

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFIC POWER & LIGHT
COMPANY, a Division of PacifiCorp,

Respondent.

In the Matter of

PACIFIC POWER & LIGHT
COMPANY,

Petition for an Order Approving Deferral of the
Washington-Allocated Revenue Requirement
Associated with the Merwin Fish Collector.

In the Matter of

PACIFIC POWER & LIGHT
COMPANY,

Petition for an Order Approving Deferral of
Costs Related to Colstrip Outage.

In the Matter of

PACIFIC POWER & LIGHT
COMPANY,

Petition for an Order Approving Deferral of
Costs Related to Declining Hydro Generation.

DOCKET UE-140762
(consolidated)

SETTLEMENT STIPULATION

DOCKET UE-140617
(consolidated)

DOCKET UE-131384
(consolidated)

DOCKET UE-140094
(consolidated)

1 In Order 08 in these consolidated dockets, the Washington Utilities and
Transportation Commission (Commission) required expedited, supplemental proceedings
to develop and implement a full Power Cost Adjustment Mechanism (PCAM) for Pacific
Power & Light Company (Pacific Power or Company). The Commission outlined the
general parameters of the mechanism and ordered completion of Phase II proceedings
and a tariff filing by Pacific Power no later than May 31, 2015.¹

2 The active parties to Phase II are Pacific Power, Staff of the Washington Utilities
and Transportation Commission (Staff), the Public Counsel Unit of the Attorney
General’s Office (Public Counsel), and Boise White Paper, L.L.C. (Boise) (referred to
collectively as Parties and individually as Party).²

3 The Parties have reached an agreed resolution to the issues in Phase II, subject to
Commission approval. This Settlement Stipulation (Stipulation) is being filed with the
Commission as a full settlement of the issues remaining in Phase II in accordance with
WAC 480-07-730(1). The Stipulation consists of this document, entitled “Settlement
Stipulation,” Appendix A, and Appendix B. The Parties understand that the Stipulation is
not binding on the Commission or any Party unless the Commission approves it.³

I. RECITALS

4 The parties to the Stipulation are Pacific Power, Staff, Public Counsel, and Boise.

¹ *Wash. Utils. & Transp. Comm’n v. Pac. Power*, Dockets UE-140762, *et al.*, Order 08 ¶ 126 (Mar. 25, 2015) (Order 08).

² Not all parties to Docket UE-140762 are participating in Phase II. The following parties to docket UE-140762 elected to not participate in Phase II: The Energy Project, Walmart Stores, Inc., and The Alliance for Solar Choice. Notice of Process and Procedural Schedule for Phase II of Docket UE 140762 at 1 (Apr. 16, 2015).

³ The exception is that before the Commission’s approval of the Stipulation, the Parties agree to support approval of the Stipulation by the Commission.

5 On May 1, 2014, Pacific Power filed its 2014 general rate case (2014 Rate Case). In its testimony related to net power costs (NPC), the Company proposed a renewable resource tracking mechanism (RRTM). In response, Staff recommended that the Commission reject the proposed RRTM in favor of a PCAM of similar design to the Energy Recovery Mechanism (ERM) currently approved for use by the Avista Corporation (Avista).

6 On March 25, 2015, the Commission issued Order 08, rejecting the Company’s proposed RRTM. The Commission required the Company to implement a “properly designed PCAM along the lines of Staff’s proposal in this case,”⁴ but found that the record should be developed further to identify and resolve the details associated with fully designing and implementing a PCAM for the Company.⁵ To supplement the record, the Commission ordered a second, expedited phase of the 2014 Rate Case, and directed Staff to respond to four questions regarding PCAM design:

- Is it appropriate to use the WCA as the jurisdictional divide for wholesale power costs?
- Is \$25 million the appropriate dead band and how did Staff determine this amount?
- Does \$25 million reflect normalized variability in power costs?

⁴ Order 08 ¶ 275.

⁵ *Id.* ¶¶ 123-24.

- How exactly did Staff arrive at its recommendation for a 50/50 sharing between the Company and its customers for under recoveries of NPC that exceed the dead band and a 25/75 sharing for over recoveries, in favor of customers?⁶

7 On April 9, 2015, Staff filed its response to the Commission’s questions in Order 08. The Commission held a prehearing conference on April 10, 2015, to establish the process and set a procedural schedule for Phase II. The Parties proposed a collaborative approach, and the schedule issued for Phase II provided two technical conferences to discuss PCAM design and implementation.

