

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND)	DOCKETS UE-090704
TRANSPORTATION COMMISSION,)	and UG-090705 (<i>consolidated</i>)
Complainant,)	
)	
v.)	ORDER 12
)	
PUGET SOUND ENERGY, INC.,)	
)	GRANTING MOTION FOR
Respondent.)	CLARIFICATION OF ORDER 11
)	
.....)	

MEMORANDUM

- 1 **PROCEEDINGS:** On May 8, 2009, Puget Sound Energy, Inc. (PSE or the Company), filed with the Washington Utilities and Transportation Commission (Commission) certain tariff revisions designed to increase its general rates for electric service (Docket UE-090704) and gas service (Docket UG-090705) to customers in Washington. The proposed revisions provided for a general rate increase of 7.4 percent for the electric tariffs and 2.2 percent for the gas tariffs. The Commission suspended operation of the tariffs by Order 01, entered in these dockets following the May 28, 2009, open meeting. By Order 02, entered on June 8, 2009, the Commission consolidated these dockets.

- 2 The Commission conducted evidentiary hearings on January 19 – 21, 2010. In addition, the Commission conducted public comment hearings in separate locations in PSE’s service territory on December 7 and 10, 2010, and on January 19, 2010, during which it received into the record oral comments and exhibits from interested members of the public.¹ The parties filed briefs and reply briefs on February 19, 2010, and March 2, 2010, respectively.

¹ The Commission also received written comments from members of the public through the close of the record on January 25, 2010. These comments are identified in the formal record as Exhibit B-1.

- 3 On April 2, 2010, the Commission entered Order 11 – Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing. This was the Commission’s Final Order including its decisions on all contested issues in the proceeding and setting forth summaries of the net operating income (NOI), rate base, and revenue requirements impacts of its decisions in Table 4 – Commission Determination of Restating and Pro Forma Adjustments – Electric, and in Table 6 – Commission Determination of Restating and Pro Forma Adjustments – Natural Gas. The Commission further summarized the expected overall NOI and revenue requirement impacts in Tables 5 and 7. The data included in these tables were taken from information provided by the parties in response to Bench Request 3, which required a post-hearing analysis of revenue requirements from the perspective of each party taking a position on the contested pro forma adjustments.
- 4 On the electric side of the case, Table 4 reflects adjusted power costs (Adjustment 10.03) based on the Commission’s determination of certain underlying issues that were in dispute. Order 11 also required the Company to make additional adjustments to power costs during the compliance phase of these dockets based on the application of principles determined in Order 11. The Commission determined, in addition, the NOI impact of several adjustments that depend on the application of undisputed formulae to data, and calculated the revenue requirements for all adjustments by applying a similarly formulaic “conversion factor” to the corresponding NOI impact for each adjustment.
- 5 On April 5, 2010, Commission Staff communicated to the Presiding Administrative Law Judge that Staff, PSE and other parties had conducted discussions concerning Order 11 and what would be required of the Company in its compliance filing. Staff communicated further that Staff and PSE were not in agreement on certain requirements under Order 11 and requested an Order Conference, pursuant to WAC 480-07-840.
- 6 The Commission polled the parties and determined there was no objection to convening such a conference on shortened notice, and issued a Notice of Order Conference setting April 6, 2010, at 1:30 p.m. as the date and time for the conference. PSE, Staff, Public Counsel, the Industrial Customers of Northwest Utilities, and the Federal Executive Agencies participated either in person or via teleconference connection to the hearing room.
- 7 By the conclusion of the order conference, the Commission had clarified for the parties the application of the principles determined in Order 11 to the data in the

underlying record. Inasmuch as its determinations were consistent with PSE's interpretation of Order 11, the Commission required the Company to file a motion for clarification outlining the points in dispute and their resolution, either based on the agreement of the parties or a determination by the Commission. PSE filed its Motion for Clarification on April 7, 2010.

8 **COMMISSION DETERMINATION:** All of the adjustments discussed in this Order implicate the highly complex power cost adjustment in one fashion or another. Unfortunately, the movement of various power cost components among other contested adjustments occurred in workpapers behind the parties' revenue requirements exhibits. These workpapers and exhibits were updated from time to time during the course of this proceeding without full explication to the Commission concerning what underlying costs were being moved. The determination of certain other power cost adjustments depended on calculations that could be made only during the compliance phase. Although the Commission reached principled determinations with respect to all disputed costs, the revenue requirement impact of those determinations was not always clear. Thus, Table 4 in Order 11 does not reflect the final amounts of several adjustments. We now, by this Order, set forth final adjustment amounts and approve final revenue requirements for recovery in rates. We accordingly determine it is appropriate to clarify Order 11 as discussed in this Order below.

