

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent.	DOCKETS UE-190529 and UG-190530 <i>(consolidated)</i> ORDER 10
In the Matter of the Petition of PUGET SOUND ENERGY For an Order Authorizing Deferral Accounting and Ratemaking Treatment for Short-life IT/Technology Investment	DOCKETS UE-190274 and UG-190275 <i>(consolidated)</i> ORDER 07
In the Matter of the Petition of PUGET SOUND ENERGY For an Order Authorizing Deferred Accounting associated with Federal Tax Act on Puget Sound Energy's Cost of Service	DOCKETS UE-171225 and UG-171226 <i>(consolidated)</i> ORDER 05
In the Matter of the Petition of PUGET SOUND ENERGY For an Order Authorizing the Accounting treatment of Costs of Liquidated Damages	DOCKETS UE-190991 and UG-190992 <i>(consolidated)</i> ORDER 05 GRANTING MOTION FOR CLARIFICATION

BACKGROUND

1 On July 8, 2020, the Washington Utilities and Transportation Commission (Commission) entered its Final Order in the above-captioned dockets. The Final Order resolved all of

the contested issues in Puget Sound Energy's (PSE or Company) general rate case (GRC) and required PSE to file revised tariff pages consistent with the Commission's decisions contained therein.

- 2 On July 20, 2020, PSE filed a Motion for Clarification (Motion). In its Motion, PSE seeks clarification of multiple issues related to: (1) the Company's Advanced Metering Infrastructure (AMI) deferral, (2) power costs, (3) PSE's Green Direct program, (4) the Company's Get to Zero (GTZ) deferral, (5) treatment of excess deferred income taxes (EDIT), (6) Colstrip decommissioning and remediation (D&R) costs, (7) how certain adjustments were made, and (8) how production and transmission costs should be classified. PSE also seeks clarification about whether certain dates and estimated amounts referenced in the Final Order should be updated.

DISCUSSION AND DECISION

- 3 We grant PSE's Motion and provide clarification on each of the issues it raises as discussed below.

1. AMI

- 4 With respect to AMI, PSE first requests clarification that it can defer its return on investment of AMI plant placed in service through December 31, 2019, based on actual balances. The short answer is "yes."
- 5 In its Motion, PSE states that the Final Order allows the Company to continue to defer recovery of the return on its AMI investments per the terms of the Settlement Stipulation in the 2018 ERF, but notes that the ERF Settlement Stipulation did not allow deferral of the return on AMI investments made after the ERF test year. To clarify, the Final Order permits PSE to defer the cost of capital invested in AMI plant at PSE's authorized rate of return to FERC Account 186 – Miscellaneous Deferred Debits for both Electric and Natural Gas Operations based on actual balances through December 31, 2019. The Final Order's reference to the ERF Settlement Stipulation was intended to be instructive on the treatment of the deferral rather than its timing.
- 6 PSE next requests clarification that it is allowed to defer a return on the AMI depreciation deferral. Again, the answer is "yes." The Final Order requires all of the Company's return on its investment related to AMI through December 31, 2019, to continue to be deferred to FERC Account 186.

7 Finally, PSE argues that the Commission did not rule on PSE's request to defer AMI depreciation for plant in service after December 31, 2019. We disagree. The Final Order effectively ends all deferrals related to AMI as of December 31, 2019. Paragraph 156 explains that:

Going forward, the Commission will evaluate the portion of AMI investment for which PSE seeks recovery in rates, but will require the continued deferral of the *recovery of the return* on each portion of the investment until the AMI project is complete.

In other words, PSE may seek recovery of AMI test year expenses in its general rate proceedings, but may no longer defer any portion of its AMI investment. If and when the Commission approves a portion of PSE's AMI investment for recovery in rates, the Commission will require PSE to defer its recovery of the return on that portion of the investment until the Commission makes a final prudence determination on the total investment after the AMI project is complete.

2. Power Cost Hydro Modeling

8 In its Motion, PSE explains that it reran the AURORA model after the Final Order was issued to determine the "actual reduction" to power costs produced by the Commission's decision to require the Company to continue to run the AURORA model 80 times using all possible hydro assumptions. According to PSE, the "actual reduction" to power costs is approximately \$5.7 million rather than \$6.2 million.¹ PSE seeks clarification regarding whether it should use the "actual variance" of \$5.7 million in its compliance filing, which was "calculated using the model inputs from its rebuttal filing."

