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March 12, 2013

**VIA WEB PORTAL AND OVERNIGHT MAIL**

Mr. Steven V. King  
Acting Executive Director and Secretary  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Drive, SW  
Olympia, WA 98504

**Re: PSE and NWECA Decoupling Petition: Docket Nos. UE-121697 and UG-121705  
PSE Expedited Rate Filing: Docket Nos. UE-130137 and UG-130138**

Dear Mr. King:

**I. Introduction and Summary of Proposed Procedural Schedule**

In response to the request at the Recessed Open Meeting of March 5, 2013, Puget Sound Energy, Inc. ("PSE" or "the Company") provides the Commission proposed procedural options for treatment of the following dockets:

- The Amended Petition of NW Energy Coalition and PSE for Decoupling Mechanisms, Dockets UE-121697 and UG-121705 ("Decoupling dockets")
- PSE's Expedited Rate Filing, Dockets UE-130137 and UG-130138 ("ERF dockets")
- Anticipated global settlement of multiple dockets including PSE's Petition for Reconsideration of the Final Order in the Centralia PPA proceeding,<sup>1</sup> Decoupling dockets and ERF dockets ("Global Settlement").

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<sup>1</sup> *In re Petition of Puget Sound Energy, Inc. for Approval of a Power Purchase Agreement for Acquisition of Coal Transmission Power, as Defined in RCW 80.80.010, and the Recovery of Related Acquisition Costs*, Docket UE-121373, Order 03 (January 9, 2013) (hereafter "Centralia Coal Transition PPA docket").

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In this letter PSE again requests that the Commission consider the Decoupling dockets and ERF dockets at the April 25, 2013 open meeting and allow the tariffs to go into effect on May 1, 2013. Alternatively, assuming a global settlement is filed with the Commission in March as anticipated, PSE requests that the Commission consider all dockets included in the Global Settlement together. Although PSE believes there is no reason to suspend the ERF and Decoupling tariffs as stand alone dockets, PSE does not object to the suspension of the ERF dockets and Decoupling dockets to facilitate the Commission's review and deliberations of the Global Settlement. However, this review of the Global Settlement can be concluded by May 1, 2013. PSE provides proposed procedural schedules with and without settlement in Section III of this letter.

Additionally, this letter provides relevant background information the Commission should consider in choosing a reasonable procedural path for these dockets. First, this letter reviews the Commission's instructions to PSE and stakeholders regarding its interest in (i) decoupling, (ii) an expedited rate filing, and (iii) creative proposals to break the pattern of frequent rate cases. It is this language in the Final Order of PSE's 2011 general rate case that led to the filing of the Decoupling and ERF dockets, and the anticipated filing of a Global Settlement.

Second, this letter reviews the significant opportunity for investigation that has been afforded parties and stakeholders, and the continued opportunities that are available for investigation and input on these dockets. Given these opportunities for discovery and investigation, the May 1, 2013 effective date is reasonable.

Third, this letter documents the calculated strategy of delay in which certain stakeholders have engaged—both before and after the filing of the ERF and Decoupling dockets. They chose not to meaningfully engage in collaborative sessions prior to the filing of the ERF, which has always been intended to be an expedited filing. They have resisted offers to meet since the filing of the ERF and the modified Decoupling dockets. Although PSE and Commission Staff offered six potential meeting dates in March for technical/settlement conferences to discuss the ERF, the amended Decoupling dockets and the Global Settlement, stakeholders refused to meet prior to April. Certain stakeholders have expressed a preference to take depositions and submit written discovery on the proposed global settlement and the ERF dockets, rather than obtaining this same information through technical/settlement conferences.

Stakeholders have been afforded sufficient opportunities to investigate these proposed mechanisms, and it is reasonable for the Commission to take action on these dockets by May 1, 2013.

## **II. Background**

### **A. The Commission's Discussion of Decoupling, ERF and a Global Resolution**

The Commission expressed its interest in, and willingness to further consider, both a decoupling proposal and an expedited rate filing in the Final Order in PSE's 2011 general rate case. With

respect to the decoupling mechanism, the Commission anticipated that the NW Energy Coalition ("the Coalition") and PSE might work together and bring forth such a proposal.<sup>2</sup>

With respect to the expedited rate filing, the Commission anticipated that Staff and PSE would meet to confirm the form of the ERF filing. Even more importantly, in the Final Order the Commission encouraged PSE, Commission Staff and others to look for broader solutions to break the pattern of frequent general rate case filings.

If PSE accepts Staff's invitation "to meet with PSE to confirm mutual expectations" for a filing along the lines Staff suggests, or the Company on its own initiative makes such a filing, we certainly will give it fair consideration. Alternatively, Staff and PSE may enter into a broader discussion with other interested participants in the regulatory process 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 might 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 situation does not well serve the public interest and we encourage the development of thoughtful solutions.<sup>3</sup>

This is precisely what PSE and Commission Staff have attempted to do in crafting a settlement of the Centralia PPA docket that includes recommendations regarding ERF and the decoupling proposal, along with a proposed general rate case stay out period. Ironically, it is these efforts to mold a global resolution of outstanding issues about which certain stakeholders now complain.

## **B. Stakeholders Have Been Afforded Significant Opportunity For Process**

### **1. Decoupling**

The Commission has extensively reviewed decoupling proposals, both for PSE and other regulated utilities, over the past two decades.<sup>4</sup> Beginning in April 2010, the Commission

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<sup>2</sup> *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Order 08, n. 617 (May 7, 2012) ("The Commission remains open to proposals for a full decoupling mechanism, even to one that may vary somewhat from what is described in our Policy Statement.").

<sup>3</sup> *Id.* ¶507.

<sup>4</sup> In 1991, the Commission approved a decoupling program for Puget Sound Power & Light Co. See Docket UE-901183, Third Supplemental Order (April 10, 1991). This decoupling program lasted for six years. 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. Rulemaking to Review Natural Gas Decoupling, Docket UG-050369 (March 14, 2005). In 2006, the Commission considered natural gas decoupling mechanisms

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 received extensive and detailed comments, sponsored two work sessions, solicited and received further comments, and ultimately issued its Decoupling Policy Statement.<sup>5</sup>

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.<sup>6</sup> Parties engaged in significant discovery, cross examination, and briefing on the decoupling proposal. 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; however, the Commission declined to require PSE to implement full decoupling in the face of PSE's opposition.<sup>7</sup>

After the conclusion of the 2011 general rate case, PSE and the Coalition worked together to refine decoupling mechanisms that were 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, including 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. These discussions highlighted opportunities for broader agreement between PSE, the Coalition, and Commission Staff. As a result, PSE and the Coalition filed an amended petition on March 1 that is supported by Commission Staff and incorporates input received at the January 15, 2013 technical conference.

## 2. Expedited Rate Filing

The Commission also considered the merits of a proposed expedited rate filing mechanism in PSE's most recent general rate case and commented favorably on the proposal. Commission Staff proposed an expedited rate filing to address regulatory lag experienced by PSE. As the name indicates, this expedited rate filing was intended to be an expedited true up of costs that

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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. *See WUTC v. Puget Sound Energy, Inc.*, Dockets UE-060266 and UG-060267, Order 08 (January 5, 2007), ¶¶65-66. In contrast, the Commission approved Avista's decoupling mechanism and authorized a three-year pilot decoupling mechanism for Cascade Natural Gas Corporation. *See 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); *WUTC v. Cascade Natural Gas Corp.*, Docket UG-060256, Order 05 (January 12, 2007).

<sup>5</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>6</sup> *See generally, WUTC v. Puget Sound Energy, Inc.* Docket Nos. UE-111048 and UG-111049 (consolidated).

<sup>7</sup> *Id.*, ¶¶453, 455.

would occur within a few months after the Commission entered the Final Order in the 2011 general rate case. Parties undertook discovery on the proposal, cross-examined Staff witness Ken Elgin, and responded to the proposal in their briefs. The Commission commented favorably on the proposal, and as discussed above, encouraged PSE and Commission Staff to meet to confirm mutual expectations for the filing.<sup>8</sup>

PSE began meeting with interested parties in June 2012, one month after the Commission entered its Final Order. PSE met with interested stakeholders on four occasions in June, July, September and October 2012. Experts and consultants of the stakeholders participated in the meetings and in the communications about the proposal. *See* Attachment A to this letter. The proposal presented in September and October closely followed the ERF proposal outlined in Mr. Elgin's testimony.<sup>9</sup> It is based on the Commission basis report, includes restating adjustments only, does not adjust the rate of return, and utilizes the rate spread and rate design from the most recent general rate case. Attachment B to this letter is the proposal provided to stakeholders in September 2012. PSE met with Commission Staff in January to confirm mutual expectations for the filing—and particularly to discuss the interaction between the ERF and PSE's modified Decoupling proposal. On February 1, 2013, PSE filed its ERF tariffs, the mechanics of which were nearly identical to the ERF proposal presented to stakeholders in the fall of 2012. Although PSE asked for tariffs to go into effect April 1, 2013, stakeholders waited until March 8 to undertake any discovery relating to the ERF.

Significantly, the ERF proposed by PSE differs in one important respect from the proposal made by Mr. Elgin. It is not an ongoing mechanism that will adjust rates annually as proposed by Mr. Elgin.<sup>10</sup> Instead, it is a one-time rate adjustment that will true up costs and expenses prior to the commencement of the decoupling proposal. The limited role the ERF will have going forward should allay concerns of stakeholders who view this mechanism as a multi-year rate adjustment tool.

### **3. The Global Settlement Is Proper and Consistent with the Commission's Expressed Preference**

On January 15, PSE presented a revised Decoupling proposal to stakeholders at a technical conference hosted by the Commission. On January 22, PSE filed its Petition for Reconsideration of the Final Order in the Centralia Coal Transition PPA docket. With these developments, PSE and Commission Staff met to determine whether there was an opportunity to resolve these pending dockets, and the soon to be filed ERF docket, in a manner that would allow PSE to delay the filing of general rate cases, as suggested by the Commission in the Final Order. PSE and Commission Staff reached an agreement in principle that would achieve these goals. In light of these developments, Commission Staff requested more time to file a response to PSE's Petition for Reconsideration, and stated its intention to work with other stakeholders to see if the larger,

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<sup>8</sup> *Id.*, ¶507.

<sup>9</sup> *See* Testimony of Kenneth L. Elgin, Exhibit No. KLE-1T, p. 81, Docket UE-111048 and UG-111049.

<sup>10</sup> Mr. Elgin's proposal anticipated two expedited filings between fully contested rate cases. *See id.*, pp.81-82.

global resolution that the Commission had requested in PSE's 2011 general rate case could be accomplished.

Surprisingly, PSE and Staff's efforts to carry out the direction set forth by the Commission in its recent Final Order have elicited vociferous protests and allegations of rule violations and sanctionable behavior. However, the proposed global resolution and the discussions surrounding it are entirely appropriate, and the Commission should reject meritless arguments to the contrary. First, there is no legal prohibition against parties proposing a settlement to a Commission final order that has been challenged and such settlements have occurred in the past.<sup>11</sup> Second, there is no legal prohibition against settling open dockets—including dockets that have not been converted to adjudicative proceedings—in conjunction with the settlement of other adjudicative proceedings. For example, the 2001 settlement of PSE's general rate case included settlement of a completely separate docket—a complaint filed by Public Counsel related to the residential exchange credits.<sup>12</sup> Third, there is nothing improper about PSE and Staff meeting to discuss the Decoupling dockets or the proposed ERF dockets. In fact, the Final Order encouraged such discussions.

### **C. Delay Should Not Be an Acceptable Strategy**

The Commission should reject certain stakeholders' pleas for more time to investigate the Decoupling Docket, the ERF docket and the global resolution. These stakeholders knew that the Commission had encouraged these filings, yet they chose to delay their investigation. The Commission should not tolerate this strategy of continued delay.

