

**Exh. JLB-1T
Dockets UE-220066, UG-220067,
UG-210918
Witness: Jason L. Ball**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**DOCKETS UE-220066, UG-220067,
UG-210918 (*Consolidated*)**

In the Matter of the Petition of

PUGET SOUND ENERGY

**For an Order Authorizing Deferred
Accounting Treatment for Puget Sound
Energy's Share of Costs Associated with
the Tacoma LNG Facility**

TESTIMONY OF

JASON L. BALL

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

*Multiyear Rate Plan Policy;
Electric Reliability Reporting*

July 28, 2022

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	SCOPE AND SUMMARY OF TESTIMONY	2
III.	STAFF OBJECTIVES WITH THE MYRP	5
IV.	GENERAL POLICY FOR MYRPs.....	8
	A. Legal Requirements of MYRPs.....	10
	B. Principles And Standards for Reviewing MYRP	11
	1. Commission history with MYRPs	12
	2. Applying Commission historical standards to the MYRP	16
	C. Prudence During the MYRP.....	17
V.	MAP COMPONENT #1 - BASELINE & PROJECTIONS OF COSTS	23
VI.	MAP COMPONENT #2 - REVIEW PROCESS FOR PROFORMA AND PROVISIONAL RATE BASE	29
	A. Review Process Proposed by PSE	29
	B. Staff Proposed Review Process	32
VII.	MAP COMPONENT #3 - PERFORMANCE MEASUREMENT	39
	A. Need for Performance Measurement	39
	B. Policy Objectives, Performance Areas, and Performance Measures.....	43
	1. Background	44
	2. Staff-proposed Policy Objectives, Performance Areas, and Performance Measures	45
	C. Performance Incentive Mechanisms.....	47
	1. Background	49
	2. PSE’s Proposed Portfolio Refund Threshold.....	50
VIII.	ELECTRIC DISTRIBUTION SYSTEM RELIABILITY REPORTING	52

LIST OF EXHIBITS

- Exh. JLB-2 Utility Performance Incentive Mechanisms: A Handbook for Regulators
- Exh. JLB-3 Next-Generation Performance-Based Regulation: Primer-Essential Elements of Design and Implementation

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Jason L. Ball, and my business address is 621 Woodland Square Loop
5 SE, Lacey, Washington, 98503. My business mailing address is P.O. Box 47250,
6 Olympia, Washington, 98504-7250. My business email address is
7 jason.ball@utc.wa.gov.

8

9 **Q. By whom are you employed and in what capacity?**

10 A. I am employed by the Washington Utilities and Transportation Commission
11 (Commission) as the Assistant Director in the Energy Regulation Section of the
12 Regulatory Services Division.

13

14 **Q. Please provide your educational background.**

15 A. I earned a degree from New Mexico State University in 2010 with a dual major in
16 Economics and Government. In 2013, I graduated with honors from New Mexico
17 State University with a Master of Economics degree specializing in Public Utility
18 Policy and Regulation.

19

20 **Q. Have you testified previously before the Commission?**

21 A. Yes. I have testified in a number of Commission proceedings including the
22 following: PacifiCorp d/b/a/ Pacific Power & Light Company (PacifiCorp) general
23 rate cases (GRCs) in Dockets UE-191024, UE-152253, and UE-140762; the

1 PacifiCorp PCAM review proceeding in Docket UE-170717; Puget Sound Energy
2 (PSE) GRCs in Dockets UE-190529/UG-190530 and UE-170033/UG-170034;
3 PSE's power cost only rate case in Docket UE-141141; Avista Corporation d/b/a
4 Avista Utilities in Dockets UE-200900/UG-200901 and UE-200894 (Consolidated),
5 UE-190334/UG-190335, UE-160228/UG-160229, and UE-150204/UG-150205; and
6 the Northwest Natural Gas Company, d/b/a NW Natural 2020 GRC UG-200994.
7

8 **Q. Have you worked on any major projects at the Commission for which you have**
9 **not provided testimony?**

10 A. Yes. I was the lead staff for inquiries into reliability reporting and the lead negotiator
11 for Washington in the PacifiCorp's multi-state process. I was a co-lead for
12 developing cost-of-service rules through the ongoing rulemakings in Dockets UE-
13 170002 and UG-170003.
14

15 II. SCOPE AND SUMMARY OF TESTIMONY

16

17 **Q. What is the scope and purpose of your testimony?**

18 A. I provide Staff's response to PSE's proposed Multiyear Rate Plan (MYRP) filed
19 under the new statute RCW 80.28.425 (MYRP Law). I explain staff's general
20 approach to a MYRP, the required components of a MYRP, and the treatment of
21 performance measures within PSE's proposed MYRP. Finally, I address improving
22 Electric Distribution System Reliability Reporting.
23

1 **Q. Please summarize your recommendations.**

2 A. Staff recommends the Commission not implement a Performance-Based Regulation
3 (PBR) approach for this case and instead use Staff’s more limited MYRP
4 Assessment Prototype (MAP) for approval of this MYRP. Staff’s proposed MAP
5 incorporates several recommendations related to the standards applied to MYRPs as
6 well as each of the three major components of an MYRP. Importantly, the use
7 performance measures in Staff’s MAP ensures that PSE will continue to make
8 progress towards key policy objectives and, when combined with the portfolio
9 review threshold, engage in cost-saving efforts at the same time.

10 I also recommend the Commission require PSE to propose a revised electric
11 service monitoring and reporting plan before filing its next general rate case,
12 improve the reporting of reliability, and require PSE to participate in a multi-party
13 collaborative to address the general treatment of electric distribution system
14 reliability.

15
16 **Q. Why is Staff proposing a MAP?**

17 A. Staff’s proposed MAP satisfies the legal requirements for approving a MYRP,
18 replaces the incentive for cost controls formerly created by regulatory lag, and
19 creates a process for reviewing the prudence of provisional plant subject to review in
20 each year of the MYRP. The word “prototype” is meant to indicate the limited
21 applicability of this framework. Staff designed the MAP with specific focus on
22 PSE’s current case. At the end of the MYRP proposed by PSE, we believe a new

1 framework that incorporates the lesson's learned from this case is the best course
2 forward.

3

4 **Q. Is the Company's MYRP consistent with the legal requirements of the MYRP
5 Law and existing Commission standards?**

6 A. No. Although the Company's presentation does a good job of technically satisfying
7 the requirements of the MYRP law, it notably lacks a link between performance
8 measures and actual operations required by statute.¹ This missing link is a critical
9 component of any practical implementation for MYRPs and should be considered
10 necessary for their approval.

11

12 **Q. Have you prepared any exhibits in support of your testimony?**

13 A. Yes. I prepared Exhibits JLB-2 through JLB-3:

- 14 • Exh. JLB-2 is a handbook for regulators developing Performance Based
15 Regulation (PBR) by Synapse Energy Economics, Inc.
- 16 • Exh. JLB-3 is a primer on design and implementation elements for PBR.

17

¹ RCW 80.28.425 ("The commission must, in approving a multiyear rate plan, determine a set of performance measures that will be used to assess a gas or electrical company operating under a multiyear rate plan.").

1 **III. STAFF OBJECTIVES WITH THE MYRP**

2

3 **Q. Please summarize Staff’s objectives for the current MYRP**

4 A. This case represents the first fully adjudicated general rate case subject to the MYRP
5 Law.² Staff balanced the immediate rate case requirements with the long-term use of
6 MYRPs. In particular, Staff focused several criteria in evaluating PSE’s proposed
7 MYRP while at the same time developing its proposed MAP as an appropriate
8 substitute for regulatory lag.

9

10 **Q. Why does the MAP need to provide a substitute for regulatory lag?**

11 A. Regulatory lag, or the delay in recovery of investment for the utility, is generally a
12 way to encourage the utility to engage in cost discipline.³ As discussed later in my
13 testimony, the effects of the MYRP on regulatory lag almost entirely negates the
14 existing cost discipline incentive. However, as a replacement for the lack of cost
15 control incentives, Staff used performance measures within our proposed MAP to
16 transparently evaluate the effects of utility decisions on customers, utility service
17 quality, the environment, and the utility’s operations. Staff also recommends the
18 Commission approved PSE’s proposed portfolio review threshold which creates a
19 strong incentive for PSE to engage in cost controls. Whenever Staff witnesses
20 discuss or propose performance measures, our focus is on ensuring fair and equitable
21 outcomes for the MYRP.

² *Id.* (“Beginning January 1, 2022, every general rate case filing of a gas or electrical company must include a proposal for a multiyear rate plan as provided in this chapter.”).

³ Ball, Exh. JLB-2 at 11.

1 Based on Staff’s objectives in this case, we recommend a MAP to generate
2 rates over the course of the MYRP that are equitable, fair, just, reasonable, and
3 sufficient. However, this MAP is limited and should only be used for the present
4 case.

5
6 **Q. How does Staff incorporate the Commission’s existing standards?**

7 A. Staff applied existing Commission principles and standards in a manner consistent
8 with the new law. Moreover, the legislature explicitly bound MYRPs to existing
9 regulatory practices:

10 The commission's consideration of a proposal for a multiyear rate
11 plan is subject to the same standards applicable to other rate filings
12 made under this title, including the public interest and fair, just,
13 reasonable, and sufficient rates. In determining the public interest,
14 the commission may consider such factors including, but not limited
15 to, environmental health and greenhouse gas emissions reductions,
16 health and safety concerns, economic development, and equity, to
17 the extent such factors affect the rates, services, and practices of a
18 gas or electrical company regulated by the commission.⁴

19
20 Staff followed this guidance carefully to ensure our MAP complies with the new
21 MYRP Law while focusing on the outcomes of the MYRP itself. Importantly, Staff
22 focused on the concept of equity in examining the proposed MYRP, as described by
23 Staff witness Deborah Reynolds.⁵ Staff also identified areas where streamlining can
24 occur through the reduction in duplicative or unnecessary reporting.⁶

25 Finally, Staff focused on following existing processes wherever possible.

26 Within the policy directive, the Legislature specifically stated:

⁴ RCW 80.28.425(1).

⁵ See Reynolds, Exh. DJR-1T at 8:8 – 13:19.

⁶ See Reynolds, Exh. DJR-1T at 14:5 – 16:5.

