

**EXH. WTE-9T
DOCKETS UE-190529/UG-190530
UE-190274/UG-190275
2019 PSE GENERAL RATE CASE
WITNESS: WILLIAM T. EINSTEIN**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**Docket UE-190529
Docket UG-190530 (*Consolidated*)**

In the Matter of the Petition of

PUGET SOUND ENERGY

**For an Order Authorizing Deferral
Accounting and Ratemaking Treatment
for Short-life IT/Technology Investment**

**Docket UE-190274
Docket UG-190275 (*Consolidated*)**

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF

WILLIAM T. EINSTEIN

ON BEHALF OF PUGET SOUND ENERGY

JANUARY 15, 2020

PUGET SOUND ENERGY

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
WILLIAM T. EINSTEIN**

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1 **PUGET SOUND ENERGY**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**
3 **WILLIAM T. EINSTEIN**

4 **I. INTRODUCTION**

5 **Q. Are you the same William T. Einstein who provided prefiled direct testimony**
6 **and prefiled supplemental direct testimony in these dockets on behalf of**
7 **Puget Sound Energy (“PSE” or “Company”)?**

8 A. Yes, I filed prefiled direct testimony, Exh. WTE-1CT, and six supporting exhibits
9 (Exh. WTE-2 through Exh. WTE-7HC), and prefiled supplemental direct
10 testimony, Exh. WTE-8T.

11 **Q. What topics are you covering in your prefiled rebuttal testimony?**

12 A. In my prefiled rebuttal testimony, I provide a status update regarding PSE’s
13 proposed sale of its water heater rental service (“Water Heater Service”) and I
14 address concerns and recommendations raised by Public Counsel regarding the
15 Water Heater Service and PSE’s proposed sale of the service. Then, I respond to
16 concerns raised by Commission Staff and Public Counsel relating to PSE’s Green
17 Direct program, tied primarily to the tracking of costs and benefits associated with
18 the program.

1 **II. WATER HEATER SERVICE SALE UPDATE AND**
2 **RESPONSE TO PUBLIC COUNSEL**

3 **A. Status of Water Heater Service Sale**

4 **Q. In your prefiled supplemental testimony, you testified that PSE anticipated**
5 **making an appropriate filing with the Commission before the end of 2019 to**
6 **obtain Commission approval to sell the Water Heater Service. Has that filing**
7 **occurred?**

8 A. No. Negotiations for the sale of the Water Heater Service took longer than
9 expected and the parties estimate the Asset Purchase Agreement (“APA”) for the
10 sale of the Water Heater Service will be finalized in 30-60 days. PSE anticipates
11 making a filing for Commission approval of the sale shortly after execution of the
12 APA by both parties.

13 **Q. Does PSE still anticipate incorporating the results of the Water Heater**
14 **Service sale into the current case?**

15 A. No. Even with Commission approval prior to the end of this case, it is now
16 unlikely that close of the proposed transaction for the sale of the Water Heater
17 Service will occur prior to the end of this case. Accordingly, as will be explained
18 in greater detail in PSE’s application to sell the Water Heater Service, customer
19 communication and transition will begin upon Commission approval and final
20 financial results are expected to be complete six months after approval, which is
21 estimated to be on or after November 1, 2020. PSE now proposes that the

1 associated reduction in rate base, expenses and revenues be reflected in the next
2 general rate case.

3 **B. Public Counsel’s Concerns Relating to Depreciated Assets Disregards**
4 **Customer Choice and the Benefits Customers Receive Through the**
5 **Water Heater Service**

6 **Q. What are Public Counsel’s concerns or recommendations relating to PSE’s**
7 **sale of the Water Heater Service?**

8 A. As set forth in the Response Testimony of Public Counsel witness Carla
9 Colamonici, Exh. CAC-1CT, Public Counsel identified four concerns and/or
10 recommendations regarding the Water Heater Service:

- 11 1. PSE should notify all participating customers if and when the customer
12 has fully depreciated equipment;
- 13 2. When PSE notifies customers that their equipment is fully depreciated, it
14 should provide the customers with the option to either (1) end the rental
15 service and take ownership of the equipment or (2) end the agreement and
16 PSE will remove the equipment;
- 17 3. Public Counsel opposes the inclusion of any rental agreements for fully
18 depreciated equipment within the sale of the Water Heater Service. Public
19 Counsel believes these customers have “overpaid for their rental
20 equipment, and this overpayment should cease when equipment is fully
21 depreciated”;

1 4. Any gains PSE receives from selling the Water Heater Service should be
2 returned to customers.¹

3 **Q. How do you respond to Public Counsel’s recommendations relating to**
4 **notifying participating customers when their equipment becomes fully**
5 **depreciated?**

6 A. If the Commission approves of PSE’s sale of the Water Heater Service, customers
7 will be notified of the sale and will be provided the current depreciated value of
8 the equipment, including if their equipment is fully depreciated. The details of this
9 notification process will be submitted as part of PSE’s application to sell the
10 service, which will be filed with the Commission in the near future.

