EXHIBIT NO. ___ (EDH-7)
DOCKETS UE-170033/UG-170034
2017 PSE GENERAL RATE CASE
WITNESS: EZRA D. HAUSMAN, PH.D.

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket UE-170033** **Docket UG-170034**

EXHIBIT EDH-7 TO THE

RESPONSE TESTIMONY OF

EZRA D. HAUSMAN, PH.D.

ON BEHALF OF SIERRA

CLUB

June 30, 2017

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Dockets UE-170033 and UG-170034
Puget Sound Energy
2017 General Rate Case

SIERRA CLUB DATA REQUEST NO. 004

SIERRA CLUB DATA REQUEST NO. 004:

Please reference the testimony of Ronald J. Roberts, P. 10.

a. What arrangements has PSE made for the continued operation of Colstrip units 1 and 2 should Talen Energy terminate its role as plant operator in 2018? Provide any documents, including but not limited to contracts, memos, board presentations, etc. that describe these arrangements.
b. What arrangements have PSE and the other co-owners of Colstrip units 3 and 4 made for the continued operation of those units should Talen Energy terminate its role as plant operator in 2018? Provide any documents, including but not limited to contracts, memos, board presentations, etc. that describe these arrangements.
c. Describe the process that would take place among the co-owners to replace Talen Energy's ownership share in Colstrip. Provide any documents, including but not limited to contracts, memos, board presentations, etc. that describe this process.

Response:

Puget Sound Energy ("PSE") and our co-owners of Colstrip Units 3 & 4 received notice from Talen Energy ("Talen") on May 23, 2016 of its intention to resign as operator of Colstrip Units 3 & 4 effective two years from the date of the notice (May 23, 2018). The notice was made pursuant to provisions of the Colstrip Units 3 & 4 Ownership and Operation Agreement, but Talen's intent is to cease its role as operator of all four Colstrip Units.

Shortly following receipt of Talen's May 2016 notice, all of the Colstrip owners began a process to identify and engage a new operator to assume operations of Colstrip Units 1-4 on or prior to May 2018. Since that time, the owners have met frequently to determine the scope of need for a third-party operator to take over Talen's responsibilities, to identify potential operator candidates, to draft a request for proposals from such candidates, and to evaluate responsive bids. As of the date of this response, the owners have received a bid from one candidate and are awaiting bids from others.

Upon receipt of all bids, the owners intend to collectively evaluate the bids and then enter into discussions with the selected candidate in order to negotiate terms and conditions of an operations and maintenance contract.

With respect to subsection (c), above, because Talen's notice to its co-owners related only to its operation of the Units at Colstrip, and not to its ownership of any of the Colstrip Units, the only responsive material relating to that topic can be found in the transfer provisions of either the ownership agreement for Units 1 & 2 or the ownership and operations agreement for Units 3 & 4. Please refer to the Second and Third Exhibits to the Prefiled Direct Testimony of Ronald J. Roberts, Exhibit No. ___(RJR-3) and Exhibit No. ___(RJR-4), respectively, for copies of the Colstrip 1 & 2 agreements.

Please see Attachment A to PSE's Response to Sierra Club Data Request No. 004 for the Colstrip 3 & 4 Ownership and Operation Agreement.

Attachment A to PSE's Response to Sierra Club Data Request No. 004 is CONFIDENTIAL per Protective Order in WUTC Dockets UE-170033 and UG-170034.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Dockets UE-170033 and UG-170034
Puget Sound Energy
2017 General Rate Case

SIERRA CLUB DATA REQUEST NO. 008

SIERRA CLUB DATA REQUEST NO. 008:

Reference Direct Testimony of Ronald J. Roberts (RJR-1CT), page 30, lines 16-22. Mr. Roberts references a Termination Notice provision in the Colstrip coal supply agreement. Have Talen Montana, PSE, and/or any other co-owners of the Colstrip units sent a Termination Notice or Termination Notices to Western Energy Company or to any affiliate, subsidiary, or parent company of Western Energy Company? If yes, please provide any such notice(s).

Response:

Yes. Puget Sound Energy ("PSE") and Talen Energy ("Talen") sent a notice, via joint legal counsel, to Western Energy Company ("Western Energy") on December 29, 2016, to invoke Section 3.2 of the Coal Sales and Purchase Agreement. The provision allows the coal buyers to provide Termination Notice when "Area D" coal has all been delivered to the buyers and the first time the stripping ratio in the coming operating plan exceeds the set limit. The notice is attached as Attachment A to PSE's Response to Sierra Club Data Request No. 008.

PSE and Talen will negotiate with Western Energy to extend through July 1, 2022 the contract that supplies coal for Units 1 and 2.

ATTACHMENT A to PSE's Response to SIERRA CLUB Data Request No. 008

PARSONS BEHLE & LATIMER

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A Professional
Law Corporation

Mark W. Dykes
Attorney at Law
Direct 801.536.6692
MDykes@parsonsbehle.com

December 29, 2016

VIA FACSIMILE AND U.S. MAIL

General Manager – Rosebud Mine
Western Energy Company
P.O. Box 99
Colstrip, Montana 59323
Telefax #: (406) 748-5181

VIA OVERNIGHT DELIVERY

Western Energy Company
138 Rosebud Lane
Colstrip, MT 59323

Vice President - Sales & Marketing
Western Energy Company
2 North Cascade Ave., 14th Floor
Colorado Springs, CO 80903

Jeremy Cottrell
Westmoreland Coal Company
Corporate Counsel – Mining & Operations
9540 South Maroon Circle
Englewood, CO 80112

Re: Notice Under Section 3.2 of Coal Purchase and Sale Agreement By and Among Talen Energy Company as Successor to PPL Montana, LLC, Puget Sound Energy, Inc. and Western Energy Company

We are counsel to Talen Energy Company, successor to PPL Montana, LLC ("Talen") and Puget Sound Energy, Inc. ("PSE") in their capacity as buyers ("Buyers") under the above-referenced Coal Purchase and Sale Agreement ("CPSA"). Strictly as a matter of administrative ease and coordination only, rather than Buyers jointly sending this letter under their own separate signatures, we are, at Buyers' request, sending this letter on Buyers' behalf.

As you know, due to the announced lawsuit settlement among Talen, PSE and a variety of parties including the Sierra Club, it has been agreed that Colstrip Units 1 & 2 will be shut down no later than July 1, 2022.

Apart from the effect of the settlement involving the Sierra Club on the CPSA, under subsection 3.1(a) of the CPSA, "Length of Term," the Term of the CPSA commenced January 1, 2010 and expires on "the first December 31 that falls on or after the expiration of thirty-six (36) Months after the Day that Buyers issue the Termination Notice, as defined and limited by subsection 3.2 . . . ." Buyers may issue a Termination Notice once all "Area D" coal has been delivered to Buyers (subsection 3.2(a)) and "the Prime-Stripping Ratio on average in Areas A and B for coal to be delivered for the following Year is projected to first exceed 6.5:1 as evidenced by an Approved AOP." (subsection 3.2(b)).