1 To provide clarity and certainty to stakeholders on the details of
2 performance-based regulation, the utilities and transportation
3 commission is directed to conduct a proceeding to develop a policy
4 statement addressing alternatives to traditional cost of service rate
5 making, including performance measures or goals, targets,
6 performance incentives, and penalty mechanisms.⁷

7
8 Since this policy statement is not yet complete, Staff is operating without direct
9 guidance from the Commission. Wherever possible, Staff witnesses applied existing
10 Commission guidance articulated through prior Commission orders and policy
11 statements. This was critical step in Staff's case as we identified the impact from the
12 new MYRP Law on regulatory lag.

13
14 **Q. How does the MYRP Law influence Staff's presentation?**

15 A. Staff's analysis and proposed MAP within this case is designed to align with the
16 MYRP Law. In particular, the MYRP Law lays out specific requirements for the
17 approval of MYRPs, including the use of performance measures as well as aligning
18 the MYRPs with clean energy legislation.⁸ Staff strongly believes that these
19 requirements represent a minimum threshold and must align with broader regulatory
20 reform. For example, the Commission is engaged in a policy proceeding with a 5-
21 year expected time frame to evaluate alternatives to cost of service regulation.⁹ To
22 the extent practical, Staff's proposed MAP is designed to support and uplift that
23 investigation while ensuring the immediate requirements are met.

24

⁷ LAWS OF 2021, ch. 188, § 1.

⁸ See generally RCW 80.28.425.

⁹ *In re the Comm'n's Proceeding to Develop a Policy Statement Addressing Alternatives to Traditional Cost of Serv. Ratemaking*, Docket U-210590, UTC Legislative Report – Performance Based Regulation Final Appendix, 2 (Jan. 27, 2022).

1 **IV. GENERAL POLICY FOR MYRPs**

2

3 **Q. What is a Multiyear rate plan (MYRP)?**

4 A. A MYRP is a fixed period during which adjustments to rates are limited and not
5 determined through general rate cases. The Commission has a long history with
6 MYRPs, and RCW 80.28.425 establishes the procedures, broadly, that a MYRP must
7 follow.

8

9 **Q. What are the components of a MYRP that must be addressed in a MYRP
10 Assessment Prototype (MAP)?**

11 A. In alignment with the MYRP Law, Staff has identified three specific components of
12 MYRPs that are required by the Commission's current processes. In combination,
13 these three components constitute Staff's proposed MAP. These are:

- 14 1. Baseline O&M and rate base, including projections of these elements for
15 each rate year.
16 2. Review process for proforma and provisional rate base additions.
17 3. Performance measures, including:
18 o Performance goals and areas.
19 o Performance measures.
20 o Performance incentive mechanisms.

21 I discuss each of these components below and whether PSE's proposal meets the
22 minimum requirements of the MYRP law. I also present Staff's proposed MAP as an
23 alternative to the PSE presentation.

24

1 **Q. What is Performance Based Regulation (PBR)?**

2 A. PBR is the use of incentives, measures, and other regulatory tools to influence utility
3 actions and behaviors to achieve certain policy objectives. There are many different
4 descriptions and aspects of PBR, including titles like “alternative form of regulation”
5 and “alternative ratemaking.”¹⁰ Sometimes even MYRPs are considered a form of
6 PBR.¹¹ For the purposes of Staff’s testimony, we consider PBR to be the general
7 restructuring of revenue recovery to change general utility behaviors, actions, and
8 practices. Staff is not recommending the Commission take a PBR approach for this
9 case but instead the Commission should use Staff’s more limited MAP.
10

11 **Q. What are the differences between PBR and Staff’s proposed MAP?**

12 A. Staff’s MAP constitutes the minimum requirements necessary to satisfy the MYRP
13 Law.¹² PBR, on the other hand, requires broad examination and restructuring of
14 existing incentives throughout the utility’s rate schedules (including individual
15 tariffs, riders, and cost recovery mechanisms), reports, and its operations. The broad
16 scope of PBR makes it extremely challenging to implement in a single proceeding.
17

18 **Q. How does PBR relate to performance incentives?**

19 A. Performance incentives are specific tools to address or change specific behaviors,
20 actions, or practices. In this way they are only a component of PBR and are hyper-
21 focused on singular objectives. Incentives take many forms and are already a key

¹⁰ Ball, Exh. JLB-2 at 13.

¹¹ *Id.*

¹² *See generally* RCW 80.28.425.

1 element of the regulatory framework.¹³ Staff is recommending the Commission
2 adopt its proposed MAP that incorporates limited performance incentives consistent
3 with the legal requirements of RCW 80.28.425.

4
5 **A. Legal Requirements of MYRPs**

6
7 **Q. Please describe the statutory foundations for the Company's GRC.**

8 A. RCW 80.28.425 establishes the procedures, broadly, that a MYRP must follow. This
9 creates a minimum legal threshold, which includes performance measures, that must
10 be present for the Commission to approve a MYRP. These requirements are:¹⁴

- 11 1. The MYRP must be subjected to the same standards applicable to GRCs;
- 12 2. Low-income bill assistance must increase by twice as much as general rates;
- 13 3. The calculation of rates separately for each year of a MYRP. This includes:
 - 14 a. A fair value estimate, for rate making purposes, of used and useful
 - 15 property during each rate year, including the initial effective date.
 - 16 b. Revenues and operating expenses for each year of the MYRP;
- 17 4. A proposal to update power costs in the third year of a MYRP, if present;
- 18 5. A deferral mechanism for revenue exceeding 0.5% of the authorized rate of
- 19 return as determined by the Commission Basis Reports; and
- 20 6. Performance measures that assess utility operations during a MYRP.

21
22
23 **Q. How did PSE apply these requirements to its case?**

24 A. PSE provided comprehensive testimony that is, on a technical basis, consistent with
25 the overall legal threshold discussed above. However, as described by Staff
26 witnesses, there are areas of the Company's case that lack sufficient detail, evidence,
27 or connection with Commission standards. The sections below address PSE's

¹³ Ball, Exh. JLB-3 at 2.

¹⁴ See generally RCW 80.28.425.

1 approach for each of the MYRP requirements just listed and, where applicable,
2 Staff's response.

3

4 **B. Principles and Standards for Reviewing MYRP**

5

6 **Q. Are MYRPs subject to the same standards applicable to GRCs?**

7 A. Yes.¹⁵ Since the Commission sets rates on a prospective basis, as prescribed in
8 statute, Staff's analysis of the MYRP starts with the projections used to formulate the
9 rates in each year of the plan.¹⁶ All staff witnesses also rely on the existing standards
10 relevant to their analysis (e.g., known & measurable, used & useful, etc.). Each
11 standard, where necessary, is referenced by each witness.

12

13 **Q. Do you have specific recommendations on how the Commission should apply its**
14 **principles and standards to MYRPs?**

15 A. Yes. The Commission should rely on its historical experience with MYRPs and
16 incentive regulation. Staff has compiled four recommendations based on
17 Commission precedent to apply in evaluating MYRPs.

18 1. Apply the Used & Useful policy statement in a manner consistent with the
19 new MYRP law.¹⁷ In particular, Staff recommends the Commission continue

¹⁵ RCW 80.28.425(1).

¹⁶ See McGuire, Exh. CRM-1T at 9:17-20.

¹⁷ *In the Matter of the Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date*, Docket U-190531, Policy Statement on Property that Becomes Used and Useful, (Jan. 31, 2020) (hereinafter "Used and Useful Policy Statement"). The Commission has stated that the Used and Useful Policy Statement provides relevant guidance pertaining to the recovery of provisional capital within the context of a multi-year rate plan. *See Wash. Utils. & Transp. Comm'n v. Nw. Nat. Gas, d/b/a NW Nat.*, Dockets UG-200994, et al., Order 05, n.5 (Oct. 21, 2021) ("RCW 80.04.250, which forms the basis for the Policy Statement, is neither superseded nor displaced by RCW 80.28.425, which governs multiyear rate plans. Rather, the requirements set out in RCW 80.28.425 are consistent and compatible with RCW 80.04.250.").

1 to apply the same standards of prudence to investment on an ongoing basis,
2 consistent with the Commission's historical practices.¹⁸

- 3
- 4 2. Examine the outcomes of the MYRP for operational efficiency that, in the
5 long-run, benefits ratepayers.¹⁹
- 6
- 7 3. Examine MYRPs, and especially performance measures, with a focus on the
8 end result, not the means of getting to it, to determine whether proposed rates
9 are fair, just, reasonable, and sufficient.²⁰ This includes designing incentive
10 mechanisms to be measurable, simple to administer, and simple to explain to
11 customers.²¹
- 12
- 13 4. Ensure the overall MYRP is an improvement, on balance, over current
14 methods of regulation.²²
- 15
- 16
- 17

18 **1. Commission history with MYRPs**

19

20

21 **Q. Please describe generally the Commission's history with MYRPs**

22 A. The Commission has a long history with MYRPs going back at least to the 1990s.
23 Staff has not undertaken an exhaustive review of all Commission precedents related
24 to MYRPs, but several key cases stand out:

- 25
- 26
- 27
- 28
- 29
- 30
- 31
- **2022** - The Commission approved a two-year MYRP for Northwest Natural Gas which included capital expenditures spread over two-years and a portfolio-based review of projects that were included in rates on a provisional basis and subject to refund.²³
 - **2019** - The Commission approved a three-year MYRP for PacifiCorp that created a separate process for evaluating the prudence of plant that was provisionally included in revenue requirement and subject to refund.²⁴ The

¹⁸ Used and Useful Policy Statement at ¶ 39.

¹⁹ *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-130137 et. al, Order 07, ¶ 22 (June 25, 2013).

²⁰ *Id.* at ¶ 150.

²¹ *Wash. Utils. & Transp. Comm'n v. Puget Sound Power & Light Co.*, Docket UE- 950618, Third Supplemental Order, 6. (Sep. 21, 1995).

²² *Id.*

²³ *Wash. Utils. & Transp. Comm'n v. Nw. Nat. Gas*, Dockets UG-200994 et. al, Order 05, ¶¶ 14-15, (Oct. 21, 2021).

²⁴ *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Dockets UE-191024 et. al, Final Order 09, ¶ 59 (Jan. 18, 2022).

