Service Date: July 8, 2020

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent.	DOCKETS UE-190529 and UG-190530 (*consolidated*) FINAL ORDER 08
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 (*consolidated*) FINAL ORDER 05
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 (*consolidated)* FINAL ORDER 03
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 (*consolidated)* FINAL ORDER 03 REJECTING TARIFF SHEETS; AUTHORIZING AND REQUIRING COMPLIANCE FILING

***Synopsis**: The Commission rejects the tariff sheets filed by Puget Sound Energy (PSE or Company) on June 20, 2019. The Commission authorizes a revenue increase of approximately $29.5 million, or 1.6 percent, for the Company's electric operations. We, however, 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, which reduces the revenue increase to approximately $857,000, or 0.05 percent. With respect to PSE's natural gas operations, the Commission authorizes a revenue increase of approximately $36.5 million, or 4.0 percent. We extend the amortization of certain regulatory assets and extend the PGA deferral from two to three years, which reduces the revenue increase to $1.3 million, or 0.15 percent. The Commission requires PSE to file revised tariff sheets to reflect these decisions.*

The Commission determines that the Company's proposed attrition adjustment of $23.9 million for electric and $16.2 million for natural gas is not in the public interest at this time.

The Commission lowers the Company's return on equity by 10 basis points to 9.40 percent, and accepts PSE's short-term and long-term costs of debt of 2.47 percent and 5.51 percent, respectively. The Commission accepts the Company's uncontested hypothetical capital structure of 48.5 percent equity, 49.20 percent long-term debt, and 2.30 percent short-term debt (51.5 percent). This results in a 7.39 percent rate of return for PSE.

We authorize recovery of the following pro forma capital additions through the period ending December 31, 2019: Advanced Metering Infrastructure, Get to Zero, Public Improvement, HR TOPS, High Molecular Weight Cable Replacement, and the Energy Management System. The Commission also adopts PSE's proposal to value rate base on an End of Period (EOP) basis. Both of these measures address regulatory lag by modifying the test year to reflect actual rate base values and revenue requirement more closely during the rate effective period.

The Commission determines that investor supplied working capital (ISWC) should also be valued on an EOP basis consistent with all components of rate base for the purposes of this proceeding. As such, the Commission authorizes the ISWC amounts as proposed in PSE's rebuttal filing calculated on EOP basis, and declines to adopt Staff's proposal to calculate ISWC using the Average of Monthly Averages method.

The Commission approves three major pro forma capital additions: Advanced Metering Infrastructure, Get to Zero, and Data Center Relocations.

The Commission authorizes PSE to defer costs associated with Upgrades 1 and 3 to PSE's Liquefied Natural Gas facility in Tacoma (Tacoma LNG) until such time as the Tacoma LNG plant is placed in service.

The Commission finds that costs related to PSE's SmartBurn plant investment were not prudently incurred based on the Company's failure to maintain contemporaneous documentation of its decision making, and thus disallows recovery of $7.2 million in plant costs related to SmartBurn.

The Commission approves three smaller pro forma adjustments, HR TOPS, High Molecular Weight Cable replacement, and Public Improvement, on the basis that their costs are known and measurable and each is in service and serving customers.

The Commission sets power costs at $750.6 million, an increase of 5.5 percent, accepting PSE's new wind resource capacity factors and the Company's proposal to shift $1.5 million in common costs from Colstrip Units 1 and 2 to Units 3 and 4. The Commission disallows the inclusion of $13.1 million in Power Purchase Agreement costs related to PSE's Green Direct Program to prevent cross-subsidization by non-participating customers. The Commission also allows PSE to defer certain costs related to the removal of Colstrip Unit 4 major maintenance costs incurred in 2020 due to the Company's pending sale of Unit 4 in Docket UE-200115. Finally, the Commission adopts Staff's proposal to restore 80 separate runs for every year in the water record in the AURORA hydroelectric model.

The Commission approves PSE's proposed annual incentive compensation plan, finding that it is reasonable and provides benefits to ratepayers.

