

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

DOCKETS UE-121697 and UG-121705

AMENDED PETITION FOR  
DECOUPLING MECHANISMS

**I. INTRODUCTION**

1. Puget Sound Energy, Inc. (“PSE”) and the NW Energy Coalition (the “Coalition”), collectively referred to as the “Joint Parties,” filed a petition on October 25, 2012 seeking approval of an electric and a natural gas decoupling mechanism and authority to record accounting entries associated with the mechanisms. After the petition and supporting testimony were filed, the Washington Utilities and Transportation Commission (“Commission” or “WUTC”) held two technical conferences to allow interested stakeholders to further discuss the proposed decoupling mechanisms and to propose variations to the proposed mechanisms. The Coalition and PSE have now reached agreement

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on proposed modifications to the decoupling mechanisms and file this amended petition and testimony in support of these modifications to the original decoupling proposal. This amended petition is supported by the Prefiled Supplemental Direct Testimony of Jon A. Piliaris, with supporting exhibits, the Prefiled Direct Testimony of Katherine J. Barnard, with supporting exhibits, and the Prefiled Supplemental Direct Testimony of Ralph Cavanagh. Accordingly, PSE and the Coalition respectfully request that the Commission enter an order (i) authorizing PSE to implement electric and natural gas decoupling mechanisms as set forth in this amended petition and (ii) allowing PSE to begin recording accounting entries associated with the mechanism effective May 1, 2013, as explained in this amended petition.

2. PSE is engaged in the business of providing electric and natural gas service within the State of Washington as a public service company and is subject to the regulatory authority of the Commission as to its retail rates, service, facilities and practices. Its full name and mailing address are:

Puget Sound Energy, Inc.  
Attn: Ken S. Johnson  
Director of State Regulatory Affairs  
P.O. Box 97034  
Bellevue, WA 98009-9734

PSE's representatives for purposes of this proceeding are:

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3. The Coalition is a non-profit organization under section 501(c)(3) of the Internal Revenue Code. The Coalition's primary purpose is to promote development of renewable energy and energy efficiency, consumer protection, low-income energy services, and fish and wildlife restoration on the Columbia and Snake Rivers. Its full name and address are:

NW Energy Coalition  
Attn: Nancy Hirsh, Policy Director  
811 1<sup>st</sup> Ave., Suite 305  
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The Coalition's representatives for purposes of this proceeding are:

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4. The following rules or statutes may be brought into issue by this Petition:

RCW 80.01.040, RCW 80.28.260, RCW 19.285 and WAC 480-07-370.

## II. THE NEED FOR A DECOUPLING MECHANISM

### A. The Purpose of the Proposed Decoupling Mechanisms

5. The electric and natural gas decoupling mechanisms requested in this proceeding are intended to substantially diminish the throughput incentive that exists under PSE's current ratemaking structure. As the Commission has recognized, "[u]nder traditional ratemaking structures, utilities recover a large portion of their fixed costs through charges based on the volume of energy that consumers use. Consequently, a reduction in energy consumption may lower the probability that the utility can fully recover its fixed costs."<sup>1</sup> This is the predicament PSE faces. As demonstrated in PSE's 2011 general rate case, a significant portion of PSE's delivery costs are recovered in volumetric rates.<sup>2</sup> When PSE successfully implements its energy conservation programs, customers use less energy, revenues from volumetric sales decrease, and PSE is unable to recover its delivery costs that would have been recovered in its volumetric rates absent conservation. The decoupling mechanism with a K factor adjustment also addresses the revenue shortfall between rate cases that the decoupling mechanism on its own does not resolve.

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<sup>1</sup> *In re Petition of Avista Corp. for an Order Authorizing Implementation of a Natural Gas Decoupling Mechanism and to Record Accounting Entries Associated With the Mechanism*, Docket UG-060518, Order 04 (Feb. 1, 2007), ¶9.

<sup>2</sup> *WUTC v. Puget Sound Energy, Inc.* Dockets UE-111048 and UG-111049, Order 08 (May 7, 2012) ¶449 (hereafter "PSE 2011 GRC Final Order").

6. The Coalition is an advocate for energy efficiency as the first resource of choice to meet customer energy needs for both electric and gas service. In proceedings across the Northwest, the Coalition has proposed decoupling as a tool to help remove the disincentive the utility may face to aggressively promote and implement conservation.

