

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

PUGET SOUND ENERGY, INC. and  
NW ENERGY COALITION

For an Order Authorizing PSE to Implement  
Electric and Natural Gas Decoupling  
Mechanisms and to Record Accounting  
Entries Associated with the Mechanisms

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WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DOCKET NOS. UE-121697 and UG-  
121705 (Consolidated)

DOCKET NOS. UE-130137 and UG-  
130138 (Consolidated)

PETITION FOR APPROVAL OF AN  
ERRATA TO ATTACHMENT A AND  
B TO THE AMENDED PETITION FOR  
DECOUPLING

**I. INTRODUCTION**

*I* Pursuant to WAC 480-07-370, Puget Sound Energy, Inc. ("PSE") petitions the Commission to allow PSE to file an errata to Attachments A and B to the Amended Petition For Decoupling<sup>1</sup> filed in the above referenced dockets, and for Commission approval of the

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<sup>1</sup> The errata revises language in subsection 6.b of Attachments A and B to the Amended Petition For Decoupling, filed in these dockets on March 1, 2013. Those attachments describe the Electric Revenue Decoupling Mechanism and Gas Revenue Decoupling Mechanism. The errata to Attachments A and B is described herein and attached to this Petition.

errata. The purpose of the errata is to correct the manner in which decoupling deferrals are calculated. The errata will make clear that prior years' accumulated decoupling deferrals will not be included in the calculation of the current rate year Actual Revenue for purposes of determining the current decoupling deferrals. The effect of this change is to set the Schedule 142 rates at the appropriate level, which is approximately \$12 million lower than the rates would be set if the errata is not approved.<sup>2</sup>

2 PSE has informed the NW Energy Coalition, Commission Staff, Public Counsel and the Industrial Customers of Northwest Utilities of PSE's plans to file this Petition.

3 PSE is engaged in the business of providing electric and natural gas service within the State of Washington as a public service company and is subject to the regulatory authority of the Commission as to its retail rates, service, facilities and practices. Its full name and mailing address are:

Puget Sound Energy, Inc.  
Attn: Ken S. Johnson  
Director of State Regulatory Affairs  
P.O. Box 97034  
Bellevue, WA 98009-9734

PSE's representatives for purposes of this proceeding are:

Sheree Strom Carson  
Donna L. Barnett  
Perkins Coie LLP  
10885 N.E. Fourth Street, Suite 700  
Bellevue, WA 98004-5579  
Phone: 425-635-1400  
Fax: 425-635-2400  
scarson@perkinscoie.com  
dbarnett@perkinscoie.com

4 The following rules or statutes may be brought into issue by this Petition: RCW

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<sup>2</sup> The total impact is approximately \$20 million. The additional amount--approximately \$8 million--would be reflected in rates in 2016, if the errata is not approved.

80.01.040 and WAC 480-07-370.

## **II. THE COMMISSION SHOULD APPROVE AN ERRATA TO CORRECT THE MANNER IN WHICH THE DECOUPLING DEFERRALS ARE CALCULATED**

5           The manner in which current period decoupling deferrals are calculated, as described  
in Attachment A and B to the Amended Petition For Decoupling Mechanisms, filed on  
March 1, 2013, has unintended consequences. Accordingly, PSE is petitioning the  
Commission to approve an errata to Attachment A and B to the Amended Petition For  
Decoupling to correct this defect.

6           PSE’s decoupling deferrals are calculated by comparing Allowed Revenue to Actual  
Revenue. The monthly difference between the two is the monthly deferral amount. The  
currently authorized method for calculating Actual Revenue requires that the accumulated  
deferral from the prior year be included in the calculation of Actual Revenues for the current  
year.<sup>3</sup> Rather than passing back these deferred revenues from the prior year through a  
separate tracker, these deferrals from the prior year are included in the calculation of current  
year Actual Revenues. This results in current year deferrals being overstated because they  
include the prior year deferral in current year “Actual Revenues.” This also results in prior  
years’ accumulated deferrals potentially being taken back as part of the current year’s  
deferral calculation.

