Exh. DCP-20
Dockets UE-260005, UG-260006 and UE-260113
Witness: David C. Parcell

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**DOCKETS UE-260005 & UG-260006**
In the Matter of the Petition of **PUGET SOUND ENERGY** **For an Accounting Order Authorizing the Deferred Accounting Treatment for FERC Interest Associated with Mandatory Transmission Network Upgrades**	**DOCKET UE-260113 (Consolidated)**

EXHIBIT TO

TESTIMONY OF

DAVID C. PARCELL

ON BEHALF OF STAFF OF WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Moody's Investor Service, Issuer Comment, May 10, 2021

July 28, 2026

MOODY'S
INVESTORS SERVICE

ISSUER COMMENT
10 May 2021

Rate this Research

RATINGS

Puget Energy, Inc.

Issuer Rating	Baa3
Outlook	Stable

Puget Sound Energy, Inc.

Outlook	Stable
Issuer Rating	Baa1
Commercial Paper	P-2
Domicile	Bellevue, Washington, United States

Avista Corp.

Outlook	Stable
Issuer Rating	Baa2
Domicile	Spokane, Washington, United States

Source: Moody's Investors Service

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Puget Sound Energy, Inc. and Avista Corp.

Legislation supporting multi-year rate plans has credit positive implications for Washington's investor owned utilities

On 3 May 2021, Washington State Governor Jay Inslee signed into law a senate bill (SB 5295) aimed at reforming the regulatory framework for utilities in the state by paving the way for multi-year rate plans (MYRP) and performance based ratemaking (PBR). The bill could enhance the consistency and predictability of utility regulation and provides credit positive opportunities for Washington's utilities, including Puget Energy Inc's (Puget, Baa3 stable) primary subsidiary Puget Sound Energy, Inc (PSE, Baa1 stable) and Avista Corp. (Avista, Baa2 stable), to reduce regulatory lag and earn returns closer to their authorized returns on equity (ROE). However, improved regulatory and financial outcomes for these utilities remain subject to the bill's implementation by the Washington Utilities and Transportation Commission (WUTC), the state's utility regulator.

The bill requires the WUTC to develop, in collaboration with utilities and other interested stakeholders, a policy statement on alternatives to traditional cost of service rate making, including performance measures, incentives, and penalty mechanisms. The WUTC must provide an update to the relevant legislative committees by 1 January 2022.

Importantly, beginning 1 January 2022, utilities are required to include a proposal for a MYRP between two and four years in length in every general rate case filing. The bill allows for property that is deemed used and useful as of the rate effective date of the first year of a MYRP to be included in rate base, with the remainder of the rate plan based on forecasted information. This would be a material improvement over the historical test year currently used by utilities in rate cases and help reduce regulatory lag, a credit positive. The terms approved by the WUTC for the first two years of a MYRP are binding, but utilities must update power costs at the beginning of the third year and may file a new multi-year rate plan for the third and fourth rate year, if applicable. In addition, if a utility earns a rate of return 50 basis points higher than authorized, excess revenues must be deferred for customer refund or other uses as determined by the WUTC in a subsequent proceeding.

In approving a MYRP, the WUTC must establish performance measures to assess a utility during the rate period. The bill recommends several factors be considered in determining performance measures, incentives and penalties, including affordability, customer satisfaction and engagement, reliability, clean energy or renewable procurement, demand side management expansion, and the attainment of state energy and emissions reduction policies.

This new law follows Washington's Clean Energy Transformation Act (CETA), signed into law in May 2019, that requires utilities to eliminate coal-fired electricity by 2025 and commits

to a carbon free electricity supply by 2045. While the CETA also clarified the WUTC's authority to consider and implement various constructive regulatory mechanisms including MYRPs and PBR regulation, SB 5295 provides more enforceable guidance. We view the PBR construct as credit positive because MYRPs with performance targets and the potential to earn performance incentives will not only work to reduce regulatory lag, but also aid PSE's and Avista's renewable transition, improve operational efficiency and enhance cash flow and profitability, all while considering customer cost and service.

Nevertheless, the extent to which the new law will enhance the Washington regulatory framework and improve utility financial performance is subject to WUTC decisions, which have been historically inconsistent. For example, from 2013 to 2017, PSE operated under a favorable multi-year rate plan which included a series of predetermined annual rate increases that drove a more predictable financial performance. This allowed PSE to substantially reduce regulatory lag, achieving an actual ROE that was less than 1% below its allowed ROE in 2017. Since 2017, however, the utility's regulatory proceedings have been characterized by some contention, resulting in frequent regulatory filings to help mitigate regulatory lag. Similarly, Avista, whose request for a multi-year rate plan in 2017 was not approved by the WUTC, has had contentious rate proceedings in Washington in the past.

Puget is a utility holding company, substantially all of whose operations are conducted through its principal subsidiary, PSE. PSE is an electric and natural gas utility serving about 1.19 million electric and 856,000 natural gas customers in the state of Washington. Puget also has an unregulated subsidiary, Puget LNG, formed to own, develop and finance a partly unregulated LNG facility at the Port of Tacoma, Washington. Puget is owned by Puget Holdings LLC (not rated), which is indirectly held by a consortium of pension fund investors.

Avista is primarily an electric and natural gas utility whose Avista Utilities operating division provides electric transmission and distribution, and natural gas distribution services in parts of eastern Washington and northern Idaho. Avista Utilities also provides natural gas distribution service in parts of northeastern and southwestern Oregon. Avista Utilities serves approximately 400,000 electric and 367,000 gas customers. Avista owns Alaska Energy and Resources Company (not rated), parent of Alaska Electric Light and Power Company (Baa3 Stable) which serves around 17,000 electric customers in Juneau, Alaska.

Moody's related publications

Credit Opinion

Puget Energy, Inc., Update following rating affirmation, 27 August 2020

Puget Sound Energy, Inc., Update following rating affirmation, 27 August 2020

Avista Corp., Update to credit analysis, 28 July 2020

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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