

**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY,**

**Respondent.**

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

**In the Matter of the Petition of**

**PUGET SOUND ENERGY**

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

**Docket UE-190274  
Docket 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**

**Docket UE-171225  
Docket 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**

**Docket UE-190991  
Docket UG-190992  
(consolidated)**

**INITIAL BRIEF OF  
PUGET SOUND ENERGY**

**MARCH 17, 2020**

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## I. INTRODUCTION

***Puget Sound Energy (“PSE”) is filing with this brief a motion advising the Commission that PSE will waive the statutory deadline and extend the tariff suspension date for up to 60 days. This will delay the rate increase requested in this case in recognition of the unprecedented and challenging times PSE’s customers are facing due to the coronavirus (COVID-19).***

1. PSE respectfully requests the Commission grant the relief requested in this case. This requested relief will allow PSE to continue providing safe, reliable and efficient electric and natural gas service while also laying the groundwork for the transition to carbon-free electricity to which PSE and the State of Washington have committed.
2. PSE filed this general rate case immediately following the passage of the Clean Energy Transformation Act (“CETA”),<sup>1</sup> which requires Washington’s electricity supply be carbon-neutral by 2030 and carbon-free by 2045. Additionally, CETA authorizes the Commission to utilize flexible regulatory mechanisms to implement the requirements and full intent of CETA.<sup>2</sup> PSE crafted its case in a manner that is consistent with the new law and with prior Commission direction. A critical component of PSE’s case is an attrition adjustment designed to lessen the detrimental effect of regulatory lag that is built into the modified historical test year that the Commission has traditionally used to set rates. The attrition adjustment allows for more timely recovery of the important investments that are benefitting customers today and will continue to benefit customers in the coming years.
3. The investments PSE has made, and will continue to make in the rate year, allow PSE to continue to provide safe, reliable and efficient energy service to its customers while also modernizing the grid and laying the groundwork for achieving the goals of CETA. Specifically, in this case, PSE seeks recovery of: investments in new smart meters and metering network to replace the obsolete and failing metering system and to lower customer energy usage through implementation of conservation voltage reduction; continued investment in its transmission and

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<sup>1</sup> S. 5116, 2019 Wash. Legis. Serv. ch. 288 (effective May 7, 2019) (“CETA”).

<sup>2</sup> *Id.* § 1(5) (codified at RCW 19.405.010(5)).

distribution system to improve reliability for customers; and technology systems that allow for enhanced digital capabilities for customer interactions with PSE and workforce scheduling and dispatch. These are just a few of the investments for which PSE seeks recovery in this case.

4. PSE also seeks prudence determinations for new power and transmission contracts and plant that have gone into service. Included in these are the power contracts for PSE’s Green Direct program, which provides large commercial customers the option of carbon-free electricity. Numerous cities, counties, and large commercial customers have signed up for this voluntary green energy program, which the Commission previously approved. PSE seeks a determination that these power purchase agreements (“PPAs”) are prudent.

5. PSE’s case is consistent with the public interest. It is supported by substantial evidence. It complies with the newly enacted statute and charts a path forward for PSE, the Commission and the State of Washington as we move toward the transformation to 100 percent carbon-free electricity. PSE respectfully requests the Commission approve the relief requested in this case.

## II. LEGAL STANDARD

6. The ultimate legal question in a general rate case is whether the rates and charges proposed by a utility are fair, just, reasonable, and sufficient.<sup>3</sup> In making these determinations, the Commission is bound by the statutory and constitutional mandate that a regulated utility is entitled to (i) reasonable and sufficient compensation for the service it provides,<sup>4</sup> and (ii) the opportunity to earn “a rate of return sufficient to maintain its financial integrity, attract capital on reasonable terms, and receive a return comparable to other enterprises of corresponding risk.”<sup>5</sup>

7. Washington’s ratemaking structure was updated in 2019 with the passage of CETA, which proclaimed that it is “the policy of the state to eliminate coal-fired electricity, transition the state’s electricity supply to one hundred percent carbon-neutral by 2030, and one hundred percent

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<sup>3</sup> RCW 80.28.020; *People’s Org. for Wash. Energy Res. v. WUTC*, 104 Wn.2d 798, 808 (1985) (en banc) (“POWER”).

<sup>4</sup> *POWER*, 104 Wn.2d at 808; *Puget Sound Traction Light & Power Co. v. Pub. Serv. Comm’n*, 100 Wn. 329, 334 (1918) (en banc); RCW 80.28.010(1).

<sup>5</sup> *WUTC v. Avista Corp.*, Dockets UE-991606, *et al.*, Third Supp. Order ¶ 324 (Sept. 29, 2000).

carbon free by 2045.”<sup>6</sup> The Legislature recognized “that utilities in the state have an important role to play in this transition, and must be fully empowered, through regulatory tools and incentives, to achieve the goals of this policy.”<sup>7</sup> The Legislature declared that flexible regulatory mechanisms are available and should be used: “[t]he legislature recognizes and finds that the utilities and transportation commission’s statutory grant of authority for rate making includes consideration and implementation of performance and incentive-based regulation, multiyear rate plans, and other flexible regulatory mechanisms, where appropriate to achieve fair, just, reasonable, and sufficient rates and its public interest objectives.”<sup>8</sup>

8. CETA broadened RCW 80.04.250, the “used and useful” statute, by allowing rates to be set based on property that is “used and useful for service in this state *by or during the rate effective period.*”<sup>9</sup> Further, CETA amended existing law to expressly allow for rates to be set “using any standard, formula, method, or theory of valuation reasonably calculated to arrive at fair, just, reasonable, and sufficient rates.”<sup>10</sup> CETA requires the Commission to establish an appropriate process to identify, review and approve property that becomes used and useful after the rate effective date.<sup>11</sup> Less than one week before the hearing in this case, the Commission issued its Used and Useful Policy Statement,<sup>12</sup> which provides helpful guidance with respect to the changes to the statute. The policy statement is advisory only and not binding.<sup>13</sup>

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<sup>6</sup> CETA § 1(2) (codified at RCW 19.405.010(2)).

<sup>7</sup> CETA § 1(5) (codified at RCW 19.405.010(5)).

<sup>8</sup> *Id.*

<sup>9</sup> RCW 80.04.250(2) (emphasis added for newly adopted statutory language).

<sup>10</sup> RCW 80.04.250(3).

<sup>11</sup> *Id.*

<sup>12</sup> Policy Statement on Property that Becomes Used and Useful After Rate Effective Date, Docket U-190531 (Jan. 31, 2020) (the “Used and Useful Policy Statement”).

<sup>13</sup> RCW 34.05.230(1) (“Current interpretive and policy statements are advisory only.”); WAC 480-07-920(1) (“Interpretive and policy statements are advisory only and are not binding on the commission or any person.”).

### III. ATTRITION

9. PSE’s proposed attrition adjustment is consistent with the newly revised RCW 80.04.250, the Commission’s Used and Useful Policy Statement, and past Commission decisions.<sup>14</sup> As discussed below, PSE has supported the requested attrition adjustment with its actual spending on key projects through November 2019<sup>15</sup> and projected spending through the rate year.<sup>16</sup> The attrition revenues PSE requests are less than what PSE budgets it would need to cover its revenue requirement in the rate year. This budget builds in projected savings resulting from plant additions such as Advanced Metering Infrastructure (“AMI”), Get to Zero (“GTZ”) and the Financial Transparency and Improvement Program (“FTIP”).<sup>17</sup> Moreover, PSE has proposed customer protections in the form of additional earnings sharing opportunities for customers.<sup>18</sup> For these reasons, the Commission should approve PSE’s proposed attrition adjustment.

#### A. PSE’s Attrition Adjustment Is Foundational to a Successful Transition to Clean Electricity and Consistent with Washington Law and Commission Policy Guidance

10. CETA recognizes that flexible ratemaking tools, such as the attrition adjustment PSE proposes in this case, are critical to achieving 100 percent carbon-free electricity. “The provisions of this section are necessary to ensure that the commission has sufficient flexible authority to determine the value of utility property for rate making purposes and to implement the requirements and full intent of this act.”<sup>19</sup> CETA authorizes rates to be set based on property that becomes used and useful during the rate effective period and allows the use of “any standard, formula, method, or theory of valuation reasonably calculated to arrive at fair, just, reasonable, and sufficient rates.”<sup>20</sup> PSE’s attrition adjustment is consistent with CETA.

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<sup>14</sup> See, e.g., *WUTC v. Avista*, Dockets UE-150204/UG-150205, Order 05 ¶¶ 109-141 (Jan. 6, 2016) (outlining expectations for attrition adjustments in the future); *WUTC v. Avista*, Dockets UE-160228/UG-160229, Order 06 ¶¶ 75-76 (Dec. 15, 2016) (providing for use of attrition adjustment with escalation factors in future cases with appropriate sharing of risks).

<sup>15</sup> See Koch, CAK-6Tr at 27:15-31:7; Jacobs, Exh. JJJ-11T at 23:18-28:13.

<sup>16</sup> See Kensok, Exh. JAK-4C.

<sup>17</sup> See Kensok, Exh. JAK-1CT at 9:14-11:12.

<sup>18</sup> See Doyle, Exh. DAD-7Tr at 21:16-24:10.

<sup>19</sup> CETA § 20(1) (codified at RCW 80.04.250(1)).

<sup>20</sup> CETA § 20(3) (codified at RCW 80.04.250(3)).

11. In this case, PSE stands at the crossroads and is poised to move aggressively into the carbon-free electricity future. If PSE is to be successful in moving forward with grid modernization and transformation to 100 percent carbon-free electricity, while also improving reliability, maintaining cyber security and meeting customer expectations in a digital age, it must be authorized to timely recover the investments made both during the 11-month pendency of this case and during the rate year. PSE's proposed attrition adjustment will accomplish this in a manner that is consistent with CETA and the Used and Useful Policy Statement.

12. Karl R. Rábago, who has advocated for a clean energy transformation in jurisdictions across the United States on behalf of environmental groups, supports PSE's attrition adjustment as a means to facilitate the fundamental transformation in the way electric and gas utilities do business. As Mr. Rábago testified:

Utilities like PSE must continue, without discontinuity, to provide affordable, safe, and reliable services to customers. They must also make an unprecedentedly rapid transition to a business model and structure that enables them to ensure that services are available and provided in a clean, climate-responsible, and sustainable manner under the obligations of CETA, and do so while successfully meeting the challenges of utility sector transformation currently underway. That means serving as a platform for expanded customer engagement in electric and gas utility services, including services on the demand side and those provided by competitive service providers. I believe the Company is committed to optimizing its performance against all three of these objectives in an integrated fashion and at a pace that will ensure legal and regulatory compliance with laws and regulations and maximum benefits at minimum costs for customers and the citizens of Washington.<sup>21</sup>

13. Mr. Rábago reviewed the extensive modernization investments PSE is making and plans to make in the rate year, which are reflected in the attrition adjustment.<sup>22</sup> He opined that the attrition adjustment is necessary and proper in order to mitigate and prevent unnecessary adverse financial and investment consequences as PSE continues making significant investments in addressing current reliability-related issues and in modernization of its electric and gas systems,

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<sup>21</sup> Rábago, Exh. KRR-1Tr at 8:5-17.

<sup>22</sup> *Id.* at 26:1-6; *see also* Rábago, Exh. KRR-3.

and in preparation for the aggressive timelines in CETA.<sup>23</sup> The attrition adjustment allows PSE to move forward with the transformation to 100 percent carbon-free electricity while remaining financially sound and meeting its commitment to provide safe, reliable, and efficient service.

**B. PSE’s Attrition Methodology Is Reasonable, Consistent with Past Commission Decisions, and Supported by Actual and Projected Spending and Savings**

14. PSE crafted its attrition adjustment to be consistent with CETA and the Commission’s prior direction on attrition adjustments. PSE used the general principles set forth in prior Commission cases even though CETA has changed the statutory landscape. For example, RCW 80.04.250(2) now authorizes the Commission to determine rates based on property used and useful *by or during the rate effective period* without requiring a specific showing of prior underearning or a likelihood of underearning in the rate year. In this proceeding, PSE has demonstrated both prior underearning and a likelihood of underearning in the rate year. Likewise, PSE has presented evidence demonstrating that the mismatch between revenues, rate base, and expenditures causes attrition and is due to factors beyond PSE’s control, even though this requirement is not set forth in the revised RCW 80.04.250(2).

15. Opposing parties partially or completely ignore the change made by CETA to the statutory landscape. They fixate on past precedent and argue for rigid reliance on a historical test year with limited pro forma adjustments.<sup>24</sup> In contrast, Mr. Rábago recognizes that regulatory lag contributes to earnings attrition and acts as a disincentive to a utility spending of the pace, level, and character necessary to support transformation.<sup>25</sup> As Mr. Rábago testified:

Utilities are entering a period of what must be rapid transformation in utility business models and approaches and a dramatic increase in reliance on more distributed and sustainable energy resources. Unmitigated reliance on backward looking regulatory models and impacts at such a time is like driving into the future with one foot on the gas, another on the brakes, and both eyes firmly fixated on the rearview mirror. Under such an

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<sup>23</sup> See Rábago, Exh. KRR-1Tr at 5:6-13.

<sup>24</sup> See *id.* at 19:1-8, 31:16-17.

<sup>25</sup> See *id.* at 21:8-10.

approach, the road to a clean energy future would be unnecessarily littered with crashes and breakdowns.<sup>26</sup>

**1. PSE's Attrition Methodology Is Reasonable and Consistent with Commission Direction**

16. PSE's attrition methodology begins with a modified historical test year with pro forma plant additions, consistent with the Commission's guidance.<sup>27</sup> PSE used the following four sources for developing its attrition adjustment:

**Commission Basis Reports:** The Commission Basis Report served as a starting point for calculating growth factors. Where the data showed a valid trend, Mr. Amen used ten years of data points. However, if there was a step change or a clear change of trend in the data, a shorter period was used to reflect recent trends most accurately.

**PSE's historical period plant accounts:** PSE adjusted its plant accounts from the Commission Basis Reports by identifying and removing specific rate base items that would be outside PSE's historical trend and cannot be properly estimated through a trend-based analysis.

**Revenue projections:** Mr. Amen produced a detailed revenue forecast for each rate class in order to properly match revenues and costs in the rate year.

**Capital projections:** PSE's rate-year capital projections were used for rate base items discussed above that were not included in the trend analysis.<sup>28</sup>

17. In addition, Mr. Amen relied upon the major components of rate year rate base (including gross plant, accumulated depreciation, and deferred tax liability), depreciation expense, and income tax expense.<sup>29</sup> Mr. Amen provides detailed testimony and exhibits addressing the methodology for the attrition analysis.<sup>30</sup>

18. PSE's use of exponential growth rate for rate base is appropriate. Mr. Amen rebutted Commission Staff's claim that a linear growth curve should be used, and he demonstrated the appropriateness of the exponential growth curve in the attrition adjustment through (i) plant accounting principles,<sup>31</sup> (ii) empirical evidence of historical plant growth across U.S. utilities,<sup>32</sup>

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<sup>26</sup> *Id.* at 16:10-16.

<sup>27</sup> *See* Used and Useful Policy Statement ¶ 21; Amen, Exh. RJA-1T at 16:8-9, citing *WUTC v. Avista*, Dockets UE-150204/UG-150205, Order 05 ¶ 111 (Jan. 6, 2016).

<sup>28</sup> Amen, Exh. RJA-1T at 23:8-24:8.

<sup>29</sup> *Id.* at 24:9-12 (relying on Marcelia, Exh. MRM-1T).

<sup>30</sup> *Id.* at 25:1-31:21; Amen, Exh. RJA-6Tr at 12:10-14:15.

<sup>31</sup> Amen, Exh. RJA-6Tr at 15:20-16:4.



(iii) statistical evidence,<sup>33</sup> and (iv) the Handy-Whitman utility industry indices.<sup>34</sup> Contrary to Commission Staff's view, the exponential curve does not overstate plant growth, as the plant growth reflected in the attrition adjustment is below PSE's budgeted plant growth for the rate year, which historically has been a strong indicator of actual plant growth.<sup>35</sup> Further, there is no merit to Commission Staff's assertion that combining transmission and distribution plant skews the attrition results. As Mr. Amen testified, it was appropriate to combine the two given the recent reclassification of distribution infrastructure to transmission; Commission Staff's failure to address this resulted in poor regression results.<sup>36</sup> In summary, PSE's methodology is consistent with Commission guidance, and it is the best approach to address PSE's projected underearning.

## **2. PSE Will Not Earn Its Authorized Rate of Return Without the Proposed Attrition Adjustment**

19. There is substantial evidence demonstrating that PSE will not have a reasonable opportunity to earn its authorized rate of return without the proposed attrition adjustment. It is undisputed that the only years in which PSE earned its authorized return over the past decade occurred during the four and one-half year multiyear rate plan when the Commission temporarily departed from the modified historical rate year approach<sup>37</sup> and approved a multiyear rate plan—an innovative ratemaking mechanism with annual rate increases.<sup>38</sup> Even with those annual rate increases, “PSE’s rates of return increased only modestly – 55 basis points for electric and 82 basis points for natural gas . . . . However, in one short year, in 2018, after the conclusion of the rate plan, PSE’s normalized rate of return decreased by 99 basis points for electric and 252 basis

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<sup>32</sup> *Id.* at 17:5-19:2.

<sup>33</sup> *Id.* at 19:3-20:2.

<sup>34</sup> *Id.* at 20:3-22:2.

<sup>35</sup> *See id.* at 22:3-6; Kensok, Exh. JAK-1CT at 9:7-16:7.

<sup>36</sup> *See* Amen, Exh. RJA-6Tr at 22:7-23:4.

<sup>37</sup> *See* Doyle, Exh. DAD-1Tr at 14:Tables 1 and 2.

<sup>38</sup> *See* Doyle, Exh. DAD-7Tr at 3:20-11:4. PSE slightly under-earned its authorized rate of return and return on equity during the early years of the rate plan for both electric and gas operations and began to marginally over-earn its authorized rate of return and return on equity for both electric and gas operations in the latter years of the rate plan. *See* Doyle, Exh. DAD-1Tr at 15:5-9.

points for natural gas.”<sup>39</sup> Absent the 2013 expedited rate filing and multiyear rate plan with annual rate increases, PSE would have substantially under-earned against its allowed rate of return and return on equity on an actual and normalized basis for electric and gas operations.<sup>40</sup>

20. In addition to the evidence of PSE’s past inability to earn its authorized return under modified historical ratemaking, PSE will fail to earn its authorized return in the rate year without the attrition adjustment. PSE witness Joshua Kensok testified to the level of underearning PSE projects if the Commission grants only PSE’s direct filed revenue requirement without the attrition adjustments.<sup>41</sup> Mr. Kensok further testified that PSE will underearn if Commission Staff’s proposed revenue requirement is approved,<sup>42</sup> and PSE will underearn if the attrition adjustment were to exclude plant that will go into service in 2020 and the rate year.<sup>43</sup>

### 3. PSE’s Spending Is Due to Factors Beyond Its Control

21. Consistent with the Commission’s directive in past cases, PSE has demonstrated that PSE’s level of spending is due to factors beyond PSE’s control.<sup>44</sup> In other words, PSE is not proposing to “gold plate” its facilities or add plant that is not necessary to adequately serve customers. As discussed in more detail later in this brief, PSE’s capital spending is justified and necessary to improve reliability,<sup>45</sup> implement foundational infrastructure to modernize the grid,<sup>46</sup> enhance customers’ experience in their interactions with PSE to reflect customers’ expectations in a digital age,<sup>47</sup> and protect the security of PSE’s data,<sup>48</sup> among other things.

22. In determining whether spending is beyond the utility’s control, the Commission has considered the following factors, which PSE has demonstrated in this case:

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<sup>39</sup> Free, Exh. SEF-17T at 10:12-17.

<sup>40</sup> Doyle, Exh. DAD-7Tr at 5:8-7:8.

<sup>41</sup> Kensok, Exh. JAK-1CT at 5:7-7:2.

<sup>42</sup> *Id.* at 7:3-8:1.

<sup>43</sup> *Id.* at 11:13-13:1.

<sup>44</sup> See *WUTC v. Avista*, Dockets UE-150204/UG-150205, Order 05 ¶¶ 119-121 (Jan. 6, 2016).

<sup>45</sup> See Koch, Exh. CAK-1Tr2 at 17:3-19:11, 22:9-40:22.