As discussed above, the Commission has thoroughly reviewed decoupling in general and for PSE in the past decade, and particularly over the past three years. The Decoupling dockets were filed in October. There have been technical meetings to discuss elements of the proposal and PSE modified the proposal to reflect input received from stakeholders. Stakeholders have engaged in discovery with respect to decoupling proposals, both during PSE's 2011 general rate case and over the past four months. Stakeholders continue to have the opportunity to meet with PSE, Staff, and the Coalition to discuss the proposed decoupling prior to the tariff effective date of May 1, 2011.

Similarly, stakeholders had significant opportunities to investigate the ERF proposal prior to the filing, but they chose not to do so. PSE began working with stakeholders and their consultants in June 2012, discussing the proposed filing. PSE revised the ERF proposal in September based on stakeholder input. Stakeholders provided no feedback on the proposed methodology and chose to ignore the proposal last fall. PSE has filed a proposal that is substantively identical to the proposal presented to stakeholders and described in Commission Staff testimony in 2011. Had

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<sup>11</sup> For example, in the recent CenturyLink/Qwest merger, the Commission and CenturyLink engaged in settlement discussions after CenturyLink's appeal of the Final Order. See *Joint Application of Qwest Communications International, Inc. and CenturyTel, Inc. for Approval of Indirect Transfer of Control*, Docket UT-100820.

<sup>12</sup> See *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-011570 and UG-011571, Twelfth Supp. Order, (June 20, 2002) ¶ 12; See also *Air Liquide America Corp. v. Puget Sound Energy, Inc.*, Dockets UE-001952 and UE-001959, 11th Supp. Order (April 5, 2001)(resolving numerous pending disputes between PSE and industrial customers).

stakeholders engaged meaningfully in the discussion last summer and fall, they would have had plenty of time for review. This disregard of the proposed filing was at their peril; all parties were on notice that the ERF was intended to be filed, reviewed and approved on an expedited basis.

This strategy of delay has continued after the filing. In February 2013, PSE and Commission Staff invited stakeholders to meet for a technical/settlement conference to discuss the proposed global resolution. PSE offered four dates for the meetings—March 1, 4, 6, and 8. Certain stakeholders ignored or declined all the suggested dates. On March 4, Commission Staff offered two additional dates—March 14 and 18. Again, these stakeholders declined to meet in March, instead expressing a preference for formal discovery over technical conferences and proposing meeting dates of April 4 and 11 for an "Issues Conference"—but only if PSE responded to all discovery within five business days. ICNU also declared its intention to depose Deborah Reynolds on April 2, rejecting the opportunity to obtain information expeditiously and collaboratively.

In sum, stakeholders will have been afforded due process with a May 1, 2013 tariff effective date. The Commission should move forward with these dockets expeditiously, as recommended by PSE in the proposed procedural schedule below.

### **III. Proposed Procedural Schedule**

#### **1. Decoupling Procedure Without Settlement**

- October 25, 2012: Decoupling Petition filed
- November 8, 2012: First Technical Conference
- November 2012: First data requests issued<sup>13</sup>
- January 15, 2013: Second Technical Conference
- March 1, 2013: Amended Decoupling Petition filed<sup>14</sup>
- April 11, 2013: Comments due
- April 25, 2013: Open Meeting presentation and deliberation
- April 29, 2013: Recessed Open Meeting if necessary
- May 1, 2013: Tariffs in effect

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<sup>13</sup> Public Counsel and Staff issued their initial data requests in November. ICNU issued its initial data request on January 21, 2013. No other parties have issued data requests as of this date.

<sup>14</sup> The amended decoupling petition incorporates input received from stakeholders.

## **2. ERF Procedure Without Settlement**

- June 28, 2012: First Stakeholder Meeting re ERF
- July 16, 2012: Second Stakeholder Meeting re ERF
- September 27, 2012: Third Stakeholder Meeting re ERF
- October 11, 2012: Fourth Stakeholder Meeting re ERF
- February 1, 2012: ERF filed
- February 20, 2012: First data requests issued
- April 11, 2013: Comments due
- April 25, 2013: Open Meeting presentation and deliberation
- April 29, 2013: Recessed Open Meeting if necessary
- May 1, 2013: Tariffs in effect

## **3. Global Resolution of Several Open Dockets (assuming settlement of all dockets filed)**

- January 22, 2013: Petition for Reconsideration of Centralia PPA filed by PSE
- March 4, 2013: Proposed terms of settlement provided to stakeholders
- Mar. 1, 4, 6, 8, 14, 18 Proposed dates for Settlement/Technical Conference<sup>15</sup>
- March 19 File Global Settlement
- March 21, 2013: ERF/Decoupling suspended to facilitate deliberation
- March 23 Date by which to file testimony supporting Settlement
- April 4 "Issues conference" proposed by NWIGU/ICNU/PC
- April 11, 2013 Testimony responding to settlement due
- April 18, 2013: Settlement Hearing
- April 30, 2013: Final Order

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<sup>15</sup> These six dates in March were offered to stakeholders for technical/settlement conferences. Stakeholders declined, preferring to tentatively hold "issues conferences" on April 4 and 11.

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#### IV. Conclusion

Stakeholders have been reviewing PSE's ERF proposal since last June and PSE's decoupling filing since last October. Due process has been afforded to stakeholders, and PSE respectfully requests that the Commission act on these filings by May 1, 2013, adopting the procedural schedules set forth above.

Very truly yours,



Sheree Strom Carson

SSC:cgm  
Enclosures

# **Attachment A**

**Carson, Sheree S. (Perkins Coie)**

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**From:** Tom Deboer (PSEDRS)  
**Sent:** Wednesday, October 03, 2012 5:32 PM  
**To:** Tom Deboer (PSEDRS); 'Melinda J. Davison'; 'Brad Van Cleve'; 'Schooley, Thomas (UTC)'; 'mvasconi@utc.wa.gov'; 'mfoisy@utc.wa.gov'; 'kwhite@utc.wa.gov'; 'Ron Roseman'; 'Nancy Hirsh'; 'Danielle Dixon'; 'agoodin@earthjustice.org'; 'Furuta, Norman J CIV NAVFAC SW'; 'Don Schoenbeck'; 'Chad Stokes'; 'ffitch, Simon (ATG)'; 'Daeschel, Lea (ATG)'; 'DEX@BBRSLaw.com'; 'KHiggins@Energystrat.com'; 'jdittmer@utilitech.net'; 'Kboehm@BKLawfirm.com'; 'efinklea@nwigu.org'; Johnson, Stefanie (ATG); cmickels@utc.wa.gov  
**Cc:** m8y7xtka John Story (PSEDRS); Barnard, Kathie; Free, Susan E; Piliaris, Jon  
**Subject:** RE: PSE Expedited Rate Filing Discussion

Thanks to all for your responses. Based on the response to my email below, it appears that Thursday, Oct. 11 starting at 2:30 works the best to reconvene to continue to discuss PSE's expedited rate case proposal. The conference bridge information is below. Talk to you next Thursday.

Regards,  
Tom DeBoer

When: Thursday, October 11, 2012 2:30 PM-4:30 PM (GMT-08:00) Pacific Time (US & Canada).

To join the meeting

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MeetingPlace Main Number 425-456-2500

Toll Free Number 888-228-0484

Meeting ID: 95999

Password: 85774

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**From:** DeBoer, Tom  
**Sent:** Tuesday, October 02, 2012 8:53 AM  
**To:** DeBoer, Tom; 'Melinda J. Davison'; 'Brad Van Cleve'; 'Schooley, Thomas (UTC)'; 'mvasconi@utc.wa.gov'; 'mfoisy@utc.wa.gov'; 'kwhite@utc.wa.gov'; 'Ron Roseman'; 'Nancy Hirsh'; 'Danielle Dixon'; 'agoodin@earthjustice.org'; 'Furuta, Norman J CIV NAVFAC SW'; 'Don Schoenbeck'; 'Paula Pyron'; 'Chad Stokes'; 'ffitch, Simon (ATG)'; 'Daeschel, Lea (ATG)'; 'DEX@BBRSLaw.com'; 'KHiggins@Energystrat.com'; 'jdittmer@utilitech.net'; 'Kboehm@BKLawfirm.com'; 'efinklea@nwigu.org'; 'cmickles@utc.wa.gov'; Johnson, Stefanie (ATG)  
**Cc:** Story, John; Barnard, Kathie; Free, Susan E; Piliaris, Jon  
**Subject:** RE: PSE Expedited Rate Filing Discussion

Thanks to everyone for participating in the meeting last Thursday. I would like to set up the follow up meeting we discussed for the week of Oct. 8. Please let me know your availability for the following time periods and I will set up a call.

Tuesday, Oct. 9 between 1:00 and 5:00 pm  
Wed., Oct. 10 between 1:00 and 5:00 pm  
Thursday, Oct. 11 after the Open Meeting (1:00 to 5:00 pm)

Thanks,  
Tom DeBoer

office 425.462.3495  
email [tom.deboer@pse.com](mailto:tom.deboer@pse.com)

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**From:** DeBoer, Tom  
**Sent:** Wednesday, September 26, 2012 3:44 PM  
**To:** DeBoer, Tom; 'Melinda J. Davison'; 'Brad Van Cleve'; 'Schooley, Thomas (UTC)'; 'mvasconi@utc.wa.gov'; 'mfoisy@utc.wa.gov'; 'kwhite@utc.wa.gov'; 'Ron Roseman'; 'Nancy Hirsh'; 'Danielle Dixon'; 'agoodin@earthjustice.org'; 'Furuta, Norman J CIV NAVFAC SW'; 'Don Schoenbeck'; 'Paula Pyron'; 'Chad Stokes'; 'ffitch, Simon (ATG)'; 'Daeschel, Lea (ATG)'; 'DEX@BBRSLaw.com'; 'KHiggins@Energystrat.com'; 'jdittmer@utilitech.net'; 'Kboehm@BKLLawfirm.com'; 'efinklea@nwigu.org'; 'cmickles@utc.wa.gov'  
**Cc:** Story, John; Barnard, Kathie; Free, Susan E; Piliaris, Jon; 'Carson, Sheree S. (Perkins Coie)'  
**Subject:** PSE Expedited Rate Filing Discussion

Just a reminder of the meeting on Thursday, Sept. 27 from 1:00 to 3:00 pm to discuss PSE's proposed expedited rate filing proposal. I have attached the proposal again for your convenience (this is the same version sent out on Sept. 17 but combined as one document with pagination).

We will be meeting in room 139 at the WUTC beginning at 1:00 pm. Below is the conference bridge information for those that need to call in. Thanks and see you tomorrow.

Tom

To join the meeting

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MeetingPlace Main Number 425-456-2500

Internal Number 81-2500

Toll Free Number 888-228-0484

Meeting ID: 4955

Password: 50698

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**From:** DeBoer, Tom  
**Sent:** Monday, September 17, 2012 1:47 PM  
**To:** 'Melinda J. Davison'; 'Brad Van Cleve'; 'Schooley, Thomas (UTC)'; 'mvasconi@utc.wa.gov'; 'mfoisy@utc.wa.gov'; 'kwhite@utc.wa.gov'; 'Ron Roseman'; 'Nancy Hirsh'; 'Danielle Dixon'; 'agoodin@earthjustice.org'; 'Furuta, Norman J CIV NAVFAC SW'; 'Don Schoenbeck'; 'Paula Pyron'; 'Chad Stokes'; 'ffitch, Simon (ATG)'; 'Daeschel, Lea (ATG)'; 'DEX@BBRSLaw.com'; 'KHiggins@Energystrat.com'; 'jdittmer@utilitech.net'; 'Kboehm@BKLLawfirm.com'; 'efinklea@nwigu.org'  
**Cc:** Story, John; Barnard, Kathie; Free, Susan E; Piliaris, Jon; 'Carson, Sheree S. (Perkins Coie)'; DeBoer, Tom  
**Subject:** RE: PSE Attrition Discussion

Well the last idea we had was such a success we thought we would try again.