1 PacifiCorp limited issue filing was reviewed by the Commission less than a
2 year later.²⁵ As a part of a full settlement, the limited issue filing provided for
3 a partial refund to ratepayers and a revenue decrease based on the parties
4 review.²⁶

- 5 • **2013** - The Commission approved a three-year MYRP for PSE which
6 included annualized rate increases, an expedited rate filing, and a full
7 decoupling mechanism.²⁷ This included an incentive mechanism attached to
8 the overall MYRP along with significant reporting requirements:

9 We approve the rate plan in part because it is an innovative
10 approach that will provide incentives to PSE to cut costs in
11 order to earn its authorized rate of return. It is important that
12 the Commission monitor how, and how well these incentives
13 operate to improve efficiency and reduce costs that
14 ultimately will mean rates to customers that are lower than
15 they would be absent these gains in efficiency. As Mr.
16 Schooley testified, the key to additional reporting is that it
17 provides helpful information to the Commission. Again, we
18 expect PSE and Staff to work together to develop reporting
19 protocols that will keep the Commission informed about
20 PSE's cost cutting and efficiency initiatives during the term
21 of the rate plan.²⁸

- 22 • **2000** - The Commission approved a five-year MYRP for PacifiCorp which
23 created predictable rate changes to reduce rate shock and allow the utility
24 time to reduce costs and improve service in Washington.²⁹ This plan included
25 an evaluation of PacifiCorp's performance over the full five-years as well as
26 reasonableness check of the company's existing rates.³⁰
- 27 • **1991** - The Commission authorized a Periodic Rate Adjustment Mechanism
28 (PRAM) for PSE which operated similarly to a three-year MYRP.³¹ The
29 PRAM was ultimately eliminated five years later with the Commission
30 noting that:

31 The issues which originally lead to the invention of the PRAM
32 have not evaporated. Power costs and hydro conditions can be
33 expected to continue to vary. This variability presents risks
34 which must be managed by Puget and balanced between
35 shareholders and ratepayers. Aligning company motivations

²⁵ See generally *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Dockets UE-210532, et. al, Order 06 (Dec. 14, 2020).

²⁶ *Id.* at 20.

²⁷ *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-130137, et. al, Order 07, ¶¶ 221, 223-224, 228 (June 25, 2013).

²⁸ *Id.* at ¶ 214-215.

²⁹ *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE- 991832, Third Supplemental Order, ¶¶ 36-37 (Aug. 09, 2000).

³⁰ *Id.* at ¶ 38.

³¹ *Wash. Utils. & Transp. Comm'n v. Puget Sound Power & Light Company*, Docket UE- 950618, Third Supplemental Order at 4. (Sep. 21, 1995).

1 with state and regional policy objectives remains an important
2 public interest goal.³²
3
4

5 **Q. Has the Commission provided any relevant policy statements about MYRPs**
6 **and their operation?**

7 A. Yes. We have identified at least three policy statements which are uniquely relevant
8 to the present case.

- 9 • **Used & Useful Policy Statement**³³ - The Commission's 2020 Used & Useful
10 Policy Statement was required by RCW 80.04.250(3) and was written before
11 the new MYRP Law. In the policy statement, the Commission lists several
12 evidentiary requirements for plant placed in service after the rate-effective
13 date. This includes:

- 14 1. Identify rate-effective period investment separately from traditional
- 15 pro forma rate-base adjustments;
- 16 2. State whether they are seeking recovery through base rates or a
- 17 separate tariff schedule;
- 18 3. Include the estimated or projected costs;
- 19 4. Include a description of the investment, as well as other existing
- 20 documentation;
- 21 5. Provide the expected in-service date (during the rate effective period);
- 22 6. Show that the property will be used and useful;
- 23 7. Show that proposed adjustments involve known and measurable
- 24 events;
- 25 8. Show that the proposed adjustments adhere to the matching principle;
- 26 9. Separately demonstrate, and account for, all offsetting factors; and
- 27 10. Provide information regarding level of spending, cost controls, and
- 28 the specific need for the projected investment.
- 29
- 30

- 31 • **Decoupling Policy Statement**³⁴ - In 2010, the Commission focused on ways
32 to encourage broad adoption of cost-effective conservation. A key aspect of
33 this concern was related to the incentives imbedded in the historic regulatory
34 practices:

35
36 ...[W]ith full decoupling comes a concern that, by eliminating
37 the risk of recovery of declines in revenue, combined with an

³² *Id.*

³³ *See Generally* Used and Useful Policy Statement.

³⁴ *In the Matter of the Wash. Utils. & Transp. Comm'n's Investigation into Energy Conservation Incentives*, Docket U-100522, Report And Policy Statement On Regulatory Mechanisms, Including Decoupling, To Encourage Utilities To Meet Or Exceed Their Conservation Targets, (Nov. 04, 2010) (hereinafter "Decoupling Policy Statement").

1 energy cost recovery mechanism that reduces an electric
2 utility's financial risk due to changes in power costs, the
3 utility could lose some of its incentive to manage the
4 company in a manner that constantly looks to reduce costs.
5 Indeed, some experts in the theory and practice of regulation
6 caution commissions to engage in regulation that constantly
7 provides incentives for a utility to cut costs. Such prudent
8 actions on the part of the utility serve to benefit the utility as
9 well as, in the long run, the ratepayers.³⁵

- 10
11 • **PGA Incentives Policy Statement**³⁶ – In 1997, the Commission laid out 15
12 guidelines for purchased gas adjustments. This includes:³⁷

- 13
14 1. Incentive mechanisms should utilize a benchmark;
15 2. The benchmark should be based on total costs;
16 3. Incentive mechanisms should be simple to avoid gaming;
17 4. Benchmarks should rely on market prices, not utility historic costs;
18 5. Revenue and risk sharing should be symmetric;
19 6. Deadbands are useful to dampen market effects;
20 7. Incentive mechanisms should have a limited duration with explicit
21 evaluation protocols;
22 8. Proposals for new mechanisms should include a three-year back cast;
23 9. Benchmarks that include index market prices should include the
24 liquidity of such index to avoid a utility exercising too much market
25 power;
26 10. The Commission should avoid one-size-fits-all mechanisms;
27 11. The Commission may consider mechanisms that don't fit these
28 guidelines in special circumstances;
29 12. The Commission should not consider narrowly tailored mechanisms;
30 13. Incentive mechanisms should be clear in how they affect rates;
31 14. All gas utilities should adopt clear procedures for updating rates based
32 on gas costs; and
33 15. Incentive mechanisms should not replace the Commissions' ability to
34 review utility actions for prudence.
35

³⁵ *Id.* at ¶ 26 (internal citations omitted).

³⁶ *In the Matter of the Comm'n's Notice of Inquiry: Examining Regulation of the Local Distribution Companies in the Face of Change in the Natural Gas Industry*, Docket UG-940778, Policy Statement, (May. 16, 1997) (hereinafter "PGA Incentives Policy Statement").

³⁷ *Id.* at 2-4.

1 **Q. Are these policy statements relevant to the present case?**

2 A. Yes. The Used & Useful Policy Statement articulates the Commission’s historic and
3 current standards and policies for evaluating plant. The Decoupling Policy Statement
4 and PGA Incentives Policy Statement reinforce the four historical standards
5 articulated above. In combination, these three policy statements support the need for
6 Staff’s proposed MAP.

7

8 **2. Applying Commission historical standards to the MYRP**

9

10 **Q. How does Staff recommend the Commission apply to this case the six statutory**
11 **foundations of a MYRP cited above?**

12 A. Each principle is relevant to specific aspects of the MYRP. Staff recommends
13 applying the following standards:

14 **1. Determine property to be used & useful** – To aid in the Commission’s
15 evaluation of the MYRP Components, Staff has grouped several key
16 standards into two buckets. Each of these buckets is referenced by Staff
17 members as they evaluate different elements of PSE’s case.

18

19 • Forward-Looking Standards – These are applied on a forward-
20 looking basis to determine the appropriate way rates should be set
21 and cost-recovery should be allowed. This includes materiality,
22 known & measurable, indirect offsets, and the matching principle.
23 These standards are generally applied within the MYRP
24 *Component #1 - Baseline & Projections of Costs*

25

26 • Backward-Looking Standards – These are applied in a backward-
27 looking manner to examine utility decisions, their context, and
28 their outcomes. This includes showing need, basing decisions on
29 the best information available, and retaining records of decisions.
30 As discussed in the next section of my testimony, Staff
31 recommends the Commission use these standards on an ongoing
32 basis consistent with the Commission’s historical practices. This

1 is a key aspect of the Commission’s evaluation through the
2 MYRP *Component #2, the Review Process*.

- 3
- 4 **2. Examine outcomes** – This standard is applied through the MYRP
5 Component #2, Review Process, which provides an opportunity to review
6 multiple aspects of the utility’s operations, including rate base
7 expenditures and prudence of its decisions.
8
- 9 **3. Evaluate end result** – This standard is applied through the MYRP
10 *Component #3, Performance Measurement*, which will allow the
11 Commission to adopt simple, straight-forward incentive mechanisms and
12 focus on the outcomes (i.e., the end result) of PSE’s MYRP.
13
- 14 **4. Improve current methods** – Staff’s overall case and proposed MAP
15 including the application of standards to the revenue requirement models
16 and updates to capital planning yield a complete package for the
17 Commission to consider. Consistent with Staff’s objectives, these pieces
18 work together to support changes that will improve the overall regulatory
19 framework.
20

21

22 **C. Prudence During the MYRP**

23

24 **Q. What is prudence?**

25 A. Prudence examines the decisions and expenditures made by a utility. This is derived
26 from the requirement that the Company requesting an increase to rates carry “the
27 burden of proof to show that such increase is just and reasonable.”³⁸ In examining
28 the request, the Commission has stated that:

29 The Commission relies upon a reasonableness standard. The
30 company must establish that it adequately studied the question of
31 whether to purchase these resources and made a reasonable decision,
32 using the data and methods that a reasonable management would
33 have used at the time the decisions were made. Prior Commission
34 rulings established that this standard applied to both abandoned

³⁸ RCW 80.04.130(4).