8 The Parties met for the first technical conference on April 16, 2015, and discussed a framework for Pacific Power’s PCAM. On April 23, 2015, the Parties met for the second technical conference, reached agreement on the PCAM’s design, and provided the Commission with notice that they had reached a settlement agreement. Consistent with WAC 480-07-730, the Parties memorialize their agreement in this Stipulation, which constitutes a “full settlement” of the issues remaining in Phase II of this proceeding.

II. AGREEMENT

A. Overview of PCAM Design

9 The PCAM is a rate mechanism designed to recover or refund significant, unexpected variations in power costs that clearly have not been included in the “normalization” process. The PCAM calculates the monthly variance between Pacific Power’s NPC embedded in rates and Pacific Power’s actual NPC and calculates deferral of these variances in a PCAM balancing account. Annually, the total of any credit or surcharge for the accrued NPC variances is determined after application of a dead band

⁶ *Id.* ¶ 123.

and tiered sharing bands. When accruals in the PCAM balancing account reach a certain positive or negative level, this triggers amortization of the balance in rates.

10 Pacific Power's NPC in rates (also referred to as its base NPC) and its actual NPC are calculated on a West Control Area (WCA) basis. The first step in the PCAM is to allocate both amounts to Washington under the WCA inter-jurisdictional allocation methodology, so that the PCAM compares Pacific Power's Washington-allocated base NPC (Base NPC) and Pacific Power's Washington-allocated actual NPC (Actual NPC).

11 The Company will calculate its Actual NPC using actual costs booked to applicable FERC accounts, as described in section C, and consistent with the method used to calculate its Base NPC. The Company will allocate Actual NPC to Washington using allocation factors calculated with actual jurisdictional load. Any future challenges to the method for calculation of Base NPC and Actual NPC shall occur in a general rate case and not in an annual PCAM proceeding, unless otherwise directed by the Commission. Parties reserve the right to contest the prudence and accuracy of calculations.

B. Calculation of NPC Variance

12 The Company will calculate the variance between Base NPC, adjusted for actual retail sales, and Actual NPC (NPC Variance) on a monthly basis and accrue the NPC Variance to the PCAM balancing account. Base NPC is calculated by multiplying in-rates NPC on a unit cost basis (*i.e.* dollars per megawatt hour (\$/MWh)) by actual Washington sales at meter. In-rates NPC on a \$/MWh basis are calculated by dividing Washington-allocated NPC as established in a general rate case by the Washington sales

at meter used to set rates in a general rate case. The following formula illustrates the calculation of the NPC Variance:

$$NPC \text{ Variance} = \text{Actual NPC} - (\text{Base NPC}_{\$/Mwh} \times \text{Actual Sales})$$

An illustrative example of the calculation of NPC Variances in the PCAM is attached as Appendix A to the Stipulation.

C. NPC Elements Included in PCAM

13 The Parties agree that the PCAM will include the elements traditionally reflected in the Company's NPC, as follows:

- FERC Account 447—Sales for resale, excluding on-system wholesale sales;
- FERC Account 501—Fuel, steam generation; excluding certain costs for fuel handling, startup fuel/gas, diesel fuel, residual disposal, and other costs not modeled in GRID;
- FERC Account 503—Steam from other sources;
- FERC Account 547—Fuel, other generation;
- FERC Account 555—Purchased power, excluding BPA residential exchange credit pass-through if available;
- FERC Account 565—Transmission of electricity by others.

D. Dead Band

14 The Parties agree that the PCAM will include a dead band, measured on a Washington basis, of \$4 million. The Company shall not defer annual NPC Variances within the \$4 million dead band, positive or negative, and these amounts will not be charged or credited to customers through the PCAM.