All Area D coal has been delivered to Buyers. The Approved AOP for 2017 shows an average stripping ratio for Areas A and B of 7.2:1. Because the contractual prerequisites for issuance of a notice under subsection 3.2 have thus been met, this letter shall constitute Buyers' notice under subsection 3.2, which notice shall begin the period set forth in subsection 3.1(a) of the CPSA.

Please rest assured that Talen Energy and PSE remain committed to following the AOP and other contract processes to facilitate a prudent and well-managed process leading to the termination of coal deliveries under the CPSA.

This letter is without prejudice to the other rights of Buyers and Seller under the CPSA. Please advise Buyers directly with any concerns, questions or comments you may have concerning this letter.

Sincerely,

PARSONS BEHLE & LATIMER

Mark W. Dykes
Attorney at Law

MWD:sf

cc: Ron Roberts (Puget Sound Energy, via e-mail)
Steven Secrist (Puget Sound Energy, via e-mail)
Robert Neate (Puget Sound Energy, via e-mail)
Joseph R. Waala (Talen Energy, via e-mail)
Ronald L. Rencher (Parsons Behle & Latimer, via e-mail)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Dockets UE-170033 and UG-170034
Puget Sound Energy
2017 General Rate Case

SIERRA CLUB DATA REQUEST NO. 010

SIERRA CLUB DATA REQUEST NO. 010:

Page 32 of Westmoreland Coal's 10-K states: "our contract with Colstrip Units 1 & 2 will be terminated three years early in 2019 which equates to approximately 2.3 million tons annually and $10.7 million in operating income annually."

a. Please confirm whether PSE's coal contract for Colstrip Units 1 & 2 will terminate in 2019.

b. When did PSE become aware that the coal contract for Colstrip Units 1 & 2 would terminate in 2019? Please include a timeline of any decisions made by PSE's board and/or executives evaluating and authorizing such termination. Please identify the specific PSE individuals making such decisions.

c. What replacement fuel supply plans, if any, does PSE plan or expect to have in place for Colstrip Units 1 & 2 after 2019?

d. Please provide copies of any board presentations, memos, minutes, or other documents that discussed or authorized PSE or Talen Montana to terminate the coal contract for Colstrip Units 1 and 2 early.

Response:

a. On December 29, 2016, Puget Sound Energy ("PSE") and Talen Energy ("Talen") issued a three-year Termination Notice to Western Energy Company ("Western Energy"). In the absence of a further agreement to modify, replace or extend the terms of the coal purchase contract, it will expire on December 31, 2019.

b. PSE and Talen became aware that the Coal Purchase and Sales Agreement ("CPSA") will terminate on December 31, 2019 when Western Energy confirmed receipt of the notice PSE and Talen issued on December 29, 2016. The opportunity to issue that notice arose under the terms of Section 3.2 of the CPSA when the factual prerequisites had occurred. Additionally, Section 3.2 notices had to be issued by both PSE and Talen. On or before December 29, both PSE and Talen decided to issue the notice.

c. PSE expects to work with Western Energy to negotiate an extension to the contract that supplies coal for Units 1 and 2 and that matches the purchase commitment to the expected retirement of the Units.

d. The CPSA termination notice was issued pursuant to the terms of the contract itself. As such, PSE objects to any characterization that the termination was "early." Attachment A to PSE's Response to Sierra Club Data Request No. 008 provides a copy of the termination letter to Western Energy. Other PSE documents are protected under the Attorney Client and Attorney Work Product privileges and PSE objects to the production of such privileged documents. PSE has no document that authorizes Talen to take any related action; Talen makes business decisions on its own.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Dockets UE-170033 and UG-170034
Puget Sound Energy
2017 General Rate Case

SIERRA CLUB DATA REQUEST NO. 011

SIERRA CLUB DATA REQUEST NO. 011:

Page 32 of Westmoreland Coal's 10-K states: "Our contract with Colstrip Units 3 & 4 expires in December 2019."

a. Please confirm whether PSE's and/or Talen Montana's coal contract for Colstrip Units 3 & 4 expires in December 2019.

b. What replacement fuel supply plans, if any, does PSE plan or expect to have in place for Colstrip Units 3 & 4 after 2019?

c. If PSE and the other Colstrip owners renew the coal fuel supply agreement for Colstrip Units 3 & 4, does PSE anticipate a change in the cost per ton of coal after 2019?

d. Please provide copies of any memos, analyses or reports addressing the post-2019 fuel supply plan or strategy and expected fuel costs for Colstrip Units 3 & 4.

Response:

a. The term of the Amended and Restated Coal Supply Agreement, among the owners of Colstrip Units 3 and 4 and Western Energy Company, expires December 31, 2019.

b. Puget Sound Energy ("PSE") is currently in negotiations for post-2019 coal supply for Colstrip Units 3 and 4. Unfortunately, PSE has not met its expected timeline for implementation of the extended coal supply agreement due to ownership changes at Talen Energy, which have slowed the finalization of the process.

c. PSE objects to Sierra Club Data Request No. 011 subpart (c) as speculative. Without waiving this objection and subject thereto, until an agreement is final, all terms are subject to further negotiation, not merely the coal cost.

d. PSE objects to Sierra Club Data Request No. 011 subpart (d) to the extent it calls for information protected by the Attorney-Client and Attorney Work Product privileges. Without waiving the objection and subject thereto, PSE responds as follows: Please see Attachment A to PSE's Response to Sierra Club Data Request No. 011 for an internal PSE presentation regarding the progress of the coal supply agreement negotiations.

Designated Information is CONFIDENTIAL per Protective Order in WUTC Dockets UE-170033 & UG-170034 as marked in Attachment A to PSE's Response to SIERRA CLUB Data Request No. 011.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Dockets UE-170033 and UG-170034
Puget Sound Energy
2017 General Rate Case

SIERRA CLUB DATA REQUEST NO. 013

SIERRA CLUB DATA REQUEST NO. 013:

Page 10 of Westmoreland Coal's 10-K includes a table with information on Westmoreland's various coal mines. The row labeled "Estimated mine life with current plan" indicates that the Rosebud Mine's estimated life ends in 2024.

a. Please confirm whether PSE understands the estimated mine life of the Rosebud mine to be 2024.

b. What efforts would be necessary to extend the estimated life of the Rosebud mine past 2024?

c. What impact, if any, would extending the life of the Rosebud mine past 2024 have on the quality of coal from the Rosebud mine (e.g. heat content, overburden, etc.)?

d. Do PSE and/or the other co-owners of Colstrip Units 3 & 4 have alternative fuel supply options for the post-2024 period, should coal from the Rosebud mine become unavailable, technically infeasible, or uneconomic?

e. If the answer to (d) is yes, please identify the capital projects, if any, and associated costs that would be necessary to receive and burn coal from alternative coal suppliers (e.g. rail spurs, unloading facilities, burn pits, etc.).

f. Please provide any reports, analyses, memos or other documents prepared by or on behalf of the Colstrip owners that addresses the potential to extend the life of the Rosebud mine or obtain coal supplies from an alternative source past 2024.