7           In December 2013 the total decoupling mechanism deferral (gas and electric) to be  
passed back to customers totaled approximately \$20 million—between May 2014 and April

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<sup>3</sup> The calculation of current year Actual Revenue is set forth in Section 6.b of Attachment A and B to the Amended Decoupling Petition filed in Dockets UE-121697 and UG-121705. Actual Revenue is calculated by multiplying the Rate Year Revenue Per Unit (“RPU”) for each Rate Group for the current calendar month by the kilowatt-hour or therm sales in the group for the current calendar month. See Attachments A and B, section 6.b. The Rate Year RPU is calculated by dividing the Rate year Volumetric Delivery Revenue (“VDR”) by the projection of Rate Year Base Sales. See *id.* section 5.c. The Rate Year VDR is calculated by adding accumulated decoupling deferrals from the prior calendar year to Rate Year Allowed Delivery Revenue (“ADR”) and then subtracting forecasted Rate Year basic charge revenues. See *id.* section 5.b.

2015. This amount was approved for refund to customers beginning May 2014 and is amortizing as it is being passed back to customers. If not corrected, the decoupling mechanism would cause the \$20 million deferral amortization from the prior year to be included as “Actual Revenue” in the current rate period. Beginning in May 2014, when calculating the monthly deferral, i.e., the difference between Actual Revenues and Allowed Revenues for the month, the Actual Revenues would be understated because the prior year’s amortized deferral for refund to customers would be included in the current year’s Actual Revenues. The effect of the Actual Revenue being understated is the creation of excess deferrals as receivables from customers approximately equal to (but in the opposite direction of) the \$20 million refund included in current rates for the prior year’s decoupling deferrals.

8           At this point in time, the defect has only impacted non-cash tracking accounts and has not impacted customers’ rates. However, if left uncorrected, the Schedule 142<sup>4</sup> rates set on May 1, 2015 would include the above described receivable from customers. Granting this petition will allow PSE to calculate the deferrals as intended, from May 1, 2014 forward, before setting those rates. It will represent a reduction to the receivable reflected on PSE’s books as of December 2014.

9           PSE’s annual Schedule 142 tariff filing, filed concurrently with this Petition, corrects this defect and excludes prior years’ deferrals from the calculation of the current year “Actual Revenue.” In order to implement Schedule 142 as filed, PSE’s proposed errata to Attachment A and Attachment B to the Amended Petition For Decoupling must be approved to correct and make clear that prior years’ deferrals will not be included in the current year calculation of “Actual Revenue.” Absent the approval, PSE would need to revise the current

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<sup>4</sup> Attachment A and B to the Amended Petition for Decoupling refer to Schedule 139 as the decoupling tariff. This has been changed to Schedule 142.

Schedule 142 filing to remove the effect of this petition, resulting in a higher revenue requirement for the May 1, 2015 rates.

10 PSE proposes the following errata to the description of the calculation of the decoupling rate, which is set forth in Section 6 of Attachment A (Electric Revenue Decoupling Mechanism) and Attachment B (Gas Revenue Decoupling Mechanism). The change to the original description is underlined below:

- a. Step 1 – Calculate Current Allowed Revenue (“Allowed Revenue”): The Company will calculate Allowed Revenue by multiplying the Monthly Allowed Delivery RPC for each Rate Group for the current calendar month by the number of customers in the group for the current calendar month (“Current Customers”).
- b. Step 2 – Calculate Current Actual Revenue (“Actual Revenue”): The Company will calculate Actual Revenue by multiplying the Rate Year RPU excluding the portion recovering the accumulated decoupling deferrals from prior calendar years for each Rate Group for the current calendar month by the kilowatt-hour sales in the group for the current calendar month (“Current Sales”).
- c. Step 3 – Calculate Monthly Deferral Amounts: The Company will compare the difference between Allowed Revenue and Actual Revenue for the month for each rate Group and defer 100 percent of the revenue difference, either positive or negative, and record that amount in a separate account for later recovery or rebate. The Company will accrue interest on the deferred balance at a rate equal to that determined by the Federal Energy Regulatory Commission pursuant to the Code of Federal Regulations, Title 18, Section 35.19a.

11 Without the approval of the above-described errata, the manner in which the Actual Revenues are calculated would incorporate the prior year’s deferral in the current year calculation of Actual Revenue. This would result in an overstatement of deferrals for December 2014 that would be incorporated in May 2015 rates, and would further result in a


failure to fully pass back the accumulated deferral from the prior year during the rate period ending April 2015. Approval of the errata will make clear that Actual Revenues do not include prior years' accumulated deferrals and will avoid the overstatement of deferrals discussed above.

### III. CONCLUSION

12 For the reasons set forth above, PSE respectfully requests the Commission approve the errata to Attachment A and B to the Amended Petition For Decoupling Mechanisms.

