BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Rulemaking to Address Electric and Natural Gas Cost of Service	DOCKETS UE-170002 *and* UG-170003 COMMENTS OF THE ENERGY PROJECT

I. INTRODUCTION

1 The Energy Project (TEP) files these comments in response to the Commission's Revised Notice of Informal Draft Rules and Opportunity To File Written Comments, dated May 6, 2019. These comments discuss specific policy issues in the informal draft rules. TEP does not address the technical questions raised in the Revised Notice.

II. COMMENTS OF THE ENERGY PROJECT

A. Classification of Customer Costs

2 The Energy Project is concerned that the draft rules appear to leave open the possibility that certain costs could be categorized as "Customer" costs, and thus includable in determining basic customer charges, contrary to long-standing Commission precedent and to good public policy.

3 Draft rule WAC 480-xxx- 070 (1) (Cost of Service Methodology) states that "[f]unctionalized costs will be classified and allocated by the methods outline in Table 2." Table 2 lists the classification for service lines, meters, customer service/billing, and A&G general plant as "Customer." This classification for service lines, meters, and customer service/billing is consistent with existing methodology which classifies these costs as direct

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customer costs. To TEP's knowledge, however, the classification of A&G/General Plant as "Customer" appears to depart from this approach. In addition, the other distribution system elements listed (Distribution Line Transformers, Distribution Substation, and Distribution Poles and Wires) are listed as "TBD based on the results from the scenarios." The Energy Project opposes using the outcome of the scenarios to classify any distribution or A&G costs as customer-related or direct customer costs.

4 For regulated utilities in this state, it is a "long accepted principle that basic charges should reflect only 'direct customer costs' such as meter reading and billing" and not distribution costs.[1] For this reason, the Commission has for many years consistently adhered to the Basic Customer method for classification of distribution plant.

5 In PSE's 2017 GRC, both Puget Sound Energy (PSE) and Staff argued that line transformers, a type of distribution cost, should be included as a direct customer cost. Expert testimony from Public Counsel witness Glenn Watkins concluded, however, that line transformer costs are not properly classified as direct customer costs and that PSE's electric monthly charge adequately recovered PSE's costs.[2] NW Energy Coalition witness Amanda Levin testified that under the Basic Customer approach, "the only costs which should be considered customer-related are the costs of meters, services, meter reading, and billing."[3] In its final order, the

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[1] *Washington Utilities & Transportation Commission v. Pacific Power & Light Company,* Docket UE-140762 et al., (*Pacific Power 2014 GRC*), Order 08, ¶ 216.

[2] *PSE 2017 GRC*, Watkins, Exh. GAW-1T at 44:3-15, at 51:13-19.

[3] *Washington Utilities & Transportation Commission v. Puget Sound* Energy, Docket UE-170033/UG-170034 (*PSE 2017 GRC),* Testimony of Amanda Levin for NW Energy Coalition, Exh. AML-1T at 4:2-5:18 and Exh. AML-3.

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Commission rejected the PSE and Staff proposal, stating:

> We are not persuaded on the basis of the current record that transformer costs should be recovered in basic charges, or through a minimum bill. *We have never approved such a proposal and continue to believe these costs are not customer-related costs as that term is generally understood.* Transformer costs should be recovered as distribution charges subject to PSE's electric decoupling mechanism, which adequately protects the Company's recovery of its fixed costs.[4]

6 In addition to cost analysis, there are also important public policy considerations raised by the use of methodologies that could be used to justify an increase in fixed monthly charges. Increases in fixed charges make utility service less affordable for customers, penalize low-volume users, and reduce customers' ability to control their utility bills. As the National Association of State Utility Consumer Advocates (NASUCA) noted in its 2015 Resolution on this issue: "the imposition of high customer charge or SFV [straight fixed variable] rates unjustly shifts costs and disproportionately harms low-income, elderly, and minority ratepayers, in addition to low-users of gas and electric utility service in general[.]"[5]

7 The Commission's well-settled principles also remain consistent with forward-looking rate design policy. As a 2015 Regulatory Assistance Project publication observed:

> Although some utilities and regulators use customer charges to recover distribution system costs, this paper demonstrates that this is neither cost-based nor economically efficient. High customer charges impose unfair costs on small-use consumers, including most low-income and apartment residents. The fixed charge for residential or commercial service should not exceed the customer-specific costs attributable to an incremental customer.[6]

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[4] *PSE 2017 GRC,* Order 08, ¶ 357 (December 5, 2017)(emphasis added).

[5] NASUCA Customer Charge Resolution 2015-1 (citing data from the U.S. Energy Information Administration Residential Consumption Survey). https://nasuca.org/customer-charge-resolution-2015-1/.

[6] Lazar, J. and Gonzalez W. (2015). *Smart Rate Design for a Smart Future,* Montpelier, VT: Regulatory Assistance Project, at 7 (Executive Summary)(*Smart Rate Design).* Available at: http://www.raponline.org/document/download/id/7680.

