

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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

**BENCH REQUEST NO. 015:**

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. 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.**

**PSE'S REPLY TO RESPONSES TO BENCH REQUEST NO. 015:**

Puget Sound Energy ("PSE") appreciates the responses by the parties to the Commission's Bench Request. However, of the other parties that responded to the Bench Request, only Commission Staff provided new "options to mitigate the impact in the short-term of any rate increase on customers that results from the final resolution of this case" including "proposals that address variables such as timing, amortization periods, or the use of existing mechanisms that may not be at issue in this proceeding." Further, only the responses of Commission Staff and PSE attempt to balance the interests of customers and PSE, as the Commission is required to do. PSE objects to the responses by Public Counsel, The Energy Project ("TEP"), NWECA and Nucor, to the extent they go beyond the scope of this Bench Request and seek to relitigate issues in the case. PSE's objections to specific proposals are discussed in further detail below.

## **Options Presented By Commission Staff**

Commission Staff set forth several thoughtful options that the Commission could consider for mitigation of possible rate increases. Some of Commission Staff's options come with caveats and cautionary notes with which PSE is in general agreement and which are addressed in more detail below. Many of the options Commission Staff identifies are similar in concept to PSE's proposal; however, PSE's proposal offers a more long-term solution, avoids the whiplash of steep rate increase in the near term, and is more powerful in terms of rate increase mitigation than Commission Staff's suggested options.

### **1. Extending Amortizations**

Commission Staff presented an option to extend the amortization of the Storm Damage and Environmental Remediation regulatory assets to five years. These currently have remaining amortization periods ranging from 1.5 to 5 years. This option would reduce annual expense by \$17.7 million for electric and \$4.4 million for gas.

In a similar vein, Commission Staff notes that there are contested amortizations in the case for the Advanced Metering Infrastructure and Get to Zero deferral balances, which if approved, could be lengthened from the three-year period that PSE proposed in this case.

Extending the amortization of these regulatory assets is generally consistent with PSE's proposal. However, PSE's proposal extends the amortization for a longer period of time and matches it to the reversal of the protected excess deferred income tax ("EDIT"). PSE's proposal provides additional mitigation for rate increases beyond that provided in Commission Staff's options.

### **2. Decoupling Deferrals**

PSE agrees with Commission Staff that the decoupling deferrals could be used as mitigation for rate increases, but PSE has concerns with the approach presented by Commission Staff. The option discussed by Commission Staff would extend the regulatory asset associated with deferrals from PSE's electric and natural gas decoupling mechanisms from the current one-year amortization to a two-year amortization period. However, as the Commission is aware, PSE must recover deferred revenue within 24 months if it is to be counted as current-year revenue under Generally Accepted Accounting Practice ("GAAP").<sup>1</sup> PSE is concerned that pushing the recovery of these deferrals back a year, at the same time the decoupling mechanisms are accruing significant deferrals due to COVID-19 induced load reductions, could make it

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<sup>1</sup> *WUTC v. PSE*, Dockets UE-170033/UG-170034, Final Order 08 ¶ 303 (Dec. 5, 2017).

difficult for PSE to fully recognize its 2020 deferrals, given the limits on decoupling-related rate increases (i.e., the rate test).

### **3. Shorten Amortization of Unprotected EDIT**

Commission Staff suggests a shorter amortization of the unprotected EDIT for both electric and natural gas. Reducing the amortization from four years to three years would provide mitigation of rate increases by \$3 million per year for electric and \$0.24 million per year on the gas side. PSE agrees with Commission Staff's conclusion that this option is not likely to produce a material counterbalance to GRC base rate increases. PSE also has concerns with this approach due to the steeper rate increase in the short term when the amortization ends, particularly when considering that customers will already face a rate increase in the near term when the Treasury Grants being passed back under Schedule 95a are fully amortized in 2020.

### **4. Power Costs**

Commission Staff suggests that the Commission could order PSE to provide a final update to the pro forma power cost baseline rate. PSE updated power costs in its January 2020 rebuttal filing, but PSE agrees the Commission could order another update to power costs at the time of the compliance filing. However, while the results of such an update are unknown, PSE's most recent high-level review of power costs estimates the power cost baseline rate is likely to increase by approximately \$6 million. Thus, the power cost update could increase the revenue requirement in this case. Further, a power cost update takes several days to complete. If the Commission wishes PSE to update power costs it would be helpful to provide notice of its request well in advance so PSE can begin the power cost update and include the results in the compliance filing.

