EXH. SEF-1T
DOCKET UE-23____
2022 PCA COMPLIANCE FILING
WITNESS: SUSAN E. FREE

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of **PUGET SOUND ENERGY** **For Approval of its 2022 Power Cost Adjustment Mechanism Report**	**DOCKET UE-23____**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

APRIL 28, 2023

PUGET SOUND ENERGY

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PUGET SOUND ENERGY

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I. INTRODUCTION

Q. Please state your name, business address, and position with Puget Sound Energy.

A. My name is Susan E. Free. My business address is 355 110th Ave. NE, Bellevue, WA 98004. I am the Director of Revenue Requirements and Regulatory Compliance for Puget Sound Energy ("PSE" or "the Company").

Q. Have you prepared an exhibit describing your education, relevant employment experience, and other professional qualifications?

A. Yes, I have. It is Exh. SEF-2.

Q. Please summarize the contents of your testimony.

A. In this prefiled direct testimony I provide a background of PSE's PCA Mechanism and a summary of the results contained within the PCA Mechanism Report ("PCA Annual Report") for the Twelve Months Ended December 31, 2022, for which PSE is requesting approval. I also discuss PSE's proposal for recovering the 2022 customer deferral balance. Finally, I provide reporting associated with PSE's Green Direct Program which is administered under Schedule 139 Voluntary Long Term Renewable Energy Purchase Rider ("Green Direct Program").

Q. Are there other PSE witnesses sponsoring testimony in this Annual PCA Compliance Filing?

A. Yes, there are three other witnesses who are filing testimony in this Annual PCA Compliance Filing. They are:

<u>Philip Haines:</u> PSE's Director of Energy Supply Merchant, who provides an overview of power cost management, governance structures, and prudence of the Powerex PPA. Pursuant to a recently-approved settlement agreement reached in its 2022 multi-year rate plan, PSE may request a prudence determination for new contracts in this Annual PCA Compliance Filing.[1]

<u>Brennan D. Mueller:</u> Mr. Mueller, PSE's Manager of Power Costs & Energy Analysis, discusses the reasons for the variance between the approved baseline power costs and those power costs actually experienced during the PCA period that have given rise to the 2022 PCA imbalance for sharing.

<u>Zacarias C. Yanez:</u> Mr. Yanez, a Consulting Energy Trader for PSE, requests a prudence determination on two new power cost contracts that were entered into after PSE's 2022 general rate case under Docket UE-220066.[2]

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[1] *See See Wash. Utils. & Transp. Comm'n v. Puget Sound Energy,* Dockets UE-220066/UG-220067 (consolidated), Final Order 24, App. A at ¶ 30 (Dec. 22, 2022).

[2] *See id.*

II. BACKGROUND REGARDING THE PCA MECHANISM

Q. Please provide a brief summary of the Power Cost Adjustment Mechanism.

A. At inception, as authorized by the Commission, PSE's PCA Mechanism accounted for differences in PSE's modified actual power costs relative to a power cost baseline. The calculation was performed using the methodology shown in PCA Exhibit B from the Settlement Stipulation approved in the Commission's Twelfth Supplemental Order in Docket UE-011570 ("2002 PCA Settlement"). That mechanism accounted for a sharing of costs and benefits that were graduated over four levels of power cost variances. The 2002 PCA Settlement defined the specific sharing levels and conditions.

Subsequently, PSE and the parties to the 2002 PCA Settlement entered into a PCA Collaborative that was initiated as part of the Settlement terms from the 2013 Power Cost Only rate case, Docket UE-130617 ("2013 PCORC"). PSE, WUTC Staff, and Public Counsel ("Settling Parties") entered into a settlement stipulation involving modifications to PSE's PCA Mechanism ("2015 PCA Settlement").[3,4] The Commission approved the 2015 PCA Settlement in Order 11 of PSE's 2013 PCORC ("Order 11"). As a result, beginning January 2017, PSE's PCA Mechanism was changed to track only variable power costs, and fixed production and delivery costs were included in the decoupling mechanism approved in PSE's 2017 general rate case, Docket UE-170033. Accordingly, as of

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3 The Alliance of Western Energy Consumers (then known as the Industrial Customers of Northwest Utilities) was a party to the 2013 PCORC but opposed the 2015 PCA Settlement.

