



September 25, 2019

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

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Re: Docket UE-170002 and UG-170003: Comments of Puget Sound Energy in response to notice of opportunity to submit written comments on rulemaking to address electric and natural gas cost of service

Dear Mr. Johnson:

These comments are submitted on behalf of Puget Sound Energy (“PSE” or “the Company”) in response to the electric and gas cost of service (“COS”) call for comments dated August 30, 2019 in the above referenced dockets. PSE appreciates the opportunity to submit comments and suggestions addressing outstanding questions and concerns regarding Commission Staff’s proposed draft rules, classification and allocation methodology and proposed electric cost of service template (“ECOST”) and gas cost of service template (“GCOST”). In addition to this Comment Letter, PSE is filing the following documents in these dockets:

1. Draft Cost of Service Rules -- With PSE Comments Added
2. Comments of Puget Sound Energy on Small Business Economic Impact Statement

PSE’s General Comments on Draft Rules

PSE appreciates Commission Staff’s efforts to provide guidance and clarity through developing draft rules addressing the implementation of electric and gas cost of service analyses. The comments offered herein are consistent with and supplement our previously written comments provided on August 2, 2019. While Staff has responded to some comments and suggestions previously filed by PSE, the Company is concerned that the majority of its feedback has not been sufficiently addressed. To that end, PSE is again submitting additional detailed comments embedded in the proposed draft rules that are filed concurrent with this comment letter.

Specific to the draft rules, PSE has several overarching concerns.

First, PSE is concerned with the considerable use of equivocal terminology in the draft rules, which is likely to create more conflict and confusion than it is intending to resolve. This ambiguity will likely lead parties to disagreement on intent and definition rather than create clear and consistent rules in the spirit of providing guidance and clarity. PSE believes rules and requirements should be clear and explicit in definition, instruction and regulation.

Second, PSE is concerned that the current draft rules are being proposed and established in a silo, and do not sufficiently take into consideration the possible outcomes from other proceedings such as the Notice of Inquiry into the Adequacy of the Current Regulatory Framework Employed by the Commission in Addressing Developing Industry Trends, New Technologies, and Public Policy Affecting the Utility Sector, Docket U-180907.

Finally, PSE does not see the value in attempting to bind utilities to methodological approaches that may not be well suited to their situation. This is particularly true in the area of generation costs, where there is a wide diversity of factors among the state's three investor-owned utilities that may warrant more flexibility, rather than less. The utility industry is in a period of rapid transformation driven largely by technological forces, public policy directives, and changing customer expectations. This is particularly true on the west coast. In this environment, PSE questions if this is an appropriate time to strictly prescribe ratemaking frameworks that may quickly become obsolete. Additionally, the Commission's broad discretion is challenged and significantly weakened by the rigidity in the proposed rules and the proposed limitations on exemptions in WAC 480-07-110.

Instead, the more foundational issues that Staff is attempting to address through rules, like the treatment of generation costs, should be addressed through a more flexible policy statement. Navigating a successful transition to our clean energy future may require the Commission to prudently reform current practices and pursue flexible application of cost of service study definitions, inputs and methodologies.

Comments on Commission Staff's Proposed Cost of Service Rules

Commission Staff has proposed draft rules that codify procedures to address the following topics: (1) Definitions; (2) Minimum Filing Requirements; (3) Cost of Service Study Inputs; (4) Cost of Service Methodology; and (5) Exemptions. PSE addresses each of these below:

1. WAC 480-xxx-030 Definitions: PSE requires additional clarity on the definitions and provides suggestions.
 - a. Subsection (2): "Regulatory accounting principles" is used in the definition for 'cost of service study', however it remains unclear which accounting principles are being referenced. PSE recommends adding language that clarifies which regulatory accounting principles are being referenced.
 - b. Subsection (2): "Cost of service study" is defined as a study that 'correlates a utility's costs and revenues with the service provided to customers in each rate schedule'. This could be interpreted as requiring that the costs and revenues be determined independently for each of the utility's rate schedules within a cost of service study. However, it is often the case that more than one rate schedule is included in a "rate class", which includes like schedules for purposes of cost allocation. For example, a literal interpretation of the draft rules would suggest that PSE would need to separately identify the cost to serve customers served under its electric Schedule 8 and Schedule 24 (who have identical rates), even though the only distinction between the two is whether these customers are eligible for residential exchange benefits from the Bonneville Power Administration. Similarly, PSE would be required to separately identify the cost to serve customers under its Schedules 41 and 41T (who have nearly identical rates), even though the only difference in their service characteristics is the provider of their gas supply. Breaking apart rate classes into rate schedules for purposes of utilities cost of service studies will only serve to increase the complexity and volume of the analysis, while providing little to

