning Recovery	Non-legal Cost of Rembal Depreciation (a component of Recovered Plant A/D)	Tracker Recovery (credit)

[27] A portion of the decommissioning and remediation recovery will also come through the offsetting of PTCs.

d. Monetized PTCs

Q. Please explain the Monetized PTC components included in rate base.

A. In lines 30-36, PSE includes actual and forecasted monetized PTCs; accrued interest is calculated and included until PTCs that are not yet incorporated into rates are in rate base at the start of the tracker in January 2023. This total amount of PTCs and accrued interest is reduced by the amount of PTCs used to fund the Montana Transition Fund (line 32) and the related deferred taxes on these components (lines 33- 36).

Q. How are customers receiving the benefit of PTCs if PSE will not incur D&R costs for up to 50 years?

A. PSE is including the net PTC balance and any funds collected through the tracker in excess of actual expenditures in the tracker as a rate base offset which serves to lower the annual tracker rate.

At certain points during the tracker life the rates are a credit to customers based on a net negative rate base in excess of D&R surcharges, which is largely driven by the inclusion of the PTC balance, until remediation expenditures equal or exceed PTCs and the amounts collected through rates.

PTC components, including forecasted accrued interest and the Montana transition fund, net of taxes, included in lines 30-36 are a net offset to rate base.

V. REVENUE REQUIREMENT FOR SCHEDULE 141C

Q. Please explain how the revenue requirement was determined for Schedule 141C.

A. The tab entitled "Revenue Requirement Summary" in Exh. SEF-19 provides the calculation of the revenue requirement for Schedule 141C for January 1, 2023 based on the above discussion. The revenue requirement for the first year of the tracker is $53.9 million. The cumulative revenue requirement for each year of the tracker through 2071 is shown on line 34, and the net change in the revenue requirement is shown on line 36. PSE has not filed tariff sheets for Schedule 141C for each year of the multiyear rate plan (i.e. this filing has no formal rate request for Schedule 141C on January 1, 2024 and January 1, 2025) as the proposal for the tracker is to update rates annually for Schedule 141C based on actual rate base costs for the prior year. However, since PSE is presenting the revenue requirements for each year of the tracker, PSE has reflected the estimated 2024 and 2025 revenue changes in Schedule 141C in its bill impacts for this case. Please see the Prefiled Direct Testimony of Birud D. Jhaveri, Exh. BDJ-1T.

Q. Please further explain what items are included in the revenue requirement.

A. The revenue requirement includes recovery for operating expenses, depreciation and FIT (including EDIT and flow-through turnaround and the benefit of Treasury Grant amortization) on line 20 and rate base return on line 29.

Operating costs and depreciation:

Depreciation expense was determined from the "Unrecovered Costs" tab as detailed in Section IV.A.i. FIT was determined on the "Income Taxes" tab as detailed in Section IV.C. Production O&M (line 4), property and liability insurance (line 10), Montana energy tax (line 15) were determined based on amounts as removed from Adjustment 6.53 in Exh. SEF-6.

Return on Rate Base Items:

The rate base on line 29 was determined on the "Rate Base (EOP)" tab as detailed in Section IV.D. Regulatory assets and PTCs are classified as Deferred Debits and Credits. Treasury Grants and the spending against which they were applied are classified as Accumulated Depreciation and Amortization.

Q. How has the revenue requirement been calculated?

A. The revenue requirement calculation is shown on line 34. Total rate base on line 29 is multiplied by the requested rate of return on line 31 to arrive at the operating income requirement, which is compared to the net operating shortfall on line 20. The result is reflected on line 33 as the net operating deficiency. This amount is then grossed up on line 34 to determine the revenue requirement in 2023 of $53.9 million for Schedule 141C.

Q. Based on current estimates, what would the revenue changes be for 2024 and 2025?

A. The revenue change for 2024 would be an additional $4.1 million recovered through Schedule 141C and for 2025 would be $22.5 million. The increases in both years are primarily driven by increases in depreciation and major maintenance amortization associated with forecasted plant additions as discussed by Mr. Roberts and anticipated major maintenance events as discussed by Mr. Carlson.

