

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of)	DOCKET UE-141368
)	
)	
PUGET SOUND ENERGY,)	ORDER 03
)	
To Update Methodology Used to)	FINAL ORDER APPROVING AND
Allocate Electric Cost of Service and)	ADOPTING SETTLEMENT
For Electric Rate Design Purposes)	AGREEMENT
)	
.....)	

1 **PROCEEDING:** On July 1, 2014, Puget Sound Energy (PSE or Company) filed with the Washington Utilities and Transportation Commission (Commission) a petition to update methodologies used to allocate electric cost of service and for electric rate design purposes. PSE had agreed to initiate this docket if the collaborative established in Dockets UE-130617 *et al.*, failed to reach consensus on these issues.

2 **SUMMARY:** The Commission approves and adopts the settlement stipulation (Settlement) entered into by PSE, the Commission’s regulatory staff (Staff),¹ the Public Counsel Division of the Washington State Attorney General’s Office (Public Counsel), the Industrial Customers of Northwest Utilities (ICNU), the Kroger Company (Kroger), Wal-Mart Stores, Inc. (Wal-Mart), the Federal Executive Agencies (the FEA), and The Energy Project (collectively, Settling Parties).²

3 **PARTY REPRESENTATIVES:** Sheree Strom Carson and Donna L. Barnett, Perkins Coie LLP, Bellevue, Washington, represent PSE. Simon J. ffitich, Senior

¹ In formal proceedings, such as this, the Commission’s regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners’ policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

² The NW Energy Coalition (NWECC) is not a party to the Settlement but does not oppose it.

Assistant Attorney General, Seattle, Washington, represents Public Counsel. Sally Brown, Senior Assistant Attorney General, Olympia, represents Staff.

4 Jesse E. Cowell, Davison Van Cleve, PC, Portland, Oregon, represents ICNU. Kurt J. Boehm and Jody Kyler Cohn, Boehm, Kurtz & Lowry, Cincinnati, Ohio, represent Kroger. Samuel L. Roberts, Hutchinson, Cox, Coons, Orr & Sherlock, Eugene, Oregon, represents Wal-Mart. Rita M. Liotta, Associate Counsel, Department of the Navy, San Francisco, California, represents the FEA. Ronald Roseman, attorney, Seattle, Washington, represents The Energy Project. Amanda W. Goodin, Earthjustice, Seattle, Washington, represents NWEA.

MEMORANDUM

5 **BACKGROUND.** On October 23, 2013, the Commission approved and adopted a settlement stipulation in Dockets UE-130583, UE-130617, UE-131099, and UE-131230, under which the parties agreed to initiate a collaborative process to address issues surrounding the power cost adjustment and power cost only rate case, including electric cost of service, rate spread, and rate design.³ If the parties reached agreement in the collaborative, the terms of that agreement would be implemented in PSE's next power cost only rate case.⁴ If the parties did not reach consensus, PSE agreed to initiate a docket no later than July 1, 2014, to address issues related to cost of service, rate spread, and rate design.⁵

6 The parties to the collaborative did not reach agreement, and on July 1, 2014, PSE filed testimony and exhibits "proposing to update the inputs and assumptions used to implement its 'peak credit' methodology for allocating electric production and

³ *In the Matter of the Petition of Puget Sound Energy for an Accounting Order Authorizing Accounting Treatment Related to Payments for Major Maintenance Activities*, Docket UE-130583, WUTC, *Complainant, v. Puget Sound Energy, Respondent*, Docket UE-130617, *In the Matter of the Petition of Puget Sound Energy for an Accounting Order Authorizing Accounting 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, and *In the Matter of the Application of Puget Sound Energy 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, ¶ 26 (September 13, 2013).

⁴ *Id.*

⁵ *Id.*

transmission costs.”⁶ The Commission convened a prehearing conference on August 18, 2014, and scheduled an evidentiary hearing for December 4, 2014.

- 7 On October 21, 2014, the Settling Parties filed the Settlement, attached to this Order as Appendix A and incorporated by reference in this Order.⁷ On November 4, 2014, they filed supporting narratives and testimony. The Settlement addresses three broad issues: cost of service and allocation, rate spread and rate design, and Schedule 40.

SETTLEMENT

I. Cost of Service and Allocation.

- 8 The Settling Parties did not agree on a specific cost of service methodology for PSE to use on a long-term, going forward basis. Instead, they commit to participate in a generic proceeding, initiated or allowed by the Commission, to address cost of service allocation methodologies for all system costs across all three electric investor-owned utilities.⁸ The Settling Parties intend for that proceeding to allow PSE and all interested interveners “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 [S]ettlement.”⁹

- 9 In terms of allocation of demand-related production and transmission costs, the Settling Parties propose PSE use a four coincident peak (4-CP) allocator that would use just four hours, one hour of the highest coincidental peak from each of the four winter heating months.¹⁰ The Settlement only binds the Settling Parties to support the use of the 4-CP methodology in PSE’s next general rate case, and only if the generic proceeding, as discussed above, is not concluded before the end of the next rate case.

