**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,**<br><br>**Complainant,**<br><br>**v.**<br><br>**PUGET SOUND ENERGY,**<br><br>**Respondent.** | **Docket UE-190529**<br>**Docket UG-190530**<br>**(*consolidated*)** |
| **In the Matter of the Petition of**<br><br>**PUGET SOUND ENERGY**<br><br>**For an Order Authorizing Deferral Accounting and Ratemaking Treatment for Short-life UT/Technology Investment** | **Docket UE-190274**<br>**Docket UG-190275**<br>**(*consolidated*)** |
| **In the Matter of the Petition of**<br><br>**PUGET SOUND ENERGY**<br><br>**For an Order Authorizing Deferred Accounting associated with Federal Tax Act on Puget Sound Energy's Cost of Service** | **Docket UE-171225**<br>**Docket UG-171226**<br>**(*consolidated*)** |
| **In the Matter of the Petition of**<br><br>**PUGET SOUND ENERGY**<br><br>**For an Order Authorizing the Accounting treatment of Costs of Liquidated Damages** | **Docket UE-190991**<br>**Docket UG-190992**<br>**(*consolidated*)** |

# REPLY BRIEF OF PUGET SOUND ENERGY

**APRIL 10, 2020**

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# I. INTRODUCTION

*1.* Puget Sound Energy's ("PSE") rate request is fair, just, reasonable and sufficient. It appropriately balances the interests of PSE and customers. PSE's Initial Brief addresses many arguments raised in parties' opening briefs. PSE's Reply Brief further responds to arguments by parties, including arguments that misinterpret and misapply the law and would limit the Commission's flexibility and discretion. PSE has demonstrated that an attrition adjustment is appropriate in this case. PSE correctly presented a historical test year, and its restating and pro forma adjustments are appropriate. PSE's Reply Brief further demonstrates that PSE's investments to address its failing metering system, to improve reliability, and to update its outdated technology and data security platforms, are appropriate and necessary to meet customer needs and ensure safe and reliable operations that lay the groundwork for the Clean Energy Transformation Act ("CETA").[1] The Commission should approve PSE's rate request in this case.

# II. PSE'S ATTRITION ADJUSTMENT SHOULD BE APPROVED

## A. Parties Misstate the Commission's Standards for Attrition and Deferral Accounting

*2.* Parties misstate the Commission's guidance on attrition and deferrals. Their positions would limit the Commission's discretion, and, to a large degree, they ignore the updated RCW 80.04.250. The Commission should not erode its discretion and the flexibility the law provides.

### 1. Extraordinary Circumstances are *Not* Required for Attrition Adjustments or Deferrals

*3.* The Commission has made clear that "extraordinary circumstances" are not required for approval of an attrition adjustment:

> ***[A]n attrition adjustment should not be limited to circumstances where the utility can demonstrate extreme financial distress***. We continue to hold that view, and determine that ***it is not necessary to require a finding of extraordinary circumstances to justify granting an attrition adjustment***. An attrition adjustment is yet another tool in our regulatory "toolbox" for utility ratemaking.[2]

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[1] Chapter 19.405 RCW.

[2] *WUTC v. Avista*, Dockets UE-150204/UG-150205, Order 05 ¶ 110 (Jan. 6, 2016) (emphasis added).

4. Given this explicit instruction, it is surprising that both Commission Staff and Public Counsel argue that an attrition adjustment requires extraordinary circumstances. Public Counsel goes so far as to claim that PSE "misrepresents the Commission's attrition standard"[3] and "attempts to dilute the Commission's attrition standard by arguing that the Commission no longer requires a utility to show extraordinary circumstances or extreme financial distress."[4] In fact, it is Public Counsel that gets it wrong, as the Commission's order cited above demonstrates. Staff similarly confuses the Commission's direction in prior orders addressing attrition adjustments and in the Used and Useful Policy Statement, when stating the following:

> The Valuation Policy Statement does not change the standard that the Commission has discussed in recent orders to determine if attrition is present and whether to approve an attrition allowance. As stated in the policy statement, "But for exceptional circumstances, however, the Commission intends to use its standard processes for identifying property for ratemaking purposes, for reviewing and approving that property under the used and useful standard and the known and measurable standard, and for determining prudency." ***This statement means that it is the Commission's policy not to approve rates based on property that becomes used and useful after the rate year begins unless a utility demonstrates that exceptional circumstances are present***.[5]

5. There are several problems with Staff's conclusion. First, as discussed above, "the standard that the Commission has discussed in recent orders" expressly states that a showing of extraordinary circumstances is *not* required. Second, Staff takes out of context the phrase "but for exceptional circumstances." The Commission's full statement is below:

> While the application of longstanding ratemaking practices, principles, and standards necessarily constrains the substance of requests for a given plant investment that the Commission finds will become used and useful within 48 months of the rate effective date, the Commission will remain flexible by assessing whether those requests are appropriate and reasonable on a case-by-case basis. But for exceptional circumstances, however, the Commission intends to use its standard processes for identifying property for ratemaking purposes, for reviewing and approving that property under the used and useful standard and the known and measurable standard, and for determining prudency.[6]

6. The Commission does not state it will only allow attrition adjustments in "exceptional circumstances" as Staff claims. Rather, in considering plant that will become used and useful

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[3] Initial Post-Hearing Brief of Public Counsel at ¶ 36.
[4] *Id.* ¶ 35.
[5] Commission Staff's Initial Brief at ¶ 15 (emphasis added).
[6] Policy Statement on Property that Becomes Used and Useful After Rate Effective Date, Docket U-190531 ¶ 30 (Jan. 31, 2020) ("Used and Useful Policy Statement").

after the rate effective date, the Commission states its intent i) to be flexible and address these requests on a case-by-case basis, and, (ii) to use its standard processes for identifying, reviewing, and approving property other than in "exceptional circumstances." In sum, there is no requirement that attrition adjustments require exceptional circumstances.[7]

*7.* Staff seeks to expand its false standard to deferred accounting, claiming "the Commission will only allow the deferral of material costs or revenues arising from ***extraordinary circumstances***."[8] This is incorrect. Staff identified only one accounting order in the past decade in which the Commission stated its treatment was exceptional due to the unusual nature of a specific project.[9] In fact, the Commission has approved numerous deferred accounting petitions over the past decade without requiring a showing of "exceptional circumstances."[10] The Commission's goals of "maintaining flexibility" and "avoiding overly prescriptive guidance"[11] are not well served by Staff's attempt to impose rigid limitations on deferred accounting.

### 2. "Exceptional Circumstances" Does Not Mean "Circumstances Beyond the Company's Control"

*8.* Staff conflates "extraordinary" or "exceptional" circumstances with "circumstances beyond the regulated company's control," and claims these are the same.[12] However, the Commission's recent order says otherwise: "[I]t is not necessary to require a finding of

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[7] There is also no requirement in CETA or elsewhere that an attrition adjustment be tied to performance-based ratemaking, as NWEC asserts. NWEC Initial Post Hearing Brief at ¶ 5. *See* Rábago, Exh. KRR-1T at 27:7-31:7.
[8] Commission Staff's Initial Brief at ¶ 8 (emphasis added).
[9] *Id.* ¶ 8 (citing *WUTC v. Pac. Power & Light Co.*, Dockets UE-140762 *et al.*, Order 08 (Mar. 25, 2015)).
[10] *See* Free, Exh. SEF-17T at 42:5-16 (citing *In the Matter of the Petition of PSE*, Docket UE-170277, Order 01 (Apr. 28, 2017) (costs of demand response programs); *In the Matter of the Petition of Northwest Natural Gas Co.*, Docket UG-180251, Order 01 (Oct. 19, 2018) (depreciation rates); *In the Matter of the Petition of Pac. Power & Light Co.*, Docket UE-180809, Order 01 (Jan. 31, 2019) (EV supply equipment pilot); *In the Matter of the Petition of Pac. Power & Light Co.*, Docket UE-181042, Order 01 (Apr. 11, 2019) (pension costs); *In the Matter of the Petition of Avista Corp.*, Docket UG-180920, Order 01 (Feb. 28, 2019) (line extension allowances); *In the Matter of the Petition of Pac. Power & Light Co.*, Docket UE-143915, Order 01 (Dec. 22, 2016) (REC purchases); *In the Matter of the Petition of Pac. Power & Light Co.*, Docket UE-161067, Order 01 (Feb. 9, 2017) (REC purchases); *In the Matter of the Petition of Cascade Natural Gas Corp.*, Docket UG-160787, Order 01 (Nov. 10, 2016) (MAOP compliance costs); *In the Matter of the Petition of PSE*, Dockets UE-160203/UG-160204, Order 01 (Mar. 24, 2016) (credit card payment).
[11] Used and Useful Policy Statement at ¶¶ 28, 30, 31.
[12] Commission Staff's Initial Brief at ¶ 8.