DATED this 31st day of March 2015.

PERKINS COIE LLP

  
Sheree Strom Carson, WSBA #25349  
Donna L. Barnett, WSBA #36794  
Attorneys for Puget Sound Energy, Inc

VERIFICATION

STATE OF WASHINGTON )  
 ) ss.  
COUNTY OF KING )

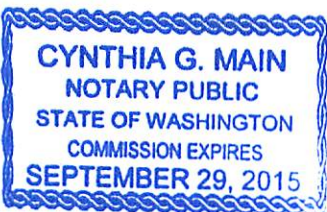
JON A PILIARIS, being first duly sworn, on oath deposes and says:

That he is Manager, Pricing and Cost of Service, for Puget Sound Energy, Inc., that he has read the foregoing Petition, that he know the contents thereof, and that he believes the same to be true to the best of his knowledge and belief under penalty of perjury.

[Signature]  
JON A. PILIARIS

STATE OF Washington )  
 ) ss.  
COUNTY OF King )

SUBSCRIBED AND SWORN to before me this 31st day of March , 2015



[Signature]  
Print Name: CYNTHIA MAIN  
Notary Public in and for the State of  
Washington, residing at Kumbland  
My commission expires: 9-29-15

MIAMI

SEPTEMBER 28, 2011  
COMMISSION EXPIRES  
STATE OF WASHINGTON  
NOTARY PUBLIC  
CYNTHIA C. MAIN



# **ATTACHMENT A**

### **Electric Revenue Decoupling Mechanism**

- 1) Establishment of Electric Revenue Decoupling Mechanism: The Washington Utilities and Transportation Commission (“Commission”) will establish Puget Sound Energy, Inc.’s (“PSE” or “Company”) Electric Revenue Decoupling Mechanism (“Mechanism”) through the approval of the amended accounting petition in Docket Nos. UE-121697 and UG-121705. In its initial approval of the Mechanism, the Commission will establish the following baseline values and, assuming continuation of the Mechanism, will approve updates to these values in PSE’s subsequent rate cases:
- a) **Rate of Return**: The rate of return approved by the Commission in the Company’s most recent GRC. Initially this is 7.80%, the rate of return established in Docket Nos. UE-111048 and UG-111049.
  - b) **Rate Group**: Groups of rate schedules treated as a single class for purposes of the Mechanism.
  - c) **Test Year**: The 12-month test period ending June 30, 2012 in PSE’s expedited rate filing (“ERF”), Docket Nos. UE-130137 and UG-130138.
  - d) **Test Year Base Sales**: The weather-normalized energy sales, measured in kilowatt-hour, for each Rate Group and for each month of the test period in the ERF.
  - e) **Test Year Base Customers**: The electric Base Customers calculated for each Decoupling Rate Group in the test period in the ERF.
  - f) **Allocated Power Costs**: Each Decoupling Rate Group’s allocation of costs used to calculate PSE’s Power Cost Adjustment (“PCA”) Baseline Rate.
  - g) **K-factor**: A factor used to periodically adjust Annual Delivery Revenue Per Customer (“ADRPC”) for each Rate Group before PSE’s next GRC. This factor will be set at 1.03

on May 1, 2013, and will remain at 1.03 on January 1, 2014, January 1, 2015, January 1, 2016, and, if applicable, on January 1, 2017.

- 2) Application of the Mechanism: The Mechanism applies to all electric customers of the Company, except those served under PSE's lighting and retail wheeling schedules.<sup>1</sup> Customers included in the Mechanism will be included in one of two Rate Groups:
- a) Residential – Schedule 7 and 7A.
  - b) Non-Residential – Schedules 24, 25, 26, 26P, 29, 31, 35, 40, 43, 46 and 49, as well as the related non-residential schedules where customers are eligible to participate in the Bonneville Power Administration's Residential Exchange Program.
- 3) Calculation of Monthly Allowed Delivery Revenue Per Customer ("RPC"): For each Rate Group, the Monthly Allowed Delivery RPC will be calculated in the following manner:
- a) Step 1 – Calculate Total Revenue: Total Revenue is the amount that would be collected from each Rate Group in the ERF test period under PSE's approved base rates, exclusive of other riders or adjusting schedules.
  - b) Step 2 – Calculate Allowed Delivery Revenue ("ADR"): ADR equals Total Revenue for each Rate Group less Allocated Power Costs.
  - c) Step 3 – Calculate Annual Delivery Revenue Per Customer ("ADRPC"): ADRPC equals each Rate Group's ADR divided by the number of Test Year Base Customers within the group.
  - d) Step 4 – Apply K-Factor to ADRPC: Initially, the ADRPC will be multiplied by the approved K-factor, effective May 1, 2013. For the initial term of the Mechanism, the ADRPC will then increase each January 1, by the approved K-factor for the applicable year.

