
PSE Perspective on Regulatory Reform Legislation in Washington

2022 Spring NCSL Energy Supply Task Force

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Puget Sound Energy is oldest and largest utility in Washington

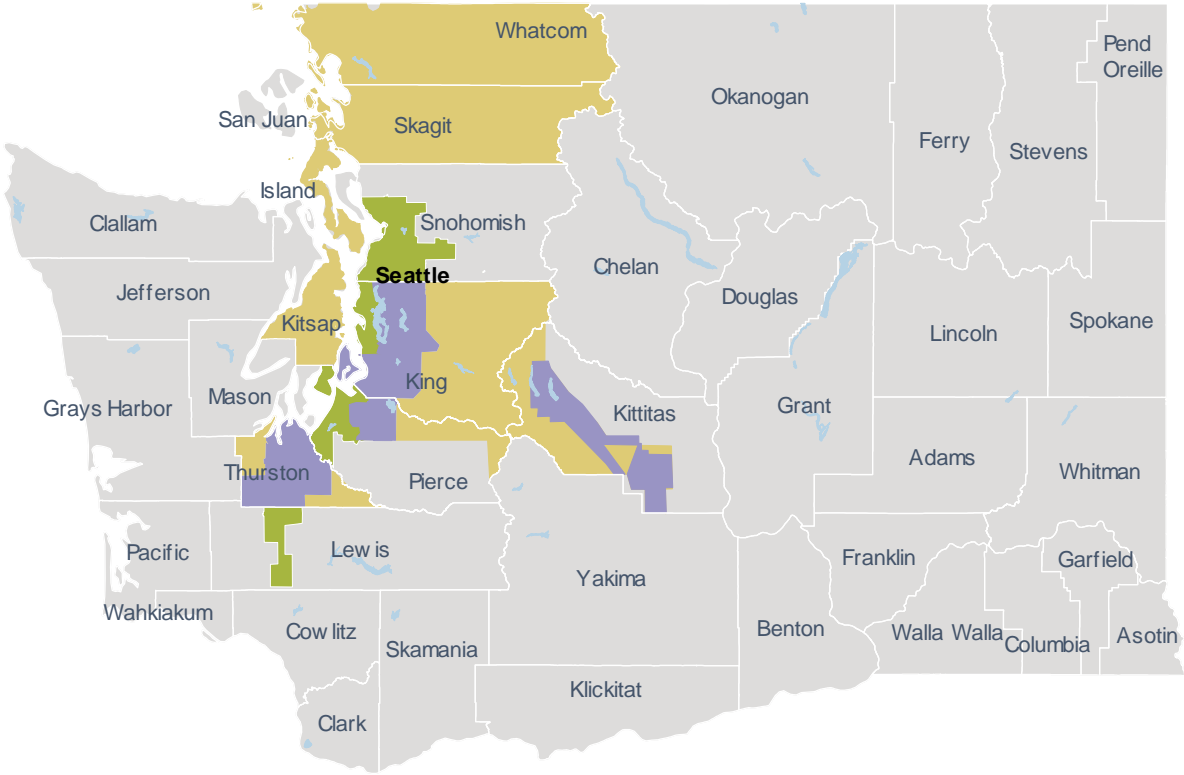
- Washington's largest and oldest utility, **serving 1.5 million customers** in 10 counties.
- Our **3,200+ employees** live and work in the communities we serve.
- We share our customers' **concern for the environment**, balanced with their expectations for uncompromised **reliability, affordability and safety**



Wild Horse Wind and Solar Facility

PSE provides electric and gas service to the major population centers in Western Washington

Service area overview	
Headquarters	Bellevue, Washington
Service area	6,000 square miles 10 counties Population of approx. 4 million 14 operating base facilities
Customers	~1,200,000 electric customers ~900,000 natural gas customers Predominantly residential customers Over 400,000 customers are dual fuel



Service area
■ Electric area ■ Gas area ■ Electric and gas territory



Washington has primarily relied on traditional forms of utility regulation

- Basic elements of traditional forms of utility regulation
 - Utilities allowed to earn a return on investment, but not on its operating costs
 - Cost recovery generally tied to historical relationship between costs and sales
 - Utilities recover most costs through volumetric charges for service
 - “Adequate” levels of service quality enforced through periodic reviews and potential penalties