<sup>46</sup> See Gilbertson, Exh. BKG-1T at 25:12-27:14; Koch, Exh. CAK-1Tr2 at 17:3-18:11.

<sup>47</sup> See Hopkins, Exh. MEH-1T at 3:4-4:3; Jacobs, Exh. JJJ-1T at 2:13-14:2.

<sup>48</sup> See Hopkins, Exh. MEH-1T at 12:11-22, 13:7-14:23, 19:17-28:15; Hopkins, Exh. MFH-7T at 3:1-7:18.

- Whether the company is making investments in non-revenue generating plant for the purposes of safety and reliability or service quality benefits, to comply with explicit regulatory requirements and in accordance with Commission orders;<sup>49</sup>
- Whether the company’s spending reflects a proactive approach to replace plant that presents an elevated risk of failure and replacement, which is in the public interest;<sup>50</sup>
- Whether the company has been under-earning for several years while engaging in rapid replacement and improvement of infrastructure;<sup>51</sup>
- If the company is currently financially healthy, whether there is a risk that absent attrition, the company may not have an opportunity to achieve earnings at or near authorized levels;<sup>52</sup>
- Whether capital spending is guided by a specific plan to address the safety or reliability shortcomings of the company’s electric service;<sup>53</sup>
- Whether there is an explanation of the relationship between the business cases, asset management program and total net plant investment, including detailed description of how the company prioritizes its capital investments in distribution plant, or performance criteria to track the need or impacts of those investments;<sup>54</sup> and
- Whether the company plans and prioritizes investments in its distribution system and how these decisions impact system reliability and economy.<sup>55</sup>

23. PSE has demonstrated each of the above factors previously cited by the Commission.

First, PSE is investing to promote safety, reliability and service quality, by replacing high molecular weight (“HMW”) cable, improving the worst performing circuits, modernizing the grid, replacing failing Automated Meter Reading (“AMR”) meters,<sup>56</sup> and improving the customer interface with PSE through GTZ improvements.<sup>57</sup> Second, PSE’s investments are designed to replace infrastructure that has an elevated risk of failing including HMW cable and AMR meters.<sup>58</sup> Third, PSE has failed to earn its authorized rate of return while it engages in significant infrastructure replacement, other than a few of the years when it received “experimental” rate

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<sup>49</sup> See *WUTC v. Avista*, Dockets UE-150204/UG-150205, Order 05 ¶¶ 121, 127 (Jan. 6, 2016).

<sup>50</sup> See *id.* ¶ 121.

<sup>51</sup> See *id.* ¶ 124.

<sup>52</sup> See *id.* ¶ 131.

<sup>53</sup> See *id.* ¶ 127.

<sup>54</sup> See *id.* ¶ 126.

<sup>55</sup> See *id.* ¶ 141.

<sup>56</sup> See Koch, Exh. CAK-1Tr2 at 22:9-40:22.

<sup>57</sup> See Jacobs, Exh. JJJ-1T at 2:13-14:2.

<sup>58</sup> See Koch, CAK-1Tr2 at 26:15-27:14; Koch, Exh. CAK-4r at 4:2-6:12.

relief.<sup>59</sup> Fourth, PSE witnesses Mr. Kensok and Mr. Doyle have testified that PSE will fail to earn its authorized rate of return in the rate year absent the requested attrition adjustment.<sup>60</sup> Fifth, PSE's capital spending is guided by a specific plan to address safety and reliability.<sup>61</sup> Sixth, PSE provided an explanation of the relationship between the business cases, asset management program and plant investment, including description of how PSE prioritizes its capital investments in distribution plant, or performance criteria to track the need or impacts of those investments.<sup>62</sup> Finally, PSE has provided evidence on how it prioritizes investments in its distribution system and how these decisions impact system reliability and economy.<sup>63</sup>

#### **4. PSE's Attrition Adjustment Includes Savings**

24. PSE has built savings into its attrition adjustment, both from a historical perspective and through the use of budgets that factor in project savings.<sup>64</sup> From a historical perspective, for the period 2013 through 2018, PSE has been able to constrain operations and maintenance cost per customer to 1.4 percent and 1.5 percent compound annual growth rate for electric and gas, respectively, far below the average rate of inflation for the corresponding period.<sup>65</sup> This low growth in operations and maintenance spending is built into PSE's attrition adjustment.<sup>66</sup> Notably, Commission Staff has previously endorsed such an approach to measuring the success of cost containment efforts.<sup>67</sup> From a forward looking perspective, PSE's budgets include the projected savings in the corporate spending authorizations for capital projects.<sup>68</sup> And PSE's

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<sup>59</sup> See Doyle, Exh. DAD-7Tr at 5:8-7:8; *WUTC v. PSE*, Dockets UE-130137, *et al.*, Order 07 ¶¶ 188-189 (June 25, 2013) (recognizing the decision to approve the ERF, multiyear rate plan and decoupling is somewhat of an experiment in new and innovative ratemaking mechanisms).

<sup>60</sup> See Doyle, Exh. DAD-7Tr at 2:6-24:10; Kensok, JAK-1CT at 3:1-9:6;

<sup>61</sup> See Gilbertson, Exh. BKG-1T at 23:5-25:11; Koch, Exh. CAK-1Tr2 at 9:10-55:10.

<sup>62</sup> See Gilbertson, Exh. BKG-1T at 23:5-25:11.

<sup>63</sup> See *id.* at 18:12-25:11; Koch, Exh. CAK-1Tr2 at 9:10-54:19.

<sup>64</sup> Kensok, Exh. JAK-1CT at 10:8-9.

<sup>65</sup> See Free, Exh. SEF-10; Kensok, Exh. JAK-1CT at 10:13-16.

<sup>66</sup> See Kensok, Exh. JAK-1CT at 10:13-11:12.

<sup>67</sup> See Kensok, Exh. JAK-1CT at 10:16-17, *citing WUTC v. Avista*, Dockets UE-170485, *et al.*, Hancock, Exh. CSH-1T at 35:9-39:16 (encouraging the measurement of Avista's O&M growth against industry indices).

<sup>68</sup> See Kensok, Exh. JAK-1CT at 10:8-11:12.

attrition adjustment is below the budgeted amounts, which reflect those savings.<sup>69</sup> In summary, savings are included in PSE's attrition adjustment through the incorporation of historically low spending rates and by setting the attrition adjustment below budgeted spending levels that build in savings from authorized capital projects.

#### **5. PSE Will Update the Plant Placed in Service During the Rate Year**

25. Throughout this case, PSE has updated the Commission and parties on plant put into service. In rebuttal, PSE provided updates of IT and distribution plant put in service through November 30, 2019,<sup>70</sup> and in response to Bench Request No. 011, PSE updated certain areas of plant in service through December 31, 2019. In addition, consistent with Commission direction, PSE has proposed to file a semiannual update to plant in service during the rate year in the major functional categories. This will allow the Commission and stakeholders to compare the actual plant placed in service during the rate year to the projected rate year plant on which the attrition adjustment is based and to confirm that PSE has put into service plant that is used and useful during the rate effective period commensurate with the level of plant projected for the rate year in the attrition adjustment.<sup>71</sup> Because the plant that will be put into service up to and during the rate year is generally a continuation of the programmatic projects and plant additions reviewed in this case,<sup>72</sup> the parties have had an opportunity to address need and appropriateness. However, to the extent further review of the actual costs is needed, the Commission and parties can undertake that review when PSE files its rate year plant in service list, or in PSE's subsequent rate case.<sup>73</sup>

#### **C. PSE's Proposal to Modify the Earnings Sharing Mechanism in Conjunction with its Proposed Attrition Adjustment Provides Customer Protections**

26. PSE's testimony demonstrates the benefits customers will realize as a result of projects PSE has put into service and will put into service during the rate year—including through

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<sup>69</sup> See *id.* at 11:13-13:7.

<sup>70</sup> See Koch, CAK-6Tr at 27:15-31:7; Jacobs, Exh. JJJ-11T at 23:18-28:13.

<sup>71</sup> Amen, Exh. RJA-1T at 21:8-17.

<sup>72</sup> *Id.* at 22:5-7.

<sup>73</sup> *Id.* at 22:1-16.

improved reliability and enhanced customer experience. Further, although PSE believes that customers are adequately protected by the current earnings sharing mechanism that allocates to customers 50 percent of any earnings above PSE's authorized rate of return, PSE has proposed two additional and enhanced bands of excess earnings sharing with customers based on three percent increments of PSE's operating income, with the first (current) band allowing for 50 percent sharing, the second band allowing for 75 percent sharing and the third band allowing for 90 percent sharing of earnings above PSE's authorized rate of return.<sup>74</sup> With this additional opportunity to share in earnings, customers are protected, and in fact invested in PSE's strong financial performance.

#### **IV. PSE'S TECHNOLOGY AND SMART METER INVESTMENTS ARE NECESSARY**

27. As noted above, PSE's capital investments to improve reliability, modernize the grid, update the technological tools by which customers engage with PSE, and to fully protect PSE from cyber security threats, are necessary and appropriate investments and should be recovered in rates. The use of digital technologies to conduct business is now axiomatic in nearly every industry sector, including the utility industry.<sup>75</sup> Technology assets are as foundational as the classic pipes and wires that deliver energy to customers, and are inextricably linked to advancing, securing, and enabling the day-to-day operation of PSE's gas and electric service.<sup>76</sup> In addition, the evolution of digital customer engagement has changed customer behaviors and expectations where customers now demand digital communication channels with PSE 24/7 on their own terms and via the communication channel(s) they prefer.<sup>77</sup> Likewise, PSE's investment in AMI is necessary to not only replace its failing meter system but to modernize the grid and facilitate the use of needed technologies. PSE's IT and AMI expenditures reflect the requirements imposed on

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<sup>74</sup> See Doyle, Exh. DAD-7Tr at 21:11-24:10; Doyle, Exh. DAD-8.

<sup>75</sup> Hopkins, Exh. MFH-1T at 2:13-16.

<sup>76</sup> *Id.* at 2:17-19.

<sup>77</sup> *Id.* at 2:20-4:3.

it by industry standards, cyber security requirements, and customer expectations; they were appropriately incurred and are recoverable in rates.

**A. PSE’s IT and AMI Expenditures Are Not Duplicative but Rather are the Result of a Comprehensive Evaluation and Implementation Process**

28. At the evidentiary hearing, the Commission inquired about the level of coordination between PSE’s technology investments and whether there was any duplication or unnecessary overlap between technology investments.<sup>78</sup> There is no duplication in technology expenditures because PSE engages in multiple layers of strategic technology investment planning. PSE’s IT investment strategy is governed by technology roadmaps and plans that are developed at the enterprise and business levels, which align with PSE business and customer needs and determine the scope, priority and timing of technology investments.<sup>79</sup> Once PSE determines that a particular IT investment may be needed, it enters into a Corporate Spending Authorization (“CSA”) process whereby a proposed additional technology is comprehensively evaluated.<sup>80</sup> A CSA evaluation includes an assessment of the business need, the various alternative solutions, and the risk, cost and benefits associated with each option.<sup>81</sup> Each prospective IT investment is assigned its own “order number” and is tracked and evaluated through the CSA process.<sup>82</sup> This process specifically includes an assessment as to whether existing technologies already perform the needed service.<sup>83</sup> The CSA process is coordinated through regular meetings, progress reports, and constant evaluation during the life of the project.<sup>84</sup> The project then passes through multiple levels of management review and final approval by two officers before implementation.<sup>85</sup>

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<sup>78</sup> Hopkins, Tr. at 325:5-326:9.

<sup>79</sup> Hopkins, Exh. MFH-1T at 6:6-15.

<sup>80</sup> *Id.* at 6:16-7:19.

<sup>81</sup> *Id.* at 6:16-7:19.

<sup>82</sup> Jacobs, Tr. at 328:1-17.

<sup>83</sup> Hopkins, Exh. MFH-1T at 7:1-4.

<sup>84</sup> Hopkins, Tr. at 322:7-326:9.

<sup>85</sup> *Id.* at 323:4-5.

29. Likewise, PSE's AMI investment is overseen by PSE's planning department<sup>86</sup> and is not duplicative with any IT investments.<sup>87</sup> However, there are numerous instances where technology investments necessarily and appropriately interact and interconnect with each other, and also with other investments such as AMI. For example, as discussed at hearing, while the GTZ initiative will utilize AMI as part of the remote/disconnect process, the assets are not duplicative but are complimentary of one another.<sup>88</sup> AMI provides the mechanical infrastructure whereas GTZ manages the process and provides supporting technologies.<sup>89</sup> These types of asset interactions are necessary and appropriate for proper company operation, but they are not duplicative.

30. Similarly, there is no duplication in costs or in requested recovery for technology expenditures in this case. PSE carefully delineated time periods for expenditures between the test year (which ended December 31, 2018), the pro forma period (which ended June 30, 2019), deferral periods, and the attrition period, which extends through the rate year.<sup>90</sup> In sum, PSE took significant measures to ensure there was no duplication in the services provided or in the tracking and accounting of costs.<sup>91</sup> Customers are not paying twice for the same technologies or services.

#### **B. Public Counsel's Proposed AMI Disallowance Should Be Rejected**

31. Public Counsel's position that all of PSE's AMI investment should be disallowed is not rooted in reality and should be rejected. Public Counsel witness Paul J. Alvarez spends most of his testimony distracted by what he views as the cost/benefit problems with PSE's AMI investment while ignoring the real deficiencies associated with AMR. He ignores the indisputable fact that the AMR system is failing and focuses almost entirely on the financial costs and benefits of AMI.<sup>92</sup> In doing so, however, he misuses data, and misunderstands or disregards basic

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<sup>86</sup> See generally Gilbertson, Exh. BKG-1T; Koch, Exh. CAK-1Tr2.

<sup>87</sup> Hopkins, Tr. at 333:8-10 ("There is no overlap between the data center project and the AMI project and Get to Zero.")

<sup>88</sup> Koch, Tr. at 351:17-354:2; Jacobs, Tr. at 354:3-356:22.

<sup>89</sup> Koch, Tr. at 351:17-354:2; Jacobs, Tr. at 354:3-356:22; Koch, Exh. CAK-4r.

<sup>90</sup> Free, Tr. at 326:13-327:5; PSE's Response to Bench Request No. 003.

<sup>91</sup> See Hopkins, Tr. at 326:2-9; Free, Tr. at 326:13-327:10; see e.g., Jacobs, Tr. at 328:1-17.

<sup>92</sup> See Alvarez Exh. PJA-1T at 4:17-5:6.



accounting practices for utilities.<sup>93</sup> Tellingly, Mr. Alvarez believes PSE should have continued operating the existing AMR system indefinitely because failure rates were apparently not high enough.<sup>94</sup> From a reliability and operations standpoint, such an approach is unrealistic, and would not be prudent for PSE or its customers.<sup>95</sup> While PSE is prospectively planning for the future by modernizing the grid, Public Counsel's proposal is backwards and would leave PSE stuck with a broken-down meter system that by all objective measures is not working and is not sustainable.

32. PSE's AMR system was implemented two decades ago<sup>96</sup> and has exceeded its 15-year useful life.<sup>97</sup> The system is suffering from widespread failure due to age, system obsolescence and the inability to acquire replacement components due to product discontinuance.<sup>98</sup> In 2013, PSE began planning for the inevitable failure of the AMR system and the appropriate next steps to ensure the ongoing reliability of PSE's meter system. PSE conducted a feasibility assessment to evaluate the viability of the AMR system which confirmed the AMR system would continue to deteriorate resulting in progressive obsolescence and reliability problems.<sup>99</sup> At that point, PSE conducted further analysis, pilots and other research, to evaluate options for PSE's meter system including continuing with the AMR system and various alternatives, costs, and deployment scenarios for transitioning to a more advanced AMI system.<sup>100</sup>

33. Ultimately, after years of analysis, given that the AMR system was irreversibly failing and the significant benefits of transitioning to AMI for PSE and customers, PSE determined it should transition to AMI now as waiting would actually be more costly to PSE and its customers.<sup>101</sup> These benefits include the avoided investment in AMR, energy savings through conservation

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<sup>93</sup> See Koch, Exh. CAK-6Tr at 5:8-6:9, 9:14-10:6, 10:16-11:6, 15:3-16:4.

<sup>94</sup> See *id.* at 5:8-6:9.

<sup>95</sup> See *id.* at 8:6-16.

<sup>96</sup> Koch, Exh. CAK-4r at 4:10-11.

<sup>97</sup> Koch, Exh. CAK-4r at 4:11-12; Koch, Exh. CAK-6r at 6:10-7:2.

<sup>98</sup> Koch, Exh. CAK-4r at 4:13-6:12; Koch, Exh. CAK-6r at 3:16-8:16.

<sup>99</sup> Koch, Exh. CAK-4r at 7:9-8:9; Koch, Exh. CAK-6r at 22:1-23:3.

<sup>100</sup> Koch, Exh. CAK-4r at 8:7-11:8; Koch, Exh. CAK-6r at 22:1-23:3.

<sup>101</sup> Koch, Exh. CAK-4r at 12:3-19, 13:6-14:2.

voltage reduction (“CVR”), the ability to utilize new technologies such as distributed automation, demand response, remote connect/disconnect,<sup>102</sup> and the fact that AMI would actually be less costly to customers compared to AMR over time.<sup>103</sup> PSE began implementing AMI in 2016 and expects to complete the transition by 2023. To date, a significant portion of PSE’s AMI system has been installed, is in service, and is benefiting customers now.<sup>104</sup>

34. Despite PSE’s careful analysis and planning to facilitate a smooth transition to a new meter system, Mr. Alvarez raises a host of claims that are not only inaccurate, but would decrease reliability for PSE and its customers and would be more costly to customers; they include

- Mr. Alvarez ignores the fundamental reason for PSE’s decision to transition to AMI: the AMR system is obsolete, failing, and replacement equipment is not available;<sup>105</sup>
- Mr. Alvarez suggests PSE should have continued using AMR<sup>106</sup> and that in his opinion, AMR systems can last 30 years, even though the manufacturer’s design life of the AMR system is 15 years, which has proven accurate given the failure of the system;<sup>107</sup>
- Mr. Alvarez relies on incomplete failure rate data to suggest that the failure rate of PSE’s AMR system was not high enough, when an independent engineering firm already confirmed that PSE’s AMR failure rates exceeded industry standards;<sup>108</sup>
- Mr. Alvarez’s claims that the costs of AMI will exceed the benefits is based on a flawed understanding of how undepreciated book value is commonly treated by utilities,<sup>109</sup> he does not understand or appreciate the logistical realities of a mass asset transition,<sup>110</sup> and Mr. Alvarez incorrectly calculates carrying costs;<sup>111</sup>
- Mr. Alvarez’s suggestion that the benefits of AMI are overstated relies on a bizarre theory of calculating CVR benefits. While he does not dispute that the CVR benefit of

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<sup>102</sup> Koch, Exh. CAK-4r at 16:1-6; Koch, Exh. CAK-6r at 22:1-23:3.

<sup>103</sup> Koch, Exh. CAK-4r at 18:3-5; Koch, Exh. CAK-6r at 22:1-23:3.

<sup>104</sup> See Koch, Exh. CAK-1Tr2 at 26:3-11; see also Koch, Exh. CAK-4r at 3:5-19.

<sup>105</sup> Koch, Exh. CAK-6Tr at 3:16-8:16. At hearing, Public Counsel cross-examined Ms. Koch regarding a series of equipment discontinuance notices from Landis + Gyr (“L+G”) which were dated after PSE began implementing AMI, presumably to imply PSE made the decision to transition to AMI prior to receiving these notices. Koch, Tr. at 284:6-289:3. This is false. As Ms. Koch testified at the hearing, these documents are only the final notices from L+G but PSE was notified far in advance of these of the impending discontinuances, including at the time of the 2016 AMI Business Case. Koch, Tr. at 302:10-303:19.

<sup>106</sup> Koch, Exh. CAK-6Tr at 8:6-16.

<sup>107</sup> *Id.* at 6:10-7:2.

<sup>108</sup> *Id.* at 5:7-6:9.

<sup>109</sup> *Id.* at 9:14-10:6.

<sup>110</sup> *Id.* at 10:16-11:6.

<sup>111</sup> *Id.* at 9:11-12:22.