extraordinary circumstances to justify granting an attrition adjustment. . . . However, we do require that utilities requesting an attrition adjustment demonstrate that the cause of the mismatch between revenues, rate base and expenses is not within the utility's control."[13]

### B. PSE Has Demonstrated Underearning Due to Circumstances Beyond Its Control

*9.* Staff, Public Counsel and AWEC err when considering PSE's underearning. Public Counsel wrongly claims that PSE argues that the Commission "merely requires a showing that [PSE] has under-earned and will not likely be able to achieve its authorized return absent an attrition adjustment."[14] Those factors are evidence of attrition, but PSE does not rely on these alone. AWEC incorrectly claims that a history of chronic underearning must be present,[15] and Staff also suggests this is true.[16] Both misstate the law. AWEC relies on dicta in an eight-year old case discussing, hypothetically, the Commission's willingness to consider attrition adjustments when chronic underearnings are present.[17] However, more recently, the Commission granted an attrition adjustment even though Avista had earned near or above its authorized levels, where the evidence showed Avista was not likely to earn its authorized return in the rate year:

> [W]hile the record shows that Avista's electric operations are currently financially healthy and the Company has actually earned near or above authorized levels for its Washington electric operations for the past two years, we are concerned this may not hold in the rate year or beyond. Absent an attrition adjustment, we are concerned that the Company may not have an opportunity to achieve earnings on electric operations at or near authorized levels.[18]

The Commission reaffirmed this in the 2016 Avista GRC stating that "if the *pro forma* study demonstrates a mismatch ***in the rate year*** between revenues, rate base and expenses that is not within the utility's control, then there is evidence of attrition. Other evidence such as a history of chronic under earning, also may suggest the existence of attrition."[19]

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[13] *WUTC v. Avista Corp.*, Dockets UE-150204/UG-150205, Order 05 ¶ 110 (Jan. 6, 2016).
[14] Initial Post-Hearing Brief of Public Counsel at ¶ 55.
[15] Initial Brief of AWEC at ¶ 10.
[16] Commission Staff's Initial Brief at ¶ 18.
[17] Initial Brief of AWEC at ¶ 10 (referring to *WUTC v. PSE*, Dockets UE-111048/UG-111049, Order 08 ¶¶ 483-91 (May 7, 2012)).
[18] *WUTC v. Avista Corp.*, Dockets UE-150204/UG-150205, Order 05 ¶ 131 (Jan. 6, 2016).
[19] *WUTC v. Avista Corp.*, Dockets UE-160228/UG-160229, Order 06 ¶ 61 n. 119 (Dec. 15, 2016) (emphasis added).

10. PSE underearned in 2018[20] and will underearn in the rate year absent an attrition adjustment.[21] The mismatch between revenues, expenses and capital expenditures is due to circumstances beyond PSE's control. Multiple PSE witnesses testified to the need for the investment PSE has made and will continue to make in the rate year. Without this investment, PSE lags behind its peers in reliability due to obsolete meters, failing HMW cable, and the need for improved substations and transmission lines.[22] Without this investment, PSE cannot meet customers' expectations for digital interaction with PSE on outages, billing issues, work scheduling, move-in connections and move-out disconnections.[23] This investment is required to maintain the security of PSE's critical infrastructure and customer data[24] and to comply with public improvement work ordered by local jurisdictions.[25] These are factors beyond PSE's control, consistent with prior Commission direction,[26] that PSE cannot ignore.

11. Finally, Public Counsel misrepresents that PSE overearned in four of the past five years[27] and, along with Staff, ignores the Commission's direction to remove normalizing adjustments from the earnings test.[28] When comparing actual adjusted earnings to authorized rate of return, PSE *under earned* in four of the past six years on electric and three of the past six years on gas.[29]

### C. The Attrition Adjustment Is Neither an ECRM Nor an ROE Inflator

12. AWEC falsely characterizes PSE's attrition adjustment as a "relabeled" ECRM.[30] The ECRM was a multiyear cost recovery mechanism proposed in PSE's 2017 GRC to address the ongoing need to accelerate investment in electric distribution to improve reliability. The attrition

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[20] *See* Free, Exh. SEF-17T at 9:16-12:6; Doyle, Exh. DAD-1Tr at 14, Tables 1 and 2.
[21] *See* Kensok, Exh. JAK-1CT at 3:1-9:6; Doyle, Exh. DAD-7Tr at 2:6-20:4; Doyle, Exh. DAD-1Tr at 13:15-22:4.
[22] *See* Koch, Exh. CAK-1Tr2 at 22:9-55:10; Koch, Exh. CAK-4r at 4:2-6:12.
[23] *See* Jacobs, Exh. JJJ-1T at 2:14-12:15.
[24] *See* Hopkins, Exh. MFH-1T at 2:8-9:9, 13:1-17:2, 19:17-25:21; Hopkins, Exh. MFH-7T at 3:1-7:18.
[25] *See* Koch, Exh. CAK-1Tr at 12:4-13:16.
[26] *See, e.g.*, *WUTC v. Avista Corp.*, Dockets UE-150204/UG-150205, Order 05 ¶ 121 (Jan. 6, 2016) (replacement of failing gas pipes are circumstances beyond the company's control).
[27] Initial Post-Hearing Brief of Public Counsel at ¶ 37.
[28] *WUTC v. PSE*, Dockets UE-170033/UG-170034, Order 08 ¶ 9 (Dec. 5, 2017).
[29] *See* Doyle, Exh. DAD-1Tr at 14, Tables 1 and 2; Doyle, Exh. DAD-7Tr at 2:6-16:18.
[30] Initial Brief of AWEC at ¶ 2.

adjustment is a one-time adjustment designed to address the mismatch between revenues, rate base and expenses that affect a company's opportunity to earn its authorized return.[31] If AWEC's concern is that both PSE's 2017 and 2019 GRCs include enhanced spending for reliability, PSE should not be faulted for this. PSE ranks below its peers in reliability,[32] due in part to tree-covered terrain throughout its service territory.[33] It would be imprudent for PSE not to take steps to improve reliability. Notably, though the Commission did not approve the ECRM in the 2017 GRC, it did recognize that the "proposal may have some merit" but "it is not yet timely."[34] Since that decision, the legislature revised RCW 80.04.250 making clear that the Commission may set rates based on plant that goes into service during the rate year, and the Commission issued policy guidance. Both emphasize flexibility in ratemaking. AWEC ignores these developments.