11 However, as a general matter, PSE is not opposed to affirmatively notifying
12 customers when their equipment becomes fully depreciated. If PSE’s sale of the
13 Water Heater Service is not approved by the Commission, PSE has no objections
14 with implementing this notification practice. As far as providing customers with
15 the option to take ownership of their equipment or have the equipment removed,
16 those options are already available to customers in addition to continuing the
17 rental service.

¹ Colamonici, Exh. CAC-1CT at 11:3-12:2.

1 **Q. How do you respond to Public Counsel's position that customers with**
2 **depreciated equipment should not be permitted to transition their service to**
3 **the new buyer?**

4 A. PSE disagrees with Public Counsel's position, which would limit the options
5 available to a customer with fully depreciated equipment. PSE does not believe it
6 is appropriate for the Company or any other party to make the decision for a
7 customer as to whether they can or should participate in a rental service.
8 Customers are in the best position to decide whether to continue renting or to
9 exercise the other options summarized above. PSE's sale of the service simply
10 provides customers that option.

11 Whether a customer currently has depreciated equipment is a snapshot in time and
12 can vary depending on when the customer had their water heater last replaced. A
13 customer with depreciated equipment today might have a new, undepreciated
14 water heater tomorrow if their equipment fails. But neither scenario should be a
15 determinative factor as to whether a customer can continue their rental service.

16 As shown by the number of customers continuing to participate in the program
17 year after year, many customers participate in the Water Heater Service not
18 because they see it as a water heater purchase program but because they prefer to
19 rent the equipment rather than own due to the value the rental service provides.

20 The Water Heater Service is a comprehensive program whereby PSE (and
21 eventually the proposed buyer) provides the rental equipment, parts, repair, and
22 replacement for a monthly rental rate. Customers value this rental service due to

1 the peace of mind, convenience, and predictability of costs that comes with a
2 worry-free guarantee of repair or replacement of their water heater. Selling the
3 service provides participating customers—including customers with depreciated
4 equipment—the ultimate choice on whether to continue their water heater rental
5 service.

6 For customers with depreciated equipment who do not wish to continue their
7 rental service, they can terminate their service and either (1) take ownership of
8 their water heater or (2) request that PSE remove the water heater. Customers
9 with water heaters that are not fully depreciated would need to pay the remaining
10 undepreciated balance before taking ownership of their water heaters.

11 **Q. What is PSE's response to Public Counsel's recommendation that any gains**
12 **from the sale of the Water Heater Service should be returned to customers?**

13 A. PSE agrees with Public Counsel that any gains from the sale of the Water Heater
14 Service should be returned to customers. The same is true for losses. Any
15 difference between the sales price based on the market value of the Water Heater
16 Service and PSE book value at close of the transaction, plus selling costs, should
17 be returned to customers. Please see the Prefiled Rebuttal Testimony of Susan E.
18 Free, Exh. SEF-17T, for the accounting treatment of the gain or loss of the
19 anticipated sale which will be filed in the application for approval. This
20 accounting treatment will be consistent with prior treatment of gains or losses on
21 property dispositions.

1 **III. SCHEDULE UPDATE AND RESPONSE TO CONCERNS**
2 **REGARDING THE GREEN DIRECT PROGRAM**

3 **Q. What is the current schedule for implementing the Green Direct program?**

4 A. Due to unanticipated further delays, the Skookumchuck Wind project is now
5 expected to go into full operation in April 2020, instead of late 2019 as I projected
6 in my prefiled direct testimony. Per the Schedule 139 Agreement, Green Direct
7 customers enrolled in the first Open Season will not be billed until such time as
8 the project has been commissioned and delivering energy. The Lund Hill solar
9 project remains on schedule to begin energy generation in 2021.

10 **Q. What concerns have parties raised regarding PSE’s Green Direct program?**

11 A. Parties have raised concerns over (1) cross subsidization between participating
12 and non-participating customers;² (2) whether the Green Direct Power Purchase
13 Agreements (“PPAs”) should be included in PSE’s power cost update;³ (3) the
14 treatment of liquidated damages associated with delays from the Skookumchuck
15 project;⁴ and (4) the overall tracking of Green Direct costs and benefits.⁵ I address
16 each of these concerns below.

