

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	DOCKET NO. UE-141141
)	
v.)	
)	SETTLEMENT STIPULATION
PUGET SOUND ENERGY, INC.)	
)	
Respondent.)	
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I. INTRODUCTION

1 This Settlement Stipulation (“Settlement”) is entered into by the parties in this case:
Puget Sound Energy, Inc., (“PSE”), the Staff of the Washington Utilities and Transportation
Commission (“Staff”), the Public Counsel Division of the Attorney General’s Office
 (“Public Counsel”) and the Industrial Customers of Northwest Utilities (“ICNU”),
hereinafter collectively referred to as “Parties” and individually as a “Party.”

2 Because this Settlement is entered into by all Parties, and it resolves the issues in the
docket, it is a “full settlement,” as that term is defined in WAC 480-07-730(1).

3 This Settlement consists of this “Settlement Stipulation” and Attachment A hereto,
which contains the calculation of the revenue requirement surplus and power cost baseline
rate. Attachment A and PCA exhibits A-1 through D will be filed in the compliance filing
for this proceeding to incorporate certain of the settlement conditions that are not yet known.
These settlement conditions include the outcome of the proposed sale of the Electron
Hydroelectric Project as requested in PSE’s amended application to sell under Docket UE-

131099 and the updates to rate year power costs to reflect more current information closer to the time that rates are set in this proceeding. These power cost updates will reflect the impact of power cost changes normally allowed by the Commission, such as those due to more recent forward market prices, power and gas for power fixed priced contracts and rate year contract costs. The compliance filing will be provided to Parties for review and comment.

4 This Settlement is subject to review and disposition by the Washington Utilities and Transportation Commission (“Commission”). Section III of the Settlement is effective on the date of the Commission order approving it (unless the Commission establishes a different effective date).

5 This Settlement calls for PSE to file a revised tariff with an effective date of December 1, 2014. Accordingly, the Parties request the Commission issue an order approving the Settlement before that date.

II. NATURE OF THE DOCKET

6 This case involves a Power Cost Only Rate Case (“PCORC”) filed by PSE on May 23, 2014, which requested a revenue decrease of \$9,556,193 (an average decrease of approximately 0.456 percent over the rates set in PSE’s 2013 PCORC in Docket No. UE-130617). PSE filed supplemental testimony on August 1, 2014, which updated power costs and supported a revenue decrease of \$5,463,695 (an average decrease of approximately 0.261 percent). In the PCORC filing, PSE requested prudence determinations on transmission and power generation expenditures. PSE also requested approval of a methodology for providing for timely cost recovery of the incremental power costs and equity adder associated with the Centralia Coal Transition PPA.

III. AGREEMENT

7 The Parties have mutually agreed to a means by which this docket can be closed without further action by the Commission beyond its approval of this Settlement, excepting Commission determination on ICNU's Petition for Accounting Order, filed August 8, 2014 ("ICNU's Petition"), and PSE's Answer to ICNU's Petition, filed August 28, 2014 ("PSE's Answer"), if such determination is still outstanding at the time that the Commission approves this Settlement. The Parties agree and stipulate as follows:

8 **Admission of Exhibits** – For purposes of the Commission's evaluation of the reasonableness of the Settlement, the Parties agree the Commission should admit into evidence all exhibits filed by the Parties in this docket to date. If the Commission rejects the Settlement, and this docket proceeds to hearing, the Commission's action admitting such evidence will be ineffective.

9 The Parties request that the Commission accept the PCORC terms filed by PSE with the following adjustments, supplementation and revisions to PSE's filed case:

10 **Overall Revenue Requirement** – The settlement agreement results in an overall decrease in revenue requirement of \$14,893,316, an average decrease of 0.711 percent. The final revenue requirement figures will change with compliance filing updates agreed upon in this Settlement, and may change as a result of the final cost of capital determination referenced in paragraph 15 below.

11 **Adjustment 01 (Power costs)**

- **Bonneville Power Administration ("BPA") Transmission** – The Parties agree that PSE acted prudently in the renewal and acquisition of 475 MW of BPA transmission set forth in PSE's direct and supplemental testimony.

