BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Dockets UE-190529 & UG-190530
Puget Sound Energy
2019 General Rate Case

BENCH REQUEST NO. 015

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015	Shaded information is designated as CONFIDENTIAL per Protective Order in Dockets UE-190529 and UG-190530 as marked in files contained in Attachment A to Puget Sound Energy’s Response to Bench Request No. 015.

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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:

Puget Sound Energy ("PSE") appreciates the opportunity to work with the Commission and parties to identify options to mitigate the impact of any rate increase on customers. PSE is aware of the devastating impact of the COVID-19 pandemic on its customers and the communities it serves, and PSE recognizes that the economic impacts of the pandemic are likely to last for several years. PSE is committed to working with the Commission to identify creative and appropriate mitigation measures that will benefit customers by limiting the impact of any rate increases, while allowing PSE to maintain financial health so it can continue to serve customers' energy needs now and in the future. Indeed, PSE took one such measure at the outset of the pandemic, moving back the statutory rate effective date by two months, which has the effect of delaying and reducing any rate increase approved by the Commission in this case.

In this response, PSE proposes a creative approach to mitigating rate increases that will benefit both customers and PSE by using funds owed to customers to offset regulatory assets in rates. This mitigation approach extends over a longer time horizon than other more traditional rate mitigation approaches and avoids a steep rate increase in the near term. This approach would align PSE's regulatory assets with the protected excess deferred income taxes ("EDIT") and allow PSE's regulatory assets to be offset by dollars owed to customers for protected EDIT that is being returned through the Average Rate Assumption Method ("ARAM"). This mitigation option provides the Commission flexibility by selecting the regulatory assets to include and a range of effective mitigation for rate increases. PSE compares the EDIT Matching approach to more traditional approaches, similar to that adopted by the Commission in the recent Avista general rate case order and discusses the advantages of the EDIT Matching approach.

EDIT Matching Approach to Mitigating Rate Increases

The EDIT Matching approach would lengthen the amortization period for several regulatory assets that are currently set in rates or proposed to be set in rates, some of which are included in the 2019 general rate case and some of which are outside the 2019 general rate case. These regulatory assets would be held in new regulatory asset holding accounts. Leveraging the wide discretion afforded the Commission, PSE proposes that the amortization of the regulatory asset holding accounts be matched with the reversal of ARAM for protected EDIT in this case.[1] The tax-adjusted ARAM reversal in this case is approximately $37.8 million. If the Commission were to include all of the regulatory assets shown in Table 1 below, the amortization of these regulatory assets would extend for 13-15 years. The Commission could also elect to include only a portion of these regulatory assets, which would reduce the period over which the assets in the new holding accounts would amortize, but also reduce the potential mitigation of rate increases.

It is important to note that while PSE is proposing that the amortization of the assets in the new regulatory holding accounts are tied to the ARAM reversal, this has no bearing on the normalization issues raised in this case since customers will continue to receive the benefit of the ARAM reversals consistent with IRS rules. However, by matching the level of amortization for these assets and liabilities, it provides the reasonable possibility, with IRS approval, of removing these items completely from PSE's regulated balance sheet, greatly simplifying the Commission's review of PSE's rate base in future rate cases.

Table 1, below, shows the deferral accounts that are available to place in the new regulatory asset holding accounts.

[1] The ARAM reversal would be grossed up for federal income taxes.

