Agenda Date: November 7, 2024
Item Numbers: F4 and F5

Dockets: UE-240779 and UG-240780
Company: Puget Sound Energy

Staff: Laura Henry, Regulatory Analyst
Sean Laue, Regulatory Analyst

Recommendation

Take no action, thereby allowing the tariff revisions filed by Puget Sound Energy in Dockets UE-240779 and UG-240780 on October 18, 2024, to become effective November 17, 2024, by operation of law.

Summary of Filing

Puget Sound Energy (PSE or Company) filed with the Washington Utilities and Transportation Commission (Commission) in Dockets UE-240779 and UG-240780 tariff revisions intended to transfer capital investments provisionally recovered through Tariff 141R, Rates Subject to Refund Rate Adjustment, to Tariff 141N, Rates Not Subject to Refund Rate Adjustment. PSE makes this filing at the conclusion of the retrospective review of provisional plant placed in service in its multi-year rate plan (MYRP) annual review conducted by Commission Staff (Staff) and other interested parties.

Background

On March 29, 2024, PSE submitted a compliance filing pursuant to paragraphs 53 and 60 of the multiparty settlement agreement approved in consolidated Dockets UE-220066 and UG-220067, 2022 General Rate Case (GRC) and paragraphs 237 and 243 of Final Order 24 in the 2022 GRC.

On July 11, 2024, Staff met with PSE for a walk-through of the annual report filed in compliance with the MYRP agreed to in the 2022 GRC.[1] Following the walk-through, Staff continued its review of the annual report and accompanying workpapers, which resulted in Staff issuing an initial round of 18 data requests on July 12, 2024.

On October 18, 2024, PSE filed revisions to its electric[2] and natural gas[3] tariffs, in Dockets UE-240779 and UG-240780, respectively, in anticipation of a finding of compliance in the GRC dockets. The revisions are to Schedule 141N and Schedule 141R.

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[1] *See* Final Order 24/10, Dockets UE-220066, UG-220067, & UE-210918 (Consolidated) ¶ 237

[2] WN U-60

[3] WN-U2

Discussion

Project Variances

After reviewing PSE's July 29, 2024, response to the first data requests, Staff's internal discussion raised concerns pertaining to capital expenditures used to set the portfolio threshold for the rate effective period. Staff found reported spending on the Energize Eastside transmission project (Energize) and Advanced Metering Infrastructure (AMI) warranted further review.

Staff's initial data requests sought information about the decisions and circumstances that resulted in plant placed in service for Energize to be greater than $163 million higher than forecasted for 2023. Staff also inquired about the methodology used to produce the forecasting errors PSE had identified as the cause for the reported $132 million underspending on AMI.

PSE's Explanation of AMI Variance

During the walk-through of the annual report, Staff inquired about the reported underspending on AMI. The Company maintained the reports could not be accurately interpreted looking at only a single year in a MYRP: Spending must be analyzed cumulatively across multiple years to reflect the timeline to implement a project. However, in this instance, even when examining AMI expenditures from 2022 through 2023, net actual spending was still reported as more than $106 million less than the forecasted amount used to set rates. Staff addressed this cumulative spending variance in data requests.

In response, PSE clarified that the reported AMI underspending was not due to inaccurate forecasting. After further review, it concluded it had not underspent on AMI at all. The Company characterized what occurred as perceived variances based on timing differences. Namely, network equipment closed earlier than expected in December of 2021 that had been forecasted to close in 2022. It was included in the 2022 GRC but is not presented in the 2022 or 2023 actuals. PSE further reported that trailing costs for the project which closed in 2024 also account for the perceived $106 million variance. PSE further responded that once accumulated depreciation, accumulated deferred income taxes, and depreciation expense are calculated on the gross plant, actuals are higher than the forecasted amount used to set rates.

Energize Variance

Through PSE responses to data requests about Energize, Staff learned that the $163 million of plant closed over the forecasted amount was attributed to plant that was originally planned to be closed in 2024 but had been moved to 2023 instead. PSE informed Staff that total project cost for Energize had grown to an estimated $475.8 million with allowance for funds used during construction (AFUDC). PSE cited additional construction costs primarily related to previously undefined safety requirements as the cause of this increase. This amount is greater than the total project cost of $296.8 million with AFUDC assumed when setting rates and establishing initial prudency in the 2022 GRC.[4]

Extensions and Agreement to Remove Energize from 2023 Report

Staff determined that a second round of data requests was necessary to identify the specific undefined safety requirements that had caused Energize project cost to increase so significantly. On August 8, 2024, Staff and PSE discussed a proposal to extend the review period to allow time for the second data requests to be issued. PSE agreed and Staff issued the second round of 15 data requests on September 17, 2024.