9 We deny the Company's request to perfect its filing at this late stage of the proceeding. PSE's argument that the \$6.2 million figure is "based on an estimate from PSE's direct testimony" and "does not incorporate updates included in PSE's rebuttal power cost estimates" is misplaced. The Company reiterated the same estimated power cost variance in its rebuttal testimony as it presented in its direct testimony.² Moreover, PSE did not attribute any portion of its updated power costs to a recalculation of the estimated variance produced by making changes to the AURORA model. Rather than seeking

¹ Paragraph 278 of the Final Order references Commission staff's testimony, which rounded PSE's estimated variance of \$6,249,000 to \$6.3 million. The adjustment in Appendix A to the Final Order, however, rounds down to remove \$6.2 million from power costs.

² See Wetherbee, Exh. PKW-34CT at p. 11, Table 1; see also Wetherbee, Exh. PKW-36C.

clarification, PSE's Motion improperly seeks to supplement a closed evidentiary record with new information intended to effect a different outcome. Accordingly, PSE is required to remove \$6.2 million from its power cost adjustment in its compliance filing as reflected in Revised Appendix A to this Order.

3. Green Direct Program Purchase Power Agreements

- 10 PSE seeks clarification on two issues related to Green Direct Purchase Power Agreements (PPAs). First, PSE seeks clarification regarding whether it should use the actual reduction to the rate year power costs of \$12.6 million, calculated after the Final Order was issued, rather than the \$13.1 million estimate provided by the Company in its rebuttal testimony and relied on in the Final Order. As explained in the previous section, the Commission's decision was based on the evidence in the record, which is now closed. PSE may neither attempt to perfect its filing at this late stage of the proceeding nor seek a different outcome through a motion for clarification. We also observe that both amounts are estimates based on power cost forecasts; PSE's number does not represent "the actual reduction" to rate year power costs.
- 11 Second, PSE requests clarification of an "inconsistency" in the Final Order related to Green Direct Program reporting requirements. Specifically, PSE seeks clarification that it is not required to track the costs of providing power to Green Direct program participants under Schedule 139 prior to the in-service dates of the PPAs because "there will be no costs to track."³
- 12 We find the Final Order to be neither inconsistent nor unclear on this point. The Commission requires PSE to separately track "the costs of providing power to Green Direct program participants *until the PPAs are in service.*"⁴ While PSE is correct that tracking and deferral of "any liquidated damages received net of costs such as pre-program REC purchases applied against those proceeds is already provided for in paragraphs 452 and 454 of the Final Order,"⁵ our decision further requires PSE to separately track all pre-program costs, including costs related to unbundled renewable energy credit purchases, to serve Green Direct customers.

³ PSE's Motion for Clarification ¶ 8.

⁴ Final Order ¶ 297 (emphasis added).

⁵ *Id.*, n. 10.

4. Commission Staff's Mitigation Proposals

- 13 With respect to Staff's mitigation proposals, PSE first seeks clarification regarding whether the Commission is ordering PSE to rerun power costs or gas costs. The short answer is "no." Paragraph 662 of the Final Order adopts Staff's proposals to (1) extend the amortization period for certain regulatory assets to five years, (2) extend the electric decoupling deferral to two years, (3) extend PSE's PGA deferral to three years, and (4) accelerate the amortization of unprotected EDIT for both electric and natural gas to three years, and nothing more. The Final Order did not adopt Staff's proposals to update power costs or gas costs.
- 14 Second, PSE requests clarification with respect to whether it should use the estimated amounts of the electric decoupling regulatory asset balance referenced in the Final Order, or whether it should use estimated amounts as of the date rates will change. PSE seeks the same clarification as it relates to estimated amounts of the PGA regulatory asset balance. To clarify, PSE should update actual balances through the end of the most recently complete month prior to rates taking effect.⁶ The Commission was cognizant when it made its decision that Staff's values were merely estimates, and that PSE's compliance filing would reflect the actual revenue requirement impact. For that reason, Revised Appendix A to this Order does not include the actual values.
- 15 Finally, PSE seeks clarification regarding whether the amounts included in Appendix A to the Final Order for electric storm damage and environmental remediation amortizations should be grossed up for revenue-sensitive items. Again, the Commission was aware that Staff's values were estimates, and that PSE's compliance filing would reflect the actual revenue requirement impact. By way of guidance, PSE should run all regulatory asset amortization changes through its revenue requirement models to determine the actual revenue requirement impact.

