EXH. JAP-1T
DOCKETS UE-22___/UG-22___
2022 PSE GENERAL RATE CASE
WITNESS: JON A. PILIARIS

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

JON A. PILIARIS

ON BEHALF OF PUGET SOUND ENERGY

JANUARY 31, 2022

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 Jon A. Piliaris, and my business address is Puget Sound Energy, Inc., P.O. Box 97034, Bellevue, Washington 98009-9734. I am employed by Puget Sound Energy ("PSE" or the "Company") as Director, Regulatory Affairs.

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

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

Q. What are your duties as Director, Regulatory Affairs for PSE?

A. I am responsible for the Company's federal, state and regional regulatory policy; cost of service and pricing; tariffs; and overall regulatory affairs.

Q. What topics are you covering in your testimony?

A. My testimony addresses the following.

<u>*Overview of Multiyear Rate Plan*</u>: With references to many other witnesses providing further details within this case, my testimony provides a comprehensive

overview of the development of the rates within the rate plan, the associated performance measures and incentives, the customer protections, other proposals in the case that complement the rate plan, and the associated regulatory processes proposed to implement the rate plan.

Colstrip Decommissioning and Remediation Costs: Presents and supports a reasonable allocation of Colstrip decommissioning and remediation ("D&R") costs to Microsoft load served under a special contract, as required in Docket UE-161123.

Tacoma LNG Distribution-Related Plant: Clarifies how the settlement agreement approved in Docket UG-151663 intended to recover distribution plant related to the Tacoma LNG Project from PSE customers and its subsidiary Puget LNG.

Green Direct Energy Credit: Per the settlement agreement approved in Docket UE-200980, discusses the progress made to date in reaching a resolution to the calculation of the energy credit offered to customers served under electric Schedule 139 and proposes a methodology for calculating this credit in the event that a settlement of this issue cannot be reached before the conclusion of this case. The proposed credit in this case, based on the proposed methodology, is also presented.

Reporting Requirements: Proposes modifications and/or the elimination of certain regulatory reporting requirements specific to PSE that no longer serve the public interest.

II. OVERVIEW OF PSE'S MULTIYEAR RATE PLAN AND RELATED ELEMENTS

A. Background

Q. Why is PSE filing a multiyear rate plan with performance measures as part of this general rate case?

A. RCW 80.28.425(1) requires that "[b]eginning January 1, 2022, every general rate case filing of a gas or electrical company must include a proposal for a multiyear rate plan as provided in this chapter." RCW 80.28.425(7) goes on to state that "[t]he commission must, in approving a multiyear rate plan, determine a set of performance measures that will be used to assess a gas or electrical company operating under a multiyear rate plan." Therefore, consistent with this statutory direction, PSE is filing a multiyear rate plan that includes performance measures.

Q. What are typically considered the benefits of multiyear rate plans?

A. There are many. For example, from the utility's perspective, a well-constructed multiyear rate plan can offer more timely recovery of costs prudently-incurred to provide essential services to its customers. This more timely cost recovery benefits customers by ensuring the utility has the necessary financial health to provide safe, reliable, and increasingly cleaner service to customers. Coincidentally, the fact that utilities are typically obligated to refrain from filing general rate cases during the multiyear period strengthens the utility's incentive to manage its costs to levels provided for under the rate plan. Administratively, the fact that the utility, its regulator and stakeholders can avoid serial general rate cases benefits all involved through reduced administrative costs, as well as by providing additional time and space for other productive regulatory discussions and activities. This benefit cannot be overstated with the increasing level of regulatory activity created by numerous changes in Washington State law over the past few years, particularly with the passage of Engrossed Second Substitute Senate Bill 5116, the Clean Energy Transformation Act ("CETA") in 2019 and more recently the passage of Engrossed Second Substitute Senate Bill 5126, The Washington Climate Commitment Act ("CCA"), in 2021. Finally, many multiyear rate plans are paired with performance measures, as contemplated by RCW 80.28.425, which increases the level of transparency and accountability of utilities operating under a multiyear rate plan.

Q. Does PSE have prior experience with multiyear rate plans?

A. Yes. Most recently, the Commission approved in Order 07 of Dockets UE-121697 and UG-121705 (consolidated) and Dockets UE-130137 and UG-130138 (consolidated) a rate plan for PSE. This rate plan began July 2013 and was originally contemplated to have a term of between approximately 3-4 years after the conclusion of a subsequent general rate case filing that was to be made between April 1, 2015 and April 1, 2016.

Q. How did the Commission and participants in the proceeding related to PSE's last multiyear rate plan view this experience?

A. In PSE's 2017 general rate case the Commission recognized the success of PSE's multiyear rate plan. After listing several positive financial results, the Commission found:

> These financial results, coupled with cost savings and efficiencies realized during the Rate Plan effective period, allowed PSE to consistently earn rates of return and returns on equity slightly below its authorized rate of return and return on equity on an adjusted actual basis across all time periods demonstrating that the Rate Plan mitigated the effects of regulatory lag and attrition during the Rate Plan effective period.[1]

It appears that the parties to the dockets approving PSE's last rate plan also found the experience at least acceptable, so much so that a majority of them filed to extend the term of this rate plan (with none objecting). Specifically, on March 9, 2016, parties to the above-referenced dockets jointly petitioned the Commission to extend the date by which PSE was to file its next general rate case from April 1, 2016 to January 17, 2017. On March 17, 2016, the Commission gave notice that Order 07 in these dockets was amended to allow for this extension of the term of the rate plan.

[1] *WUTC v. Puget Sound Energy*, Dockets UE-170033/UG-170334, Order 08 at ¶ 409 (Dec. 11, 2017).

Q. Since the time of PSE's last rate plan, has the Commission offered further guidance regarding its expectations related to filings that contain multiyear rate plans?

A. Yes. The CETA legislation noted earlier, among other things, clarified the Commission's authority to include in rates "property that becomes used and useful for service in this state after the rate effective date" and directed the Commission to establish a process "to identify, review and approve" this property for ratemaking purposes. This process concluded on January 31, 2020, when the Commission issued its Policy Statement on Property That Becomes Used and Useful After Rate Effective Date ("Policy Statement") in Docket U-190531. The Policy Statement outlined the Commission's expectations regarding how it would value property (investment or plant) that is, or will become, used and useful by or during the rate effective period under the subsequently codified RCW 80.04.250(2) and (3). Among the more notable items outlined in the Commission's Policy Statement were its expectations that utilities continue to adhere to the "matching principle", that offsetting factors be considered, and that recovery of forecasted cost in rates would be "subject to refund." The Policy Statement also offered suggestions as to the way property could be categorized for review and the process by which the final review would occur.

Q. Did more recent updates to RCW 80.28.425 invalidate the guidance provided by the Commission in its Policy Statement?

A. No. While the additions to statute made to RCW 80.28.425 provide more specificity as to how certain elements of a utility's multiyear rate plan should be constructed,[2] the Commission's Policy Statement still provides valuable guidance for the development of a utility's multiyear rate plan.

Q. Did PSE follow the guidance provided in the Commission Policy Statement in developing its multiyear rate plan?

A. Yes. PSE continued to follow the guidance in the Commission's Policy Statement in developing the Company's proposed multiyear rate plan where it appeared appropriate in light of the more recent requirements outlined in RCW 80.28.425. That said, as often noted by the Commission and made clear in statute, PSE also recognizes that the Commission's Policy Statements are meant to be advisory only,[3] based on the Commission's thinking at the time, rather than binding, as with its rules. Therefore, PSE's proposal was developed with that in mind.

B. Development of Rates in Multiyear Rate Plan

1. Term

[2] For instance, RCW 80.28.425(3)(b) makes clear that the initial rate year of a multiyear rate plan shall "at a minimum" include property "that is used and useful for service in this state as of the rate effective date."

[3] RCW 34.05.230(1).

Q. What is the term of PSE's proposed multiyear rate plan?

A. PSE is proposing that its multiyear rate plan cover the three-year period beginning on January 1, 2023 and concluding on December 31, 2025. However, consistent with RCW 80.28.425(5), PSE retains the right in this proposal to shorten its rate plan to as short as two years to the extent that it deems this necessary.

Q. Why did PSE choose a three-year period of time for its proposed multiyear rate plan in this case?

A. A key input to PSE's proposed multiyear rate plan is its Clean Energy Implementation Plan ("CEIP"), filed under Docket UE-210975. Consistent with the statutory intent and direction of RCW 80.28.425(9), through its proposal for a three-year rate plan, PSE is attempting to align the timing of the approval of its multiyear rate plan with its CEIP filed pursuant to RCW 19.405.060. By proposing a three-year period for this multiyear rate plan, the CEIP and rate plan would end at the same time on December 31, 2025. The intent behind this three-year proposal is to align the subsequent rate plan with the same four-year period as PSE's next CEIP, which would run from 2026 to 2030.

2. <u>5-Year Financial Plan</u>

Q. What information was used to develop PSE's multiyear rate plan?

A. Fundamentally, the bedrock information used to support PSE's multiyear rate plan comes from the five-year financial plan approved by its board of directors on November 4, 2021, with targeted updates to reflect known and measurable changes for large and discrete projects included in the plan. The systems, tools, processes, reporting, and governance used in the development of the financial plan, as well as the exception process undertaken to update the costs for selected items within the financial plan, is discussed in the Prefiled Direct Testimony of Mr. Joshua A. Kensok, Exh. JAK-1T.

Q. Was similar data used to develop PSE's prior rate plan?

A. No. Unlike the approach taken in this case that relies on PSE's approved budgets and financial planning forecasts, PSE's last rate plan relied on a much less refined trending of historic data to project costs into the future. These trends were referred to as "K-factors." These factors are similar in concept to those used by other utilities' rate plans, as discussed in the Prefiled Direct Testimony of Dr. Mark Lowry, Exh. MNL-1T.

Q. Why did PSE choose to rely on its board-approved budgets and internal planning forecasts rather than using a more trend-based approached in previous cases?

A. Fundamentally, PSE believes that projections tied to its internal planning and budgeting processes are superior to less reliable trends in costs that have no grounding in specific projects or programs the utility intends to execute over the planning horizon for the benefit of its customers. As documented in the testimony of Mr. Kensok, these budgets and planning projections rely on a wealth of supporting detail justifying their expense and value to customers. Use of business planning documentation turns discussions of their appropriateness towards the intrinsic value that the planned expenditures bring to PSE's customers and away from abstract academic debates over proper trending techniques or assumptions that are not grounded in any identifiable plans, projects or programs. Importantly, as the Commission turns its focus away from the rearview mirror of historic test year rate making, it will be increasingly important that the Commission, the utilities it regulates, and all stakeholders involved have a common understanding of how scarce customer rate revenue will be put to its highest and most beneficial use. PSE's transparent approach to tying the multiyear rate plan to its business planning processes facilitates this important discussion in this case.

Q. Is it permissible for PSE to use data contained within its approved budgets and financial planning forecasts as the basis for its multiyear rate plan?

A. Yes. This was contemplated in statute. Specifically, RCW 80.28.425(3)(d) provides that "[i]n ascertaining and determining the fair value of property of a gas or electrical company pursuant to (b) of this subsection and projecting the revenues and operating expenses of a gas or electrical company pursuant to (c) of this subsection, the commission may use any standard, formula, method, or theory of valuation reasonably calculated to arrive at fair, just, reasonable, and sufficient rates." This language affords broad discretion in the source of data used to support multiyear rate plans, including the use of approved utility budgets and financial plans.