9 **DISCUSSION:** PSE requests clarification on six issues:

- The treatment of Colstrip settlement payment amounts.
- Wild Horse Expansion wheeling costs.
- Mint Farm fuel costs.
- Wild Horse Expansion and Mint Farm production O&M costs.
- Adjustment of the Tenaska Disallowance to Reflect the Approved Rate of Return.
- Adjustment of the Production Factor to Reflect the Rejection of the Conservation Phase-In Adjustment.

Colstrip Settlement Payment

- 10 PSE states that in its initial filing the Company requested authority to defer the Colstrip settlement payment in Account 182.3 – Other Regulatory Assets pursuant to an accounting petition filed May 22, 2008, Docket UE-080900. PSE’s proposed restating adjustment would have removed the \$10,487,160 Colstrip settlement payment charged to production operations and maintenance (“O&M”) during the test year. PSE’s proposal would then have reduced the Colstrip settlement payment of \$10,487,160 by an insurance reimbursement receivable of \$2,083,590. PSE’s proposal would have placed the net Colstrip settlement payment of \$8,403,570 in a regulatory asset. Interest would have accrued on the regulatory asset from August 2008, which is the date of the payment, through the beginning of the rate year. The resulting balance would have amortized over sixty months, under the Company’s proposal.
- 11 Commission Staff, however, proposed the inclusion of Colstrip settlement payment amounts in Miscellaneous Deferred Debits and power cost O&M expense. First, Commission Staff reserved the amount recovered from insurance (\$2,083,590) to Account 186, Miscellaneous Deferred Debits. Commission Staff included the remainder (\$8,404,396) in power cost O&M expense.
- 12 In Order No. 11, the Commission agreed with Commission Staff that the Colstrip settlement costs should be test period expenses:
- We are not persuaded that the costs of the Colstrip litigation should be afforded any extraordinary treatment, either as a regulatory asset or as a non-recurring expense. Indeed, these costs are not out of the ordinary and it is appropriate to treat them as a test period expense, as proposed by Staff.²
- 13 Table 4 (Commission Determinations of Restating and Pro Forma Adjustments – Electric) of Order 11, however, does not include Colstrip settlement costs of \$8,404,396 in power cost O&M expense in Adjustment 10.03 (Power Costs), as proposed by Commission Staff.
- 14 PSE requests by its motion that the Commission clarify Order 11 to include Colstrip settlement costs of \$8,404,396 in power cost O&M expense in Adjustment 10.31 (Regulatory Assets and Liabilities). Such clarification reduces net operating income by \$5,558,973 and increases the revenue requirement by \$8,947,872. PSE states that it discussed this adjustment with Commission Staff and that Staff agrees with the

² Order No. 11 at ¶216.

PSE's analysis and proposed clarification with respect to this adjustment. Staff confirmed its agreement on this point during the order conference on April 6, 2010.

Wild Horse Expansion wheeling costs

- 15 PSE states that in its initial filing, the Company included wheeling costs of \$23,006 for the Wild Horse Expansion. According to PSE, Commission Staff also included wheeling costs of \$23,006 for the Wild Horse Expansion. In its rebuttal testimony, however, PSE included corrected wheeling costs of \$1,318,262 for the Wild Horse Expansion.
- 16 Table 4 of Order 11 includes net operating income of \$(3,289,703) for Adjustment 10.07 (Wild Horse Expansion). PSE states that this includes wheeling costs of \$23,006 for the Wild Horse Expansion, which the Company argues does not correlate with the level of power costs approved by the Commission in Order 11. By contrast, the Company says, PSE's Wild Horse wheeling costs of \$1,318,262 correspond with the power costs approved by the Commission in Order 11.
- 17 PSE requests in its motion that the Commission clarify Order 11 by using PSE's pro forma adjustments for Wild Horse Expansion wheeling costs of \$1,318,262. This reduces net operating income by \$856,734 and increases the Company's revenue requirement by \$1,379,022.
- 18 PSE states that it has discussed this adjustment with Commission Staff, and that Staff agrees with the Company's analysis and proposed correction with respect to this adjustment. Staff confirmed this during the April 6, 2010, Order Conference.