*13.* AWEC further mischaracterizes PSE's attrition adjustment as an "ROE inflator."[35] The attrition adjustment does not inflate PSE's ROE; it allows PSE a more fair opportunity to earn its authorized rate of return.[36] Under historical ratemaking, PSE has not earned its authorized rate of return because of the significant lag between the time investments are put into service and the time they are included in rates.[37] Short-lived assets, such as information technology investments, exacerbate this underearning, and PSE faces delayed or lost recovery of 25 percent or more for these assets.[38] The attrition adjustment decreases the lag.[39] But allowing PSE to earn a return on its prudently incurred investment that is serving customers does not "inflate" PSE's return on equity. Moreover, customers are protected if PSE were to over earn. PSE offers greater customer

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[31] *See WUTC v. Avista Corp.*, Dockets UE-150204/UG-150204, Order 05 ¶ 110 (Jan. 6, 2016).
[32] *See* Wappler, Exh. AW-1T at 15:7-15.
[33] *See* Koch, Exh. CAK-1Tr at 28:11-29:9, 31:11-33:11 ("nearly 75 percent of PSE's right of way edge treed").
[34] *WUTC v. PSE*, Dockets UE-170033/UG-170034, Order 08 ¶ 328 (Sept. 5, 2017).
[35] Initial Brief of AWEC at ¶ 8.
[36] *See* Kensok, Exh. JAK-1CT at 3:1-9:6; Free, Exh. SEF-17T at 13:13-14:12, 23:1-8.
[37] *See* Doyle, Exh. DAD-1Tr at 13:18-19:13; Doyle, Exh. DAD-7Tr at 2:8-20:4.
[38] *See* Doyle, Exh. DAD-1Tr at 19:14-20:23; Hopkins, Exh. MFH-1T at 5:19-6:3; Free, Exh. SEF-1T at 42:1-43:10.
[39] *See* Doyle, Exh. DAD-1Tr at 19:14-20:23.

protections by expanding the bands of its earnings sharing mechanism to provide customers greater earnings sharing opportunities if its attrition adjustment is approved.[40]

### D. PSE Has Proposed a Plan for Future Review of Escalated Rate Base

*14.* Staff misrepresents the record when stating that PSE "does not include any plan for future review of escalated rate base."[41] This is patently false, and Staff's invective arguing that PSE should not be permitted to propose "an eleventh-hour plan" on brief, is baseless.[42] Mr. Amen addressed in his direct testimony both PSE's plan to report and identify new plant put in service up to and during the rate effective period and the manner such plant can be reviewed by parties.[43]

### E. The Inclusion of Escalated Expenses and Property Is Appropriate

*15.* Staff claims the attrition adjustment is deficient because "the policy statement addresses future property only, whereas PSE's proposed attrition adjustment is based on escalated expenses as well as property."[44] But this is not surprising. The policy statement addresses used and useful property under RCW 80.04.250, but expenses are not required to meet that standard as the Washington Supreme Court ruled decades ago.[45] Further, the Commission has allowed escalation factors that include both expenses and rate base in past cases.[46] Kroger's proposal not to include plant that goes in service after 2019 in the attrition adjustment[47] would eviscerate the adjustment and ignores the revisions to RCW 80.04.250 and the Used and Useful Policy Statement.

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[40] Doyle, Exh. DAD-7Tr at 21:11-24:10.
[41] Commission Staff's Initial Brief at ¶ 13.
[42] *Id.* ¶¶ 13-14. Staff also misunderstands the nature of a policy statement, which by statute and Commission rule is not precedential. *See* RCW 34.05.230(1); WAC 480-07-920(1). The Commission's stated preference that utilities propose a plan for review of the plant put in service after the rate effective date is advisory only and not binding.
[43] *See* Amen, Exh. RJA-1T at 21:8-22:16.
[44] Commission Staff's Initial Brief at ¶ 13.
[45] *See People's Org. for Wash. Energy Res. v. WUTC*, 104 Wn.2d 798, 815, 711 P.2d 319 (1985) (holding that RCW 80.04.250 "is purely a rate base statute and does not apply to operating expenses" and that costs of abandoned power plants were not required to be used and useful); *see also Wash. Attorney General's Office, Pub. Counsel Unit v. WUTC*, 4 Wn. App. 657, 687, 423 P.3d 657 (2018) ("To the extent the WUTC relied on its attrition adjustment to account for increases in Avista's O&M expenses, it did not violate [RCW 80.04.250].").
[46] *See, e.g.*, *In re Petition of PSE and NWEC For an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanisms*, Dockets UE-121697 *et al.*, Order 07 n.232 (June 25, 2013) (approving escalation factors that included 1) non-production rate base, 2) depreciation expense and 3) all other operating expenses).
[47] Post-Hearing Brief of the Kroger Co. at p. 3.

### F. Staff's Graphs Showing Linear Growth Do Not Withstand Scrutiny

*16.* The evidence refutes Staff's claim that its linear growth attrition model is superior to PSE's exponential growth model. The graphs on which Staff relies[48] do not withstand statistical scrutiny. A statistical comparison of Staff's attrition model and PSE's attrition model show that PSE's exponential growth model performs similar or better than Staff's linear growth model, in terms of overall model fit (R-square) and variable predictability (p-value).[49] Moreover, PSE's budget evidence belies Staff's claim that exponential growth overstates PSE's electric and gas plant growth.[50] There is not a "plateau period" for PSE's plant growth in the rate year.

## III. PUBLIC COUNSEL'S CHALLENGES TO AMI SHOULD BE REJECTED

*17.* PSE is alarmed by the inaccuracies and misrepresentations presented in Public Counsel's initial brief relating to AMI. The prudency of PSE's AMI investment is well established and well documented;[51] the AMI investment should be recoverable in rates.

### A. Public Counsel's AMI Proposals Are Costly and Would Harm Customers

*18.* Public Counsel's suggestion that PSE should not have implemented AMI but rather continued operating the failing AMR system is baseless. Its proposals for doing so highlight the significant flaws of its position, which are completely unworkable and would harm customers:

- Invest millions in stockpiling whatever remaining discontinued AMR components are available[52] and refurbish or reprogram used equipment since new equipment is not available[53]despite the fact that (a) the technology is obsolete,[54] (b) several necessary components of the system are not available or in limited supply,[55] (c)

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[48] Commission Staff's Initial Brief at ¶ 24.
[49] *See* Amen, Exh. RJA-6T at 19:3-20:2.
[50] *See id.* at 22:3-6; Kensok, Exh. JAK-1CT at 9:7-16:7.
[51] *See* Koch, Exh. CAK-4r and Appendices; Koch, Exh. CAK-6Tr at 2:6-24:9.
[52] Public Counsel wrongly suggests that PSE should have continued operating AMR because certain discontinued L+G AMR product lines still have limited availability. First, two of the six product lines were discontinued in 2012 and 2016, respectively, and are not available at all. One of the product lines made up nearly a fourth of PSE's AMR meter population. Koch, Exh. CAK-4r at 5:5-15. Second, the notices only relate to PSE's electric system, not its gas modules or network equipment, which have or will be discontinued. Koch, Exh. CAK-6Tr at 4:18-5:2. Third, the remaining stock available for the discontinued equipment has limited availability and PSE purchased what it could to keep the AMR system running during the transition. *See* Koch, Exh. CAK-4, Apdx. G, tab "MM Repl Benefit." PSE has been aware of and has planned for these discontinuances for years. Koch, Tr. at 302:10-303:18.
[53] Initial Post-Hearing Brief of Public Counsel at ¶¶ 108, 118.
[54] *See* Koch, Exh. CAK-4r at 4:1-5:12; Koch, Exh. 4, Apdx. A at 3-4, 18-19; Koch, Exh. CAK-6Tr at 3:16-8:16.
[55] *See supra*, note 52; Koch, Exh. CAK-6Tr at 4:6-6:9.

the current system failure rates exceed industry standards[56] and requires tens of thousands of meters to be read manually monthly;[57]

- Either (a) continue to operate the AMR system using the above strategies until the system fails completely[58] and resort to manual meter reading for an unspecified amount of time[59] or (b) delay transitioning to AMI, which would cost customers millions more by waiting even a few years than transitioning now[60]; and
- Not take advantage of readily available technologies that would save customers millions and provide other important benefits such as CVR, distributed automation, demand response, and other technologies needed for CETA.[61]

*19.* Public Counsel's suggestion that AMR could have operated for "several years"[62] by employing the above strategies is not only false but would cost customers hundreds of millions in "escalating maintenance obligations"[63] and worse service. It would far exceed the $230 million in AMR maintenance costs PSE is currently avoiding by transitioning to AMI now[64] and would require PSE to invest millions in obsolete AMR equipment further increasing the amount of AMR book value. Delaying or prolonging the transition to AMI would also cost customers millions more.[65] Moreover, continuing AMR will result in deteriorating meter reliability and

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[56] Public Counsel states "[The failure rates of the AMR system] hardly indicate that the entire system is failing." Initial Post-Hearing Brief of Public Counsel at ¶ 111. This is patently false. While Public Counsel wrongly believes that a two percent failure rate is not high enough to warrant replacement, third-party review confirmed that this rate is "nearly four times higher" than industry standard and "[f]or some populations, annual failure rates are more than 10 times higher than expected." Koch, Exh. CAK-4, Apdx. B at 3; Koch, Exh. CAK-6Tr at 5:7-7:2.