Table 1: Available Deferral Accounts

Description	Area	Type	Current Amort Life	6/30/2020 Balance	Annual Rate Recovery
Storm	Electric T&D	GRC	2.8	$ 109,231,675	$ 38,844,188
Env. Deferrals - Electric	Electric T&D	GRC	2.5	3,993,708	1,575,833
GTZ Deferrals - Electric	Electric T&D	GRC	2.8	19,900,000	7,000,000
AMI Deferrals - Electric	Electric T&D	GRC	2.8	13,700,000	4,900,000
Decoupling Deferral	Electric T&D	Sch. 142	0.9	17,607,440	20,602,698
Major Maint.	Electric Gen.	GRC	3.4	26,162,339	7,631,303
Chelan PPA Prepayment	Electric Gen.	GRC	11.3	80,331,410	7,088,066
LSR BPA LGIA Prepayment	Electric Gen.	GRC	13.6	65,300,000	4,800,000
Mint Farm Deferral	Electric Gen.	GRC	4.7	13,537,757	2,885,052
Env. Deferrals - Gas	Gas	GRC	2.7	25,349,170	9,460,164
GTZ Deferrals - Gas	Gas	GRC	2.8	10,200,000	3,600,000
AMI Deferrals - Gas	Gas	GRC	2.8	5,800,000	2,100,000
PGA 106B	Gas Supply	Sch. 106B	1.3	70,600,150	54,320,226
				$ 349,764,329	$ 95,327,140
				$ 111,949,320	$ 69,480,390
				$ 461,713,649	**$ 164,807,530**

As shown above, customers' rates are currently supporting almost $165 million in annual costs to amortize the regulatory assets proposed to be included in the new holding accounts. This compares with roughly $38 million in tax-adjusted ARAM reversals, resulting in the potential for over $127 million in potential rate relief for PSE's customers in the rate year.

Table 2, below, shows how the Deferral Accounts shown in Table 1 can be used to create three different scenarios with differing levels of rate increase mitigation.

Table 2: Three Scenarios for Regulatory Asset Holding Accounts

Regulatory Asset Holding Accounts			
Scenario 1	Scenario 2	Scenario 3	Description
Yes	Yes	Yes	Storm
Yes	Yes	Yes	Env. Deferrals - Electric
Yes	Yes	Yes	GTZ Deferrals - Electric
Yes	Yes	Yes	AMI Deferrals - Electric
Yes	No	No	Decoupling Deferral
Yes	Yes	No	Major Maint.
Yes	Yes	No	Chelan PPA Prepayment
Yes	Yes	No	LSR BPA LGIA Prepayment
Yes	Yes	Yes	Mint Farm Deferral
Yes	No	No	Env. Deferrals - Gas
Yes	No	No	GTZ Deferrals - Gas
Yes	No	No	AMI Deferrals - Gas
Yes	Yes	Yes	PGA 106B

With respect to the regulatory assets shown in Tables 1 and 2 above, PSE proposes that for accounting purposes the assets included in the regulatory asset holding accounts amortize in order of remaining amortization period, with those with the shortest remaining amortization period being amortized first. For example, this would result in the electric revenue decoupling deferral and PGA deferral being amortized first (i.e. being first to come off PSE's books). This will ensure some degree of conformity between the amortization schedules for these items before and after being transferred to the holding account. Additionally, the PGA and decoupling assets should be held in separate regulatory asset holding accounts from the other assets as their specific balances will need to be tracked in order to apply interest as is currently the process for these regulatory assets. Holding them in separate accounts will also help facilitate the application of amortization against these balances first and will be a transparent way to know when they have been fully amortized. For regulatory assets currently being amortized in the rates of tariff schedules outside the general rate case, PSE would also update these schedules during the compliance filing in this case.

Table 3, below, shows the rate increase mitigation impacts for the three different scenarios in Table 2. The three scenarios differ depending on which regulatory assets are included in the new regulatory holding accounts and the desired amount of rate increase the Commission seeks to mitigate. The scenarios range from $127 million to $72 million available for mitigation of a rate increase. Of course, other iterations are also possible. These were provided primarily for illustrative purposes – other combinations of assets are possible. Also shown in Table 3 is the resulting amortization period under the various scenarios.

Table 3: Three Scenarios For Rate Increase Mitigation

Description	Scenario 1	Scenario 2	Scenario 3
	"All In"		
		Estimated GRC Benefit:	
Electric	$ 65,364,939	$ 44,762,241	$ 25,242,872
Gas	61,651,441	46,491,277	46,491,277
Combined	$ 127,016,380	$ 91,253,518	$ 71,734,149
		Amortization Life in Years*	
Electric	13	12	6
Gas	15	10	10

* Decoupling and PGA if included will amortize first

PSE has attached the work papers that support the above calculations in Attachment A, which is a zip file, to this Bench Request.

