Exhibit LDK-1T
Docket UE-200115
Witness: Lance D. Kaufman

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application of PUGET SOUND ENERGY For an Order Authorizing the Sale of All of Puget Sound Energy's Interests in Colstrip Unit 4 and Certain of Puget Sound Energy's Interests in the Colstrip Transmission System.	))))))))	DOCKET UE-200115

RESPONSE TESTIMONY OF LANCE D. KAUFMAN

ON BEHALF OF

THE ALLIANCE OF WESTERN ENERGY CONSUMERS

(REDACTED VERSION)

October 2, 2020

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RESPONSE TESTIMONY OF LANCE D. KAUFMAN

EXHIBIT LIST

I. INTRODUCTION AND SUMMARY OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Lance D. Kaufman, and my business address is 4801 W. Yale Ave., Denver, CO 80219.

Q. PLEASE STATE YOUR OCCUPATION AND IDENTIFY THE PARTY ON WHOSE BEHALF YOU ARE TESTIFYING.

A. I am an independent economics consultant. I am appearing on behalf of the Alliance of Western Energy Consumers ("AWEC"), a non-profit trade association whose members are large energy users served by electric and gas utilities located throughout the West, including Puget Sound Energy ("PSE" or the "Company").

Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.

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

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. In this proceeding PSE proposes to sell its interest in Colstrip Generating Station Unit 4 and certain transmission assets for a purchase price equal to one dollar plus the net book value of the transmission assets.[1/] I raise two issues related to this transaction:

1. Whether the transaction is in the public interest given its potential to extend the life of Unit 4, and
2. Whether PSE's proposed accounting treatment sufficiently assigns the benefits of the Proposed Transaction to ratepayers.

1/ Docket No. UE-200115, Application at 7:25-27, 9:4-7 (Feb. 19, 2020).

Q. PLEASE SUMMARIZE YOUR CONCERN REGARDING THE EXTENDED LIFE OF UNIT 4.

A. PSE claims that the transfer results in a net present value benefit to its customers of between $6 million and $33 million relative to the status quo in which it retains ownership of Unit 4.[2/] However, AWEC is concerned that PSE's analysis does not account for costs and risks related to the potential extended lives of Colstrip 3 and 4. The additional cost could outweigh the net benefit to customers.

Under the agreement, PSE continues to be responsible for decommissioning costs. Decommissioning costs can increase with the age of a plant. An extended life for Colstrip Unit 4 could result in greater decommissioning costs. The transfer increases the decision-making power for the purchasing utilities, while eliminating the Company's voice in any such discussion. This related to the life of Colstrip Unit 4.

I recommend that the Washington Utilities and Transportation Commission ("Commission") treat costs associated with extended operating lives of either Colstrip Units 3 or 4 as non-utility costs to be borne by PSE shareholders. PSE should bear the burden of proof to demonstrate any decommissioning costs recovered from ratepayers are not incremental costs due to extended operations of Colstrip Units 3 or 4. I also recommend the Commission identify a date certain for closure of Unit 3 and require PSE to take the risk that closure is not effectuated on or before that date.

[2/] Exh. CLS-8T at 9:15-16.

Q. PLEASE SUMMARIZE YOUR CONCERN REGARDING PSE'S PROPOSED ACCOUNTING TREATMENT.

A. PSE's proposed accounting treatment is to retire the sold assets and create a regulatory asset for the unrecovered balance of Unit 4. This apparently has no rate impact, and PSE proposes no mechanism to account for changes in PSE's revenue requirement due to the sale. I have two concerns regarding PSE's proposed accounting treatment:

1. PSE proposes to apply a $9.3 million credit in operation and maintenance expense to the Power Cost Adjustment ("PCA") to account for operation and maintenance savings.[3/] This proposal is inconsistent with the $[redacted] operations and maintenance benefit used to support the sale. It also filters the benefit of the sale through the PCA earnings sharing mechanism, effectively allowing PSE shareholders to capture some or all of the benefit of the Proposed Transaction. I recommend that the full $[redacted] cost savings be applied as a credit to the Unrecovered Plant account until PSE's next general rate case.
2. The Proposed Transaction will reduce PSE's revenue requirement associated with transmission assets. PSE alleges that these benefits are minimal and does not propose customers receive any benefit associated with the sale. I recommend that the sale price and depreciation expense associated with the subject transmission assets be included as a credit to the Unrecovered Plant account until PSE's next general rate case.

[3/] Exh. SEF-1CT at 24:20-25:2.

