

**EXH. KSJ-1T
DOCKET UE-20____
2020 PSE PCORC
WITNESS: KENNETH S. JOHNSON**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent

Docket UE-20____

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

KENNETH S. JOHNSON

ON BEHALF OF PUGET SOUND ENERGY

DECEMBER 9, 2020

PUGET SOUND ENERGY
PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
KENNETH S. JOHNSON

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PUGET SOUND ENERGY

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
KENNETH S. JOHNSON**

LIST OF EXHIBITS

Exh. KSJ-2 Professional Qualifications of Kenneth S. Johnson

1 **PUGET SOUND ENERGY**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **KENNETH S. JOHNSON**

4 **I. INTRODUCTION**

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

7 A. My name is Kenneth S. Johnson. My business address is 355 110th Ave. NE,
8 Bellevue, WA 98004. I am the Vice President of Regulatory and Government
9 Affairs at Puget Sound Energy (“PSE”).

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

12 A. Yes. Please see the First Exhibit to the Prefiled Direct Testimony of Kenneth S.
13 Johnson, Exh. KSJ-2.

14 **Q. What are your duties as Vice President of Regulatory and Government**
15 **Affairs at PSE?**

16 A. As Vice President of Regulatory and Government Affairs, my responsibilities
17 include government relations, regulatory compliance, and public policy. I oversee
18 a team that focuses on federal, regional, state, and local policies that enable PSE
19 to meet its customers’ needs in a time of rapid technological change and
20 increasing climate concerns.

1 **Q. Please summarize the purpose of this prefiled direct testimony.**

2 A. This prefiled direct testimony provides an overall summary of the power cost only
3 rate case that PSE is filing. I discuss challenges that PSE is facing and will face in
4 the upcoming years as it moves towards 100 percent clean electricity consistent
5 with the Clean Energy Transformation Act (“CETA”). Additionally, I briefly
6 describe the new resources for which PSE seeks a prudence determination, other
7 changes to PSE’s portfolio, and the primary drivers that are causing power costs
8 to increase. I discuss PSE’s proposal to increase the electric low-income
9 assistance funding consistent with the average rate increase to residential
10 customers. Finally, I introduce the other PSE witnesses in the case.

11 **II. OVERVIEW OF PSE’S POWER COST ONLY RATE CASE**

12 **Q. Why is PSE filing this power cost only rate case?**

13 A. There are three reasons that PSE is filing this power cost only rate case. First,
14 PSE’s power supply portfolio has changed since PSE’s last general rate case. PSE
15 has recently entered into several new power purchase agreements (“PPAs”) that
16 provide safe, clean, and reliable energy to PSE customers during the rate year in
17 this case. PSE seeks a determination that these PPAs, as well as new and renewed
18 transmission contracts, are prudent, and PSE seeks to include these new resources
19 in its power cost baseline rate to more accurately reflect power costs for its
20 customers. There are also two new PPAs that will serve PSE’s Green Direct
21 customers with 100 percent clean electricity. PSE seeks a determination from the

1 Commission that these new resource acquisitions are prudent for use in the Green
2 Direct program.

3 Second, PSE faces substantial increases in projected power costs due in part to an
4 increase in the projected cost of natural gas used for PSE's power supply, new
5 PPAs, increases to existing PPAs, and increases in other wholesale power costs.
6 PSE's load has also decreased which results in a higher unit cost of power. In this
7 case, PSE seeks to reset its power cost baseline rate to reflect these power cost
8 increases and address load changes.

9 Third, and relatedly, PSE has experienced growing deferral balances in its
10 PCA mechanism because the power costs currently set in its baseline rate are
11 lower than the actual power costs PSE is experiencing. Further exacerbating this
12 is the fact that PSE's load is decreasing, as previously noted. PSE seeks to reset
13 the power cost baseline rate to more accurately reflect the customer load and
14 power costs that PSE is experiencing. By so doing, PSE seeks to stem the growth
15 in deferrals related to power costs that are weighing down PSE's financial metrics
16 and avoid high deferral balances that will result in eventual repayment by
17 customers.