[57] Public Counsel criticizes PSE for including in its business case the fact that 50,000-60,000 manual meter reads are required due to AMR failure. Initial Post-Hearing Brief of Public Counsel at ¶ 112. Public Counsel completely misses the point. The significance of the 50,000-60,000 manual meter reads is not only the cost (which PSE is now responsible to pay and would be an added cost to customers going forward), *but the fact that 50,000-60,000 monthly manual meter reads are required at all.* Koch, Exh. CAK-4r at 5:16-6:12.

[58] Public Counsel does not specify how long it would keep AMR running but speculates it should last up to 30 years. This is baseless. Public Counsel provides no evidence of an AMR system lasting 30 years, which is double the design life. The current system failures confirm its 15-year design life. *See* Koch, Exh, CAK-6Tr at 6:10-7:2.

[59] *See* Koch, Exh. CAK-14X (manual meter reads by 2028 would require "upwards of one million gas and electric").

[60] *See* Koch, Exh. CAK-4r at 9:5-10:13; Koch, Exh. CAK-4, Apdx. A at 23-26.

[61] *See* Koch, Exh. CAK-4r at 9:5-13, 14:3-16:8, 18:6-22:7; Koch, Exh. CAK-4, Apdx. A at 7-10; Koch, Tr. at 343:19-345:18.

[62] Initial Post-Hearing Brief of Public Counsel at ¶ 101.

[63] Koch, Exh. CAK-4, Apdx. A at 4, 14, 18-19, 23-26.

[64] *See* Koch, Exh. CAK-4r at 10:3-13; Koch, Exh. CAK-4, Apdx. A at 4, 14, 18-19, 23-26.

[65] Koch, Exh. CAK-4r at 10:3-12:2; Koch, Exh. CAK-4, Apdx. A at 23-26.

billing accuracy which harms customers.[66] Public Counsel forgets that in PSE's 2007 GRC, it was concerned with billing accuracy due to failing AMR meters.[67] Yet remarkably, thirteen years later, Public Counsel recommends overextending the AMR system well past its design life, which will result in higher customer costs and more AMR billing and reliability problems. Public Counsel's proposals are not realistic, sustainable or consistent with sound business practices.

### B. The Benefits of AMI Far Outweigh the Costs

*20.* Public Counsel's suggestion that the costs of AMI exceed the benefits is false as shown in the table below.[68] This table incorporates *arguendo* Public Counsel's false suggestion that PSE should have included as a cost the book value associated with the legacy AMR equipment plus carrying costs,[69] and that PSE should not have included as a benefit the avoided cost of not spending $230 million in maintenance costs by selecting AMI.[70] The table demonstrates that even with most of Public Counsel's inaccurate proposals added,[71] the total cost of AMI is still less than AMR ($334 versus $378 million), and when estimated cost-saving benefits from GTZ utilization of AMI are further added, AMI actually provides a net benefit to customers.

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[66] *See* Koch, Exh. CAK-4, Apdx. A at 4 ("The AMR technology lies at the root cause of some of the problems PSE faces in the 'meter-to-cash' processes-- that are fundamental to timely and accurate bills for all PSE customers. Furthermore, the AMR system performance is less than desired for advanced reads including net metering reads, load profile/15 minute interval reads and demand reads. Eliminating these problems will result in increased business performance including a reduction (up to 8%) of calls to the customer access center.").

[67] In *WUTC v. PSE*, Dockets UE-072300/UG-072301, Public Counsel raised concerns about the AMR system which was failing, resulting in inaccurate customer bills. Public Counsel, Staff and PSE entered into a settlement over this issue. *See id.*, Order 12 ¶¶ 42-48 (Oct. 8, 2008).

[68] PSE provided the information in this table in response to Public Counsel Data Request No. 270, which Public Counsel added to the record as Koch, Exh. CAK-14X, but still has never addressed. This version of the table has been modified slightly for clarity, but the figures have not changed.

[69] *See* Koch, Exh. CAK-6Tr at 9:11-12:6, for why Public Counsel's argument is inaccurate.

[70] Public Counsel continues to misrepresent the avoided cost of PSE's AMR investment. Public Counsel argues that to properly evaluate an AMI option versus an AMR option, PSE should have compared the cost of deploying AMI ($473 million) with the cost of continuing with AMR (which it asserts is $230 million). Public Counsel is not only incorrect but is again using the wrong numbers. As Ms. Koch's testified, $230 million is not the estimated cost of continuing with AMR, but *rather is the difference in ongoing maintenance cost of AMR ($378 million) and the ongoing maintenance cost of AMI ($148 million)*, which PSE properly counted as a benefit to selecting AMI versus AMR. *See, e.g.*, Koch, Exh. CAK-6Tr at 18:10-21:6; Koch, Exh. CAK-10X.

[71] Notably, the table does not include Public Counsel's bizarre argument that over 95 percent of the undisputed $436 million in CVR benefits should not count. *See* Koch, Exh. CAK-6Tr at 13:8-18:9.

**Table 1: Total Cost of AMI Versus AMR (in millions)**

| | AMI Alternative | Continuing with AMR |
|---|---|---|
| Cost of New AMI | 473 | 0 |
| Maintenance Cost | 148 | 378 |
| AMR Legacy book value[72] | 100 | |
| Estimated carrying cost[73] | 49 | |
| CVR Benefits[74] | (436) | 0 |
| **Total Cost** | **334** | **378** |
| Potential additional benefits related to GTZ[75] | (428) | 0 |
| **Further Total Cost** | **(94)** | **378** |

This table conclusively shows that AMI is a much better value to customers, not including the important and substantial non-financial benefits of AMI, which Public Counsel ignores.[76]

*21.* PSE took several years to determine the best long-term option for customers.[77] In doing so, it evaluated continuing with AMR versus three alternative scenarios for implementing AMI.[78] PSE determined that moving to AMI now would save customers money while providing important technological benefits.[79] PSE's decision to implement AMI has proven wise. The further deterioration and escalating costs of the AMR system and the passage of CETA validate the decision. Public Counsel's disallowance request—including its alternative argument regarding AMR book value[80]—should be rejected. The AMI costs were prudently incurred, are the best value for customers, and are necessary for the long-term viability of PSE's meter system.

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[72] Public Counsel again uses the wrong number for the estimated AMR legacy book value. PSE supplied Public Counsel with the correct estimate which Public Counsel added to the record (Koch, Exh. CAK-11CX), but it nevertheless chose to use a higher, incorrect number in its brief. *See* Initial Post-Hearing Brief of Public Counsel at ¶ 122. The updated figure is approximately $100 million as reflected in the table above.
[73] Based on Public Counsel witness Alvarez's carrying cost calculation ratio.
[74] This only counts CVR benefits and does not include savings from distributed automation.
[75] *See* Koch, Exh. CAK-4, Apdx. A at 30-32.
[76] *See id.* at 8-10; Koch, Exh. CAK-6Tr at 21:8-17.
[77] *See* Koch, Exh. CAK-4, Apdx. A; Koch, Exh. CAK-6Tr at 21:1-23:3.
[78] *See* Koch, Exh. CAK-4, Apdx. A at 23-26.
[79] *See* Koch, Exh. CAK-4, Apdx. A.
[80] Public Counsel's fallback argument that recovery for PSE's legacy AMR should be disallowed is flawed. Public Counsel has not argued that PSE's AMR investment is imprudent and indeed, advocates for an even greater, long-term investment in AMR. PSE's AMR investment is necessary to ensure its meter system operates during the AMI transition. Disallowing recovery would chill the ability of utilities to invest in mass-asset transitions that require overlap between systems. *See* Koch, Exh. CAK-6Tr at 10:7-11:15. Public Counsel's argument should be rejected.

