

Agenda Date: November 10, 2016

Item Numbers: A1 and A2

Dockets: UE-161135 & UE-161112

Company Name: Puget Sound Energy

Staff: David Gomez; Assistant Power Supply Manager

Recommendation

Take no action thereby allowing the tariff revisions filed in Docket UE-161135 to become effective by operation of law and issue an order granting Puget Sound Energy's petition in UE-161112, authorizing deferral of variances in the revenue it collects under its Schedule No. 95 for the fixed production cost portion of its power cost baseline due to be removed from PSE's Power Cost Adjustment Mechanism (PCA) beginning January 1, 2017.

Background

On September 30, 2016, Puget Sound Energy (PSE or company) filed with the Washington Utilities and Transportation Commission (commission) a petition requesting an accounting order, which would allow the company to defer revenue variances¹ associated with the recovery of its fixed production related costs which are due to be removed from the PCA beginning January 1, 2017. The settlement agreement, approved by the commission in Order 11, Docket No. UE-130617 (Order 11), specified that PSE may file such a petition.²

The deferral period referenced in Order 11 was for two-months ending March 1, 2017, the date when rates from PSE's next general rate case were originally set to take effect. Order 11 also states that fixed production related costs removed from the PCA are to be placed in PSE's decoupling mechanism if the company's decoupling program continues.³ It was anticipated that the disposition of any balance accrued during the two-month deferral period would also be addressed in the general rate case.⁴

In addition to the deferral petition above, PSE also filed on September 30, 2016, revisions to its tariff Schedule No. 95 seeking commission approval of updates to the PCA's baseline.⁵ In PSE's last Power Cost Only Rate Case (PCORC) in Docket No. UE-141141⁶, the commission

¹ Both over-collection and under-collection.

² *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-130617 *et al*, Order 11, ¶ 15 (August 7, 2015) and Appendix A to Order 11 – Settlement Stipulation, ¶ 9, Section F, Item 4.

³ *Ibid*, ¶ 6.

⁴ In *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-130617 *et al*, Appendix A to Order 11 – Settlement Stipulation, ¶ 9, Section F, Item 2, it was agreed among the settling parties that the interest rate on any deferred customer surcharges or refunds will continue for the PCA per current policy. Staff has proposed, and the company agrees to apply the FERC Interest Rate to the revenue variances (both over and under collection) associated with its recovery of its fixed production related costs in order to be consistent with both the PCA and the company's existing Decoupling Mechanism.

⁵ UE-161135.

⁶ UE-141141, Order 04, ¶22, Item 10.

authorized the company to update the PCA baseline for the limited purpose of implementing price and volume changes associated with the Coal Transition Power Purchase Agreement.

On March 9, 2016, PSE, commission regulatory staff (staff), the Public Counsel Unit of the Office of Attorney General (Public Counsel), Industrial Customers of Northwest Utilities, Northwest Industrial Gas Users, The Energy Project, NW Energy Coalition (NVEC), Federal Executive Agencies and the Sierra Club (collectively Joint Petitioners), filed their “Joint Petition to Modify Order 07” requesting an extension to the date by which PSE must file a general rate case until January 17, 2017. The Joint Petitioners also agreed to the following terms:

- To support, or not oppose, an amendment to Order 11 for the purposes of extending the deferral period⁷ in recognition of the new date by which PSE must file its next general rate case and when new rates are expected to take effect;⁸ and
- Allow the company to file, on or before October 1, 2016, a limited update of its variable power costs and update the PCA baseline contained in Schedule No. 95 with an effective date of December 1, 2016.⁹ PSE’s revisions to Schedule No. 95 are filed in Docket UE-161135.¹⁰

On March 17, 2016, the commission granted the extension requested by the Joint Petitioners above thereby enabling PSE to file the deferral petition along with a limited update to the PCA baseline.

Discussion

Staff reviewed the company’s workpapers associated with its proposed PCA baseline change. The new PCA baseline of \$58.144 is 2.80 percent lower than the current authorized rate of \$59.819 per MWh.¹¹ The company has also provided the variable and fixed production cost amounts of the PCA baseline. The variable production cost amount, which becomes the PCA baseline after January 1, 2017, is \$33.453. The fixed production cost portion of the PCA baseline is \$24.691. This amount will be removed from the PCA after January 1, 2017, and will be used in the proposed deferral as described in the background section of Staff’s memo.

The increase in power costs associated with price and volume changes in the Centralia Coal Transition PPA result in \$47.3 million in added costs for the rate year. This increase is offset by lower gas and market prices. The result is an overall decrease of \$37.0 million in power costs for the rate year.¹² The impact to a typical residential bill for a customer using 1,000 kWh will be a monthly decrease of \$1.84 (1.73 percent).¹³

⁷ The deferral period proposed by the Joint Parties is from January 17, 2017, and ends the day rates become effective in PSE’s next general rate case which is expected to be December 17, 2017.

⁸ UE-121697, Joint Petition to Modify Order 07, ¶ 8, Item H.

⁹ Ibid, ¶ 8, Item C.

¹⁰ In their motion to modify Order 07, the Joint Parties agreed to expand the scope of the 2016 PCA baseline update authorized by the commission in the 2014 PCORC to include variable power costs for FERC accounts 547- Fuel; 555- Purchased Power; 447-Sales to Others; 456-Purch/Sales Non-Core Gas.

¹¹ UE-161135 Exhibit A-1.

¹² The PCA rate year is from December 1, 2016 through November 30, 2017.

¹³ The monthly bill is reduced from \$106.22 per month to \$104.38.

In the coming months, PSE will prepare a joint motion by parties to the adjudicative proceeding in UE-130617 to modify Order 11 and expand the deferral period consistent with the agreement reached by parties to extend PSE's stay-out period by another nine months. Staff, as one of the parties, plans to support PSE's petition for an extension of the deferral period until rates become effective in the company's next rate case.

Conclusion

Staff recommends the commission take no action, allowing the tariff revisions filed in Docket UE-161135 to go into effect by operation of law and that the commission issue an order granting PSE's petition in UE-161112, authorizing deferral of variances in the revenue it collects under its Schedule No. 95 for the fixed production cost portion of its power cost baseline due to be removed from the PCA beginning January 1, 2017.