AMI will yield \$436 million for PSE customers, he believes \$416 million should not count because PSE could have used less AMI meters to achieve a similar CVR benefit. Mr. Alvarez’s theory might make sense if achieving CVR was the only purpose of implementing AMI—which it is not.<sup>112</sup> Regardless, his CVR calculations are wrong because he relies on incorrect and outdated CVR pilot data;<sup>113</sup>

- Mr. Alvarez downplays the technological benefits of AMI yet admits in his own outside writings the limitations of AMR, including that “[m]ost AMR systems only automate routing monthly meter reads” and that “[r]elative to AMI, AMR offers a drastically reduced feature set”;<sup>114</sup>
- Mr. Alvarez completely ignores the benefits of distribution automation through AMI and the important non-monetized benefits from AMI, such as remote disconnect, demand response enablement, and other grid capabilities that are needed in light of legislation, such as CETA.<sup>115</sup> For example, Commission Staff witness Jason L. Ball discusses how the deployment of AMI supports pricing pilots which Staff believes PSE should begin now.<sup>116</sup> As explained by Mr. Ball, “The granular data about electric consumption gathered by AMI infrastructure allows utilities to improve price signals and by extension the customer experience”;<sup>117</sup> and
- Mr. Alvarez repeatedly misinterprets PSE data to suggest the cost of continuing AMR would be about \$230 million and argues PSE should have continued with AMR because it costs less than AMI (\$472 million).<sup>118</sup> This is false because the \$230 million is actually the *difference* in maintenance costs between the failing AMR system which would cost \$378 million and a new AMI system which would cost \$178 million, a much better value for PSE customers.<sup>119</sup>

35. Any suggestion that PSE may not sufficiently utilize AMI is incorrect. PSE fully intends to utilize AMI to the maximum extent possible.<sup>120</sup> For example, PSE already intends to utilize AMI for CVR, distributed automation, disconnect/reconnect, prepay metering services, demand response, pricing pilots, and to obtain important load and demand information, including advance analytics with accurate and complete load profile and usage patterns.<sup>121</sup>

36. Finally, Mr. Alvarez also argues, in the alternative, that if the Commission allows recovery for AMI, that it should disallow recovery for the AMR investment that is being replaced

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<sup>112</sup> *Id.* at 13:1-14:2.

<sup>113</sup> *Id.* at 14:3-18:9.

<sup>114</sup> *Id.* at 7:3-13.

<sup>115</sup> *Id.* at 7:3-8:5, 21:7-17.

<sup>116</sup> *Id.* at 7:18-8:5.

<sup>117</sup> Ball, Exh. JLB-1T at 40:4-53:11.

<sup>118</sup> Koch, Exh. CAK-6Tr at 18:10-19:6.

<sup>119</sup> *Id.* at 19:16-20:6.

<sup>120</sup> Koch, Tr. at 343:19-345:18.

<sup>121</sup> Koch, Exh. CAK-4r at 9:5-13, 14:5-15:15.

by AMI.<sup>122</sup> This is inappropriate. Public Counsel does not contest that the AMR assets were prudently incurred and previously deemed recoverable in multiple rate cases.<sup>123</sup> PSE witness John J. Spanos explains why the proper treatment of the remaining AMR assets is a regulatory asset and provides numerous examples where utilities across the county have implemented AMI programs which have resulted in unrecovered legacy meter costs.<sup>124</sup> Mr. Spanos is not aware of any instance where a company implementing AMI was not afforded the opportunity to recover such costs, nor does Mr. Alvarez provide any examples.<sup>125</sup> However, since the AMR assets are still in service until the AMI transition is complete, PSE is entitled to a return on these assets while in service.<sup>126</sup> The appropriate time to address the regulatory treatment of these assets is once the AMI transition is complete.<sup>127</sup>

37. In sum, while Mr. Alvarez’s testimony is riddled with inaccurate calculations and manipulations to prove his cost/benefit theories, he ignores the real objective, which is ensuring that PSE’s meter system is reliable and sustainable for years to come. Mr. Alvarez’s proposals do none of those things but would instead only prolong PSE’s meter problems and prevent PSE from modernizing the grid and utilizing beneficial technologies. Public Counsel’s proposed disallowance of AMI should be rejected.<sup>128</sup>

### **C. Public Counsel’s Proposed Disallowance of GTZ Should be Disregarded**

38. Public Counsel’s suggestion that the Commission “consider” disallowing half of PSE’s test year expenditures for GTZ and rejecting PSE’s pro forma adjustment should be disregarded because Public Counsel’s suggestion is arbitrary and based on false assumptions and broad

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<sup>122</sup> See Alvarez, Exh. PJA-1T at 25:4-14.

<sup>123</sup> See Spanos, Exh. JJS-4T at 2:19-3:7.

<sup>124</sup> *Id.* at 3:16-8:31.

<sup>125</sup> *Id.*

<sup>126</sup> *Id.* at 3:6-11; see also Free, Exh. SEF-17T at 79:3-25.

<sup>127</sup> Free, Exh. SEF-17T at 79:20-25.

<sup>128</sup> Public Counsel has also suggested that additional stakeholder engagement would have aided the AMI decision-making process. While generally speaking, PSE agrees that stakeholder engagement can be helpful and PSE engages with stakeholders in a variety of scenarios, PSE does not believe stakeholder engagement would have aided or informed the AMI decision-making process because the decision to implement AMI was clear due to AMR obsolescence and failure. Koch, Exh. CAK-6Tr at 24:10-25:13.

generalizations about GTZ. Public Counsel fails to evaluate or identify any specific GTZ expenditures that warrant disallowance.

39. GTZ is a six-year (2016-2021) corporate initiative aimed at improving the customer experience.<sup>129</sup> For years, PSE lagged industry peers in customer service scores.<sup>130</sup> GTZ has already helped reverse that, boosting PSE from the fourth quartile in JD Power customer experience scores in 2016 to the second quartile in 2018.<sup>131</sup> GTZ improves the customer experience on all fronts by modernizing PSE’s customer communication technologies, including digital resources such as website and mobile app, billing and payment, personal interactions with PSE customer service representatives, and improved Interactive Voice Response (“IVR”). In sum, GTZ provides customers with better service across all methods of interacting with PSE.<sup>132</sup>

40. Public Counsel’s proposed disallowance is based upon a false premise that PSE customers lack “digital fluency” and thus, many customers will not benefit from GTZ.<sup>133</sup> Public Counsel witness Susan Baldwin misuses information selectively pulled from a single PSE marketing document to incorrectly conclude that two-thirds of PSE customers are not “digitally fluent” (a term she never defines), enough to utilize GTZ.<sup>134</sup> However, the marketing document relied on by Ms. Baldwin does not provide information relating to the ability or willingness of PSE customers to utilize digital resources but simply calculates the number of PSE customers who had accessed their online accounts in the last six months.<sup>135</sup> Contrary to Ms. Baldwin’s assumption, many of these customers are actually PSE’s most active digital customers.<sup>136</sup> In

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<sup>129</sup> Jacobs, Exh. JJJ-1T at 2:15-3:9.

<sup>130</sup> *Id.* at 6:16-8:8.

<sup>131</sup> *Id.* at 12:2-8; Wappler, Exh. AW-1T at 11:16-12:3.

<sup>132</sup> Jacobs, Exh. JJJ-1T at 2:14-3:16.

<sup>133</sup> *See* Baldwin, Exh. SMB-1CT at 9:7-10.

<sup>134</sup> *See id.* at 9:7-10, 10:Figure 1.

<sup>135</sup> As explained by Mr. Jacobs, the marketing document simply provides data on the number of PSE customers who have accessed their online account in the last six months. This has little to do with “digital fluency” since many customers who are digitally engaged with PSE may not need to log onto their account frequently. One example specifically referenced in the marketing document (which Ms. Baldwin ignores) is customers who set up autopay and have no need to log in once autopay is established. *See* Jacobs, Exh. JJJ-11T at 9:3-19.

<sup>136</sup> Jacobs, Exh. JJJ-11T at 9:3-19.

addition, over 90 percent of PSE customers are currently utilizing a digital resource provided by GTZ,<sup>137</sup> which is consistent with the widespread use of digital technologies by U.S. adults.<sup>138</sup>

41. Regardless, Ms. Baldwin’s concern over digital fluency is flawed because there are numerous GTZ services that do not require a customer to engage with PSE digitally, including improved IVR services, advanced resources for PSE customer service representatives to better assist customers who call PSE, more coordinated and efficient customer field service through Integrated Work Management, various improvements in customers billing experience, and better management and utilization of customer data.<sup>139</sup> GTZ enhances and improves the customer experience for all customers, regardless of a customer’s “digital fluency.”<sup>140</sup>

42. Ms. Baldwin asserts that GTZ is “risky” because “[t]he net present value estimates show GTZ’s high financial stakes and uncertain financial benefits.”<sup>141</sup> Ms. Baldwin’s suggestion that disallowance is appropriate because GTZ may not achieve a positive net present value benefit is flawed because like many PSE investments,<sup>142</sup> the purpose of GTZ was never to achieve such a benefit.<sup>143</sup> GTZ does not have “high financial stakes” or “uncertain financial benefits” because a specific financial return was never a motivation for or the purpose of the initiative.<sup>144</sup> Instead, the primary objective of GTZ is to improve the customer experience for all PSE customers, most of which are non-financial benefits. Ms. Baldwin admits that GTZ will provide benefits to customers, some of which “are difficult to monetize.”<sup>145</sup> Notably, many of the non-monetizable benefits of GTZ are already being realized and are benefiting customers now.<sup>146</sup>

43. Further, Ms. Baldwin’s concerns over whether PSE will meet financial targets for GTZ are unwarranted because PSE is on track to meet financial targets as re-baselined in 2017 for the

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<sup>137</sup> *Id.* at 9:9.

<sup>138</sup> *Id.* at 9:6.

<sup>139</sup> *Id.* at 10:14-12:2.

<sup>140</sup> *Id.*

<sup>141</sup> Baldwin, Exh. SMB-1CT at 23:2-3.

<sup>142</sup> *See* Jacobs, Exh. JJJ-11T at 17:2-15.

<sup>143</sup> *Id.* at 15:14-16:19.

<sup>144</sup> *Id.* at 15:6-16:19.

<sup>145</sup> Baldwin, Exh. SMB-1CT at 4:15.

<sup>146</sup> *See* Jacobs, Exh. JJJ-1T at 9:24-10:19; Jacobs, Exh. JJJ-11T at 10:13-12:2, 17:16-19:2.

overall GTZ program and in fact, GTZ is currently exceeding those targets.<sup>147</sup> GTZ delivered an actual gross benefit in 2018 of \$4.8 million against a target of \$1 million and in 2019, GTZ delivered an actual gross benefit of \$12.4 million against a target of \$7.8 million.<sup>148</sup> Offsetting these gross benefits are project-related and ongoing operational expenses necessary to support the technology enhancements put into service through the GTZ initiative.<sup>149</sup> The benefits of GTZ are already helping pay for the costs and Ms. Baldwin's financial concerns are unwarranted.<sup>150</sup>

44. Finally, Ms. Baldwin's suggestion that the Commission should disallow half of GTZ test year costs and all post test year costs is completely arbitrary. Ms. Baldwin makes broad-brushed generalizations about GTZ without ever addressing the fact that the GTZ investments included in this case went through a documented, detailed review and evaluation process demonstrating that each of the GTZ investments in this case were necessary for customers and are in service, benefiting customers now.<sup>151</sup> To suggest that half of all GTZ test year expenditures should be disallowed and a total disallowance and deferral for post test year costs without examining the actual expenditures is not credible and should be disregarded.

**D. AWEC's Proposed Disallowance of the Data Center and Disaster Recovery ("DCDR") Program Should Be Rejected**

45. PSE's decision to replace its data centers was appropriate. The only party to challenge PSE's DCDR investment is AWEC whose witness Bradley Mullins proposes to disallow all of PSE's DCDR investment because PSE knew about flood risks at the Bothell facility before it sited the former data center there more than a decade ago, and he claims that customers are effectively paying twice for a data center.<sup>152</sup> The facts do not support AWEC's theory.

46. PSE's reasons for replacing the former data center are much broader than to mitigate flood risk. PSE replaced the former data centers because the facilities had each exceeded their

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<sup>147</sup> Jacobs, Exh. JJJ-11T at 19:4-11.

<sup>148</sup> *Id.* at 19:7-8.

<sup>149</sup> *Id.* at 19:8-11.

<sup>150</sup> *Id.* at 19:11-14.

<sup>151</sup> *See id.* at 20:3-7.

<sup>152</sup> Mullins, Exh. BGM-1T at 41:1-14.

useful lives (fifteen and ten years, respectively)<sup>153</sup> and were unable to meet current technology and security requirements.<sup>154</sup> Data center standards have evolved substantially over the past 10-15 years and the prior centers could not accommodate accelerated data growth, heavier and denser equipment, increased power, redundancy and cooling requirements, virtualization, and they did not meet current NERC/CIP and other cyber security and environmental monitoring standards.<sup>155</sup> They needed to be replaced, irrespective of any flood or seismic concerns.<sup>156</sup>

47. PSE witness Margaret F. Hopkins describes how the new data centers address the above deficiencies.<sup>157</sup> PSE constructed modular facilities in separate seismic areas (Snoqualmie and Cle Elum) and outside of flood zones. The buildings are designed to accommodate current technology requirements with sealed floors, walls and doors, and overhead and under-floor cooling.<sup>158</sup> The new data centers are also flexible and can more easily scale to accommodate the rapid changes in technology and data growth, largely due to the modularity of the facilities which are interchangeable, upgradeable and scalable.<sup>159</sup> The new centers are also more efficient than traditional data centers and are specifically designed to optimize space. Due to efficiencies in space and increased utilization of cloud services,<sup>160</sup> PSE was able to reduce the size and footprint of its data centers from a combined 21,273 square feet to 2,800 square feet.<sup>161</sup> PSE anticipates that the new data centers will last much longer than the prior data centers, up to twenty years.<sup>162</sup>

48. Mr. Mullins' assertions regarding the Bothell facility are simply wrong. While PSE knew a flood risk existed at Bothell, it sited the facility there only after conducting engineering studies, flood mitigation through levee raising and maintenance, and various other flood mitigation

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<sup>153</sup> Hopkins, Exh. MFH-7T at 5:15-6:8.

<sup>154</sup> *Id.* at 3:6-4:16.

<sup>155</sup> *Id.* at 4:5-5:5.

<sup>156</sup> *Id.* at 5:15-7:5.

<sup>157</sup> Hopkins, Exh. MFH-1T at 22:7-24:11; Hopkins, Exh. MFH-7T at 4:17-5:5.

<sup>158</sup> Hopkins, Exh. MFH-7T at 4:17-5:5.

<sup>159</sup> Hopkins, Exh. MFH-7T at 4:17-5:5; Hopkins, Exh. MFH-1T at 25:6-11.

<sup>160</sup> Hopkins, Exh. MFH-7T at 4:19-5:5; Hopkins, Exh. MFH-1T at 24:16-25:11.

<sup>161</sup> Hopkins, Exh. MFH-1T at 25:1-5.

<sup>162</sup> Hopkins, Tr. at 333:24-335:9.



measures implemented before and during the use of the facility.<sup>163</sup> Contrary to Mr. Mullins' suggestion, customers are not paying for a data center twice.<sup>164</sup> During the decade-long use of the Bothell data center, the facility served PSE and its customers well.<sup>165</sup> However, given the age of the prior data centers and their inability to meet current technology requirements, transitioning to new facilities was necessary. Customers received the full value of their investment in the prior centers while also benefiting from reduced costs by utilizing and modifying existing facilities at the time they were sited and keeping Bellevue operational for five years beyond its useful life.<sup>166</sup>

49. PSE's decision to invest in the DCDR program was necessary so PSE can safely, securely and reliably meet PSE's data storage needs now and into the future. The Commission should reject Mr. Mullins' proposed disallowance.

**V. PSE'S RESTATING AND PRO FORMA ADJUSTMENTS ARE APPROPRIATE AND SHOULD BE ACCEPTED BY THE COMMISSION**

**A. Non-Contested Adjustments**

50. PSE has provided a list of uncontested adjustment as Appendix A to this brief. The Commission should accept PSE's uncontested adjustments in this case.<sup>167</sup> Complete listings of the contested and uncontested adjustments are provided in Exh. SEF-24 for electric and Exh. SEF-25 for natural gas.

**B. Cost of Debt and Equity (Adjustment SEF.1802 EP and EG)**

**1. Capital Structure**

51. PSE proposes a capital structure that consists of a short-term debt ratio of 2.3 percent, a long-term debt ratio of 49.2 percent, and an equity ratio of 48.5 percent.<sup>168</sup> No party to this proceeding disagrees with PSE's proposal.<sup>169</sup>

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<sup>163</sup> Hopkins, Exh. MFH-7T at 7:6-18.

<sup>164</sup> *Id.* at 5:14-6:12.

<sup>165</sup> *Id.* at 7:13-18.

<sup>166</sup> *Id.* at 5:14-7:18.

<sup>167</sup> The rebuttal testimony of Ms. Free provides a discussion of uncontested adjustment in which PSE's adjustments differs from other parties' adjustments and the reasons for the differences. *See* Free, Exh. SEF-17T 67:16-71:19.

<sup>168</sup> McArthur, Exh. MDM-1T at 4:8-10.

## 2. Cost of Capital

### a. Cost of Debt

52. PSE proposes a long-term debt cost rate of 5.51 percent in this proceeding,<sup>170</sup> and no party disagrees with this long-term debt cost rate.<sup>171</sup> PSE proposes to update the marginal short-term debt cost rate in its compliance filing to reflect the current one-month London Interbank Offered Rate (LIBOR) in effect as of the date that the Commission issues its final order in this proceeding.<sup>172</sup>

### b. Cost of Equity

53. PSE proposes a cost of equity of 9.5 percent in this proceeding.<sup>173</sup> PSE's proposal is within the upper end of the range of results suggested by Commission Staff.<sup>174</sup> Moreover, Commission Staff's proposal rests on infirmities that, when corrected, would increase its range of reasonableness to between 9.0 and 10.0 percent,<sup>175</sup> within which PSE's proposal is squarely in the middle. AWEC provided no testimony supporting a cost of equity in this case but suggested that a cost of equity of 9.4 percent might be appropriate. PSE's proposed cost of equity is only slightly higher than that proposed by AWEC.<sup>176</sup>

54. Commission Staff's proposed return on equity is understated and is based on flawed analyses. Specifically, Commission Staff's discounted cash flow ("DCF") analyses:

- rely on an understated yield component, in which Commission Staff increasing the dividend yield by one-half the future growth rate to the spot dividend yield and not the full growth rate as required by the annual form of the DCF model;<sup>177</sup>

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<sup>169</sup> See McArthur, Exh. MDM-7T at 2:1-2; *see also* Parcell, Exh. DCP-1T at 3:12-19; Woolridge, Exh. JRW-1T at 17:8-9.

<sup>170</sup> McArthur, Exh. MDM-1T at 14; *see also* McArthur, Exh. MDM-5 at 2:27, col. F.

<sup>171</sup> See McArthur, Exh. MDM-7T at 5:4-5; *see also* Parcell, Exh. DCP-1T at 2; Woolridge, Exh. JRW-5 at 1:Panel B.

<sup>172</sup> See McArthur, Exh. MDM-7T at 4:4-5.

<sup>173</sup> Morin, Exh. RAM-12T at 1:22-2:2.

<sup>174</sup> See *id.* at 2:8-10.

<sup>175</sup> See *generally* Morin, Exh. RAM-12T at 68:11-90:2.

<sup>176</sup> See Mullins, Exh. BGM-8T at 2:Table 1-CA.

<sup>177</sup> See Morin, Exh. RAM-12T at 71:5-20.

