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Filed Via Web Portal

Ms. Amanda Maxwell, Executive Director and Secretary
 Washington Utilities and Transportation Commission
 621 Woodland Square Loop SE
 Lacey, WA 98503

Re: Relating to the Commission's proceeding to develop a policy statement addressing alternatives to traditional cost of service rate making, Docket U-210590

Dear Ms. Maxwell:

Puget Sound Energy ("PSE") appreciates the opportunity to provide comments to the Washington Utilities and Transportation Commission ("Commission") in Phase 1 of Docket U-210590 in response to the May 2, 2022 Notice of Opportunity to File Written Comments ("Notice") regarding the requirements of Section 1 of Engrossed Substitute Senate Bill 5295 ("S.B. 5295"), as codified in RCW 80.28.425, to conduct a 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.

PSE provides the following written responses to the questions in the Notice.

1. Please provide a list of your priority regulatory goals, desired outcomes, and a rationale for including those, using the table format illustrated below. Your suggested regulatory goals should align to the Commission's statutory authority with respect to utility regulation in Washington. For each Regulatory Goal, there should be one or more desired outcomes that reflect what is desired from utility performance to achieve that goal. Please include a rationale for the goals and the outcomes, as applicable.

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Regulatory Goal	Desired Outcome	Rationale
Provide quality service	Maintain or improve the following service quality dimensions. <ul style="list-style-type: none"> • Reliability • Resilience • Safety • Satisfaction with customer services 	Core utility obligations that matter to customers Service quality is measurable
Achieve public policy goals and maintain or improve service quality with minimal impact on cost of service	Increase in cost of service is minimized while utility takes steps to meet public policy goals, maintain or improve service quality, and avoid negative impacts of external business conditions in service territory Utilize tools for good cost management, including <ul style="list-style-type: none"> • Lowest reasonable cost planning • Demand-side management (“DSM”) • Timely execution of competitive procurement practices 	Core utility obligation that matters to customers Utility costs and rates are measurable though difficult to compare across or among utilities
Reduce environmental impacts of providing utility service	Meet or exceed state clean energy standards. Reduce greenhouse gas emissions and other air pollutants through electric and natural gas system improvements. Minimize environmental impacts due to project siting and operations.	Required by state and federal policy Progress is measurable RCW 80.28.425(1) includes environmental health as part of the public interest standard
Utility services are provided equitably	Equitable provision of utility services includes: <ul style="list-style-type: none"> • Customers who need assistance to make service affordable receive it • Customers with undue exposure to energy-related health hazards get relief • Differences in costs that customers pay otherwise reflect 	Equity considerations are receiving increasing attention in utility regulation and are highlighted in recent Washington legislation RCW 80.28.425(1) includes equity as

Regulatory Goal	Desired Outcome	Rationale
	differences in costs of serving them <ul style="list-style-type: none"> • Customers, employees, and suppliers are diverse and treated equitably • Utility jobs are safe and fairly compensated 	part of the public interest standard
Promote economic development	<ul style="list-style-type: none"> • Utility creates positive economic development impacts in its service territory and throughout Washington state 	Benefits of economic development go beyond utility earnings RCW 80.28.425(1) includes economic development as part of the public interest standard
Maintain efficient and effective regulatory system	<ul style="list-style-type: none"> • Regulation facilitates outcomes consistent with public interest goals • Utility has a reasonable opportunity to earn its allowed rate of return • Regulatory system is open, transparent, and provides ample opportunity for public engagement • Regulation should not be needlessly costly 	Efficient regulation can be more effective regulation

2. How well do current regulatory mechanisms accomplish goals and outcomes you listed above? Please share specific reasons for your answer.

Dr. Lowry provided an overview of Washington energy utility regulation in a report, the “PBR Report,” that was filed in Puget Sound Energy’s current rate proceeding (Dockets UE-220066 and UG-220067) and provides background and support for this answer.¹ Utilities are regulated by the Commission and also subject to prescriptive state and federal legislation. Commission

¹ Mark Newton Lowry and Matthew Makos, *Performance-Based Regulation for Puget Sound Energy*, January 2022, Exh. MNL-3, pp. 42-48.

regulation has recently been fairly traditional but does include a few performance-based provisions, such as revenue decoupling, service quality metrics and performance incentive mechanisms (“PIMs”), tracker/rider treatment for demand side management (“DSM”) program costs, and the premium rate of return available for electric vehicle supply equipment. State legislation often establishes public policy goals and encourages utilities to comply with them. For example, the Clean Energy Transformation Act and the Energy Independence Act require utilities to obtain cleaner energy supplies, promote beneficial electrification, manage demand, and be mindful of equity considerations when providing services.