Q. PLEASE PROVIDE A BRIEF SUMMARY OF THE PROPOSED TRANSACTION.

A. PSE owns a 25% interest in each of Units 3 and 4 of the Colstrip Generating Station.[4/] The Company is proposing to sell its 25% interest in Unit 4 to NorthWestern Energy ("NorthWestern") and Talen Montana ("Talen") (each purchasing 50% of PSE's ownership for a total of 12.5% respectively).[5/] The terms also include a Power Purchase Agreement ("PPA") with Talen and NorthWestern for 90 MW of capacity from Unit 4 through 2025.[6/] PSE has performed an analysis showing that this PPA results in a net present value benefit to its customers of between $6 million and $33 million relative to the status quo in which it retains ownership of Unit 4.[7/] The Proposed Transaction also includes the sale of a portion of PSE's interest in the Colstrip transmission system. Although PSE is selling its interest in Unit 4, the Company remains responsible for 25% of decommissioning and remediation costs associated with that unit, with limited restrictions, regardless of how long the unit runs.[8/]

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. Section II identifies the Commission's standard of review that I use to guide my analysis and discusses how PSE attempts to meet this standard. Section III provides additional detail on the proposed vote sharing agreement and explores how the agreement could extend the lives of Colstrip Units 3 and 4. Section IV demonstrates that PSE's assumed

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4/ Docket No. UE-200115, Application at 4:9,12 (Feb. 19, 2020).
5/ Docket No. UE-200115, Supplemental Application at 1:1-2 (Aug. 20, 2020).
6/ Id. at 2.
7/ Exh. CLS-8T at 9:15-16.
8/ Exh. RJR-19 at 34-35 (Section 8.3).

capital investment under the status quo may be incorrect, leading to incorrect conclusions regarding the net benefit of the transaction. Section V identifies my concerns with PSE's proposed accounting treatment and recommends an alternative treatment.

II. STANDARD OF REVIEW

Q. WHAT IS THE STANDARD UNDER WHICH THE COMMISSION REVIEWS THE PROPOSED TRANSACTION?

A. Under Chapter RCW 80.12 and WAC 480-143-170, the Commission must determine whether the Proposed Transaction is in the public interest. This Commission has determined that this test is met if the applicant can show that "customers and the public will be no worse off if the transaction is approved and goes forward."[9]

I evaluate whether the transaction is in the public interest by investigating whether the policy:

1. Aligns with state energy policy,
2. Increases customer rates, and
3. Increases PSE risk.

My testimony addresses a single issue that extends across all three of these factors, specifically the impact of the transaction of the operating lives of Colstrip Units 3 and 4. AWEC is concerned that if this transaction results in extended lives of either unit, the transaction may not be in the public interest.

[9] Docket No. U-180680, Order 01, at 8 ¶ 29 (Nov. 9, 2018).

Q. HOW IS EXTENDING THE OPERATING LIVES OF COAL PLANTS NOT IN THE PUBLIC INTEREST?

A. Washington State has identified a clear policy preference to eliminate coal-fired generation as a source of electricity serving Washington utility customers, now embodied as a legal requirement to eliminate coal from each utility's "allocation of electricity" by 2025.[10/] Washington law is enacted in the public interest. This indicates that costs associated with operating coal plants beyond 2025 are not in the public interest.

Additionally, coal has become increasingly uneconomic as a generation resource and, as PSE itself has shown, the longer a coal plant operates the higher the decommissioning and remediation costs are likely to be, all else being equal.[11/] If operating lives of Colstrip Units 3 or 4 are extended, PSE could be exposed to increased costs and risks.

Accordingly, this Commission should review whether the Proposed Transaction is likely to result in the closure of Colstrip Units 3 and/or 4 earlier than under the status quo, or at a minimum, at least not be likely to extend these units' operating lives relative to the status quo. A later closure date for either or both units is likely to increase costs for customers and conflict with Washington's policy to eliminate coal-fired resources from customer's rates.

10/ RCW 19.405.030(1)(a).

11/ Docket No. UE-151500, Comments of Puget Sound Energy, Attachment A (Sept. 15, 2015). PSE's analysis in these comments applied exclusively to Colstrip Units 1 and 2, but the principle that the operating life of a coal unit relates to the decommissioning and remediation costs attributable to it appears more generally applicable.

Q. DOES PSE ALLEGE THAT THE PROPOSED TRANSACTION ALIGNS WITH STATE ENERGY POLICY?

A. Yes, but PSE's statements in this regard require some scrutiny. For instance, PSE states that the Proposed Transaction will "accelerate PSE's path to compliance with the Clean Energy Transformation Act (subject to final resolution of Colstrip Unit 3) and significantly reduce PSE's greenhouse gas emissions with an annual average reduction of 350,000 metric tons of carbon dioxide."[12/] PSE's statement here, though, is with respect to its allocation of electricity; it does not allege that the Proposed Transaction will result in the closure of either Units 3 or 4. Thus, while the carbon content of PSE's electricity supply may decrease, the 350,000 metric tons of carbon dioxide it refers to will still be emitted into the atmosphere, it will just be attributed to Talen and NorthWestern. Because carbon dioxide concentrations are uniform throughout the globe, Washington State will see no public interest benefit from simply shifting the attribution of carbon dioxide emissions out of the state.

