

PUGET SOUND ENERGY

**SCHEDULE 62
 SUBSTATION AND RELATED EQUIPMENT CAPACITY (Continued)**

Attachment "C" – Rate Methodology

This Attachment "C" sets forth the methodology for the calculation of rates in Schedule 62. The provisions in this Attachment "C" have the same effect as if they were included in Schedule 62. Capitalized terms in this Attachment "C" shall have the same meaning as in Schedules 62 and 80 of the Company's Tariff.

1. Substation Operation And Maintenance Charges

- a. Customer shall pay the charges specified below ("Substation Monthly O&M Charge") to reimburse the Company for the costs and expenses incurred by the Company to operate and maintain the Substation, in connection with providing substation distribution services to Customer pursuant to Schedule 62 ("Schedule") and the facilities agreement attached to Schedule 62 ("Facilities Agreement"). The Substation Monthly O&M Charge is based on the following formula, which allocates to Customer, for each month during the term of the Facilities Agreement and in proportion to the amount of Substation equipment nameplate capacity (expressed in kVA) set forth in Exhibit A to the Facilities Agreement, an amount of the total annual system substation operation and maintenance costs and expenses incurred by the Company:

Substation Monthly O&M Charge = the quotient of

- (i) the Annual Substation O&M Charge
 divided by
 (ii) twelve (12)

where

Annual Substation O&M Charge = the product of

- (iii) the Company's total system substation O&M costs and expenses, based on the total of the test year balances for FERC accounts 582, 591, and 592 and amounts from FERC accounts 580, 588 and 590 allocated to distribution Substation O&M reported in the Company's Federal Energy Regulatory Commission (FERC) Form 1 of the Company, including, without limitation, costs and expenses incurred for inspection, testing, consumable items and routine equipment replacements, but less any non-capitalized costs associated with construction during the test year that are paid by a Customer pursuant to Section 4 of Schedule 62. Non-capitalized costs will be charged to a 186 work order.

multiplied by

- (iv) a fraction, the numerator of which is the specific amount of equipment nameplate capacity of the Substation (in kVA) set forth in Exhibit A to the Facilities Agreement, and the denominator of which is the Company's then-current total system distribution substation nameplate capacity (in kVA).

The Substation Monthly O&M Charge (expressed in dollars) payable by Customer pursuant to this Schedule and the Facilities Agreement is as set forth in Exhibit A to the Facilities Agreement. The Substation Monthly O&M Rate (in dollars/kVA) under this Schedule is equal to the Company's total system distribution substation O&M costs and expenses (as provided in Section 1.a(iii) above), divided by the Company's then-current total system distribution substation nameplate capacity (in kVA), or \$0.3617/kVA divided

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by 12. The Substation Monthly O&M Rate shall be subject to change pursuant to a revision to this Schedule approved by the Commission in rate proceedings following the commencement of the term of the Facilities Agreement.

- b. The Company shall be responsible for performance of the operation and maintenance of the Substation equipment; provided, that the Company shall not be responsible for the cost of maintaining or repairing any failure or impairment of such equipment's efficient operating condition caused by Customer's negligence, willful misconduct, or breach of any of Customer's obligations under this Schedule, the Facilities Agreement and Schedule 80 of the Company's Electric Tariff G. The full costs and expenses (including, but not limited to, reasonable attorneys' fees) in connection with the repair of or value lost by any such failure or impairment shall be paid by the Customer.

2. Substation Administrative And General Charges

Customer shall pay the charges specified below ("Substation Monthly A&G Charge") to reimburse to the Company the administrative and general costs and expenses incurred by the Company in connection with the Substation. The Substation Monthly A&G Charge is based on the following formula, which allocates to Customer, for each month during the term of the Facilities Agreement, an amount of the total annual administrative and general costs and expenses incurred by the Company:

Substation Monthly A&G Charge = the quotient of

(i) the Annual Substation A&G Charge
divided by

(ii) twelve (12);

where

Annual Substation A&G Charge = the product of

(iii) the Annual Substation O&M Charge
multiplied by

(iv) 30%.

The Substation Monthly A&G Rate under Schedule 62 is equal to \$0.1085/kVA divided by 12.