Response:

a. Puget Sound Energy ("PSE") understands that the estimated life of the currently permitted coal resources at Rosebud mine is approximately 2024.

b. and c. PSE does not have this information. These questions are more appropriately asked of Western Energy Company ("Western Energy"). However, PSE is aware that Western Energy has been engaged in permitting and leasing efforts for a number of years to expand the area of the Rosebud mine. The exact area of such expanded locations could affect the price or quality of deliverable coal, and it is premature to predict those results.

d. PSE is not currently exploring alternate post-2024 coal sources for Colstrip Units 3 and 4. Please see PSE's Response to Sierra Club Data Request No. 011.

e. N/A

f. PSE is not currently exploring alternate post-2024 coal sources for Colstrip Units 3 and 4. Please see PSE's Response to Sierra Club Data Request No. 011.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Dockets UE-170033 and UG-170034
Puget Sound Energy
2017 General Rate Case

PUBLIC COUNSEL DATA REQUEST NO. 177

PUBLIC COUNSEL DATA REQUEST NO. 177:

Provide a copy of the Company's (and the parent company's) two most recent management letters and recommendations received from the Company's independent auditors.

Response:

Puget Sound Energy ("PSE") objects to Public Counsel Data Request No. 177 as it requests information relating to the parent company which is not relevant to the issues in this case nor reasonably calculated to lead to the discovery of admissible evidence as the parent company is not regulated by the Commission. Without waiving these objections and subject thereto, PSE responds as follows:

Attached as Attachments A, B and C to PSE's Response to Public Counsel Data Request No. 177, please find a copy of the two most recent management letters and recommendations received for PSE and Puget Energy, Inc. from the independent auditors.

Attachment A reflects PricewaterhouseCoopers' ("PwC") 2015 Report to the Audit Committees of the Boards of Directors.

Attachment B reflects PwC's 2016 Report to the Audit Committees of the Boards of Directors.

Attachment C reflects an updated Appendix B to PwC's 2016 Report to the Audit Committees.

Designated Information is CONFIDENTIAL per Protective Order in WUTC Dockets UE-170033 and UG-170034 as marked in Attachments A, B and C to PSE's Response to PUBLIC COUNSEL Data Request No. 177.

ATTACHMENT B to PSE’s Response to PUBLIC COUNSEL Data Request No. 177

Puget Energy, Inc.
Puget Sound Energy, Inc.
Report to the Audit Committees of the Boards of Directors

February 22, 2017

pwc

Members of the Audit Committees
of the Boards of Directors of
Puget Energy, Inc. and
Puget Sound Energy, Inc.

February 22, 2017

Dear Members of the Audit Committees:

We are pleased to have the opportunity to meet with you to present our report on the results of our integrated audits of Puget Energy, Inc. and Puget Sound Energy, Inc. (herein together referred to as the "Companies") as of and for the year ended December 31, 2016 and the Companies' internal control over financial reporting at December 31, 2016.

This report has been prepared in advance of our meeting and prior to the completion of our procedures. Other matters of interest to the Audit Committees may arise which we will bring to your attention at the meeting.

We look forward to meeting with you to present this report, address your concerns and discuss any other matters of interest to the Audit Committees.

Please feel free to contact Doug Beck at (724) 799-6538 with any questions you may have.

Very truly yours,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP, 1420 Fifth Avenue, Suite 2800, Seattle, WA 98101-4043
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Contents

Executive Summary

This document outlines the results of our Integrated Audit which includes the audits of the consolidated financial statements of Puget Energy, Inc. and Puget Sound Energy, Inc. and their subsidiaries and the audit of the effectiveness of internal control over financial reporting as of and for the year ended December 31, 2016.

The following topics are discussed in the accompanying report:

- We have substantially completed our audits and plan to issue unqualified opinions upon completion of our procedures.
- Results of the audits and significant audit areas.
- Required communications update.
- Internal controls over financial reporting.
- Summary of significant judgements and estimates.

Status of the Audit

We have substantially completed our audits of the 2016 financial statements and effectiveness of internal control over financial reporting. We have addressed all key risk areas in accordance with our audit plan, as communicated to the Audit Committees on July 27, 2016 (herein referred to as "the audit plan"). Our audits have been performed substantially in accordance with the plan and timeline previously communicated to the Audit Committees. We will notify the Audit Committees if any matters arise as we complete our procedures below prior to the filing of the December 31, 2016 Form 10-K.

In an integrated audit, the date of our opinions on the financial statements and internal control is the same date. The reports will be issued once we have completed final testing of the Companies' period-end financial reporting process. The following items also will need to be completed prior to issuance of our opinions:

- We have not completed our evaluation of internal controls related to the period-end reporting; the results of which will not be known until the full financial statement and footnote preparation and review process is completed.
- To the extent control deficiencies are identified, we are required to consider their impact on our financial statement audits and it is possible that additional substantive testing could be necessary in order for us to complete our financial statement audit.
- Audit adjustments identified to date are included in Appendix B. It is possible that adjustments may be identified as we complete our remaining procedures.
- Final review of Form 10-K
- Completion of audit testing
- Completion and review of audit documentation
- Obtain signed management representation letters, and letter from in-house counsel
- Legal letter responses from external counsel
- Final evaluation of the summary of aggregated deficiencies
- Keeping current procedures

Risk and Response Summary

We have outlined below the significant areas of audit risk, previously communicated to you in our audit plan on July 27, 2016, and our audit responses.

Significant Risk	Audit Response
Management override of controls ■ Under auditing standards there is a presumption that for any audit, the auditor must consider management override of controls as a significant risk	■ Prepared a fraud risk assessment and compared to management's assessment to ensure that fraud risks were appropriately mitigated by a control or group of controls; ■ Tested controls over period end financial reporting process, including journal entries and segregation of duties; ■ Identified and selected manual journal entries and other adjustments for testing; ■ Tested intercompany eliminations, clearing and suspense accounts, if any; ■ Evaluated and corroborated management's key judgments, assumptions and estimates; ■ Incorporated an element of unpredictability in the selection of the nature, timing and extent of audit procedures to be performed annually; ■ Performed retrospective review of management's estimates; ■ Reviewed significant contracts entered into or modified during the year and assessed for appropriate accounting; ■ Inquired of management, the Audit Committees, Internal Audit and others regarding their knowledge of fraud or suspected fraud, the fraud risk assessment process and how fraud risks are addressed by the Companies; ■ Tested related party and affiliate transactions; ■ Tested controls around segregation of duties; ■ Tested information technology general computer controls ("ITGC"); ■ Performed disaggregated analytical procedures, particularly around revenue.
Revenue recognition ■ Fraud related to wholesale, transmission and other revenue at PSE	■ Tested key controls related to the revenue process for wholesale gas and electric; ■ Confirmed wholesale gas and electric sales directly with counterparties;

Significant Risk	Audit Response
	■ Performed substantive detail testing over revenue transactions such as pole attachment and Pole Contact Services; ■ As part of our planning for the 2016 audit, we identified fraud related to revenue as a significant risk for certain revenue streams other than retail revenue. Due to the fact that transmission revenue, approximately $19 million for 2016, is below our overall and performance materiality levels, fraud related to transmission revenue is not considered a significant risk for the audit.

