BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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 No. UE-19-_____ Docket No. UG-19-_____ PETITION OF PUGET SOUND ENERGY

I. INTRODUCTION

1 In accordance with WAC 480-07-370(3), Puget Sound Energy ("PSE" or the "Company"), respectfully petitions the Commission for an Order authorizing the accounting and ratemaking treatment detailed in this petition related to the Company's investments in short-lived technology assets associated with the Get to Zero ("GTZ") program.

2 PSE is a combined electric and natural gas utility serving more than 1.1 million electric customers and approximately 830,000 natural gas customers in Western Washington.

3 All correspondence related to this Petition should be directed as follows:

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4 Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040, RCW 80.28.020, and WAC 480-07-370(3).

II. SUMMARY OF PETITION

5 PSE requests Commission approval for the use of a deferred accounting mechanism to allow for deferral of certain costs associated with the Company's Get to Zero program that are placed in service but have not been incorporated in rates. GTZ is a multi-year, customer-focused, digital transformation initiative with the ultimate objective of improving the end-to-end customer experience for all PSE customers. It includes four general components: 1) Customer Interface; 2) Billing Payment Credit & Collections; 3) Integrated Work Management; and 4) Data Management & Analytics.

6 Specifically, the Company requests deferral for later consideration of the depreciation[1] expense associated with GTZ program related assets. As described further below, these investments are associated with non-revenue producing plant, which creates earnings erosion until included in customers' rates. Furthermore, due to the nature of these assets being short-lived assets their impact on earnings erosion and the regulatory lag associated with these investments cause earnings erosion well beyond that of typical investments and therefore, it is appropriate to allow deferral of the depreciation for future consideration in rates. The prudence and recovery of the deferred costs associated with these assets would be addressed in future regulatory proceedings.

III. BACKGROUND

7 PSE's investments in technology infrastructure are inextricably linked to advancing, securing, and enabling the day-to-day operation of PSE's gas and electric service and are driven by our mission to provide safe, dependable and efficient service for our customers. As

[1] Depreciation expense associated with these types of projects would be charged to either FERC 403 or FERC 404.

discussed in the testimony of Ms. Margaret F. Hopkins, which is included as Exhibit A to this petition**,** utilities continue to rely more on technology solutions to meet evolving customer needs and growing security risks, and as a result technology assets have become as fundamental to the provision of utility service as the classic pipes and wire infrastructure investments. Security and reliability of the technology systems are critical and of growing importance in this day of increased cyber-security threats. However, the regulatory lag associated with these assets has a far greater impact on earnings erosion than the typical transmission and distribution ("T&D") expenditures, due to the shorter lives of the technology assets and the associated impact on PSE's depreciation expense. The typical T&D investment life ranges between 30 to 50 years, which means the annual depreciation on those assets range between two and three percent of the assets value per year. However, technology investments typically have a depreciable life of ten years or less and in many circumstances only a three to five-year life. Therefore, the impact of the typical 27-month regulatory lag [2] is far greater on these short-lived assets and creates significant earnings erosion if not addressed. To illustrate the issue, the following chart provides a comparison of the under-recovery of depreciation expense associated with a $1 million investment.

[2] Under AMA ratemaking, it takes a full 13 months for the asset to be fully reflected in customer rates which when combined with case preparation time (a minimum of 3 months) along with the 11 month procedural timeline, results in at least 27 months of regulatory lag.

Depreciation Expense Lost: $1 Million Investment		
	T&D Asset	**Technology Asset**
Asset Life	30 yrs	5 yrs
Annual Depn Rate	3%	20%
Annual Depn expense impact	$33,333	$200,000
Depreciation Exp. incurred but not recovered in rates:		
Traditional AMA (27 months)	$75,000	$450,000
EOP Rate base	$41,667	$250,000
% of delayed recovery		
Traditional AMA	8%	45%
EOP rate base	4%	25%

8 As can be seen, under traditional ratemaking, where there is typically a minimum 27-month lag, the recovery lost through regulatory lag is approximately eight percent for a T&D investment; however, in the case of a technology related asset, the recovery lost through regulatory lag is approximately 45 percent, six times as much as the lag associated with a T&D investment. The chart above shows that even utilizing end of period rate base through a general rate case results in a delay in recovery of 25 percent of the technology related asset.