7. PSE has had electric and natural gas conservation programs in place for many years. PSE has worked closely with its Conservation Resource Advisory Group (“CRAG”) and stakeholders on conservation policies and programs. Funding for PSE’s energy efficiency programs is provided through a tariff rider approved by the Commission. Although PSE has been a leader in conservation in the Pacific Northwest and nationally, the decoupling mechanism proposed in this petition will require PSE to stretch even farther—beyond its Commission-approved target—to accelerate conservation savings.

8. The decoupling mechanisms requested in this petition are intended to better protect PSE from the effects of conservation on its revenue, thus removing a significant disincentive for PSE to aggressively promote conservation programs. The proposed decoupling mechanisms are consistent with state policy, as set forth in the Commission’s Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, To

Encourage Utilities To Meet or Exceed Their Conservation Targets (the “Decoupling Policy Statement”) and Washington law.<sup>3</sup>

**B. The Commission’s Extensive Review of Decoupling**

9. The Commission has thoroughly analyzed, considered, implemented, and experimented with decoupling for more than two decades. In 1991, the Commission approved a decoupling program for Puget Sound Power & Light Co.<sup>4</sup> Since 2005, the Commission has engaged in several proceedings in which it analyzed decoupling. In 2005, the Commission conducted a rulemaking to consider decoupling mechanisms.<sup>5</sup> In 2006, the Commission considered natural gas decoupling mechanisms proposed in PSE’s general rate case and in an accounting petition filed by Avista. The Commission declined to implement PSE’s natural gas decoupling mechanism, determining that PSE did not need any further motivation to undertake conservation.<sup>6</sup> In contrast, the Commission approved Avista’s

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<sup>3</sup> See *In re WUTC Investigation into Energy Conservation Incentives*, Docket U-100522, Report and Policy Statement on Regulatory Mechanisms, including Decoupling, To Encourage Utilities To Meet or Exceed Their Conservation Targets (Nov. 4, 2010), ¶1; RCW 80.28.260.

<sup>4</sup> Docket UE-901183, Third Supplemental Order (April 10, 1991).

<sup>5</sup> Rulemaking to Review Natural Gas Decoupling, Docket UG-050369 (March 14, 2005).

<sup>6</sup> *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-060266 and UG-060267, Order 08 (January 5, 2007), ¶¶65-66.

decoupling mechanism.<sup>7</sup> In 2007, the Commission authorized a three-year pilot decoupling mechanism for Cascade Natural Gas Corporation.<sup>8</sup>

10. Beginning in April 2010, the Commission undertook an inquiry as to whether it should adopt new or modified regulations or otherwise adopt policies to address declines in revenues due to utility-sponsored conservation or other causes of conservation. The Commission undertook this inquiry in response to a legislative proposal for utility recovery of lost margin related to conservation efforts.<sup>9</sup> As part of this inquiry, the Commission considered the statutory framework, including RCW 19.285 (which requires electric utilities to pursue all available conservation that is cost-effective, reliable, and feasible), and RCW 80.28.260 (which authorizes the Commission to encourage investment in energy conservation by electric and natural gas utilities “and to help ensure that utilities are protected financially from reductions in short-term earnings that are a direct result of utility programs to increase the efficiency of energy use.”)<sup>10</sup> The Commission filed a Preproposal Statement of Inquiry (CR-101) soliciting comments and a “Statement of Issues” from all interested parties. The Commission received extensive and detailed comments, sponsored

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<sup>7</sup> *In re Petition of Avista Corp. for an Order Authorizing Implementation of a Natural Gas Decoupling Mechanism and to Record Accounting Entries Associated With the Mechanism*, Docket UG-060518, Order 04 (February 1, 2007).

<sup>8</sup> *WUTC v. Cascade Natural Gas Corp.*, Docket UG-060256, Order 05 (January 12, 2007).

<sup>9</sup> *See In re WUTC Investigation into Energy Conservation Incentives*, Docket U-100522, Report and Policy Statement on Regulatory Mechanisms, including Decoupling, To Encourage Utilities To Meet or Exceed Their Conservation Targets (Nov. 4, 2010), ¶7.