The Commission requires PSE to return unprotected excess deferred income tax totaling $38.9 million before gross-up ($36 million electric and $2.9 million natural gas) over a three- year amortization period, grossed-up, and refunded through a separate schedule to resolve the accounting petition in Dockets UE-171225 and UG-171226 consolidated with this proceeding. We also direct PSE to continue to pass back protected-plus excess deferred income tax (PP EDIT) through Schedule 141X consistent with the Average Rate Assumption Method, and further require the Company to file annual updates to ensure transparency and appropriate accounting treatment. The Commission directs PSE to return 2019 and 2020 PP EDIT over a 12 month period beginning July 20, 2020.

The Commission authorizes PSE's proposal to adjust the annual depreciation expense of Colstrip Units 3 and 4, a portion of which includes decommissioning and remediation (D&R) costs, to ensure those plants are fully depreciated by 2025, as required by the Clean Energy Transformation Act (CETA), and requires the Company to file a proposed

plan for the recovery of the D&R costs for Colstrip Units 3 and 4 that complies with CETA in its next general rate case. The plan must include an assessment of production tax credits available to offset D&R costs for those units. We further require the Company to move all D&R costs associated with Units 3 and 4 to a regulatory asset account for tracking purposes, and allow PSE to continue to recover D&R costs through depreciation rates for Units 3 and 4. Those amounts will be trued up once the units are retired and the actual D&R costs are known, and the prudency of the actual costs will be evaluated for inclusion in rates or refund once they are incurred.

The Commission resolves the Company's accounting petition related to its Get to Zero program in Dockets UE-190274 and UG-190275, which authorizes PSE to defer the depreciation expense for investments with a book life of 10 years or less that the Company has incurred, or will incur, outside of the test year period of the Company's next GRC.

We also grant the Company's petition for deferred accounting treatment in Dockets UE-190991 and UG-190992 for current and future liquidated damages related to the Power Purchase Agreements for its Green Direct program, subject to the condition that PSE must not discriminate between Green Direct customers when applying liquidated damages to offset program costs. We reserve any decision related to the use of the funds until such time as the Power Purchase Agreements are in service and the final amount of liquidated damages is known.

The Commission adopts the Company's proposed electric cost of service study, with the exception of its proposed change to transmission cost classification for energy and demand, which we maintain at 75 percent and 25 percent, respectively. We adopt the Company's proposed natural gas cost of service study, as well as the Company's rate spread and rate design for both electric and natural gas. The Commission declines to adopt the Federal Executive Agencies' proposal to require PSE to classify its fixed production and transmission costs as 100 percent demand-related and allocated to customer classes using the "4 CP Method," instead maintaining the status quo until PSE is able to conduct a new study under the recently adopted Cost of Service rules. The Commission also rejects Staff's proposal to require PSE to update its economic bypass study as premature.

The Commission approves a low-income funding increase of $1.4 million or twice the percentage increase of residential base rates, whichever is greater.

We decline to adopt Staff's proposed materiality threshold, instead examining each pro forma adjustment individually and allowing or disallowing recovery on the basis of

established standards of prudency, including whether the individual capital additions are used and useful, and whether the costs are known and measurable prior to the rate effective date. We also consider the life of the asset to appropriately capture investments that are at risk of under-recovery.

The Commission rejects NWEC's proposal to modify the methodology for calculating natural gas line extensions in the context of this proceeding, recognizing that it would have industry-wide impacts that should be addressed in an alternative forum.

The Commission also resolves several contested policy issues. The Commission declines to require PSE to adopt an on-bill repayment program, form a distribution system planning group, or implement pricing pilots. The Commission approves PSE's conjunctive demand service option pilot program as proposed, but requires additional reporting to clarify the purpose and scope of the program and track the program's progress. PSE's proposed sale of its water heater rental program has been removed from this proceeding and will be addressed in Docket UG-200112.

The Commission accepts 49 uncontested adjustments and multiple issues resolved on rebuttal, finding that each is supported by the evidence in the record and consistent with the public interest.

The Commission rejects two of the Company's proposed pro forma adjustments that would remove Directors and Officers Insurance and Excise Tax and Filing Fee restating adjustments to the detriment of ratepayers.

