BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY, INC. For an Accounting Order Authorizing Accounting Treatment Related to Payments for Major Maintenance Activities	DOCKET UE-130583 (*Consolidated*)
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, INC. Respondent.	DOCKET UE-130617 (*Consolidated*)
In the Matter of the Petition of PUGET SOUND ENERGY, Inc. For an Order Authorizing the Sale of the Water Rights and Associated Assets of the Electron Hydroelectric Project in Accordance with WAC 480-143 and RCW 80.12	DOCKET UE-131099 (*Consolidated*)
In the Matter of the Petition of PUGET SOUND ENERGY, INC. For an Order Authorizing the Sale of Interests in the Development Assets Required for the Construction and Operation of Phase II of the Lower Snake River Wind Facility	DOCKET UE-131230 SETTLEMENT STIPULATION

I. INTRODUCTION

1 This Settlement Stipulation ("Settlement") is entered into by the following parties in this case: Puget Sound Energy, Inc., ("PSE" or "the Company"), the Staff of the Washington Utilities and Transportation Commission ("Commission Staff"), the Public Counsel Unit of the Attorney General's Office ("Public Counsel"). These parties are hereinafter collectively referred to as "Settling Parties" and individually as a "Settling Party."

2 Because this Settlement is entered into by some, but not all of the parties to this case, and it resolves the issues in the docket, it is a "multiparty settlement," as that term is defined in WAC 480-07-730(3).

3 This Settlement is subject to review and disposition by the Washington Utilities and Transportation Commission ("Commission"). Section III of the Settlement is effective on the date of the Commission order approving it (unless the Commission establishes a different effective date).

II. BACKGROUND AND NATURE OF THE DOCKET

4 On September 13, 2013, the parties to PSE's 2013 power cost only rate case ("PCORC") entered into a settlement stipulation in Docket UE-130617, as well as other dockets that were consolidated with the 2013 PCORC. As part of the 2013 PCORC settlement, PSE and the parties to the docket agreed to participate in a collaborative process "to address PCA and PCORC-related issues." As fully stated, the parties agreed to the following:

> The Parties agree to participate in a collaborative process per WAC 480-07-720 to address PCA and PCORC-related issues. The first meeting of the collaborative will occur in November 2013. PSE agrees to provide information in response to reasonable requests for information from collaborative participants. All issues related to the PCA or PCORC can be

> addressed in the collaborative, except the issues of whether the PCA or PCORC should continue, which are not issues for the collaborative. If the Parties reach agreement in the collaborative, that agreement can be implemented in PSE's next PCORC, subject to Commission approval. If the Parties do not reach agreement, PSE agrees to initiate a docket no later than July 1, 2014, to address PCA and PCORC-related issues. In such docket, any party may raise the issue of whether the PCA or PCORC should continue.[1]

5 On October 23, 2013, the Commission approved the 2013 PCORC settlement.

6 Consistent with the terms of the 2013 PCORC settlement stipulation, interested parties (the Settling Parties and Industrial Customers of Northwest Utilities (ICNU)) participated in a series of collaborative meetings to address issues with respect to PSE's Power Cost Adjustment ("PCA") mechanism, beginning in November 2013. On June 13, 2014, the Commission granted the collaborative parties' request to extend the July 1, 2014 deadline to October 1, 2014 to enable parties to continue work on a PCA modification proposal.[2] The Commission subsequently granted a second motion for extension, extending the deadline to January 12, 2015.[3] On January 9, 2015, the Settling Parties advised the Commission via letter that the Settling Parties had reached agreement on proposed changes to the PCA mechanism. Industrial Customers of Northwest Utilities has advised that it opposes the settlement.

7 This filing constitutes the agreement by all of the Settling Parties with respect to PCA and PCORC-related issues addressed in the collaborative and therefore PSE will not be required to initiate a new docket. The filing presents modifications to PSE's PCA mechanism that are supported by the Settling Parties. The Settling Parties request that the Commission schedule a prehearing conference to establish further process for consideration of the Settlement.

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[1] Settlement Stipulation, ¶ 25.

8 The Settling Parties have reached agreement on the following terms of a Settlement, and respectfully request that the Commission approve the Settlement.

