

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**Docket Nos. UE-121697 and UG-121705  
Puget Sound Energy, Inc. and NW Energy Coalition  
Joint Petition for Approval of a Decoupling Mechanism**

**ICNU DATA REQUEST NO. 2.1**

**ICNU DATA REQUEST NO. 2.1:**

Please provide copies of any and all e-mails, documents, workpapers, notes, correspondence, memoranda, papers, proposals or other communications in written or electronic form regarding discussions between Washington Utilities and Transportation Commission (“WUTC”) Staff and PSE and/or NWECC concerning settlement or a resolution of the TransAlta Centralia power purchase agreement docket (Docket UE-121373), the above captioned decoupling docket, as well as PSE’s expedited rate filing (“ERF”) docket (UE-130137). This refers to the “global resolution of the five dockets” as set forth in Staff’s Motion for 30-Day Extension of Time, filed on February 1, 2013, in Docket UE-121373.

**Response:**

Puget Sound Energy, Inc. (“PSE”) objects to ICNU Data Request No. 2.1 as neither relevant nor reasonably calculated to lead to the discovery of admissible evidence. PSE further objects ICNU Data Request No. 2.1 to the extent it seeks information protected by the attorney-client privilege, work product doctrine, deliberative process, and Evidence Rule 408, which protects the confidentiality of settlement negotiations. Without waiving these objections and subject thereto PSE responds as follows:

PSE is the process of scheduling settlement conferences/technical conferences with other parties and will provide workpapers and proposals to ICNU and other parties as requested and needed as part of that process.

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**ICNU DATA REQUEST NO. 2.2**

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Please identify all PSE employees or individuals hired by PSE, Staff members, or representatives of any other parties known to PSE to have participated in discussions regarding a "global resolution" of the TransAlta Centralia power purchase agreement docket (Docket UE-121373), the above captioned decoupling docket, as well as PSE's expedited rate filing ("ERF") docket (UE-130137). Additionally, please specify the date, duration, and topics of these communications.

**Response:**

Puget Sound Energy, Inc. ("PSE") objects to ICNU Data Request No. 2.2 as neither relevant nor reasonably calculated to lead to the discovery of admissible evidence. PSE further objects to ICNU Data Request No. 2.2 to the extent it seeks information protected by the attorney-client privilege, the work product doctrine, the deliberative process privilege, and ER 408 regarding the confidentiality of settlements. Without waiving those objections and subject thereto, PSE responds as follows:

After PSE filed its Request for Reconsideration, employees of PSE met with Commission Staff and entered into a "broader discussion" including "proposals that might break the current pattern of almost continuous rate cases" as requested by the Commission in Dockets UE-111048 and UG-111049, and to consider as part of this proposal, possible global resolutions of several outstanding dockets and planned filings including the Expedited Rate Filing, Dockets UE-130137 and UG-130138, PSE's decoupling petition, and PSE's Petition For Reconsideration in the Centralia power purchase agreement docket, Docket UE-121373. Below is a listing of the dates of the meetings and the participants in the meetings:

1/24/13	Staff: M. Vasconi, T. Schooley, D. Reynolds, K. Elgin PSE: K. Johnson, R. Garratt, K. Barnard; J. Piliaris
1/25/13	Staff: M. Vasconi, T. Schooley, D. Reynolds, K. Elgin PSE: K. Johnson, R. Garratt, K. Barnard; J. Piliaris
1/28/13	Staff: M. Vasconi, T. Schooley, D. Reynolds, S. Brown PSE: K. Johnson, K. Barnard; J. Piliaris, Sheree Strom-Carson

2/6/13 Staff: M. Vasconi, T. Schooley, D. Reynolds, C. Mickelson  
PSE: K. Johnson, K. Barnard; J. Piliaris

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**First Supplemental Response:**

Puget Sound Energy, Inc. (“PSE”) renews its objection to ICNU Data Request No. 2.1 as neither relevant nor reasonably calculated to lead to the discovery of admissible evidence. PSE further renews its objection to ICNU Data Request No. 2.1 to the extent it seeks information protected by the attorney-client privilege, work product doctrine, deliberative process, and Evidence Rule 408, which protects the confidentiality of settlement negotiations. Without waiving these objections and subject thereto, PSE supplements its initial response to ICNU Data Request No. 2.1 as follows:

Attached as Attachment A to PSE's First Supplemental Response to ICNU Data Request No. 2.1, please find a summary of the global resolution of five dockets that Commission Staff and PSE are proposing.

