BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent.	DOCKETS UE-220066/UG-220067 and UG-210918 (Consolidated) EXHIBIT A TO SETTLEMENT STIPULATION AND AGREEMENT ON REVENUE REQUIREMENT AND ALL OTHER ISSUES EXCEPT TACOMA LNG AND PSE'S GREEN DIRECT PROGRAM
In the Matter of the Petition of PUGET SOUND ENERGY For an Order Authorizing Deferred Accounting Treatment for Puget Sound Energy's Share of Costs Associated with the Tacoma LNG Facility	

EXHIBIT A

NARRATIVE TO THE SETTLEMENT STIPULATION AND AGREEMENT ON REVENUE REQUIREMENT AND ALL OTHER ISSUES EXCEPT TACOMA LNG AND PSE'S GREEN DIRECT PROGRAM

The narrative presented in this Exhibit A addresses the revenue requirement aspects of the Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and PSE's Green Direct Program ("Settlement"), including:

- Presentation of the electric and gas net revenue change after trackers and riders per the settlement.
- Update of the rates subject to refund under the Settlement Stipulation.
- Presentation of the plant closings per the settlement agreement that will form the basis for the annual review during the multiyear rate plan ("MYRP").
- Presentation of the final level of operations and maintenance ("O&M") included in the settlement revenue requirement.
- Identification of the regulatory assets and liabilities included in the settlement.

In addition, Exhibits B through N provide a detailed backup of all revenue requirement changes, as follows:

Exhibit B Current Calculation of the Electric Net Revenue Change per the Settlement Stipulation (Update of Exh. SEF-3)

Exhibit C Current Calculation of the Electric Revenue Requirement Summary Pages and Detailed Summaries per the Settlement Stipulation (Update of Exh. SEF-4)

Exhibit D Current Calculation of the Electric Revenue Requirement Restating, Pro Forma and Provisional Pro Forma Adjustments per the Settlement Stipulation (Update of Exh. SEF-6)

Exhibit E	Current Calculation of the Natural Gas Net Revenue Change Requested per the Settlement Stipulation (Update of Exh. SEF-8)
Exhibit F	Current Calculation of the Natural Gas Revenue Requirement Summary Pages and Detailed Summaries per the Settlement Stipulation (Update of Exh. SEF-9)
Exhibit G	Current Calculation of the Natural Gas Revenue Requirement Restating, and Provisional Pro Forma Adjustments per the Settlement Stipulation (Update of Exh. SEF-11)
Exhibit H	Current Calculation of the Rate Base, Net Operating Income and Revenue Requirement by Adjustment per the Settlement Stipulation (Update of Exh. SEF-13)
Exhibit I	Plant Closings per the Settlement Stipulation (Update of Exhs. SEF-16 and JAK-5 pages 3 and 4)
Exhibit J	Current Calculation of the Forecasted Opex by FERC per the Settlement Stipulation (Update of Exh. SEF-17)
Exhibit K	Current Calculation of the Program Detail of Provisional Pro Forma Rate Base and Depreciation Expense per the Settlement Stipulation (Update of Exh. SEF-21)
Exhibit L	Current Calculation of the Determination of Amount of Electric Deficiencies to be assigned to Schedule 141R – Rates Subject to Refund per the Settlement Stipulation (Update of Exh. SEF-23)
Exhibit M	Current Calculation of the Determination of Amount of Natural Gas Deficiencies to be assigned to Schedule 141R – Rates Subject to Refund per the Settlement Stipulation (Update of Exh. SEF-24)
Exhibit N	Listing of Regulatory Assets and Liabilities to be amortized during the Multiyear Rate Plan

I. UPDATES TO THE REVENUE REQUIREMENT EXHIBITS FOR THE SETTLEMENT STIPULATION

A. Overview of the Net Revenue Change

The table below provides a summary of the net revenue change agreed to in the Settlement:

Description	2023			2024			Full MYRP		
	Electric	Gas	2023	Electric	Gas	2024	Electric	Gas	MYRP
Net Revenue Change per Settlement	$ 223.0	$ 70.6	$ 295.2	$ 38.0	$ 18.8	$ 56.8	$ 260.9	$ 89.4	$ 350.3

PSE and the Settling Parties worked from high-level estimated calculations of the impacts from the various settlement changes in arriving at the agreed upon net revenue changes. In previous rate cases, this level of support may have been sufficient. However, as the Settlement provides for recovery of forecasted investments that are subject to refund, it is now necessary to include a full update to the revenue requirement models in order to establish the basis on which the MYRP will be reviewed. Therefore, after the final agreed upon amounts were determined, PSE performed detailed updates to its revenue requirement exhibits using the more precisely calculated amounts related to the identified settlement terms, with any variances between the estimated and specifically calculated amounts being adjusted to remain at the agreed upon net revenue change. In this way, the agreed upon net revenue change was maintained while at the same time, the necessary detail supporting the numbers has been provided.

The following rate schedules are included in the agreed upon net revenue change:

Rate Schedule	Reason	Electric	Gas
Base Rates	A	X	X
141N - Nonrefundable	N	X	X
141R - Refundable	N	X	X
141C - Cosltrip Tracker	N	X	
141A - Green Direct Credit Recovery	N	X	
139 - Green Direct Program	A, Z	X	
95 - 2020 PCORC	Z	X	
149 - Gas Cost Recovery Mechanism	Z		X

A - Adjust existing rates, **N** - Establish new rates, **Z** - Set rates to zero

In addition, the Settlement provides for the creation of two new rate schedules to recover return on rate base, depreciation and O&M for the items listed below:

- Clean Energy Implementation Plan ("CEIP") Investments
- Transportation Electrification Program ("TEP") Investments[1]

The two new rate schedules are not part of the agreed upon net revenue change from the Settlement. The CEIP and the TEP are each new programs that have yet to be fully approved. Therefore, the rate schedules for these programs will be filed at a later time once subsequent Commission approvals are achieved for these programs.

The table below provides a reconciliation between PSE's requested net revenue change from its January 2022 original filing and the agreed upon amounts from the Settlement:

[1] Including the ability to propose recovery of the incentive rate of return allowed under RCW 80.28.360(2).

	Description	2023 Electric	2023 Gas	2023	2024 Electric	2024 Gas	2024	Full MYRP Electric	Full MYRP Gas	MYRP
1	Net Change Requested	$ 310.6	$ 143.0	$ 453.6	$ 63.1	$ 28.5	$ 91.6	$ 373.7	$ 171.5	$ 545.2
2				-			-	$ -	$ -	-
3	WACC based on 9.4% ROE, 49% Equity Ratio	(17.5)	(9.1)	(26.6)	(5.15)	(2.6)	(7.7)	$ (22.6)	$ (11.7)	(34.3)
4	Adjustments to remove equity return on AMI	(14.6)	(6.6)	(21.1)	(5.57)	(3.29)	(8.9)	$ (20.1)	$ (9.9)	(30.0)
5	Remove Capital and O&M (RNG, TLNG, CEIP, TEP)	(38.9)	(39.6)	(78.5)	(13.41)	0.5	(12.9)	$ (52.3)	$ (39.0)	(91.3)
6	Other	(16.6)	(17.2)	(33.7)	(1.0)	(4.4)	(5.4)	$ (17.6)	$ (21.6)	(39.2)
7	Net Changes	(87.5)	(72.4)	(159.9)	(25.1)	(9.8)	(34.9)	$(112.6)	$ (82.2)	(194.8)
8	Settlement Net Revenue Change	$ 223.1	$ 70.6	$ 293.7	$ 38.0	$ 18.7	$ 56.7	$ 261.1	$ 89.3	$ 350.4