III. AGREEMENT

9 The Settling Parties hereby stipulate and agree to the following modifications to PSE's PCA mechanism:

A. The following costs will be defined as "Variable Production Costs" and will continue to be tracked in the PCA imbalance calculation:

1. Fuel Costs (FERC Account 501 – Steam Fuel and FERC Account 547 – Fuel Costs)
2. Purchase Power Costs (FERC Account 555)
3. Purchase and Sale of Non-Core gas (included in FERC Account 456.0)
4. Hedging Gains or Losses on Fuel and Power Purchases and related Brokerage Fees
5. Wheeling costs (FERC Account 565)
6. Sales to others (FERC Account 447)
7. Montana Electric Energy Taxes (included in FERC Account 408.1)
8. Amortization of Regulatory Assets and Liabilities amortized to FERC Accounts 501, 547, 555 and 565. Inclusion of amortization of any other variable regulatory assets or liabilities will be decided in future general rate cases ("GRC") or PCORCs.
9. Commission approved Equity Adder associated with a Coal Transition Purchase Power Agreement (PPA).

B. The following costs will be defined as "Fixed Production Costs" and will no longer be tracked in the PCA imbalance calculation:

1. Return on Fixed Assets for Production and specific transmission assets[4]
2. Other Power Supply Expenses (FERC Acct. 557 –(including Payroll OH/taxes)) other than Brokerage Fees which are charged to FERC Acct. 557

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[2] Order 07 (June 13, 2014).

[3] Order 09 (September 30, 2014).

[4] Transmission assets included in Fixed Production Costs include lines associated with Colstrip, the Northern Intertie and Third AC

3. Hydro and Other Production Operations and Maintenance Costs (including Payroll OH/taxes)
4. Transmission Expense associated with specific transmission assets
5. Transmission Revenue associated with specific transmission assets (FERC Account 456.1)
6. Depreciation for Production and specific transmission assets
7. Return on Regulatory Assets and Liabilities
8. Amortization of Regulatory Assets and Liabilities (Except amounts amortized to FERC Accounts 501, 547, 555 and 565, included in item A. above).
9. Property Insurance associated with Production Plant

C. The line of credit costs associated with the hedging program will be included as an element of PSE's cost of capital and will be removed from the Power Cost Rate beginning with the rate effective date of the next GRC.

D. Both the Colstrip Availability Adjustment and the Price Adjustment for New Resources greater than two years will be removed.

E. The PCA imbalance calculation will have the following annual Sharing Bands:

1. Annual Dead Band: PSE is fully responsible for costs within $17 million above the Baseline Costs and will fully receive benefits within $17 million below Baseline Costs.
2. The First Sharing Band for:

   a. Annual Costs in excess of the baseline from $17 to 40 million (that is, in the customer surcharge direction) will be shared 50% to PSE and 50% to customers

   b. Annual Benefits where Costs are below the baseline from $17 to 40 million (that is, in the customer rebate direction) will be shared 35% to PSE and 65% to customers.

3. The Second Sharing Band for annual power costs or benefits in excess of $40 million above the baseline or lower than $40 million below the baseline will be shared 10% by PSE & 90% by customers.
4. The Third (former Fourth) Sharing Band is eliminated.[5]
5. The threshold to determine the timing of rate refunds or surcharges is reduced from the existing $30 million cumulative deferral balance to a cumulative deferral balance of $20 million.

F. Other Items:

1. PSE's ability to file a PCORC will not change, including the continued use of the PCORC to update Fixed Production Costs referenced in part B above. However, for the five-year moratorium referenced in item 5 below, PSE will agree to a limited stay-out period after the filing of any PCORC. Specifically, PSE will agree not to file a general rate case or PCORC within six months of the date new rates go into effect for any PCORC filing made during that five-year period.
2. The interest rate on deferred customer surcharges or refunds will continue per current policy.
3. The Settling Parties agree to the following changes in exhibits and contents of compliance filings for the PCA and the PCORC to simplify testimony, exhibits and filings.