Furthermore, because the Clean Energy Transformation Act requires PSE to eliminate coal from its allocation of electricity by 2025, even if a reduction of carbon dioxide attributable to PSE is considered to be in the public interest, it is a circumstance that is guaranteed to occur at the end of 2025 with or without the Proposed Transaction.

Mr. Roberts also testifies for PSE that the new Vote Sharing Agreement furthers the Company's ability to influence the early retirement of Unit 3.[13/] This is based on his statement that "[a]rguments could be made that any decision regarding the closure or

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12/ Docket No. UE-200115, Application at 12:22-13:3 (Feb. 19, 2020).
13/ Exh. RJR-9T at 49:22-50:18.

decommissioning of one or both units must be unanimous."[14] I discuss the Vote Sharing Agreement and its implications for the Commission's review of the Proposed Transaction in detail below.

Q. DOES PSE IDENTIFY OTHER BENEFITS FROM THE PROPOSED TRANSACTION?

A. Yes. PSE states that its Power Purchase Agreement with Talen and Northwestern for 90 MW of total capacity from Colstrip Unit 4 will result in lower power costs for customers.[15] PSE's revised analysis in its Supplemental Application, however, shows reduced net benefits on a present value basis of between \$6 million and \$33 million, as compared to between \$25 million and \$46 million initially identified.[16]

This updated analysis should be viewed with caution for at least three reasons. First, it is a projection of future benefits discounted to a present value and, thus, is inherently uncertain. On a present value basis, a \$6 million benefit is essentially no benefit at all. Second, the high estimate of \$33 million is subject to market price risk and is not an appropriate. Third, PSE's analysis did not consider the potential for it to be exposed to increased decommissioning and remediation costs if Colstrip Unit 4 runs longer than it would under the status quo.[17]

As noted above, under the Proposed Transaction, PSE remains responsible for 25% of decommissioning and remediation costs associated with Unit 4 regardless of how long it runs. PSE states that this obligation is the same under the status quo, which is

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[14] Id. at 50:1-2.
[15] Docket No. UE-200115, Application at 13:4-6 (Feb. 19, 2020).
[16] Exh. CLS-8T at 9:7-18.
[17] Exh. LDK-3 at 1(PSE Response to Microsoft DR 002).

true, but the issue is whether Colstrip Unit 4 is likely to run longer if the Proposed Transaction is approved relative to the status quo. If the Proposed Transaction results in Unit 4 operating longer that under the status quo, PSE will have 25% of a larger obligation and this increased cost has not been considered in the Company's net benefits analysis. I address whether Colstrip 4 is likely to run longer if the Proposed Transaction is approved in the next section of my testimony.

III. VOTE SHARING AGREEMENT

Q. PLEASE SUMMARIZE WHY YOU BELIEVE THE PROPOSED TRANSACTION MAY RESULT IN EXTENDED LIFE FOR COLSTRIP 4.

A. Decisions regarding the Colstrip Generation Station ("Colstrip") are governed by an Ownership and Operation Agreement described in more detail later in this section. This agreement establishes a voting process for decisions, where each owner has some voting power. The table below identifies current owners and provides an high level summary of voting rights under existing and proposed operating agreements.

Table 1: Ongoing Coal Investment Status of Colstrip Owners

	Current Voting Rights			**Proposed Transaction**		
	Unit 3	**Unit 4**	**Other**	**Unit 3**	**Unit 4**	**Other**
Puget Sound Energy	25%	25%	25%	25%		
Portland General Electric	20%	20%	20%	20%	20%	20%
Avista	15%	15%	15%	15%	15%	15%
No Coal Utilities	**60%**	**60%**	**60%**	**60%**	**35%**	**35%**
PacifiCorp	10%	10%	10%	10%	10%	10%
Northwest Energy		30%	15%		42.5%	27.5%
Talen	30%		15%	30%	12.5%	27.5%
Coal Utilities	**40%**	**40%**	**40%**	**40%**	**65%**	**65%**

Oregon and Washington both have state legislation limiting the inclusion of coal fired generation in public utility rates. The utilities that are predominantly located in these states, PSE, Portland General Electric, and Avista, can reasonably be expected to vote against investments that would prolong the life of Colstrip 4.[18/] I consider these utilities to represent a "No Coal" voting block. The Proposed Transaction reduces the voting rights of the "No Coal" voting block as summarized in the table above.

The Proposed Transaction decreases the Unit 4 voting share of the No Coal voting block from 60% to 35%. As discussed below 45% or more of the vote share is required to block ongoing Colstrip capital investment. This means the Proposed Transaction reduces the power of the No Coal utilities to object to life extending decisions and likely will result in a longer life for Unit 4. The remainder of this section provides details on the Colstrip voting procedures and the impact of the Proposed Transaction.