We would like to invite folks to discuss an idea (details attached) that builds on the Staff testimony in the last rate case. An overview is provided in the attached "Draft ERF Proposal Write-up". Please let me know if you are interested and your availability for the following dates and I try to get a consensus date.

Monday, Sept. 24 -- anytime  
Wed., Sept. 26 -- afternoon  
Thurs., Sept. 27 -- afternoon after the Open Meeting (perhaps we could meet at the UTC)  
Fri., Sept. 28 -- anytime

Thanks for your consideration.

Tom DeBoer  
425-462-3495  
[tom.deboer@pse.com](mailto:tom.deboer@pse.com)

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**From:** DeBoer, Tom  
**Sent:** Thursday, July 12, 2012 4:32 PM  
**To:** DeBoer, Tom; 'Melinda J. Davison'; 'Brad Van Cleve'; 'Schooley, Thomas (UTC)'; 'mvasconi@utc.wa.gov'; 'Martin, Roland (UTC)'; 'mfoisy@utc.wa.gov'; 'kwhite@utc.wa.gov'; 'Ron Roseman'; 'Nancy Hirsh'; 'Danielle Dixon'; 'agoodin@earthjustice.org'; 'Furuta, Norman J CIV NAVFAC SW'; 'Don Schoenbeck'; 'Paula Pyron'; 'Chad Stokes'; 'ffitch, Simon (ATG)'; 'Daeschel, Lea (ATG)'; 'DEX@BBRSLaw.com'; 'KHiggins@Energystrat.com'; 'jdittmer@utilitech.net'; 'Kboehm@BKLawfirm.com'  
**Cc:** Story, John; Barnard, Kathie; Free, Susan E; Piliaris, Jon; 'Carson, Sheree S. (Perkins Coie)'  
**Subject:** RE: PSE Attrition Discussion

Hi Folks,

Just a reminder of the meeting scheduled for Monday, July 16, 2012 from 1:00 pm to 4:00 pm here in Bellevue. Details below.

Tom

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**From:** DeBoer, Tom  
**Sent:** Sunday, July 01, 2012 4:20 PM  
**To:** Melinda J. Davison; Brad Van Cleve; Schooley, Thomas (UTC); 'mvasconi@utc.wa.gov'; 'Martin, Roland (UTC)'; mfoisy@utc.wa.gov; kwhite@utc.wa.gov; Ron Roseman; Nancy Hirsh; Danielle Dixon; agoodin@earthjustice.org; Furuta, Norman J CIV NAVFAC SW; Don Schoenbeck; 'Paula Pyron'; Chad Stokes; ffitch, Simon (ATG); Daeschel, Lea (ATG); DEX@BBRSLaw.com; KHiggins@Energystrat.com; jdittmer@utilitech.net; Kboehm@BKLawfirm.com  
**Cc:** Story, John; Barnard, Kathie; Free, Susan E; Piliaris, Jon; Carson, Sheree S. (Perkins Coie)  
**Subject:** PSE Attrition Discussion

Thanks to everyone for participating in last Friday's discussion. I have attached the documents sent out for the last meeting as well as John Story's explanatory email (on the email chain below). I think I have everyone on the email list but let me know if I have left anyone off.

Here are the details for the next meeting scheduled for Monday, July 16, 2012 1:00 PM-4:00 PM Pacific Time. We have scheduled the same conference room at Perkins Coie in Bellevue for those that wish to join in person. The phone bridge information is below.

Thanks and we look forward to a good discussion on the 16th.

Regards,

Tom DeBoer

Where: Perkins Coie - Thomsen Room

Subject: PSE Attrition Discussion (Second Meeting)

Date/Time: Jul 16, 2012, 1:00 PM (Pacific Daylight Time)

Duration: 3 hrs

To join the meeting

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MeetingPlace Main Number 425-456-2500

Toll Free Number 888-228-0484

Meeting ID: 65488

Password: 65488

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**From:** Story, John

**Sent:** Thursday, June 28, 2012 11:05 AM

**To:** Schooley, Thomas (UTC); cmickels@utc.wa.gov; ffitc, Simon (ATG); 'Paula Pyron'; Chad Stokes; Brad Van Cleve; 'Trion A. Sanger'; Danielle Dixon; Ronald Roseman; Furuta, Norman J CIV NAVFAC SW; Kboehm@BKLawfirm.com; DEX@BBRSLaw.com

**Cc:** DeBoer, Tom; Barnard, Kathie; Free, Susan E; Piliaris, Jon; SCarson@perkinscoie.com

**Subject:** Meeting Friday June 28, 9:30 am

Attached are four PDF files that demonstrate the attrition tracker mechanism that we will be discussing on Friday. A brief description of the mechanism follows.

An attrition factor would be defined as the annualized growth rate of a particular group of accounts, such as transmission or distribution from the most recent general rate compliance filing to the end of the current CBR period. The attrition factors between the test year from the most recent GRC and the end of the current year Commission Basis Report ("CBR") would be the attrition factors used to adjust the mechanism's rate year.

A test to see if the CBR attrition factor is appropriate would be to adjust the most recent GRC test year by the attrition factors between a prior general rate case compliance filing and the current test year. For this test, we are using the GRC attrition factors which are based on the annual growth rate between the most recently approved GRC test year and the GRC compliance filing that is at least 5 years prior to the most recent test year. The purpose of this time span is to remove volatility in changes for expenses and rate base that can occur between two consecutive test periods. The attrition factors that result in a lower revenue requirement would be the ones that would be used to adjust rates for the next recovery period.

PDF No. 1 is a back cast of the 2009 Electric GRC compared to the 2011 Electric CBR. The purpose of the packet is to demonstrate how the attrition mechanism would have worked had it been in place following the 2009 GRC. The attrition factors used for this presentation are calculated from GRC compliance filings with at least 5 years from the 2009 GRC, which happens to be the 2004 GRC. This calculation shows that the 2008 test year escalated out to December 2011 is less than the actual revenue required based on the 2011 CBR. As this is less than the CBR we use the 2004 GRC to 2009GRC attrition factors to escalate the 2008 test year one more time to 2012 and the new revenues needed for 2012 would be \$570,281,023 shown on line 19 of page 1.

PDF No. 2 is showing the same calculation using the 2011 GRC and 2010 test year and represent the proposed factors that would be used. In this presentation we moved to the attrition factors for the 2006 GRC to 2011 GRC for calculating the attrition factors for the revenue requirement using the 5 year rule. We use those factors to calculate the revenue requirement shown on page 5 of 7. This result is greater than the actual revenue requirement shown for the 2011 CBR so we use the CBR attrition factors. Those factors are shown on page 7 along with the other attrition factors from the historical general rate cases. The CBR attrition factors are calculated from the most recent GRC (2011 GRC) to the most recent CBR (2011 CBR). The calculation of the revenue required is shown on page 4 of the packet and page 3 shows the calculated revenue required versus the 2011 CBR. The attrition adjusted amount differs slightly from the CBR amount due to grouping of accounts, rounding, etc., however this is relatively immaterial and can vary slightly up or down. We then attrition adjust the 2010 test year using these CBR attrition factors out to 2012. This calculation is shown on page 2 and the revenue adjustment is shown on page 1. Based on this calculation rates would be adjusted by \$28.4 million which reflects an increase based on two years of growth, 2011 and 2012. If this mechanism had already been in place the increase would only have been for one year and instead of using the 2010 test year as the base amount set in rates we would have used what would have been set for 2011 and the adjustment would be approximately ½ of this amount assuming equal growth.

PDF No. 3 is the back cast of the 2009 Gas GRC and is equivalent to Packet No. 1 for the electric. In this scenario the GRC attrition factors are too high, shown on page 4, so we use the 2011 CBR attrition factors. This provides an attrition adjusted revenue requirement of \$374.5 million compared to the 2011 CBR revenue requirement of \$375.3 million, again an immaterial difference. Escalating the 2011 calculated amount by one more year to 2012 shows that the revenue required would be \$385.7 million shown on page 1.

PDF No. 4 is the gas calculation that is equivalent to the electric PDF No. 2 and is based on the 2011 GRC. Again the GRC attrition factors provide a revenue requirement that is higher than the actual 2011 CBR revenue requirement. Again we use the attrition factors for the 2011 CBR compared to the 2010 test year and that shows that the escalated amount is slightly lower than the CBR, page 3. Escalating this by one more year we get the revenue requirement for 2012 and the revenue deficiency is shown on page 1, \$14.2 million. Again this is a two year calculation of growth because there was no adjustment for 2011.

We would suggest that the timing of this mechanism would be based on the filing of the annual CBR. When that is filed by March of a given year, the revenue deficiency for the mechanism would also be provided. Rates for that year would be adjusted no later than May of that year and remain in effect until the next filing.

If you are planning on calling in on the conference line or attending the meeting tomorrow in Bellevue would you please send Tom DeBoer confirmation.

# **Attachment B**

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**Discussion points on how the Expedited Rate Filing (ERF) mechanism might operate:**

1. A mechanism for recovery of items other than PCA, PGA, and Property Taxes on an expedited basis. Follows Staff recommended mechanism discussed in Ken Elgin's testimony in the 2011 GRC whereby a filing based on PSE's annual Commission Basis Reports (CBR) would allow recovery of PSE's changes in rate base, changes in revenues and costs and changes in load.
2. Annual filing to change rates based on the annual Commission Basis Report.
  - a. Filed by March 1<sup>st</sup> for an April 1<sup>st</sup> or May 1<sup>st</sup> effective date.
  - b. Open to incorporating Staff review prior to filing, or periodically throughout the year prior to the calendar year being closed. Open to filing a semi-annual report to facilitate this process. This could be developed into a process by which Staff could review prudence.
  - c. Rates spread based on methodology approved in the most recent GRC unless revenue-neutral rate design changes can be accommodated.
  - d. Rates spread on weather adjusted test year load from the CBR period.
  - e. No true-up for load or mix changes.
3. Rate of Return would be from the most recent GRC known at the time of the ERF filing.
4. Revenues associated with ERF categories from the most recent ERF and GRC filings known at the time of the ERF filing would be annualized for application to the ERF filing prior to calculating the deficiency.
5. Future GRC filings would include an ERF adjustment to bring GRC rates in alignment with existing ERF rates that are in effect at the time the GRC is effective. Thus, GRC rates would supersede ERF rates until the next ERF filing.
6. Need to change recovery of property taxes to a rider. It is suggested that this be done by filing an Accounting Petition requesting the approval to break out the revenue requirement associated with property taxes built into rates as a subsection of the general rate tariff. This part of the general rate tariff would be updated yearly based on actual property tax assessments.

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**Methodology for calculating the ERF Deficiency in this draft proposal.**

PSE's draft ERF is based on its 2011 CBR filings made under UE-120608 and UG-120609.

1. The 2011 CBR is segregated between items related to the Power Cost Adjustment Mechanism, Purchased Gas Adjustment, Property Taxes and all remaining items are included in the ERF.

2. The return used to calculate the ERF deficiency is the 7.80% approved in the 2011 GRC, PSE's most recent general rate case.

*Although the rate of return was not known when PSE filed its 2011 CBR, PSE is agreeable to including the most recent rate of return available at the time of an ERF filing if it is known. PSE has incorporated the 7.80% authorized rate of return from the 2011 GRC into this draft proposal.*

3. Because there are no pro-forma re-pricing adjustments made in a Commission Basis report, the revenue requirement under the ERF proposal has been credited to recognize the increased revenues received under the 2010 GTIF and the 2011 GRC.

