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Filed Via Web Portal

Mark L. Johnson, Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

Re: Dockets UE-170002 and UG-170003: Comments of Puget Sound Energy in response to the notice of opportunity to submit written comments on Cost of Service Rulemaking

Dear Mr. Johnson:

Puget Sound Energy ("PSE" or "the Company") appreciates the opportunity to submit comments in response to the request in Washington Utilities and Transportation Commission's ("the Commission") Notice of Opportunity to File Written Comments on Proposed Rules issued in the above reference docket on February 12, 2020.

PSE comments on the Commission's proposed rules governing cost of service studies

PSE appreciates the Commission's efforts to provide guidance and clarity through developing rules addressing the implementation of electric and gas cost of service ("COS") analyses, and submits the following comments, recommendations, and questions in response to the Commission's request. The comments offered herein are consistent with and supplement our previously written comments provided in this docket on August 2, 2019 and September 25, 2019. While Staff has incorporated some comments and suggestions previously filed by PSE, the Company is concerned that its concerns and feedback have not been sufficiently addressed.

PSE has several overarching concerns:

- **Preserve flexibility for allocation of Generation costs:** PSE does not see the value in attempting to bind utilities to methodological approaches that may not be well suited to their situation. This is particularly true in the area of *generation costs*, where there is a wide diversity of factors among the state's three investor-owned utilities that may warrant more flexibility within the rules. The utility industry is in a period of rapid transformation driven largely by technological forces, public policy directives, and changing customer expectations. This is particularly true on the west coast. In this environment, PSE questions if it is an appropriate time to strictly prescribe ratemaking frameworks that may quickly become obsolete in the very near future. Instead, the more

foundational issues that Staff is attempting to address in the Proposed Rules, like the treatment of generation costs, should be addressed through a more flexible policy statement. Navigating a successful transition to our clean energy future may require the Commission to prudently reform current practices and pursue a more flexible application of cost of service study definitions, inputs and methodologies.

- **Coordinate with other relevant proceedings:** Second, PSE is concerned that the current draft rules are being proposed and established in a silo, and do not sufficiently take into consideration the possible outcomes from other proceedings such as the Notice of Inquiry into the Adequacy of the Current Regulatory Framework Employed by the Commission in Addressing Developing Industry Trends, New Technologies, and Public Policy Affecting the Utility Sector, Docket U-180907.

- **Revise incorrectly used terms:** Third, the Proposed Rules, as currently written, confuse the difference between metering technology and load research process. Metering technology, such as advanced metering infrastructure ("AMI") or advanced meter reading ("AMR"), allow for collection of metered data to support the development of a load study. PSE is concerned that Staff fails to differentiate between metering technology/infrastructure and a load study used to validate, estimate and edit ("VEE") metering data and develop load shapes/profiles for a COS study. All metering data, regardless of metering technology, must go through the VEE process and load research analysis prior to its use in a COS study. PSE urges the Commission to revise the Proposed Rules, as currently written, as it is likely to create more confusion than it is intending to resolve.

- **Minimize regulatory burden:** Finally, PSE is concerned that certain filing requirements are overly burdensome and likely not practical. It is unclear to the extent to which certain minimum requirements are necessary and helpful. PSE urges the Commission to reduce the filing burden on all parties by reducing unnecessary and duplicative requirements.

Commission Staff's Proposed Cost of Service Rules

Commission Staff has proposed draft rules that codifies procedures to address the following topics: (1) Definitions; (2) Minimum Filing Requirements; (3) Cost of Service Study Inputs; (4) Cost of Service Methodology; and (5) Exemptions. PSE addresses each of these below:

1. **WAC 480-85-030 Definitions:** PSE requires additional clarity on the definitions and provides suggestions.

    a. Subsection (2): The term "Common function" is defined as "costs that can be functionalized to both electric and gas operations." While PSE agrees with this definition, it should be noted that the term "Common function" can be confused with common functionalization methodology in WAC 480-85-060 Cost of Service Methodology. It is unclear whether in WAC 480-85-060 Cost of Service Methodology Subsection (1)(e), "Comm" is an abbreviation meaning the Common function or common functionalization method. Additionally, in WAC 480-85-060 Cost of Service Methodology Subsection (3), Tables 1 and 3 seem to

use the term Common function interchangeably between "Common function" and common functionalization method. PSE recommends changing the term for common functionalization method in WAC 480-85-060 to 'General', 'Administrative & General', or 'A&G'.

b. Subsection (3): "Regulatory accounting rules and principles" is used in the definition for 'cost of service study', however it remains unclear which accounting rules and principles are being referenced. PSE recommends adding additional language that clarifies which regulatory accounting principles are being referenced.

c. Subsection (5): The requirement to conduct load studies every five years can be interpreted in multiple ways. One could interpret it as meaning the need to design and select a new sample and perform a load study for a minimum of 12 months, every five years, or it could be interpreted to mean that one could have a sample that is in place for 10 consecutive years and that would comply. PSE recommends further clarification on the selection of sample set.