5. GTZ

- 16 PSE seeks clarification of an "apparent inconsistency" related to the GTZ deferral authorized by the Final Order. The Commission's decision was not inconsistent on this point. PSE is authorized to defer all GTZ investments placed in service between January 2020 and the conclusion of the Company's next GRC, but no further. The Final Order's

⁶ For example, if PSE makes its compliance filing on August 15, 2020, the electric decoupling and PGA regulatory asset balances should be updated to reflect actual balances through July 31, 2020, if known at the time of compliance.

reference to the period “outside the test year” is intended to ensure that no double counting occurs. To avoid this outcome, PSE should create an adjustment to remove the GTZ deferral amounts embedded in the test year in its next GRC. With this caveat, PSE is permitted to include assets in the deferral through the end of the pro forma period in its next GRC, and to include in the deferral the depreciation on those assets for the period from January 2020 until the date rates become effective following the Commission’s resolution of PSE’s next general rate proceeding.

- 17 PSE next seeks clarification related to the amortization of the deferral of its GTZ investment. PSE’s interpretation is correct. For the sake of clarity, we amend the first sentence of paragraph 132 as follows:

We also allow PSE to amortize deferred GTZ expense and ~~rate base amounts~~ carrying charges for the GTZ assets placed in service between July 2018 and ~~June~~ December 2019 over three years beginning ~~July 20, 2020~~ the date that rates become effective.

- 18 We similarly amend paragraph 739 as follows:

PSE should be authorized to amortize deferred GTZ expense and ~~rate base~~ amounts carrying charges for the GTZ assets placed in service between July 2018 and ~~June~~ December 2019 over a three-year amortization period beginning ~~June~~ 20, 2020 the date that rates become effective.

- 19 PSE is also correct that the Final Order authorizes the Company to amortize the GTZ depreciation deferral, which includes depreciation on GTZ assets through December 31, 2019.

- 20 Finally, PSE seeks clarification of the carrying charge rate it must use for its GTZ deferral. PSE is correct that Appendix A to the Final Order inadvertently excluded the FERC rate. The Final Order, however, requires PSE to calculate the carrying charges for its GTZ deferral using the current FERC rate as of the date of the Final Order.⁷ Revised Appendix A, attached to this Order, reflects this decision.

⁷ The FERC rate for Third Quarter 2020 is 3.43 percent. See <https://www.ferc.gov/enforcement-legal/enforcement/interest-rates>.

6. Volumetric True-up of 2018 ARAM Amounts in Sched. 141X

- 21 PSE argues in its Motion that, for the purposes of its annual volumetric true-up, the amount of revenues credited should reflect protected plus EDIT (PP EDIT) amounts passed back to customers through Schedule 141X through July 2020 to coincide with the approximate date rates will become effective. The Final Order recognizes the amounts PSE passed back to customers through May 19, 2020, which PSE describes as a “patent error.” We disagree with this characterization. The evidence in the record reflects amounts passed back to customers through May 19, 2020, based on the information PSE provided in response to Bench Request No. 13. Neither the Commission nor the other parties to this proceeding have had an opportunity to review the Company’s calculations for amounts passed back after that date. Again, PSE may not attempt to perfect its filing by supplementing the record at this late stage of the proceeding.
- 22 We accordingly deny PSE’s request to change references in paragraphs 381-383 of the Final Order from May 19, 2020, to July 2020. The volumetric true-up will provide an opportunity for the parties to review amounts returned to customers for the entire reporting period, and to ensure that those amounts are properly accounted for. PSE thus should include the May 20, 2020, through July 31, 2020, period in its first annual volumetric true-up filing. Because the Commission granted the Company’s motion to extend the deadline for its compliance filing, we modify paragraphs 366 and 763 of the Final Order by replacing the reference to “June 20” of each year with “September 1.”