3. <u>Projected Rate Base</u>

Q. How did PSE project rate base in its multiyear rate plan?

A. As noted above, the foundation of all of the cost projections in PSE's multiyear rate plan is its approved 5-year financial plan. As discussed in the testimony of Mr. Kensok Exh. JAK-1T, the financial plan in turn is supported by the process, systems, and governance that guide its development. Specific to the projection of rate base, capital expenditure projections in the financial plan are a primary driver and these projections are supported by well-documented and vetted capital spending request processes, as described in the testimony of Mr. Kensok. These capital expenditure projections are then used to develop PSE's historic and forecasted rate base as presented in the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1T.

Q. Are these rate base projections supported in PSE's testimony?

A. Yes. In addition to the testimonies of Mr. Kensok and Ms. Free, which describe the overarching development of PSE's rate base projections, numerous PSE witnesses in the case provide greater detail to support the projected rate base, particularly the need for the major investments included in these projections. The key PSE witnesses supporting these projections include:

- Ronald J. Roberts – LNG Facility and Colstrip (Exh. RJR-1CT);
- Dan'l R. Koch – Energize Eastside (Exh. DRK-1T);
- Roque B. Bamba – Major backbone electric and gas projects greater than $10 million (Exh. RBB-1T);

- Catherine A. Koch – Programmatic electric and gas transmission & distribution and advance metering infrastructure (Exh. CAK-1T);
- Ryan B. Blood – Lower Baker Grouting (Exh. RPB-1T);
- Suzanne L. Tamayo – IT Investments (Exh. SLT-1T);
- Matthew R. Marcelia – Deferred Income Taxes (Exh. MRM-1T);
- Dawn M. Reyes – General facilities investments (Exh. DMR-1T);
- William T. Einstein – Various customer program investments (Exh. WTE-1T); and
- Carol L. Wallace – Customer billing investments (Exh. CLW-1T).

4. <u>Capital Structure and Rate of Return</u>

Q. What is PSE's proposed capital structure during the rate plan?

A. As discussed in the Prefiled Direct Testimony of Cara G. Peterman, Exh. CGP-1T, PSE is proposing that its capital structure be comprised of equity share that increases from 49 percent in 2023, growing to 49.5 percent in 2024, and finally to 50 percent in 2025.

Q. What is PSE's proposed rate of return during the rate plan?

A. Based on the proposed capital structure described above, a requested return on equity ("ROE") of 9.9 percent and estimated projections of short and long-term debt costs, PSE's proposed rate of return on rate base ("ROR") is projected to increase from 7.39 percent in 2023, to 7.42 percent in 2024, and finally to 7.66 percent in 2025. Support for the requested ROE is provided in the Prefiled Direct Testimony of Ann E. Bulkley, Exh. AEB-1T. Calculation of the projected ROR is presented in Ms. Peterman's testimony.

5. <u>Projected O&M Expense</u>

Q. How did PSE project operating and maintenance expense in its multiyear rate plan?

A. As with the rate base projections, the operating and maintenance ("O&M") expense projections in the multiyear rate plan are derived from PSE's 5-year financial plan. The projections in the financial plan are a combination of bottom-up work activity based on planned forecasted work activities and top-down escalations for anticipated work that is largely outside the control of the Company (e.g., public improvement and customer-requested projects). Productivity savings are built into these forecasts. More detail on PSE's approach to forecasting O&M expense in its 5-year financial plan and, hence, its multiyear rate plan can be found in the testimony of Mr. Kensok.

6. <u>Power Costs</u>

Q. How did PSE project power cost expense in its multiyear rate plan?

A. Consistent with long-held practice, PSE has projected the majority of its power cost expense using its Aurora dispatch model. These costs include those for fuel for PSE's resources, certain long-term Power Purchase Agreements ("PPAs"), as well as market purchases and sales. In addition, PSE estimates other power costs in the first rate year, such as transmission costs, fixed gas transportation costs, fixed costs associated with Mid-C hydroelectric contracts and gas-for-power contracts outside of Aurora. PSE proposes to update these projections during this proceeding so that the final order in this case reflects the most current estimates as possible before rates go into effect. The methodology and assumptions used to project these costs, as well as the process for updating these projections, are discussed in more detail in the Prefiled Direct Testimony of Paul K. Wetherbee, Exh. PKW-1CT. However, as will be discussed later, PSE is also proposing an annual update to its variable power costs. These updates will again update rates for power costs in 2024 and 2025.

7. <u>Retail Base Rate Revenue Projections</u>

Q. How did PSE project retail base rate revenues at current rates in its multiyear rate plan?

A. Projected retail base rate revenue at current rates in the multiyear rate plan is derived by multiplying the projected billing determinants tied to PSE's current "F21" load and customer forecast by current base rates. Electric retail base rate revenue at current rates are discussed in the Prefiled Direct Testimony of Birud D. Jhaveri, Exh. BDJ-1T. Natural gas pro forma retail base rate revenue at current rates are discussed in the Prefiled Direct Testimony of John D. Taylor, Exh. JDT-1T.

8. Projected Base Rate Revenue Deficiency

Q. What is PSE's projected base rate revenue deficiency during the three-year rate period?

A. PSE's projected base rate revenue deficiency and requested revenue change for electric and gas service during the three-year rate period is presented in Table 1 below. This is discussed in more detail in the testimony of Ms. Free.

Table 1. Projected Revenue Deficiency and Requested Revenue Change

Description	2023 Electric	2023 Gas	2024 Electric	2024 Gas	2025 Electric	2025 Gas
1 Revenue Deficiency - Grossed Up	$ 330.0	$ 165.5	$ 62.7	$ 29.9	$ 10.2	$ 23.3
2 Changes To Other Price Schedules	(19.5)	(22.5)	0.4	(1.4)	21.6	(0.0)
3 Total Revenue Change	$ 310.6	$ 143.0	$ 63.1	$ 28.5	$ 31.8	$ 23.3

9. Proposed Rate Adjustments for Unforeseen Inflationary Pressures

Q. Is PSE proposing to make any further potential adjustments to its deficiency for recovery during the multiyear rate plan period?

A. Yes. As discussed in the testimony of Ms. Bulkley, PSE is facing mounting inflationary pressures that are creating greater risk that PSE will be unable to earn its authorized rate of return during the multiyear rate plan. To address this evolving risk, as discussed in more detail below, PSE is proposing to update certain costs included in base rates during the multiyear rate plan period that were forecast when inflationary expectations were more modest than they have become more recently.

Q. Is there precedent for this type of treatment with multiyear rate plans?

A. Yes. As discussed in Dr. Lowry's testimony, multiyear rate plans sometimes include a Z-factor to address hard-to-foresee events that may impact a utility's earnings. The recent spike in inflationary pressures facing PSE fall into that category of hard-to-foresee events.

Q. What are the typical requirements for the use of this type of rate adjustment mechanism during a multiyear rate plan?

A. Dr. Lowry's Exh. MNL-3 lists four typical requirements for the use of this type of rate adjustment. These include whether:

- the event is outside of the base upon which rates were derived;
- the materiality of the event;
- whether the event was outside of management control, and
- whether the costs tied to the event were prudently incurred.

Q. Is the recent increase in inflation already reflected in the cost projections underlying PSE's proposed rates during the multiyear rate plan?

A. No. As discussed in the testimony of Mr. Kensok, with certain exceptions, the bulk of the cost projections included in the development of PSE's rate plan were developed in the summer of 2021. At this point in time, these inflationary pressures were just beginning to be seen. The Federal Reserve expected them to be a short-term phenomenon and that "long-term inflation expectations remain well anchored at 2 percent."[4] As recently as November 2021, they continued to hold this expectation.[5] As such, PSE's cost projections used to support its multiyear rate plan also assumed relatively low and stable levels of inflation.

Q. Will the recent increase in inflation be transitory?

A. That is unclear. As discussed in the testimony of Ms. Bulkley, there is growing uncertainty as to whether this inflationary pressure will in fact be transitory. Recently, even the Federal Reserve has begun to back away from its earlier position that these inflationary pressures are transitory.[6] That said, if the more recent inflationary pressure seen this year persists, then these cost pressures will not have been reflected in the costs underlying PSE's proposed rates.

Q. Are these impacts expected to be material?

A. This will depend on how long these elevated inflationary pressures continue and at what level. However, PSE is growing increasingly concerned that this could have a material impact on its finances and its ability to earn its authorized return on rate base. That said, as discussed below, PSE only intends to request relief for these unforeseen costs if they in fact become material.

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[4] https://www.federalreserve.gov/newsevents/pressreleases/monetary20210428a.htm.

[5] https://www.federalreserve.gov/newsevents/pressreleases/monetary20211103a.htm.

[6] https://fortune.com/2021/12/03/inflation-no-longer-transitory-higher-prices-fed-chair-powell-treasury-yellen/.

Q. Are the factors driving the increase in costs included in PSE's multiyear rate plan beyond the utility's control?

A. Yes. As discussed in the Prefiled Direct Testimony of Kazi K. Hasan, Exh. KKH-1T, while PSE can and will make every effort to manage costs in this difficult economic environment, the simple fact is that there is very little it can do on its own to manage macroeconomic factors, such as inflation, that are well beyond the Company's control.

Q. Does PSE have a specific proposal to address these inflationary pressures during the multiyear rate plan?

A. At the present time, PSE has not included a specific proposal to address inflationary pressures during the multiyear rate plan. PSE believes it would not be useful at this time for the parties to debate prematurely over rate year inflation rates and potential solutions to address unforeseen cost pressures. Rather, the Company believes the public interest would be better served by monitoring this evolving situation and to address it, to the extent necessary, later in this case.

Q. When and how does PSE contemplate these inflationary factors will be incorporated into the case?

A. PSE expects that over the course of this year more will be known on how inflationary pressures could potentially impact all of PSE's cost structure and how best to address these concerns. PSE proposes revisiting this issue with a specific proposal either through supplemental testimony, approximately one month before response testimony is due, or as part of its rebuttal testimony in this case. The later this can be addressed during the pendency of the case, the more that will be known about any inflation-related impacts. However, it is the Company's intent to ensure that there is a reasonable period of time for discovery prior to hearings, where this issue can be further examined directly before the Commissioners.

Q. Is there precedent for the Commission incorporating new information or issues late in a proceeding that were not raised during the earlier portion of a rate case?

A. Yes. PSE's 2019 general rate case in Dockets UE-190529 and UG-190530 (consolidated) is a perfect example. There was no reference to the COVID pandemic in PSE's last general rate case until after the hearings. It was only during briefing of the case that this issue was first raised, and yet it had an undeniable impact on the outcome of this case. Clearly, the Commission has within its discretion the ability to hear new issues and take in new information that is relevant in their deliberation of a case and has shown a willingness to use it. In the current case, PSE is providing advance notice at the beginning of this proceeding of this issue for the Commission and all parties, which is significantly more than was provided for a discussion of COVID-related issues in its 2019 general rate case.

