BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent.	DOCKETS UE-190529 and 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	DOCKETS UE-190274 and UG-190275 (Consolidated)
In the Matter of the Petition of PUGET SOUND ENERGY For an Order Authorizing Deferred Accounting associated with Federal Tax Act on Puget Sound Energy's Cost of Service	DOCKETS UE-171225 and UG-171226 (Consolidated)
In the Matter of the Petition of PUGET SOUND ENERGY For an Order Authorizing the Accounting treatment of Costs of Liquidated Damages	DOCKETS UE-190991 and UG-190992 (Consolidated)

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I. INTRODUCTION

1 Puget Sound Energy ("PSE" or "Company") does not need an attrition adjustment. PSE spends a great deal of energy discussing attrition, but its proposal is premature because it is not in line with the policy that the Washington Utilities and Transportation Commission (Commission) just issued on property valuation. Moreover, the Company has not met its burden to show that an attrition-adjusted rate increase is necessary. In fact, the analysis of the Commission Staff (Staff) demonstrates that the traditional modified historical test year approach, without an attrition adjustment, definitively produces the appropriate revenue requirement for the Company. Based on an analysis of the test period[1] results of operations with appropriate adjustments, Staff recommends that the Commission approve a revenue increase for PSE of $48.3 million for electric operations and $37.5 million for natural gas operations.[2]

2 Staff's revenue requirement is based on a cost of capital of 7.29 percent.[3] This overall rate of return incorporates a return on equity of 9.20 percent, which is appropriate for current market conditions in which interest rates are extraordinarily low and recently have been trending down again. PSE's rate base should include the Company's major projects including the one major post-test-year Get To Zero project, the deferred depreciation expense associated with major GTZ projects, the AMI investment, the deferred AMI depreciation expense, and the electric Energy Management System pro forma plant addition. Significant adjustments must be made, however, to the Company's power supply case.

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[1] PSE's test period is the twelve months ended December 31, 2018. Free, Exh. SEF-1T at 5:1-12.
[2] *See* Liu, Exh. JL-1CTr at 8:14-16; Liu, Exhs. JL-2r ($50 million electric) and JL-3r ($38.4 million gas). These revenue requirements reflect updates to Staff's recommendations regarding rate of return (reducing the short-term debt rate) and the 2018 Colstrip outage expense (eliminating Staff's expense and rate base adjustments).
[3] *See* Liu, Exhs. JL-2r and JL-3r. Note that the adjustment to short-term debt discussed below changes Staff's recommended overall rate of return from 7.33 percent to 7.29 percent.

PSE's investment in SmartBurn was not prudent and a number of other adjustments to the Company's proposed power costs are necessary.

3 To set rates, the Commission can accept PSE's cost-of-service studies as directionally accurate, and should adopt Staff's proposed electric and gas rate spreads, which spread the residential revenue requirement increment across both usage blocks. The Commission should not accept the discontinuation of PSE's Schedule 141X, which PSE has been using to pass Excess Deferred Income Tax (EDIT) back to customers. Without separate tracking, there is insufficient transparency surrounding EDIT.

4 The Clean Energy Transformation Act (CETA)[4] addresses the recovery of decommissioning and remediation (D&R) expenses from coal-fired resources. Discussion below explains that the statute has policy implications for the collection of these D&R costs, and the record in this case is insufficient to answer the questions raised by CETA. The Commission should order PSE to propose a plan in its next general rate case (GRC) for recovery of D&R costs at Colstrip Units 3 & 4.

5 PSE seeks to recover costs for power purchase agreements for its Green Direct program, which is appropriate. NW Energy Coalition (NWEC) urges the Commission to require PSE to offer an on-bill repayment program but this is premature until PSE has determined it would be cost effective. Finally, several pilot programs have been proposed, which are discussed below and also in the testimony of Mr. Jason Ball.

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[4] LAWS OF 2019, ch. 288, §§ 1–13 and 26, *codified at* chapter 19.405 RCW.

6 The following Staff adjustments are not contested and not discussed further in this brief: temperature normalization;[5] Investor Supplied Working Capital;[6] and the Shuffleton property.[7]

II. STANDARDS FOR RATEMAKING AND FOR DEFERRAL PETITIONS

7 The Commission's task is to establish rates that are fair, just, reasonable, and sufficient.[8] In this case, as in every rate case a utility files with the Commission, the burden of demonstrating that the proposed rate increase meets this standard is on the utility.[9] Traditionally, the Commission sets rates based on a historical test year, modified by restating and pro forma adjustments. These adjustments incorporate revisions or updates to expenses, revenues, and rate base that are certain to obtain in the rate year.[10] Recently, the Commission confirmed that, even when a utility seeks to establish attrition, the starting point is the modified historical test year with pro forma adjustments.[11] An attrition adjustment is one of a variety of additional adjustments to the modified historical test year that the Commission may allow.[12]

8 At issue in this case are a number of requests for deferred accounting, including several petitions for deferral that have been consolidated with the GRC. The Commission may authorize utilities to defer expenses or revenues to recognize them in a later period.[13]

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[5] Liu, JL-1CT at 10–29 and Molander, Exh. LIM-3T and Free, Exh. SEF-17T at 68.
[6] Steward, Exh. CSS-1T at 8–10 and Free, Exh. SEF-17T at 70.
[7] Steward, Exh. CSS-1T at 11–12 and Free, Exh. SEF-17T at 70.
[8] RCW 80.04.130; RCW 80.28.020; *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-160228 & UG-160229, Order 06, 45–46, ¶ 79 (Dec. 15, 2016) (2016 Avista Order) ("This means rates that are *fair* to customers and to the Company's owners; *just* in the sense of being based solely on the record developed in a rate proceeding; *reasonable* in light of the range of possible outcomes supported by the evidence; and *sufficient* to meet the needs of the Company to cover its expenses and attract necessary capital on reasonable terms.").
[9] RCW 80.04.130(4).
[10] 2016 Avista Order at 46, ¶¶ 80–81; *see also* WAC 480-07-510(3)(c)(i)–(ii).
[11] 2016 Avista Order at 33–34, ¶¶ 61–62 (*citing Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-150204 & UG-150205, Order 05, 41, ¶ 111 (Jan. 6, 2016) (2015 Avista GRC Order)).
[12] 2016 Avista Order at 46–48, ¶ 82.
[13] Higby, Exh. ANH-1Tr at 28:3-12; *see* 18 C.F.R. § 182.3(A), (B); WAC 480-100-203.

Generally, however, the Commission will only allow the deferral of material[14] costs or revenues arising from extraordinary circumstances.[15] Extraordinary or "exceptional" circumstances are those "beyond the regulated company's control."[16]

III. ATTRITION

9 PSE's attrition adjustment proposal is inconsistent with the Commission's recent policy statement on utility property valuation. For this reason, the Commission should reject PSE's proposed adjustment. In the event that the Commission considers PSE's attrition proposal, however, the attrition adjustment should still be rejected because PSE has not demonstrated it is experiencing attrition. While the new language in the utility property valuation statute clarified the Commission's authority to include in rate base property that goes into service after the rate year begins, the standard that PSE must meet to justify an attrition allowance based on rate base projections has not changed. PSE has not met these standards, and Staff's attrition study shows that an attrition allowance is unnecessary.

A. PSE's Attrition Proposal is Inconsistent with the Commission's Property Valuation Policy Statement

10 Last year, effective May 7, 2019, the property valuation statute, RCW 80.04.250, was amended. The amendment authorizes the Commission to determine the value of rate base that is used and useful "by or during the rate effective period" and requires the Commission to "establish an appropriate process to identify, review, and approve public

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[14] *Wash. Utils. & Transp. Comm'n v. Nw. Nat. Gas Co.*, Dockets UG-080519 & UG-080530, Order 01, 3, ¶ 7 (May 02, 2008).

[15] *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.*, Dockets UE-140762 & UE-140617 & UE-131384 & UE-140094, Order 08, 114, ¶ 273 (Mar. 25, 2015)(2014 Pacific Power GRC Order); 2014 Pacific Power GRC Order at 107, ¶ 251 ("We emphasize, then, that the treatment we allow in this instance is exceptional and turns on the unusual nature of the project involved.").

[16] Higby, Exh. ANH-1Tr at 29:5-11 (noting that prior exceptional circumstances include costs related to a decline in hydroelectric generation, power costs from the 2001 energy crisis, and BPA's residential exchange program).

service company property that becomes used and useful for service . . . after the rate effective date."[17] While the amendment clarifies that the Commission's evaluation of used and useful property is no longer cut off before the rate year, the amended language does not do more. The amended statute is not a carte blanche approval of property a utility places into service after rates go into effect or of any attrition adjustments. Rather it makes clear that the Commission still is authorized to determine the fair value of public service company property and that this property still must be found to be used and useful. Also, the amendments require the Commission to develop a process for this valuation.

11 Instead of waiting for the Commission to develop a process for valuing property that becomes used and useful after the rate effective date, PSE filed its rate case approximately one month after the amended law went into effect. PSE's proposed revenue requirement includes an attrition adjustment based on escalated rate base and expenses, and so PSE is requesting recovery in rates of property that will not necessarily be in service when new rates go into effect. Approximately one month after PSE's filing, the Commission opened a docket to establish an appropriate process to identify, review, and approve public service company property that becomes used and useful for service after the rate effective date.[18]

12 On January 31, 2020, the Commission released a policy statement on valuing property that will become used and useful during the rate year and afterwards. [19] The Valuation Policy Statement sets out a framework for evaluating future in-service plant. Notably, the policy statement recognizes that the amendments to the property valuation

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[17] LAWS OF 2019, ch. 288, § 20.
[18] Docket U-190531, Notice of Opportunity to File Written Comments issued July 5, 2019.
[19] In re the Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date, Docket U-190531, Policy Statement on Property that Becomes Used and Useful after Rate Effective Date (Jan. 31, 2020) ("Valuation Policy Statement").

statute did not remove the used and useful standard.[20] The policy statement addresses compliance with the used and useful standard vis-à-vis property that is not in service when new rates go into effect by requiring a plan for evaluating the levels and prudence of the future plant:[21]

> This Policy Statement affirms – and requires that regulated companies include and consider in their proposals – the Commission's longstanding practices regarding property placed in service. These practices require companies to show that the property will be used and useful; that proposed pro forma adjustments to test year amounts will involve known and measurable events and adhere to the matching principle (*i.e.*, the principle that costs should be matched to offsetting factors), including accounting for all offsetting factors; and that costs were prudently incurred.[22]

13 PSE's attrition request in this rate case does not include any plan for future review of escalated rate base. Because there is no mechanism in the record of this case to evaluate property placed in service after the rate year begins, approving an attrition allowance based on future plant would be inconsistent with the Valuation Policy Statement. The inconsistency is exacerbated by the fact that the policy statement addresses future property only, whereas PSE's proposed attrition adjustment is based on escalated expenses as well as property. And there is, of course, no proposal in the record for how to address each type of projection separately.

14 These deficiencies cannot be cured by acting on an eleventh-hour plan PSE might advance. It would be unfair and prejudicial to Staff and to the other parties if PSE were permitted to effectively change its attrition case by proposing a property review plan at this

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[20] Valuation Policy Statement at 4, ¶ 8.

> Significantly, the legislature did not alter the "used and useful standard" itself. Consequently, for the Commission to value the property of a public service company, that property must be "employed for service in Washington and capable of being put to use for service" at some point during the rate effective period.

[21] *E.g.*, Valuation Policy Statement at 11, ¶ 34; 13, ¶ 38; and 16–17, ¶ 47 ("We strongly encourage companies to develop their proposals in accordance with this guidance and consistent with existing precedent, standards, rules, and laws" and "[w]e also encourage companies to work with stakeholders to eliminate unnecessary controversy or confusion prior to filing any requests for recovery of rate-effective period investments.").

[22] Valuation Policy Statement at 7, ¶ 20 (citations omitted).

late stage in the proceeding. Because we are in the stage of filing post-hearing briefs, the non-Company parties would have no opportunity to properly evaluate, seek discovery on, and provide evidence on a new position or proposal. Painting on an evaluation plan at the end of the case would also be inconsistent with the policy statement, which encourages companies "to work with stakeholders to eliminate unnecessary controversy or confusion prior to filing any requests for recovery of rate-effective period investments."[23] In the event, however, that the Commission wishes to consider an attrition allowance for PSE based on escalated property as well as expenses, the appropriate standard is the standard that the Commission developed in the 2015 Avista GRC, reiterated in the 2016 Avista GRC, and most recently affirmed in the policy statement.

B. The Attrition Standard That Applies in This Case is the Same Standard that the Commission Announced in Recent Orders

15 The Valuation Policy Statement does not change the standard that the Commission has discussed in recent orders to determine if attrition is present and whether to approve an attrition allowance. As stated in the policy statement, "<u>But for exceptional circumstances</u>, however, the Commission intends to use its standard processes for identifying property for ratemaking purposes, for reviewing and approving that property under the used and useful standard and the known and measurable standard, and for determining prudency."[24] This statement means that it is the Commission's policy not to approve rates based on property that becomes used and useful after the rate year begins unless a utility demonstrates that exceptional circumstances are present. While the policy statement does not spell out an exceptional circumstances standard, it does "strongly encourage companies to develop their

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[23] Valuation Policy Statement at 15, ¶ 47.
[24] Valuation Policy Statement at 11, ¶ 30 (emphasis added).

proposals in accordance with this guidance and consistent with existing precedent, standards, rules, and laws."[25] Moreover, the policy statement only cautiously acknowledges that setting rates "based on statistical escalation . . . may be appropriate in some circumstances when supported by the record,"[26] citing to the 2016 Avista order, which sets forth the standard for demonstrating attrition.[27] Taken together, these various statements indicate that the Valuation Policy Statement does not intend to change the standards that the Commission has developed to evaluate whether an attrition allowance is appropriate. The change that the policy statement does make, however, is that it requires utilities to also propose how the Commission can evaluate whether the escalated rate base became used and useful, whether all offsetting factors could be accounted for, and whether the escalated costs were prudent, which is no easy task for property that has been statistically escalated rather than specifically identified.

16 Attrition occurs when utility costs outpace revenues in the rate year, such that the relationships among rate base, expenses and revenue in the test year do not hold in the rate year, resulting in an erosion of earnings.[28] Chronic earnings erosion is a key factor in establishing attrition.[29] "The absence of a showing of chronic under earning and, indeed, undisputed evidence that the Company continues to earn at, or near, or even in excess of, its authorized return . . . militates against the use of an attrition adjustment."[30] If attrition is present, the Commission may approve an allowance for attrition but will not do so unless the

[25] Valuation Policy Statement at 15, ¶ 47.
[26] Valuation Policy Statement at 6, ¶ 15.
[27] Valuation Policy Statement at 6, n.21.
[28] McGuire, Exh. CRM-1T at 16:1-8.
[29] 2016 Avista Order at 37, ¶ 66; *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-111048 & UG-111049, Order 08, 180, ¶ 489 (May 7, 2012) (2012 PSE Order) ("[A]n attrition adjustment is one among several possible responses the Commission could make to address a demonstrated trend of under earning.").
[30] 2016 Avista Order at 37, ¶ 66.

utility can demonstrate that the mismatch among revenues, rate base, and expenses is outside the utility's control.[31]

C. PSE Has not Demonstrated that it is Experiencing Attrition

17 PSE has not shown a trend of under earning and has not shown that the under earning it estimates for the rate year justify an attrition adjustment. Moreover, the Company has not demonstrated that the investments it plans to make during the rate year are beyond PSE's ability to control. Finally, PSE's attrition study is flawed because it escalates rate base exponentially. The Commission should rely on Staff's superior attrition study, which reveals that PSE is not facing exceptional circumstances and instead indicates that rates based on the traditional modified historical test year are sufficient.

1. PSE's under earning claims do not amount to attrition.

18 PSE claims that to show under earning it must only demonstrate that it will under earn in the rate year and that it does not need to show a trend of under earning.[32] This view ignores the guidance in the 2016 Avista order that the absence of chronic under earning militates against the use of an attrition adjustment. Even with at least three different PSE witnesses providing testimony on rebuttal, purporting to show that PSE is under earning, PSE has not demonstrated chronic under earning or even that it is certain to under earn during the rate year.

