BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of Puget Sound Energy's Multi-Year Rate Plan Metrics Compliance Filing	**DOCKETS UE-220066, UG-220067 and UG-210918 (*Consolidated*)**

COMMISSION STAFF COMMENTS ON MULTI-YEAR RATE PLAN METRICS COMPLIANCE FILING

September 18, 2023

The multiyear rate plan (MYRP) law requires the Washington Utilities and Transportation Commission (Commission) to "determine a set of performance measures that will be used to assess a gas or electrical company operating under a multiyear rate plan."[1] In Puget Sound Energy's (PSE or Company) last general rate case (GRC), which included a proposed MYRP, the Commission in its final order (Order 24/10) approved measures related to operational efficiency, company earnings, affordability, and energy burden to evaluate the Company's operations under the MYRP.[2] These measures are listed in Table 4 of Order 24/10.

The Commission required PSE to make a compliance filing within 45 days of Order 24/10's entry[3] to provide the data and calculations outlined in Table 4 for 2019-2022. The Company submitted its first set of measures in a compliance filing on February 3, 2023, which included the relevant data and calculations for the years 2019-2021, complying with the Commission's timeline. Due to the data availability, PSE was unable to submit all data in a single filing and made a supplemental filing on April 14, 2023, where it completed the Operational Efficiency and Earnings Metrics for the year 2022. The Company filed its 2022 Affordability and Energy Burden Metrics on August 31, 2023.

Staff offers comments on the measures in the sequence they are presented in Table 4: operational efficiency, earnings, affordability, and energy burden. In these comments, Staff relies on the outcome definitions outlined in Table 4. In general, Staff believes the Company has complied with the requirements of Order 24/10 and offers the following observations for the Commission's consideration.

---

[1] RCW 80.28.425(7) ("The commission must, in approving a multiyear rate plan, determine a set of performance measures that will be used to assess a gas or electrical company operating under a multiyear rate plan. These performance measures may be based on proposals made by the gas or electrical company in its initial application, by any other party to the proceeding in its response to the company's filing, or in the testimony and evidence admitted in the proceeding. In developing performance measures, incentives, and penalty mechanisms, the commission may consider factors including, but not limited to, lowest reasonable cost planning, affordability, increases in energy burden, cost of service, customer satisfaction and engagement, service reliability, clean energy or renewable procurement, conservation acquisition, demand side management expansion, rate stability, timely execution of competitive procurement practices, attainment of state energy and emissions reduction policies, rapid integration of renewable energy resources, and fair compensation of utility employees.").

[2] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy,* Dockets UE-220066, UG-220067 & UE-210918, Order 24/10, 32, ¶ 109 (12/22/22).

[3] *Id.* at 34, ¶ 111.

Operational efficiency

For both PSE electric and gas, the percent of total operating revenue spent on operations and maintenance (O&M) has been declining, down to 15 percent in 2022, as shown in row 5, in the tab entitled "to File," from the April supplemental filing, which could indicate that O&M spending is adequately controlled.

Total electric operating expense has been growing relative to electric operating revenue, equating to approximately 88 percent in 2022, as shown in cell D9. The ratio of total gas operating expense to gas operating revenue has been steady at around 80 percent over the past three years (row 9). As the values are steady and under 100%, they may indicate adequate control of expenses.

As a percentage of the average-of-monthly averages (AMA) and end-of-period (EOP) total rate base calculations, electric operating revenue generally grows (rows 13 and 17), which could be interpreted as increased efficiency in utilizing the rate base to generate revenue across the years. Still, since the percentage remains at 50 ± 5 percent, and the desired result is defined in Table 4 as more than 100 percent, PSE's results could reflect improved, but insufficient utilization of the rate base.

On the gas side, the ratio improved insignificantly, amounting to approximately 39 percent of the total rate base AMA in 2022, and around 36 percent of the total rate base EOP in 2022, as shown in rows 13 and 17. While improved, those results are again low, which could also indicate insufficient rate base utilization.

Since 2019, the current assets to current liabilities ratio across total, electric, and gas businesses was stable above 1.0, as shown in row 21, which could indicate minimal concerns with the company's liquidity. There was an $852 million growth in current assets from 2021 to 2022, $530 million of which is attributable to electric (cells D24 and H24) and $322 million to gas business (cells E24 and I24).

Earnings

Net electric income share reached 14 percent of electric operating revenue in 2022, compared to the authorized rate of return of 7.39 percent. Net gas income share is equal to 7.59 percent for 2022 (row 31).

Total retained earnings rose steadily, as did total equity AMA, as shown in rows 37 and 38. The retained earnings to equity ratio rose by an average of 1.5 percent annually, as shown in row 39. Total retained earnings AMA were growing faster than total equity AMA over the past four years. In 2022, total retained earnings AMA accounted for $992 million, cell C37, and 21.3 percent of total equity AMA, cell C39.

Affordability

The average annual electricity bill rose from 2019 to 2022, with an increase of 7 percent in 2021 relative to 2020, as shown in the second supplemental filing to MYRP metrics (Table 4) from August 31, 2023, tab Affordability 1 – PSE Territory. The average annual gas bill rose as well, with 17 percent growth from 2019 to 2020 and adding over 7 percent for each of the two years after.

In an informal conversation between Staff and the Company on September 1, 2023, parties discussed potential issues with the reported affordability data. Because Order 24/10 required PSE to use 800kWh and 64 therms for all required reporting[4], and PSE rates do not vary across regions, the Company could not provide any insightful data regarding geographic or usage information. PSE has thus introduced a new calculation to satisfy the Order requirements and deliver meaningful data. The average annual bill impacts were calculated by multiplying the average annual usage with the average monthly rate, where the average monthly rate is monthly rates averaged over the year. Staff thinks that the data on actual monthly usage could provide Staff with insights into geographical and usage patterns for different locations and possible implications thereof.

---

[4] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-220066, UG-220067 & UE-210918, Order 24/10, 34, n.149 (12/22/2022).

Energy Burden

Several zip codes showed an energy burden of over 6 percent in at least one category in 2022: 98354, 98531, 98421, 98039, 98568, 98439. Over 10 census tracts show an increased energy burden as well.

PSE explained to Staff during the call that not all their customers are dual fuel. To reliably estimate the energy burden for electric-only and gas-only customers, the Company used estimations from the Department of Energy's Low-income Energy Affordability Data (LEAD) Tool. Since conversations are ongoing, Staff finds that the alternatives to the cost-of-service ratemaking docket, U-210590, would be the best venue for further discussions on energy burden and affordability.

In conclusion, Staff would like to suggest some topics for future discussion:

- On the census tract level, data becomes sensitive to outliers, and one outlier might produce unreliable results. It is therefore important to determine the goals the insights will be serving in order to aggregate data appropriately.
- An introduction of median in place of average could be a more valuable measure in the estimation of energy burden or affordability on the census tract and zip code level.
- PSE confirmed that it uses 2010 census tracts, as does the Washington State Department of Health. Possible transition issues may arise if the systems are not updated simultaneously.

In sum, Staff believes that PSE complies with the Commission's Order requirements.