*There is a unique challenge that exists whenever GRC revenues are to be applied to an ERF filing. Because there are many pro forma adjustments allowed in a GRC that are not allowed in a CBR, application of all GRC revenues to CBR amounts will yield unintended results. To accommodate for this challenge, PSE has segregated the 2011 GRC revenue requirement between the categories shown in the list below. The portion of the 2011 GRC revenue requirement that aligns with ERF categories is the suitable amount to use for application against the ERF filing. Accordingly, rates that would be necessary to recover this 2011 GRC ERF related revenue requirement were determined based on the applicable rate design parameters from the 2011 GRC. These re-designed GRC ERF rates were then applied to the 2011 CBR load to determine the amount of 2011 GRC revenues to apply prior to calculation of the ERF deficiency.*

*The 2011 GRC revenue requirement was broken down into the following categories and the revenue requirement from category E was used to determine the revenue to apply before determination of the ERF deficiency:*

- A. **PCA** (electric only - actual costs that occurred in 2011 in fixed cost categories were used)
- B. **PGA** (gas only – includes storage revenues from Jackson Prairie)
- C. **Property Taxes** (except those already recovered through the PCA)
- D. **Material Pro-forma items not related to CBR**
  - Wage Increase
  - Large Customer Loss (gas only - revenues and therms)
  - Inclusion of Deferred FIT associated with repairs and retirements in rate base
- E. **ERF Related** - all other revenue, rate base and cost categories

## Unit Cost - ERF (Draft as of 9-\_\_\_\_-2012)

| <u>Category</u>      | <u>Gas</u>    | <u>Electric</u> | <u>Combined</u> |
|----------------------|---------------|-----------------|-----------------|
| Mix change           | \$ 3.8        | \$ 2.1          | \$ 5.9          |
| T&D                  | 1.4           | (5.8)           | (4.4)           |
| Customer             | (1.0)         | 1.7             | 0.7             |
| A&G                  | 2.1           | (4.1)           | (2.0)           |
| Dep                  | 4.6           | 6.3             | 10.9            |
| Amorts & Other Taxes | (1.3)         | (1.7)           | (3.0)           |
| Income Taxes         | (3.3)         | 4.7             | 1.4             |
| Rate Base            | (4.4)         | 1.7             | (2.7)           |
| Revenue Sensitive    | 1.2           | 2.8             | 4.0             |
| Gross Deficiency     | <u>\$ 3.1</u> | <u>\$ 7.7</u>   | <u>\$ 10.8</u>  |

| <i>DRAFT PROPOSAL PRESENTED 9/14/2012</i>  |                                |                                  |
|--|--------------------------------|----------------------------------|
| <b>PUGET SOUND ENERGY-ELECTRIC<br/> GENERAL RATE INCREASE<br/> FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011</b> |                                |                                  |
| <b>LINE<br/>NO.</b>  | <b>DESCRIPTION</b>             | <b>EXPEDITED<br/>RATE FILING</b> |
| 1  | RATE BASE                      | \$ 2,512,461,666                 |
| 2  | RATE OF RETURN                 | 7.80%                            |
| 3  |                                |                                  |
| 4  | OPERATING INCOME REQUIREMENT   | 195,972,010                      |
| 5  |                                |                                  |
| 6  | PRO FORMA OPERATING INCOME     | 191,164,714                      |
| 7  | OPERATING INCOME DEFICIENCY    | 4,807,296                        |
| 8  |                                |                                  |
| 9  | CONVERSION FACTOR              | 0.6204330                        |
| 10   | REVENUE REQUIREMENT DEFICIENCY | 7,748,293                        |
| 11   | LARGE FIRM WHOLESALE           |                                  |
| 12   | SALES FROM RESALE-FIRM         |                                  |
| 13   | REVENUE REQUIREMENT DEFICIENCY | \$ 7,748,293                     |

**PUGET SOUND ENERGY**  
**ELECTRIC RESULTS OF OPERATIONS**  
**TWELVE MONTHS ENDED DECEMBER 31, 2011 VS DECEMBER 31, 2008**  
**EXPEDITED RATE FILING UNIT COST**  
**(EXPEDITED RATE FILING CATEGORIES ONLY)**

| LINE NO. | 2011 CBR                             |  | 2011 GRC                       |  | VARIANCE     |
|----------|--------------------------------------|--|--------------------------------|--|--------------|
|          | RESTATED RESULTS OF OPERATIONS       | UNIT COST Dollars/Therm 23,302,797,456 | RESTATED RESULTS OF OPERATIONS | UNIT COST Dollars/Therm 23,098,213,509 |              |
| 1        | <b>OPERATING REVENUES:</b>           |  |                                |  |              |
| 2        | \$ 652,297,995                       | \$ 0.027992                            | \$ 648,106,088                 | \$ 0.028059                            | \$ 1,548,455 |
| 3        | \$ 367,992                           | \$ 0.000016                            | \$ 1,741,287                   | \$ 0.000075                            | \$ 1,388,717 |
| 4        | \$ -                                 | -                                      | \$ -                           | \$ -                                   | \$ -         |
| 5        | \$ 34,639,194                        | 0.001486                               | \$ 33,524,569                  | 0.001451                               | (817,692)    |
| 6        | \$ 687,305,181                       | \$ 0.029495                            | \$ 683,371,944                 | \$ 0.029585                            | \$ 2,119,480 |
| 7        |                                      |  |                                |  |              |
| 8        | <b>OPERATING REVENUE DEDUCTIONS:</b> |  |                                |  |              |
| 9        |                                      |  |                                |  |              |
| 10       | <b>POWER COSTS:</b>                  |  |                                |  |              |
| 11       | \$ -                                 | \$ -                                   | \$ -                           | \$ -                                   | -            |
| 12       | \$ -                                 | \$ -                                   | \$ 0                           | \$ 0.000000                            | (0)          |
| 13       | \$ -                                 | \$ -                                   | \$ -                           | \$ -                                   | -            |
| 14       | \$ -                                 | \$ -                                   | \$ -                           | \$ -                                   | -            |
| 15       | \$ -                                 | \$ -                                   | \$ 0                           | \$ 0.000000                            | \$ (0)       |
| 16       |                                      |  |                                |  |              |
| 17       | \$ -                                 | \$ -                                   | \$ -                           | \$ -                                   | -            |
| 18       | 8,266,753                            | 0.000355                               | \$ 10,470,925                  | 0.000453                               | (2,296,915)  |
| 19       | 78,245,091                           | 0.003358                               | \$ 81,032,992                  | 0.003508                               | (3,505,621)  |
| 20       | 40,950,302                           | 0.001757                               | \$ 41,267,241                  | 0.001787                               | (682,448)    |
| 21       | 4,046,304                            | 0.000174                               | \$ 1,662,017                   | 0.000072                               | 2,369,566    |
| 22       | 2,384                                | 0.000000                               | \$ 2,589                       | 0.000000                               | (228)        |
| 23       | 84,402,616                           | 0.003622                               | \$ 87,756,285                  | 0.003799                               | (4,130,937)  |
| 24       | 16,334,316                           | 0.000701                               | \$ 15,477,405                  | 0.000670                               | 719,826      |
| 25       | (1,519,094)                          | (0.000065)                             | \$ (176,765)                   | (0.000008)                             | (1,340,763)  |
| 26       | -                                    | -                                      | \$ -                           | -                                      | -            |
| 27       | 230,728,672                          | 0.009901                               | 237,492,688                    | 0.010282                               | (8,867,520)  |
| 28       | 129,500,545                          | 0.005557                               | 122,158,056                    | 0.005289                               | 6,260,518    |
| 29       | 28,386,171                           | 0.001218                               | 28,672,155                     | 0.001241                               | (539,937)    |
| 30       | 31,840,147                           | 0.001366                               | 32,091,369                     | 0.001389                               | (535,460)    |
| 31       | (10,190,348)                         | (0.000437)                             | (98,099,031)                   | (0.004247)                             | 88,777,559   |
| 32       | 85,875,281                           | 0.003685                               | 168,465,833                    | 0.007293                               | (84,082,677) |
| 33       | \$ 496,140,467                       | \$ 0.021291                            | \$ 490,781,071                 | \$ 0.021248                            | \$ 1,012,483 |
| 34       |                                      |  |                                |  |              |
| 35       | \$ 191,164,713                       | \$ 0.008204                            | \$ 192,590,873                 | \$ 0.008338                            | \$ 3,131,962 |
| 36       |                                      |  |                                |  |              |
| 37       | \$ 2,512,461,666                     | \$ 0.107818                            | \$ 2,469,113,744               | \$ 0.106896                            |              |
| 38       | 7.80%                                |  | 7.80%                          |  |              |
| 39       | \$ 195,972,012                       | \$ 0.008410                            | \$ 192,590,872                 | \$ 0.008338                            | 1,675,337    |
| 40       | \$ 4,807,299                         |  | \$ (1)                         |  | \$ 4,807,299 |

Grossup Factor \$ 0.620433  
Revenue Deficiency 7,748,296

check 3 \$ (21,654,412)

Mix 2.1  
RB Return \$ 1.7  
T&D (5.8)  
Customer 1.7  
A&G (4.1)  
Dep 6.3  
Amorts & Other Taxes (1.7)  
Income Taxes 4.7  
Revenue Sensitive 2.8  
7.7

**PUGET SOUND ENERGY-ELECTRIC  
DETERMINATION OF ERP RELATED REVENUES AND EXPENSES  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011**

|   |                                    |
|---|------------------------------------|
| (Based on Commission Staff Report filed under WLEC Docket No. U-120003) |                                    |
| (Included in Original Filing)   | (Segregated by Recovery Mechanism) |