10. <u>Addressing Unforeseen Cost Impacts of Climate Commitment Act</u>

Q. Does PSE rate plan proposal incorporate the cost impacts of the CCA?

A. No, although PSE is proposing to make certain investments in its gas system and in renewable natural gas that should contribute towards the Company's eventual compliance with the requirements of the CCA. These investments are discussed in the Prefiled Direct Testimony of Joshua J. Jacobs, Exh. JJJ-1T. That being said, at the time of this rate filing, the rules have yet to be written regarding the implementation of the CCA. So, PSE does not yet have sufficient information to reasonably estimate all of the potential costs associated with complying with the CCA over the three-year rate plan period.

Q. When will PSE better understand these cost impacts?

A. This will evolve over the course of 2022, but it is likely that the rules implementing the CCA will not be adopted until very late in this proceeding. It is after these rules are finalized that PSE will begin to understand the cost implications of complying with this statute. Even then, it may take some time for the Company to fully recognize these costs, some of which may begin to accrue when the CCA is set to go into effect on January 1, 2023. This is approximately the same time rates proposed in this case are expected to take effect.

Q. How does PSE intend to address these as-yet unknown cost impacts during the rate plan?

A. At this point, it is not entirely clear how PSE may address these costs during the rate plan. It is possible that the Company would propose an adjusting price schedule to recover these costs. It is also possible that PSE may file an accounting petition to defer such costs during the rate plan. It is even possible that the Company may use some combination of these two approaches, depending on the nature of the costs incurred. In any event, PSE will endeavor to address these costs in a manner that would avoid the need to re-open the docket for this proceeding after rates go into effect at the beginning of 2023.

C. Performance Based Measures and Incentives in the Rate Plan

1. Statutory Background

Q. What are PSE's statutory requirements related to performance measures, incentives or penalty mechanisms when filing a multiyear rate plan?

A. As noted earlier, "[t]he commission must, in approving a multiyear rate plan, determine a set of performance measures that will be used to assess a gas or electrical company operating under a multiyear rate plan."[7] RCW 80.28.425(7) goes on to list factors the Commission may consider in assessing the development of performance measures, incentives, and penalty mechanism. However, this

[7] RCW 80.28.425(7).

statute is not prescriptive as to anything the Commission must specifically require for these measures, incentives, or penalty mechanisms.

Q. Has the Commission provided any guidance related to what performance measure, incentives, and/or penalty mechanisms it expects utilities to file as part of their multiyear rate plan filings?

A. Not yet. However, pursuant to legislative directive, the Commission has opened Docket U-210590 to conduct a generic proceeding to develop a policy statement addressing alternatives to traditional cost of service rate making, including performance-based measures or goals, targets, performance incentives, and penalty mechanisms. Based on its proposed work plan, this proceeding will extend through at least 2024. As such, PSE has not benefited from any guidance from the Commission as to its expectations in this regard.

Q. Does PSE believe that it has met its statutory requirements related to performance measures, incentives, and penalty mechanisms as part of a multiyear rate plan?

A. Yes. The only strict requirement is that the Commission "must, in approving a multiyear rate plan, determine a set of performance measures that will be used to assess a gas or electrical company operating under a multiyear rate plan."[8] As illustrated below, PSE has provided a set of such measures. While these may not be as expansive as what may be considered in future rate plans, they clearly meet

[8] *Id.*

the statutory requirements and provide a good starting point for the discussions that will undoubtedly occur in Docket U-210590, where this topic can be discussed by all impacted stakeholders, including other regulated utilities in this state that are subject to this statute.

2. <u>Stakeholder Input</u>

Q. Has PSE attempted to solicit input on its proposed performance measures from interested stakeholders?

A. Yes. Recognizing that formal direction from the Commission would not be available in time to be incorporated into this rate filing, PSE commenced a series of four stakeholder discussions to solicit input on potential proposals to include in this case.

Q. Who participated in these stakeholder discussions?

A. PSE extended invitations to representatives from the Commission, Public Counsel, Northwest Energy Coalition ("NWEC"), Association of Western Electric Consumers ("AWEC"), The Energy Project, Front & Centered, Sierra Club, Climate Solutions, and Renewables Northwest. Most of these organization participated in some or all of the stakeholder discussions.

Q. What was discussed at these stakeholder discussions?

A. The first stakeholder discussion was held on August 20, 2021, where Dr. Mark Lowry provided an overview of performance-based regulation, performance measures, and performance incentive mechanisms ("PIMs"). The second stakeholder discussion was held on October 8, 2021 and, incorporating feedback from the first session, Dr. Lowry presented preliminary thoughts for possible proposals for this case covering such areas as demand-side management ("DSM"), service quality metrics, electric vehicles, and equity. A more informal discussion, without any prepared presentation material, then occurred on October 20, 2021 to get additional feedback on the presentation delivered on October 8th. One last stakeholder discussion occurred on November 15, 2021 where representatives of NWEC presented possible PIMs related to demand response ("DR"), DSM for "named communities," and energy burden reductions. PSE also presented more ideas for operational measures.

Q. Did the stakeholders come to any agreement as to what PSE should propose in the way of performance measures in this case?

A. Not entirely, at least not as to the specifics for any particular proposal. While there appeared to be a general level of common interest in a few areas, there was not enough time to come to full agreement on any particular proposal. Nevertheless, PSE's performance-based proposals in this case are based upon its understanding of these general areas of agreement.

Q. In what areas is PSE putting forth proposed performance measures or PIMs in this case?

A. In addition to PSE's existing service quality indices ("SQIs"), additional measures are proposed in the areas of DR, energy efficiency ("EE"), electric vehicles, greenhouse gas emissions, advanced metering infrastructure ("AMI"), and affordability. PSE is also proposing to modify slightly two of its existing SQIs related to its system average interruption duration index ("SAIDI") and system average interruption frequency index ("SAIFI"). In keeping with the equity goals of CETA, analogous metrics are reported in these areas for highly impacted communities and vulnerable populations ("Named Communities") where practical. Policy PIMs are proposed in two areas where NWEC made proposals, although the specifics of the PSE and NWEC proposals differ. PSE's proposals are briefly discussed below. For additional discussion, please see the testimony of Dr. Lowry and the Company witnesses noted in the discussion below.

3. Proposed Performance Measures and Incentives in Multiyear Rate Plan

Q. What changes is PSE proposing to its existing SAIDI and SAIFI metrics?

A. SAIDI and SAIFI metrics would be computed using only the latest (2012) IEEE-1366 methodology for removing major event day outages. To provide comparability with past Company values for these metrics, the baseline values would be calculated beginning in 2014, a year after the implementation of PSE's Outage Management System and Customer Information System.

These reliability metrics would be separately reported for the system as a whole and for Named Communities. However, no targets are proposed for these communities. Additional discussion of these new reliability metrics can be found in the testimonies of Dr. Lowry and Ms. Koch.

Q. What is PSE proposing related to demand response?

A. PSE is proposing an annual metric, target, and PIM to encourage the acquisition of DR resources. The specific metric to be tracked would be the MW reduction in the Company's winter coincident peak demand. PSE proposes annual incremental peak load savings targets of 5 MW in 2023, 6 MW in 2024, and 12 MW in 2025. PSE is proposing a PIM that would provide the Company a percentage of its estimated lifetime cost of developing and administering DR programs, including the costs of developing and administering the DER / DR RFP. The Company would receive a payment only if it achieved at least 90 percent of its annual target. The payment percentage would be 15 percent for achievement levels of 90 percent through 110 percent of the annual target. This percentage would increase to 25 percent for achievement levels over 110 percent and up to 150 percent of the target. No additional reward would be provided for achievement levels in excess of 150 percent of the target.

Q. Does PSE propose to establish any additional demand response metrics?

A. Yes. PSE also proposes to track separately the residential contribution to the total DR impact on its winter system peak demand. There would be no corresponding target or PIM for the residential class.

Q. What demand response resources would be eligible as part of PSE's proposal?

A. Eligible DR programs would include direct load control ("DLC"), interruptible (curtailable) load, and/or pricing programs designed to shift load from peak periods and reduce system peak demand. PSE would acquire these DR resources primarily through its 2022 Distributed Energy Resources Request for Proposal ("DER RFP"), which is currently being considered by the Commission in Docket UE-210878. DR resources procured through PSE's own efforts — outside of the competitive procurement process — would also be included.

Q. What is PSE proposing related to energy efficiency?

A. PSE is proposing metrics for the incremental energy savings from its gas and electric EE programs. The programs considered in these calculations would include conservation voltage regulation and grant projects, among others. Targets have been established for these metrics and will continue to be through already established Commission processes.

The number of residential and commercial customers participating in EE programs who are members of Named Communities would also be reported. In this calculation, EE programs open to the general public would be counted as well as those that focus on low-income customers. No target is proposed for this metric. Additional discussion of these metrics, as well as the DR metrics, can be found in the testimony of Dr. Lowry and the Mr. Jacobs.

Q. What is the Company's proposal in the area of electric vehicles ("EVs")?

A. PSE is proposing a PIM for electric vehicle load management. The metrics for this PIM are the number of residential and fleet EV chargers that are either used in managed load programs or are used under TOU rates that apply to the customer's entire load. The chargers in the count would not have to be Company-owned so long as they were used in load management. The Company would earn a flat fee for each EV charger used in load management that exceeded the target.

PSE would also report two EV-related tracker metrics. One is the estimated number of light-duty plugin electric vehicles (battery-only or hybrid) in the Company's service territory. This would be calculated using Washington Department of Licensing data on EVs registered in zip code tabulation areas in which PSE offers electric service. The Company also proposes to track the number of publicly-available charging ports in Named Communities.

Further details related to these EV metrics can be found in the testimonies of Dr. Lowry and Mr. Einstein.

Q. Please discuss PSE's proposed emissions metrics.

A. PSE proposes to track the metric tons of Scope 1 emissions from company-owned generation. This information is reported annually to the Environmental Protection Agency and the Commission. No target is proposed. This metric is discussed further in the testimony of Dr. Lowry.

Q. What is PSE proposing related to AMI?

A. The Company is proposing to include three AMI metrics in its multiyear rate plan scorecard tied to bill read success, remote switch success, and voltage reduction. The proposed bill read success metric would measure whether the AMI delivers a meter read to PSE's data system, as expected each cycle. This would be calculated separately for gas and electric meters. A 99.5 percent success rate target is proposed for each plan year. The proposed remote switch success metric would measure the functionality of the switch when a command is made from the command center by PSE. Calculation would be limited to customer-initiated requests. This would be reported only for electric service. The proposed target is a 99 percent success rate. The proposed voltage reduction metric would measure the reduction in electricity consumption accomplished. No AMI PIMs are proposed. AMI metrics are discussed further in the testimonies of Dr. Lowry and Ms. Koch.

Q. What are PSE's proposals related to metrics tied to affordability?

A. PSE proposes two metrics that address the affordability of service to disadvantaged customers. One is the number of distinct customers receiving bill assistance from qualified low-income programs. The qualifying programs include the low income energy assistance program ("LIHEAP"), PSE's Home Energy Lifeline Program ("HELP"), the Salvation Army warm home fund, and PSE's proposed Bill Discount Rate discussed later in this testimony. The Company will also report the share of these bill assistance customers who are members of Named Communities. Further details are provided in the testimonies of Dr. Lowry and Mr. Jacobs.