Exhibit	Description	PCORC/GRC Filing	Annual Filing
A-1	Baseline Rate	**Yes**	**Yes**
~~A-2~~	~~Transmission Rate Base~~	Remove	N/A
~~A-3~~	~~Colstrip Fixed Costs~~	Remove	N/A
~~A-4~~	~~Power Costs~~	Remove	N/A
~~A-5~~	~~Production Adjustment~~	Remove	N/A
B	PCA Imbalance Calculation including Sharing Bands & Interest	N/A	**Yes**
~~C~~	~~Application of $40 Million Cap~~	N/A	Expired
~~D~~	~~Regulatory Assets/Liabilities~~	Remove	N/A
~~E~~	~~Contract Adjustments~~	N/A	Removed[6]
~~F~~	~~Colstrip Availability Adjustment~~	N/A	Remove
~~G~~	~~New Resource Adjustment~~	N/A	Remove

4. Implementation of changes to the PCA mechanism set forth in this agreement will occur on January 1, 2017. PSE may file, and the Settling Parties agree to support, an accounting petition to request deferral of revenue variances associated with the recovery of Fixed Production Costs to bridge the two month period between implementation of the changes to the PCA mechanism on January 1, 2017 and the start of the rate year for PSE's next general rate case (estimated to be March 1, 2017) where the continuation of the electric decoupling mechanism will be considered.

5. The Settling Parties agree to a five-year moratorium on changes to the PCA mechanism, effective from the start of the modified PCA mechanism, January 1, 2017.

[5] The existing PCA labeled the bands as Deadband and Second, Third and Fourth Sharing Bands. The modifications in this Settlement label the bands as Deadband, First and Second Sharing Bands.

[6] *Washington Utilities & Transportation Commission v. Puget Sound Energy, Inc.*, Docket UE-060266/UG-060267, Order 08, ¶¶ 28-33.

6. The Settling Parties are not bound to any position with respect to the continuation of decoupling or the treatment of Fixed Production Costs within the decoupling mechanism in PSE's next general rate case. However, if the electric decoupling mechanism continues for PSE after the review of decoupling in PSE's next general rate case, the electric decoupling mechanism will include Fixed Production Costs that were formerly tracked in the PCA mechanism and which are identified in item III B above. Nothing in this Settlement binds any party to any position with regard to treatment of costs in an automatic escalation factor mechanism (such as a K-factor) or in a multi-year rate plan.
7. Total PSE Electric costs will be divided, or separately identified, into three categories: 1) Variable Production Costs (tracked through the PCA imbalance calculation), 2) Fixed Production Costs (that will be included in the electric decoupling mechanism if the mechanism continues), and 3) delivery costs (all other costs now included in the decoupling plan).
8. Attachment A hereto provides a Summary of the Power Cost Adjustment Mechanism Settlement Terms, as revised by this Settlement, including examples of the exhibits to be used in future PCA filings.

IV. GENERAL PROVISIONS

10 **Entire agreement; no precedent.** This Settlement is the entire agreement of the Settling Parties. Accordingly, the Settling Parties recommend that the Commission adopt and approve the Settlement in its entirety. This Settlement may not be cited as precedent in any proceeding other than a proceeding to enforce the terms of this Settlement. The Settling Parties enter into this Settlement to avoid further expense, uncertainty, and delay and to meet the requirements from the 2013 PCORC Settlement. By executing this Settlement, no Settling Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed in arriving at the terms of this Settlement, and no Settling Party shall be deemed to have agreed that this Settlement is appropriate for resolving any issues in any other proceeding, except to the extent expressly set forth in this Settlement. No Settling Party shall represent that any of the facts, principles, methods, or theories employed by any Settling Party in arriving at the terms of this Settlement are precedents in any other proceeding, except to the extent expressly set forth in this Settlement.

11 **Manner of execution.** This Settlement is executed when all Settling Parties sign the Settlement. A designated and authorized representative may sign the Settlement on a Settling Party's behalf. The Settling Parties may execute this Settlement in counterparts. If the Settlement is executed in counterparts, all counterparts shall constitute one agreement. A Settlement signed in counterpart and sent by facsimile or emailed as a pdf is as effective as an original document. A faxed or emailed signature page containing the signature of a Settling Party is acceptable as an original signature page signed by that Settling Party. Each Settling Party shall indicate the date of its signature on the signature page. The date of execution of the Settlement will be the latest date indicated on the signature page(s).

