

Attachment B

Draft Advice Letter

[Date]

Ms. Carole J. Washburn, Executive Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive S.W.
P.O. Box 47250
Olympia, WA 98504-7250

Re: Advice No. _____
Amendment to Electric Tariff and Special Contracts

Dear Ms. Washburn:

_____ hereby files the attached amendment to existing Schedule 48 “Optional Large Power Sales Rate” and PSE/Georgia Pacific Special Contract for an Optional Rate Cap Mechanism pursuant to the Commission’s Sixth Supplemental Order in Docket Nos. UE-001952 and UE-001959 (Consolidated). (hereafter "Commission Order")

[Service Agreements and cites to Tariff Sheets]

Summary of Optional Rate Cap Mechanism

Pursuant to the Commission’s Order referenced above, _____ have developed the Optional Rate Cap Mechanism designed to provide some measure of stability for the energy component under Schedule 48 rates as well as the PSE/Georgia Pacific Special Contract. The Optional Rate Cap Mechanism is meant to address retail energy rates that are priced based on Mid-Columbia Index pricing. That index reflects Western wholesale power markets that are volatile and priced exceedingly high, and thus results in rates that are not fair, just, and reasonable under existing provisions of Schedule 48 and the Special Contract.

The amendment implements a “soft” rate cap mechanism, in which the company has the ability to bill customers at rates above the initial rate cap level upon a showing that its costs have increased to such a level during the rate cap period. In no instances will the rate charged be greater than the Mid-Columbia Index applicable during the rate cap period. The reason for this limitation is to recognize PSE's opportunity to purchase power at the Mid-C if those purchases are less than other alternatives. The Optional Rate Cap Mechanism is only effective during periods when the Mid-Columbia Index is above the initial rate cap level of \$125/MWh. In addition, the Optional Rate Cap Mechanism

sets a minimum bill equal to the delivered price of power under Schedule 49 or other applicable tariffs.

Finally, the Optional Rate Cap Mechanism would be in effect until all Schedule 48 customers have chosen to move to an approved Schedule 448 “Power Supplier Choice” tariff (at which time the existing Schedule 48 would be closed) or the existing Schedule 48 is replaced with alternative tariffs the result of Commission review of Schedule 48 in Docket No. UE-010046.

Implementation Issues

Pursuant to Commission Order, the Optional Rate Cap Mechanism is made available to Schedule 48 and Special Contract customers as an amendment under the “Optional Price Stability” clause of the tariff.

The Optional Rate Cap Mechanism is applied on a daily basis in the same manner as the existing Schedule 48 is administered. The mechanism works as follows:

1. During a daily billing period (segregated into off-peak and on-peak hours) in which the Mid-C Index is at or below \$125 per MWh, the energy billing rate is equal to the applicable Mid-C Index, subject to item 4 below.
2. During a daily billing period (segregated into off-peak and on-peak hours) in which the Mid-C Index is above \$125 per MWh, the energy billing rate is the greater of a) \$125 per MWh or b) PSE’s Demonstrable Costs plus a Margin equal to \$25 per MWh; subject to a maximum energy billing rate equal to the Mid-C Index.
3. PSE may bill over the initial cap level (\$125/MWh) only upon a showing that its costs plus margin, if any, warrants an increase above the initial cap level, subject to a maximum of the Mid-C Index. It is the burden of the company to demonstrate such costs, utilizing the methodology described below.
4. A floor is established in which the delivered power, on a monthly basis, under the Optional Rate Cap Mechanism shall be compared to the delivered cost of power, on a monthly basis, under Schedule 49 or other applicable tariffs. The customer’s actual bill will be based on the greater of those two amounts.

PSE’s Demonstrable Costs are intended to represent a reasonable estimate of the incremental energy cost to serve Schedule 48 and Special Contract customers, and is to be determined based on the following methodology for purposes of this Optional Rate Cap Mechanism only:

- PSE shall create and record a daily table showing System Load, Owned Thermal-Generation Resources, Owned and Contracted Hydro-Generation Resources, Existing Contracts, and Secondary Transactions broken into sales and purchases. The table shall indicate resource availability in aMWs for the respective period and the incremental cost of operation during the respective period. PSE may, upon Commission review, simplify the reporting of those resources relevant to the determination of appropriate incremental costs.
- The secondary sales and purchase amounts should first be netted against each other. This will determine whether the company is in surplus or deficit resource condition for purposes of estimating demonstrable costs under the Optional Rate Cap Mechanism. This also removes the effect of market transactions that are made independent of serving system load. If sales are greater than purchases, the company is assumed to be in surplus for that period. If purchases exceed sales, the company is assumed to be deficit. Under the Optional Rate Cap mechanism, hedging or option costs are not included in the cost estimating methodology. The mechanism also assumes that only existing long-term wholesale contracts (or those extended under an existing contract option) are to be included in system loads or costs. New long-term wholesale contracts, to the extent they may occur, will be treated as “discretionary” short-term transactions for purposes of this Optional Rate Cap Mechanism only.
- If the company is surplus, the net surplus amount would be first applied to the highest cost resources during the period. This assumes that energy from these resources was used to serve the surplus sales. The Schedule 48 and Special Contract customer load would then be applied to remaining available resources in descending order of incremental cost starting with any remaining capacity associated with the resources applied to the surplus sales. Once this resource “matching” is accomplished, a weighted average cost is determined as the estimate of the cost to serve these customers or PSE’s “demonstrable costs”.
- If the company is deficit, the net deficit amount would be first assumed to be met by secondary purchases during the period. The Schedule 48 and Special Contract customer load would then be applied to the net market purchases and then the remaining available resources in descending order of incremental cost. Once this resource “matching” is accomplished, a weighted average cost is determined as the estimate of the cost to serve these customers or PSE’s “demonstrable costs”.
- The weighted average cost under either scenario would then be used to determine any potential adjustment to the initial rate cap level based on the estimate of PSE’s actual costs during the period, and if appropriate under the terms and conditions of the Optional Rate Cap Mechanism. Any adjustment

would be applied to the daily billing based on off-peak and on-peak hours. Based on differences in the off-peak and on-peak indices, the Optional Rate Cap Mechanism (and any adjustments due to PSE's actual costs) may apply during one portion of the day and not the other.

- PSE may chose, with the Commission's approval, to adopt appropriate simplifications to the "demonstrable cost" calculation such as limiting the required reporting of resource availability and costs to those resources deemed "incremental" under likely load and resource scenarios. In addition, PSE may choose to adopt a "typical load block" to represent the approximate daily load of the Schedule 48 and Special Contract customers, rather than use actual metered loads.

Eligible Participants

Pursuant to Commission Order the Optional Rate Cap Mechanism is available to Schedule 48 customers (who can demonstrate that they have not previously obtained a hedge during the applicable time of this amendment) and the PSE/Georgia Pacific Special Contract.

Rate and Rate Effects

[To be completed]

Conclusions

The tariff and special contract amendments attached reflect issue dates of _____, and effective dates of _____. PSE will contact each of the existing customers known to be eligible for service under these amended tariffs and special contract, and is forwarding those customers copies of this filing in accordance with notification procedures established in WAC 480-80-120(5). Please contact _____ at _____ for additional information regarding this new optional service. If you have any other questions please contact me at _____.

Sincerely,