



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

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November 29, 2021

**Filed Via Web Portal**

Ms. Amanda Maxwell, Executive Director and Secretary  
Washington Utilities and Transportation Commission  
621 Woodland Square Loop SE  
Lacey, WA 98503

**Re: Relating to the Commission’s proceeding to develop a policy statement addressing alternatives to traditional cost of service rate making, Docket U-210590**

Dear Ms. Maxwell:

Puget Sound Energy (“PSE”) appreciates the opportunity to provide comments to the Washington Utilities and Transportation Commission (the “Commission”) in Docket U-210590 in response to the October 20<sup>th</sup> Second Notice of Opportunity to File Written Comments (“Notice of Opportunity”) regarding the requirements of Section 1 of Engrossed Substitute Senate Bill 5295 (“S.B. 5295”), to conduct a proceeding to develop a policy statement addressing alternatives to traditional cost of service rate making, including performance-based measures or goals, targets, performance incentives, and penalty mechanisms. Specifically, the Notice of Opportunity requested feedback on the Work Plan for the Commission proceeding established to fulfil these requirements.

PSE provides the following responses to the questions in the Notice of Opportunity.

***1. Do you have any thoughts, concerns, or suggestions on the proposed scope or timing of Phase 1?***

PSE suggests that the discussion of Performance Metrics, occurring in Phase 1, and Performance Incentive Mechanisms (“PIMs”), occurring in Phase 3, could be merged for greater efficiency. PIMs are, essentially, metrics for which there is an associated incentive. PSE’s informal conversations with stakeholders held to inform the upcoming general rate case (“GRC”) filing have discussed both metrics and PIMs side-by-side and this has proved efficient and offers a comprehensive approach to metric development.

***2. What are the most important issues for the Commission to address in Phase 1?***

A proceeding of this type should consider shortcomings of traditional rate regulation that make alternative forms of regulation appealing. These shortcomings can include uncompensated revenue growth, frequent rate cases and high regulatory cost. Performance based ratemaking (“PBR”) approaches can improve utility performance and can make regulation more efficient. Regulatory efficiency should be a primary objective of alternative forms of regulation.

***3. Do you have any thoughts, concerns, or suggestions on the overall Work Plan, including on the proposed scope or timing of Phases 1 through 4?***

The proposed length of the proceeding overall is substantial. Performance metrics would not be chosen until March 2023. The discussion of revenue adjustment mechanism (“RAM”) design is not scheduled to begin until April 2023 and the Commission would not identify design principles until March 2024. The discussion of PIMs would not begin until January 2024 and PIMs would not be established until December 2024.

The slow proposed pace of the UTC proceeding is illustrated by comparing it to that of an analogous proceeding in North Carolina<sup>1</sup>. The bill that authorized PBR there was enacted on October 13, 2021 and required that the commission issue rules by February 10, 2022.

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<sup>1</sup> General Assembly of North Carolina, House Bill 951, Ratified Bill.

In contrast to the Commission's lengthy proposed process and timeline for issuing policy guidance, utilities are now required by law to propose multiyear rate plans ("MRPs") in each GRC. PSE anticipates filing a GRC early in 2022, which will include proposals to establish a RAM, metrics, and PIMs as required by S.B. 5295.

PSE recommends that the Commission consider a shorter timeframe for this proceeding. Additionally, PSE recommends that the Commission issue guidance for utilities filing rate plans during the early phases of this proceeding that helps navigate the timing issues emerging from the legal requirements and the UTC process considerations.

PSE has put considerable time and effort, working through informal collaborations with many stakeholders, into thoughtfully considering how MRP elements can be developed and meaningfully incorporated into the upcoming GRC. In an ideal situation, the work that PSE has done in this area can serve as an example and foundation for the Commission's proceeding. The proceeding should build on these efforts, but not stall adoption of these mechanisms in the near future where they are appropriate tools to implement in a proposed MRP.

***4. Are there additional topics the Commission should consider addressing, or any additional phases the commission should consider including in this Work Plan?***

The draft Work Plan includes in Phase 3 consideration of PIMs. PIMs are a particular type of targeted incentives for underused practices. There are other types of targeted incentives such as cost trackers, management fees, pilot programs, and total expenditure ("totex") accounting that should be thoroughly considered. A broader discussion of targeted incentives should be added to the Work Plan.

***5. Do you have any other comments you would like to offer on the proposed Work Plan or on the development of policy under RCW 80.28.425 more generally?***

PSE is concerned about the references to "establishing" performance metrics, reporting and review processes, and incentive mechanisms. It is unclear whether the Commission intends for this to mean that these elements will be uniform across all utilities or whether they will be

established differently for each utility. Policy statements should not narrowly prescribe a particular approach to PBR where the details are identical across all utilities. The circumstances of Washington utilities vary in many ways and one size will typically not fit all.

Further, Phase 2A seems to suggest that utility scale metrics will be developed for each utility outside of a GRC. This is problematic, as performance measures need to be put into the context of spending allowed within a MRP.

The goal of the proceeding should be to establish a framework that provides general guidance on the types of MRP elements utilities should focus on in their GRC development and the methods by which the Commission will evaluate proposals for metrics and PIMs. This guidance can then be used by each utility to determine the details within each GRC.

PSE appreciates the opportunity to provide responses to the questions identified in the Commission's Notice of Opportunity to File Written Comments. Please contact Wendy Gerlitz at (425) 462-3051 for additional information about these comments. If you have any other questions please contact me at (425) 456-2142.

Sincerely,

*/s/ Jon Piliaris*

Jon Piliaris  
Director, Regulatory Affairs  
Puget Sound Energy  
PO Box 97034, EST07W  
Bellevue, WA 98009-9734  
425-456-2142  
[Jon.Piliaris@pse.com](mailto:Jon.Piliaris@pse.com)