The Substation Annual A&G Charge shall be subject to change pursuant to a revision to Schedule 62 approved by the Commission in rate proceedings following the commencement of the term of the Facilities Agreement.

3. Substation Equipment Capital Charges

The intent of the Substation Equipment Capital Charge is to recover the net present value of the investment along with a return on the investment over the life of the investment and associated expenses and taxes. This is accomplished through the use of a fixed charge rate described in Section 3.d below.

- a. **Source of and Changes to Investment Amount:** Customer shall pay or reimburse to the Company, throughout the term of the Facilities Agreement, in proportion to the amount of Substation equipment nameplate capacity (expressed in kVA) set forth in Exhibit A to the Facilities Agreement, the capital costs and capitalized expenses incurred by the Company in connection with the Substation equipment pursuant to any one of the options set forth in the subsections below, as Customer may elect by written notice provided to the Company on or prior to the date on which the Facilities Agreement is or becomes effective:

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(i) Replacement Coverage. Except as otherwise provided herein, the investment amount (as set forth in Exhibit A to the Facilities Agreement) used as the basis for the Company's determination of the capital charge to Customer shall be determined by the Company based on replacement cost new less the actual accumulated depreciation on the Substation equipment as recorded on the Company's books, and such investment amount shall not be adjusted during the term of the Facilities Agreement whenever the Substation equipment or any part of the Substation equipment is replaced due to damage or failure caused by other than Customer's intentional or negligent conduct.

or

(ii) No Replacement Coverage. This option is available only for renewal of Facilities Agreements previously utilizing the No Replacement Coverage option. The investment amount(s) (as set forth in Exhibit A to the Facilities Agreement) of each vintage year (as set forth in Attachment B to Schedule 62) used as the basis for the Company's determination of the capital charge to Customer shall be determined by the Company based on the net book value(s) for substations of each vintage year of the Substation equipment at the commencement of the term of the Facilities Agreement, and such investment amount(s) shall not be adjusted (to the extent Customer prepays the amount of the added investment as provided in this Section 3.a(ii) and except as otherwise provided in Section 3.c(ii)) whenever equipment or any part of the equipment is replaced (including, but not limited to, temporary facilities replacements) (See Section 3.a.(v) below regarding temporary facilities replacements) due to damage or failure. Customer shall prepay the actual cost (as determined by the Company) of any such replacement(s) to the Company within twenty (20) days following receipt of the Company's notice of such prepayment amount. The monthly payment for the remainder of the term of the Facilities Agreement shall not be adjusted to include the amount of the added investment(s) resulting from such replacement that is so prepaid or to reflect added depreciation attributable to the replaced equipment, except as otherwise provided in Section 3.c(ii).

or

(iii) No Replacement Coverage Adjustable. The investment amount(s) (as set forth in Exhibit A to the Facilities Agreement) used as the basis for the Company's determination of the capital charge to Customer shall be determined by the Company based on the net book value(s) for substations of each vintage year (as set forth in Attachment B to Schedule 62) of the Substation equipment at the commencement of the term of the Facilities Agreement, and such investment amount(s) shall, be adjusted whenever equipment or any part of the equipment is replaced (including, but not limited to, temporary facilities replacements) (See Section 3.a.(v) below regarding temporary facilities replacements) due to damage or failure. The monthly payment for the remainder of the term of the Facilities Agreement shall be adjusted, based on the added investment resulting from each such replacement and as otherwise provided in Section 3.c(iii), and will be effective from the beginning of the second billing month after the replacement equipment is first in service. The Company shall promptly notify Customer of any adjustment to the capital charge pursuant to this Section 3.a(iii).