Required Communications With the Audit Committees

Matter to be communicated	Auditor's response
Fraud	We did not identify any potential or known fraud.
Illegal acts	We did not identify any potential illegal acts.
Accounting policies and practices, critical accounting estimates and significant unusual transactions	■ Critical accounting policies and practices – There were no noted significant modifications to critical accounting policies except for the item noted below. *Presentation of Debt Costs* The Companies adopted ASU No. 2015-03 which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated term debt, consistent with the presentation of a debt discount. The Companies have adopted the new standard retrospectively. The Companies has disclosed the change in the 10-K. *Presentation of Financial Statements –Going Concern (Subtopic 205-40)-Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.* This Accounting standard requires management to assess conditions and events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued. This assessments is required annually. Disclosure is required if there is substantial doubt about the entity's ability to continue as a going concern. The Companies adopted ASU 2014-15 on January 1, 2016 and the adoption did not have a material impact on the Companies' consolidated financial statements. ■ Critical accounting estimates, including: – See below section "Summary of Accounting Judgements, Estimates and Transactions" ■ Significant unusual transactions: – There was a significant transaction related to the settlement with Sierra Club regarding the shutdown of Colstrip 1 and 2 , no later than July 2022. Management concluded that Colstrip 1 and 2 became probable of abandonment as a result of the settlement, and as a result reclassified the estimated net book value of

Matter to be communicated	Auditor's response
	$176.8 million at the expected retirement date to a regulatory asset, as it will no longer qualify as Plant in Service upon retirement. – Management believes all costs associated with the anticipated retirement of Colstrip 1 and 2, including the NBV of the plant, will be recovered through rates along with a return on the regulatory asset based on prior precedent – There were no changes in the policies and practices management used to account for significant unusual transactions.
Quality of the Companies' financial reporting	■ The Companies' significant accounting policies have been deemed appropriate. ■ The results of our evaluation of the differences between (i) estimates best supported by the audit evidence and (ii) estimates included in the financial statements, which are individually reasonable, do not indicate a possible bias on the part of the Companies management. ■ In our assessment, management's disclosures related to the critical accounting policies and practices are appropriate. ■ In our assessment, the business purpose for significant unusual transactions is appropriate. ■ Based on our audits, the presentation of the financial statements and the related disclosures are in conformity with the applicable financial reporting framework, including our consideration of the form, arrangement, and content of the financial statements (including the accompanying notes). No significant issues were identified with respect to particularly sensitive financial statement disclosures.
Alternative accounting treatments	We did not identify any alternative treatments permissible under US GAAP for accounting policies and practices related to material items, including recognition, measurement, and presentation and disclosure.

Matter to be communicated	Auditor's response
Independence re-evaluation	There were no independence matters that occurred or were identified subsequent to the date of our most recent independence letter dated April 22, 2016, provided to the Audit Committees.
Fees for services	Appendix D includes a summary of fees for our services provided by PwC, including a description of the types of services rendered.
Non-audit services	Refer Appendix D.
Changes to the planned audit strategy	There were no significant changes to the planned audit strategy or the significant risks initially identified, other than the change in risk assessment associated with transmission due to materiality.
Identified misstatements	Appendix B summarizes the misstatements accumulated by us during the audit, including disclosures. We will discuss with the Audit committees the basis for the determination that the uncorrected misstatements were immaterial, including the qualitative factors considered and the potential impacts to future-period financial statements. The corrected misstatements, other than those that are clearly trivial, are also included in Appendix B. We will discuss the implications that such corrected misstatements might have on the Companies' financial reporting process.
Material uncertainties related to events and conditions (specifically going concern)	There were no conditions and events that we identified that indicate that there is substantial doubt about the Companies' ability to continue as a going concern.
[redacted]	[redacted] [redacted]

Matter to be communicated	Auditor's response
Other information in documents containing audited/reviewed financial statements	Our responsibility with respect to other information in documents containing audited financial statements is to read the information and consider whether the information or the manner of its presentation is materially inconsistent with information appearing in the basic financial statements. We have read the MD&A and other financial information contained in the Puget Energy and Puget Sound Energy Form 10-K and considered whether the content or manner of presentation is materially inconsistent with the financial information covered by our reports or whether they contain a material misstatement of fact. Based on our reading, we noted no instances of inconsistent content or presentation or material misstatement of fact.
Disagreements with management	There were no disagreements with management.
Consultation with other accountants	We are not aware of any consultations management has had with other accountants about significant accounting or auditing matters.
Difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Other material written communications	Appendix A includes a copy of other material written communications with management, including a copy of management's representation letters and in-house counsel letter. We will obtain final in-house counsel's letter and management representation letters in conjunction with the finalization of the audits.
Difficult or contentious matters	There were no difficult or contentious matters for which we consulted outside the engagement team and we reasonably determined are relevant to the Audit Committees' oversight of the financial reporting process.

Matter to be communicated	Auditor's response
Departure from standard report	Our standard unqualified report for each company is included in Appendix C.
Related Parties	Based on our audit procedures, the following items were identified with respect to related parties: a. There were no related parties or relationships or transactions with related parties that were previously undisclosed to the auditor; b. There were no significant related party transactions that have not been authorized or approved in accordance with the Companies' established policies or procedures; c. There were no significant related party transactions for which exceptions to the Companies' established polices or procedures were granted. There were no significant related party transactions that appear to lack a business purpose.
Other matters	There were no other matters arising from the audit that are significant to the oversight of the Companies' financial reporting process.
Quality control procedures	The Audit Committee charter require that we report to the Audit Committees on PwC's quality control systems and related topics. Our report on such matters is included within the Q3 Audit Committee communications dated October 26, 2016.

Internal Controls over Financial Reporting

We have substantially completed our assessment of the Companies' design effectiveness of internal controls over financial reporting ("ICFR").

PCAOB Auditing Standard No. 5, *An Audit of Internal Control over Financial Reporting That Is Integrated with an Audit of Financial Statements*, includes the following definitions of a deficiency, a significant deficiency and a material weakness:

- Deficiency – a deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

- Significant deficiency – a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.

- Material weakness – a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

PCAOB standards emphasize the need to understand the likely sources of potential material misstatements and require that we, as part of selecting the controls to test, achieve the following objectives: (1) understand the flow of transactions; (2) identify the points within the Companies' process at which a material misstatement could arise; (3) identify the controls to address these potential material misstatements; and (4) identify controls that management has implemented to prevent or detect misappropriation of assets that could be material. We focus on these objectives and understand likely sources of potential material misstatements.

Results of ICFR Testing Procedures

The following control deficiencies were identified by either Internal Audit or PwC. We have provided the number of control deficiencies identified in prior years for informational purposes.

Process	2016	2015	2014	2013
[redacted]				

[redacted]

We have also evaluated the impact of all deficiencies on our audit strategy. This includes evaluating whether compensating controls exist and were operating at an appropriate level of precision to accomplish the control objectives. As a result of this evaluation, we adjusted the nature, timing and extent of substantive procedures and the compensating controls testing in order to obtain sufficient audit evidence for the year and over the period the controls were not operating effectively.