7. Removal of PSE’s PP EDIT from PSE’s Adjustments 6.03

- 23 In its Motion, PSE argues that the Final Order removes the incorrect amount of PP EDIT reversals from PSE’s adjustments 6.03 for both electric and natural gas. The Commission’s revenue requirement in the Final Order removed approximately \$23.5 million for electric and \$6.3 million for natural gas from the federal income tax (FIT) adjustments 6.03 based on information that PSE provided in response to Bench Request No. 11.B (BR-11.B). The Commission’s bench request required PSE to provide the following detailed information:

B. The rebuttal testimony of Susan E. Free in Exh. SEF-20E at 3 and SEF-20G at 3 does not provide sufficient detail to understand or verify PSE’s testimony regarding the inclusion of protected-plus EDIT in the proposed FIT adjustments 20.03 ER and GR. Please provide supporting work papers for PSE’s FIT adjustments with a narrative describing precisely how EDIT is included in these adjustments, all cell locations where EDIT is included, and what specific amounts

of protected-plus EDIT are included in each cell. Please provide responses for both electric and natural gas revenue requirement calculations.

- 24 PSE provided the following response to explain how it included PP EDIT in its proposed FIT adjustments:

The protected-plus EDIT reversal is a significant reduction to tax expense and the primary reason the effective tax rate is not 21%. Please see Attachment C to PSE's Response to Bench Request No. 013, which provides the work papers submitted in support of PSE's electric FIT adjustment. Please see the item labelled "Plant Related" in the amount of \$19.9 million in cell F57 of tab "CBR_Electric." Electric EDIT reversal for the test year is included in this amount. Please see Attachment D to PSE's Response to Bench Request No. 013, which provides the work papers submitted in support of PSE's gas FIT adjustment. Please see the item labelled "Plant Related" in the amount of \$5.9 million in cell F32 of tab "CBR_Gas." Gas EDIT reversal for the test year is included in this amount. For additional detail associated with these amounts, please see Attachment E to PSE's Response to Bench Request No. 013, which is PSE's Response to WUTC Staff Data Request No. 067 that provides a table showing the breakdown of the electric and gas amounts between EDIT reversals and flow-through reversals as shown below.

- 25 PSE's response explained that PP EDIT amounts included in the Company's FIT adjustments were reflected in a single cell in its workpapers, but failed to provide a precise narrative description of "how EDIT is included in [FIT] adjustments, all cell locations where EDIT is included, and what specific amounts of protected-plus EDIT are included in each cell." Although the Company's response was insufficient, the Commission nevertheless used the limited information provided to inform its removal of PP EDIT from both the electric and natural gas FIT adjustments.
- 26 The cells in PSE's workpapers provided in response to the Commission's bench request are "non-flow-through" cell locations that, when adjusted, do not impact the actual FIT adjustments. To address this issue, the Commission's Accounting Advisor (or the CAA) developed a work-around based on the CAA's review of the formula cell references. First, the CAA removed the formulas in cells E57 and F57 for electric and the formulas in cells E32 and F32 for natural gas. Second, the CAA removed \$23.5 million from cell C57 for electric and removed \$6.3 million from cell C32 for natural gas. The impact on taxable income on the FIT adjustment lead sheets was dollar-for-dollar. The impact on net operating income (NOI), however, was not dollar-for-dollar, instead resulting in an

adjustment of approximately \$4.9 million for electric and \$1.3 million for natural gas. The Commission's adjustments increased the Company's revenue requirement by \$6.6 million for electric and \$1.7 million for natural gas.

- 27 The Company bears the burden of proving that a requested rate increase is just and reasonable.⁸ As such, it was incumbent upon PSE to provide a complete response to the Commission's bench request to prevent this type of calculation error from occurring. As it stands, the CAA is unable to verify whether the PP EDIT amount flows through, dollar for dollar, to NOI in PSE's revenue requirement model. The Commission is willing to accept PSE's representation that it does, but we do so only after noting that PSE failed to perform its due diligence to ensure that it provided adequately precise information in response to BR-11.B.
- 28 To address this discrepancy, the CAA removed the first workaround and directly adjusted NOI in the revenue requirement summary of adjustments. Revised Appendix A to this Order has been updated to reflect these changes consistent with PSE's representation that the \$23.5 million (electric) and \$6.3 million (natural gas) PP EDIT amounts have a dollar-for-dollar impact on NOI.