<sup>10</sup> *Id.* ¶6.

two work sessions, solicited and received further comments, and ultimately issued its Decoupling Policy Statement.<sup>11</sup>

11. Most recently, the Commission reviewed a proposal for full decoupling, proposed by the Coalition, in PSE's 2011 general rate case. In that case, the Commission issued Bench Request No. 3, which broadly required Commission Staff to "examine full decoupling as an option for PSE," and invited other parties to respond also. In response to Bench Request No. 3, Commission Staff filed a 21-page response with multiple appendices. Staff also filed testimony in response to the decoupling proposal of the Coalition and Conservation Savings Adjustment ("CSA") proposal of PSE to address negative financial effects that conservation has on PSE's ability to recover certain of its fixed costs. Several other parties to the case presented testimony in response to the decoupling and CSA proposals.<sup>12</sup>

12. PSE opposed the Coalition's decoupling proposal because the proposal did not adequately address the financial consequences of PSE's energy efficiency programs—

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<sup>11</sup> See *In re WUTC Investigation into Energy Conservation Incentives*, Docket U-100522, Report and Policy Statement on Regulatory Mechanisms, including Decoupling, To Encourage Utilities To Meet or Exceed Their Conservation Targets (Nov. 4, 2010).

<sup>12</sup> See generally, *WUTC v. Puget Sound Energy, Inc.* Docket Nos. UE-111048 and UG-111049 (consolidated).



specifically PSE's inability to recover its fixed costs through volumetric rates due to conservation.<sup>13</sup>

13. In its final order in that case, the Commission determined that the Coalition's proposal largely followed, and was consistent with the purpose of, the Commission's Decoupling Policy Statement.<sup>14</sup> However, the Commission declined to require PSE to implement full decoupling in the face of PSE's opposition.<sup>15</sup>

**C. The Commission Can Approve These Decoupling Mechanisms Outside of a Rate Case**

14. Although the Commission did not implement the Coalition's decoupling proposal, in the final order the Commission stated that it remained open to proposals for a full decoupling mechanism, even to one that may vary somewhat from the Commission's Decoupling Policy Statement.<sup>16</sup> Further, in the final order, the Commission encouraged parties to enter into a broader discussion and:

bring forward for consideration specific proposals that may satisfy a range of both common and diverse interests. In this connection, the Commission would be particularly interested in proposals that break the current pattern of almost continuous rate cases. This pattern of one general rate case filing following quickly after the resolution of another is overtaxing the resources of all participants and is wearying to the ratepayers who are confronted with increase after increase. This

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<sup>13</sup> PSE 2011 GRC Final Order, ¶¶453-54.

<sup>14</sup> PSE 2011GRC Final Order ¶¶453, 455.

<sup>15</sup> PSE 2011 GRC Final Order, ¶453.

<sup>16</sup> PSE 2011 GRC Final Order, n. 617.

situation does not well serve the public interest and we encourage the development of thoughtful solutions.<sup>17</sup>

15. In response to this invitation, PSE and the Coalition worked together to craft the initial decoupling mechanisms filed in October 2012. Since the filing of the decoupling petition, PSE, the Coalition, Commission Staff, and other stakeholders have been engaged in a process of formal and informal discovery, which has included two technical workshops hosted by the Commission on November 8, 2012, and January 15, 2013. Stakeholders in this process had an opportunity to gain a deeper understanding of the proposal and have shared their views and concerns regarding the decoupling proposal in these informal settings. These discussions highlighted opportunities for broader agreement between PSE, the Coalition, and Commission Staff. The modifications presented in this amended petition and the supporting testimony reflect this agreement.

16. The Commission can approve these decoupling mechanisms outside of a general rate case. The Commission completed a review of PSE's 2011 general rate case only a few months before PSE and the Coalition filed their petition, and as a part of that general rate case, the Coalition presented a decoupling mechanism that is very similar to the decoupling proposal presented in this amended petition. Moreover, in PSE's general rate case the Commission not only thoroughly analyzed the Coalition's decoupling proposal, it also sought, received, and considered input from Commission Staff and other parties about

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<sup>17</sup> PSE 2011 GRC Final Order ¶507.

decoupling in general. In sum, the Commission has recently completed a full analysis of decoupling in general and for PSE specifically, including a decoupling proposal that included most of the elements of the decoupling proposal that PSE and the Coalition are presenting in this case. In this context, it is appropriate for the Commission to consider and approve the joint proposal for decoupling presented by the Coalition and PSE.