- rely on the retention growth methodology, which is logically inconsistent because such methodology forces one to assume the answer to implement the methodology,<sup>178</sup> and
- rely extensively on historical growth rates in earnings, dividends, and book value, despite (i) substantial changes occurring in the energy utility industry that have made historical data questionable and (ii) growth rates are somewhat redundant since historical growth patterns are already reflected in analysts' growth forecasts.<sup>179</sup>

Similarly, Commission Staff's capital asset pricing model ("CAPM") analyses are flawed because they rely on historical spot rates in selecting a risk-free rate proxy<sup>180</sup> and use a market risk premium of 5.9 percent that slightly understates the market risk premium.<sup>181</sup> Correction of these flaws would increase Commission Staff's (i) DCF analyses results by approximately 60 basis points (i.e., 0.6 percent) and (ii) CAPM analyses results by approximately 298 basis points (i.e., 2.98 percent).<sup>182</sup> The amended results of Commission Staff produce a range of between 9.0 and 10.0 percent, which encompasses PSE's recommended return on equity of 9.5 percent.<sup>183</sup>

55. The Commission should completely disregard the cost of equity proposed by Public Counsel. Public Counsel's proposed cost on equity relies, in large part, on a flawed DCF analyses that:

- rely on an understated yield component, in which Public Counsel increasing the dividend yield by one-half the future growth rate to the spot dividend yield and not the full growth rate as required by the annual form of the DCF model;<sup>184</sup>
- rely extensively on historical growth rates in earnings, dividends, and book value, despite (i) substantial changes occurring in the energy utility industry that have made historical data questionable and (ii) growth rates are somewhat redundant since historical growth patterns are already reflected in analysts' growth forecasts;<sup>185</sup>

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<sup>178</sup> See *id.* at 72:1-18.

<sup>179</sup> See *id.* at 73:1-75:15.

<sup>180</sup> See *id.* at 76:11-21.

<sup>181</sup> See *id.* at 76:6-82:13.

<sup>182</sup> See *id.* at 89:6-11.

<sup>183</sup> See *id.* at 89:11-13.

<sup>184</sup> See *id.* at 13:10-15:12.

<sup>185</sup> See *id.* at 16:1-20:4.

- rely on the sustainable growth methodology, which is logically inconsistent because such methodology forces one to assume the answer to implement the method;<sup>186</sup> and
- rely on ambiguous and arbitrary growth rates.<sup>187</sup>

Public Counsel’s CAPM analyses are similarly flawed and:

- rely inappropriately on short-term interest rates in identifying the risk-free rate;<sup>188</sup>
- rely on an artificially low market risk premium that erroneously includes the results of studies that employ geometric means instead of the correct arithmetic means and arbitrarily selects and inaccurately represents the literature on market risk premiums;<sup>189</sup> and
- rely exclusively on the plain vanilla version of the CAPM, which understates returns of equity for low-beta securities, such as PSE.<sup>190</sup>

56. Moreover, Public Counsel’s proposed cost on equity of 8.75 percent (upper end of a range of 6.90 - 8.95 percent) is extreme and outside the zone of currently allowed rates of return for electric utilities in the United States and for sample of electric utilities relied upon by Public Counsel. The average allowed return on equity authorized by state utility commissions for vertically-integrated electric utilities in 2018 is 9.7 percent and 9.6 percent as of September 30, 2019. The currently allowed return on equity for Public Counsel’s own proxy group of electric utilities averages 9.9 percent, and Value Line estimates expected average returns on equity of 10.5 percent. These allowed and expected returns on equity exceed Public Counsel’s low recommended return on equity for PSE of 8.75 percent by a significant margin.<sup>191</sup>

### **C. Federal Income Taxes (Adjustment SEF-20.03 ER and GR)**

57. PSE’s adjustment addressing the reversal of protected-plus<sup>192</sup> excess deferred income taxes (“EDIT”) is consistent with the Internal Revenue Service normalization and consistency rules<sup>193</sup> and the Commission’s overarching approach to ratemaking. Specifically, the Commission has consistently rejected single-issue ratemaking as it excludes offsetting factors that may

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<sup>186</sup> See *id.* at 20:5-26:3.

<sup>187</sup> See *id.* at 26:4-28:19.

<sup>188</sup> See *id.* at 30:1-19.

<sup>189</sup> See *id.* at 31:1-48:2.

<sup>190</sup> See *id.* at 48:3-49:7.

<sup>191</sup> See *id.* at 11:3-13:7.

<sup>192</sup> Marcelia, Exh. MRM-1T at 16:9-16.

<sup>193</sup> *Id.* at 18:1-20:5.

otherwise need to be considered in the broader ratemaking context.<sup>194</sup> With respect to the reversal of EDIT in this case, opposing parties are ignoring this general rate making principle and seek to treat the EDIT differently than the underlying rate base (i.e. net plant balances), book depreciation, tax expense, and accumulated deferred income taxes (“ADIT”) to which it is tied. In this respect, the IRS normalization and consistency rules conform to the Commission’s rate making principles—the reversal of EDIT must be aligned with the treatment of the rate base, book depreciation, tax expense, and ADIT. They must all be treated consistently and follow the same schedule. The Commission should reject approaches by parties to this case that single-out the EDIT for reversal in a manner that differs from the rate making treatment for the rate base, book depreciation, tax expense, and ADIT to which it is tied.

**1. Background: Congressional Intent of Normalization**

58. In 1969, Congress enacted rules to prevent the unintended consequences of a transfer of the utility industry’s share of the US tax burden to all other U.S. taxpayers by (1) eliminating flow-through accounting for timing differences between book and tax depreciation and (2) requiring the very specific application of the accounting and ratemaking protocols that comprise the normalization rules.<sup>195</sup>

**2. Normalization Requirements for EDIT Reversals Under TCJA**

59. There are two elements to normalization of the EDIT reversals—accounting and ratemaking. The Tax Cut and Jobs Act (“TCJA”) states that normalization is required by a utility “in computing its cost of service for ratemaking purposes and reflecting operating results in its regulatory books of account.”<sup>196</sup> Thus, normalization is required both for ratemaking and accounting. The failure of either will result in a normalization violation.

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<sup>194</sup> The Commission disfavors “single-issue ratemaking” because it violates the matching principle. *WUTC v. Avista*, Docket UG-060518, Order 04 ¶ 19 (Feb. 1, 2007). Single-issue ratemaking violates this principle because it sets rates based upon an examination of only one component. *See Re U.S. West Comm’n, Inc.*, Docket UT-920085, Third Suppl. Order at 5 (Apr. 15, 1993) (“without considering other aspects of the company’s rate structure [this] would amount to single issue ratemaking”).

<sup>195</sup> *See* Marcelia, Exh. MRM-1T at 11:10-12:21.

<sup>196</sup> TCJA § 13001(d)(1); Marcelia, Exh. MRM-6.

**a. Normalization: Accounting**

60. PSE has demonstrated its compliance with the proper normalization accounting by following the “average rate assumption method” (“ARAM”) in calculating the reversal of the EDIT in this filing. In accordance with the consistency rules, the reversal of the EDIT has been recorded in the same period as the book depreciation to which it relates (i.e. in the historical test year).<sup>197</sup> In addition, the rate base and ADIT have been accounted for correctly to reflect the movement in book depreciation and tax expense (of which EDIT is a component). Thus, all of the accounting components are properly aligned as required by the normalization rules. There is no dispute among the parties related to PSE’s proper handling of the accounting related normalization.

**b. Normalization: Ratemaking**

61. ARAM acts as a speed limit, prohibiting the reversal of EDIT that is not aligned with rate base, ADIT, tax expense, and book depreciation.<sup>198</sup> But problems arise when, for ratemaking purposes, ARAM is considered the only normalization rule applicable to EDIT, while ignoring the equivalent impacts to the related rate base, book depreciation, tax expense and ADIT. AWEC witness Mullins makes this error<sup>199</sup> as does Public Counsel witness Garrett when he wrongly claims the consistency rules do not apply to EDIT.<sup>200</sup> As the prior PSE Private Letter Ruling (“PLR”) demonstrates, consistent treatment is required in the ratemaking, as well as the accounting.<sup>201</sup> EDIT cannot be deferred and treated differently than the rate base, book depreciation, tax expense, and ADIT to which it is tied. This filing is based on a historical test year, with some variations. The EDIT reversal in the test year must be treated in the same manner as book depreciation and tax expense in the test year—covering the same period, the same

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<sup>197</sup> See Marcelia, Exh. MRM-11T at 19:12-20:6.

<sup>198</sup> See *id.* at 26:2-28:13.

<sup>199</sup> See *id.* at 51:11-17.

<sup>200</sup> See *id.* at 64:1-21.

<sup>201</sup> See *id.* at 28:14-29:13; PLR 200824001, Exh. MRM-4.

population of assets, using the same ratemaking technics. The same is true for the rate base and the ADIT.<sup>202</sup>

62. Following the normalization rules will ensure that congressional intent in the TCJA is carried out. The application of the normalization rules is completely agnostic in terms of selecting “winners” and “losers”. The rules must be applied regardless of perceived benefit to company or customers. The IRS does not care.<sup>203</sup> It is strictly an exercise in compliance.

### 3. The Reversal of EDIT Is Currently Built into Rates

63. The reversal of EDIT is currently built into PSE’s rates. PSE recorded the reversal of EDIT as a benefit to deferred tax expense, which is a component of net operating income, and that benefit was used in setting rates in the 2018 expedited rate filing in Dockets UE-180899 and UG-180900 (“2018 ERF”).<sup>204</sup> By so doing, PSE eliminated what would have otherwise been a rate increase to electric customers and significantly reduced a rate increase for gas customers by reversing EDIT in the historical test year of the 2018 ERF, in a manner that complies with the IRS consistency rules while allowing the annualized amount of EDIT reversal to be set in rates.<sup>205</sup> In this general rate case, PSE likewise built the reversal of EDIT into rates,<sup>206</sup> and customers will receive the full benefit of the reversal of EDIT.<sup>207</sup> Over the 51-year projected reversal period, which is based on the current remaining lives of PSE’s assets, every dollar of EDIT gets amortized under the ARAM methodology. PSE projects that the cumulative benefit in customer rates will exceed the amount of total EDIT of \$815.4 million, providing customers the full

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<sup>202</sup> See Marcelia, Exh. MRM-11T at 35:16-36:3.

<sup>203</sup> See *id.* at 23:13-17.

<sup>204</sup> See *id.* at 46:5-7; see also McGuire, Exh. CRM-1T at 24:3-5, n.29.

<sup>205</sup> See Marcelia, Exh. MRM-11T at 46:7-10.

<sup>206</sup> PSE’s filing in the ERF and in this general rate case are the only filings the Commission has seen where a utility has reflected a full year of EDIT reversal in its tax expense in the test year. In all other cases presented to the Commission, the EDIT reversal was an “add-on,” inserted outside of the test year. See Marcelia, Exh. MRM-11T at 38:3-40:15.

<sup>207</sup> See PSE’s Response to Bench Request No. 005.

benefit of the EDIT.<sup>208</sup> And when the reversal of the EDIT from the 2018 ERF is also considered, the benefits to customers over time are even higher.<sup>209</sup>

64. The Commission and Commission Staff have questioned whether PSE plans “to return amortized EDIT as close as possible to the dollar to rate payers.”<sup>210</sup> As Mr. Marcelia testified, in terms of the accounting aspect of EDIT reversals “[e]xcess deferred taxes will be amortized dollar to dollar to the penny.”<sup>211</sup> That amortization will occur dollar for dollar just like it does for book depreciation.<sup>212</sup> However, the ratemaking treatment is lumpy. For example, the book depreciation recovered via rates will rarely, if ever, be collected dollar for dollar as rates are not reset every day or month. A similar effect will occur with the reversal of EDIT. PSE projects that customers will receive the benefit of all EDIT, and more, if the EDIT is reversed in accordance with the IRS normalization and consistency rules, which is what PSE has proposed in this case.<sup>213</sup>

65. Normalization and consistency problems arise, however, when, as in this case, parties propose that the reversal of EDIT for ratemaking purposes be treated differently than the other components to which it is inextricably linked—rate base, book depreciation, tax expense, and ADIT. These other components do not get recovered from customers on a dollar for dollar basis in the lumpy ratemaking process.<sup>214</sup> Just as PSE must work within the parameters of the ratemaking construct in Washington with respect to recovery of depreciation expense and a return on plant placed in service, the same is true for the reversal of EDIT.

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<sup>208</sup> *See id.*

<sup>209</sup> *See* PSE’s Response to Bench Request No. 005 at n.2 (noting that the scenarios in the Bench Request response do not factor in the additional benefits from the 2018 ERF that are embedded in rates effective March 1, 2019); PSE’s Response to Bench Request No. 013, Attachments A, B.

<sup>210</sup> *See* Doyle, Tr. at 376:2-7, 377:3-10.

<sup>211</sup> Marcelia, Tr. at 389:2-6.

<sup>212</sup> *Id.* at 389:23-390:2.

<sup>213</sup> PSE’s Response to Bench Request No. 005.

<sup>214</sup> *See* Doyle, Tr. at 376:16-25; Marcelia, Tr. at 389:18-390:8.



**4. AWEC and Public Counsel Would Pass Back the Same EDIT Dollars to Customers Twice**

66. AWEC’s approach to reversing EDIT would not only violate consistency rules, it would give the same deferred tax benefits back to customers twice. AWEC’s proposal would provide customers with the benefit of EDIT reversals in the test year (the twelve months ended December 31, 2018) in base rates as PSE has done. But, in addition, AWEC proposes to defer and amortize over four years the EDIT reversals from the “interim period” (the same test year plus January and February 2019). In other words, AWEC witness Mullins would set the test year EDIT reversal in base rates as well as amortizing the test year amounts again in base rates over a four-year period.<sup>215</sup> Public Counsel’s proposal suffers from identical flaws but substitutes a two-year amortization period versus AWEC’s four-year period.<sup>216</sup> Setting aside the violations of the normalization rules, AWEC and Public Counsel’s proposals result in a clear misapplication of standard ratemaking protocols, which are constructed to ensure that the components of revenue requirements are not double counted either in a test year or over time across rate proceedings. The Commission should reject the AWEC and Public Counsel proposals for these reasons.

**5. Commission Staff’s Proposed Tracker Fails to Track All Related Components**

67. Commission Staff’s proposed tracker suffers from inconsistent treatment; it would update Schedule 141X annually to include the following year’s EDIT amortized amounts while ignoring the other components to which the EDIT is tied: rate base, book depreciation, tax expense and ADIT.<sup>217</sup> If there is a tracker for EDIT reversal, it must likewise reflect movement for the same time periods in rate base, book depreciation, tax expense, and ADIT, which is required in order to conform with the consistency rules as well as to avoid single issue ratemaking.

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<sup>215</sup> See Marcelia, Exh. MRM-11T at 47:1-7.

<sup>216</sup> See Garrett, Exh MEG-1T at 66:28-67:2.

<sup>217</sup> Doyle, Tr. at 372:10-17.

## 6. PSE and Its Customers Face Significant Penalties for Failure to Follow Normalization and Consistency Rules with Respect To TCJA

68. The TCJA includes additional penalties for violations of normalization and consistency rules, in addition to previously existing penalties. Therefore, PSE has been “exceedingly careful and diligent” in establishing its position on the treatment of EDIT to ensure conformity with the law, the regulations, PSE’s own PLR,<sup>218</sup> and the other PLRs on normalization within the context of Washington regulation.<sup>219</sup> The additional penalty Congress added with the TCJA requires that the utility’s tax be increased by the amount that the utility has passed back to customers beyond what is allowed under normalization and consistency rules.<sup>220</sup> This has the effect of preventing customers from ever benefitting from the portion of EDIT that is passed to customers inappropriately.<sup>221</sup> The existing penalties for a normalization violation likewise would have a dire impact on PSE and customers. PSE would be prohibited from using accelerated tax depreciation. For example, wind farms are depreciated over five years using MACRS depreciation; PSE would be forced to depreciate its wind farms using the same method and life that is used for book purposes (e.g., straight-line over 25 years). This would represent a significant cost increase to customers as this would be required for all PSE’s depreciable assets, not just wind-related assets.<sup>222</sup> Furthermore, it would cause a dramatic increase in PSE’s cash outlay for income taxes.<sup>223</sup> This substantial cash drain would adversely impact PSE’s credit rating, which is already on “negative watch” by Standard and Poor’s.<sup>224</sup> A downgrade would increase PSE’s cost of borrowing, further increasing the cost to customers. For these reasons, compliance with the normalization rules is a major concern for PSE’s management.<sup>225</sup> Knowing the risks, PSE’s

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<sup>218</sup> See Marcelia, Exh. MRM-4.

<sup>219</sup> See Marcelia, Exh. MRM-11T at 29:15-21; Exh. MRM-3; Exh. MRM-5.

<sup>220</sup> TCJA § 13001(d)(4).

<sup>221</sup> See Marcelia, Exh. MRM-1Tr at 24:3-19. It does not appear that the IRS has the ability to permit a taxpayer to correct the infraction without incurring the new penalty as it has in other inconsistency infractions unrelated to EDIT. See *id.* at 24:3-11.

<sup>222</sup> See *id.* at 24:12-19.

<sup>223</sup> See Doyle, Exh. DAD-7Tr at 39:10-13.

<sup>224</sup> See Doyle, Exh. DAD-7Tr at 38:1-2, citing S&P Global Ratings, *Puget Energy Inc. and Subsidiary Ratings Affirmed; Outlooks Revised to Negative On Weakening Financial Measures* (Dec. 14, 2018).

<sup>225</sup> See Marcelia, MRM-11T at 29:15-21; Doyle, Exh. DAD-7T at 31:20-28.

independent auditors, PricewaterhouseCoopers, reviewed PSE's implementation of the normalization rules in its 2018 financial statements and determined that its approach was correct.<sup>226</sup>

69. The IRS has established a safe harbor for *inadvertent* or *unintentional* normalization issues, provided in Revenue Procedure 2017-47,<sup>227</sup> but this would not apply to PSE. The testimony and exhibits provided in this filing have been meticulous and comprehensive, making it impossible to claim that a violation could have been inadvertent. Thus, the safe harbor would not be available to PSE on its EDIT reversal.<sup>228</sup>

70. For these reasons, a decision by the Commission in this case that would, from PSE's perspective, cause the company to violate the IRS normalization and consistency rules would place PSE in a very difficult situation in terms of being wedged between conflicting instructions from two separate governmental entities: the IRS and the Commission. Faced with this actual controversy—a Commission decision ordering PSE to violate IRS normalization and consistency rules—PSE would need to seek an IRS private letter ruling and would ask the Commission to stay the effect of that aspect of its order until the IRS issues a PLR.<sup>229</sup>

## **7. Conclusion on Protected-plus EDIT**

71. PSE's approach to protected-plus EDIT should be accepted. It is the only approach in this filing that complies with the normalization and consistency rules. It is the only approach that passes the benefit of EDIT to customers only one time. It does not harm customers; in fact, customers are projected to receive benefits in excess of the EDIT balances existing on January 1, 2018.<sup>230</sup>

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<sup>226</sup> Marcelia, Exh. MRM-1Tr at 34:1-10.

<sup>227</sup> Marcelia, Exh. MRM-11T at 55:14-56:15.

<sup>228</sup> *Id.* at 56:8-15.

<sup>229</sup> *Id.* at 73:5-11.

<sup>230</sup> See PSE's Response to Bench Request No. 005.

**D. Unprotected EDIT (Adjustment SF-20.26 EP and GP)**

72. PSE and Commission Staff are generally in agreement with respect to the treatment of unprotected EDIT balances: the unprotected EDIT balances from all the FERC 190 and 283 accounts should be passed back over four years, the details of which are clarified in the testimony of Mr. Marcelia.<sup>231</sup>

73. AWEC's proposal to pass back the unprotected gas EDIT balance over 12 months as an offset against an increase in gas rates should be rejected. Under this approach, PSE would give back more than its unprotected gas EDIT balance unless it immediately filed a rate case to reset gas base rates. The Commission should approve PSE's four-year amortization.<sup>232</sup>

**E. Power Cost Adjustment (21.01 EP and Staff 12.01E and 12.02E)**

**1. PSE's Power Cost Adjustment as Set Forth in Rebuttal Is Appropriate**

74. PSE's power cost adjustment is appropriate and should be accepted by the Commission. On rebuttal, PSE provided a limited update to power costs as agreed to by the parties at the prehearing conference. Mr. Wetherbee's rebuttal testimony provides the results of the power cost update and also describes the substantial information with respect to updated power costs that is not included in this case, that PSE would have included in past cases.<sup>233</sup> It is PSE's view that in future cases, as in past cases, a complete update to power costs should be performed either in supplemental testimony or rebuttal testimony, so that power costs will be set as close as possible to the actual power costs that are likely to occur during the rate year, as the Commission has previously ordered.<sup>234</sup>

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<sup>231</sup> See Marcelia, Exh. MRM-11T at 52:7-53:3.

<sup>232</sup> See Marcelia, Exh. MRM-11T at 51:21-52:5; Exh. MRM-1Tr at 8:1-15.

<sup>233</sup> Wetherbee, Exh. PKW-34CT at 23:13-29:17, 30:11-32:13.