Summary of Accounting Judgments, Estimates and Transactions

Following are some of the key judgments and estimates in the 2016 consolidated financial statements of Puget Energy and Puget Sound Energy.

Goodwill Valuation

Management completed its "Step-1" impairment assessment in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350 - Goodwill and Intangibles ("ASC 350"). October 1, 2016 was selected as the effective date for the impairment test. In estimating the fair value of Puget Energy management utilized an income approach and market based approach. Based on an equal weighting of these approaches, the fair value of Puget Energy's equity approximated $5.2 billion. As the fair value exceeded the carrying value of equity $3.6 billion at October 1, 2016, no goodwill impairment was required.

The key inputs into goodwill include the five year forecast and goodwill assumptions. The significant assumptions included within the five year forecast include: regulatory strategy, capital expenditures, load forecast and power costs. The key assumptions in determining fair value of Puget Energy included the following significant assumptions: long term growth rate, weighted average cost of capital and comparable companies. As part of our testing procedures, PwC performed shadow calculations and sensitivity analyses to assess the reasonableness of the assumptions utilized by management. Based upon our audit work, the assumptions used by management are considered reasonable and there was no management bias identified.

Power Contract Intangible Assets

Management completes an impairment assessment in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360 - Property, Plant, and Equipment ("ASC 360"). Due to changes in market prices, the impairment calculation was prepared on a quarterly basis in the current year. The Company's impairment analysis is based on an income approach and significant assumptions included forward price curve data, discount rate and forecasted cost and generation of the various hydroelectric facilities. For the year ended December 31, 2016, total impairment charges of $18.1 million were recorded in connection with two power contracts. A corresponding decrease in the regulatory liability was recorded.

Pension and Other Post-Retirement Benefit Obligations

For the year ended December 31, 2016, the Company recorded net periodic benefit cost of $19.2 million for pension benefits and $(0.5) million for other postretirement benefits. The unfunded status for pension benefits and other postretirement benefits at December 31, 2016 was $84 million and $4 million, respectively. The fair value of plan assets for the pension plans and other postretirement plan at December 31, 2016 was $$620 million and $7 million, respectively. The total amount of the plan assets that have been classified as Level 1 is $354 million and the total amount classified as Level 2 is $59 million. In addition,

$218 million has been classified at net asset value (NAV) which consists of common/collective trusts and two partnerships.

Significant assumptions used to determine benefit obligations include the discount rate to value expected payment liabilities, the expected return on plan assets set aside to fund costs, the projected compensation increases, turnover rates, health care trends, and mortality rates. The projected benefit obligation is an actuarial driven calculation based upon the above assumptions.

The discount rate used by management at December 31, 2016 was 4.5% for the pension benefits and 4.5% for other postretirement benefits. Management's discount rate is set using the Milliman bond matching approach

The long-term rate of return assumption (7.75% for the pension plan and 6.75% for the other post-retirement benefit plans) is set taking into account expected returns considering asset mix as well as actual historic returns. No bias identified.

The mortality tables were updated to the MP-2016 mortality tables.

We performed audit procedures over the pension and postretirement estimated liabilities. These tests includes assessing and testing management's internal controls surrounding the development of the estimates. We utilized the assistance of PwC Global Human Resource Services (actuarial) specialists to review the actuarial report and assess key assumptions. We also tested the valuation of plan assets.

Based upon our audit work, the assumptions used by management are considered reasonable and there was no management bias identified.

Derivative Instruments

Puget Sound Energy has forward energy contracts for the purchase and sales of gas and power with prices indexed to power and natural gas. Management estimates the fair value of these derivative instruments by using pricing from external sources.

Unrealized gains and losses related to gas commodity derivative instruments are recorded as a regulatory assets and liabilities with realized gains and losses reflected in the Purchased Gas Adjustment calculation. Realized and unrealized gains and losses related to electric commodity derivatives are reflected in earnings, subject to sharing mechanism with the Power Cost Adjustment calculation. Additionally, Puget Energy has unrealized gains and losses from interest rate swaps, which are reflected in earnings.

At December 31, 2016, Puget Energy had derivative assets of $63.1 million and liabilities of $60.4 million related to energy contracts and interest rate swaps; and Puget Sound Energy had derivative assets of $63.1 million and liabilities of $60.4 million, related to energy contracts.

The Companies designate certain derivative instruments as Normal Purchase, Normal Sales (NPNS). The NPNS designation is a scope exception for derivative accounting, and allows the Companies to record the instruments on an accrual rather than fair value basis. The NPNS exception is permissible as long as management can assert the instrument is probable to result in physical delivery of the underlying commodity at inception and through the term of the contract, amongst other criteria.

We performed audit procedures over the fair value estimates which included assessing and testing management's internal controls surrounding the development of the estimates. Our testing included obtaining and reviewing all significant contracts and assessing them for appropriate accounting. We also validated the market prices used to mark futures contracts by agreeing the prices to third party market data, obtained independently by the PwC engagement team.

Based on our procedures performed the derivative balances are considered reasonable and there was no management bias noted.

Tax Provision and Deferred Income Tax Assets

For the year ended December 31, 2016, Puget Energy recorded a tax provision of $140.2 million which represents a 30.9% effective tax rate; and PSE recorded a tax provision of $175.3 million, which represents a 31.5% effective tax rate. The increase in the rate from the prior year is primarily driven by the reduced impact of the production tax credit.

We performed audit procedures over the income tax process which included assessing and testing management's internal controls surrounding the income tax process. Our testing included utilizing the assistance of PwC Tax Specialists in the auditing of the Companies' income tax provision, deferred taxes and resulting deferred tax assets and liabilities.

Based on our procedures performed the income tax accounts are considered reasonable and there was no management bias noted.

Decoupling

In June 2013, the WUTC approved an alternative revenue program, which allowed PSE to implement decoupling of electric and natural gas rates. The decoupling mechanisms mean that PSE's recovery of the fixed costs it incurs for infrastructure and operations necessary to deliver power and natural gas will no longer depend on the amounts of electricity and natural gas the Company sells. Under the decoupling mechanism, the difference between allowed delivery revenue (ADR) and the actual delivery revenue will be recognized, as long as the collection of the additional revenue is expected within 24 months following the end of the annual period in which the revenue was recognized, in accordance with ASC 980-605-25-4(c). Amounts that will be collected beyond the 24 months are recognized when billed, or when collection will occur within 24 months of the annual period. Decoupled revenue is collected or returned over 12 months starting May 1 of the following year, subject to a 3% cap on rate increases. Any amount in excess of this cap will be added to the decoupling tracker in subsequent rate periods. PSE is also subject to 50% sharing on any earnings in excess of the authorized rate of return.

For the year ended December 31, 2016, PSE recognized decoupled electric revenue of $22.4 million, including $6.3 million of overearnings to be passed back to customers.

$1.3 million of decoupled electric revenue was not recognized due to the Company's estimate that it will not be able to collect this amount within 24 months from December 31, 2016.