1 **A. PSE Resource Mix Is Changing To Reflect More Renewable**
2 **Resources and To Remove Coal-Fired Plants Consistent with the**
3 **Clean Energy Transformation Act**

4 **1. PSE’s resource mix continues to move towards clean energy**

5 **Q. Please provide an overview of the changing nature of PSE power costs.**

6 A. PSE is experiencing a fundamental change in the nature of its power costs. PSE
7 must acquire a significant amount of clean resources in the coming decades to
8 meet requirements under CETA. And, for new generating resources, PSE must
9 secure the transmission to deliver these resources to PSE’s customers. As PSE
10 replaces fossil-generated resources, PSE will need to enhance demand-side and
11 distributed energy resource programs and acquire significantly more megawatts of
12 new renewable resources to replace the lost capacity. PSE will also need to ensure
13 it has adequate flexible capacity on its system to effectively integrate new
14 renewable resources at the lowest reasonable cost.

15 **Q. What are some of the upcoming challenges PSE faces as it moves towards**
16 **100 percent clean electricity?**

17 A. CETA puts PSE on a track to pursue one of the most ambitious clean energy
18 standard in the United States. Prior to CETA’s passage, PSE had been working to
19 meet Washington’s Energy Independence Act (“EIA”) requirements of 15 percent
20 renewable electricity by 2020, but CETA quickly increases that standard,
21 requiring carbon neutral electricity supply by 2030. Achieving CETA’s goals will
22 require an ambitious pace for the transformation to clean energy across PSE’s

1 electric service territory. PSE's transformation begins with the closure of Colstrip
2 Units 1 and 2 in early 2020, and the new resources described in this filing.

3 PSE will need a combination of renewable or equivalent demand-side resources
4 totaling 9.3 million megawatt hours ("MWh") to comply with CETA. Acquisition
5 of cost-effective distributed and demand-side resources is a fundamental building
6 block to keeping this transition manageable for customers. PSE will increasingly
7 seek to procure new clean resources in a competitive environment as renewable
8 resource requirements across the western U.S. increase. Aggressive demand-side
9 resource acquisition, coupled with consistent, lowest reasonable cost acquisition
10 of new renewables between now and 2030 is the most strategic approach to keep
11 costs low for PSE customers and achieve the compliance obligations in CETA.

12 **Q. What factors did PSE consider in seeking to acquire resources to address the**
13 **closure of Colstrip Units 1 and 2?**

14 A. PSE identified a near-term need for capacity resources largely as a result of the
15 closure of Colstrip Units 1 and 2 in 2019, the expiration of the TransAlta coal-
16 transition contract in 2025, and CETA's requirement to remove all coal from
17 PSE's regulated portfolio by 2025. In addition, several other factors influenced
18 PSE's approach to evaluating resources to meet this need including: 1) an
19 identified EIA compliance need; 2) growing resource adequacy constraints
20 throughout the Northwest and 3) future renewable resource needs driven by
21 CETA. As a result, PSE primarily focused on resources that could meet both
22 capacity and renewable energy needs as these resources offered the lowest

1 reasonable cost option for PSE's combined system needs. This is discussed in
2 more detail in the Prefiled Direct Testimony of Cindy L. Song, Exh. CLS-1HCT.

3 **Q. Are the resources for which PSE seeks approval in this case, renewable**
4 **resources?**

5 A. With the passage of CETA, it is important to note that PSE must now
6 simultaneously track two classes of renewables: those that are CETA compliant
7 and a narrower subset of renewables that are also compliant with the EIA. The
8 majority of the new resources in this filing are renewable resources that are CETA
9 compliant and several of them will also contribute to PSE's EIA compliance
10 obligations. One resource is a four-year unspecified capacity PPA that was
11 acquired solely to meet capacity needs.

12 **Q. What role will distributed energy resources play in PSE's system?**

13 A. PSE believes distributed energy resources have a key role to play as part of a
14 balanced, lowest reasonable cost portfolio. PSE's customers are already installing
15 distributed energy resources, and PSE routinely evaluates a range of technologies
16 and program designs such as distributed solar, distributed batteries, and demand
17 response/flexible loads as part of its resource planning and delivery system
18 planning processes. Distributed resources are being further evaluated in the
19 development of PSE's 2021 Integrated Resource Plan ("IRP") and 2022-2025
20 Clean Energy Implementation Plan.

1 **2. PSE seeks Commission approval of the newly acquired**
2 **resources**

3 **Q. Why is PSE acquiring new PPAs?**

4 A. As previously discussed, PSE is acquiring new PPAs to meet its capacity needs,
5 attributable to growing peak time needs primarily resulting from the closure of
6 Colstrip Units 1 and 2 in early 2020, and to meet growing renewable energy
7 compliance obligations under the EIA. Additionally, although many of these new
8 resources were acquired prior to the passage of CETA, the acquired renewable
9 resources will contribute to PSE’s efforts to meet the clean energy requirements
10 of CETA.