However, for purposes of settlement, the Parties agree to remove the rate increase associated with the BPA-16 rate case in the last two months of the rate year, a decrease of \$1,066,572 in expense.

- **Colstrip Major Maintenance** – The Parties agree that major maintenance events for Colstrip will be treated in a similar manner to gas fired generation facilities from the 2013 PCORC Settlement (defer and amortize).¹ Therefore, major maintenance will be amortized over the expected time period to the next major event. Colstrip major maintenance amortization will be over the expected period to the next maintenance event which is three years, and included in rates are an amount for the amortization based on budgeted expenditures and the estimated timing of the event. Amounts included in the Colstrip budget as a major maintenance management reserve are not included in the budgeted expenditures included in rates. At the time of the major maintenance event, PSE will defer and book the balance of the expenditures, including any management reserves that were eventually used, to a FERC 186 account for amortization. The actual amortization runs through the Power Cost Adjustment (“PCA”) mechanism as a variable item when incurred, thereby truing up for the difference between budget and actuals. There is no accrual of any return on the balance. For purposes of the 2014 PCORC rate year (December 2014 – November 2015), the major maintenance contract amounts for units 1 and 2 are set at \$5 million, and for units 3 and 4 are set at \$3 million. Commencing with the 2014 Colstrip 3 and 4 major maintenance event, those costs will be deferred to FERC 186 and

¹ Docket UE-131230, Settlement Stipulation ¶ 17.

amortized over a three-year period once complete. For ratemaking purposes, the total \$8 million is amortized over 36 months starting in June 2015 (six months into the rate year). The actual amortization amount will begin in the month the event occurred and be included in actual expenses in the PCA mechanism. In a subsequent PCORC or general rate case, PSE will use the actual amortization schedule for these two events for setting rates. In future proceedings, all new recurring major maintenance events for Colstrip units will be based on budgeted events and amortized over the expected time period to the next major event with the actual maintenance expense deferred and amortized over the actual time period in the PCA mechanism. For each event that was previously set in rates using budgeted amounts, the subsequent rate case will use rate year amounts from the actual amortization schedules for setting rates.

- **Colstrip O&M** – The Parties agree to a \$1.3 million adjustment to reduce Colstrip operations and maintenance expense, related to ICNU’s potential budget variance adjustment.
- **Power Cost Changes** – The Parties agree that the following AURORA modeling and power cost changes will be included in the compliance filing:
 - Lower Baker Hydroelectric Project Unit 4 - Increase unit efficiency to reflect original design specifications.
 - Colstrip Outage Rate – Replace the forced outage rate in the 2014 PCORC for Colstrip units 3 and 4 with the forced outage rate of 11.61% agreed upon in the 2013 PCORC.

- Update power costs for known and measurable changes normally allowed by the Commission.

12 **Adjustment 03 (Snoqualmie)** – The Parties agree that PSE will use the rate base level for the Snoqualmie Hydroelectric Project (“Snoqualmie”) renovation that was approved in PSE’s 2013 PCORC, \$305,197,775, adjusted for depreciation and deferred income taxes. The net impact is a reduction in rate base of \$15,613,977 from PSE’s filed case. The Snoqualmie additions PSE included in its direct case in this proceeding will be considered in a future proceeding, such as a 2015 PCORC, after all additions, changes or improvements to Snoqualmie have been completed and are known and measurable.

13 **Adjustment 07 (Electron Sale)** – PSE’s supplemental filing of August 1, 2014, has included the adjustment reflecting the sale by PSE of the Electron Hydroelectric Project to Electron Hydro, LLC. The Subtotal and Baseline Rate amount reflected on page two of Exhibit No. ___ (KJB-10) decreased by \$5,086,563 for this adjustment. The impact on power costs for the inclusion of the Electron PPA in the supplemental filing is the addition of \$2,814,770 in power costs. The overall net reduction to revenue requirement from the resulting sale is \$2,271,793. The sale is contingent on the Commission approving PSE’s amended application for the sale. The Parties agree that if the sale is not approved by the Commission or the sale does not occur, the adjustments will need to be reversed resulting in an increase to the supplemental revenue requirement filed on August 1, 2014, of \$2,271,793.

