

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**Dockets UE-170033 and UG-170034
Puget Sound Energy
2017 General Rate Case****PUBLIC COUNSEL DATA REQUEST NO. 061****PUBLIC COUNSEL DATA REQUEST NO. 061:****Re: Direct Testimony of Daniel Doyle, Exhibit No. DAD-1T, at 3 (Attrition).**

According to Mr. Doyle, “Coupled with PSE’s efforts to pursue cost savings and efficiencies, these financial results have allowed PSE to begin to consistently earn rates of return and returns on equity slightly below its authorized rate of return and return on equity on an adjusted actual basis across all time periods. These results indicate that the effects of regulatory lag and attrition were mitigated under the rate plan.” Please respond to the following:

- (a) Does Puget Sound Energy or Mr. Doyle contend that the Company will experience earnings attrition prospectively, assuming all of the electric and gas rate increases and mechanisms it proposes are granted and the decoupling mechanism is continued in the form proposed by PSE?
- (b) Please explain and quantify any affirmative response to part (a) with copies of all studies, reports, analyses, workpapers, projections and other documents relied upon or associated with the Company’s position and quantification regarding attrition.
- (c) Is Commission approval of the Company’s proposed new Electric Cost Recovery Mechanism (“ECRM”) necessary in order to mitigate or eliminate expected electric utility earnings attrition in the future?
- (d) Please explain and quantify any affirmative response to part (c) with copies of all studies, reports, analyses, workpapers, projections and other documents relied upon or associated with the Company’s position and quantification of the ECRM upon future earnings attrition.

Response:

Puget Sound Energy (“PSE”) objects to Public Counsel Data Request No. 061 as irrelevant and not reasonably calculated to lead to the discovery of admissible evidence, to the extent it seeks information regarding future earnings attrition, which is not addressed in Mr. Doyle’s testimony. Without waiving this objection and subject thereto, PSE responds as follows:

- (a) In ratemaking, the term “attrition” typically refers to the erosion of a company’s rate of return over time because the historical test period relationship in revenues, expenses and rate base does not hold during a future rate year. If this erosion occurs, it can deprive the utility of a reasonable opportunity to earn a fair rate of return. As the Commission has observed:

Attrition is the change in relationships among revenues, expenses, and rate base over time, in which growth in expenses exceeds growth in revenues from factors beyond the company’s control.^[1]

In other words, if load growth (or customer growth in a utility with decoupling), is insufficient to generate the revenues necessary to cover growth in expenditures (including return on rate base) between the historical test year and the rate year, attrition is likely to occur. Mr. Doyle’s testimony does not address whether attrition will or will not exist prospectively. The purpose of the Mr. Doyle’s testimony was to address the effectiveness of the K-factor adjustments during the rate plan period.

- (b) PSE is not proposing an attrition or K-factor adjustment in this filing and objects to providing data or analyses related to mechanisms that are not included in its filing such as an attrition adjustment or K-factor.
- (c) Please see the definition of attrition in (a) above. Without the Electric Cost Rate Mechanism (“ECRM”) or other similar mechanisms or appropriate pro forma adjustments to the test year, all else being equal, attrition and/or regulatory lag would become manifest during the rate year because the test year relationship between revenues, expenses and rate base would be different from those in the rate year in a manner that clearly deprives PSE of a reasonable opportunity to earn a fair rate of return.
- (d) While PSE and Mr. Doyle respond affirmatively to (c) above, the response is knowable on its face without the need for studies, reports, analyses, workpapers, projections or other documents. As such, none were relied upon or associated

^[1] *Wash. Utils. & Transp. Comm’n v. Wash. Natural Gas Co.*, Docket UG-920840, 4th Supplemental Order (September 27, 1993), at 29.

with PSE's position of the ECRM upon regulatory lag and/or future earnings attrition.

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PUBLIC COUNSEL DATA REQUEST NO. 283

PUBLIC COUNSEL DATA REQUEST NO. 283:

Re: Direct Testimony of Katherine J. Barnard, at 72 and 73.

At page 72, Ms. Barnard states, “One of the advantages of allowing an ERF versus an attrition adjustment is that an ERF still utilizes the Commission’s preferred historical ratemaking approach, granted on a simplified and expedited basis.” Then, she states, “PSE’s request to formalize the timing and process for an expedited rate filing is not intended to limit PSE’s ability to request an attrition adjustment or multi-year rate plan, similar to the K-factor approved in the 2013 dockets in a future general rate case proceeding.” Please respond to the following:

- (a) Please state and explain each reason why PSE would need both a formalized ERF mechanism to address earnings attrition as well as the opportunity to request an attrition adjustment and/or K-factor adjustments within a multi-year rate plan?
- (b) Does PSE believe it reasonable for the Commission to allow utilities to select the most profitable approach, among an array of regulatory options including general rate cases, ERF filings, attrition adjustments, and/or K-factor rate plans, particularly given the fiduciary duties of utility management to utility shareholders to optimize financial performance of the utility? Please explain how such a selection process is consistent with the public interest.
- (c) Does PSE or Ms. Barnard agree with the Commission’s preferred historical ratemaking approach, in place of the uncertainties associated with attrition quantification or reliance upon forecasted test years, assuming that the Commission formalizes the ERF approach as proposed by PSE? Please explain your response.
- (d) Does PSE or Ms. Barnard believe that conducting periodic general rates cases without recurring ERF proceedings tends to provide a stronger incentive for utility management efficiency than frequent utilization of an ERF process between general rate cases? Please explain your response.

- (e) Does PSE or Ms. Barnard believe that conducting periodic general rates cases with fixed attrition in place of and without recurring ERF proceedings tends to provide a stronger incentive for utility management efficiency than frequent utilization of an ERF process between general rate cases? Please explain your response.
- (f) Does PSE or Ms. Barnard believe that conducting periodic general rates cases with multi-year K-factor adjustments during a rate case moratorium period, in place of and without recurring ERF proceedings, tends to provide a stronger incentive for utility management efficiency than frequent utilization of an ERF process between general rate cases? Please explain your response.

Response:

- a. Puget Sound Energy (“PSE”) does not believe that formalizing the Expedited Rate Filing process (“ERF”) needs to preclude PSE from requesting a multi-year rate plan that includes annual escalation (K-factor adjustments) in the context of a future general rate case (“GRC”) proceeding.
- b. The Commission has recognized that, consistent with the public interest, there are many tools in its regulatory toolbox that are available to utilities, including attrition adjustments, expedited rate filings, and multi-year rate plans. PSE believes this approach is consistent with the public interest in that it allows for flexibility and a means of balancing the interests of PSE and its customers so as to provide for rates that are fair, just, reasonable and sufficient.
- c. PSE has not proposed an attrition adjustment nor requested a forecasted test year.
- d. While it may be argued by Public Counsel that using periodic GRCs without ERFs may cause a utility to operate more efficiently, that does not present the full picture that is considered by the Commission. The Commission has recognized the need to consider other tools in its regulatory toolbox to allow companies the opportunity to earn their authorized rate of return. Without the use of tools such as the ERF and the multi-year rate plan, PSE was unable to earn its authorized rate of return for several years. Moreover, the ERF is a tool that has been accepted and even endorsed by Public Counsel in past cases, while Public Counsel has opposed attrition adjustments and K-factor adjustments as contrary to the public interest. This is one factor PSE considered in deciding to propose an ERF.
- e. See response to part (d).
- f. See response to part (d).