



Puget Sound Energy
P.O. Box 97034
Bellevue, WA 98009-9734
PSE.com

September 30, 2016

Mr. Steven V. King
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
P.O. Box 47250
Olympia, WA 98504-7250

Re: Petition (Docket No. UE-16___) for an Order Authorizing the Deferral of Fixed Production Costs Previously Recovered in PSE's Power Cost Adjustment Mechanism

Dear Mr. King:

Enclosed please find the original and twelve (12) copies of Puget Sound Energy's Petition for an Accounting Order for filing.

If you have any questions regarding this filing, please contact me at (425) 462-3716.

Sincerely,

A handwritten signature in blue ink that reads "Katherine J. Barnard". The signature is fluid and cursive.

Katherine J. Barnard
Director, Revenue Requirement and Regulatory Compliance
cc: Sheree Carson, Perkins Coie
Lisa Gafken, Public Counsel

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of)
PUGET SOUND ENERGY) Docket No. UE-16____
For an Accounting Order Authorizing the Deferral of)
Fixed Production Costs Previously Recovered in) PETITION
PSE's Power Cost Adjustment Mechanism)
And)
To Modify Final Order 11 in Docket No. UE-130617

I. INTRODUCTION

1. In accordance with WAC 480-07-370(b) and WAC 480-07-875(1), Puget Sound Energy ("PSE" or the "Company") respectfully petitions the Washington Utilities and Transportation Commission ("Commission") for an order that authorizes the accounting and ratemaking treatment detailed in this Petition to defer fixed production related costs upon their removal from PSE's Power Cost Adjustment mechanism ("PCA") beginning January 1, 2017. The ability to file this accounting petition was first agreed to in item 4 on page 7 of the Settlement Stipulation ("PCA Settlement Stipulation") approved in Final Order 11 in Docket No. UE-130617 ("Order 11"). In its notice of action dated March 17, 2016 ("Notice of Modification"), the Commission relieved PSE of its obligation under Order 07 in Docket Nos.

UE-121697 and UG-121705 (Consolidated) and Dockets Nos. UE-130137 and UG-130138 (Consolidated) (“Order 07”) to file a general rate case by April 1, 2016, and instead, required the general rate case be filed no later than January 17, 2017. In the Joint Petition to Modify (“Modification Petition”) Order 07, joint parties agreed to support or not oppose amendment of PSE’s PCA Settlement Stipulation to extend the deferral period. Accordingly, in this petition, PSE is also requesting modification of Order 11 in Docket No. UE-130617 to extend the end of the deferral period authorized in that order from March 1, 2017 until rates in PSE’s next general rate case become effective.

2. PSE is engaged in the business of providing electric and gas service within the State of Washington as a public service company, and is subject to the regulatory authority of the Commission as to its retail rates, service, facilities and practices. Its full name and mailing address are:

Puget Sound Energy
Attn: Katherine Barnard
Director, Revenue Requirements & Regulatory Compliance
P.O. Box 97034
Bellevue, Washington 98009-9734

3. Rules and statutes that may be at issue in this Petition include RCW 80.01.040, WAC 480-07-370(b) and WAC 480-07-875(1).

II. BACKGROUND

4. As one of the outcomes of the Power Cost Only Rate Case Settlement Stipulation approved in Order 06 in Docket No. UE-130617, Settling Parties agreed to engage in a series of

discussions and workshops that would address issues around PSE's PCA mechanism. Parties to the collaborative were able to reach a settlement and on August 7, 2015, the Commission entered its Final Order, Order 11 in Docket No. UE-130617 approving the modifications agreed to in the PCA collaborative settlement that would take effect January 1, 2017. One of the modifications included the removal of the fixed production related costs (as re-designated in the PCA Settlement Stipulation) from the PCA mechanism. Going forward, the fixed costs would instead be included in the decoupling mechanism should the continuance of the decoupling mechanism be authorized in PSE's next general rate case.

5. Initially, the date of January 1, 2017 was chosen for the implementation of the PCA modifications because it was only two months prior to the March 1, 2017 effective date for final GRC rates that would occur under the then effective Order 07. Because of this time gap between when the PCA modifications occurred and when a new baseline rate under the revised mechanism would go into effect, the PCA Settlement Stipulation allowed for PSE to file an accounting petition to defer revenue variances in Fixed Production Costs during the interim period between January 1, 2017 and when rates from the next general rate case go into effect. Specifically, Paragraph 15 of Order 11 states:

“Additionally, the Settlement estimates PSE's next general rate case will result in rates effective March 1, 2017. The Settlement provides that PSE may file, and the Settling Parties agree to support, an accounting petition deferring revenue variances in Fixed Production Costs between January 1, 2017, when Fixed Production Costs are removed from the PCA per this Settlement, and March 1, 2017, when rates from the general rate case become effective and Fixed Production Costs are placed in the decoupling mechanism, if PSE's decoupling program continues.”