Q. PLEASE PROVIDE A HIGH-LEVEL OVERVIEW OF THE COLSTRIP OWNERSHIP AND OPERATION AGREEMENT.

A. Colstrip is governed by an Ownership and Operation Agreement. This agreement establishes a "Project Committee" that is responsible for reviewing and approving most decisions associated with Units 3 and 4.[19/] For purposes of voting on Colstrip matters, an owner gets to vote its "Project Share," (i.e., its share of Units 3 and 4 combined) not its unit share.[20/] Each owner gets a seat on the Project Committee, with a maximum of five

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18/ All PSE and Portland General Electric Company customers are in states with coal restrictions. While Avista has some customers in Idaho, that does not have as restrictive coal generation policies, Avista has committed to not supporting capital investments at Colstrip that extend the life of Colstrip beyond 2025. (Dockets UE-190334, UG-190335 and UE-190222 Partial Multiparty Settlement Stipulation ¶14(j)).

19/ Exh. RJR-3 at 19 (Section 17).

20/ Exh. RJR-3 at 5-6, 19 (Sections 1(p), 2(b), and 17(a)).

Committee members.[21] Although Colstrip Units 3 and 4 have six owners, Talen and Northwestern share a seat on the Committee by virtue of a vote sharing agreement between them (the "Existing Vote Sharing Agreement"). Because Talen only owns 30% of Unit 3 and NorthWestern only owns 30% of Unit 4,[22] the Existing Vote Sharing Agreement allows Talen to vote NorthWestern's "Project Share" on Unit 3 matters and NorthWestern to vote Talen's "Project Share" on Unit 4 matters.[23]

Q. PLEASE DESCRIBE THE VOTE SHARING AGREEMENT BETWEEN PSE, NORTHWESTERN, AND TALEN, NEGOTIATED AS PART OF THE PROPOSED TRANSACTION ("PROPOSED VOTE SHARING AGREEMENT").

A. The Proposed Vote Sharing Agreement governs how PSE, NorthWestern, and Talen will vote the "Shared Vote" on specified matters related to Units 3 and 4.[24] The Shared Vote consists of the ownership percentage of Unit 4 that PSE is selling to Talen and NorthWestern plus PSE's retained ownership percentage in Unit 3.[25] Without the Proposed Vote Sharing Agreement, if the Proposed Transaction were consummated, PSE would have a 25% interest in Unit 3, but only a 12.5% voting interest on the Project Committee because that would be its percentage Project Share.

The Proposed Vote Sharing Agreement modifies this arrangement by maintaining PSE's existing voting power over Unit 3 matters, while Talen and NorthWestern get enhanced voting power over Unit 4 matters and "Mixed Proposal" matters. Specifically, for any proposal brought before the Operating Committee relating primarily to Unit 3,

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[21] Exh. RJR-3 at 19, 51 (Section 17(a), and Section 2(k)).
[22] Docket No. UE-200115, Application at 4:9 (Feb. 19, 2020).
[23] Exh. RJR-21 at 7 (Section 3.1).
[24] See Exh. RJR-19 at 65-82.
[25] Exh. RJR-19 at 65.

including budgets and any decision to shut down the unit, PSE is entitled to cast the Shared Vote (subject to some restrictions discussed below).[26] For the same matters relating primarily to Unit 4, NorthWestern and Talen collectively cast the Shared Vote if they agree; if they don't agree, then the Shared Vote is not cast at all.[27] A "Mixed Proposal" is defined generally as anything that does not fall into any of the other voting categories, and includes "budget proposals for years for which there are no planned maintenance outages and budget proposals for years for which there are planned maintenance outages for both Unit 3 and Unit 4 which are of the exact same scheduled duration."[28] The Shared Vote represents 25% of the voting rights on any matter.

Q. WHAT ARE THE REQUIREMENTS FOR THE OPERATING COMMITTEE TO APPROVE A PROPOSAL?

A. The Ownership and Operating Agreement is ambiguous on this issue. Section 17(f) of this agreement delineates certain matters that the Operator must submit to the Operating Committee for approval, "which approval must be by a vote of Operator's Committee member, plus at least two other Committee members so that the Committee members voting for approval represent at least 55% of the total Project Shares."[29] One ambiguity is that the matters subject to these voting requirements do not explicitly include the closure of a unit.[30] Consequently, NorthWestern claims that "the Ownership and Operation Agreement requires unanimous vote of the owners to decommission a unit."[31]

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[26] Exh. RJR-19 at 74
[27] Id. at 73-74.
[28] Id. at 67.
[29] Exh. RJR-3 at 20.
[30] Id. at 20-21.
[31] Exh. LDK-3 at 10 (NorthWestern Response to NRDC DR 001).

However, the 55% requirement clearly applies to investment decisions required for ongoing operations such as: construction and operating budgets, insurance coverage, awarding contracts, and repairs in excess of $2,000,000, including whether "to remove from service."[32/] This means that a voting block representing more than 45% of the Project Shares is necessary to block approval of most ongoing maintenance and repairs.