1 projects and successfully completed projects.
2

3 The Commission's more flexible approach gives a company more
4 management discretion in making its decisions, and the capability to
5 seize unplanned opportunities, should the market develop in
6 unexpected ways. Those specific resource decisions are then
7 reviewed in an after-the-fact prudence review.³⁹
8

9 **Q. Why is prudence important?**

10 A. Prudence is critical to ensuring cost-controls are implemented by the utility. The
11 Commission has specifically stated this:

12 In our view, the prudence review remains important to assure that
13 the company is not indifferent to cost. Utility managers are faced
14 with an increasingly competitive future. They must learn skills that
15 their counterparts in the unregulated sector have always observed
16 and succeeded or failed by soon.⁴⁰
17

18 The application of prudence, through an appropriate process, is necessary to ensure
19 utilities engage in behavior that results in cost controls.
20

21 **Q. Please describe the Prudency Process.**

22 A. The Prudency Process applies the Backward-Looking Standards to specific
23 investments included in rates for cost recovery after project completion. Specifically:

24 The Commission has consistently applied a reasonableness standard
25 when reviewing the prudence of decisions relating to power costs,
26 including those arising from power generation asset acquisitions.
27 The test the Commission applies to measure prudence is what would
28 a reasonable board of directors and company management have
29 decided given what they knew or reasonably should have known to
30 be true at the time they made a decision. This test applies both to the
31 question of need and the appropriateness of the expenditures. The
32 company must establish that it adequately studied the question of

³⁹ *Wash. Utils. & Transp. Comm'n v. Puget Sound Power & Light Co.*, Dockets UE-920433, et. al., Nineteenth Supplemental Order, 10-13. (Sep. 27, 1994).

⁴⁰ *Id.* at 37.

1 whether to purchase these resources and made a reasonable decision,
2 using the data and methods that a reasonable management would
3 have used at the time the decisions were made.⁴¹
4

5 By examining Company decisions for consistency with the Backward-Looking
6 Standards, the Commission determines what level of cost recovery is necessary to
7 satisfy the public interest. For both expenditures and capital costs,⁴² this test
8 examines three factors “(1) Was the initiation of the project prudent? (2) Was the
9 continued construction of the project prudent? and (3) Were the construction
10 expenses prudently incurred?”⁴³
11

12 **Q. Should regulated investor-owned utilities be required to provide**
13 **contemporaneous evidence to demonstrate prudence of provisional capital?**

14 A. Yes. The Commission has stated: “Documentation and evidence of prudent decision
15 making must be kept contemporaneously with a company’s decision making or the
16 Commission’s ability to evaluate prudence is thwarted. Regulated companies bear
17 the burden of proving their decisions were prudent.”⁴⁴
18

⁴¹ *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Docket UE-031725, Order 12, ¶ 19 (June 25, 2013).

⁴² *Wash. Utils. & Transp. Comm’n v. Puget Sound Power & Light Co.*, Docket UE-920433 et. al., Nineteenth Supplemental Order, at 11.

⁴³ *Wash. Utils. & Transp. Comm’n v. PacifiCorp*, Dockets UE-152253 et. al, Order 12, ¶ 95 (Dec. 14, 2020) (internal citation omitted).

⁴⁴ *Wash. Utils. & Transp. Comm’n v. Avista Corp. et. al.*, Docket UE-190882, Order 05, ¶ 43 (March 20, 2020).

1 **Q. Is prudence evaluated throughout the planning process and life of a capital**
2 **investment?**

3 A. Yes. Along with the statutory requirements related to performance measures,⁴⁵ the
4 Commission has stated: “Prudence is always part of the investment threshold
5 question and is continuously evaluated during the life of an investment.”⁴⁶
6

7 **Q. How is the Prudency Process conducted during a MYRP?**

8 A. Due in part to the new MYRP Law, but also other legislation such as the Clean
9 Energy Transformation Act, the backwards looking review conducted by the
10 Commission for investments must be conducted at multiple points in time. First, the
11 review and approval of need can now occur concretely in planning elements, like the
12 CEIP.⁴⁷ Second, rate recovery for projects in the traditional pro forma and
13 provisional periods can begin before the review process for pro forma plant within
14 the rate year (in situations like this, the Commission utilizes rates subject to
15 refund).⁴⁸ Third, the Commission will need to examine the continued prudence of
16 company investments and operations based on actual utility performance. Staff
17 recommends the Commission implement the third piece by tying performance
18 measures to prudence throughout the MYRP.
19

⁴⁵ RCW 80.28.425(7).

⁴⁶ Used and Useful Policy Statement at n.39.

⁴⁷ See generally WAC 194-40-200.

⁴⁸ Used & Useful Policy Statement at ¶ 46 (“[T]his Policy Statement establishes a two-step approval process. The first step involves provisional approval for the inclusion in rates of identified rate-effective period investment. The second step involves final approval after the investments are reviewed and confirmed to be used and useful and prudent.”); see also *id.* at ¶ 20 (“Under this process, we make our final decision on rate recovery in a future period after sufficient information about the property in question has become available.”).

1 **Q. Regarding the first point time, which includes planning elements like the CEIP,**
2 **how do you recommend the Commission apply its prudence standards?**

3 A. There is functionally very little difference between the prudence and determination
4 of need within a CEIP and the same aspect or review conducted in a GRC. Other
5 than the need for continuously updating assumptions, Staff recommends the
6 Commission conduct its review of plant identified in the CEIP using the same
7 reasonableness test as applied in general rate cases.

8

9 **Q. Regarding the second point in time, regarding pro forma plant placed in**
10 **service, how do you recommend the Commission conduct its prudence review?**

11 A. At a high level, I recommend the Commission continue to use the rates subject to
12 refund procedure from the Used & Useful Policy Statement. This is consistent with
13 the Staff objectives to use existing processes while meeting the minimum
14 requirements of the MYRP Law. However, as discussed later in my testimony, the
15 use of refunds during a MYRP has the potential to undermine any cost-saving
16 incentives the utility faces. Rather than tie refunds to specific investments, I
17 recommend the Commission take a portfolio level view of company actions before
18 calculating any refunds. This simplifies both the rate setting and prudence review
19 process. Staff's proposal also ensures flexibility for the Company and Commission
20 to determine the best course of action for specific investments.

21

1 **Q. Regarding the third point in time, the continued prudence of operations and**
2 **investments, how do you recommend the Commission conduct its prudency**
3 **reviews?**

4 A. The Prudency Process must now incorporate Performance Measures to replace the
5 cost discipline incentive that was created by regulatory lag. For the purposes of this
6 MYRP, Staff recommend multiple performance measures in addition to PSE's
7 proposed metrics. These measures are grouped through policy objectives and
8 performance areas. The combination of the policy objectives, performance areas,
9 performance measures, and performance incentives in Staff's proposed MAP is
10 critical to ensuring fair & equitable, just, and reasonable outcomes in each year of
11 the rate plan.

12
13 **Q. How is the prudency process impacted by Staff's proposed MAP?**

14 A. Based on the reporting of performance measures identified in Staff's MAP, the
15 Commission will have a good indication of whether the policy objective or
16 performance area is at risk. Since the Company is the owner of these metrics, they
17 are the ones best situated to achieve the policy objectives and performance areas.
18 Failure to achieve progress by the Company would be evaluated in the Prudency
19 Process for relevant investments and could result in changes to the structure of their
20 cost recovery. The mechanics of how this process would work are discussed in-depth
21 in my section on MYRP Component #2 - Review Process for Proforma and
22 Provisional Rate Base.

23

1 **Q. Why should the Company be responsible for achieving these performance**
2 **measures?**

3 A. First, PSE is the owner and operator of the assets used to provide of utility services.
4 Therefore, the Company is the best situated to see that each of these policy
5 objectives are achieved. Second, by significantly reducing regulatory lag the
6 Company is receiving a substantial reduction in the amount of revenue it places at
7 risk with every investment. In exchange for this reduction, the Company is required
8 by statute to include performance measures. For performance measures to be
9 effective, they must carry some form of incentive or penalty. Staff is recommending
10 the Commission ensure this incentive or penalty exists by relying on the current
11 standards and prudence process, much as it has done since the 1990s.

12

13 **V. MAP COMPONENT #1 - BASELINE & PROJECTIONS OF COSTS**

14

15 **Q. What are the elements of MAP Component #1 – Baseline & Projections of**
16 **Costs?**

17 A. The MYRP presented by PSE starts with a modified historical test year from which it
18 begins to build its proposal. This includes pro forma and provisional adjustments to
19 the revenue requirements.

20

1 **Q. What are traditional pro forma adjustments?**

2 A. Traditional pro forma adjustments update the restated results of operations for known
3 and measurable changes that are not offset by other factors.⁴⁹ For purposes of
4 MYRP, these adjustments generally include the test-period through the rate effective
5 date.

6
7 **Q. What are provisional pro-forma adjustments?**

8 A. Provisional pro forma adjustments reflect investments placed into service after the
9 rate effective date and during the rate-effective period.⁵⁰ However, the Used and
10 Useful Policy Statement, which addresses provisional adjustments, does not
11 generally apply to operating revenues or expenses. Provisional pro forma
12 adjustments are also subject to a future review process and refund.⁵¹ In particular, the
13 Commission has stated that any “rate-effective period investment amounts found
14 during the review process not to be used and useful, known and measurable,
15 adequately matched to offsetting factors, and prudently incurred, will be refunded to
16 customers.”⁵²

17
18 **Q. Should the Commission make a final prudence determination on provisional**
19 **pro forma adjustments when issuing its final order in this docket?**

⁴⁹ WAC 480-07-510 (3)(F)(ii).

⁵⁰ Used and Useful Policy Statement at ¶ 34.

⁵¹ Used and Useful Policy Statement at ¶¶ 38-42.

⁵² Used and Useful Policy Statement at ¶45.

1 A. No. The Commission should not issue a *final* prudence determination on any
2 provisional investments until the conclusion of any future review process.⁵³ The
3 Commission will then need to examine the continued prudence of company
4 investments and operations based on actual utility performance.

5
6 **Q. How are forecasted revenues and expenses incorporated into the MYRP?**

7 A. As Staff witness Chris McGuire explains, the MYRP Law requires that both
8 revenues and operating expense for are determined for each rate year.⁵⁴ However,
9 these revenues and expenses are not subject to treatment as provisional adjustments
10 to revenue requirement (i.e. like certain capital that is subject to refund). As I discuss
11 later in my testimony, Staff’s proposed MAP provides adequate incentive for the
12 utility to engage in cost controls with respect to investments as well as revenues and
13 expenses.

14
15 **Q. What impact makes up the baseline portion of the MYRP?**

16 A. Staff witness Chris McGuire summarizes revenue requirement throughout the
17 MYRP.⁵⁵ In addition, several Staff witnesses address topics which specifically
18 impact this calculation for baseline rates for electric service. These include:

19

⁵³ Used and Useful Policy Statement at ¶ 46 (“[T]his Policy Statement establishes a two-step approval process. The first step involves provisional approval for the inclusion in rates of identified rate-effective period investment. The second step involves final approval after the investments are reviewed and confirmed to be used and useful and prudent.”); *see also id.* at ¶ 20 (“Under this process, we make our final decision on rate recovery in a future period after sufficient information about the property in question has become available.”).