12 **Approval process.** Each Settling Party agrees to support the terms and conditions of this Settlement as a settlement of all contested issues between them in the above-captioned consolidated proceedings. Each Settling Party agrees to support the Settlement during the course of whatever procedures the Commission determines are appropriate.

13 **Commission approval with conditions.** In the event the Commission approves this Settlement, but with conditions, the Settling Parties will have ten business days to file a letter

with the Commission accepting or rejecting each such condition. If, in such a timely filed letter, a Settling Party rejects a condition, this Settlement is void and the Settling Parties will jointly and promptly request the Commission convene a prehearing conference to address procedural matters, including a procedural schedule for completion of the case.

14 **Publicity.** Each Settling Party has the right to review in advance of publication each announcement or news release another Settling Party intends to issue about this Settlement. This right of advance review includes a reasonable opportunity for the non-issuing Settling Party to request changes to such an announcement. While the issuing Settling Party is not required to make any such requested change, the Settling Parties agree that if a news release or announcement issued by a Settling Party refers to Commission Staff, it shall include a statement that Commission Staff's recommendation to approve this Settlement is not binding on the Commission.

Dated this 27th day of March, 2015.

ROBERT W. FERGUSON
Attorney General

Sally Brown
Senior Counsel
Counsel for Commission Staff

ROBERT W. FERGUSON
Attorney General

Simon ffitch
Senior Assistant Attorney General
Public Counsel

PUGET SOUND ENERGY, INC.

Ken Johnson
Director, State Regulatory Affairs

with the Commission accepting or rejecting each such condition. If, in such a timely filed letter, a Settling Party rejects a condition, this Settlement is void and the Settling Parties will jointly and promptly request the Commission convene a prehearing conference to address procedural matters, including a procedural schedule for completion of the case.

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Dated this 27th day of March, 2015.

ROBERT W. FERGUSON
Attorney General

FOR

Sally Brown
Senior Counsel
Counsel for Commission Staff

PUGET SOUND ENERGY, INC.

Ken Johnson
Director, State Regulatory Affairs

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Dated this 27th day of March, 2015.

ROBERT W. FERGUSON **Attorney General**	**PUGET SOUND ENERGY, INC.**
____________________ Sally Brown Senior Counsel Counsel for Commission Staff	____________________ Ken Johnson Director, State Regulatory Affairs

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Attachment A to
Settlement Stipulation

Effective January 1, 2017

SUMMARY OF POWER COST ADJUSTMENT (PCA) MECHANISM SETTLEMENT TERMS

A. OVERVIEW OF PCA

1. The PCA is a mechanism that accounts for differences in PSE's modified actual power costs relative to a power cost baseline. This mechanism provides for a sharing of costs and benefits that are graduated over three levels of power cost variances. The factors influencing the variability of power costs included in the mechanism are primarily weather or market related. PSE will be allowed to file for rate increases to implement limited power supply cost increases, discussed later.

2. **Sharing Bands:**

   a. Dead Band: $17 million (+/-) annually, 100% of costs and benefits to Company.

   b. First Sharing Band: $17-$40 million (+/-) annually,

      i. Costs (under-recovered) will be shared 50% to Company; 50% to Customers.

      ii. Benefits (over-recovered) will be shared 35% to the Company; 65% to Customers

   c. Second Sharing Band: Over $40 million (+/-) annually, 10% of costs and benefits to Company; 90% of costs and benefits to Customers.

   d. Deferral and Interest: The customer's share of the power cost variability will be deferred as described below, and the balance will accrue monthly interest at the interest rate calculated in accordance with WAC 480-90-233(4). Amounts will be deferred consistent with recovery under the provisions ofAccounting Standards Codification 980.