For the year ended December 31, 2016, PSE recognized decoupled gas revenue of $44.4 million, including $1.9 million reduction of overearnings to be passed back to customers. $9.6m decoupled gas revenue was not recognized due to the Company's estimate that it will not be able to collect the amount within 24 months from December 31, 2016.

As of December 31, 2016, PSE recorded a regulatory asset for decoupled revenue of $135.6 million and a $29.7 million regulatory liability for the excess earnings over the approved rate of return, which will be returned to customers.

Based on our procedures performed the decoupling revenues and associated regulatory assets and liabilities are considered reasonable and there was no management bias noted.

Colstrip Units 1 and 2 Settlement Agreement

In July 2016, Puget Sound Energy signed an agreement to settle the litigation with Sierra Club. As a part of the settlement agreement, PSE and joint owner Talen agreed to shut down Units 1 and 2 no later than July 1, 2022. While the settlement terms do not preclude the units from being retired sooner than July 1, 2022, the Company has not made any other definitive plans to retire the units sooner.

Management has concluded that at the point the agreement was signed and subsequently ratified by, the courts, Units 1 and 2 of the Colstrip plant became probable of abandonment. In accordance with ASC 980-360-35-2, the Company performed an analysis to determine whether recovery of costs is probable, and whether they will receive either full, partial or no return on the investment. Through this analysis management determined, based on prior precedent, from the Washington Utilities & Transportation Commission, recovery of costs and the full return on investment is probable.

Management has concluded that the portion of the asset that is probable of abandonment should be reported as a separate asset, and has consequently transferred $176.8 million of the plant to a regulatory asset.

Asset Retirement Obligations

In connection with the Colstrip settlement agreement discussed above, PSE also entered into an agreement with the Sierra Club pertaining to Colstrip Units 3 and 4. Further to the required closure of Units 1 and 2 by no later than July 1, 2022, these agreements require a change to the way the plant disposes of coal ash.

In connection with these agreements, and the EPA's Coal Combustion Residual (CCR) rule, the joint owners of Colstrip Units 1 and 2 and Units 3 and 4 are required to complete a number of actions to retire the assets. These actions are related to the normal operation of the assets, and are associated with the retirement of the asset. In accordance with ASC 410-20, Asset retirement obligation accounting, the Company is required to account for these costs as a liability at December 31, 2016.

In order to assess the liability, the plant operator engaged a third party consultant to provide estimated costs. This has been included by management as part of the ARO for Colstrip Units 1 and 2 of $65.2 million and for Units 3 and 4 of $56.9 million as of December 31, 2016.

We are performing testing of management's estimate with the assistance of a team of PwC environmental specialists.

IT System implementations

IT Systems Impacting the Audit

During 2016, multiple systems were replaced or implemented that had an effect on the audit execution. These included Endur, EIM, GRC (EAM), and HANA for BW.

System	Purpose	Implementation	Audit Response
Endur	Replacement for Gas Management System	August 2016	Additional walkthroughs, control and ITGC testing over the new system and processes. Substantive testing remained unchanged. No exceptions were noted.
PCI	To assist in joining ISO Energy Imbalance Market	October 2016	System walkthroughs and ITGC testing. No exceptions noted.
GRC (EAM)	Emergency access management	September 2016	ITGC testing related to emergency access management. No exceptions noted. In 2017, GRC will be in-scope for the management of the Companies' SOD risks, and testing will be performed.
HANA for BW	Data Warehouse	October 2016	ITGC testing performed. No exceptions noted.

FTIP Pre-Implementation Review

Puget Sound Energy initiated a project in 2016 to update their SAP system through installing a single corporate budget system, SAP Business Planning and Consolidation (BPC), to maintain and report budgeting information, new cost center structure, new cost elements, and simplification of employee activity rates. In order to support the implementation, there were changes made to the SAP ECC, and PSE also made changes to key reports that support financial controls and financial reporting as part of this implementation. This was through a phased implementation approach with the design phase beginning in March 2016 through go-live date of January 15, 2017.

PwC was engaged to perform project assessment services over PSE's SAP FTIP implementation surrounding the Accounting, General Ledger (GL) and Financial Reporting processes. Our services focused on the SOX impacts to the following areas:

- Systems Development Lifecycle (SDLC) Testing - Assess the design and operation of controls related to SDLC areas including program development and project governance, approval of specifications, test plans and approvals of testing, and go-live approvals.

- Business Process Controls - Assess the design of automated and manual (SOX) controls built into the to-be business process flows.

- Key Reports, Interfaces and Data Conversion - For reports supporting key financial controls, review management's testing of reports and provide our objective findings and recommendations for management's consideration.

- Security and SOD - Assess the SOD design, current conflicts and planned resolution, as well as post go-live access administration process and monitoring activities.

PSE Internal Audit team performed the SDLC testing, and their work was reviewed by our team as a part of this project.

As a result of our procedures, recommendations have been provided to management related to all of the above areas to address potential control enhancements as well as areas of best practice. Management has provided responses for all recommendations. The project was implemented as of January 15, 2017. The engagement team will perform testing over the resulting changes to the IT environment and controls during the 2017 audit.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Dockets UE-170033 and UG-170034
Puget Sound Energy
2017 General Rate Case

PUBLIC COUNSEL DATA REQUEST NO. 285

PUBLIC COUNSEL DATA REQUEST NO. 285:

Re: Funding of Colstrip 1 and 2 decommissioning and remediation costs. Refer to the Prefiled Direct Testimony of PSE witness Barnard, at page 32, line 15 through page 33, line 4.

(a) For each vintage of PTCs that PSE proposes to use to fund the decommissioning and remediation costs of Colstrip Units 1 and 2, please provide the following information:

i. the reductions to PSE's tax liability, by year, that are projected or anticipated.

ii. detail of exactly how the PTCs will be used to reduce the Colstrip 1 and 2 decommissioning and remediation costs by year.

iii. each proposed journal entry that PSE would make to transfer PTC regulatory liability amounts into FERC account 108.

(b) What is the amount in the regulatory liability account for PTCs as of each of the following dates (actual and projected):
iv. 12/31/2016
v. 9/31/2016
vi. 12/31/2017 and
vii. 12/31/2018

(c) Are there any amounts in the 12/31/2016 regulatory liability account balance for PTCs that have not yet been used to reduce PSE's tax liability? If so, identify, quantify and explain those amounts.

(d) Referring to the statement at page 32, lines 17-18 "PSE does not realize a benefit from the PTCs until PSE has positive net income on its tax return." Identify and provide estimates of PSE's taxable income for each year, 2016, 2017 and each subsequent year in which PSE anticipates utilizing PTC's.

<u>Response:</u>

Puget Sound Energy ("PSE") objects to Public Counsel Data Request No. 285 to the extent it requires assumptions and speculations about future events. For example, tax reform may have a significant impact on taxable income and Net Operating Loss ("NOL") and Production Tax Credit ("PTC") usage. Moreover, PTCs are covered under Schedule 95A and excluded from this Rate Case. Therefore, PSE objects to Public Counsel Data Request No. 285 as not relevant nor reasonably calculated to lead to the discovery of admissible evidence. Without waiving these objections and subject thereto, PSE responds as follows.