D. Other Complementary Elements of Rate Plan

1. Proposed Annual Variable Power Cost Adjustment Mechanism

Q. Earlier you mentioned that PSE is proposing to update its variable power costs annually. Please explain.

A. PSE is proposing that its Power Cost Adjustment ("PCA") variable baseline power cost rate would change annually on January 1. The first rate change that results from the new process would be on January 1, 2024, approximately one year after the effective date of rates in this proceeding. There would also be a rate to collect from or credit to customers the deferred costs that have been assigned to customers through the PCA mechanism. The rate to amortize these costs would change annually on October 1. This routine is similar to the current purchased gas adjustment in which rates are set based on estimated costs for the upcoming year, and the surcharge or credit for deferred costs also changes annually. This proposal is discussed in detail in the Prefiled Direct Testimony of Janet K. Phelps, Exh. JKP-1T.

Q. How does this proposal impact the existing PCA mechanism?

A. It will impact it very little. Currently the PCA mechanism operates primarily as a deferral mechanism. PSE's proposal in this case simply adds a forward-looking rate adjustment to PSE's existing annual PCA mechanism filing to reset the company's baseline power cost rate, much like as done within a Power Cost Only Rate Case ("PCORC") filing. The annual filing and recovery process for deferred power costs remains largely unchanged.

Q. How will this proposed mechanism work with PSE's statutory requirement to update its power costs in the third year of the rate plan?

A. This proposal is intended to also address this statutory requirement in full. RCW 80.28.425(3)(e) states in relevant part that "[i]f the commission approves a multiyear rate plan with a duration of three or four years, then the electrical company must update its power costs as of the rate effective date of the third rate year." PSE's proposal in this case is to perform this power cost update annually, such that the update required by statute would simply be addressed as part of the annual update process.

Q. Will this proposal impact PSE's future general rate case filings?

A. Yes. As PSE's variable power costs will be updated on an annual basis through this proposal, there will be no need to adjudicate these same costs during future general rate cases that could, and most likely will, overlap with the proceeding to update annual variable power costs allowed in rates. Moreover, to ease the tariff administration of this proposal and the adjudication of future rate cases, PSE propose to move the recovery of its variable power costs entirely to electric Schedule 95, effectively unbundling the recovery of these costs from base rates and thereby also removing them from adjudication of PSE's future general rate cases.

Q. Has PSE unbundled its rates in this case?

A. No. PSE believes it is preferable to first obtain approval for its underlying proposal to annually update variable power costs as proposed in the testimony of Ms. Phelps. If and when that approval is granted, PSE intends to move the recovery of these costs to Schedule 95 as part of its first variable power cost update in 2023 for rates effective January 1, 2024. As such, this first annual variable power cost filing would require the update of base rate schedules as well as Schedule 95. In subsequent annual updates, only Schedule 95 would need to be updated.

Q. A policy justification for multiyear rate plans is reduced administrative burden. How is this proposal consistent with that intent?

A. As will be discussed later in this testimony, the process associated with this proposal is intended to be streamlined and have a narrow focus. This focus will be simply (a) determining the appropriate level of rates to recover power costs and (b) the relatively straightforward activity of determining whether power cost deferrals are owed from or to customers and, if so, to set a rate to recover or refund this amount. These are activities that the Commission, the Company, and interested stakeholders have ample experience with, which provides administrative efficiency. As such, the administrative burden should be far less than what is experienced in a full rate case. Moreover, it is very likely that in the absence of a multiyear rate plan, PSE would propose a very similar mechanism as being proposed in this case for reasons similar to those stated in this filing in support of the need for this mechanism.

2. <u>Proposed Revisions to PSE's PCORC Mechanism</u>

Q. Has PSE also proposed any revisions to its PCORC mechanism?

A. Yes. As discussed in the testimony of Ms. Phelps, PSE proposes to continue use of the PCORC for updating fixed production costs on an as-needed basis. If the Commission approves PSE's proposal for annual power cost updates, as discussed earlier, PSE proposes to amend the PCORC so that it is limited to fixed production costs. If the Commission declines to approve annual power cost updates, PSE proposes that the PCORC continue in its current form to allow updates to both fixed production and variable power costs.

Q. Why is PSE proposing to make these changes to its existing PCORC mechanism?

A. With variable power costs addressed with the annual filing discussed above, PSE still has a need to recover its fixed production costs on a timely basis. Moreover, the projection of fixed production costs, particularly acquisitions of new resources during the multiyear rate plan, is so uncertain at this time that it is difficult to pro form these costs into a multiyear rate plan. Rather, the extent to which these costs will materialize will not be known with any level of certainty until PSE is well into its multiyear rate plan. Recognizing the difficulty this presents the Commission in approving what could be considered speculative costs, it is likely that recovery of these costs would not occur until a future general rate case absent the ability to use a PCORC mechanism. As such, PSE is proposing to remove the variable power cost component from its existing PCORC mechanism so that it can continue to address future changes in PSE's fixed production costs. This will allow all parties involved (PSE, the Commission, and interested stakeholders) to better understand what changes in fixed production costs actually materialize during the multiyear rate plan period, when they will materialize within that period of time and allow for a more careful and deliberate review of these costs for inclusion in customer rates.

Q. Does PSE expect to see changes in its fixed production costs in the coming years?

A. Yes. PSE's IRP indicates a need for an additional 3,838 MW of new utility-scale and distributed resources in the next ten years. Many of these resources will be needed to comply with the requirements of CETA. If any of these resource additions include the acquisition or construction of physical plant, they will impact PSE's fixed production costs, which include rate base and fixed O&M expense.

Q. Instead of use of a PCORC, could PSE alternatively elect to defer future changes to its fixed production costs for recovery in a future general rate case?

A. While PSE could rely on statutory authority granted to the Commission through RCW 80.80.060(6) and RCW 80.28.410 to defer certain of these costs, as noted in the testimony of Mr. Hasan, deferred costs do not provide the cash flow necessary for maintaining PSE's financial strength.

3. PSE's Proposed Revisions to its Decoupling Mechanism

Q. Does PSE plan to continue use of its decoupling mechanism in conjunction with its multiyear rate plan?

A. Yes. As noted in the report supported by Dr. Lowry, Exh. MNL-3, decoupling is an approach to performance based regulation ("PBR") that is commonly combined with others, such as multiyear rate plans. Decoupling addresses issues not meant to be addressed by other forms of PBR, most prominently the throughput incentive created by the use of volumetric rates in the recovery of costs, including those considered fixed over the term of the rate plan. This throughput incentive creates disincentives to fully support beneficial public policies like energy efficiency and the increased use of clean distributed resources (e.g., rooftop solar), that would otherwise reduce utility revenue. Where such policies are "mandated", the throughput incentive simply encourages a "compliance mindset" where the only incentive is to meet the minimum requirements, even where the utility could conceivably go further. Decoupling removes the financial disincentive to go further. Therefore, as PSE continues to propose to recover a substantial portion of its fixed costs through rates that vary based on throughput, the continuation of decoupling remains appropriate.

Q. Is PSE proposing any changes to its existing decoupling mechanisms as part of this general rate case filing?

A. No, PSE is not proposing any changes to the mechanisms. Please see the testimony of Mr. Jhaveri for further discussion of PSE's decoupling mechanisms.

E. Customer Protections

Q. What customer protections have PSE included as part of its multiyear rate plan filing?

A. PSE's filing in this case includes multiple customer protections. To ensure that rates approved under the multiyear rate plan remain fair, just, reasonable, and sufficient, PSE's proposal includes an earnings sharing mechanism, per RCW 80.28.425(6). Similarly, PSE's filing provides that the portion of its proposed rate increases tied to projections of rate base are subject to refund to the extent that the projections relied upon to set rates during the multiyear rate plan exceed the level of rate base actually placed into service in each rate year. Finally, to assist customers least able to afford their utility service, irrespective of the rate increases proposed in this filing, PSE has proposed to expand and enhance its bill assistance for these customers.

1. Earnings Sharing Mechanism

Q. What specifically does RCW 80.28.425 say about the need for an earnings test in connection with a multiyear rate plan?

A. In relevant part, RCW 80.28.425(6) states the following: "[i]f the annual commission basis report for a gas or electrical company demonstrates that the reported rate of return on rate base of the company for the 12-month period ending as of the end of the period for which the annual commission basis report is filed is more than .5 percent higher than the rate of return authorized by the commission in the multiyear rate plan for such a company, the company shall defer all revenues that are in excess of .5 percent higher than the rate of return authorized by the commission for refunds to customers or another determination by the commission in a subsequent adjudicative proceeding."

Q. Does PSE's proposal follow this statutory direction?

A. Yes. PSE's proposal is to follow this statutory directive.

Q. Does PSE intend to continue the use of the current earnings sharing mechanism tied to its decoupling mechanisms?

A. No. It would be impractical and potentially ambiguous to have two different earnings tests applied simultaneously. As such, PSE proposes to replace its existing earnings sharing mechanism with the one prescribed in RCW 80.28.425(6).

2. <u>Rates Subject to Refund</u>

Q. Does the Commission's Policy Statement offer additional customer protections?

A. Yes. Recognizing that the Commission can only fully determine the prudence of investment after it has already occurred, its Policy Statement contemplates that rate-effective period investments included in rates of a multiyear rate plan will be subject to refund.[9] This guaranties that customers will not pay for investments that were not prudently incurred and providing service to them during the time that rates recovering their cost are in effect.

Q. Does PSE's proposal follow this Commission guidance?

A. Yes. The rates proposed in PSE's multiyear rate plan include an adjusting price schedule (Schedule 141R) that recovers the cost of investments forecast into each year of the rate plan period whereby the revenues recovered through these schedules are subject to refund unless and until they have been reviewed for prudence. After these costs have been reviewed for prudence, they are then recovered through a parallel adjusting price schedule (Schedule 141N) that includes rate plan investments whose recovery is no longer subject to refund. This is discussed in more detail in the testimony of Ms. Free.

[9] Policy Statement at ¶ 44.

3. Low-Income Protections

Q. Are there other protections provided to low-income customers as part of PSE's multiyear rate plan proposal?

A. Yes. Consistent with the requirements of RCW 80.28.425(2), PSE is proposing to increase the level of bill assistance available to eligible residential customers by twice the proposed increase to residential base rates in each year of the multiyear rate plan. PSE is including in the definition of "base rates" the rate increases that would take effect under Schedules 141N and 141R. At the level of proposed rate increases in this case, this results in an increase in residential bill assistance of $9.04 million, $1.54 million, and $0.75 million in the low-income program years beginning on October 1 in 2023, 2024, and 2025, respectively. Additional details are provided in the testimony of Mr. Jhaveri.

In addition, pursuant to RCW 80.28.068(1), PSE is proposing a new bill discount rate program for eligible low-income and low-income senior customers that is designed to work in tandem with the company's existing grant-based bill assistance program. Specifically, PSE is proposing a two-tier Bill Discount Rate for PSE's electric and gas low-income customers with income levels at or below 50 percent area median income: a 45 percent discount rate for PSE customers within 0-30 percent area median income bracket, and a 15 percent discount rate for PSE customers within 30-50 percent area median income bracket. Additional details related to this proposal are provided in the testimonies of Mr. Jhaveri and Ms. Wallace.

