PUGET SOUND ENERGY

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Filed Via Web Portal

Mark L. Johnson, Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

Re: Docket U-190531: Comments of Puget Sound Energy in Response to Notice of Opportunity to File Written Comments on Inquiry into Valuation of Public Service Company Property Used and Useful after Rate Effective Date

Dear Mr. Johnson:

Puget Sound Energy ("PSE") appreciates the opportunity to respond to the questions raised by the Commission relating to the clean energy transition of electrical companies in Washington as set forth in the Notice of Opportunity to File Written Comments ("Notice") dated July 5, 2019. Specifically, as requested by the Commission in the Notice, PSE is providing its perspective and feedback on "the appropriate process for identifying, reviewing, and approving public service company property that becomes used and useful for service in Washington State after the effective date of a proposed rate."[1] In providing input, PSE presents the five questions posed by the Commission followed by PSE's response to each question.

Preliminarily, as an overarching principle, PSE expects the Clean Energy Implementation Plan, which electrical companies will begin filing in 2022 and every four years thereafter as part of the Washington Clean Energy Transformation Act,[2] to play a significant role in the process of identification and valuation of property that will be used and useful over the course of a multi-year rate plan. The four-year Clean Energy Implementation Plan will provide an opportunity for electrical companies to describe the general categories and levels of capital spending planned to comply with the law, including specific targets for energy efficiency, demand response, and renewable energy.[3] This plan can be used in a subsequent general rate case to support the level of

[1] Notice of Opportunity To File Written Comments at 1.
[2] Engrossed Second Substitute Senate Bill 5116, Section 6(1)(a)(i).
[3] *Id.*

rate base that will become used and useful during a multi-year rate plan. The Clean Energy Implementation Plan will include generation plant (renewables), and should also include transmission and distribution plant and information technology projects that can facilitate the transformation to 100 percent clean energy— including battery storage, demand response infrastructure, advanced metering infrastructure, and other grid modernization projects.[4]

Using the Clean Energy Implementation Plan in conjunction with multi-year rate plans would allow for a more efficient and integrated planning and review process as electrical companies transition to 100 percent clean energy. Much of the prudence review associated with implementation of new plant in service (i.e., need, appropriateness of selected plant) could take place as part of the review of the Clean Energy Implementation Plan filing.[5] This would allow for a limited, streamlined review when the plant goes into service in later years of a multi-year rate plan. At that time, the review would focus on (i) whether the actual level of plant placed in service (used and useful) is consistent with the level of rate base included in the multi-year rate plan and (ii) the prudence of execution (appropriateness of actual cost of plant placed in service).

1. **In order for property to be considered for inclusion in rates during the rate effective period, should such property specifically be identified in the general rate case giving rise to those rates, or can specific property be identified in a subsequent proceeding? If such property may be identified in a subsequent proceeding, what proceeding would that be and why?**

PSE Response: There are many categories of property that may be considered for inclusion in rates during the rate effective period of a multi-year rate plan, and the answer to this question will vary depending on the category of plant.

Plant put into service (i) during the test year, and (ii) after the test year but prior to the rate effective date can be specifically identified in the general rate case giving rise to those rates because that specific plant has already been put into service or is being put into service during the course of the general rate case. That said, it should not be necessary in a rate case for public service companies to identify every individual plant addition that went into service through the end of the test year or during the pro forma period, or for Commission Staff to review each and every plant addition. To enhance the efficiency and effectiveness of review of test year and *pro forma* plant, public service companies should provide general categories and levels of spending for smaller plant, which Commission Staff can audit through sampling and review. For major projects, Commission Staff can more closely review the need, appropriateness, and cost of the major plant additions.

[4] Such costs could be included in the investor-owned utility's Clean Energy Implementation Plan even though they may not all factor into the two percent cap provided in Section 6(3)(a). As the law states "All costs included in the determination of cost impact must be directly attributable to actions necessary to comply with the requirements of sections 4 and 5 of this act." *Id.* Section 6(3)(a).

[5] *Id.* Section 6(1)(c) (requiring a hearing by the Commission on the Clean Energy Implementation Plan).

With respect to property that goes into service after the rate effective date, it is not necessary (or even possible) for such property to be specifically identified in the general rate case giving rise to those rates. Rather, in the general rate case, public service companies should identify the expected levels of plant additions by category for the rate year and each year of the multi-year rate plan. As previously noted, much of this plant is likely to be identified, at least with respect to electrical companies, in the Clean Energy Implementation Plan, and the multi-year rate plan would then base rates on the level of plant for each year in the Clean Energy Implementation Plan.[6] Once the Commission approves a Clean Energy Implementation Plan, the electrical company should then be required to annually demonstrate it put into service the level of plant additions that supports the rates set in the multi-year rate plan.