⁶ *In the Matter of the Petition of Puget Sound Energy to Update Methodologies Used to Allocate Electric Cost of Service and For Electric Design Purposes*, Petition, ¶ 4.

⁷ The Settling Parties have requested admission of all testimony and exhibits filed in this docket. With no opposition to this request, the Commission will admit the testimony and exhibits into the evidentiary record.

⁸ Settlement, ¶¶ 11-14.

⁹ *Id.*, ¶ 14. The four winter heating months are November, December, January, and February.

¹⁰ *Id.*, ¶ 11.

10 The Company states that the previously-used 75 hour CP allocator was predicated on the number of hours its system experienced temperatures below 23 degrees.¹¹ The data for years 2011, 2012, and 2013 shows that less than 25 percent of the 75 highest hourly loads in each of these years occurred during the 75 coolest hours.¹² PSE argues that, "...hourly temperature alone is a poor predictor of hourly load."¹³ The Company asserts that the 4-CP allocator is closer to the single-hour annual peak demand that is the cause of the resource need and is also the method used by the Federal Energy Regulatory Commission.¹⁴ PSE prefers a single-hour peak from a single year, arguing that it is, theoretically, a more pure representation of cost causation. The Company accepts the use of the 4-CP allocator for settlement purposes because the 4-CP allocator produces less year-to-year variation.¹⁵ Staff states that it would prefer no changes to PSE's cost allocation methodology. Like PSE, Staff accepts the limited use of a 4-CP allocator for settlement purposes, citing the Company's analysis showing that the change will have a minor effect on customer rates.¹⁶

11 The Settling Parties also propose to update certain underlying assumptions and data used in the "peak credit" analyses including:

- Capital costs, fixed and variable operations and maintenance costs, and the heat rates of proxy generating resources, consistent with the assumptions in the Company's 2013 Integrated Resource Plan (IRP);¹⁷
- Natural gas price forecasts consistent with the most recently available projections, consistent with PSE's 2015 IRP;¹⁸ and carbon cost assumptions

¹¹ Piliaris, Exh. No. JAP-1T, at 12:16-13:4. ICNU also cites to PSE's direct testimony for its support of the 4-CP allocator. Joint Testimony, at 21:17-20.

¹² *Id.*, at 13:5-13.

¹³ *Id.*

¹⁴ *Id.*, at 14:5-15:8.

¹⁵ *Id.*, at 14:14-15:2, and Settlement, ¶ 11.

¹⁶ Joint Testimony, at 15:1-7 (Juliana Williams, on behalf of Staff, cites to Piliaris, Exh. No. JAP-5.).

¹⁷ Settlement, ¶ 9.

¹⁸ *Id.*

to reflect the equally weighted average of the high, medium, and low cost projections from its 2013 IRP.¹⁹

- 12 The Settlement reduces the capacity factor for proxy base load generator from 97 percent to 80 percent.²⁰ In PSE's 2011 general rate case, the Company used a 97 percent capacity factor, and in PSE's 2014 power cost only case, the Company used an 84 percent capacity factor for base load resources.²¹ PSE testifies that base load resources have historically operated in the 70-80 percent capacity factor range, with recent capacity as high as 88 percent.²² The Settling Parties do not quantify the impact of this change.
- 13 The Settling Parties agree to use a 7.77 percent rate of return, while they "acknowledge disagreement upon the appropriate return on equity component of cost of capital to be used, consistent with [the] remand proceedings now before the Commission in Dockets UE-130137, UG-130138, UE-121697, and UG-121705."²³ PSE agrees to conform to the Commission's decision in the above-referenced dockets in terms of whether an update to the cost of capital is required.²⁴

II. Rate spread and rate design.

- 14 The Settling Parties propose the creation of third rate tier for PSE's residential customer class.²⁵ The third tier would apply to customers using 1801 kilowatt-hours (kWh) and above per month.²⁶ Based on Staff's analysis, approximately 90 percent of residential customers and approximately 87 percent of low-income customers would be unaffected by the creation of a third block starting at 1801 kWh.²⁷ The Energy Project agrees, stating that the start of the third tier is high enough to exclude

¹⁹ *Id.*

²⁰ Piliaris, Exh. No. JAP-1T, at 10:14-11:2.

²¹ *Id.*, at 10:14-18 and 11:14-16.

²² *Id.*, at 11:13-18.

²³ Settlement, ¶ 9.

²⁴ *Id.*

²⁵ *Id.*, ¶ 15.

