

January 17, 2019

VIA ELECTRONIC FILING

Mark L. Johnson
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive S.W.
P.O. Box 47250
Olympia, WA 98504-7250

Received
Records Management
01/17/19 15:39
State Of WASH.
UTIL. AND TRANSP.
COMMISSION

RE: Docket U-180907—Pacific Power & Light Company’s Comments

Pacific Power & Light Company (Pacific Power), a division of PacifiCorp, appreciates the opportunity to file comments and supports the Washington Utilities and Transportation Commission’s (Commission) continued investigation into “the adequacy of traditional rate-base, rate-of-return regulation and the potential use of alternative frameworks, such as performance based regulation, multi-year rate planes, or other flexible regulatory mechanisms.”¹

The Commission opened this docket on November 9, 2018, and held the first workshop on December 12, 2018. On December 17, 2018, the Commission issued a Notice of Opportunity to file written Comments requesting parties identify problem statements, principles, and priorities for the Commission’s inquiry. Pacific Power provides its responses below.

- 1. Please identify the problem statements and principles that are important to you or your constituency. Please indicate which problems are the most important to address during this process and which principles are most important to consider when developing potential solutions.**

Pacific Power requests that this investigation address how the regulatory process can enable utilities to better respond to the changing environment in which utilities operate, including changes in market dynamics, competitive forces, and customer needs. The ability of utilities to take advantage of new opportunities, however, can be hindered by rigid regulatory mechanisms. In support of this principle, Pacific Power has identified three possible regulatory processes that could provide a greater ability for the company to better respond to a changing operating environment while promoting an essential goal of smooth and stable rates: Commission support of pilot programs, flexibility from the rigidity of a modified historical test-year, and accelerated ratemaking for renewable opportunities.

Customers are increasingly looking to utilities to provide additional services around new and emerging technologies including electric vehicles, demand response, distributed generation, micro-grids, battery storage, and solar technology. Changing state policy goals may also require increased utility activity relative to these new technologies. A necessary part of exploring these new technologies and the value they can provide customers is to allow for small-scale pilot

¹ Notice of Opportunity to File Written Comments (Dec. 17, 2018).

programs to develop these technologies into offerings and integrate them into the utility system. The Commission's current ratemaking discourages utilities from making investments that take advantage of new technologies, but present a different risk profile than traditional capital investment. This risk profile creates greater uncertainty on the company's ability to recover costs. A process for Commission acknowledgement or tacit support of utility pilot programs on a case-by-case basis may provide some increased certainty and align incentives for utilities to pursue small-scale pilot programs on behalf of customers.

Pacific Power also echoes the concerns that have been raised by the other utilities regarding the modified historical test-year and the narrow view that has recently been taken by courts in Washington.² The modified historical test year standard imposes significant regulatory lag and prevents the adoption of multi-year rate plans. As market dynamics impact traditional baseload generating resources and drive down the costs of renewables, utilities may pursue increased investments in generating resources; increasing the flexibility of the modified historical test-year could decrease regulatory lag and allow for multi-year rate plans. These changes could then provide an additional tool for utilities to provide smoother, more stable rates for customers.

Finally, Pacific Power continues to believe that new regulatory mechanisms should enable the utility to act nimbly in response to renewable resource opportunities. Specifically, the ability to conduct accelerated ratemaking to bring new renewable resources into service for customers. Pacific Power would point Washington stakeholders to Oregon's Renewable Adjustment Clause, which allows for a timely recovery costs incurred to meet Oregon's renewable portfolio standards.³ A similar mechanism in Washington could provide utilities an effective mechanism to more easily incorporate renewable resources into their systems.

Pacific Power continually strives to provide safe, reliable, and affordable service to its customers. However, the energy industry as a whole, and the utility industry in particular, are undergoing significant changes. These changes provide both challenges and opportunities to become more responsive to evolving technologies, the changing needs of customers, and support emerging policy goals. The investigation and adoption of flexible regulatory mechanisms could provide additional tools for utilities to better meet these challenges and provide customers the best service possible. It is one of Pacific Power's core business principles to continue to be focused on delivering reliability, dependability, fair prices, and exceptional service to our customers.

² See *Wash. State Att'y Gen., Pub. Counsel Unit v. Wash. Util. & Transp. Comm'n & Avista Corp.*, 4 Wash. App.2d 657 (2018).

³ See *In the Matter of Public Utility Commission of Oregon Investigation of Automatic Adjustment Clause Pursuant to SB 838*, Docket No. UM 1330, Order No. 07-572 (Dec. 19, 2007).

2. **During the December 10, 2018, workshop, stakeholders identified several potential principles to guide the Commission's consideration of alternatives to the current regulatory framework, including, among others, net customer benefits, equity, alignment of customer and utility incentives, universal access, safety, reliability, affordability, customer choice, innovation, environmental protection, and alignment with state policies. Please provide comments on problem statements and principles raised by other stakeholders during the workshop and provided in pre-filed comments, and discuss their importance to you or your constituency.**

The underlying principle that has provided Pacific Power with an essential lodestar, is to determine how any regulatory mechanism can enable the utility to better meet the needs of its customers. At the December 10, 2018 workshop, it seemed that this is a principle that was foremost in the minds of most stakeholders. Pacific Power firmly believes that keeping this principle in mind will continue to lead to a robust and constructive discussion, and, in the end, a result that provides benefits to all customers.

The current regulatory system has supported the goals of equity, affordability, and universal access, while ensuring safety and reliability. The task that now faces this industry is to continue to support those goals while promoting innovation, increased alignment of customer and utility incentives, and support for state policies (including environmental protection). Pacific Power looks forward to working with the Commission and all the stakeholders to develop a flexible regulatory framework to meet these challenges, and support the company's most important constituency, our customers.

In conclusion, the option to pursue various pilot programs, performance-based rates, multi-year rate plans, or alternative regulatory mechanisms could allow utilities to pursue innovation with more confidence. These could all provide opportunities to better serve our customers. Pacific Power remains committed to extensively participating in this proceeding and working towards the goals described above. Pacific Power appreciates the continued opportunity to provide written comments as this investigation has progressed.

Sincerely,

_____/s/
Etta Lockey
Vice President, Regulation
Pacific Power & Light Company
825 NE Multnomah St., Suite 2000
Portland, Oregon 97232
(503) 813-5701
etta.lockey@pacificorp.com