| LINE NO. | ACTUAL RESULTS OF OPERATIONS         |                  | TOTAL ADJUSTMENTS  | RESTATEd RESULTS OF OPERATIONS | PCA EXHIBIT A-1 | PROPERTY TAXES     | EXPEDITED RATE FILING | 2011 LOAD PRICED ADJUSTMENT AT 2011 GRC RATES FOR 2011 GRC RELATED TO ERF |  |
|----------|--------------------------------------|------------------|--------------------|--------------------------------|-----------------|--------------------|-----------------------|---|--|
|          | A                                    | B                | C = A + B          | D                              | E               | F = C - D - E      | G = H - F             | H   |  |
| 1        | <b>OPERATING REVENUES</b>            |                  |                    |                                |                 |                    |                       |   |  |
| 2        | \$ 2,133,846,001                     | \$ (94,555,772)  | \$ 2,039,290,229   | 1,435,434,435                  | 17,560,191      | 586,355,603        | \$ 65,942,392         | 652,297,995   |  |
| 3        | 371,445                              | (3,453)          | 367,992            |                                |                 | 367,992            | -                     | 367,992   |  |
| 4        | 140,420,599                          | (2,059,961)      | 138,360,638        | 138,360,638                    |                 | 0                  | -                     | -   |  |
| 5        | 81,684,812                           | (98,845,392)     | (17,160,580)       | (51,799,773)                   |                 | 34,639,194         | -                     | 34,639,194  |  |
| 6        | 2,356,322,857                        | (195,464,578)    | 2,160,858,279      | 1,521,995,369                  | 17,560,191      | 621,362,758        | 65,942,392            | 687,305,161   |  |
| 7        |                                      |                  |                    |                                |                 |                    |                       |   |  |
| 8        | <b>OPERATING REVENUE DEDUCTIONS:</b> |                  |                    |                                |                 |                    |                       |   |  |
| 9        |                                      |                  |                    |                                |                 |                    |                       |   |  |
| 10       | <b>POWER COSTS:</b>                  |                  |                    |                                |                 |                    |                       |   |  |
| 11       | \$ 199,471,094                       | \$ 11,033,255    | \$ 210,504,349     | 210,504,349                    |                 | (0)                |                       | (0)   |  |
| 12       | 783,082,464                          | (24,462,121)     | 758,620,343        | 758,620,343                    |                 | (0)                |                       | (0)   |  |
| 13       | 82,631,624                           | -                | 82,631,624         | 82,631,624                     |                 | (0)                |                       | (0)   |  |
| 14       | (71,147,374)                         | 71,147,374       | (0)                | 0                              |                 | (0)                |                       | (0)   |  |
| 15       | 994,037,808                          | 57,718,508       | 1,051,756,316      | 1,051,756,317                  | 0               | (1)                | -                     | (0)   |  |
| 16       |                                      |                  |                    |                                |                 |                    |                       |   |  |
| 17       | \$ 114,139,604                       | \$ -             | \$ 114,139,604     | 114,139,604                    |                 | 0                  |                       |   |  |
| 18       | 9,481,215                            | -                | 9,481,215          | 1,214,467                      |                 | 8,266,753          |                       | 8,266,753   |  |
| 19       | 78,245,091                           | -                | 78,245,091         |                                |                 | 78,245,091         |                       | 78,245,091  |  |
| 20       | 49,059,716                           | (918,840)        | 48,140,876         | 7,103,565                      | 86,605          | 40,950,302         |                       | 40,950,302  |  |
| 21       | 15,881,133                           | (12,161,178)     | 3,719,955          |                                |                 | 3,719,955          | 326,349               | 4,046,304   |  |
| 22       | 86,285,987                           | (86,283,603)     | 2,384              |                                |                 | 2,384              |                       | 2,384   |  |
| 23       | 95,893,696                           | 468,141          | 96,361,837         | 11,924,221                     | 35,000          | 84,402,616         |                       | 84,402,616  |  |
| 24       | 196,706,434                          | (187,935)        | 196,518,499        | 67,149,839                     |                 | 129,368,660        | 131,885               | 129,500,545   |  |
| 25       | 40,172,915                           | -                | 40,172,915         | 11,756,744                     |                 | 28,386,171         |                       | 28,386,171  |  |
| 26       | 17,829,018                           | -                | 17,829,018         | 1,494,702                      |                 | 16,334,316         |                       | 16,334,316  |  |
| 27       | 116,451,295                          | (108,921,116)    | 7,530,179          | 9,049,277                      |                 | (1,519,094)        |                       | (1,519,094)   |  |
| 28       | 54,145,597                           | (54,145,597)     | -                  |                                |                 | 0                  |                       | -   |  |
| 29       | 207,140,327                          | (79,411,834)     | 127,728,493        | 76,175,659                     | 22,253,946      | 29,298,859         | 2,541,288             | 31,840,147  |  |
| 30       | 133,244                              | 7,250,851        | 7,384,095          | 41,310,855                     | (1,706,377)     | (37,220,383)       | 22,030,654            | (10,190,348)  |  |
| 31       | 39,724,568                           | 46,150,713       | 85,875,281         |                                |                 | 85,875,281         |                       | 85,875,281  |  |
| 32       | \$ 2,115,327,648                     | \$ (230,441,890) | \$ 1,884,885,758   | 1,593,195,669                  | 20,669,177      | 471,110,911        | 25,029,556            | 496,140,467   |  |
| 33       |                                      |                  |                    |                                |                 |                    |                       |   |  |
| 34       | \$ 240,995,209                       | \$ 34,977,312    | \$ 275,972,521     | \$ 125,589,630                 | \$ (3,168,966)  | \$ 150,251,877     | 40,912,836            | 191,164,714   |  |
| 35       |                                      |                  |                    |                                |                 |                    |                       |   |  |
| 36       | \$ 4,168,735,160                     | \$ (3,056,780)   | \$ 4,165,678,380   | \$ 1,653,216,718               | \$ -            | \$ 2,512,461,666   | \$ -                  | \$ 2,512,461,666  |  |
| 37       |                                      |                  |                    |                                |                 |                    |                       |   |  |
| 38       | 5.78%                                |                  | 6.62%              | 7.80%                          | N/A             | 5.98%              | N/A                   | 7.61%   |  |
| 39       |                                      |                  |                    |                                |                 |                    |                       |   |  |
| 40       | <b>RATE BASE</b>                     |                  |                    |                                |                 |                    |                       |   |  |
| 41       | \$ 7,368,096,541                     | \$ (4,530,703)   | \$ 7,363,565,838   | \$ 3,036,522,945               |                 | \$ 4,277,042,893   |                       | \$ 4,277,042,893  |  |
| 42       | \$ (2,839,059,503)                   | \$ 694,741       | \$ (2,838,364,762) | \$ (1,372,861,276)             |                 | \$ (1,465,503,486) |                       | \$ (1,465,503,486)  |  |
| 43       | 313,951,313                          | -                | 313,951,313        | 239,682,624                    |                 | 55,268,685         |                       | 55,268,685  |  |
| 44       | (772,206,073)                        | 779,182          | (771,426,891)      | (319,127,575)                  |                 | (452,299,316)      |                       | (452,299,316)   |  |
| 45       | 183,562,563                          | -                | 183,562,563        |                                |                 | 183,562,563        | 0                     | 183,562,563   |  |
| 46       | (85,609,681)                         | -                | (85,609,681)       | (8)                            |                 | (85,609,673)       |                       | (85,609,673)  |  |
| 47       | \$ 4,168,735,160                     | \$ (3,056,780)   | \$ 4,165,678,380   | \$ 1,653,216,718               | \$ 0            | \$ 2,512,461,666   | \$ 0                  | \$ 2,512,461,666  |  |



**PUGET SOUND ENERGY-ELECTRIC**  
**RESULTS OF OPERATIONS WITH ALLOCATION TO RECOVERY MECHANISM**  
**FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010**  
**2011 GENERAL RATE CASE**

| LINE NO. | (As Approved in UE-111048)    |                      |                                |                                |                      | (Segregated by Recovery Mechanism) |                   |                          |                       |  |
|----------|-------------------------------|----------------------|--------------------------------|--------------------------------|----------------------|------------------------------------|-------------------|--------------------------|-----------------------|--|
|          | ACTUAL RESULTS OF OPERATIONS  | TOTAL ADJUSTMENTS    | ADJUSTED RESULTS OF OPERATIONS | REVENUE REQUIREMENT DEFICIENCY | AFTER RATE INCREASE  | PCA EXHIBIT A-1                    | PROPERTY TAXES    | PROFORMA ADJ. NOT IN PCA | EXPEDITED RATE FILING |  |
| 1        | OPERATING REVENUES            |                      |                                |                                |                      |                                    |                   |                          |                       |  |
| 2        | \$ 2,042,334,319              | \$ (65,220,782)      | \$ 1,977,113,537               | \$ 62,795,830                  | \$ 2,039,909,367     | \$ 1,374,903,042                   | \$ 19,887,008     | \$ (2,986,771)           | \$ 648,106,088        |  |
| 3        | 350,182                       | 867,565              | 1,217,748                      | 523,539                        | 1,741,287            | -                                  | -                 | -                        | 1,741,287             |  |
| 4        | 201,262,557                   | (161,098,834)        | 40,163,723                     | -                              | 40,163,723           | 40,163,723                         | -                 | -                        | -                     |  |
| 5        | 30,706,333                    | 8,313,875            | 39,020,208                     | -                              | 39,020,208           | 5,495,638                          | -                 | -                        | 33,524,569            |  |
| 6        | <u>2,274,653,391</u>          | <u>(217,138,176)</u> | <u>2,057,515,215</u>           | <u>63,319,369</u>              | <u>2,120,834,584</u> | <u>1,420,562,403</u>               | <u>19,887,008</u> | <u>(2,986,771)</u>       | <u>683,371,944</u>    |  |
| 7        | OPERATING REVENUE DEDUCTIONS: |                      |                                |                                |                      |                                    |                   |                          |                       |  |
| 8        | POWER COSTS                   |                      |                                |                                |                      |                                    |                   |                          |                       |  |
| 10       | FUEL                          |                      |                                |                                |                      |                                    |                   |                          |                       |  |
| 11       | \$ 268,147,071                | \$ (139,012)         | \$ 268,008,059                 | \$ -                           | \$ 268,008,059       | \$ 268,008,059                     | \$ -              | \$ -                     | \$ -                  |  |
| 12       | 832,711,097                   | (357,662,572)        | 475,048,524                    | -                              | 475,048,524          | 475,048,524                        | -                 | -                        | 0                     |  |
| 13       | 78,564,669                    | 11,825,943           | 90,390,612                     | -                              | 90,390,612           | 90,390,612                         | -                 | -                        | -                     |  |
| 14       | (75,109,150)                  | 75,109,150           | -                              | -                              | -                    | -                                  | -                 | -                        | -                     |  |
| 15       | <u>1,104,313,687</u>          | <u>(270,866,491)</u> | <u>833,447,196</u>             | <u>-</u>                       | <u>833,447,196</u>   | <u>833,447,196</u>                 | <u>-</u>          | <u>-</u>                 | <u>0</u>              |  |
| 16       | OTHER POWER SUPPLY EXPENSES   |                      |                                |                                |                      |                                    |                   |                          |                       |  |
| 17       | \$ 102,409,192                | \$ 21,932,742        | \$ 124,341,933                 | \$ -                           | \$ 124,341,933       | \$ 124,341,933                     | \$ -              | \$ -                     | \$ -                  |  |
| 18       | 11,865,443                    | 81,665               | 11,947,108                     | -                              | 11,947,108           | 1,389,837                          | -                 | 86,546                   | 10,470,925            |  |
| 19       | 82,924,735                    | (1,367,811)          | 81,556,924                     | -                              | 81,556,924           | -                                  | -                 | 513,932                  | 81,032,992            |  |
| 20       | 50,172,086                    | (2,695,193)          | 47,476,893                     | 281,391                        | 47,758,284           | 6,110,069                          | 88,378            | 292,596                  | 41,267,241            |  |
| 21       | 13,431,632                    | (11,734,878)         | 1,696,754                      | -                              | 1,696,754            | -                                  | -                 | 34,737                   | 1,662,017             |  |
| 22       | 75,336,909                    | (75,334,320)         | 2,589                          | -                              | 2,589                | -                                  | -                 | -                        | 2,589                 |  |
| 23       | 94,643,935                    | 5,227,225            | 99,871,160                     | 126,639                        | 99,997,798           | 10,941,267                         | 766,803           | 513,443                  | 87,756,285            |  |
| 24       | 190,245,449                   | 29,478,180           | 219,723,630                    | -                              | 219,723,630          | 97,565,573                         | -                 | -                        | 122,158,056           |  |
| 25       | 40,184,321                    | (236,433)            | 39,947,888                     | -                              | 39,947,888           | 11,275,733                         | -                 | -                        | 28,672,155            |  |
| 26       | 17,493,031                    | (552,298)            | 16,940,733                     | -                              | 16,940,733           | 1,463,328                          | -                 | -                        | 16,477,405            |  |
| 27       | 30,169,560                    | (22,107,298)         | 8,062,262                      | -                              | 8,062,262            | 8,239,028                          | -                 | -                        | (176,765)             |  |
| 28       | 166,953,097                   | (166,953,097)        | -                              | -                              | -                    | -                                  | -                 | -                        | -                     |  |
| 29       | 193,255,907                   | (69,040,956)         | 124,214,950                    | 2,441,468                      | 126,656,419          | 75,397,150                         | 19,031,827        | 1156,072                 | 32,091,369            |  |
| 30       | 16,263,334                    | (75,691,914)         | (59,428,580)                   | 21,164,436                     | (38,264,144)         | 61,198,467                         | -                 | (1,363,880)              | (98,099,031)          |  |
| 31       | (32,436,237)                  | 200,902,071          | 168,465,833                    | -                              | 168,465,833          | -                                  | -                 | -                        | 168,465,833           |  |
| 32       | <u>2,157,226,080</u>          | <u>(438,958,808)</u> | <u>1,718,267,272</u>           | <u>24,013,934</u>              | <u>1,742,281,206</u> | <u>1,231,369,581</u>               | <u>19,887,008</u> | <u>243,546</u>           | <u>490,781,071</u>    |  |
| 33       | NET OPERATING INCOME          |                      |                                |                                |                      |                                    |                   |                          |                       |  |
| 34       | \$ 117,427,311                | \$ 221,820,632       | \$ 339,247,943                 | \$ 39,305,435                  | \$ 378,553,378       | \$ 189,192,822                     | \$ -              | \$ (3,230,317)           | \$ 192,590,873        |  |
| 35       | RATE BASE                     |                      |                                |                                |                      |                                    |                   |                          |                       |  |
| 36       | \$ 4,100,870,913              | \$ 752,377,515       | \$ 4,853,248,427               | \$ -                           | \$ 4,853,248,427     | \$ 2,425,549,006                   | \$ -              | \$ (41,414,322)          | \$ 2,469,113,744      |  |
| 37       | RATE OF RETURN                |                      |                                |                                |                      |                                    |                   |                          |                       |  |
| 38       | 2.86%                         |                      | 6.99%                          |                                | 7.80%                | 7.80%                              |                   | 7.80%                    | 7.80%                 |  |
| 39       | RATE BASE:                    |                      |                                |                                |                      |                                    |                   |                          |                       |  |
| 41       | \$ 7,157,671,291              | \$ 690,844,482       | \$ 7,848,515,773               | \$ -                           | \$ 7,848,515,773     | \$ 3,754,419,305                   | \$ -              | \$ -                     | \$ 4,094,096,468      |  |
| 42       | (2,758,182,029)               | 3,627,745            | (2,754,554,285)                | -                              | (2,754,554,285)      | (1,321,591,491)                    | -                 | -                        | (1,432,962,793)       |  |
| 43       | 241,208,023                   | 188,590,338          | 429,798,361                    | -                              | 429,798,361          | 370,152,085                        | -                 | -                        | 59,646,276            |  |
| 44       | (656,658,557)                 | (129,306,223)        | (785,964,779)                  | -                              | (785,964,779)        | (377,430,893)                      | -                 | (41,414,322)             | (367,119,564)         |  |
| 45       | 204,952,589                   | (1,378,828)          | 203,573,761                    | -                              | 203,573,761          | -                                  | -                 | -                        | 203,573,761           |  |
| 46       | (88,120,404)                  | -                    | (88,120,404)                   | -                              | (88,120,404)         | -                                  | -                 | -                        | (88,120,404)          |  |
| 47       | <u>4,100,870,913</u>          | <u>752,377,515</u>   | <u>4,853,248,427</u>           | <u>-</u>                       | <u>4,853,248,427</u> | <u>2,425,549,006</u>               | <u>-</u>          | <u>(41,414,322)</u>      | <u>2,469,113,744</u>  |  |

