

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND)	DOCKET UE-141141
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	ORDER 04
)	
v.)	
)	FINAL ORDER APPROVING AND
PUGET SOUND ENERGY,)	ADOPTING SETTLEMENT
)	AGREEMENT
Respondent.)	
.....)	

1 **PROCEEDING:** On May 23, 2014, Puget Sound Energy (PSE or Company) filed with the Washington Utilities and Transportation Commission (Commission) revisions to its currently effective Tariff WN U-60, designated as the Schedule 95 “Power Cost Adjustment Clause.” PSE seeks to revise its Power Cost Rate reflected in Schedule 95, in order to reflect decreases in the Company’s overall normalized power supply costs. The Company’s initial filing would decrease charges and rates for electric service customers by approximately \$9,556,193 or 0.456 percent.¹

2 The Commission conducted a settlement hearing on September 30, 2014, before Chairman David W. Danner, Commissioner Philip B. Jones, and Commissioner Jeffrey D. Goltz. Administrative Law Judge Marguerite E. Friedlander presided.

3 **PARTY REPRESENTATIVES:** Sheree Strom Carson, Perkins Coie LLP, Bellevue, Washington, represents PSE. Simon J. ffitich, Senior Assistant Attorney General, Seattle, Washington, represents the Public Counsel Division of the Washington State Attorney General’s Office (Public Counsel). Sally Brown, Senior Assistant Attorney General, Olympia, Washington, represents the Commission’s

¹ Barnard, Exh. No. KJB-1T, at 2:1-2. This power cost only rate case, or PCORC, filing is authorized by the Settlement Stipulation approved by the Commission in Dockets UE-011570 and UG-011571.

regulatory staff (Staff).² Jesse E. Cowell, Davison Van Cleve, Portland, Oregon, represents the Industrial Customers of Northwest Utilities (ICNU).

4 **SUMMARY:** The Commission approves and adopts the Settlement Stipulation (Settlement) entered into by PSE, Staff, Public Counsel, and ICNU. We find that the settling parties' proposal to reduce PSE's revenue requirement by \$14,893,316, an average decrease of 0.711 percent, will result in rates that are fair, just, reasonable, and sufficient.³

MEMORANDUM

5 **BACKGROUND.** On May 23, 2014, PSE filed its power cost only rate case (PCORC) requesting a rate decrease for electric customers of approximately \$9.6 million, an average of 0.46 percent decrease from the electric power cost adjustment (PCA) mechanism rates set in PSE's 2013 PCORC proceeding, Docket UE-130617, which became effective on November 1, 2013.⁴

6 The Commission suspended the PCORC filing on June 12, 2014, and convened a prehearing conference on July 9, 2014. At the prehearing conference, the Commission granted ICNU's intervention request. On August 1, 2014, the Company filed its supplemental direct testimony and lowered its requested rate decrease for electric customers from \$9.6 million to \$5.5 million, or from 0.46 percent to 0.261 percent.⁵ PSE asserted that the reduction in its request was due to an increase in projected rate year power costs.⁶

² In formal proceedings, such as this, the Commission's regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

³ The final revenue requirement amount will be determined when PSE submits its compliance filing that will include updates and power cost changes agreed upon in the Settlement.

⁴ Mills, Exh. No. DEM-1CT, at 4:5-8.

⁵ Mills, Exh. No. DEM-5CT, at 2:9-13.

⁶ *Id.* at 2:7-9.

7 On September 5, 2014, PSE, Staff, Public Counsel, and ICNU reached agreement on all issues in the proceeding and filed their Settlement with supporting joint testimony pursuant to WAC 480-07-730(1). The Commission convened a hearing on September 30, 2014, for the purpose of clarifying certain provisions within the Settlement. The settling parties presented a panel of witnesses in support of the agreement: Katherine J. Barnard for PSE, Bradley G. Mullins for ICNU, Lea Fisher for Public Counsel, and Jason Ball for Staff.