Q. Was this proposal discussed with interested stakeholders in advance of this filing?

A. Yes. PSE held multiple meetings over the summer of 2021, both individually with many parties to this case, as well as with PSE's Equity Advisory Group and Low-Income Advisory Committee. This is discussed further in Mr. Jhaveri's testimony.

Q. Do these stakeholders support this proposal?

A. It is my understanding that there is a general level of stakeholder support for PSE's proposal, but that parties may offer additional perspective as they respond to this proposal in this case.

4. <u>Annual prudence review</u>

Q. Are there any other customer protections included in PSE's multiyear rate plan filing?

A. Yes. As discussed in more detail in the next section of my testimony, PSE is proposing a robust post hoc review process for investments made during the rate plan period. By using this proposed process, customers will pay only for prudently-incurred investments put into service on their behalf by or during the rate year in which their costs are being recovered in customer rates. Moreover, to the extent that the cost of investments made on PSE's customers' behalf are not fully reflected in rates during the rate year when those investments go into service, those costs will be borne in those rate years by PSE and not the customers who are benefiting from these investments (i.e., customers will benefit while PSE experiences regulatory lag on these investments).

F. Regulatory Processing of Rate Plan

1. Annual Review Process for Investments Subject to Refund

Q. Is PSE proposing a review process for investments included in rates during the multiyear rate period that are subject to refund?

A. Yes. Consistent with the Commission's Policy Statement, PSE is proposing a process to complete the prudence review of investments included in rates, subject to refund, during the multiyear rate period. PSE's proposed process is discussed in detail in the testimony of Ms. Free.

Q. What is PSE's proposed review process?

A. PSE is proposing an annual review process. This annual review would commence with a filing by PSE on March 31 of each year during the multiyear rate plan, as well as the year following the end of the rate plan period (i.e., to review investments made in the final year of the multiyear rate plan).[10] PSE proposes that the review take place over a three-month period. During that three-month review process, PSE would conduct a walk-through of the filing with interested parties and would allow a reasonable amount of discovery. The presumption is that the need for and alternatives to the investments being reviewed will have already

[10] PSE's proposal contemplates four annual reviews for investments included in rates during the multiyear rate plan. The first review would cover the 2022 "gap year," the next three reviews would cover each year of the three-year multiyear rate plan.

been addressed in this general rate case; therefore, the review would be limited to PSE's performance in delivering these projects within the schedule and budget reflected in the rates approved for the multiyear rate period. Moreover, PSE contemplates that this review be conducted on a "portfolio" basis to allow the utility the flexibility to adapt its spending in the ways that may in hindsight be considered more prudent than may have been originally anticipated in the development of the projection of investments underlying approved rates. Following the review of these investments, assuming that no parties finds a need to file for adjudication, PSE anticipates final approval of the rates that were subject to refund would occur at a Commission Open Meeting at the end of June or early July.

Q. What information would PSE provide in its annual review filing?

A. PSE will provide the following information to facilitate the annual retrospective review as discussed in the Policy Statement:

1. Actual plant closings categorized in the same manner as they were categorized in this proceeding so that they can be compared to the forecasted amounts used when setting rates. Should it be determined that rates need to be recalculated due to a significant variance in project or program prudency, timing or cost, PSE will then calculate the commensurate accumulated depreciation, accumulated deferred income taxes, retirements, offsetting factors and depreciation expense needed to recalculate rates.

2. In service dates for specific investments.

3. Identification of actual offsetting factors including revenue growth, retirements, and direct O&M expense offsets, if any.

4. Narrative explanations for any significant deviations between actual and forecasted investment.

5. A proposal for any tariff change needed for amounts to be refunded to customers based on actual amounts incurred.

Q. If it is determined that rate refunds are necessary, how will this be implemented?

A. As discussed in more detail in the testimony of Mr. Jhaveri, PSE is proposing to recover costs that are subject to refund through parallel electric and natural gas rate schedules 141R. To the extent refunds are necessary, PSE would implement these refunds through these same rate schedules.

2. <u>Annual Update to Variable Power Costs</u>

Q. Earlier you discussed the proposed annual updates to rates recovering PSE's variable power costs. Can you please discuss the process PSE proposes to implement these rate updates?

A. Yes. As discussed in more detail in the testimony of Ms. Phelps, PSE proposes to establish an annual schedule that combines its existing PCA annual filing with annual changes to the baseline rate that recovers its variable power costs. It would provide an eight-month period between the April 30 filing date and the January 1 rate effective date, would include all of the information on variable power costs that is currently provided in general rate cases and PCORCs, and would include a procedural schedule that allows involvement by Commission staff, Public Counsel, and other parties who obtain the right to intervene in the proceeding. It would also include all the elements of the current PCA annual filing and a surcharge or credit for deferred costs that changes every year on October 1.

Q. Will PSE's proposal comply with RCW 80.28.425(3)(e), which requires an update to power costs in the third rate year of a multiyear rate plan?

A. Yes. Given PSE's proposal to update power costs annually, the annual filing in 2024 for a rate change effective January 1, 2025 would fulfill the requirement of the law.

3. Schedule of Planned Filings During Multiyear Rate Plan

Q. Has PSE compiled a summary of the schedule of planned filings it anticipates occurring during the multiyear rate plan?

A. Yes. Exh. JAP-3 provides a summary of the schedule of planned filings PSE anticipates occurring during the multiyear rate plan that are tied in some way to this plan. This exhibit identifies the review periods, filing dates, and rate effective dates, as well as the anticipated approval process. The filings in this exhibit include the compliance filing in this case, the annual prudence and earnings sharing review, the annual PCA review, the annual update to the PCA baseline variable power cost rate, and an annual report on PSE's performance under the rate plan. This schedule does not include the decoupling filings, which have a well-established process whereby PSE files by March 31 for rates effective May 1, subject to approval through an open meeting process. Similarly, the low-income filings already have a well-established timeline and approval process that is timed around the low-income program years. Finally, PCORC filings are also not listed, as these filings will only be made on an as-needed basis, likely after the accumulation of significant new production investments, if or when that occurs.

III. THE ALLOCATION OF COLSTRIP DECOMMISSIONING AND REMEDIATION COSTS TO MICROSOFT IN THIS CASE IS REASONABLE

Q. Please summarize your understanding of PSE's proposal to recover Colstrip decommissioning and remediation costs through a rate tracker.

A. In response to paragraphs 424 through 426 of Order 08 in PSE's 2019 general rate case, which required that PSE propose a tracking and true-up mechanism in this rate case to recover Colstrip D&R costs in compliance with CETA requirements,[11] the Company is proposing to recover these costs, as well as unrecovered Colstrip plant, through a separate tracking and true-up mechanism that will be recovered through electric tariff Schedule 141C.

Q. What has the Commission said about the recovery of Colstrip D&R expenses from Microsoft load being served under PSE's Schedule 451 (Special Contract)?

A. In its order approving the special contract under which Microsoft takes service for a large portion of its electric load on PSE's system, the Commission made clear

[11] RCW 19.405.030.

their intention that this load would be responsible for a "fair share" of Colstrip D&R expenses. Specifically, in its order the Commission stated the following:

> We cannot approve the Settlement allowing Microsoft to relinquish its status as a core customer and leave open the question whether its responsibility to pay a fair share of Colstrip's decommissioning and remediation costs survives such a change in status. Microsoft has that obligation today and will continue to have that obligation whether or not we approve this Settlement and regardless of whether Microsoft no longer purchases power from PSE.[12]

Q. Does PSE's proposal in this case recover a fair share of Colstrip D&R costs from the Microsoft load being served under PSE's Schedule 451 (Special Contract)?

A. Yes. Consistent with the Commission's order, the Schedule 141C rate tracker recovers a fair share of the Colstrip D&R expenses being recovered through PSE's proposed tracker from the Microsoft load being served under PSE's Schedule 451 (Special Contract).

Q. How was the share of Colstrip D&R attributable to this Microsoft load determined?

A. After reviewing the data available, PSE proposes that the Microsoft load served under Schedule 451 be allocated in proportion to its share of total retail sales between 2002 and 2025.[13] As shown in Exh. JAP-04, this results in an allocation

[12] Docket UE-161123, Final Order 06 at ¶ 78.

[13] Microsoft began taking service under Schedule 40 in 2005. PSE was able to isolate data specific to the load served under Schedule 40 and, subsequently, Schedule 451 back through 2002. Reliable data to estimate this load prior to that time is not readily available.

factor of 1.59 percent for Colstrip D&R expenses recovered through the proposed tracker.

Q. Is the approach proposed to allocate Colstrip D&R costs to Microsoft load consistent with cost causation?

A. Yes. PSE's proposed approach makes use of the best available data for the Microsoft load in question, allocates these costs on a substantially similar basis as D&R expenses are otherwise allocated for ratemaking purposes,[14] and does so over a multiyear period that reasonably represents this load's share of PSE's total system energy sales while this load was being served with power supplied by the Colstrip units. Were more data available that was specific to this Microsoft load, whether in the form of peak demands or a longer time series, PSE may have used it to further refine its proposal. Nevertheless, the annual results presented in Exh. JAP-04, using the data that is readily available, appear to produce a reasonable allocation factor for determining its fair share of Colstrip D&R expenses.

Q. Why did PSE include data for 2020 through 2025, when no Microsoft load will be served with power generated by the Colstrip units during this time?

A. The reasoning is two-fold. First, while Colstrip continues to operate, it presumably will accumulate additional remediation costs. These costs are accruing after the departure of Microsoft's load from PSE's power supply

[14] These costs would ordinarily be allocated on the same basis as power costs overall. Historically, this has been on the basis of PSE's so-called "peak credit" methodology which has typically resulted in 75-85 percent of costs being allocated on the basis of relative energy sales.

requirements and could not legitimately be attributed to serving Microsoft load. Therefore, including these future years allocates a share of Colstrip's overall remediation costs away from Microsoft in recognition of this fact. Second, and relatedly, were data for this Microsoft load available for the full history of the operation of the Colstrip units, it is very likely that its share of the total system load (and therefore, share of Colstrip output) would have been smaller than it was during the period over which data was available.[15] While certainly not a perfect solution, adding the 2020 to 2025 period, where Microsoft is allocated no share of the Colstrip output, also provides some recognition of its lower contribution to remediation costs incurred during the period prior to 2002. On balance, PSE believes this is a fair approach to determining Microsoft's lifetime share of Colstrip decommissioning and remediation costs.

Q. What costs are specifically being allocated to Microsoft's loads relative to Colstrip D&R recovered through the proposed tracker?

A. Microsoft is being allocated its share of Colstrip D&R costs net of the benefits of production tax credits being used to offset these costs.

[15] Microsoft was founded in Albuquerque, New Mexico in 1975, about the same time Colstrip Units 1 & 2 came online, but it did not move its headquarters to Redmond, Washington until 1985, about the same time Colstrip Units 3 & 4 came online.

Q. Did the Commission contemplate that Microsoft may share in the benefit of production tax credits that are used to offset Colstrip D&R costs?

