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PUGET SOUND ENERGY

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December 19, 2016

Mr. Steven V. King
Executive Director and Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, Washington 98504-7250

**RE: Docket No. UE-161240 (Advice No. 2016-31) - Do Not Redocket
Substitute Tariff Filing – Filed Electronically**

Dear Mr. King:

Puget Sound Energy (“PSE”) hereby submits in connection with Docket No. UE-161240, the following tariff sheets to replace the tariff sheets accompanying PSE’s November 23, 2016 filing which was submitted under PSE’s Advice No. 2016-31. This substitute filing is pursuant to RCW 80.28.060 and Chapter 480-80 WAC and includes the following portion of PSE’s WN U-60, Tariff G for electric service:

25th Revision of Sheet No. 91 Schedule 91 – Cogeneration and Small Power Production
12th Revision of Sheet No. 91-A Schedule 91 – Cogeneration and Small Power Production (Continued)
Attachment “A” to Schedule 91 – Cogeneration and Small Power Production

The purpose of this substitute tariff filing is to update the tariff sheets based on PSE’s discussions with the WUTC Staff, additional analyses performed by PSE following those discussions, and the WUTC Staff’s review. This substitute tariff filing also revises the effective date of these tariff sheets from December 24, 2016 to January 27, 2017, at the request of the WUTC Staff.

This substitute filing updates the rates for the fixed-price option. There are two sources of updates to the underlying avoided costs used in the calculation. One was to include an avoided capacity cost associated with firming up short-term market purchases during the time period before the Company’s need to add capacity resources in 2022. PSE acquires significant peak capacity from the market. In the initial filing, PSE did not include an avoided cost associated with reducing market purchases in the 2017-2021 Schedule 91 rates. This updated filing now

includes an estimate of the costs PSE will avoid when Schedule 91 customers reduce the need for PSE to secure firm supply in the market prior to 2022. This element of avoided capacity cost is determined to be \$0.08/kW-year, which is an increase from \$0/kW-year in the initial filing. Given that the Pacific Northwest is currently surplus capacity, the premium to firm up such supplies should be expected to be quite low. This estimate was derived from data used to set rates in PSE's 2014 PCORC Compliance Filing filed on September 30, 2016 (Advice No. 2016-26, Docket No. UE-141141), with rates effective on December 1, 2016 and thus reflects costs currently included in rates.

Avoided capacity costs used in the calculations for this filing were also updated for the years 2022 to 2032. During this period, the avoided capacity cost is based on the levelized cost of a peaking plant. In the original filing, this was \$130.04/kW-year. In reviewing calculations to support the estimated avoided capacity cost input, PSE's analysts found that the NPV calculation was for a full-year rather than a half-year convention. Correcting this calculation increases the avoided capacity cost from the \$130.04 kw-year capacity in the original filing to \$135.04 kw-year for the years 2022 to 2032.

Another purpose of the filing is to leave in place the language that keeps the availability for these qualifying facilities to five MW or less.

PSE is also proposing the substitution to revise Attachment "A" Agreement, Schedule 91 Power Purchase Agreement to delete the word "renewable" in the paragraph B of the Recitals section on page 5.

This substitution is provided for in WAC 480-80-111(b) as the revision does not increase the rate reflected in the pending tariff sheets.

Please contact Mei Cass at (425) 462-3800 for additional information about this filing. If you have any other questions please contact me at (425) 456-2110.

Sincerely,



Ken Johnson
Director, State Regulatory Affairs

Enclosures

cc: Lisa Gafken, Public Counsel
Sheree Carson, Perkins Coie