WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF
RESPONSE TO BENCH REQUEST

DATE PREPARED: May 1, 2020
DOCKETS: UE-190529, UG-190530, UE-190991, UG-190992, UE-190274, UG-190275, UE-171225, and UG-171226 (Consolidated)
REQUESTER: Bench

WITNESS: Jing Liu & Chris McGuire
RESPONDER: Chris McGuire & Jing Liu
TELEPHONE: (360) 664-1292 (Jing Liu)

BENCH REQUEST NO. 15:

Since the conclusion of the evidentiary hearing in the above-referenced dockets, circumstances have changed significantly due to the COVID-19 pandemic and related Governor Proclamations. In response, the Commission granted Puget Sound Energy's motion to extend the suspension date of its general rate case until July 20, 2020.[1] The parties subsequently filed initial and reply briefs, several of which mentioned the economic impacts Puget Sound Energy's customers are facing due to the COVID-19 pandemic and made related proposals.

Recognizing that the situation has since evolved, and continues to evolve, the Commission seeks input from all parties regarding options to mitigate the impact in the short-term of any rate increase on customers that results from the final resolution of this case. The Commission requests the parties submit proposals that address variables such as timing, amortization periods, or the use of existing mechanisms that may not be at issue in this proceeding. In submitting proposals, **parties should not seek to re-litigate contested issues in this proceeding, including those related to their respective positions on Puget Sound Energy's level of revenue requirement or individual adjustments.**

RESPONSE:

In summary, Staff identifies the following:

<u>Electric Operations</u>

1. Extending amortization of certain regulatory assets
   a. Storm damage and environmental remediation deferrals
   b. Decoupling deferral (outside of GRC)
2. Accelerating amortization of unprotected EDIT
3. Updating the power supply cost baseline

<u>Natural Gas Operations</u>

1. Extending amortization of certain regulatory assets
   a. Environmental remediation deferrals
   b. Decoupling deferral (outside of GRC)
2. Accelerating amortization of unprotected EDIT
3. Updating PGA rates (outside of GRC)

<u>Contested Items</u>

1. Amortization of AMI and GTZ deferral balances

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A. ELECTRIC OPERATIONS

Staff has identified a few options for the Commission's consideration. The Commission could: (1) extend the amortization of certain regulatory assets, (2) accelerate the amortization of unprotected EDIT, or (3) require an update to PSE's power cost baseline.

IMPORTANT NOTE: PSE filed its annual power cost deferral yesterday in Docket UE-200398 in which it indicated that PSE's cumulative deferral balance is $39.5 million in the surcharge direction, exceeding the $20 million threshold and thus triggering a surcharge. It is Staff's understanding, however, that PSE does not request recovery of the $39.5 million deferral balance at this time.[1] Nevertheless, it is important that the Commission recognize that this is yet another balance for which recovery is being delayed but which will eventually come due for ratepayers. In entertaining options for mitigating rate impacts now, the Commission should take care not to create a tidal wave of deferred recovery that is unmanageable for ratepayers in a year or two.

1. Extending the Amortization of Regulatory Assets

a) Storm damage and environmental remediation

PSE has regulatory assets associated with deferrals for Storm Damage and for Environmental Remediation. For Storm Damage, PSE has three electric deferral balances, two of which are already partially amortized. For Environmental Remediation, PSE has two electric deferral balances, one of which is already partially amortized.

Table 1. Current Amortization Schedule of Major Electric Regulatory Assets

	Balance as of July 1, 2020	Years Remaining	Annual Amortization
Storm Damage A (approved in 2017 GRC)	$23.8 M	1.5	$16.3 M
Storm Damage B (approved in 2017 GRC)	$31.9 M	3.5	$9.1 M
Storm Damage C (pending approval in 2019 GRC)	$54.1 M	4	$13.5 M
Subtotal: Storm Damage	***$109.8 M***		***$38.8 M***

[1] *In the Matter of the Petition of Puget Sound Energy For Approval of its 2020 Power Cost Adjustment Mechanism Report*, Docket UE-200398, Prefiled Direct Testimony of Susan E. Free at page 4, lines 10-17, Staff has not yet reviewed the complete PCA filing in Docket UE-200398 of April 30, 2020, but Staff supports in principle delaying recovery of the deferral balance for at least one year and then amortizing the deferral balance over a multi-year timeframe.