8 **SETTLEMENT.** The Settlement, which is attached as Appendix A, requests that the Commission approve the PCORC terms filed by PSE with the following provisions and adjustments:

- The overall decrease in the Company's revenue requirement will be \$14,893,316, an average decrease of 0.711 percent;⁷
- While agreeing that PSE acted prudently in the renewal and acquisition of 475 megawatts (MW) of Bonneville Power Administration (BPA) transmission, the settling parties agree to remove the rate increase associated with the 2016 BPA rate case for the last two months of the rate year, for a decrease of \$1,066,572 in expense;⁸
- Major maintenance for Colstrip will be amortized over the projected time period to the next major event, which is three years, and included in rates based on budgeted expenditures and the estimated timing of the event;⁹

⁷ Settlement, ¶ 10.

⁸ *Id.*, ¶ 11. In November 2014, BPA will commence a combined power and transmission rate case to set new rates for its fiscal years 2016-2017.

⁹ *Id.* As the settling parties explained:

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 [PCA] mechanism as a variable item when incurred, thereby truing up for the difference between budget and actuals. . . . 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 [account] and 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

- There should be \$1.3 million decrease to Colstrip operations and maintenance (O&M);¹⁰
- A compliance filing should be made incorporating several AURORA modeling¹¹ and power cost changes, including: increased unit efficiency for Lower Baker Hydroelectric Project Unit 4 to reflect the original design specifications; replacement of the forced outage rate for Colstrip units 3 and 4 with the rate of 11.61 percent, as agreed to in the 2013 PCORC proceeding; and updated power costs for known and measurable changes normally allowed by the Commission;¹²
- The Settlement uses the Commission-approved rate base level of \$305,197,775 for the Snoqualmie Hydroelectric Project, adjusted for depreciation and deferred income taxes;¹³
- There is an overall net reduction of \$2,271,793 to PSE's revenue requirement with the Commission's approval of the Company's sale of its Electron Hydroelectric Project (Electron) to Electron Hydro, LLC (Electron LLC);¹⁴
- There is a reduction of expenses in the amount of \$286,683 for updates to PSE's share of Colstrip insurance premiums for the April 2014 through April 2015 period;¹⁵

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. *Id.*

¹⁰ *Id.*

¹¹ PSE used the AURORA hourly dispatch model to project a portion of its net power costs for the rate year. Mills, Exh. No. DEM-1CT, at 27:16-17. Developed by EPIS, Inc., the AURORA hourly dispatch model "is a fundamentals-based production cost model that simulates hourly economic dispatch of PSE's generation resource portfolio within the Western Electricity Coordinating Council region." *Id.* at 28:2-4.

¹² *Id.*

¹³ *Id.*, ¶ 12. This rate base level is a decrease of \$15,613,977 from PSE's filed case. *Id.*

¹⁴ *Id.*, ¶ 13. The amount of this adjustment, \$2,271,793, stems from the Subtotal and Baseline Rate amount of \$5,086,563, less the power costs of \$2,814,770 associated with the Electron purchase power agreement (PPA). *Id.*

¹⁵ *Id.*, ¶ 14.

- The return on equity will remain at 9.8 percent and the overall weighted average cost of capital will remain at 7.77 percent;¹⁶
- For purposes of the Centralia Coal Transition Purchase Power Agreement (PPA), PSE may implement the December 1, 2015, price and volume changes through a 2015 PCORC filing and the December 1, 2016, price and volume changes through a general rate case, a compliance filing, or a combination of the two to be proposed by PSE in 2016;¹⁷
- The renewal of the Point Roberts PPA is prudent, and the Electron PPA does not require a prudence determination from the Commission “as the PPA is part of the consideration for the sale;”¹⁸ and
- Rates will become effective December 1, 2014.¹⁹

DISCUSSION AND DECISION

9 **Power Costs.** The Settlement’s treatment of Colstrip major O&M costs aligns with the treatment of major O&M costs for PSE’s natural gas generation plants. To the extent the major O&M costs of the two types of plants are similar to each other, consistency of treatment is practical and logical. The Settlement’s exclusion of the recent and lengthy outage at Colstrip units 4 is consistent with Commission practice for normalizing Colstrip’s forced outage rates for the four Colstrip units. The Settlement also adjusts the generation output for two generation facilities in the AURORA model.

