Service Date: April 25, 2019

STATE OF WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

1300 S. Evergreen Park Dr. S.W., P.O. Box 47250 ● Olympia, Washington 98504-7250

(360) 664-1160 ● www.utc.wa.gov

April 25, 2019

NOTICE OF INFORMAL DRAFT RULES AND OPPORTUNITY TO FILE WRITTEN COMMENTS
(By June 14, 2019)

Re: Rulemaking to address electric and natural gas cost of service,
Dockets UE-170002 and UG-170003

TO ALL INTERESTED PERSONS:

On July 19, 2018, the Washington Utilities and Transportation Commission (Commission) filed with the Code Reviser a Preproposal Statement of Inquiry (CR-101) to address cost of service studies for investor owned utilities in the State of Washington. The Commission filed the CR-101 under Dockets UE-170002 and UG-170003.

The Commission hosted technical workshops on December 3, 2018, and February 21 and 22, 2019, to discuss cost of service. The December workshop focused on rule topics within cost of service. The February workshops discussed specific classification and allocation methods. Based on feedback collected at the workshops and internal discussions, the Commission solicits feedback on the attached informal draft rules. The informal draft is not a formal proposed rule.

All documents submitted or issued by the Commission in this matter are available on the Commission's website located at: www.utc.wa.gov/170002&170003

Consistent with the topics addressed in the draft rules, the Commission is seeking more clarification on several issues, and requests interested parties to submit comments responding to the following questions.

Questions for all interested stakeholders:

1. How should a cost of service study reflect special contracts?
    a. Is it appropriate to treat them as a separate customer class?
    b. How should revenue from special contracts be included or shown as an offset to other customer classes?

    i. Would this require a specific adjustment in the revenue requirement model?
2. Are the proposed input data types (advanced metering infrastructure, special contracts, load studies) sufficient, or should there be other types of data?
3. How often should load studies be performed?

Questions for utilities only:

In the February technical workshops, interested stakeholders in attendance were able to come to consensus on all items except for a few of the classification and allocation methods. The Commission rulemaking team created the following scenarios, and requests the utilities to provide the results with their comments on the draft rule. Please test these scenarios using the following restrictions:

1. Use the utility's most recently approved cost of service study on file with the Commission. Please indicate which study is being used by docket number.
2. Do not use a cost study that is currently submitted or under consideration in an open commission docket.
3. Only change the identified classification/allocation methods identified in the scenarios, as underlined below. The goal of these scenarios is to evaluate how the different methods impact parity across studies, which requires isolating individual changes.
4. Provide, at a minimum, parity ratios for each of the scenarios; additional information may be presented as appropriate.

The Commission welcomes any additional scenarios that should be considered to determine classification and allocation methods. Please provide any additional scenarios using the same restrictions outlined above to enable ease of comparison, along with a narrative explaining the concept of the scenario.

The Commission will hold a conference call on **April 30, 2019, at 9:30 am** to discuss any questions regarding the scenarios. Interested persons may use the following conference number and conference ID to participate in the conference call: 1-360-407-3810; ID - 9524028.

Electric Scenarios

Generation Classification

For the following scenarios, please use the 4 CP method for allocation of costs.

1. Average and excess – This scenario should be run consistent with the NARUC Electric Utility Cost Allocation Manual on pages 49 – 52.

2. PSE peak credit methodology – In this scenario, 75% of production costs are energy related, and 25% of production costs are demand related.

3. Renewable future peak credit[1] – This scenario is similar to a peak credit method but marginal load is served with batteries and wind. Capacity needs are met with batteries, and energy needs are met with wind. The wind cost is reduced for its anticipated capacity contribution multiplied by the fixed cost of a battery.

4. Thermal peak credit – This scenario compares the costs for a simple cycle combustion turbine (SCCT) to a combined cycle combustion turbine (CCCT). Capacity is defined as one-half SCCT fixed costs plus fuel costs to operate for 200 hours. Energy is defined as the fixed and fuel costs for a CCCT.

5. Renewable future peak credit with NPC allocated on energy – The same scenario as the renewable future peak credit method, except the NPC accounts (FERC Accounts 447, 501, 503, 547, 555, and 565) are allocated on energy.

Generation Allocation

For the following three scenarios, please use the average and excess method (pages 49 – 52 in the NARUC Electric Utility Cost Allocation Manual) for classification of costs. For the purposes of this allocation, summer is defined as April through September, and winter is October through March.

