Exh. JL-1T
Docket UE-200980
Witnesses: Jing Liu

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**DOCKET UE-200980**

TESTIMONY OF

Jing Liu

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Testimony in Support of Full Multiparty Settlement Agreement

April 2, 2021

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Jing Liu. My business address is 621 Woodland Square Loop SE, Lacey, WA 98503.

Q. Who employs you and in what capacity?

A. I work in the Regulatory Services Division of the Washington Utilities and Transportation Commission ("Commission") as Deputy Assistant Director of Energy Regulation.

Q. Would you please state your educational and professional background?

A. I hold a Bachelor's degree in English Language and Literature, a Master's of Arts degree in organizational communication and a Master's of Science degree in communication technology and policy from Ohio University. I completed four years of doctoral study in public policy at Ohio State University. I worked at the National Regulatory Research Institute from 2005 through 2007. I worked in the telecommunications section of the Commission between 2008 and 2014. I have been working in the Energy Regulation Section of the Commission since 2014.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to articulate Staff of the Washington Utilities and Transportation Commission's ("Staff") support for the Settlement Stipulation and Agreement ("Settlement" or "Settlement Agreement"), which no party to this docket opposes.

Q. Before discussing the Settlement Agreement, could you please briefly summarize PSE's initial filing.

A. On December 9, 2020, Puget Sound Energy ("PSE" or the "Company") filed a Power Cost Only Rate Case ("PCORC"). The filing sought to increase electric rates by $78.5 million, or an average increase of 3.69 percent across all customer classes. The incremental revenue would be recovered from electric tariff Schedule 95 Power Cost Adjustment Clause, following the rate spread allocation determined in the Company's 2019 general rate case ("GRC"). The proposed revenue increase consisted of a $88.4 million deficiency in Variable Power Cost ("VPC") and a $9.9 million surplus in Fixed Production Costs ("FPC"). PSE also sought to update the VPC baseline rate in its Power Cost Adjustment Mechanism ("PCA Mechanism"), the decoupling baseline in its FPC decoupling mechanism, as well as the Energy Charge Credit ("Energy Credit") on Schedule 139 Voluntary Long Term Renewable Energy Purchase Rider ("Green Direct Program Schedule").

Q. Please also briefly summarize PSE's supplemental filing?

A. On February 2, 2021, PSE filed supplemental testimony and supporting exhibits, revising its proposed revenue increase to $88.0 million, or an average increase of 4.13 percent.[1] It consisted of a $97.8 million deficiency in VPC and a $9.9 million sufficiency in FPC.

Q. Please briefly summarize the proposed Settlement Agreement and its impact on PSE's revenue deficiency.

A. The Settlement Agreement is a "full multiparty settlement" as the term is defined in WAC 480-07-730(3)(a) because it resolves all issues in this Docket. The following parties to the docket have joined the Settlement Agreement: PSE, Staff, the Alliance of Western Energy Consumers ("AWEC"), and the Energy Project (collectively, "Settling Parties"). The Public Counsel Unit of the Washington Attorney General's Office ("Public Counsel") did not join the Settlement, but they also do not oppose the Settlement.

The Settlement Agreement provides for an increase in revenue of $65.3 million, or 3.07 percent, relative to revenues produced at current electric rates. $61.6 million of this increase, or 2.89 percent, will be collected from Schedule 95 and $3.8 million, or 0.18 percent, reflect the decrease in the Energy Credit for Green Direct customers on Schedule 139. Table 1 below provides a comparison of the power costs

[1] PSE's supplemental filing revised VPC to reflect more updated natural gas prices, power and natural-gas-for-power hedges, rates for transmission contracts, costs for Mid-Columbia hydroelectric contracts, rates for natural gas pipeline capacity contracts and planned outage schedules for thermal resources. The supplemental filing also included a small correction to the SPI Biomass Deferral adjustment.

and revenue deficiency calculations among PSE's initial filing, supplemental filing, and the Settlement.

