

# HOUSE BILL REPORT

## SB 5816

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### As Reported by House Committee On: Environment & Energy

**Title:** An act relating to clarifying the valuation and determination of used and useful property for rate making purposes.

**Brief Description:** Clarifying the valuation and determination of used and useful property for rate making purposes.

**Sponsors:** Senators Carlyle and Ericksen.

#### **Brief History:**

##### **Committee Activity:**

Environment & Energy: 3/25/19, 3/26/19 [DP].

#### **Brief Summary of Bill**

- Specifies that the Utilities and Transportation Commission (UTC) may ascertain and determine the fair value of a regulated company's property that is used and useful for service in the state by or during the rate effective period.
- Authorizes the UTC to provide changes to rates for up to 48 months after the rate effective date using any standard, formula, method, or theory of valuation reasonably calculated to arrive at fair, just, reasonable, and sufficient rates.
- Specifies the UTC's authority to consider and implement performance and incentive-based regulation, multiyear rate plans, and other flexible regulatory mechanisms.

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### HOUSE COMMITTEE ON ENVIRONMENT & ENERGY

**Majority Report:** Do pass. Signed by 10 members: Representatives Fitzgibbon, Chair; Lekanoff, Vice Chair; Shea, Ranking Minority Member; Dye, Assistant Ranking Minority Member; Boehnke, Doglio, Fey, Mead, Peterson and Shewmake.

**Staff:** Nikkole Hughes (786-7156).

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

**Background:**

The Utilities and Transportation Commission (UTC) regulates the rates, services, and practices of certain public service companies, including electrical companies, natural gas companies, and telecommunications companies. The UTC is required to ensure that rates charged by these companies are fair, just, reasonable, and sufficient.

In establishing rates, the UTC has the power to ascertain and determine the fair value of a regulated company's property that is used and useful for service in the state. In determining what property is used and useful for providing electric, gas, wastewater company services, or water service, the UTC may include the reasonable costs of construction work in progress, to the extent that the UTC finds that inclusion is in the public interest.

*In Office of Attorney General, Public Counsel Unit v. Washington Utilities and Transportation Commission*, 4 Wn.App. 2d 657, 423 P.3d 861 (2018), the Washington State Court of Appeals held that the "used and useful" standard only allows utility rates to include the value of property at the time changes to rates are considered by the UTC.

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**Summary of Bill:**

The UTC has the power to ascertain and determine the fair value of a regulated company's property that is used and useful for service in the state by or during the rate effective period. The valuation may include consideration of any property that a regulated company acquired or constructed by or during the rate effective period, including the reasonable costs of construction work in progress, to the extent that the UTC finds that such an inclusion is in the public interest and will yield fair, just, reasonable, and sufficient rates.

The UTC may provide changes to rates for up to 48 months after the rate effective date using any standard, formula, method, or theory of valuation reasonably calculated to arrive at fair, just, reasonable, and sufficient rates. The UTC must establish an appropriate process to identify, review, and approve property that becomes used and useful for service in the state after the rate effective date.

Nothing in the provisions establishing the used and useful standard limits the UTC's authority to consider and implement performance and incentive-based regulation, multiyear rate plans, and other flexible regulatory mechanisms.

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**Appropriation:** None.**Fiscal Note:** Available.**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) This bill provides regulatory reform opportunities that reaffirm the UTC's flexibility in exercising its ratemaking authority. The pace of change in the utility industry is accelerating, and traditional ratemaking is no longer adequate. This bill will modernize the UTC's toolbox while maintaining customer protections in effect today. This bill does not direct the UTC to use any specific methodology or tools, but rather provides them with options.

(Opposed) None.

**Persons Testifying:** Brandon Houskeeper, Puget Sound Energy.

**Persons Signed In To Testify But Not Testifying:** None.