## IV. GTZ AND DCDR WERE NECESSARY INVESTMENTS AND THE PROPOSED DISALLOWANCES SHOULD BE DISREGARDED

### A. Public Counsel's GTZ Argument Fails

*22.* PSE's rebuttal testimony refuted Ms. Baldwin's false assertion—based on a single misinterpreted document—that two-thirds of PSE's customer base cannot use technology.[81] PSE refuted Ms. Baldwin's suggestion that GTZ is financially risky to customers as GTZ provides customers the very resources PSE has been harshly criticized for not offering for years and is providing important financial and non-financial benefits now, improving PSE's customer service scores.[82] PSE refuted Public Counsel's false narrative that the only purpose of GTZ is to push customers to only automated customer service solutions. GTZ benefits all customers.[83] Public Counsel's brief fails to address any of these issues because it has no evidence otherwise.

*23.* Public Counsel has not identified one GTZ investment that was imprudent. Regardless, without any metric or rationale, Public Counsel continues to stand by its extreme position that the Commission should disallow one-half of GTZ test year costs and all of the 2019 costs. Public Counsel's GTZ arguments are not supported by the record and should be rejected.

### B. AWEC's Continued Attempt to Disallow the DCDR Expenditures is Baseless

*24.* AWEC's brief repeats its false narrative surrounding PSE's decision to replace its prior data centers.[84] To be clear, PSE is not "now claim[ing]"[85] that its prior facilities were substandard nor was PSE's data center replacement a "corrective effort."[86] It was simply time for them to be replaced. As AWEC acknowledges,[87] PSE's prior data centers were outdated, had reached or exceeded their useful lives, and had become inadequate from a technological, NERC/CIP, and cyber security standpoint. This is not disputed by any other party. Notably, while PSE's data center relocation team was led by PSE's Vice President of IT, Margaret Hopkins,

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[81] *See* Jacobs, Exh. JJJ-11T at 4:10-15:2.
[82] *See id.* at 15:3-20:6.
[83] *See id.* at 10:13-12:18; Wappler, Exh. AW-5T at 7:3-17.
[84] Initial Brief of AWEC at p. 27.
[85] *Id.* ¶ 55.
[86] *Id.* ¶ 56.
[87] *Id.* ¶¶ 54, 58.

who has extensive experience in constructing data centers,[88] AWEC's witness is an accountant with a background in tax, power cost forecasting and rate development, and claims no background in IT or data centers.[89] AWEC's proposed disallowance should be rejected.

## V. PSE PROPERLY PRESENTED A HISTORICAL TEST YEAR AND APPROPRIATE RESTATING AND PRO FORMA ADJUSTMENTS

### A. PSE Justified the Use of End of Period Rate Base

*25.* PSE's case begins with a historical test year and pro forma adjustments, as the Commission has ordered in past cases.[90] Contrary to Public Counsel's assertions, PSE justified its use of end of period rate base and depreciation.[91] For example, PSE showed it will experience a 45 percent delay/lost recovery for IT assets using the traditional AMA convention.[92]

### B. PSE's Proposal for EDIT Complies with the Law and Benefits Customers

*26.* PSE's initial brief addressed many of the EDIT arguments raised by other parties. Neither Public Counsel nor Staff opposes the return of unprotected EDIT over a four-year period.[93]

#### 1. Commission Staff's Tracker Would Need to Track All Components

*27.* Staff's proposal to return plant-related amortized EDIT to ratepayers on Schedule 141X with an annual update to set the amortization of EDIT would constitute a normalization violation because it would update only EDIT.[94] Staff claims Mr. Doyle "admitted that a tracker like Schedule 141X 'could work,'"[95] but Staff omits Mr. Doyle's testimony as to how such a tracker would need to be structured. The tracker could not cherry pick the EDIT without also tracking the other items that are components of the consistency rule—rate base, book depreciation, tax expense and ADIT.[96] As Mr. Doyle testified, the Commission could apply the consistency rules

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[88] *See* Hopkins, Tr. at 333:18-335:9 (Hopkins has "been doing this for 32 years and . . . built many data centers").
[89] *See* Mullins, Exh. BGM-1T at 1:12-19.
[90] *See WUTC v. Avista Corp.*, Dockets UE-160228/UG-160992, Order 06 ¶ 62 (Dec. 15, 2016).
[91] *See* Free, Exh. SEF-1T at 40:9-46:11.
[92] *See id.* at 44, Table 7.
[93] Initial Post-Hearing Brief of Public Counsel at ¶ 42; Commission Staff's Initial Brief ¶ 124.
[94] *See* Doyle Tr. 370:10-18; Marcelia, Exh. MRM-11T at 54:1-55:2.
[95] Commission Staff Initial Brief at ¶ 121.
[96] *See* Doyle Tr. 370:10-18.

and change rates based on updated EDIT, rate base, book depreciation, tax expense and ADIT through a tracker, but that is not practical nor consistent with the way rates are set.[97]

*28.* Staff's primary justification for the continued tracker is transparency. But transparency can be achieved without violating normalization and consistency rules. PSE can update the Commission and parties on (i) the amortization of the EDIT on the accounting books and (ii) the reversal of EDIT through rates, without creating a tracker. The book amortization of EDIT and the reversal in rates of EDIT will follow different pathways due to the ratemaking process, but customers will ultimately receive the full credit—and likely more—from the reversal of EDIT.[98]

**2. Public Counsel's Approach Violates Normalization and Consistency Rules**

*29.* Public Counsel inaccurately claims PSE has improperly transferred the TCJA tax benefits from ratepayers to PSE's shareholders.[99] However, PSE's calculation of the EDIT reversal benefits customers by lowering rates.[100] Public Counsel's witness confuses the amounts that were actually over collected from customers and which are being passed back to customers as a result of the Commission's order in the ERF, with the protected EDIT.[101] PSE has included the reversal of EDIT in its revenue requirement in this case using ARAM, and PSE will continue to pass back the reversal of EDIT to customers.[102] Moreover, Public Counsel's bald assertion that PSE can treat *protected* EDIT as *unprotected* EDIT "because the ARAM reversal period has passed"[103] is a complete fiction and inconsistent with IRS rules.[104] Further, PSE's case differs from the Cascade case,[105] relied on by Public Counsel. PSE demonstrated in its ERF and this case that it had actual, measurable, and verifiable costs against which the EDIT reversal was applied in a test year. PSE

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[97] *See* Doyle Tr. 370:19-25.
[98] *See* PSE's Response to Bench Request No. 005.
[99] Initial Post-Hearing Brief of Public Counsel at ¶ 43.
[100] *See* Marcelia, Exh. MRM-11T at 58:7-10.
[101] *See id.* at 58:11-15.
[102] *See* PSE's Response to Bench Request No. 005.
[103] Initial Post Hearing Brief of Public Counsel at ¶ 45.
[104] *See* Marcelia, Exh. MRM-11T at 30:9-19.
[105] *WUTC v. Cascade Natural Gas*, Docket UG-170920, Order 06 (July 20, 2018).

affirmatively complies with the normalization consistency rules, which are absent from the Cascade case, and PSE demonstrates that EDIT will accrue to customers.[106]

### C. PSE's Power Costs Are Appropriate

#### 1. AURORA Two Zone Model and the 80 Years of Hydro

*30.* Only PSE and Commission Staff addressed power cost modeling. In its filed case, Staff did not oppose PSE's use of the two-zone AURORA model or claim that using the older, less efficient hour ahead balancing model ("HABM") was superior to calculate reserves. Staff's only opposition related to averaging 80 years of hydro data prior to running AURORA.