9 This under-recovery is further exacerbated when considering PSE's investments in technology have increased significantly over historical levels and will continue to do so at an increasing pace as the company looks to continue to deliver further enhancements to its customer facing systems through the Get to Zero program. Just in the six months since the end of the Expedited Rate Filing test year of June 30, 2018[3], PSE has completed and placed into service over $130 million of technology related investments associated with the Get to Zero program. The annual depreciation associated with these incremental investments is

[3] Docket No. UE-180899 & UG-180900 Consolidated

$22.6 million, which creates approximately 29 basis points ("bp") of earnings erosion to the electric operations and 79 bp of natural gas earnings erosion[4] per year until incorporated in rates. This level of earnings erosion is significantly more than that associated with the traditional T&D investment and warrants the company's requested accounting treatment.

IV. PROPOSED ACCOUNTING & RATE MAKING TREATMENT

10 PSE requests an order authorizing the use of deferred accounting to allow for later consideration of recovery in rates, the depreciation expense associated with the GTZ investments which have a book life of 10 years or less. The prudence and recovery of the deferred costs associated with these projects would be addressed in future regulatory proceedings. Specifically, for any qualifying GTZ investment [5] placed in service on or after July 1, 2018, the end of the test year utilized in the ERF filing, PSE would defer the monthly depreciation expense to a FERC 182.3 account for future recovery, commencing with depreciation expense accruing May 1, 2019. Deferral of depreciation associated with the GTZ investments placed in service after June 30, 2018 ensures that there is no risk that these costs are currently included in rates. Although customers are directly benefiting from an improved customer experience due to the expanded services offered through the GTZ upgrades, PSE is experiencing ongoing earnings erosion, well beyond the typical regulatory lag, due to the shorter lives of these assets. Deferral of the depreciation would continue until the investment was incorporated into rates. For example, the PSE web and mobile app upgrades were completed and placed in service in September 2018 at a total cost of approximately $36.5

[4] $22.6 million of annual depreciation allocated 65% to electric operations and 35% to natural gas operations divided by their respective rate base investment of $5,101,822,356 for electric and $1,863,536,608 for natural gas.
[5] Qualifying program investments will be any GTZ investments with a service life of 10 years or less

million. With a service life of seven years, the monthly depreciation expense associated with this investment would be eligible to be included in the deferral. The monthly depreciation would continue to be deferred until the investment has been included in rates, which in this instance would likely be the conclusion of the next general rate case, sometime in 2020. PSE requests that this mechanism be on-going, allowing this process to continue for any future qualifying GTZ investment placed in service after the establishment of rates in order to preserve PSE's ability to recover its costs from customers who receive the benefits of these improvements.

11 This proposed deferred accounting method is consistent with the Commission's previous orders on deferred cost recovery. The Commission has allowed for deferred cost recovery with the premise that deferred cost recovery in no way constitutes a preapproval of investments, and that a determination of prudence and the eligibility for recovery of any deferred costs will be addressed in a future regulatory proceeding. However, absent this mechanism, PSE will be denied the opportunity to recover a significant portion of these costs.

12 The deferral will accrue a carrying charge, on a monthly basis, equal to the current rate of return, which will cease when recovery begins in a future rate proceeding.

13 The monthly accounting entries would be as follows:

Summary of Accounting Entries

FERC Acct. No.	Account Description	Debit	Credit
182.3	Other Regulatory Assets	$XXX	
407.4	Regulatory Credits – Deferral		$XXX
	To record deferral of monthly depreciation expense		
186	Miscellaneous Deferred Debits	$XXX	
419	Interest and Dividend Income		$XXX
	To record deferral of carrying charges on the deferred balance		

V. REQUEST FOR RELIEF

14 For the reasons discussed above, PSE respectfully requests that the Commission issue an Order approving the deferred accounting and ratemaking treatment for the depreciation expense incurred by PSE associated with GTZ program investments, as set forth in this Petition. Recovery of the deferred costs would occur through future regulatory proceedings, as explained in this Petition.

DATED this 10th day of April, 2019.

Puget Sound Energy

By /s/ Katherine J. Barnard

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VERIFICATION

STATE OF WASHINGTON)
)
County of King)

Katherine Barnard, being first duly sworn on oath, deposes and says: That she is the Director, Revenue Requirements & Regulatory Compliance, for PSE and makes this verification for and on behalf of said corporation, being thereto duly authorized;

That she has read the foregoing Petition, knows the contents thereof, and believes the same to be true.

Katherine J. Barnard

Katherine J. Barnard

SIGNED AND SWORN to before me on this 9th day of April, 2019.

DENISE K SCHROEDER
COMMISSION EXPIRES
NOTARY
PUBLIC
8-01-21
STATE OF WASHINGTON

Denise K Schroeder

Print Name: Denise K Schroeder
Notary Public in and for the State of Washington,
Residing at Snoqualmie, WA
My commission expires: 8-1-2021