17. Approval of the electric and natural gas revenue decoupling mechanisms is consistent with the Commission's approval of Avista's decoupling mechanism outside of a general rate case. In that case the Commission noted the importance of the information accompanying a general rate case to allow the Commission to make a fully informed decision about decoupling, but approved Avista's decoupling mechanism outside of a general rate case stating: "Although this petition is not part of a general rate case, the fact that Avista had such a case before us within the past 13 months is sufficient in this context to guide our decision."<sup>18</sup>

### III. THE MODIFIED DECOUPLING MECHANISMS

18. This amended petition proposes to create deferred accounting mechanisms where the Company will defer the difference between its allowed delivery revenue and the actual delivery revenue it receives through regulated electric and natural gas tariff rates to

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<sup>18</sup> *In re Petition of Avista Corp. for an Order Authorizing Implementation of a Natural Gas Decoupling Mechanism and to Record Accounting Entries Associated With the Mechanism*, Docket UG-060518, Order 04 (February 1, 2007), ¶30.

cover delivery costs. A true-up of the resulting accumulated deferred balances will occur annually through a surcharge or credited to customers' bills, by way of a tariff schedule tracker and subject to certain limitations discussed below.

19. The natural gas and electric revenue decoupling mechanisms proposed in this amended petition are similar in nature to the decoupling mechanisms proposed by the Coalition in PSE's recently-concluded general rate case, Docket Nos. UE-111048 and UG-111049, and Avista's 2011 general rate case filed in Docket Nos. UE-110876 and UG-110877,<sup>19</sup> with two exceptions. The current proposal includes a "K-factor" adjustment to allowed revenue per customer and it is applied to more customer classes, both of which are discussed, along with other specific features of the decoupling mechanism, in more detail below and in Attachments A and B hereto.

20. Deferrals under the decoupling mechanisms will commence May 1, 2013, and the mechanism will remain in place, at a minimum, until the effective date of new rates set in PSE's next general rate case. PSE will file a general rate case no sooner than April 1, 2015, and no later than April 1, 2016, unless otherwise agreed to by the parties to PSE's last

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<sup>19</sup> This proposal was subsequently consolidated with Avista's general rate case, Dockets UE-120436 and UG-120437.

general rate case.<sup>20</sup> As part of the next general rate case, any party may propose cancellation or modification of the mechanisms.

**A. Process for Mechanisms**

21. PSE and the Coalition request that the proposed tariff riders submitted with this filing become effective May 1, 2013, to recover a projection of allowed delivery revenue through April 30, 2014. No later than April 1 of each subsequent year, PSE will make a filing to set new rates to recover a projection of allowed delivery revenue over the following 12-month period, as well as decoupling-related deferrals and interest expense accrued over

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<sup>20</sup> PSE reserves the right to file a general rate case before that date under certain circumstances including: changes in federal income tax rates or state tax rates, force majeure occurrences such as an earthquake, or circumstances justifying interim rate relief under the standard set forth in *WUTC v. Pacific Northwest Bell Telephone Co.*, Cause No. U-72-30, Second Supp. Order (Oct. 1972) or whatever Commission standard exists for such relief at the time of PSE's request. The general rate case stay-out period does not alter PSE's right to continue all approved deferrals, including but not limited to its storm deferrals, and seek other deferrals as needed and allowed by law. PSE retains the right to seek rate increases through existing riders and trackers and other Commission-approved mechanisms including but not limited to its power cost only rate case ("PCORC"); the pending property tax rider that PSE proposed as part of the Expedited Rate Filing, filed with the Commission on February 1, 2013; and the cost recovery mechanism for replacement of natural gas pipeline facilities as provided in Docket UG-120715. With respect to the PCORC, PSE will request waiver of the requirement to file a general rate case within three months after issuance of the final order in a PCORC, and with such waiver, PSE shall not be prohibited from filing consecutive PCORCs during the general rate case stay-out period. PSE also expects to make filings related to the sale of its Jefferson County service territory and nothing herein shall prevent PSE from making such filings or recovering gains related to such sale during the general rate case stay-out period.

the prior calendar year.<sup>21</sup> The proposed tariff tracker rates would be filed with effective dates of May 1 of each year.