19 PSE's own testimony shows that, with the exception of 2018, PSE has earned at or above its authorized return every year since 2014.[33] PSE shows that it under earned in 2018,

[31] 2015 Avista GRC Order at 41, ¶ 110; 2012 PSE Order at 180, ¶ 489 ("[A]n attrition adjustment is one among several possible responses the Commission could make to address a demonstrated trend of under earning due to circumstances beyond the Company's ability to control.") (emphasis added).
[32] Free, Exh. SEF-1T at 9:13-15.
[33] McGuire, Exh. CRM-1T at 22:15 - 23:8.

but there is no trend because higher rates went into effect shortly after 2018—on March 7, 2019.[34] The Company also fails to demonstrate a trend based on its assertion that PSE would not have earned its authorized return without the 2013 Expedited Rate Filing (ERF) and the K-factor based rate plan.[35] This is an exercise in speculation, as it is impossible to know what PSE would have earned under a different scenario that did not include an ERF and a rate plan with regular rate increases.[36] Likely PSE would have come in for serial rate cases, and it is just as likely that the Company's earnings would have kept pace with its authorized return under that scenario as well.

20 In terms of earnings during the rate year, PSE attempts to show through Mr. Kensok's testimony that PSE will under earn during the rate year.[37] Mr. Kensok presents tables to support his argument that PSE will under earn. His tables, however, are based on PSE's requested rate of return and, therefore, overstate his conclusions. His second table, which projects earnings in the rate year under Staff's proposed revenue requirement should not be considered because he compares projected earnings to PSE's proposed rate of return (he uses both 7.57 and 7.48 percent) instead of to Staff's recommended rate of return (7.33 percent at the time and now 7.29 percent). If Mr. Kensok's projected earnings are compared to a lower authorized rate of return, the conclusion is necessarily different. And PSE has not demonstrated that the Company will fail to earn at least near to the return that the Commission authorizes.

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[34] *See* McGuire, Exh. CRM-1T at 23:10 - 24:7.
[35] Doyle, Exh. DAD-1T at 16:1-4.
[36] *See* 2015 Avista GRC Order at 20, ¶ 66 ("Staff moreover, correctly notes that no one can know what the Company would have done to reduce its costs if the rates as recalculated in this Order had been in effect during the applicable rate period, and we will not engage in such speculation.").
[37] *See* Kensok, Exh. JAK-1CT at 7-8, Table 1-Table 2.

21 The results of Staff's analysis shows that, with the rates Staff proposes, PSE does not need an attrition allowance. Staff's attrition study indicates a revenue sufficiency of $2.5 million for electric operations in the rate year and a deficiency of $12.1 million for natural gas operations.[38] The deficiency, especially taken together, is not significant enough to justify an attrition allowance for PSE. Instead, Staff's attrition study indicates that the revenue requirement that Staff proposes, based on a traditional modified historical test year, produces sufficient revenues for PSE, and the extraordinary rate relief of an attrition allowance is unnecessary.[39]

2. PSE has not shown that its planned capital investments constitute expenditures outside its control.

22 Not only has PSE not shown that there will be a mismatch between revenues, rate base, and expenses, but it also has not shown that the expenses it projects are outside the Company's control. In response to Mr. McGuire's testimony criticizing PSE's presentation of costs purportedly outside its control,[40] PSE witness Ms. Free, on rebuttal, directs the reader to the direct testimonies of PSE witnesses Mills, Koch, and Hopkins.[41] Mr. Mills' direct testimony contains one page on circumstances purportedly outside PSE's control.[42] On this page, Mr. Mills refers to the testimony of Mr. Doyle and then lists categories of "necessary" investment in four bullet points. Ms. Koch and Ms. Hopkins both spend a small portion of their respective direct testimonies discussing capital investments planned for the rate year,[43] but nowhere does either one state that these capital investments are exceptional circumstances that give rise to attrition. Both of these witnesses appear to be addressing an

[38] Liu, Exh. JL-1CTr at 3:26 - 4:1.
[39] Liu, Exh. JL-1CTr at 73:10-14.
[40] *See* McGuire, Exh. CRM-1T at 25:1-4.
[41] Free, Exh. SEF-17T at 12:12-17.
[42] Mills, Exh. DEM-1T at 19.
[43] Koch, Exh. CAK-1T at 57–62; Hopkins, Exh. MFH-1T at 36–40.

eventual prudence evaluation, not attrition. While there is testimony that these investments are necessary and are planned, PSE has not demonstrated that all of them *must* occur during the rate year. In short, PSE has not shown that the capital investments it is planning to make during the rate year represent extraordinary expenditures that are beyond the Company's control.

3. PSE's attrition study is not reliable because it overstates rate base growth.

23 Staff performed an attrition study that shows an attrition adjustment is not necessary and that, instead, a revenue requirement calculated from the modified historical test year is sufficient. If, however, that the Commission wishes to consider adding an attrition allowance to the revenue requirement for PSE, Staff's attrition study is more accurate than PSE's. The primary driver of the superiority of Staff's attrition analysis is that Staff escalates rate base using linear growth instead of exponential growth.

24 PSE witness Ronald Amen asserts that rate base growth is essentially always exponential.[44] The problem with this position is that PSE's actual rate base growth does not bear out his theories. Ms. Liu presents graphs showing PSE plant growth over the last 10 years, ending with the test period.[45] These graphs "demonstrate a typical pattern of utility investment with step-wise increases; that is, in one period, a utility will invest heavily in facilities to meet anticipated demand (incline period); in another period, the existing facilities suffice for a few years (plateau period)."[46] Based on this data analysis, Ms. Liu

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[44] Amen, Exh. RJA-6T at 16:20 - 17:6.
[45] Liu, Exh. JL-1CTr at 69.
[46] Liu, Exh. JL-1CTr at 68:15-16.

shows that PSE's rate base has not been growing exponentially, and that linear growth better describes PSE's rate base growth.[47]

25 Similarly, exponential growth does not describe PSE's planned capital investments going forward over the next five years. Ms. Liu analyzed PSE's capital investment plan,[48] which is confidential, and testifies that it "resembles nothing like an upward exponential curve."[49]

26 Mr. Amen uses aggregated data from electric utilities throughout the United States gathered over long stretches of time to argue that exponential growth is mathematically the best fit for rate base growth.[50] His graphs,[51] however, do not conclusively show exponential growth. Rather his graphs better support Ms. Liu's "step-wise" explanation of capital investment growth. Moreover, we are concerned here specifically with PSE and not other utilities, and we are concerned with the projection of rate base growth only between the test period and the rate effective period. Ms. Liu has demonstrated that the best fit for that escalation is linear growth and not exponential growth. As Ms. Liu explains, "forcing an exponential curve onto underlying data that do not exhibit an exponential pattern of growth . . . overstat[es] the Company's growth in costs."[52] In the event the Commission applies an attrition adjustment, the Commission should follow Staff's model because Staff's attrition analysis uses reasonable growth factors and for the additional reasons discussed in the testimony of Ms. Liu.

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[47] Liu, Exh. JL-1CTr at 70:1-3.
[48] Liu, Exh. JL-1CTr at 68:7-8; Liu, Exh. JL-23C.
[49] Liu, Exh. JL-1CTr at 68:8-9.
[50] Amen, Exh. RJA-6T at 17:11 - 18:2; 20:3-13.
[51] Amen, Exh. RJA-6T at 19–22, Figures 6 through 9.
[52] Liu, Exh. JL-1CTr at 70:9-12.

IV. COST OF CAPITAL

27 In rebuttal testimony, PSE now proposes the same return on equity (ROE) and capital structure approved in the 2017 GRC settlement agreement.[53] The significant change in market conditions since that agreement makes this an untenable position.[54] In essence, PSE asks the Commission to find that those changes have no effect on the ROE required to attract investors. Lowering the Company's ROE is justified based on all the evidence presented by all of the ROE expert witnesses.[55] Staff's recommended reduction in ROE from 9.5 percent to 9.2 percent[56] is consistent not only with the changing market conditions, but also with the Commission's principle of gradualism.[57] The Commission should decline PSE's request to maintain the same ROE authorized in 2017 under markedly different circumstances.

28 Regarding the Company's capital structure, Staff agrees that maintaining levels of 48.5 percent equity, 49.2 percent long term debt, and 2.3 percent short term debt is appropriate at this time.[58] Staff also agrees with PSE and Public Counsel that the cost of short term debt has fallen over the course of this proceeding, and should be adjusted. Together, the capital structure that Staff supports along with an ROE of 9.2 percent, results in a reasonable overall rate of return of 7.29 percent.

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[53] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-170033 & UG-170034, Order 08 at 28, ¶ 83, Table 3A; 34, ¶ 94 (Dec. 5, 2017) (2017 PSE GRC Order) (ROE in settlement agreement challenged by Public Counsel was approved by the Commission).
[54] *See* Parcell, Exh. DCP-1T at 8:15 - 17:4; Morin, Exh. RAM-12T at 90:5-8; Woolridge, Exh. JRW-13T at 2:12-13.
[55] *Compare* 2017 PSE GRC Order at 30, Table 4 (Dec. 5, 2017), *with* Morin, Exh. RAM-12T at 92:1(rebuttal column); Parcell, Exh. DCP-1T at 4:10 (mid-point values); Woolridge, Exh. JRW-1T at 52:3-5.
[56] Parcell, Exh. DCP-1T at 40:4-7; Exh. DCP-3.
[57] *See Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-170485 and UG-170486, Order 07, 28, ¶ 68 (April 26, 2018) (2017 Avista GRC Order).
[58] PSE's actual capital structure as of Dec. 31, 2018 included 49.0 percent equity. *See* Parcell, Exh. DCP-7 at 1.

A. Legal Standard

29 A utility's cost of capital is the level of return it requires to service its debt and compensate its equity investors. The Commission calculates a utility's cost of capital, or rate of return, in keeping with the principles established in the *Hope*[59] and *Bluefield*[60] line of cases. To calculate a utility's cost of capital, the Commission must determine the cost of debt, the cost of equity, and the utility's capital structure. A utility's rate of return (also known as the weighted cost of capital) is the sum of its cost of debt and its cost of equity, weighted according to the respective shares of debt and equity in the utility's capital structure.

30 The cost of debt is typically computed based on the actual debt and cost rates of debt the utility has issued. In contrast, the cost of equity is an estimate of the likely return an investor would require to invest in an enterprise with comparable risks.[61] To determine the return on equity, the Commission first identifies the range of possible returns reported by expert witnesses, and narrows that to a range of reasonable returns.[62] The Commission selects a specific ROE by weighing the results falling within that range and considering any other relevant evidence.[63]

31 The capital structure used to calculate the rate of return may be a company's actual capital structure, a pro forma capital structure, or a hypothetical capital structure.[64] The important principal is that the capital structure that the Commission uses for setting rates

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[59] *Fed. Power Comm'n v. Hope Nat. Gas Co*., 320 U.S. 591, 64 S. Ct. 281, 88 L. Ed. 333 (1944).
[60] *Bluefield Waterworks & Impr. Co. v. Pub. Serv. Comm'n of W. Va.*, 262 U.S. 679, 43 S. Ct. 675, 67 L. Ed. 1176 (1923).
[61] *See Hope*, 320 U.S. at 602; *Bluefield*, 262 U.S. at 692.
[62] 2017 PSE GRC Order at 32, ¶ 90.
[63] *Id*.
[64] 2017 Avista GRC Order at 39, ¶ 109; *see also Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-040640 & UG-040641, Order 06, 13, ¶ 27 (Feb. 18, 2005) (2004 PSE GRC Order).

must balance the "economy" of lower cost debt with the "safety" of higher cost common equity.[65]

B. Return on Equity

1. The Company's recommended ROE excludes the results of the DCF Analyst Growth methodology as an outlier, but it is not an outlier.

32 The analysis of PSE's ROE witness, Dr. Morin, leads to an ROE of 9.25 percent instead of 9.46 percent when his DCF Analyst Growth Methodology results are properly included.[66] Dr. Morin's rebuttal testimony summarizes the results of his updated analyses in Table 6.[67] The results of the six methodologies are: 10.2, 10.0, 9.3, 9.3, 8.5, and 8.2 percent. However, the results of the DCF Analyst Growth Methodology, 8.2 percent, are excluded from the ROE recommendation as an outlier.[68] Dr. Morin's rebuttal testimony does not explain why he considers the DCF Analyst Growth Methodology an "outlying result." Because the final ROE recommendation is an average of all six results, the effect of eliminating one result is dramatic.[69] Excluding the DCF Analyst Growth results raises PSE's ROE recommendation from 9.25 percent to 9.46 percent.[70] Dr. Morin does not explain the reasoning behind this consequential decision, stating only: "The updated average result from the analyses presented in Table 6 above is 9.3 percent. If one were to remove the outlying result of 8.2 percent, the average result is 9.5 percent."[71] Without further explanation, one can only assume that the phrase "outlying result" is meant in the ordinary sense of the word,

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[65] 2004 PSE GRC Order at 13, ¶ 27.
[66] Morin, Exh. RAM-12T at 92:1 (Table 6, rebuttal testimony column).
[67] Morin, Exh. RAM-12T at 92:1-3.
[68] *Id*.
[69] See Id.
[70] It appears that the values stated in the rebuttal testimony are rounded up to 9.3 percent and 9.5 percent, respectively. Five basis points represents a significant financial transfer between ratepayers and the utility.
[71] Morin, Exh. RAM-12T at 92:1-3.

that is, that the DCF Analyst Growth results were a statistical outlier when compared with Dr. Morin's other results.

33 An outlier is defined as "a statistical observation that is *markedly different* in value from the others of the sample."[72] The testimony presents six values, with an average of 9.25 percent. The lowest result (8.2 percent) is 105 basis points from the average, while the highest result (10.2 percent) is 95 basis points from the average. The unstated reasoning appears to be that 8.2 percent is an outlier, while 10.2 percent is not. If that is the justification for excluding the DCF Analyst Growth results, the Commission should consider whether it agrees with that assessment.

34 Even if the DCF Analyst Growth Methodology produced an outlier among Dr. Morin's results, the Commission does not exclude ROE results because an individual result is an outlier among the results of a single witness. The Commission's long-standing practice is to identify the range of *reasonable returns* within the range of *possible returns* shown by the analyses of *all* expert witnesses.[73] The result of Dr. Morin's DCF Analyst Growth analysis is not an outlier in the context of the possible returns found by the ROE expert witnesses as a whole, nor is it an outlier in comparison with the DCF results of the other ROE expert witnesses.[74] The range of possible returns is 10.2 percent to 6.9 percent. [75]

35 The contrast between Mr. Parcell's exclusion of his CAPM results and Dr. Morin's exclusion of his DCF Analyst Growth results is illustrative. Mr. Parcell properly excluded

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[72] Merriam-Webster, *available at*: https://www.merriam-webster.com/dictionary/outlier (emphasis added).
[73] 2017 PSE GRC Order at 32, ¶ 90.
[74] *See* 2017 Avista GRC Order at 26, ¶ 62 (setting aside result as "below the lowest end of the DCF range derived by the other expert witnesses").
[75] Morin, Exh. RAM-12T at 92:1 (Table 6, rebuttal testimony column); Parcell, Exh. DCP-1T at 4:10 (mid-point values); Woolridge, Exh. JRW-1T at 52:3-5. Note that Mr. Parcell rejects his CAPM results, but argues they should be considered when deciding a specific ROE. Parcell, Exh. DCP-1T at 39:19-23.

his CAPM results as anomalous: 5.55 percent is well below not only his other results, but the results of other expert witnesses. That is consistent with the Commission's decision making process.[76] However, Dr. Morin's DCF Analyst Growth Methodology is not an outlier among his own results or the results of the other witnesses. Both Mr. Parcell and Mr. Woolridge produced DCF results that were within 15 basis points of Dr. Morin's DCF Analyst Growth results.

36 In conclusion, the Commission should find that the DCF Analyst Growth results were improperly excluded. It is the Company's burden to justify the requested return on equity. Labelling the lowest result as an outlier without explanation is insufficient, especially because the DCF method is "the method to which the Commission generally has afforded material weight in determining a company's authorized ROE."[77] Once included, PSE's final ROE recommendation is 9.25 percent, only five basis points above Staff's recommendation.

