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October 26, 2012

VIA EMAIL AND OVERNIGHT MAIL

Mr. David Danner
 Executive Director and Secretary
 Washington Utilities and Transportation Commission
 1300 S. Evergreen Park Drive, SW
 Olympia, WA 98504

RECEIVED
 PROJECT MANAGEMENT
 2012 OCT 29 AM 10:08
 STATE OF WASHINGTON
 UTIL. AND TRANSP.
 COMMISSION

Re: Puget Sound Energy, Inc. and NW Energy Coalition's Petition For an Order Authorizing PSE To Implement Electric and Natural Gas Decoupling Mechanisms and To Record Accounting Entries Associated With the Mechanisms

Dear Mr. Danner:

Enclosed please find the original and twelve copies of a proposed order related to the above-referenced filing of yesterday, October 25, 2012. PSE and the NW Energy Coalition are not filing the proposed order, but hereby submit the order for the Commission's consideration and convenience.

If you have any questions, please contact either the undersigned at (425) 635-1422 or Donna Barnett at (425) 635-1419.

Very truly yours,

Sheree Strom Carson

SSC:ic
 Enclosures

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.
and NW ENERGY COALITION

NO. _____

ORDER (PROPOSED)

For an Order Authorizing PSE To Implement
Electric and Natural Gas Decoupling
Mechanisms and To Record Accounting Entries
Associated With the Mechanisms

1. On October 25, 2012, Puget Sound Energy, Inc. ("PSE") and the NW Energy Coalition (the "Coalition") (collectively, "Joint Parties") filed a joint petition requesting that the Commission issue an order authoring PSE to implement an electric and natural gas decoupling mechanism, and to begin recording accounting entries associated with the mechanism, effective November 1, 2012 ("Joint Petition"). The Joint Petition was supported by the prefiled testimony and exhibits of Messrs. Tom DeBoer, Jon Piliaris, and Ralph Cavanagh.

I. BACKGROUND AND MEMORANDUM

2. The Joint Petition fully describes PSE's and the Coalition's role in electric and gas conservation, as well as the Commission's review of decoupling mechanisms.

3. The Joint Parties refer to the final order of PSE's 2011 general rate case, Docket Nos. UE-111048 and UG-111049, for support that the Commission remains open to proposals for a full decoupling mechanism, even to one that may vary somewhat from the Commission's Decoupling Policy Statement.¹ The Joint Parties worked together to craft the decoupling mechanism in this petition, which is consistent with the Coalition's proposal in PSE's 2011 general rate case and the Commission's Decoupling Policy Statement. The Joint Parties state that while their proposal is consistent with the Coalition's earlier proposal it also addresses, in part, PSE's concerns regarding the deleterious effects of conservation on PSE's ability to recover its delivery costs.

4. The Commission completed a review of PSE's 2011 general rate case only a few months ago, including the Coalition's proposed a decoupling mechanism. Moreover, in that case the Commission not only thoroughly analyzed the Coalition's decoupling proposal, it also sought, received, and considered input from Commission Staff and other parties about decoupling in general. Therefore, the Commission has recently completed a full analysis of decoupling in general, but also for PSE specifically, including a decoupling proposal that included most of the elements of the decoupling proposal that PSE and the Coalition are presenting in this case. Accordingly, the Commission agrees with the Joint Parties that it is appropriate for the Commission to consider the joint proposal for decoupling presented by the Coalition and PSE.

¹ *WUTC v. Puget Sound Energy, Inc.* Dockets UE-111048 and UG-111049, Order 08 (May 7, 2012) n. 617 (hereafter "PSE GRC Final Order").

5. The Joint Parties provide a detailed description of the decoupling mechanism in their Joint Petition.² The natural gas and electric revenue decoupling mechanism proposed in the Joint Petition is similar in nature to the decoupling mechanisms proposed by the Coalition in PSE's 2001 GRC and Avista's 2011 general rate case filed in Docket Nos. UE-110876 and UG-110877,³ with two exceptions: 1) the current proposal includes a "K-Factor" adjustment to Allowed Delivery Revenue Per Customer and 2) it is applied to more customer classes, both of which are discussed, along with other specific features of the decoupling mechanism, in more detail below.

A. General Description of Mechanism

6. The Joint Petition proposes to create a deferred accounting mechanism where PSE will defer the difference between its Allowed Delivery Revenue and the Actual Delivery Revenue it receives through regulated tariff rates to cover delivery costs. A true-up of the resulting accumulated deferred balance will occur annually through a surcharge or credit to customers' bills, by way of a tariff schedule tracker and subject to certain limitations discussed below.

B. Process for Mechanism

7. No later than April 1 of each year, PSE will make a filing to set: (a) the Monthly Allowed Delivery Revenue Per Customer used to calculate the decoupling deferrals; and (b) the tariff tracker intended to clear the deferred balances accumulated through the end

² *Id.* at ¶¶ 17-45.

³ Avista's proposal has since been consolidated with its current general rate case filing in Dockets UE-120436 and UG-120437.

of the prior calendar year. The proposed Monthly Allowed Delivery Revenue Per Customer and tariff tracker would be filed with effective dates of May 1 of each year.

C. Customer Groups included in Mechanism

8. PSE plans that there will be two groups of electric rate schedules in the current tariff book subject to the decoupling proposal. The first group will be comprised solely of residential customers (Schedule 7 and 7A). The second group will be comprised of customers served under Schedules 24, 25, 26, 29, 31, 35, 40, 43, 46 and 49, as well as the related schedules where customers are eligible to participate in the Bonneville Power Administration's Residential Exchange Program. Lighting, served on Schedules 51 through 59, and Retail Wheeling customers are excluded from this proposal.

9. There will also be two groups of natural gas rate schedules (Residential and Non-Residential) in the current tariff book subject to the decoupling proposal. The first group will be comprised solely of residential customers (Schedules 23 and 53). The second group will be comprised of customers served under Schedules 31, 41, 85, 86 and 87. Transportation, rental, special contract and all other rate schedule customers are excluded from this proposal.

D. Included Costs

10. The Joint Parties state that the decoupling mechanism will be based on the Company's costs, from the period most recently used to set tariff rates that are unrelated to its Power Cost Adjustment ("PCA") and Purchased Gas Adjustment ("PGA") mechanisms.

E. Calculation of Allowed Delivery Revenue

11. The Joint Parties plan that for each electric rate group, Test Year Allowed Delivery Revenue is calculated by subtracting the sum of (a) allocated PCA-related costs and

(b) pro forma basic charge revenue from total pro forma test year revenue used to set current base rates. This amount will then be divided by the number of customers during the test year to derive the Test Year Delivery Revenue Per Customer which is then multiplied by a K-Factor to derive the prospective Annual Allowed Delivery Revenue Per Customer.

12. For each gas rate group, Test Year Allowed Delivery Revenue is calculated by subtracting basic charge and minimum charge revenue from pro forma test year margin revenue used to set current rates. This amount will then be divided by the number of customers during the test year to derive the Test Year Delivery Revenue Per Customer which is then multiplied by a K-Factor to derive the prospective Annual Allowed Delivery Revenue Per Customer.

13. Each rate group's Annual Allowed Delivery Revenue Per Customer will then be allocated to each month based on the relative monthly energy sales during the prior calendar year to derive the Monthly Allowed Delivery Revenue Per Customer.

14. The Allowed Delivery Revenue is calculated by multiplying each rate group's Monthly Allowed Delivery Revenue Per Customer by the number of customers in that group in the current month.

F. Calculation of Actual Delivery Revenue

15. The Joint Parties state that the Actual Delivery Revenue for each gas and electric rate group in each month will be calculated by multiplying each rate group's Delivery Cost Energy Rate by the actual sales for that group in the current month. The actual sales will not be weather normalized as part of this calculation.

16. The Delivery Cost Energy Rate for each gas and electric rate group is calculated by dividing the Test Period Allowed Delivery Revenue by pro forma weather-normalized sales used to derive current rates in the test period.

G. Definition of Customer

17. The Joint Parties intend to define "customers" consistently with the manner in which they are reported in the Company's financial reports (e.g., its Federal Energy Regulatory Commission and/or SEC filings).

H. Determination of the K-Factor

18. The following is the Joint Parties' explanation of how the K-Factor will be determined:

19. The K-Factor will be calculated for each rate group for each rate year (beginning May 1) by dividing (a) the weather-normalized delivery revenue that would have been collected through base rates in the prior calendar year in the absence of Company-sponsored conservation by (b) the revenue that would have been recovered in the prior calendar year through full decoupling (i.e., without a K-Factor). Specifically, this full decoupling revenue would be calculated by multiplying the Test Year Delivery Revenue Per Customer by the average number of customers in the year.

20. To calculate the weather-normalized delivery revenue that would have been collected in the absence of Company-sponsored conservation, the conservation savings reported by the Company in its annual filings with the Commission (but not already reflected in the test year used to derive current base rates) will be added to the weather normalized sales of the calendar year prior to the effective date of the decoupling tariff tracker. As part of this calculation, it will be assumed that 50 percent of the conservation savings reported

during the rate case test year are already reflected in test year energy sales. The other 50 percent, which is assumed not to be reflected in test year energy sales, will be included as part of the K-Factor calculation.

21. The Joint Parties clarify that the decoupling mechanism does not allow PSE to recover more costs than this Commission has approved in PSE's last general rate case, but the proposal simply seeks to reframe how costs are recovered.

I. Calculation of the Decoupling Deferral

22. For each gas and electric rate group, the Joint Parties state that the Decoupling Deferral in each month will be determined by subtracting the Allowed Delivery Revenue for each group from the Actual Delivery Revenue recovered from the same group in the same month. Any difference, either positive or negative, would be recorded in a deferral account. The cumulative balance at any quarter end would be reflected in either Account 182.3 – Other Regulatory Assets or Account 254 – Other Regulatory Liabilities, as appropriate.

23. The Joint Parties propose that the cumulative deferred balances, either positive or negative, will accrue interest at the Company's authorized after-tax rate of return grossed up for income taxes.

J. Clearing Accumulated Deferrals

24. The Joint Parties state that the deferred balances accrued by each rate group through the end of each calendar year will be amortized through decoupling tariff tracker effective May 1 in the following year. The tariff tracker adjustment (up or down) will be calculated separately for each rate group to clear that group's deferred balances over a 12 month period. Subject to the limit on rate increases outlined in this proposal, the tariff

tracker adjustment for each electric and gas group will be calculated as a simple cents per kilowatt-hour or cents per therm charge, respectively.

25. Any difference between the amount projected to be cleared and the amount actually cleared through the application of the tariff tracker will be added to the amount to be cleared in the subsequent rate period.

K. Limits on Rate Increases

26. The Joint Parties state that the tariff tracker adjustment calculated to clear each group's deferred balances will be limited so as not to exceed three percent of the average base rates for that group at the time the decoupling tariff tracker goes into effect. If the calculated rate adjustments will result in a credit on customers' bills, there will be no limit on such changes to rates. To the extent that deferred balances are not cleared as a result of the limits placed on increases to the decoupling tariff tracker, the remaining balances will be included in the deferred balances and will be recoverable in the subsequent rate period, not to exceed three percent in any rate period.

L. Earnings Test

27. The Joint Parties do not recommend an earnings test as part of the operation of the decoupling mechanism.

M. Changes to Return on Equity

28. No immediate change to the Company's allowed return on equity is proposed as part of its decoupling proposal. To ensure a timely examination of the potential effect of the proposed decoupling mechanism on the Company's cost of capital, PSE will file at least one general rate case, or make some other filing in which its cost of capital can be fully

examined by the Commission, between three and five years of the date that decoupling-related deferrals commence as part of this proposal.

N. Conservation Achievement

29. The Company and the Coalition recognize that the Commission expects utilities with revenue decoupling mechanisms to meet or exceed their conservation targets. To that end, as an integrated part of the proposal, PSE proposes to achieve electric conservation in excess of the biennial conservation target set by the Commission, as more fully described in the Joint Petition.

O. Potential Impact on Wholesale Sales

30. The Joint Parties state that if there are impacts to the Company's conservation program on its wholesale sales, those will be addressed through the application of PSE's PCA and PGA mechanisms, not the decoupling mechanism.

P. Duration of Mechanism

31. The Joint Parties propose that the decoupling mechanism will remain in effect for no less than five years after its initial effective date, subject to approval by the Commission, upon a filing by the Company, for its continuation.

Q. Bill Presentation

32. The Joint Parties state that the rate adjustments resulting from this decoupling proposal will be portrayed on customers' bills in a manner consistent with the Company's low-income rider (i.e., as a component of base rates on the bill).

R. Evaluation of Mechanism

33. The Joint Parties commit, no later than four years after the date decoupling deferrals begin, that PSE will file with the Commission studies evaluating the effectiveness

of the mechanism, along with a proposal to continue, modify or discontinue either or both of the mechanisms following the fifth year of their operation.

34. The evaluation studies will be conducted by a third party, mutually agreeable to PSE and Commission Staff, in consultation with PSE's Conservation Resources Advisory Group. PSE and Commission Staff will jointly manage the evaluation process. This study will be funded through the Company's Schedule 120 electric and gas tariff schedules. The cost of this study will be allocated between these two schedules on the basis of relative past expenditures within the electric and gas conservation programs over the period being analyzed. The content of the study is more fully described in ¶ 45 of the Joint Petition.

II. FINDINGS AND CONCLUSIONS

35. PSE is engaged in the business of furnishing electric and gas service within the state of Washington as a public service company and is subject to the jurisdiction of this Commission.

36. On October 25, 2012, PSE and the NW Energy Coalition filed with the Commission a joint petition requesting that the Commission issue an order authoring PSE to implement an electric and natural gas decoupling mechanism, and to begin recording accounting entries associated with the mechanism, effective November 1, 2012.

37. The electric and gas decoupling mechanism, as well as the proposed method for recording accounting entries described in the Joint Petition are reasonable and in the public interest, and should be approved.

III. DETERMINATION AND ORDER

WHEREFORE, THE COMMISSION HEREBY:

1. Authorizes PSE to implement an electric and natural gas decoupling mechanism as requested in PSE's and NW Energy Coalition's Joint Petition dated October 25, 2012.

2. Authorizes PSE to record accounting entries in the method described in PSE's and NW Energy Coalition's Joint Petition, effective November 1, 2012.

4. This order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates, or determination of cost or any matters whatsoever that may come before it.

4. The Commission retains jurisdiction over the subject matter of the Joint Petition and PSE and NW Energy Coalition to effect the provisions of this order.

DATED at Olympia, Washington, and effective this ____ day of _____, _____.

JEFFREY D. GOLTZ, Chairman

PATRICK J. OSHIE, Commissioner

PHILIP B. JONES, Commissioner