<sup>234</sup> See, e.g., *WUTC v. PSE*, Dockets UG-170033/UE-170034, Order 08 ¶ 31, (Dec. 5, 2017) (PSE's supplemental testimony included power cost updates); *WUTC v. PSE*, Dockets UE-111048/UG-111049, Order 08 ¶ 226, n.303 (May 7, 2012); *WUTC v. PSE*, Dockets UG-040640, *et al.*, Order 06 ¶¶ 16, 108 (Feb. 18, 2005) (expressly recognized an agreement among the parties to the proceeding "that more recent data predicts the near and perhaps even intermediate term better than older data.").

75. No party has challenged the prudence of the renewed and acquired transmission contracts that are used to wheel power from PSE's owned and contracted resources to serve PSE's customers.<sup>235</sup> Accordingly, they should be included in PSE's power costs as prudent resources.

76. Also on rebuttal, PSE accepted Staff's proposal to assume 100 percent availability of Westcoast Pipeline capacity in the calculation of rate year power costs. The remaining disputed issues with respect to the power cost adjustment are addressed below.

**2. PSE's Updated Methodology for Projecting Power Costs Is More Accurate and Efficient and Should Be Accepted by the Commission**

77. The enhanced methodology for projecting power costs that PSE presented in this case should be accepted by the Commission because it allows PSE to more accurately and efficiently project its rate year power costs. As Mr. Wetherbee testified, the majority of PSE's methodology for projecting rate year power costs has not changed, but there are two key changes that improve accuracy and efficiency in the power cost modeling.

78. First, in this case, PSE used its AURORA model in two phases. In the first phase, PSE used AURORA to model the Western Interconnection and estimate hourly market power prices for the rate year. In the second phase, PSE input the market prices generated from the first AURORA run into a second two-zone AURORA model, with the market being the first zone and PSE's system being the second zone. PSE used this two-zone model to estimate the cost of power purchase agreements, fuel for PSE resources, and market purchases and sales, as it has done with AURORA in past cases. In addition, the two-zone model allowed use of AURORA functionality to estimate the costs of contingency reserves and costs related to balancing load with wind and other resources every hour. In prior cases, before the two-zone AURORA model was available, after running AURORA PSE used the Hour Ahead Balancing Model, an MS Excel-based model to separately estimate the cost of contingency reserves and balancing load. The Hour Ahead

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<sup>235</sup> See Wetherbee, Exh. PKW-1CT at 10:1-11:8, for a listing of the transmission resources.

Balancing Model produced reasonable results but was cumbersome and time consuming to use. Use of the two-zone AURORA model allows for more efficient and accurate forecasting.<sup>236</sup>

79. PSE's second proposed update to its power cost methodology relates to PSE use of the 80 years of hydroelectric data. As in past cases, PSE used 80 years of stream flow data to estimate hydroelectric generation for the projection of rate year power costs.<sup>237</sup> However, in the past PSE has run AURORA 80 times, one for each year of hydro generation, and then taken the average of the 80 runs—a laborious and time-consuming process.<sup>238</sup> PSE's proposed methodology in this case uses the average of the 80-year hydro stream flow data and runs AURORA one time using that average hydro as an input to generate market prices, and runs AURORA one more time in the second phase to generate power costs, rather than running AURORA 80 times. Not only does this approach save approximately 14 hours of computational time for the AURORA runs it also avoids the laborious process of manually extracting and processing the large output of hourly data from the 80 AURORA runs in order to project power costs.<sup>239</sup>

80. In addition to saving computational time, using the average of 80 years of hydro data as an input results in more realistic hydro output for the model and a better estimate of power costs.<sup>240</sup> When AURORA is run separately for each of the 80 water years, the AURORA model's hydro shaping logic causes it to relax maximum hydro capacity constraints during some periods with extraordinarily high hydro generation. These constraint violations allow the model to unrealistically shift hydro generation from off-peak hours to on-peak hours. This process results in artificially high off-peak prices when PSE generally sells to the market, and artificially low on-peak prices when PSE generally purchases from the market.<sup>241</sup> The results are similar with both approaches: on average, output from a single AURORA run is 0.50 percent above the average

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<sup>236</sup> Wetherbee, Exh. PKW-1CT at 50:22-51:19.

<sup>237</sup> *Id.* at 59:4-20.

<sup>238</sup> *See id.* 60:10-12.

<sup>239</sup> *See id.* at 60:15-61:1; Wetherbee, Exh. PKW-34CT at 4:11-5:11.

<sup>240</sup> Wetherbee, Exh. PKW-34CT at 6:5-9.

<sup>241</sup> *See id.* at 6:3-9:5.

output from 70 or 80 runs. In this case, PSE's AURORA results, which are only a portion of total power costs, are 1.30 percent higher than they would be using 80 AURORA runs.<sup>242</sup>

81. In contrast to the efficiency PSE's methodology provides, the methodology Commission Staff proposed in its response testimony would involve running AURORA 160 times—with 80 runs to model the Western Interconnection and 80 more runs using the two-zone AURORA model. After that PSE would need to average the results in a spreadsheet.<sup>243</sup> Such a time-consuming approach is not justified, nor does it produce more accurate results. At hearing, Commission Staff seemed to suggest a different alternative, which had not otherwise been proposed in testimony: Revert back to the approach PSE used in the 2017 general rate case and run AURORA 80 times for each of the 80 hydro stream flow years, followed by 80 runs using the laborious and difficult to use Hour Ahead Balancing Model.<sup>244</sup> What Commission Staff referred to as a spreadsheet at the evidentiary hearing<sup>245</sup> is the Hour Ahead Balancing Model, which is far more complicated than a simple spreadsheet.

82. The Commission has allowed and encouraged modifications to ratemaking methodologies where the updated methodologies produce accurate results and allow for more efficient use of time and resources.<sup>246</sup> In this case, PSE has shown the results using both the old and new methodologies.<sup>247</sup> The new methodologies are more efficient and provide more accurate results; they are consistent with the public interest and should be accepted.

### **3. PSE's Updated Wind Forecast are Reasonable**

83. Similarly, PSE appropriately updated the wind forecasts for its owned wind plants and for its Klondike III PPA. PSE used the 2016 Vaisala wind forecasts for its owned facilities; for the

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<sup>242</sup> See Wetherbee, Exh. PKW-1CT at 61:5-14.

<sup>243</sup> See Wetherbee, Exh. PKW-34CT at 4:11-20.

<sup>244</sup> Wetherbee, PKW-1CT at 51:12-16; Wetherbee, Tr. 412:10-13, 412:19-413:2;

<sup>245</sup> Wetherbee, Tr. 412:2-413:2.

<sup>246</sup> See, e.g., *WUTC v. Avista*, Dockets UE-170485, et al., Order 07 ¶ 161 (Apr. 26, 2018) (ordering parties to work to identify ways power cost modeling can be simplified and improved); *WUTC v. Avista*, Dockets UE-160228, et al., Order 06 ¶¶ 19, 100 (Dec. 15, 2016) (“In the final analysis, it is the end results, or overall results that matter, not the methods by which they are determined.”).

<sup>247</sup> See Wetherbee, Exh. PKW-1CT at 61:5-62:6.

Klondike III PPA, PSE used the 2016 wind forecast provided by Avangrid Renewables, LLC, the owner of Klondike III. The 2016 forecasts provide the most current estimate of expected energy production for each resource. These forecasts utilize data from the actual operation of PSE's wind resources combined with 36 years of historical climate data and current forecasting methodologies to project long-term average energy output for each facility.<sup>248</sup> With respect to power costs, the Commission has expressed its preference that the most up to date information be used when PSE projects rate year power costs.<sup>249</sup> The 2016 forecasts provide the most up to date information.<sup>250</sup>

84. In contrast, Commission Staff relies on stale wind forecasts from 2007 and 2010 that are not based on data from actual project operations. They were prepared before the wind plants were built, based on wind data from the future project sites, and they incorporated generic energy loss assumptions. Commission Staff's objections to the more up-to-date and accurate wind forecasts were rebutted by PSE.<sup>251</sup> The Commission should accept PSE's wind forecasts.

#### **4. Colstrip Issues**

##### **a. PSE appropriately amortized the major maintenance event**

85. PSE properly included amortization of the Colstrip Unit 4 major maintenance event scheduled for June 2020 in its power cost estimate. As in past cases, PSE relied on the operator's budget that sets the appropriate timing for major maintenance events, and PSE has demonstrated that these budgets very closely match the actual costs for Colstrip Units 3 and 4—with the difference between budget and actual averaging 2.45 percent for Unit 3 and 1.71 percent difference for Unit 4 over the 2014-2016 time period.<sup>252</sup> Because the sale of Unit 4 is unlikely to

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<sup>248</sup> See Wetherbee, Exh. PKW-34CT at 13:13-18.

<sup>249</sup> See, e.g., *WUTC v. Puget Sound Energy*, Dockets 040640, *et al.*, Order 06 ¶ 108 (Feb. 18, 2005); *WUTC v. Puget Sound Energy*, Dockets UE-111048, *et al.*, Order 08 n. 303 (May 7, 2012).

<sup>250</sup> See Wetherbee, Exh. PKW-34CT at 17:3-6.

<sup>251</sup> See *id.* at 14:6-20:14.

<sup>252</sup> Roberts, Exh. RJR-14T at 12:7-14:17. Although Staff points to larger discrepancies for Colstrip Units 1 and 2 when comparing budgeted to actual costs for major maintenance events, this is an inaccurate comparison, since a closing date had been set for Colstrip Units 1 and 2, which resulted in limiting major maintenance. *Id.* at 12:16-13:2.



occur before June 2020, and PSE remains responsible for its share of major maintenance prior to the closing, PSE should be permitted to recover the major maintenance expense in rates. If the Commission does not allow the amortization in rates, the cost of the event should be deferred for consideration of recovery in a later proceeding.<sup>253</sup>

**b. PSE properly allocated common costs to Units 3 and 4**

86. In the rate year power costs, PSE properly included \$1.3 million in common costs that were previously allocated to Colstrip Units 1 and 2 based on test year amounts. This amount reflects common costs for shared expenses, such as maintenance of the general plant site, water treatment and handling equipment, river pumping station, labor relations work, postage, employee safety equipment and training, information technology services, engineering services, communications equipment and more. Additionally, PSE considered the needs to facilitate the process of plant retirement for Colstrip Units 1 and 2 that will take place over the rate year. Although Commission Staff recommends the costs be excluded, the testimony demonstrates that the shared expenses will continue and should be recovered in rate year power costs.<sup>254</sup>

**F. Distribution Upgrades for Tacoma LNG (Staff Adjustment 12.05G)**

87. PSE has appropriately included two of the three distribution upgrades related to the Tacoma LNG project in rates in this case. The upgrades are in service, capable of serving customers and have served customers.<sup>255</sup> PSE has also expressed a willingness to defer these costs if the Commission prefers that approach.<sup>256</sup>

**G. Plant Pro Forma Adjustments**

88. PSE's limited plant pro forma adjustments are reasonable and consistent with Commission guidance; they should be accepted. The plant pro forma adjustments are known and measurable and described in detail in PSE's testimony. PSE included only six pro forma capital

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<sup>253</sup> See Free, Exh. SEF-17T at 74:8-15.

<sup>254</sup> See *id.* at 74:18-21; Roberts, Exh. RJR-14T at 15:5-16:6.

<sup>255</sup> See Henderson, Exh. DAH-1T at 7:14-8:2; Tr. 406:4-407:12 (noting that the flow of the upsized gate station on the South Tacoma supply system exceeded the design flow of the previous gate station).

<sup>256</sup> See Henderson, Exh. DAH-4T at 5:1-7.

additions<sup>257</sup> and used a methodology for defining materiality that was used in settlement in PSE's 2017 general rate case, which Commission Staff had proposed in that proceeding. Under PSE's proposal, a material effect is one that impacts the rate of return by one basis point. Thus, for electric, the net operating income threshold is \$500,000 and the rate base threshold is \$9.5 million. For natural gas, the net operating income threshold is \$200,000 and the rate base threshold is \$3.7 million.<sup>258</sup> None of PSE's proposed pro forma adjustments extend to plant placed in service after June 30, 2019, which is six months after the end of the test year.<sup>259</sup> This provided parties several months before their response testimony deadline to review these pro forma adjustments. This is a more conservative pro forma period than in past cases.<sup>260</sup>

89. The Commission has recognized the appropriateness of allowing more timely recovery of programmatic costs.<sup>261</sup> Several of PSE's pro forma plant adjustments are programmatic in nature: The public improvement adjustment addresses plant that is required to be relocated by municipalities and state agencies as specified in jurisdictional franchise agreements, for road and other projects.<sup>262</sup> Similarly, PSE's pro forma adjustments for replacement of HMW cable, GTZ investments, and AMI implementation are programmatic in nature. The additional plant that was added after the end of the test year through June 30, 2019, is generally similar or identical in nature to the investments made during the test year,<sup>263</sup> which facilitates review of these programmatic plant additions.

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<sup>257</sup> The plant pro forma adjustments are: AMI, GTZ, Public Improvement, HR Tops, HMW cable, Emergency Management System.

<sup>258</sup> See Free, Exh. SEF-1T at 11:1-12.

<sup>259</sup> Free, Exh. SEF-17T at 32:18-33:5.

<sup>260</sup> See, e.g., *WUTC v. Avista*, Dockets UE-170485, et al., Order 07 ¶ 202 (April 26, 2018) (pro forma cutoff eight months after end of test year found to be reasonable).

<sup>261</sup> See, e.g., Used and Useful Policy Statement ¶¶ 16, 28, 35.

<sup>262</sup> See Koch, Exh. CAK-1Tr at 12:4-13:16; Free, Exh. SEF-1Tr at 58:7-23.

<sup>263</sup> See Koch, Exh. CAK-1Tr at 56:5-19; Jacobs, Exh. JJJ-1T at 46:7-48:7.

90. The Commission has repeatedly expressed its intention to maintain flexibility on a case by case basis in determining pro forma adjustments and the materiality of such adjustments.<sup>264</sup> In contrast, Commission Staff continues its attempts to create a one-size fits all bright line standard for determining materiality of pro forma adjustments. Although Mr. McGuire claims that “[t]raditionally, the Commission has determined that a plant addition is material (or major) if it represents at least 0.5 percent of the utility’s net plant in service,”<sup>265</sup> this is not the case. While the Commission allowed that standard to be used in prior cases, it made clear that WAC 480-140-040 is not a bright-line standard for use in all cases.<sup>266</sup>

**1. AMI (Adjustments 20.22EP and GP)**

91. Ms. Free testifies to the methodology of the AMI adjustments, which include amortization of the deferrals authorized in PSE’s 2018 ERF as well as rate year depreciation expense and AMA rate base for AMI pro forma plant additions occurring after the end of the test year through June 30, 2019.<sup>267</sup> PSE’s inclusion of AMI investment through June 30, 2019 as a pro forma adjustment is reasonable and consistent with Commission policy. Only Public Counsel opposes this adjustment; as described above, Public Counsel wrongly proposes to disallow recovery of all AMI investment which is in service and benefiting customers now. The AMI investment is necessary and appropriate and should be recovered in rates.

**2. Get To Zero (Adjustments 20.24 EP and GP)**

92. Ms. Free testifies to the methodology of the GTZ adjustments,<sup>268</sup> and Mr. Jacobs describes in detail the plant that has gone into service in the test year and through June 30, 2019

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<sup>264</sup> See *WUTC v. Avista*, Dockets UE-150204, *et al.*, Order 05 ¶ 40 (Jan. 6, 2016); *WUTC v. Pacific Power & Light*, Docket UE-130043, Order 05 ¶ 198 (Dec. 4, 2013); *WUTC v. Avista*, Dockets UE-160228, *et al.*, Order 06 ¶ 82 (Dec. 15, 2016).

<sup>265</sup> McGuire, Exh. CRM-1T at 12:17-18.

<sup>266</sup> See, e.g., *WUTC v. Avista*, Dockets UE-170485, *et al.*, Order 07 ¶¶ 196, 200 (Apr. 26, 2018) (noting Staff carries its interpretation of pro forma adjustments too far in advocating for a bright-line cost threshold using WAC 480-140-040, and further noting that the Commission has clearly and repeatedly rejected use of a bright line rule); *WUTC v. Avista*, Dockets UE-150204/UG-150205, Order 05 ¶ 40 (2016) (finding it reasonable “in the instant case” to use a threshold of one-half of one percent).

<sup>267</sup> See Free, Exh. SEF-1Tr at 50:1-53:4; Exh. SEF-17T at 76:14-18; PSE’s Response to Bench Request No. 003.

<sup>268</sup> See Free, Exh. SEF-1Tr at 54:8-56:10; Exh. SEF-17T at 76:19-77:3.

and the benefits it provides to customers.<sup>269</sup> This adjustment includes post-test year GTZ investment through June 30, 2019, which is reasonable and consistent with Commission policy. The plant in this adjustment is known and measurable; it is programmatic in nature and the amount included is material. Therefore, Commission Staff’s proposal to exclude roughly half of the GTZ plant in service from January 1 through June 30, 2019, and Public Counsel’s proposal to exclude this plant in its entirety, should be rejected. The adjustment also includes deferral of depreciation expense beginning May 2019 for GTZ assets placed in service after the test year in PSE’s 2018 ERF, pursuant to the accounting petition in Dockets UE-190274 and UG-190275, addressed later in this brief.

### **3. Public Improvement (Adjustments 20.27 EP and GP)**

93. PSE’s pro forma adjustment reflects non-revenue generating projects that are required by outside agencies, for which PSE has little influence on whether these projects must be performed.<sup>270</sup> The Commission recently determined, over Staff’s objection, that public improvement projects in which the company is forced by a local jurisdiction to relocate its facilities should be included as a pro forma plant adjustment, even if they fall below the threshold because they “provide tangible value to ratepayers.”<sup>271</sup> Surprisingly, Commission Staff, Public Counsel, and AWEC oppose PSE’s public improvement adjustment, despite the recent direction from the Commission. As in the recent Avista case, this adjustment is appropriate and should be accepted by the Commission.<sup>272</sup>

### **4. HR Tops (Adjustments 20.29EP and GP)**

94. PSE’s pro forma adjustment for \$10.3 million investment in HR Tops, a human resources software system, should be approved. The investment covers plant put into service between January 1, 2019 and June 30, 2019. The plant is known and measurable and providing benefits to

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<sup>269</sup> Jacobs, Exh. JJJ-1T at 14:6-48:7, 12:14 (\$4.9 million in gross financial benefits from operational efficiencies and bad debt reduction).

<sup>270</sup> See Free, Exh. SEF-1Tr at 58:7-23; Free, Exh. SEF-17T at 37:19-38:7; Koch, Exh. CAK-1Tr at 12:4-13:16.

<sup>271</sup> *WUTC v. Avista*, Dockets UE-170485, *et al.*, Order 07 ¶ 201 (Apr. 26, 2018).

<sup>272</sup> *Id.*

customers.<sup>273</sup> Although Commission Staff, AWEC and Public Counsel oppose PSE's pro forma adjustment, it is appropriate and consistent with Commission guidance and should be accepted.

**5. High Molecular Weight Cable (Adjustment 7.09 EP)**

95. This pro forma adjustment addresses the replacement of HMW cable that is prone to failure and that has been placed in service from January 1, 2019 through June 30, 2019.<sup>274</sup> This programmatic replacement of failing plant is designed to improve reliability for PSE's customers.<sup>275</sup> Although Commission Staff, AWEC, and Public Counsel oppose this pro forma adjustment, it is appropriate and consistent with Commission guidance and should be accepted.

**6. Emergency Management System (Adjustment 7.10EP)**

96. The Emergency Management System upgrade went into service in January 2019 and accordingly is appropriately included as a pro forma adjustment. Only Public Counsel opposes this adjustment. Ms. Free testifies to the methodology of the adjustment<sup>276</sup> and Ms. Hopkins testifies to the details of the project and the benefits it provides.<sup>277</sup> This pro forma adjustment is appropriate and consistent with Commission guidance and should be accepted.