11 **Q. Please list the newly acquired PPAs for which PSE seeks a prudence**
12 **determination in this case.**

13 A. The resources for which PSE seeks a prudence determination are as follows:

- 14 (i) **The Sierra Pacific Industries (“SPI”) Biomass PPA:**
15 This is a 17-year fixed price PPA delivering 17 MW of
16 firm capacity from a biomass project located in PSE’s
17 system beginning in January 2021. This resource is an EIA
18 and CETA compliant renewable resource.
- 19 (ii) **The Energy Keepers PPA:** This is a 15-year, 40 MW PPA
20 with Energy Keepers, Inc., which began March 1, 2020, for
21 hydroelectricity that is CETA compliant.
- 22 (iii) **The Bonneville Power Administration System PPA:**
23 This is a five-year agreement for firm capacity delivered to
24 PSE’s system. Energy is supplied from the Federal
25 Columbia River Power System and is primarily CETA
26 compliant electricity.
- 27 (iv) **The Golden Hills PPAs:** The Golden Hills PPAs are two
28 separate, but related, PPAs. First, the Golden Hills Shaped

1 PPA is a 20-year fixed price contract delivering to PSE's
2 system the output from a 200 MW wind development project
3 paired with shaped capacity up to 150 MW during winter
4 peak hours. The PPA will begin concurrent with the
5 commencement of commercial operations, which is expected
6 to occur in June 2022. Second, PSE negotiated the Golden
7 Hills Interim Capacity PPA to provide winter capacity in the
8 event that the Golden Hills wind project encounters COVID-
9 19 related or other development delays. PSE seeks a
10 prudence determination for both PPAs but only seeks
11 recovery for the Golden Hills Interim Capacity PPA at this
12 time due to the timing of the rate year.

13 (v) **The Morgan Stanley Capital Group Inc. System PPA:**
14 This is a 4-year, 363-day, fixed price system PPA for
15 100 MW of firm heavy load hour energy delivered only in
16 the first and fourth quarters of each calendar year, beginning
17 in January 2022.

18 (vi) **The Green Direct PPAs:** These are two new PPAs to serve
19 Green Direct customers from the Skookumchuck Wind
20 Energy Project (the "Skookumchuck PPA") beginning in
21 November 2020 and the Lund Hill Solar Project (the "Lund
22 Hill PPA") beginning March 1, 2021. These resources are
23 EIA and CETA compliant. PSE seeks a determination that
24 these are prudent for its Green Direct program.

25 The SPI Biomass PPA, BPA PPA, Golden Hills PPA, and Morgan Stanley PPA
26 resources are discussed in more detail in the Prefiled Direct Testimony of
27 Cindy L. Song, Exh. CLS-1HCT.

28 The Energy Keepers PPA is discussed in more detail in the Prefiled Direct
29 Testimony of Paul K. Wetherbee, Exh PKW-1CT.

30 The Skookumchuck PPA and Lund Hill PPA are discussed in more detail in the
31 Prefiled Direct Testimony of William T. Einstein, Exh. WTE-1T.

1 **Q. Are there transmission contract additions and renewals for which PSE seeks**
2 **a prudence determination?**

3 A. Yes. There are several transmission contract additions and renewals for which
4 PSE seeks a prudence determination. These are described in the Prefiled Direct
5 Testimony of Paul K. Wetherbee, Exh PKW-1CT.

6 **Q. What steps did PSE take to determine whether it had a need for the PPAs**
7 **presented in this case?**

8 A. PSE's 2017 IRP demonstrated that PSE had a need for capacity and a need for
9 eligible renewable resources for EIA compliance both beginning in 2022. The
10 analysis also indicated that the identified capacity need grew substantially over
11 the 20-year horizon. The capacity need is primarily driven by large retirements in
12 PSE's existing resources, including Colstrip Units 1 and 2 in early 2020, and the
13 expiration of the TransAlta coal-transition contract in 2025.

14 PSE updated its capacity and renewable need forecasts prior to filing the 2018 All
15 Source Request for Proposals ("2018 RFP"). Based on these updated forecasts,
16 the 2018 RFP continued to show both a capacity and eligible renewable resource
17 need. PSE conducted updated analyses and portfolio optimization twice during
18 the 2018 RFP process, updating inputs with new information from the then
19 ongoing 2019 IRP.