Table 1. Comparison of Power Costs and Revenue Deficiency

	PSE As Filed	PSE Supplemental	Settlement
Variable Power Cost	$ 807,664,421	$ 817,109,248	$ 801,309,412
Fixed Production Cost	$ 448,902,886	$ 448,915,889	$ 452,272,404
Green Direct Energy Credits			$ 26,757,563
Total Power Cost	$ 1,256,567,307	$ 1,266,025,137	$ 1,280,339,378
Normalized Test Year Load (MWh)	19,685,487	19,685,487	20,365,545
Variable Power Rate	$ 41.028	$ 41.508	$ 39.346
Fixed Production Rate	$ 22.804	$ 22.804	$ 22.208
Rate to Fund Energy Credit			$ 1.314
Total Power Rate	$ 63.832	$ 64.313	$ 62.868
Revenue Deficiency	$ 78,505,720	$87,954,754	$ 61,582,644
Schedule 139 Revenue Change	$ (2,034,054)	$ (2,278,874)	$ 3,765,483
Total Authorized in PCORC	**$ 76,471,667**	**$ 85,675,880**	**$ 65,348,127**

Pursuant to the terms of the Settlement Agreement, the revenue deficiency above will be subject to a VPC update in a compliance filing. The final revenue deficiency may be slightly higher or lower depending upon the Aurora model output based on more up-to-date natural gas forward prices and PSE's hedging positions.

The Settlement Agreement also includes an increase in annual electric low-income bill assistance funding by twice the percentage increase in the residential customer base rate approved by the Commission, with a minimum increase of $1 million. Based on the revenue deficiency in this Settlement, and prior to the power cost update in the compliance filing, the funding increase is 5.59 percent, or approximately $1.2 million. This funding increase will be available for distribution and will be collected from Schedule 129 beginning October 1, 2021.

The Settling Parties reached the revenue deficiency figure by making compromises in various accounting adjustments and non-accounting terms. Therefore, the Commission should consider this Settlement in its entirety.

Q. If the variable power cost is subject to an update in a compliance filing, how long will it take for Staff to review the power cost update?

A. Due to the complexity of the power cost model, Staff respectfully requests five business days to review the Company's compliance filing before the proposed rates become effective.

Q. Does the Settlement include any additional agreements beyond those mentioned above?

A. Yes. In addition to the revenue requirement adjustments, the Settlement provides for a number of collaborative opportunities that the Settling Parties may engage in after this proceeding on the following subjects:

(1) Calculation of the Energy Credit for Green Direct customers;

(2) Calculation of Energy Imbalance Market ("EIM") benefits; and

(3) PSE's hedging practices in power cost management and natural gas intra-company transactions.

Finally, the Settling Parties agree to table the debate on whether the PCORC should continue until PSE's next GRC (or another proceeding in 2022). PSE agrees not to file another PCORC before this issue is litigated.

Q. Please briefly summarize why Staff supports the Settlement Agreement.

A. The Settlement arrives at a fair and reasonable outcome that is the result of substantial compromise. The Settlement provides PSE with a revenue increase that is significant, but justified, given increases to power supply costs. The increased power costs in the rate year reflect a number of new and renewed power purchase agreements ("PPAs"), transmission contracts, and increases to natural gas and coal fuel costs.

Additionally, the Settlement addresses a number of challenging policy issues. Most importantly (from Staff's perspective), the Settlement not only addresses the power cost modelling and rate calculation issues associated with PSE's Green Direct program, but it also reduces the Energy Credit that PSE pays to Green Direct customers. The Settlement also memorializes an agreement to develop a durable method for calculating the Energy Credit in the future. The terms on the Green Direct issue are in the public interest because it achieves meaningful progress toward curing any potential cross-subsidization.

For settlement purposes, PSE also agreed to begin including a specified level of EIM benefits in its calculation of net power supply costs, rather than being offset by the EIM costs in the PCA Mechanism. This is in the public interest because it will allow ratepayer to now directly receive the net EIM Benefits. The Settling Parties also agreed to engage in collaborative processes pertaining to the calculation of the Green Direct Energy Credit, the calculation of EIM benefits, and hedging management and natural gas intra-company transactions. Each of these resolutions demonstrate the Settling Parties' commitment to tackling these complicated issues in good faith.

Finally, the Settling Parties agreed to increase the electric low-income funding to alleviate the rate impact on PSE's low-income customers. This term is consistent with the public interest because it addresses the needs of the vulnerable population.