6. The Modification Petition which resulted in the Notification of Modification addressed the treatment of fixed production related costs for the extended interim period in paragraph 8 h.:

“The Joint Petitioners agree to support, or not oppose, amendment of PSE’s Power Cost Adjustment Settlement in Docket No. UE-130617 to extend the deferral of the revenue variances until the new effective date of rates in PSE’s next general rate case.”

As a result of the Commission’s notice to delay PSE’s general rate case filing until January 17, 2017, the interim deferral period will be approximately twelve months instead of two months.

III. FIXED PRODUCTION RELATED COST REVISIONS AND THE INTERIM PERIOD

7. Changes to PSE’s PCA Mechanism will take effect January 1, 2017. Items designated as variable in the PCA Settlement Stipulation will continue to flow through the PCA Mechanism and require no special treatment under the revised mechanism. Accordingly, costs designated as variable under the revised mechanism are not part of this petition. However, because the costs designated as fixed under the revised mechanism will be moving from PSE’s PCA Mechanism to its Decoupling Adjustment Mechanism¹ prior to the next general rate case where realignment between the two mechanisms will occur, special treatment for the fixed costs is required and the need for this special treatment has resulted in the filing of this petition.

¹ Provided PSE’s Decoupling Adjustment Mechanism is approved to continue in PSE’s 2017 general rate case.

8. In PSE's existing PCA mechanism, the fixed production costs are included in the imbalance calculation at the fixed rate year level of cost that was approved in the last rate proceeding regardless of load or price variances. Therefore, once fixed costs are removed from the PCA mechanism, they would not be subject to this intended rate recovery profile unless an interim solution is implemented until such time as they are included in PSE's Decoupling Adjustment mechanism. Accordingly, this petition requests that the load variances that occur on the revenue that is recovering these fixed production costs be deferred until this issue is resolved in PSE's next general rate case. This requested treatment mirrors the treatment these fixed production costs would have received if they had remained in PSE's PCA mechanism.

IV. REQUESTED TREATMENT

9. Attachment A depicts PCA Exhibit A-1 which breaks out the 2014 PCORC baseline rate into the fixed and variable components as approved in the PCA Settlement Stipulation². Column II reflects the total pre-production factored fixed production costs of \$ 520,859,510 that are the subject of this petition. The calculation of the allowed fixed costs to be compared against the fixed portion of the baseline rate revenue that is recovering those fixed costs will not change from how it was handled under PSE's existing PCA mechanism. Test year

² As part of the Modification Petition, PSE agreed to make a limited update to its PCA baseline rate to be effective December 1, 2016. Accordingly, the new baseline rate will be in effect during the time frame covered by this petition. However, it is anticipated that the fixed production costs that are the subject of this petition will not be changing in this limited update. Therefore, it is appropriate to reference the baseline rate from the 2014 PCORC for this petition.

fixed costs will continue to be grossed up by the production factor, where applicable³. One twelfth of the pre-production factored amount of \$525,885,095 in Column IV, or \$43,823,758 is the amount of monthly allowed fixed production costs. The imbalance will be calculated by subtracting from this allowed fixed amount the amount of revenue that was received to cover these allowed production fixed costs. The amount of revenue is determined by taking the fixed portion of the baseline rate that is currently in effect, \$24.691, as shown on Line 36 of Attachment A, multiplied by the actual delivered load for each month of the deferral period. The second tab of Attachment A, called "PCA FC Deferral Example" provides an example of the imbalance calculation using a forecast of 2017 load. Depending on whether the actual load is higher than or lower than the equivalent monthly load used when setting the 2014 PCORC rates, the deferral entry will either be a debit or a credit to the deferral account. In the example, the negative imbalance represents a credit of \$329,537 payable to customers.

IV. PROPOSED ACCOUNTING AND RATEMAKING TREATMENT

10. For the fixed production related cost imbalance, the Company proposes to defer the amount each month of the deferral period which is calendar year 2017 as a regulatory asset or liability with the offsetting entry to FERC account 557 Other Power Supply Expenses. FERC 557 is the FERC account that is currently used for deferral entries for PSE's PCA mechanism. The cumulative deferral amount in December 2017 will determine whether the total balance will

³ Return on transmission rate base and transmission depreciation on lines 11 and 24 respectively are not subject to the production factor.

be recorded as a regulatory asset in FERC 182.3 Other Regulatory Assets or as a regulatory liability in FERC 254 Other Regulatory Liabilities. There will be no interest accrual on the balance of the deferral account. The Company will request consideration for recovery of the imbalance at the time of the Company's annual Schedule 142 rate filing. PSE would request the amount of the regulatory liability or asset be amortized in the manner consistent with the other decoupling deferrals, over the then-current decoupling period, May 1, 2018 through April 30, 2019.