PSE's Draft Expedited Rate Filing Proposal (09-27-2012)

REVENUES ASSOCIATED WITH PROFORMA ITEMS (OTHER THAN PROPERTY TAXES AND PCA) THAT ARE NOT COMPARABLE FOR PURPOSES OF APPLYING TO ERF (ELECTRIC)

|    | DESCRIPTION   | WAGE<br>INCREASE | DFIT<br>RPRS/RTRMTS | TOTAL           |
|----|---|------------------|---------------------|-----------------|
| 1  | RATE BASE   | \$ -             | \$ (41,414,322)     | \$ (41,414,322) |
| 2  | RATE OF RETURN  | 7.80%            | 7.80%               | 7.80%           |
| 3  |   |                  |                     |                 |
| 4  | OPERATING INCOME REQUIREMENT (RATE BASE)  | -                | (3,230,317)         | (3,230,317)     |
| 5  | OPERATING INCOME REQUIREMENT (REV & EXPS)   | 926,937          | 449,345             | 1,376,282       |
| 6  |   |                  |                     |                 |
| 7  | TOTAL OPERATING INCOME REQUIREMENT  | 926,937          | (2,780,972)         | (1,854,035)     |
| 8  | CONVERSION FACTOR   | 0.620749         | 0.620749            | 0.620749        |
| 9  |   |                  |                     |                 |
| 10 | REVENUE REQUIREMENT   | \$ 1,493,255     | \$ (4,480,026)      | \$ (2,986,771)  |
| 11 |   |                  |                     |                 |
| 12 | OPERATING INCOME REQUIREMENT (REV & EXPS):  |                  |                     |                 |
| 13 | TOTAL OPERATING REVENUES  | \$ -             |                     | \$ -            |
| 14 | LESS OPERATING EXPENSES:  |                  |                     |                 |
| 15 | PURCHASED POWER   | (NOTE 1)         |                     | -               |
| 16 | OTHER POWER SUPPLY EXPENSES   | (NOTE 1)         |                     | -               |
| 17 | TRANSMISSION EXPENSE  | 86,346           |                     | 86,346          |
| 18 | DISTRIBUTION EXPENSE  | 523,932          |                     | 523,932         |
| 19 | CUSTOMER ACCOUNT EXPENSES   | 305,869          |                     | 305,869         |
| 20 | CUSTOMER SERVICE EXPENSES   | 34,737           |                     | 34,737          |
| 21 | ADMIN & GENERAL EXPENSE   | 648,607          |                     | 648,607         |
| 22 | TAXES OTHER THAN INCOME TAXES   | 142,046          |                     | 142,046         |
| 23 | INCOME TAXES  | (814,601)        | 449,345             | (365,255)       |
| 24 | OPERATING INCOME REQUIREMENT (REV & EXPS)   | \$ 926,937       | \$ 449,345          | \$ 1,376,282    |
| 25 |   |                  |                     |                 |
| 26 | (NOTE 1) - THE PORTION OF THIS ADJUSTMENT ASSOCIATED WITH THE PCA IS NOT BEING INCLUDED |                  |                     |                 |
| 27 | HERE AS IT HAS ALREADY BEEN SEGREGATED INTO THE PCA ON THE                              |                  |                     |                 |
| 28 | "2011 GRC ERF" TAB  |                  |                     |                 |

| <i>DRAFT PROPOSAL 9/14/2012</i>   |                                |                                  |
|---|--------------------------------|----------------------------------|
| <b>PUGET SOUND ENERGY-GAS<br/>GENERAL RATE INCREASE<br/>FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011</b> |                                |                                  |
| <b>LINE<br/>NO.</b>   | <b>DESCRIPTION</b>             | <b>EXPEDITED<br/>RATE FILING</b> |
| 1   | RATE BASE                      | \$ 1,644,558,987                 |
| 2   | RATE OF RETURN                 | <u>7.80%</u>                     |
| 3   |                                |                                  |
| 4   | OPERATING INCOME REQUIREMENT   | 128,275,601                      |
| 5   |                                |                                  |
| 6   | PRO FORMA OPERATING INCOME     | <u>126,357,371</u>               |
| 7   | OPERATING INCOME DEFICIENCY    | 1,918,229                        |
| 8   |                                |                                  |
| 9   | CONVERSION FACTOR              | <u>0.6212420</u>                 |
| 10  | REVENUE REQUIREMENT DEFICIENCY | 3,087,733                        |
| 11  | LARGE FIRM WHOLESale           |                                  |
| 12  | SALES FROM RESALE-FIRM         |                                  |
| 13  | REVENUE REQUIREMENT DEFICIENCY | <u>\$ 3,087,733</u>              |

**PUGET SOUND ENERGY**  
**GAS RESULTS OF OPERATIONS**  
**TWELVE MONTHS ENDED DECEMBER 31, 2011 VS DECEMBER 31, 2010**  
**UNIT COST**  
**(EXPEDITED RATE FILING CATEGORIES ONLY)**

| LINE NO. | 2011 CBR                       |                                | 2011 GRC                       |                                | VARIANCE     |              |
|----------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------|--------------|
|          | RESTATED RESULTS OF OPERATIONS | UNIT COST                      | RESTATED RESULTS OF OPERATIONS | UNIT COST                      |              |              |
|          |                                | Dollars/Therm<br>1,117,989,093 |                                | Dollars/Therm<br>1,089,556,625 |              |              |
| 1        | <b>OPERATING REVENUES:</b>     |                                |                                |                                |              |              |
| 2        | \$ 417,962,347                 | \$ 0.373852                    | \$ 408,618,618                 | \$ 0.375032                    | \$ 1,319,357 |              |
| 3        | \$ (0)                         | (0.000000)                     | -                              | -                              | 0            |              |
| 4a       | \$ 7,578,748                   | 0.006779                       | 8,207,817                      | 0.007533                       | 843,256      |              |
| 4b       | \$ 5,338,820                   | 0.004775                       | 6,760,042                      | 0.006204                       | 1,597,628    |              |
| 5        | \$ 430,879,915                 | \$ 0.385406                    | \$ 423,586,478                 | \$ 0.388770                    | \$ 3,760,242 |              |
| 6        | OPERATING REVENUE DEDUCTIONS:  |                                |                                |                                |              |              |
| 7        |                                |                                |                                |                                |              |              |
| 8        | <b>FUEL COSTS</b>              |                                |                                |                                |              |              |
| 9        |                                |                                |                                |                                |              |              |
| 10       |                                |                                |                                |                                |              |              |
| 11       | \$ -                           | -                              | -                              | -                              | -            |              |
| 12       |                                |                                |                                |                                |              |              |
| 13       |                                |                                |                                |                                |              |              |
| 14       | \$ -                           | \$ -                           | \$ -                           | \$ -                           | \$ -         |              |
| 15       | OTHER POWER SUPPLY EXPENSES    |                                |                                |                                |              |              |
| 16       | \$ 1,575,816                   | \$ 0.001410                    | \$ 1,927,323                   | \$ 0.001769                    | (401,802)    |              |
| 17       | \$ 49,692                      | 0.000044                       | 226,131                        | 0.000208                       | (182,340)    |              |
| 18       | \$ 52,286,164                  | 0.046768                       | 49,005,584                     | 0.044978                       | 2,001,757    |              |
| 19       | \$ 27,937,360                  | 0.024989                       | 28,113,399                     | 0.025803                       | (909,671)    |              |
| 20       | \$ 1,080,045                   | 0.000966                       | 1,108,462                      | 0.001017                       | (57,343)     |              |
| 21       | \$ 0                           | 0.000000                       | -                              | -                              | 0            |              |
| 22       | \$ 45,126,074                  | 0.040364                       | 41,788,117                     | 0.038353                       | 2,247,478    |              |
| 23       |                                |                                |                                |                                |              |              |
| 24       | (151,356)                      | (0.000135)                     | (45,370)                       | (0.000042)                     | (104,802)    |              |
| 25       |                                |                                |                                |                                |              |              |
| 26       | Subtotal                       | 127,903,796                    | 0.114405                       | 122,123,647                    | 0.112086     | 2,593,277    |
| 27       | DEPRECIATION                   | 102,889,642                    | 0.092031                       | 95,831,671                     | 0.087955     | 4,557,200    |
| 27       | AMORTIZATION                   | 12,487,218                     | 0.011169                       | 12,778,120                     | 0.011728     | (624,353)    |
| 28       | TAXES OTHER INCOME TAXES       | 20,225,901                     | 0.018091                       | 20,361,343                     | 0.018688     | (666,781)    |
| 29       | INCOME TAXES                   | 10,191,738                     | 0.009116                       | 570,823                        | 0.000524     | 9,606,019    |
| 30       | DEFERRED INCOME TAXES          | 30,824,249                     | 0.027571                       | 42,613,037                     | 0.039110     | (12,900,795) |
| 31       | TOTAL OPERATING REV. DEDUCT.   | \$ 304,522,543                 | \$ 0.272384                    | \$ 294,278,642                 | \$ 0.270090  | \$ 2,564,568 |
| 32       | NET OPERATING INCOME           |                                |                                |                                |              |              |
| 33       | \$ 126,357,371                 | \$ 0.113022                    | \$ 129,307,836                 | \$ 0.118679                    | \$ 6,324,810 |              |
| 34       | RATE BASE                      |                                |                                |                                |              |              |
| 35       | \$ 1,644,558,987               | \$ 1.470997                    | \$ 1,657,792,777               | \$ 1.521530                    |              |              |
| 36       | 7.80%                          |                                | 7.80%                          |                                |              |              |
| 37       | \$ 128,275,603                 | \$ 0.114738                    | \$ 129,307,837                 | \$ 0.118679                    | (4,406,579)  |              |
| 38       | \$ 1,918,231                   |                                | \$ 1                           |                                | \$ 1,918,230 |              |