E. Sharing Bands

1. Annual NPC Variances Between \$4 Million and \$10 Million

15 The Parties agree that the PCAM will have sharing bands measured on a Washington basis. The Parties agree that annual NPC Variances greater than \$4 million and up to and including \$10 million, positive or negative, will be shared between Pacific Power and its customers. For positive annual NPC Variances (*i.e.*, NPC greater than amounts reflected in rates) greater than \$4 million and up to and including \$10 million, the variance will be allocated as follows:

- Customers: 50 percent
- Company: 50 percent

For negative annual NPC Variances (*i.e.*, NPC less than amounts reflected in rates) greater than \$4 million and up to and including \$10 million, the variance will be allocated as follows:

- Customers: 75 percent
- Company: 25 percent

2. Annual NPC Variances of More than \$10 Million

16 The Parties agree that any annual NPC Variances greater than \$10 million, positive or negative, will be symmetrically shared as follows:

- Customers: 90 percent
- Company: 10 percent

F. Carrying Charge

17 The Parties agree that a carrying charge will apply to the deferred NPC Variances in the PCAM balancing account. The PCAM balancing account will track the monthly NPC Variances and will include carrying charges calculated using the current FERC interest rate (updated quarterly) and the half-month method illustrated below:

$$\begin{aligned} \text{Monthly Carrying Charge} \\ = [\text{Beg Balance} + (\text{Monthly NPC Variance} \times 1/2)] \times \text{FERC}/12 \end{aligned}$$

G. Amortization Trigger

18 The Parties agree that the trigger for amortization of the PCAM balancing account shall be \$17 million, positive or negative. If the balancing account is greater than \$17 million as of December 31 in any given year, it will be collected or credited in rates over a 12-month period. After amortization is triggered, the Company will collect or credit the accumulated PCAM balance on Schedule 97, Power Cost Adjustment Mechanism, as a part of its annual PCAM filing. Schedule 97 is included as Appendix B to this Stipulation. The balance will be allocated to rate schedules consistent with the allocation of Base NPC from the Company's most recent general rate case filing.

H. Annual PCAM Filing

19 The Parties agree that the Company will file an annual report on or before June 1 of each year for the Commission to confirm and approve the deferred PCAM balances for the previous calendar year. The review period for the filing will be 90 days ending August 30 of each year. The Commission's standard discovery rules will apply, except that the response time for data requests will be reduced to seven (7) business days on a

best efforts basis, allowing Staff and interested parties an opportunity to review the Company's deferred PCAM balances under the expedited review period.

I. Stub Year PCAM Filing

20 The Company will make its first annual PCAM filing on June 1, 2016, covering the first partial year of the PCAM (Stub Year) beginning April 1, 2015, which aligns with the beginning of the rate-effective period in Phase I of this case,⁷ and ending on December 31, 2015. The Parties agree that, for the Stub Year PCAM filing, certain PCAM elements will be adjusted to reflect the shorter time period (nine of twelve months). The dead band for the Stub Year will be plus or minus \$3 million, the asymmetrical sharing band will be applied to any Stub Year variance in the range of between plus or minus \$3 million and plus or minus \$7.5 million, and the symmetrical sharing band will be applied to any Stub Year variance greater than \$7.5 million. The carrying charge, filing date, amortization trigger, and review period will not be altered for the Stub Year, and will remain as described in the Stipulation.

J. General Provisions

21 Public Interest. The Parties agree that this Stipulation is in the public interest and will produce rates for the Company that are fair, just, reasonable, and sufficient.

22 Binding on Parties. The Parties agree to support this Stipulation as a settlement of the contested issues between them in Phase II of the 2014 general rate case proceeding, Docket UE-140762. The Parties understand that this Stipulation is not binding on the

⁷ Rates from Phase I of the general rate case became effective March 31, 2015. For administrative ease, the Parties agree that the PCAM should become effective April 1, 2015.

Commission or any Party unless the Commission approves it.⁸ If approved by the Commission, the Parties shall take all actions necessary, as appropriate, to carry out this Stipulation.

23 Integrated Agreement. The Parties agree that this Stipulation represents the entire agreement of the Parties, and supersedes all prior oral and written agreements on the issues addressed. The Parties have negotiated this Stipulation as an integrated document to be effective upon execution and Commission approval. Accordingly, the Parties recommend that the Commission adopt this Stipulation in its entirety.