Mint Farm Fuel Costs

- 19 PSE states that it included in its initial filing fuel costs of \$59,359,585 for Mint Farm, while Staff included fuel costs of \$53,577,114 for Mint Farm. In its rebuttal testimony, PSE updated the Mint Farm fuel costs to \$60,053,640.
- 20 Table 4 of Order 11 includes net operating income of (\$46,408,534) for Adjustment 10.08 (Mint Farm). This amount includes fuel costs of \$53,577,114. PSE argues that this pro forma adjustment does not correlate with the level of power costs approved by the Commission in Order 11. PSE's fuel costs of \$60,053,640, according to the Company, correspond with the power costs approved in Order 11.

21 PSE requests that the Commission clarify Order 11 by using PSE's pro forma adjustment for fuel costs for Mint Farm of \$60,053,640. According to PSE, this reduces net operating income by \$4,283,833 and increases the revenue requirement by \$6,895,373. PSE, states that it has discussed this adjustment with Commission Staff, and obtained Staff's agreement with the PSE's analysis and proposed clarification of this adjustment. Staff confirmed this during the April 6, 2010, Order Conference.

Wild Horse Expansion and Mint Farm production O&M costs.

22 PSE states that in its initial filing the Company used an annual average of the forecasted five year cost analysis to determine normalized maintenance costs, or direct expense costs for the rate year. This methodology resulted in pro forma adjustments for production O&M of \$1,951,841 and \$9,311,752 for the Wild Horse Expansion and Mint Farm, respectively.

23 Commission Staff opposed PSE's use of budgeted or forecast figures for plant expenditures and relied instead on historical and normalized expenses over a five-year period for established facilities (i.e., Colstrip 1 and 2, Encogen, Frederickson 1 and 2, Fredonia 1-4, Whitehorn). For new facilities added during the test year, Staff calculated an annual expense based on January through August 2009 (Mint Farm and Hopkins Ridge Infill), monthly average actual expense from August 2008 through August 2009 (Sumas), or actual construction costs through October 2009 (Wild Horse Expansion). This methodology resulted in pro forma adjustments for production O&M of \$1,242,216 and \$4,934,400 for the Wild Horse Expansion and Mint Farm, respectively.

24 In its rebuttal filing, PSE proposed (i) the inclusion of additional management staff, foreseeable infrastructure maintenance costs, and project development royalty payments for O&M expense for the Wild Horse Expansion and (ii) the use of test year actual O&M expense for the Goldendale Generating Station as a proxy for O&M expense for Mint Farm. These methodologies resulted in pro forma adjustments for production O&M of \$1,951,216 and \$5,215,033 for the Wild Horse Expansion and Mint Farm, respectively.

25 In Order 11, the Commission agreed with PSE's proposals with respect to production O&M:

O&M is an ongoing expense and there is no evidence that the more recent historic data upon which the Company would have us rely requires any normalizing adjustments. We accept the Company's proposals and its proposal to reduce overall plant operations and maintenance expense by \$1,799,720 from test year levels.

- 26 Table 4 of Order 11, however, includes Commission Staff's pro forma adjustments for production O&M of \$1,242,216 and \$4,934,400 for the Wild Horse Expansion and Mint Farm, respectively. PSE requests in its motion that the Commission clarify Order 11 by using PSE's pro forma adjustments for production O&M of \$1,951,216 and \$5,215,033 for the Wild Horse Expansion and Mint Farm, respectively. This (i) reduces net operating income by \$469,373 and increases the revenue requirement by \$755,518 with respect to the pro forma adjustment for Wild Horse Expansion production O&M and (ii) reduces net operating income by \$185,622 and increases the revenue requirement by \$298,782 with respect to the pro forma adjustment for Mint Farm O&M.
- 27 Commission Staff objected to these clarifications at the Order Conference on April 6, 2010.

Tenaska Disallowance

- 28 Order 11 establishes an overall rate of return of 8.10 percent for PSE. PSE adjusted the Tenaska disallowance for purposes of its compliance filing to reflect this approved rate of return. This adjustment reduces net operating income by \$105,970 and increases the revenue requirement by \$170,572. PSE states that the Company and Commission Staff agree with PSE's proposed adjustment for the Tenaska disallowance, which the Commission ordered the Company to make during the compliance filing phase of this proceeding.