¹⁶ *Id.*, ¶ 15. Due to the Thurston County Superior Court’s remand in Dockets UE-121697 and UE-121705 (consolidated) and Dockets UE-130137 and UG-130138 (consolidated), the parties agree that this cost of capital structure is, essentially, interim in nature pending the Commission’s determination of the return on equity in the above referenced dockets. *ffitch*, TR 66:6-9; *Cowell*, TR 66:21-67:8; *Carson*, TR 67:18-21; and *Brown*, TR 64:7-15.

¹⁷ *Id.*, ¶ 16.

¹⁸ *Id.*, ¶ 17 and Joint Testimony, Exh. No. 4, at 6:16. In the alternative, if the Commission determines that a prudence determination is necessary for the Electron PPA, the settling parties request that the Commission find the PPA prudent. *Id.*

¹⁹ *Id.*, ¶ 5.

10 The Settlement also addresses the net power costs (NPC) of the Coal Transition PPA. The Commission approved the Coal transition PPA in Docket UE-121373.²⁰ The PPA consists of three tranches of power that begin delivery on three different dates. The first tranche of 180 MW begins delivery on Dec 1, 2014, the second tranche of 100 MW begins delivery on Dec 1, 2015, and the last tranche of 100 MW begins delivery on Dec 1, 2016. The Commission required PSE to file this PCORC so as to place in rates the cost of the first tranche of power from the PPA and for PSE to propose a method for including the costs in rates of the 2015 and 2016 tranches of power.²¹ The Settlement provides for the recovery of NPCs which are approximately \$14 million lower than existing NPC even after the inclusion of the additional costs of the first tranche of power from this PPA. The Settlement's proposal of another PCORC filing in 2015 to place in rates the costs of the second tranche of power is sound. The third tranche, in 2016, commences during the window of time in which PSE must file a general rate case (GRC). To accommodate the possible timing mismatch of the GRC and the beginning of the cost of the third tranche of power, the Settlement proposes that PSE be allowed to make a compliance filing to track any of the costs of the third tranche of power that may not be included in the relevant test year of the GRC. The Commission considers this provision necessary to ensure full and timely recovery of all aspects of power costs associated with this PPA.

11 **Snoqualmie Hydroelectric Project.** The Settlement delays the consideration of additions, changes, or improvements to the Snoqualmie Hydroelectric Project (Snoqualmie) that PSE included in its direct case until the Company's 2015 PCORC filing or a similar proceeding when full and final amounts of the project upgrades are determined. The rate base level of \$305,197,775, updated for accumulated

²⁰ Coal Transition Docket UE-121373, Order 08 ¶53; "We therefore expressly approve what the Commission previously implied in Order 03. We determine that PSE should be authorized and required to file a PCORC timed so that the any incremental power costs created through this PPA beginning on December 1, 2014, can be recovered fully and timely in rates. Furthermore, we encourage PSE to propose in the context of its initial PCORC filing additional clarifications, such as the compliance filing approach suggested by Multiparty Settlement Agreement, and how this will interact with annual adjustments in the PCA baseline."