3. **Timing of surcharges or credits:**

a. The sharing amounts will be accounted for on an annual basis, with a PCA period of January 1 through December 31 for each year[1]. The surcharging of deferrals can be triggered by the Company when the balance of the deferral account is approximately $20 million. The Company shall make a filing to refund deferrals when the balance in the deferral account is a credit of $20 million or more.

b. To address financial needs and to provide Customers a price signal to reduce energy consumption, a surcharge can be triggered when the Company determines that, for any upcoming 12 month period, the projected increase in the deferral balance for increased power costs will exceed $20 million. The surcharge will be implemented through a special filing subject to Commission approval detailing the events giving rise to the projected cost variance.

c. In April of each year, the Company shall file an annual report detailing the power costs included in the deferral calculation, in a form satisfactory to the Commission, for Commission review and approval by September 30 of that year. The Commission shall have an opportunity to review the prudence of the power costs included in the deferred calculation, and costs determined to be imprudent can be disallowed at that time. Staff and other interested parties will have the opportunity to participate in the prudence review process. The Company will also provide the Commission with a quarterly report of the deferral calculation in a form satisfactory to the Commission.

d. Unless otherwise determined by the Commission, surcharges or credits will be collected or refunded, as the case may be, over a one year period. If for any reason the PCA shall cease to exist, any balances in the deferred accounts not previously reviewed will be reviewed and set for refund or surcharge to customers at that time.

B. ELEMENTS OF PCA

4. **Power Cost Baseline Rate**: In order to focus on the component of the Company's rates to be included in a PCA, it is necessary to distinguish between power costs and all other costs in rates. Total PSE costs will be divided, or separately identified, into three categories: 1) Variable Production Costs (tracked through the PCA imbalance calculation), 2) Fixed Production Costs (that will be included in PSE's electric decoupling mechanism if the mechanism continues), and 3) Delivery Costs (currently included in PSE's decoupling plan). The Power Cost Baseline Rate is the combination

[1] PCA moved to calendar year per docket UE-050870

of Variable Production Costs and Fixed Production Costs. The following table indicates the portion of the Company's rate to be adjusted by the PCA mechanism and in the periodic "Power Cost Only Rate Case" review:

<table>
<tr><th colspan="3">TOTAL REVENUE REQUIREMENT</th></tr>
<tr><th colspan="2">Power Cost Baseline Rate (see Exhibit A)</th><th></th></tr>
<tr><th>Variable Production Costs[2]</th><th>Fixed Production Costs</th><th>Delivery Costs</th></tr>
<tr>
<td>•Fuel, FERC accounts 547 and 501;

•Purchase & Interchange, FERC account 555;

•Purchases/Sales of Non-Core Gas, FERC Account 456.0;

•Hedging Gains or Losses on Fuel and Power Purchases and Sales and related Brokerage Fees;

•Sales to Others, FERC Account 447;

•Wheeling costs, FERC Account 565;

•Amortization of Production regulatory assets or liabilities amortized to Accts.: 501, 547, 555 and 565. Inclusion of any other variable regulatory assets or liabilities will be decided in a future GRC or PCORC;

•Acct. 408.1—Montana Electric Energy Taxes;

•Commission Approved Equity Adder associated with Coal Transition PPA.</td>
<td>•Return on Fixed Production Plant and specific Transmission[3] Assets, at the current authorized net of tax rate of return;

•Return on Production-related Regulatory Assets and Liabilities at the current authorized net of tax rate of return;

•Depreciation expense for Production Plant and specific Transmission[3] Assets;

•Hydro and other Production Plant O&M (including Payroll OH/taxes);

•Other Power Supply Expenses, FERC 557 (including Payroll OH/taxes);

•Property Insurance associated with Production Plant;

•Amortization of Regulatory Assets and Liabilities (Except amounts amortized to Accts.: 501, 547, 555 and 565);

•Specific Transmission[3] expense and revenues:
1. Transmission Expense—500 kV;
2. Acct. 456.1 - Transmission Revenue.</td>
<td>•Transmission (other than what has been included in PCA Fixed Production Costs component) Distribution;

•All other operating accounts not included in the Power Cost Baseline Rate Variable Production Costs or Fixed Production Costs;

•Line of Credit costs associated with Hedging program (included as a cost of capital item in next GRC).</td>
</tr>
</table>

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2 Modifying the above table due to changes in account numbering by FERC or the addition of new production resources will not be subject to the 5-year moratorium. Inclusion of any other accounts will be decided in a General Rate Case, PCORC, or PCA compliance filing.