**B. Customer Groups included in Mechanisms**

22. There will be two groups of electric rate schedules in the current tariff book subject to the decoupling proposal. The first group will be comprised solely of residential customers (Schedule 7 and 7A). The second group will be comprised of customers served under Schedules 24, 25, 26, 26P, 29, 31, 35, 40, 43, 46 and 49, as well as the related schedules where customers are eligible to participate in the Bonneville Power Administration's Residential Exchange Program. Lighting, served on Schedules 51 through 59, and Retail Wheeling customers are excluded from the decoupling mechanisms, but are addressed later in this amended petition.

23. There will also be two groups of natural gas rate schedules (Residential and Non-Residential) in the current tariff book subject to the decoupling proposal. The first group will be comprised solely of residential customers (Schedules 23 and 53). The second group will be comprised of all customers served under Schedules 31, 41, 85, 86 and 87, including all customers taking tariffed gas transportation service. Customers taking gas lighting and gas water heater rental service, while not addressed in the decoupling

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<sup>21</sup> Proposed tariff rider rates would not include a true up for the initial filing because there would be no deferred balances or interest from the past year to clear.

mechanisms, are addressed later in this amended petition. PSE's gas customers served under special contract are excluded from this mechanism, as the rates for these customers are governed by contract.

**C. Rate Increases For Customers Not Included in the Decoupling Mechanisms**

24. PSE customers taking lighting, retail wheeling, and gas hot water rental service continue to be excluded from the proposed decoupling mechanisms. However, this proposal includes a "rate plan" for these groups of customers, which will ensure that all of PSE's customers are treated fairly, in light of the general rate case stay-out period proposed in conjunction with the decoupling mechanisms.

25. Gas Lighting and Gas Water Heater Customers: For gas lighting and gas water heater customers, the fixed monthly charges would be increased by the gas K-factor of 1.022 each time it is applied to the allowed revenues from other gas customers. A calculation of the new gas lighting and gas water heater rates is provided in the Third Exhibit to the Prefiled Supplemental Testimony of Mr. Jon A. Piliaris, Exhibit No. \_\_\_(JAP-11).

26. Electric Lighting Customers: Similar to the gas water heater customers, the fixed monthly electric rates of lighting customers would increase each time the electric K-factor is applied to the allowed revenues of other electric customers. Since these customers take power supply, as well as delivery service, the adjustment to their monthly rates is proposed to be the annual electric K-factors multiplied by the ratio of these customers' non-power cost revenue divided by their total pro forma revenue. A calculation of the new

lighting rates is provided in the Fourth Exhibit to the Prefiled Supplemental Testimony of Mr. Jon A. Piliaris, Exhibit No. \_\_\_\_ (JAP-12).

27. Electric Retail Wheeling: A vast majority of the cost of service for customers served under electric retail wheeling schedules 449 and 459 is now being recovered through PSE's Open Access Transmission Tariff. The remainder is substantially made up of fixed basic charge revenues and a small amount of revenue derived from the Distribution Service charge. Therefore, to ensure that these customers also contribute to PSE's growing costs over the proposed general rate case stay-out period, the proposal is to increase the Schedule 449 and 459 basic charge and Distribution Service rates by the electric K-factor increase each time it is applied to the allowed revenue of other electric customers. Along with electrical lighting, these calculations are shown in the Fourth Exhibit to the Prefiled Supplemental Testimony of Jon A. Piliaris, Exhibit No. \_\_\_\_ (JAP-12).

**D. Included Costs**

28. The decoupling mechanisms will be based on the Company's costs, from the period most recently used to set tariff rates that are unrelated to its Power Cost Adjustment ("PCA") and Purchased Gas Adjustment ("PGA") mechanisms.<sup>22</sup>

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<sup>22</sup> In response to direction offered in the Final Order in its last GRC, the Company has requested to recover property tax through a separate tracker in its Expedited Rate Filing dated February 1, 2013.



**E. Definition of Customer**

29. For purposes of this proposal, customers will be defined consistently with the manner in which they are reported in the Company's financial reports (e.g., its Federal Energy Regulatory Commission and/or SEC filings).