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<sup>1</sup> PSE's Lighting and retail wheeling schedules, will be subject to K-factor increases that are part of a rate plan.

- e) Step 5 – Calculate Annual Allowed Volumetric Delivery Revenue Per Customer: The Annual Allowed Volumetric Delivery RPC is equal to the K-factor adjusted ADRPC less the basic charge revenue per customer set in the ERF.
  - f) Step 6 – Calculate Monthly Allowed Delivery RPC: Monthly Allowed Delivery RPC equals Annual Allowed Volumetric Delivery RPC multiplied by the relative percentage of monthly Test Year Base Sales for each Rate Group.
- 4) Calculation of Test Year Revenue Per Unit (“RPU”): The Test Year RPU for each Rate Group is calculated by dividing the Test Year Volumetric Delivery Revenue by the Test Year Base Sales.
- a) Test Year Volumetric Delivery Revenue (“VDR”): For each Rate Group, Test Year VDR will equal ADR less basic charge and minimum charge revenue in the ERF test period.
- 5) Calculation of Schedule 139 Rate: Schedule 139 is a new tariff schedule designed to collect the allowed delivery revenues plus or minus accumulated decoupling deferrals. Schedule 139 recovers these revenues through volumetric rates. The Schedule 139 Rate will be calculated in the following manner:
- a) Step 1 – Calculate Rate Year Allowed Delivery Revenue: Rate Year ADR for each Rate Group will equal its K-factor adjusted ADRPC multiplied by forecasted Base Customers in each group in the 12-month decoupling rate year, beginning May 1, of each year. The 2013 decoupling deferral period is for eight months, May through December 2013.
  - b) Step 2 – Calculate Rate Year Volumetric Delivery Revenue: The Rate Year VDR for each Rate Group is calculated by adding accumulated decoupling deferrals from the prior

- calendar year to Rate Year ADR and then subtracting forecasted Rate Year basic charge revenues.
- c) Step 3 – Calculate Rate Year Revenue Per Unit: The Rate Year RPU for each Rate Group is calculated by dividing the Rate Year VDR by the projection of Rate Year Base Sales.
- d) Step 4 – Calculate Schedule 139 Rate: The Schedule 139 rate for each Rate Group is calculated as the Rate Year RPU minus Test Year RPU.
- 6) Calculation of Monthly Deferral Amount: Following the end of each month, the Company will compare the Allowed Revenue from the current month with the Actual Revenue for the current month.
- a) Step 1 – Calculate Current Allowed Revenue (“Allowed Revenue”): The Company will calculate Allowed Revenue by multiplying the Monthly Allowed Delivery RPC for each Rate Group for the current calendar month by the number of customers in the group for the current calendar month (“Current Customers”).
- b) Step 2 – Calculate Current Actual Revenue (“Actual Revenue”): The Company will calculate Actual Revenue by multiplying the Rate Year RPU excluding the portion recovering the accumulated decoupling deferrals from prior calendar years for each Rate Group for the current calendar month by the kilowatt-hour sales in the group for the current calendar month (“Current Sales”).
- c) Step 3 – Calculate Monthly Deferral Amounts: The Company will compare the difference between Allowed Revenue and Actual Revenue for the month for each rate Group and defer 100 percent of the revenue difference, either positive or negative, and record that amount in a separate account for later recovery or rebate. The Company will

accrue interest on the deferred balance at a rate equal to that determined by the Federal Energy Regulatory Commission pursuant to the Code of Federal Regulations, Title 18, Section 35.19a.