However, Washington has some experience with alternative forms of utility regulation

- Washington has approved a handful of **multi-year rate plans** over past 20 years
- Washington was an early adopter of **decoupling** in the 1990s and, after an almost 20 year hiatus, approved decoupling again for utilities in the 2010s
- Most investor-owned utilities in Washington are subject to some degree of **performance requirements**, but have only dabbled in **performance incentives**, to little effect
- Aside from decoupling, there has been little sustained momentum away from traditional forms of regulation
- However, with the growing interest in beginning a clean energy transition, Washington's utility regulator began to seriously consider multi-year rate plans again
- Unfortunately, our regulator's authority to approve rates under these plans were challenged in court in 2018 and they lost this challenge

The adverse court ruling prompted a legislative push for regulatory reform

- Washington’s regulator submitted agency-requested legislation in the 2019 session (SB 5816)
- This legislation was ultimately folded into the Clean Energy Transformation Act (CETA) (SB 5116)
- Specific to regulatory reform (section 20), the following changes were made to existing statutes
 - Explicitly granted Washington’s utility regulator authority to approve rates based on a forecast of investments
 - Provided express authority for rate plans up to 4 years in length
 - Provided the regulator latitude in how it forecasted costs for recovery in utility rates
 - Clarified regulator’s “authority to consider and implement performance and incentive-based regulation, multiyear rate plans, and other flexible regulatory mechanisms”

PSE's attempt to use new statutory language was a bitter failure

- PSE filed a rate case June 2019
- Case included an “attrition adjustment” intended to reflect its forecasted costs, but omitted a multiyear rate plan
- Intent was to ensure “regulatory lag” would be addressed before committing to multiyear term
- All appeared to be going well through the formal hearing in February 2020
- Then COVID hit in March 2020, two months before the order was due in the case
- The regulator ultimately rejected PSE's attrition proposal and, for a variety of reasons, the rate case order was viewed very unfavorably by utility
- The future of multiyear rate plans in Washington did not look promising
- This set the stage for additional regulatory reform legislation

Subsequent regulatory reform negotiation again led by regulator and (eventually) included most key stakeholders

- Regulator: Desired multiyear rate plan
- Utilities: Wanted reduction in regulatory lag and reduction in regulatory risk
- Environmental advocates: Primarily focused on performance measures and incentives
- Customer advocates: Primarily focused on customer protections
- Low-income advocates: Interested in greater funding and improved access to funds
- Social justice advocates: Interested in improved opportunities for meaningful advocacy

Regulatory reform legislation (SB 5295) ticked all the boxes

- Multiyear rate plans required to be filed with each general rate case
 - Required to be between 2-4 years
 - Commission not obligated to approve plans (i.e., could revert back to traditional ratemaking)
- Rate plans required (effectively) elimination of regulatory lag at start of rate plan
- Utility has full discretion to cut a longer-rate plan back to 2 years
- Rate plans required to also include measures upon which to judge utility's performance during plan (incentives/penalties are allowed, but not required)
- Statutory limit on earnings 50 basis points above approved level of return
- Low-income funding increases at double the rate of increase in residential rates
- Funding made available for interveners in utility proceedings, primarily to facilitate involvement by disadvantaged communities

We are now beginning the journey to implementing this legislation

- Regulator has commenced a proceeding to provide general policy guidance (and possibly rules) on multiyear rate plans and performance based regulation
 - Performance measures and metrics to be discussed in 2022
 - Multiyear rate plan mechanics to be discussed in 2023
 - Performance incentive mechanism development to be discussed in 2024
- Meanwhile utilities have filed rate cases this year with multiyear rate plans and performance measures
 - PSE worked with Commission staff in developing rate plan mechanics
 - PSE also undertook six months of broad stakeholder outreach on performance elements
 - Rate case orders will provide early regulatory guidance on implementation expectations
- Likely to be a relatively slow and iterative regulatory evolution over the coming years

Questions?