Exhibits B through N to the Settlement provide the revenue requirement exhibits from PSE's original filing updated for the settlement terms and which support the agreed upon net revenue change. A full set of revenue requirement work papers has also been provided to parties and which can be provided in whole or in part in response to a Bench Request. Notably, there are some settlement terms that will not be reflected in Exhibits B through N. Cost of Service, Rate Spread, and Rate Design ("COS") have not been updated to incorporate the Settlement as of the filing date, but those changes will be updated shortly thereafter. In addition, the revenue requirement presented in the exhibits will also not include a power cost update as that will occur at compliance. Finally, there will be a few other differences, none of which are expected to be significant. These other differences will primarily relate to re-introducing the more precise calculations from the COS exhibits.

B. Detailed Description of Changes to PSE's Revenue Requirement Exhibits from Its Original Filing to Arrive at the Models Supporting the Settlement

The following provides an explanation of the changes that were made to PSE's revenue requirement exhibits from its original filing to arrive at the models supporting the settlement terms.

Rate of Return (Electric and Natural Gas)

The rate of return for electric and natural gas for both 2023 and 2024 were changed to reflect the settlement rate of return which utilizes a 9.4 percent return on equity, 49 percent equity ratio and 5 percent cost of debt and is shown in the table below.

	Weight	Cost	Total
Debt	51%	5%	2.55%
Equity	49%	9.40%	4.61%
			7.16%

This change is reflected on page 2 of Exhibits B and E to this Settlement, which are updates to Exhs. SEF-3 and SEF-8.

Northwest Pipeline Refund (Electric Only)

A summary of the Northwest Pipeline refund is provided in the Prefiled Response Testimony of Bradley G. Mullins, Exh. BGM-1T. The $4.4 million which represents the assumed electric portion of the estimated refund was used to reduce power costs in 2023. The $4.4 million refund was not used to reduce the 2024 power costs as it received a one year amortization period under the settlement terms. This change is included in Adjustment 6.45 “Power Costs” in Exhibit D to this Exhibit, which is an update to Exh. SEF-6.

COVID Deferral Removal (Electric and Natural Gas)

The COVID deferrals for electric and natural gas for both 2023 and 2024 were removed from both rate base and amortization expense. This change is included in Adjustment 6.27 “COVID Deferral” in Exhibits D and G to the Settlement, which are updates to Exhs. SEF-6 and SEF-11. PSE will seek to recover "Additional Funding for Customer Programs" provided by PSE in compliance with Order 01 in Docket U-200281 and bad-debt accrued in excess of levels embedded in existing rates are recoverable through PSE's electric and gas Schedule 129.

Removal of plant rate base, depreciation and O&M for specified provisional pro forma plant (Electric and Natural Gas)

The Settlement calls for the removal of net plant rate base, depreciation expense and O&M for specified projects. Therefore, those cost components for each of the projects listed below were removed from the revenue requirement models. The process to remove the net plant rate base (gross plant, accumulated depreciation and accumulated deferred income taxes) and depreciation expense followed the same process discussed in the Second Exhibit to the Prefiled Direct Testimony of Matthew R. Marcelia, Exh. MRM-3. The O&M amounts were removed from Adjustment 6.22 "Proforma O&M" in Exhibits D and G to the Settlement, as listed below.

- CEIP (electric only – to be recovered in a separate tracker)[2]
- TEP, including the incentive rate of return (electric only – to be recovered in a separate tracker) [3]
- Remove Colstrip Dry Ash (electric only – removal of test year and forecasted rate base and depreciation expense)
- Tacoma LNG Facility (natural gas only) [4]
- General reduction in gas rate base – this part of the agreement called for reductions in rate base that would achieve a reduction in revenue requirement

[2] Removal of rate base, depreciation and O&M components.
[3] Removal of rate base, depreciation and O&M components.
[4] Removal of rate base, depreciation and O&M components.

