

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of)	
)	
PUGET SOUND ENERGY)	DOCKET NO. UE-141368
)	
To Update Methodologies Used to Allocate)	
Electric Cost of Service and For Electric Rate)	SETTLEMENT STIPULATION
Design Purposes.)	
)	
)	
)	
)	

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”), the Industrial Customers of Northwest Utilities (“ICNU”), the Federal Executive Agencies (“FEA”), Wal-Mart Stores, Inc. (“Walmart”), The Kroger Company (“Kroger”), and The Energy Project. These parties are hereinafter collectively referred to as “Settling Parties” and individually as a “Settling Party.” The NW Energy Coalition is not a party to the Settlement but does not oppose the Settlement.

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).

4 II. BACKGROUND AND NATURE OF THE DOCKET

On September 13, 2013, the parties to PSE’s 2013 power cost only rate case
5 (“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 issues with respect to electric cost of service, rate spread, and rate design.” The
parties further agreed to the following process:

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. 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 issues with cost of service, rate spread, and
rate design.¹

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

6 Consistent with the terms of the PCORC settlement stipulation, interested parties
participated in a series of collaborative meetings to address issues with respect to electric
cost of service, rate spread, and rate design, beginning in November 2013. However, no
consensus was reached on what changes, if any, should be made to PSE’s electric cost of
service, rate spread, and rate design.

¹ Settlement Stipulation, ¶26.

7 Accordingly, PSE initiated this proceeding on July 1, 2014, by filing a petition to update methodologies used to allocate electric cost of service and for electric rate design purposes. The Commission held a prehearing conference on August 18, 2014. The parties participated in a settlement conference on September 22, 2014 and participated in subsequent settlement-related calls and correspondence after that date.

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

III. AGREEMENT

A. Cost of Service and Allocation

9 PSE will continue to use a “peak credit” classification methodology in regard to electric production and transmission cost allocation; however, the Company will update the following underlying assumptions and data used in “peak credit” analyses, which have not been updated since the 2011 general rate case (“GRC”):

- 1) Assumptions will be consistent with the Company’s approved 2013 Integrated Resource Plan (“IRP”), as pertaining to:
 - capital costs;
 - fixed and variable operations and maintenance costs; and
 - the heat rates of proxy generating resources.
- 2) Natural gas price forecasts used will be consistent with the most recent, available projections, consistent with those to be used by the Company for its 2015 IRP.
- 3) Carbon cost assumptions will be updated to reflect the weighted average of the following carbon cost projections from PSE’s 2013 IRP:
 - Base;

- Low; and
 - High.
- 4) The assumed capacity factor for baseload resources will be 80%.
- 5) The rate of return used will be 7.77%; subject to the following conditions:
- The Settling Parties acknowledge disagreement upon the appropriate return on equity component of cost of capital to be used, consistent with remand proceedings now before the Commission in Docket Nos. UE-130137/UG-130138 (consolidated) and UE-121697/UG-121705 (consolidated) (“rate plan remand”);
 - The Company will conform to the Commission’s decision in the rate plan remand proceeding in terms of whether an update to the cost of capital is required. If so ordered by the Commission in the rate plan remand proceeding, the Company will update all cost of capital assumptions in “peak credit” analyses, including rate of return, to incorporate and conform to the Commission’s final decision on the return on equity component of the cost of capital in the rate plan remand proceeding, as necessary, and in the manner ordered by the Commission in the rate plan remand proceeding.
 - Nothing in this Settlement is intended to prejudice the Settling Parties’ positions and arguments with respect to the rate plan remand proceeding and the applicability of that proceeding to this docket.

Consistent with the foregoing updates to peak credit classification assumptions, PSE will adjust demand/energy cost allocation percentages to 25% demand and 75% energy.

11 PSE will use a four coincident peak (“4-CP”) allocator for demand related production and transmission costs. The use of a 4-CP allocator is for settlement purposes only and is not an implicit acceptance by the Settling Parties of the Peak-Credit methodology. The use of the 4-CP allocator does not bind any Settling Party to its use when discussing such allocators in a Generic Proceeding referred to below, or in future proceedings after the final order issues in the Company’s next GRC.

