



STATE OF WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION  
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September 25, 2014

**NOTICE OF TOPICS FOR CLARIFICATION AT SETTLEMENT HEARING**

RE: *Washington Utilities and Transportation Commission v. Puget Sound Energy*,  
Docket UE-141141

TO ALL PARTIES:

On September 5, 2014, Puget Sound Energy (PSE or the Company), the Commission's regulatory staff (Staff), the Industrial Customers of Northwest Utilities (ICNU), and the Public Counsel Division of the Washington State Attorney General's Office (Public Counsel, collectively with PSE, Staff, and ICNU, the Settling Parties) filed with the Commission a full settlement agreement (Settlement) and supporting documentation in Docket UE-141141.

The Commission will convene a settlement hearing on September 30, 2014, and requests that the Settling Parties be prepared to provide clarification on the following topics:

Centralia Coal Transition PPA (Coal Transition PPA):

- Please be prepared to discuss whether the Settling Parties believe the language in the Settlement Stipulation, which allows PSE to implement the December 1, 2015, price and volume changes associated with the Coal Transition PPA, and the reference to Ms. Barnard's Exh. No. KJB-7 precludes any costs or benefits made possible by the Coal Transition PPA in the 2015 PCORC rates. Further, could interveners propose other adjustments to baseline power costs in the 2015 PCORC that are the result of the addition of December 1, 2015, volume changes and fixed

prices? Also, please be prepared to comment on these same issues for the December 1, 2016, price and volume changes.

- The Settling Parties have indicated that PSE may implement December 1, 2016, price and volume changes “through a compliance filing in 2016, a general rate case or a combination to be proposed by PSE.”<sup>1</sup> Please explain what is meant by “a combination to be proposed by PSE.”
- In paragraph 16 of the Settlement Stipulation, the Settling 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) ... through a 2015 PCORC....” In Exhibit No. KJB-7, line 7 contains an “example” price of power the Company would presumably need to purchase but for the volumes delivered in the under the Coal Transition PPA. These “example” prices are labeled “Mid-C Flat.” Is the example in the exhibit specifying a particular price index and contract type for the price of the avoided power purchases or is the exact source of the price of the avoided purchases an issue to be determined in the 2015 PCORC and 2016 proceedings proposed in paragraph 16 of the Settlement Stipulation?

#### Revenue Adjustment for Flow-Thru Taxes

In the Company’s initial filing, a Revenue Adjustment for Flow-Thru Taxes is provided in Adjustments 3 and 4 but not for Adjustment 5.<sup>2</sup> In order to address the inconsistency, PSE stated in its Response to Bench Request No. 1: “PSE is updating Adjustments 3 and 4 to remove the revenue adjustment associated with the flow through taxes (line 13) in order to remove the federal tax impact and to be consistent with the original intent of the PCORC to present adjustments on a pretax basis.”

1. Please be prepared to explain why the lower revenue requirement impact resulting from the exclusion of flow-thru taxes in Adjustment 5 (Treasury Grant) is deemed appropriate considering the following:
  - a) The revenue requirement decrease impact of Adjustment 5 would be higher by the amount of flow-thru tax if the treasury grant was passed thru in Schedule 95A and accorded similar treatment of earlier treasury grants received. What

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<sup>1</sup> Settlement Stipulation, ¶ 16.

<sup>2</sup> Barnard, Exh. No. KJB-4 at 7-9 and Barnard, Exh. No. KJB-10 at 7-9.

is the basis or justification for the decrease in treasury grant benefits to ratepayers caused solely by the change in methodology from a tracker to the PCORC proceeding?

- b) If the flow-thru tax adjustment is not included in Adjustment 5, as suggest by PSE, where will the tax benefit be recognized? Will it accrue to the ratepayers?
2. The response to Bench Request No. 1 states that the revenue adjustment for flow-thru taxes in Adjustments 3 and 4 are removed and the revisions are reflected in the revenue requirement figures presented with the Settlement Stipulation. Please be prepared to describe why removing the flow-through taxes adjustment is deemed proper considering the treatment would be inconsistent with the following:
- a) The treatment (inclusion) in the 2013 PCORC for identical hydro-projects.
  - b) The revenue requirement determination of the net of tax return on fixed and variable assets component of the baseline power cost rate.

In Attachment A to the Settlement Stipulation, page 2, line 23, the amount under the column heading "Settlement Adjustment" is \$1,563,488, and is an amount from Source Notes 1 and 5. Please be prepared to provide a breakdown of the adjustment by source.

Please be prepared to discuss if the parties would be amenable to the inclusion of revenue adjustment for flow-thru taxes in Adjustments 3, 4, 5, and to the extent impacted, Adjustment 6- Treasury Grants Deferral.

**The Settling Parties should be prepared to address these topics during the settlement hearing on September 30, 2014, beginning at 9:30 a.m., in Room 206, Richard Hemstad Building, 1300 S. Evergreen Park Drive S.W., Olympia, Washington.**

MARGUERITE FRIEDLANDER  
Administrative Law Judge

cc: All Parties