A. Yes, it appears so. In its order approving Schedule 451, the Commission stated the following: "We…. recognize that it is at least possible that PSE will find already available financial resources adequate to avoid any need to raise rates specifically to address Colstrip decommissioning and remediation costs."[16] I take this to suggest that the Commission at least contemplated the possibility that the Colstrip D&R costs that Microsoft would have otherwise been responsible for could be covered by already available financial resources, such as the available production tax credits being used to offset a portion of these Colstrip costs.

Q. Did the settlement approved in Docket UE-161123 contemplate allocating any other Colstrip-related costs to this Microsoft load?

A. Yes. In Final Order 06, the Commission concluded in its findings of fact that the Transition Fee paid by Microsoft as part of the approved settlement did not include "accelerated depreciation costs." At the same time, the Commission acknowledged that Colstrip depreciation costs were included in then-current rates.[17]

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[16] Docket UE-161123, Final Order 06 at note 103.
[17] *Id*. at ¶ 101.

Q. Has PSE also allocated any accelerated depreciation associated with its Colstrip generating units to this Microsoft load?

A. No. This issue has been rendered moot by the availability of production tax credits that are being used to offset unrecovered Colstrip plant balances. The settlement approved as part of PSE's 2017 general rate case in Docket UE-170033 contemplated the prioritized use of these credits to recover undepreciated Colstrip plant.[18] To the extent any credits were remaining, they are then proposed to be used to offset Colstrip D&R expense. As shown in Table 5 of Exh. SEF-18, there is expected to be more than enough production tax credits to fully offset the remaining Colstrip net plant balances. Therefore, PSE does not propose to allocate any further Colstrip depreciation to the departed Microsoft load.

IV. PSE'S TREATMENT OF DISTRIBUTION COSTS RELATED TO THE TACOMA LNG PROJECT ARE CONSISTENT WITH THE SETTLEMENT APPROVED IN DOCKET UG-151663

Q. Are PSE's distribution costs related to its Tacoma LNG Project included in this case?

A. Yes. PSE had originally requested recovery of these costs in rates as part of its 2019 general rate case in Docket UG-190530. However, in its final order in the case, the Commission agreed with a Commission Staff proposal to defer these distribution costs until the Tacoma LNG Facility was in service. With the Tacoma

[18] Dockets UE-170033/UG-170034, Order 08 at ¶ 112.

LNG Facility scheduled to be in service in early 2022, PSE is again requesting recovery of these costs in this case.

Q. Are there specific parameters guiding the allocation of these costs?

A. Yes. As part of the settlement agreement in Docket UG-151663, PSE and the Northwest Industrial Gas Users ("NWIGU") agreed that the costs two specific distribution upgrades associated with the Tacoma LNG Project would be allocated only to PSE's gas sales customers and that the allocation would be on the basis of their contribution to PSE's total retail design day system peak.[19] These distribution upgrades were the 16-inch line connecting the Tacoma LNG Facility to PSE's gas distribution system and the planned Bonney Lake Lateral Improvements. This part of the settlement was based on the premise that these two distribution upgrades were unneeded in the absence of the Tacoma LNG Facility, which was intended to provide additional capacity to meet the peak demands of customers purchasing gas from PSE, rather than a third-party supplier.[20] Importantly for purposes here, the settlement also noted that the costs for these facilities would be recorded in a subaccount of FERC account 376.

[19] Docket UG-151663, Full Settlement Agreement at ¶ 32.
[20] Docket UG-151663, Exh. JT-1T at 43-44.

Q. Did the Commission address this settlement agreement in PSE's 2019 general rate case?

A. Yes. At hearing, the Commission issued a bench request inquiring whether PSE intended to use the Common Cost Allocator to allocate distribution "Upgrades 1 and 3."[21] In response, PSE stated that it did not intend to apply the Common Cost Allocator to allocate the cost of these distribution upgrades between PSE and its unregulated affiliate Puget LNG, and instead it would place 100 percent of the cost of these facilities into PSE's regulated rate base and recover an appropriate share of their costs from Puget LNG through the distribution rates.[22] Based upon its reading of the settlement, the Commission concluded that this would be inconsistent with the terms of the settlement with respect to the Frederickson Gate Station (Upgrade 3).

Q. How did the Commission reach this conclusion?

A. This appears to be tied to the fact that the settlement agreement did not call out the accounting treatment for the Frederickson Gate Station upgrade whereas the settlement agreement specifically called for the other two noted distribution upgrades to be included in a PSE plant account (i.e., FERC account 376). Since the Commission did not see a similar reference for the Frederickson Gate Station, it appears that it concluded that it should be treated as a Common Cost for

[21] Order 08, Docket UG-190530, ¶ 178. Upgrade 1 is the 4-mile line connecting the Tacoma LNG facility to PSE's natural gas distribution system and Upgrade 3 is the upgrade to PSE's Frederickson Gate Station.

[22] *Id*. at ¶ 179.

purposes of cost allocation, where presumably the amount allocated to Puget LNG would be held on its books and not those of PSE.

Q. Do you agree with this interpretation?

A. No. Fundamentally, I believe that the Commission misinterpreted the distinction between what PSE had been referring to as the "Tacoma LNG Project" in its 2019 general rate case filing and the Tacoma LNG Facility, as it is referenced in the settlement agreement, as well as other agreements between PSE and Puget LNG (e.g., the Joint Ownership Agreement).

Q. What does PSE mean when it uses the phrase "Tacoma LNG Facility"?

A. As noted in the testimony of Mr. Roberts, PSE uses the term "Tacoma LNG Facility" to refer to the following:

- buildings, gas processing, storage and support equipment, and foundations located on PSE's leased site at the Port of Tacoma;
- underground LNG fuel line connecting the LNG tank to TOTE's berthing area, marine fueling system, and in-water platform at TOTE's site;
- LNG tanker truck loading racks;
- the lease from the Northwest Seaport Alliance; and
- the ground lease from the Port of Tacoma.

Q. What does PSE mean when it uses the phrase "Tacoma LNG Project"?

A. Also noted in Mr. Robert's testimony, PSE uses the term "Tacoma LNG Project" to refer to the following:

- the development, construction, and operation of the Tacoma LNG Facility;
- improvements to PSE's gas distribution system needed to support the Tacoma LNG Facility;
- regulatory approval to operate the Tacoma LNG Facility to provide peaking capability for PSE's regulated core gas utility customers; and
- commercial contracts to sell LNG to non-utility customers for use as fuel as a non-regulated service.

Q. What are the implications of this distinction on the way LNG-related distribution upgrades should be treated?

A. Given the above, the distribution upgrades associated with the Tacoma LNG Facility are not part of that facility, they are part of the larger project. In fact, the Frederickson Gate Station is located over 15 miles away from the Tacoma LNG Facility. Based on that understanding and noting that the Common Cost Allocator in the settlement agreement relates specifically to the Tacoma LNG Facility (i.e., not to the "project"), it is incorrect to conclude that this allocator must be applied to investments associated with, but that are clearly outside, the facility. Therefore, it is appropriate to include 100 percent of the cost of the Frederickson Gate Station upgrades in PSE's rate base, the same as the other distribution upgrades (Upgrades 1 and 3) associated with the Tacoma LNG Facility.

Q. Have you found anything else in the settlement agreement or elsewhere that suggests that any distribution upgrades should be considered a Common Cost?

A. No. The settlement agreement specifically and consistently refers to the Tacoma LNG Facility when discussing the allocation of Common Costs. Similarly, all of the transactional agreements between PSE and Puget LNG, most notably the Joint Ownership Agreement,[23] refer to the Tacoma LNG Facility. Nothing in any of these agreements suggests that distribution facilities are included in Common Costs associated with the Tacoma LNG Facility. Indeed, none of these upgrades are even mentioned in the commercial agreements between the two corporate entities. Given the obvious need for the distribution upgrades, particularly the line connecting the Tacoma LNG Facility to PSE's gas distribution system and their significant cost,[24] it would seem intuitive that these upgrades would have been specifically identified in these commercial agreements. They were not. So, it stands to reason that these upgrades were never intended to be included in the Tacoma LNG Facility's Common Costs.

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[23] The Joint Ownership Agreement was filed into and approved by the Commission in Docket UG-151663.

[24] It is noteworthy here that the $46.4 million cost of the distribution upgrades, excluding allowance for funds used during construction, exceed the combined $31 million cost of the Truck Loading and Vaporization components of the Tacoma LNG Facility that are explicitly called out in the Joint Ownership Agreement, as presented in the testimony of Mr. Roberts.

Q. Are there other reasons why it does not make sense to include the Frederickson Gate Station upgrades as a Common Cost associated with the Tacoma LNG Facility?

A. Yes. The Frederickson Gate Station improvements were not a direct consequence of building the Tacoma LNG Facility. These improvements had been included in PSE's 10-year capital plan as far back as 2012 to reliably provide service to PSE's southern gas service area. This need was identified prior to PSE's board approval to initiate development of the Tacoma LNG Facility in 2016. Therefore, these improvements were necessary regardless of whether the LNG facility was built or not, it was only a matter of how soon they would be needed.

Q. Do other parties to this agreement support PSE's interpretation that the Frederickson Gate Station upgrades are not Common Costs associated with the Tacoma LNG Facility?

A. Yes. It is my understanding that AWEC, which succeeded NWIGU when it merged with the Industrial Customers of Northwest Utilities, also supports this interpretation of the settlement agreement.

Q. Did PSE attempt to clarify the Commission's interpretation of this settlement agreement in its order or petition that it be reconsidered in the last case?

A. No. As a decision on this matter would have had no bearing on the outcome of that case, nor did it even need to be an issue to resolve in the case, PSE elected to wait to address this issue in this case.

Q. What action do you recommend that the Commission take regarding the allocation of LNG-related distribution costs in this case?

A. I recommend that the Commission adopt PSE and AWEC's interpretation of the settlement allowing the Frederickson Gate Station upgrades to be fully included in PSE rate base and approve the allocation of their costs as discussed further in the testimony of Mr. Taylor.

V. PSE'S PROPOSED ENERGY CREDIT FOR CUSTOMERS TAKING SERVICE UNDER ITS GREEN DIRECT PROGRAM IS REASONABLE

Q. What is PSE's Green Direct program?

A. "Green Direct" is the product name for PSE's Voluntary Long Term Renewable Energy Purchase Rider provided under electric Schedule 139, which was created to meet the renewable energy needs of PSE's governmental and large corporate customers who consume at least 10,000 megawatt-hours ("MWh") annually. The primary purpose of Green Direct is to provide large existing customers with an affordable and project specific renewable energy option for up to 20-year contract terms.

Q. How are rates generally designed to recover the cost of this program?

A. In very simple terms, these customers continue to take bundled service under their base rate schedules, pay an additional amount through Schedule 139 to recover the cost of the PPA(s) used to meet their energy needs under the Green Direct program, as well as related costs to provide service under the program, and then receive a credit through Schedule 139 to compensate these customers for the value of the energy not taken from PSE's general power supply portfolio.