12 All cost of service and allocation results modified by this settlement will be applied to all PSE rate schedules, as the Company files to have them updated—i.e., peak credit updates will apply to any and all filings that will be made after the Commission’s final order in this docket, except that: 1) the results will not be applied to rates under the 2014 PSE Power Cost Only Rate Case settlement; 2) if the Generic Proceeding referred to below concludes before a final order is issued in the Company’s next GRC, the Generic Proceeding results will be applied; and 3) if the Generic Proceeding referred to below does not conclude before a final order is issued in the Company’s next GRC, Settling Parties will not be bound by any cost of service or allocation agreements in this settlement in any proceedings initiated subsequent to the issuance of the final order in the Company’s next GRC.

13 In addition, the Settling Parties reserve the right in future proceedings to promote their preferred revenue allocation between rate schedules.

14 If initiated or allowed by the Commission, the Settling Parties agree to participate in a formal Generic Proceeding to address cost of service allocation methodologies for all system costs for the three electric investor-owned utilities. Through this process the Company and all interested interveners would be able to fully present their viewpoints on cost of service and allocation methodologies with the goal of receiving consistent policy

direction from the Commission, and in that proceeding no party will be bound by any cost of service or allocation agreements in this settlement.

B. Rate Spread/Design

15 The Settling Parties agree to a three-tiered block rate structure for residential service, outlined below. PSE will file a proposal for a tiered block structure consistent with the following in its initial filing in its next general rate case:

- 1) The Settling Parties agree to the creation of a third block using an inverted rate structure as described below:

Blocks (in kWh)
0-800
801-1800
1801+

- 2) PSE will include in the proposal rates for each block. The Settling Parties reserve the right to propose alternative rates.

C. Schedule 40

16 The Settling Parties agree that any and all obligations arising from paragraph 15² of the approved, multi-party electric settlement in the Company's 2011 GRC have been fulfilled. As required, the parties met to discuss potential changes to Schedule 40 but did not agree upon any revisions to this schedule beyond those proposed in this Settlement, including all cost of service and allocation results modified per paragraph 12 above.

17 In future general rate cases PSE will include, for each Schedule 40 customer, a demand study that is no more than five years old. PSE will present updated demand study results in its initial filing in its next general rate case.

² Paragraph 15 states, in pertinent part: "The Settling Parties also agree to meet following the conclusion of this general rate case to discuss potential future revisions to Schedule 40." *WUTC v Puget Sound Energy, Inc.*, Dockets UE-111048 & UG-111049 (Consolidated), Multiparty Settlement RE: Electric Rate Spread, Electric Rate Design and Renewable Energy Credit Tracker, dated January 17, 2012.

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In future general rate cases PSE will continue its practice to update distribution cost studies for each Schedule 40 customer.

D. Admission of Exhibits

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For purposes of the Commission's evaluation of the reasonableness of the Settlement, the Settling Parties agree the Commission should admit into evidence all exhibits filed by the parties in this docket to date. If the Commission rejects the Settlement, and this docket proceeds to hearing, the Commission's action admitting such evidence will be ineffective.

IV. GENERAL PROVISIONS

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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. 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.

21 **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).

22 **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.

23 **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.

24 **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 20th day of October 2014.

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Dated this 21 day of October 2014.

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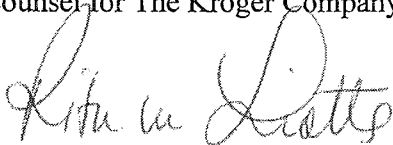
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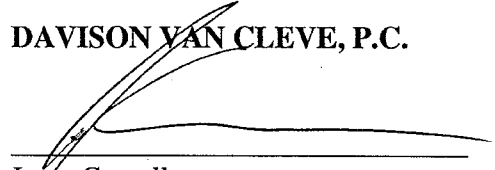
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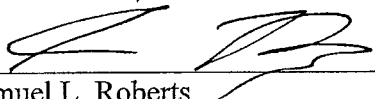
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Dated this th 26 day of October 2014.

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