PSE and Commission Staff are attempting to schedule settlement conferences/technical conferences with other parties and will provide additional support to ICNU and other stakeholders, as requested and needed, as part of that process.

**Attachment A to PSE's First Supplemental  
Response to ICNU Data Request No. 2.1**

### **Proposal to resolve five dockets**

Staff and PSE forward the following proposal to resolve the following dockets:

UE-121373, Centralia Coal Transition Power Purchase Agreement.

UE-121697/UG-121705, Petitions to establish decoupling mechanisms for electric and natural gas service.

UE-130137/UG-130138, Tariff filings to increase electric rates and gas rates on an expedited schedule.

Staff and PSE propose resolution of these dockets so that the settlement is finalized and filed with the Commission with sufficient time for tariffs to be in effect by May 1, 2013.

### **COAL TRANSITION POWER CONTRACT**

Docket UE-121373

PSE's Motion for Reconsideration requests three things, which must be addressed if PSE is to go forward with the Centralia Coal Transition PPA:

- 1) a statement that the underlying power purchase agreement (PPA) is prudent and that no further prudence review is necessary;
- 2) a formal plan to recover the costs of the PPA; and
- 3) a higher equity adder.

#### **PRUDENCE**

To the first point, PSE presents an amendment to its contract with TransAlta. This amendment states TransAlta's intent to maintain power production at the coal plant and to meet its obligations in its Memorandum of Agreement (MOA) with the State of Washington. However, if circumstances lead to a permanent cessation of generation at the coal plant, or to TransAlta's termination of the MOA, PSE will notify the Commission of this fact. PSE's notice will also state PSE's recommendation whether to continue the PPA, or to terminate the PPA. The Commission will rule on PSE's recommendation, and PSE will abide by the Commission's decision. PSE also requests that the equity adder continue in effect as long as the contract is in effect.

Staff believes that the amendment to the PPA contract, with revisions to clearly reflect that the Commission's decision will be final on the matters noted above, will address the issues raised by Staff. We concur with PSE that the order could be reworded to accept the PPA as prudent today and for the time it is in effect.

#### **RECOVERY**

To the second point, Order 04 leaves the recovery of PPA costs up to a future filing. PSE requests the recovery be addressed in this order to give PSE a higher degree of certainty on the recovery of this contract.

In review, the PPA contract begins in December 2014, at 180 Megawatts (MW) delivered around the clock at a price certain. In December 2015, the volumes increase to 280 MW and again in December 2016, to 380 MW where it stays for many years. The price escalates each year throughout the contract.

Staff proposed and PSE will accept a recovery plan for costs associated with the PPA, in conjunction with other terms of the proposal discussed in this document. Under the recovery plan, PSE would make compliance filings in late 2014, 2015, and 2016, to bring the cost of the contract into base rates and into the base costs of the power cost adjustment mechanism (PCA). Alternatively, these costs could also be brought into base rates through a power cost only rate case (PCORC) or through a combination of the compliance filing discussed above and a PCORC. The PPA costs will be offset by the market price of purchased power in the PCA. This net power cost increase will be effective December 1 in each of those years. When the volumes reach 380 MW, the annual price increases will flow through the PCA as any other power cost would. If the PCA mechanism is revised at some time in the future, the effect of the revision on the recovery of the PPA will be evaluated and revisions will be proposed if necessary.

PSE is willing to accept this plan in conjunction with other terms discussed in this document, and it will be proposed as a revision for Commission consideration in Order 04.

#### EQUITY ADDER

If the conditions above are approved by the Commission, and if the plan described below is approved, PSE will accept the Commission's determined level of the equity adder, which is \$1.49 per MWH.

### **EXPEDITED RATE FILINGS**

Dockets UE-130137 & UG-130138

#### BACKGROUND

In PSE's last general rate case (GRC), UE-111048, Staff suggested an "expedited rate filing" to reduce regulatory lag. This filing would be based on a utility's most recent commission-based results of operations (CBR). PSE took this suggestion and engaged Staff and other parties that typically intervene in rate cases in a series of discussions during 2012 on variations of this type of filing.

PSE listened to the comments in these discussions, and on February 1, 2013 filed an expedited rate filing with commission-basis results for year ended June 30, 2012 as a beginning point. PSE requests April 1 this year as the effective date.