no probative value in the context of a rate proceeding. As such, PSE recommends changing “rate class” to “rate schedule”

2. WAC 480-xxx-040 Minimum Filing Requirements: PSE finds certain minimum filing requirements to be overly burdensome, duplicative to existing WAC requirements and impractical.
 - a. Subsection (1)(a): Draft rules include a new minimum requirement to cite work papers in supporting testimony and exhibits. Work papers are already provided to support testimony and exhibits. Further, testimony and exhibits do not typically cite to work papers, as they are excluded from the evidentiary record. PSE is concerned with creating an unnecessary and duplicative requirement that only overloads the testimony and exhibits as well as forces an overly burdensome procedure on all parties. Moreover, this draft rule unnecessarily duplicates WAC requirements that already exist for utilities to provide all of their spreadsheet exhibits with live links to any associated workpapers.
 - b. Subsection (1)(b)(i): The new minimum requirement in this subsection ‘to consolidate all associated calculations necessary to support the results of the study in the same electronic workbook file’ may not be feasible. Taken to its extreme, this could entail the consolidation of what is currently approximately 100 spreadsheets (many with a dozen or more individual tabs) into a single workbook file. PSE recommends ring-fencing the subsection to only include the cost of service model, excluding revenue requirement and rate design spreadsheets. If the intent is to have this requirement only apply to the cost of service model, then adding appropriate language to explain this is recommended. Additionally, it is unclear if Microsoft Excel could even accommodate the volume of resulting data and calculations, and whether a typical computer could process a file that large. PSE recommends to allow for flexibility in this requirement.
 - c. Subsection (1)(b)(iii): Draft rules include a new minimum requirement to include an index in each spreadsheet identifying its relationship with other spreadsheets. The relationship of each spreadsheet with other spreadsheets is already provided through active links, which are already required by the Commission. Furthermore, Microsoft Excel provides the ability to view all linked sources in any spreadsheet. As it is currently drafted, PSE is concerned with creating an unnecessary and duplicative requirement that forces an overly burdensome procedure on all parties. The Company recommends ring-fencing the subsection to have the new requirement apply only to the cost of service model, excluding revenue requirement and rate design spreadsheets. If the intent is to have this requirement only apply to the cost of service model, then adding appropriate language to explain this is recommended.
 - d. Subsection (2): PSE recommends striking the term “simultaneously” at the end of the first sentence to make clear that a company is not required to file a cost of service study for both electric and natural gas operations if the company is filing a general rate case for only one of its services.
3. WAC 480-xxx-050 Cost of service Study Inputs: PSE requires additional clarity and provides suggestions. It is recommended that rules need to be more explicit between electric and gas cost of service input requirements.
 - a. Subsection (1): The new rule appears to favor usage data in the following order: advanced metering infrastructure (“AMI”), advanced meter reading (“AMR”), and load

study. PSE is concerned the rules, as written, confuses the difference between metering technology and load research process. AMI and AMR are metering technology and infrastructure that allow for collection of meter data to support a load study. A load study is an analysis that measures and studies the characteristics of electric or gas loads to provide a statistically significant estimate of usage, trends and general behavior of the load characteristics of the service company customers. If the intent is to use the full customer population data in lieu of a sample set for the cost of service study, this should be explicitly stated. Even if full population data is used, a load study is still required to conduct statistical analysis on the full population data set to develop the usage inputs applied in the cost of service model. As currently proposed, PSE cannot support this language as it prescribes or favors only AMI and AMR technology as the preferred method for meter data collection, and disallows the use of MV-90, other analog meters, load forecasts, contract demands, as well as normalization and other statistical techniques normally used to develop inputs for a cost of service study (such as the estimate of energy consumption under normal weather conditions or the estimate of “design day” peak demands under more extreme weather conditions).

