



Puget Sound Energy
P.O. Box 97034
Bellevue, WA 98009-9734
PSE.com

May 30, 2018

Mr. Mark L. Johnson
Executive Director and Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Docket UG-170003, Natural Gas COS Generic Proceeding--PSE Comments

Dear Mr. Johnson:

These comments are submitted on behalf of Puget Sound Energy (“PSE”) in response to the Natural Gas Cost of Service (“COS”) Call for Comments dated April 24, 2018 in the above-referenced docket. These comments closely mirror the comments PSE submitted in Docket UE-170003 addressing the electric COS generic proceeding. PSE appreciates the opportunity to provide input on topics to be addressed and the proper forum for addressing these issues.

PSE’s understanding is that Commission Staff is proposing that issues relating to COS be addressed in one of three ways: Rulemaking (template), Rulemaking (procedure), and Policy Statement. In general, PSE agrees that it is best to address the various COS issues in a customized fashion, rather than trying to fit all COS issues into a rule-making proceeding, with a one-size fits all approach. While some COS issues can be addressed through standardized rules and templates, others necessarily vary—based on company characteristics, customer characteristics and history—and should not be addressed in a rulemaking. For these issues, it may be helpful to understand the Commission’s current thoughts on policy and direction through a white paper or policy statement. Finally, PSE believes there should be a clear rationale for any new rules or requirements. If there is not a clear need or purpose for the proposed task, it should not be required—by rule, template, or policy statement.

Commission Staff’s Proposals for Rule and Template

Commission Staff has proposed three items to be addressed by rule and through the use of templates on file with the Commission: (1) Cost of service study (“COSS”) Presentation; (2) Revenue Requirement/COSS Cross-Check; and (3) COS Allocations List. PSE agrees that a uniform presentation could be helpful for the COSS and the COS allocations list, and PSE does not oppose such an approach. PSE is unsure of what is intended by the second issue “Revenue Requirement/COSS Cross Check.” Because PSE is not certain what this refers to, or what form it would take, PSE hesitates to endorse a rule and template for this topic at this time. PSE

respectfully requests that before this item is incorporated into a proposed rule and template, Commission Staff provide additional information to stakeholders regarding the nature and purpose of this template.

Commission Staff's Proposals for Rules Setting Forth Procedures

Commission Staff has proposed a rulemaking that codifies procedures to address the following issues: (1) Load study; (2) COSS with minimal confidential; (3) Reconciliation of billing determinants and test year unadjusted revenues; and (4) Special contract customer must have a marginal cost study. PSE addresses each of these below:

1. Load Study: PSE has an ongoing load study program and has no objection to a rule requiring a new load study to be performed every five years.
2. COSS with minimal confidential: PSE agrees with the general principle that personally identifiable information ("PII") should not be made available in a COSS. In certain situations, it can be possible to identify a customer and the customer's energy usage based on the information provided in a COSS, even without expressly stating the customer's identity. However, PSE believes this issue will be addressed by the proposed rules in WAC 480-07-160, and PSE questions whether additional COSS rules are needed to address this concern. The confidentiality of commercial and exempt information in a COSS should fall within the larger ambit of confidentiality addressed in WAC 480-07-160. The currently proposed revisions to WAC 480-07-160 specifically address the handling of "exempt" information, which is information exempt from disclosure under the Public Records Act, chapter 42.56 RCW. Customer usage information constitutes exempt information under RCW 80.04.095. Under the proposed rule, "exempt" information is to be redacted and the page is to be marked to indicate that the redacted information is "exempt" as opposed to "confidential" or "highly confidential." To the extent any additional rules or procedures are needed to address the protection of PII in cost of service studies, they should be addressed in WAC 480-07-160.
3. Reconciliation of billing determinants and test year unadjusted revenues: PSE requires more information to understand what is being proposed. Also, it is not clear what is meant by the phrase "use this as a baseline reference to compare with the ROO." Further, PSE questions whether a rule is the best approach to address this. While PSE does not object to filing some type of reconciliation, it would need to understand what Commission Staff is proposing to be included as part of the reconciliation before PSE can comment further.
4. Special Contract customers must have a marginal cost study: PSE has several issues with this proposed rule. First, it must be recognized that the nature of special contract customers can vary significantly. In some cases, a marginal cost study for a special contract customer would make no sense. Consider, for example, the special contract

recently approved by the Commission for Microsoft;¹ there are no marginal costs to study for this special contract customer. Thus, at a minimum, the type of special contract customers for which a marginal cost study is required would need to be specified.