*31.* PSE's approach to power cost modeling uses the full 80-year hydro record and requires one pricing run and one two-zone run in AURORA; it produces superior results and is more efficient than Staff's proposal. When the AURORA model is run separately for each hydro year, as Staff proposes in testimony, *the model results for 69 out of the 80 years are untenable because they include hydro generation in excess of plant capacities*.[107] Regarding efficiency, PSE's approach requires two AURORA runs rather than 160 runs required under Staff's proposal.

*32.* On brief, Staff proposes a third approach, unsupported by evidence. Staff refers to this as the "traditional" approach;[108] Paul Wetherbee refers to it as "the old way."[109] There is no evidence in the record that the "old way" is the best approach, and no party has proposed a rate year power cost calculation using that approach. Staff falsely asserts that the "old way" will require only 80 model runs. But the "old way" would require 80 runs in AURORA and 80 runs in the less-efficient HABM.[110] The "old way" is not supported by the record or reasonable. The Commission should approve PSE's approach.

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[106] PSE's Response to Bench Request No. 005.
[107] *See* Wetherbee, Exh. PKW-36C (Attachment C to PSE's Response to WUTC Staff Data Request No. 202).
[108] Commission Staff's Initial Brief at ¶ 96 ("There is nothing preventing PSE from returning to its traditional method of integrating hydro into its power cost forecast.").
[109] Wetherbee, Tr. at 412:10, 413:2.
[110] Wetherbee, Tr. at 412:2-413:2; *see* Wetherbee, Exh. PKW-1CT at 60:1-62:6; Exh. PKW-34CT at 3:3-12:14.

### 2. PSE's Model Inputs for Wind Generation are Statistically Principled

*33.* Staff makes several inaccurate statements regarding PSE's wind forecast. First, Staff inaccurately refers to PSE's use of Vaisala's updated wind production forecasts as a "derate" of the wind facilities.[111] PSE is not proposing to limit the generation capacities but to more accurately forecast wind production using more recent wind forecasts.[112] Second, Staff erroneously claims that "PSE assumes that historical performance can be used to entirely predict future wind production levels,"[113] which PSE has never asserted. If only historical actual data were used, forecasted wind generation would be even lower than the Vaisala forecasts.[114]

*34.* Finally, Staff grossly oversimplifies the Vaisala forecasts.[115] The Vaisala forecasts are not simply an average of historical production. They used actual operating data from PSE's wind resources plus 36 years of historical climate data and current forecasting methodologies to project long-term average energy output from each facility.[116] Vaisala's forecasts are "statistically principled" and far superior to Staff's proposal to use pre-construction wind forecasts developed before the plants were constructed, using decade-old forecasting techniques.

### 3. PSE Properly Allocated Colstrip Shared Costs

*35.* PSE included the test year common costs allocated to Colstrip Units 3&4 plus one-half of the test year common costs allocated to Colstrip Units 1&2. Common costs encompass water treatment and handling, maintenance of the plant site, and communications equipment.[117] The closure of Units 1&2 in January 2020 does not eliminate many of the shared costs. PSE reasonably concluded that some, but not all, of the test year costs for Units 1&2 would continue, and accordingly seeks recovery of only one-half of the test year common costs allocated to Units 1&2. Staff's proposal to completely deny recovery for any test year common costs allocated to

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[111] Commission Staff's Initial Brief at ¶ 75.
[112] *See* Wetherbee, Exh. PKW-34CT at 12:15-20:14.
[113] Commission Staff's Initial Brief at ¶ 76.
[114] *See* Wetherbee, Exh. PKW-1CT at 74, Table 14.
[115] Commission Staff's Initial Brief at ¶78.
[116] Wetherbee, Exh. PKW-34CT at 13:15-18. *See* Exh. PKW-37C for a more detailed description of methodology.
[117] Roberts, Exh. RJR-14T at 15:9-16. These are a few examples of the common costs.

Unit 1&2 is not reasonable and fails to consider the ongoing needs to facilitate the process of plant retirement for Units 1&2 that will take place over the rate year.[118] Further, given PSE's use of test year costs, Staff's argument about the accuracy of Talen's past budgets[119] is irrelevant.

### D. The Commission Can Allow Deferral of Distribution Upgrades for LNG in this Case

*36.* PSE demonstrated that the distribution upgrades related to the LNG project are used and useful.[120] However, if the Commission determines that PSE should defer the distribution upgrades, it should order deferral of the depreciation and return on the plant put in service in the test year and pro forma period in the final order rather than requiring PSE to file a petition.[121] This is consistent with the AMI deferral that was accepted by the Commission.[122] Allocation of costs and recovery of plant can be addressed in a future case. Requiring PSE to file a petition would unnecessarily delay the start of the deferral until after the petition is filed,[123] and would burden the Commission with another filing rather than issuing a decision in this case.

### E. Staff's Approach to Plant Pro Forma Adjustments Defies Commission Guidance

*37.* Commission Staff sets forth five factors the Commission considers for post test year investment and concedes that PSE meets these standards, but for differing views between Staff and PSE on materiality.[124] PSE's initial brief describes in detail how it complied with the Commission's standard on pro forma adjustments by including a limited number of plant additions, using a reasonable materiality standard, and limiting the pro forma period to six months after the test year so that parties have an opportunity to review the pro forma plant.

*38.* Staff rejects as immaterial two PSE programmatic pro forma adjustments. The public improvement pro forma adjustment, which Staff labels as "infrastructure relocation," has

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[118] Roberts, Exh. RJR-14T at 16:1-6.
[119] Commission Staff's Initial Brief at ¶¶ 83-85.
[120] *See* Henderson, Exh. DAH-1T at 7:14-8:2; Henderson, Tr. 406:4-407:12.
[121] As proposed by Staff. *See* Commission Staff's Initial Brief at ¶¶ 98-101.
[122] *See WUTC v. PSE*, Dockets UE-180899/UG-180900, Order 05 ¶¶ 21-22 (Feb. 21, 2019).
[123] *See, e.g.*, *In re the Petition of PacifiCorp, For an Accounting Order Authorizing Deferral of Excess Net Power Costs*, Docket UE-020417, Third Supp. Order ¶ 25 (Sept. 27, 2002) (allowing deferral of costs after petition filed).
[124] Commission Staff's Initial Brief at ¶¶ 48-53.

previously been accepted by the Commission even when below the materiality threshold because the utility would be in violation of its franchise agreements if it refused or delayed action.[125] The same is true here and the Commission should accept this adjustment. The HMW cable adjustment, described in this case[126] and in past cases,[127] is ongoing work to replace failing cables. The number of cable-caused outages decreased by 38 percent since 2015, and PSE's system level SAIDI has decreased by over four minutes from 2015 to 2018, due to the programmatic replacement of HMW cable.[128] Given the Commission's stated intention to allow this type of programmatic spending as a "provisional pro forma adjustment" if it goes into service during the rate effective period,[129] it is reasonable to allow a pro forma adjustment where there is no dispute that it is used and useful and part of a program to improve reliability.

*39.* Staff objects to the HR Tops software program, which is a short-lived investment that falls slightly below PSE's materiality threshold. More than half of the $10.5 million investment was spent during the test year and the remainder in the pro forma period, when phase one went into service.[130] This IT project should be allowed for recovery as a pro forma adjustment.

*40.* Staff opposes PSE's GTZ adjustment expressing a hypothetical concern that PSE could "create a project and dump a bunch of indiscriminate stuff in there and then seek a single pro forma adjustment."[131] That is not the case here. PSE's GTZ pro forma adjustment is comprised of six projects all of which relate to enhancing the customer experience.[132] Further, excluding these non-revenue producing pro forma adjustments and deferrals, as Staff proposes, would have a revenue requirement impact of approximately $17 million in total, which is a material impact on

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[125] *WUTC v. Avista*, Dockets UE-170485 *et al.*, Order 07 ¶ 201 (Apr. 26, 2018).
[126] Koch, Exh. CAK-1Tr at 26:15-27:11.
[127] *See WUTC v. PSE*, Docket UE-170033/UG-170034, Order 08 ¶¶ 314-16, 327 (Dec. 5, 2017).
[128] Koch, Exh. CAK-1Tr at 27:5-11.
[129] Used and Useful Policy Statement at ¶¶ 35-46.
[130] Hopkins, Exh. MFH-1T at 32:5-36:13.
[131] Free, Tr. 309:25-310:2 (questioning by Mr. Roberson).
[132] Jacobs, Exh. JJJ-1T at 46:2-48:7.