2. **WAC 480-85-040 Minimum Filing Requirements:** PSE finds certain minimum filing requirements to be overly burdensome, duplicative to existing WAC requirements and possibly impractical.

a. Subsection (1)(a): Draft rules include a new minimum requirement to cite work papers in supporting testimony and exhibits. Work papers are already provided to support testimony and exhibits. Further, testimony and exhibits do not typically cite to work papers, as they are excluded from the evidentiary record. PSE is concerned with creating an unnecessary and duplicative requirement that only overloads the testimony and exhibits as well as forces an overly burdensome procedure on all parties. Moreover, this draft rule unnecessarily duplicates WAC requirements that already exist for utilities to provide all of their spreadsheet exhibits with live links to any associated workpapers.

b. Subsection (1)(b)(i): The new minimum requirement in this subsection where 'all associated calculations necessary to support the results of the study must be consolidated in the same electronic workbook file' may not be feasible. Taken to its extreme, this could entail the consolidation of what is currently approximately 100 spreadsheets (many with a dozen or more individual tabs) into a single workbook file. PSE recommends ring-fencing the subsection to only include the cost of service model, excluding revenue requirement and rate design spreadsheets. If the intent is to have this requirement only apply to the cost of service model, then adding appropriate language to explain this is recommended. Additionally, it is unclear if Microsoft Excel could even accommodate the volume of resulting data and calculations, and whether a typical computer could process a file that large. PSE recommends to allow for flexibility in this requirement.

c. Subsection (2): The new minimum requirement in this subsection appears to require Companies to jointly file for electric and gas rate cases. This is not currently required in any of the other Commission rules. If this is not the Staff's

intent, PSE recommends striking the term "simultaneously" in the end of the first sentence.

3. **WAC 480-85-050 Cost of Service Study Inputs:** PSE requires additional clarity and provides suggestions. It is recommended that rules need to be more explicit between electric and gas cost of service input requirements.

    a. Subsections (1) through (4): The new rule appears to favor usage data in the following order: advanced metering infrastructure ("AMI"), advanced meter reading ("AMR"), and load study. PSE is concerned the draft rules, as written, confuse the difference between metering technology and load research process. AMI and AMR are metering technology and infrastructure that allow for collection of meter data to support a load study. A load study is an analysis that measures and studies the characteristics of electric or gas loads to provide a statistically significant estimate of usage, trends, and general behavior of the load characteristics of the service company customers. If the intent is to develop load study results using the full customer population data in lieu of a sample set for the cost of service study, this should be explicitly stated. PSE is concerned with the confusion in this section between metering technology and the process to develop cost of service study inputs as well as the rigid preference to use full population data due to the following reasons:

        i. The minimum requirement to use hourly data for electric and daily data for gas would sum to nearly 10 billion data points for a single PSE test year. Using this massive volume of data for the cost of service study would be resource intensive and impractical, especially given that the use of sample sets has successfully provided statistically significant estimates of load profiles/shapes required for the cost of service study.

        ii. This section states a preference to use actual usage data and to only use load study data if AMI/AMR data is not available. Even if full population data collected from AMI/AMR is used, a load study is still required to conduct statistical analysis on the full population data set to develop the usage inputs applied in the cost of service model.

        iii. AMI data is not perfect or 100% available. Often, AMI meter reads may be partial, incomplete, missing or corrupted, requiring some element of VEE of the AMI data. As the draft rules are currently written, it is unclear if the VEE process, which is an industry standard process used for cleansing data, would be allowed.

        iv. All customers within a customer class or rate schedule may not have metering technology to allow for hourly/daily meter reads, thereby necessitating the need for some element of estimation of usage, trends and general behavior of load characteristics to develop load profiles/shapes of customers.

v. AMI/AMR data for gas is measured in CCF and is converted to therms for billing purposes. As the draft rules are currently written, it is unclear if PSE's current practice of using therms within the COS study would be allowed.

vi. This section indicates a preference for using actual peak day over design day for gas cost of service input. It is unclear, what impact this section would have on the use of design day peak loads based off a load study for the distribution mains allocation methodology specified in Table 4.