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8 Not only do high fixed charges disproportionately impact low-income and low volume users, but high fixed charges also create a disincentive for customers to conserve energy.[7] The Commission recognized this concern in its *Pacific Power 2014 GRC* order, finding that "including distribution costs in the basic charge and increasing it 81 percent…does not promote, and may be antithetical to the realization of conservation goals."[8] There is little doubt that Washington state law and regulatory policy place a high value on conservation and energy efficiency, as reflected, *inter alia,* in the Energy Independence Act energy efficiency requirements,[9] the least-cost planning framework,[10] and legislative direction to the Commission to encourage utility energy efficiency.[11]

9 Finally, the fact that decoupling is in place for Washington regulated utilities is itself an argument against cost-of-service methodologies that can lead to higher customer charges. To the extent that higher customer charges are viewed by proponents as a way to stabilize utility revenue by creating more certain cost recovery, that need is now addressed by decoupling. Moreover, because decoupling is justified as a way to remove obstacles to conservation, it is

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[7] *See, e.g., In The Matter Of The Application Of Potomac Electric Power Company For Adjustments To Its Retail Rates For The Distribution Of Electric Energy,* Public Service Commission of Maryland, Case No. 9418, Order No. 87884, at 110 (November 15, 2016) (Rejecting the utility's request for a 62 percent customer charge increase, the Maryland Commission placed "emphasis on Maryland's public policy goals that intend to encourage energy conservation. Maintaining relatively low customer charges provides customers with greater control over their electric bills by increasing the value of volumetric charges.")

[8] *Pacific Power 2014 GRC*, Order 08, ¶ 216.

[9] WAC 480-109-100.

[10] WAC 480-100-238 (Each electric utility regulated by the commission has the responsibility to meet its system demand with a least cost mix of energy supply resources and conservation.)

[11] RCW 80.28.024 ("The legislature therefore finds and declares that actions and incentives by state government to promote conservation and the use of renewable resources would be of great benefit to the citizens of this state by encouraging efficient energy use[.]"); RCW 80.28.025(1) ("In establishing rates for each gas and electric company regulated by this chapter, the commission shall adopt policies to encourage meeting or reducing energy demand through … measures which improve the efficiency of energy end use[.]")(also encouraging co-generation and renewables).

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counterproductive to then create disincentives for conservation through increasing customer charges.[12]

10 In summary, adopting a CCOS approach that would allow recovery of distribution costs (or A&G/General Plant costs) in the basic customer charge would dramatically depart from several decades of Commission rate design policy. Increases in fixed charges would unreasonably shift costs to low-income and low-volume users and would be directly contrary to important state policy goals encouraging energy efficiency.[13]

B. The Energy Project Supports Key Elements of The Draft Rules

11 The Energy Project supports the direction of the draft rules in some key respects. The Energy Project continues to support the general goal of improving efficiency in analysis, clarity of presentation, and ease of understanding, as well as allowing for direct comparisons of studies between parties in a rate case, as reflected in WAC 480-xxx-010(1).

12 Importantly, the "Purpose" section of the draft rules, WAC 480-xxx- 010(2), incorporates the statement that the cost-of-service study is only one factor to be considered in determining rate spread. This is an important recognition of the Commission precedent and practice. The Energy Project would recommend, however, that the rule language be enhanced to fully reflect the Commission's long-standing approach on this point.

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[12] *See, e.g., In the Matter of the Application of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota*, Minnesota Public Utilities Commission, Docket No. G-008/Gr-15-424, Findings Of Fact, Conclusions, And Order, at 64 (June 3, 2016) ("a major goal of revenue decoupling is to align a utility's interests with the public's interest in energy efficiency. Increasing the customer charge undermines this goal [.]")

[13] While these comments focus on the electric section of the draft rules, the issues raised as generally applicable to the proposed natural gas classifications as well.

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13 This fundamental principle was well-enunciated in the Commission's thoughtful order in a PSE 1989 rate case involving a major rate restructure and revision where the Commission stated "[w]e shall avoid the mechanical applications of results of a given study and instead, as required by law, exercise our own considered judgment based upon the evidence in each proceeding to establish just and reasonable rates."[14] The Commission went on to observe that "[w]hen utilized in this manner, a cost-of-service study can be a useful tool in the ratemaking process," explaining:

> In orders subsequent to Cause No. 78-05, the Commission discussed a range of factors which would be important in the design and spread of rates, in addition to bare cost-of-service study results…including acceptability of rate design to customers, elasticity of demand, perceptions of equity and fairness, and rate stability over time, as well as overall circumstances within the region.[15]

14 The Energy Project recommends modifying this section of the rule to state that the Commission "will consider" these factors, rather than "may consider." This is more consistent with the first sentence's declarative statement that the cost of service is "only one factor" and with the Commission's own conclusion in the cited order that this approach is required by law. The additional factors of "acceptability" and "elasticity of demand" should be also added to the rule language.

15 The Energy Project also supports the draft rules requirement that the "cost-of-service study filed with the Commission must be calculated using an embedded cost method." WAC

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[14] *Washington Utilities & Transportation Commission v. Puget Power & Light Co,* U-89-2688-T, Third Supplemental Order, p. 72 (*PSE 1989 GRC*) (quoting Commission Decision and Order, Cause No. U-78-05, p. 6).

[15] Id., p. 73. The Commission has reiterated this approach in the intervening years. *See, e.g., Washington Utilities & Transportation Commission v. PacifiCorp*, Docket UE-100749, Order 06, ¶¶ 315-316 (Rate spread is "not the result of pure arithmetic calculations." In addition to the COSS "we also consider principles of rate stability, gradualism and the avoidance of rate shock.")

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480-xxx-070(1). This has been the well-established practice in Washington regulation for several decades and no compelling case has been made to abandon this approach.[16]

III. CONCLUSION

16 The Energy Project respectfully requests consideration of these issues by the Commission in this docket. The Energy Project may have additional recommendations or modifications to these proposals as additional material is filed in response to the Revised Notice or additional draft rules are issued.

[16] *See e.g. PSE 1989 GRC,* Third Supplemental Order, p. 70.

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