2. The Company's "leveraged capital structure adjustment" criticism of Mr. Parcell's ROE recommendation should be rejected.

37 The most inapposite criticism Dr. Morin has of Mr. Parcell's ROE analysis is that his ROE recommendation does not employ a "capital structure adjustment"[78] to "[adjust] his return on equity upward by 0.30 to 0.55 percent to account for the more leveraged capital structure of PSE."[79] If this enormous adjustment seems unfamiliar, that is because capital structure adjustments are not in fact required by the Commission, and Dr. Morin does not apply it to his own analysis in this case (or to other expert recommendations in recent

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[76] *See* 2017 Avista GRC Order at 26, ¶ 62; *see also, Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.*, Docket UE-152253, Order 12, 55, ¶ 161 (Sept. 1, 2016) (2015 PacifiCorp GRC Order) (noting with approval Mr. Parcell's removal of an "exceptionally low CAPM result on his own initiative") .
[77] 2017 Avista GRC Order at 26, ¶ 62.
[78] Morin, Exh. RAM-12T at 80:13.
[79] *Id*. at 82:10-13.

GRCs). Finally, even if it were required, the adjustment is incorrectly calculated against Mr. Parcell's recommended ROE.

38 The rationale for the adjustment is that, on average, the utilities in Mr. Parcell's proxy group have capital structures with a higher share of common equity than PSE.[80] According to Dr. Morin, "equity return requirements increase between 7.6 and 13.8 basis points for each increase in the debt ratio by one percentage point"[81] These figures are derived by averaging the results of nine studies Dr. Morin discusses in chapter 16 of his book.[82] Dr. Morin states in the conclusion of that chapter: "In a final analysis, finance theory provides limited guidance on what a company's capital structure should be precisely. Capital structure decisions must be determined by managerial judgment and market data *in contrast to the exact mathematical formulas resulting from theories presented in this chapter*."[83]

39 The Commission has not adopted capital structure adjustments to ROE recommendations. In the 2017 PSE GRC, the Commission did not make a capital structure adjustment when evaluating Mr. Parcell's results.[84] Neither did Dr. Morin, to Mr. Parcell's[85] or his own,[86] despite differences in equity ratio between the proxy groups and PSE. Other recent cases in which ROE was a contested issue are likewise without mention of a capital structure adjustment, despite similar circumstances.[87] Based on previous statements from the

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[80] *Id*. at 81:6-11.
[81] *Id*. at 81:19 - 82:2.
[82] ROGER A. MORIN, THE NEW REGULATORY FINANCE at 469 (2006).
[83] *Id*. at 470, ¶ 3 (emphasis added).
[84] 2017 PSE GRC Order at 27, ¶ 82 - 34, ¶ 94 (no mention of a capital structure adjustment).
[85] *See, Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-170033 & UG-170034, Morin, Exh. RAM-12T at 64:1 - 76:2 (no mention in rebuttal to Mr. Parcell's testimony), Parcell, Exh. DCP-7 at 2 (Mr. Parcell's proxy group: 51.2 percent, PSE: 48.5 percent).
[86] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-170033 & UG-170034, Parcell, Exh. DCP-7 at 2 (Dr. Morin's proxy group: 50.1 and 49.4 percent, PSE: 48.5 percent).
[87] 2017 Avista GRC Order at 21–30 (capital structure adjustments not raised as an issue); 2015 PacifiCorp GRC Order at 54, ¶ 155 (No mention of a capital structure adjustment to Mr. Parcell's ROE recommendation).

Commission regarding proxy groups, this absence is unsurprising.[88] There are almost always differences between a proxy group and the utility in question that can both negatively and positively impact the results of the ROE analysis. Selective adjustments to account for only one aspect of the proxy group will not necessarily lead to more accurate results.

40 The rebuttal testimony describes capital structure adjustments to ROE as "required"[89] and the result of a "rudimentary tenet of basic finance."[90] That tenet being: "Higher risk means higher return!"[91] However, Dr. Morin's ROE recommendation does not apply a capital structure adjustment to his own analysis.[92] The average share of common equity in Dr. Morin's proxy group was initially reported as 47.6 percent from 2014 to 2018 and 48.1 percent from 2022 to 2024.[93] This adjustment should slightly reduce PSE's ROE recommendation, as Dr. Morin's proxy group's average equity share was lower than PSE's proposed 48.5 percent.[94] PSE argues that an adjustment to Dr. Morin's recommendation was not needed because the average equity ratio of his proxy group "compare[s] favorably"[95] to PSE's equity ratio. If there is any tenet of basic finance which states that higher risk means

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[88] *See e.g.*, *In re Petition of Puget Sound Energy, and NW Energy Coalition For an Order Authorizing PSE To Implement Electric and Natural Gas Decoupling Mechanisms and To Record Accounting Entries Associated With the Mechanisms*, Docket UE-121697 & UG-121705, Order 15, 53–54, ¶ 119 (June 29, 2015) ("While it is possible to level criticism at one witness' or another's selection of companies to include in a proxy group, … such criticism is of little force. The methods of ROE estimation used by these experts have been relied on for many years and are generally accepted by regulatory authorities, including this commission.").
[89] Morin, Exh. RAM-12T at 70:32-38, *but cf*. Morin, Exh. RAM-21x (Response to staff data request indicating Dr. Morin is not aware of any Commission decision adopting or approving a capital structure adjustment similar to the one proposed in rebuttal testimony).
[90] Morin, Exh. RAM-12T at 80:19.
[91] Morin, Exh. RAM-12T at 81:3.
[92] Morin, Exh. RAM-20x.
[93] Parcell, Exh. DCP-8. Dr. Morin uses the average equity share from the 2022-2024 column when calculating the capital structure adjustment he believes in necessary for Mr. Parcell's proxy group. Morin, Exh. RAM-12T at 81:6-11. *But see*, Morin, Exh. RAM-20x, which reports the average common equity ratio for Morin's proxy group as both 47.6 percent in 2020 and 48.7 percent in 2023.
[94] Although the number reported in Morin, Exh. RAM-20x is 48.7% for 2021-2023, Dr. Morin uses the average equity share when calculating the capital structure adjustment for Mr. Parcell's proxy group from the 2022-2024 column in Exh. DCP-8. Further, it is unclear why the 2022-2024 equity ratio is utilized for this adjustment rather than current equity ratio.
[95] Morin, Exh. RAM-20x.

higher return, but lower risk does not mean lower return, it has not been articulated in this case.[96]

41 Finally, even if capital structure adjustments were a required practice, the rebuttal testimony incorrectly calculates the adjustment that would apply to Mr. Parcell's ROE recommendation. Dr. Morin compares only Mr. Parcell's proxy group average equity ratio to the proposed capital structure of PSE to conclude that there is a four percent difference.[97] However, Mr. Parcell's long-standing practice is to use both his proxy group and the company witness's proxy group in his ROE analysis.[98] An average from both proxy groups used by Mr. Parcell results in an equity share of approximately 49.76 percent, which creates a difference of only 1.26 percent between the proxy utilities employed by Mr. Parcell and PSE's proposed equity ratio.[99]

3. PSE's weighted-average ROE argument should be rejected.

42 On rebuttal, Mr. Doyle argues that the weighted-average returns on equity proposed by Staff and Public Counsel are insufficient.[100] Weighted-average ROE is the ROE multiplied by the equity ratio of the capital structure. All parties that provided testimony on the subject agree that the current capital structure should be maintained with a 48.5 percent equity ratio, including PSE. In effect, Mr. Doyle's rebuttal testimony is simply arguing that PSE's ROE should be higher. This argument is not based on the evidence produced by the ROE expert witnesses, but on the alleged consequences of following the results of their analysis.[101] The testimony presents familiar arguments concerning the Tax Cuts and Jobs

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[96] Alternatively, if capital structure adjustments have a materiality threshold, that has not been articulated either.
[97] Morin, Exh. RAM-12T at 81:6-11.
[98] *See* Parcell, Exh. DCP-1T at 25:8-11; Morin, Exh. RAM-19x.
[99] Parcell, Exh. DCP-8.
[100] Doyle, Exh. DAD-7T at 35–45.
[101] Doyle, Exh. DAD-7T at 35:7 - 36:7.

Act's effect on cash flow, credit ratings, and the importance of a supportive regulatory environment. Assuming, for the sake of argument, that these concerns are not already reflected in the analysis of the ROE expert witnesses through the use of proxy groups,[102] this testimony would still not provide a sufficient basis for an adjustment to ROE.

43 The testimony does not demonstrate that an increase in ROE for the sake of PSE's credit ratings, cash flow, or national ranking in weighted-average ROE would benefit the Company and ratepayers *as a whole*.[103] The relevant question is not whether an increased ROE would positively affect credit ratings, but whether the savings gained from improved credit ratings would be large enough to offset the cost to ratepayers from the increase in (or maintenance of) ROE. The testimony provides no evidence to support that conclusion.

C. Cost of Debt

44 PSE proposes to update the marginal short term debt rate in a compliance filing "to reflect the current one-month [LIBOR] in effect as of the date that the Commission issues its final order in this proceeding."[104] Revising the cost of short term debt to reflect the change in interest rates is reasonable but waiting to do so until after PSE makes a compliance filing is not because the Commission would not be able to calculate the rate of return or the revenue requirement until after it entered its final order. To avoid entering an order without a final decision on revenue requirement, the Commission should incorporate the 2.47

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[102] The TCJA, credit ratings, and regulatory environment all affect the utilities within the proxy groups as well. These issues do not uniquely disadvantage PSE when competing to attract capital.

[103] *See* MORIN, THE NEW REGULATORY FINANCE at 471 ("[I]t is the responsibility of regulators to ensure that a utility's capital structure should reflect a proper balance between investor's interests and ratepayer's interests, and should be cost minimizing.").

[104] McArthur, Exh. MDM-7T at 2:9-11.

percent short-term cost of debt reported in PSE's response to Bench Request 11[105] into its final rate of return for PSE.

V. PRO FORMA PLANT ADDITIONS

45 PSE seeks recovery of (1) post-test-year investment in plant, including Get to Zero (GTZ) initiative plant,[106] (2) deferral and amortization of depreciation expense for certain GTZ plant,[107] (3) test-year and post-test-year investment in advanced metering infrastructure (AMI) plant,[108] and (4) depreciation expense for AMI plant deferred per the settlement of its 2018 ERF.[109] The Commission should allow PSE to include in rates its major projects, including the one major post-test-year GTZ project, the deferred depreciation expense associated with major GTZ projects, the AMI investment, and the deferred AMI depreciation expense.

A. Legal Principles

46 The Commission may allow recovery of post-test-year investment in plant where: (1) the plant is used and useful, (2) the investment in plant involves known and measurable events and amounts, (3) the utility considers offsetting factors, (4) the utility invested prudently, and (5) the investment is major.[110]

47 At issue here with regard to plant are the materiality threshold used to define major projects and the prudence of PSE's investments. At issue with regard to PSE's requests for deferrals[111] are the materiality of those requests.

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[105] PSE response to Bench Request 11(A)(i)(1), Work Paper SEF 18.02E-18.02G Cost of Capital at 2 (filed March 2, 2020).
[106] Higby, Exh. ANH-1Tr at 2:15-21, 26:6-10; Free, Exh. SEF-1T at 54:19-22.
[107] Higby, Exh. ANH-1Tr at 26:6-10; Free, Exh. SEF-1T at 55:6-20; *see generally In re Petition of Puget Sound Energy*, Dockets UE-190274 & UG-190275, Petition of Puget Sound Energy (Apr. 10, 2019).
[108] Free, Exh. SEF-1T at 50:16-18.
[109] Free, Exh. SEF-1T at 50:13-15.
[110] 2017 Avista Order at 66, ¶ 196; 2015 Pacific Power GRC Order at 33, ¶¶ 94-95.
[111] The deferral standard is discussed in section II of this brief.

1. Materiality, major projects, and deferrals.

48 The Commission may permit a utility to recover post-test-year investments involved in projects meeting "some reasonable definition of major."[112] The Commission has accepted 0.5 percent of net plant as a materiality threshold for defining major projects.[113]

49 Staff in this case modified that previously accepted materiality threshold to address concerns about regulatory lag. Specifically, Staff split the materiality threshold derived using 0.5 percent of net plant into two parts, "a return on rate base component," and "a depreciation expense component."[114] Staff summed those components, then built in a tolerance to ensure the calculated materiality threshold captured all projects reasonably called major.[115] Staff's method resulted in annual cost thresholds of $2.71 million for electric plant and $1.17 million for gas plant.[116] The sum of those values represents the threshold for common projects, $3.89 million.[117]

50 The Commission should accept and apply Staff's methodology, which provides a more "reasonable definition of major" than PSE's, which is based solely on PSE's earnings.[118] While both methods appropriately define major in relation to PSE's size,[119] Staff's method, unlike PSE's,[120] allows the Commission to consider as major projects those whose short depreciable lives materially impact PSE, even though they involve dollar amounts that are not major in terms of net plant.[121] PSE contends, *repeatedly*, that such

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[112] 2017 Avista GRC Order at 66, ¶ 196.
[113] 2015 Avista Order at 17, ¶ 40.
[114] Higby, Exh. ANH-1Tr at 21:18-20; McGuire, Exh. CRM-1T at 42:2-6.
[115] McGuire, Exh. CRM-1T at 43:5-9.
[116] McGuire, Exh. CRM-1T at 43:3-11.
[117] McGuire, Exh. CRM-1T at 43:9-14.
[118] Free, Exh. SEF-1T at 11:1-11.
[119] 2015 Avista GRC Order at 17, ¶ 40.
[120] *See* Free, Exh. SEF-1T at 11, Table 3 (setting materiality solely on the size of PSE's rate bases).
[121] Higby, Exh. ANH-1Tr at 22:11-14.

projects are causing the earnings erosion driving this filing.[122] Staff's method thus offers the Commission a tool intended to precisely solve the problem PSE presents in this case.[123] PSE, on the other hand, because it uses a traditional definition of major, must rely on other tools to solve this alleged earnings erosion: in this case, a blunt and indiscriminate attrition adjustment.[124] The Commission should use Staff's scalpel rather than PSE's sledgehammer.

51 PSE recommends that the Commission make two modifications if it accepts Staff's definition of major. The Commission should reject both. PSE first requests that the Commission set the materiality threshold using functional-level rather than net plant values.[125] The Commission, however, has previously rejected a functional-level approach as "ripe for abuse."[126] PSE offers no reason to revisit that determination here[127] and, in any event, it was sound and based on practical experience.[128] PSE also requests that the Commission use PSE's four-factor allocator to calculate the materiality threshold for common plant.[129] That would effectively, and inappropriately, set the threshold based on the size of only one of PSE's rate bases,[130] most likely the gas one,[131] despite the fact that both electric and gas operations use the plant.