20 Additionally, subsequent to 2017 IRP and 2018 RFP initial analyses, the decision
21 was made to close Colstrip 1 and 2 on January 3, 2020. This closure accelerated

1 the timeframe for reduction in electricity from those units, further contributing to
2 PSE's energy and capacity needs. The final portfolio optimization analysis,
3 conducted in the fall of 2019 prior to resource selection, included the updated
4 closure date for Colstrip Units 1 and 2.

5 The capacity and renewable resource need demonstrated in the 2017 IRP and
6 throughout the 2018 RFP are discussed in more detail in the Prefiled Direct
7 Testimony of Cindy L. Song, Exh. CLS-1HCT.

8 **Q. What response did PSE receive to its 2018 RFP?**

9 A. PSE received 97 responses to the 2018 RFP and also received several unsolicited
10 responses after the commencement of the 2018 RFP. This is discussed in more
11 detail in the Prefiled Direct Testimony of Cindy L. Song, Exh. CLS-1HCT.

12 **Q. Were the new resources presented in this case acquired to comply with**
13 **CETA?**

14 A. The 2018 RFP that resulted in the acquisition of most of the resources presented
15 in this case was underway prior to the passage of CETA. As discussed in the
16 Prefiled Direct Testimony of Cindy L. Song, Exh. CLS-1HCT, CETA was signed
17 into law during the 2018 RFP process, approximately mid-way through the
18 consideration and analysis of resource bids. While the rulemaking for CETA was
19 not yet underway in any tangible manner during the decision-making timeframe
20 for these resources, the statutory requirements of CETA to shift from fossil-
21 generated resources to clean resources confirmed a long-term need for increasing

1 renewable energy supply. More specifically, CETA requires PSE to address
2 increasing flexible capacity needs in a manner that provides a pathway to CETA
3 compliance with the clean energy standards for 2030 and 2045. For the
4 incremental steps represented in this filing, PSE chose to focus on resources that
5 offered a combination of diverse renewable attributes and capacity in a manner
6 that integrates with PSE's existing system and makes efficient use of existing
7 transmission resources.

8 **Q. How do these new resources affect PSE's power costs?**

9 A. Overall, these new resources increase PSE's power costs as discussed in the
10 Prefiled Direct Testimony of Paul K. Wetherbee, Exh. PKW-1CT.

11 **Q. Are there other factors that affect power costs in this case?**

12 A. Yes, PSE recovers its projected rate year power costs through the variable
13 baseline rate, which is expressed in dollars per MWh. As discussed in the Prefiled
14 Direct Testimony of Paul K. Wetherbee, Exh. PKW-1CT, PSE's load has
15 decreased 10.1 percent as compared to the load in PSE's 2019 general rate case,
16 and this causes the unit cost of power to increase. The variable baseline rate
17 established in this case will therefore reflect the impact of both slightly higher
18 total power costs and significantly lower forecasted rate-year load.

19 **Q. Please elaborate on the new resources for PSE's Green Direct program.**

20 A. The Skookumchuck PPA and Lund Hill PPA were acquired to provide renewable
21 power as part of PSE's Green Direct tariffs. PSE's Green Direct program is a

1 voluntary, long-term green energy program that provides large existing customers
2 a reasonably priced renewable energy option. The Green Direct program has been
3 approved to provide a total of 85 average megawatts through these two PPAs for
4 new renewable energy. The Skookumchuck Wind Project is now in service. The
5 Lund Hill PPA will go into effect by March 1, 2021, ahead of completion of the
6 Lund Hill Solar Project, which is scheduled to reach commercial operation in
7 mid-2021. This is discussed in more detail in the Prefiled Direct Testimony of
8 William T. Einstein, Exh. WTE-1T.

9 **B. PSE's Power Costs Are Increasing and PSE Seeks To Align Its Power**
10 **Cost Baseline Rate to Projected Power Costs**

11 **Q. Please explain the increased power costs that PSE seeks to recover in this**
12 **case.**

13 A. The primary drivers of the increased power costs PSE is experiencing are:
14 (i) higher forward natural gas prices relative to prices in the 2019 GRC;
15 (ii) increased costs of existing PPAs; (iii) the acquisition of new PPAs to serve
16 PSE customer load and meet projected capacity and renewable energy
17 requirements; and (iv) increased costs of transmission purchases from BPA. In
18 addition, PSE's load has decreased, which increases the unit cost of power. These
19 factors are discussed in more detail in the Prefiled Direct Testimony of Paul K.
20 Wetherbee, Exh. PKW-1CT, and the Prefiled Direct Testimony of Cindy L. Song,
21 Exh. CLS-1HCT.

