

**EXH. DEM-3T  
DOCKETS UE-190529/UG-190530  
UE-190274/UG-190275  
2019 PSE GENERAL RATE CASE  
WITNESS: DAVID E. MILLS**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY,**

**Respondent.**

**Docket UE-190529  
Docket UG-190530 (*Consolidated*)**

**In the Matter of the Petition of**

**PUGET SOUND ENERGY**

**For an Order Authorizing Deferral  
Accounting and Ratemaking Treatment  
for Short-life IT/Technology Investment**

**Docket UE-190274  
Docket UG-190275 (*Consolidated*)**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**

**DAVID E. MILLS**

**ON BEHALF OF PUGET SOUND ENERGY**

**JANUARY 15, 2020**

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**PUGET SOUND ENERGY**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF  
DAVID E. MILLS**

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1 **PUGET SOUND ENERGY**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**  
3 **DAVID E. MILLS**

4 **I. INTRODUCTION**

5 **Q. Are you the same David E. Mills who submitted prefiled direct testimony on**  
6 **June 20, 2019, on behalf of Puget Sound Energy (“PSE”) in this proceeding?**

7 A. Yes.

8 **Q. What is the purpose of your rebuttal testimony?**

9 A. I respond at a high level to testimony from Commission Staff, Public Counsel,  
10 AWEC, and the NW Energy Coalition challenging the need for an attrition  
11 adjustment in this case. In this regard, I address the Clean Energy Transformation  
12 Act (“CETA”) and the importance the new law places on the role of utilities in  
13 moving towards a clean energy future. I discuss how CETA provides for more  
14 timely rate recovery and that PSE’s proposal is consistent with the new law. The  
15 Legislature recognized the need to allow more flexible and timely rate recovery  
16 for utilities as we work together to achieve one hundred percent clean electricity  
17 over the next 25 year. Unfortunately, many of the parties are either unaware of,  
18 or ignore, the new law in their testimony. They are stuck in the past, proposing  
19 the same old ideas and, to a large degree, ignoring the important changes to the  
20 Commission’s ratemaking authority that took effect earlier this year as part of  
21 CETA.

1                   **II. PSE’S PROPOSED ATTRITION ADJUSTMENT IS**  
2                   **CONSISTENT WITH THE CLEAN ENERGY**  
3                   **TRANSFORMATION ACT, WHICH IS LARGELY IGNORED BY**  
4                   **OPPOSING PARTIES**

5   **Q. Commission Staff witness Chris McGuire testifies that PSE’s attrition**  
6   **adjustment “puts the cart before the horse” by proposing the attrition**  
7   **adjustment before the Commission has had the opportunity to provide**  
8   **forthcoming guidance on the changes to the ratemaking statute, RCW**  
9   **80.04.250 in CETA. Do you agree with this premise?**

10   **A. No I do not. PSE is moving with urgency to meet the spirit and letter of the law.**  
11   CETA was passed by the Legislature nearly nine months ago and signed by  
12   Governor Inslee on May 7, 2019, more than eight months ago. The law ushers in a  
13   new clean energy horizon in Washington and requires electric utilities to establish  
14   a clean energy implementation plan by January 1, 2022; eliminate coal-fired  
15   resources from their allocation of electricity by December 31, 2025; become  
16   greenhouse gas neutral by January 1, 2030; and achieve one hundred percent of  
17   electric generation from nonemitting electric generation and renewable resources  
18   by January 1, 2045.

19   Notably, the law recognizes that “utilities . . . have an important role to play in  
20   this transition and must be fully empowered, through regulatory tools and  
21   incentives, to achieve the goals of this policy.”<sup>1</sup> CETA grants the Commission  
22   much greater flexibility when setting rates. Specifically, CETA allows the

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<sup>1</sup> RCW 19.405.010(5).

