

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**Dockets UE-220066 & UG-220067  
Puget Sound Energy  
2022 General Rate Case**

**WUTC STAFF DATA REQUEST NO. 347:  
REQUESTED BY: Sean Laue / Laura Henry**

**Re: Customer Requests and Added**

In response to WUTC Data Request 334 on Customer Growth and Service Needs Investment, question 2, PSE stated that the variance in this category is due to low closing percentages applied to capital expenditures for 2023 resulting in understated forecasts for closings.

- a. Describe in detail the methodology used to determine the closing percentage applied to Customer Growth and Service Needs Investment forecasts for 2023
- b. Present the following data in table form for the years 2018, 2019, 2020, 2021, 2022 for Customer Growth and Service Needs: The closing percentages to obtain yearly forecasts and the actual percentage of plant that was closed along with five-year averages for those percentages over those years.

**Response:**

- a. The three closing methodologies utilized by Puget Sound Energy ("PSE") in its 2022 general rate case for the Customer Growth and Service Needs projects ("growth projects") included in Attachment A to PSE's Responses to WUTC Staff Data Request No. 334 are described below. Please note that only one methodology (Percent CWIP to Close) is relevant for determining a "closing percentage".

**"Specific" Methodology:**

PSE uses a 'Specific' methodology where projects are forecasted to be closed during a specific month because the nature of this work is expected to occur over a discrete time period and the expected time the project will be closed to plant can be specified. With this methodology, the concept of a "closing percentage" is not applicable and is not used in the forecasting, as the forecasted capital additions are determined based on the levels of construction work in progress ("CWIP") at the specified closing date.

### **“Operational” Methodology:**

PSE uses an ‘Operational’ methodology where projects are forecasted to be closed in the month the capital expenditures occur because the work is short-term in nature and over time, is expected to close within a month of when the expenditures are incurred. With this methodology, the concept of a “closing percentage” is not applicable and is not used in the forecasting, as the forecasted capital additions are equal to the activity that occurs within the forecasted CWIP balances each month.

### **“Percent CWIP to Close” Methodology:**

PSE uses a ‘Percent CWIP to Close’ methodology where the best way to estimate the projects’ in-service patterns is to base it on historical trends for that project or similar projects. This is the only method that utilizes a “closing percentage” which is independently calculated from historical information from the prior two years for the WBS element and applied to the current month forecasted CWIP balances and current forecasted CWIP activity to determine the amount of forecasted capital additions.

To summarize, only the “Percent CWIP to Close” method utilizes a historical closing percentage to forecast capital additions. This method applies the historical percentage to the sum of the beginning CWIP balance plus capital expenditures during a month, plus capitalized interest during a month. Rather than using a percentage, the “Specific” methodology closes the total ending CWIP as of the expected plant completion date and the “Operational” methodology closes all capital expenditures and capitalized interest activity each month.

In PSE’s 2022 general rate case, the “Customer Construction Electric” project<sup>1</sup> was operational in nature and should have been forecasted on multiple WBSs that utilized the Operational methodology where forecasted capital additions are equal to all current month forecasted CWIP activity. However, the forecasted costs for this project were inappropriately assigned to a single WBS element<sup>2</sup> that utilized the Percent CWIP to Close method. In addition, the single Percent CWIP to Close WBS to which these project costs were assigned had very little historical activity, which resulted in the applied closing percentages being far too low for the true expected closing pattern for the forecasted costs for this project. The result of assigning the costs for the Customer Construction Electric project to the wrong closing method and the resulting use of the too-low closing percentage

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<sup>1</sup> See Column C in Attachment A to this response.

<sup>2</sup> WBS element R.10007.07.01.01: E Customer Reimbursed

is summarized in PSE's First Revised Response to AVEC Data Request No. 034 part a.

- b. Columns D through H of Attachment A to this response provides the closing percentages that result when comparing actual capital additions to the actual level of CWIP for 2018 through 2022 for the projects included in Attachment A to PSE's Response to WUTC Staff Data Request No. 334. These annual percentages are calculated using the average of the monthly closing percentages utilizing only the months in which capital additions actually occurred (any month which did not have capital additions were excluded from the average). The historical monthly closing percentages were calculated by summing the beginning CWIP balance plus capital expenditures and capitalized interest and dividing the result by the actual plant additions (i.e. CWIP closings).<sup>3</sup> However, as stated above, the only method for forecasting capital additions that utilizes a historical closing percentage is the "Percent CWIP to Close" methodology.

Columns J and L also provide the five year average (calculated in the same manner discussed above) for the period 2018 through 2022 and the actual average annual percentage (calculated in the same manner discussed above) for 2023. These percentages are the result of many different projects with many different closing characteristics such as long-term projects with specific closing dates versus projects that spend little time in CWIP before closing.

Also included in Attachment A to this response in Columns M through T are the methods and percentages used for 2020 through 2023 in each year's forecast. Amounts included in column Q – only for projects with a Percent CWIP to Close method – represent the closing percentages used to forecast capital additions in PSE's 2022 GRC filing. All other percentages shown are not relevant to the closing methods utilized. PSE does not maintain information for forecasted closing percentages prior to 2020.

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<sup>3</sup> The closing percentages for WBS elements with an Operational methodology are not 100 percent because of the beginning CWIP balances included in the calculation of the percentage.

**ATTACHMENT A to PSE's Response to  
WUTC Staff Data Request No. 347**