As currently proposed, PSE cannot support this language as it prescribes or favors only AMI and AMR technology as the preferred method for meter data collection, and disallows the use of MV-90, PowerSpring, other analog meters, load forecasts, contract demands, as well as normalization and other statistical techniques normally used to develop inputs for a cost of service study (such as the estimate of energy consumption under normal weather conditions or the estimate of "design day" peak demands under more extreme weather conditions).

4. **WAC 480-85-060 Cost of Service Methodology:** PSE is concerned with the application of prescribed methodology and whether they will provide the most accurate results.

a. Subsection (1): This subsection strictly adheres to traditional forms of regulation by prescribing a cost of study using an embedded cost method. While this is common practice today, particularly with ongoing discussion on alternative forms of regulation, it may restrict the Commission to use only traditional approaches to cost allocation. PSE is concerned that the current rules are being proposed and established in isolation, and do not take into consideration the possible outcomes from other proceedings.

b. Subsection (1)(a-e) and (3): PSE appreciates the need to codify uniform classification and allocation methodology for the development of a cost of service study. PSE generally supports such rules for transmission, distribution and general functions. However, PSE questions whether it is appropriate to codify rules for classification and allocation of generation in a time when the electric industry, utility generation portfolios, and the regional energy and capacity markets are in a state of flux. Prescribing methodology that is likely to be obsolete in a couple years will limit our ability to respond to changing conditions and may generate inaccurate cost assignments. PSE strongly recommends the rules exclude the classification and allocation of generation for the time being due to the rapidly changing energy markets and utility generation portfolios.

c. Subsection (1)(e): It is unclear whether "Comm" is an abbreviation meaning the Common function or common functionalization method. PSE recommends further clarifying the abbreviation.

d. Subsection (2): PSE recommends defining the terms "system-wide econometric study" and "system-wide marginal cost study" within the Definitions section of the rules.

e. Table 1: Electric Cost of Service Approved Functionalization Methodologies

i. The term "Common function" is used interchangeably between "Common function" and common functionalization method. PSE recommends changing the term for common functionalization method to 'General', 'Administrative & General', or 'A&G'.

ii. PSE suggests the addition of the following FERC account numbers to the functionalization categories:

Functionalization	FERC Account Numbers
Customer	Add accounts 911-916
Gen/Tran/Dist/Cust/Comm	Add account 411
Gen/Tran/Dist/Comm	Add accounts 114, 115, 283, 190
Allocate based on subaccount	Add accounts 134, 128

f. Table 2: Electric Cost of Service Approved Classification and Allocation Methodologies

i. Generation Classification Method: Commission Staff's proposed Renewable Future Peak Credit with Net Power Costs Allocated on Energy ("RFPC") is not defined, nor is a calculation for the method provided in the draft Cost of Service rules. As the method is untested and unprecedented, PSE strongly questions whether this classification method should be included in the rulemaking.

The traditional Peak Credit model has decades of precedence and clearly defined parameters and method for calculation in Washington. Similarly, other generation classification methods, as discussed in the National Regulatory Utility Commissioners ("NARUC") Electric Utility Cost Allocation Manual or in Dr. James Bonbright's Principals of Public Utility Rates, have long precedence and are viewed as standard methods that have clearly defined parameters and methods for calculation. RFPC, on the other hand, uses theoretical resource mix and costs, and relies on undefined variables and assumptions. It should be noted that assumptions used for renewable output and capacity have large impacts on the RFPC results. Small changes to the battery capacity contribution and wind output adjustment significantly alter the peak credit result. Without clear guidance and rules on the proposed method, the approach used for RFPC calculation will vary significantly among utilities and rate cases, resulting in inconsistent results and likely make the method controversial and difficult to support.