(a)

i. Please refer to PSE's Response to ICNU Data Request No. 049 for the requested information. Please note the significant potential impact of "tax reform" on both the PTC and NOL utilization.

ii. It is the regulatory liability created by utilization of the PTC rather than the PTCs that will be used to provide a source of funds to address decommissioning and remediation costs for Colstrip Units 1 & 2. Please reference the Prefiled Direct Testimony of Katherine J. Barnard, Exhibit No. ___(KJB-1T), at pages 84:21 through 85:6.

iii. Please reference the Prefiled Direct Testimony of Katherine J. Barnard, Exhibit No. ___(KJB-1T), at pages 84:21 through 85:6. Once the PTC is used on the tax return, the existing PTC liability account will be debited and a corresponding credit entry will be made to the Colstrip 108 account.

(b) As stated above, tax reform may have a significant impact on taxable income and PTC usage.

iv. 12/31/2016: $290 million projected balance, as 2016 tax return is not final.

v. 9/31/2016: $286 million projected balance, as 2016 tax return is not final.

vi. 12/31/2017: $279 million projected balance.

vii. 12/31/2018: $200 million projected balance.

(c) Yes. As explained in the Prefiled Direct Testimony of Katherine J. Barnard, Exhibit No. ___(KJB-1T), page 86, none of the regulatory liability has been utilized against PSE's taxable income yet.

(d) Please refer to PSE's Response to ICNU Data Request No. 049 for the requested information.

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Dockets UE-170033 and UG-170034
Puget Sound Energy
2017 General Rate Case

PUBLIC COUNSEL DATA REQUEST NO. 286

PUBLIC COUNSEL DATA REQUEST NO. 286:

Re: Production Tax Credits. Refer to the Prefiled Direct Testimony of Katherine Barnard, Exhibit No. KJB-1T at pages 84 through 85.

(a) Show by year the amount of Production Tax Credits (PTCs) that PSE anticipated generating for (1) the Wild Horse wind facility and, separately, for (2) the Hopkins Ridge wind facility.

(b) Show by year the amount of PTCs that PSE anticipated utilizing on its federal income tax return for each of the first ten years of operation of the Wild Horse wind facility and the Hopkins Ridge wind facility.

(c) Page 84, line 11-12 states that: "Due to bonus depreciation, PSE continues to have a tax loss and as a result has not been able to use these [production tax] credits." Identify and provide PSE's projections of (1) bonus tax depreciation, (2) PTCs, and (3) taxable income or loss for 2016 and the remaining period of the first ten years in which the Wild Horse and Hopkins Ridge wind facilities are in use.

(d) What is the logical relationship of (1) the Wild Horse and Hopkins Ridge wind facilities PTCs and (2) the Colstrip Units 1 and 2 decommission and remediation? Please explain with particularity.

(e) Is PSE's ability to utilize the Wild Horse and Hopkins Ridge wind facilities PTCs in any way dependent upon the Colstrip Units 1 and 2 decommission and remediation? Please explain with particularity.

Response:

(a) Attached as Attachment A to Puget Sound Energy's ("PSE") Response to Public Counsel Data Request No. 286 is an MS Excel spreadsheet providing the amount of Production Tax Credits ("PTC") that PSE generated by year. The Wild Horse PTC generation started on Dec 22, 2006 and ceased on Dec 21, 2016 due to IRC Section 45(a)(2)(A)(ii). Hopkins Ridge PTC generation started on Nov 27, 2005 and ceased on Nov 26, 2015 due to IRC Section 45(a)(2)(A)(ii).

(b) In 2005 and 2006, bonus depreciation was not contemplated as the law enabling bonus depreciation had expired in 2004. PSE's general expectation was that the PTCs would be used when generated. Bonus depreciation was enacted in 2008 and has been reenacted continually since that time.

(c) As noted in PSE's response to subpart (a) above, the first ten years of operations for Hopkins Ridge and Wild Horse ended in November 2015 and December 2016, respectively. PTCs generated in 2016 have been provided in response to subpart (a), above. Bonus depreciation and estimated taxable income for 2016 are as follows:
   1) 2016 Bonus Depreciation: $248,269,574.
   2) PSE's 2016 Tax Return will not be finalized until September 2017; however, estimated taxable income will be zero as a portion of prior Net Operating Losses ("NOL") will be applied. Refer to PSE's Response to ICNU Data Request No. 012 for information on the estimated NOL utilization.

(d) The logical relationship is that decommissioning and remediation represents a regulatory receivable and the benefit of PTCs represent a regulatory payable and both are related to generation assets. For additional discussion, please see the Prefiled Direct Testimony of Katherine J. Barnard, Exhibit No. ___(KJB-1T), pages 86-87.

(e) PTC utilization is dependent on whether PSE has sufficient taxable income and not directly tied to Colstrip decommissioning and remediation costs. However, actual decommissioning and remediation expenditures would lower taxable income and impact PSE's ability to utilize PTC.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Dockets UE-170033 and UG-170034
Puget Sound Energy
2017 General Rate Case

PUBLIC COUNSEL DATA REQUEST NO. 413

PUBLIC COUNSEL DATA REQUEST NO. 413:

Refer to the Direct Testimony of Ronald J. Roberts, Exhibit No. RJR-1CT at 38 where intergenerational equity is discussed, as well as the testimony of Puget Sound Energy witnesses Doyle and Barnard. Also, refer to the response to WUTC Staff Data Request No. 182.

a. Explain how intergenerational equity concerns relate to cost recovery for generating plants.

b. What was the basis for PSE's proposing a 2019 retirement date for Colstrip Units 1 and 2 in Docket UE-072300?

c. By accepting a 2035 retirement date instead of its proposed 2019 retirement date for Colstrip Units 1 and 2 in Docket UE-072300, was PSE accepting any risk associated with either: (1) intergenerational equity, or (2) a retirement of Units 1 and 2 occurring before 2035? If so, please explain fully. If not, explain fully why not.

d. The response to WUTC Staff Data Request No. 182 also refers to "Mr. Spanos's initial analysis for Colstrip Units 1 and 2." (Emphasis added.) What assumed retirement date for Colstrip Units 1 and 2 is presumed in the new depreciation rates proposed by Puget Sound Energy in the current rate case?

e. Has any analysis of the Colstrip useful life and Colstrip depreciation rates been conducted either by Mr. Spanos or Puget Sound Energy, or for PSE, using any updated information on Colstrip retirement dates? If not, explain fully why not. If so, identify and provide a complete copy of such analysis, including related Excel files, with formulas and cross references intact.

f. In its supplemental filing, has Puget Sound Energy made any adjustments to its requested depreciation expense for Colstrip Units 1 and 2 to reflect a retirement date of either (1) by July 2022, or (2) in 2018? If so, where is this reflected? If not, explain fully why not.