Second, this proposed rule resurrects issues raised in PSE's 2017 general rate case, in which Commission Staff sought to either rewrite a special contract in the course of the rate case or penalize PSE for carrying out the terms of the special contract that had been approved by the Commission only a few years earlier. In that case, the Commission rejected Staff's recommendation and found PSE's position persuasive—including that it would be contrary to the public interest to unravel a special contract that the Commission had approved in the middle of the contract term.² If the intent of requiring the marginal cost study to be updated every seven years is to provide a back-door challenge to an existing special contract, before the conclusion of the contract term, this would be problematic and inconsistent with direction recently provided by the Commission.

However, PSE is not opposed to providing a marginal cost study if the purpose of the study is simply for data points—to allow parties to see how the contract is progressing over the contract's term. Even so, it is important to recognize that the special contract rule, WAC 480-80-143, addresses the standards for the Commission to consider at the time the application is submitted to the Commission for approval.³ Moreover, in evaluating a special contract and how it has performed, it is necessary to look at the performance over the totality of the contract, not just for one snapshot in time during a general rate case.

Commission Staff's Proposed Issues to Be Addressed in a Policy Statement

Commission Staff lists 12 issues that it proposes to be addressed in a policy statement. In general, PSE agrees that it would be helpful to obtain the Commission's general thoughts and directional guidance, through a policy statement or white paper, on several of the topics suggested by Commission Staff. Obtaining more clarity around commonly used terms could be worth pursuing, whether in a policy statement or by some other means.

For "Baseline COSS", PSE is concerned that Commission Staff's description is phrased in prescriptive terms, thus appearing more like a rule than a policy statement:

An explicitly approved COSS for each Company serves as baseline for future cases. All proposals in subsequent cases are departures from the approved COSS

¹ See *WUTC v. PSE*, Docket UE-161123, Order 06 (July 13, 2017).

² See *WUTC v. PSE*, Dockets UE-170033 & UG-170034, Order 08, ¶¶ 379-82 (December 5, 2017) (finding PSE's testimony and arguments persuasive and rejecting Staff's recommendations).

³ See WAC 480-80-143(5) ("Each *application filed* for commission approval of a contract must . . . [d]emonstrate, at a minimum, that the contract charges recover all costs resulting from providing the service during its term, and, in addition, provided a contribution to the . . . fixed costs.") (emphasis added).

Mr. Mark L. Johnson
May 30, 2018
Page 4

and do not update baseline unless explicitly ordered. Subsequent cases require re-approval of changes.

Moreover, Staff's description differs from the current rule addressing cost studies, WAC 480-07-510(6), which states as follows:

Cost studies. The company must file with the commission any cost studies it performed or relied on to prepare its filing, identify all cost studies conducted in the last five years for any of the company's services, and describe the methodology in such studies.

Staff's description also differs from the proposed revisions to WAC 480-07-510(6) that are currently being considered by the Commission:

Cost studies. The company's initial filing must (a) include any cost studies the company performed or relied on to prepare its proposals; (b) identify all cost studies conducted in the last five years for any of the company's services; and (c) describe the methodology the company used in all such cost studies. If the cost studies are in the form of a model, the company must provide a copy of that model that will enable the commission to verify and modify the model's inputs and assumptions.

PSE is concerned that Commission Staff's description is not realistic or consistent with past practice. In PSE's experience, most COS cases are settled as part of a general rate case, and a policy statement should not erect barriers to such settlements. Moreover, it is problematic, inefficient, and antiquated to return to the last approved COSS, when that COSS may have been approved two decades earlier. If "Baseline COSS" is to be included in a policy statement as Commission Staff proposes, PSE requests these issues be taken into consideration, and would oppose a directive of the nature set forth in Commission Staff's description.

Thank you for the opportunity to file comments. If we can be of any further assistance, please do not hesitate to contact me.

Sincerely,

/s/ Jon Piliaris

Jon Piliaris
Director, Regulatory Affairs
Puget Sound Energy
PO Box 97034, PSE-08N
Bellevue, WA 98009-9734
425-456-2142
Jon.Piliaris@pse.com