Q. Has there been any contention with the design of rates for the Green Direct program?

A. Yes. In the discussions that led to the settlement of PSE's PCORC filing in Docket UE-200980, the energy credit provided under Schedule 139 became an issue with certain parties to that case. Ultimately, the settlement to that case lowered the credit to a level closer to PSE's baseline variable power cost rate in its PCA mechanism.[25] The settlement also provided that the settling parties would "work toward a path forward on a durable method for calculating the energy credit for Green Direct customers…."[26]

Q. Were meetings held by the settling parties to that case?

A. Yes. Multiple meetings occurred between the settling parties to PSE's last PCORC, including representatives of PSE, Commission Staff, AWEC, and the Energy Project. In addition, other stakeholders participated, including Public Counsel, representatives for many of the Green Direct customers, Renewables Northwest, and outside experts hired by a number of these participants. These

[25] The settlement provided specific multi-part instructions as to how the credit would be calculated, which made this credit deviate slightly from PSE's baseline variable power cost rate.

[26] Docket UE-200980, Settlement Stipulation and Agreement, Section III.C.at 6.

meetings began in June 2021 and continued to December 2021. The testimony of Mr. Einstein discusses this process in more detail.

Q. Have stakeholders reached consensus on a methodology for deriving the Green Direct Energy Credit?

A. No. Despite a number of meetings and discussions, including the sharing of perspectives and proposed methods for determining the energy credit, stakeholders have not yet reached an agreement that could be introduced in the initial filing of this case.

Q. Do these stakeholders intend to continue to collaborate to reach a resolution of this issue during the pendency of this rate case?

A. Yes. Stakeholders in these discussions have agreed that they will continue to work to reach a resolution of this issue in the hopes that it can be introduced in settlement during this case.

Q. Has PSE included a proposal for the derivation of the Green Direct Energy Credit in this case?

A. Yes. Since the Green Direct Energy Credit is ultimately tied to the derivation of PSE's revenue deficiency, a proposal was necessary for this filing.

Q. How has PSE proposed to determine the Green Direct Energy Credit in this case?

A. PSE has been on record since the start of this program that it believes the credit should mirror the way in which costs are allocated to Green Direct participating customers in their bundled rates. At the time the program was originally approved, the methodology used to classify and allocate power costs was generally referred to as the "peak credit" methodology. This methodology has been superseded with the adoption of new rules in Docket UE-170002. Notable changes resulting from these new rules includes replacing the peak credit methodology with what is now known as the "renewable future peak credit" methodology for the classification of fixed production costs and treating the remaining "net power costs" as 100 percent energy related. Therefore, PSE proposes in this case to again tie the energy credit for Green Direct customers to the method used to allocate power costs in this case, in the manner prescribed in WAC 480-85-060. PSE's application of WAC 480-85-060 are discussed in more detail in the testimony of Mr. Jhaveri.

Q. What is the resulting energy credit proposed for Green Direct customers in this case?

A. My Exh. JAP-5 presents the calculation of the proposed Green Direct Energy Credit in this case. This exhibit categorizes each line of PSE's "Exhibit A-1", included in the work papers supporting the testimony of Ms. Free, as Fixed or Variable in a manner consistent with the demand and energy classifications resulting from application of WAC 480-85-060. This results in an energy credit of $49.446 per MWh in 2023.

Q. Does PSE believe its proposal meets the requirements of Washington State's green power statute, RCW 19.29A.090?

A. Yes. Of particular focus for the stakeholders in this discussion has been RCW 19.29A.090(5), which states in part 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." While arguments can, and most likely will, be made about whether particular costs or benefits are adequately reflected in any given methodology for determining the Green Direct energy credit, it continues to be PSE's opinion that the Commission-required method for allocating costs is a reasonably sufficient basis for determining the credit in conformance with statute. As much as some would like to believe there is a "right" answer to what constitutes "all" costs and benefits, the Commission understands well the relatively subjective nature of these types of analytical, and frankly academic, exercises. The best that can realistically be accomplished is to determine a "reasonable" resolution of this issue. PSE believes that its proposal meets that threshold, although it remains open to supporting other reasonable determinations of this credit.

Q. By PSE abandoning the approach agreed upon in its recent PCORC settlement, does this mean that it considers that approach unreasonable?

A. Not at all, otherwise PSE would have never signed onto the settlement. Rather, PSE believes that customers signing up for service under the Green Direct program had a reasonable expectation that the methodology used to derive the energy credit would not change. As such, PSE prefers staying true to that expectation in its initial filing in this case, unless or until parties involved in the ongoing discussions around this credit, particularly the customers taking service under the Green Direct program who were not part of the PCORC settlement, agree to a different approach for determining the energy credit.

Q. If a settlement is not reached on this issue, what does PSE recommend?

A. PSE recommends that the Commission approve the Company's proposed methodology for determining the Green Direct Energy Credit.

VI. THE REMOVAL OR MODIFICATION OF CERTAIN OUTDATED REPORTING REQUIREMENTS FOR PSE IS IN THE PUBLIC INTEREST

Q. Is PSE proposing to end or modify requirements for certain reports in this case?

A. Yes. PSE proposes ending its Meter and Billing Performance Report, SQI Semi-Annual Report, 30 Day Qualifying Storm Notice, Schedule 171 Optional Non-Communicating Meter Service Bi-Annual Status Report, Deferred Environmental Remediation Detail Reports, Schedule 149 Cost Recovery Mechanism related to the Pipeline Replacement Program Plan, Schedule 149 Cost Recovery Mechanism Second Update, and Distributed Generation Annual Report. PSE also proposes to modify the frequency of its Schedule 140 Property Tax Tracker.

Q. Why is PSE proposing to discontinue or modify these reports in this case?

A. PSE learned in Docket U-210151, Inquiry into Reducing the Administrative Burden in Support of the Commission's Ongoing Inquiry Into the Adequacy of the Current Regulatory Framework, that these reports hold little or no value, and that there appears to be stakeholder support for (or no opposition to) these changes.

Q. If there is support for the discontinuation or modification of these reports in Docket U-210151, why is PSE proposing that the Commission take action in this case?

A. Docket U-210151 is a general utilities docket, and PSE believes the Commission will need to amend several PSE-specific orders in a separate docket to end or modify these reports.

A. PSE's Metering and Billing Performance Report should be discontinued

Q. What was the original purpose of PSE's Metering and Billing Performance Report?

A. The original purpose of PSE's Metering and Billing Performance Report was to establish an electric and natural gas customer meter and billing performance plan setting forth standards to measure PSE's metering system performance and ability to issue accurate and timely bills to its customers. This reporting requirement was created in the partial settlement to PSE's 2007 general rate case (Dockets UE-072300 and UG-072301). It was later revised in PSE's 2011 general rate case (Dockets UE-111048 and UG-111049), when Commission Staff's written response testimony proposed to modify the existing meter and billing performance standards and reporting requirements.

Q. Why does PSE believe that this report should be discontinued?

A. Reporting required by WAC 480-90-178 and 480-100-178, Billing requirements and payment date, has stricter requirements than PSE's Metering and Billing Performance Report.

Q. Do other parties agree that this report should be discontinued?

A. Yes. It is PSE's understanding that Commission Staff and Public Counsel support ending this report.

Q. Have any commenters in Docket U-210151 stated opposition to removal of this report?

A. No. No comments were received in this docket that opposed PSE's proposal to discontinue this report.

Q. What do you recommend regarding this report?

A. I recommend that the Commission direct PSE in its final order in this case to discontinue this report as of the date of its final order.

B. PSE's Service Quality Index Semi-Annual Report should be discontinued

Q. What was the original purpose of PSE's Service Quality Index Semi-Annual Report?

A. PSE's Service Quality Index ("SQI") was created by the Company's Settlement Stipulation in its 1996 merger with Washington Natural Gas (Docket UE-960195) "to assure customers would not experience a deterioration in quality of service" during the multiyear rate plan proposed in that proceeding, and it has been modified in subsequent proceedings.[27] As provided in the Updated Appendix 2 to Exhibit J in PSE's 2001 general rate case (Dockets UE-011570 and UG-011571) and in compliance with Order 25 of PSE's 2007 general rate case, PSE's SQI Semi-Annual Report, due July 30 for the six months ended June, includes the following information:

1. Monthly data (as available) for the applicable reporting period for each of the SQIs;
2. Calculated performance with respect to each of the Service Quality Indices, together with a comparison of calculated performance to the benchmark for each of the SQIs;

[27] It is noteworthy in the context of this case that while the multiyear rate plan ended, the service quality requirements did not.

3. A description of any unusual events that had a significant effect on service quality performance (whether or not a mitigation petition is included with the report);

4. A description of any data gathering or reporting difficulties incurred by the Company and any request by the Company to alter its data gathering or reporting methods for future periods if the effect of the change will impact the performance categories or their results in any way;

5. The number of missed appointments and missed commitments and payments to customers, by appointment and commitment category, under the Service Guarantee;

6. The progress of the Company's development of gas emergency response plans for outlying areas and the Company's consultation with the affected communities (city councils and first responder agencies) for such emergency response plans; and

7. The performance of PSE's contractors tracked against relevant service quality benchmarks.

In addition, the annual report to be filed on or before March 31, with the combined reporting of SQI, electric service reliability, and service provider SQI performance results, includes the following additional information:

1. The penalty calculation, if applicable, for each SQI;

2. A certification by the independent survey company that the surveys were completed in conformance with applicable procedures and guidelines and that the reported results are unbiased and valid;

3. Workpapers that explain the effect, if any, of the penalty on rates for each customer class for both natural gas and electric customers;

4. Annual statistics for the time duration from first arrival to control of gas emergencies, for incidents subject to reporting under WAC 480-93-200 and WAC 480-93-210;

5. A draft of the proposed customer notice (customer report card);

6. Mitigation petition, if applicable;

7. New customer construction-related penalties paid by its two predominant service provider contractors and the actions the Company or its service

providers have taken to improve customer satisfaction with the new customer construction process;

8. Annual supplemental reporting for each day in the annual reporting period on which SQI No. 11 Electric Emergency Response time was suspended;

9. A description how PSE uses customer complaint information in its circuit reliability evaluations;

10. Supplemental information on the percentage of responses to gas emergencies that are met within 60 minutes;

11. Supplemental information on the monthly percentage of calls answered by PSE's call centers within 30 seconds of SQI No. 5, Customer Access Center Answering Performance;

12. Supplemental information on the call abandonment and busy calls; and

13. Supplemental information on the disconnection information in the appendix section of the annual report regarding customer non-payment of amounts due when the Commission's disconnection policy would permit service curtailment.

Q. Why does PSE believe that this semi-annual report should be discontinued?

A. The Commission has not taken action on the semi-annual report since 1998, and the information can be incorporated into the SQI Annual Report due March 31.

Q. Do other parties agree that this report should be discontinued?

A. Yes. It is PSE's understanding that Commission Staff and Public Counsel support the discontinuation of this report.

Q. Have any commenters in Docket U-210151 stated opposition to removal of this report?

A. No. No comments were received in this docket that opposed PSE's proposal to discontinue this report.

Q. What do you recommend regarding this report?

A. I recommend that the Commission direct PSE to incorporate the Semi-Annual reporting into the Annual Report due March 31 and discontinue the July 30 Semi-Annual Report as of the date of its final order in this case.