PSE.[133] The plant has been in service, used and useful, since at least June 30, 2019, and the Commission should allow PSE's limited plant pro forma adjustments.

### F. The Commission Has Allowed PSE's Incentive Pay in Past Cases

*41.* Public Counsel's argument for disallowance of PSE's Goals and Incentive Plan ("Plan") should be rejected, as the Commission has done twice in the last decade.[134] The Commission has approved PSE's Plan and plans like it, provided that the total compensation is reasonable, in line with the market, and provides a benefit to ratepayers.[135] PSE has demonstrated its plan meets that test.[136] Public Counsel largely ignores these cases and instead relies on cases from other jurisdictions with different standards. Public Counsel also relies on a 1996 US West case involving a plan that allowed employees to receive incentive payments even if *none* of the safety or quality goals were met; the plan did not have a dual-funding threshold like PSE's Plan.[137] The Commission rejected US West's plan because financial performance could easily replace all safety and quality goals.[138] PSE's Plan *requires* meeting at least six of the ten safety and quality goals before any payment can be made, no matter how good the financial performance; funding above 100 percent is only possible if nine of ten safety and quality goals are met.[139] The Commission should allow recovery of PSE's Plan consistent with its past orders.

## VI. COST OF CAPITAL/RETURN ON EQUITY

*42.* Public Counsel proposes a return on equity of 8.75 percent, which is an extreme outlier. Data collected by Regulatory Research Associates suggests that the average return on equity

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[133] *See* Free, Exh. SEF-17T at 33:19-34:7. Contrary to FEA's assertion, post test year adjustments to the historical test year are not sufficient. *See* Initial Post Hearing Brief of FEA at p. 14.
[134] *See WUTC v. PSE*, Dockets UE-111048/UG-111049, Order 08 ¶¶ 114-123 (Mar. 7, 2012) (rejecting Staff's challenge to PSE's incentive adjustment); *WUTC v. PSE*, Dockets UE-130137 *et al.*, Order 07 ¶¶ 70-71 (June 25, 2013) (rejecting ICNU's challenge and noting Commission's consistent treatment of plan).
[135] *See, e.g.*, *WUTC v. PSE*, Dockets UE-111048/UG-111049, Order 08 ¶¶ 114-123 (Mar. 7, 2012); *WUTC v. PacifiCorp*, Docket UE-100749, Order 06 ¶ 250 (Mar. 25, 2011); *WUTC v. PacifiCorp*, Docket UE-050684, Order 04 ¶ 128 (Apr. 17, 2006); *WUTC v. PSE*, Dockets UG-040640 *et al.*, Order 06 ¶ 144 (Feb. 15, 2005).
[136] *See* Initial Brief of Puget Sound Energy at ¶¶ 99-103.
[137] *WUTC v. US West Commc'ns, Inc.*, Docket UT-950200, Fifteenth Supp. Order at 47-49 (Apr. 11, 1996).
[138] *Id.*
[139] Hunt, Exh. TMH-1T at 24:15-18; *see also* Hunt, Exh. TMH-7.

allowed by state regulatory agencies for vertically integrated utilities was (i) 9.7 percent for calendar year 2018 and (ii) 9.6 percent for the first three calendar quarters of 2019.[140] Moreover, the average allowed return on equity for the electric utilities in Public Counsel's proxy group is 9.9 percent, and the average expected return on equity for these electric utilities is 10.5 percent. Public Counsel's recommendation understates the return on equity of 9.4 percent authorized by this Commission for several utilities over the last six months[141] by at least 65 basis points.

*43.* Public Counsel's return on equity analyses contain several fatal flaws. First, the reliance on market-to-book ratios[142] is misguided because the ratio is the result of regulation, not the starting point. Second, Public Counsel's discounted cash flow ("DCF") is faulty because it erroneously uses a spot dividend yield inflated by one-half of the expected dividend growth for the dividend yield;[143] improperly relies on historical growth rates;[144] the growth rate is unreliable and impossible to replicate scientifically;[145] and the sustainable growth methodology contains a logical flaw requiring the Commission to assume a return on equity as an input to project a return on equity.[146] Finally, Public Counsel's capital asset pricing model ("CAPM") results produce absurdly low returns on equity of between 6.9 percent and 7.5 percent.[147]

*44.* Staff proposes a return on equity of 9.2 percent for PSE. Staff's DCF analysis contains some of the same infirmities as the Public Counsel analysis: (i) Staff's DCF analysis also erroneously uses a spot dividend yield inflated by one-half of the expected dividend growth for the dividend yield;[148] (ii) Staff's DCF analysis also relies on fallacious circular reasoning in that

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[140] *See* Morin, Exh. RAM-12T at 11:14-17.
[141] *See, e.g.*, *WUTC v. Avista Corp.*, Dockets UE-190334 *et al.*, Order 09 (Mar. 25, 2020); *WUTC v. Cascade Natural Gas Corp.*, Docket UG-190210, Order 05 (Feb. 3, 2020); *WUTC v. Northwest Natural Gas*, Docket UG-181053, Order 06 (Oct. 20, 2019).
[142] Initial Post-Hearing Brief of Public Counsel at ¶ 15.
[143] *See* Morin, Exh. RAM-12T at 13:10-15:12.
[144] *See id.* at 16:1-20:4.
[145] *See id.* at 18:12-19:8.
[146] *See id.* at 26:4-28:19.
[147] *See* Woolridge, Exh. JRW-1T at 51, Table 4 (only 140 to 200 basis points higher than the cost of long-term debt).
[148] *See* Morin, Exh. RAM-12T at 71:5-20.

it would require the Commission to assume a growth rate to calculate a growth rate;[149] and (iii) Staff's DCF analysis also improperly relies on historical growth rates to the exclusion of analysts' growth rate projections.[150] Additionally, Staff's CAPM analysis incorrectly relies on historical interest rates rather than interest rate forecasts for the risk-free rate[151] and a market-risk premium that materially understates the true market-risk premium.[152] Correction of these analytical errors result in a range of reasonableness of between 9.0 and 10.0 percent,[153] for which PSE's proposed return on equity of 9.5 percent is the midpoint. Accordingly, the Commission should adopt PSE's proposed return on equity in this proceeding.

*45.* Finally, PSE accepts Staff's proposal to use the short-term cost of debt of 2.47 percent as set forth in PSE's response to Bench Request No. 011 for the reasons stated in Staff's brief.[154]

## VII. PSE'S ELECTRIC COST OF SERVICE, RATE SPREAD AND RATE DESIGN SHOULD BE ACCEPTED

*46.* FEA recommends that the Commission require PSE to allocate electric production and transmission costs using the peak demand method or alternatively, the average and excess demand method.[155] No party agrees with FEA. As Staff points out, the Commission has rejected these arguments for nearly 40 years.[156] Further, any fundamental cost of service changes should not be made in this case but in the pending cost of service proceeding, Docket UE-170002.

*47.* Several parties advocate for electric rate spreads that differ from PSE's proposals, but each proposal weighs too heavily toward a rate in their own respective interest. Public Counsel's insufficiently reflects cost-causation, Staff's creates too high an increase for Schedule 43, and Kroger and FEA do not fully consider gradualism. PSE's proposal is the most fair and balanced.

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[149] *See id.* at 72:1-18.
[150] *See id.* at 73:1-75:15.
[151] *See id.* at 76:11-21.
[152] *See id.* at 77:6-80:12.
[153] *See id.* at 89:12-13.
[154] Commission Staff's Initial Brief at ¶ 44.
[155] Al-Jabir, Exh. AZA-1T at 2:13-3:2.
[156] Commission Staff's Initial Brief at ¶ 110.