52 Staff recommends using this same materiality threshold to evaluate PSE's requests to defer GTZ depreciation expense. [132] The deferred expense arises from plant, so using the

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[122] *E.g.*, Mills, Exh. DEM-1T at 16:20 - 17:8; Doyle, Exh. DAD-1T at 20:1-23; Hopkins, Exh. MFH-1T at 5:19 - 6:3; Free, Exh. SEF-1T at 43:1 - 44:10; Amen, Exh. RJA-1T at 2:5-14, 19:19-23
[123] Higby, Exh. ANH-1Tr at 17:8 - 22:19; McGuire, Exh. CRM-1T at 41:12 - 42:6.
[124] *E.g.*, Mills, Exh. DEM-1T at 18:1-18.
[125] Free, Exh. SEF-17T at 37:8-18.
[126] 2017 Avista GRC Order at 67, ¶ 199.
[127] *See* Free, TR. 305:20 - 306:4.
[128] 2017 Avista GRC Order at 67, ¶ 199.
[129] Free, Exh. SEF-17T at 34:14 - 37:7.
[130] *See* Free, Exh. SEF-17T at 35:5-8.
[131] Free, TR. 307:8-13.
[132] Higby, Exh. ANH-1Tr at 36:1-12.

plant materiality threshold prevents inconsistency between the thresholds and is also administratively easy given that Staff has already calculated it.[133]

2. The prudence standard.

53 The Commission may deny the recovery of imprudent expenditures.[134] Thus, a utility must act prudently, meaning reasonably,[135] throughout the life of a project, from its inception when assessing the need for the project to its end when incurring the final construction expense.[136] The utility bears the burden of proving that it acted prudently.[137]

B. EMS, HR Tops, Public Improvements, and High Molecular Weight Cable Replacement

54 PSE seeks recovery of post-test-year spending on its energy management system, [138] infrastructure relocation,[139] software,[140] and cable replacement.[141] The Commission should include the first of those, but it should exclude the others because none of them exceed Staff's materiality threshold.[142] PSE should instead seek recovery of those costs in its soon-to-be-filed next GRC.[143]

C. Get to Zero

55 PSE also seeks recovery of various GTZ expenses in this GRC,[144] including post-test-year GTZ investment[145] and deferred depreciation expense, and a return thereon, for

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[133] Higby, Exh. ANH-1Tr at 36:4-5.
[134] People's Org. for Wash. Energy Res. v. Wash. Utils. & Transp. Comm'n, 104 Wn.2d 798, 810, 711 P.2d 319 (1985).
[135] 2015 Pacific Power GRC Order at 33, ¶¶ 94–95
[136] 2015 Pacific Power GRC Order at 34, ¶ 95.
[137] 2015 Pacific Power GRC Order at 33, ¶ 94.
[138] Hopkins, Exh. MFH-1T at 28:16 - 32:4; Free, Exh. SEF-1T at 70:8-17.
[139] Koch, Exh. CAK-1T at 56:15-17; Free, Exh. SEF-1T at 58:5-7.
[140] Hopkins, Exh. MFH-1T at 32:8-20; Free, Exh. SEF-1T at 59:9-11.
[141] Koch, Exh. CAK-1T at 26:16 - 27:4; Free, Exh. SEF-1T at 69:16-18.
[142] Higby, Exh. ANH-1Tr at 24:17 - 25:3; Mullins, Exh. BGM-1T at 11:5-10.
[143] Piliaris, TR. 246:5-8.
[144] Higby, Exh. ANH-1Tr at 26:7-10.
[145] Free, Exh. SEF-1T at 54:18-22.

certain GTZ plant.[146] The Commission should allow PSE to pro form the one major GTZ project into rates and approve the deferral and amortization of depreciation expense for major GTZ projects, but reject the return on the deferral balance and an ongoing deferral.

1. The pro forma adjustment.

56 PSE seeks recovery of its post-test-year investment in GTZ assets through a pro forma adjustment.[147] Only one of the projects involved meets Staff's materiality threshold.[148] The Commission should allow PSE to pro form only that project into rates.

57 PSE nevertheless contends that the Commission should pro form all post-test-year GTZ spending into rates because all such spending is interrelated and, taken together, material.[149] The Commission should reject this argument for two reasons.

58 First, PSE overstates the interrelatedness of the GTZ projects. As PSE admits, GTZ is an initiative composed of discrete projects.[150] PSE placed, or will place, those projects in service over a span of years.[151] And the projects do widely disparate things, some of which affect customers and some of which affect PSE.[152] There is no reason to treat projects entering service over such a wide period of time, and which do such different things, as a single project for purposes of a pro forma adjustment.

59 Second, PSE's theory of interrelatedness renders the Commission's major project standard a dead letter. The purpose of that standard, preventing the parties to a GRC from becoming overburdened and so ensuring an adequate record for the Commission, will perish

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[146] Free, Exh. SEF-1T at 6:15-18; *see In re Petition of Puget Sound Energy*, Dockets UE-190274 & UG-190274, Petition, 5-6, ¶ 10 (Apr. 10, 2019).
[147] Free, Exh. SEF-1T at 54:18-22; WAC 480-07-510(3)(c)(ii).
[148] Higby, Exh. ANH-1Tr at 26:14-20; Mullins, Exh. BGM-8T at 10:19 - 11:4.
[149] Free, Exh. SEF-17T at 33:12-16,
[150] Free, TR. 307:19 - 308:7; *see* Higby, ANH-1Tr at 25:21-23.
[151] Higby, Exh. ANH-1Tr at 25:23- 26:4; Free, TR. 308:21 - 309:14.
[152] Higby, Exh. ANH-1Tr at 25:15-18; Free, Exh. SEF-1T at 54:10-17; *In re Petition of Puget Sound Energy*, Dockets UE-190274 & UG-190275, Petition, 2, ¶ 5.

with it.[153] Under PSE's theory, a utility could group into a single adjustment any and all expenses for which it could imagine a reason to do so,[154] and then include them in rates if they "are material when taken together."[155] That theory is ripe for abuse, and best rejected.

60 Public Counsel recommends denying recovery of all post-test-year GTZ investment based on concerns about costs and benefits.[156] But Public Counsel fails to explain how PSE acted unreasonably, and therefore imprudently.[157] The Commission should deny the request.

2. The deferred accounting petitions.

61 PSE seeks to defer and include in rates all depreciation expense accrued between May 1, 2019, and May 31, 2020, on GTZ plant placed into service after the 2018 ERF but before the end of the GRC test year.[158] It also asks to earn a return on the unamortized deferral balance.[159] The Commission should approve the deferral of some depreciation expense but deny the request for a return on the unamortized balance.

62 The Commission should approve the deferral and rate recovery of the depreciation expense accrued on major projects. Staff has determined that this depreciation expense collectively totals $16,687,554. The Commission should deny the request to defer the remainder as immaterial.[160]

63 The Commission should deny PSE's request to accrue interest on the unamortized balance.[161] While PSE claims that this would be "consistent" with the treatment for its

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[153] *See* 2014 Pacific Power GRC Order at 72–74, ¶¶ 169–72; Higby, Exh. ANH-1Tr at 14:12 - 15:6.
[154] *See* Free, TR. 309:15 - 311:5.
[155] Free, Exh. SEF-17T at 39:16-19; *see* Free, TR. 311:6 - 311:20.
[156] Baldwin, Exh. SMB-1T at 4:15-17, 29:9.
[157] *See generally* Baldwin, Exh. SMB-1T; *see also generally* Jacobs, Exh. JJJ-11T (explaining the prudence of PSE's GTZ program).
[158] Free, Exh. SEF-1T at 55:6-8, 56:1-4.
[159] *In re Petition of Puget Sound Energy*, Dockets UE-190274 & UG-190274, Petition, 6, ¶ 12.
[160] Higby, Exh. ANH-1Tr at 27:17-19.
[161] Free, Exh. SEF-1T at 55:6 - 56:4.

Electric Vehicle Pilot Program expenses, the Commission considered the request for a return on that investment "unique" and only justified by legislative enactments.[162] PSE cites no similar legislative support for its GTZ spending,[163] and Staff finds none. The Commission should decline to grant extraordinary treatment (a carrying charge) on top of extraordinary treatment (deferral) without such support.[164]

64 Finally, the Commission should deny PSE's proposed open-ended, ongoing deferral mechanism for GTZ depreciation expenses.[165] PSE's request amounts to an argument that the rates the Commission would set here are insufficient before they even take effect, an argument the Commission should reject.[166] Further, the deferral would likely overlap with the test year for PSE's soon-to-be-filed next GRC,[167] complicating matters.

D. AMI

65 PSE also seeks recovery of its test-year and post-test-year investment in AMI, as well as the deferred investment in AMI authorized by the ERF settlement.[168] The Commission should allow the Company to include these costs in rates.

66 The Commission should allow PSE to recover its costs because the Company acted reasonably. PSE reasonably determined that it needed to replace its AMR infrastructure with AMI because of the AMR plant's obsolescence and the difficulty supporting it,[169] reasonably selected the AMI project from the available alternatives,[170] and reasonably

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[162] *In re Petition of Puget Sound Energy*, Docket UE-190129, Order 01, 2–4, ¶¶ 3, 5–6, 9–10 (Aug. 29, 2019).
[163] *See* Free, Exh. SEF-17T at 43:3-9.
[164] Higby, Exh. ANH-1Tr at 38:7-10.
[165] *In re Petition of Puget Sound Energy*, Dockets UE-190274 & UG-190274, Petition, 5–6 ¶ 10.
[166] Higby, Exh. ANH-1Tr at 38:12-22.
[167] Piliaris, TR. 246:1-8.
[168] Panco, Exh. DJP-1T at 3:16-18.
[169] *See* Panco, Exh. DJP-1T at 4:16-18, 6:17-21.
[170] Panco, Exh. DJP-1T at 7:1-14.

involved its board and management.[171] Further, PSE adequately documented its decision-making process in a manner that allowed review.[172]

67 Public Counsel, however, contests rate recovery for all AMI expenses, claiming, implicitly, that the project is imprudent because its costs outweigh its benefits.[173] The Commission should reject Public Counsel's proposed disallowance because its AMI analysis is fundamentally flawed. Public Counsel fails to address the operational challenges related to attempting to maintain the AMR system,[174] massively miscalculates the cost difference between maintaining the AMR network and installing an AMI network,[175] miscalculates conservation voltage reduction savings from a partial deployment of AMI,[176] and overlooks the potential benefits of AMI, including the enabling of dynamic pricing structures and improvements in grid resiliency and reliability from better outage awareness.

VI. POWER SUPPLY ISSUES

A. SmartBurn

68 The Commission should determine that PSE's decision to install SmartBurn on Colstrip Units 3 & 4 was imprudent because PSE has not demonstrated a need for SmartBurn.

69 PSE bears the burden to demonstrate that its decision to acquire SmartBurn was prudent.[177] As part of the prudency analysis, the Commission requires a utility to provide

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[171] Panco, Exh. DJP-1T at 8:1-13.
[172] Panco, Exh. DJP-1T at 8:15-20.
[173] *See generally* Alvarez, PJA-1T at 4:14 - 21:2.
[174] Panco, Exh. DJP-1T at 6:17-18; Koch, Exh. CAK-6Tr at 3:17 - 8:16.
[175] Koch, Exh. CAK-6Tr at 9:11 - 12:22, 18:12 - 21:6.
[176] Koch, Exh. CAK-6Tr at 13:10 - 18:9.
[177] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-090704 and UG-090705, Order 11, 110, ¶ 319 (April 2, 2010) (2009 PSE GRC Order). The prudence standard is introduced in section V.A.2., above.

"adequate contemporaneous records that will allow the Commission to evaluate [the utility's] actions with respect to the decision process."[178] The Commission has also reasoned that a "company's 'robust discussions' about various resources, with 'a consensus' on the decisions, are not sufficient to demonstrate prudence."[179]

70 PSE decided to implement SmartBurn on Colstrip Units 3 & 4 (Units 3 & 4) "in and around 2012-13."[180] PSE installed SmartBurn on Units 3 & 4 as part of a multistep process to address nitrogen oxide (NOx) emissions, based on the Company's determination that it would need to install selective catalytic reduction technology (SCR) on Units 3 & 4.[181] Therefore, given that the Company states that the decision to install SmartBurn was part of a broader plan to acquire SCR technology, the Commission must consider whether PSE has demonstrated that its anticipation of future regulation requiring SCR at Units 3 & 4 was reasonable.

71 PSE determined that it would ultimately need to install SCR at Units 3 & 4 based on the Federal Implementation Plan for the State of Montana, finalized on September 18, 2012 (FIP), and the expectation of a Reasonable Progress Report in September 2017.[182] In the 2012 FIP, the Environmental Protection Agency (EPA) required the installation of separated overfire air and selective non-catalytic reduction technology (SNCR) on Colstrip Units 1 & 2 (Units 1 & 2) to reduce NOx, but did not require any modifications to Units 3 & 4.[183] Although the EPA considered requiring NOx reduction controls for Units 3 & 4 based on a

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[178] *Id*. at 110–11, ¶ 320 (citing *Wash. Utils. & Transp. Comm'n v. Puget Sound Power & Light Co.*, Dockets UE-920433 & UE-920499 & UE-921262, Nineteenth Supplemental Order, 5–11 (Sept. 27, 1994)).
[179] *Wash. Utils. & Transp. Comm'n v. Puget Sound Power & Light Co.*, Dockets UE-920433 & UE-920499 & UE-921262, Nineteenth Supplemental Order, 16 (Sept. 27, 1994).
[180] Roberts, Exh. RJR-14T at 2:26-27.
[181] Roberts, Exh. RJR-14T at 3:14-16; 5:5-12.
[182] Roberts, Exh. RJR-14T at 5:9-12.
[183] 77 Fed. Reg. 57866, Table 1 (Sept. 18, 2012).

five factor analysis,[184] it ultimately found that such controls were not reasonable given the modeled visibility benefits relative to the cost of the controls, stating:

> For the more cost-effective option (SNCR), the modeled visibility benefits are relatively modest. For the more expensive option (SCR), the modeled visibility benefits, although more substantial, are not sufficient for us to consider it reasonable to impose this option in this planning period.[185]

72 PSE has not provided an analysis of whether and under what conditions it believed the EPA would require SCR on Units 3 & 4, based on the EPA's analysis informing the 2012 FIP. Similarly, PSE has not explained how the "expectation" of a Reasonable Progress Report in 2017 led the Company to conclude that the EPA would require SCR on Units 3 & 4.[186] While PSE further refers to orders from other states requiring SCR and litigation against the Colstrip units demanding SCR, the Company has not provided any citation to such orders or litigation.[187] Additionally, while PSE states in testimony that it "reviewed a wide variety of NOx control solutions over the years," as mentioned above, a robust discussion is insufficient to demonstrate prudence.[188]

73 Fundamentally, Staff is concerned that PSE has not identified any contemporaneous documentation regarding its 2012-2013 decision to install SmartBurn. While PSE cites to various sources that informed its analysis, those sources do not provide an adequate basis for the Commission to evaluate PSE's decision-making process absent additional explanation and contemporaneous documentation from the Company. Therefore, the Commission should reject the $7.2 million expense associated with SmartBurn because PSE has not

[184] 77 Fed. Reg. 24066-67 (April 20, 2012) (explaining that the EPA considered: 1) the cost of compliance; 2) the time necessary for compliance; 3) the energy and non-air quality impacts of compliance; 4) the remaining useful life of the sources; and 5) the modeled visibility benefits of controls).
[185] 77 Fed. Reg. 24066-67 (April 20, 2012).
[186] Roberts, Exh. RJR-14T at 5:11-12.
[187] Roberts, Exh. RJR-14T at 2:23 - 3:6.
[188] Roberts, Exh. RJR-14T at 3:17-18.

demonstrated that there was a reasonable need for the technology based on the record in this case.

B. Other Power Cost Adjustments

74 Staff proposes certain pro forma power cost adjustments that the Company does not contest.[189] In addition, there are certain contested power cost adjustments that are not addressed in this brief: (1) revising contract expense and royalties based on AURORA wind output,[190] and (2) revising Montana electric energy tax based on AURORA coal generation output.[191] With respect to these issues, Staff rests on the testimony of Ms. Liu. The remaining contested power supply issues are addressed below. These adjustments involve (1) modeling power costs using higher, realistic wind capacity factors; (2) removing Colstrip major maintenance from rates until it is incurred; (3) removing Colstrip 3 & 4 O&M Expenses Representing "Common Costs; (4) rejecting PSE's new proposal to average hydro generation input and requiring PSE to average the output of 80 separate model runs of hydro generation; and (5) removing expenses related to the Colstrip forced outage in 2018.

1. The Commission should not accept PSE's continued attempts to reduce the amount of wind energy production in calculating its rate year power costs by means of flawed and outdated forecasts.

75 PSE proposes to derate the capacity factors of its established wind resources in the AURORA model. This derate results in a reduction of 126,984 MWhs of wind energy output, thereby increasing rate year power costs by approximately $1.0 million. In both this case and the 2017 GRC, PSE relies on the same 2016 "operational reforecast" of rate year energy production provided by the Vaisala Corporation (Vaisala) and, in the case of

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[189] These adjustments are (1) the pipeline capacity derate and (2) the fixed gas transportation rates adjustment, both discussed by Mr. Gomez, and (3) revising the Centralia PPA equity adder to reflect the lower tax rate and (4) updating major inspection costs for the Fredonia gas plant, both discussed by Ms. Liu.
[190] Liu, Exh. JL-1CTr at 55.
[191] Liu, Exh. JL-1CTr at 56.

contracted wind, the resource owner.[192] The Commission should not support the use of these forecasts for the following reasons.