3 Specific Transmission refers to: Colstrip 1&2 line, Colstrip 3&4 line, Third AC, & Northern Intertie.

5. **New Resources:** New resources will be included in the allowable PCA costs. The prudence of new resources with a term less than or equal to two years will be determined in the Commission's review of the annual PCA report. The prudence of new resources with a term greater than two years may be reviewed in a Power Cost Only Rate Case or general rate proceeding.

6. **Power Cost Only Rate Case (PCORC)**

   In addition to the yearly adjustment for power cost variances in Variable Production Costs, PSE may file a periodic proceeding that would true up *all power costs* identified in the Power Cost Baseline Rate, as well as allow new resources into the Power Cost Baseline Rate. In either case, the Company would submit a PCORC filing proposing such changes. This filing shall include testimony and exhibits that include the following:

   a. Current or updated integrated resource plan

   b. Description of the need for additional resources (as applicable)

   c. Evaluation of alternatives under various scenarios (as applicable)

   d. Adjustments to the Fixed Production Cost Component

   e. Adjustments to the Variable Production Cost Component

   f. A calculation of proforma production cost schedules that are consistent with this docket, including power supply and other adjustments impacting then current production costs.

7. If the Company shall file for a PCORC, and such filing shall result in an increase to general rates then in effect, the Company shall, within three (3) months of the effective date of any rate increase resulting from such PCORC, file a general rate case. Not more than one general rate case filing in any 12 month period shall be required to comply with this requirement. Except for requests for interim rate relief, PSE is prohibited from overlapping PCORC and general rate case filings. Additionally, PSE is limited to filing one power cost update per PCORC, with an additional update allowed as part of the compliance filing if the Commission determines the update is necessary due to increased gas costs and orders that such update be made as part of the compliance filing[4].

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[4] *See* Docket UE-072300 (Order 13).

8. One objective of a new resource proceeding is to have the new Power Cost Baseline Rate in effect by the time the new resource would go into service. Upon receipt of a filing, hearings would be scheduled to review the appropriateness of adjusting the Power Cost Baseline Rate. These hearings would consider only power supply costs included within the Power Cost Baseline Rate. It is contemplated that this review would be completed within five months.[5] Data request response time during the review period will be five days.[6] Within 30 days following the five month review, the Commission would issue an order determining the appropriateness of all power costs included in the Power Cost Baseline Rate and the prudence of any new resource (with a term greater than two years) acquisition.

C. PCA MECHANISM (PROCEDURES)

9. Exhibit A-1 details an example of PSE's presentation of the power costs, on a test year level (as defined in the revenue requirement settlement in Docket No. UE-141141) identified in the Total Revenue Requirement Table. The purpose of this exhibit is to calculate the Power Cost Baseline Rate which is defined as the sum of both the Variable Production Costs and Fixed Production Costs, divided by the test year delivered load (MWh).

10. Exhibit B, which is based on the Company's presentation of test year costs, is an explanation and example of the calculation used to determine the amount of power cost that will be subject to the sharing mechanism. This exhibit calculates the amount subject to sharing by subtracting the Baseline Variable Production Costs from the allowed total Variable Production Costs for the PCA period. Baseline Variable Production Costs are defined as the Variable Production Cost component of the Power Cost Baseline Rate multiplied by the actual delivered load in the PCA period.

11. **Adjustments of Costs Outside of the PCA Period:** Power cost adjustments or true-ups for prior periods that fall within the PCA period are included as recoverable power costs through the Variable Production Costs component.

a. Adjustments for Previous PCA Periods:

i. Adjustments for previous PCA period(s) that are equal to or less than $1 million (debit or credit) will flow through the current months PCA calculation.

ii. Adjustments or true-ups greater than $1 million (debit or credit) that relate to prior PCA period(s) will flow through a recalculation of the previous PCA period(s) for regulatory purposes. Any changes to the customer deferrals from

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[5] *See* Docket UE-072300 (Order 13).