4 Attached as Exhibit A to PSE's Petition in this proceeding.

January 1, 2017, PSE reports only the variable power costs in its PCA Annual Compliance filings.

III. 2022 PCA PERIOD POWER COSTS

Q. Please explain how PSE tracked its 2022 PCA Period power costs and treated any resulting imbalance.

A. Each month PSE calculates the power costs subject to PCA sharing. These total allowable costs are compared to the approved baseline power cost rate, multiplied by the actual delivered load excluding Green Direct customers, and any difference is allocated to PSE or customers based on the different levels of sharing defined in the PCA Mechanism per the 2015 PCA Settlement. Any difference allocated to customers is recorded in FERC Account 182.3, Other regulatory assets, unless it is determined to be an over-collection at a PCA period end, at which time the costs are transferred to FERC Account 254, Other regulatory liabilities.

Under the PCA Mechanism, the deferred amount at the time of the next PCA Compliance filing, along with any projected imbalance through the next proposed rate year, could be considered in the determination of any rate change for the subsequent PCA period.[5] Amounts deferred, when authorized, would be amortized to FERC Account 557, Other power supply expense as they are recovered from or refunded to customers. PSE accrues interest monthly on any

[5] *See* Exhibit A to the Petition at p. 2, Section 3.b.

deferred balance (debit or credit) at the interest rate calculated in accordance with WAC 480-90-233(4).[6]

Q. Has the PCA imbalance calculation related to the Green Direct Program remained consistent with the prior annual period treatment?

A. Yes. As explained in PSE's 2021 PCA Compliance Filing in Docket UE-220308, as of the inception of Phase 1 of PSE's Green Direct Program, which began in November 2020, and the subsequent inclusion of Phase 2 of the program in March 2021, based on RCW 19.29A.090(5) and paragraph 296 in the Commission's Final Order 08 in Docket UE-190529, PSE is required to ensure there is no cross-subsidization of costs between participating and non-participating customers. Therefore, PSE has excluded the costs associated with the Green Direct Program from total allowable power costs[7] and baseline power costs[8] in order to ensure Green Direct Program power purchase agreement ("PPA") costs are not included in total allowable costs, as discussed in more detail in Section V below. As shown in Exh. SEF-4C, total Green Direct PPA costs associated with output for both phases that were excluded from allowable costs in the imbalance calculation were $27.8 million.[9]

PSE has also ensured that associated customer loads for both phases were removed from baseline power costs by removing their load from the total

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6 As established in the original PCA Settlement, Exhibit A to the Settlement Stipulation in Docket UE-011570, and remaining unchanged in the PCA collaborative initiated as part of Docket UE-130617.

7 *See* Column R, row 20, on page three of Exh. SEF-3.

8 *See* Column R, rows 24 and 29, on page three of Exh. SEF-3.

9 The sum of amounts in column T, rows 25 and 26, on page one of Exh. SEF-4C.

delivered load used to calculate baseline power costs. An adjustment to remove customer loads from baseline power costs was completed in rows 24 on page three of Exh. SEF-3 and totaled 719 million Kilowatt-hours. Per paragraphs 237 and 294 of Order 08 in Docket UE-190529, the Commission ordered PSE to remove the Green Direct Power Purchase Agreements from power costs, and both PPAs were excluded accordingly.

Q. Did the approved baseline power cost rate change during the 2022 PCA Period?

A. No, the rate from PSE's 2020 PCORC in Docket UE-200980 was in effect for the entire 2022 PCA period. The baseline rate can be found in column H, row 43, on page six of Exh. SEF-3 and is $38.983 per MWh.

Q. What is the actual average power cost rate experienced for the 2022 PCA Period?

A. As shown on page two of Exh. SEF-3, the calculated average variable power cost rate experienced for the 2022 PCA Period is $44.254 per MWh.

Q. Why did the total allowable costs on page two, line 27, of Exh. SEF-3 differ from the total allowable costs in effect during the 2022 PCA Period presented on page six, line 27, of Exh. SEF-3?

A. The total variable allowable costs differed from the baseline power costs in effect during the 2022 PCA Period due to changes in the variable components of the PCA mechanism. These changes are discussed in the Prefiled Direct Testimony of Brennan D. Mueller, Exh. BDM-1CT.

Q. Were there any adjustments made under the Restatement Methodology (Section 11 of Attachment A to the 2015 PCA Settlement)[10] for power costs in 2022?