III. THE AGREEMENT SATISFIES STAFF'S INTERESTS AND IS CONSISTENT WITH THE PUBLIC INTEREST

A. Revenue Deficiency and Power Cost Rates

Q. What do the Settling Parties agree to in terms of revenue deficiency?

A. The Settling Parties agreed to $65.3 million in total revenue increase from this PCORC, of which $61.6 million is the incremental revenue to be collected from Schedule 95, and $3.8 million represents the reduction in the Green Direct Energy Credit on Schedule 139.[2] The $61.6 million revenue deficiency consists of: (1) a $57.2 million revenue deficiency in VPC; (2) a $22.4 million revenue sufficiency in

[2] Because the PCORC addresses the incremental revenue increase from the current rates and because the billing determinants in this PCORC are different from the billing determinants used in calculating the current rates in the last GRC, the proposed revenue increase is based on "revenue deficiency" rather than the "revenue requirement" as used in a typical GRC. Revenue deficiency is calculated as the difference between the proposed rate and the current rate, multiplied by the normalized test year delivered load. Rate is calculated as revenue requirement divided by the billing determinants.

FPC; and (3) a $26.8 million additional revenue requirement to provide the Energy Credit for Green Direct customers.

Q. What are the components of the overall revenue requirement from this Settlement?

A. The Settlement specifies three underlying components of the power cost revenue requirement:

(1) $801.3 million VPC for serving non-Green Direct customers;

(2) $452.3 million FPC for serving all customers; and

(3) $26.8 million cost to provide the Energy Credit to Green Direct customers.

Q. Why is the $801.3 million revenue requirement for VPC reasonable?

A. The $801.3 million VPC represents PSE's variable costs in producing and procuring electricity, transmission contracts, natural gas pipeline transportation contracts, as well as other related costs in the rate year. It is $51.0 million higher than the VPC currently embedded in rates. The increase in VPC includes the increased costs of existing PPAs, four new PPAs, increased cost of transmission purchases from the Bonneville Power Administration ("BPA"), and the higher natural gas prices from the level in the Company's last GRC.

With regard to BPA transmission rates, given that the pending BPA rate case will not be concluded prior to the conclusion of this PCORC, the Settling Parties reached a middle ground to balance the risks between the Company and its ratepayers.

The Settling Parties agree to a final power cost update in the Company's compliance filing to reflect more up-to-date natural gas prices and hedging positions. The update is consistent with the Commission's expressed desire to have the power cost rate reflect rate year actual costs as closely as possible.[3]

Q. Why is the $ 452.3 million revenue requirement for FPC reasonable?

A. The $452.3 million FPC reflects a reduction of $26.3 million from the current level. The reduction appropriately reflects a decline in fixed production rate base as well as the Colstrip Units 1 and 2 Regulatory Asset being offset by PSE's monetized Production Tax Credits ("PTCs").

Q. Why is the $26.8 million revenue requirement for the Green Direct Energy Credit reasonable?

A. This amount is to provide recovery of the Energy Credits, which PSE pays to subscribers of the Green Direct program. Under the arrangements of the Green Direct program on Schedule 139, subscribers pay a Resource Option Energy Charge for the dedicated renewable PPAs. In exchange, these subscribers get an Energy Credit in recognition of the avoided power cost from PSE's system. As I will explain in more detail later, this component of power costs represents a reasonable compromise because: (1) Green Direct subscribers pay a share of the VPC and FPC; and (2) parties have made progress in this Settlement to reduce the potential cross-

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[3] *See e.g., Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-060266 & UG-060267, Order 08, ¶ 22 (January 5, 2007) ("The Commission's goal has been to set the baseline as close as practicable to what is likely to be experienced during the rate year. We expect that practice to continue, and we also expect the parties to continue to refine the method and improve the data upon which we act.")

subsidization by changing the method of calculating the Energy Credit to be based on the VPC rate.

Q. What are the power cost rates in this Settlement?

A. As shown in Table 1 above, this Settlement provides a VPC rate at $39.346 per MWh,[4] an average FPC rate at $22.208 per MWh, and an average rate for the Green Direct Energy Credit at $1.314 per MWh. All three rates are based on the revenue requirement in the three categories spread over the entire test year delivered load of 20,365,545 MWh including the Green Direct customers' load of 680,058 MWh. Taken together, the combined rate represents PSE's unit power cost of serving all retail bundled customers.

For the purposes of PCA Mechanism imbalance tracking, the Settling Parties agree that the VPC baseline rate in Schedule B will be $40.706 per MWh, which is calculated as the total VPC of $801.3 million divided by the non-Green Direct customer load of 19,685,487 MWh.[5] It represents PSE's unit VPC of serving non-Green Direct customers.

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[4] Settlement Agreement, Item A.1.b.
[5] Settlement Agreement, Item A.1.a.

