

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF  
RESPONSE TO DATA REQUEST

DATE PREPARED: January 5, 2018  
DOCKET: UE-170485/UG-170486  
REQUESTER: Public Counsel

WITNESS: Christopher Hancock  
RESPONDER: Christopher Hancock  
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**REQUEST NO. 11:**

**Re: Multi-year Rate Plans, Response Testimony of Mr. Christopher Hancock.**

Mr. Hancock testifies in Exh. CSH-1Tr at 13:13-14: “It can be helpful to think of a multi-year rate plan as a deliberate use of regulatory lag.” Please provide the basis for this statement.

**RESPONSE:**

The basis for Mr. Hancock’s statement that “it can be helpful to think of a multi-year rate plan as a deliberate use of regulatory lag” is that he believes framing a multi-year rate plan (MRP) in this manner assists the reader in understanding the implications of a ratemaking action that binds the Commission, a company, and its ratepayers to a fixed revenue requirement in each of the three years of the rate plan.

In response to the question “What is regulatory lag?” on page 6 of his initial testimony, Mr. Hancock said, “[R]egulatory lag is the period of time that occurs between the time in which a cost to a utility changes, and the time when that change is reflected in customer rates.”<sup>10</sup> Because a multi-year rate plan would deny the company the opportunity to request an update to its customer rates to reflect cost changes the utility faced, a multi-year rate plan is “a deliberate use of regulatory lag.”<sup>11</sup>

A multi-year rate plan is a deliberate use of regulatory lag because a Commission implementing a multi-year rate plan would or should understand that in doing so, it is subjecting a company to a multi-year period in which the company will be denied the opportunity to petition to update its revenue requirement to reflect the costs it is currently facing. Or as Mr. Hancock put it: “A multi-year rate plan necessarily involves the active engineering of regulatory lag.”<sup>12</sup>

Please also see the National Regulatory Research Institute’s NRRI 16-08, *Multiyear Rate Plans*.<sup>13</sup> That report states, “When an MRP [multi-year rate plan] predetermines the time for a future general rate case, the length of regulatory lag becomes known to the utility and other stakeholders.”

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<sup>10</sup> Hancock, Exh. CSH-1Tr at 6:18-7:1.

<sup>11</sup> Hancock, Exh. CSH-1Tr at 13:13-14.

<sup>12</sup> Hancock, Exh. CSH-1Tr at 10:2-3.

<sup>13</sup> National Regulatory Research Institute, NRRI 16-08 (Oct. 24, 2016), *available at* <http://nrri.org/download/nrri-16-08-multiyear-rate-plans/>