Another ambiguity relates to the number of Operating Committee members necessary for approval of a proposal. PSE and NorthWestern have both stated that it requires 55% of the total Project Shares and the votes of the Operator plus two other Committee members.[33/] This is relevant because it means that even if NorthWestern and Talen's voting share exceeds 55%, PSE's interpretation is that they would still need a third committee member to approve decisions. The record does not, however, reveal how Talen interprets this language, which appears susceptible to alternative readings.

For example, the language at issue requires the vote of the Operator plus two other Committee members, but only "so that the Committee members voting for approval represent at least 55% of the total Project Shares."[34/] When the Ownership and Operation Agreement was originally drafted, a vote of at least three Committee members was required to reach 55%, as no single owner or pair of owners had a sufficient ownership percentage to reach 55%.[35/] Thus, read in the context of the Ownership and Operation

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32/ Exh. RJR-3 at 21.

33/ Exh. LDK-3 at 7-8 (PSE Response to Staff DR 024(g)); id. at 11 (NorthWestern Response to NRDC DR 009).

34/ Exh. RJR-3 at 20 (Section 17(f)) (emphasis added).

35/ Exh. RJR-3 at 5.

Agreement when it was drafted, this language could be interpreted only to identify the means of achieving a 55% vote, and that 55% is all that is required to approve a proposal.

Regardless of the ambiguity relating to the number of Operating Committee members necessary, PacifiCorp can reasonably be expected to represent a third member that would vote in favor of life-extending investments.[36/]

Q. WHAT IMPLICATIONS DOES THE PROPOSED VOTE SHARING AGREEMENT HAVE ON THESE VOTING RIGHTS AND ITS POSSIBLE INTERPRETATIONS?

A. There are implications both with respect to Unit 3 and to Unit 4. The Proposed Transaction will reduce the size of the No Coal block from 60% to 35% for both Unit 4 decisions and "Mixed Proposals". This reduces the size of the No Coal block below the 45% threshold required to block new investment or repair of Unit 4 specifically or investments which fall under the Mixed Proposal category. This occurs because NorthWestern gets to vote the existing Shared Vote held with Talen over Unit 4 matters, which constitutes a 30% Project Share. Additionally, NorthWestern and Talen together get to vote PSE's 25% Project Share on Unit 4 matters under the Proposed Vote Sharing Agreement. Thus, if the Ownership and Operation Agreement is interpreted only to require a 55% vote on matters other than closure of a unit, this gives NorthWestern and Talen an unfettered ability to approve budgets for Unit 4 that could extend its useful life – no Pacific Northwest utility could influence this decision. As noted above, both

[36/] Most PacifiCorp customers reside in jurisdictions that do not have limits on coal generation. PacifiCorp is in the process of developing an inter-jurisdictional agreement which would allow assigning the ongoing costs and energy associated with Colstrip to jurisdictions that allow ongoing use of coal generation, effectively negating the impact of Oregon and Washington coal legislation. (Idaho Public Utilities Commission Case No. PAC-E-19-20; Oregon Public Utilities Commission Docket No. UM 1050).

NorthWestern and PSE have stated that an additional Operating Committee member vote is necessary to approve Unit 4 proposals, but again, we do not know how Talen interprets the Ownership and Operation agreement.

At a minimum, under the status quo, Avista, PGE and PSE collectively hold 60% of the voting rights over Unit 4.[37/] Thus, if these utilities are aligned, they unquestionably have the ability to block any proposal that would extend Unit 4's useful life. If the Proposed Transaction is approved, these utilities will only hold 35% of the voting rights over Unit 4 and, thus, their influence over this unit is clearly diminished if not outright eliminated. Moreover, if there is a Unit 4 proposal (other than to close the unit) that the Pacific Northwest utilities collectively support, they can approve that proposal under the status quo.[38/] If the Proposed Transaction is approved, conversely, NorthWestern and Talen can block any such proposal. Importantly, even if only one of NorthWestern or Talen oppose a proposal, that single entity can block it because the Proposed Vote Sharing Agreement specifies that if there is a disagreement between NorthWestern and Talen on how to vote, the Shared Vote is not cast at all, meaning that a 45% approval is the most any proposal could achieve without the Shared Vote.[39/]

37/ Exh. RJR-9T at 42 (Table 1).

38/ Exh. RJR-3 at 22 (Section 17(i)). Normally, the Operator (i.e., Talen's) is required to propose any matter submitted to the Project Committee. However, Section 17(i) of the Ownership and Operation Agreement provides an alternative path for approval over the Operator's objection if at least two other Committee members make the proposal and it garners the necessary votes.

39/ Exh. RJR-19 at 73.