It is important to note that the estimated benefits in these three scenarios are tied solely to the reduction in amortized costs being recovered in rates. However, there will also be a slight reduction to these estimates due to slightly higher carrying costs associated with higher asset balances than under the status quo. Given the inherent complexities in calculating these impacts, which would require time-intensive updates to many of PSE's detailed revenue requirement exhibits and work papers, and the short amount of time allowed for this response, PSE has omitted the calculation of these ancillary impacts for purposes of this response. PSE could provide additional analysis upon request by the Commission.

The EDIT Matching approach would avoid subsequent rate shock that would be felt under more traditional approaches, discussed below. The EDIT Matching approach also provides a clearer nexus between the amounts PSE owes its customers in terms of EDIT and the amounts customers owe PSE through its regulatory assets, providing a potential pathway, with IRS approval, to offset the two in a way that balances the interests of customers and shareholders.

Discussion of More Traditional Options

The Commission has other, more traditional options available to mitigate rate increases. These approaches are similar to what was adopted by the Commission in the Final Order in the recent Avista general rate case. PSE considered some more traditional approaches but found them not worth recommending because they created rate increases at the time that the mitigation solutions ran out. For instance, PSE considered passing back the remaining Wind Treasury Grants over one year from the general rate case rate effective date rather than through the end of 2022 as the rates are currently set to do. However, this solution would result in a $60 million rate increase in June of 2021. Given the situation as we see it today, there is no way to know if customers will be in any better position to experience this level of an increase in mid-2021 than they are to today. Therefore, PSE is not recommending these types of traditional approaches as it finds the solution it proposed above superior due to its longer glide path of rate mitigation as demonstrated by the amortization lives shown in Table 3.

Conclusion:

PSE recommends the Commission utilize the EDIT Matching approach to mitigate any rate increase in this case. This approach allows the Commission flexibility in terms of the existing regulatory assets to include and the level of mitigation for rate increases to provide. In general, the benefits of the EDIT Matching approach include the following:

- The EDIT Matching approach can provide sufficient rate increase mitigation while avoiding a steep rate increase when the amortization ends or is re-established in rates.

- The EDIT Matching approach allows PSE's regulatory assets to be offset by dollars owed to customers for protected EDIT that is being returned through ARAM.

- Matching the regulatory asset holding accounts to the protected EDIT provides the potential opportunity, in the future, with IRS approval, to use the protected EDIT to offset the regulatory asset holding accounts and remove these balance sheet items from PSE's regulated rate base and future rate cases.

Finally, it is important to note that PSE makes this proposal as mitigation for rate increases, and PSE strongly recommends that the rate mitigation provided through the proposed measures does not exceed the revenue increases approved in this case. PSE's proposal comes with some degree of financial risk to PSE and its shareholders. PSE is growing increasingly concerned with its liquidity position over the remainder of 2020 and the potential negative impact on credit ratings that could result as the economic impacts of the response to the unfolding COVID-19 pandemic fully take hold. The initial rate mitigating measure proposed by PSE and accepted by the

Commission—i.e., delaying the effect of the rate increase by two months from May 2020 to July 2020—will decrease PSE's rate recovery by approximately one-sixth of the ultimate rate change approved by the Commission, which will already negatively affect PSE's liquidity. Further, as customers' consumption of energy and their ability to pay for these services decline, so too does PSE's ability to maintain the cash flow necessary to fund its operations. This issue is exacerbated by the regulatory lag inherent in the traditional historic test year-based approach to fund utility operations. For these reasons, PSE respectfully requests that the proposal in this response should be used as mitigation for rate increases, as requested in the Bench Request, and should not exceed the revenue increases approved in this case.

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ATTACHMENT A to PSE’s Response to Bench Request No. 015