### THE FILINGS (Electric and Gas)

The restated results in PSE's electric CBR show an achieved rate of return of six percent.<sup>1</sup> The production plant, power costs and revenues are eliminated from consideration in the PSE's restated results. Revenues and expenses related to property taxes are also removed leaving only "delivery costs" in the ERF. Therefore, only delivery revenues, expenses, and rate base are the subject of the expedited rate filing. A power cost only rate case will determine the rates for the electricity, and property taxes are to be recovered in separate tariff sheet per the recent PSE GRC Commission order.<sup>2</sup>

The rate of return on the electric delivery business is shown as about 5.5 percent, but revenues from May 2012 rate increase must be acknowledged. By re-pricing the test year sales at the rates in effect at May 2012, the delivery return increases to 7.04%. The target rate of return established in the last GRC is 7.8%. A revenue increase of about \$32 million is required to bring the achieved return of 7.04 percent up to the target rate of return of 7.8%.

For natural gas the same process shows a rate of return on restated results at June 30, 2012 of 7.39 percent. After removing Purchased Gas revenues and expenses, and removing property taxes the rate of return is 7.55 percent. Giving effect to the May 2012 rate increase brings the rate of return to 7.85 percent. A revenue decrease of about \$1.2 million is necessary to bring the ROR to the target of 7.8 percent.

The electric rate increase is spread to each schedule on the basis of each schedules' portion of the total delivery revenues. This method is similar to the "equal percentage of margin" method often used in natural gas. The overall rate increase is about 1.6% with various classes seeing increases from 0.6% to 2.9%. The residential increase is 1.7%. This equal percent of margin allocation would cause two customer classes, lighting and retail wheeling, to incur increases greater than three percent. However, PSE held the increase to those customers at 2.9 percent. The shortfall in revenues is about \$262,000 and it is NOT recaptured by other customer classes. All rate components, including basic charges, will increase in the electric expedited rate filing by an equal percentage.

Gas rate decrease is an equal percentage decrease to all schedules, about 0.3% of margin, or 0.1% of total rates. Only volumetric charges are affected by the ERF.

Revisions to the low-income programs will be proposed in the annual fall tariff filing.

Mr. Piliaris and Ms. Phelps more fully explain revenue spread and rate design in their testimony.

Staff supports the ERF and property tax tracker, however, staff has not completed its analysis of the specific revenue requirements for these two mechanisms. We expect to complete the analysis of these specific revenue requirements prior to commencement of settlement discussions.

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<sup>1</sup> Docket UE-130137, Exhibit No. \_\_\_\_ (KJB-3), at 2.

<sup>2</sup> Dockets UE-111048/UG-111049 (*consolidated*), Order 08, at 51, ¶143



**RATE PLAN and DECOUPLING**  
Dockets UE-121697 and UG-121705

**BACKGROUND**

PSE and Northwest Energy Coalition (NVEC) jointly filed decoupling plans for electric and gas operations on October 25, 2012. The proposal originated with the testimony of NVEC in PSE's 2011 general rate case. PSE opposed that proposal, but the Commission looked on it favorably.<sup>3</sup> However, the Commission did not impose a decoupling plan on the Company without the Company's consent. PSE and NVEC engaged in discussions to reach a mutually acceptable plan which was filed in October.

The fundamental points in the decoupling proposal are:

- a. Develop a revenue per customer (RPC) rate which forms the basis for calculating allowed revenues using actual number of customers.
- b. Develop a commensurate volumetric rate in cents per kilowatt-hour (KWH) which recovers the same total revenues over an annual period as the RPC times the number of customers.
- c. As actual KWH sales come in and as actual customers grow a variance occurs. This variance is deferred and built into future rate adjustments.
- d. Use a "K-factor" to inflate the RPC annually to address ongoing cost pressures. The KWH rate will also increase commensurately.

**RATE PLAN**

The earlier versions of decoupling plans based K-factor adjustments on measurements of conservation savings. The present version is not related to conservation achievement; instead, it is the simple application of a percentage increase to the RPC. This is essentially a rate plan. The current proposal has a three percent increase on delivery revenues for electricity, and 2.2 percent increase to delivery revenues for gas. (Delivery revenues are basically the margin revenues in gas.) As the three percent increase is applied to only delivery revenues, it results in about a one percent rate increase to overall revenues in electricity and about the same in natural gas. The percentages are not absolute and may incur adjustments as described below.

The first application of the K-factor is applied to the ERF delivery revenues. This brings the June 2012 results up to the present day. K-factor increase is applied to all rate schedules. From 2014 on the K-factor rate increase to the revenue per customer will occur on January 1 each year. The increase to rates will occur on May 1. This is more fully described in the decoupling section below.

