

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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

**TESTIMONY OF LANCE D. KAUFMAN
IN SUPPORT OF SETTLEMENT STIPULATION AND AGREEMENT
ON BEHALF OF
THE ALLIANCE OF WESTERN ENERGY CONSUMERS**

April 2, 2021

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Lance D. Kaufman, and my business address is 2623 NW Bluebell Place,
3 Corvallis, OR 97330.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?**

5 A. I am an independent economics consultant. I am appearing on behalf of the Alliance of
6 Western Energy Consumers (“AWEC”), a non-profit trade association whose members are
7 large energy users served by electric and gas utilities located throughout the West,
8 including customers that receive gas and electrical services from Puget Sound Energy
9 (“PSE” or the “Company”).

10 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.**

11 A. A summary of my education and work experience can be found at Exhibit LDK-2.

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. My testimony presents AWEC’s support for the Settlement Stipulation and Agreement
14 (“Settlement”) that has been presented for consideration by the Washington Utilities and
15 Transportation Commission (“Commission”) in the present matter. As noted below,
16 AWEC recommends the Commission adopt the Settlement as presented.

17 **Q. WHAT WERE THE ISSUES OF PRIMARY INTEREST TO AWEC IN THIS**
18 **MATTER?**

19 A. In the event that this matter required testimony from stakeholders in response to the
20 Company’s initial filing and supporting testimony, AWEC anticipated testimony
21 addressing the proposed revenue requirement increase, and specifically PSE’s cost
22 proposals related to: 1) the Bonneville Power Administration (“BPA”) transmission rate;
23 2) the Energy Imbalance Market (“EIM”) benefits and costs; and 3) Green Direct program

1 costs and modeling parameters. Additionally, AWEC anticipated discussing the need, or
2 lack thereof, for continuation of the power cost only rate case (“PCORC”) framework.

3 **Q. HOW DOES THE SETTLEMENT RESOLVE THE MATTER OF THE**
4 **REVENUE REQUIREMENT INCREASE IN A MANNER THAT IS IN THE**
5 **PUBLIC INTEREST?**

6 A. This settlement addresses all of the revenue requirement issues that were of concern to
7 AWEC, specifically, the Green Direct program, the BPA transmission rate, the EIM
8 benefits, and further use by PSE of the PCORC. These issues have been resolved in a
9 manner that balances the interests of customers and PSE while providing a process for
10 continued discussion regarding ongoing treatment.

11 **Q. HOW DOES THE SETTLEMENT RESOLVE THE ISSUE OF THE BPA**
12 **TRANSMISSION RATE IN A MANNER THAT IS IN THE PUBLIC INTEREST?**

13 A. BPA currently has a pending case that proposes an increase to transmission rates. PSE’s
14 initial filing included a revenue requirement adjustment to transmission costs to account
15 for the Company’s anticipated outcome of the case by increasing rates by the BPA’s
16 average 2002 to 2019 rate increase, 2.65 percent. In a later filing, PSE increased the
17 modeled BPA rate increase to BPA’s proposed rate increase in the BP-22 case. AWEC
18 and other parties were concerned that PSE’s supplemental filing overstated the expected
19 outcome of BPA’s rate increase because it did not reflect a historic pattern of final rate
20 increases being lower than requested.

21 Parties agreed to return to PSE’s originally filed proposal of a 2.65 percent rate
22 increase. The settled rate increase of 2.65 percent is grounded in historical data and
23 provides a reasonable fact-based estimate of what BPA’s actual rate increase will be. I

1 submit this outcome is in the public interest because it reflects an expected cost escalation
2 for PSE.

3 **Q. HOW DOES THE SETTLEMENT RESOLVE THE ISSUE OF THE EIM**
4 **BENEFITS AND COSTS IN A MANNER THAT IS IN THE PUBLIC INTEREST?**

5 A. PSE's initial filing excluded both EIM costs and benefits from calculation of rates.
6 However, PSE's historical data indicate EIM benefits are substantially greater than costs
7 and follow a pattern that is known and measurable. This means that excluding costs and
8 benefits of the EIM overestimates PSE's power costs. AWEC was also concerned that
9 some EIM costs were not excluded from the calculation of revenue requirement in the
10 initial filing. For example, PSE did not reduce generation plant depreciation expense or
11 certain variable maintenance expenses from its initial filing. Participation in the EIM alters
12 the dispatch patterns of PSE's thermal resources, which affects plant wear and tear and
13 associated maintenance. However, these costs are difficult to specifically identify and
14 quantify within PSE's overall operational costs and thus appear to be included in PSE's
15 revenue requirement.