A. No. No instances occurred during 2022 that required adjustment under the Restatement Methodology.

Q. How much did the actual power costs differ compared to the average baseline power costs in effect during the 2022 PCA Period?

A. Actual power costs were higher than the average baseline power costs included in rates during the 2022 PCA Period by $110.1 million (after adjustment for Firm Wholesale and the Green Direct Program). See column R row 37 on page three of Exh. SEF-3. PSE's share of this under-recovery of power costs is $35.5 million. The customers' share of this under-recovery of power costs is $74.6 million. See columns I and J on row 34, page one, of Exh. SEF-3.

IV. RECOVERY OF CUSTOMER RECEIVABLE

Q. Please provide a summary of prior PCA customer receivables which to date, have been approved for collection by the Commission.

A. The table below provides a summary by PCA period, of the customer share of the PCA imbalances that have been approved for collection thus far. Amounts authorized to be set as surcharges in Schedule 95 are grossed up for revenue sensitive items. The table below references the collection periods which span between 11 to 13 months. Since the inception of the PCA receivable collection in

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10 *See* Exhibit A to the Petition at pp. 18-19.

December 2020, PSE was approved to leave the original surcharges in rates untouched and altered collection period spans instead, in order to avoid as much disruption in ratepayer bills as possible.

Imbalance Year	Amount		Collection Period	Docket
2019 Imbalance (PCA 18)	Imbalance →	(41,730,425)	Dec-20 to Nov-21 (12 months)	UE-200893
	RSI→	0.951115		
	Grossed Up→	($43,875,267)		
	In Millions→	**($43.9)**		
2020 Imbalance (PCA 19)	Imbalance →	(46,009,289)	Dec-21 to Dec-22 (13 months)	UE-210300
	RSI→	0.951115		
	Grossed Up→	($48,374,054)		
	In Millions→	**($48.4)**		
2021 Imbalance (PCA 20)	Imbalance →	(38,358,394)	Jan-23 to Nov-23 (11 months)	UE-220308
	RSI→	0.949115		
	Grossed Up→	($40,414,906)		
	In Millions→	**($40.4)**		

Q. What is the customer deferral balance as of December 31, 2022, when excluding those amounts being already collected?

A. As shown in column L, row 36, on page one of Exh. SEF-3, the customer deferral including interest as of December 31, 2022 is $72.6 million or $76.4 grossed up for revenue sensitive items. This amount includes the December 31, 2022 residual balance of ($3.5) million in the amortization account (a payable to customers) which is a cumulative result of the load variances from the collection of the 2019 and 2020 PCA receivables, and is shown in column L, row 33, on page one of Exh. SEF-3.

Q. When does PSE propose to collect the current customer deferral?

A. PSE proposes to recover the 2022 balance net of prior over-collections beginning December 1, 2023, once the currently authorized surcharge collection period approved in UE-220308 that goes through November 30, 2023, has ended. The 2022 balance, when grossed-up for inclusion in rates, totals $76.4 million as shown in column C, row 17, on page seven of Exh. SEF-3. PSE proposes to update the Schedule 95 surcharge to recover this amount over thirteen months, through December 31, 2024. As the amount of the receivable is substantially larger than prior periods, PSE proposes to increase the surcharge for the first time since its inception. While the Company would prefer to keep the surcharge unchanged, doing so would increase the likelihood that new customers who were not customers when the imbalance was created would have to pay for the imbalance. Any residual balance at December 31, 2024, could then be returned to the overall customer deferral at that time for consideration of recovery or pass back in a future period.

Q. Have any updates been made to the PCA classification and allocation methodology for Schedule 95?

A. Yes, per the Electric Cost of Service Approved Classification and Allocation methodologies in WAC 480-85-060, PSE has updated the PCA classification and allocation methodology by assigning all PCA costs on energy.

Q. Please summarize the impacts of the proposed Schedule 95 Supplemental rates.

A. Overall, this proposal presents a revenue increase of $27.4 million or 0.96 percent. This translates into a $1.07 or 1.07 percent increase for a typical residential customer using 800 kWh on Schedule 7.[11]

Q. What will the updates to the Schedule 95 tariff be?

A. Included with this Annual Compliance Filing, PSE has submitted the Schedule 95 tariff revisions for approval by the Commission effective December 1, 2023.