The subsequent true-up and identification of plant in service can take place on an annual or semi-annual basis, in the general rate case docket or in a separate filing. This process can be similar to the process used for PSE's K-factor rate plan from 2013 through 2017 in Dockets UE-121697 and UG-121705, wherein PSE filed a report showing the actual net plant additions for each year of the rate plan. Alternatively, this process could follow the procedure used for review and approval of Gas Cost Recovery Mechanism investment, which is described in more detail in Avista's comment letter in this docket. The purpose of the annual filing is to allow Commission Staff and interested parties to verify that the level of plant put into service over the past year supports the rates in the multi-year rate plan. Review of the prudence of execution, *i.e.*, whether the cost of the plant is appropriate and reasonable, could take place in the annual filing or in the subsequent general rate case.

This approach allows public service companies to operate their businesses flexibly, adapt to circumstances that arise, and invest in plant that is determined to be necessary and of the highest priority based on more real time facts and circumstances rather than based on stale projections of specific plant additions dating back one, two or possibly three years earlier. This flexible approach is consistent with the Clean Energy Transformation Act. The law does not mandate that the specific plant be identified in the rate case; rather, it gives the Commission the authority to determine the fair value for rate making purposes of the property of any public service company deemed to be used and useful for service in this state by or during the rate effective period.[7] The law is intended to "ensure that the commission has sufficient flexible authority to determine the value of utility property for rate making purposes and to implement the requirements and full intent of [the Clean Energy Implementation Act]."[8] The Clean Energy Implementation Act demonstrates this flexibility by allowing that "[t]he valuation may include consideration of *any* property of the public service company acquired or constructed by or during the rate effective period."[9] The Clean Energy Implementation Act further allows the Commission to "provide changes to rates . . . for up to forty-eight months after the rate effective

[6] As previously noted, some of these costs may be included in the Clean Energy Implementation Plan but might not be included in the determination of the two percent cost impact cap. *See id.* Section 6(3)(a).
[7] *See id.* Section 20(2).
[8] *Id.* Section 20(1).
[9] *Id.* Section 20(2) (emphasis added).

date using *any* standard, formula, method, or theory of valuation reasonably calculated to arrive at fair, just reasonable, and sufficient rates."[10] The Clean Energy Implementation Act simply requires the Commission to "establish an appropriate process to identify, review, and approve public service company property that becomes used and useful . . . after the rate effective date."[11] In summary, the law does not require that property specifically be identified in the general rate case giving rise to those rates, and a more flexible approach is consistent with the law and reasonable business practice.

2. How should plant-in-service be valued (for the determination of rate base) for each year of a rate plan? Does this valuation depend on prospectively identifying specific plant investments across the rate plan during the general rate case giving rise to the rates? Why or why not?

PSE Response: There are a variety of methodologies that can be used for valuing plant-in-service for each year of a multi-year rate plan or for an attrition adjustment, such as regression analyses, historical trending, and reliance on future levels of planned capital expenditures, including, for example, plant that has been identified in an electrical company's Clean Energy Implementation Plan. The Commission should not prescriptively limit the methodologies for valuation of plant-in-service and determining rate base as part of a general rate case/multi-year rate plan. The Commission should allow utilities flexibility in the manner in which they are permitted to demonstrate the value of plant in service in future years.

The Commission should not require public service companies in a general rate case to prospectively identify specific plant investments that will go into service during each year of the multi-year rate plan and then prove that those specific plant additions were put in service during the year projected. Such an approach could limit the ability of public service companies to act flexibly and nimbly when investment opportunities arise that are good for their customers but that were not anticipated during the rate case, two or three years earlier. It could have unintended consequences—rewarding public service companies for sticking to what might have become a stale capital expenditure plan, even if the earlier identified investment is no longer the best approach for capital spending.

Instead, given the dynamic state of the energy industry and rapid technology change, public service companies should have flexibility in how capital dollars are spent, provided that (i) the level of plant placed in service (used and useful) for each year of the rate plan is consistent with the amount built into rates and (ii) the plant investment is prudent. This would allow public service companies to act on new opportunities, evolving technologies, and changed circumstances, when appropriate.

[10] *Id.* Section 20(3) (emphasis added).
[11] *Id.*

3. What should be the review process for property included in rates that becomes used and useful after the rate effective date? Is this review process the same for plant placed in service both up to and during the rate-effective date?

PSE Response: The review process for property that becomes used and useful after the rate effective date should be efficient and not overly complicated. Public service companies would have designated a level of plant that will be put in service each year of the rate plan. Under the Clean Energy Transformation Act, much of the plant of electrical companies would be included in the Clean Energy Implementation Plan. On an annual basis, public service companies would file a report demonstrating the level and general categories of plant placed in service after the rate effective date and over the past year, and the cost of the plant. Commission Staff and other interested stakeholders would have the opportunity to audit the annual filing. This annual audit should be straightforward and confirm that the public service company has put into service the level of plant on which rates are based.