<u>C. PSE's Deferred Environmental Remediation Detail Report should be discontinued</u>

Q. What was the original purpose of PSE's Deferred Environmental Remediation Detail Report?

A. PSE's quarterly Deferred Environmental Remediation Detail Reports were required by the Order Authorizing Accounting Treatment in Docket UE-911476. Puget Sound Power & Light had filed a petition seeking an order regarding the treatment of costs incurred by the Company under its environmental remediation program in response to federal and state laws regarding hazardous wastes. The requested relief was necessary to insulate the Company's customers from fluctuations in rates due to the variability of environmental remediation costs. Additionally, the requested accounting treatment would avoid the negative financial impact that otherwise would be required in accounting for these costs under financial reporting requirements.

Q. Why does PSE believe that this report should be discontinued?

A. Commission Staff recommended discontinuing this report, as the information can be requested during a rate case, if needed, or when necessary.

Q. Do other parties agree that this report should be discontinued?

A. Yes. It is PSE's understanding that Public Counsel supports the discontinuation of this report. PSE does as well.

Q. Have any commenters in Docket U-210151 stated opposition to removal of this report?

A. No. No comments were received in this docket that opposed the proposal to discontinue this report.

Q. What do you recommend regarding this report?

A. I recommend that the Commission direct PSE to discontinue this report as of the date of its final order in this case.

D. PSE's Distributed Generation Annual Report should be discontinued

Q. What was the original purpose of PSE's Distributed Generation Annual Report?

A. The original purpose of PSE's Distributed Generation Annual Report was to (1) provide data about the number, size and type of systems installed to inform stakeholders on the progress of distributed generation growth, including the amount of net metered generation capacity relative to the caps and limits described in RCW 80.60, and (2) provide aggregate data about the energy produced from net metered systems, including relative to on site consumption over certain time periods.

Q. Why does PSE believe that this report should be discontinued?

A. PSE reports monthly and annually to the US Energy Information Administration the number, type and capacity of distributed energy systems. Additionally, RCW 80.60.020 was revised in 2019 to include the requirement that each electric utility must report semiannually to Washington State University Extension Energy Program its cumulative net metered generating capacity relative to the limits described in RCW 80.60. This addresses purpose (1), above.

The Annual Energy Production section of the Distributed Generation Annual Report was intended to address purpose (2), above. Energy production data is only available and meaningful when net metered systems include a production meter in addition to the net meter. A production meter measures all energy prior to the customer using any of the energy they generate in their home or business. At the time this report was first requested, 99 percent of PSE customers who installed distributed-generation opted for company-owned production metering. This is because PSE voluntarily administered the Washington State Production Incentive Program, and production metering was required for customers to capture the substantial incentives offered under this program. In 2019, after the State Production Incentive Program's budget was fully obligated, PSE stopped offering the program to new solar customers. Since then, the production incentive program has closed to new solar customers statewide. Production meters remain optional, but currently fewer than 25 percent of new solar customers are including production metering in their system design. The data derived from production meters (from a shrinking portion of net metered systems) relative to data derived from net meters is no longer meaningful. Additionally, production metering, monitoring, and data are outside the utility's responsibility to offer interconnection and net metering per state law and PSE Schedules 150 (Net Metering Services for Customer Generator Systems) and 152 (Interconnection With Electric Generators).

Q. Do other parties agree that this report should be discontinued?

A. Yes. It is PSE's understanding that Commission Staff and Public Counsel agree this report should be discontinued.

Q. Have any commenters in Docket U-210151 stated opposition to removal of this report?

A. No. No comments were received in this docket that opposed PSE's proposal to discontinue this report.

Q. What do you recommend regarding this report?

A. I recommend that the Commission direct PSE to discontinue this report as of the date of its final order in this case.

E. PSE’s 30-Day Qualifying Storm Notice should be discontinued

Q. What was the original purpose of PSE’s 30-Day Qualifying Storm Notice?

A. PSE’s 30-Day Qualifying Storm Notice was the result of a compromise reached in PSE’s 2004 general rate case (Dockets UE-040640 and UG-040641). Originally, Staff proposed PSE provide a detailed qualifying storm report for purposes of deferral within 30 days. PSE argued that 30 days was not sufficient time to ensure the integrity of the weather event data. In its Order 06, the Commission ruled “PSE should be required to file a letter with the Commission within 30 days of a weather-related event that PSE reasonably believes will qualify for deferral treatment and to file a more detailed report no later than 90 days after the weather-related event.”

Q. Why does PSE believe that this 30-day notice should be discontinued?

A. PSE believes there is little value in the 30-day notice and that the detailed subsequent 90-day report holds more value.

Q. Do other parties agree that this notice should be discontinued?

A. Yes. It is PSE’s understanding that Commission Staff and Public Counsel both support discontinuing the 30 day notice.

Q. Have any commenters in Docket U-210151 stated opposition to removal of this notice?

A. No. No comments were received in this docket that opposed PSE's proposal to discontinue this notice.

Q. What do you recommend regarding this notice?

A. I recommend that the Commission direct PSE to discontinue this notice as of the date of its final order in this case.

F. PSE should be required to make only one annual filing for its electric and natural gas Schedule 140 (Property Taxes)

Q. What was the original purpose of PSE making more than one annual filing for its electric and natural gas Schedule 140 (Property Taxes)?

A. The effective date of PSE's Schedule 140 is May 1st to coincide with other May 1st rate changes. Annual tax bills are not known to PSE far enough in advance to submit this filing with all actual taxes levied for a May 1st rate change. Therefore, an estimated filing is made with 30 days' notice and an update is filed once PSE receives its final tax bills.

Q. Why does PSE believe that it should discontinue the second filing made as part of its annual filing for its electric and natural gas Schedule 140?

A. PSE believes the second filing creates an unnecessary administrative burden and provides limited incremental value because it occurs only two weeks before rates go into effect. PSE recommends filing only once per year with enough time for 30 day noticing using estimates, which will be well informed as most taxing jurisdictions will have been received. Further, the rate filing contains a true-up for prior years similar to other rider filings such as Schedule 120 (Conservation), which utilizes three months of estimates each year that are trued-up the following year.

Q. Do other parties agree that this second filing should be discontinued?

A. Yes. It is PSE's understanding that Commission Staff and Public Counsel both support the discontinuation of the second rate filing.

Q. Have any commenters in Docket U-210151 stated opposition to removal of this second annual rate filing?

A. No. No comments were received in this docket that opposed PSE's proposal to discontinue this second rate filing.

Q. What do you recommend regarding the second filing made as part of PSE's annual Schedule 140 filings?

A. I recommend that the Commission direct PSE to discontinue making a second filing made as part of PSE's annual Schedule 140 filings as of the date of its final order in this case.

G. If it continues, PSE should be required to make only one annual filing for its natural gas Schedule 149 (Cost Recovery Mechanism)

Q. Is PSE proposing to continue the use of its natural gas Schedule 149 (Cost Recovery Mechanism)?

A. No. As discussed in the testimony of Ms. Free, PSE is proposing to include pipeline safety program costs currently recovered through its natural gas Schedule 149 in its provisional pro forma adjustments as part of its multiyear rate plan filing. If approved by the Commission, this will allow the recovery of a projection of these costs in the multiyear rate plan and largely remove the need for this rate recovery mechanism.

Q. If the Commission denies PSE's multiyear rate plan proposal or the proposed provisional pro forma adjustments related to its pipeline safety program and PSE ultimately continues to use natural gas Schedule 149 to recover these costs, what changes are the utility proposing to the associated filing requirements?

A. PSE proposes making one annual natural gas Schedule 149 filing in August and would rely on estimated costs for August through October.

Q. What was the original purpose of PSE making three annual filings for its natural gas Schedule 149 (Cost Recovery Mechanism)?

A. The original purpose of making three annual filings for its natural gas Schedule 149 filing was to give reasonable recognition of the proposed tariff's effective date and the *used and useful* constraint.

The following was the specific direction given in the policy statement that gave rise to this cost recovery mechanism:

> On June 1 of each year a company that participates in a CRM must file actual and projected investment for that program year. The June 1 filing includes investment incurred from November 1 of the previous year to April 30 of the current year and projected costs from May 1 through October 31 consistent with the approved replacement plan. The company will update the projected costs with actual investment incurred during May through July and revised costs estimates for August through October with its annual Purchased Gas Adjustment tariff filing. Once actual project cost data are available, a company will submit actual cost data through September and an updated estimate for October under the PGA docket for that year.[28]

Q. Why does PSE believe that making only one filing in August for natural gas Schedule 149 is appropriate?

A. PSE recommends making one filing per year and treating this similar to its Schedule 120 Conservation filing, which includes 3 months of estimates that get trued-up each following year. PSE would file in August only and estimate the months of August, September, and October for a November 1 effective date. The

[28] Commission Policy on Accelerated Replacement of Pipeline Facilities with Elevated Risk, Docket UG-120715 at ¶ 69 (Dec. 31, 2012).

time required to produce the additional two filings and their limited incremental value creates an unnecessary administrative burden.

Q. Do other parties agree with PSE's proposal?

A. Yes. It is PSE's understanding that Commission Staff and Public Counsel support PSE's proposal.

Q. Have any commenters in Docket U-210151 stated opposition to removal of the other two filings?

A. No. No comments were received in this docket that opposed PSE's proposal to discontinue the other two filings.

Q. What do you recommend regarding the June and October filings made as part of PSE's annual Schedule 149 filing?

A. I recommend that the Commission direct PSE to discontinue filing these two (June and October) filings made as part of PSE's annual natural gas Schedule 149 filing as of the date of its final order in this case.

H. PSE's Schedule 171 Optional Non-Communicating Meter Service Bi-Annual Status Report should be discontinued

Q. What was the original purpose of PSE's Schedule 171 Optional Non Communicating Meter Service Bi-Annual Status Report?

A. Order 01 in Dockets UE-180860 and UG-180861 required PSE to file a status report every six months (January 31 and July 31) regarding the implementation status of its Schedule 171 Optional Non-Communicating Meter Service. Each report includes:

1. A status of the project, including geographic areas where AMI meters have been installed and the numbers of meters installed;

2. Information on customer communication results;

3. The number of customers who opt out under Schedule 171 service, including details about their connection status and bill payment assistance status, and counts of customers who opt out during the fee-free period prior to installation or after the AMI meters are installed;

4. The actual costs associated with the implementation of the optional service, including capital costs and maintenance costs for information systems, meter networks, meter exchange, meter reading, and other related costs;

5. Revenues associated with electric and natural gas Schedules 171;

6. The number of opt-out requests that lapse because customers have not completed service request paperwork to opt-out;

7. The count of customers who return to AMI metering after having a non-communicating meter, along with information showing whether the return to AMI was initiated by the customer or the Company; and

8. A discussion of other issues and concerns as they arise during the program.

Q. Why does PSE believe that bi-annual reporting should be discontinued?

A. PSE believes annual reporting is sufficient for monitoring this optional service.

Q. Do other parties agree that bi-annual reporting should be discontinued?

A. Yes. It is PSE's understanding that Commission Staff and Public Counsel support ending this report.

Q. Have any commenters in Docket U-210151 stated opposition to removal of the bi-annual report?

A. No. No comments were received in this docket that opposed PSE's proposal to discontinue bi-annual reporting.

Q. What do you recommend regarding this report?

A. I recommend that the Commission direct PSE to discontinue bi-annual reporting as of the date of its final order and instead file only an annual report each January 31.

VII. CONCLUSION

Q. Does that conclude your prefiled direct testimony?

A. Yes, it does.