²⁶ *Id.*

²⁷ Joint Testimony, at 15:20-23. Also see Williams, Exhibit No. JMW-1T.

a sufficient number of low-income customers.²⁸ The actual rate for the third tier is not specified in the Settlement. PSE will propose a specific inverted rate for the third tier in its direct testimony in its next rate case.²⁹

*III. Schedule 40*³⁰

15 The Settlement commits the Company to use a demand study for Schedule 40 customers that is no older than five years and to present the results of that updated demand study for the cost of service study in its initial filing in its next general rate case. PSE will continue to update distribution cost studies for each Schedule 40 customer in future rate cases.³¹

DISCUSSION/DECISION

16 The Settling Parties have presented us with a full Settlement that would either resolve or defer all contested issues within this docket. In its evaluation, the Commission must “determine whether a proposed settlement meets all pertinent legal and policy standards.”³² Settlements may be approved “when doing so is lawful, when the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the [C]ommission.”³³

17 The Settling Parties agree that PSE will continue to use a “peak credit” classification methodology in its electric demand-related production and transmission cost allocation, though the Company will update certain underlying assumptions and data. We find this reasonable considering the last update of this information was in PSE’s 2011 general rate case. The Settling Parties proposed to use the 4-CP allocator for

²⁸ *Id.*, at 23:16-23.

²⁹ Settlement, ¶ 15. Unlike the other changes in the Settlement, the third tiered rate will not be applied to filings made between the effective date of this Order and the end of the next general rate case.

³⁰ Schedule 40 is composed of Large Demand General Service customers whose usage is over 3 average megawatts.

³¹ *Id.*, ¶ 17.

³² WAC 480-07-740.

³³ WAC 480-07-750(1).

demand-related production and transmission costs only in PSE's next general rate case, and emphasized the provisional nature of this agreement. We accept the short-term use of the 4-CP allocator and acknowledge the expectation that this subject will be explored more thoroughly in the near future.

18 As is typically the case with Settlements, the terms of the document before us are not perfect. Yet, on an interim basis, the terms are adequate to satisfy the public interest. We find that the Settlement terms are supported by the available evidence in the record. We approve and adopt it as a full resolution of the issues presented.

FINDINGS OF FACT

19 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the parties and the reasons therefore, the Commission now makes and enters the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

20 (1) The Washington Utilities and Transportation Commission is an agency of the state of Washington, vested by statute with authority to regulate rates, rules, regulations, practices, and accounts of public service companies, including electrical companies.

21 (2) Puget Sound Energy is a "public service company" and an "electrical company" as those terms are defined in RCW 80.04.010 and used in Title 80 RCW. PSE is engaged in Washington state in the business of supplying utility services and commodities to the public for compensation.

22 (3) On October 23, 2013, the Commission approved and adopted a settlement stipulation in the consolidated Dockets UE-130583, UE-130617, UE-131099, and UE-131230, under which the parties agreed to initiate a collaborative process to address issues surrounding the power cost adjustment and power cost only rate case, including electric cost of service, rate spread, and rate design.

23 (4) The parties did not reach consensus in the collaborative, and PSE initiated a proceeding on July 1, 2014, to address issues related to cost of service, rate spread, and rate design.

- 24 (5) On October 21, 2014, PSE, the Commission’s regulatory staff (Staff), the Public Counsel Division of the Washington State Attorney General’s Office (Public Counsel), the Industrial Customers of Northwest Utilities (ICNU), the Kroger Company, Wal-Mart Stores, Inc., the Federal Executive Agencies (the FEA), and The Energy Project filed a settlement stipulation (Settlement), attached to this Order as Appendix A and incorporated by reference. The NW Energy Coalition did not join the Settlement but does not oppose it.
- 25 (6) The Settlement addresses three broad issues: cost of service and allocation, rate spread and rate design, and Schedule 40.

CONCLUSIONS OF LAW

- 26 Having discussed above all matters material to this decision, and having stated detailed findings, conclusions, and the reasons therefore, the Commission now makes the following summary conclusions of law, incorporating by reference pertinent portions of the preceding detailed conclusions:
- 27 (1) The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of, and parties to, these proceedings.
- 28 (2) Pursuant to WAC 480-07-750, the Commission will approve settlements when doing so is lawful, when the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the Commission.
- 29 (3) The Settlement is lawful, its terms are supported by an appropriate record, and the result is consistent with the public interest in light of all the information available to the Commission.
- 30 (4) The Commission should approve and adopt the Settlement, attached to this Order as Appendix A and incorporated by reference in this Order, as a reasonable resolution of the issues presented.
- 31 (5) The Commission should retain jurisdiction to effectuate the terms of this Order.

ORDER

THE COMMISSION ORDERS:

- 32 (1) The Settlement Stipulation filed by PSE, Commission Staff, Public Counsel, ICNU, the Kroger Company, Wal-Mart Stores, Inc., the Federal Executive Agencies, and The Energy Project, and attached to this Order as Appendix A and incorporated by reference, is approved and adopted.
- 33 (2) The Commission retains jurisdiction over the subject matters and parties to this proceeding to effectuate the terms of this Order.

Dated at Olympia, Washington, and effective January 29, 2015.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

PHILIP B. JONES, Commissioner

ANN E. RENDAHL, Commissioner

NOTICE TO PARTIES: This is a Commission Final Order. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-07-870.

APPENDIX A
(Settlement Stipulation)