## VIII. NATURAL GAS COST OF SERVICE, RATE SPREAD AND RATE DESIGN

### A. Directly Assigning Distribution Mains Costs is a Rate Design Improvement

*48.* The Commission should accept PSE's natural gas rate spread, which allocates gas costs based on long-established methodology, updated with enhanced customer usage data. AWEC agrees, stating that PSE's proposal refines and improves cost allocation. Public Counsel alone opposes PSE's proposal to directly assign costs of distribution mains to large volumetric customers. Public Counsel acknowledges that direct assignment of costs is generally preferred but opposes it in this case because the result shifts costs to its clients.[157] Public Counsel calls PSE's proposal a "new" methodology,[158] but it is not new. It is an adjustment to an established methodology based on better, updated information.[159] PSE properly allocates fewer costs to the Large Interruptible and Special Contract classes because those classes incur fewer costs; and PSE's follows gradualism—residential customers would experience below-average rate impacts.

### B. An Economic Bypass Study at This Time Would Be a Waste of Resources

*49.* The Commission should reject Staff's recommendation to order PSE to conduct an economic bypass study for its one natural gas special contract customer. Staff recommends a study to verify that the special contract's charges recover appropriate costs.[160] It is premature to order such a study now as the special contract does not expire until June 2035[161] and the data would be stale. Such a study should be completed closer to the contract's termination date.

## IX. COLSTRIP

### A. AWEC's Colstrip Arguments Are Incorrect and Make for Bad Policy

*50.* In its initial brief, PSE rebutted AWEC's incorrect interpretation of monetization of PTCs[162] and AWEC's proposal to selectively pro form the closure of Colstrip Units 1&2 and the

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[157] Initial Post-Hearing Brief of Public Counsel at ¶ 76.
[158] *Id.* ¶ 75.
[159] Even Public Counsel's witness describes direct assignment in the context of modifications to the methodology over time. Watkins, Exh. GAW-1T at 51:23 ("These changes over time have further allocated more costs to the Residential class."); *Id.* at 54:5-8.
[160] Commission Staff's Initial Brief at ¶ 115.
[161] *See* Taylor, Exh. JDT-9T at 9:7.
[162] AWEC's discussion of Puget Energy's tax provision is irrelevant. *See* Marcelia, Exh. MRM-11T at 18:13-19.

monetization of PTCs—both of which occurred long after the close of the pro forma period in this case. AWEC ignores other known and measurable changes that have occurred in the same time frame. The Commission should reject this unprincipled and outcome-oriented approach. The 2017 GRC settlement agreement does not require the ratemaking treatment AWEC proposes.

*51.* Regarding Colstrip Units 3&4, AWEC's proposal lacks coherence and makes for poor policy. AWEC claims that it "does not propose to use PTCs to reduce depreciation expense for Colstrip Units 3 and 4"[163] while contradictorily claiming that "PTCs can provide additional benefit to customers in this case by reducing the depreciation expense for PSE's interest in Colstrip Units 3 and 4."[164] It is undisputed that there is currently no Colstrip Units 3&4 unrecovered plant balance to which PTCs may be applied, so AWEC's reliance on the 2017 GRC settlement agreement to support its proposal is erroneous. Regardless, AWEC would either set depreciation rates at an arbitrarily low amount in this case or ignore CETA and set depreciation rates for a 2027 closure. Both approaches admittedly recover too little for depreciation today and decrease the availability of PTCs for decommissioning and remediation ("D&R") tomorrow.[165]

### B. Staff's Position on Colstrip Reporting and Interpretation of CETA

*52.* PSE agrees with Staff that RCW 19.405.030 allows utilities to recover D&R costs that are prudent and does not impose a timing requirement for recovery. However, PSE disagrees with Staff's suggestion that the 2017 GRC settlement agreement may be inconsistent with CETA. The settlement allows for the use of PTCs to cover D&R costs but does not preclude other methods for recovery such as through depreciation rates. CETA allows prudently incurred D&R costs in rates even after 2025 but does not prohibit recovery through depreciation rates.

### C. SmartBurn Is Prudent and Should Be Allowed for Recovery

*53.* PSE addressed the prudence of SmartBurn in its initial brief. The Commission should not engage in hindsight in its prudence analysis. When the SmartBurn investment is viewed in light

[163] Initial Brief of AWEC at ¶ 36.
[164] *Id.* ¶ 35.
[165] This is problematic due to uncertainty and growth of D&R costs. *See* Free, Exh. SEF-17T at 64:3-17, n. 105.

of the information available at the time the installation decision was made, it is reasonable given the plan to operate Colstrip and the anticipated environmental regulations.

## X. GTZ DEFERRED ACCOUNTING PETITION SHOULD BE APPROVED

*54.* PSE requests to defer GTZ depreciation expense and carrying costs. PSE is *not* seeking to defer its return on GTZ capital investment, although Staff's brief creates confusion on this issue.[166] Accrual of carrying costs on the GTZ deferral balance is reasonable to recognize the delay in recovery of the assets that are currently in service and that PSE is financing the funds to cover the lack of revenue for these projects.[167] This is consistent with the EV accounting order in which the Commission allowed PSE to defer depreciation expense with carrying costs.[168] Staff opposes deferral of carrying costs claiming deferrals and carrying costs on deferrals are only justified in exceptional circumstances.[169] Neither of these is consistent with Commission orders.[170] As Staff's own brief recognizes, what the Commission found unique in the EV accounting order was the deferral of *the return on capital investment*,[171] which PSE is not seeking for its GTZ deferral. Moreover, the Commission did not state that the carrying costs on the deferred depreciation was "only justified by legislative enactments" [172] as Staff implies. PSE should be permitted to defer carrying costs on its deferral of GTZ depreciation expense.

## XI. NWEC'S LINE EXTENSION PROPOSAL SHOULD BE REJECTED

*55.* NWEC's proposal that PSE revert back to its prior gas line extension methodology is inappropriate.[173] The Commission approved PSE's existing methodology in Docket UG-161268 after a thorough vetting process; PSE's methodology is consistent with similar methodologies

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[166] Commission Staff's Initial Brief at ¶ 63 ("[PSE] asks to earn a return on the unamortized deferral balance.").
[167] Free, Exh. SEF-17T at 43:1-9.
[168] *Id.*
[169] Commission's Staff's Initial Brief at ¶ 63.
[170] *See supra*, note 10.
[171] Commission's Staff's Initial Brief at ¶ 63.
[172] *Id.*
[173] Initial Post-Hearing Brief of NWEC at ¶¶ 15-18.

used by other regulated natural gas providers in Washington. Reverting hastily back to the prior methodology after only three years, without a thorough process would be premature.[174]

## XII. PUBLIC COUNSEL'S GREEN DIRECT PROPOSALS ARE WRONG

*56.* Public Counsel's Green Direct proposals are inapposite. First, PSE's petition would appropriately return "benefits" to participating customers by using liquidated damages to provide RECs to those customers now.[175] Public Counsel's proposal would not provide RECs to participating customers, depriving them of the very purpose of their participation in Green Direct in the first place, which has been delayed.[176] Second, Public Counsel's argument regarding the costs of the Green Direct PPAs should be disregarded because Skookumchuck and Lund Hill will be coming into service during the rate year and are appropriately included.

## XIII. CONCLUSION

*57.* As the evidence in this case demonstrates, PSE's rate request is consistent with the public interest. PSE respectfully requests the Commission approve PSE's request.

DATED this 10th day of April, 2020.

**Respectfully submitted**

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[174] *See* Piliaris, Exh. JAP-18T at 22:9-24:7.
[175] *See* Free, Exh. SEF-17T at 86:1-87:10; RCW 19.29A.090 and Docket UE-160977 requires that PSE return all program costs and benefits to participating customers.
[176] The Wisconsin case Public Counsel cites in support of its argument is not analogous or applicable to PSE's Green Direct accounting proposal, as it is about passing over-collected fuel-related costs back to customers, not RECs.