

**BEFORE THE WASHINGTON
UTILITIES & 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 Colstrip Transmission System

DOCKET UE-200115

**PAUL L. CHERNICK
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT**

EXHIBIT PLC-21

Puget Sound Energy Response to Public Counsel Data Request No. 62

October 2, 2020

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket UE-200115
Puget Sound Energy
Application Authorizing Sale of PSE Interest in Colstrip Unit 4**

PUBLIC COUNSEL DATA REQUEST NO. 062:

Please refer to PSE's response to NVEC Data Request No. 16(d).

- a. What is the overall rate of return used to derive the current annual rate of \$9.1653/kW-year?
- b. Does the currently approved return on equity of 9.4 percent include a basis point incentive adder? Please explain.
- c. With regard to "PSE's retail revenue requirement in Washington" which would be reduced by additional transmission revenues from NorthWestern Energy.
 - i. Please provide PSE's estimate of the annual retail revenue requirement in Washington attributable to a 90MW share of PSE's investment in the Colstrip Transmission System.
 - ii. Please provide the rate of return on equity assumed for this calculation.
 - iii. Please provide the overall rate of return assumed for this calculation.

Response:

- a. Puget Sound Energy ("PSE") is a vertically-integrated electrical company that provides bundled (i.e., generation, transmission, and distribution service in one product) to PSE's retail customers, and this bundled retail service is subject to the exclusive jurisdiction of the Washington Utilities and Transportation Commission ("WUTC"). PSE recovers the costs of this bundled service to its retail customers, including the costs of PSE's transmission system, through rates that are reviewed and approved by the WUTC. The customers that receive the bundled retail service pay the rates established by the WUTC to recover the revenue requirement established by the WUTC.

PSE also provides wholesale transmission service to third parties pursuant to the terms and conditions of PSE's Open Access Transmission Tariff ("OATT"), and this wholesale transmission service is subject to the exclusive jurisdiction of the

Federal Energy Regulatory Commission (“FERC”). The rate PSE charges for this service are reviewed and approved by FERC.

Because the revenue requirement reviewed and approved by the WUTC includes all costs of PSE’s transmission system, revenues from PSE OATT sales provide a revenue credit to the revenue requirement to retail customers, thus reducing the revenue requirement for retail customers in WUTC approved rates.

The current PSE OATT rate for transmission service to third-party customers using the Colstrip transmission segment (Schedule 10) is \$9.16353/kW-year, which includes an overall rate of return of 7.73 percent. The OATT rate is FERC jurisdictional and the rate of return was approved by FERC in the last PSE OATT formula rate case in 2012. This rate of return applies to third-party customers taking transmission service on PSE’s transmission system, and PSE retail customers taking bundled electric service in Washington are not subject to PSE OATT rates.

In PSE’s latest general rate case before the WUTC for retail customers in Dockets UE-190529, *et al.*, the WUTC approved an overall rate of return of 7.39 percent. PSE retail customers taking bundled electric service in Washington do not pay PSE’s OATT rates. This rate of return applies to PSE retail customers taking bundled electric service in Washington, and third-party customers taking transmission service on PSE’s transmission system are not subject to PSE’s WUTC rates.

In short, the overall current rate of return embedded in FERC transmission rates is 7.73 percent, and the overall rate of return embedded in WUTC bundled retail rates is 7.39 percent, and the two rates of returns are independent of one another and apply to different types of customers.

Any changes to the ownership of or changes in the usage of the Colstrip Transmission System could create significant changes to the inputs into the PSE OATT formula rate subject to review and approval by FERC and therefore the resulting rate.

For example, PSE’s formula rate to develop FERC transmission rates currently classifies PSE’s ownership interest in the segment of the Colstrip Transmission System between Colstrip and Broadview as generation interconnection facilities. This is because only PSE uses this segment and no third-party transmission customers has ever used this segment. Because the Colstrip-to-Broadview segment is currently classified as generation interconnection facilities, the cost of that segment is excluded from the formula used to develop the transmission rates for the Colstrip Transmission System and are not included in PSE’s transmission rates for the Colstrip Transmission System. The costs of the Colstrip-to-Broadview segment, however, are included in the WUTC’s revenue

requirement for bundled retail electric service in Washington because PSE uses this segment to transmit output of Colstrip Units 3 & 4 from Colstrip to Broadview.

Recent interconnection requests from third-party developers have recently requested to interconnect generation with a Point of Interconnection at Colstrip. If these projects were to interconnect at Colstrip and take transmission service on the Colstrip-to-Broadview segment, this change in usage on the segment would require PSE to reclassify the Colstrip-to-Broadview segment from generation interconnection to transmission plant, thereby including the costs of this segment in the formula used to develop the transmission rates for the Colstrip Transmission System. This change in classification would not just affect the calculated rate base. This change would also include the corresponding cost of service elements such as operating and maintenance costs, depreciation, property taxes, commission expenses, etc. that are currently excluded from the OATT rate for transmission service on the Colstrip Transmission System. Therefore, the current annual rate is subject to change over time as more investments are made in the Colstrip Transmission System and changes in usage of the system occur.

- b. The “currently approved return on equity of 9.4 percent” refers to the return on equity authorized by the WUTC in PSE’s most recent general rate case for bundled electric service in Washington in Docket UE-190529, *et al.* This return on equity does not apply to OATT rates reviewed and approved by FERC for transmission service on PSE’s transmission system, including the Colstrip Transmission System.

The return on equity reviewed and approved by FERC for transmission service on PSE’s transmission system is 9.8 percent. This return on equity authorized by FERC does not include “a basis point incentive adder.”

- c.
 - i. It is not possible to estimate an “annual retail revenue requirement in Washington attributable to a 90MW share of PSE’s investment in the Colstrip Transmission System.” The rates established by the WUTC for bundled retail electric service in Washington are rates for a bundled service and do not establish rates for any separate element (e.g., transmission) of the bundled service.
 - ii. As previously mentioned, the rates established by the WUTC for bundled retail electric service in Washington are rates for a bundled service and do not establish rates for any separate element (e.g., transmission) of the bundled service. Notwithstanding the foregoing, the currently authorized return on equity for PSE is 9.4 percent, which the WUTC recently authorized in PSE’s most recent general rate case for bundled electric service in Washington in Docket UE-190529, *et al.*

- iii. As previously mentioned, the rates established by the WUTC for bundled retail electric service in Washington are rates for a bundled service and do not establish rates for any separate element (e.g., transmission) of the bundled service. Notwithstanding the foregoing, the currently authorized rate of return for PSE is 7.39 percent, which the WUTC recently authorized in PSE's most recent general rate case for bundled electric service in Washington in Docket UE-190529, *et al.*