[6] *See* Docket UE-072300 (Order 13).

the prior PCA period(s) will be indicated in a reconciliation schedule for deferrals by PCA period(s).

b. Exceptions to Adjustments for Previous Periods:

i. *Company Accounting Errors:* If an error has been made in regard to accounting for power cost transactions, except for Colstrip fuel costs and to the extent that the Company should have known at the time of the transaction, the Company will reflect the appropriate adjustment to the PCA period(s) and adjust the deferral for the PCA period(s) accordingly.

ii. *Mid-Columbia Power Costs:* Since it is difficult to determine the months impacted by any annual true-ups under PSE's Mid-Columbia contracts, any annual true-ups for PSE's costs under its Mid-Columbia contracts will be considered a Variable Production Cost and included in the same PCA period(s) for which they are booked to power costs.

iii. *Colstrip Fuel Costs:* Any adjustments, true-ups, or corrections made for Colstrip inventory valuation for prior period will be considered a Variable Production Cost and included in the same PCA period(s) for which they are booked to power costs.

c. Adjustments for Costs Recorded after Termination of PCA Mechanism: Power cost adjustments posted in the month following the termination of the PCA Mechanism relating to the PCA period(s) will be included in power costs for the month of the final PCA calculation and the deferral will be adjusted subject to the exceptions in item B.

12. Unless otherwise ordered by the Commission, changes in rates attributable to PCA adjustments shall be charged on a cents/kWh basis, and changes in rates attributable to adjustments to the power costs as a result of a PCORC shall be charged based upon the Company's most recent approved Cost-of-Service methodology as agreed to in Docket UE-141368 or as subsequently modified pursuant to that agreement. No party is deemed to have approved or accepted these methodologies for any other purpose or precedent. Wholesale customers will be allocated power costs and power revenues at the end of a PCA year in the same relationship as done in the rate allocation from the Company's most recent approved Cost-of-Service methodology proceeding as agreed to in Docket UE-141368 or subsequently modified pursuant to that agreement.

D. DECOUPLING

13. Parties are not bound to any position with respect to the continuation of decoupling or the treatment of fixed production costs within the decoupling mechanism in PSE's next general rate case. However, if the electric decoupling mechanism continues for PSE after the review of decoupling in PSE's next general rate case, the electric

decoupling mechanism will include the Fixed Production Costs as defined in Section B above that were formerly tracked in the PCA imbalance calculation. Nothing in this agreement binds any party to any position with regard to treatment of costs in an automatic escalation factor mechanism (such as a K-factor) or in a multiyear rate plan.

E. TEMPORARY PROVISIONS

14. The parties agree to a five-year moratorium for changes to the PCA mechanism, from the implementation date of this agreement, January 1, 2017.

15. PSE's ability to file a PCORC will not change, including the continued use of the PCORC to update Fixed Production Costs referenced in Section C above. However, for the five year moratorium, PSE will agree to a limited stay-out period after the filing of any PCORC during that five-year period. Specifically, PSE agrees to not file a general rate case or a PCORC within six months of the date new rates go into effect for any PCORC filing. Additionally, the requirement to file a general rate case within 3 months of the completion of a PCORC, as outlined in Section 7 is suspended during this five-year moratorium.