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Environmental Remediation A (approved in 2017 GRC)	$3.1 M	2.5	$1.4 M
Environmental Remediation B (pending approval in 2019 GRC)	$0.8 M	5	$0.2 M
Subtotal: Environ. Remed.	***$3.9 M***		***$1.6 M***
Total	**$113.7 M**		**$40.4 M**

The Commission could extend the amortization periods for these regulatory assets. For example, the Commission could amortize the combined deferral balance of $113.7 million over the five-year period ending June 31, 2025, which would reduce PSE's annual expense by $17.6 million (see Table 2, below, for example).

Table 2. Example 5-year Amortization of Regulatory Assets
(for illustrative purposes)**

	Balance as of July 1, 2020	Years Remaining	Annual Amortization
Storm Damage	$109.8 M	5	$22.0 M
Environmental Remediation	$3.9 M	5	$0.8 M
Total (hypothetical)	*$113.7*	*5*	*$22.7 M*
Total (status quo, Table 1)			$40.4 M
Reduction to Annual Expense			**$17.7 M**

b) Decoupling deferral (rates revised outside of GRC)

PSE has regulatory assets associated with deferrals from the company's decoupling mechanism. As of December 31, 2019, PSE has a deferral balance in the surcharge direction of approximately $20.3 million. PSE began amortizing that balance over a one-year period beginning today (May 1, 2020).

The Commission could order PSE to file a revised tariff in which the company would recover the deferral balance over a longer period, such as over two years. Assuming a $17.5 million remaining balance as of July 1, 2020, amortized over 22 months, the annualized surcharge would be approximately $9.4 million which represents a reduction in annualized expense of $10.9 million.

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2. Accelerating the Amortization of Unprotected EDIT

In the GRC, PSE proposes (unopposed) to pass back to ratepayers approximately $36.0 million of unprotected EDIT over four years, with ratepayers receiving approximately $9.0 million per year beginning July 1, 2020.

The Commission could accelerate the pass-back of the $36.0 million unprotected EDIT balance. For example, the Commission could return the $36.0 million over three years rather than four, which would provide ratepayers an additional $3.0 million per year (from $9.0 million to $12.0 million per year).

<u>Caution</u>: Staff cautions the Commission against accelerating too quickly the pass-back of unprotected EDIT. Were the Commission to order the pass-back of $36 million over one year, for example, ratepayers in year two would experience an increase of $36 million (as the rate credit expires). It is not clear that ratepayers will be in a position to bear that burden in 12 months. Without knowing how long the current economic environment will persist, any acceleration of the four-year return of unprotected EDIT should be viewed as a risky proposition.

3. Power Cost Baseline

Since the beginning of 2020, natural gas market prices have declined, placing downward pressure on fuel costs for natural gas-fired production facilities as well as for the market price of power.

The Commission could order PSE to provide one final update to the pro forma power cost baseline to incorporate the most recent forward strips for natural gas prices and the market price of power. It is impossible at this point for Staff to provide an estimate of the effect, if any, this update would have on revenue requirement. Staff anticipates that PSE's reply to Staff's response to this bench request will provide greater clarity on the potential for updating the power cost baseline.

B. <u>NATURAL GAS OPERATIONS</u>

Staff has identified a few options for the Commission's consideration. The Commission could: (1) extend the amortization of certain regulatory assets, (2) accelerate the amortization of unprotected EDIT, and (3) require an update to PSE's PGA rates.

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1. **Extending the Amortization of Certain Regulatory Assets**

   a) ***Environmental remediation deferrals***

PSE has two deferral balances associated with natural gas Environmental Remediation, one of which is already partially amortized.

