

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-111048 and UG-111049
Puget Sound Energy, Inc.'s
2011 General Rate Case**

BENCH REQUEST NO. 010

“CONFIDENTIAL” Table of Contents

DR NO.	“CONFIDENTIAL” Material
010	Attachment A to PSE's Response to Bench Request No. 010 is CONFIDENTIAL per Protective Order in WUTC Docket Nos. UE-111048 / UG-111049.

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Please provide an example of the mechanics of the Renewable Energy Credits ("REC") Tracker that is proposed in the Multiparty Settlement proposed in this docket over the first two tracker rate periods.

Response:

Attached as Attachment A to Puget Sound Energy Inc.'s. ("PSE") Response to Bench Request No. 010, please find an example as requested. This example is based on the actual December 31, 2011 REC balance and the current forecast of committed REC sales which are forecasted to be fully sold by May 2012. PSE has no additional committed REC agreements after May 2012. Therefore, for purposes of the example provided in Attachment A, PSE has assumed a hypothetical commitment to sell RECs totaling \$24,000,000 over the period from August 2012 through July 2014. Actual details regarding generation, commitment amounts, and REC prices will be provided similar to the information provided for the committed sales through May 2012 in the example, each time a new Tracker layer is filed.

For illustrative purposes, PSE has assumed and presented the following in its example:

1. REC proceeds forecasted in a given rate period become established as a REC layer to be tracked separately over the three year period that it will be amortized and included in rates. It is the rate period in which the projected sales are included that determines their layer, not the underlying contract. Therefore, proceeds from one REC contract may be included in multiple layers.
2. If PSE receives sales proceeds from a REC contract that was not included in the REC Tracker for that period, the proceeds will be held in a separate REC liability account until the next REC layer is set in the Tracker. PSE will accrue interest on this separate REC liability account until it is included in the next layer in Tracker rates. The separate interest accrual will then cease as the balance plus accrued interest of the separate REC liability account will be included in the revenue requirement calculation for Tracker rates which includes a rate of return component on the rate base.

3. Because the REC proceeds are under contract, the total proceeds forecasted to be set in a given Tracker period will eventually be realized and a new amortization and ratebase return calculated. Accordingly, it is not expected that there will be a need to true-up the amortization expense. However, if a contract were to default, the monthly balances in which the defaulted contract is included will be revised and a new amortization calculated. The resulting differences when compared to the original amortization will be adjusted for in the annual true-up.
4. If twelve month ended actual REC proceeds received through December of a given layer do not total the projected proceeds for that specific layer, proceeds received in the subsequent year will be applied to this prior layer until they equal the projected amount. Conversely, and as discussed in #2, if more proceeds are received than what was included in the REC Tracker for this layer, interest will be accrued on this balance until it is included in the next layer in Tracker rates. A true-up for the impact on the return on rate base resulting from the variance in the timing of the receipt of REC proceeds versus the forecast will be included in the Year 2 revenue requirement for a given layer.
5. A true-up would also be included annually for the difference between the expected revenues (revised for the true-up discussed in #4) and the actual revenues received based on the variance between actual and forecasted load for the prior rate period. For simplicity, this type of true-up was not presented in the example in Attachment A.
6. It is contemplated that, after setting the rate in May 2012 in the compliance filing in this proceeding, this Tracker rate would be filed annually on November 1st to allow sufficient time for review and approval for rates effective on January 1st of each year that the Tracker is in place.

Attached as Attachment B to PSE's Response to Bench Request No. 010 is an example calculation of rate spread and rate design for the return of REC proceeds to each customer class based upon the revenue requirement provided in Attachment A to PSE's Response to Bench Request No. 010. The Peak Credit methodology, whereby each customer class is allocated a portion of the revenue requirement based on its contribution to total energy and demand allocation factors that were used in PSE's cost of service model from UE-111048, is the basis of the rate spread calculation. PSE's F2011 electricity sales forecast was used to derive the associated rates.

Attached as Attachment C to PSE's Response to Bench Request No. 010, please find a copy of a mock bill, which demonstrates how certain credits appear on a customer's bill.

Attachment A to PSE's Response to Bench Request No. 010 is CONFIDENTIAL per Protective Order in WUTC Docket Nos. UE-111048 / UG-111049