Q. WHAT IMPLICATIONS DOES THE VOTE SHARING AGREEMENT HAVE FOR UNIT 3?

A. PSE testifies that the Vote Sharing Agreement "provides certainty with respect to ambiguities … that could have created difficulties for the owners of Colstrip Unit 3 to decommission and remediate that unit at the appropriate time."[40] PSE does not elaborate on what these "difficulties" are, however, and it is difficult to understand PSE's statement. As noted above, PSE argues that the Ownership and Operation Agreement can be interpreted to require a unanimous vote to close a unit, and NorthWestern has confirmed that it interprets this agreement in this way.[41] The Vote Sharing Agreement, however, does not change the ownership percentage of Unit 3, nor does it modify the Ownership and Operation Agreement to clarify the requirements to close a unit.

In a proceeding before the Montana Public Service Commission, NorthWestern has already confirmed that "NorthWestern has no ownership interest in Unit 3 and no 'veto right' on decommissioning that unit."[42] Thus, if there is an owner preventing closure of Unit 3 today, it does not appear to be NorthWestern.

Of course, Talen owns 30% of Unit 3 and could block closure if unanimity is required, but that will remain true if the Proposed Transaction is approved. If anything, the Vote Sharing Agreement appears to give NorthWestern a greater ability to block closure of Unit 3 than it has today by virtue of gaining PSE's voting shares in the event of a "Mixed Proposal" and by allowing for a "Prudency Objection."

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[40] Exh. RJR-9T at 49:23-26.
[41] Exh. LDK-3 at 10 (NorthWestern Response to NRDC DR 001).
[42] Id.

Q. HOW DOES A "PRUDENCY OBJECTION" WORK?

A. The Vote Sharing Agreement specifies that if there is a proposal to decommission Unit 3, then PSE gets to cast the Shared Vote, but either NorthWestern or Talen gets to raise a Prudency Objection before the vote is cast.[43/] PSE has a similar ability to raise a Prudency Objection to a proposal to decommission Unit 4, though it seems unlikely that PSE would ever exercise this right.[44/] If a Prudency Objection is raised, then the Committee conducts a "Poll."[45/] In the Poll, each owner gets to indicate how it would vote its Project Share, ignoring the effects of any Vote Sharing Agreement.[46/] Thus, even though NorthWestern has no ownership percentage of Unit 3 and no voting rights over Unit 3 matters (having assigned those to Talen under the Existing Vote Sharing Agreement), in a Poll over the closure of Unit 3 it would still get to cast its 21.25% Project Share.[47/] The results of the Poll then dictate how the Shared Vote held by PSE, Talen, and NorthWestern is cast. This is important because, if unanimous approval is required to close a unit, the Proposed Vote Sharing Agreement appears to give NorthWestern an ability to block closure of Unit 3 where today, by its own admission, it has no such ability.

Q. WHAT IS REQUIRED TO RAISE A PRUDENCY OBJECTION?

A. A "Prudency Objection" is defined as an objection "resulting from a good faith determination … that all or a portion of a Proposal would be inconsistent with Prudent

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43/ Exh. RJR-19 at 74.
44/ Exh. RJR-19 at 73.
45/ Exh. RJR-19 at 74.
46/ Exh. RJR-19 at 76 (Section 3.2(b)).
47/ Exh. RJR-9T at 45 (Table 2).

Utility Practices (such determination to be made on the assumption that such Party is a long-term owner (and not merely a lessee) of such Party's Project Share[])]."[48/] NorthWestern or Talen, therefore, cannot simply raise a frivolous Prudency Objection to block closure of Unit 3; however, what constitutes "good faith" and "Prudent Utility Practices" is subject to interpretation. Additionally, if decommissioning Unit 3 negatively impacts the economics of Unit 4, NorthWestern may have a "good faith" reason to prevent the closure of Unit 3.

Q. PLEASE SUMMARIZE THE CONSEQUENCES OF THE PROPOSED TRANSACTION AND THE PROPOSED VOTE SHARING AGREEMENT.

A. The Proposed Transaction appears to make the early closure of both Units 3 and 4 less likely rather than more likely. The Proposed Vote Sharing Agreement gives NorthWestern and Talen more voting power over Unit 4 matters, and also appears to give them more voting power over a proposal to close Unit 3. At a minimum, the Proposed Transaction makes it no more likely that either Units 3 or 4 will close earlier than they would under the status quo. Because PSE remains responsible for decommissioning and remediation costs associated with Unit 4 no matter how long it runs, this represents a substantial risk to PSE's ratepayers. The Proposed Transaction also does not appear to further the public interest objective of reducing coal-fired generation overall. It is also important to note that these consequences potentially impact every other Pacific Northwest utility and their customers, many of which are Washington utility customers.

48/ Exh. RJR-19 at 68.