Production Factor

- 29 Order 11 rejected the conservation phase-in adjustment proposed by PSE. PSE states in its motion that it has adjusted the production factor and Production Adjustment to reflect this determination and reflect other changes to this adjustment based on Order 11. This adjustment (i) reduces rate base by \$404,397; (ii) reduces return on rate base by \$32,756; (iii) increases net operating income by \$334,579; and (iv) decreases the revenue requirement by \$591,272. PSE states that the Company and Commission Staff agree with PSE's proposed adjustment for the Tenaska disallowance, which the

Commission ordered the Company to make during the compliance filing phase of this proceeding.

30 **CONCLUSION:** PSE, Staff and the other parties who elected to participate in the compliance phase of this proceeding have worked diligently to apply the Commission’s determinations in Order 11 to the data in the underlying record, have identified several adjustments where the Commission’s summary in Table 4 is inaccurate, and have achieved a common understanding of what adjustment amounts should be included in Table 4. There is no dispute among the parties with respect to:

- The treatment of Colstrip settlement payment amounts.
- Wild Horse Expansion wheeling costs.
- Mint Farm fuel costs.
- Adjustment of the Tenaska Disallowance to Reflect the Approved Rate of Return.
- Adjustment of the Production Factor to Reflect the Rejection of the Conservation Phase-In Adjustment.

Based on the parties’ presentations at the April 6, 2010, Order Conference and PSE’s arguments and representations in its Motion for Clarification, the Commission determines it should clarify Order 11 with respect to these adjustments as discussed in PSE’s motion and restated above.

31 The Commission determined at the Order Conference that PSE correctly applied the Commission’s determinations concerning power costs when calculating the Wild Horse Expansion and Mint Farm production O&M costs. That Order 11 was not clear concerning the amount for these adjustments, and Staff’s dispute with the Company during the compliance phase is explained in significant part by the complexity of the power cost adjustment and its interplay with other adjustments.

32 We summarize our determinations in the table below.

CLARIFICATIONS TO ELECTRIC REVENUE DEFICIENCY IN ORDER 11				
Docket UE-090704				
Description	Rate Base	Return on Rate Base	NOI	Revenue Requirement

				(Deficiency)
PER FINAL ORDER NO. 11	\$3,797,019,369	\$307,558,569	\$272,640,632	\$56,204,849
Include Colstrip Settlement Payment in Production O&M via Regulatory Asset & Liability Adjustment			(\$5,558,973)	\$8,947,872
Change Mint Farm Fuel from Commission Staff's \$53,577,114 to PSE's \$60,053,640			(\$4,283,833)	\$6,895,373
Change Wild Horse Expansion Wheeling from \$23,006 to corrected \$1,318,262			(\$856,734)	\$1,379,022
Change Wild Horse Expansion Production O&M from Commission Staff's \$1,242,216 to PSE's \$1,951,841			(\$469,374)	\$755,518
Change Mint Farm Production from Staff's \$4,934,400 to PSE's \$5,215,033			(\$185,622)	\$298,782
Update Tenaska Disallowance for change in rate of return			(\$105,970)	\$170,572
Adjust Production Factor to Reflect Rejection of Proposed Conservation Phase-In Adjustment	(\$404,397)	(\$32,756)	\$334,579	(\$591,272)
TOTAL	\$3,796,614,972	\$307,525,813	\$261,514,705	\$74,060,716

ORDER

THE COMMISSION ORDERS THAT:

- 33 (1) Order 11, entered in these dockets on April 2, 2010, is clarified as discussed in the body of this Order.
- 34 (2) PSE is authorized and required to file tariff sheets that are necessary and sufficient to effectuate the terms of Order 11 as clarified by this Order. The required tariff sheets must bear a stated effective date that is no earlier than April 8, 2010.

- 35 (3) The Commission Secretary is authorized to accept by letter, with copies to all parties to this proceeding, a filing that complies with the requirements of this Final Order.
- 36 (4) The Commission retains jurisdiction to effectuate the terms of this Final Order.

Dated at Olympia, Washington, and effective April 8, 2010.

WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

JEFFREY D. GOLTZ, Chairman

PATRICK J. OSHIE, Commissioner

PHILIP B. JONES, Commissioner