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- (iv) Notwithstanding the foregoing clauses (i), (ii) and (iii), the investment amount determined at the commencement of the first term of the Facilities Agreement (as set forth in Exhibit A to the Facilities Agreement) for a new substation constructed to provide service to a Customer under this Schedule 62 and used as the basis for the Company's determination of the capital charge to Customer for any Substation equipment will not be less than the recorded gross book costs and expenses for such Substation equipment; provided, that prior to such time as the Company has determined the recorded gross book costs and expenses for such Substation equipment, the investment amount for such Substation equipment may be based on the Company's estimated costs and expenses for such Substation equipment, which estimate will be adjusted retroactively to the date when service was first provided using such Substation equipment upon Company's determination of the actual recorded gross book costs and expenses for such Substation equipment;
- (v) For temporary facilities replacements, costs that are not capitalized, including charges for the time the temporary facilities are in use by the Customer, shall be paid by the Customer promptly following receipt of a billing for such costs from the Company.
- b. **Investment Amount Upon Change of Facilities Agreement Option:** If, upon the expiration or termination of a Facilities Agreement with respect to which Customer has elected the "Replacement Coverage" option, Customer enters into a new Facilities Agreement with respect to which it elects the "No Replacement Coverage Adjustable" option, then the investment amount(s) (as set forth in Exhibit A to the Facilities Agreement) used as the basis for the Company's determination of the capital charge to Customer under such new Facilities Agreement shall be determined by the Company based on the gross book value of the Substation equipment, and such investment amount(s) shall be adjusted whenever Substation equipment or any part of the Substation equipment is replaced (including, but not limited to, temporary facilities replacements) (See Section 3.b.(i) below regarding temporary facilities replacements) due to damage or failure. Thereafter, upon the Company's recovery of the entire amount that Customer would have paid for capital costs and capitalized expenses if Customer had not elected to enter into a new Facilities Agreement with respect to which it elects the "No Replacement Coverage Adjustable" option, the investment amount(s) (as set forth in Exhibit A to the Facilities Agreement) used as the basis for the Company's determination of the capital charge to Customer under the Facilities Agreement shall be determined by the Company based on the net book value of each vintage year of the Substation equipment, and such investment amount(s) shall be adjusted whenever Substation equipment or any part of the Substation equipment is replaced (including, but not limited to, temporary facilities replacements) (See Section 3.b.(i) below regarding temporary facilities replacements) due to damage or failure. The monthly payment for the remainder of the term of the Facilities Agreement shall be adjusted, based on the revised added investment(s) resulting from such replacement and will be effective from the month in which the replacement Substation equipment is first available. The Company shall promptly notify Customer of any adjustment to the capital charge pursuant to this Section 3.b, and Customer shall have the option to prepay the present value (as determined by the Company) of the amount of any such adjustment by paying the amount of such adjustment to the Company within twenty (20) days following such notice. If Customer exercises its prepayment option pursuant to this Section 3.b, the monthly payment for the remainder of the term of the Facilities Agreement shall not be adjusted to include the amount of the added investment resulting from such replacement that is so prepaid.
- (i) For temporary facilities replacements, costs that are not capitalized, including charges for the time the temporary facilities are in use by the Customer shall be paid by the Customer promptly following receipt of a billing for such costs from the Company.

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c. **Calculation of Investment Amount for Exhibit A:** The Company shall determine the investment amount(s) to be used in the calculation of the capital costs and capitalized expenses for Substation equipment to be paid by Customer pursuant to this Schedule and the Facilities Agreement as follows:

- (i) If the "Replacement Coverage" method is elected by Customer, the investment amount (as set forth in Exhibit A of the Facilities Agreement) shall be:
- (A) the replacement cost new of the Substation equipment as determined using the Handy-Whitman Index of Public Utility Construction Costs (or its generally recognized replacement index)
minus
 - (B) actual accumulated depreciation on the Substation equipment as recorded on the Company's books (except the result shall not be less than the recorded gross book costs of the Substation equipment)
multiplied by
 - (C) a fraction, the numerator of which is the specific amount of equipment nameplate capacity of the Substation (in kVA) set forth in Exhibit A of the Facilities Agreement, and the denominator of which is the total amount of nameplate capacity of the Substation (in kVA);

If a "Replacement Coverage" Facilities Agreement expires or is terminated and Customer enters into a new "No Replacement Coverage Adjustable" Facilities Agreement, the provisions of Section 3.b. apply and the investment amount(s) (as set forth in Attachment B of the Facilities Agreement) of each vintage year for substations (as set forth in Attachment B to Schedule 62) shall be the gross book value of each vintage year of the Substation equipment, multiplied by a fraction, the numerator of which is the specific amount of equipment nameplate capacity of the Substation (in kVA) set forth in Exhibit A of the Facilities Agreement, and the denominator of which is the total amount of nameplate capacity of the Substation (in kVA);