Q. WHAT DO YOU RECOMMEND?

A. AWEC is willing to review PSE's rebuttal testimony to determine whether it can provide satisfactory responses to the concerns I raise above. Most importantly, PSE should clearly articulate why the Proposed Transaction does not expose its customers to greater decommissioning and remediation liability associated with Colstrip Unit 4 and how the Proposed Transaction is likely to result in earlier closure of either or both Units 3 and 4 than under the status quo.

Regardless of PSE's rebuttal response, I recommend that the Commission protect customers against the risk of extended Colstrip operating lives. The Commission should require that PSE shareholders bear the incremental decommissioning and remediation costs associated with extended operating lives of either unit.

Given PSE's statement that the Proposed Transaction provides certainty with respect to issues that "could have created difficulties for the owners of Colstrip Unit 3 to decommission and remediate that unit at the appropriate time,"[49/] the Commission should consider, as a condition of approval, identifying a date certain for closure of Unit 3 and requiring PSE to take the risk that closure is not effectuated on or before that date. PSE should identify whether it would accept such a condition.

49/ Exh. RJR-9T at 49:23-26.

IV. STATUS QUO CAPITAL INVESTMENT

Q. PLEASE SUMMARIZE YOUR CONCERN WITH PSE's STATUS QUO CAPITAL ASSUMPTIONS.

A. PSE calculates the net benefit of the Proposed Transaction by subtracting the cost of replacement power and capacity from the incremental cost of continued operation of Colstrip 4. The cost of continued operations of Unit 4 are reproduced below.[50] Note that lines 8 and 9 includes [redacted] in capital investment and overhaul costs in 2024 and 2025.

Colstrip Unit 4 - Continuing Operations

SHADED INFORMATION IS DESIGNATED AS CONFIDENTIAL PER PROTECTIVE ORDER IN WUTC DOCKET UE-200115

Line	*$ in millions*	12/17/2020-12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	Average
1	PSE's share of unit 4 capacity	185 MW	185 MW	185 MW	185 MW	185 MW	185 MW	185 MW
2	PSE's take (MWh)	60,101	1,043,373	999,978	1,005,609	995,692	1,051,979	1,019,326
3								
4	Net capacity factor	80%	64%	62%	62%	61%	65%	63%
5								
6	**Colstrip unit 4 operating cost**							
7	Fixed operating expenses	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
8	Overhaul	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
9	Capital	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
10	Dispatch cost	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
11	**Colstrip unit 4 operating cost**	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
12								
13	**Property Tax**	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
14								
15	**Total cost (line 11 +13)**	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
16								
17	Dispatch cost (line 10 / 2)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
18	Cost $/MWh (line 15 / 2)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
19								
20	**Total cost NPV (line 15)**		[redacted]					
21	**Cost $/MWh (5-year average)**		[redacted]					

These costs appear to be life extending investments. Given the marginal economic value of ongoing Unit 4 operations and Avista's commitment to not support

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[50] Exh. CLS-9C at 3.

additional capital investments at the plant[51] it is unreasonable to assume that, under the status quo, the No Coal voting block would approve the budget for these investments. When the [redacted] investment is removed from the analysis the net present value of the hedging scenario reduces from a $6 million benefit to a [redacted] loss as shown in line 16 of the table below.

PSE Quantitative Analysis Comparing "Business as Usual" Scenario and the "Proposed Sale" Scenario
Five-Year Comparison

SHADED INFORMATION IS DESIGNATED AS CONFIDENTIAL PER PROTECTIVE ORDER IN WUTC DOCKET UE-200115

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
	Scenario 1 - No hedging							
Line			12/17/2020 - 12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025
1	**Operational cost ($ in millions)**	**Present Value**						
2	Colstrip unit 4 continuing operations	[redacted]						
3	90MW 5-year PPA + 95MW replacement							
4	PPA savings							
5								
6	**Operational cost ($/MWh)**	**Average**						
7	Colstrip unit 4 continuing operations		[redacted]					
8	90MW 5-year PPA + 95MW replacement							
9	Savings $/MWh							
10								
11	**Scenario 2 - Hedge 95MW**							
12	*$ in millions*		12/17/2020 - 12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025
13	**Operational cost**	**Present Value**						
14	Colstrip unit 4 continuing operations	[redacted]						
15	90MW 5-year PPA + 95MW replacement							
16	PPA savings							
17								
18	**Operational cost ($/MWh)**	**Average**						
19	Colstrip unit 4 continuing operations		[redacted]					
20	90MW 5-year PPA + 95MW replacement							
21	Savings $/MWh							

51/ Avista has committed to not supporting capital investments at Colstrip that extend the life of Colstrip beyond 2025. (Dockets UE-190334, UG-190335 and UE-190222 Partial Multiparty Settlement Stipulation ¶14(j)).

Q. WHAT IS YOUR RECOMMENDATION RELATED TO THE 2024 AND 2025 CAPITAL INVESTMENTS?

A. I recommend that PSE confer with PGE and Avista regarding their expected voting position for these investments, and report on the results of these discussions in rebuttal testimony.