While the current Washington regulatory system is better than many, it provides uneven incentives for utilities to achieve the goals of regulation. For example, decoupling and state law have encouraged PSE to develop an aggressive conservation program. However, decoupling weakens utility incentives to promote electric vehicles and other kinds of beneficial electrification. Frequent rate cases are also claimed to weaken incentives to contain utility costs. Standards are lacking for some public policy goals and, where standards are more specific, utilities are sometimes encouraged only to focus on minimum compliance rather than going beyond the minimum level of compliance.

RCW 80.28.425 provides further encouragement for utilities to realize the goals of regulation. Multiyear rate plans can strengthen cost containment incentives and streamline routine rate adjustments so that more time is available for the regulatory community to address emerging issues. Metrics and performance incentive mechanisms can address remaining weak spots in regulatory system incentives.

3. Workshop 1, held on April 19, 2022, featured some discussion of metric design principles, which would be used as guidance to develop metrics to measure utility performance against the goals and outcomes. Please provide any specific metric design principles you would like the Commission to use when it adopts metrics, and why. Please also comment on whether the Commission should use the metric design principles listed below:

- a. **Outcomes-based:** track outputs or outcomes, not inputs.*
- b. **Non-duplicative:** avoid any overlap of reward or penalty for legal or regulatory requirements*

*c. **Clear, measurable, and verifiable:** base metrics on easy-to-acquire data that can be verified — or even collected — by a third party.*

*d. **Evaluated regularly:** revisit the effectiveness of metrics and incentives on regular intervals with the expectation that adjustments may be made.*

PSE has no objection to utilizing the metric design principles listed above. In comments submitted on April 27, 2022 in response to the previous Commission notice issued in this docket, PSE provided a comprehensive list of recommended design principles for metric development, only some of which are represented in the above list. Additional design principles that should be considered include:

Relevant: Metrics should be relevant and clearly linked to the goals of regulation.

Controllable: Any metric used to gauge utility performance should be well within the control of the utility. This is particularly true for metrics that will be assigned targets and used in PIMs.

Targeted: Metrics should address areas where utility performance is a special concern. For example, a metric may appropriately focus on areas that lack strong incentives or on a new performance issue where expectations are unclear.

Efficient: Efficiency matters when choosing metrics used in utility regulation. The creation and routine monitoring and review of metrics is costly. The number of metrics that are routinely monitored should be limited to ensure efficient use of dollars and time.

Prioritized: Metrics, like goals, require some prioritization in order to be relevant, targeted, and efficient.

Comparable: A metric is comparable if it is easy to compare its values between utilities and, for the same utility, over time. Comparability facilitates performance evaluations by making it easier to choose appropriate targets. Metrics that self-adjust for external business conditions are more comparable. For example, the system average interruption duration index (“SAIDI”) is more useful than the total length of customer outages because it controls for a key external driver of outage duration: the number of customers that utilities serve. Comparability is also enhanced when the data used in metric construction are standardized and available for the subject utility and other utilities for many years. For example, the comparability of reliability metrics is

increased by basing them on standard 1366 of the Institute of Electrical and Electronics Engineers (“IEEE”), so that definitions of major event days and sustained outages are standardized.

4. Are there any additional considerations you would like to raise for the Commission related to regulatory goals, desired outcomes, and metric design principles, beyond what you have already shared in Workshop 1, held on April 19, 2022, and in response to the questions above?

As PSE previously suggested in comments in this docket², the Commission should seek to build agreement regarding the relative prioritization of goals and outcomes in this proceeding. Simply creating a laundry list of goals and outcomes for utilities may not provide an adequate foundation for evaluating the trade-offs between various goals and outcomes that will inevitably arise. PSE suggests exploring the relative importance of various goals and outcomes, such as affordability and clean energy, in order to form a basis for regulatory mechanisms that incentivize utility performance commensurate with the desired outcomes.

PSE appreciates the opportunity to provide responses to the questions identified in the Commission’s Notice. Please contact Wendy Gerlitz at (425) 462-3051 for additional information about these comments. If you have other questions contact me at (425) 456-2142.

Sincerely,

/s/ Jon Piliaris

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² U-210590 PSE Comments April 27, 2022.