²¹ *Id.*

depreciation and deferred federal income tax, was previously approved in the 2013 PCORC docket.²² This is a reasonable outcome and should be approved.²³

- 12 **Electron Sale.** On October 9, 2014, the Commission entered Order 10 in Dockets UE-130617 *et al.* authorizing the sale of the Electron Hydroelectric Project by PSE to Electron LLC and approving the accounting treatment proposed by PSE. The resulting adjustment for this transaction decreases the revenue requirement by \$5,086,563, which is offset by an increase in power costs totaling \$2,814,770 related to the Electron PPA. This ratemaking treatment is reasonable and benefits ratepayers. Though the parties suggested that we could use this case to make a determination on the prudence of the Electron PPA, they indicated that it was not necessary for the Commission to do so. Accordingly, we choose not to make such a prudence determination at this time.
- 13 **Property Insurance.** The property insurance expense update, which reflects PSE's share of Colstrip insurance premiums and only became available after PSE filed its direct case, will result in a reduction of expenses by \$286,683. This adjustment is in the public interest.
- 14 **Cost of Capital.** The settling parties have agreed to keep the current return on equity of 9.8 percent and the overall weighted average cost of capital at 7.7 percent. We do not typically address these figures in PCORC proceedings, and, as the settling parties have indicated, the agreement to default to these figures on an interim basis allows this case to move forward. The Commission will render a decision on these matters separately in the remand proceeding in Dockets UE-121697 and UG-121705 (consolidated) and Dockets UE-130137 and UG-130138 (consolidated).
- 15 **Prudence.** The settling parties testify to the prudence of PSE's renewal of BPA transmission rights from Mid-Columbia (Mid-C) and the renewal of the Point Roberts

²² Settlement, ¶12.

²³ We note that the revenue requirement under the Settlement includes the removal of revenue adjustment for flow-through taxes associated with the non-tax deductible depreciation expenses of the Snoqualmie and Lower Baker projects, consistent with the original intent of the PCORC. The treatment of federal income taxes will be evaluated in the PCORC collaborative now ongoing.

PPA. The Point Roberts PPA is necessary to service an electrical load isolated from PSE's other service territory. The 475 MW of BPA transmission is used to meet capacity and deliver power from Mid-C to PSE's service territory. The Commission concludes that PSE's actions to renew both the Mid-C BPA transmission rights and the Point Roberts PPA are prudent.

FINDINGS OF FACT

- 16 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the parties and the reasons therefore, the Commission now makes and enters the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:
- 17 (1) The Washington Utilities and Transportation Commission is an agency of the state of Washington, vested by statute with authority to regulate rates, rules, regulations, practices, and accounts of public service companies, including electrical companies.
- 18 (2) PSE is a "public service company" and an "electrical company" as those terms are defined in RCW 80.04.010 and used in Title 80 RCW. PSE is engaged in Washington state in the business of supplying utility services and commodities to the public for compensation.
- 19 (3) On May 23, 2014, PSE filed with the Commission revisions to its currently effective Tariff WN U-60, designated as the Schedule 95 "Power Cost Adjustment Clause." PSE proposed to revise its Power Cost Rate reflected in Schedule 95, in order to reflect decreases in the Company's overall normalized power supply costs. The Company's filing would decrease charges and rates for electric service customers by approximately \$9,556,193 or 0.456 percent.
- 20 (4) The Commission suspended the operation of the proposed tariff revisions on June 12, 2014, pending an investigation and hearing concerning the proposed changes and whether they are just and reasonable.

- 21 (5) On September 5, 2014, PSE, Commission Staff, Public Counsel, and ICNU filed a full Settlement Stipulation (Settlement) which is attached as Appendix A and adopted in this Order by reference and, if approved, would resolve all the issues in this docket.
- 22 (6) The Settlement provides for: (1) a decrease of \$14.893 million in the Company's revenue requirement; (2) a prudence determination on PSE's renewal and acquisition of 475 megawatts of Bonneville Power Administration transmission; (3) amortization of the Colstrip major maintenance expense over three years; (4) reduction of \$1.3 million to the Colstrip operations and maintenance expense; (5) various AURORA modeling and power cost changes; (6) reduction in rate base of \$15,613,977 through the use of the rate base level for the Snoqualmie Hydroelectric Project approved in the Company's 2013 PCORC proceeding, \$305,197,775, adjusted for depreciation and deferred income taxes; (7) ratemaking treatment for the sale of the Electron Hydroelectric Facility, approved by the Commission in Docket UE-130617 *et al*, resulting in a revenue requirement reduction of \$2,271,793; (8) reduction of \$286,683 for PSE's share of the Colstrip property insurance premiums; (9) retention of the current return on equity and weighted average cost of capital percentages; (10) allows PSE to implement the December 1, 2015, price and volume changes associated with the Centralia Coal Transition purchase power agreement through a 2015 PCORC proceeding 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; and (11) a prudence determination for PSE's renewal of the Point Roberts purchase power agreement.
- 23 (7) PSE's currently effective rates are not fair, just, or reasonable for the services rendered.