24 Procedure for Supporting Stipulation. The Parties shall cooperate in submitting this Stipulation promptly to the Commission for acceptance, and cooperate in supporting this Stipulation throughout the Commission's consideration of this Stipulation. In particular, each Party shall cooperate in developing a narrative and presenting supporting witnesses, and/or presenting supporting testimony, as described in WAC 480-07-740(2)(a) and (b). If necessary, each Party will provide a witness to sponsor and support this Stipulation at a Commission hearing. If the Commission decides to hold such a hearing, each Party will recommend that the Commission issue an order adopting the Stipulation. No Party to this Stipulation or their agents, employees, consultants, or attorneys will engage in advocacy contrary to the Commission's adoption of this Stipulation.

25 Reservation of Rights. If the Commission rejects this Stipulation, WAC 480-07-750(2)(a) shall apply. If the Commission accepts the Stipulation with new conditions, or

⁸ The exception is that prior to the Commission's approval of the Stipulation, the Parties agree to support the Stipulation before the Commission.

approves the resolution of this proceeding through provisions that are different than recommended in this Stipulation, each Party reserves the right, upon written notice to the Commission and all parties within seven (7) days of the Commission's order, to state its rejection of the conditions. If any Party rejects a proposed new condition, the Parties will: (1) request the prompt reconvening of a prehearing conference for purposes of establishing a procedural schedule for the completion of the case pursuant to WAC 480-07-750(2)(a); and (2) cooperate in the development of a schedule that concludes the proceeding on the earliest possible date, taking into account the needs of the Parties in participating in hearings and preparing briefs. If the Commission determines that it will reject or modify the provisions of the Stipulation, the Parties request that the Commission issue an order as soon as possible so that the Parties may promptly invoke the provisions of WAC 480-07-750.

26 Advance Review of News Releases. The Parties agree: (1) to provide each other the right to review in advance of publication any and all announcements or news releases that any Party intends to make about the Stipulation (with the right of review to include a reasonable opportunity to request changes to the text of such announcements), and (2) to include in any news release or announcement a statement that the Staff's recommendation to approve the settlement is not binding on the Commission itself.

27 No Precedent. The Parties have entered into the Stipulation to avoid further expense, inconvenience, uncertainty, and delay of continuing litigation. The Parties recognize that the Stipulation represents a compromise of the Parties' positions. As such, conduct, statements, and documents disclosed during negotiations of the Stipulation shall not be admissible as evidence in this or any other proceeding, except in any proceeding to

enforce the terms of the Stipulation or any Commission order fully adopting those terms. By executing this Stipulation, no Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

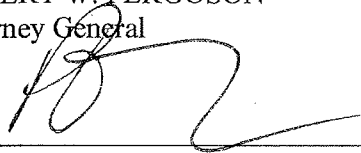
28 Execution. The Parties may execute the Stipulation in counterparts and as executed shall constitute one agreement. Copies sent by facsimile or electronic mail are as effective as original documents.

29 Effective date. The effective date of the Stipulation is the date of the Commission order approving it.

This STIPULATION is entered into by each Party as of the date entered below.

DATED: May ____, 2015.

ROBERT W. FERGUSON
Attorney General



PATRICK J. OSHIE
Assistant Attorney General
Counsel for the Utilities and
Transportation Commission Staff

Dated: _____, 2015

ROBERT W. FERGUSON
Attorney General

SIMON FFITCH
Senior Assistant Attorney General
Counsel for Public Counsel Unit

Dated: _____, 2015

PACIFIC POWER & LIGHT COMPANY

R. BRYCE DALLEY
Vice President, Regulation
Pacific Power

Dated: _____, 2015

DAVISON VAN CLEVE, P.C.

JESSE E. COWELL
Counsel for Boise White Paper, L.L.C.

Dated: _____, 2015

UE 140762 - SETTLEMENT STIPULATION

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R. BRYCE DALLEY
Vice President, Regulation
Pacific Power

Dated: _____, 2015

Dated: May 8, 2015

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Vice President, Regulation
Pacific Power

Dated: _____, 2015

Dated: _____, 2015

ROBERT W. FERGUSON
Attorney General

DAVISON VAN CLEVE, P.C.

RF/W

SIMON FITCH
Senior Assistant Attorney General
Counsel for Public Counsel Unit

JESSE E. COWELL
Counsel for Boise White Paper, L.L.C.

Dated: May 8, 2015

Dated: _____, 2015

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Counsel for Boise White Paper, L.L.C.