**7. Public Counsel's Recommendation To Reflect Rate Base at June 30, 2019  
AMA Is Unsupported and Should Be Rejected**

97. The Commission should reject Public Counsel's unfounded proposal to value PSE's rate base on an AMA basis as of June 2019. Public Counsel provides no rationale or evidentiary support for this recommendation. No other party opposes PSE's use of end of period rate base with limited pro forma adjustments, although parties' positions differ on the specific pro forma adjustments that should be allowed.<sup>278</sup> Public Counsel incorrectly claims, without support, that PSE's pro forma adjustments are duplicated by the attrition adjustment. As Ms. Free testified,

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<sup>273</sup> See Hopkins, Exh. MFH-1T at 32:6-35:12.

<sup>274</sup> See Free, Exh. SEF-1Tr at 69:15-70:7; Koch, Exh. CAK-1Tr at 26:15-27:11.

<sup>275</sup> See Koch, Exh. CAK-1Tr at 26:15-27:11.

<sup>276</sup> See Free, Exh. SEF-1Tr at 70:8-17.

<sup>277</sup> See Hopkins, Exh. MFH-1T at 28:16-32:4.

<sup>278</sup> See Free, Exh. SEF-17T at 78:15-19.

this unsupported assertion of Public Counsel is inaccurate.<sup>279</sup> PSE took care to avoid duplication between the test year, the pro forma period, deferral periods, and the attrition adjustment.<sup>280</sup>

#### **H. Wage Increase (Adjustment 29.15 EP and GP)**

98. PSE's wage increase adjustment is detailed in Ms. Free's testimony and supported by PSE witness Thomas Hunt.<sup>281</sup> Public Counsel is the only party contesting this adjustment. PSE's adjustment properly includes contracted wage increases for union employees, which the Commission has accepted in past cases.<sup>282</sup> Public Counsel's proposed adjustment fails to include these known and measurable changes to union wages<sup>283</sup> and should be rejected. Regarding the increase for salaried employees that took effect March 1, 2020, PSE calculated the slippage ratio and applied the average to the declared wage increase, which provided a significant offset from the declared wage increase.<sup>284</sup>

#### **I. Incentive Pay (Adjustment 20.08 ER, GR, EP and GP)**

##### **1. Public Counsel's Recycled Argument for Disallowance Has Been Rejected by the Commission**

99. PSE's Goals and Incentive Plan ("Plan") comports with prior Commission orders. No party has challenged the Plan or PSE's adjustment other than Public Counsel, who proposes to disallow 50 percent of the annual incentive plan costs to ratepayers by shifting the cost to shareholders. Public Counsel recycled this argument, which the Commission previously rejected nearly a decade ago.<sup>285</sup> The Commission's prior decisions were sound and Public Counsel's proposed adjustment should be rejected.

100. PSE's Plan is a key element of PSE's total compensation policy, helping to attract and retain talent while incentivizing employees to achieve strategic objectives that benefit

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<sup>279</sup> See Free, Exh. SEF-17T at 78:2-15.

<sup>280</sup> See Free, Tr. 326:15-327:5.

<sup>281</sup> See Free, Exh. SEF-1Tr at 34:1-38:19.

<sup>282</sup> See, e.g., *WUTC v. Avista*, Dockets UE-170485, et al., Order 07 ¶¶ 313-14 (Apr. 26, 2018).

<sup>283</sup> See Free, Exh. SEF-17T at 80:16-22.

<sup>284</sup> See Free, Exh. SEF-1Tr at 36:1-38:19.

<sup>285</sup> See *WUTC v. Puget Sound Energy*, Dockets UE-111048, et al., Order 08 ¶¶ 114-123 (Mar. 7, 2012).

customers.<sup>286</sup> The Plan has two thresholds for funding, requiring that both thresholds are met before any incentive compensation is available to employees: first, PSE must meet or exceed six of its Service Quality Index (“SQI”) and Safety goals, and second, PSE must meet its operational goal of exceeding the trigger level of Earnings Before Interest, Taxes, Depreciation, and Amortization (“EBITDA”).<sup>287</sup> Once the thresholds are met, the plan will fund at levels dependent on the level of achievement within the categories of SQI, Safety, and EBITDA.<sup>288</sup> The Plan benefits customers by focusing on key safety and SQI goals while promoting operational efficiency, which translates into lower customer rates;<sup>289</sup> it also slows base wage growth by putting pay at risk while helping attract and retain skilled, quality workers.<sup>290</sup>

101. In PSE’s 2011 general rate case, the Commission rejected an argument that 50 percent of PSE’s incentive pay be removed because it was related to financial performance.<sup>291</sup> After summarizing PSE’s dual-funding threshold, which has not changed since 2011, the Commission stated that

there is no evidence contesting the reasonableness of PSE’s total compensation or the fact that PSE’s compensation is consistent with the market average. Nor is it disputed that PSE’s incentive plan benefits customers by focusing employees on both meeting the SQIs and achieving operational efficiency. Thus, the criteria by which the Commission most recently evaluated incentive compensation in a contested case are met here.<sup>292</sup>

102. The criteria referenced was from a 2011 order in which the Commission stated, “we inquire only whether that compensation exceeds the market average, is unreasonable, and offers benefits to ratepayers.”<sup>293</sup> Public Counsel’s testimony focuses on how *other* jurisdictions handle incentive plans, while ignoring the Commission’s own statements about these plans.<sup>294</sup>

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<sup>286</sup> Hunt, Exh. TMH-1T at 24:15-18.

<sup>287</sup> *Id.* at 27:13:19; *see also* Hunt, Exh. TMH-7.

<sup>288</sup> Hunt, Exh. TMH-7 at 1.

<sup>289</sup> Hunt, Exh. TMH-1T at 6:12; *see also* Hunt, Exh. TMH-8T at 10:19-11:20.

<sup>290</sup> Hunt, Exh. TMH-1T at 6:13-7:2.

<sup>291</sup> *WUTC v. Puget Sound Energy*, Dockets UE-111048, *et al.*, Order 08 ¶¶ 114-123 (Mar. 7, 2012).

<sup>292</sup> *Id.* ¶ 122.

<sup>293</sup> *WUTC v. PacifiCorp*, Docket UE-100749, Order 06 ¶ 250 (Mar. 25, 2011).

<sup>294</sup> Garrett, Exh. MEG-1T at 20:14-48:4.

**2. PSE’s Plan and Total Compensation Are Reasonable**

103. The parties in this case have not provided evidence that demonstrates that the Plan provides compensation in excess of market average; nor have the parties shown that compensation under the Plan is unreasonable. Instead, PSE has shown the reasonableness of the compensation, that it is in line with market averages, and importantly, that the Plan benefits customers by incentivizing safety, reliability, service quality, customer service, and operational efficiency, all while slowing base wage growth and helping attract and retain talent.<sup>295</sup>

**J. The Commission Should Deny Public Counsel Adjustments for Which No Evidentiary Basis Was Provided**

104. The Commission should reject the changes Public Counsel made to the following PSE adjustments, because Public Counsel did not provide evidence or rationale supporting the changes:

<b>Adjustment Nos.</b>	<b>Adjustment Description</b>
6.09 EP and 6.09 GP	Excise Tax & Filing Fee
6.10 EP and 6.10 GP	D&O Insurance
6.16 EP and 6.16 GP	Investment Plan
6.17 EP and 6.17 GP	Employee Insurance
6.20 EP and 6.20 GP	Deferred Gains and Losses on Property Dispositions
6.21 EP and 6.21 GP	Environmental Remediation
6.23 EP and 6.23 GP	Annualize Rent Expense
6.25 EP and 6.25 GP	Credit Card Amortization
6.28 EP and 6.28 GP	Contract Escalations
7.06 EP	Regulatory Assets & Liabilities

105. PSE should not be required to defend against a straw man or speculate as to the reason for Public Counsel’s unsupported proposed. They should be rejected.<sup>296</sup>

**VI. COLSTRIP**

106. PSE has followed the terms of the 2017 general rate case settlement agreement with respect to the treatment of plant balances during the test year and pro forma period, and also with

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<sup>295</sup> Hunt, TMH-8T at 10:4-18; *see also* Hunt, TMH-1T at 25:6-26:2.  
<sup>296</sup> *See, e.g., WUTC v. Puget Sound Energy*, Dockets UE-111048, *et al.*, Order 08 ¶¶ 146, 158 (May 7, 2012); *WUTC v. Puget Sound Energy*, Docket UE-070725, Order 03 ¶ 62 (May 20, 2010).



respect to decommissioning and remediation costs. PSE has proposed an increase to the depreciation rate associated with Colstrip Units 3 and 4 to comply with CETA's requirement to discontinue the use of coal to generate electricity for Washington customers by 2025.

**A. Decommissioning and Remediation Costs and Depreciation Expense for Colstrip Units 3 and 4**

107. The Commission should accept PSE's proposed depreciation rates for Colstrip Units 3 and 4, which have been updated to reflect a 2025 retirement date consistent with CETA.<sup>297</sup> The depreciation rates also properly include a level of decommissioning and remediation expense.<sup>298</sup>

108. Notably, PTCs will not be sufficient to cover all decommissioning and remediation costs, which costs have not yet been quantified.<sup>299</sup> The value of the PTCs available for use to offset Colstrip expenses provided in the 2017 GRC Settlement Agreement has decreased as a result of the change in tax rate enacted through the TCJA. The value of PTCs that will eventually be monetized is approximately \$240 million rather than the \$280 million estimated in the 2017 GRC Settlement Agreement.<sup>300</sup> As Ms. Free testified, the Commission should leave all opportunities open for addressing recovery of decommissioning and remediation, including to allow these costs in depreciation rates as long as the plant are depreciating.<sup>301</sup> After these sources have been exhausted, PSE agrees that a tracking and true-up mechanism could be utilized, and PSE agrees that it can work with Commission Staff to develop a proposal to be filed in its next general rate case. Such a mechanism should also be used for Colstrip Units 1 and 2.<sup>302</sup>

109. For the present time, the tracking of decommissioning and remediation costs for Colstrip Units 3 and 4 can be accomplished through the Annual Colstrip Report that PSE has been filing

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<sup>297</sup> See Spanos, Exh. JJS-1T at 3:1-15.

<sup>298</sup> See Free, Exh. SEF-17T at 65:17-19.

<sup>299</sup> See *id.* at 65:17-66:8.

<sup>300</sup> See *id.* at 65:1-7.

<sup>301</sup> See *id.* at 66:6-8.

<sup>302</sup> See *id.* at 65:19-66:4.

in compliance with the 2017 GRC Settlement Agreement. PSE proposes to add to this report an analysis of the adequacy of the PTCs to cover decommissioning and remediation costs.<sup>303</sup>

**B. Problems Abound with AWEC’s Pro Forma Adjustment for Colstrip Units 1 and 2**

**1. AWEC Cherry-picks Events Outside the Pro Forma Period**

110. AWEC cherry picks an event—the closing of Colstrip Units 1 and 2— that occurred a year after the close of the test year and more than six months after the close of the pro forma period in this case and seeks to include it as a pro forma adjustment, to reflect the rate base for these two units as a regulatory asset as of December 31, 2019. AWEC makes no similar adjustment for other plant balances or depreciation that occur after the pro forma period. This selective inclusion of Colstrip Units 1 and 2 as pro forma adjustments should be rejected.

**2. AWEC Incorrectly Defines Monetized**

111. AWEC compounds its erroneous pro forma adjustment by seeking to apply PTCs that were not yet monetized in PSE’s tax filing at the close of the pro forma period, June 30, 2019, and to use these PTCs to offset the unrecovered plant balance of Colstrip Units 1 and 2. There are at least two problems with AWEC’s proposal to use PTCs.

112. First, the PTCs are not available to offset unrecovered plant balances until they are monetized.<sup>304</sup> Mr. Mullins wrongly asserts that PTCs estimated to be used in PSE’s quarterly tax estimates should be considered monetized. Based on language of the settlement agreement,<sup>305</sup> testimony in the 2017 general rate case,<sup>306</sup> and the language of Schedule 95A of PSE’s tariff,<sup>307</sup> the PTCs are monetized “when utilized by the Company on its final annual tax return.”<sup>308</sup> The projected PTC usage on quarterly tax estimates are not monetized PTCs.

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<sup>303</sup> See *id.* at 65:11-17.

<sup>304</sup> See *WUTC v. Puget Sound Energy*, UE-Dockets 170033, *et al.*, Order 08 at Appendix B, Settlement Agreement, at ¶¶ 25, 117 (Dec. 5, 2017).

<sup>305</sup> See generally *id.*

<sup>306</sup> See Free, Exh. SEF-17T at 47:1-19 (discussing 2017 GRC Settlement’s reference to testimony of Ms. Barnard requiring PTCs to be monetized on a tax return).

<sup>307</sup> Electric Tariff G, Schedule 95A at Sheet No. 95-N.

<sup>308</sup> *Id.*

113. Second, the PTCs were monetized in September 2019, when PSE filed its 2018 tax return. Thus, AWEC errs again by including PTCs that were monetized outside of the pro forma period. If the monetized PTCs are pro formed into the case, PSE provided a list of additional adjustments that should be pro formed through September 2019, that offset the PTCs AWEC proposes to use.<sup>309</sup>

**C. AWEC Incorrectly Uses Un-Monetized PTCs for Colstrip Units 3 and 4**

114. AWEC further disregards the terms of the 2017 general rate case settlement agreement by considering the unmonetized PTCs when calculating depreciation for Colstrip Units 3 and 4. This proposal suffers from the same infirmity discussed above. AWEC would use PTCs that are not yet monetized, and AWEC relies on a projection of when the PTCs will be used on PSE's tax return. The Commission should reject the use of a projection where, as here, it extends years beyond the test year and pro forma period in this case.

115. Additionally, the 2017 general rate case settlement agreement provides for specific prioritization of the use of PTCs for Colstrip.<sup>310</sup> Offsetting depreciation expense on Colstrip units that are in service and used and useful is not an agreed-upon use for PTCs. The Commission should reject AWEC's use of unmonetized PTCs for depreciation expense on operating plants, which violates Commission precedent and the 2017 general rate case settlement agreement.

**D. Staff's Disallowance of SmartBurn Improperly Relies on Hindsight**

116. PSE requests that the Commission determine PSE's installation of SmartBurn technology at Colstrip Unit 3 was a prudent decision and reject Commission Staff's proposed disallowance of the \$7.2 million capital additions.<sup>311</sup> Staff's disallowance is based on 20/20 hindsight, in

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<sup>309</sup> See Free, Exh. SEF-17T at 51:1-52:8.

<sup>310</sup> See *WUTC v. Puget Sound Energy*, Dockets UE-170033, *et al.*, Order 08 at Appendix B, Settlement Agreement, at ¶ 117 (Dec. 5, 2017).

<sup>311</sup> Commission Staff had initially also sought disallowance of capital and O&M costs associated with the Colstrip 4 outage. See Gomez, Exh. DCG-1CT at 12:11-20:4. However, Mr. Gomez reversed course in Docket UE-190882 (Colstrip outage investigation) and has confirmed that Staff no longer seeks disallowance of PSE's share of these costs, which are \$845,603. See Gomez, Exh. DCG-30X at 9-10 ("Staff recommends that the Commission allow each of the Companies to recover its share of the \$3.4 million in O&M and capital expense associated with corrective, post-outage actions."); Exh. DCG-31X at 1 (showing PSE's share of the \$3.4 million is \$845,603).

contradiction of the prudence standard, and ignores the existing environmental regulatory landscape at the time the decision was made and the technology was installed.

117. Mr. Roberts testified regarding the basis for PSE’s decision to install SmartBurn controls on the Colstrip units at the time the decision was made.<sup>312</sup> PSE considered a wide array of solutions to control nitrogen oxides (“NOx”) including selective non-catalytic reduction, selective catalytic reduction (“SCR”), SmartBurn controls and others.<sup>313</sup> Ultimately, PSE followed principles of gradualism—which the Commission has endorsed repeatedly to limit rate shock for customers<sup>314</sup>—in selecting the SmartBurn technology to reduce the formation of NOx. PSE and the other Colstrip owners “decided to install SmartBurn controls in an effort to manage a future regulatory obligation, doing so in a strategic and cost-effective manner. SmartBurn controls were the last available, low cost, NOx pollution prevention emission control prior to the expected installation of a very expensive emission control (e.g., selective catalytic reduction).”<sup>315</sup> SmartBurn technology was intended to allow PSE ultimately to install a smaller and less costly selective catalytic reduction system, to limit the amount of NOx produced and to ensure compliance with the Regional Haze Rule.<sup>316</sup>

118. In considering the prudence of the SmartBurn technology, the Commission must consider whether the decision was reasonable based on the information known by the company at the time the decision was made rather than at the time of the prudence review.<sup>317</sup> At the time the initial decision was made to install SmartBurn controls, PSE reasonably expected that future additional NOx reductions would be required for the Colstrip units and that the owners of Colstrip would

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<sup>312</sup> Roberts, Exh. RJR-1T at 12:16-18:15. PSE completed the installation of SmartBurn controls on Colstrip Unit 2 in 2015, Colstrip Unit 4 in 2016, and Colstrip Unit 3 in 2017. The costs of the installation of SmartBurn controls at Colstrip Unit 2 and the majority of costs of the installation of SmartBurn controls at Colstrip Unit 4 were included in the 2017 general rate case. *Id.* at 14:17-23.

<sup>313</sup> See Roberts, Exh. RJR-14T at 3:17-21.

<sup>314</sup> See, e.g., *WUTC v. Puget Sound Energy*, Dockets UE-170033, *et al.*, Order 08 ¶¶ 21, 331, 388, 431 (Dec. 5, 2017).

<sup>315</sup> Roberts, Exh. RJR-1T at 14:12-16.

<sup>316</sup> *Id.* at 12:16-14:5.

<sup>317</sup> See, e.g., *WUTC v. Puget Sound Energy*, Docket UE-111048, Order 08 ¶ 408 (May 7, 2012); *WUTC v. Puget Sound Energy*, Docket UE-031725, Order 12 ¶ 19 (Apr. 7, 2004); *WUTC v. Puget Sound Power & Light*, Dockets UE-920433, *et al.*, Nineteenth Supplemental Order (Sept. 27, 1994).

need to install selective catalytic reduction technology at the Colstrip units to meet the need for future additional NO<sub>x</sub> reductions. This was based on the Federal Implementation Plan for the State of Montana, finalized on September 18, 2012, and the expectation of a Reasonable Progress Report in September 2017.<sup>318</sup> During this time period Colstrip owners were aware of orders requiring SCR emission controls in many surrounding states and were involved in litigation that demanded SCR for alleged “new Source Review violations.”<sup>319</sup> The goal of the SmartBurn technology was to reduce the formation of the NO<sub>x</sub> so that when the very expensive SCR was ultimately required, PSE and the Colstrip owners would be able to install a smaller and less expensive SCR technology.<sup>320</sup>

119. Commission Staff’s proposed disallowance fails to recognize that the regulatory landscape has changed since the installation of SmartBurn controls. But, at the time the SmartBurn controls were installed, Colstrip Units 3 and 4 were projected to continue providing baseload generation for several years, and SmartBurn was viewed as a more gradual and less expensive approach to reduce NO<sub>x</sub> emissions.

120. Customers have benefitted from the installation of SmartBurn controls. PSE has seen a modest reduction in NO<sub>x</sub> emissions of approximately eight percent since SmartBurn was installed on Colstrip Unit 3.<sup>321</sup> Mr. Roberts also testified as to other benefits for the timing of the installation of SmartBurn controls. They were installed on the Colstrip units during previously scheduled outages thereby reducing implementation costs.<sup>322</sup> The decision to install SmartBurn controls was prudent because it would provide immediate environmental benefit through NO<sub>x</sub>

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<sup>318</sup> See Roberts, Exh. RJR-1T at 15:3-9 (citing Approval and Promulgation of Implementation Plans; State of Montana; State Implementation Plan and Regional Haze Federal Implementation Plan; Final Rules, 77 Fed. Reg. 57864 (Sept. 18, 2012) (revising 40 C.F.R. Part 52); Montana Department of Environmental Quality, Regional Haze 5-Year Progress Report (Aug. 2017), available at [http://deq.mt.gov/Portals/112/Air/AirQuality/Documents/RegionalHaze/RegionalHaze\\_ProgressReport\\_8-2017.pdf](http://deq.mt.gov/Portals/112/Air/AirQuality/Documents/RegionalHaze/RegionalHaze_ProgressReport_8-2017.pdf)).

<sup>319</sup> See, e.g., *Joint Application of Wisconsin Power and Light Co. et al.*, Docket 5-CE-143, Final Decision (Wis. PSC) (Jan. 30, 2015) (granting application to install SCR system to comply with emissions requirements in Consent Decree); see also, *U.S. v. Interstate Power and Light Company*, Consent Decree, Civil Action No. C15-0061 (Jul. 15, 2015).