CONCLUSIONS OF LAW

- 24 Having discussed above all matters material to this decision, and having stated
detailed findings, conclusions, and the reasons therefore, the Commission now makes
the following summary conclusions of law, incorporating by reference pertinent
portions of the preceding detailed conclusions:
- 25 (1) The Washington Utilities and Transportation Commission has jurisdiction over
the subject matter of, and parties to, these proceedings.
- 26 (2) PSE's proposed tariff revisions, filed on May 23, 2014, would not result in
rates that are fair, just, or reasonable.
- 27 (3) Renewal and acquisition of 475 MW of BPA transmission and renewal of the
Point Roberts power purchase agreement are in the public interest and should
be found prudent.
- 28 (4) The amortization of major maintenance expenses for Colstrip until the next
major event, as described more fully in the Settlement, is a reasonable
approach and should be approved.
- 29 (5) The Company should file various AURORA modeling and power cost
changes, as described more fully in the Settlement, in a compliance filing.
- 30 (6) The ratemaking treatment for the Electron Hydroelectric Project sale resulting
in a \$2,271,793 reduction to PSE's revenue requirement should be approved.
- 31 (7) The use of PSE's previously approved rate base level for the Snoqualmie
Hydroelectric Project renovation, adjusted for depreciation and deferred
income taxes, is reasonable.
- 32 (8) The Settlement, if approved, would result in rates for PSE that are fair, just,
reasonable, and sufficient.

- 33 (9) Rates determined on the basis of the terms set forth in the Settlement would be neither unduly preferential nor discriminatory and should become effective December 1, 2014.
- 34 (10) The Settlement fully and fairly resolves the issues in these dockets and is in the public interest.
- 35 (11) The Commission should approve and adopt the Settlement, attached to this Order as Appendix A and incorporated by reference in this Order, as a reasonable resolution of the issues presented.
- 36 (12) The Commission Secretary should be authorized to accept by letter, with copies to all parties to this proceeding, a filing that complies with the requirements of this Order.
- 37 (13) The Commission should retain jurisdiction to effectuate the terms of this Order.

ORDER

THE COMMISSION ORDERS:

- 38 (1) The proposed tariff revisions Puget Sound Energy (PSE) filed on May 23, 2014, and suspended by prior Commission order, are rejected.
- 39 (2) The Settlement Stipulation filed by PSE, Commission Staff, Public Counsel, and ICNU, and attached to this Order as Appendix A, is approved and adopted.
- 40 (3) PSE's renewal and acquisition of 475 megawatts of BPA transmission and the renewal of the Point Roberts purchase power agreement are prudent.
- 41 (4) PSE is authorized and required to make a compliance filing including such new and revised tariff sheets as are necessary to implement the requirements of this Order so that new tariffs become effective December 1, 2014.

- 42 (5) 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 Order.
- 43 (6) The Commission retains jurisdiction over the subject matters and parties to this proceeding to effectuate the terms of this Order.

Dated at Olympia, Washington, and effective November 3, 2014.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

PHILIP B. JONES, Commissioner

JEFFREY D. GOLTZ, Commissioner

NOTICE TO PARTIES: This is a Commission Final Order. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-07-870.

APPENDIX A
(Settlement Stipulation)