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UE 140762 - SETTLEMENT STIPULATION

**BEFORE THE WASHINGTON UTILITIES
AND TRANSPORTATION COMMISSION**

UE-140762

Appendix A

to

Settlement Stipulation

PCAM Example Calculations, 2012 and 2013

May 8, 2015

UE-140762 Settlement Stipulation
Appendix A/2

Company Proposed PCAM
NPC consists of accounts included in typical GRID study

Line	Line ID	UE-100749	UE-111190	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Total
Base NPC in Rates																
1	Total Annual NPC in Rates	121,201,465	123,969,085													
2	Retail Sales @ Meter in Rates	4,074,980	4,023,695													
3	NPC \$/MWh In Rates	29.74	30.81													
Deferred NPC Calculation																
4	Base NPC in Rates	29.74	29.74	29.74	29.74	29.74	29.74	29.74	29.74	30.81	30.81	30.81	30.81	30.81	30.81	30.81
5	Actual WA Sales (MMWh)	399,842	341,144	315,191	273,664	288,148	283,266	288,148	288,148	363,266	366,974	301,193	342,188	335,068	402,571	
6	Actual Collections of Base NPC	11,892,433	10,146,601	9,374,683	8,139,436	8,703,601	8,139,436	8,703,601	8,703,601	11,182,745	11,922,583	9,279,873	10,842,737	10,323,366	12,403,127	\$122,798,852
7	Washington Allocated Actual NPC	10,497,463	9,503,179	9,278,223	8,360,156	8,574,668	8,360,156	8,574,668	8,275,849	11,476,376	12,560,124	11,267,839	11,377,810	10,316,160	11,171,496	\$122,659,343
8	Monthly NPC Variance	(1,394,970)	(643,423)	(96,460)	(220,620)	(128,933)	(220,620)	(128,933)	(601,915)	283,630	637,541	1,988,164	835,073	(7,207)	(1,231,631)	
9	Cumulative Variance	(1,394,970)	(2,038,392)	(2,134,852)	(1,914,232)	(2,043,165)	(2,043,165)	(2,043,165)	(2,645,080)	(2,361,450)	(1,723,909)	264,255	1,099,328	1,092,122	(138,509)	(139,509)
Deadband																
10	Deadband +/- \$4 Million															\$ 4,000,000
11	NPC Variance Outside of Deadband															
12	Cumulative NPC Variance Outside of Deadband															
Asymmetrical Sharing Band																
13	NPC Variance between \$4 million and \$10 million, 50/50 Sharing															
14	NPC Variance greater than \$10 million, 90/10 Sharing															
15	NPC Variance between (\$4 million) and (\$10 million), 65/35 Sharing															
16	NPC Variance less than (\$10million), 90/10 Sharing															
17	Total Deferral After Sharing															
18	Current FERC Interest Rate	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	
19	Beginning Balance															
20	Deferral After Sharing															
21	Carrying Charge															
22	Ending Balance															

Line 17
[Line 19 + (Line 20 x
50%)] x Line 18/12

**BEFORE THE WASHINGTON UTILITIES
AND TRANSPORTATION COMMISSION**

UE-140762

Appendix B

to

Settlement Stipulation

Schedule 97, Power Cost Adjustment Mechanism

May 8, 2015

PACIFIC POWER & LIGHT COMPANY

WN U-75

(N)

Original Sheet No. 97.1

**Schedule 97
POWER COST ADJUSTMENT MECHANISM ADJUSTMENT**

APPLICABLE:

All bills calculated in accordance with schedules contained in presently effective Tariff WN. No. U-75 shall have added an amount equal to the product of all kilowatt-hours of use multiplied by the following cents per kilowatt-hour.

Schedule 15	0.000 cents
Schedule 16	0.000 cents
Schedule 17	0.000 cents
Schedule 18	0.000 cents
Schedule 24	0.000 cents
Schedule 33	0.000 cents
Schedule 36	0.000 cents
Schedule 40	0.000 cents
Schedule 47T	0.000 cents
Schedule 48T	0.000 cents
Schedule 51	0.000 cents
Schedule 52	0.000 cents
Schedule 53	0.000 cents
Schedule 54	0.000 cents
Schedule 57	0.000 cents

Issued:
Advice No. UE-

Effective:

Issued by Pacific Power & Light Company

By: _____ R. Bryce Dalley

Title: Vice President, Regulation

(N)