14 **Adjustment 09 (Property Insurance)** – The Parties agree that PSE will update the property insurance to reflect PSE’s share of Colstrip insurance premiums for the April 2014 through April 1, 2015 period, which became available after PSE filed its direct case. This adjustment reduces expense by \$286,683.

15 **Cost of Capital** – For purposes of initial rate-setting under this Agreement, the Parties agree to a cost of capital based on a 9.8 percent return on equity and an overall weighted average cost of capital of 7.77 percent. The Parties further agree that the final cost of capital used in calculating rates in the 2014 PCORC will be based on and incorporate the Commission’s decision with respect to cost of capital following remand by the Thurston County Superior Court in Case Nos. 13-2-01576-2 and 13-2-01582-7 (consolidated), Order Granting in Part and Denying in Part, Petitions for Judicial Review (July 25, 2014). There, the Court directed the Commission “to establish fair, just, reasonable and sufficient rates to be charged under the rate plan, and to order any other appropriate relief.”

16 **Centralia Coal Transition PPA** – The Parties agree that PSE may implement the December 1, 2015 price and volume changes associated with the Centralia Coal Transition PPA, in a manner consistent with the presentation in Exhibit No. ___(KJB-7), attached hereto, through a 2015 PCORC, and the December 1, 2016 price and volume changes either through a compliance filing in 2016, a general rate case or a combination to be proposed by PSE.

17 **Prudence Determination.** In addition to the prudence determination regarding the BPA transmission renewal and acquisition addressed above, the Parties agree that the Renewal of the Point Roberts PPA meets the Commission's prudence standard and should be determined to be prudent by the Commission. The Parties also understand and agree that no prudence finding is necessary regarding the Electron PPA. To the extent the Commission determines that a prudence determination is required, the Parties agree that the Commission should determine that the PPA is prudent.

IV. GENERAL PROVISIONS

18 **Entire agreement; no precedent.** This Settlement is the entire agreement of the Parties. Accordingly, the Parties recommend that the Commission adopt and approve the Settlement in its entirety, including the Attachment. This Settlement may not be cited as precedent in any proceeding other than a proceeding to enforce the terms of this Settlement. The Parties enter into this Settlement to avoid further expense, uncertainty, and delay. By executing this Settlement, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed in arriving at the terms of this Settlement, and no Party shall be deemed to have agreed that this Settlement is appropriate for resolving any issues in any other proceeding, except to the extent expressly set forth in this Settlement. No Party shall represent that any of the facts, principles, methods, or theories employed by any Party in arriving at the terms of this Settlement are precedents in any other proceeding, except to the extent expressly set forth in this Settlement.

19 **Manner of execution.** This Settlement is executed when all Parties sign the Settlement. A designated and authorized representative may sign the Settlement on a Party's behalf. The Parties may execute this Settlement in counterparts. If the Settlement is executed in counterparts, all counterparts shall constitute one agreement. A Settlement signed in counterpart and sent by facsimile or emailed as a pdf is as effective as an original document. A faxed or emailed signature page containing the signature of a Party is acceptable as an original signature page signed by that Party. Each Party shall indicate the date of its signature on the signature page. The date of execution of the Settlement will be the latest date indicated on the signature page(s).


20 **Approval process.** Each Party agrees to support the terms and conditions of this Settlement as a settlement of all contested issues between them in the above-captioned consolidated proceedings. Each Party agrees to support the Settlement during the course of whatever procedures the Commission determines are appropriate.

21 **Commission approval with conditions.** In the event the Commission approves this Settlement, but with conditions, the Parties will have ten business days to file a letter with the Commission accepting or rejecting each such condition. If, in such a timely filed letter, a Party rejects a condition, this Settlement is void and the Parties will jointly and promptly request the Commission convene a prehearing conference to address procedural matters, including a procedural schedule for completion of the case.