⁵⁴ McGuire, Exh. CRM-1T at 13:6-9.

⁵⁵ *See generally* McGuire, Exh. CRM-3; McGuire, Exh. CRM-6.

Test Year O&M Expenses Staff witness Chris McGuire discusses generally PSE's test year O&M revenue requirements.
Staff witness Roxie McCullar recommends specific depreciation rates for the duration of the MYRP.

Cost of Capital Staff witness David Parcell discusses Staff's proposed capital structure which includes recommendations for each year of the MYRP and is a key element of determining revenue requirement.

Capital Investments Staff witness Jennifer Snyder recommends the Commission allow return of Advanced Metering Infrastructure (AMI) investment but continue to defer return on.
Staff witness Chris McGuire discusses pro forma plant during the initial test-period.

Other Expenses Staff witness Andrew Rector recommends the Commission approve PSE's existing transportation electrification pilot.

1 Several Staff witnesses address topics which specifically impact this calculation for
2 baseline rates for natural gas service. These include:

Test Year O&M Expenses Staff witness Chris McGuire discusses generally PSE's test year O&M revenue requirements.
Staff witness Roxie McCullar recommends specific depreciation rates for the duration of the MYRP.

Cost of Capital Staff witness David Parcell discusses Staff's proposed capital structure which includes recommendations for each year of the MYRP and is a key element of determining revenue requirement.

Capital Investments Staff witness Jennifer Snyder recommends the Commission allow return of AMI investment but continue to defer return on.
Staff witness Chris McGuire recommends the Commission allow recovery of a portion of the Tacoma Liquefied Natural Gas (LNG).

1 **Q. What makes up the projected portion of the MYRP?**

2 A. Again, Staff witness Chris McGuire summarizes revenue requirement throughout the
3 MYRP.⁵⁶ In addition, several Staff witnesses address topics which specifically
4 impact this calculation for provisional adjustments and rates for electric service.
5 These include:

Forecasted O&M Expenses	<p>Staff witness Chris McGuire discusses PSE’s projections of O&M expenses for each year of the MYRP along with proposed adjustments.</p> <p>Staff witness Roxie McCullar recommends specific depreciation rates for the duration of the MYRP.</p> <p>Staff witness Hanna Navarro recommends the Commission adopt a mechanism to update power costs annually.</p>
Cost of Capital	<p>Staff witness David Parcell discusses Staff’s proposed capital structure which includes recommendations for each year of the MYRP and is a key element of determining revenue requirement.</p>
Capital Investments	<p>Staff witness Joel Nightingale recommends the Commission allow the Energize Eastside investment into rates on a provisional basis subject to the ongoing prudence review process.</p> <p>Staff witnesses Molly Brewer and Hanna Navarro recommend numerous changes to PSE’s capital planning and investment process which may have a financial impact on decision making by the Company.</p>
Other Expenses	<p>Staff witness Andrew Rector recommends the Commission remove the distributed energy resource and energy storage demonstration projects from forecasted rates.</p>

⁵⁶ McGuire, Exh. CRM-3; McGuire, Exh. CRM-6.

1 **Q. How did Staff determine what projected plant is appropriate to include in rates**
2 **on a provisional basis within the MYRP?**

3 A. The Used and Useful Policy Statement notes that the “threshold for including
4 provisional pro forma adjustment will be determined on a case-by-case basis. . . .”⁵⁷
5 Staff focused on five key elements identified within this policy statement in
6 considering whether it was appropriate to include PSE’s forecasted plant costs into
7 rates on a provisional basis.⁵⁸ In particular, Staff considered the following five key
8 elements discussed by the Commission in the policy statement:

- 9 1. Degree of certainty as to the budget;
- 10 2. Degree of certainty that project will be built;
- 11 3. Demonstration of the need for the project;
- 12 4. Consideration of all offsetting factors; and
- 13 5. Reasonable expectations of cost controls.

14
15 In the responsive testimonies of Joel Nightingale and Andrew Rector, both Staff
16 witnesses apply these five factors in recommending whether or not to include certain
17 provisional plant in base rates.⁵⁹

⁵⁷ Used and Useful Policy Statement at ¶ 35 (“In sum, this Policy Statement establishes a two-step approval process. The first step involves provisional approval for the inclusion in rates of identified rate-effective period investment.”).

⁵⁸ The Commission has stated that the Used and Useful Policy Statement provides relevant guidance pertaining to the recovery of provisional capital within the context of a multi-year rate plan. *See Wash. Utils. & Transp. Comm’n v. Nw. Nat. Gas, d/b/a NW Nat.*, Dockets UG-200994, et al., Order 05, at n.5 (“RCW 80.04.250, which forms the basis for the Policy Statement, is neither superseded nor displaced by RCW 80.28.425, which governs multiyear rate plans. Rather, the requirements set out in RCW 80.28.425 are consistent and compatible with RCW 80.04.250. Accordingly, *the Policy Statement continues to provide relevant guidance for regulated utilities and non-company parties that propose recovery of rate effective period property in a multiyear rate plan where rates approved for years two through four are provisional and subject to refund.*”) (emphasis added).

⁵⁹ *See generally* Nightingale, Exh. JBN-1T; Rector, Exh. ASR-1T.

1 PSE also contemplates that the effective dates for these schedules would
2 occur no later than July 1.⁶⁴ At that point, revenues no longer subject to refund are
3 transferred to the non-refundable schedule. All other adjustments to going forward
4 rates would be effective January 1, including adjustments to low-income rates.⁶⁵
5

6 **Q. Does PSE’s proposal follow the guidance issued in the Used & Useful Policy**
7 **Statement?**

8 A. Yes. However, PSE proposes that parties use a portfolio-based approach to
9 reviewing electric plant in-service. According to PSE, this approach is needed to
10 address regulatory lag and because “rate recovery should evolve to take into
11 consideration the way utilities must manage their business during the multiyear rate
12 plan.”⁶⁶ Rather than tie refunds to specific investments, PSE proposes to use a
13 portfolio approach for revenues exceeding 0.5% of their requested return. As I
14 discuss later in my testimony, PSE’s refund threshold serves as a performance
15 incentive mechanism for the entire MYRP.
16

17 **Q. Is PSE’s proposed review process consistent with the prudency process you**
18 **discuss above?**

19 A. Yes.
20

⁶⁴ Free, Exh. SEF-1T at 48:2-7.

⁶⁵ *Id.* at 48:7-12.

⁶⁶ *Id.* at 36:11-13.

1 **Q. Is PSE’s proposed review process consistent with Staff’s proposed MAP?**

2 A. Partially. First, PSE’s process fails to incorporate performance measures in a
3 meaningful fashion. While the Company proposes to track a multitude of
4 performance measures, as well as create three unique performance incentive
5 mechanisms, the Company’s approach lacks real practical effects on its operations,
6 and correspondingly its behavior in achieving regulatory goals. This is discussed by
7 multiple staff witness that examined multiple aspects of the utilities filing from a
8 performance perspective.

9 Second, PSE’s proposal is not sufficiently detailed to provide adequate
10 review by the parties. In particular, PSE’s proposal misses key information that is
11 necessary to determine the veracity of the information used to set rates. More
12 importantly, PSE’s proposal inappropriately burdens parties by forcing them to
13 uncover evidence of imprudent actions rather than PSE making a positive showing of
14 prudence at the outset.

15
16 **Q. Please describe the procedures that PSE recommends the parties undertake to
17 review the Company’s actual capital spending.**

18 A. PSE advocates for a “process, control, and substantive testing” approach, similar to
19 their external auditors.⁶⁷ PSE also makes the claim that a portfolio review would be
20 similar in practice to a Cost Recovery Mechanism and should be handled in a like
21 manner.⁶⁸

22

⁶⁷ *Id.* at 38:3-5.

⁶⁸ *Id.* at 39:5-40:4.

1 **Q. Do you agree with PSE’s proposal for reviewing plant during the MYRP?**

2 A. Yes, but only as a concept. The details of PSE’s recommendations do not align with
3 the Commission’s ratemaking standards, identified above. For example, the prudence
4 standards require the utility to demonstrate the property is used & useful for
5 ratemaking in Washington. An audit style examination, as contemplated by PSE,
6 requires interested parties to find and demonstrate any action of imprudence by the
7 Company. Such a process would create a presumption of prudence, and therefore
8 inappropriately shift the burden of proof away from the company to make the prima
9 facie case that their actions are indeed prudent.⁶⁹ In short, PSE should bear the
10 burden for providing sufficient evidence demonstrating prudence at the outset of its
11 review process filing.

12
13 **B. Staff Proposed Review Process**

14
15 **Q. Please describe Staff proposed review process.**

16 A. Staff’s proposed process corrects the flaws in PSE’s proposal. Staff is particularly
17 focused on addressing the lack of performance measures included in PSE’s annual
18 review process. As described above, Staff’s proposed MAP is specifically designed
19 to address the needs of this case while replacing the cost control incentives provided
20 by regulatory lag.

⁶⁹ Used and Useful Policy Statement at ¶ 39 (“Regulated companies bear the burden of proving that their investment decisions are prudent, just as they are required to demonstrate that their proposed rates are just, reasonable, and reflect capital expenditures that are used and useful to ratepayers. The general framework for review of provisional pro forma adjustments requires that: Companies will provide sufficient information to facilitate the review, including a prudence review, by Staff or other parties.”) (emphasis added).

1 **Q. What information does Staff propose the Company provide in its annual review**
2 **process?**

3 A. Staff recommends expanding the information provided by PSE on an annual basis.

4 For clarity, I have provided the full list below:

- 5 **a. Plant Closing Amounts** - for each categorization of investments:
6 specific, programmatic, and projected. (*PSE Proposed*)
7 i. Totals must be based on Net Plant inclusive of accumulated
8 depreciation, accumulated deferred income taxes, and offsetting
9 factors.
10 ii. Actual in-service dates for each project
11
- 12 **b. Narrative Explanations** - for differences between forecasted and actuals
13 (*PSE Proposed*)
14 i. Changes which occur within the capital planning process
15 1. Updates or changes to a project within the Project
16 Lifecycle Model.⁷⁰
17 2. Demonstration of how equity was/is incorporated into
18 project.⁷¹
19 ii. Sampling of projects (*PSE Proposed*)
20 iii. Direct narrative explanation and demonstration of prudence for
21 individual projects if any of the following occurs:
22 1. Cost exceeding a threshold,
23 a. Discussion of any decision to continue with
24 investment.⁷²
25 2. Projects originally identified in the forecast but replaced
26 with separate or new projects.
27 3. Additional projects or new projects that required new
28 Corporate Spending Authorizations.⁷³
29
- 30 **c. Portfolio Level Prudence** – for reviewing all plant additions over the
31 course of the review period
32 i. Narrative discussion supporting the prudence of the overall
33 portfolio.
34 ii. Scorecard – reporting of performance measures.