Grossup Factor \$ 0.621242  
Revenue Deficiency 3,087,736  
3,087,733

Mix change \$ 3.8  
T&D \$ 1.4  
Customer \$ (1.0)  
A&G \$ 2.1  
Dep \$ 4.6  
Amorts & Other Taxes \$ (1.3)  
Income Taxes \$ (3.3)  
Ret & RB \$ (4.4)  
Revenue Sensitive \$ 1.2  
Gross Deficiency \$ 3.1

**PUGET SOUND ENERGY-GAS  
DETERMINATION OF ERF RELATED REVENUES AND EXPENSES  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011**

|  |                                    |
|--|------------------------------------|
| (Based on Commission Basis Report filed under WUTC Docket No. UG-120609) |                                    |
| (Included in Original Filing)  | (Segregated by Recovery Mechanism) |

| LINE NO. | ACTUAL RESULTS OF OPERATIONS         |                     | RESTATED RESULTS OF OPERATIONS |                | PGA (INCL JP REVS) | PROPERTY TAXES   | CBR EXPEDITED RATE FILING | ADJUSTMENT AT 2011 GRC FOR 2011 GRC | 2011 LOAD PRICED AT 2011 GRC RATES RELATED TO ERF |
|----------|--------------------------------------|---------------------|--------------------------------|----------------|--------------------|------------------|---------------------------|-------------------------------------|---|
|          | A                                    | TOTAL ADJUSTMENTS B | C = A + B                      | D              |                    |                  |                           |                                     |   |
| 1        | <b>OPERATING REVENUES:</b>           |                     |                                |                |                    |                  |                           |                                     |   |
| 2        | \$ 1,103,913,121                     | \$ (58,108,884)     | \$ 1,045,804,237               | \$ 633,755,025 | \$ 12,761,239      | \$ 399,287,973   | \$ 18,674,374             | 417,962,347                         |   |
| 3        | 51,136,280                           | (51,136,280)        | (0)                            |                |                    | (0)              | -                         | (0)                                 |   |
| 4a       | 7,578,748                            |                     | 7,578,748                      |                |                    | 7,578,748        | -                         | 7,578,748                           |   |
| 4b       | 6,221,420                            | -                   | 6,221,420                      | 882,600        |                    | 5,338,820        | -                         | 5,338,820                           |   |
| 5        | 1,168,849,569                        | (109,245,164)       | 1,059,604,405                  | 634,637,625    | 12,761,239         | 412,205,541      | 18,674,374                | 430,879,915                         |   |
| 6        |                                      |                     |                                |                |                    |                  |                           |                                     |   |
| 7        |                                      |                     |                                |                |                    |                  |                           |                                     |   |
| 8        | <b>OPERATING REVENUE DEDUCTIONS:</b> |                     |                                |                |                    |                  |                           |                                     |   |
| 9        |                                      |                     |                                |                |                    |                  |                           |                                     |   |
| 10       | <b>GAS COSTS:</b>                    |                     |                                |                |                    |                  |                           |                                     |   |
| 11       |                                      |                     |                                |                |                    |                  |                           |                                     |   |
| 12       | 622,087,912                          | (16,372,111)        | 605,715,801                    | 605,715,801    |                    | -                | -                         | -                                   |   |
| 13       |                                      |                     |                                |                |                    |                  |                           |                                     |   |
| 14       | 622,087,912                          | (16,372,111)        | 605,715,801                    | 605,715,801    |                    | -                | -                         | -                                   |   |
| 15       |                                      |                     |                                |                |                    |                  |                           |                                     |   |
| 16       | 1,575,816                            | -                   | 1,575,816                      |                |                    | 1,575,816        |                           | 1,575,816                           |   |
| 17       | 49,692                               | -                   | 49,692                         |                |                    | 49,692           |                           | 49,692                              |   |
| 18       | 52,286,164                           | -                   | 52,286,164                     |                |                    | 52,286,164       |                           | 52,286,164                          |   |
| 19       | 30,505,504                           | (133,722)           | 30,371,782                     | 2,457,317      | 49,412             | 27,865,053       | 72,307                    | 27,937,360                          |   |
| 20       | 5,018,076                            | (3,938,031)         | 1,080,045                      |                |                    | 1,080,045        |                           | 1,080,045                           |   |
| 21       | 21,360,371                           | (21,360,371)        | 0                              |                |                    | 0                |                           | 0                                   |   |
| 22       | 46,749,178                           | (365,655)           | 46,383,523                     | 1,269,275      | 25,522             | 45,088,726       | 37,349                    | 45,126,074                          |   |
| 23       | 102,889,642                          | -                   | 102,889,642                    |                |                    | 102,889,642      |                           | 102,889,642                         |   |
| 24       | 12,487,218                           | -                   | 12,487,218                     |                |                    | 12,487,218       |                           | 12,487,218                          |   |
| 25       | -                                    | -                   | -                              |                |                    | -                |                           | -                                   |   |
| 26       | (151,356)                            | -                   | (151,356)                      |                |                    | (151,356)        |                           | (151,356)                           |   |
| 27       | 115,819,431                          | (53,493,757)        | 62,325,674                     | 24,351,080     | 18,464,647         | 19,509,347       | 716,554                   | 20,225,901                          |   |
| 28       | 519,801                              | 1,697,902           | 2,217,703                      | 295,243        | (2,022,420)        | 3,944,880        | 6,246,858                 | 10,191,738                          |   |
| 29       | 25,140,413                           | 5,683,836           | 30,824,249                     |                |                    | 30,824,249       |                           | 30,824,249                          |   |
| 30       | 414,249,950                          | (71,909,798)        | 342,340,152                    | 28,373,515     | 16,517,162         | 297,449,475      | 7,073,068                 | 304,522,543                         |   |
| 31       |                                      |                     |                                |                |                    |                  |                           |                                     |   |
| 32       | \$ 132,511,707                       | \$ (20,963,255)     | \$ 111,548,452                 | 548,308        | (3,755,923)        | \$ 114,756,066   | 11,601,305                | 126,357,371                         |   |
| 33       |                                      |                     |                                |                |                    |                  |                           |                                     |   |
| 34       | \$ 1,644,558,987                     | -                   | \$ 1,644,558,987               | -              |                    | \$ 1,644,558,987 | \$ -                      | \$ 1,644,558,987                    |   |
| 35       |                                      |                     |                                |                |                    |                  |                           |                                     |   |
| 36       | 8.06%                                |                     | 6.78%                          | N/A            | N/A                | 6.98%            | N/A                       | 7.68%                               |   |
| 37       |                                      |                     |                                |                |                    |                  |                           |                                     |   |
| 38       | <b>RATE BASE:</b>                    |                     |                                |                |                    |                  |                           |                                     |   |
| 39       | \$ 2,877,011,061                     | \$ -                | \$ 2,877,011,061               | -              | -                  | \$ 2,877,011,061 |                           | \$ 2,877,011,061                    |   |
| 40       | \$ (975,934,226)                     | \$ -                | \$ (975,934,226)               | -              | -                  | \$ (975,934,226) |                           | \$ (975,934,226)                    |   |
| 41       | \$ (298,016,915)                     | \$ -                | \$ (298,016,915)               | -              | -                  | \$ (298,016,915) |                           | \$ (298,016,915)                    |   |
| 42       | \$ (28,225,299)                      | \$ -                | \$ (28,225,299)                | -              | -                  | \$ (28,225,299)  |                           | \$ (28,225,299)                     |   |
| 43       | \$ 1,574,834,621                     | \$ -                | \$ 1,574,834,621               | \$ -           | \$ -               | \$ 1,574,834,621 | \$ -                      | \$ 1,574,834,621                    |   |
| 44       | 69,724,366                           | -                   | 69,724,366                     | -              | -                  | 69,724,366       | -                         | 69,724,366                          |   |
| 45       | \$ 1,644,558,987                     | \$ -                | \$ 1,644,558,987               | \$ -           | \$ -               | \$ 1,644,558,987 | \$ -                      | \$ 1,644,558,987                    |   |

Rates from 2011 GRC related solely to ERF categories applied to 2011 CBR weather adjusted delivered load.

|   |                       |
|---|-----------------------|
| <b>Margin Revenue (Excluding Trackers)</b>                |                       |
| Residential (16)  | \$ 6,281              |
| Residential (23)  | \$ 291,397,354        |
| Compressed natural gas (50)                               | \$ 224,557            |
| Residential (53)  | \$ 1,016              |
| Commercial & industrial (31)                              | \$ 85,041,399         |
| Large volume (41)   | \$ 18,632,877         |
| Standby & auxiliary heating (61)                          | \$ 115,296            |
| Interruptible (85)  | \$ 1,830,014          |
| Limited interruptible (86)                                | \$ 2,908,891          |
| Non exclusive interruptible (87)                          | \$ 1,865,333          |
| Transportation - large volume (41T)                       | \$ 1,952,442          |
| Transportation - interrupt with firm option (85T)         | \$ 7,690,064          |
| Transportation - limited interrupt with firm option (86T) | \$ 10,435             |
| Transportation - non-exclus inter/firm option (87T)       | \$ 4,743,948          |
| Contracts   | \$ 1,542,440          |
| Total revenue from sales and transport                    | <u>\$ 417,962,347</u> |

The margin rates used to derive this margin revenue were calculated based on the margin revenue requirement from the 2011 GRC with the property taxes and some other adjustments that are not comparable to a Commission Basis Report filing removed.