1 **Q. What is the rate impact of PSE's filing?**

2 A. PSE's filing increases electric rates by \$78.5 million, or 3.69 percent.

3 **Q. Why is PSE filing for an electric rate increase at this time?**

4 A. PSE is filing this case to update its power cost baseline rate to better align with
5 and reflect increasing power costs and decreasing loads. Additionally, PSE seeks
6 to stem the growth in deferrals related to power costs that are weighing down
7 PSE's financial metrics and that can result in surcharges to customers. Finally,
8 PSE seeks to reflect changes to its power supply portfolio since the last general
9 rate case that begin to position PSE for CETA compliance.

10 **Q. Did PSE consider the effect of this filing on its customers who are facing**
11 **economic challenges related to the COVID-19 pandemic?**

12 A. Yes. PSE is keenly aware of the challenges its customers face with respect to the
13 pandemic and the economic downturn that it caused. PSE has taken numerous
14 steps to work with customers who are struggling due to the economic effects of
15 COVID-19. For example, PSE voluntarily delayed the effective date of increased
16 rates from its 2019 general rate case by two months, and PSE has provided
17 additional funding for customers who struggle to pay their energy bills during the
18 pandemic.

19 **Q. Is PSE proposing to increase the electric bill assistance funding?**

20 A. Yes. PSE proposes to increase the electric bill assistance funding equal to the
21 amount of the average percentage residential rate impact approved by the

1 Commission in this case. In PSE's filed case the average residential rate impact is
2 a 3.51 percent rate increase. Therefore, based on PSE's filing, PSE proposes an
3 increase of \$755,768 for electric bill assistance funding, which is a 3.51 percent
4 increase to the existing cap of \$21,557,697. PSE proposes that this increase will
5 become effective with the next Schedule 129 Low Income Program rate change
6 on October 1, 2021.

7 **C. PSE's Witnesses and the Topics They Address**

8 **Q. Who are the other PSE witnesses who are testifying in this case?**

9 A. The following PSE witnesses provide testimony in this case:

- 10 • **Ronald J. Roberts:** Mr. Roberts is the Vice President,
11 Energy Supply for PSE. He testifies regarding the coal
12 supply agreement for Colstrip Units 3 and 4 and PSE's
13 production operations and maintenance costs.
- 14 • **Paul K. Wetherbee:** Mr. Wetherbee is the Director,
15 Energy Supply Merchant for PSE. He provides an overview
16 of PSE's power costs and how they are managed. He
17 addresses changes to existing generation resources and new
18 resources that impact power costs. He provides the
19 prudence case for The Energy Keepers PPA and
20 transmission contract renewals and additions. He provides
21 the rate year power costs for this case.
- 22 • **William T. Einstein:** Mr. Einstein is the Director of
23 Product Development and Growth for PSE. He provides
24 testimony on the status and the prudence of PSE's Green
25 Direct resources: Skookumchuck Wind and Lund Hill
26 Solar.
- 27 • **Cindy L. Song:** Ms. Song is the Director of Resource
28 Acquisition and Risk Control for PSE. Ms. Song testifies
29 about the 2018 All Source Request for Proposals, the
30 quantitative analysis of the resources PSE considered, and
31 the prudence of the resources PSE selected.

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- **Susan E. Free:** Ms. Free serves as the Director of Revenue Requirement and Regulatory Compliance for PSE. Ms. Free describes adjustments for changes in PSE’s power supply costs and fixed production costs that are included in the proposed power cost baseline rate and provides the overall revenue requirement deficiency requested in this proceeding. Ms. Free also presents the results of the collaborative between PSE and Commission Staff to create reporting of PSE’s Green Direct Program.

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- **Birud D. Jhaveri:** Mr. Jhaveri is the Manager of Pricing and Cost of Service. Mr. Jhaveri describes the derivation of the temperature adjustments to energy sales and the production factor used in this filing. He presents the rate spread, rate design and rate impacts associated with this filing.

16

III. CONCLUSION

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Q. Does this conclude your prefiled direct testimony?

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A. Yes, it does.