² Scanlan, Exh. KBS-1CT at 7:11-8:15.

³ Colamonici, Exh. CAC-1CT at 13:12-14:11.

⁴ Scanlan, Exh. KBS-1CT at 8:17-12:13; Colamonici, Exh. CAC-1CT at 14:12-16:6.

⁵ Scanlan, Exh. KBS-1CT at 12:15-15:2.

1 **A. Non-Participating Customers Will Not Cross Subsidize Program**
2 **Costs**

3 **Q. What concerns are you addressing regarding cross-subsidization?**

4 A. In the Response Testimony of Kathi B. Scanlan, Exh. KBS-1CT, Ms. Scanlan
5 states that in Commission Staff's review of the Green Direct program, it found
6 evidence of cross-subsidization based on software related to the Green Direct
7 program billed to a common future use capital order.⁶

8 **Q. What is PSE's response to this concern?**

9 A. As noted by Ms. Scanlan in her testimony, PSE already stated in discovery that
10 these costs will be removed from rate base.⁷ This is explained further in the
11 Prefiled Rebuttal Testimony of Susan E. Free, Exh. SEF-17T.

12 **B. The Green Direct PPAs Are Properly Included in PSE's Power Cost**
13 **Update**

14 **Q. Has PSE included the Green Direct PPAs in PSE's power cost update even**
15 **though neither are yet in service?**

16 A. Yes, Skookumchuck and Lund Hill PPAs are included in PSE's power cost
17 update. PSE anticipates Skookumchuck coming into service by May 2020. In
18 addition, PSE has recently amended the PPA for Lund Hill in order to align
19 construction activities with labor provisions set by Washington's Clean Energy
20 Transformation Act (CETA). As part of that amendment, the developer has

⁶ Scanlan, Exh. KBS-1CT at 7:11-8:10.

⁷ *Id.* at 8:12-15.

1 guaranteed that PSE will begin receiving energy under that contract on March 1,
2 2021. In both cases, the contracts will be coming into service during the rate
3 year. Please see the Prefiled Rebuttal Testimony of Paul K. Wetherbee, Exh.
4 PKW-34CT, at page 22, for further discussion on this issue.

5 **Q. Is Green Direct a prudent resource for all customers?**

6 A. Yes. While the Green Direct program is fully subscribed, to the extent there is any
7 excess output beyond the needs of Schedule 139 customers, that output is a
8 prudent resource for all PSE customers and as noted in my prefiled direct
9 testimony, PSE seeks a Commission determination that Green Direct is a prudent
10 resource, including any output that would be used to serve all customers. No party
11 in this case has challenged the prudence of Green Direct.

12 **C. Liquidated Damages Associated with Skookumchuck Will Be**
13 **Deferred and Used to Offset Program Costs**

14 **Q. How will PSE address the accounting of liquidated damages for the Green**
15 **Direct program?**

16 A. At the end of November 2019, PSE filed an accounting petition to clarify how it
17 plans to account for the liquidated damages being accrued as a result of the
18 Skookumchuck Wind project delays. PSE is also seeking authority to defer
19 liquidated damages and use them to offset other Green Direct program costs as
20 was intended by RCW 19.29A.090(5). The details of this proposal are discussed
21 in Ms. Free's rebuttal testimony, Exh. SEF-17T.

1 **D. Overall Tracking of Green Direct Costs and Benefits**

2 **Q. How will PSE track all costs and benefits associated with the Green Direct**
3 **program?**

4 A. As discussed in the Prefiled Rebuttal Testimony of Susan E. Free, Exh. SEF-17T,
5 PSE will detail on an annual basis if customer usage is in excess or short of the
6 generation of the PPAs supporting the Green Direct program. PSE will track the
7 monthly variance between Schedule 139 usage and the generation of the PPAs.
8 On an annual basis, the energy and associated Renewable Energy Credits of the
9 PPAs will be allocated first to Schedule 139 customers. In addition, total Schedule
10 139 revenue and fixed costs (i.e. administrative costs, depreciation on SAP billing
11 changes or any incremental costs) will be tracked in separate orders, outside of the
12 Power Cost Adjustment mechanism, and excluded from PSE's rate filings. The
13 reporting of these costs can be made available on request.

14 **IV. CONCLUSION**

15 **Q. Does this conclude your prefiled rebuttal testimony?**

16 A. Yes.