Q. Does PSE propose any changes to other tariff schedules as part of the recovery of the 2022 imbalance?

A. Yes. In addition to increasing the PCA surcharge, PSE must update the supplemental credits for Green Direct customers. As noted previously, Phases 1 and 2 of the PSE Green Direct Program commenced in November 2020 and March 2021, respectively, and accordingly, they were excluded from the PCA Mechanism at those times. Thus, the 2022 imbalance resulting after their initiation should not be charged to those Phase 1 and Phase 2 Green Direct Program customers and should only be charged to all other customers. The tariff changes to Schedule 139 tariff for Green Direct Program customers have also been submitted with this filing for approval by the Commission with the proposed effective date of December 1, 2023, through December 31, 2024.

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11 Refer to NEW-PSE-PCA-WP-SEF-7-SCH-95-Supp-Rate-Design-4-28-23.xlsx, in the tabs named “Revenue Impacts Sch 95 Sup” and “Typical Residential Notice.”

Q. Please summarize PSE's request related to recovery of the customer deferral.

A. PSE requests that the Commission approve PSE's customer deferral in this filing and also approve PSE's proposal to recover the 2022 deferral through changes to Schedules 95 and 139 as discussed above and presented in the below table.

Imbalance Year	Amount		Collection Period	Docket
2022 Imbalance (PCA 21)	Imbalance →	(72,601,627)	Dec-23 to Dec-24 (13 months)	UE-
	RSI→	0.950348		
	Grossed Up→	($76,394,781)		
	In Millions→	($76.4)		

V. 2022 GREEN DIRECT REPORTING

Q. Why is PSE including Green Direct Reporting in this proceeding?

A. As part of Docket UE-160977, in which the Commission approved PSE's tariff filing for Schedule 139 for its Green Direct program, the Commission noted that PSE "has committed to track all costs and benefits of Schedule 139 separately and identifiably in its Power Cost Adjustment mechanism."[12]

Q. What was the result of the proposed reporting in PSE's 2020 PCORC?

A. Parties reached a settlement agreement in PSE's 2020 PCORC in which PSE's proposed tracking of costs and benefits associated with generation surplus or deficiency was accepted. This process is summarized in Exh. SEF-9 of the 2020 PCORC.[13]

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12 Docket UE-160977, Order 1 at ¶ 10.

13 *See also* Settlement Stipulation and Agreement in Docket UE-200980 at 4, item 1.g (April, 2, 2021).

Q. What reporting has PSE included in this proceeding to satisfy the above?

A. PSE has included Exh. SEF-4C, which provides the 2022 results of the costs and benefits associated with the power purchase agreements supporting the Green Direct Program on page one of the exhibit. Exh. SEF-4C also provides reporting on the fixed costs and liquidated damages associated with the Green Direct program on pages two and three, respectively.

Q. Do you have an exhibit that explains the basis of this reporting and what information it provides?

A. Yes. Exh. SEF-5 is an explanation of the reporting included in Exh. SEF-4C, which follows the methodology agreed to in the PCORC settlement.

Q. Does Exh. SEF-4C show that PSE has complied with both RCW 19.29A.090(5) and Paragraph 296 of Order 08 in Docket UE-190529?

A. Yes. Exh. SEF-4C shows that all costs and benefits associated with PSE's Green Direct program were allocated to the customers who voluntarily chose that option and were not shifted to non-participating customers. Additionally, it shows costs and benefits associated with the over- and under-generation of the PPAs associated with the Green Direct Program were allocated exclusively to participating customers.[14]

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14 A $0 on line 45, page one, of Exh. SEF-4C provides a check which ensures costs and benefits are appropriately handled within the PCA mechanism.

Q. Is PSE proposing to defer the costs and benefits of the Green Direct program reflected in Exh. SEF-4C?

A. No. Exh. SEF-4C is presented for reporting purposes only. The pricing structure of the Green Direct program is set to recover costs and benefits over the life of the program. Therefore, further adjustments or deferrals are unnecessary.

Q. Does PSE believe any further approvals are required with regard to reporting of PSE's Green Direct program?

A. No. PSE believes that by approving this Annual PCA Compliance Filing, the method and content of reporting for the Green Direct Program included in Exh. SEF-4C will be deemed adequate by the Commission.

VI. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.