**PUGET SOUND ENERGY-GAS  
RESULTS OF OPERATIONS  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010  
2011 GENERAL RATE INCREASE**

*From Compliance Filing in 2011 GRC WUTC Docket No. UG-111049*

*Segregated by Recovery Mechanism*

| 2011 GAS GRC<br>LINE NO.         | ACTUAL RESULTS OF OPERATIONS |                 | ADJUSTED RESULTS OF OPERATIONS |               | REVENUE REQUIREMENT DEFICIENCY |                | AFTER RATE INCREASE |                 | REMOVED REVENUES ASSOCIATED WITH PROFORMA ITEMS |  |  |  |
|----------------------------------|------------------------------|-----------------|--------------------------------|---------------|--------------------------------|----------------|---------------------|-----------------|---|--|--|--|
|                                  | PGA                          | PROPERTY TAXES  | EXPEDITED RATE FILING          |               |                                |                |                     |                 |   |  |  |  |
| 1 OPERATING REVENUES             | \$ 953,445,526               | \$ 86,342,728   | \$ 1,039,788,253               | \$ 13,320,092 | \$ 1,053,108,345               | \$ 628,489,448 | \$ 17,416,344       | \$ (1,416,064)  | \$ 408,618,618                                  |  |  |  |
| 2 SALES TO CUSTOMERS             | 43,761,997                   | (43,761,997)    | -                              | -             | -                              | -              | -                   | -               | -   |  |  |  |
| 3 MUNICIPAL ADDITIONS            | 7,639,209                    | 499,573         | 8,138,782                      | 69,036        | 8,207,817                      | -              | -                   | -               | 8,207,817                                       |  |  |  |
| 4 RENTALS                        | 6,683,785                    | 76,258          | 6,760,042                      | -             | 6,760,042                      | -              | -                   | -               | 6,760,042                                       |  |  |  |
| 5 OTHER OPERATING REVENUES       |                              |                 |                                |               |                                |                |                     |                 |   |  |  |  |
| 6 TOTAL OPERATING REVENUES       | \$ 1,011,530,516             | \$ 43,156,561   | \$ 1,054,687,077               | \$ 13,389,128 | \$ 1,068,076,205               | \$ 628,489,448 | \$ 17,416,344       | \$ (1,416,064)  | \$ 421,586,478                                  |  |  |  |
| 7                                |                              |                 |                                |               |                                |                |                     |                 |   |  |  |  |
| 8                                |                              |                 |                                |               |                                |                |                     |                 |   |  |  |  |
| 9 OPERATING REVENUE DEDUCTIONS   |                              |                 |                                |               |                                |                |                     |                 |   |  |  |  |
| 10                               |                              |                 |                                |               |                                |                |                     |                 |   |  |  |  |
| 11 GAS COSTS:                    |                              |                 |                                |               |                                |                |                     |                 |   |  |  |  |
| 12                               |                              |                 |                                |               |                                |                |                     |                 |   |  |  |  |
| 13 PURCHASED GAS                 | \$ 535,932,510               | \$ 64,990,762   | \$ 600,923,272                 | \$ -          | \$ 600,923,272                 | \$ 600,923,272 | \$ -                | \$ -            | \$ (0)  |  |  |  |
| 14                               |                              |                 |                                |               |                                |                |                     |                 |   |  |  |  |
| 15 TOTAL PRODUCTION EXPENSES     | \$ 535,932,510               | \$ 64,990,762   | \$ 600,923,272                 | \$ -          | \$ 600,923,272                 | \$ 600,923,272 | \$ -                | \$ -            | \$ (0)  |  |  |  |
| 16                               |                              |                 |                                |               |                                |                |                     |                 |   |  |  |  |
| 17 OTHER POWER SUPPLY EXPENSES   | \$ 1,937,122                 | \$ 22,111       | \$ 1,959,232                   | \$ -          | \$ 1,959,232                   | \$ -           | \$ -                | \$ 31,909       | \$ 1,927,323                                    |  |  |  |
| 18 TRANSMISSION EXPENSE          | 226,853                      | 1,584           | 228,438                        | -             | 228,438                        | -              | -                   | 2,307           | 226,131   |  |  |  |
| 19 DISTRIBUTION EXPENSE          | 50,238,405                   | (683,277)       | 49,555,128                     | -             | 49,555,128                     | -              | -                   | 549,544         | 49,005,584                                      |  |  |  |
| 20 CUSTOMER ACCOUNT EXPENSES     | 32,629,594                   | (2,107,163)     | 30,522,431                     | 46,527        | 30,568,958                     | 2,184,001      | \$ 60,515           | \$ 211,043      | 28,113,399                                      |  |  |  |
| 21 CUSTOMER SERVICE EXPENSES     | 4,454,346                    | (3,318,461)     | 1,135,885                      | -             | 1,135,885                      | -              | -                   | 27,423          | 1,108,462                                       |  |  |  |
| 22 CONSERVATION AMORTIZATION     | 14,771,682                   | (14,771,682)    | (0)                            | -             | (0)                            | -              | -                   | -               | (0)   |  |  |  |
| 23 ADMIN & GENERAL EXPENSE       | 42,818,070                   | 1,150,297       | 43,968,367                     | 26,778        | 43,995,146                     | 1,256,979      | 668,546             | 281,504         | 41,788,117                                      |  |  |  |
| 24 DEPRECIATION                  | 102,386,843                  | (6,555,172)     | 95,831,671                     | -             | 95,831,671                     | -              | -                   | -               | 95,831,671                                      |  |  |  |
| 25 AMORTIZATION                  | 12,778,120                   | 0               | 12,778,120                     | -             | 12,778,120                     | -              | -                   | -               | 12,778,120                                      |  |  |  |
| 26 AMORTIZATION OF PROPERTY LOSS | -                            | 0               | -                              | -             | -                              | -              | -                   | -               | -   |  |  |  |
| 27 OTHER OPERATING EXPENSES      | (187,824)                    | 142,453         | (45,370)                       | -             | (45,370)                       | -              | -                   | -               | (45,370)  |  |  |  |
| 28 FAS 133                       | -                            | 0               | -                              | -             | -                              | -              | -                   | -               | -   |  |  |  |
| 29 TAXES OTHER THAN INCOME TAXES | 98,746,988                   | (38,069,234)    | 60,677,754                     | 513,955       | 61,191,709                     | 24,125,146     | \$ 16,687,283       | \$ 17,887       | 20,161,343                                      |  |  |  |
| 30 INCOME TAXES                  | 15,204,117                   | (19,735,619)    | (4,531,502)                    | 4,480,658     | (50,844)                       | -              | -                   | (621,666)       | 570,823   |  |  |  |
| 31 DEFERRED INCOME TAXES         | (3,067,771)                  | 45,680,808      | 42,613,037                     | -             | 42,613,037                     | -              | -                   | -               | 42,613,037                                      |  |  |  |
| 32 TOTAL OPERATING REV DEDUCT    | \$ 908,869,057               | \$ (38,243,354) | \$ 334,693,193                 | \$ 5,067,919  | \$ 339,761,111                 | \$ 27,565,176  | \$ 17,416,344       | \$ 499,933      | \$ 294,278,641                                  |  |  |  |
| 33                               |                              |                 |                                |               |                                |                |                     |                 |   |  |  |  |
| 34 NET OPERATING INCOME          | \$ 102,661,459               | \$ 16,409,153   | \$ 119,070,612                 | \$ 8,321,209  | \$ 127,391,821                 | \$ (0)         | \$ -                | \$ (1,916,015)  | \$ 129,307,836                                  |  |  |  |
| 35                               |                              |                 |                                |               |                                |                |                     |                 |   |  |  |  |
| 36 RATE BASE                     | \$ 1,660,735,111             | \$ (27,506,633) | \$ 1,633,228,479               | \$ -          | \$ 1,633,228,479               | n/a            | \$ (24,564,298)     | \$ -            | \$ 1,657,792,777                                |  |  |  |
| 37                               |                              |                 |                                |               |                                |                |                     |                 |   |  |  |  |
| 38 RATE OF RETURN                | 6.18%                        |                 | 7.29%                          |               | 7.80%                          |                |                     | 7.80%           | 7.80%   |  |  |  |
| 39                               |                              |                 |                                |               |                                |                |                     |                 |   |  |  |  |
| 40 RATE BASE                     |                              |                 |                                |               |                                |                |                     |                 |   |  |  |  |
| 41 UTILITY PLANT IN SERVICE      | 2,787,911,459                | -               | 2,787,911,459                  | -             | 2,787,911,459                  | -              | -                   | -               | 2,787,911,459                                   |  |  |  |
| 42 ACCUMULATED DEPRECIATION      | (924,038,095)                | (2,755,565)     | (926,793,660)                  | -             | (926,793,660)                  | -              | -                   | -               | (926,793,660)                                   |  |  |  |
| 43 ACCUMULATED DEFERRED FIT      | (254,856,083)                | (24,238,320)    | (279,094,403)                  | -             | (279,094,403)                  | -              | -                   | (24,564,298)    | (254,530,105)                                   |  |  |  |
| 44 OTHER                         | (27,129,125)                 | -               | (27,129,125)                   | -             | (27,129,125)                   | -              | -                   | -               | (27,129,125)                                    |  |  |  |
| 45 TOTAL NET INVESTMENT          | \$ 1,581,888,156             | \$ (26,993,885) | \$ 1,554,894,271               | \$ -          | \$ 1,554,894,271               | \$ -           | \$ -                | \$ (24,564,298) | \$ 1,579,358,569                                |  |  |  |
| 46 ALLOWANCE FOR WORKING CAPITAL | 78,846,956                   | (512,748)       | 78,334,208                     | -             | 78,334,208                     | -              | -                   | -               | 78,334,208                                      |  |  |  |
| 46 TOTAL RATE BASE               | \$ 1,660,735,111             | \$ (27,506,633) | \$ 1,633,228,479               | \$ -          | \$ 1,633,228,479               | \$ -           | \$ -                | \$ (24,564,298) | \$ 1,657,792,777                                |  |  |  |

PSE's Draft Expedited Rate Filing Proposal (09-27-2012)

REVENUES ASSOCIATED WITH PROFORMA ITEMS (OTHER THAN PROPERTY TAXES AND PGA) THAT ARE NOT COMPARABLE FOR PURPOSES OF APPLYING TO ERF (GAS)

| DESCRIPTION                                   | WAGE<br>INCREASE | DFIT<br>RPRS/RTRMTS | LARGE<br>CUSTOMER<br>LOSS | TOTAL           |
|---|------------------|---------------------|---------------------------|-----------------|
| 1 RATE BASE                                   | \$ -             | \$ (24,564,298)     | \$ -                      | \$ (24,564,298) |
| 2 RATE OF RETURN                              | 7.80%            | 7.80%               | 7.80%                     | 7.80%           |
| 3   |                  |                     |                           |                 |
| 4 OPERATING INCOME REQUIREMENT (RATE BASE)    | -                | (1,916,015)         | -                         | (1,916,015)     |
| 5 OPERATING INCOME REQUIREMENT (REV & EXPS)   | 769,423          | 266,523             | 383,131                   | 1,419,076       |
| 6   |                  |                     |                           |                 |
| 7 TOTAL OPERATING INCOME REQUIREMENT          | 769,423          | (1,649,493)         | 383,131                   | (496,939)       |
| 8 CONVERSION FACTOR                           | 0.621490         | 0.621490            | 0.621490                  | 0.621490        |
| 9   |                  |                     |                           |                 |
| 10 REVENUE REQUIREMENT                        | \$ 1,238,029     | \$ (2,654,094)      | \$ 616,471                | \$ (799,594)    |
| 11  |                  |                     |                           |                 |
| 12 OPERATING INCOME REQUIREMENT (REV & EXPS): |                  |                     |                           |                 |
| 13 TOTAL OPERATING REVENUES                   | \$ -             |                     | \$ (616,471)              | \$ (616,471)    |
| 14 LESS OPERATING EXPENSES:                   |                  |                     |                           |                 |
| 15 PURCHASED GAS                              |                  |                     |                           | -               |
| 16 OTHER POWER SUPPLY EXPENSES                | 31,909           |                     |                           | 31,909          |
| 17 TRANSMISSION EXPENSE                       | 2,307            |                     |                           | 2,307           |
| 15 DISTRIBUTION EXPENSE                       | 549,544          |                     |                           | 549,544         |
| 16 CUSTOMER ACCOUNT EXPENSES                  | 215,964          |                     | (2,142)                   | 213,822         |
| 17 CUSTOMER SERVICE EXPENSES                  | 27,423           |                     |                           | 27,423          |
| 18 ADMIN & GENERAL EXPENSE                    | 284,336          |                     | (1,233)                   | 283,103         |
| 19 TAXES OTHER THAN INCOME TAXES              | 72,244           |                     | (23,664)                  | 48,580          |
| 20 INCOME TAXES                               | (414,304)        | 266,523             | (206,301)                 | (354,083)       |
| 22 OPERATING INCOME REQUIREMENT (REV & EXPS)  | \$ 769,423       | \$ 266,523          | \$ 383,131                | \$ 1,419,076    |