



DATE: April 16, 2020

TO: Chair Danner, Commissioner Rendahl, and Commissioner Balasbas

FROM: Cost of Service Rulemaking Team – Elaine Jordan, Jason Ball, Elizabeth O’Connell, Nash Callaghan, Andrew O’Connell, Steve Johnson, and Melissa Cheesman

SUBJECT: Cost of Service Rulemaking, Dockets UE-170002 & UG-170003

ATTACHMENTS:

- A. CR-102 cost of service study rules, redline
- B. CR-102 comment matrix

Recommendation

Commission Staff (staff) recommends that the Utilities and Transportation Commission (commission) adopt staff’s proposed edits to WAC 480-07-510 and adopt the new chapter 480-85 WAC in its entirety. Staff also proposes six edits to rules filed in the CR-102 consistent with this memo and attachment A.

Summary of Rulemaking Process

On July 19, 2018, the commission filed with the Code Reviser a Preproposal Statement of Inquiry ([CR-101](#)) to address cost of service studies for investor owned utilities in the state of Washington. The commission filed the CR-101 in Dockets [UE-170002](#) and [UG-170003](#).

The commission issued a [Notice of Opportunity to Comment](#) on July 23, 2018, requesting feedback on the methods and practices implemented to calculate and present cost of service studies in general rate cases. The commission received responses from four stakeholders: the Public Counsel Unit of the Attorney General’s Office (Public Counsel), The Energy Project, Alliance of Western Energy Consumers (AWEC), and the Kroger Company. In addition the commission received comments from five investor-owned utilities (collectively the “companies”): Puget Sound Energy (PSE), Avista Corporation (Avista), PacifiCorp, Cascade Natural Gas (Cascade), and Northwest Natural Gas Company (NW Natural).¹ The [CR-101 comment matrix](#) was posted to the dockets on February 12, 2020.

The commission held a technical workshop on December 3, 2018, to determine how to address concerns raised by the companies and interested stakeholders in the August 2018 comments. The commission held technical workshops on February 21, 2019, for electricity topics and on February 22, 2019, for natural gas topics. At these workshops, staff worked with the companies and stakeholders to build consensus on the various classification and allocation methods included

¹ For many of the questions, the companies filed joint comments, unless explicitly denoted otherwise in the CR-101 comment matrix.

in Tables 2 and 4 of the draft rules. Following these workshops, three technical elements remained at issue: (1) generation classification and allocation, (2) transmission allocation for electricity, and (3) distribution mains for natural gas classification and allocation.

On April 25, 2019, the commission issued draft rules based on the information provided by stakeholders through comments and participation in the various workshops. On May 6, 2019, the commission issued a [Revised Notice of Opportunity to Comment](#) on the informal draft rules. The commission also requested that the companies run various models to resolve remaining questions from the February 21 and 22, 2019, technical workshops. The commission received comments from the companies as well as from The Energy Project, Public Counsel, and AWEC.

On August 30, 2019, the commission issued a Small Business Economic Impact Statement Questionnaire. All five of the companies responded. Staff determined that the modification to WAC 480-07-510(6) and the new chapter 480-85 WAC would not have a material financial impact on regulated companies.

On September 25, 2019, the commission hosted a workshop to resolve the remaining issues from the technical workshops and to clarify rule language.

On October 11, 2019, the commission issued a [Notice for Opportunity to Comment](#) on the practicality of the templates referenced in the draft rules.² The commission received comments from PSE, Avista, PacifiCorp, the Northwest Energy Coalition (NVEC), AWEC, and Public Counsel.

On January 8, 2020, staff held a conference call to discuss natural gas topics due to an omission of natural gas storage in Table 4. The call participants developed a consensus reflected in the proposed rules.

On February 11, 2020, the commission filed a Notice of Proposed Rulemaking ([CR-102](#)) with the Office of the Code Revisor. On February 12, 2020, the commission issued a [Notice of Opportunity to File Written Comments](#) on the proposed rules.

On March 24, 2020, the commission issued a Notice of Virtual Rule Adoption Hearing, Requiring Telephonic or Online Participation (set for April 16, 2020, at 1:30 p.m.), which explained that the commission will conduct the adoption hearing in these dockets via telephone and online only due to the COVID-19 public health crisis and the Governor's Proclamation 20-25, "Stay Home – Stay Healthy."

Stakeholder Comments and Proposed Changes to CR-102 Rules

The commission received nine comments in response to the February 12, 2020, Notice of Opportunity to File Written Comments on the proposed rules included with the CR-102. Attachment B summarizes the stakeholders' comments, including staff's responses. Staff has reviewed stakeholder comments and suggested revisions to the proposed rules and recommends the following modifications to the proposed rules:

² Draft rule at 480-85-040(1).

1. WAC 480-85-030 Definitions – “Load Study”

Replace the sentence “Load studies should be conducted at a minimum every five years.” with “Cost of service studies should not rely upon load studies conducted more than five years prior.”

2. WAC 480-85-040 - Minimum Filing Requirements

Subsection (2) - Strike the word “simultaneously” from the end of the first sentence so that it reads “Companies that provide electric and natural gas service must file a cost of service study for their electric and natural gas operations.”

3. WAC 480-85-060 Cost of Service Methodology

Table 2 – Electric Cost of Service Approved Classification and Allocation Methodologies

For allocation of Service Lines, insert “total” before “installed cost” as follows: “Average installed cost for new service lines multiplied by customer count relative to total installed cost.”

Table 4 – Natural Gas

For classification of distribution mains, replace “System Load Factor” with “Demand.”

For classification of distribution assets, replace “Demand” with “Follows distribution mains.”

Add “to sales customers” to the allocation method for all remaining costs of storage so that it reads “All remaining costs are allocated to sales customers with a ratio based on average winter sales that exceed average summer sales.”

Conclusion

Staff recommends the commission adopt revisions to WAC 480-07-510(6) and accept new chapter 480-85 WAC consistent with staff’s recommended changes, as shown in Attachment A.