VI. GENERAL TRACKER DISCUSSION

Q. Were there other requirements as part of Order 08 in PSE's 2019 general rate case?

A. Yes. The order stated that PSE:

> should include in that plan its assessment of PTCs available to offset D&R costs for Colstrip Units 3 and 4. We further require PSE and Staff to work together to establish a tracking mechanism for D&R costs for all 4 units, and to present that mechanism for Commission approval in the Company's next GRC.[28]

[28] Dockets UE-190529/UG-109530 Order 01 ¶425.

Q. What is PSE's estimate of PTCs available to offset D&R costs?

A. As detailed in the Unrecovered Costs tab of Exh SEF-19, after estimating PTCs to be utilized for unrecovered Colstrip Units 3 and 4 plant, PSE believes $127.8 million in PTCs will be available for D&R. This is shown in 2025 on line 15.

Q. Did PSE work with Commission Staff in the development of the proposed tracker?

A. Yes. PSE met with Commission Staff on November 15, 2021 to discuss and receive feedback on the structure of the tracker presented here. PSE reviewed draft spreadsheets with Commission Staff that were in similar form as those presented in Exh. SEF-19. At the time of the meeting, PSE did not have this detailed write-up prepared, but discussed the concept of the tracker and how it would function in some detail. Staff expressed general agreement with the tracker as presented, including the incorporation of all rate base and operating costs for Colstrip, and did not have any substantive changes to what was proposed.

Q. Is the tracker prepared consistent with how plant and other costs included in base rates in the multiyear rate plan are treated?

A. Yes. Forecasted amounts as of December 31, 2022, are treated in the same manner as all other capital and O&M in PSE's multiyear rate plan except for two key differences. First, the tracker will be updated annually and actual balances on a one year lag will be the basis of plant costs recovered in all future periods beyond 2023, whereas the multiyear rate plan would not be updated annually and is included at AMA for each rate year. Secondly, as noted above, the depreciation for plant as well as D&R included in the tracker are set on a different basis than they would be in the multiyear rate plan.

Q. How does the tracker depreciation differ from traditional recovery of depreciation through a depreciation study?

A. The depreciation rates in the multiyear rate plan derived from the depreciation study presented by Ned Allis in Exh. NWA-4,[29] are based on test year plant balances with useful lives through December 2025, and do not change once rates become effective in January 2023. The study does not include any prudently incurred additions after June 2021 and assumes recovery with updated rates in effect during the test period, when in reality these rates are not set for approximately 18 months after the end of the test period.

The tracker depreciation includes plant additions through December 2024 and will be updated annually. The impact of this is to recover more plant through depreciation updated in the tracker instead of utilizing PTCs, which can then be reserved for recovery of D&R.

[29] Exh. NWA-4 contains depreciation rates for Colstrip that do not include D&R.

Q. How are changes in cost estimates or differences in actual costs captured through the tracker?

A. As noted above, the initial 2023 rates for the tracker will be based on forecasted unrecovered costs and rate base balances as of December 31, 2022. In the filing to update rates for 2024, actual balances as of September 30, 2023 with forecasted amounts as of December 31, 2023 will be utilized to set 2024 rates. PSE will also include updated unrecovered cost estimates for decommissioning and remediation. Any differences in actual D&R paid and forecasted D&R balances compared to what were utilized to set the initial 2023 rate will be trued-up as well in setting the 2024 rate.

Q. How would the prudency of the costs included in the tracker be determined?

A. When resetting rates annually, all costs incurred in the prior period would be subject to a prudency review. In the first annual filing to reset 2024 rates, all plant costs incurred from January 2022 through December 2023 would be subject to review. Additionally, actual operating expenses incurred during 2023 that would be the basis for the true-up would be available for review.

Q. What other aspects of the annual filing would PSE propose?

A. In order to accomplish the prudency review noted above and review updated forecasted cost estimates to be set in the rate, PSE proposes a 60-day filing period for this annual update. The filing would be made on October 31st for rates effective January 1st of each year.