**F. Changes to Return on Equity**

30. No change to the Company's allowed return on equity is proposed as part of its decoupling proposal.

**G. Conservation Achievement**

31. The Company and the Coalition recognize that the Commission expects utilities with revenue decoupling mechanisms to meet or exceed their conservation targets. To that end, as an integrated part of the proposal, PSE proposes to achieve electric conservation in excess of the biennial conservation target set by the Commission. Specifically, while the electric decoupling mechanism is in place, PSE will agree to achieve electric conservation five percent above the biennial targets set by the Commission, and PSE will agree to voluntarily submit to financial penalties for failing to meet this higher level of conservation achievement. Additionally, PSE agrees to participate in the market transformation study for gas conservation that is being planned by the Northwest Energy Efficiency Alliance ("NEEA")

## **H. Potential Impact on Low-Income Customers**

32. Issues surrounding PSE's low-income conservation program were discussed at length in PSE's 2011 general rate case. As discussed in that proceeding, PSE already provides low-income ratepayers with programs aimed at achieving a level of conservation that is comparable to that achieved by other ratepayers, which meets the low-income guidance set forth in the Commission's Decoupling Policy Statement.<sup>23</sup> In addition, this amended petition continues to propose that electric low-income conservation funding be increased by approximately \$500,000 annually, which will further allow the Company to provide low-income ratepayers targeted programs aimed at achieving a level of conservation comparable to that achieved by other ratepayers. Finally, to mitigate concerns about the impact of the modified decoupling proposal on low-income customers, PSE proposes that low-income bill assistance program funding be increased in proportion to the residential bill impacts of this proposal on August 31, 2013, and each August 31 thereafter, until the decoupling mechanisms cease operation.

## **I. Potential Impact on Wholesale Sales**

33. Potential impacts of the Company's conservation program on its wholesale sales, if any, will be addressed through the application of its PCA and PGA mechanisms, not its decoupling mechanisms.

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<sup>23</sup> See *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Exh. No. RWS-1T (Stolarski) , pages 25-27.

**J. Bill Presentation**

34. The rate adjustments resulting from this decoupling proposal will be portrayed on customers' bills in a manner consistent with the Company's low-income rider (i.e., as a component of base rates on the bill).

**K. Evaluation of Mechanisms**

35. As part of its next general rate case, the Company will file with the Commission studies evaluating the effectiveness of the decoupling mechanisms, along with a proposal to continue, modify, or discontinue either or both of the mechanisms.

36. The evaluation studies will be conducted by a third party, mutually agreeable to PSE and Commission Staff, in consultation with PSE's Conservation Resources Advisory Group. PSE and Commission Staff will jointly manage the evaluation process. This study will be funded through general rates. The cost of this study will be limited to \$150,000 and will be allocated between electric and natural gas schedules on the basis of relative past expenditures within the electric and natural gas conservation programs over the period being analyzed.

37. To the extent that data is available, the content of the study will include the following:

1. An audit of whether the deferrals and rates were calculated in accordance with the Commission order approving the decoupling mechanisms;
2. An evaluation of the impacts of the decoupling tariff tracker adjustments, calculated in relation to energy sales (kWh or therms), as a percent of monthly

bills, and in total dollars for each rate category customarily used for purposes of PSE's cost of service analyses;

3. An evaluation of the impact of the decoupling mechanisms specifically on PSE's low-income customers (where low-income is defined as a customer receiving bill assistance through the HELP or LIHEAP program within the same calendar year of the evaluation time period) including:
  - a. A summary of the annual deferrals and rate impacts of the decoupling tariff tracker adjustments (cents per kWh, cents per therm, total dollars and percent of monthly bills) on the group of customers receiving bill assistance through PSE's low-income programs;
  - b. A summary of annual low-income conservation program savings, expenditures and customers served compared with the rest of the residential class, where low income conservation programs are defined as programs currently being run under electric Schedule 201 and gas Schedule 203;
  - c. A description of any modifications to conservation programs targeted at low-income customers since the inception of the decoupling mechanisms; modifications include changes to funding levels as well as changes to specific measures or programs;
  - d. A comparison of the effect of the decoupling tariff tracker adjustment on the average customer receiving bill assistance through PSE's low-income programs relative to the impact on PSE's average residential customer;
4. Identification of conclusive trends in the performance of the Company's electric and gas conservation programs since the inception of the decoupling mechanisms based on information already available as part of the Company's biennial conservation achievement evaluations filed with the Commission in the second quarter of every "even" calendar year;
  - a. Trends could include: changes in senior management roles as they relate to energy efficiency, numbers of presentations to the Board, significant changes to program delivery strategies as reported in annual evaluations, significant changes in program budgets or savings levels as reported; and