Finally, PSE wishes to clarify a statement by Commission Staff regarding PSE's \$39.5 million deferral balance in the surcharge direction in PSE's Power Cost Adjustment ("PCA") mechanism as of December 31, 2019. Commission Staff is correct that PSE has a surcharge and is not seeking recovery of the surcharge in its annual PCA filing in Docket UE-200398. Under the terms of PSE's PCA mechanism, the \$20 million threshold triggers an *automatic refund* for customers when there is an over recovery of power costs that exceeds the threshold but does not mandate a surcharge when the \$20 million threshold is exceeded on the under recovery side. In other words, PSE has *the option* to request recovery of the balance through a surcharge; it is not mandatory or automatic. PSE is not requesting recovery of the under recovery at this time. However, once the PCA annual review is completed, the Commission could consider placing this deferred balance, which is approximately \$42 million, in the regulatory asset holding accounts proposed in PSE's Response to Bench Request No. 015 and, once the electric decoupling balance (if chosen) was fully amortized, begin amortizing the PCA balance at the level of amortization expense approved in this case (presumably

equivalent to the level of electric ARAM of \$29.9 million) until it is fully amortized. Then, the remaining electric regulatory assets in the holding account would begin amortizing. This would have the effect of lengthening the amortization end date for all electric regulatory assets from March 2032 to July 2033 under Scenario 1. Attachment A to this Reply provides examples of how the chosen assets would amortize under Scenario 1 with and without the addition of the PCA balance in the holding accounts. PSE would not be opposed to such an approach.

## **5. Purchased Gas Adjustment (“PGA”) Deferral**

Commission Staff notes that there are multiple factors that will affect the PGA deferral balance and makes a couple of suggestions to mitigate rate increases. First, Commission Staff notes that natural gas market prices have declined over the past few months and the Commission could order PSE to file a revised tariff to reflect the most recent current projected prices. PSE agrees that the effect of this update to PGA rates is unknown. Second, Commission Staff proposes a longer amortization period for the \$70.6 million balance of the current deferral balance. Commission Staff proposes to amortize it over three years rather than the remaining one year of amortization, which would mitigate rate increases on the gas side by approximately \$30.8 million. This second option is generally consistent with PSE’s proposal, although PSE’s proposal prioritizes the recovery of the PGA deferral to avoid incurring significant carrying costs that accrue on the PGA deferrals.

In conclusion, PSE views the options presented by Commission Staff to be generally consistent with PSE’s proposals, although PSE’s proposals provide additional mitigation against rate increases and avoid some of the pitfalls discussed above.

### **PSE’s Objection to Proposals Outside the Scope of the Bench Request**

Bench Request No. 015 is narrowly tailored and seeks “options to mitigate the impact in the short-term of any rate increase on customers that results from the final resolution of this case” including “proposals that address variables such as timing, amortization periods, or the use of existing mechanisms that may not be at issue in this proceeding.” Thus, PSE objects to proposals such as those made by Public Counsel that address other matters including disconnections, down payments for past-due balances, waiver of late payment fees and security deposits, deferred payment plans, debt forgiveness programs, assistance programs, weatherization and energy efficiency, PSE communications on managing bills, and tracking customer affordability challenges.<sup>2</sup> These are general proposals for COVID-19 relief and are not mitigation for a rate increase in this case as requested by the Commission. These proposals fall outside the scope of the Bench Request and, accordingly, PSE will not be responding substantively to these proposals. To the extent the Commission is interested in exploring these

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<sup>2</sup> NWECA addresses some of these issues as well, pointing to its post-hearing brief.

proposals, they are more appropriately addressed in a forum in which all regulated utilities can engage.

### **PSE's Objection and Reply to Proposals that Relitigate Issues in the Case**

Responses by Public Counsel and TEP that request a final order denying any rate increase solely because of COVID-19 are inappropriate for several reasons and should be rejected by the Commission. First, contrary to the Commission's explicit instructions in the Bench Request, these proposals attempt to relitigate the paramount issue in the case—the level of revenue requirement the Commission should grant. The Bench Request seeks proposals to *mitigate* rate increases, not arguments against a rate increase. For these reasons, PSE objects to the responses.