⁷⁰ See Brewer, Exh. MAB-1T at 7:4-9.

⁷¹ See generally Brewer, Exh. MAB-1T; Navarro, Exh. HEN-1T.

⁷² Staff does not have a specific recommendation for what this threshold should be. We suggest that PSE provide such a threshold and defend its use in the annual report rather than determining a bright-line cutoff here. This allows the utility to identify the appropriate balance between reporting necessary demonstrations of prudence and overburdening the parties with additional unneeded information.

⁷³ See Brewer, Exh. MAB-1T at 30:7-12.

1 at that time based on their review beginning in April. Staff would also provide at the
2 open meeting a summary of its findings and recommendations moving forward.

3

4 **Q. How does Staff intend to conduct a review of this information?**

5 A. Staff intends to review the information provided by PSE using the Forward-Looking
6 and Backward-Looking Standards as well as the outcomes of the performance
7 measures.⁷⁷ While Staff agrees that an arbitrary materiality threshold for PSE to
8 provided evidence is burdensome, interested persons should be free to examine any
9 plant included in provisional rates. Staff's proposed process would allow all
10 interested persons to conduct a more discrete review of plant included in provisional
11 rates than PSE has proposed.⁷⁸

12

13 **Q. How do performance measures impact the review process?**

14 A. As discussed above, the Company is responsible for achieving results for each of the
15 policy objectives and performance areas established during the MYRP. Progress in
16 these objectives and areas are tracked by performance measures. This is critical to
17 ensuring fair and equitable, just, and reasonable outcomes each year of the rate plan.
18 If PSE fails to make progress towards the policy objectives, then the Commission
19 should evaluate their actions and determine an appropriate course of action,
20 including reevaluating the recovery of the related rate base, when necessary. The

⁷⁷ Used and Useful Policy Statement at n.39.

⁷⁸ Used and Useful Policy Statement at ¶ 40 (“Each party should have the flexibility to propose the structure of its own review, including preferred audit protocols where appropriate.”).

1 building, tracking, and reporting of these metrics is discussed more in the next
2 section.

3

4 **Q. What options are available to the Commission if the Company fails to make**
5 **progress with a policy objective?**

6 A. The Commission has a range of forward-looking options to consider if PSE is failing
7 to achieve performance in a specific objective or performance area. The Commission
8 has historically used several ratemaking tools to ensure ratepayers benefit from the
9 Company's investments including scrutinizing future investments,⁷⁹ denying interest
10 or return-on,⁸⁰ imputing the revenue requirement,⁸¹ and disallowing cost recovery in
11 its entirety.⁸²

12 Consideration of these options should be based on PSE's presentation as well
13 as the investigations conducted by the parties. In particular, the Commission should
14 continue to rely on its existing standards. For example, if a project included large
15 reliability net benefits that then fail to materialize, it should be subject to additional
16 scrutiny. Where company actions, or lack thereof, contributed to, or created the
17 problem that resulted in lost benefits, the Commission should apply its standards and
18 take consistent action. This is a key element of Staff's proposed MAP that ensures
19 any performance measures have a real-world impact on utility behavior.

20

⁷⁹ *Wash. Utils. & Transp. Comm'n v. Avista Corp. et. al.*, Dockets UE-090134, et. al., Order 10 at ¶¶ 51-52 (March 20, 2020).

⁸⁰ *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Docket UE-031725, Order 14 (May 13, 2004).

⁸¹ *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Order 10 at ¶ 44-45 (Aug. 23, 2012).

⁸² *In the Matter of the Petition of Puget Sound Energy, Inc. For an Order Regarding the Accounting Treatment for the Purchase of a Gas Sales Contract*, Docket UE-971619, Order at ¶ 5 (December 10, 1997).

1 **Q. Please provide an example of how this could work.**

2 A. Certainly. Assume a utility makes a large investment in demand response
3 infrastructure to achieve a reduction in its peak load. This investment carries a
4 performance measure related to the use of the infrastructure and the corresponding
5 reductions. The utility receives provisional cost recovery beginning in year 1 of the
6 MYRP. In the beginning the program is moderately successful. However, in year 3
7 of the MYRP, the company fails to achieve its performance measure.

8 During the annual review process, the utility discloses that it reduced staff
9 devoted to the program and cut a planned advanced dashboard to facilitate
10 interactions with the customers. The Company's actions have directly contributed to
11 the failure of the demand response program, but the utility would continue to receive
12 100% cost recovery. The Commission can, and should, exercise its authority to
13 examine the Company's failure to achieve the specific performance measures. The
14 root cause for why the performance measure is not being achieved should be
15 considered a prevailing factor, consistent with the Backward-Looking Standards.

16

17 **Q. Is Staff's proposal a punitive action that will discourage investment from the**
18 **Utility?**

19 A. Absolutely not. The Company should not be explicitly penalized when the root cause
20 of any failure to achieve a performance measure is beyond a utility's control. The
21 above example identifies the specific actions taken by the utility which resulted in
22 the project benefits failing to materialize. The utility would undoubtedly provide
23 evidence as to why these actions should be considered prudent. Regardless of the

1 circumstances, Staff would investigate the situations, apply the same standards cited
2 previously, and craft a recommendation for Commission consideration that is
3 reasonable and consistent with the public interest.

4

5 **Q. Does Staff's proposal result in retroactive ratemaking?**

6 A. No. Retroactive ratemaking involves:

7 surcharges or ordered refunds applied to rates which had been
8 previously paid, constituting an additional charge applied after the
9 service was provided or consumed. The evil in retroactive rate
10 making as thus understood is that the consumer has no opportunity
11 prior to receiving or consuming the service to learn what the rate is
12 or to participate in a proceeding by which the rate is set. The
13 Commission agrees that retroactive rate making, as thus understood,
14 is extremely poor public policy and is illegal under the statutes of
15 Washington State as a rate applied to a service without prior notice
16 and review.⁸³

17

18 Staff's proposal does not retroactively undo any rates or create a *charge for services*
19 *after the fact*. Indeed, the entire concept outlined in Staff's MAP is that PSE is
20 responsible for forward momentum in achieving specific policy objectives. Where
21 plant and investment are specifically tied to those objectives, the utility is in the best
22 position, as the owner and operator, to ensure the expected outcomes occur. If the
23 Commission takes any action as described above, then it would be applied on a
24 forward-looking basis using the decisions examined up to that point-in-time. Indeed,
25 the Commission has specifically stated that utilities are responsible for the ongoing
26 prudence of investments, as cited previously.

27

⁸³ Wash. Utils. & Transp. Comm'n v. U S WEST Communications, Inc., Docket UT-970010, Second Supp. Order at 10 (Nov. 7, 1997).

1 **VII. MAP COMPONENT #3 - PERFORMANCE MEASUREMENT**

2

3 **Q. Please describe Staff’s proposal for Performance Measurement.**

4 A. Staff’s proposal meets the legal requirements of the MYRP Law, creates an adequate
5 incentive basis for PSE to engage in cost control, incorporates Staff’s objectives
6 listed previously, and provides the first step towards a comprehensive review of
7 utility operations and performance. This proposal incorporates three distinct
8 components: performance goals and areas, performance measures, and limited
9 performance incentive mechanisms. Each of these components are linked and cannot
10 be separated or made distinct. Importantly, Staff’s proposal builds from the
11 Company’s more limited set of performance tools and measures that do not
12 adequately address the need for performance management within the MYRP.

13

14 **Q. How is this section of your testimony organized?**

15 A. I first discuss the need for performance measurement as a replacement for regulatory
16 lag. I next discuss the three components of Staff’s proposal: performance goals and
17 areas, performance measures, and limited performance incentive mechanisms.

18

19 **A. Need for Performance Measurement**

20

21 **Q. Why is Performance Measurement necessary?**

22 A. The MYRP Law explicitly requires performance measures for approval of an
23 MYRP, and the practical implementation of any performance plan necessitates some

1 level of structure and consistency. Aligned with Staff’s objectives, performance
2 measurement include the elements necessary for effective tracking of utility
3 performance and monitoring of outcomes within a MYRP. While additional
4 requirements and more comprehensive policies could certainly be used, Staff has
5 focused only on those pieces necessary for this MYRP. Additionally, Staff is
6 cognizant of the ongoing policy investigation by the Commission and its goal to
7 develop comprehensive strategies for creating performance measures and incentive
8 mechanisms.⁸⁴

9
10 **Q. Does PSE’s case provide an adequate framework for meeting the legal**
11 **requirements of the MYRP Law as well as Staff’s objectives?**

12 A. No. While the Company has met the minimum legal requirements, as described
13 above, its case lacks elements necessary for achieving the desired outcomes of
14 MYRPs. Specifically, the Company points out that “the only strict requirement is the
15 Commission ‘must in approving a multiyear rate plan, determine a set of
16 performance measures that will be used to assess a gas or electrical company
17 operating under a multiyear rate plan.’”⁸⁵ While the Company’s assertion is
18 *technically* correct it misses the practical requirements for performance measures to
19 be useful. Moreover, PSE’s case makes very little connection between the actual
20 performance it achieves regarding its proposed measures and the requested revenue
21 requirement increase of \$1.1 *billion* over three years.

22

⁸⁴ That investigation is assigned Docket U-210590.

⁸⁵ Piliaris, Exh. JAP-1T at 22:16-18 (internal citations omitted).