To mitigate the economic impacts of the COVID-19 pandemic on PSE's customers, the Commission extends the amortization period for certain assets, extends the electric decoupling deferral, and extends the PGA deferral to arrive at the reduced revenue requirement increase described in the first paragraph of this synopsis.

The Commission's decisions related to revenue requirement are summarized briefly in the Summary section of this Order at paragraphs 25–36.

Commissioner Balasbas dissents from the Commission's decision related to recovery of SmartBurn costs. Chair Danner dissents from the Commission's decision related to natural gas line extensions.

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I. BACKGROUND

A. PROCEDURAL HISTORY

1 *Tax Cuts and Jobs Act Accounting Petition*. On December 29, 2017, Puget Sound Energy (PSE or Company) filed with the Washington Utilities and Transportation Commission (Commission) a petition for an order authorizing deferred accounting associated with the impacts of the Tax Cuts and Jobs Act (TCJA) on PSE's cost of service in Dockets UE-171225 and UG-171226 (TCJA Petition). The TCJA Petition sought deferral of the costs and savings associated with the difference between the prior tax rate of 35 percent and the new tax rate of 21 percent. On November 26, 2018, PSE filed an amended petition (Amended TCJA Petition), which updated the petition to address (a) the over-collection of taxes for the period of January 1 to April 30, 2018, and (b) the excess deferred income tax (EDIT) balances created by the TCJA.

2 *Get to Zero Accounting Petition*. On April 10, 2019, PSE filed with the Commission a petition in Dockets UE-190274 and UG-190275 for an order authorizing deferral of certain expenses related to the Company's investments in short-lived technology assets as part of its Get to Zero (GTZ) program. PSE requests that the Commission approve the deferred accounting and ratemaking treatment for the depreciation expense associated with GTZ program investments and allow the Company to seek recovery of the deferred costs in future regulatory proceedings (GTZ Accounting Petition).

3 *General Rate Case (GRC)*. On June 20, 2019, PSE filed with the Commission revisions to its currently effective Tariff WN U-60, Tariff G, Electric Service, and Tariff WN U-2, Natural Gas, which were assigned Dockets UE-190529 and UG-190530, respectively. The filing would increase rates and charges for electric and natural gas service provided to PSE's customers in the state of Washington. PSE requested an increase in its annual electric revenue requirement of approximately $140 million (6.9 percent), and an increase to its annual natural gas revenue requirement of approximately $65.5 million (7.9 percent). On July 5, 2019, the Commission suspended the tariff revisions, consolidated Dockets UE-190529 and UG-190530, and initiated PSE's general rate case (GRC Dockets).

4 On July 22, 2019, the Commission entered Order 03, Prehearing Conference Order; Notice of Hearing, in the GRC Dockets. Order 03 granted petitions to intervene filed by The Energy Project (TEP), Alliance of Western Energy Consumers (AWEC), Nucor

Steel Seattle, Inc. (Nucor Steel), The Kroger Co. (Kroger), the NW Energy Coalition (NWEC), and the Federal Executive Agencies (FEA).

5 On October 23, 2019, Commission regulatory staff (Staff)[1] filed an unopposed motion to consolidate the GTZ Accounting Petition with the GRC Dockets. On October 28, 2019, the Commission entered Order 04/01, Granting Motion for Consolidation (Order 04/01), which consolidated for hearing the GRC Dockets with the GTZ Accounting Petition.

6 On November 22, 2019, Staff, the Public Counsel Unit of the Washington State Attorney General's Office (Public Counsel), AWEC, NWEC, TEP, Kroger, and FEA filed response testimony and exhibits in the GRC Dockets opposing the Company's rate and revenue requests.

7 *Green Direct Accounting Petition*. On November 27, 2019, PSE filed with the Commission a petition for an order authorizing deferral accounting for liquidated damages under Schedule 139, Voluntary Long-Term Renewable Energy Purchase Rider (Green Direct Petition) in Dockets UE-190991 and UG-190992. The Green Direct Petition seeks authority for PSE to defer liquidated damages and use them to offset other voluntary long-term renewable energy Green Direct program costs.