22 **Publicity.** Each Party has the right to review in advance of publication each announcement or news release another Party intends to issue about this Settlement. This right of advance review includes a reasonable opportunity for the non-issuing Party to request changes to such an announcement. While the issuing Party is not required to make any such requested change, the Parties agree that if a news release or announcement issued by a Party refers to Commission Staff, it shall include a statement that Commission Staff's recommendation to approve this Settlement is not binding on the Commission.

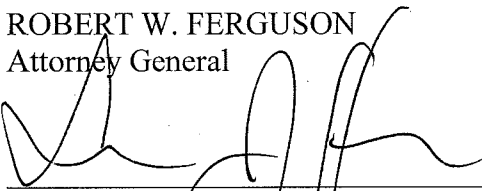
Dated this 5th day of September 2014.

ROBERT W. FERGUSON
Attorney General



SALLY BROWN
Senior Assistant Attorney General
Division Chief, UTC Division
Counsel for Commission Staff

ROBERT W. FERGUSON
Attorney General



SIMON FFITCH
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Counsel for Public Counsel Division

PUGET SOUND ENERGY INC.

KEN S. JOHNSON
Director, State Regulatory Affairs

DAVISON VAN CLEVE

JESSE COWELL
Counsel for the Industrial Customers of
Northwest Utilities

Dated this ____ day of September 2014.

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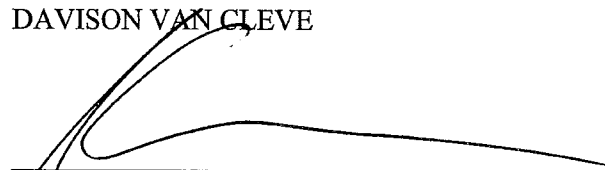
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JESSE COWELL
Counsel for the Industrial Customers of
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**ATTACHMENT A
TO
SETTLEMENT AGREEMENT**

Settlement Compared to Present Rates				
Row		2014 PCORC	2013 PCORC	Revenue Surplus
	TY RY	Jan '13 ~ Dec '13 Dec '14 ~ Nov '15	Oct '11 ~ Sep '12 Nov '13 ~ Oct '14	
10		\$ 1,266,196,125	\$ 1,270,318,407	
11		0.9543790	0.9549940	
12				
13		1,326,722,534	1,330,184,699	
14		21,095,348	20,915,581	
15				
16		\$ 62.892	\$ 63.598	\$ (0.706)
17				
18				21,095,348
19				
20				\$ (14,893,316)
21				
22				\$ 2,093,797,106
23				
24				-0.711%