76 First, PSE assumes that historical performance can be used to entirely predict future wind production levels.[193] While historical averages (like the Vaisala reforecast) may be useful in determining the monthly shape or seasonality of a particular resource they do not yield an accurate forecast here.[194]

77 Second, PSE's reforecast would have us believe that the Company's declining year-over-year wind resource output is attributable to poor forecasting without ruling out other potential factors.[195] Staff's reference in testimony to The Department of Energy's (DOE) 2018 Wind Technologies Report, points to multiple variables including: project age, region, and location, the quality of the wind resource at each site, turbine scaling and design, and performance degradation over time.[196] Staff expects that any proposed derate of PSE's wind fleet in AURORA would include evidence ruling out maintenance practices, turbine degradation, or other potentially contributing factors.[197] None of this was addressed by Mr. Wetherbee in his initial testimony. The Commission should not accept PSE's proposed derate absent this complete picture.

78 Third and perhaps most fundamentally, Vaisala's operational reforecast relies on a limited set of historical monthly production data which is then converted to an hourly value for use in AURORA.[198] In that sense, the reforecast represents a selective snapshot rather

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[192] Wetherbee, Exh. PKW-1CT at 73:8 - 74:5.
[193] *Id*. at 72:3-12; 74:8 - 75:2.
[194] Gomez, Exh. DCG-1CT at 39:15 - 40:19.
[195] *Id*.
[196] *Id*. at 40:7-19.
[197] *Id*. at 41:10-12.
[198] *See* Wetherbee, Exh. PKW-1CT at 74:12 - 75:2.

than a consistent, statistically principled approach. From its experience with other weather-based resources, such as hydroelectric power, Staff knows that future weather performance cannot be reliably extrapolated from short-range historical forecasts.[199] As with hydrological conditions, power cost forecasts that rely on an extended span of wind data will better reflect the inevitably wide range of wind conditions that will occur, and establish a rate that transcends any individual rate year.

79 Staff does not yet know for certain whether normalization, similar to that used in hydroelectric analyses, or some other statistical approach will serve to appropriately recognize long-range variability in wind generation.[200] However, Staff is not confident in the methodology underpinning Vaisala's reforecast. Inferring from Staff's experience with hydroelectric analyses, PSE's proposed derates represent the next step in a consistent and steady problem observed with all three electric utilities: the reduction in the contribution of renewables such as wind and an overstating of thermal production, resulting in a higher baseline. This trend imposes asymmetrical risks in the distribution of power costs that impact what should be an even sharing of the risks and benefits of renewable power generation. Over the span of 15 years, PSE has steadily reduced the contribution of wind generation of all its owned and contracted wind plants in the AURORA model by 5.8

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[199] See Liu, Exh. JL-1T at 47:14-17; *see also Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Docket UE-050482, Order 05, 49 ¶ 121 (Dec. 21, 2005) ("Hydro normalization methodology is a recurring issue in the Commission's general rate proceedings. The issue centers on how to determine the annual 'average' amount of river water flow and the resulting amount of hydro-generation that will be available during the rate year. This is one of the factors critical to the power cost results determined using the AURORA power cost model.").
[200] Gomez, Exh. DCG-1CT at 39:20 - 40:4; 41:15-19.

percent,[201] thereby minimizing the Company's risk associated with recovery of net power costs and shifting those risks to ratepayers.

80 Staff is presently examining this precise issue—reducing variance in wind resource capacity factor modeling—in the Avista Power Supply Modeling workshop.[202] The parties there mutually engaged an outside expert, E3 Consulting, attempting to arrive at a principled method for setting capacity factors for wind assets that recognizes long-range wind variability and fairly allocates renewable generation risk between the companies and ratepayers. The Commission should hold off on proceeding even further down the path of continuing to derate PSE's wind capacity factors and require PSE, in alignment with the Avista Power Supply Modeling workshop, to engage with Staff in a collaborative exercise and deliver one, principled solution and methodology to the Commission to address this common problem among the electric utilities.

81 In rebuttal, PSE argues that the Vaisala reforecasts are the "most recent forecasts available" and are the "only ones that incorporate data from actual project operations."[203] This does not address Staff's chief problem with Vaisala's reforecast—that recent, historical wind generation data is a poor predictor of future wind generation performance given long-range variability in wind resources.

82 Based on the above, the Commission should: (1) leave PSE's existing capacity factors in place until such a time as PSE can address this issue more fully, and include, along with its final order in this case, a moratorium on additional capacity factor changes in AURORA until this issue has been addressed; and (2) order PSE to work with Staff (leveraging existing work being done in the Avista Power Supply Modeling workshop) to

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[201] Gomez, Exh. DCG-1CT at 39:9-11.
[202] 2017 Avista GRC Order at 55, ¶ 161.
[203] Wetherbee, Exh. PKW-34CT at 12:15-18.

arrive at a statistically reliable, principled solution that is broadly applicable to all companies and recognizes the reality of long-range variability in wind generation, while fairly allocating renewable generation risk between the companies and ratepayers.

2. Colstrip major maintenance should be removed from rates until it is incurred.

83 Pursuant to a settlement in the 2014 power cost only rate case (PCORC), PSE has been amortizing the projected costs of Colstrip major maintenance over three years and recovering the annual cost of the amortization in rates.[204] Major maintenance is "substantial, long-duration maintenance and upgrade work performed at regular intervals, typically once every few years,"[205] and is included in this case as an O&M expense. Colstrip major maintenance costs for Units 3 & 4 have become uncertain, however, and the practice of including the *estimated* cost in rates should be changed so that ratepayers do not pay more than the actual costs. The projected major maintenance cost for Colstrip has been overestimated in the recent past; the scope of the scheduled major maintenance may be scaled back as the economics of operating Units 3 & 4 become more and more uncertain; the Talen budget does not appear to have been finalized; and PSE has requested approval to sell its interest in Unit 4. Due to the effect of these uncertainties on costs, ratepayers should not pay Colstrip major maintenance costs until after they actually have been incurred. Instead,

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[204] Liu, Exh. JL-1CTr at 31:5-8, citing *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-141141, Order 04, 3, ¶ 8 (Nov. 3, 2014).
[205] Liu, Exh. JL-1CTr at 30:22-24.

the Commission should authorize PSE to defer these costs as they are incurred, to be examined in the Company's next GRC and amortized for recovery.[206]

84 PSE argues that the recent discrepancies between the budgets and actuals were due solely to the shut-down of Units 1 & 2. That is, because Units 1 & 2 were due to be shut down, the major maintenance that had been budgeted no longer needed to take place.[207] And, PSE claims that the variance between actual and budgeted costs for major maintenance at Units 3 & 4 has been "relatively minimal."[208] While the impending closure of Units 1 & 2 might explain the Unit 1 & 2 discrepancies, a review of PSE's overall O&M expenses for Units 3 & 4 show that Talen's budgets do vary with actuals. In 2017, there was a variance between budgeted O&M expenses and actual O&M expenses for Units 3 & 4 of approximately 20 percent.[209] This large a variance is significant because ratepayers paid rates based on the budgeted amounts at the time and not on the actual amounts.[210] PSE witness Mr. Roberts minimizes this large variance in his testimony by averaging the positive and negative variances over six years, which completely obscures the 20 percent variance from 2017.[211] This large variance is a warning sign that Talen's budgets are not reliable.

85 Further, although major maintenance is scheduled to take place at Colstrip in June of this year,[212] Talen's Colstrip budget was not final as of the date Staff filed testimony.[213] While the explanation that the budget estimates are refined yearly[214] may make sense from a

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[206] Liu, Exh. JL-1CTr at 31:19 - 32:1. PSE supports deferring the costs of major maintenance for later recovery if the Company cannot continue its current practice. Roberts, Exh. RJR-14T at 14:14-17.
[207] Roberts, Exh. RJR-14T at 12:14 - 13:2.
[208] Roberts, Exh. RJR-14T at 14:8-10.
[209] Roberts, TR. 431:2-7; *see* Liu, Exh. JL-15C.
[210] *See* Roberts, TR. 429:13-17.
[211] *Compare* Roberts, RJR-14T at 16:18 - 17:2, *with* Liu, Exh. JL-15C.
[212] Liu, Exh. JL-1CTr at 31:11-12.
[213] Liu, Exh. JL-1CTr at 33:13-21.
[214] Liu, Exh. JL-1CTr at 33:15-16; Roberts, TR. 429:4-5.

budgeting perspective, it does not show the budgeting process is fair for ratepayers; major maintenance expenses are amortized in rates over three or four years and will not necessarily be set on the most up-to-date estimate.

86 PSE entered into a purchase and sale agreement December 9, 2019, and has requested approval from the Commission to sell its interest in Colstrip Unit 4 to NorthWestern Energy.[215] Because the sale could be approved during the rate year, it is not clear at this point which expenses related to Unit 4 should be recovered from PSE ratepayers.[216] At hearing, Mr. Roberts acknowledged that the sale could impact PSE's costs associated with Unit 4.[217] And even if the major maintenance occurs before the approval of the sale, the dynamics of the pending sale may also influence the timing, scale and actual cost of the 2020 major maintenance.

87 Mr. Roberts also acknowledged that the super heat section replacement and any other issues with Unit 4 could "proportionately change our share of the costs of that project going forward; so that would have an impact, longer term, on the costs."[218] Staff witness Ms. Liu points out that, as "Units 3 & 4 age and approach their closure date, and the economics of operating those units become more and more uncertain, it is entirely possible that the scope of the scheduled maintenance will be scaled back."[219] Because of the uncertainties surrounding the actual costs of major maintenance at Colstrip in the near future, the

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[215] In re the Application of Puget Sound Energy for an Order Authorizing the Sale of All of Puget Sound Energy's Interests in Colstrip Unit 4 and Certain of Puget Sound Energy's Interests in the Colstrip Transmission System, Docket UE-200115, Application (filed Feb. 19, 2020).
[216] *See* Liu, Exh. JL-24T at 15:13-20.
[217] Roberts, TR. 429:8-11.
[218] Roberts, TR. 429:18-25; *see also* Gomez, Exh. DCG-1CT at 25:19 - 26:19.
[219] Liu, Exh. JL-1CTr at 33:6-8.

Commission should direct PSE to defer its major maintenance expenses at Colstrip for review and recovery in a subsequent GRC.

3. O&M expenses representing "common costs" allocated to Units 3 & 4 from Units 1 & 2 should be removed because PSE has not demonstrated that the expense level or the allocation is appropriate.

88 PSE has shifted over a million dollars in projected "common" O&M costs from Units 1 & 2 to Units 3 & 4 and is seeking recovery of these costs in this case.[220] Examples of common O&M expenses are the expenses for maintenance of the general plant site, water treatment and handling equipment, a river pumping station, labor relations work, postage, employee safety equipment and training, information technology services, engineering services, and communications equipment.[221] Because these costs are not based on a reasonable estimate, they should be removed and the Commission should use only the test year level of O&M expense for Units 3 & 4.[222]

89 The common costs that PSE shifts to Units 3 & 4 in this case come from the common costs allocated to Units 1 & 2 in the 2018 test year.[223] PSE simply took one half of those costs and transferred them, dollar for dollar, to Units 3 & 4.[224] This cost transfer apparently does not consider that many costs currently allocated to Units 1 & 2 may be reduced or eliminated now that the units have closed or that they should continue to be allocated to Units 1 & 2 due to decommissioning and remediation activities.[225] Ms. Liu further points out that Talen has not finalized allocations of common cost, not to mention the unfinalized overall budget.[226] The real costs are unknown and cannot at present be measured. PSE's re-

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[220] Roberts, TR. 427:2-7.
[221] Roberts, Exh. RJR-14T at 15:9-13.
[222] Liu, Exh. JL-1CTr at 35:22 - 36:4.
[223] Liu, Exh. JL-1CTr at 37:2-4.
[224] *Id.* and Liu, Exh. JL-1CTr at 35:5-6.
[225] Liu, Exh. JL-1CTr at 37:10-15; Roberts, TR. 427:12-16
[226] Liu, Exh. JL-1CTr at 37:3-17.

allocation of common costs from Units 1 & 2 to Units 3 & 4 is simply arbitrary and may cause rate payers to pay more than is necessary for Units 3 & 4 O&M. The re-allocation should be rejected and PSE's Units 3 & 4 O&M adjustment should be removed for failure to meet the Commission's "known and measurable" standard for pro forma adjustments.[227]

90 In addition, Talen's past budgets have consistently overestimated O&M costs, causing ratepayer to "over [pay] by millions."[228] Mr. Roberts responds that "PSE continues to believe that the budget prepared by [Talen] . . . is a reasonable estimate."[229] He cites Ms. Liu's Exhibit JL-15C to argue that the variances between budgeted O&M expenses and actual expenses are small,[230] but Ms. Liu points out that the variances in 2017 and 2018 were "very pronounced."[231] The significance here, however, is not just the existence of variances but that there is a pattern of overestimating. PSE's adjustment is not based on reliable data and should be removed.

4. PSE should be required to estimate variable power costs based on the output of 80 hydro runs rather than on the input of one average.

91 PSE seeks to change the way it estimates power costs by replacing Aurora model runs for each of the 80 years of hydro data with one run using one average of hydro generation as an input. Using only an average of hydro generation instead of the average of the 80 model runs, however, distorts the results of the rate year simulation. And while PSE's proposed method may be a computational simplification, that is not a justification for implementing it. PSE should return to the method it has used for the last 20 years, which

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[227] WAC 480-07-510(3)(c)(ii).
[228] Liu, Exh. JL-1CTr at 39:7-13.
[229] Roberts, Exh. RJR-14T at 16:11-13.
[230] Roberts, Exh. RJR-14T at 16:18 - 17:2.
[231] Liu, Exh. JL-1CTr at 39:11.

involves running the AURORA model for each year of hydro data available and then averaging those runs to produce average hydro generation.

i. Using average hydro as an AURORA model input does not improve the accuracy of the power cost forecast.

92 PSE claims that its proposed new method of incorporating hydro generation into its estimation of variable power costs improves accuracy, but this claim is not supported. First, the Commission has found that the type of normalization PSE is producing by using averaged inputs is inappropriate. In a past case, non-Company parties proposed removing from the power cost calculation hydro data from water years that were outliers. The Commission rejected this "filtering" of the data, pointing out in its discussion, "While it is true that removing both high and low values from the normally distributed water record will not significantly bias the average water year, it did, [in a prior case], bias the average power cost."[232] It is exactly this problem, introducing bias into power costs, that is present in PSE's proposal in the instant case. As Ms. Liu explains, by averaging the hydro generation input into the AURORA model, PSE "exclude[s] the power cost variance from extremely high or extremely low hydro conditions."[233] This method of normalization can cause distortions in the distribution of power costs, necessarily introducing bias into the power cost outputs.[234]

93 PSE finds fault with its usual method of using multiple model runs to develop a hydro generation average on the basis that the AURORA model allows capacity constraint violations that the Company believes lead to artificially low resource costs.[235] PSE believes that its new method improves model accuracy because there can be no capacity constraint

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[232] 2009 PSE GRC Order at 44, ¶ 115.
[233] Liu, Exh. JL-1CTr at 54:5-7.
[234] *See* Liu, Exh. JL-1CTr at 54:10-14.
[235] *See* Liu, Exh. JL-1CTr at 50:7-9; *see* Wetherbee, Exh. PKW-34CT at 7:13-14.

violations if the model is run only with the average hydro conditions.[236] Whether constraint violations really cause a problem with the resource costs is not evident, however, as PSE has not quantified the impact of the hydro capacity constraint violations.[237] It is clear, though, that capacity constraint violations are not frequent. The Company indicated that capacity limits are relaxed only about 1.7 percent of the time per model run.[238] At hearing, PSE witness Mr. Wetherbee admitted "that's small."[239] Far from qualifying his admission that a hydro capacity violation rate of 1.7 percent is "small," Mr. Wetherbee pivoted to a defense of the new proposal by falling back on the justification that the new method is simpler.[240] To sum up, PSE has not shown that capacity constraint violations are significant in terms of occurrence or in terms of actual effect on resource cost. Accordingly, they are not a credible basis for replacing PSE's traditional methodology.

ii. Forecast accuracy should not be sacrificed for the sake of computational efficiency.

