

**EXHIBIT NO. ___(JAP-10)
DOCKET NO. UE-121697/UG-121705
JOINT DECOUPLING ACCOUNTING
PETITION
WITNESS: JON A. PILIARIS**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

**PUGET SOUND ENERGY, INC.
and NW ENERGY COALITION**

**For an Order Authorizing PSE To
Implement Electric and Natural Gas
Decoupling Mechanisms and To
Record Accounting Entries Associated
With the Mechanisms**

**Docket No. UE-121697
Docket No. UG-121705**

**SECOND EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED SUPPLEMENTAL DIRECT TESTIMONY OF
JON A. PILIARIS
ON BEHALF OF PUGET SOUND ENERGY, INC.**

MARCH 1, 2013

Gas Revenue Decoupling Mechanism

- 1) Establishment of Gas Revenue Decoupling Mechanism: The Washington Utilities and Transportation Commission (“Commission”) will establish Puget Sound Energy, Inc.’s (“PSE” or “Company”) Gas Revenue Decoupling Mechanism (“Mechanism”) through the approval of the amended accounting petition in Docket Nos. UE-121697 and UG-121705. In its initial approval of the Mechanism, the Commission will establish the following baseline values and, assuming continuation of the Mechanism, will approve updates to these values in PSE’s subsequent general rate case (“GRC”):
 - a) **Rate of Return**: The rate of return approved by the Commission in the Company’s most recent GRC. Initially this is 7.80%, the rate of return established in Docket Nos. UE-111048 and UG-111049.
 - b) **Rate Group**: Groups of rate schedules treated as a single class for purposes of the Mechanism.
 - c) **Test Year**: The 12-month test period ending June 30, 2012 in PSE’s expedited rate filing (“ERF”), Docket Nos. UE-130137 and UG-130138.
 - d) **Test Year Base Sales**: The weather-normalized energy sales, measured in therms, for each Rate Group and for each month of the test period in the GRC.
 - e) **Test Year Base Customers**: The gas Base Customers in each Rate Group in the test period in the GRC.
 - f) **K-factor**: A factor used to periodically adjust Annual Delivery Revenue Per Customer (“ADRPC”) for each Rate Group before PSE’s next GRC. This factor will be set at 1.022 on May 1, 2013 and will remain at 1.022 on January 1, 2014, January 1, 2015, January 1, 2016, and if applicable, on January 1, 2017.

- 2) Application of the Mechanism: The Mechanism applies to all gas customers of the Company, except those served under PSE's gas lighting and gas hot water heater rental schedules.¹ It also excludes gas customers taking service under special contracts. Customers included in the Mechanism will be included in one of two Rate Groups:
- a) Residential – Schedule 23 and 53.
 - b) Non-Residential – Schedules 31, 31T, 41, 41T, 85, 85T, 86, 86T, 87 and 87T.
- 3) Calculation of Monthly Allowed Delivery Revenue Per Customer (“RPC”): For each Rate Group, the Monthly Allowed RPC will be calculated in the following manner:
- a) Step 1 – Calculate Total Revenue: Total Revenue is the amount that would be collected from each Rate Group in the test period under PSE's approved base (or “margin”) rates, exclusive of other riders or adjusting schedules.
 - b) Step 2 – Calculate Allowed Delivery Revenue (“ADR”): ADR equals each Rate Group's ADR divided by the number of Test Year Base Customers within the group.
 - c) Step 3 – Calculate Annual Delivery Revenue Per Customer (“ADRPC”): ADRPC equals each Rate Group's ADR divided by the number of Test Year Base Customers within the group.
 - d) Step 4 – Apply K-Factor to ADRPC: Initially, the ADRPC will be multiplied by the approved K-factor, effective May 1, 2013. For the initial term of the Mechanism, the ADRPC will then increase each January 1, by the approved K-factor for the applicable year.

¹ PSE's gas lighting and gas hot water heater rental schedules, will be subject to K-factor increases that are part of a rate plan.

e) Step 5 – Calculate the Annual Allowed Volumetric Delivery Revenue Per Customer:

The Annual Allowed Volumetric Delivery RPC is equal to the K-factor adjusted ADRPC less the basic charge revenue per customer set in the ERF.

f) Step 6 – Calculate Monthly Allowed Delivery RPC: Monthly Allowed Delivery RPC

equals Annual Allowed Volumetric Delivery RPC multiplied by the relative percentage of monthly Test Year Base Sales for each Rate Group.