1. Top 100/100 Seasonal sales – Demand is allocated to each class using the average of top 100 hours in the winter and top 100 hours in the summer. Energy is based on retail sales.

2. Load net of renewable generation – Non-dispatchable renewable generated energy (wind and solar) is subtracted from total load to determine system peak. Energy is allocated using retail sales. Please provide each of the following variations:
    a. Demand is allocated to each class based on system peak (1CP) using load net of renewable generation in each hour.
    b. Demand is allocated to each class based on the average of each month's peak (12CP) using load net of renewable generation for each hour.
    c. Demand is the average allocator based on the top hour in summer and the top hour in winter using load net of renewable generation for each hour.

3. 12 CP peak method – This scenario should be run consistent with the NARUC Electric Utility Cost Allocation Manual on page 79.

[1] For more information on the renewable future peak credit, thermal peak credit, and renewable future peak credit with NPC allocated on energy methods, see the presentation Pacific Power gave at the February 21 technical workshop, available here.

Transmission Allocation

For the following three scenarios, please use the average and excess method (pages 49 – 52 in the NARUC Electric Utility Cost Allocation Manual) for classification of costs. For the purposes of this allocation, summer is defined as April through September, and winter is October through March.

1. Transmission Follows Generation – Please provide separate results for each of the scenarios identified in the Generation Allocation section.

2. FERC method – This scenario should be run consistent with how FERC allocates transmission costs in FERC Order Nos. 890 and 1000.

Natural Gas Scenarios

Distribution Mains Classification

For the following scenarios, please use the 4 CP method for allocation of costs.

1. Peak and Average – This scenario should be consistent with the NARUC Gas Distribution Rate Design Manual on pages 27 – 28.

2. Design Day – All distribution mains costs are demand related.

3. Hybrid Design Day – Demand is assigned by dividing the 1CP by the estimated design day peak ($\frac{1CP}{Design\ Day\ Peak}$). Throughput is assigned by subtracting the calculated demand from 1 ($1 - \frac{1CP}{Design\ Day\ Peak}$).

Distribution Mains Allocation

For the following scenarios, please use the 4 CP method for classification of costs.

1. Current Staff method – Distribution mains are allocated based on the average of the top five peak days in each of the last three years.

2. Staff proposed method in February 22 technical workshop – This scenario has two pieces. First, directly assign costs to dedicated facilities. Second, use the peak and average ratio to classify distribution main investment into both demand and commodity related costs. Demand costs are allocated using a rolling five-year average 1CP. Throughput costs are separated into two groups. Mains that are four inches or greater are allocated to all rate schedules based on annual weather normalized throughput. Mains that are four inches or less are allocated to all the rate schedules, except transportation and interruptible customers, based on weather normalized throughput.

3. Design Day – All distribution mains costs are allocated by contribution to theoretical design day peak.

Pursuant to WAC 480-07-250(3), written comments must be submitted in electronic form, specifically in searchable .pdf format (Adobe Acrobat or comparable software). As provided in WAC 480-07-140(5), those comments must be submitted via the Commission's web portal at www.utc.wa.gov/e-filing. If you are unable to submit documents via the portal, you may submit your comments by email to the Commission's Records Center at records@utc.wa.gov or by mailing or delivering an electronic copy to the Commission's Records Center on a flash drive, DVD, or compact disc that includes the filed document(s). Comment submissions should include:

- The docket number of this proceeding (Docket UE-170002 or Docket UG-170003)
- The commenting party's name.
- The title and date of the comment or comments.

The Commission will post on its web site all comments that are provided in electronic format. The web site is located at www.utc.wa.gov/170002&170003

If you have any questions about this notice or the rulemaking, please contact Elaine Jordan at elaine.jordan@utc.wa.gov or by phone (360) 664-1307.

Stakeholders will have further opportunity for comment. Information about the schedule and other aspects of the rulemaking, including comments, will be posted on the Commission's website as it becomes available. If you wish to receive further information on this rulemaking you may:

- Call the Commission's Records Center at (360) 664-1234
- Email the Commission at records@utc.wa.gov
- Mail written comments to the address below

When contacting the Commission, please refer to Docket UE-170002 or Docket UG-170003 to ensure that you are placed on the appropriate service list. The Commission's mailing address is:

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Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
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MARK L. JOHNSON
Executive Director and Secretary