Soon after asking for an additional extension to allow further discovery concerning Energize, PSE proposed to Staff that Energize be removed from the actuals and the forecasted amounts used in the portfolio threshold calculation in the 2023 annual report, to avoid delaying the completion of the annual review. Staff agreed to remove Energize from the 2023 annual report and postpone its review of the project until the 2024 annual report but maintained it should receive the responses to outstanding data requests. The result of this agreement is to leave the 2023 Energize capital expenditures in Schedule 141R.

Filing to Transfer from Schedule 141R to Schedule 141N

After removing both the actuals and forecasted amounts for Energize from the portfolio threshold calculation, Staff finds that the amount of plant placed into service that is used and useful meets the requirements of forecasted plant used to set rates. Therefore, PSE should be allowed to transfer from Schedule 141R into Schedule 141N $17.8 million from natural gas capital expenditures, and $42.3 million from electric capital expenditures.

Improving the Annual Review of Provisional Plant

While Staff finds that the total spending moved into Schedule 141N was prudent, the process involved in conducting the annual review should be improved. By detailing the actions which were necessary to verify the accuracy of the annual report, Staff intends to emphasize that the burden of prudency has been shifted from PSE to Staff in the retrospective review. In the case of AMI, the annual report contains what were characterized as perceived variances only. After thorough review, Staff agrees. However, in the original explanation of variances required in the annual review by the 2022 GRC, PSE stated that the reported AMI variance was due to continued forecasting errors.

On July 31, 2024, Public Counsel submitted a capital review compliance filing letter in response to PSE's annual report. In this letter, Public Counsel recommended that the Commission should provide additional guidance that clarifies the extent to which PSE needs to provide support for deviations from the original GRC filing and the actual plant placed in service for the rate year.

[4] See Final Order 24/10, Dockets UE-220066, UG-220067, and UE-210918 (Consolidated) ¶ 175

The discovery process in this retrospective review that was necessary to receive the support for deviations from PSE demonstrates the need for such guidance.

<u>Complications of the Cumulative Spending Approach</u>
The relationship between the portfolio threshold for provisional plant and the concept of cumulative spending on projects which span more than one year in a MYRP should be analyzed in greater detail. These two concepts are distinct from one another and yet in the context of the retrospective review they overlap in a way that complicates the process. The AMI variance in this report provides evidence of the challenges.

The retrospective review is performed to assess the provisional capital expenditures that occurred during the preceding rate effective period. The 2022 GRC Settlement provides that provisional plant be reviewed at the portfolio level. However, as Staff reviewed the provisional expenditures on AMI reported for the rate effective period beginning in 2023, it found that the forecasted amount contained spending which occurred outside of 2023. The inclusion of plant closed outside of the rate effective period raised the portfolio threshold that was used to set rates for the year, which increases the amount of plant which PSE is required to close.

While this did not change the amount of AMI plant that was closed for that total project for the 2023 rate effective period, it incentivizes PSE to close additional plant to meet the portfolio threshold level. Staff is concerned with the complications presented by projects spanning multiple years of the MYRP. Capital expenditures for provisional plant are afforded flexibility under the portfolio review. If these projects spanning multiple years of the MYRP begin to move capital expenditures between different rate effective periods, the consideration of cumulative spending may undermine the current structure of the annual review.

Staff is bound by the Settlement in the 2022 GRC but wishes to draw the Commission's attention to several recommendations for later consideration.

<u>Recommendations for Capital Review Elements</u>
The Commission should consider, for Reports not governed by the 2022 GRC settlement, requiring PSE to submit:

- A detailed narrative that explains the cause of any updates or changes to a major project within the Project Lifecycle Model. This narrative should include the original project cost, any change to the current cost or projected cost, and any discussion about the decision to continue with the project along with a demonstration of prudency.
- Specific identification of projects originally identified in the forecast but replaced by a different project. There should be a clear explanation as to whether the replacement project is increased spending on a project already in the forecast, reallocation of spending on a project between rate effective periods, or a new project moved that has not been considered in the MYRP.

Conclusion

PSE has met the 2022 GRC requirements for the MYRP annual review of capital plant placed in service. Staff finds that the amount of plant placed in service meets the portfolio threshold requirements for 2023. Therefore, the Commission should take no action, thereby allowing UE-240779 and UG-240780 to become effective November 17, 2024, by operation of law.