B. Green Direct Issues (Settlement Agreement Items A.1 and C)

Q. What is the Green Direct program?

A. The Green Direct program is a voluntary program for PSE's governmental and large corporate customers who wish to enter into a long-term arrangement to purchase renewable power from dedicated sources, a step beyond purchasing Renewable Energy Credits ("RECs"). PSE's Voluntary Long-Term Renewable Energy Purchase Rider was approved as Schedule 139 by the Commission in 2016.[6] Customers signed agreements with PSE ranging from 10 to 20 years.

The Green Direct program currently provides renewable power resources from two PPAs: the Skookumchuck Wind PPA and the Lund Hill Solar PPA. The Skookumchuck Wind project began in operation in November 2020, and the Lund Hill Solar PPA became in effect on March 1, 2021.[7]

Q. What do Green Direct subscribers pay?

A. The rates for Green Direct customers consist of three components. First, Green Direct customers remain on their respective rate schedules and pay the base rates and the applicable rider schedule rates. As PSE Witness Einstein states, the Green Direct program "maintained the participating customers' status as fully bundled utility customers."[8]

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[6] *See Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-160977.
[7] Einstein, Exh. WTE-1CT, 5:12 – 6:16.
[8] Einstein, Exh. WTE-1CT, 4:1-2. *See also*, PSE's Electric Tariff G, WN U-60, Schedule Sheet No.139-B, Section 4: "The Customer will continue to receive fully bundled service."

Secondly, Green Direct subscribers pay a Resource Option Energy Charge as prescribed in Schedule 139 which, by design, covers the full cost of the Green Direct PPAs over their subscription period, as well as any of PSE's administrative and software costs attributable to the program.

Third, Green Direct customers get an Energy Credit to account for the avoided cost for PSE to serve their load. The Energy Credit is currently set at 75 percent of the total baseline power rate following the peak credit method in the cost-of-service study, which allocates 75 percent of power cost as energy-related and 25 percent of power cost as demand-related.

Q. What challenges did the Green Direct program present in this case?

A. The Green Direct costs and load present unique challenges to power cost modelling. The first challenge is determining whether the load of Green Direct customers should be included in the power cost model and in the billing determinants for rate calculation purposes. The second challenge is determining whether the Energy Credit provided by the current Schedule 139 is appropriate. These two challenges combined, if not addressed carefully, could potentially lead to a cross-subsidization issue that violates RCW 19.29A.090(5) and RCW 80.54.020.[9] The Settling Parties reached a resolution that addressed these two challenges.

[9] RCW 19.29A.090(5) provides that "[a]ll costs and benefits associated with any option offered by an electric utility under this section must be allocated to the customers who voluntarily choose that option and may not be shifted to any customers who have not chosen such option". RCW 80.54.020 provides that the "[a]ll rates, terms, and conditions made, demanded, or received by any utility for any attachment by a licensee or by a utility must be just, fair, reasonable, and sufficient."

Q. Please explain the challenge of Green Direct load in the context of power cost and rate calculation.

A. Based on RCW 19.29A.090(5), the cost of the Green Direct PPAs should be excluded from the VPC model to prevent cost-shifting to non-Green Direct customers.[10] A simplistic approach to the rate calculation would be to exclude the load of Green Direct from the billing determinants, following the general assumption that the load should match the cost.

However, Staff believes it is important that the Green Direct load be included in the rate calculation (even though the cost of the Green Direct PPAs should not be part of the VPC model) because if Green Direct load were excluded from the billing determinants, Green Direct customers would then not pay a fair share of the FPC or the fixed portion of the VPC.[11] In other words, Green Direct customers would contribute less to fixed cost recovery than other retail bundled customers.[12] As a consequence, this approach would have shifted an undue burden of fixed cost recovery to non-Green Direct customers.

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[10] In the rate year, Green Direct customers will take electricity from the dedicated renewable PPAs and they pay for the PPAs through Resource Option Energy Charge on Schedule 139. In the last GRC, the Commission ordered PSE to exclude Green Direct PPAs from the VPC model, and stated that "[v]oluntary programs such as the Green Direct program are subject to the requirements of RCW 19.29A.090(5), which prohibits cost-shifting to non-participants." *See Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-190529 & UG-190530, Order 08 ¶ 296 ("2019 GRC Order 08").

[11] *See* Wetherbee, Exh.PKW-01CT, at 53: 1-7.

[12] Green Direct customers' contribution in cost recovery would be limited to 25 percent of the total power cost rate paid by other customers.