of $5 million in 2023 and an additional $1 million in 2024 (natural gas only – removed from forecasted rate base)

- Renewable Natural Gas investment (natural gas only – removed from forecasted rate base and depreciation expense)
- Delay in reliability spending (electric and natural gas – spending shifted from 2023 to 2024)

Removal of the equity return on Advanced Metering Infrastructure ("AMI") plant (Electric and Natural Gas)

The Settlement provides for the debt return on PSE's AMI investment to be included in rates and allows for the recovery of the debt component of the deferred return on AMI. It also allows for the continued deferral of the equity return on AMI rate base through the date rates are set in PSE's next general rate case. Therefore, to adjust the revenue requirement models for these settlement terms, PSE performed the following:

1. Removed test year and post-test year AMI net rate base from the total net rate base included in the models.
2. Manually added back in the debt return on the test year and post-test year AMI net rate base. In other words, the total net rate base in the models resulting from step 1 was not changed. Rather, the debt return on the AMI net rate base was independently calculated and included in the AMI adjustment (Adjustment No. 6.24).
3. Reduced the level of amortization and corresponding deferral balance of the AMI return deferral by the ratio of equity to the total return in the authorized rates of return used to calculate the deferral amounts.

These changes were made in Adjustments 6.24 "AMI Plant and Deferral" in Exhibits D and G to the Settlement.

Extend Colstrip Major Maintenance Amortization to three years (Electric Only)

The Settlement provides for the 2024 and 2025 Colstrip major maintenance events to be amortized over three years, rather than the twelve months and six months from PSE's original filing.[5] The correcting amounts were removed from Adjustment 6.22 "Proforma O&M" in Exhibits D and G to the Settlement and the impact was flowed through to the determination of Schedule 141-C.

Impact to Proforma Revenues and Power Costs for Changes to the Load Forecast (Electric and Natural Gas)

As part of the Settlement, the Settling Parties agreed to meet halfway between PSE's Electric forecasted billing determinants and Public Counsel's forecasted billing determinants for three specific rate schedules (Residential – Rate 7, Secondary Pumping/Irrigation – Rate 29, and High Voltage Interruptible – Rate 46). The term provides that PSE will incorporate changes in loads associated with these changes to billing determinants into its updates to power costs during the rate plan. The updated revenue requirement models do incorporate the impact of the load forecast change on the pro forma revenues. And because this settlement term is to have no impact on the overall agreed upon net revenue changes, a corresponding offset has been applied to electric and gas O&M. When power costs are updated for the compliance filing, the portion of the power cost update attributable to the load forecast change will be used to reduce the

[5] The 2023 event already had a three year amortization period which ended in 2025.

O&M offset. These changes were made to Adjustments 6.01 "Revenues and Expenses" and 6.22 "Proforma O&M" in Exhibits D and G to the Settlement.

Other Adjustments in Pro Forma Revenues (Electric and Natural Gas)

The Settlement provides that the other adjustments within the pro forma revenue calculation[6] will be removed from the determination of the net revenue change. Therefore, these other adjustments were removed from the 2023 pro forma revenues in the revenue requirement models. This change was made to Adjustment 6.01 "Revenues and Expenses" in Exhibits D and G to the Settlement.

General Reduction to Gas O&M

The Settlement provides for a general reduction to gas O&M to equal 20% of the amount of the 2023 and 2024 adjustments to gas O&M. These amounts were removed from Adjustment 6.22 "Proforma O&M" in Exhibits D and G to the Settlement. The reduction was assigned to the Administrative and General category of O&M.

Reduction to O&M to Absorb Schedule 141A Energy Charge Credit Recovery Adjustment

In settlement negotiations with parties, the net revenue change that was being negotiated started from PSE's original filing. It did not include a revision made to PSE's electric net revenue change that was filed on June 27, 2022. This revision was to incorporate the recovery of the Energy Charge Credit provided under the Green Direct

[6] Please see the Prefiled Direct Testimonies of Birud D. Jhaveri, Exh. BDJ-1T at 11:3 and John D. Taylor, Exh. JDT-1T at 4:13.