8. Administration of Schedules 141X and 141Z

- 29 PSE seeks clarification regarding the "nature of the true-up for Schedule 141X," noting that the Final Order requires PSE only "to true-up Schedule 141X with the difference caused by load variances between what is set in the rate versus what is actually passed back, and does not make reference to truing up the rate for the difference between the estimated amount of EDIT reversals and the actual amounts included on PSE's tax returns." The Final Order also requires PSE to pass back unprotected EDIT using Schedule 141Z consistent with Schedule 141X.
- 30 The Final Order was clear on this point. PSE's Motion requests the Commission modify its decision rather than provide clarification, which we decline to do in response to its Motion. Rates include recovery of the corporate tax rate in effect and not the actual tax liability. PSE collects taxes through customer rates whether it pays taxes or not, which is precisely why the \$815.4 million PP EDIT balance exists. The Commission is thus indifferent to the EDIT amounts reflected on PSE's tax return.

⁸ See RCW 80.04.130(4).

31 PSE is responsible for returning the \$815.4 million in PP EDIT to customers. This is not an estimated amount, nor is it subject to change. Rather, it is a precise measurement of tax dollars collected from customers but no longer owed to the IRS as of December 31, 2017. Accordingly, the annual true-up should reflect actual amounts returned to customers through volumetric rates and nothing more.

9. Allocation of EDIT Returned Through Schedules 141X and 141Z

32 PSE requests clarification of paragraphs 325 and 366 in the Final Order, which require PSE to allocate Schedule 141X and Schedule 141Z EDIT reversals based on class usage. PSE argues that allocating EDIT reversals based on class usage will result in commercial and industrial classes receiving a larger share of income tax benefits. PSE further argues that rate base should be used to allocate the tax benefits.

33 Although the language in the Final Order was imprecise, it did not create an inconsistency as PSE asserts. The phrase “class usage” was intended to reflect energy sold rather than total load to ensure equitable allocation of the tax benefits. To resolve any ambiguity and to ensure equitable allocation, we modify paragraphs 325 and 366 of the Final Order by replacing the phrase “class usage” in both paragraphs with “rate base.”

10. Colstrip Units 1 and 2 Rate Base, PTCs, and Regulatory Asset Treatment

34 PSE requests the Commission clarify whether it intended to require PSE to remove the utility plant balances included in its filing from rate base, and to add the regulatory asset as of July 19, 2020, to rate base. According to PSE, the Commission misinterpreted witness Susan Free’s affirmative response on cross examination that the plant balances for Colstrip Units 1 and 2 had been moved to a regulatory asset as of December 31, 2019, to mean that the transfer was reflected in the Company’s filing. This interpretation is incorrect. The Commission understands that the transfer of Colstrip Units 1 and 2 plant balances to a regulatory asset is not reflected in this case. Accordingly, the Final Order does not require PSE to remove Colstrip Units 1 and 2 from regulatory plant and establish a regulatory asset. The Commission merely noted in the Final Order that this transfer had occurred for the purposes of clarifying for the record that AWEC’s concern had been resolved.

35 The Final Order requires that PSE include with its compliance filing a report that adjusts the \$125.5 million in unrecovered, undepreciated plant balance for Colstrip Units 1 and 2 as of the December 31, 2019, retirement date to reduce that balance by the amount of depreciation in rates through to the date new rates become effective. Because the

Commission granted PSE's motion to extend its compliance filing deadline, we modify paragraphs 418 and 765 to replace the reference to "July 19, 2020" with the phrase "to the date new rates become effective."

