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May 30, 2018

SENT VIA UTC WEB PORTAL

Mark L. Johnson
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Dr. SW
P. O. Box 47250
Olympia, Washington 98504-7250

Re: 2018 Generic Cost of Service, Docket UG-170003

Dear Mr. Johnson:

Public Counsel provides this letter in response to Commission Staff's request for comments regarding the issues to be considered and the process to be used in the generic natural gas cost of service docket, UG-170003.

Generally, Public Counsel has no objections to using a rulemaking process to continue the generic cost of service discussion. As we noted in comments filed in Docket UE-170002 (generic electric cost of service), rulemaking offers flexibility, both in process and in outcome, and is appropriate for this discussion. There are certain issues that may lend themselves to more concrete direction provided by promulgating rules, while other issues may require more flexibility to allow for variations among companies and to avoid establishing an overly prescriptive regulatory framework. A rulemaking process allows the Commission the latitude to develop appropriate direction to stakeholders without being too prescriptive or not prescriptive enough. Stakeholders participating in the collaborative process can develop, and more clearly define, the specific goals of this process.

I. BACKGROUND

The Commission agreed that a generic proceeding to discuss electric and natural gas cost of service issues could establish greater clarity and some uniformity regarding cost of service studies. In Order 06, Dockets UE-160228 and UG-160229 (*Consolidated*), the Commission stated:

Though we believe it is possible to create a consistent framework, we expect this will be a challenging undertaking, given the



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numerous issues that a cost of service study must address. We therefore direct Staff and the other parties to the generic proceedings to actively collaborate, prior to the initiation of those proceedings, to more clearly define their scope and expected outcomes, as well as a reasonable procedural schedule that will facilitate the desired outcomes. We caution Staff and the other parties who participate in these generic proceedings that while the goal to create consistent guidelines that reduce the analytical burden in future rate cases is laudable, it must be balanced against the need to provide flexible methodologies that take into account a utility's unique circumstances.¹

Stakeholders have met and are now providing further feedback regarding issues and process.

II. COMMENTS REQUESTED BY COMMISSION STAFF

In its request for comments, Commission Staff divided the objectives and topics to be addressed in the generic proceeding into three groups: Templates, Procedures, and Policy Statement.

Templates. Public Counsel believes that a template for results may be beneficial by allowing apples to apples comparison of each party's results and recommendations. However, it may be more difficult to require a template for the particular studies that are performed because (1) each utility is different and (2) each expert (whether the expert is a utility expert, Staff expert, or an outside consultant working with parties) uses professional judgment and experience in conducting cost of service studies. For example, it may be difficult to create a template for class cost allocation studies. Class cost of service studies can be simple or more complex regarding cost allocations depending on the specific application. Public Counsel is in favor of unified templates that provide a summary of class cost of service results by class, including allocated amounts of revenues, expenses, and rate base. In addition, Public Counsel recommends that the Commission develop a rule requiring that all class cost of service studies must ultimately show the allocated costs to each class for each FERC account.

Revenue Requirement cross check. Public Counsel understands that the purpose of this discussion is to provide transparency regarding how a proposed revenue requirement is folded into a cost of service model. Transparency would be useful regarding FERC accounts and how the accounts are allocated among customer classes.

COS Allocation List. Public Counsel is unsure of what is anticipated with regard to a rule requiring a "COS Allocations List." Nonetheless, Public Counsel would support a rule that class

¹ *WUTC v. Avista Corp.* Dockets UE-160228 and UG-160229 (Consolidated) ¶ 100 (Dec. 15, 2016).

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COSS must provide a list of all allocation factors.

Procedures. Commission Staff suggests that the frequency of load studies and their detail are important to rate design, and that guidance regarding load studies should be provided by rule. Public Counsel agrees that it may be appropriate to address load studies by rule. Public Counsel cautions on requiring specific time intervals, however, and would suggest any rule set the maximum time period between load studies. The frequency and level of detail required by various classes of customers for any load study may vary across utilities. Thus, asking for load study information may be useful, available, and reasonable more frequently than whatever time interval is set in rule.

Commission Staff suggests that cost of service studies should be conducted with minimal confidential information. Public Counsel does not support a rule requiring removal of all customer information. There may be instances in which specific customer information is useful and relevant, particularly if a large customer has special contract rates or is an intervenor in rate cases that may recommend proposals specific to that customer. In these instances, it is useful to understand the impact of the proposals on and by the specific customer. Such information should continue to be protected under the Commission's existing practices of confidentiality and protective orders.

Commission Staff suggests that bill determinants be addressed in rule. Public Counsel believes this could be useful, but also potentially outside the scope contemplated for the generic proceeding. The generic proceeding was intended to address cost of service issues such that billing determinants used for rate design (and possibly revenue requirements) are outside of the intended scope.

Commission Staff suggests that a rule could be developed requiring special contracts to have a marginal cost study. Public Counsel believes that developing a rule addressing special contracts is useful. However, Public Counsel believes that a rule should specifically establish that the burden is on utilities to prove the need for, and reasonableness of, any special contracts. Public Counsel recommends that the special contracts should be supported by robust analysis with verifiable data. Public Counsel also believes that the term "marginal cost study" may have different interpretations. Public Counsel would recommend that it may be appropriate for a study to be based on incremental costs, variable costs, or forward-looking marginal, long-run, or even short-run costs.

Policy. Regarding the topics Commission Staff suggests would be better addressed through a policy statement or whitepaper, Public Counsel notes that stakeholders may or may not come to unified positions regarding the topics listed. The topics include demand/throughput split relating to the classification of mains-related costs, allocation of mains-related costs to individual classes, common and joint costs, and A&G costs. It occurs to Public Counsel that a one-size-fits-all

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solution may not be possible, but rather stakeholders may have different proposals to present to the Commission during the policy docket. The Commission would then decide which direction is appropriate and provide guidance to stakeholders through a policy statement or whitepaper.

Commission Staff includes additional topics that could be addressed through a policy statement, including language, granularity of data, and baseline COSS. These issues may be unnecessary because any party wishing to deviate from the Commission's policy would bear the burden of demonstrating that deviation is appropriate and/or necessary. Regarding granularity, individual utilities should determine how granular their presentations will be. Parties may ask for additional information or an alternative presentation of the data. In some instances, the utility may not be able to provide the requested information, but in many instances, the utility is able to provide the data. The requesting party can then use the data in its own analysis and present a more granular analysis.

III. CONCLUSION

Public Counsel appreciates the opportunity to provide these comments. We look forward to continuing to participate in the generic cost of service discussion, for both electric and natural gas services. If you have questions about the comments in this letter, please contact Lisa Gafken at (206) 464-6595 or Corey Dahl at (206) 464-6380.

Sincerely,



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