- (ii) If the "No Replacement Coverage" method is elected by Customer: the investment amount (as set forth in Exhibit A of the Facilities Agreement) of each vintage year of substations (as set forth in Attachment B to Schedule 62) shall be the net book value of each vintage year of the Substation equipment, multiplied by a fraction, the numerator of which is the specific amount of equipment nameplate capacity of the Substation (in kVA) set forth in Exhibit A, and the denominator of which is the total amount of nameplate capacity of the Substation (in kVA). Such investment amount shall be adjusted as follows:

the net book value of any plant in the Substation that has been retired shall be subtracted from such investment amount(s) (the cost for new plant investment used to provide service to Customer are paid in full by the Customer at the time of installation of new plant investment), and the fraction multiplier set forth in this Section 3.c(ii) will then be applied to the updated investment amount(s). The Company shall promptly notify Customer of any adjustment to the capital charge pursuant to this Section 3.c(ii);

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- (iii) If the "No Replacement Coverage Adjustable" method is elected by Customer: the investment amount (as set forth in Exhibit A of the Facilities Agreement) of each vintage year for substations (as set forth in Attachment B to Schedule 62) shall be the net book value of each vintage year of the Substation equipment, multiplied by a fraction, the numerator of which is the specific amount of equipment nameplate capacity of the Substation (in kVA) set forth in Exhibit A, and the denominator of which is the total amount of nameplate capacity of the Substation (in kVA). Such investment amount shall be adjusted as follows:

the net book value of any plant in the Substation that has been retired shall be subtracted from such investment amount(s), and the cost for new plant investment used to provide service to Customer will be added to such investment amount(s) (or a new vintage year amount added), and the fraction multiplier set forth in this Section 3.c(iii) will then be applied to the updated investment amount(s). The Company shall promptly notify Customer of any adjustment to the capital charge pursuant to this Section 3.c(iii).

d. Calculation of Monthly Substation Equipment Capital Charge:

- (i) If the "Replacement Coverage" method is elected by Customer, the monthly payment of the capital charge for any Substation equipment payable by Customer pursuant to this Section 3 "Monthly Substation Equipment Capital Charge" shall be equal to (1) one-twelfth (1/12) of the product of the capital investment amount (determined by the Company pursuant to Section 3.c) multiplied by (2) the Fixed Charge Rate ("FCR") of 8.9019%. For purposes of this Schedule, FCR means the fixed charge rate determined by the Company in accordance with the then-current methodology or model for determining such rate accepted or approved by the Commission from time to time for use in calculating charges under this Schedule.
- (ii) If the "No Replacement Coverage" (available only for renewal of existing "No Replacement Coverage" Facilities Agreements) method is elected by Customer, the "Monthly Substation Equipment Capital Charge" shall be equal to the sums of the following: (1) one-twelfth (1/12) of the product of each of the capital investment amount(s) (determined by the Company pursuant to Section 3.c) multiplied by (2) the FCR for substations for the appropriate vintage year (as set forth in Attachment B to Schedule 62);
- (iii) If the "No Replacement Coverage Adjustable" method is elected by Customer, the "Monthly Substation Equipment Capital Charge" shall be equal to the sums of the following: (1) one-twelfth (1/12) of the product of each of the capital investment amount(s) (determined by the Company pursuant to Section 3.c) multiplied by (2) the FCR for substations for the appropriate vintage year (as set forth in Attachment B to Schedule 62).

If, upon the expiration of a Facilities Agreement with respect to which Customer has elected the "Replacement Coverage" option, Customer enters into a new Facilities Agreement with respect to which it elects the "No Replacement Coverage Adjustable" option, then the "Monthly Substation Equipment Capital Charge" shall be equal to the sums of the following: (1) one-twelfth (1/12) of the product of each of the capital investment amount(s) (determined by the Company pursuant to Section 3.c) multiplied by (2) the Fixed Charge Rate ("FCR") of 8.9019%.