16 The settlement resolves this concern by including PSE's internal estimate of 2018
17 EIM benefits (\$8 million) and the test year EIM costs (\$3.9 million) in rates. In addition,
18 PSE agreed to participate in a collaborative process to investigate EIM costs and benefits.
19 I submit this outcome is in the public interest because it reflects known and measurable
20 costs and benefits in rates, provides customers with benefits from PSE's participation in
21 the EIM, thus justifying PSE's decision to join this market, and provides a process to
22 improve the estimate of EIM costs and benefits.

1 **Q. HOW DOES THE SETTLEMENT RESOLVE THE ISSUE OF THE GREEN**
2 **DIRECT CREDIT IN A MANNER THAT IS IN THE PUBLIC INTEREST?**

3 A. PSE offers a long term voluntary green energy purchase option (“Green Direct”) through
4 Schedule 139. Customers on the Green Direct pay the cost of green energy plus a portion
5 of base energy charges. AWEC was concerned that PSE’s filing had not fully accounted
6 for the base energy revenue associated with Green Direct customers. In addition to
7 AWEC’s concern, Washington Commission Staff identified potential cost shifts associated
8 with the Green Direct program. The settlement alters treatment of Green Direct costs and
9 rates and decreases the revenue deficiency by \$13.9 million, which recognizes AWEC’s
10 Green Direct concerns and makes progress towards reducing the potential subsidy of Green
11 Direct customers by non-participating customers. The settlement agreement also provides
12 parties continued opportunity to investigate and improve the treatment of the Green Direct
13 program.

14 **Q. HOW DOES THE SETTLEMENT ADDRESS THE ISSUE OF AN EVALAUTION**
15 **OF THE PCORC FRAMEWORK IN A MANNER THAT IS IN THE PUBLIC**
16 **INTEREST?**

17 A. The settlement provides a process for the Commission to determine whether continued use
18 of the PCORC is in the public interest. Specifically, PSE has agreed not to file another
19 PCORC until the Commission has an opportunity, either in PSE’s next general rate case or
20 another proceeding in 2022, to review whether the PCORC should continue. This process
21 is in the public interest because it ensures that PSE will not file a PCORC until after the
22 Commission decides whether and how PSE makes future PCORC filings.

1 **Q. DO YOU HAVE ADDITIONAL COMMENTARY ON THE SETTLEMENT?**

2 A. Yes. In response to PSE's initial filing, the Commission suspended the tariff filing and set
3 this matter for public hearing to determine if the proposed increase was fair, reasonable,
4 and sufficient.^{1/} Subsequently, PSE and intervening parties, including AWEC, participated
5 in a pre-hearing conference where a schedule for prosecuting this case was developed and
6 presented to the Commission. This schedule was ultimately approved and requested a final
7 order from the Commission on this matter by June 16, 2021. While AWEC recognizes this
8 schedule, with the exception of the April 22 and 23, 2021 hearing dates, has been suspended
9 pending the Settlement Agreement, I submit that AWEC's efforts in this matter have been
10 calculated based, in part, on the expectation of a rate effective date in line with that
11 originally agreed upon by the parties at the pre-hearing conference. While the Settlement
12 Agreement provides a degree of certainty, and avoids additional expense, related to this
13 matter, AWEC members' operational expectations as a result of the increase requested by
14 PSE are less dynamic, and in particular under the current market pressures. Accordingly,
15 while I recommend the Commission approve the Settlement Agreement, I also recommend
16 that the resulting rates take effect at the same time that was originally agreed to by the
17 parties at the pre-hearing conference. This could occur by the Commission issuing an order
18 approving the Settlement Agreement on June 16, 2021, the same day its final order in this
19 case was originally determined.

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY ON THE SETTLEMENT**
21 **AGREEMENT?**

22 A. Yes.

^{1/} See Docket UE-200980, Order 01 (Dec. 16, 2020).