- 7) Deferral Accounting for the Mechanism: The Company will record the deferrals in account 186 – Miscellaneous Deferred Debits or account 253 – Other Deferred Credits, as appropriate. The Company will transfer the amount the Commission approves for recovery or rebate into account 182.3 – Regulatory Asset or 254 – Other Regulatory Liabilities, as appropriate. On the income statement, the Company will record both the deferred amounts and the amortization of the deferrals, through Account 407.3 –Regulatory Debits or Account 407.4 – Regulatory Credits, in separate sub-accounts.
- 8) Deferral Periods Coincident with Calendar Year: The accumulated monthly deferred revenue as of December 31 each year will be addressed in the Company’s annual filing to update Schedule 139 rates.
- 9) Annual Schedule 139 Rate Adjustment Filing: On or before April 1 of each year, the Company will file a proposed Schedule 139 rate adjustment. The tariff will reflect the additional revenues from applying the K-factor to the allowed revenue per customer plus or minus the recovery of the deferred revenue the Company recorded for the prior calendar year. The Schedule 139 rate adjustment may be affected by the application of the “Soft Cap” described in (10) and/or an “Earnings” test, as explained in (11) below.
- 10) Soft Cap on Rate Increases: If the Schedule 139 rate change causes an increase on total rates to a Rate Group to exceed three percent,<sup>2</sup> the rate change for that group will be capped at

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<sup>2</sup> This will include revenue associated with PSE’s allocated power costs.

three percent.<sup>3</sup> The Company will transfer Commission approved deferred decoupling revenues to a balancing account for each Rate Group for recovery or rebate. Any amounts not recovered in the current Schedule 139 rate year will remain in the balancing account until the next Schedule 139 filing. The revenue either recovered or rebated during the period will adjust the balancing account. The Company will add any deferred revenue remaining in the balancing account at the end of the calendar year to the new revenue deferrals to determine the amount of the proposed surcharge or rebate for the following year, again subject to the three percent overall rate increase constraint, and to Commission approval.

11) Earnings Test: PSE agrees to an earnings test to address concerns about potential overearnings. A defined rate of return greater than the rate of return on rate base (“ROR”) established in the most recent GRC is allowed. The Earnings Test will compare the Company’s approved ROR with the ROR in the annual Commission-basis report (“CBR”) operating results for electric service. The Company will file this report with the Commission by April 1 each year, reporting results for the previous calendar year.<sup>4</sup> The Company will calculate the Earnings Test based on the initial calculation of the deferral amount described above. The results of the test will be added to the deferral amount.

a) PSE may earn up to twenty-five (25) basis points more than the approved ROR from the most recent GRC. If the rate of return from the CBR results for electric system operations is less than 25 basis points over the approved ROR, the surcharge or rebate is passed through to customers without further adjustment.

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<sup>3</sup> Delivery revenues account for about one-third of total revenues. A three percent increase in total revenues indicates a deferral of delivery revenues of nearly nine percent, which would be an unlikely event.

<sup>4</sup> The required filing date for the Commission basis report is April 30.

- b) If the CBR result for electric system operations is more than 25 basis points above the approved ROR, the Company will return 50 percent of the difference to customers. This difference is calculated by:
- i) Compare the ROR of the CBR to the approved ROR plus 25 basis points (maximum ROR). Based on PSE's current ROR of 7.8 percent, the maximum ROR is 8.05 percent.
  - ii) Since ROR is the net operating income ("NOI") divided by rate base, a maximum NOI can be calculated that derives the maximum ROR.
  - iii) Subtract the maximum NOI from the NOI in the CBR. If there is overearning, this will be a positive number. This NOI difference will determine the level of revenues to refund.
  - iv) Multiply the positive NOI difference by fifty (50) percent and divide the result by the conversion factor from PSE's ERF. This result is the revenues that must be returned to customers ("Earnings Rebate").
  - v) The Earnings Rebate will be included in that year's determination of the Schedule 139 rate filing. The Earnings Rebate will be allocated to the Rate Groups based on its relative share of ADR.
  - vi) For example, if the Commission-basis report shows that the Company earned 8.15 percent on electric system operations, then the CBR rate base multiplied by 8.05 percent determines the maximum allowed NOI. The difference between the maximum NOI and the CBR NOI is multiplied by fifty (50 percent) and the resulting amount is then divided by the conversion factor to calculate the Earnings Rebate to be returned to customers.



- c) If there is a surcharge, the Earnings Test will cause the amount of the surcharge to be reduced by the Earnings Rebate calculated above. If the value of the Earnings Rebate is greater than the surcharge, it is possible that the Earnings Test would result in an overall rebate.
- d) The Company will include, with its tariff, workpapers showing application of the Earnings Test.