Program into Schedule 141A and totaled an additional $36.5 million of electric net revenue change. During negotiations, it was agreed that PSE would absorb this amount in the final agreed upon net revenue change reached during settlement. As PSE's compliance filing will include $36.5 million in Schedule 141A that was not considered in the development of the agreed upon net revenue change, an offsetting adjustment must be made to the other rate schedules listed on page 4 above in order to stay in balance with the agreed upon net revenue change in the Settlement. This offsetting adjustment was made to reduce electric O&M in Adjustment 6.22 "Proforma O&M" in Exhibits D and G to the Settlement. The reduction was assigned to the Administrative and General category of O&M.

The above description summarizes all of the changes that were made to arrive at the updated revenue requirement models.

II. UPDATE OF THE RATES SUBJECT TO REFUND UNDER THE SETTLEMENT STIPULATION

The Exhibits to the Settlement provide a recalculation of the revenue requirement for the rates that will be subject to refund under the Settlement. Exhibits L and M to the Settlement represent updates to Exhs. SEF-23 and SEF-24 which provided the revenue requirement calculations for the rates that will be set in Schedules 141R for electric and natural gas. The amounts reflected in Exhibits L and M are based on information calculated in support of the Settlement and have not been updated for the COS items discussed on page 5 above. Therefore, these schedules will also be updated at the compliance filing.

III. PRESENTATION OF THE CAPITAL ADDITIONS UNDER THE SETTLEMENT AGREEMENT

A. Plant Closings

Exhibit I to the Settlement provides the plant closings under the Settlement. Exhibit I is generally an update to Exhs. SEF-16 and JAK-5 pages 3 and 4. This listing starts from amounts filed in the original filing and makes the adjustments listed on page 8 above. The summary of the revised plant additions is provided below:

(in millions) Category	(Gap) 2022	(RY1) 2023	(RY2) 2024	Total
Specific	$ (53.4)	$ (71.1)	$ (317.8)	$ (442.3)
Programmatic	(399.8)	(637.9)	(652.1)	(1,689.7)
Programmatic Customer Driven	(124.3)	(21.3)	(167.8)	(313.4)
Projected	(186.8)	(184.8)	(168.2)	(539.8)
Total	$ (764.3)	$ (915.0)	$ (1,306.0)	$ (2,985.3)

During negotiations, parties expressed that the proposal to reduce the revenue requirement by $5 million in 2023 and an additional $1 million in 2024 stemmed from the desire to limit new customer construction for the natural gas business. Therefore, the net reduction to plant additions to achieve the desired revenue requirement reductions were taken from the Customer Construction Gas program which is part of the Programmatic – Customer Driven category shown on page 1 of Exhibit I. Plant closings for 2023 and 2024 shown on Exh. JAK-5 page 3 from PSE's original filing were $197.0 million for this program. Plant closings for this category for 2023 and 2024 are now being reflected in Exhibit I as $176.7 million for a net reduction of $20 million for the two-year MYRP.

Due to the dynamics of how rate base is calculated on an average of the monthly averages basis, a significant amount of plant closings – an amount representing roughly eighty five percent of the program – needed to be removed in 2023 to achieve the targeted $5 million reduction in the net revenue change. Likewise, the significant reduction in 2023 plant closings resulted in more than the $1 million reduction in the net revenue change that was targeted in 2024. Accordingly, plant closings were increased in 2024 (by less than the amount of the reduction in 2023) to accommodate and arrive at the targeted impacts. Over the two-year period, there is the desired reduction in rate base, with a significant decrease in the first year that is partially offset in the second year.