94 PSE admitted that it "initially proposed to use average hydro as an input for the sake of computation efficiency." Efficiency alone, however, does not justify the new method. Moreover PSE can easily return to its traditional method, which involves only one model run for each hydro year.

95 As discussed above, PSE's new method does not produce a more accurate forecast. Thus, while simplicity is an important consideration,[241] the Commission has been clear that

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[236] *See* Wetherbee, Exh. PKW-34CT at 9:3-5.
[237] *See* Liu, Exh. JL-1CTr at 51:6-7; Wetherbee, TR. 410:13-15. At hearing PSE witness Mr. Wetherbee agreed that the difference in power costs resulting from Staff's recommendation and the Company's new proposal cannot be accounted for entirely by AURORA's hydro capacity violations: "No. There's . . . other factors going in the model analysis for that." Wetherbee, TR. 410:7-12.
[238] Liu, Exh. JL-1CTr at 51:9-11.
[239] Wetherbee, TR. 409:24.
[240] Wetherbee, TR. 409:25 - 410:1.
[241] *See* Liu, Exh. JL-1CTr at 49:6.

it cannot be the sole reason for adopting a new method. In the same decision discussing the data filtering proposal (discussed above), the Commission noted that there was persuasive testimony that the filter proposed was not justified on any statistical grounds. The Commission then stated in no uncertain terms that the ICNU/Staff assertion that the proposed filter "should be adopted because it is simple and straightforward," despite the lack of an objective basis supporting implementation, "is untenable."[242] The proposal to use average hydro input in the instant case is just as untenable. PSE's proposed new method does not improve forecast accuracy and, therefore, any improved computational efficiency is irrelevant.

96 There is nothing preventing PSE from returning to its traditional method of integrating hydro into its power cost forecast. Under its traditional method, PSE did separate AURORA model runs for each year of hydro data,[243] which currently means 80 years/80 runs.[244] Then PSE averaged the total power cost.[245] The Commission should require PSE to return to this method so that outputs rather than inputs are averaged.

97 In this proceeding, PSE proposes a "two-zone" model, with the market as the first zone and PSE's system as the second zone.[246] For each hydro data year, the first run is to develop market prices for electricity; the second run is to develop PSE's resource cost including the cost for contingency reserves and hour-ahead load balancing (reserve costs).[247] In the past, PSE used an Excel spreadsheet, the Hour Ahead Balancing Model (HABM), to

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[242] PSE 2009 GRC Order at 43–44, ¶ 114.
[243] Wetherbee, Exh. PKW-34CT at 5:20.
[244] *See* Wetherbee, TR. 408:9-13.
[245] Wetherbee, TR. 412:10-13.
[246] *See* Wetherbee, Exh. PKW-1CT at 50:21 – 51:6.
[247] Id.

calculate the reserve costs.[248] Based on this two-zone proposal, PSE asserts that the existing method would result in 160 AURORA runs, rather than the traditional 80 runs, because the Company assumes it would need to have two runs—a pricing run and a system run—for each hydro run.[249] Staff is indifferent between the two-zone model and the spreadsheet model, so long as PSE runs the model for each year of hydro data and averages those runs for the input. As Mr. Wetherbee confirmed at hearing, however, only one pricing run would be required in total, and PSE would not need a pricing run for each of the 80 hydro runs.[250]

5. The Commission should reject the inclusion of the costs of upgrades 1 and 3 to the Tacoma LNG Plant in this case and require the Company to file a deferred accounting petition in a separate proceeding.

98 The Commission should reject the costs associated with the two proposed LNG upgrades and order PSE to file an accounting petition deferring the cost of those upgrades until the LNG Plant is placed in service.

99 PSE states that the two LNG Plant upgrades were "necessary to connect the Tacoma LNG Project to the PSE natural gas distribution system."[251] In the Commission approved settlement regarding the Tacoma LNG Project in Docket UG-151663, the settling parties agreed that "the costs of distribution system upgrades associated with the Tacoma LNG Facility should be allocated in accordance with the principle of cost causation."[252] Although PSE has included the costs associated with two Tacoma LNG distribution upgrades in the present rate case, the Company has not attempted to delineate which proportion of the costs

[248] *See* Wetherbee, TR. 412:10-13; 412:19 - 413:2.
[249] *See* Wetherbee, Exh. PKW-34CT at 4:20.
[250] *See* Wetherbee, TR. 412:13-24.
[251] Henderson, Exh. DAH-1T at 5:5-7.
[252] In re Pet. of Puget Sound Energy, Inc. for Approval of a Special Contract for Liquified Natural Gas Serv. and a Decl. Order Approving the Methodology for Allocating Costs Between Regulated and Non-regulated Liquified Natural Gas Serv., UG-151663, Order 10, Appendix A, 11 ¶ 29 (Nov. 1, 2016).

are properly attributable to unregulated activity. Therefore, the Commission should reject these costs in the present case and order PSE to file a separate deferred accounting petition.

100 The Tacoma LNG Plant gas distribution system upgrades are "material" for purposes of the Commission's standard for deferral petitions.[253] Staff has determined that 0.5 percent of net plant in service for PSE's natural gas operations is approximately $13.3 million.[254] The two upgrades presented in the Company's accounting petition (four miles of 16-inch pipeline and the Frederick Gate Station Upgrade Project) total $31.5 million, and therefore meet the materiality threshold.[255] Additionally, portions of the distribution system upgrades were delayed pending approval of the Notice of Construction permit by the Puget Sound Clean Air Agency.[256] Staff argues that the permitting delays are outside of the Company's control, and therefore represent exceptional circumstances. Staff's preference is to review the costs relating to the Tacoma LNG gas system distribution improvements in one proceeding after all of the LNG upgrades and the LNG facility have been placed in service. The Company has stated that it would accept deterred accounting treatment.[257]

101 Based on the above, the Commission should reject the costs associated with Tacoma LNG Project upgrades 1 and 3 and order PSE to file a separate accounting petition regarding those upgrades. Furthermore, the Commission should require PSE to include two specific pieces of information as part of its petition. First, PSE should provide a projected in-service date for the Tacoma LNG project agreed upon by PSE and its primary customer TOTE, which will help ensure that the deferral period is reasonable. Second, PSE should

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[253] McGuire, Exh. CRM-1T at 42:7-12. Costs are traditionally considered "material" where they meet a threshold of 0.5 percent of net plant in service. The deferral standard is discussed in section II, above.
[254] *Id.*
[255] Henderson, Exh. DAH-1T at 8:4.
[256] Henderson, Exh. DAH-4T at 2:11-14; 3:16-18.
[257] *Id.* at 5:1-7 ("PSE would accept being required to defer to return on and of Upgrades 1 and 3 until the LNG system is in service, and all three upgrades could be analyzed in a future rate case.").

demonstrate and explain how it allocated the cost of the upgrades between regulated and unregulated service based on the principle of cost-causation.

6. Only those Colstrip outage expenses deemed prudent in the companion outage docket should be included in rates.

102 The prudency of the costs associated with the 2018 Colstrip Outage are currently being adjudicated within Docket UE-190882. Prior to completing its investigation in Docket UE-190882, Staff provided testimony in this docket pertaining to the capital costs associated with the 2018 Colstrip Outage. At the time Staff provided this testimony, it concluded that it was contesting the capital costs associated with the 2018 Colstrip Outage, but noted that the prudency of these costs would be determined in Docket UE-190822.[258]

103 In Docket UE-190882, after completing its investigation of the 2018 Colstrip Outage, Staff recommended that the Commission allow PSE "to recover its share of the $3.4 mission in O&M and capital expense associated with corrective, post-outage actions."[259] Staff's position that PSE be able to recover these costs is a product of Staff's thorough investigation of the 2018 Colstrip Outage, which was not complete at the time Staff provided testimony in the instant docket. However, whether PSE will be able to recover these costs will ultimately be determined by the Commission within Docket UE-190882.

VII. LOW INCOME

104 Staff recommends that the Commission increase the Home Energy Lifeline Program (HELP) funding by twice the average percentage increases to residential customer bills, or 1.4 million, whichever is greater.[260] TEP testified that, in the event a lower rate increase is

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[258] Gomez, Exh. DCG-1CT at 12:3-9.
[259] Docket UE-190882, Gomez, Exh. DCG-1CCT at 6:1-3.
[260] Liu, Exh. JL-24T at 4:9-11.

approved, it recommends that the increase in HELP funding be double the percentage increase authorized for the residential base rate.[261]

105 PSE's initial proposal was to increase HELP funding by twice the average residential bill increase.[262] However, at the evidentiary hearing, PSE witness Andrew Wappler testified that the Company opposed Staff's recommendation because: "I believe the proposal, as performed by The Energy Project, made sense to tie it to base rates. Seems like that would be the most related to the amount of bill the customers are facing, and tying available aid to that seems like that would keep those in proportion."[263] As explained in Staff testimony, the difference between a funding increase based on base rates and an increase based on bills is that rider schedules increase base rates without a corresponding bill increase.[264] Therefore, the average residential *bill* increase is a more appropriate (and proportional) representation of the impact to low income customers of a rate increase authorized through a GRC.[265] Staff's recommendation bases the funding increase on the actual increase to customer bill, but also provides a minimum threshold to ensure the funding increase is meaningful.

VIII. COST OF SERVICE, RATE SPREAD AND RATE DESIGN

106 The parties contest a limited number of cost of service, rate spread, and rate design issues. The Commission should accept PSE's cost-of-service studies (COSSs) as directionally accurate, accept Staff's proposed electric and gas rate spreads, order PSE to spread the residential revenue requirement increment across both usage blocks, order PSE to

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[261] Collins, Exh. SMC-1T at 7:2-6.
[262] *See* Piliaris, Exh. JAP-1T at 19:11-19; 44:5-12; Collins, Exh. SMC-1T at 6:11-16.
[263] Wappler, TR. at 360:18-23.
[264] Liu, Exh. JL-24T at 6:15-17.
[265] Liu, Exh. JL-24T at 7:11-13.

update its natural gas economic bypass study, and decline to order PSE to revert to its previous natural gas line extension methodology.

A. Legal Principles

107 The Commission "allocates the revenue requirement" to PSE's customer classes through rate spread.[266] The costs of serving each class inform the rate spread, as do factors such as perceptions of equity, economic conditions in the service territory, gradualism, rate stability, and the avoidance of rate shock.[267]

108 Rate design provides for the rates paid by customers to allow PSE to collect the revenue allocated through the rate spread.[268] Proper rates must "correctly reflect intra-class costs," provide for fair and reasonable revenue collection within customer classes, and incent good management and close scrutiny of expenses.[269]

B. Cost of Service

109 COSSs measure the costs of serving a utility's customer classes.[270] Staff reviewed PSE's COSSs and found them appropriate.[271] The Commission should accept them as directionally accurate[272] and use them to inform its rate spread in this case.[273]

110 The Federal Executive Agencies (FEA) recommends that the Commission require PSE to allocate electric production and transmission costs using the peak demand method or,

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[266] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-072300 & UG-072301, Order 12, 24, ¶ 68 (Oct. 8, 2008).
[267] *Id.*
[268] *Id.* at 24, ¶ 69.
[269] *Id.* at 24, ¶ 69.
[270] Ball, Exh. JLB-1T at 4:14-16.
[271] Ball, Exh. JLB-1T at 13:3-10.
[272] Ball, Exh. JLB-1T at 7:8 - 10:2, 11:11 - 12:4.
[273] Ball, Exh. JLB-1T at 13:3-10. The Commission need not go further and offer COSS guidance as it will soon issue binding rules for COSSs in the generic cost-of-service proceedings. Ball, Exh. JLB-1T at 13:6-8; *see generally In re Cost of Service Rulemaking*, Dockets UE-170002 & UG-170003, Notice of Opportunity to File Written Comments on Proposed Rules & Notice of Adoption Hearing (Feb. 12, 2020).

alternatively, the average and excess demand method.[274] The Commission has rejected arguments like these for nearly 40 years,[275] and it should continue to do so.[276] The changes FEA seeks should be considered, if at all, in the forum created to address them: the generic cost of service proceedings,[277] a forum in which FEA has declined to participate.[278]

111 Public Counsel, for its part, requests that the Commission require PSE to allocate mains in its natural gas COSS using Public Counsel's methodology. As Public Counsel admits, its proposed allocation does not produce results that differ materially from PSE's.[279] Again, the Commission should accept PSE's COSS results as "directionally accurate"[280] and address the allocation of mains in the cost of service generic proceedings.[281]

C. Rate Spread

112 A number of parties proposed rate spreads for PSE's electric and gas operations. For PSE's electric schedules, those rate spreads are:

	Proposed Revenue Increase as a Percentage of System Average Increase				
Rate Schedule(s)	PSE[282]	Staff[283]	Public Counsel[284]	Kroger[285]	FEA[286]
7	100	100	108	100	176
24	100	100	108	100	0
25/29	75	75	81	50	0
26	75	75	81	50	0
31	100	100	108	100	0
35	150	150	161	150	232

[274] Al-Jabir, Exh. AZA-1T at 2:13 - 3:2.
[275] *Wash. Utils. & Transp. Comm'n v. Wash. Water Power Co.*, Cause Nos. U-82-10 & U-82-11, Second Supplemental Order, 36–37 (Dec. 30, 1982); *see* 2014 Pacific Power GRC Order at 81, ¶ 190 .
[276] Watkins, Exh. GAW-1T at 3:3 - 12:17.
[277] *See* Ball, Exh. JLB-28T at 17:3-5; Ball, Exh. JLB-1T at 4:21-23, 13:5-8.
[278] Ball, Exh. JLB-28T at 17:7-12.
[279] Watkins, Exh. GAW-1T at 55:3-4.
[280] Ball, Exh. JLB-1T at 13:3-10.
[281] *See generally In re Cost of Service Rulemaking*, Dockets UE-170002 & UG-170003, Notice of Opportunity to File Written Comments on Proposed Rules & Notice of Adoption Hearing (Feb. 12, 2020).
[282] Piliaris, Exh. JAP-6.
[283] Ball, Exh. JLB-1T at 17, Table 4.
[284] Watkins, Exh. GAW-1T at 38, Table 6.
[285] Higgins, Exh. KCH-1T at 12, Table KCH-3.
[286] Al-Jabir, Exh. AZA-5.

43	125	150	134	125	204
46/49	75	75	81	50	0
50-59	125	125	134	125	204

For gas, the proposed rate spreads are:

	Proposed Increase as a Percentage of System Average Increase			
Rate Schedules	PSE[287]	Staff[288]	Public Counsel[289]	AWEC[290]
16, 23, 53	100	100	90	100
31, 31T	150	150	152	100
41, 41T	50	50	51	100
85, 85T	100	100	90	100
86, 86T	0	25	0	100
87, 87T	150	150	152	100
Special Contract	N/A	N/A	100	100
Rentals	N/A	N/A	0	100

113 The Commission should accept Staff's rate spreads because they most appropriately balance the factors used by the Commission.[291] With regard to the electric rate spread, Public Counsel's and PSE's insufficiently reflect cost-causation,[292] Kroger's insufficiently reflects principles of gradualism,[293] and FEA's assigns no revenue requirement increase to certain classes in violation of principles of equity and perceptions of fairness.[294] With regard to natural gas, AWEC's and Public Counsel's insufficiently reflect cost-causation and PSE's insufficiently reflects equity and perceptions of fairness.[295]

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[287] Taylor, Exh. JDT-1T at 23:20 - 24:5.
[288] Ball, Exh. JLB-1T at 19, Table 5.
[289] Watkins, Exh. GAW-1T at 57, Table 13.
[290] Mullins, Exh. BGM-8T at 13:7-9.
[291] *See* Ball, Exh. JLB-1T at 19:12 - 21:2.
[292] *See* Piliaris, Exh. JAP-18T at 7:10-14; Ball, Exh. JLB-1T at 18:3 - 19:2.
[293] *See* Piliaris, Exh. JAP-18T at 7:10-14.
[294] *See* Ball, Exh. JLB-1T at 19:14-17.
[295] See Ball, Exh. JLB-1T at 19:12 - 20:5.