Much of this plant will be programmatic spending of which the Commission is well acquainted and should require minimal review in terms of need and appropriateness of the spending: for example, public improvement projects, reliability/resiliency investments such as replacement of underground, high molecular weight ("HMW") cable, and gas pipeline integrity investments. A similar review should occur at the annual filing for major projects that were reviewed for prudence in the general rate case on which the rates are based and for which additional plant tied to the project is placed in service during the rate year or later in the rate plan: for example, the multi-year plant installation of advanced metering infrastructure. For new, major projects that go into service after the rate effective date and have not been reviewed for prudence, the prudence review can occur at the time of the annual review or in the next general rate case. Notably, many of these projects may be included in an electrical company's Clean Energy Implementation Plan, which should allow the Commission and stakeholders a separate opportunity to review the projects in advance of the general rate case and the multi-year rate plan.

In contrast, the review process for plant placed in service up to the rate-effective date can take place in the general rate case. As discussed in more detail in response to question No. 4, below, *pro forma* adjustments should continue to be allowed for plant that is placed in service after the test year and before the rate effective date, provided that Commission Staff and intervenors have a reasonable opportunity to review the project during the general rate case proceeding.

Finally, PSE is unsure what is meant by the reference in the question to plant that is placed in service *during the rate effective* ***date***. If the question is referring to plant that is placed in service *during the rate effective* ***period***, the answer is consistent with the first paragraph of the above answer that addresses plant that is placed in service ***after*** *the rate effective* ***date***.

4. **Should *pro forma* plant additions placed in service after the test year but before the rate effective date be considered using the same process that the Commission will use to identify, review, and approve property that becomes used and useful after the rate effective date? Or should these post-test year plant additions be considered under a separate process? What is the best way to incorporate the participation of all of the parties to the underlying rate proceeding in the process of reviewing the prudence of these post-test year plant additions?**

PSE Response: The Commission should treat *pro forma* plant additions placed in service after the test year but before the rate effective date differently than plant placed in service after the rate effective date. This avoids unnecessary regulatory lag that otherwise occurs during the course of the general rate proceeding for plant that is put in service after the test year and during the rate case.

For major projects, such as construction of a new wind plant that goes into service after the test year and during the rate proceeding, the electrical company would present the plant for a prudence review in its direct case, and most of the costs for the plant could be audited. Such a project could go into service several months after the end of the test year as the prudence of the project and the vast majority of costs could be reviewed from the outset of the case. This process was used in PSE's 2011 general rate case in Docket UE-111048 related to the Lower Snake River ("LSR") wind facility. LSR was placed into service on February 29, 2012 and rates in the 2011 general rate case became effective on May 14, 2012. The Commission allowed the *pro forma* adjustment for recovery of the LSR project citing the materiality of the project and other offsetting factors.[12]

For smaller *pro forma* plant, much of this is ongoing programmatic categories of spending (e.g., main replacement, HMW cable replacement, public improvement projects), which can be reviewed during the general rate case. Although these plant expenditures may seem small when viewed in isolation, cumulatively they comprise a significant amount of rate base that should be included in rates. The review and auditing of this plant should be straightforward. For this type of plant, the Commission could set a *pro forma* cutoff date that balances (i) the need to audit new plant in service with (ii) the need to minimize regulatory lag and include for rate recovery the plant that has been placed in service prior to the rate effective date.

One way to incorporate the participation of all parties to the underlying rate proceeding is to set clear guidelines for *pro forma* plant. This may include setting a date in the procedural schedule by which smaller, programmatic plant in service may be updated, either through supplemental direct testimony or a data request, approximately six to eight weeks prior to response testimony. However, as noted above, for larger projects a later date for inclusion of plant would be appropriate, where the project can be reviewed for prudence (need and appropriateness of the construction or purchase of the plant) from the outset of the case, with auditing of the final expenditures later in the case.

[12] Paragraph 100 in Order 08 in Docket UE-111048.

5. **If the rate base used to establish rates for a multi-year rate plan relies on a formula or plant-in-service projections (rather than a prospective identification of specific investments), what is the appropriate process for identifying, reviewing, and approving property that becomes used and useful for service after the initial rate-effective date? How should actual plant-in-service relate to the plant-in-service used to establish rates?**

PSE Response: If the rate base used to establish rates for a multi-year rate plan relies on a formula or plant-in-service projections, the process for identifying, reviewing, and approving property that becomes used and useful for service after the initial rate effective date should be straightforward, efficient and high-level. Public service companies should file annually a high-level summary of the categories of plant placed in service over the past year, and after the rate effective date. Commission Staff would review to ensure that the level of actual rate base in service meets or exceeds the projected rate base on which the rates for that year were based. As previously discussed, much of the programmatic spending or spending tied to projects that have already been reviewed for prudence should require only cursory review, for execution of the project, to determine the costs incurred were reasonable. If there is major new plant in service that has not been reviewed for the need and appropriateness of the plant it can be reviewed for prudence (i) as part of the annual review, (ii) in a separate docket, or (iii) in the next general rate case.

Thank you for the opportunity to provide comments. Please contact Nate Hill at (425) 457-5524 or nate.hill@pse.com for additional information or questions regarding this filing. If you have any other questions, please contact me at (425) 456-2142.

Sincerely,

/s/ Jon Piliaris

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