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- e. **Use of Handy-Whitman Index and Changes to Substation Equipment Capital Charge:** The capital investment amount(s) for any Substation equipment may be determined by the Company based on the Handy-Whitman Index of Public Utility Construction Costs (or its generally recognized replacement index). The Substation Equipment Capital Charge payable by Customer pursuant to this Section 3 shall be as set forth in Exhibit A to the Facilities Agreement and, in addition to any adjustment thereto otherwise provided for in Schedule 62, shall be subject to change pursuant to a revision to Schedule 62 approved by the Commission in rate proceedings following the commencement of the term of the Facilities Agreement.
- f. **Amount of Capacity Used or Reserved for a Customer:** The amount of capacity used or reserved for a Customer shall be set forth in Exhibit A to the Facilities Agreement at the time the Facilities Agreement is entered into and shall be an amount as described below. The amount of capacity used or reserved for a Customer during the term of the Facilities Agreement will not be changed during such term except as mutually agreed in writing by Customer and the Company. Not less than six (6) months prior to the expiration of its Facilities Agreement, Customer may notify the Company in writing of its desire to continue to use the same amount of capacity following such expiration. The Company will make such capacity available to Customer pursuant to Schedule 62 and the Facilities Agreement then attached thereto ("Follow-On Facilities Agreement"), provided that Customer will have executed the Follow-On Facilities Agreement prior to such expiration, and the Follow-On Facilities Agreement will become effective as of the first day following such expiration.

The Company will waive the notice and capacity availability requirements set out in this Section 3(f) for any Customer whose Facilities Agreement expires on or prior to August 1, 2015, allowing such Customer to continue to use the same amount of capacity following such expiration provided such Customer enters into a new Facilities Agreement by February 1, 2016.

- (i) Dedicated Substations – where a single Customer receives service under Schedule 62 from a substation or a substation bank and the Company has determined that it has no need for capacity from the substation or substation bank for the term (or the remainder of the term) of the Facilities Agreement, the entire capacity of the substation or substation bank (as appropriate) shall be used or reserved for the Customer being served from the Substation and shall be set forth in Exhibit A to the Facilities Agreement.
- (ii) Substations Are Shared Between Schedule 62 Customers – Where two or more Customers receive service under Schedule 62 from a single substation or substation bank and the Company has determined that it has no need for capacity from the substation or substation bank for the term of the Facilities Agreements, the entire capacity of the substation or substation bank (as appropriate) shall be used or reserved for the Customers being served from the Substation and the proportion used or reserved for each Customer shall be set forth in Exhibit A to the Facilities Agreements.
- A. Shared Substations Where Customer Can Switch Load Between Banks – Where the substation is shared between two or more Customers taking service under Schedule 62 and one or all Customers have the ability to switch some or all of their load from one bank to another bank, the Substation capacity set forth in Exhibit A to the Facilities Agreement will include the capacity reserved for this load switching and will be equal to the sum of the total load possible on each substation bank plus any additional capacity reserved by the Customer(s) for future loads and future redundancy requirements for future loads. The entire substation capacity shall be

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allocated between the Customers and any unused or unreserved capacity shall be allocated as described in the first paragraph of this clause (ii).

(iii) Substations Are Shared Between Schedule 62 Customers and Other Customers – Where there are non-Schedule 62 Customers served from the same substation bank that is used to provide service under Schedule 62 to a Customer, the Company shall determine the capacity planned to be used for switching or to serve non-Schedule 62 Customers, then, if excess capacity remains on the substation or substation bank the Schedule 62 Customer may reserve the excess capacity. The sum of the capacity used and reserved shall be set forth in Exhibit A to the Facilities Agreement. The Schedule 62 Customers shall have no right to use the unreserved excess capacity.

A. Shared Substations Where Customer Can Switch Load Between Banks - Where the substation is shared with non-Schedule 62 Customers and has two or more banks and the Customer has the ability to switch some or all of its load from one bank to another bank, the Substation capacity set forth in Exhibit A to the Facilities Agreement will include the capacity reserved for this load switching and will be equal to the sum of the total load possible on each substation bank plus any additional capacity reserved by the Customer for future loads and future redundancy requirements for future loads. The Schedule 62 Customers shall have no right to use the unreserved excess capacity.