<sup>320</sup> See Roberts, Exh. RJR-1T at 16:16-23.

<sup>321</sup> *Id.* at 17:1-6.

<sup>322</sup> *Id.* at 16:7-23.

reduction when installed and help reduce the cost of SCR at a later date, based on information known at the time of installation and the decision to install.<sup>323</sup> The Commission should reject Commission's Staff's proposed disallowance.<sup>324</sup>

## **VII. PSE'S ELECTRIC COST OF SERVICE ANALYSIS PRODUCES THE MOST REASONABLE AND NEUTRAL RESULTS**

121. PSE conducted an electric cost of service study ("COSS") to identify the costs incurred to serve each individual customer class. PSE's electric cost of service analysis is generally consistent with the study performed and approved in PSE's last general rate case, and PSE proposes merely to refresh the inputs and assumptions used to conduct its analysis. In general, the parties accept PSE's analysis, with the exception of FEA. Public Counsel has minor disagreements with PSE's allocation of individual rate base and expense accounts but accepts PSE's Peak credit methodology as producing results within the range of reasonableness and as providing a fair and equitable allocation to all classes. For the reasons discussed below, the Commission should accept PSE's electric cost of service analysis, with updates to the results of the peak credit methodology to reflect the most currently available information.

### **A. PSE's Current Peak Credit Methodology is Substantially the Same as the Method Approved by Commission Almost 20 Years Ago**

122. PSE witness Birud Jhaveri testifies to the methodology and the changes made to the cost of service analysis since PSE's 2017 general rate case. While the exact calculation has evolved over time, the current generation and transmission allocation methodology is substantially in the form approved by the Commission in 1992.<sup>325</sup> Mr. Jhaveri also testifies to the Commission's Electric Cost of Service Rulemaking, currently pending in Docket UE-170002.<sup>326</sup> The

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<sup>323</sup> *Id.* at 17:1-6, 25-18:3.

<sup>324</sup> AWEC accepted Staff's adjustment for the proposed disallowance in cross answering testimony with no additional analysis provided. *See* Mullins, Exh. BGM-8T at 12:12-15.

<sup>325</sup> *See WUTC v. Puget Sound Power & Light*, Dockets UE-920433, *et al.*, Supplemental Order 09 at 7 (Aug. 17, 1993). The Commission also reaffirmed the use of peak credit for the allocation of all transmission. *See id.* at 10.

<sup>326</sup> *See* Jhaveri, Exh. BDJ-5T at 5:12-14.

rulemaking has presented several methodologies, but the Commission has not yet established draft or final rules, nor has it otherwise endorsed any particular methodology.

123. Other parties presented full and differing viewpoints on methods for classifying and allocating generation and transmission related costs, but no method is clearly superior to PSE's proposal, and no method substantially changes customer parity percentages. PSE analyzed the various methodologies with different classifications and allocations and has compared the resulting parity ratios, and PSE's methodology achieves a more neutral and reasonable result than other parties' methodologies.<sup>327</sup> PSE's proposal best balances the desire for simplicity and the desire to reflect cost causation.

#### **B. PSE Used the Peak Credit Methodology Updated for Current Information**

124. PSE used the peak credit methodology to divide production costs into demand and energy components.<sup>328</sup> This methodology is important for classifying and allocating power costs in this case and is also used for several of PSE's adjusting price schedules that are traditionally tied directly to the results of the peak credit methodology from the most recent general rate case.<sup>329</sup>

125. The peak credit analysis reflects the most currently available information, including PSE's most recent (2017) Integrated Resource Plan ("IRP"), updated emissions costs, and the rate of return proposed in this proceeding. PSE has updated emissions costs based on the recently enacted RCW 19.280.030(3)(a), which mandates electric utilities to use the social cost of carbon in developing IRPs and clean action plans. While PSE's COSS is not an IRP, PSE uses the data from its IRP for its cost of service analysis. It would therefore be inappropriate to omit the social cost of carbon in PSE's cost of service analysis because the cost is now recognized as a significant and permanent factor in the costs of a utility's portfolio. If it did not incorporate the

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<sup>327</sup> See Jhaveri, Exh. BDJ-6.

<sup>328</sup> See Jhaveri, Exh. BDJ-1T at 8:7-14.

<sup>329</sup> See Jhaveri, Exh. BDJ-5T at 12:10-19. These include Schedule 95 (Power cost Adjustment clause), Schedule 95A (Federal Incentive Tracker), Schedule 120 (Electric Conservation Service Rider) and, indirectly, Schedule 137 (Temporary Customer Charge or Credit) and Schedule 140 (Property Tax tracker).

social cost of carbon, PSE would necessarily use projected carbon prices from PSE's 2017 IRP – prices that are now inaccurate, according to RCW 19.280.030(3)(a).

**C. Public Counsel's Other Areas of Dispute Lack Merit**

126. Public Counsel takes issue with certain aspects of PSE's COSS: the allocation of income taxes, state excise taxes, and WUTC fees. Public Counsel concedes, however, that these issues have little practical implication in the assignment of costs.<sup>330</sup> With respect to the allocation of taxes and fees, Public Counsel proposes to tie these revenue-dependent costs to actual revenues, rather than on a cost basis, as PSE proposes.<sup>331</sup> While the results are seemingly immaterial, Public Counsel's approach creates a problem of circularity, where rates that are set based on actual rate revenue produce revenue-dependent costs. Allocating revenue-dependent expenses on a cost of service basis, and then independently deciding from that point how much, and in what direction to potentially deviate rates from this cost basis avoids this circularity.<sup>332</sup>

**VIII. PSE'S ELECTRIC RATE SPREAD AND RATE DESIGN ARE THE MOST FAIR AND BALANCED OF ALL PROPOSALS**

**A. Electric Rate Spread**

127. Four parties offer rate spread proposals that differ from PSE's proposal. The Commission should accept PSE's rate spread because it strikes the best balance between reflecting the principles of cost causation and gradualism.

128. Commission Staff proposes that customers served on Schedule 43 (Interruptible Schools) receive 150 percent, rather than PSE's 125 percent, of the average rate increase.<sup>333</sup> Commission Staff accepts PSE's rate spread for all other classes.<sup>334</sup> Public Counsel proposes a more liberal +/- 10 percent range around parity for applying an average overall increase to applicable rate classes.<sup>335</sup> Kroger and FEA propose rate spreads that reflect cost causation more than gradualism.

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<sup>330</sup> See Watkins, Exh. GAW-1T at 20:13-21:9, 23:3-18.

<sup>331</sup> *Id.*

<sup>332</sup> Jhaveri, Exh. BDJ-5T at 14:5-15.

<sup>333</sup> Ball, Exh. JLB-1T at 16:24-19:2.

<sup>334</sup> *Id.*

<sup>335</sup> Watkins, Exh. GAW-1T at 39:9-40:8.



Kroger proposes to reduce the rate spread to Schedules 25, 26, 46 and 49 from 75 percent to 50 percent of the average increase.<sup>336</sup> FEA proposes that Schedules 24, 25, 26, 31, 46, and 49 receive no increase at all.<sup>337</sup> While no party's proposal is unreasonable, PSE and Commission Staff's proposals achieve a more balanced result between cost causation and gradualism. However, even though Commission Staff's proposal is more balanced than the intervenors, it is still too strict and creates a wide difference in results between Schedule 35 and Schedule 43 customers. Under Commission Staff's rate spread, customers under these schedules will receive the same rate increase, but they have very different parity values.<sup>338</sup> Accordingly, the Commission should accept PSE's electric rate spread as the most balanced approach.

**B. Electric Rate Design**

129. As explained by Jon A. Piliaris, PSE proposed its residential electric rate design with lower income customers in mind.<sup>339</sup> However, PSE's proposal received little to no support and, as such, PSE is willing to accept The Energy Project's alternative proposal in this case.

**IX. NATURAL GAS COST OF SERVICE, RATE SPREAD, AND RATE DESIGN**

130. The natural gas cost of service, rate spread, and rate design proposed by PSE are reasonable and consistent with past cases and should be adopted by the Commission in this case. The gas cost of service study utilized by PSE should also be accepted by the Commission, with one proposed update, as explained below.

**A. PSE's Natural Gas Cost of Service Study Should Be Accepted by the Commission**

131. PSE's natural gas cost of service study is reasonable. PSE used the long-accepted peak and average methodology to allocate gas distribution main costs, and PSE appropriately took into account the size of mains, as has been done in the past. The objections that parties have raised

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<sup>336</sup> Higgins, Exh. KCH-1T at 11:3-12:3.

<sup>337</sup> Al-Jabir, Exh. AZA-1T at 3:16-17.

<sup>338</sup> Approximately ten percent below parity for Schedule 43, and more than forty percent below parity for Schedule 35. See Ball, Exh. JLB-1T at 17:4-18:1.

<sup>339</sup> Piliaris, Exh. JAP-18T at 9.

relate to allocation of gas distribution mains. However, as discussed below, PSE's approach is more balanced than the approaches proposed by Public Counsel.

**1. PSE Updated its COSS Model to Remove Certain Costs from the Allocation of Distribution Mains to Transportation Customers**

132. PSE updated its COSS model to take into account the settlement stipulation relating to the development of the Tacoma LNG facility in Docket UG-151663. In that stipulation, PSE agreed not to propose to allocate any costs associated with either the 16-Inch Line or the Bonney Lake Lateral Improvements to transportation customers.<sup>340</sup> Accordingly, PSE updated the COSS to remove these costs from transportation customers and allocated them to sales customers.<sup>341</sup>

**2. PSE's Method for Classifying and Allocating Gas Distribution Mains is Reasonable**

133. Following a long-standing practice dating back to PSE's 2007 general rate case, PSE used the peak and average methodology for allocating gas distribution main costs. This methodology allocates gas costs based on a combination of peak demand and average demand (or average throughput).<sup>342</sup> PSE's methodology is also consistent with its most recent general rate case, Docket UG-170034.<sup>343</sup> PSE's COSS does not include gas commodity or demand costs.<sup>344</sup>

134. PSE's COSS is based on a method that was developed following a 2009 collaborative created to investigate the methods of allocating mains. It did not result in an agreement.<sup>345</sup> Instead, there was a broad philosophical discrepancy regarding cost causation.<sup>346</sup> In PSE's 2009 general rate case, PSE presented a compromise methodology that addressed concerns raised by parties on both ends of the cost allocation spectrum.<sup>347</sup> That method developed over the years, through PSE's 2017 general rate case.<sup>348</sup> The method PSE proposes in this proceeding is a further

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<sup>340</sup> See Taylor, Exh. JDT-9T at 9:11-10:2

<sup>341</sup> *Id.* at 10:3-11:11.

<sup>342</sup> See Taylor, Exh. JDT-1T at 10:16-22.

<sup>343</sup> See *id.* at 11:8-14.

<sup>344</sup> See *id.* at 11:15-12:4.

<sup>345</sup> Taylor, Exh. JDT-9T at 3:15-20.

<sup>346</sup> *Id.*

<sup>347</sup> *Id.* at 3:20-4:2.

<sup>348</sup> *Id.* at 4:2-3.

refinement of that “compromise” method, based on more robust analyses of meter sizes and customer usage. The primary difference is the exclusion of certain classes from the allocation of smaller size mains and the direct assignment of mains costs to the Special Contract class.<sup>349</sup>

135. Commission Staff recommends that the Commission accept PSE’s gas COSS,<sup>350</sup> but Public Counsel disagrees.<sup>351</sup> Public Counsel argues that PSE’s methodology is a departure from the “compromise” method. But Public Counsel acknowledges that PSE’s refinements produce results that are not materially different from the method used in 2017. “In terms of parity ratios, there is very little difference between the two methods for all classes except Special Contract.”<sup>352</sup> Regarding the Special Contract allocation, Public Counsel disagrees with PSE’s direct assignment of distribution mains to the Special Contract class, and it cites a 1992 order for the argument that the Commission prohibits direct assignment to the Special Contracts class.<sup>353</sup> But Public Counsel’s reliance on the 1992 order is misplaced. The Commission’s ruling in 1992 does not prohibit direct assignment of costs. Instead, it holds that the allocation methodology used then was not consistent with the embedded cost class allocations underlying the rest of the company’s study.<sup>354</sup> Here, the direct assignment of distribution mains costs to the one Special Contract customer is supported by the initial bypass cost analysis that was performed by PSE when the Commission approved the Special Contact.<sup>355</sup> This is not the same as the situation in the 1992 order, in which three customers in a tariff rate class received a direct assignment of mains. Accordingly, the Commission should disregard Public Counsel’s opposition to the direct assignment of mains costs to the Special Contract class.

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<sup>349</sup> *Id.* at 4:10-6:20.

<sup>350</sup> Ball, Exh. JLB-1T at 3:2-4.

<sup>351</sup> Watkins, Exh. GAW-1T at 53:13.

<sup>352</sup> *Id.* at 55:3-4.

<sup>353</sup> *Id.* at 48:19-49:9, citing *WUTC v. Wash. Water Power Co.*, Docket UG-901459, Third Supp. Order at 7 (Mar. 9, 1992).

<sup>354</sup> *WUTC v. The Wash. Water Power Co.*, Docket UG-901459, Third Supp. Order at 7 (Mar. 9, 1992).

<sup>355</sup> See Taylor, Exh. JDT-9T at 7:9-8:12.

## **B. Natural Gas Rate Design**

### **1. Residential Rate Design**

136. PSE proposes to maintain the current level of monthly basic service charges for all customer classes and incorporate the addition of the Schedule 141 (ERF) and Schedule 141X (EDIT) basic service charge adjustments to the base schedule tariffed basic service charge. The Residential basic service charge will move from \$11.00 to \$11.52.<sup>356</sup> Commission Staff generally approves of PSE's rate design, stating, "PSE has generally proposed rational and reasonable natural gas rate design changes based on the current estimates of costs to serve customers."<sup>357</sup> Public Counsel recommends that the Residential customer charge be set at no more than \$11.20.<sup>358</sup> Public Counsel's recommendation should be denied because it inappropriately excludes costs that are essential to provide service to the Residential customer.<sup>359</sup>

### **2. Non-Residential Rate Design Proposals**

137. PSE's proposed natural gas rate spread would (i) increase the demand charge rate for most customer classes with a demand rate (Schedules 41, 41T, 85, 85T, 86, 86T, 87, and 87T) to better reflect the underlying unit demand costs associated with these customer classes; (ii) increase the balancing charge for all transportation service classes from \$0.00070 to \$0.00100; (iii) update the volumetric rates to ensure each class's total margin revenue equals the proposed margin revenue developed in the rate apportionment; and (iv) change each sales classes procurement charge in proportion to the increase to the volumetric charge.<sup>360</sup>

138. No party materially objects to the approach PSE took, but Public Counsel recommends the Special Contract class's revenues be increased at the system average percentage increase of 21.75 percent and that the Rentals class incur no increase in revenue responsibility.<sup>361</sup>

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<sup>356</sup> See Taylor, Exh. JDT-1T at 25:7-11.

<sup>357</sup> See Ball, Exh. JLB-1T at 34:2-3.

<sup>358</sup> See Watkins, Exh. GAW-1T at 58:7-59:10.

<sup>359</sup> See Taylor, Exh. JDT-9T at 15:16-19.

<sup>360</sup> See Taylor, Exh. JDT-1T at 25-26.

<sup>361</sup> See Watkins, Exh. GAW-1T at 47:10-13.

Commission Staff agreed with PSE's rate spread, except for one class, Schedule 86/86T, Limited Interruptible, which Commission Staff proposes to assign small increase.<sup>362</sup>

139. The Commission should reject both of Commission Staff's and Public Counsel's proposals. Commission Staff's recommendation is unsupported because Schedule 86/87T - Limited Interruptible already has a parity ratio in the "grossly-excessive range".<sup>363</sup> Accordingly, a rate increase is not warranted. Similarly, Public Counsel's recommendation to increase the Special Contract revenues is not justified. Public Counsel's method to allocate costs to the Special Contract customer does not consider the fact that only a small subset of distribution mains is utilized to provide service to the customer's facilities. Public Counsel's proposal regarding the Rentals class should be rejected because, if rates are higher than the cost to serve the class, as Public Counsel proposes, then when PSE sells the rental business as planned, the lost revenues cannot be recovered from other classes. PSE will experience a revenue deficiency for the time period when the rental business is sold, and distribution rates are reestablished.

## X. OTHER ISSUES

### A. The Green Direct PPAs are Prudent Power Resources and PSE's Approach to Reporting and Tracking the Program Costs Are Appropriate

#### 1. The Skookumchuck and Lund Hill PPAs are Prudent

140. The Commission should determine that PSE's Schedule 139 Green Direct PPAs are prudent power resource for all PSE customers.<sup>364</sup> Green Direct is an award-winning program that provides governmental and large corporate customers direct access to renewable energy through long term power PPAs.<sup>365</sup> In Docket UE-160977, the Commission approved phase one of the Green Direct program in September 2016 and phase two was approved in July 2018.<sup>366</sup> Customer support for the program has been very strong and the program is fully subscribed.<sup>367</sup>

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<sup>362</sup> See Ball, Exh. JLB-1T at 19:13-17.

<sup>363</sup> *Id.* at 19:15.

<sup>364</sup> See Einstein, Exh. WTC-9T at 9:5-11.

<sup>365</sup> Einstein, Exh. WTE-1CT at 10:4-19, 13:17-14:2.

<sup>366</sup> *Id.* at 11:1-17.

<sup>367</sup> *Id.* at 13:7-17.

141. While the Commission has already approved Schedule 139, because the Green Direct resources are new to PSE's power portfolio, and as it committed to do in Docket UE-160977, PSE seeks a Commission determination that the Skookumchuck and Lund Hill resources are prudent power resources.<sup>368</sup> The Skookumchuck and Lund Hill resources were acquired through an open bidding process where PSE evaluated proposals against an extensive list of criteria including cost, ability to meet subscriber need, project feasibility, developer experience, and other factors.<sup>369</sup> The PPAs were ultimately approved by PSE's Energy Management Committee and Senior Management.<sup>370</sup> Each PPA provides renewable power at competitive market rates<sup>371</sup> and will assist PSE in meeting its CETA obligations.<sup>372</sup> While the parties in this case have raised minor, tangential concerns relating primarily to the proper accounting treatment for the program,<sup>373</sup> no party has questioned its underlying prudence,<sup>374</sup> and the Commission should determine that the Skookumchuck and Lund Hill PPAs are prudent resources for all customers.

**2. PSE's Proposal for Accounting and Tracking the Green Direct Program Is Reasonable**

142. The Commission should accept PSE's proposal for tracking costs and benefits associated with the Green Direct program as outlined in total by Ms. Free,<sup>375</sup> which will include:

- Variable power costs will be tracked by presenting in the Power Cost Adjustment ("PCA") compliance filing the monthly variance between Schedule 139 usage and the generation of the PPAs. Any variance will be part of the energy portfolio to absorb or

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<sup>368</sup> *Id.* at 14:3-10; Einstein, Exh. WTE-9T at 9:5-11.

<sup>369</sup> Einstein, Exh. WTE-1CT at 14:12-18:15.

<sup>370</sup> *Id.* at 18:16-21.

<sup>371</sup> *Id.* at 15:3-18:15.

<sup>372</sup> Einstein, Exh. WTE-9T at 8:17-20.

<sup>373</sup> For example, parties raised concerns relating to the cross-subsidization of Green Direct software, whether the Green Direct PPAs are included in PSE's power cost update, the proper accounting treatment of Skookumchuck liquidated damages, and the overall tracking of Green Direct costs and benefits. These issues are all addressed in the Prefiled Rebuttal Testimony of William T. Einstein, Exh. WTE-9T at 8:1-10:13. *See also* Free, Exh. SEF-17T at 84:16-92:18.

<sup>374</sup> Public Counsel opposes the inclusion of the Green Direct PPAs in the power cost update because the PPAs are not yet in service but does not challenge the underlying prudence of the PPAs. *See* Colamonici, Exh. CAC-1CT at 14:1-11. PSE disagrees with Public Counsel because both Skookumchuck and Lund Hill will be coming into service during the rate year. *See* Einstein, Exh. WTE-9T at 8:12-9:4; Wetherbee, Exh. PKW-34CT at 22:14-23:10.