D. Rate Design

114 The Energy Project (TEP) proposes spreading the entire residential class revenue requirement across both usage blocks, rather than over only the second block as initially proposed by PSE.[296] Staff and Public Counsel make similar recommendations.[297] PSE accepts TEP's proposals.[298] The Commission should order PSE to spread the increased residential revenue requirement across both usage blocks.

115 Staff requests that the Commission require PSE to update its natural gas special contract economic bypass study.[299] The Commission should order the update over AWEC and PSE objections.[300] A special contract must avoid undue preference or prejudice.[301] Its charges must also "recover all costs resulting from providing the service during its term" and "provide a contribution to" the utility's "fixed costs."[302] The update will ensure the Commission has the data to verify compliance with these requirements if the contract is renewed, and nothing more.

116 Finally, NWEC requests that the Commission require PSE to revert from its current natural gas line extension methodology (the Perpetual Net Present Value (PNPV) method) to its previous method (the Facilities Investment Analysis (FIA) method).[303] PSE replaced the FIA methodology with the PNPV methodology with Staff's full support because the latter methodology is simpler and more equitable.[304] The Commission should not order PSE to revert to an inferior methodology.

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[296] Collins, Exh. SMC-1T at 14:18 - 15:13.
[297] Ball, TR. 439:20 - 440:7; Watkins, Exh. GAW-1T at 46:17-20.
[298] Piliaris, Exh. JAP-18T at 8:13 - 10:5.
[299] Ball, Exh. JLB-1T at 34:1-11.
[300] Taylor, Exh. JDT-9T at 9:7-10; Collins, Exh. BCC-1T at 9:1-20.
[301] WAC 480-80-143(5)(b); RCW 80.28.090, .100.
[302] WAC 480-80-143(5)(c).
[303] Wheeless, Exh. AEW-1T at 20:10-15.
[304] Ball, Exh. JLB-28T at 3:13-14, 8:8-22; Ball, Exh. JLB-29 at 2.

IX. OTHER ISSUES

A. Tax Issues

1. PSE's proposed treatment of EDIT lacks transparency.

117 Excess Deferred Income Tax (EDIT) is the portion of deferred income tax that will not reverse because the federal corporate income tax rate changed from 35 to 21 percent pursuant to the Tax Cuts and Jobs Act (TCJA)[305] that went into effect January 1, 2018.[306] At the conclusion of PSE's last rate case, an expedited rate proceeding, PSE began returning plant-related EDIT to ratepayers on a separate rate schedule, titled Schedule 141X.[307] PSE now refuses to continue using Schedule 141X.

118 To understand the amount of EDIT that is being returned to ratepayers the Commission should order PSE to undertake several measures: (1) create a separate EDIT account on its balance sheet, (2) separate EDIT amortizations from the Company's federal tax adjustment, and (3) continue to return EDIT to customers on Schedule 141X.[308] PSE agrees with Staff's first proposal, to create a separate EDIT account.[309] Regarding Staff's second proposal, the Company claims the change would cause complexity and confusion, apparently because a manual adjustment would be needed to achieve reconciliation in PSE's tax application.[310] While Staff does not believe this is a reason to reject Staff's proposal, the

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[305] Tax Cuts and Jobs Act of 2017, Pub. L. No. 115-97, 131 Stat. 2054.
[306] Steward, Exh. CSS-1T at 4:10-12.
[307] Steward, Exh. CSS-1T at 5:8-12, *citing Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-180899 & UG-180900, Order 05, 11–12, ¶¶ 31–32 (2019) (2019 ERF Order).
[308] Steward, Exh. CSS-1T at 6:6-9. Staff's recommendation addresses all plant-related EDIT, including the "interim protected-plus EDIT . . . for the period January 1, 2018, to February 28, 2019," that was not resolved in the ERF settlement. *See* 2019 ERF Order at 10, ¶¶ 28 and 31.
[309] Marcelia, Exh. MRM-11T at 52:7-17.
[310] Marcelia, Exh. MRM-11T at 53:4-16.

Company's counter-proposal, to segregate the EDIT reversal within the adjustment, is better for transparency than nothing.[311]

119 Regarding the third proposal, continuing to return plant-related amortized EDIT to ratepayers on a separate tariff schedule, Schedule 141X, PSE has already been doing this. PSE should simply continue this practice, with an annual update to set the amortization of EDIT in Schedule 141X for each subsequent rate year.[312] Otherwise, it will be impossible to tell how much EDIT has been returned to ratepayers and how much PSE has simply absorbed.

120 Instead of passing back EDIT through a separate schedule, PSE proposes incorporating EDIT into the revenue requirement so that it becomes one of the many inputs into the ratemaking formula used to calculate rates.[313] In this way, EDIT amortizations may offset other elements in the ratemaking formula, but it will never be clear how much has been returned to ratepayers in any given year.[314]

121 PSE objects to Staff's proposal on the grounds that it violates the IRS's normalization requirements.[315] This normalization requires that "the four components of normalization be in sync . . .: rate base, ADIT, book depreciation, and tax expense."[316] With Staff's proposal for an annual update, however, PSE could make Schedule 141X work. And at hearing, PSE witness Mr. Doyle admitted that a tracker like Schedule 141X "could work."[317]

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[311] *See* Marcelia, Exh. MRM-11T at 53:16-18.
[312] Steward, Exh. CSS-1T at 6:9-12.
[313] *See* Doyle, TR. 372:8-17; s*ee* Marcelia, TR. 389:7-11.
[314] *See* Doyle, TR. 373:9-16.
[315] Doyle, TR. 370:10-18.
[316] Marcelia, Exh. MRM-11T at 19:13-15.
[317] Doyle, TR. 370:19-22; 373:25 - 374:9.

122 At hearing, PSE witnesses Mr. Doyle and Mr. Marcelia appeared to disagree on whether every dollar of EDIT would be returned to customers.[318] Transparency can be achieved, however, by requiring PSE to continue to return EDIT to customers on Schedule 141X,[319] which will allow the Commission to track the amount of EDIT that has been returned to customers, receive annual updates on EDIT amortizations, and evaluate whether PSE is meeting the Commission's expectations with respect to the return of EDIT to ratepayers.

2. The only remaining issue in the deferred accounting petition in Dockets UE-171225 and UG-171226 can be resolved by adopting PSE's proposal in its initial testimony.

123 Before the TCJA went into effect, PSE filed a petition requesting deferred accounting treatment for various categories of EDIT. The amended petition, filed November 26, 2018, requests relief regarding interim period overcollected tax expense and unprotected EDIT (non-plant related EDIT).[320] The issue of interim overcollection was resolved last year in PSE's ERF.[321] At issue still in the petition is PSE's proposal regarding non-plant EDIT. The total of the non-plant related EDIT balances is $36 million for electric operations and $2.9 million for gas operations as of December 31, 2017.[322] In the petition, PSE proposes to aggregate EDIT balances in "holding" accounts to be used as an offset to rate base and then to apply the balances in the next general rate case to other outstanding regulatory assets. The instant case is the "next general rate case."

[318] Doyle, TR. 377:3-10 and Marcelia, TR. 388:18 - 389:11 ("Can I make a correction to something my CFO said? . . .").
[319] Steward, Exh. CSS-1T at 6:6-9.
[320] Protected-plus EDIT was addressed in the ERF order on a temporary basis and is the subject of Ms. Steward's EDIT testimony in the instant case.
[321] Free, Exh. SEF-1T at 22:1-10.
[322] Marcelia, Exh. MRM-1T at 8:3-7.

124 In this case, PSE refreshes its request to aggregate the non-plant related EDIT from FERC accounts 190 and 283 into one EDIT-only account[323] and now proposes to pass back the non-plant related EDIT balances over a four-year period.[324] The rationale for the four-year pass-back period is that it can offset storm costs that are being recovered from ratepayers over four years.[325] Staff does not oppose either proposal.

B. Colstrip Units 3 & 4 Decommissioning & Remediation Costs

125 In this rate case, PSE proposes to collect decommissioning and remediation (D&R) costs for Colstrip Units 3 and 4 through accelerated depreciation to 2025. This proposal fails to answer the central question posed by CETA's coal-fired resource depreciation provision. That question is: How does the statutory language change the Commission's standard practices regarding the collection of D&R costs? Staff recommends that the Commission accept the proposed depreciation rates for the time being, but order PSE to file a plan to address the collection of D&R costs of Colstrip Units 3 and 4 in its next GRC so that parties can fully resolve this issue after establishing a sufficient record.

126 D&R costs are typically collected over the useful life of an asset by estimating those costs, and including them in depreciation expense. CETA calls that historical practice into question. Specifically, RCW 19.405.030 requires the Commission to allow recovery of "prudently incurred" D&R costs through rates. The challenge this presents is that the Commission determines prudency after the fact,[326] and most D&R costs occur after an asset is no longer providing service. Therefore, determining prudency of those costs while the

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[323] Marcelia, Exh. MRM-1T at 10:1-2.
[324] Marcelia, Exh. MRM-1T at 8:8-11; Free, Exh. SEF-1T at 57:15-17.
[325] Free, Exh. SEF-1T at 57:17-18.
[326] *See e.g.*, 2016 Avista Order at 42 ¶ 72 ("Prudence determinations are made after the fact…").

asset is still in service is impossible.[327] As a result, the Commission could interpret RCW 19.405.030 to either: a) allow recovery only once D&R costs are determined prudent, or b) require modification to the traditional method of recovering D&R costs for coal-fired resources. The statute should not be interpreted as (a), which would require the utility to recover most D&R costs from customers that did not receive benefit from the facility. Therefore, compliance with RCW 19.405.030 calls for modification to the traditional method of recovering D&R costs for coal-fired resources. Unfortunately, the record in this case contains insufficient evidence to implement such a modification.

1. The Commission should interpret RCW 19.405.030 to restrict recovery of D&R costs to the actual, prudently incurred costs, not as a restriction on when those costs are recovered.

127 Under RCW 80.04.350, the Commission has the authority to set depreciation rates for public service companies. Depreciation rates include estimates of an asset's D&R costs and amortizes those costs over the useful life of the asset.[328] Typically, D&R costs are not collected after a plant is removed from service, as the asset no longer serves ratepayers,[329] and the amount collected over the asset's useful life may prove higher or lower than the

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[327] *See Wash. Utils. & Transp. Comm'n v. Puget Sound Power & Light,* Docket Nos. UE-920433 & UE-920499 & UE-921262, Eleventh Supplemental Order, 21 ("[A]cceptance of … least-cost plan does not represent a finding of prudence..."); Valuation Policy Statement at 12 n.39 ("Prudence… is continuously evaluated during the life of an investment."); *but see In re Petition of Puget Sound Energy For an Accounting Order Approving the Allocation of Proceeds of the Sale of Certain Assets to Public Utility District #1 of Jefferson County*, Docket UE-132027, Order 04, 12, ¶ 17 (Sept. 11, 2014) ("[T]he Commission determines…levels of prudently incurred expenses the Company will experience prospectively, and allows for recovery of these expenses").

[328] Edison Electric Institute and American Gas Association, Introduction to Depreciation for Public Utilities and Other Industries at 4 (2013); National Association of Regulatory Utility Commissioners, Public Utility Depreciation Practices at 157 (August 1996).

[329] *See Investigation of coal-fired generating unit decommissioning and remediation costs*, Docket UE-151500, Colstrip Investigation Report at 14, ¶ 1 (Feb. 2, 2016) ("These costs are embedded in annual depreciation expense … and no further recovery … is expected from customers by the end of its life."); *but see*, 2015 PacifiCorp GRC Order at 19, ¶ 53 (discussing possibility of paying for D&R costs after plant closure).

actual cost ultimately incurred by the utility.[330] In 2019, the Washington State Legislature passed the CETA, which addresses the D&R costs of coal-fired assets in RCW 19.405.030.

128 Under RCW 19.405.030(1)(a), a utility must eliminate coal-fired resources from its "allocation of electricity"[331] by December 31, 2025. This deadline "does not include costs associated with decommissioning and remediation of these facilities."[332] In other words, CETA permits D&R costs associated with coal-fired facilities to be included in rates beyond 2025. Under RCW 19.405.030(1)(b), "The commission shall allow in electric rates all [D&R] costs prudently incurred by an investor-owned utility for a coal-fired resource." There are two implications of RCW 19.405.030(1)(b): First, the Commission must provide for recovery of actual D&R costs because the statutory language, "shall allow in electric rates all [D&R] costs" is mandatory.[333] Second, actual D&R costs are subject to a prudency review. This prevents over collection of D&R costs. Any amount collected from ratepayers above actual cost is not prudently incurred, because it is not a cost that is incurred at all.[334]

129 The phrase "prudently incurred" in RCW 19.405.030(1)(b) raises the question of whether the law prohibits a utility from including in rates D&R costs prior to those costs being incurred and prior to a prudency review. Staff does not believe that this was the legislative intent. Interpreting "prudently incurred" to restrict collection until after D&R costs occur would be a significant and inexplicable shift in Washington's regulatory policies

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[330] *See e.g.*, *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Docket UE-080416, Order 08, 20, ¶¶ 46–47 (Dec. 29, 2008) ("Our goal is to allocate the cost of an asset over its useful life … Avista would likely under-collect net removal costs and be forced to turn to future ratepayers to compensate for these under-collections.").
[331] RCW 19.405.020(1).
[332] RCW 19.405.030(1)(a).
[333] *See e.g.*, *State v. Krall*, 125 Wn.2d 146, 148, 881 P.2d 1040 (1994).
[334] Another interpretation of RCW 19.405.030(1)(b) is that it does not prohibit over collection. The rationale for this interpretations is that the mandatory language does not state that the commission shall *only* allow prudently incurred D&R costs in rates. If this interpretation is accurate, it creates asymmetric risks between ratepayers and utility. Even if accurate, Staff's position is that the Commission should set a tracking and true-up mechanism to avoid asymmetric risks between the utility and ratepayer as a matter of policy.

regarding both intergenerational equity and rate stability.[335] This interpretation would essentially bar the recovery of D&R costs from the ratepayers that received benefits from the facility. A more logical reading of RCW 19.405.030 is that it allows the Commission to extend the collection of D&R costs beyond 2025 in order to alleviate the burden that accelerated depreciation may otherwise impose on ratepayers from 2020 to 2025.

130 Although "prudently incurred" is past tense, the statutory context indicates that the phrase does not restrict *when* collection can occur, but *what* can be collected. RCW 19.405.030(1)(b) does not condition recovery on a prior Commission finding, as in subsection -.030(3). The word "incurred" can instead be read to bar over collection by restricting recovery to actual cost. This reading is supported by the legislature's previous use of the phrase "prudently incurred" in RCW 80.84.020(2), which establishes a true-up mechanism for the D&R costs that fall under that chapter. If this interpretation of the phrase is accurate, only a minor modification to the Commission's standard method of recovering D&R costs is necessary. A tracking and true-up mechanism allows rates to be based on projected D&R costs, allows cost recovery to continue beyond the service life of the facility, enables regular adjustments to capture revised cost estimates, actual expenditures, and prudency disallowances, and ensures recovery of only prudently incurred D&R costs.

2. The Commission should reject AWEC's and PSE's alternative proposals.

131 The Commission should reject the alternative proposals presented by PSE and AWEC in their rebuttal and cross answering testimonies because they ignore the policy implications of CETA. Despite clear indications to the contrary, both characterize CETA as having little to no impact on the recovery of D&R costs from Colstrip Units 3 & 4. This

[335] *See Wash. Utils. & Transp. Comm'n v. Avista Corp.,* Dockets UE-080416 & UG-080417, Order 08, 20, ¶46–47 (Dec. 29, 2008).

position overlooks the new options CETA gives to the Commission to address intergenerational equity, and the potential restrictions on recovery noted above.

132 AWEC does not agree with Staff's proposal, stating that the terms of the 2017 GRC Stipulation must be followed.[336] AWEC recommends, among other things, reducing depreciation expenses for Units 3 & 4 by the PTC amounts available after the retirement of Units 1 & 2.[337] AWEC's cross answering testimony does not explain how the proposal complies with RCW 19.405.030. Without a tracking and true-up mechanism, this risks future ratepayers bearing any D&R costs that exceed available PTCs. Nor does this proposal address intergenerational equity in light of CETA.