Q. Please explain the challenge pertaining to the Green Direct Energy Credit.

A. Staff believes that the current Green Direct Energy Credit – which is set at 75 percent of the total power cost rate based on the peak credit method in cost allocation – is too generous. The peak credit method is a poor proxy for the avoided cost attributable to Green Direct customers. While the average market rate for replacement power is about $30 per MWh (based on PSE's power cost model), setting the Green Direct Energy Credit at 75 percent of total power cost rate, before incorporating any additional adjustments to power cost, is about $41 per MWh. Without a modification to the Energy Credit level, any difference between the market replacement cost and the high Energy Credit would need to be either borne by non-Green Direct customers or absorbed by PSE's shareholders.

Q. How does the Settlement address the Green Direct challenges?

A. The Settlement takes multiple steps to ensure that the total costs, including both VPC and FPC, are spread to all customers in an equitable way. First, PSE will continue to present the VPC of serving only non-Green Direct customers. However, to develop the VPC rate the VPC is spread over all the delivered load, including Green Direct load.[13] The cost of Green Direct PPAs is not included in VPC.[14] Second, the Settling Parties agree to set the Green Direct Energy Credit level to the VPC rate.[15] In other words, Green Direct customers would get a credit that is equal to the VPC rate that

[13] Settlement Agreement, Item A.1.c and d.
[14] Settlement Agreement, Item A.1.e.
[15] Settlement Agreement, Item A.1.b.

they pay in the first step. Third, the PCORC revenue deficiency includes the Energy Credit provided to Green Direct customers through Schedule 139.[16] Last, after this PCORC, the Settling Parties agree to engage in a continued dialogue to find a path forward on a durable method for calculating the Energy Credit for Green Direct customers.[17] Any benefits from a potential reduction in the Energy Credit, prior to the next rate change, will be tracked and flowed back to non-Green Direct customers.[18] The Green Direct adjustment reduces the revenue deficiency by $13.9 million from PSE's supplemental filing.

Q. Why is it necessary to spread the VPC and FPC over all load, including Green Direct load?

A. This approach ensures that Green Direct customers pay a fair share of the fixed portion of VPC and FPC. They will not be treated like customers on a special contract, therefore they should contribute to fixed cost recovery in the same way as other retail customers.

Q. Why is the reduction in Energy Credit a positive step?

A. This step reduces excess in the Energy Credit, thereby mitigating potential cross-subsidization. Although it is possible that some cross-subsidization from non-Green Direct customers to Green Direct customers will exist after this PCORC, any such cross-subsidization is mitigated by the change in Energy Credit to the VPC rate.

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[16] Settlement Agreement, Item A.1. This adjustment includes the cost of providing Energy Credit.
[17] Settlement Agreement, Item C.
[18] *Id*.

Further, the parties agreed to engage in a continued dialogue to find a path forward on a durable method for calculating the Energy Credit for Green Direct customers.

Q. Why didn't the parties resolve the issue by adjusting the Energy Credit all the way down to the market rate?

A. This Settlement made moderate but meaningful progress in reducing the Energy Credit without disrupting the Green Direct program. Staff recognizes that the Energy Credit is an important consideration for institutional and commercial customers when they chose to enter into the long-term commitment under the Green Direct program. It would not be fair to make a drastic change in this proceeding without a more careful and thorough examination. Staff also acknowledges that the Green Direct Energy Credit may not necessarily need to be set at the market rate because the Green Direct PPAs bring additional contribution to the system capacity.

Q. Why should the revenue deficiency include the Energy Credit provided to Green Direct customers?

A. This step is necessary because the Green Direct Energy Credit is now a part of the Company's pro forma revenue. It will reduce the Company's revenue level in the rate year. Therefore, both the revenue contribution made by the Green Direct customers in the first step and the credit received by the Green Direct customers in the second step should be accounted for in the revenue deficiency calculation.

Q. Did the parties reach an agreement on how to track the power cost variance in future PCA Mechanism annual reports?

A. Yes. The Settling Parties agree on the future PCA Mechanism filings in two aspects. First, the Settling Parties agree that future PCA Mechanism tracking shall not include the cost of Green Direct PPAs.[19] The VPC baseline rate used for the purpose of the PCA Mechanism imbalance calculation, in Schedule B, will be the total VPC of serving non-Green Direct customers divided by the non-Green Direct load.[20] This approach properly matches the authorized costs with actual costs in PCA Mechanism tracking.

Second, the Settling Parties accept the Company's proposed tracking of costs and benefits associated with the generation surplus or deficiency from Green Direct PPAs in PSE Witness Free's Exhibit SEF-9.[21]

Q. Could you please explain the proposed tracking of Green Direct costs and benefits in the PCA Mechanism annual reports?