12) Term of Mechanism: The Mechanism will commence May 1, 2013 and remain in place, at a minimum, until the effective date of new rates set in PSE's next general rate case ("GRC"). The Company will file a GRC no sooner than April 1, 2015 and no later than April 1, 2016, unless otherwise agreed to by the parties to PSE's 2011 GRC. As part of PSE's next GRC, any party may propose cancellation or modification of the Mechanism. In no event will the Mechanism continue beyond PSE's next GRC without Commission approval. If the Mechanism is discontinued after PSE's next GRC, the amounts remaining in the balancing accounts will continue to be amortized in the same manner as proposed in this exhibit, subject to the cap on rate increases and the Earnings Test noted in (10) and (11), until the balances are cleared.

# **ATTACHMENT B**

## Gas Revenue Decoupling Mechanism

- 1) Establishment of Gas Revenue Decoupling Mechanism: The Washington Utilities and Transportation Commission (“Commission”) will establish Puget Sound Energy, Inc.’s (“PSE” or “Company”) Gas Revenue Decoupling Mechanism (“Mechanism”) through the approval of the amended accounting petition in Docket Nos. UE-121697 and UG-121705. In its initial approval of the Mechanism, the Commission will establish the following baseline values and, assuming continuation of the Mechanism, will approve updates to these values in PSE’s subsequent general rate case (“GRC”):
  - a) **Rate of Return**: The rate of return approved by the Commission in the Company’s most recent GRC. Initially this is 7.80%, the rate of return established in Docket Nos. UE-111048 and UG-111049.
  - b) **Rate Group**: Groups of rate schedules treated as a single class for purposes of the Mechanism.
  - c) **Test Year**: The 12-month test period ending June 30, 2012 in PSE’s expedited rate filing (“ERF”), Docket Nos. UE-130137 and UG-130138.
  - d) **Test Year Base Sales**: The weather-normalized energy sales, measured in therms, for each Rate Group and for each month of the test period in the GRC.
  - e) **Test Year Base Customers**: The gas Base Customers in each Rate Group in the test period in the GRC.
  - f) **K-factor**: A factor used to periodically adjust Annual Delivery Revenue Per Customer (“ADRPC”) for each Rate Group before PSE’s next GRC. This factor will be set at 1.022 on May 1, 2013 and will remain at 1.022 on January 1, 2014, January 1, 2015, January 1, 2016, and if applicable, on January 1, 2017.

- 2) Application of the Mechanism: The Mechanism applies to all gas customers of the Company, except those served under PSE's gas lighting and gas hot water heater rental schedules.<sup>1</sup> It also excludes gas customers taking service under special contracts. Customers included in the Mechanism will be included in one of two Rate Groups:
- a) Residential – Schedule 23 and 53.
  - b) Non-Residential – Schedules 31, 31T, 41, 41T, 85, 85T, 86, 86T, 87 and 87T.
- 3) Calculation of Monthly Allowed Delivery Revenue Per Customer (“RPC”): For each Rate Group, the Monthly Allowed RPC will be calculated in the following manner:
- a) Step 1 – Calculate Total Revenue: Total Revenue is the amount that would be collected from each Rate Group in the test period under PSE's approved base (or “margin”) rates, exclusive of other riders or adjusting schedules.
  - b) Step 2 – Calculate Allowed Delivery Revenue (“ADR”): ADR equals each Rate Group's ADR divided by the number of Test Year Base Customers within the group.
  - c) Step 3 – Calculate Annual Delivery Revenue Per Customer (“ADRPC”): ADRPC equals each Rate Group's ADR divided by the number of Test Year Base Customers within the group.
  - d) Step 4 – Apply K-Factor to ADRPC: Initially, the ADRPC will be multiplied by the approved K-factor, effective May 1, 2013. For the initial term of the Mechanism, the ADRPC will then increase each January 1, by the approved K-factor for the applicable year.

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<sup>1</sup> PSE's gas lighting and gas hot water heater rental schedules, will be subject to K-factor increases that are part of a rate plan.