133 Although PSE agrees that it should file a plan for Colstrip recovery in the next GRC, the Company's description of what that plan covers is different in several important respects.[338] PSE proposes to file a plan "that will be implemented *after* the PTCs and the reserve from current depreciation rates are exhausted."[339] PSE bases this proposal on the belief that "CETA only impacts the cost recovery . . . to the extent the D&R costs exceed these methods of recovery established in the Settlement."[340] This is incorrect. The 2017 GRC Settlement set the remaining useful life of Units 3 & 4 to 2027,[341] while CETA requires these assets to be out of rates by the end of 2025. At the very least, this raises questions regarding whether the terms of the settlement can be followed consistent with current law. On rebuttal, PSE states that: "The changes in laws and standards can only be incorporated into rates once they are established and therefore *by necessity* should be

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[336] Mullins, Exh. BGM-8T at 4:15-18.
[337] *Id*. at 10:7-13.
[338] *Compare* Free, Exh. SEF-17T at 64:8-17, *with* McGuire, Exh. CRM-1T at 31:8-14.
[339] Free, Exh. SEF-17T at 65:11 - 66:4. (Emphasis added)
[340] Free, Exh. SEF-17T at 60:1-14.
[341] 2017 PSE GRC Order, Appendix B, Multiparty Settlement Stipulation and Agreement at 8, ¶ 26.

charged to those who continue to benefit from the facility. . . ."[342] Yet this is contrary to the plain language of RCW 19.405.030, which gives the Commission discretion to allow certain prudently incurred costs into rates after the coal-fired resource is no longer servicing Washington ratepayers.

134 Lastly, PSE states that the current Colstrip Annual Report "already provides the tracking that Mr. McGuire requests."[343] The Annual Colstrip Report does not provide the tracking recommended by Staff, it is not set up to track actual incurred D&R costs, and does not provide a sufficient basis to develop a plan to set rational and equitable rates.

3. Staff recommends the Commission order PSE to file a plan for recovering the D&R costs of Colstrip Units 3 & 4.

135 Staff recommends that the Commission Order PSE to file a proposed plan for the recovery of D&R costs for Colstrip Units 3 and 4 that complies with the provisions of CETA, including an assessment of the PTCs available to offset these costs, in the next GRC. The Commission should also address the allocation of these costs owed by Microsoft under the special contract.[344] The record in this case does not contain sufficient evidence to decide the complex policy issues related to CETA and the recovery of D&R costs. First, to decide the issue now the Commission would need to determine an equitable distribution of the D&R cost burden across generations of ratepayers. The record is particularly sparse in this area, and it is not evident to Staff that the 2020-2025 ratepayers deserve to pay all of the projected D&R costs, especially considering those ratepayers are already asked to pay for the accelerated depreciation for the plant, nor is it evident how under-contribution of previous generations of ratepayers should be distributed between current and future

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[342] Free, Exh. SEF-17T at 63:20 - 64:2. (Emphasis added.)
[343] Free, Exh. SEF-17T at 65:11-14.
[344] *Wash. Utils. & Transp. Comm'n. v. Puget Sound Energy*, Docket UE-161123, Order 06, 29–30, ¶ 78 (July 13, 2017).

generations. Second, the Commission would also need to determine whether the statute constrains the recovery of D&R costs in any way, as discussed above. Finally, based on PSE's stated intention to file another GRC within a year[345] and the frequency of PSE's rate filings over the last several years, Staff is not concerned that this recommendation will unduly delay the resolution of the issue.

C. Green Direct

136 PSE seeks to incorporate the costs of two power purchase agreements (PPAs) that will supply alternative energy to its GD program customers into its power cost baseline.[346] PSE also seeks to defer for later ratemaking treatment liquidated damages (LDs) paid to PSE due to project delays with the facilities underlying the PPAs.[347]

137 The Commission should allow PSE to include the PPAs in rates. Staff has reviewed PSE's proposed power costs and does not object.[348] The Commission should, however, require PSE to work with Staff and other stakeholders to track GD program costs and benefits to ensure their lawful allocation.[349] Although PSE demurs,[350] the issues around the program require further process[351] to verify that the program does not create unlawful cross-subsidies.[352]

138 The Commission should also approve the accounting petitions relating to PSE's receipt of LDs due to project delays. PSE has pledged to use the LDs to offset certain GD

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[345] Piliaris, TR. 246:5-8.
[346] Wetherbee, Exh. PKW-1T at 52:3-7, 52:19-23; Free, Exh. SEF-17T at 85:17-21.
[347] Free, Exh. SEF-17T at 86:2-6; *see generally In re Petition of Puget Sound Energy*, Dockets UE-190991 & UG-190992, Petition of Puget Sound Energy (Nov. 27, 2019).
[348] Liu, Exh. JL-1T at 56:8-21.
[349] Scanlan, Exh. KBS-1CTr at 14:1-19; Liu, Exh. JL-1T at 56:22 - 57:5; *see* RCW 19.29A.090(5).
[350] Free, Exh. SEF-17T at 88:1-9.
[351] Scanlan, TR. 425:19 - 426:1
[352] RCW 19.29A.090(5). For example, PSE initially attempted to incorporate into general rates costs incurred to serve GD customers; it later removed those costs after Staff discovered them. Scanlan, Exh. KBS-1T at 7:13 - 8:15; Free, Exh. SEF-17T at 85:6-14.

costs,[353] and the Commission should approve the petitions on that basis, on the condition that PSE not discriminate between GD customers when using the LDs in this manner, which will ensure that the program complies with RCW 19.29A.090 and RCW 80.28.090 and .100.

D. On-Bill Repayment

139 NWEC proposes that the Commission order PSE to design and implement a tariffed on-bill repayment program to help its customers finance energy efficient upgrades.[354] While PSE is neutral to NWEC's proposal, albeit with reservations,[355] and while Staff does not oppose it in concept, the Commission should not approve implementation of such a program until it can be shown that it is cost effective.[356]

140 While NWEC testifies about certain types of cost associated with a tariffed on-bill program, it does not discuss other potentially significant costs that must be considered before the cost effectiveness of such a program can be evaluated.[357] Staff witness Mr. Woodward discusses the following other costs: [358]

- Administrative costs of delivering the program,[359] including the costs of transactional recording of the upgrade, required by statute (RCW 80.28.065);[360]
- Cost benefit analyses for each premise where improvements will be made;[361] and
- Costs of enterprise-level program delivery.[362]

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[353] Free, Exh. SEF-17T at 86:10 - 87:10.
[354] *See* Gerlitz, Exh. WMG-1T at 12–17, specifically at 16:6-8.
[355] Piliaris, JAP-18T at 28:1-3.
[356] *See* Woodward, Exh. JTW-1T at 11:8-11.
[357] Woodward, Exh. JTW-1T at 7:12-17.
[358] Woodward, Exh. JTW-1T at 7:19 - 8:15.
[359] Woodward, Exh. JTW-1T at 8:8-15.
[360] Woodward, Exh. JTW-1T at 8:17- 9:5.
[361] Woodward, Exh. JTW-1T at 9:7-16.
[362] Woodward, Exh. JTW-1T at 9:18 - 10:2.

141 PSE witness Mr. Piliaris also has concerns with implementing the type of program that NWEC proposes. His concerns are as follows:

- High implementation costs, including setting up the financing, on-going labor costs to operate the program, and marketing costs to educate customers;
- Low participation rates; and
- Better financing options that are already available to most customers.[363]

Nonetheless, PSE is willing to implement a program if it will deliver cost-effective energy savings.[364]

142 Given the lack of consideration of significant costs and the lack of information on the potential popularity of such a program, NWEC has not shown that a tariffed on-bill financing program will result in additional cost effective conservation for PSE.[365] The Commission should require PSE to work with select external stakeholders, including its Conservation Resources Advisory Group ("CRAG") and its Low Income Advisory Committee, to evaluate the cost effectiveness of a tariffed on-bill repayment program.[366] All three parties testifying on NWEC's proposal agree that addressing it with the Company's CRAG and Low Income Advisory Committee is the place to start.[367] Accordingly, the Commission should order PSE to start there and provide a brief report on the program to the Commission within three months of the effective date of the final order in this case.

E. Pricing Pilots

143 Finally, several proposed pilot programs are before the Commission. PSE proposes a conjunctive demand pilot program for certain customers taking service at multiple

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[363] Piliaris, Exh. JAP-18T at 25:13 - 26:14.
[364] *See* Piliaris, Exh. JAP-18T at 28:1-11.
[365] Woodward, Exh. JTW-1T at 10:7 - 11:5.
[366] Woodward, Exh. JTW-1T at 3:19-21.
[367] *See* Gerlitz, Exh. WMG-1T at 20:14-16; Woodward, Exh. JTW-1T at 3:19-23; Piliaris, Exh. JAP-18T at 28:14-17.

locations.[368] Staff asks the Commission to require PSE to refile the pilot after consideration of guidance the Commission should issue in this case.[369] Staff also asks the Commission to order PSE to design and implement several other pilots.[370]

144 PSE has a price problem. Its rate structure is based, as it long has been, on average cost pricing.[371] Consequently, its rates currently focus almost exclusively on the quantity of electricity used by ratepayers[372] and show a near-total indifference to other aspects of electrical use, such as the time and place of use.[373] This rate structure sends price signals "poorly" at best.[374]

145 This rate structure will serve PSE poorly in the world to come. Customer-focused disruptions not unlike the ones that swept through the telecommunications industry have begun in the electric sector.[375] Those disruptions have brought with them changing customer expectations regarding the pricing of electricity.[376] In short, customers have begun to demand more information related to, and control over, their electricity use.[377]

146 To adapt to those changing expectations, PSE "needs to understand how and to what degree customers value different price signals."[378] To gain this understanding, PSE should begin experimenting with alternative rate structures. Pilot programs, which "offer[] a unique price of electricity to a limited number of customers as an experiment with a rate

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[368] Ball, Exh. JLB-1T at 59:8-19; Piliaris, Exh. JAP-1T at 30:13-17.
[369] Ball, Exh. JLB-1T at 59:21 - 61:19.
[370] Ball, Exh. JLB-1T at 62:1-6.
[371] *See* Ball, Exh. JLB-1T at 47:18-19.
[372] Ball, Exh. JLB-1T at 44:6 - 50:10.
[373] Ball, Exh. JLB-1T at 24, Figure 3.
[374] Ball, Exh. JLB-1T at 47:12 - 48:3.
[375] Ball, Exh. JLB-1T at 41:2 - 43:14.
[376] Ball, Exh. JLB-1T at 41:9-10; Higby, Exh. ANH-1Tr at 32:5-14.
[377] *See* Ball, Exh. JLB-1T at 40:7 - 41:10, 43:6-14.
[378] Ball, Exh. JLB-1T at 43:13-14.

structure,"[379] provide the means to do so.[380] They allow PSE to gather data and work through difficulties "before making a decision on whether or not to offer the price to [its] entire ratepayer population."[381]

147 The Commission, however, has provided no guidance on pricing pilots to utilities.[382] This lack of guidance could potentially create uncertainty and attendant "regulatory risk that may have a chilling effect on examining rate design options for complying with new laws and policies"[383] like CETA. This rate case offers the Commission the chance to provide guidance to eliminate this uncertainty.

148 A pricing pilot is an experiment,[384] and that fact should inform its every aspect. The Commission should require utilities like PSE to rigorously design pilots around defined goals, structure pilots to ensure they are workable and produce valid results, and provide for transparency and ready customer engagement and participation.[385] The Commission should review the manner in which utilities develop and administer pilots; their findings; and their evaluation of the costs, benefits, and risks of the programs.[386] This rigorous design and review will ensure that pilots do not suffer from the "garbage in, garbage out" phenomenon,[387] wasting resources on an experiment that would never have produced valid data.

149 With regard to the specific pilots at issue in this proceeding, the Commission should order PSE to do four things: (1) design and implement a time-of-use-rates (TOU) pilot, (2)

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[379] Ball, Exh. JLB-1T at 37:10-11.
[380] Ball, Exh. JLB-1T at 47:12-14.
[381] Ball, Exh. JLB-1T at 37:11-18.
[382] Ball, Exh. JLB-1T at 53:13-26.
[383] Ball, Exh. JLB-1T at 54:13-14.
[384] Piliaris, TR. 269:1-13.
[385] Ball, Exh. JLB-1T at 55:5 - 56:9.
[386] Ball, Exh. JLB-1T at 56:13 - 58:23.
[387] *See* Wikipedia, *available at* https://en.wikipedia.org/wiki/Garbage_in,_garbage_out Garbage_in, garbage_out (last visited February 24, 2020).

design and implement a critical-peak-price (CPP) pilot, (3) engage Pacific Northwest National Labs (PNNL) to examine the feasibility of a real-time-pricing pilot, and (4) refile its aggregate demand pilot in light of any guidance the Commission provides on pilots in its final order in this docket.

150 First, the Commission should order PSE to design and perform a time-of-use-rates pricing pilot based on guidance from the Commission in this docket.[388] This pilot should evaluate whether PSE can use TOU rates to shift load away from its peak hours.[389] Such load shifting can help PSE incorporate distributed energy resources into its generation profile and reduce PSE's system costs.[390] PSE accepts this proposal.[391]

151 Second, the Commission should also direct PSE to design and perform a critical-peak-pricing pilot program, again in light of the guidance from the Commission in this docket.[392] Again, the pilot should evaluate whether PSE can use CPP rates to shift load away from its peak hours. PSE appears to have concerns with such a pilot, although it does not specifically oppose it.[393] Nevertheless, a number of utilities have engaged in CPP pilots and have produced dramatic reductions in peak load when doing so.[394] A critical peak pricing pilot thus offers the potential for even greater benefits of the type described above for a TOU rate pilot.

152 Third, the Commission should order PSE to work with PNNL on other "advanced forms of pricing structures."[395] While PSE expresses a certain ennui toward this proposal,

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[388] Ball, Exh. JLB-1T at 62:1-4.
[389] Ball, Exh. JLB-1T at 62:11-12.
[390] Ball, Exh. JLB-1T at 50:12 - 52:27.
[391] Piliaris, Exh. JAP-18T at 20:19 - 21:6.
[392] Ball, Exh. JLB-1T at 62:1-4.
[393] Piliaris, Exh. JAP-18T at 21:6-7.
[394] Ball, Exh. JLB-1T at 65, Figure 12.
[395] Ball, Exh. JLB-1T at 67:5-6.

PSE does not specifically oppose it.[396] PNNL ran a "very successful demonstration project to "create and observe a futuristic energy-pricing" program.[397] The Commission should require PSE to piggyback on that demonstration project to see whether any additional pilots may help it develop and understand advanced rate structures.[398]

153 Finally, the Commission should require PSE to refile its proposed conjunctive demand pilot in light of any guidance the Commission provides in its final order in this docket. PSE's pilot program is a five-year odyssey,[399] and PSE does not intend to begin the pilot for nearly a year.[400] Given those facts, PSE should reflect on any guidance given by the Commission to make sure it does not waste resources for five years in an experiment not designed to yield meaningful results or data. While PSE correctly argues that some of Staff's recommended pilot guidelines may not apply,[401] it acknowledges that it would "welcome further guidance from the Commission."[402] PSE should refile the pilot in light of this guidance.

X. CONCLUSION

154 For the reasons discussed above, a revenue requirement increase of $48.3 million for electric operations and $37.5 million for natural gas operations, without an attrition adjustment, will produce rates for PSE that are fair, just, reasonable and sufficient. Regarding PSE's petitions, the Commission should deny the petition in Dockets UE-190274 and UG-190275 except for the request to defer the depreciation expense of major projects; grant PSE's petition in Dockets UE-171225 and UG-171226 with respect to the only

[396] Piliaris, Exh. JAP-18T at 21:13-15.
[397] Ball, Exh. JLB-1T at 67:6-8.
[398] Ball, Exh. JLB-1T at 67:4-11.
[399] Piliaris, Exh. JAP-1T at 35:4-6.
[400] Ball, Exh. JLB-1T at 59:19.
[401] Piliaris, Exh. JAP-18T at 18:19 - 20:1.
[402] Piliaris, Exh. JAP-18T at 19:8-9.

remaining issue, accounting treatment of non-plant related EDIT; and approve PSE's petition in Dockets UE-190991 and UG-190992 to defer liquidated damages associated with the Skookumchuck Wind Energy Project.

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