4) Calculation of Test Year Revenue Per Unit (“RPU”): The Test Year RPU for each Rate Group is calculated by dividing the Test Year Volumetric Delivery Revenue by the Test Year Base Sales.

a) Test Year Volumetric Delivery Revenue (“VDR”): For each Rate Group, Test Year VDR will equal ADR less basic charge and minimum charge revenue in the ERF test period.

5) Calculation of Schedule 139 Rate: Schedule 139 is a new tariff schedule designed to collect the allowed delivery revenues plus or minus accumulated decoupling deferrals. Schedule 139 recovers these revenues through volumetric rates. The Schedule 139 Rate will be calculated in the following manner:

a) Step 1 – Calculate Rate Year Allowed Delivery Revenue: Rate Year ADR for each Rate Group will equal its K-factor adjusted ADRPC multiplied by forecasted Base Customers in each group in the 12-month decoupling rate year, beginning May 1, 2013 of each year. The 2013 decoupling deferral period is for eight months, May through December 2013.

b) Step 2 – Calculate Rate Year Volumetric Delivery Revenue: The Rate Year VDR for each Rate Group is calculated by adding accumulated decoupling deferrals from the prior calendar year to Rate Year ADR and then subtracting forecasted Rate Year basic charge revenues.

- c) Step 3 – Calculate Rate Year Revenue Per Unit: The Rate Year RPU for each Rate Group is calculated by dividing the Rate Year VDR by the projection of Rate Year Base Sales.
 - d) Step 4 – Calculate Schedule 139 Rate: The Schedule 139 rate for the Residential Rate Group is calculated as the Rate Year RPU minus Test Year RPU. The Schedule 139 rate for the Non-Residential Rate Group is calculated by first subtracting Test Year RPU from Rate Year RPU. This amount is then multiplied by the projection of Rate Year Base Sales to derive the projected revenue increase. This is then divided by the Estimated Recoverable VDR to calculate a percentage. This percentage is then multiplied by each Non-Residential rate schedule's delivery, demand and procurement charges, as applicable, to calculate that schedule's rate adjustment under Schedule 139.
- 6) Calculation of Monthly Deferral Amount: Following the end of each month, the Company will compare the Allowed Revenue from the current month with the Actual Revenue for the current month.
- a) Step 1 – Calculate Current Allowed Revenue (“Allowed Revenue”): The Company will calculate Allowed Revenue by multiplying the Monthly Allowed Delivery RPC for each Rate Group for the current calendar month by the number of customers in the group for the current calendar month (“Current Customers”).
 - b) Step 2 – Calculate Current Actual Revenue (“Actual Revenue”): The Company will calculate Actual Revenue by multiplying the Rate Year RPU for each Rate Group for the current calendar month by the therm sales in the group for the current calendar month (“Current Sales”).

- c) Step 3 – Calculate Monthly Deferral Amounts: The Company will compare the difference between Allowed Revenue and Actual Revenue for the month for each rate Group and defer 100 percent of the revenue difference, either positive or negative, and record that amount in a separate account for later recovery or rebate. The Company will accrue interest on the deferred balance at a rate equal to that determined by the Federal Energy Regulatory Commission pursuant to the Code of Federal Regulations, Title 18, Section 35.19a.
- 7) Deferral Accounting for the Mechanism: The Company will record the deferrals in account 186 – Miscellaneous Deferred Debits or account 253 – Other Deferred Credits, as appropriate. The Company will transfer the amount the Commission approves for recovery or rebate into account 182.3 - Regulatory Asset or 254 – Other Regulatory Liabilities, as appropriate. On the income statement, the Company will record both the deferred amounts and the amortization of the deferrals, through Account 407.3 – Regulatory Debits or Account 407.4 – Regulatory Credits, in separate sub-accounts.
- 8) Deferral Periods Coincident with Calendar Year: The accumulated monthly deferred revenue as of December 31, each year will be addressed in the Company’s annual filing to update Schedule 139 rates.
- 9) Annual Schedule 139 Rate Adjustment Filing: On or before April 1 of each year, the Company will file a proposed Schedule 139 rate adjustment. The tariff will reflect the additional revenues from applying the K-factor to the allowed revenue per customer plus or minus the recovery of the deferred revenue the Company recorded for the prior calendar year. The Schedule 139 rate adjustment may be affected by the application of the “Soft Cap” described in (10) and an “Earnings Test,” as explained in (11) below.