- e) Step 5 – Calculate the Annual Allowed Volumetric Delivery Revenue Per Customer:  
The Annual Allowed Volumetric Delivery RPC is equal to the K-factor adjusted ADRPC less the basic charge revenue per customer set in the ERF.
- f) Step 6 – Calculate Monthly Allowed Delivery RPC: Monthly Allowed Delivery RPC equals Annual Allowed Volumetric Delivery RPC multiplied by the relative percentage of monthly Test Year Base Sales for each Rate Group.
- 4) Calculation of Test Year Revenue Per Unit (“RPU”): The Test Year RPU for each Rate Group is calculated by dividing the Test Year Volumetric Delivery Revenue by the Test Year Base Sales.
- a) Test Year Volumetric Delivery Revenue (“VDR”): For each Rate Group, Test Year VDR will equal ADR less basic charge and minimum charge revenue in the ERF test period.
- 5) Calculation of Schedule 139 Rate: Schedule 139 is a new tariff schedule designed to collect the allowed delivery revenues plus or minus accumulated decoupling deferrals. Schedule 139 recovers these revenues through volumetric rates. The Schedule 139 Rate will be calculated in the following manner:
- a) Step 1 – Calculate Rate Year Allowed Delivery Revenue: Rate Year ADR for each Rate Group will equal its K-factor adjusted ADRPC multiplied by forecasted Base Customers in each group in the 12-month decoupling rate year, beginning May 1, 2013 of each year. The 2013 decoupling deferral period is for eight months, May through December 2013.
- b) Step 2 – Calculate Rate Year Volumetric Delivery Revenue: The Rate Year VDR for each Rate Group is calculated by adding accumulated decoupling deferrals from the prior calendar year to Rate Year ADR and then subtracting forecasted Rate Year basic charge revenues.

- c) Step 3 – Calculate Rate Year Revenue Per Unit: The Rate Year RPU for each Rate Group is calculated by dividing the Rate Year VDR by the projection of Rate Year Base Sales.
- d) Step 4 – Calculate Schedule 139 Rate: The Schedule 139 rate for the Residential Rate Group is calculated as the Rate Year RPU minus Test Year RPU. The Schedule 139 rate for the Non-Residential Rate Group is calculated by first subtracting Test Year RPU from Rate Year RPU. This amount is then multiplied by the projection of Rate Year Base Sales to derive the projected revenue increase. This is then divided by the Estimated Recoverable VDR to calculate a percentage. This percentage is then multiplied by each Non-Residential rate schedule's delivery, demand and procurement charges, as applicable, to calculate that schedule's rate adjustment under Schedule 139.
- 6) Calculation of Monthly Deferral Amount: Following the end of each month, the Company will compare the Allowed Revenue from the current month with the Actual Revenue for the current month.
- a) Step 1 – Calculate Current Allowed Revenue (“Allowed Revenue”): The Company will calculate Allowed Revenue by multiplying the Monthly Allowed Delivery RPC for each Rate Group for the current calendar month by the number of customers in the group for the current calendar month (“Current Customers”).
- b) Step 2 – Calculate Current Actual Revenue (“Actual Revenue”): The Company will calculate Actual Revenue by multiplying the Rate Year RPU excluding the portion recovering the accumulated decoupling deferrals from prior calendar years for each Rate

Group for the current calendar month by the therm sales in the group for the current calendar month (“Current Sales”).

- c) Step 3 – Calculate Monthly Deferral Amounts: The Company will compare the difference between Allowed Revenue and Actual Revenue for the month for each rate Group and defer 100 percent of the revenue difference, either positive or negative, and record that amount in a separate account for later recovery or rebate. The Company will accrue interest on the deferred balance at a rate equal to that determined by the Federal Energy Regulatory Commission pursuant to the Code of Federal Regulations, Title 18, Section 35.19a.
- 7) Deferral Accounting for the Mechanism: The Company will record the deferrals in account 186 – Miscellaneous Deferred Debits or account 253 – Other Deferred Credits, as appropriate. The Company will transfer the amount the Commission approves for recovery or rebate into account 182.3 - Regulatory Asset or 254 – Other Regulatory Liabilities, as appropriate. On the income statement, the Company will record both the deferred amounts and the amortization of the deferrals, through Account 407.3 – Regulatory Debits or Account 407.4 – Regulatory Credits, in separate sub-accounts.
- 8) Deferral Periods Coincident with Calendar Year: The accumulated monthly deferred revenue as of December 31, each year will be addressed in the Company’s annual filing to update Schedule 139 rates.
- 9) Annual Schedule 139 Rate Adjustment Filing: On or before April 1 of each year, the Company will file a proposed Schedule 139 rate adjustment. The tariff will reflect the additional revenues from applying the K-factor to the allowed revenue per customer plus or minus the recovery of the deferred revenue the Company recorded for the prior calendar

year. The Schedule 139 rate adjustment may be affected by the application of the “Soft Cap” described in (10) and an “Earnings Test,” as explained in (11) below.