It should be emphasized that the Gas Customer Construction program is not under PSE's direct control as the need for these plant additions is driven by customer demand. While part of the Settlement provides for a targeted electrification pilot that might in theory lessen the demand for new gas customers, it is not reasonable to assume that a pilot will reduce demand by eighty five percent. Perhaps over the full two year period of the MYRP, the $20 million reduction in plant closings in the Gas Customer Construction program reflected in Exhibit I may be achievable. However, the year by year amounts are not a reasonable basis against which to hold PSE accountable. The use of PSE's capital governance process as discussed in the Prefiled Direct Testimony of Josh A. Kensok, Exh. JAK-1T along with the portfolio review process for the annual reviews[7] will allow for the variance between the actual plant closings in this program and the amounts

[7] The Settlement Stipulation provides that the annual review process will follow the proposal presented in the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1Tr.

reflected in Exhibit I to be managed appropriately during the MYRP period. Accordingly, it will not be necessary to hold PSE to the specific amounts for this program, or any other project or program listed in Exhibit I, provided that the costs are prudently incurred and the resulting amounts on a portfolio basis result in a revenue requirement that is within reason to that set in this proceeding.

B. Energize Eastside

The in-service timing for the Energize Eastside project is changed by the Settlement since the assumptions were set in the board approved budget that was used as the basis for PSE's original filing. Accordingly, PSE has updated the timing of the plant closings for Energize Eastside in Exhibit I from those used in the original filing. The Settlement provided that there would be no impact to the agreed upon revenue requirement for the change in timing for Energy Eastside as the presumption is that PSE will follow its governance process to manage plant closings to the overall budget, so a corresponding capital adjustment has been applied the Projected Provisional Proforma, Adjustment 6.34 "Projected Provisional Proforma" in Exhibit D to the Settlement, offsetting the impacts of the update to the Energize Eastside assumptions.

C. AMI

Exhibit I includes the assumed plant additions for the AMI project. However, as discussed earlier, the Settlement does not allow for PSE to set in rates the equity return on AMI rate base and the accommodation for that settlement term is provided for in Adjustment 6.24 "AMI Plant and Deferral" in Exhibits D and G to the Settlement.

IV. PRESENTATION OF THE FINAL LEVEL OF O&M INCLUDED IN THE SETTLEMENT REVENUE REQUIREMENT

The table below, included in Exhibit J to the Settlement, provides a reconciliation of the level of O&M included in the Settlement Revenue Requirement.

Description	2023	2024
Electric		
O&M presented in PSE's original filing	$ 511,200,328	$ 525,758,567
Remove CEIP	(29,004,337)	(39,332,134)
Remove TEP	(8,066,928)	(10,506,265)
Adjust Cosltrip MM Amortization	-	(745,282)
Absorb Schedule 141A in O&M	(34,768,324)	(34,735,945)
Proforma Revenue load forecast offset	12,727,177	12,232,210
Adjust to Remain at Agreed Upon Rev Req		3,100,000
Subtotal Settlement Reductions	(59,112,412)	(69,987,416)
O&M per Settlement Agreement	$ 452,087,916	$ 455,771,151
Natural Gas		
O&M presented in PSE's original filing	$ 190,278,630	$ 196,309,341
General reduction to Gas O&M	(7,236,443)	(8,348,776)
Remove Tacoma LNG O&M	(4,906,121)	(5,006,150)
Proforma Revenue load forecast offset	799,336	853,831
Adjust to Remain at Agreed Upon Rev Req	750,000	2,550,000
	(10,593,228)	(9,951,096)
O&M per Settlement Agreement	$ 179,685,402	$ 186,358,245

V. IDENTIFICATION OF THE REGULATORY ASSETS AND LIABILITIES IN THE SETTLEMENT

Exhibit N to the Settlement provides the listing of the Regulatory Assets and Liabilities that underlie the Settlement that will be amortizing during the MYRP. The listing includes both items that are included in the base rates and separate trackers developed in the Settlement.