Second, the proposals of Public Counsel and TEP are inappropriate because they would have the Commission toss aside the legal standards the Commission is required to follow in setting rates and blanketly deny any rate increase in light of the pandemic. But as the Commission has often stated:

The Commission's statutory duty is to establish rates, terms, and conditions for electric and natural gas services that are "fair, just, reasonable and sufficient." In doing so, the Commission must balance the needs of the public to have safe, reliable, and appropriately priced service with the financial ability of the utility to provide that service. The rates thus must be fair to both customers and the utility; just, in that the rates are based solely on the record in this case following the principles of due process of law; reasonable, in light of the range of potential outcomes presented in the record; and sufficient, to meet the financial needs of the utility to cover its expenses and attract capital on reasonable terms.<sup>3</sup>

The proposals by TEP and Public Counsel to deny any rate relief to PSE does not meet the standard of "fair" as it does not balance the interests of the public and the utility, as the Commission is required to do. Their proposals are not "just" because they are not based on the evidentiary record in this case. Public Counsel does not even attempt to address how its blanket denial of any rate relief would meet the standard of "sufficient." In summary, the proposals of Public Counsel and TEP to deny any rate relief is outside the scope of the Bench Request and inconsistent with the legal standard that the Commission must follow.

### **PSE's Reply to Proposals to Delay Rate Increases**

PSE disagrees with the various proposals to delay the rate increase set forth in the responses of Public Counsel, TEP, and Nucor. First, it is important to acknowledge that PSE has already voluntarily delayed the effective date of its rate increase, which has

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<sup>3</sup> *WUTC v. Avista*, Dockets UE-190334 et al., Order 09 ¶ 25 (Mar. 25, 2020) (emphasis added).

the effect of diminishing the ultimate rate increase by one sixth in the rate year. PSE offered this delay in rates prior to the Governor's Proclamations cited by Public Counsel.<sup>4</sup> Moreover, PSE's voluntary waiver of the suspension period is a more substantial and meaningful offer than the New York case cited by Nucor. In that case, the implementation of the rate increase was delayed by three months but the utility, Niagara Mohawk, was permitted to recover the delayed rate increase over the remainder of the rate year, thus increasing rates beyond what they would otherwise be for the remainder of the rate period.<sup>5</sup> PSE's waiver of the suspension period by two months means that PSE will not recover whatever increase is granted for that two-month period.

## **Conclusion**

Only Commission Staff and PSE responded appropriately to the Bench Request by providing concrete and workable solutions to mitigating rate increases. Additionally, the responses of Commission Staff and PSE are the only responses that attempt to balance the interests of PSE and its customers. The options presented by Commission Staff are similar to the proposals set forth by PSE, but PSE's approaches provide additional rate increase mitigation. PSE's proposal also avoids steep rate increases in the near term. PSE urges the Commission to accept its proposal or a combination of the proposals by PSE and the options suggested by Commission Staff. The proposals by Public Counsel, TEP, NWECA and Nucor provide no meaningful options for the mitigation of rate increases in this case, other than to delay the rate change, which was offered by PSE and implemented by the Commission in March. Many of these proposals are outside the scope of the Bench Request and would have the Commission disregard the legal standards and make a decision that is not based on the record in this case. These proposals should be disregarded by the Commission.

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<sup>4</sup> The Proclamations cited by Public Counsel do not mandate a waiver of the suspension period but allow the Commission to do so, particularly for the benefit of low-income customers. The Commission already took this action in March, in response to the motion filed by PSE which waived the suspension date and allowed a two-month delay in the effectiveness of the final order in this case. This occurred before the Governor issued the Proclamations.

<sup>5</sup> *Order Postponing Approved Electric and Gas Delivery Rate Increases and Updated Reduction to the Low Income Discount Credit and Temporarily Waiving Certain Tariff Fees*, Case 17-E-0238 *et al.*, at 4-6 (Mar. 25, 2020) (approving the delay in rate increase but allowing Niagara Mohawk to recover the delayed increase over the final nine months of the rate year to "ensur[e] that Niagara Mohawk ultimately receives the revenues to which it is entitled pursuant to the 2018 Niagara Mohawk Rate Order.").

**ATTACHMENT A to PSE's Reply to  
Responses to  
Bench Request No. 015**