10) Soft Cap on Rate Increases: If the Schedule 139 rate change causes an increase on total rates to a Rate Group to exceed three percent,² the rate change for that group will be capped at three percent.³ The Company will transfer Commission approved deferred decoupling revenues to a balancing account for each Rate Group for recovery or rebate. Any amounts not recovered in the current Schedule 139 rate year will remain in the balancing account until the next Schedule 139 filing. The revenue either recovered or rebated during the period will adjust the balancing account. The Company will add any deferred revenue remaining in the balancing account at the end of the calendar year to the new revenue deferrals to determine the amount of the proposed surcharge or rebate for the following year, again subject to the three percent overall rate increase constraint, and to Commission approval.

11) PSE agrees to an earnings test to address concerns about potential overearnings. A defined rate of return greater than the rate of return on rate base (“ROR”) established in the most recent GRC is allowed. The Earnings Test will compare the Company’s approved ROR with the ROR in the annual Commission basis report (“CBR”) operating results for gas service. The Company will file this report with the Commission by April 1 each year, reporting results for the previous calendar year.⁴ The Company will calculate the Earnings Test based on the initial calculation of the deferral amount described above. The results of the test will be added to the deferral amount.

a) PSE may earn up to twenty-five (25) basis points more than the approved ROR from the most recent GRC. If the rate of return from the CBR results for gas system operations is

² This will include revenue associated with PSE’s allocated gas costs.

³ Delivery revenues account for about one-third of total revenues. A three percent increase in total revenues indicates a deferral of delivery revenues of nearly nine percent, which would be an unlikely event.

⁴ The required filing date for the Commission basis report is April 30.

less than 25 basis points over the approved ROR, the surcharge or rebate is passed through to customers without further adjustment.

- b) If the CBR result for gas system operations is more than 25 basis points above the approved ROR, the Company will return 50 percent of the difference to customers. This difference is calculated by:
- i) Compare the ROR of the CBR to the approved ROR plus 25 basis points (maximum ROR). Based on PSE's current ROR of 7.8 percent, the maximum ROR is 8.05 percent.
 - ii) Since ROR is the net operating income ("NOI") divided by rate base, a maximum NOI can be calculated that derives the maximum ROR.
 - iii) Subtract the maximum NOI from the NOI in the CBR. If there is overearning, this will be a positive number. This NOI difference will determine the level of revenues to refund.
 - iv) Multiply the positive NOI difference by fifty (50) percent and divide the result by the conversion factor from PSE's ERF. This result is the revenues that must be returned to customers ("Earnings Rebate").
 - v) The Earnings Rebate will be included in that year's determination of the Schedule 139 rate filing. The Earnings Rebate will be allocated to the Rate Groups based on its relative share of ADR.
 - vi) For example, if the Commission basis report shows that the Company earned 8.15 percent on gas system operations, then the CBR rate base multiplied by 8.05 percent determines the maximum allowed NOI. The difference between the maximum NOI and

the CBR NOI is multiplied by fifty (50 percent) and the resulting amount is then divided by the conversion factor to calculate the Earnings Rebate to be returned to customers.

- c) If there is a surcharge, the Earnings Test will cause the amount of the surcharge to be reduced by the Earnings Rebate calculated above. If the value of the Earnings Rebate is greater than the surcharge, it is possible that the Earnings Test would result in an overall rebate.
- d) The Company will include, with its tariff, workpapers showing application of the Earnings Test.

12) Term of Mechanism: The Mechanism will commence May 1, 2013 and will remain in place, at a minimum, until the effective date of new gas rates set in PSE's next general rate case ("GRC"). The Company will file a GRC no sooner than April 1, 2015 and no later than April 1, 2016, unless otherwise agreed to by the parties in PSE's 2011 GRC. As part of PSE's next GRC, any party may propose cancellation or modification of the Mechanism. In no event will the Mechanism continue beyond PSE's next GRC without Commission approval. If the Mechanism is discontinued after PSE's next GRC, the amounts remaining in the balancing accounts will continue to be amortized in the same manner as proposed in this exhibit, subject to the cap on rate increases and the Earnings Test noted in (10) and (11), until the balances are cleared.