1 Commission to consider and implement flexible regulatory mechanisms,  
2 multiyear rate plans, and ratemaking mechanisms that allow rates to include plant  
3 that goes into service by or during the rate effective period, and that allows for use  
4 of any formulas, methods, or theory of valuation reasonably calculated to arrive at  
5 fair, just, reasonable, and sufficient rates.<sup>2</sup> This new ratemaking structure is in  
6 effect today, and PSE's proposed attrition adjustment is consistent with the new  
7 law. Moreover, PSE's proposal in this case is consistent with the flexible  
8 regulatory mechanisms that are being used by commissions around the country to  
9 address the transition to clean energy, grid modernization, and increased  
10 investment in information technology, as discussed in the Prefiled Rebuttal  
11 Testimony of Karl Rábago, Exh. KKR-1T.

12 Although the Commission has expressed an intent to issue a policy statement  
13 addressing the new ratemaking statute sometime in the near future, PSE could not  
14 have waited another year to file this general rate case. The regulatory lag and  
15 underearning described by Mr. Doyle, Ms. Free and Mr. Amen would have been  
16 exacerbated by such a delay. Nor is PSE required by law to wait for a policy  
17 statement to be issued before filing this case or proposing an attrition adjustment.

18 Moreover, while Commission guidance through a policy statement would be  
19 helpful, a policy statement only sets forth the Commission's policy direction at a  
20 given time and is not binding on the Commission or regulated utilities.<sup>3</sup> The

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<sup>2</sup> See RCW 80.04.250.

<sup>3</sup> See RCW 34.05.230(1) (“[I]nterpretive and policy statements are advisory only.”).

1 Commission has the authority to consider PSE's proposed attrition adjustment in  
2 this case, based on the new law. To plan, prepare, and execute a strategy to  
3 deliver on the requirements of CETA, PSE and other utilities must have  
4 confidence of timely rate recovery in advance of CETA's implementation. This  
5 case provides an opportunity for the Commission to provide clear, specific and  
6 durable guidance for future utility filings that allows for more timely recovery of  
7 investments consistent with the new ratemaking structure enacted as part of  
8 CETA. More timely and flexible rate recovery will be essential as PSE and other  
9 utilities begin the decades-long transformation to clean energy, while at the same  
10 time continuing to modernize the grid, invest in shorter-lived information  
11 technology, and provide safe and reliable services to customers.

12 **Q. Do you agree with Commission Staff witness Chris McGuire that PSE's**  
13 **request for an attrition adjustment falls short of the Commission's policy**  
14 **standards on attrition allowances?**

15 A. No, I do not agree that PSE's proposed attrition adjustment falls short of the  
16 Commission policy standards for attrition allowances. But more importantly, I  
17 am concerned that Commission Staff and other parties are applying outdated  
18 standards applicable under a previous ratemaking construct that are inconsistent  
19 with CETA. The rules and principles for attrition adjustments that Commission  
20 Staff and other parties point to are vestiges of a regulatory landscape that has been  
21 superseded by CETA. The new ratemaking statute does not require a showing of  
22 chronic underearning before authorizing use of the flexible regulatory

1 mechanisms set forth in the law. Nor is a utility required to demonstrate that it  
2 will underearn in the rate year to justify these statutorily authorized, flexible  
3 ratemaking mechanisms.

4 Nonetheless, although PSE does not concede that these standards for attrition  
5 adjustments apply under CETA, PSE has demonstrated that absent an attrition  
6 adjustment, it will underearn in the rate year, as discussed in more detail by Mr.  
7 Kensok, Mr. Doyle and Ms. Free. Additionally, PSE has demonstrated that but  
8 for the multiyear rate plan with annual rate increases that the Commission  
9 approved for PSE in 2013 on an experimental basis, PSE would have failed to  
10 earn its authorized rate of return for the past several years, as discussed in more  
11 detail in the testimonies of Mr. Doyle and Ms. Free. Indeed, PSE has not in  
12 recent times earned its authorized rate of return without mechanisms such as the  
13 multiyear rate plan. PSE has also demonstrated that the level of spending set  
14 forth in this case is needed in order to improve the reliability of its distribution  
15 system; comply with public improvement requirements of local jurisdictions;  
16 provide necessary upgrades to PSE's customer facing, IT dependent systems;  
17 maintain the security of PSE's critical infrastructure; and lay the foundation for  
18 grid modernization. The spending in this case allows PSE to meet our customers'  
19 energy needs and lays the groundwork for the clean energy transformation that is  
20 mandated by statute.