A. Yes. The future PCA Mechanism imbalance will only reflect the difference between the authorized cost and the actual cost of serving non-Green Direct customers. However, the generation from Green Direct PPAs will affect the Company's actual power cost. Specifically, when the Green Direct PPAs generate more power than Green Direct customers' consumption, the surplus power will be absorbed by the rest of the customers in the system. This presents a benefit because the surplus power has

[19] Settlement Agreement, Item A.1.f.
[20] Settlement Agreement, Item A.1.a.
[21] Settlement Agreement, Item A.1.g.

a market value. Conversely, when the Green Direct PPAs generate less power than Green Direct customers' consumption, PSE would need to provide extra power to meet Green Direct customers' demand. This presents a cost because replacement power needs to be purchased from the market.

PSE's proposed accounting and reporting, as presented in Exh. SEF-9, takes market purchases for Green Direct customers out of the PCA Mechanism imbalance when Green Direct PPAs' supply is short, and takes market sales from surplus Green Direct PPA generation out of the PCA Mechanism imbalance when Green Direct PPAs' supply is long. PSE will also track any surplus RECs for Green Direct customers. This approach satisfies the requirement in RCW 19.29A.090(5) that all costs and benefits associated with the Green Direct program must be allocated to the Green Direct customers and may not be shifted to non-Green Direct customers. It also meets the Commission's requirement that "Green Direct program participants benefit exclusively from the sale of over-generation and prohibits non-participants from subsidizing costs of additional power to serve Green Direct customers."[22]

C. BPA Transmission Rates (Settlement Agreement Item A.2)

Q. What is the issue pertaining to BPA transmission rates?

A. BPA has a transmission rate case pending that determines the contract rates PSE will pay starting October 1, 2021. In its initial filing, PSE presents the rate year BPA transmission rate increase a 2.65 percent rate increase for point-to-point service,

[22] 2019 GRC Order 08, ¶ 296.

based on the average rate increase from 2002 through 2019. In the supplemental filing, PSE updated transmission costs to reflect the BPA-proposed rates, which resulted in a $6.2 million cost increase from the initial filing.

Q. What does the Settlement provide for BPA transmission rates?

A. The Settling Parties agree to adopt the rate increase PSE presented in its initial filing. This compromise is to acknowledge that there will likely be a transmission rate increase in the rate year, however, the actual rates won't be known until after the rate effective date of this PCORC. This adjustment reduces revenue deficiency by $6.6 million.

D. Colstrip Issues (Settlement Agreement Item A.3)

Q. What specifically does the Settlement provide for Colstrip-related issues?

A. This Settlement resolves Colstrip Operating and Maintenance ("O&M") expense in the rate year, SmartBurn depreciation expense, and the use of PTCs.

Q. What is the issue pertaining to Colstrip O&M?

A. Colstrip rate year O&M expense is very uncertain at this point. In its initial filing, PSE used the test year O&M expense adjusted for major maintenance amortization, a total of $19.5 million, which is $2 million higher than the level the Commission authorized in PSE's 2019 GRC, $17.4 million.[23] The operator of Colstrip, Talen,

[23] 2019 GRC Order 08, ¶ 264, ¶ 694, and ¶ 754.

presented a much higher O&M budget. However, as Colstrip Units 3 and 4 approach their retirement and as the regulatory and economic factors push for a potentially earlier retirement date than December 31, 2025, other joint owners of Colstrip have brought issues related to the 2021 budget for arbitration seeking a more conservative approach. In Staff's opinion, neither test year level, nor the Talen budget would present an accurate estimate for the test year O&M.

Q. What does the Settlement provide for Colstrip O&M expense?

A. As the result of a good-faith negotiation, the Settling Parties agree to an adjusted O&M expense of $18.4 million for the rate year, right in the middle of PSE's proposal and what is embedded in the current rate. This recognizes the increased O&M expense, while not endorsing a continued level of growth without a proper prudence review. This adjustment reduces revenue deficiency by $1.1 million.

Q. What is the issue pertaining to SmartBurn?

A. In the 2019 GRC, the Commission determined that costs related to PSE's SmartBurn plant investment were not prudently incurred based on the Company's failure to maintain contemporaneous documentation of its decision making.[24] The recovery of SmartBurn plant costs were disallowed. PSE inadvertently included the test year depreciation expense associated with SmartBurn, $321,547 in the revenue requirement calculation.