Response:

a. Closely matching the cost recovery associated with generation assets with the useful life of the facilities provides intergenerational equity and helps assure that the customers who benefit from an asset placed in service or an expense incurred for the provision of their electric or gas services, bears the cost associated with those same assets or expenses.

b. Puget Sound Energy's ("PSE") proposed 2019 retirement date included in WUTC Docket UE-072300 was based on a number of factors, including the coal supply, efficiency of the units, and various environmental laws and regulations.

c. No, settlement agreements are viewed in their totality and in conjunction with which positions could be successfully litigated. The 2007 settlement agreement in WUTC Docket UE-072300 that included the agreement to extend the life on the Colstrip assets from the previously estimated life of 40 years was one aspect of an overall agreement, and should not modify PSE's opportunity to recover the costs associated with the Colstrip assets.

d. The depreciation study utilizes the retirement date of July 2022 for Colstrip Units 1 and 2, consistent with the settlement of the Sierra Club and Montana Environmental Information Center lawsuit.

e. The filed depreciation study includes the anticipated retirement date for Colstrip Units 1 and 2 of July 2022. Additionally, the study has assumed retirement dates of 2035 for Colstrip Units 3 and 4. Please refer to the Prefiled Direct Testimony of John J. Spanos, Exhibit No. ___(JJS-1T) and accompanying exhibits.

f. No, PSE did not make any adjustments in its supplemental filing associated with the depreciation expense for Colstrip Units 1 and 2 because PSE's direct case reflected the July 2022 retirement date consistent with the settlement of the Sierra Club and Montana Environmental Information Center lawsuit.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Dockets UE-170033 and UG-170034
Puget Sound Energy
2017 General Rate Case

PUBLIC COUNSEL DATA REQUEST NO. 418

PUBLIC COUNSEL DATA REQUEST NO. 418:

Please identify, quantify and explain all Colstrip regulatory asset amounts included in electric rate base by Puget Sound Energy.

Response:

Attached as Attachment A to Puget Sound Energy's ("PSE") Response to Public Counsel Data Request No. 418, please find an MS Excel file that provides the tabs titled "182.3 and 186," which were included in the original Attachment A to PSE's Response to WUTC Staff Data Request No. 118. These tabs provide the Colstrip deferred debits and regulatory asset accounts and the amounts included for the test year in this proceeding. In tab 182.3, the Colstrip accounts are shown on rows 12, 14, 15 and 34 in columns A through K, and in tab 186, the Colstrip accounts are shown on rows 41 through 44 in columns A through K.

As stated in PSE's Response to Public Counsel Data Request No. 424 subpart (f), PSE has recorded a generally accepted accounting principles ("GAAP")-only entry which reclassifies the expected net book value of Colstrip Units 1 and 2 at shut down from plant in service to a deferred balance sheet account in recognition that, from a GAAP perspective, Colstrip Units 1 and 2 have an agreed upon shut down date that does not correspond to the level of depreciation expense currently being recognized for Colstrip Units 1 and 2. As this GAAP entry has not been approved by the Washington Commission, PSE has not included the GAAP transfer or the GAAP deferred balance sheet account in this rate filing. PSE has filed its rate base in this proceeding in compliance with FERC and prior rate making, which is to say that Colstrip Units 1 and 2 have been included in electric rate base in FERC Accounts 101 Electric Utility Plant in Service, 108 Accumulated Provision for Depreciation, and 282 Accumulated Deferred Income Taxes. PSE has excluded the deferred balance sheet account that was recognized for GAAP purposes only.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Dockets UE-170033 and UG-170034
Puget Sound Energy
2017 General Rate Case

WUTC STAFF DATA REQUEST NO. 459

<u>WUTC STAFF DATA REQUEST NO. 459:</u>

RE: PSE response to Public Counsel Data Request No. 424

PSE's response to subpart (a) of Public Counsel's Data Request No. 424 shows entries for three separate dollar values: $128.2 million, $92.8 million, and $44.2 million.

a. Please describe what each of these three dollar values represent.

b. Please indicate where each of these three dollar values are shown on (or how they are calculated from) attachment A to PSEs response to Public Counsel data request 424.

<u>Response:</u>

It should be noted as indicated in Puget Sound Energy's ("PSE") Response to Public Counsel Data Request No. 424 that the above entries are not part of this proceeding.

a. The $128.2 million entry in subpart (a) of PSE's Response to Public Counsel Data Request No. 424 represents the estimated net book value as of July 31, 2022 that PSE recorded in the third quarter 2016 for Colstrip Units 1 and 2. This amount did not include the Asset Retirement Cost ("ARC") associated with Colstrip Units 1 and 2.

   The additional $48.6 million ($92.8 million minus $44.2 million) that was recorded in the fourth quarter was an adjustment for the following three items:

   1. adjust the amount recorded in the third quarter to be as of July 1, 2022;

   2. include the estimated ARC as of July 1, 2022; and

   3. present the GAAP only entries on a gross basis (gross plant and accumulated depreciation shown separately) rather than on a net book

value basis (one number representing the gross book value less the accumulated depreciation).

The following table provides an overview of the entries:

A GL Account #	B Recorded in Sept. 2016	C 3Q 2016 (shown gross)	D 3Q 2016 (using July 1, 2022 vs. July 31, 2022)	E 3Q 2016 (include ARC)	F Dec. 2016 NBV	G Recorded in Dec. 2016 (4Q Adj. Entry)
1010661: Plant Asset: Colstrip 1&2 Colstrip-contra	$128.2M	$160.4M	$-	$15.9M	$221.0M	$92.8M
10800071: Accumulated Depreciation – Contra	No Entry	$32.2M	-$0.5M	$3.8M	$44.2M	$44.2M
Net Asset Impact	$128.2M	$128.2M	$0.5M	$12.1M	$176.8M	$48.6M
1010651: Regulatory Asset: Colstrip 1&2	$128.2M	$128.2M	$0.5M	$12.1M	$176.8M	$48.6M

b. Attached as Attachment A to PSE's Response to WUTC Staff Data Request No. 459 is an MS Excel spreadsheet report that presents the information reported in Attachment A to PSE's Response to Public Counsel Data Request No. 424 in an expanded format that differentiates the data between third quarter 2016 and fourth quarter 2016.

Please refer to worksheet "Q3 2016" cell I38 in Attachment A to PSE's Response to WUTC Staff Data Request No. 459 for the calculation of the $128.2 million estimated net book value as of July 31, 2022 that PSE recorded in the third quarter 2016 for Colstrip Units 1 and 2.

For the calculation of PSE's $92.8 million recorded in the fourth quarter 2016, please refer to Attachment A to PSE's Response to WUTC Staff Data Request No. 459 and subtract the amount in cell I38 of worksheet "Q3 2016" from the amount in cell F38 of worksheet "Q4 2016." This variance is primarily due to the inclusion of the estimated ARC portion of Ash Pond Capping for Colstrip Units 1 and 2.

For the calculation of total estimated accumulated depreciation of $44.2 million from January 2017 through July 1, 2022, please refer to Attachment A to PSE's Response to WUTC Staff Data Request No. 459, worksheet "Q4 2016," cell H38.