1 **Q. How are performance measures and the requested revenue requirement**
2 **increase related?**

3 A. The MYRP Law establishes a fixed period between rate cases and requires the
4 inclusion of performance measures but does not dictate how these measures are used.
5 The fixed period between cases creates incentives for the utility to reduce operating
6 costs and boost earnings. Cost discipline, a form of managerial efficiency, is a key
7 opportunity available to both investors and customers through a MYRP.⁸⁶ In the past,
8 regulators and the Commission have relied on regulatory lag to provide this
9 improved efficiency.⁸⁷ However, with the MYRP Law, regulatory lag will no longer
10 provide the cost discipline incentive to the utility. Therefore, performance measures,
11 and the framework in which they operate, are a necessary component of any MYRP.

12
13 **Q. What is regulatory lag?**

14 A. Regulatory lag is the bounded timeframe that begins with a utility incurring an
15 expense, or placing an asset in service, and the collection of additional revenue to
16 recover the cost of the investment. Generally speaking, regulatory lag lasts from 11
17 to 36 months though it can be interrupted using cost deferrals, tracking mechanisms,
18 and other regulatory mechanisms. Staff witness Chris McGuire also discusses the
19 impacts of regulatory lag.⁸⁸

20

⁸⁶ *In re petition of Puget Sound Energy and Nw. Energy Coal. for an order authorizing PSE to implement electric and natural gas decoupling mechanisms and to record accounting entries associated with the mechanisms*, Dockets UE-121697 & UG-121705, Order 07 at ¶ 22 (June 25, 2013).

⁸⁷ *Id.* at ¶¶ 78-80.

⁸⁸ McGuire, CRM-1T at 15:4-16:2.

1 **Q. How is regulatory lag affected by the new MYRP statute?**

2 A. The MYRP Law effectively eliminates the majority of foreseeable lag that occurs
3 between rate cases, since the Company can incorporate these events into the approval
4 of the MYRP itself and begin the regulatory processes before the investment
5 occurs.⁸⁹ Indeed, the law even contains a provision to allow utilities to modify a
6 MYRP after just 2 years.⁹⁰ In total, the MYRP Law has removed regulatory lag as an
7 effective means to encourage cost control at a utility.

8

9 **Q. Can you explain if PSE's case is affected by regulatory lag and the MYRP Law?**

10 A. Yes. PSE has presented a full capital plan for three years in this rate case. Assuming
11 all these projects are prudent, the effect on PSE's income statement from each of
12 these non-revenue generating assets is almost real-time for each year of the MYRP.
13 This is due to the near perfectly timed revenue recovery. From a cashflow
14 perspective, the Company has almost no incentive to find alternatives, reevaluate its
15 decisions, or negotiate lower costs. Without the effects of regulatory lag, the utilities
16 have a significantly reduced interest in the ultimate outcomes of the investment.⁹¹

17

18 **Q. Does the Company propose a substitute for the loss of regulatory lag?**

19 A. Yes. PSE's proposed portfolio-based review process will operate a substitute for the
20 cost disciplining incentive that regulatory lag provided. Under Staff's proposed
21 MAP, the portfolio-based approach with performance measures will allow the

⁸⁹ See also *id.* at 13:3-9.

⁹⁰ RCW 80.28.430 (5).

⁹¹ Prudence disallowances can still happen, but are rare. See above at 34:6-11.

1 Commission to focus more on the outcomes of PSE's investments during the MYRP,
2 enable the Commission to evaluate the end-result of the Company's decision
3 making, and improve the existing regulatory process (i.e. replace regulatory lag).
4

5 **Q. How do performance measures increase the focus of the utility on the outcomes**
6 **of its investments?**

7 A. Since rates are set on a prospective basis, the continued prudence of investments
8 should be questioned if the performance is not being achieved. Performance
9 Measures forge a link between shareholder risk of cost recovery and cost discipline
10 by giving the Company an interest in the outcome through the performance measure.
11 This is critical because, as the operator and owner of services, the Company is best
12 situated to achieve the underlying policy objectives.
13

14 **B. Policy Objectives, Performance Areas, and Performance Measures**
15

16 **Q. Does PSE discuss policy objectives, performance areas, and performance**
17 **measures for the MYRP?**

18 A. Partially. PSE witness Mark Lowry provides significant testimony on the use of
19 performance measures in a MYRP. However, PSE does not provide a clear and
20 comprehensive proposal that connects these performance measures to their actual
21 impacts and outcomes.
22

1 **Q. How does Staff propose to fill this gap?**

2 A. As discussed previously, Staff’s proposed MAP creates a unified structure for
3 tracking, measuring, and ensuring performance within the MYRP. Specifically, Staff
4 proposes using policy objectives and performance areas to ensure performance
5 measures are linked to clear objectives. The performance measures themselves are
6 reported using a scorecard, to ensure adequate transparency in the overall process.

7

8 **1. Background**

9

10 **Q. What is a policy objective?**

11 A. A policy objective is an informed and prioritized policy position that captures the
12 basic reason for creating and tracking performance measures.⁹² Overall, policy
13 objectives need to be a balance of generalization (since they can encompass large
14 portions of a utility’s business) while avoiding too much ambiguity.⁹³ Since policy
15 objectives can overlap multiple aspects of utility service, Staff proposes grouping
16 performance measures using a second category called performance areas.

17

18 **Q. What is a performance area?**

19 A. A performance area is an aspect of utility service that is being measured.⁹⁴

20

⁹² Ball, Exh. JLB-3 at 8.

⁹³ *Id.* at 9.

⁹⁴ Ball, Exh. JLB-2 at 16, 18.

1 **Q. What is a performance measure?**

2 A. Performance measures are either qualitative or quantitative metrics for tracking
3 certain objectives. These can range from company-wide service quality indexes to
4 specific categories of O&M expenditures.

5
6 **Q. Why is it important to have performance measures that are linked to policy
7 objectives and performance areas?**

8 A. The cross-over between policy objectives and performance areas allows
9 stakeholders, customers, and interested persons to sort and examine performance
10 measures based on what they are most interested in. For example, clean energy could
11 encompass measures from a wide range of utility services such as demand side
12 response programs or low-income weatherization. Cross-referencing the policy
13 objectives with the different aspects of utility services enables more meaningful
14 tracking of utility progress towards achieving preferred outcomes.

15

16 **2. Staff-proposed Policy Objectives, Performance Areas, and**
17 **Performance Measures**

18

19 **Q. Please summarize Staff’s proposed policy objectives.**

20 A. Staff’s proposed policy objectives are:

Source	Policy Objectives
Policy Objective	Clean Energy
Policy Objective	Equity
Policy Objective	Enhanced Customer Knowledge And Tools To Support Bill Mgt.

Policy Objective	Leverage Customer Contributions (Behind The Meter)
Policy Objective	Reduction Of Carbon Emissions
Policy Objective	System Wide Efficiency
Policy Objective	Fuel And Resource Diversity
Policy Objective	System Reliability
Policy Objective	Demand Side Management Expansion
CBI Categories	Energy Benefits
CBI Categories	Nonenergy Benefits
CBI Categories	Reduction Of Burdens
CBI Categories	Public Health
CBI Categories	Environment
CBI Categories	Reduction Of Costs
CBI Categories	Energy Security
CBI Categories	Resiliency

1

2

This list incorporates both policy objectives arising from regulatory goals and those

3

identified in the CEIP. The reason for including both is to ensure easy access of the

4

data for all interested persons.

5

6 **Q. Please summarize Staff’s proposed performance areas.**

7 A. Staff’s proposed performance areas are:

Performance Area
Affordability
Electric Vehicles
Emissions
Customer Engagement
Public health
Resilience

8

9

This list is not meant to be comprehensive and should serve as a starting point. Staff

10

focused on the components of the MYRP as proposed by PSE. Where necessary and

1 to the extent other parties propose additional measures, Staff recommends expanding
2 the above list to include additional performance areas.

3

4 **Q. Please summarize Staff’s proposal to track these policy objectives, performance**
5 **areas, and performance measures.**

6 A. Staff recommends using a scorecard. To develop this reporting tool, Staff
7 recommends interested parties work with PSE during the first few months of the rate
8 year. The Commission could then review the scorecard proposed by PSE during the
9 first portfolio review process. This proposal has the added advantage of being able to
10 incorporate any guidance from the Commission’s generic PBR investigation.⁹⁵

11

12 **C. Performance Incentive Mechanisms**

13

14 **Q. Did PSE propose any Performance Incentive Mechanisms for this case?**

15 A. Yes. Various Staff witnesses discuss PSEs proposed incentive mechanisms
16 including:

- 17 1. Staff witness Andrew Rector recommends the Commission reject PSE’s
18 proposed managed charging and time-of-use electric vehicle PIM.⁹⁶
- 19 2. Staff witness Jennifer Snyder recommends the Commission reject proposed
20 peak load management PIM, though witness Snyder offers an alternative
21 version for the Commission to consider.⁹⁷
- 22 3. I recommend the Commission accept, with modifications, PSE’s proposed
23 portfolio review process as described above which includes a threshold
24 before issuing any refunds.
25

⁹⁵ Again, that investigation is docketed at U-210590.

⁹⁶ Rector, Exh. ASR-1T at 34:16-35:2.

⁹⁷ Snyder, Exh. JES-1T at 20:2-13.

1 I discuss below why PSE’s proposed portfolio refund threshold, and the use of
2 performance measures in Staff’s proposed MAP, operates as a PIM.

3

4 **Q. Please describe PSE’s proposed portfolio refund threshold**

5 A. The portfolio refund threshold examines the actual earnings in the Commission Basis
6 Report (CBR). If the Company over earns, regardless of whether it is related to
7 reduced capital expenditures or operational savings, PSE would keep the first 0.5
8 percent of savings before issuing any refunds to ratepayers through the portfolio
9 review process, as described above.

10

11 **Q. Why is the portfolio refund threshold a PIM?**

12 A. This refund threshold creates a direct incentive for PSE to control costs throughout
13 the MYRP so they may keep the additional revenue. This is no different than
14 creating a separate, stand-alone incentive structure that encourages PSE to reduce
15 costs and achieve managerial efficiencies. Indeed, PSE’s proposal is identical to their
16 existing PIM in the current decoupling mechanism. Relying on this existing
17 mechanism, albeit in a modified and more generalized format, reduces regulatory
18 administration. Importantly, the use performance measures throughout the MYRP as
19 described in Staff’s proposed MAP ensures that PSE will continue to make progress
20 towards key policy objectives. Combined with the portfolio refund threshold, PSE
21 will simultaneously have a strong incentive to engage in cost-saving efforts.