4. WAC 480-xxx-060 Cost of Service Methodology: PSE is concerned with the application of prescribed methodology and whether they will provide the most accurate results.
 - a. Subsection (1): This subsection strictly adheres to traditional forms of regulation by prescribing a cost of service study using an embedded cost method. While this is common practice today, particularly with ongoing discussion on alternative forms of regulation, it may restrict the Commission to use only traditional approaches to cost allocation. PSE is concerned that the current rules are being proposed and established in isolation, and do not take into consideration the possible outcomes from other proceedings.
 - b. Subsection (1)(a-e) and (3): PSE appreciates the need to codify uniform classification and allocation methodology for the development of a cost of service study, and PSE generally supports such rules for transmission, distribution and general functions. However, PSE questions whether it is appropriate to codify rules for classification and allocation of generation in a time when the electric industry, utility generation portfolios and the regional energy and capacity markets are in a state of flux. Prescribing methodology that is likely to be obsolete in a couple years will limit our ability to respond to changing conditions and may generate inaccurate cost assignments. PSE recommends the rules exclude the classification and allocation of generation for the time being due to the rapidly changing energy markets and utility generation portfolios.
 - c. Subsection (2): PSE recommends defining the term “system-wide econometric study” and “system-wide marginal cost study”. Also, it is not clear if this subsection is providing alternative methodologies for a cost of service study as compared to subsection (1) or if this subsection is providing the opportunity to file a second cost of service study “in addition to” the methodology prescribed in subsection (1).
5. WAC 480-xxx-070 Exemptions: PSE finds this section to be duplicative with WAC 480-07-110. PSE cannot support this section until ambiguous language and commonly used terminology have been defined and limitations on the Commission’s discretion is removed.
 - a. Subsection (1): PSE is concerned with the considerable use of equivocal terminology in this subsection such as “significant”, “significantly”, and “compelling”. Use of these

subjective terms without properly defining their meaning with measurable limits and thresholds will create conflict and be subject to dispute. PSE strongly recommends Staff provide clarity and quantifiable limits and threshold around these subjective terms.

- b. Subsection (1)(a): This subsection provides that exemption from the proposed draft rules can only be granted if a proposal significantly improves accuracy of the cost of service study. PSE is unclear why Staff would want to limit the broad discretion the Commission otherwise has to grant exemptions from its rules. For instance, as currently written, the Commission would forgo its ability to grant exemptions due to market transformation, alternative forms of regulation, or even data availability or technological obsolescence. PSE also questions the extent to which the “accuracy” of cost of service results can even be determined. Indeed, this is at the heart of nearly all disputes in a rate case over cost of service results. Given the false premise that one can prove the relative accuracy of any cost of service result, PSE recommends deleting this subsection in its entirety.
- c. Subsection (1)(b): PSE is concerned this subsection appears to require that an alternative proposal can only be granted if the proposed methodology can be codified in future rulemaking proceeding, which would apply to all applicable utilities. Again, PSE is unclear why Staff would want to limit the broad discretion the Commission otherwise has to grant exemptions from its rules. PSE recommends deleting this subsection or at the very least removing the terms “incorporating” and “into this chapter”.
- d. Subsection (2): PSE is unclear on the sequence to obtain an exemption. Would utilities be required to file a motion for exemption prior to filing the COS study, or do utilities submit a COS study and request exemption at the time of filing? In a rapidly changing environment, where alternative methodologies may prove useful, this rule would have the unintended effect of encouraging only traditional methods and discouraging the use of alternative ratemaking methodologies. PSE recommends deleting this subsection as it only adds unwarranted bureaucracy and delay in process.

Thanks again for the opportunity to provide comments. Please contact Birud Jhaveri at (425) 462-3946 or birud.jhaveri@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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