[24] 2019 GRC Order 08, ¶ 197–199 and ¶ 685.

Q. What does the Settlement provide for SmartBurn?

A. The Settlement removes the SmartBurn depreciation expense to comply with the Commission Order in the 2019 GRC.[25] This adjustment reduces revenue deficiency by $338,074.

Q. What is the issue pertaining to PTCs?

A. In PSE's 2017 GRC, the Commission adopted the Multi-party Settlement Stipulation and Agreement which allows PSE to offset the unrecovered plant balances for Colstrip Units 1 and 2 with monetized PTCs.[26] If Colstrip Units 1 and 2 close prior to the monetization of sufficient PTCs to offset, PSE shall hold the remaining plant balances of Colstrip Units 1 and 2 in a regulatory asset in rate base until the earlier of either: (1) the recovery of all plant balances for Colstrip Units 1 and 2 through monetized PTC offsets; or (2) December 31, 2029.[27]

In PSE's 2019 GRC, the timing of PTC monetization and interest accrual was litigated. The Commission determined that the Colstrip Units 1 and 2 regulatory asset will be offset, and interest will begin to accrue, as PTCs are monetized on an annual basis.[28]

In this PCORC filing, PSE has used the monetized PTCs from 2019 and 2020 to offset the Colstrip Units 1 and 2 regulatory asset balance. The excess $31.4 million in PTCs is incorporated in the rate base.

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[25] *Id.*

[26] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-170033 & UG-170034, Order 08 (Dec. 5, 2017), Append B, ¶ 25 ("2017 GRC Order 08").

[27] *Id.*

[28] 2019 GRC Order 08, ¶ 422.

Q. What does the Settlement provide for PTCs?

A. The Settlement accepts PSE's treatment of PTCs in the PCORC filing and agrees it is consistent with PSE's 2017 GRC Settlement and Commission Order 08 in the 2019 GRC. The Settling Parties agree that PSE can cease accruing carrying charges on the excess PTCs from the effective date of the PCORC rates because the excess PTCs now provide an offset to rate base and lower the Company's return. PSE will accrue carrying charges on future PTCs that are not included in rate base as they become monetized.

E. EIM Benefits and Costs (Settlement Agreement Items A.4 and E)

Q. What are the issues pertaining to EIM benefits and costs?

A. The EIM is a voluntary market that provides a sub-hourly economic dispatch of participating resources for balancing supply and demand every fifteen and five minutes. It enables participating utilities to buy and sell small amounts of energy in a real-time regional market and share resources more cost effectively across a large region. PSE has joined the Western EIM operated by the California Independent System Operator ("CAISO") since October 1, 2016.

Q. What is PSE's treatment of EIM benefits and costs in its initial filing?

A. PSE continued to follow the approach in the Settlement Agreement in PSE's 2017 GRC: PSE includes all costs related to the CAISO EIM as a line item in actual allowable costs in Schedule B of the annual PCA Mechanism report ("2017

Method").[29] The 2017 Method was accepted at the time, because in the early years of PSE's participation of CAISO EIM the up-front costs were known and steep—whereas the benefits were difficult to quantify because the Aurora power cost model, that PSE uses to develop VPC, only handles hourly dispatch logic. Without a specific method, rate payers would pay for a higher FPC rate because FPC would include the EIM costs, but not receiving a lower VPC rate to reflect EIM benefits.

Under the 2017 Method, both the EIM costs and benefits passed through the dead band and sharing bands in the PCA Mechanism. This was a sensible solution because the EIM costs follow the benefits in the PCA Mechanism imbalance calculation. However, this approach was not perfect because the VPC baseline rate is set at a higher level without reflecting EIM benefits. For example, when EIM benefits overweigh the costs in the PCA Mechanism, and if the overall net savings fall into the dead band, PSE would be the first in line for these savings.[30] As such, this arrangement should not go on indefinitely.[31]

Q. What does the Settlement provide for EIM costs and benefits?

A. The Settling Parties agree to reduce the VPC by $8.0 million in EIM benefits and increase FPC by $3.9 million in EIM costs. The net effect is a $4.4 million reduction to the overall revenue deficiency.[32]

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[29] 2017 GRC Order 08, Settlement Agreement, Appendix B ¶72.
[30] 2017 GRC, Frankiewich, Exh. KAF-1T, at 15: 9-12.
[31] *See Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-152253, Order 12, 73-74, ¶224 (Sept. 1, 2016). In PacifiCorp's 2015 GRC, the Commission directed PacifiCorp to remove the EIM fixed costs from its Power Cost Adjustment Mechanism and propose their recovery in non-power cost rates. This was accomplished in PacifiCorp's 2019 GRC in Docket UE-191024.
[32] Settlement Agreement, Item A.4.