If the Commission finds that RFPC is appropriate to use for electric classification, PSE strongly recommends the Commission provide clear guidance and rules with its use. Defining parameters and how the classification method should be calculated before inclusion in the rulemaking are essential, since the RFPC is not a standard classification method that has been tried and tested, thus lacking case precedent.

ii. Generation Allocation Method: PSE recommends removing 'annual' in the second sentence so it reads 'Net power costs are allocated using energy usage at the point of generation'. Including the term 'annual' in the sentence would run counter to time-of-use pricing. Removing the term allows flexibility for allocating costs.

iii. Service Lines Allocation Method: PSE questions if the allocation method should read 'average installed cost for new service lines multiplied by customer count relative to **total** installed cost'.

iv. Administrative & General and General Plant Allocation Method: PSE recommends the remainder of administrative and general and general plant costs also be allocated on standardized methods. Quite often disagreements continue to arise on cost allocation methods that have an immaterial impact on the cost of service study results. PSE is indifferent on the methods used to allocate the remainder of administrative & general and general plant costs.

v. Intangible Plant Allocation Method: PSE seeks clarification on which appropriate factors to use to allocate intangible plant. Quite often disagreements continue to arise on cost allocation methods that have an immaterial impact on the cost of service study results. PSE is indifferent on the methods used to allocate intangible plant.

g. Table 3: Natural Gas Cost of Service Approved Functionalization Methodologies

i. PSE suggests the addition of the following FERC account numbers to the functionalization categories:

Functionalization	**FERC Account Numbers**
Production	Add accounts 750-799
Storage	Add accounts 357, 358, 360-364, 844-847
Transmission	Add account 372, remove 870
Distribution	Add accounts 388, 870
Prod/Tran/Dist/Stor/Comm	Add accounts 230, 404-407
Non-functionalized accounts that need to be assigned	Accounts 911-913, 916 need to be assigned to a functionalization category

h. Table 4: Natural Gas Cost of Service Approved Classification and Allocation Methodologies

i. Distribution Mains Allocation Method: Allocation methodology specifies "Design day (peak) and annual throughput (average) based on system load factor". PSE is unclear whether this rule would allow the use of main pipe diameter to allocate costs to some customer classes but not others. Additionally, would this rule allow direct assignment of costs to some customer classes but not others (e.g., special contracts)? PSE recommends further clarification for this allocation method.

ii. Distribution Assets Classification Method: PSE is unclear whether the allocation methodology should be "Demand", as specified, or "System load factor" per "Follows distribution mains" consistent with Distribution and Transmission Mains functionalized category? PSE recommends further clarification for this allocation method.

iii. Storage Allocation Method: Allocation methodology specifies "Costs classified as balancing are allocated to all customers based on winter sales". PSE believes it is more appropriate to allocate balancing costs based on annual weather normalized sales as balancing activities take place year round. PSE recommends updating the methodology to "Costs classified as balancing are allocated to all customers based on **annual weather normalized** sales".

iv. Customer Service/Billing Allocation Method: Allocation methodology specifies "All costs assigned by weighted customer counts". Under the proposed rule it is unclear if actual customer counts could be used, which is the current practice of PSE. If weighted customer counts are required it would be helpful for the Commission to define the methodology for calculating the weighting factors. PSE recommends further clarification for this allocation method.

v. Administrative & General and General Plant Allocation Method: PSE recommends the remainder of administrative and general and general plant costs also be allocated on standardized methods. Quite often disagreements continue to arise on cost allocation methods that have an immaterial impact on the cost of service study results. PSE is indifferent on the methods used to allocate the remainder of administrative & general and general plant costs.

vi. Intangible Plant Allocation Method: PSE seeks clarification on which appropriate factors to use to allocate intangible plant. Quite often disagreements continue to arise on cost allocation methods that have an immaterial impact on the cost of service study results. PSE is indifferent on the methods used to allocate intangible plant.

5. **WAC 480-85-070 Exemptions:** PSE finds subsection (2) of this section to be duplicative with WAC 480-07-500.

    a. Subsection (2): This subsection appears to be duplicative with WAC 480-07-500(4), which already gives the Commission authority to reject or revise any filing to initiate a general rate proceeding that is not in conformance with the rules. Additionally, PSE is unclear on the sequence to obtain an exemption. Would utilities be required to file a motion for exemption prior to filing of the COS study, or do utilities submit a COS study and request exemption at the time of filing? PSE recommends deleting this subsection as it is duplicative and causes confusion regarding the process in which a petition for exemption may be filed.

Thanks again for the opportunity to provide comments. Please contact Birud Jhaveri at (425) 462-3946 or birud.jhaveri@pse.com for additional information or questions regarding this filing. If you have any other questions, please contact me at (425) 456-2142 or Jon.Piliaris@pse.com.

Sincerely,

/s/ Jon Piliaris

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