- 10) Soft Cap on Rate Increases: If the Schedule 139 rate change causes an increase on total rates to a Rate Group to exceed three percent,<sup>2</sup> the rate change for that group will be capped at three percent.<sup>3</sup> The Company will transfer Commission approved deferred decoupling revenues to a balancing account for each Rate Group for recovery or rebate. Any amounts not recovered in the current Schedule 139 rate year will remain in the balancing account until the next Schedule 139 filing. The revenue either recovered or rebated during the period will adjust the balancing account. The Company will add any deferred revenue remaining in the balancing account at the end of the calendar year to the new revenue deferrals to determine the amount of the proposed surcharge or rebate for the following year, again subject to the three percent overall rate increase constraint, and to Commission approval.
- 11) PSE agrees to an earnings test to address concerns about potential overearnings. A defined rate of return greater than the rate of return on rate base (“ROR”) established in the most recent GRC is allowed. The Earnings Test will compare the Company’s approved ROR with the ROR in the annual Commission basis report (“CBR”) operating results for gas service. The Company will file this report with the Commission by April 1 each year, reporting results for the previous calendar year.<sup>4</sup> The Company will calculate the Earnings Test based on the initial calculation of the deferral amount described above. The results of the test will be added to the deferral amount.

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<sup>2</sup> This will include revenue associated with PSE’s allocated gas costs.

<sup>3</sup> Delivery revenues account for about one-third of total revenues. A three percent increase in total revenues indicates a deferral of delivery revenues of nearly nine percent, which would be an unlikely event.

<sup>4</sup> The required filing date for the Commission basis report is April 30.



- a) PSE may earn up to twenty-five (25) basis points more than the approved ROR from the most recent GRC. If the rate of return from the CBR results for gas system operations is less than 25 basis points over the approved ROR, the surcharge or rebate is passed through to customers without further adjustment.
- b) If the CBR result for gas system operations is more than 25 basis points above the approved ROR, the Company will return 50 percent of the difference to customers. This difference is calculated by:
  - i) Compare the ROR of the CBR to the approved ROR plus 25 basis points (maximum ROR). Based on PSE's current ROR of 7.8 percent, the maximum ROR is 8.05 percent.
  - ii) Since ROR is the net operating income ("NOI") divided by rate base, a maximum NOI can be calculated that derives the maximum ROR.
  - iii) Subtract the maximum NOI from the NOI in the CBR. If there is overearning, this will be a positive number. This NOI difference will determine the level of revenues to refund.
  - iv) Multiply the positive NOI difference by fifty (50) percent and divide the result by the conversion factor from PSE's ERF. This result is the revenues that must be returned to customers ("Earnings Rebate").
  - v) The Earnings Rebate will be included in that year's determination of the Schedule 139 rate filing. The Earnings Rebate will be allocated to the Rate Groups based on its relative share of ADR.
  - vi) For example, if the Commission basis report shows that the Company earned 8.15 percent on gas system operations, then the CBR rate base multiplied by 8.05 percent

determines the maximum allowed NOI. The difference between the maximum NOI and the CBR NOI is multiplied by fifty (50 percent) and the resulting amount is then divided by the conversion factor to calculate the Earnings Rebate to be returned to customers.

- c) If there is a surcharge, the Earnings Test will cause the amount of the surcharge to be reduced by the Earnings Rebate calculated above. If the value of the Earnings Rebate is greater than the surcharge, it is possible that the Earnings Test would result in an overall rebate.
- d) The Company will include, with its tariff, workpapers showing application of the Earnings Test.

12) Term of Mechanism: The Mechanism will commence May 1, 2013 and will remain in place, at a minimum, until the effective date of new gas rates set in PSE's next general rate case ("GRC"). The Company will file a GRC no sooner than April 1, 2015 and no later than April 1, 2016, unless otherwise agreed to by the parties in PSE's 2011 GRC. As part of PSE's next GRC, any party may propose cancellation or modification of the Mechanism. In no event will the Mechanism continue beyond PSE's next GRC without Commission approval. If the Mechanism is discontinued after PSE's next GRC, the amounts remaining in the balancing accounts will continue to be amortized in the same manner as proposed in this exhibit, subject to the cap on rate increases and the Earnings Test noted in (10) and (11), until the balances are cleared.