1 **Q. Do you agree with Ms. Gerlitz testimony that PSE’s attrition adjustment, as**  
2 **proposed, should be rejected because it does not have a clear and compelling**  
3 **link to achieving 100 percent clean electricity objectives and does not meet**  
4 **public interest objectives?**

5 A. No. PSE has demonstrated that when rates are based on an historical rate making  
6 model with limited pro forma adjustments, its earnings rapidly decline from the  
7 regulatory lag that results. The flexible ratemaking mechanisms provided in  
8 CETA are now in effect, and CETA does not condition use of the new flexible  
9 ratemaking on a clear and compelling link to achieving one hundred percent clean  
10 electricity objectives or specific public interest objectives. Rather, CETA  
11 includes a ratemaking structure that allows utilities to be financially healthy as  
12 they move toward implementation of the clean energy milestones in the coming  
13 years.

14 **Q. How do you respond to AWEC witness Michael Gorman’s concerns about**  
15 **PSE’s attrition adjustments?**

16 A. Mr. Gorman’s critique of PSE’s attrition adjustment ignores the passage of CETA  
17 and the new ratemaking landscape enacted by the Washington legislature. In fact,  
18 neither of the AWEC witnesses—Mr. Gorman or Mr. Mullins— mention this  
19 groundbreaking new law in their testimony. Mr. Gorman faults PSE’s attrition  
20 analysis for not being based on known and measurable costs, when the law allows  
21 the Commission to use flexible regulatory mechanisms in setting rates including  
22 formulas and projections of plant in service by, during or after the rate effective

1 date. A strict known and measurable standard, as has been applied in Washington  
2 under historical ratemaking, is inconsistent with the flexible ratemaking construct  
3 authorized by CETA.

4 Mr. Gorman also wrongly claims that PSE's attrition methodology sets aside  
5 virtually all customer protections. Customers currently share in 50 percent of any  
6 earnings above PSE's authorized rate of return, although they are not required to  
7 share in any under-earnings. This is a robust protection for customers. It not only  
8 remains intact but has been bolstered. As noted in the testimony of Mr. Daniel A.  
9 Doyle, PSE has proposed to strengthen the earnings sharing mechanism to further  
10 protect customers in conjunction with this attrition adjustment by allowing  
11 customers progressively greater shares of its earnings above PSE's authorized rate  
12 of return, up to 90 percent. Thus, there is no erosion of customer protections  
13 associated with PSE's proposal.

14 Finally, I disagree with Mr. Gorman's assertion that PSE's attrition adjustment is  
15 not based on budgeted or planned costs. PSE's planned spending was set forth in  
16 PSE's direct case and is further updated in PSE's rebuttal testimony provided by  
17 Mr. Joshua A. Kensok, Ms. Cathy A. Koch, Ms. Margaret F. Hopkins, and Mr.  
18 Joshua J. Jacobs. PSE's attrition adjustment is consistent with the planned level  
19 of spending through the rate year.

1 **Q. What is your response to Public Counsel witness Mark. E. Garrett’s critique**  
2 **of PSE’s attrition adjustment?**

3 A. Public Counsel witness Mark E. Garrett also ignores the passage of CETA and the  
4 flexible ratemaking tools that the Legislature has authorized the Commission to  
5 use. Instead Mr. Garrett testifies in support of a modified historical test year  
6 approach with limited pro forma adjustments extending five or six months after  
7 the end of the test year, and he urges the Commission to maintain regulatory lag.  
8 PSE has demonstrated that the historical test year approach does not allow a fair  
9 opportunity to earn its authorized return. PSE’s proposed attrition adjustment is  
10 consistent with the ratemaking changes enacted by CETA.

11 **III. CONCLUSION**

12 **Q. Does this conclude your prefiled rebuttal testimony?**

13 A. Yes, it does.