The Settling Parties agree that PSE will discontinue the EIM costs and benefits treatment from the 2017 Method. For settlement purposes, $8.0 million in EIM benefits is stipulated based on PSE's internal estimate for 2018.[33] Going forward, the Settling Parties may engage in a collaborative workshop on the estimation and treatment of EIM costs and benefits for rate making purposes.[34]

Q. Why are these settlement terms consistent with the public interest?

A. The Settlement represents a big step forward on this subject. EIM costs will now be recovered in FPC where they originally belonged. and VPC will now be reduced to reflect EIM benefits in the rate year. This results in both PSE and ratepayers sharing the benefits and risks with regard to PCA imbalance in a more equitable fashion. The settlement also provides a collaborative path forward where parties can continue to explore this complex and technical issue.

F. Prudence (Settlement Agreement Item B)

Q. What does the Settlement provide for prudence determination?

A. The Settling Parties, other than PSE, take no position and therefore do not contest (or affirmatively support) the prudence of PSE's proposed new and renewed resources presented in PSE's filing. The rates from this Settlement includes the costs of these resources that will be in service in the rate year. Because none of the Settling Parties

[33] Estimating EIM benefits can be labor intensive. PSE has not conducted similar internal analysis for other years.
[34] Settlement Agreement, Item E.

are contesting the prudence of these resources, the Commission does not need to make an explicit prudence determination in this case and should include the rate year resources in rates.

G. Hedging Collaborative (Settlement Agreement Item D)

Q. What does the Settlement provide for concerning a hedging collaborative?

A. The Settling Parties agree to participate in a collaborative workshop on electric and natural gas hedging for power cost management and natural gas intra-company transactions.

Q. Could you explain the rationale for this collaborative?

A. Due to the expedited nature of this PCORC, Staff did not have the time to sufficiently understand the Company's intra-company natural gas transactions, gas-for-power hedging, and electric hedging practices despite numerous data requests. Given the volume and significance of natural gas transactions between PSE's electric and natural gas operations, Staff would like to have a better understanding of intra-company natural gas transactions.

Additionally, the Company manages its natural gas hedging portfolio guided by a company-wide strategy. It is unclear how the Company hedges natural gas for both the electric book and the gas book under the same objective optimizing strategy, and, therefore, more discussions are necessary to understand how it works.

Lastly, the Company routinely engages in electric hedging transactions. Staff would like to examine in greater detail how the Company manages these types of hedges in the most cost-efficient manner while balancing risks. Staff believes this hedging collaborative is in the public interest because it will enhance the Settling Parties' understanding of the hedging costs and benefits embedded in VPC.

H. Electric Low-Income Bill Assistance (Settlement Agreement Item F)

Q. What does the Settlement provide for low-income bill assistance funding?

A. The Settlement provides for an increase in the annual electric Home Energy Lifeline Program ("HELP") funding by twice the percentage increase in the residential customer base rate approved by the Commission, with a minimum increase of $1 million.[35] Based on the revenue deficiency in this Settlement before the power cost update in a compliance filing, the increase is 5.59 percent, or $1.2 million. The annual gas HELP funding remains unchanged.

Q. Why is this provision consistent with the public interest?

A. The increased funding will mitigate the impact of a rate increase from this PCORC on PSE's low-income customers.

[35] The funding for PSE's electric HELP program for 2020-2021 program year is $21,557,697.

Q. What is the agreed-upon timing of the HELP funding increase?

A. The increase will become available for distribution from October 1, 2021, to align with the beginning of the next HELP program year. It will also align with the effective date of PSE's annual true-up filing for the low-income bill assistance tariff Schedule 129, when the funds will be collected from rate payers.

I. Future PCORC (Settlement Agreement Item G)

Q. What does the Settlement provide for pertaining to future PCORCs?

A. The Settling Parties agree to set aside the debate in this proceeding on whether PCORCs should be continued in the future. PSE will include this issue in its next GRC, or another proceeding in 2022. PSE agrees not to file another PCORC before the issue is litigated.

IV. CONCLUSION

Q. Do you recommend approval of the Settlement Agreement?

A. Yes, I do.

Q. Does this conclude your testimony in support of the Settlement Agreement?

A. Yes.