These increases partially address attrition at PSE. One factor in support of the RPC and rate increases is that PSE has not achieved its rate of return in many years as evidenced by the

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<sup>3</sup> Dockets UE-111048/UG-111049 (*consolidated*), Order 08, at 166, ¶453

CBRs filed annually. Ms. Barnard more fully explains the rationale for the level of rate increases in her testimony.

PSE agrees to a stay out period. It will not file a general rate case before April 1, 2015, but must file one by April 1, 2016, unless otherwise agreed to by the parties to PSE's 2011 general rate case

Other rate increases are anticipated over the next few years. PSE will likely file a power-cost-only rate case in the spring this year with an effective date in the fall. Staff and PSE endorse a waiver of the requirement in paragraph 10 of the PCA Settlement that a general rate case must be filed within three months of the effective date of any rate increase resulting from a PCORC. PSE may file additional PCORCs during the general rate case stay out period. And as noted above, small rate changes (about one percent) are scheduled in the next few Decembers to bring the coal PPA into base rates.<sup>4</sup>

### DECOUPLING

The decoupling proposal is based on the ERF results. The revenue per customer for delivery revenues (RPC) is developed for two customer classes; one for residential customers, and another for all other customers.

The first K-factor increase is applied to the ERF RPC to establish the base RPC rate for decoupling in 2013. On January 1 of subsequent years the K-factor is applied for a new RPC in that calendar year. The allowed revenues for the year will be the RPC multiplied by the actual customers.

Using the same K-factor revenues as above, a rate per kilowatt-hour is determined which, with perfect foresight, will recover the same revenue as the RPC. While basic charge revenue is included in determining the total delivery revenue increases, the basic charges themselves will not increase due to K-factor increases. All K-factor revenues will be recovered through the volumetric rates.

The annual revenue per customer will be shaped by normal monthly loads. The shaped RPC times the actual monthly number of customers determines the allowed revenue for each calendar month.

Actual cash revenues will come in on the volumetric rate per KWH times the KWH sales each month.

By comparing the allowed revenue each month to the cash revenue in that month a difference is calculated. This difference is deferred monthly and accumulated at the end of the year. The deferrals for the two customer groups are kept separate. The annual deferral is netted against the K-factor volumetric rates for the next year's installment. Although the new RPC is

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<sup>4</sup> There are certain circumstances under which PSE could file a general rate case or seek interim rate relief, for example under conditions of force majeure. This general rate case stay out period is not intended to preclude other mechanisms, deferrals, trackers, riders, etc. that are currently authorized by the Commission or that may be authorized by the Commission. Staff and other parties maintain the right to evaluate the merits of any proposals and to present their opinions in the normal course of such filings.

scheduled for January 1 each year, a rate filing in about March of each year will show the new revenues necessary to collect the present years new RPC plus or minus the deferral of the prior year. This rate change will occur on May 1.

If the new overall rate increase exceeds three percent of total rates, the excess over three percent will not be passed through that year, but remain in the deferral account for collection in later years.

#### EXCESS EARNINGS PROTECTION

One final potential adjustment to the annual rate filing protects customers from the company overearning. PSE will file its annual commission basis report on April 1 each year.<sup>5</sup> If the CBR shows an achieved rate of return of 25 basis points over its target (authorized) rate of return, PSE will refund one-half the excess to customers. Given the present ROR of 7.8%, if PSE earns over 8.05% it will refund one-half that excess.

#### CONCLUSION

Staff and PSE see the proposal described above as meeting several objectives expressed by the Commission. The expedited rate filing and the annual K-factor increases reduce regulatory lag, and provide some relief from earnings attrition. However, the revenue increases will not be sufficient to cover all the cost pressures on PSE; therefore, PSE must manage its expenses to achieve its full target rate of return. The general rate case stay out period relieves all parties from the work load of annual general rate cases. The small predictable increases to rates give customers the ability to plan ahead yet are less than potential increases coming out of general rate cases.

#### NEXT STEPS

PSE and Staff look forward to working with Public Counsel and the industrial customers to explain the merits of the collective proposal and to negotiate a final settlement package. The input of Public Counsel, the Industrial Customers of Northwest Utilities, and the Northwest Industrial Gas Users is critical to the success of the program initially and over time.

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<sup>5</sup> PSE's commission basis report is due by April 30 per WAC 480-90/100-257.