Table 3. Current Amortization Schedule of Gas Environmental Remediation Deferral

	Balance as of July 1, 2020	Years Remaining	Annual Amortization
Environmental Remediation A (approved in 2017 GRC)	$21.2 M	2.5	$8.6 M
Environmental Remediation B (pending approval in 2019 GRC)	$4.3 M	5	$0.9 M
Subtotal: Environ. Remed.	***$25.5 M***		***$9.5 M***

The Commission could extend the amortization periods for these regulatory assets. For example, the Commission could amortize the combined deferral balance of $25.5 million over the five-year period ending June 30, 2025, which would reduce PSE's annual expense by approximately $4.4 million.

Table 4. Example 5-year amortization of regulatory assets
(for illustrative purposes)**

	Balance as of July 1, 2020	Years Remaining	Annual Amortization
Environmental Remediation Total (hypothetical)	$25.5 M	5	$5.1 M
Environmental Remediation Total (status quo, Table 3)			$9.5 M
Reduction to Annual Expense			**$4.4 M**

   b) ***Decoupling deferral (rates revised outside of GRC)***

PSE has regulatory assets associated with deferrals from the company's natural gas decoupling mechanism. As of December 31, 2019, PSE has a deferral balance in the surcharge direction of approximately $4.5 million. PSE began amortizing that balance over a one-year period beginning May 1, 2020.

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The Commission could order PSE to file a revised tariff in which the company would recover the deferral balance over a longer period, such as over two years. Assuming a $4.1 million remaining balance as of July 1, 2020, amortized over 22 months, the annualized surcharge would be approximately $2.2 million which represents a reduction in annualized expense of approximately $2.4 million.

2. Accelerating the Amortization of Unprotected EDIT

In the GRC, PSE proposes (unopposed) to pass back to ratepayers approximately $2.9 million in unprotected EDIT over four years, with ratepayers receiving approximately $0.7 million per year beginning July 1, 2020. Although accelerating the pass-back of unprotected EDIT for natural gas operations is not likely to provide a material counterbalance to the GRC base rate increase, Staff nevertheless presents the option here for the purposes of consistency between the company's gas and electric businesses.

The Commission could accelerate the pass-back of the $2.9 million unprotected EDIT balance. For example, the Commission could return the $2.9 million over three years rather than four, which would provide ratepayers an additional $0.24 million per year (from $0.72 million to $0.96 million per year).

3. PGA Options – Forward Gas Costs and Cumulative Deferral Balance

As noted above, natural gas market prices have declined nationally by approximately 10 percent since the beginning of 2020, placing downward pressure on forward gas costs. At the same time, largely due to the Enbridge rupture in early 2019, the company will carry a deferral balance of approximately $70.6 million as of June 30, 2020 (remaining from the $108.6 million from last year's PGA filing, amortized over two years).

The Commission could order PSE to file a revised tariff in which the company would update its PGA rates to reflect the most recent projected gas costs over the next year. It is impossible at this point for Staff to provide an estimate of the effect the updated gas price forecast would have on revenue requirement.

The Commission also could require a longer amortization period for the cumulative deferral balance set for recovery through Schedule 106B. The estimated balance as of June 30, 2020, is about $70.6 million. Were the Commission to require this balance to be amortized over, for example, 3 years (beginning July 1, 2020), the annual expense would be reduced by approximately $30.8 million (from $54.3 million to $23.5 million).

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C. CONTESTED ITEMS

1. Amortization of AMI and GTZ Deferral Balances

Staff recognizes that GTZ and AMI issues are contested in this GRC. However, in the event that the Commission decides to authorize recovery of any portion of the amounts related to AMI and GTZ for which the company has requested deferred accountings treatment, the Commission could choose to amortize such recoveries over a longer period of time than the company's proposed three-year amortization. Amortizing these balances over a longer period of time would have the effect of lowering PSE's revenue requirement.[2]

[2] PSE requested the recovery of a total GTZ deferral of $30.6 million ($20.2 million electric and $10.3 million gas) over three years. Staff recommended that the Commission authorize recovery of a total GTZ deferral of $16.7 million ($11.0 million electric and $5.6 million gas). Staff did not contest the three-year amortization period. Public Counsel objected to the entire GTZ deferral.

PSE requested the recovery of a total AMI deferral of $16.3 million ($11.3 million electric and $5.0 million gas) over three years. Staff contested neither the deferral amount nor the three-year amortization period. Public Counsel objected to the entire AMI deferral.