8 Also on November 27, 2019, Staff filed a motion for leave to file supplemental testimony in the GRC Dockets on increased fuel costs associated with a new coal contract for Colstrip Generating Station Units 3 and 4. On December 3, 2019, PSE filed a response stating that it did not oppose the motion, provided the Commission required Staff to file supplemental testimony by December 24, 2019. In its response, PSE also argued that "the Commission should allow a full update to power costs, to include all power cost inputs that have changed since PSE filed its direct testimony, in addition to the finalized coal supply contract, in order to allow the power cost baseline rate to be set as close as possible to what is expected to be experienced in the rate year."[2]

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[1] In formal proceedings such as this, the Commission's regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

[2] PSE's Response to Staff's Motion for Leave to File Supplemental Testimony at 9:6-9.

by one basis point."[78] For its electric operations, PSE's proposed net operating income (NOI) threshold is $500,000 and the rate base threshold is $9.5 million. For natural gas, the NOI threshold is $200,000 and the rate base threshold is $3.7 million.[79]

a. *Capital Additions through December 31, 2019*

110 On February 19, 2020, the Commission issued BR-11, which requested that PSE provide updates to six of the Company's pro forma adjustments for AMI, GTZ, Public Improvement, HR TOPS, High Molecular Weight Cable, and Energy Management Systems. The update included only amounts that are used and useful and known and measurable, consistent with Commission past practice, and did not include forecasts or estimates.

111 On March 2, 2020, PSE filed a response to BR-11. PSE's response provides for an increase to certain pro forma capital adjustments based on actual expenses for electric and natural gas through December 31, 2019.

Commission Determination

112 As described throughout this Order, the Commission has considerable discretion and authority to select from a wide range of ratemaking tools, including adjusting the length of the post-test year pro forma period. Prior to the statutory amendments made to RCW 80.04.250, granting pro forma adjustments beyond a few months after the end of the test year was considered "exceptional."[80] The statute's new language, however, provides the Commission may include in rates "property that is used and useful for service in this state *by or during the rate effective period,*"[81] and further that:

> (3) The Commission may provide changes to rates under this section for up to forty-eight months *after* the rate effective date using any standard,

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[78] Free, Exh. SEF-1Tr at 6:9-10.

[79] *Id.* at 11:7.

[80] *Wash. Utils. and Transp. Comm'n vs. Pacific Power & Light Co.*, Docket UE-140762, Order 08 ¶165, n. 57 (March 25, 2015).

[81] RCW 80.04.250(2) (Emphasis added).

> formula, method, or theory of valuation reasonably calculated to arrive at fair, just, reasonable, and sufficient rates.[82]

113 As a result, extending the pro forma period beyond a few months after the end of the test year is no longer "exceptional." To the contrary, it is a method we expect to employ as a tool to address regulatory lag and particularly when a utility proposes a multi-year rate plan. This use of an extended pro forma period is not a one-size fits all solution, and thus will be determined on a case-by-case basis.

114 Here, we need not rely on projections or estimates. Each of the investments we approve meets the used and useful standard because it is currently being used to provide service to customers, and their associated costs are known and measurable. We find that allowing these adjustments through December 31, 2019, is a reasonable means to address regulatory lag by ensuring more timely recovery for investments – some of which are short-lived and particularly vulnerable to regulatory lag – that are already benefitting customers.

115 We address each pro forma adjustment in turn.

b. *Get to Zero*

116 In its initial filing, PSE describes GTZ as "a six year (2016-2021) corporate initiative that focuses on improving the customer service in many different ways and includes multiple projects . . . that ultimately make doing business with PSE easier for PSE's customers."[83]

117 PSE witness Jacobs describes the GTZ initiative as "a focused effort on all digital channels to eliminate problems that drive customers to call us," including replacing technologies that are outdated, no longer supported, or no longer meet PSE's cyber security requirements.[84] According to Jacobs, GTZ will:

- Improve billing and payment capabilities for customers;
- Create new field force automation within many of PSE's operational teams;

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[82] RCW 80.04.250(3) (Emphasis added).

