**BEFORE THE**

**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| In the Matter of<br><br>WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION<br><br>Rulemaking to Address Electric and Natural Gas Cost of Service. | )<br>)<br>)<br>)<br>)<br>)<br>)<br>) | DOCKET NOS. UE-170002/UG-170003<br><br>COMMENTS OF THE ALLIANCE OF WESTERN ENERGY CONSUMERS ON PROPOSED RULES<br><br>(**Natural Gas**) |

## I. INTRODUCTION

1 Pursuant to the Washington Utilities and Transportation Commission's ("Commission") February 12, 2020 Notice of Opportunity to File Written Comments on Proposed Rules ("Notice") in the above-referenced dockets, the Alliance of Western Energy Consumers ("AWEC") files these comments on the proposed rules for *natural gas* cost of service studies. AWEC will also be participating in the April 16, 2020 adoption hearing.

## II. COMMENTS

2 AWEC appreciates the Commission's, Staff's and other stakeholders' efforts to review and evaluate utilities' cost-of-service methodologies in this rulemaking. What should be abundantly clear after more than a year discussing cost of service studies and methodologies, is that there are various approaches to allocating costs between customer classes—each with its own pros and cons. There is no perfect cost of service methodology. In the end, the goal is to have rates set and costs allocated in a manner that is fair, just and reasonable.



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3 AWEC has opposed the use of the Peak and Average methodology which is the default methodology used to determine class cost of service in Washington. AWEC continues to oppose use of the Peak and Average methodology because it is not reflective of the true cost to serve customer classes and because it unfairly allocates costs to high load factor users. The Peak and Average methodology double counts the average demand in the cost allocation process, which unnecessarily skews the results to allocate more costs to higher load factor users even though their demand is more consistent. In other words, the difference in the design of the system to serve peak loads and the design of the system to serve average loads is the result of lower load factor users that have wider variations in their use of the system throughout the year. The Peak and Average method ignores that distinction and therefore does not best reflect class cost causation.

4 From a policy standpoint, use of the Peak and Average methodology sends improper price signals regarding the cost of providing service on and off peak. By weighing cost heavily on the volumetric side instead of on the capacity side, the economic price signal to the consumer is that commodity is in short supply and that there is plenty of capacity. This is backwards. The constraint today and in the foreseeable future is not gas supply, but the capacity to deliver gas on cold winter mornings. A Design Day Demand methodology puts more emphasis on capacity, and AWEC's compromise methodology of Average and Excess allocates based on capacity and on volume.

5 While AWEC believes the Design Day Demand methodology is more reflective of actual cost to serve each class and, therefore, is more preferable, AWEC has instead advocated for use of the Average and Excess methodology in this rulemaking, as a compromise position. The



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Average and Excess methodology avoids the primary pitfall of the Peak and Average methodology by not double-counting average use. Further, it recognizes the value of capacity for all customers. AWEC has also advocated for having the utilities present three class cost of service studies to create a range of reasonableness for class cost of service: Design Day Demand, Average and Excess, and Peak and Average. AWEC understands from utility stakeholders that preparing three class cost of service studies would not be a burden for the utilities because the inputs for the models would not change, and it would simply be a matter of running the same numbers through different models. It would also not be a burden for stakeholders to review the different class cost of service studies in a rate proceeding. This is similar to the approach used to determine return on equity where several models are prepared that provide a range of results from which the Commission makes a final determination informed by all factors in a rate case.

6 Notwithstanding AWEC's comments and the willingness of other stakeholders to use other methodologies[1] or multiple cost of service methodologies in Washington, the draft rules, with some exception, continue with the status quo use of the Peak and Average methodology, reject use of the Average and Excess methodology, and reject the proposal to use multiple cost of service studies as suggested by AWEC and others.

[1] Comments of Avista, Cascade Natural Gas, NW Natural Gas, Pacific Power & Light Company, and Puget Sound Energy on Rulemaking to Address Electric and Natural Gas Cost of Service, Dockets UE-170002 and UG-170003, pp. 12-16 (August 30, 2018).



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7 AWEC supports the use of a class cost of service study methodology that allocates demand-related costs based on customers' peak load characteristics—which includes the Design Day Demand methodology, and to a lesser extent, the Average and Excess methodology which also takes into account system usage. Because utilities design their transmission and distribution systems to meet the coincident Design Day Demand of their customers and do not design the system capacity of gas transmission and distribution systems to meet annual throughput, a cost of service study that allocates capacity costs based on customers' peak load characteristics most accurately reflects class cost causation. While AWEC understands that the rules will likely not be revised to use the Design Day Demand or Average and Excess methodologies at this point, AWEC urges the Commission to require multiple cost of service studies as discussed below to provide a range of results.

**Table 3 – Natural Gas Cost of Service Approved Functionalization Methodologies**

8 While AWEC does not have comments on the approved Functionalization Methodologies in Table 3, AWEC suggests that the table be organized to distinguish between Plant accounts and Expense accounts.

**Table 4 – Natural Gas Cost of Service Approved Classification and Allocation Methodologies**

9 AWEC has the following specific comments on Table 4 – Natural Gas Cost of Service Approved Classification and Allocation Methodologies ("Table 4) in the proposed rules. Table 4 provides that for Distribution Mains, Transmission Mains, and Distribution Assets, that the



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classification method will be the system load factor and the allocation method will include the use of Design Day Demand (peak) for allocating the demand classified component of main costs and annual throughput (average) for allocating the throughput classified component of main costs.

10 While AWEC supports the use of Design Day Demand (peak) rather than an averaging of peak days for allocating the demand classified component of main costs, AWEC still believes that the classification of mains as both demand related and throughput related unfairly allocates costs to high load factor customers. Accordingly, for Distribution Mains, Transmission Mains and Distribution Assets, AWEC suggests that Table 4 be revised to provide for three class cost of service studies to provide a range of results—Design Day Demand (peak), Average and Excess, and Peak and Average. This would provide more information to the Commission which it could use as the basis for determining the allocation of costs to customer classes.

11 For Storage costs, it was AWEC's understanding that only system balancing costs would be allocated to all customers, because this benefits all customers. However, it was also AWEC's understanding that the remaining costs would be allocated to sales customers only because only sales customers benefit from storage gas. The proposed rule on storage is ambiguous as drafted. AWEC would suggest inserting phrase "Sales Customers" as follows: "All remaining costs are allocated to *sales customers* with a ratio based on average winter sales that exceed average summer sales"

Thank you for considering these comments.



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Dated this 27th day of March 2020.

Respectfully submitted,

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