22

1 **1. Background**

2

3 **Q. What are Performance Incentive Mechanisms?**

4 A. Performance Incentive Mechanisms (PIMs) are regulatory tools designed to achieve
5 a specific policy objective by changing utility cost recovery. As discussed below, the
6 Commission has a significant amount of experience with PIMs.

7

8 **Q. Please briefly describe the Commission’s history with Performance Incentive**
9 **Mechanisms.**

10 A. The Commission has an extensive history with performance incentive mechanisms.
11 Staff has not undertaken an exhaustive review of all Commission precedents, but a
12 few notable examples include

- 13 • **Power Cost Mechanisms** – Each power cost mechanism approved for
14 Avista, PSE, and PacifiCorp includes cost sharing directly designed to
15 encourage managing power expenses.⁹⁸
- 16
- 17 • **Decoupling** – The Commission identified in the Decoupling Policy
18 Statement that a key rationale for implementing these mechanisms is to
19 incent conservation beyond a utility’s statutory requirements.⁹⁹
- 20
- 21 • **Customer Service Guarantees** – Both Avista and PSE have service quality
22 guarantees in Washington, requiring them to pay penalties or provide bill
23 credits related to multiple customer service agreements.¹⁰⁰
- 24

⁹⁸ *In re Petition of Avista Corp. for Continuation of the Company’s Energy Recovery Mechanism, with Certain Modifications*, Docket UE-060181, Order 03, ¶ 23 (June 16, 2006); *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-011570 & UG-011571, Twelfth Supplemental Order, ¶ 22 (June 20, 2002); *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket UE-130043, Order 05, ¶ 170 (Dec. 4, 2013).

⁹⁹ Decoupling Policy Statement at ¶ 4.

¹⁰⁰ *Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Dockets UE-140188, et. al., Order 06, ¶ 5-6 (June 25, 2015); *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-072300, et. al., Order 29 at ¶ 9-10 (June 17, 2016).

1
2
3
4

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21

- **Energy Efficiency Programs** – The Commission has implemented policies specifically to address the management and success of energy efficiency programs.¹⁰¹

Q. Does PSE have any explicit PIMs currently in operation?

A. Yes. PSE has both a Decoupling Mechanism and a Power Cost Mechanism. Both function as directional PIMs which make specific adjustments to utility revenue and income outside of a general rate case.

2. PSE’s Proposed Portfolio Refund Threshold

Q. Is PSE portfolio-based approach and proposed 0.5% refund threshold appropriate for an MRYP?

A. Yes. Using the portfolio-based approach and threshold encourages PSE to engage in cost control across the board to maximize its opportunity to earn a profit. The alternative use of refunds tied to specific investments would undermine the incentives Staff recommends for this MYRP. Specifically, if each investment were subject to potential refund throughout the MYRP (rather than a portfolio-based approach), the effects of any cost control incentive described previously would be significantly reduced.

¹⁰¹ *In re Review of PURPA Standards in The Energy Independence and Security Act of 2007*, Docket U-090222, Order 01 at ¶ 53 (Sep. 14, 2009).

1 **Q. Why would refunds tied to specific plant mute PSE's incentive to control costs?**

2 A. If the Commission were to authorize a narrow refund process, such as an investment-
3 by-investment refund, PSE would have no reason to engage in cost controls related
4 to capital planning since any savings would be near-instantly returned to ratepayers.
5 As discussed above and by Staff witness Chris McGuire, this incentive used to be
6 created through regulatory lag.¹⁰² However, the MYRP Law effectively eliminates
7 the incentives to control costs created by regulatory lag. It is critical that the MYRP
8 incorporates an alternative means to disciplining spending that also gives the utility
9 an adequate opportunity to earn its rate of return.

10
11 **Q. Does relying on a narrow refund process have any other effects?**

12 A. Yes. The narrow refund process undermines the historical standards identified above
13 by focusing on investment budgeting instead of outcomes, creating process without
14 evaluating the end-result, and failing to improve on the current methods of
15 regulation. Moreover, Staff's proposed MAP with numerous performance measures
16 tied to policy objectives relies on the portfolio-based approach and will not function
17 correctly without it.

18
19 **Q. Is PSE's proposed review process consistent with the concept of rates subject to**
20 **refund discussed in the Used and Useful Policy Statement?**

21 A. Yes. If a company operates imprudently provisional rates would still be subject to
22 refund. This can also include refunds if PSE fails to make progress towards specific

¹⁰² McGuire, CRM-1T at 15:17-16-8.

1 policy objectives, as described previously. PSE’s proposal could also result in
2 refunds if actual plant expenditures differ from the forecasted—but on a forward-
3 looking portfolio basis rather than an individual investment basis.

4
5 **Q. Are any changes needed to the existing PIM’s for the PSE MYRP to function?**

6 A. No, except for a minor change to the decoupling mechanism. Following the current
7 MYRP, it will be important to review the efficacy of these tools. In particular, each
8 PIM should be directly connected to specific goals and performance areas with clear
9 and transparent reporting of their results. However, Staff is cognizant of the
10 Commission Investigation into PBR which has specifically identified this as a topic
11 for future review.¹⁰³ Therefore, Staff agrees with PSE on only slightly modifying the
12 existing earning mechanism to fit within the broader MYRP structure. In practice the
13 earnings test, is the same as what was included in the MYRP Law albeit with a
14 separate timeline and scope of consideration.

15
16 **VIII. ELECTRIC DISTRIBUTION SYSTEM RELIABILITY REPORTING**

17
18 **Q. What is Electric Distribution System Reliability?**

19 A. Electric Distribution System Reliability, also referred to as Electric Service
20 Reliability, is the “continuity of electric service experienced by retail customers.”¹⁰⁴
21 Reporting refers to the monitoring of certain reliability metrics, as well as additional

¹⁰³ *In re the Comm’n’s Proceeding to Develop a Policy Statement Addressing Alternatives to Traditional Cost of Serv. Ratemaking*, Docket U-210590, UTC Legislative Report – Performance Based Regulation Final Appendix at 2 (Jan. 27, 2022).

¹⁰⁴ WAC 480-100-388.

1 information, on an annual basis. To be clear, this definition is specifically targeted at
2 identifying and reporting sustained outages.¹⁰⁵ However, the Commission has
3 considerable flexibility to examine reporting of electric reliability by utilities.

4

5 **Q. How does Electric Distribution System Reliability differ from the general term**
6 **electric reliability?**

7 A. Electric Distribution System Reliability, or Electric Service Reliability, is
8 specifically defined by WAC 480-100-388. This term is narrow and refers only to
9 the specific metrics that are tracked through applicable Electric Service Reliability
10 Monitoring and Reporting Plans (M&R Plans). Specifically, this term is only focused
11 on sustained outages during normal operating days for the entire distribution system
12 of a local utility.

13 On the other hand, electric reliability is a generic term that occurs frequently
14 in statutes and documents throughout the industry.¹⁰⁶ Electric reliability is a “catch-
15 all” that can refer to anything from sustained outages to generation dispatch to power
16 quality. Electric reliability is often a flexible, fluid term that depends on the context
17 where it is used. My testimony in this section is limited to updates of reporting for
18 Electric Distribution System Reliability, and not the generic electric reliability term.

19

¹⁰⁵ *In the Matter of Adopting WAC 480-100-388; 480-100-393, and 480-100-398 Relating to Electric Service Reliability*, Docket UE-991168, Open Meeting Memo, 4 (Mar 14, 2001) (“The rules primarily address interruptions to service as opposed to fluctuations in power quality, though customer complaints about power quality problems made to the utility must be reported to the Commission. The rules do not address reliability of supply.”).

¹⁰⁶ *See Moving Beyond Average Reliability Metrics*, S&C Electric Company (July 20, 2020); *2021 State of Commercial and Industrial Power Reliability Report*, Technical Paper 100-T131 (March 29, 2021).

1 **Q. Please describe PSE proposed updates to Electric Distribution System**
2 **Reliability Reporting.**

3 A. PSE proposes two changes. First, PSE proposes to remove four measures which date
4 back to 2003, due to changes in IEEE standards.¹⁰⁷ Second, PSE proposed to update
5 SQI-3 and SQI-4 to the IEEE Standard 2012 and move the baselines to 2014.¹⁰⁸
6

7 **Q. Does Staff support PSE's proposed updates to Electric Distribution System**
8 **Reliability reporting?**

9 A. Yes. In general, the changes bring the Company's measurement and calculation
10 methodologies up to date with current industry-wide standards. Essentially, PSE is
11 updating its reporting to the latest industry standard. In addition, relying on a 2014
12 baseline would more accurately represent the actual Electric Distribution System
13 Reliability following PSE's investment in both its Outage Management System and
14 Customer Information System. Since these systems are significantly tied to the types
15 of metrics tracked by Electric Distribution System Reliability, their impact on the
16 baseline and subsequent performance by the Company cannot be ignored.
17

18 **Q. Does Staff have any additional recommendations to improve Electric**
19 **Distribution System Reliability Reporting?**

20 A. Yes. Staff also recommends PSE implement additional updates to streamline Electric
21 Distribution System Reliability Reporting including:

22 a. Propose a revised electric service monitoring and reporting plan (per WAC
23 480-100-393) before filing its next general rate case.

¹⁰⁸ Koch, CAK-1Tr2 at 50:1-51:14.

1
2
3
4
5
6
7
8
9
10
11
12
13
14

15

16

17

18

19

20

21

22

23

24

- b. Disaggregate the filing of “Service Quality and Electric Service Reliability Report” and file each subsequent annual report as a new and separate docket. The current process requires PSE to include these reports as documents within UE-170033/170034.
 - 1. File the Natural Gas Emergency Response Plans for Outlying Areas and the Critical Infrastructure Security Annual Report in conjunction with the Electric Service Reliability Report as a separate document.
- c. Participate in any multi-party collaborative to establish common reliability measurements, streamlined reporting formats, and revised M&R Plans among all three Washington IOUs for Electric Distribution System Reliability.

Q. Why does Staff recommend revising PSE’s M&R Plan?

A. The M&R Plan was last updated in 2011. Since then, numerous changes as directed by Commission orders have occurred to the Company’s reporting of reliability, and Staff also conducted an in-depth inquiry into reliability reporting.¹⁰⁹ Revising the M&R Plan codifies all the changes and allows interested parties and the Commission to find opportunities for streamlining.

Q. Does this conclude your testimony?

A. Yes.

¹⁰⁹ *In re Reliability Reporting Inquiry*, Docket U-151958, Staff Findings and Recommendations (Jan. 1, 2019).