Settlement Compared to Company Supplemental Baseline Rate

Row		Company Filed Supplemental	Settlement Adjustment	Filed with Settlement Agreement	Source
3	Regulatory Assets (1) (Variable)	\$ 265,489,703	\$ -	\$ 265,489,703	
4	Transmission Rate Base (Fixed)	91,215,648	-	91,215,648	
5	Production Rate Base (Fixed)	2,142,856,613	(15,613,977)	2,127,242,636	Note 1
6		<u>\$ 2,499,561,964</u>	<u>\$ (15,613,977)</u>	<u>\$ 2,483,947,987</u>	
7	Net of tax rate of return	6.69%		6.69%	
8					Test Yr
9					\$/MWh
9A					
10	Regulatory Asset Recovery (on Row 3)	\$ 27,325,017	\$ -	\$ 27,325,017	\$ 1.295
10a	Equity Adder Centralia Coal Transition PPA	2,326,384	-	2,326,384	\$ 0.110
11	Fixed Asset Recovery Other (on Row 4)	9,388,195	-	9,388,195	\$ 0.445
12	Fixed Asset Recovery-Prod Factored (on Row 5)	220,549,396	(1,607,039)	218,942,357	\$ 10.379 Note 1
13	501-Steam Fuel	93,281,778	-	93,281,778	\$ 4.422
14	555-Purchased power	403,024,623	-	403,024,623	\$ 19.105
15	557-Other Power Exp	6,523,447	-	6,523,447	\$ 0.309
15a	Payroll Overheads-Benefits (Inc. Worker's Comp)	7,402,047	-	7,402,047	\$ 0.351
15b	Property Insurance	2,979,405	(286,683)	2,692,722	\$ 0.128 Note 2
15c	Montana Electric Energy Tax	1,725,038	-	1,725,038	\$ 0.082
15d	Payroll Taxes on Production Wages	1,955,229	-	1,955,229	\$ 0.093
16	547-Fuel	163,446,992	-	163,446,992	\$ 7.748
17	565-Wheeling	107,300,782	(1,066,572)	106,234,210	\$ 5.036 Note 3
18	Variable Transmission Income	(6,685,935)	-	(6,685,935)	\$ (0.317)
19	Production O&M	122,106,929	(4,487,455)	117,619,473	\$ 5.576 Note 4
20	447-Sales to Others	(19,758,332)	-	(19,758,332)	\$ (0.937)
21	456-Purch/Sales Non-Core Gas	(18,527,883)	-	(18,527,883)	\$ (0.878)
22	Transmission Exp - 500KV	926,060	-	926,060	\$ 0.044
23	Depreciation-Production (FERC 403)	113,124,660	(1,563,488)	111,561,172	\$ 5.288 Note 1, Note 5
24	Depreciation-Transmission	4,204,776	-	4,204,776	\$ 0.199
25	Amortization - Regulatory Assets (1)	32,061,907	-	32,061,907	\$ 1.520
26	Hedging Line of Credit	526,847	-	526,847	\$ 0.025
27	Subtotal & Baseline Rate	\$ 1,275,207,362	\$ (9,011,237)	\$ 1,266,196,125	\$ 60.023 Final Result
28	Revenue Sensitive Items	0.9543790		0.9543790	
29		<u>\$ 1,336,164,524</u>	<u>\$ (9,441,990)</u>	<u>\$ 1,326,722,534</u>	
30	Test Year DELIVERED Load (MWH's)	21,095,348		21,095,348	<-- includes Firm Wholesale

Note 1 - Change capital investment and depreciation expense for Snoqualmie to 2013 PCORC level (Adjustment 10.03)

Note 2 - Update for ICNU Data Request 3.27 (Adjustment 10.09)

Note 3 - Removal of 2 months of BP Transmission Tariff Change (Adj 10.01)

Note 4 - Amortization of recurring Colstrip major maintenance. Generic \$1.3 million reduction (Adj 10.01)

Note 5 - Removal of revenue adjustment for flow-through taxes per PSE response to Bench Request No. 01

**ATTACHMENT B
TO
SETTLEMENT AGREEMENT**

EXHIBIT NO. __ (KJB-7)
DOCKET NO. UE-14 _____
2014 PSE PCORC
WITNESS: KATHERINE J. BARNARD

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-14 _____

**SIXTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
KATHERINE J. BARNARD
ON BEHALF OF PUGET SOUND ENERGY, INC.**

MAY 23, 2014

Example of Incremental Cost Calc for Coal Transition PPA Step-ups

	Initial Contract Period	Year 2	Year 3
	Dec 14 - Nov 15	Dec 15 - Nov 16	Dec 16 - Nov 17
1 Contract Period			
2 MW	180	280	380
3 MWhs	1,576,800	2,459,520	3,328,800
4 Contract Price	\$46.17	\$47.32	\$48.51
5 Contract Amount at New Volume/Price	\$72,800,856	\$116,394,939	\$161,471,287
6 Increase in MWhs		882,720	869,280
7 Example Mkt Price (Mid-C Flat)	\$33.92	\$33.92	\$33.92
8 Equity Adder	\$1.49	\$1.49	\$1.49
9 Increase in Contract Amount		\$43,594,083	\$45,076,348
10 Avoided Market Purchases for Increased Volume		(29,941,862)	(29,485,978)
11 Increase to FERC 555		13,652,221	15,590,371
12 Equity Return for Increased Volume		1,315,253	1,295,227
13 Total Increase to Baseline Rate		\$14,967,474	\$16,885,598