Q. Is this tracker proposal in compliance with CETA?[30]

A. Yes. As noted above, all plant related and operating expenses will be removed from the tracker as of December 2025, with the exception of D&R related costs.

Q. Does this tracker align with the requirements of the Annual Colstrip Report?

A. As ordered in PSE's 2017 and 2019 general rate cases,[31] the following are required as part of the Annual Colstrip Report:

1. the most recent estimate of the actual retirement date for Colstrip Units 1 and 2 and Colstrip Units 3 and/or 4;
2. in the event of an estimated retirement date earlier than July 1, 2022, for Colstrip Units 1 and 2, and upon the determination by PSE of an estimated retirement date for Colstrip Units 3 and/or 4, a discussion and evaluation of consequences to customers arising from those estimated retirement dates;
3. decommissioning and remediation expenditures associated with Colstrip Units since the time of the last report and updated estimates of future costs;
4. an evaluation of the sufficiency of the retirement account established pursuant to Chapter 80.84 RCW to fund and recover decommissioning and remediation activities for Colstrip Units 1 and 2;

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[30] RCW 19.405.030(1)(a) and (b).

[31] Paragraph 119 of the Multiparty Settlement Agreement approved in Dockets UE-170033 and UG-170034 (Consolidated) and paragraph 429 of Order 08 in Dockets UE-190529 and UG-190530 (Consolidated).

5. an evaluation of the sufficiency of existing depreciation rates for Colstrip Units 3 and 4 to cover decommissioning and remediation costs for those units;
6. for years in which PSE issues an Integrated Resource Plan, updated replacement power costs; and
7. actual D&R expenditures.

PSE will continue to include all the above information in its annual tracker tariff filing, in addition to the detail provided to true-up and reset rates. With this, PSE proposes to discontinue the requirement to file the Annual Colstrip Report, as all information will be included in the annual tracker tariff update and available for review.

Q. What are the benefits of the tracker as compared to recovery in base rates?

A. As noted above, the tracker allows flexibility in the use of PTCs should the use of the Colstrip facilities change between now and December 2025 when Colstrip must be removed from rates. It also provides a transparent method of reporting Colstrip estimates and the sources that are utilized to fund those costs. The estimated amounts through the end of the remediation period are noted in the table below and will be included in the annual filing based on the latest costs incurred and estimated in addition to the amounts recovered from customers. The below table, which is derived from the "Rate Base (EOP)" in Exh. SEF-19, presents a summary of the final effects of the tracker after all costs are incurred and recovered. It shows how the PTCs, Treasury Grants, and amounts recovered through this tracker would be applied to the prudently incurred plant and D&R costs that are allowed for recovery pursuant to CETA.

Table 5- Colstrip Tracker Forecasted Allocation by Cost

Description	Cosltrip 1&2	Colstrip 3&4	Combined
Stranded Plant:			
Stranded Plant 1&2	$ 110,972,219	$ 13,811,569	$ 124,783,787
PTCs including Interest	$ (110,972,219)	$ (13,811,569)	$ (124,783,787)
Fully Offset	$ -	$ -	$ -
D&R Spending			
D&R Spending	$ 180,213,247	$ 95,949,834	$ 276,163,081
Treasury Grants	(95,934,500)	-	(95,934,500)
Accumulated Reserve	-	(26,786,714)	(26,786,714)
PTCs including Interest	(72,281,686)	(55,504,682)	(127,786,368)
Tracker Funding	(11,997,061)	(13,658,438)	(25,655,499)
Fully Offset	$ -	$ -	$ -
Community Transition			
Community Transition	$ 2,500,000	$ 2,500,000	$ 5,000,000
PTCs including Interest	(2,500,000)	(2,500,000)	(5,000,000)
Fully Offset	$ -	$ -	$ -
Total Funding			
Accumulated Reserve	$ -	$ (26,786,714)	$ (26,786,714)
Treasury Grants	(95,934,500)	-	(95,934,500)
PTCs including Interest	(185,753,904)	(71,816,251)	(257,570,155)
Tracker Funding	(11,997,061)	(13,658,438)	(25,655,499)
Total Funding	$ (293,685,465)	$ (112,261,403)	$ (405,946,868)