<sup>375</sup> *See* Free, Exh. SEF-17T at 87:11-92:18.

supply. On an annual basis, the energy and associated renewable energy credits (“RECs”) of the PPAs will be allocated first to Schedule 139 customers,<sup>376</sup>

- Revenue and fixed costs will be tracked in separate SAP orders for reporting purposes. They will not be included in the PCA. These costs and revenues will be excluded from any general rate case or other base rates filings as the costs are included in the Schedule 139 tariff;<sup>377</sup>
- Liquidated damages will be treated in accordance with the accounting petition, addressed below.<sup>378</sup>

143. PSE’s proposal appropriately tracks the costs and benefits of the Green Direct program and meets all of Commission Staff’s recommendations. It should be adopted by the Commission.

**B. Public Counsel’s Concerns Regarding the Water Heater Rental Program are Unwarranted but Should Be Addressed in Docket UG-200112**

144. PSE entered into an agreement to sell its Schedule 71/72 water heater rental service (“Water Heater Service”) and in Docket UG-200112, has filed an application seeking Commission approval of the proposed transaction. In this case, Public Counsel has raised a variety of concerns and proposals regarding the Water Heater Service, most of which are misplaced.<sup>379</sup> PSE witness William T. Einstein addresses these in his rebuttal testimony,<sup>380</sup> and Ms. Free addresses PSE’s proposed accounting associated with the sale of the Water Heater Service.<sup>381</sup> However, PSE respectfully submits that any issues associated with the proposed sale of the Water Heater Service or the closure of Schedules 71/72 should be addressed in that docket.

**C. The Commission Should Approve PSE’s Proposal for Low-Income Bill Assistance**

145. PSE requests the Commission approve its proposal for low-income bill assistance program funding, which is tied to the base rate increases. For electric service, PSE proposes the funding be increased by twice the percentage of the residential bill impacts of the electric rate proposal in this case. Based on the current funding level of \$18.8 million for electric low-income

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<sup>376</sup> *Id.* at 89:7-16.

<sup>377</sup> *Id.* at 89:17-90:7.

<sup>378</sup> *Id.* at 90:8-12.

<sup>379</sup> *See* Colamoncini, Exh. CAC-1CT at 4:15-12:2.

<sup>380</sup> *See* Einstein, Exh. WTE-9T at 3:3-6:21.

<sup>381</sup> Free, Exh. SEF-17T at 93:1-94:23.

bill assistance, and a proposed average increase of 7.67 percent to residential customer bills, this would result in a funding increase of almost \$2.9 million for these bill-assisted customers.

146. Similarly, PSE is proposing to increase the level of gas bill-assistance funding by double the average increase of 7.5 percent. Based on the current funding level of \$4.7 million for gas low-income bill assistance, this would result in a funding increase of almost \$0.7 million for these bill-assisted customers. Both the electric and gas funding increases would be implemented with the annual Schedule 129 filings for rates effective October 1, 2020.

147. PSE does not agree with The Energy Project's proposal to blanketly increase the funding of administrative costs for the agencies administering the HELP program from 20 percent to 30 percent. This is a significant increase, is arbitrary, and not supported by an analysis of CAP administrative costs.<sup>382</sup> Instead, PSE recommends an evaluation and analysis of CAP administrative costs outside of this case to properly evaluate this issue and the appropriate level of funding.<sup>383</sup> PSE agrees with Commission Staff's approach that would allow PSE to approve administrative costs above 20 percent on an item by item basis, when supported by documentation of need.<sup>384</sup> PSE understands that The Energy Project also accepts this approach.

#### **D. The Commission Should Accept PSE's On-Bill Financing Proposal**

148. PSE is not opposing NWECC's proposal for a tariffed on-bill repayment plan.<sup>385</sup> However, PSE does not believe the proposal would be a good use of customer funds because of high implementation costs compared to benefits, expected low participation rates, and because better financing options are already available to most customers.<sup>386</sup> In addition, because of this region's relatively low energy rates, there are a very limited number of unique applications in which energy efficiency and distributed energy projects can provide a positive cash flow over a

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<sup>382</sup> See Wappler, Exh. AW-1T at 16:1-7.

<sup>383</sup> Wappler, Exh. AW-1T at 16:8-10.

<sup>384</sup> See Liu, Exh. JL-24T at 10:11-12:4.

<sup>385</sup> Piliaris, Exh. JAP-18T at 25:1-12.

<sup>386</sup> *Id.* at 25:13-27:4, 16-22.



reasonable payback period on the utility bill savings alone.<sup>387</sup> While PSE believes such a program would at most provide only a small amount of energy savings, if the Commission is supportive of NWEC's proposal, the Commission should direct PSE to work with the Conservation Resources Advisory Group and other interested stakeholders to develop a program.<sup>388</sup>

**E. The Commission Should Approve PSE's Demand Aggregation Pilot Pricing Proposal**

149. The Commission should approve PSE's Demand Aggregation pilot pricing proposal and disregard Commission Staff's recommendation that PSE file a revised proposal.<sup>389</sup> Prior to proposing the pilot, PSE engaged in significant discussion and evaluation with customers and interested parties regarding the design of the program and reviewed existing programs already approved in other jurisdictions.<sup>390</sup> Several parties in this case support PSE's proposal and filing a revised proposal in accordance with Staff's preferred format and components would be burdensome.

150. In its suggestion that PSE submit a revised pricing pilot proposal, Staff endorses questionable ratemaking principles,<sup>391</sup> proposes certain elements of a pricing pilot that are too rigid,<sup>392</sup> and provides a very lengthy and detailed list of evaluation elements some of which have little direct relevance to PSE's proposed pricing pilot.<sup>393</sup> PSE disagrees with Staff's suggestion that PSE submit a new proposal because many of the components recommended by Staff are already part of PSE's proposal. To the extent some of Staff's design or evaluation elements would be beneficial, PSE is open to incorporating them into the pilot if the Commission deems necessary. PSE welcomes guidance from the Commission on this issue.<sup>394</sup>

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<sup>387</sup> *Id.* at 27:5-15.

<sup>388</sup> *Id.* at 28:1-19.

<sup>389</sup> Piliaris, Exh. JAP-1T at 10:9-14.

<sup>390</sup> *Id.* at 31:11-32:16.

<sup>391</sup> Piliaris, Exh. JAP-18T at 11:1-12:10.

<sup>392</sup> *Id.* at 12:11-13:11.

<sup>393</sup> *Id.* at 13:12-14:19.

<sup>394</sup> *Id.* at 15:9-19:9.

151. Finally, PSE appreciates Kroger’s support for the program and for its proposal to expand the pilot. However, while PSE is not opposed to an expansion of the pilot, PSE is reluctant to go beyond the scale currently proposed by PSE without some compensation for the lost revenues that would result from such an expansion.<sup>395</sup> Likewise, PSE is open to FEA’s proposal to open the pilot to Schedule 49 customers in the future once PSE has had time to evaluate the program and PSE is reasonably comfortable that it can manage the administration of the pilot.<sup>396</sup>

**F. Public Counsel’s Recommendations Regarding Modifications to SQIs and the Formation of Various Working Groups and Reporting Mechanisms**

152. Public Counsel raises a host of recommendations relating to PSE’s SQIs and the creation of various new working groups and reporting mechanisms.<sup>397</sup> As explained by PSE witness Andrew Wappler, most of these proposals are unnecessary and should be denied:

- PSE supports Public Counsel’s recommendation to report on the impact of GTZ on efforts to prevent disconnection for non-payment;<sup>398</sup>
- Public Counsel’s recommendations regarding the creation or modification of SQIs are not based on any actual evidence, are premature, would not be beneficial, or would be burdensome to PSE;<sup>399</sup>
- Public Counsel’s recommendations regarding the formation of various new work groups are duplicative of existing resources,<sup>400</sup> or are unnecessary, since a significant percentage of PSE customers are already utilizing digital channels;<sup>401</sup>
- Public Counsel’s recommendation that PSE surveys be based on representative samples in terms of demographics and “digital fluency” is self-evident. PSE already utilizes survey providers that are well-regarded, nationally-recognized experts in their fields. PSE’s providers utilize the best practices currently available in measuring customer satisfaction and experience;<sup>402</sup>
- Public Counsel’s recommendation to add an “annual call-reason dashboard” and that the Commission evaluate the PSE IVR experience and GTZ generally are not based

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<sup>395</sup> *Id.* at 19:10-19.

<sup>396</sup> *Id.* at 20:1-7.

<sup>397</sup> *See* Baldwin, Exh. SMB-1CT at 4:12-6:8.

<sup>398</sup> Wappler, Exh. AW-5T at 2:1-19.

<sup>399</sup> *Id.* at 5:14-6:13, 8:19-9:7, 12:3-11.

<sup>400</sup> *Id.* at 6:14-7:2.

<sup>401</sup> *Id.* at 7:3-8:4.

<sup>402</sup> *Id.* at 8:5-18.

on any evidence that there is a deficiency with those resources. Such efforts would be burdensome, and there are existing ways for customers to report concerns;<sup>403</sup> and

- Public Counsel’s various proposals regarding educating customers and agencies regarding digital platforms are unnecessary; customers and agencies are already utilizing such resources.<sup>404</sup>

**G. The Energy Project’s Recommendations Relating to Service Disconnections and Funding for Community Action Partnership (“CAP”) Organizations**

153. The Energy Project offers several recommendations relating to service disconnections including that PSE develop a Disconnection Reduction Plan, file a detailed annual report related to service disconnections, increase CAP funding, and continue the “last knock” practice until the proposed Disconnection Reduction Plan is filed and approved.<sup>405</sup> As explained by Mr. Wappler, PSE agrees with The Energy Project’s recommendations to develop a Disconnection Reduction Plan and file a detailed annual report related to service disconnections.<sup>406</sup>

154. PSE disagrees, however, with The Energy Project’s “last knock” continuation proposal. There are far more effective and safer strategies for reducing disconnections than relying on “last knock” field visits, and the AMI Rulemaking in Docket U-180525 is the proper forum to address this issue.<sup>407</sup> The Commission should reject The Energy Project’s “last knock” proposal.

**XI. ACCOUNTING AND RATEMAKING TREATMENT FOR SHORT-LIVED ASSETS DOCKETS UE-190274/UG-190275**

155. PSE respectfully requests the Commission grant PSE’s accounting petition seeking a deferral of certain costs associated with GTZ that are placed in service but have not been incorporated into rates.<sup>408</sup> In the petition, PSE requested a deferral for later consideration of the depreciation expense associated with certain GTZ investments. PSE’s requested accounting treatment for these investments is appropriate because of the regulatory lag associated with technology related assets, due to shorter lives and the associated impact on PSE’s depreciation

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<sup>403</sup> *Id.* at 9:8-10:8.

<sup>404</sup> *Id.* at 10:9-19, 11:8-12:2, 12:12-13:3.

<sup>405</sup> Collins, Exh. SMC-1T at 9:3-10, 22:9-23:17.

<sup>406</sup> Wappler, Exh. AW-5T at 15:3-17.

<sup>407</sup> *Id.* at 16:11-19:14; Jacobs, Exh. JJJ-11T at 23:8-15.

<sup>408</sup> *In the Matter of the Petition of Puget Sound Energy*, Dockets UE-190274/UG-190275, Petition of Puget Sound Energy (Apr. 10, 2019).

expense.<sup>409</sup> The impact of the typical 27-month regulatory lag is far greater on these short-lived assets and creates significant earning erosion if not addressed.<sup>410</sup> The deferred accounting method proposed is consistent with the Commission's previous orders on cost recovery and is the appropriate accounting treatment for these costs.<sup>411</sup> Absent this mechanism, PSE will be denied the opportunity to recover a significant portion of these costs.<sup>412</sup>

156. Commission Staff's suggestion that the GTZ deferral would allow for a deferral of hypothetical expenses on unidentified future projects is false because PSE would only be deferring depreciation on projects that were used and useful and in service when deferred.<sup>413</sup> PSE fully recognizes that the act of deferring does not guarantee recovery and that the underlying investments must be appropriate.<sup>414</sup> PSE also disagrees with Staff's claim that deferred accounting is reserved for extraordinary events.<sup>415</sup> The Commission has used deferred accounting to capture a wide range of costs and benefits without limiting it to extraordinary events.<sup>416</sup>

157. In accordance with its petition, PSE is currently deferring depreciation on its GTZ projects with a life of ten years or less that were placed in service after June 2018 in two tranches: first, assets placed in service through June 2019 and second, assets placed in service after June 2019, the deferral of which has not been presented in this proceeding.<sup>417</sup> If the Commission grants PSE's attrition adjustment, PSE would discontinue deferring the depreciation for both tranches effective with new rates in this proceeding.<sup>418</sup> However, if the Commission does not accept PSE's attrition adjustment, PSE should be allowed to continue to defer depreciation for the second tranche after the rates in this proceeding go in to effect and until the

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<sup>409</sup> *Id.* at 2-5.

<sup>410</sup> *Id.*

<sup>411</sup> *Id.* at 5-6.

<sup>412</sup> *Id.* at 6; *see also* Free, Exh. SEF-17T at 38:15-39:2.

<sup>413</sup> *In the Matter of the Petition of Puget Sound Energy*, Dockets UE-190274/UG-190275, Petition of Puget Sound Energy at 41:13-42:2 (Apr. 10, 2019).

<sup>414</sup> *Id.*

<sup>415</sup> *See* McGuire, Exh. CRM-1T at 9:16-20.

<sup>416</sup> Free, Exh. SEF-17T at 42:3-16.

<sup>417</sup> *Id.* at 40:7-14.

<sup>418</sup> *Id.* at 40:3-6, 15-19.

next general rate case.<sup>419</sup> This includes carrying charges on the deferral balance, consistent with the deferred accounting authorized in Docket UE-190129.<sup>420</sup>

## **XII. ACCOUNTING TREATMENT OF COSTS OF LIQUIDATED DAMAGES DOCKETS UE-190991/UG-190992**

158. PSE requests the Commission approve PSE's proposed deferral and accounting treatment for liquidated damages PSE has received, and will receive, as a result of delays in completion of the Skookumchuck wind project, which will serve Green Direct customers. The terms of the amended PPA executed with Skookumchuck Wind Energy Project, LLC allow for liquidated damages if the project is not ready for commercial operation by July 1, 2019.<sup>421</sup> The accounting petition sets forth the amount of liquidated damages received as of September 2019 and the amount of additional liquidated damages PSE expected to receive.<sup>422</sup> Although no liquidated damages are currently due under the Lund Hill PPA, the same accounting treatment would apply if liquidated damages are paid to PSE on the Lund Hill project.<sup>423</sup>

159. PSE does not believe it has authority to defer these liquidated damages without Commission authorization. As set forth in the accounting petition, PSE seeks authority to use the liquidated damages for the benefit of Green Direct customers, offsetting the costs of RECs that PSE intends to purchase for Schedule 139 customers, to be retired to cover the period from July 2019 until program commencement. Therefore, PSE is requesting to offset the deferred liquidated damages with the cost of the RECs purchased on behalf of Green Direct customers prior to the start of the program ("pre-program RECs").<sup>424</sup> PSE also seeks authorization to offset against the remaining liquidated damages deferral any costs incurred for the program that are determined to not have been originally included in the Schedule 139 rates.<sup>425</sup> An example of this

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<sup>419</sup> *Id.* at 40:19-41:3.

<sup>420</sup> *Id.* at 43:1-9.

<sup>421</sup> Einstein, Exh. WTE-3C.

<sup>422</sup> *In the Matter of the Petition of Puget Sound Energy*, Dockets UE-190991/UG-190992, Petition of Puget Sound Energy ¶¶ 5, 7 (Nov. 27, 2019).

<sup>423</sup> *Id.* ¶¶ 8, 13.

<sup>424</sup> *Id.* ¶¶ 12-13.

<sup>425</sup> *Id.*

type of cost would be purchases of RECs pursuant to section 5.e. of Tariff Schedule 139. Any remaining balance of liquidated damages could also be used to adjust future Schedule 139 rates.

### **XIII. ACCOUNTING PETITION ADDRESSING TCJA DOCKETS UE-171225/UG-171226**

160. PSE filed an accounting petition in December 2017, seeking deferral of the impacts associated with TCJA, which was passed by Congress in December 2017<sup>426</sup> (“TCJA Accounting Petition”). PSE amended the TCJA Accounting Petition in November 2018 to include more specificity in its proposals. Since these filings the following developments have occurred.

161. On March 30, 2018, PSE filed tariff updates to its electric and natural gas base rates to implement the 35 percent to 21 percent tax reduction on a going forward basis, thus preventing any further collection of excess income tax expense. The tariffs took effect on May 1, 2018.<sup>427</sup>

162. In the final order in PSE’s 2018 ERF the Commission ordered PSE to pass back the over-collection of federal income tax in PSE’s base rates for the time period of January 1, 2018 through May 1, 2018, beginning on May 1, 2019, over a twelve-month period. In addition, the parties to the ERF executed a settlement agreement provided as follows: (i) PSE would pass back the protected-plus EDIT, beginning March 1, 2019, through a separate rate schedule, Schedule 141X,<sup>428</sup> and that Schedule 141X will be reviewed in this case; (ii) the proper accounting and ratemaking treatment of protected-plus EDIT reversals for the period January 1, 2018, through February 28, 2019, would be addressed in this case; and (iii) PSE would defer the return of unprotected EDIT to this case.

163. The only issues remaining with respect to the TCJA Accounting Petition and the ERF settlement<sup>429</sup> are the reversal of the EDIT for (i) the non-plant related account balances in FERC

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<sup>426</sup> *In the Matter of the Petition of Puget Sound Energy*, Dockets UE-171225/UG-171226, Petition of Puget Sound Energy (Dec. 29, 2017).

<sup>427</sup> Dockets UE-180282/UG-180283.

<sup>428</sup> The Parties agreed that the grossed-up annualized EDIT reversals consistent with the Internal Revenue Service’s ARAM are \$25.9 million for electric and \$6.1 million for natural gas.

<sup>429</sup> There are other impacts of the TCJA that are not addressed in the accounting petition, including the TCJA’s impact on the value of PTCs. As discussed above, the TCJA decreases the amount of PTCs available to offset Colstrip unrecovered plant balances and decommissioning and remediation.

Account 190 or FERC Account 283, and (ii) the plant-related account balances in FERC Account 282. PSE's position on these issues is addressed in the Tax Adjustment section of this brief.

#### **XIV. CONCLUSION**

164. PSE and the utility industry are facing a fundamental transformation in the way electric and gas utilities do business. PSE must continue to provide affordable, safe, and reliable services to customers. PSE must adapt to the changing digital age by providing customers multiple channels to interact with PSE, consistent with customers' expectations. PSE must make an unprecedentedly rapid transition to a business model and structure that enables PSE to provide services to customers in a clean, climate-responsible, and sustainable manner consistent with CETA. The relief requested in this case—including PSE's attrition adjustment and recovery of the significant IT and infrastructure investments—will allow PSE to continue to move forward to achieve these goals. PSE's case is consistent with the law and supported by substantial evidence. PSE respectfully request the Commission grant the relief requested in this case.

DATED this 17th day of March, 2020.

**Respectfully submitted**

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# APPENDIX A

## UNCONTESTED ADJUSTMENTS

Adj No (a)	Description (b)
--	Test Year
20.01 ER	Revenue & Expenses
20.02 ER	Temperature Normalization
20.04 ER	Tax Benefit of Interest
20.05 ER	Pass-Through Rev&Exp
20.06 ER	Injuries & Damages
20.07 ER	Bad Debts
20.09 ER	Excise Tax & Filing Fee
20.10 ER	D&O Insurance
20.11 ER	Interest on Customer Deposits
20.12 ER	Rate Case Expense
20.13 ER	Pension Plan
20.14 ER	Property & Liab Insurance
20.15 ER	Wage & Payroll Tax
20.16 ER	Investment Plan
20.17 ER	Employee Insurance
20.20 ER	Annualize Rent Exp
21.02 ER	Montana Tax
21.03 ER	Wild Horse Solar
21.04 ER	ASC 815
21.05 ER	Storm Damage
20.01 EP	Revenue & Expenses
20.02 EP	Temperature Normalization
20.04 EP	Tax Benefit of Interest
20.14 EP	Property & Liability Ins
21.02 EP	Montana Tax
21.05 EP	Storm Damage
21.08 EP	Remove EIM
8.01 GP	Remove 2018 CRM
8.02 GP	SCH. 149