5. Identification of any conclusive evidence to suggest that the decoupling mechanisms adversely impacted customer service, distorted price signals for customers resulting in lower participation in conservation programs, or eroded the utility's incentive to control costs and improve operational efficiency.

#### IV. RELIEF REQUESTED


38. PSE and the Coalition respectfully request that the Commission enter an order authorizing PSE to implement electric and natural gas decoupling mechanisms as set forth in this amended petition, allowing the tariffs to go into effect, and directing PSE to begin recording accounting entries associated with the mechanisms, effective May 1, 2013, as explained in this amended petition.

Respectfully submitted this 1 day of March, 2013.

PERKINS COIE LLP

By   
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Donna L. Barnett, WSBA #36794  
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EARTH JUSTICE

By   
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Attorneys for NW Energy Coalition

per email authorization 2/28/13

# **ATTACHMENT A**

### **Electric Revenue Decoupling Mechanism**

- 1) Establishment of Electric Revenue Decoupling Mechanism: The Washington Utilities and Transportation Commission (“Commission”) will establish Puget Sound Energy, Inc.’s (“PSE” or “Company”) Electric 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 rate cases:
- 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 kilowatt-hour, for each Rate Group and for each month of the test period in the ERF.
  - e) **Test Year Base Customers**: The electric Base Customers calculated for each Decoupling Rate Group in the test period in the ERF.
  - f) **Allocated Power Costs**: Each Decoupling Rate Group’s allocation of costs used to calculate PSE’s Power Cost Adjustment (“PCA”) Baseline Rate.
  - g) **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 1.03



on May 1, 2013, and will remain at 1.03 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 electric customers of the Company, except those served under PSE's lighting and retail wheeling schedules.<sup>1</sup> Customers included in the Mechanism will be included in one of two Rate Groups:
- a) Residential – Schedule 7 and 7A.
  - b) Non-Residential – Schedules 24, 25, 26, 26P, 29, 31, 35, 40, 43, 46 and 49, as well as the related non-residential schedules where customers are eligible to participate in the Bonneville Power Administration's Residential Exchange Program.
- 3) Calculation of Monthly Allowed Delivery Revenue Per Customer ("RPC"): For each Rate Group, the Monthly Allowed Delivery 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 ERF test period under PSE's approved base rates, exclusive of other riders or adjusting schedules.
  - b) Step 2 – Calculate Allowed Delivery Revenue ("ADR"): ADR equals Total Revenue for each Rate Group less Allocated Power Costs.
  - 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.

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<sup>1</sup> PSE's Lighting and retail wheeling schedules, will be subject to K-factor increases that are part of a rate plan.

- e) Step 5 – Calculate 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, 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 each Rate Group is calculated as the Rate Year RPU minus Test Year RPU.
- 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 kilowatt-hour 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/or 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,<sup>2</sup> the rate change for that group will be capped at three percent.<sup>3</sup> The Company will transfer Commission approved deferred decoupling

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<sup>2</sup> This will include revenue associated with PSE’s allocated power costs.

<sup>3</sup> 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.

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) Earnings Test: 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 electric service. The Company will file this report with the Commission by April 1 each year, reporting results for the previous calendar year.<sup>4</sup> 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 electric system operations is 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 electric 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:

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<sup>4</sup> The required filing date for the Commission basis report is April 30.

- 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 electric 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 remain in place, at a minimum, until the effective date of new 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 to 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.

# **ATTACHMENT B**



## **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.<sup>1</sup> 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.

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<sup>1</sup> 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,<sup>2</sup> the rate change for that group will be capped at three percent.<sup>3</sup> 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.<sup>4</sup> 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

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<sup>2</sup> This will include revenue associated with PSE’s allocated gas costs.

<sup>3</sup> 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.

<sup>4</sup> 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.