Additionally, by allowing PSE to extend the recovery of D&R through 2050, PSE reduces the immediate burden on customers, as the normal method of recovering D&R would be to do so by the end of the plant's useful life, currently 2025. PSE's proposed method, as compared to recovering D&R through depreciation rates through 2025 in base rates leads to an annual revenue requirement reduction in the initial years of the tracker of approximately $13.5-16 million.

Q. Please summarize your proposal for a Colstrip tracker.

A. The below provides an overview of PSE's proposal for the Colstrip tracker PSE has filed in this filing under Schedule 141C.

1. PSE would transfer the following items from base rates to the tracker for recovery:
    a. Utility plant for Units 3 and 4 net of accumulated depreciation;
    b. Plant related ADIT and EDIT;
    c. Regulatory asset and associated ADIT for Colstrip Units 1 and 2 unrecovered plant;
    d. Amounts spent to date on decommissioning and remediation on all four units;
    e. U.S. Treasury Grants, which provide an offset for D&R on Units 1 and 2;
    f. Monetized PTCs, which provide an offset for unrecovered plant and decommissioning and remediation on all four units;
    g. Production O&M;
    h. Depreciation expense including the recovery of plant and D&R balances;
    i. Property and liability insurance;
    j. Montana energy tax; and
    k. Federal income tax expense including EDIT and flow-through reversals and the tax benefit of Treasury Grant amortization.

2. ARCs and AROs would no longer be included in rates in lieu of the inclusion of cash based balances for spending and recovery of remediation costs.

3. The tracker would be administered through Schedule 141C. The initial rate would be set January 1, 2023 and be reset each January 1st thereafter via a filing made each October 1st until all prudently incurred costs are recovered.

   a. Prudency of incurred costs would be reviewed in each year's annual filing;

   b. The tracker would recover non O&M items on a one year lag, using actuals through September and estimates through December for each year;

   c. O&M items (production O&M, property and liability insurance, Montana energy tax, FIT) will be included in the tracker on a forecast basis;

   d. Lifetime D&R estimates would be updated each year in the tracker; and

   e. The tracker would be trued up each year for amounts that were included on a forecast basis during the prior rate period and for load variances.

4. PSE is requesting that the order of priority for use of PTCs be amended as discussed in Section I and Section IV.B. PSE requests to be allowed to use PTCs to offset the true up for O&M, depreciation, and rate base return that will result for the rate period that ends December 2025, as coal related costs will not be allowed in rates after that time.

VII. IN THE EVENT PSE'S PROPOSED TRACKER IS NOT ACCEPTED

Q. What do you think should be done if the Commission were to not approve PSE's proposal to recover Colstrip costs in this tracker?

A. If the Commission does not approve PSE's proposal for a tracker the following should occur. First, the depreciation rates used for Colstrip plant during the multiyear rate plan period should be based on the depreciation rates that include

D&R recovered through 2025 as presented by Mr. Allis in Exh. NWA-3.[32] Next, the costs the Commission does approve for recovery during the multiyear rate plan, including those based on the aforementioned depreciation rates, would need to be added back to the base rates revenue requirement calculations in Exhs. SEF-4, SEF-6, and SEF-12. There would be commensurate impacts to Mr. Jhaveri's exhibits, which determine the rates requested in this proceeding.

VIII. CONCLUSION

Q. Does this conclude your testimony on the Colstrip tracker?

A. Yes.

[32] Currently, PSE is using the depreciation rates for Colstrip as presented in Mr. Allis' alternative calculation in Exh. NWA-4 that do not include recovery of D&R. The depreciation rates for Colstrip included in Exh. NWA-3 include recovery for D&R through 2025 as would be calculated in a traditional depreciation study.