[83] Jacobs, Exh. JJJ-1T at 2:15-18.

[84] Jacobs, Exh. JJJ-1T at 2:18-22.

However, should the Commission adopt Staff's proposal, PSE argues that it should adjust Staff's calculation.[606]

555 According to PSE's recalculation, the gross cost test for common costs should be $3.4 million rather than the $3.9 million proposed by Staff.[607] PSE witness Free further recommends that the gross cost threshold be applied at the functional level, consistent with the approach Staff advocated in PSE's 2017 GRC, which would allow additional projects to be included.[608] Even with PSE's modified gross cost test at a functional level, PSE is concerned that the Public Improvement adjustment would not qualify for inclusion,[609] which is problematic because public improvement projects are required by outside agencies and are nonrevenue generating.

Commission Determination

556 We find that applying a strict materiality threshold as Staff proposes would unnecessarily limit the Commission's flexibility, particularly in light of recent changes to RCW 80.04.250 that clarify the Commission's discretion for determining how, when, and by which methods utilities may recover investments. We appreciate that Staff's proposal aims to mitigate issues that can limit a utility's ability to fully recover the costs of short-lived investments from ratepayers absent special accounting treatment. However, we ultimately determine that adopting a bright-line threshold is not an appropriate solution.

557 From an historical standpoint, PSE correctly observes that the Commission "has not established bright-line standards governing the timing or the number of adjustments that can be accepted in a given case, and has not established a minimum size for pro forma adjustments to be recognized."[610] This was true even prior to the legislature clarifying the Commission's regulatory flexibility in 2019. As such, adopting a firm threshold at this juncture, with as-yet unexplored areas of Commission authority, would be contrary to both past practice and the legislature's intent.

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[606] Free, Exh. SEF-17T at 31:12-32:2.

[607] *Id.* at 36:7-10.

[608] *Id.* at 37:9-18.

[609] *Id.* at 38:1-7.

[610] *Id.* at 29:11-31:11; 30:14-17, quoting *Washington Utils. and Transp. Comm'n v. Avista Corporation, d/b/a Avista Utilities,* Dockets UE-160228 and UG-160229, Order 06 ¶ 82 (Dec. 15, 2016).

558 Bearing in mind that PSE filed the current GRC prior to the implementation of CETA and prior to the Commission's publication of its Used and Useful Policy Statement, Staff's proposal makes an earnest endeavor to solve a real problem; however, other, more flexible resolutions have since emerged. We decline to adhere to one particular formula prior to endeavoring to develop jurisprudence under the new law. Instead, the Commission intends to focus on forging new paths forward. To that end, we anticipate that the Commission will address on a case-by-case basis the relationship between short-term investments and regulatory lag in the larger context of how and when we include for later recovery post-test year expenses.

559 Notably, many of Staff's concerns related to short-term investments are addressed by our decision to include in rate base pro forma adjustments through December 31, 2019, as discussed in Section II(B)(3)(i)(a) of this Order.

560 We similarly decline to adopt the Company's proposed materiality threshold, or endorse any particular methodology for defining "major" projects. Rather, we will evaluate individual adjustments for inclusion in rates on a case-by-case basis to maintain the Commission's discretion to adapt to evolving technologies and circumstances. In doing so, we will base our acceptance or rejection of proposed pro forma adjustments on our evaluation of multiple factors relevant to the particular proposed adjustment, including, but not limited to, the life of the asset, whether the asset is used and useful, whether the costs of the asset are known and measurable, and whether the costs were prudently incurred.

ii. On-Bill Repayment Program

561 NWEC recommends that the Commission order PSE to design and implement an on-bill repayment program to increase energy efficiency for its customers. NWEC recommends that the program: (1) be designed in collaboration with PSE's Conservation Resource Advisory Group (CRAG) and its Low-Income Advisory Committee; and (2) be filed by December 31, 2020.[611]

562 Specifically, NWEC recommends that PSE offer a "tariffed" on-bill repayment program with the following features:

[611] Gerlitz, Exh. WMG-1T at 20:14-17.