11. Colstrip Units 3 and 4 D&R

36 PSE seeks clarification related to the treatment of the regulatory asset for D&R costs for Colstrip Units 3 and 4. PSE argues that it is unclear which costs the Commission has authorized PSE to defer, and requests the Commission clarify which costs should be transferred and tracked in the regulatory asset account. Specifically, PSE argues that the "combined reference to 'depreciation rates' and 'those costs' in paragraph 426 make it unclear which costs the Commission is seeking to have PSE defer." We disagree. Paragraph 426 authorizes PSE to "continue to recover D&R costs through depreciation rates for Units 3 and 4 and record those costs to a regulatory asset account." The Commission did not use the terms "depreciation rates" and "costs" interchangeably. Rather, the phrase "those costs" referenced the aforementioned D&R costs, and the requirement that PSE record those costs to a regulatory asset account should have resolved any confusion. Had the Commission intended for the Company to track depreciation rates, the Final Order would have required the Company to record those rates to a regulatory liability account. To be clear, PSE should track all actual D&R costs to a regulatory asset account to ensure accurate accounting of those costs for future rate recovery consideration.

12. Contested Electric Restating and Pro Forma Adjustments, 7.01 Power Costs

37 PSE requests the Commission clarify how it derived the net change to the NOI for the contested pro forma power costs adjustment 7.01 between Appendix A to the Final Order and PSE's response to BR-11. PSE is correct that pro forma adjustment 7.01 in Appendix A contains a calculation error that did not flow the change through tax expense. Revised Appendix A, attached to this Order, corrects this adjustment. To clarify, the Commission did not include in its calculation PSE's unsolicited update to its production factor because it was not responsive to BR-11. The Commission only sought to update PSE's proposed pro forma capital addition adjustments through December 31, 2019, to address regulatory lag.

13. Classification of Production and Transmission Charges

38 PSE requests the Commission clarify whether the Final Order requires PSE to use the Fixed Method to classify both production and transmission costs. The Findings of Fact

and Conclusions of Law in the Final Order inadvertently omitted the reference to production costs contained in paragraph 468. Accordingly, the second sentence of paragraph 705 is modified to correct this ministerial error as follows:

It is necessary to maintain PSE's production and transmission cost classification for the purposes of this proceeding until PSE is able to develop a new electric COSS under the Commission's recently promulgated cost of service rules in Chapter 480-85 WAC.

39 Similarly, the first sentence of paragraph 773 is modified as follows:

PSE should maintain its production and transmission cost classification using the Fixed Method for the purposes of this proceeding until PSE is able to develop a new electric COSS under the Commission's recently promulgated cost of service rules in Chapter 480-85 WAC.

14. Conclusion

40 To effect the changes required by this Order, the Commission modifies paragraph 25 of the Final Order as follows:

Based on the decisions we have made in this Order, we authorize an increase in PSE's revenue requirement in the amount of ~~\$29.5~~59.6 million, or ~~1.6~~ 2.9 percent, for the Company's electric operations and an increase in the amount of ~~\$36.5~~42.9 million, or ~~4.0~~ 5.6 percent, for its natural gas operations.

The Commission also modifies paragraph 26 as follows:

With respect to the electric revenue requirement, we extend the amortization of certain regulatory assets and the Company's electric decoupling deferral to mitigate the impact of the rate increase in response to the economic instability created by the COVID-19 pandemic, resulting in an estimated reduced revenue increase of approximately ~~\$857,000~~ 31 million, or ~~0.05~~ 1.5 percent. With respect to natural gas, we extend the amortization of certain regulatory assets and extend the PGA deferral from two to three years, resulting in an estimated reduced revenue increase of ~~\$1.3~~ 7.7 million, or ~~0.15~~ 1.0 percent. Summaries of both the electric and natural gas revenue requirements are attached hereto at Revised Appendix A.

- 41 The Commission makes the same modifications to the revenue requirement in the Synopsis of the Final Order, as well as paragraph 798.
- 42 Finally, the Commission modifies the Final Order by replacing references to “Appendix A” with “Revised Appendix A” in the Table of Contents, as well in paragraphs 627, 634, and 726.

ORDER

THE COMMISSION ORDERS THAT:

- (1) Puget Sound Energy’s Motion for Clarification is GRANTED.
- (2) Final Order 08/05/03 is modified as described in this Order, and as reflected in Revised Appendix A, attached to this Order.
- (3) The Commission retains jurisdiction over the subject matters and parties to this proceeding to effectuate the terms of this Order.

DATED at Lacey, Washington, and effective July 31, 2020.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner