

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND	)	
TRANSPORTATION COMMISSION,	)	
	)	
Complainant,	)	DOCKET NO. UE-910626
	)	
vs.	)	FIRST SUPPLEMENTAL ORDER
	)	
PUGET SOUND POWER	)	
& LIGHT COMPANY	)	
	)	
Respondent.	)	
. . . . .	)	

PROCEEDINGS: On May 31, 1991, Puget Sound Power & Light Company filed tariff sheets for the periodic rate adjustment mechanism ("PRAM") covering the 12-month period October 1, 1991, through September 30, 1992. The filings were made according to the Commission's order in Docket Nos. UE-901183-T and UE-901184-P. The tariff filings would increase rates by \$39,109,283. On rebuttal the company revised its request to an increase of \$38,498,391.

The Commission suspended the tariff revisions pending hearings on the justness and reasonableness of the filings.

HEARINGS: The Commission held hearings on July 19, August 6, and September 10, 11, 12 and 17, 1991, at Olympia and Bellevue. The hearings were held before Chairman Sharon L. Nelson, Commissioner Richard D. Casad, Commissioner A.J. Pardini, and Administrative Law Judge Alice L. Haenle of the Office of Administrative Hearings. The Commission gave proper notice to all interested parties.

APPEARANCES: Puget Sound Power & Light Company ("Puget" or "company") was represented by James M. Van Nostrand, attorney, Bellevue. The staff of the Washington Utilities and Transportation Commission ("Commission staff") was represented by Donald T. Trotter and Jeffrey D. Goltz, assistant attorneys general, Olympia. The public was represented by Charles F. Adams, assistant attorney general, public counsel section, Seattle. Intervenor Bonneville Power Administration ("BPA") was represented by Geoffrey M. Kronick and Janet L. Prewitt, attorneys, Portland, Oregon. Intervenor Washington Industrial Committee for Fair Utility Rates ("WICFUR") was represented by Peter J. Richardson, attorney, Boise, Idaho, and by Grant E. Tanner, attorney, Portland, Oregon.

SUMMARY: The Commission authorizes Puget to refile tariffs to reflect the PRAM revenue requirement of \$38,096,796.

SCOPE OF PROCEEDINGSA. Procedural History

Puget is an investor-owned utility company which supplies electricity in a large portion of western Washington.

The Commission established the PRAM procedure on an experimental basis on April 1, 1991, by its order in Docket Nos. UE-901183-T and UE-901184-P ("the decoupling proceeding"). The PRAM procedure involves yearly filings.

Puget filed its tariff revisions on May 31, 1991. These filings cover the first full accounting period October 1, 1991, through September 30, 1992. These filings would increase rates by \$39,109,283 for the 12-month period.

The Commission suspended the tariff revisions by order dated June 12, 1991.

The Commission held six days of hearings on the filings. It heard testimony from members of the public at Olympia on September 11 and at Bellevue on September 12. Three witnesses testified at those public hearings.

On rebuttal, the company revised its calculation to request an increase of \$38,498,391.

The Commission heard oral argument on September 17, 1991.

B. Policy Framework

In recent years, the Commission has actively encouraged the state's investor-owned utilities to meet demands for service with a least-cost resource mix including both generating resources and improvements in the efficient use of electricity. Those efforts have included the following elements:

- o In 1987 the Commission adopted WAC 480-100-251 requiring the electric utilities it regulates to engage in least-cost planning.

- o In 1989 the Commission adopted Chapter 480-107 WAC, setting up a competitive bidding system for proposals to supply needed generation and demand-side resources.

o In May 1990 the Commission issued a Notice of Inquiry (NOI), entitled "Examining Whether There Are Regulatory Barriers to Least Cost Planning for Electric Utilities".<sup>1</sup> The objectives of the NOI included 1) adjustment for changes in revenue and costs beyond a utility's control, 2) purchased power cost recovery, 3) conservation cost recovery, and 4) incentives for least-cost supply and demand-side acquisitions.

o In October 1990 Puget filed its PRAM proposal.<sup>2</sup> The proposal involved decoupling revenues from sales levels. The proposal addressed the first three objectives of the NOI, listed above. By order dated April 1, 1991, the Commission adopted a version of the company's proposal on an experimental basis. The plan is to be reviewed after three years.

o On June 14, 1991, Puget filed for approval of an incentive plan for least-cost planning and performance.<sup>3</sup> The Commission has scheduled hearings on the incentive filing.

## II. PRAM FILING

Under the PRAM mechanism, Puget files tariff revisions annually by June 1. Any authorized rate changes would become effective on October 1 of that year.

The company's revenue requirement is allocated to one of two categories of costs: base costs and resource costs. The sum of the "base costs" is divided by the number of customers on Puget's system, providing an authorized revenue per customer. "Resource costs" are recovered in a manner intended to make the

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<sup>1</sup> Docket No. UE-900385, issued May 9, 1990. The NOI had the following three goals:

(1) determining whether our regulatory structure adequately "align[s] utilities' pursuit of profits with least-cost planning";

(2) determining if and how our regulatory structure should recognize utilities' increasing reliance on generating resources that are not constructed by the regulated utilities; and

(3) complying with the Legislature's mandate [Chapter 2, Laws of 1990, House Bill 2198] that we consider policies "to improve the efficiency of energy" and "protect a company from a reduction of short-term earnings" due to such increased efficiency. (Page 2)

<sup>2</sup> The proposal itself was Docket No. UE-901184-P. A companion filing in Docket No. UE-901183-T intended to implement the proposed mechanism for an initial accounting period. The two cases were consolidated for hearing.

<sup>3</sup> Docket No. UE-910689.

company whole for certain types of expenses related to energy resource acquisition. Disparities between authorized and actual revenue are trued-up in the annual PRAM proceeding.

Primary elements of the parties' revenue requirement calculations are listed in this section. Major issues raised by the parties are discussed individually in Section V below.

#### A. Puget Calculation

Puget's witness J. Richard Lauckhart applied the base cost revenue per customer of \$587.67, established in the decoupling proceeding, to the company's projection of 768,406 customers during this first PRAM period. This results in a base cost revenue requirement of \$451,569,154 (Ex. 2).

Mr. Lauckhart calculated a resource cost revenue requirement of \$518,948,820 (Ex. 3). The calculation included a number of new energy resources which had not previously been included in rates (Ex. 6).

On rebuttal, Mr. Lauckhart accepted projected power supply costs calculated by Commission staff witness Curtis Winterfeld. Applying these calculations yielded a revised resource cost revenue requirement of \$518,337,928. The base and revised resource costs resulted in a revenue requirement increase for this PRAM period of \$38,498,391 (T-42, p. 9).

The company proposed increasing the Schedule 94 residential exchange credit from 2.40 mills/kwh to 5.70 mills/kwh.

#### B. Commission Staff Calculation

The Commission staff proposed an increase of \$31,143,194 for the estimating period (T-32, p. 2).

The Commission staff agreed with the company's base cost calculation of \$451,569,154 (T-32, p. 4). The Commission staff calculated resource costs of \$510,982,731. The difference between Commission staff and the company in resource cost calculation is due to certain adjustments recommended by Commission staff witnesses, primarily treatment of tax benefits associated with conservation expenditures and application of the 2% equity premium to certain conservation expenditures.

C. Public Counsel Calculation

Public Counsel's witness Glenn Blackmon calculated a revenue increase of \$29,516,725 (Ex. 38). Mr. Blackmon used the same base cost figure of \$451,569,154. He used a resource cost figure of \$509,366,262.

Mr. Blackmon's calculation incorporated a number of recommended adjustments, including treatment of tax benefits associated with conservation expenditures, changes to nuclear plant amortization, and application of the 2% equity premium to certain conservation expenditures.

D. Calculations of Other Parties

Neither intervenor presented a witness or sponsored a revenue requirement calculation.

III. ISSUES

The presentations of the parties raise the following issues. These issues will be discussed and determined individually in Section V below.

- A. Should the prudence of new contracts be reviewed in this and future PRAM proceedings? What is the effect of allowing new contract expenses into rates without a complete review?
- B. Should the amortization of abandoned nuclear projects be speeded up as customer numbers increase?
- C. How should the residential credit be applied?
- D. What production costs should be included in the PRAM?
- E. On what investment should the company earn a 2% premium?
- F. How should tax benefits associated with conservation expenditures be treated?
- G. Should changes in conservation loan balances (both credits and debits) be treated in a manner similar to the treatment of new conservation expenditures?

IV. PUBLIC COMMENT

Three customers gave testimony at the hearings held to take public input. In addition, Exhibit 49 contains letters from

members of the public regarding the filing. All of the letters opposed any rate increase.

George Tyler, a residential ratepayer from Olympia, made several recommendations. First, he supported Public Counsel's proposal to reserve some portion of the exchange credit to average into next year's anticipated increases. Second, he wanted to ensure that conservation tax benefits are flowed through to ratepayers. Third, he recommended that the Commission be sure that ratepayers are credited with profits if the company sells any assets such as nuclear plants for which customers have been charged. Fourth, he recommended increasing reactive power rates for commercial customers. Fifth, he encouraged the company's engineers to work for conservation savings with commercial and industrial improvements. Sixth, he recommended higher rates for commercial and industrial customers because those customers can pass along increases as a cost of doing business.

Dr. Hal Nelson, a residential ratepayer from Olympia, suggested additional information be provided to ratepayers about amounts spent on conservation and measurements of savings already completed. He said additional information would help customers evaluate how conservation is working and would also help to explain why rates are increasing despite conservation. Dr. Nelson also recommended that nuclear power plant losses be borne by the company. He testified that fixed-income ratepayers cannot afford rate increases, particularly during a recession. He also recommended the Commission held evening hearings.

Clifford Coremans, a residential ratepayer from Bellevue, opposed any rate increase.

#### V. COMMISSION DISCUSSION

A. Should the prudence of new contracts be reviewed in this and future PRAM proceedings? What is the effect of allowing the cost of new resource contracts into rates without a complete review?

The company has included in its resource cost calculation a number of new resources not previously included in rates, as listed in Exhibit 6. Mr. Lauckhart requested the Commission evaluate the "cost-effectiveness" of the new contracts included in this proceeding, which he defined as the final prudence review of those contracts [TR 104]. In support of that position, the company offered information about the contracts to the parties before the proceeding. Puget contended it had demonstrated that the contracts involved in this filing were prudent, since no party had challenged this assertion. [TR 326-329]

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The Commission staff and Public Counsel contend the contracts should be reviewed on a limited basis during PRAM proceedings, but that thorough review of contracts should be done during general rate cases. The review during a general rate case would not involve retroactive adjustments to prior PRAM periods. These parties doubt whether the PRAM proceeding allows sufficient time for full review of contracts. Neither Mr. Winterfeld nor Mr. Blackmon reviewed the new contracts in this proceeding (T-21, p. 15)(T-35, p. 14).

Intervenor WICFUR on oral argument recommended that prudence reviews, to the extent they are necessary, be done either as soon as contracts are submitted or in the PRAM proceedings. This intervenor contended such treatment would give the company and potential independent power producers the correct incentives by providing rapid, reasonable assurances the company will recover its costs.

The Commission encourages the company to file early notice of new resource contracts which will be included in each PRAM proceeding. The Commission expects the parties to review the new contracts for apparent and potential problems, which then should be brought to the Commission's attention in the PRAM proceeding.

The Commission reserves the right to conduct prudence reviews of new contracts in future proceedings, although the contracts may be included in rates for the first time in a PRAM proceeding. In a subsequent general rate case, the Commission may review contracts and the company's experience under the contracts, to determine proper ratemaking treatment and to examine items which may be disallowed for ratemaking purposes. Initial review of contracts included in a PRAM proceeding does not foreclose the Commission's later full review in a general rate case.

B. Should the amortization of abandoned nuclear projects be speeded up as customer numbers increase?

Public Counsel witness Glenn Blackmon recommended the Commission order Puget to increase its amortization of WNP-3, Pebble Springs, and Skagit by the increase in revenue requirement associated with these items and to cease amortization when the cumulative amount equals the total amount authorized by the Commission (T-35, pp. 8-9). Mr. Blackmon contended the company would otherwise collect more than the authorized amount over the ten-year amortization period, due to the increase in base costs resulting from increasing numbers of customers.

Puget opposed this recommendation. Mr. Lauckhart characterized this proposal as the "true-up" of amortization

which was rejected by the Commission in the decoupling case.

The Commission staff agreed that the issue had been decided by the Commission when the Commission put nuclear amortization into the base cost category.

The Commission rejects Public Counsel's recommendation. The Commission has already set both the recoverable amount and the amortization schedule and will not revisit this issue.

C. How should the residential credit be applied?

The company proposed increasing the Schedule 94 rate (residential exchange credit) from 2.40 mills/kwh to 5.70 mills/kwh. This increase in the credit would more than offset the requested rate increase.

Public Counsel witness Mr. Blackmon recommended the Commission approve a smaller increase in the residential exchange credit, so that the increase would exactly offset the increase in rates resulting from this PRAM. He recommended the balance of the undistributed benefit be held in an interest-bearing account and applied against future increases. Mr. Blackmon contended this treatment would provide rate stability and would avoid giving improper signals to ratepayers.

Puget witness Mr. Lauckhart testified the company would not oppose delayed passage of the credits to ratepayers if the Commission determined this treatment would send more accurate price signals. Mr. Lauckhart contended that a working capital adjustment would be required if the company is ordered to pay interest on a residential exchange account.

The Commission staff recommended the exchange credit be given in full. If any portion were deferred, the Commission staff recommended interest be accumulated on the deferred amount and a working capital adjustment be made in a future rate case.

Intervenor WICFUR on oral argument expressed concern with the legal implications of deferring any portion of the exchange credit.

The Commission rejects Public Counsel's proposal. The residential exchange credits were designed to benefit residential and farm customers. The credits should be passed along as soon as they are available.

The Commission shares Public Counsel's general concern that customers receive accurate price signals so as to encourage prudent energy consumption. The Commission asks all parties to continue their efforts to educate consumers on the facts of



energy consumption.

D. What production costs should be included in the PRAM?

Commission staff witness Curtis Winterfeld proposed several changes to the production costs included in the company's filing. Company witness J.R. Lauckhart on rebuttal agreed to incorporate Mr. Winterfeld's proposed changes (T-42, p. 3).

The changes, described in Mr. Winterfeld's Exhibit 25, include the following adjustments:

- (1) Projected purchases from two Qualifying Facilities (Recomp and Skagit County) should be reduced;
- (2) Projected purchases through the Pacific Power & Light 15-year contract should be re-shaped during the period of January 1992 through September 1992;
- (3) Projected purchases through the Bonneville Exchange Power contract should be reduced, but the estimated price slightly increased;
- (4) "Allowed" costs should be recalculated for secondary rates, WNP-1 costs, and production operating and maintenance expense in order to conform with the data from Docket No. U-89-2688-T; and,
- (5) The changes to the Bonneville-related costs and certain purchase contracts provided in Mr. Lauckhart's response to Record Requisition No. 2 should be adopted. (T-21, pp. 3-4)

The Commission has reviewed the modifications and finds them to be appropriate.

E. On what investment should the company earn a 2% premium?

All witnesses included a return on conservation investment for expenditures made prior to April 30, 1991, calculated on an average-of-monthly-averages basis. The parties differed in application of a 2% equity premium.

The company's direct case applied a 2% premium on net average-of-monthly-averages balances to investments incurred through December 31, 1990. Mr. Lauckhart characterized this treatment as consistent with the incentives proposal which the company filed on June 14, 1991.<sup>4</sup> The Commission has not yet acted on the company's incentive filing.

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<sup>4</sup> Docket No. UE-910689.

Commission staff witness Tho Nguyen included a 2% premium only on investments incurred through July 31, 1989. Mr. Nguyen based his approach on two factors. First, the Commission's order in the decoupling case contained the following language: "...As indicated earlier, the two percent equity premium will apply only to investment included in Docket No. U-89-2688-T."<sup>5</sup> The investment included in Docket No. U-89-2688-T was incurred only through the end of July 1989 (T-26, p. 2). Second, the Commission staff interpreted RCW 80.28.260 to limit the 2% equity premium after 1989 to payments under RCW 19.27A.035 and investments in programs that give priority to senior citizens and low-income citizens.<sup>6</sup> Mr. Nguyen determined from company information that in 1990, \$1,730,088 was invested in programs giving priority to low-income or senior citizens, and \$7,438 was paid under RCW 19.27A.035.

Public Counsel witness Glenn Blackmon included the 2% premium on investments through December 31, 1989, and to conservation expenditures in 1990 and 1991 relating to senior citizen and low-income programs under RCW 80.28.260 (T-35, pp. 6-7).

On rebuttal, Puget witness David Moskovitz presented several additional bases for the company's approach. First, elimination of the 2% premium would give the wrong policy signals. Second, RCW 80.28.260 should be interpreted not only to require the 2% premium on senior/low-income investment, but also to give the Commission discretion to allow the incentive to be

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<sup>5</sup> Finding of Fact No. 8, page 29, of the Commission's Third Supplemental Order in Docket Nos. UE-901183-T/UE-901184-P, issued April 1, 1991.

<sup>6</sup> **RCW 80.28.260 Adoption of policies to provide financial incentives for energy efficiency programs.** (1) The commission shall adopt a policy allowing an incentive rate of return on investment (a) for payments made under RCW 19.27A.035 and (b) for programs that improve the efficiency of energy end use if priority is given to senior citizens and low-income citizens in the course of carrying out such programs. The incentive rate of return on investments set forth in this subsection is established by adding an increment of two percent to the rate of return on common equity permitted on the company's other investments.

(2) The commission shall consider and may adopt a policy allowing an incentive rate of return on investment in additional programs to improve the efficiency of energy end use or other incentive policies to encourage utility investment in such programs...

This section was effective March 1, 1990 [1990 c 2, Section 14].

applied to other conservation programs. Third, Puget agreed in the decoupling case to forego the 2% premium only on investments exceeding \$97 million, pending outcome of the incentives filing. As an alternative treatment, Mr. Moskovitz suggested the Commission defer the amount in controversy until it resolves the incentive case.

The Commission in its order in the decoupling case accepted the company's decision to waive the 2% premium on equity. The Commission agreed with Mr. Sonstelie's goal of a "clean slate" for positive incentives for the time until the incentive matter was resolved. Mr. Sonstelie's testimony in the decoupling proceeding characterized Puget's position in the following manner:

To keep the "slate clean" on positive incentives during the interim we have not included in the current filing the incremental 2% return on equity on the portion of our conservation rate base that is in addition to that included in our last general rate case. (T-1, p. 17)

In accepting the company's offer, the Commission in its order stated that the 2% equity premium would apply "only to investment included in Docket No. U-89-2688-T." (Findings of Fact, No. 8, page 29). That investment had a cut-off date of July 31, 1989. The Commission believes this interpretation is consistent with Mr. Sonstelie's stated goal of a clean slate.

The Commission is aware of the policy objective of the new incentive statute. RCW 80.28.260 obviously intends to encourage investments in programs targeting senior citizens and low-income ratepayers. The Commission is not convinced that Mr. Sonstelie's offer to forego the 2% equity premium specifically contemplated a waiver of amounts under the new law that became effective on March 1, 1990.

This record contains a detail of conservation program expenditures for the year 1990, and shows that \$1,730,088 was expended for senior citizen/low-income programs and \$7,438 was paid under RCW 19.27A.035. (T-26, p. 3) [TR 52-54] In addition, between August 1 and December 31, 1989, \$241,746, and between January 1 and April 30, 1991, \$521,912 were expended on senior citizen/low income conservation programs.

The Commission finds that the 2% equity premium should be applied only to conservation investment actually included in Docket No. U-89-2688-T (as of July 31, 1989); to the investments made during the period August 1, 1989 through April 30, 1991, for programs giving priority to senior and low-income citizens; and,

for payments made in 1990 pursuant to RCW 19.27A.035. The Commission denies the company's proposal to defer any additional conservation expenditures for purposes of the 2% equity premium.

F. How should tax benefits associated with conservation expenditures be treated?

The Commission staff and Public Counsel each proposed adjustments to the company's tax treatment of conservation expenditures.

The Commission staff treatment presented by Mr. Nguyen had two parts. The first part was designed to correct a perceived mismatch between tax benefits and conservation expenditures. In its filing, Puget used tax benefit flow-through associated with conservation expenditures for the twelve months ending April 30, 1991. During the PRAM period, Puget will actually be receiving tax benefits on its conservation investment for the twelve months ending September 30, 1992. Assuming Puget increases its conservation investment in 1991 above the level of 1990, Puget will receive more in tax benefits than it will pass along to ratepayers.

Mr. Nguyen proposed to use the \$10.1 million tax benefit amount for purposes of this PRAM as an estimate of the tax benefits the company will receive during the twelve months ended September 30, 1992. He recommended the company be ordered to true-up the estimated tax benefit as soon as the actual tax amount is known and include the results in the calculation of rates for the next PRAM period.

The second part of the Commission staff's treatment was designed to match the amount of tax benefit the company received for the 21-month period August 1989 through April 1991, with the amount of tax benefit passed to ratepayers in rates during that period. Mr. Nguyen calculated the company had received \$16,027,566 in tax benefit for August 1989 through April 1991. He compared that figure with \$11,665,984 which he calculated had been passed to ratepayers in rates from Docket Nos. U-85-53 and U-89-2688-T. Mr. Nguyen recommended the difference between those figures be used to reduce the total amount of conservation expense included in this filing.

Public Counsel witness Mr. Blackmon recommended the company be required to flow through tax benefits for all conservation since the last general rate case to be included in rate base, rather than just the benefit for the last twelve-month period. He contended the company's treatment fails to consider that it has already recovered part of its conservation investment through its income taxes. Mr. Blackmon proposed a reduction of \$8.873 million in the revenue requirement for conservation

adjustment.

On rebuttal, company witnesses opposed the adjustments of the Commission staff and Public Counsel. Mr. Moskovitz characterized the proposals as an inappropriate "hybrid" of flow-through and normalization treatments. He contended the company had already flowed through tax benefits to ratepayers. He noted the Commission staff's proposal differed from its recommendations in past cases. Mr. Moskovitz further stated the "retrospective" nature of both these parties' adjustments only address the value of bringing forward past tax benefits and ignore the related expenses of the same period. He concluded adoption of the proposed adjustments would make conservation less attractive to the company.

Intervenor WICFUR on oral argument urged the Commission to accept the "conceptual position" of the Commission staff and Public Counsel adjustments. This intervenor contended the adjustments were necessary to make whole both the company and ratepayers.

In the decoupling proceeding, the Commission stated its goal for conservation costs of "making the company and ratepayers exactly whole".<sup>7</sup> The Commission further stated that "conservation costs will be recovered through their inclusion in resource costs on an actual basis."<sup>8</sup> The Commission intends that the revenue during the PRAM period will be equal to the costs of conservation, both expenses and return on investment.

"Flow through" tax treatment is the recognition of tax expense in the period when the liability to pay the tax is incurred. Flow through treatment implies that in a historical test period, actual tax liability of the test period is matched with the level of revenue for the same period. Likewise, in a future test period, anticipated tax liability of that future year is matched against anticipated revenue for the same year. In this proceeding we are attempting to match the revenue and conservation cost for the year October 1, 1991, through September 30, 1992. The Commission therefore will accept the "prospective" portion of the Commission staff's adjustment.

For purposes of this PRAM period only, the \$10,171,149 figure is a reasonable estimate of the tax benefits for the period. This amount should be trued-up in the following PRAM filings to actual tax liability. In the future PRAM proceedings,

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<sup>7</sup> Docket Nos. UE-901183-T/UE-901184-T, Third Supplemental Order, page 14.

<sup>8</sup> Id., page 29.

new projections of tax benefits will be submitted. The Commission believes this treatment is consistent with recovery of actual expenditures.

The Commission rejects the "retrospective" nature of tax adjustments proposed by Commission staff and Public Counsel. We are not persuaded the company has received any windfall. We are concerned that reaching back may constitute retroactive ratemaking.

G. Should changes in conservation loan balances (both credits and debits) be treated in a manner similar to the treatment of new conservation expenditures?

The company and Commission staff proposed a change in the treatment of conservation loan balances. The procedure provides that payments against loans be included in current month charges to which the Allowance for Funds Used to Conserve Energy (AFUCE) is applied (T-32, p. 7). This procedure would eliminate the need for tracking differences between actual figures and projections and eliminate the need to have this item trued-up.

The company implemented the procedure effective July 1, 1991.

The Commission recognizes this proposal as a productive change from the procedures outlined in its order in the decoupling proceeding. The company has already implemented the procedure, thus eliminating the need for deferred accounting and true-ups. The Commission therefore accepts the proposal regarding treatment of conservation loan balances and modifies its prior instructions on this issue accordingly.

#### VI. COMMISSION DECISION

The Commission has reviewed the uncontested portions of this filing and found them to be acceptable.

As a result of determinations made on the issues above, the Commission will authorize the company to refile tariff revisions conforming to those determinations. The refiling should result in a rate increase of \$38,096,796 for this PRAM period.

The Commission finds the company's rate spread proposal to be reasonable. The company should spread the authorized rate increase in the proposed manner, adjusted to reflect that a different amount has been authorized.

The only concern expressed by counsel for the Bonneville Power Administration involved the direct pass-through of exchange credits to residential and small farm ratepayers. [TR 473-474] The Commission has included a finding regarding transmission costs.

The tables attached in Appendix A summarize the calculation of the revenue requirement associated with the PRAM. Rates consistent with these tables should be approved.

#### FINDINGS OF FACT

Having discussed above in detail both the oral and documentary evidence concerning all material matter, and having stated findings and conclusions, the Commission now makes the following summary of those facts. Those portions of the preceding detailed findings pertaining to the ultimate findings are incorporated herein by this reference.

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, accounts, securities, and transfers of public service companies, including electric companies.

2. Puget Sound Power & Light Company, respondent herein, is engaged in the business of furnishing electric service within the state of Washington as a public service company.

3. On May 31, 1991, Puget filed revisions to its currently-effective Tariff WN U-60. The filings would have increased revenues approximately \$39,109,283 for the 12-month period October 1, 1991, through September 30, 1992.

4. The Commission suspended the proposed tariff revisions and commenced this proceeding to determine whether the revisions would result in rates that were fair, just, reasonable and sufficient.

5. On rebuttal, the company revised its calculation to request increased revenues of \$38,498,391.

6. The PRAM revenue requirement is \$38,096,796, as reflected in the tables included in Appendix A, attached hereto and incorporated herein by this reference.

7. The 2% equity premium for this PRAM period should apply only to conservation investment actually included in Docket No. U-89-2688-T (as of July 31, 1989), and to investment in programs giving priority to senior citizens and low-income

citizens and for payments under RCW 19.27A.035.

8. That portion of the Commission's decoupling order regarding treatment of conservation loan balances should be modified to accept the proposal of the company and the Commission staff. Loan payments should be included in current charges in the calculation of AFUCE.

9. The company should distribute information as soon as possible about new resource contracts which will be included in PRAM filings. The parties should review that information and bring apparent and potential problems to the Commission's attention during the PRAM proceedings. Review in PRAM proceedings does not foreclose the Commission's evaluation of contracts for ratemaking treatment in general rate cases.

10. The Commission, for purposes of this PRAM period, approves the transmission costs listed in Exhibit T-32, page 8, Table A, of Commission staff witness Roland Martin's testimony.

From the foregoing findings of fact, the Commission enters the following conclusions of law.

#### CONCLUSIONS OF LAW

1. The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of this proceeding and the parties thereto.

2. The tariff revisions now under suspension should be rejected. The company should be authorized to refile tariff revisions prepared in accordance with this order. Tariff revisions prepared in accordance with this order will result in rates that are fair, just, reasonable and sufficient.

On the basis of the foregoing findings of fact and conclusions of law, the Commission hereby makes and enters the following order.

#### ORDER

WHEREFORE, IT IS HEREBY ORDERED:

1. The tariff revisions filed by respondent on May 31, 1991, now under suspension in Docket No. UE-910626, are rejected in their entirety. Respondent is authorized to file revisions in the form found to be appropriate in the body of this order.



2. The filing authorized herein shall bear an effective date which allows the Commission at least one complete working day following the date of the Commission's receipt thereof, to consider it, or October 1, 1991, whichever is later.

3. The tariff revisions shall bear the notation on each sheet thereof, "By Authority of the Washington Utilities and Transportation Commission in Docket No. UE-910626".

4. Notice of the filing authorized herein shall be posted at each business office of respondent in the territory effective thereby on or before the date of filing with the Commission. The notice shall state that the filing is to become effective on the date inserted as the effective date thereon, pursuant to the above authorization, and the notice shall advise that a copy of the filing is available for public inspection at each such office. This notice shall remain posted until the Commission has acted on the filing.

5. Jurisdiction is retained by the Commission to effectuate the provisions of this order.

6. All motions consistent with this order are granted. Those inconsistent with this order are denied.

DATED at Olympia, Washington, and effective this 25<sup>th</sup> day of September, 1991.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



SHARON L. NELSON, Chairman



RICHARD D. CASAD, Commissioner

A. J. Pardini, Commissioner (Concurring in part and dissenting in part - I concur with the order issued by my colleagues Chairman Nelson and Commissioner Casad, but dissent from the treatment in this order afforded by them to the tax benefits associated with the conservation expenditures which are being capitalized and which will increase the rate base by \$47.14 million. Of this amount, \$29.9 million was expended during the period of May 1990 through April 1991 and is a proper addition to the rate base. The remainder of \$17.24 million was expended during the period of August 1989 through April 1990 and if

allowed to be added to the rate base in its entirety would be an over recapture of the company's expenditure.

Company witness Lauckhart testified that the company expensed \$17.24 million for income tax purposes during this period and did receive a benefit in the form of reduced income tax liability. [TR 340] To allow the company to capitalize the entire \$17.24 million as an addition to rate base allows the company to regain its total expenditure and recapture the tax benefits it has already received. A more proper treatment would be to allow the company only to recover its original expenditures minus the tax benefits it has received, regardless of the claims of retrospection.

Much has been said in this record about violating accounting principles of "flow-through" and "normalization" computation of tax expense. These long established accounting principles are not to be disregarded and this dissent in no way indicates a departure from those principles in a traditional ratemaking proceeding. One must recognize, however, that this proceeding is not the normal proceeding, but is a transitional mechanism to implement an experimental process. Principles of equity should and must override any accounting principles under these circumstances. The company should not recover more than its expenditures. Accordingly, the treatment that best reflects the equity principle of giving the company its fair due and the ratepayers their fair due is the treatment recommended by Commission staff at Exhibit 28 which recommends a reduction in the amount of conservation costs by \$4,361,582.

As a closing footnote, I remain puzzled as to why the company did not present its own expert accounting witnesses to help clarify this contentious issue. [TR 341]



A. J. PARDINI, Commissioner

**NOTICE TO PARTIES:**

This is a final order of the Commission. 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 480-09-810, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-09-820(1).

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Appendix A

Table 1

PUGET SOUND POWER & LIGHT COMPANY  
Revenue Requirement for Base Costs  
Twelve Months ending September 30, 1992

1. U-89-2688-T Revenue requirement for base cost	\$395,274,358
2. U-89-2688-T Number of customers	672,617
3. U-89-2688-T Revenue per customer- base costs (line 1/line2)	\$587.67
4. Estimated average customers for this PRAM period	768,406
5. Revenue requirement for base costs this PRAM period (line 4 x line 5)	\$451,569,154

Table 2

PUGET SOUND POWER & LIGHT COMPANY  
Revenue Requirement for Resource Costs  
Twelve Months ending September 30, 1992

1. Power costs from U-89-2688-T	\$374,386,535
2. Delta from power cost adjustment	97,591,400
3. Conservation	22,480,344
4. Sub total resource costs (sum lines 1 - line 3)	494,458,279
5. Conversion factor	0.95467
6. Revenue requirement for resource costs (line 4/line 5)	517,936,333

Table 3

PUGET SOUND POWER & LIGHT COMPANY  
 Required Revenue Increase, Base and Resource  
 Twelve Months ending September 30, 1992

## Calculation total revenue increase:

1. Estimated revenue requirement for base costs	\$451,569,154
2. Estimated revenue requirement for resource costs	\$517,936,333
3. Total estimated revenue for first PRAM period	\$969,505,487
4. Estimated receipts for period at general rate levels	\$931,408,691
5. Estimated total revenue increase, first PRAM period	\$38,096,796

## Calculation of resource &amp; base costs revenue increases:

6. U-89-2688-T revenue requirement base costs	\$395,274,358
7. U-89-2688-T basic revenue charge	\$43,073,046
8. U-89-2688-T KWH sales	16,286,369,248
9. U-89-2688-T base cost less basic charge per KWH	0.02163
10. Estimated KWH sales first PRAM period	18,772,887,000
11. Estimated receipts less basic charge revenue	\$405,973,568
12. Estimated basic charge revenue	\$49,291,867
13. Estimated receipts of base costs, general rate levels	\$455,265,435
14. Estimated revenue increase/(decrease)- BASE COSTS	(\$3,696,281)
15. Estimated revenue increase/(decrease)- RESOURCE COSTS	\$41,793,077

Table 4

PUGET SOUND POWER & LIGHT COMPANY  
Calculation of Conservation Level  
Twelve Months ending September 30, 1992

1. Investment without 2% equity premium		\$42,281,719
2. Rate of return without premium (net of tax)		8.63%
3. Return requirement without premium (line 1 x line 2)		\$3,648,912
4. Investment with 2% equity premium		\$68,138,570
5. Rate of return with premium (net of tax)		9.42%
6. Return requirement with premium (line 4 x line 5)		\$6,418,653
7. Total return requirement (line 3 + line 6)		\$10,067,565
8. Amortization from U-89-2688-T		\$13,657,091
9. Increase in amortization		4,713,990
10. Total amortization (line 8 + line 9)		\$18,371,081
11. Normalized tax benefit		(\$3,430,470)
12. Flow through tax benefit (estimate)		(\$10,171,149)
13. Total conservation cost (sum lines 7,10,11,&12)		\$14,837,027
14. Conversion factor		0.66
15. Rev. req. excluding other revenue sensitive items (line 13/line 14)		\$22,480,344