4. Distribution Feeder Charges

Customer shall pay the charges specified below ("Feeder Charges") to reimburse the Company, throughout the term of the Facilities Agreement, for the costs and expenses incurred by the Company in connection with any feeder described in the Facilities Agreement. For each vintage year for feeders (as set forth in Attachment B to Schedule 62):

a. The actual net book value per mile of such feeder, or in the absence of actual net book value, the estimated net book value per mile of such feeder,

multiplied by

b. The number of miles on such feeder between the point of connection with the Customer's equipment and the substation for such feeder.
(the product of items 4.a and 4.b being the "Distribution Base Cost")

multiplied by

c. The sum of the Distribution Fixed Charge Rate for the appropriate vintage year plus the Distribution O&M and A&G Charge rate, where

(i) the Distribution Fixed Charge Rate, determined by the Company in accordance with the then-current methodology or model for determining such rate accepted or approved by the Commission from time to time for use in calculating charges under Schedule 62, is based on the average remaining life of the feeder(s) used in the calculation of the Distribution Base Cost, and

(ii) the Distribution O&M and A&G Charge rate per dollar of Distribution Base Cost, divided by 12:

Overhead Distribution O&M and A&G Charge rate: 21.85%

Underground Distribution O&M and A&G Charge rate: 4.74%

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- d. The Distribution Fixed Charge Rate and the Distribution O&M and A&G Charge Rate shall be subject to change pursuant to a revision to the Schedule approved by the Commission in rate proceedings following the commencement of the term of the Facilities Agreement as follows:
- (i) the Distribution Fixed Charge Rate will be adjusted based on Commission-approved changes in the cost of capital and capital structure, taxes and insurance, and
 - (ii) the Distribution O&M and A&G Charge Rate will be adjusted based on the ratio of distribution O&M and A&G costs to distribution plant cost as reported by the Company in its FERC Form 1.
- e. The Distribution Base Cost shall be subject to change following the commencement of the term of the Facilities Agreement as follows:
- (i) Distribution Base Cost will be adjusted for estimates of any plant on the feeder(s) used to provide service to Customer that has been retired, and the cost for new investment to the feeder(s) used to provide service to Customer will be added (in a new vintage year as necessary), and the formula set forth in Section 4(c) above will then be applied to the updated Distribution Base Cost, and the monthly payment for the remainder of the term of the Facilities Agreement shall be adjusted, based on the added investment(s), and will be effective from the month in which the replacement equipment is first available,

5. Real Property O&M, A&G and Capital Charges

Customer shall pay or reimburse to the Company, throughout the term of the Facilities Agreement, the annual operation and maintenance costs and expenses, the annual administrative and general costs and expenses and the annual capital costs and capitalized expenses incurred by the Company in connection with any Company-owned real property or real property rights of the Company referred to in the Facilities Agreement, the amount of such operation and maintenance costs and expenses, the administrative and general costs and capital costs and capitalized expenses to be calculated as equal to the following:

Where the entire Substation capacity is used or reserved to provide such substation distribution services to the Customer, the capital investment amount (as set forth in Exhibit A to the Facilities Agreement), which will be equal to the Company's original acquisition cost (or an estimate of the Company's original acquisition cost) for the Company-owned real property or real property rights of the Company referred to in the Facilities Agreement, multiplied by 10.4563%;

If the Company leases the Substation site, Customer shall pay or reimburse to the Company, throughout the term of the Facilities Agreement, the full cost of the Company's lease payment and other obligations in connection with such lease.

Or

where a portion of the Substation capacity is used or reserved to provide such substation distribution services to the Customer, the capital investment amount (as set forth in Exhibit A to the Facilities Agreement), which will be equal to the percentage share of the Substation's nameplate capacity so used or reserved shall be based on the percentage of Customer's current and projected loads on the Substation to the total nameplate capacity of the Substation multiplied by the Company's original acquisition cost (or an estimate of the Company's original acquisition cost) for the Company-owned real property or real property rights of the Company referred to in the Facilities Agreement, multiplied by 10.4563%.

Issued: January 26, 2018

Effective: June 1, 2018

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If the Company leases the Substation site, Customer shall pay or reimburse to the Company, throughout the term of the Facilities Agreement, the percentage amount described above of the Company's lease payment and other obligations in connection with such lease.