Exhibit A-1 Power Cost Baseline Rate
2014 PCORC

Row		Test Year				
3	Regulatory Assets (1) (Variable)	$ 265,497,445			Production Factor	
4	Transmission Rate Base (Fixed)	91,215,648			0.99019	
5	Production Rate Base (Fixed)	2,127,242,636				
6		$ 2,483,955,728			**Fixed**	**Variable**
7	Net of tax rate of return	6.69%			**Production**	**Production**
8			**Test Yr**		**Costs**	**Costs**
9			**$/MWh**		**Test Year**	**Test Year**
9A			**(I)**		**(II)**	**(III)**
10	Regulatory Asset Recovery (on Row 3)	$ 27,325,814	$ 1.295	F	$ 27,325,814	$ -
10a	Equity Adder Centralia Coal Transition PPA	2,326,384	$ 0.110	V	-	2,326,384
11	Fixed Asset Recovery Other (on Row 4)	9,388,195	$ 0.445	F	9,388,195	-
12	Fixed Asset Recovery-Prod Factored (on Row 5	218,942,357	$ 10.379	F	218,942,357	-
13	501-Steam Fuel	95,694,641	$ 4.536	V	-	95,694,641
14	555-Purchased power	400,022,510	$ 18.963	V	-	400,022,510
15	557-Other Power Exp	6,286,927	$ 0.298	F	6,286,927	-
15a	Payroll Overheads - Benefits	7,402,047	$ 0.351	F	7,402,047	-
15b	Property Insurance	2,692,723	$ 0.128	F	2,692,723	-
15c	Montana Electric Energy Tax	1,732,920	$ 0.082	V	-	1,732,920
15d	Payroll Taxes on Production Wages	1,955,229	$ 0.093	F	1,955,229	-
15e	Brokerage Fees	236,520	$ 0.011	V	-	236,520
16	547-Fuel	165,904,888	$ 7.865	V	-	165,904,888
17	565-Wheeling	109,546,034	$ 5.193	V	-	109,546,034
18	Variable Transmission Income	(6,685,935)	$ (0.317)	F	(6,685,935)	-
19	Production O&M	116,299,220	$ 5.513	F	116,299,220	-
19a	Colstrip - Major Maint. Amort	1,320,253	$ 0.063	F	1,320,253	-
20	447-Sales to Others	(29,085,181)	$ (1.379)	V	-	(29,085,181)
21	456-Purch/Sales Non-Core Gas	(5,342,456)	$ (0.253)	V	-	(5,342,456)
22	Transmission Exp - 500KV	926,060	$ 0.044	F	926,060	-
23	Depreciation-Production (FERC 403)	111,561,172	$ 5.288	F	111,561,172	-
24	Depreciation-Transmission	4,204,776	$ 0.199	F	4,204,776	-
25	Amortization - Regulatory Assets Fixed	18,713,824	$ 0.887	F	18,713,824	-
26	Hedging Line of Credit	526,847	$ 0.025	F	526,847	-
27	Subtotal & Baseline Rate	$ 1,261,895,770	$ 59.819		$ 520,859,510	$ 741,036,260
28	Revenue Sensitive Items	0.9543790				
29		$ 1,322,216,614				
30	Test Year DELIVERED Load (MWh's)	21,095,348	<-- includes Firm Wholesale			
31						
32		Before Rev.	After Rev.			
33		Sensitive Items	Sensitive Items			
34		Rev Req (Column (I))				
35	Power Cost Baseline Rate	$ 59.819	$ 62.678			
36	Fixed Production Costs	$ 24.691	$ 23.922	Sum of **F**		
37	Variable Production Costs	$ 35.128	$ 38.756	Sum of **V**		
38	Power Cost Baseline Rate	$ 59.819	$ 62.678			

Exhibit B: Power Costs Subject to PCA Sharing

Row						Example Using 2014 PCORC	Source
1	**Variable Rate Component**		FERC a/c				
2	Steam Operating Fuel		501			96,642,706	SAP Actuals
3	Other Power Generation Fuel		547			167,548,539	SAP Actuals
4	Purchase & Interchange		555			403,985,609	SAP Actuals
5	Purchases/Sales of Non-Core Gas		456.0XXXX			(5,395,385)	SAP Actuals
6	Brokerage Fees		55700003			238,863	SAP Actuals
7	Sales to Others		447			(29,373,333)	SAP Actuals
8	Wheeling		565			110,631,328	SAP Actuals
9	Centralia Equity Adder		n/a			2,349,432	Centralia PPA Actual MWhs * $1.49
10	Montana Electric Energy Taxes		408.1			1,750,088	SAP Actuals
11	Total Variable Rate Component				$	748,377,847	
12							
13	PCA Delivered Load (MWh)					21,304,344	Actual Delivered Electric Load (GPI net of losses)
14	Power Cost Baseline Rate for Variable Production Costs				$	35.12795	Per Exhibit A-1
15	Baseline Power Cost				$	748,377,917	
16							
17	Imbalance for Sharing: (Over) / Under Recovery				$	(70)	
18							
19			Company's Share				
20		(Over)/Under	(Over)	Under			
21	First Band - Deadband	$ 17,000,000	100%	100%	$	(70)	
22	2nd Band = next	$ 23,000,000	35%	50%	$	-	
23	3rd Band = over	$ 40,000,000	90%	90%	$	-	
24	Total Company Share				$	(70)	
25	Total Customer Share				$	-	