V. ACCOUNTING TREATMENT

Q. PLEASE SUMMARIZE THIS ISSUE.

A. PSE's proposed accounting treatment is to retire the sold assets and create a regulatory asset for the unrecovered balance of Unit 4. I am concerned that PSE's proposed treatment could result in ratepayers failing to capture some, or all, of the alleged benefit of the Proposed Transaction. I am specifically concerned with the following issues:

1. Reduced operation and maintenance expense associated with Unit 4.
2. Reduced rate base, depreciation expense, operating cost, and maintenance cost associated with sold transmission assets.

I recommend that these cost reductions be applied as an offset to the Unit 4 regulatory asset.

Q. WHAT IS PSE'S PROPOSED ACCOUNTING TREATMENT?

A. PSE's proposal has four parts:

1. Retire the book value of the Colstrip Unit 4 generation assets and record unrecovered amounts in regulatory assets.
2. Include Unit 4 related depreciation and decommissioning expense in rates.
3. Retire transmission assets and treat as normal retirement.

4. Colstrip Unit 4 production operations and maintenance cost approved in rates as a credit to actual costs for the purposes of calculating the Power Cost Adjustment ("PCA") imbalance.

Q. HOW DOES PSE PROPOSE TREATING THE REDUCED OPERATION AND MAINTENANCE EXPENSE ASSOCIATED WITH UNIT 4?

A. PSE states that current rates include $9.3 million in operation and maintenance expense.[52/] PSE proposes applying this amount as a credit (reduction) to the PCA imbalance calculations until PSE's next rate case. There are two problems with the PCA proposal.

First, it falls [redacted] annual fixed operating expenses used to calculate the $6 million benefit of the Proposed Transaction. If PSE's $9.3 million figure were used to calculate the benefit of the Proposed Transaction, the net impact reduces from a $6 million benefit to a [redacted] loss.

Second, PSE's proposal would be flowing most of the forecasted benefits of the Proposed Transaction through the PCA earnings filter.[53/] As noted above if the hedging strategy is used and the credit is limited to $9.3 million rather than [redacted], this means that the PCA would be filtering a loss, which does not negatively affect rate payers. However, if PSE uses the no-hedging strategy, the PCA would be filtering a substantial savings. This means that PSE shareholders would capture most or all the benefit due to reduced operation and maintenance costs.

52/ Exh. SEF-1CT at 24:20-25:2.

53/ Docket UE-190324 Order 5 at 3 ¶ 9 (May 29, 2020) discusses PSE's earnings sharing mechanism for the PCA. This mechanism allows PSE to retain some or all deviation between base power costs and actual power costs.

Q. WHAT IS YOUR RECOMMENDATION FOR THE ACCOUNTING TREATMENT OF UNIT 4 OPERATING EXPENSES?

A. I recommend that the Commission reject the proposed $9.3 million credit to the PCA calculations. In its place, I recommend the full amount of the projected operating expenses, [redacted], be recorded as a credit to the Unrecovered Plant regulatory asset account until PSE's next general rate case.[54/] This will allocate the full amount of the alleged fixed operation and maintenance savings to ratepayers.

Q. DO YOU HAVE OTHER CONCERNS WITH THE ACCOUNTING TREATMENT OF THE PROPOSED TRANSACTION?

A. PSE proposes no special accounting treatment of the sold transmission assets. The transmission assets are being priced at their net book value. This raises two concerns.

First, the transmission assets have been depreciated in group asset accounts. This means that there is not a clear matching of accumulated depreciation to the specific assets being sold. In response testimony, PSE should clarify how it intends to allocate accumulated depreciation to its transmission assets and provide the forecasted net book value of the assets at the time of the sale.

Second, PSE asserts that the transaction will have minimal impact on rate base but does not provide supporting calculations.[55/] PSE is essentially requesting permission to sell its transmission assets for an undisclosed amount and to retain the cost of capital on the sale between now and the next rate case.

54/ Exh. SEF-1CT at 11 (Table 2).
55/ Exh. SEF-1CT at 21:1-22:2.

Q. WHAT IS YOUR RECOMMENDATION FOR AN ACCOUNTING TREATMENT OF THE TRANSMISSION ASSETS?

A. Given PSE's position that the transaction will have minimal impact on rate base, I recommend that the purchase price of the transmission assets be applied as an offset to the Colstrip Unit 4 Unrecovered Plant account identified in Table 4 of Exh. SEF-1CT.[56/] Under this treatment the sale proceeds would be excluded from salvage value of the retired assets. The annual amortization amount of $16.2 million identified in Table 4 should be increased to reflect the depreciation expense associated with the sold transmission assets until PSE updates depreciation expense in its next general rate case.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

[56/] Exh. SEF-1CT at 11 (Table 2).