V. PRAYER FOR RELIEF

11. Based on the foregoing, PSE respectfully requests that the Commission issue an accounting order authorizing the accounting treatment proposed in this Petition to defer the revenue variances associated with the fixed production related costs once they are removed from the PCA mechanism on January 1, 2017 through December 31 2017, until rates for PSE's next general rate case become effective.

12. Additionally, PSE respectfully requests that the Commission modify Order 11 and Appendix A to Order 11 in Docket No. UE-130617 as follows:

a. Paragraph 15 of Order 11 to read:

“15. Additionally, the Settlement estimates PSE's next general rate case will result in rates effective March 1, 2017. The Settlement provides that PSE may file, and the Settling Parties agree to support, an accounting petition deferring revenue variances in Fixed Production Costs **between starting** January 1, 2017, when Fixed Production Costs are removed from the PCA per this Settlement, and **March 1, 2017, ceasing** when rates from the general rate case become effective and Fixed Production Costs are placed in the decoupling mechanism, if PSE's decoupling program continues.”

b. Item 4 on Page 7 of Appendix A to read:

“4. Implementation of changes to the PCA mechanism set forth in this agreement will occur on January 1, 2017. PSE may file, and the Settling Parties agree to support, an accounting petition to request deferral of revenue variances associated with the recovery of Fixed Production Costs to bridge the ~~two~~ twelve month period between implementation of the changes to the PCA mechanism on January 1, 2017 and the start of the rate year for PSE’s next general rate case (estimated to be ~~March~~ January 1, 2017 2018) where the continuation of the electric decoupling mechanism will be considered.”

DATED this 30th day of September, 2016.

PUGET SOUND ENERGY



Katherine J. Barnard

Director, Revenue Requirements & Regulatory Compliance

Exhibit A-1 Power Cost Baseline Rate
2014 PCORC - Fixed Deferral

Row	Test Year	Test Yr \$/MWh		Production Factor => 0.99019	Net of Production Factor	Before Application of Production Factor	
		(I)			Fixed Production Costs Test Year (II)	Variable Production Costs Test Year (III)	Fixed Production Costs for Deferral (IV)
3	Regulatory Assets (Variable)	\$ 265,497,445					
4	Transmission Rate Base (Fixed)	91,215,648					
5	Production Rate Base (Fixed)	2,127,242,636					
6		\$ 2,483,955,728					
7	Net of tax rate of return	6.69%					
9A							
10	Regulatory Asset Recovery (on Row 3)	\$ 27,325,814	\$ 1.295	F	\$ 27,325,814	\$ -	\$ 27,596,536
10a	Equity Adder Centralia Coal Transition PPA	2,326,384	\$ 0.110	V	-	2,326,384	
11	Fixed Asset Recovery Other (on Row 4)	9,388,195	\$ 0.445	F	9,388,195	-	9,388,195
12	Fixed Asset Recovery-Prod Factored (on Row 5)	218,942,357	\$ 10.379	F	218,942,357	-	221,111,461
13	501-Steam Fuel	95,694,641	\$ 4.536	V	-	95,694,641	
14	555-Purchased power	400,022,510	\$ 18.963	V	-	400,022,510	
15	557-Other Power Exp	6,286,927	\$ 0.298	F	6,286,927	-	6,349,213
15a	Payroll Overheads - Benefits	7,402,047	\$ 0.351	F	7,402,047	-	7,475,380
15b	Property Insurance	2,692,723	\$ 0.128	F	2,692,723	-	2,719,400
15c	Montana Electric Energy Tax	1,732,920	\$ 0.082	V	-	1,732,920	
15d	Payroll Taxes on Production Wages	1,955,229	\$ 0.093	F	1,955,229	-	1,974,600
15e	Brokerage Fees	236,520	\$ 0.011	V	-	236,520	
16	547-Fuel	165,904,888	\$ 7.865	V	-	165,904,888	
17	565-Wheeling	109,546,034	\$ 5.193	V	-	109,546,034	
18	Variable Transmission Income	(6,685,935)	\$ (0.317)	F	(6,685,935)	-	(6,752,174)
19	Production O&M	116,299,220	\$ 5.513	F	116,299,220	-	117,451,418
19a	Colstrip - Major Maint. Amort	1,320,253	\$ 0.063	F	1,320,253	-	1,333,333
20	447-Sales to Others	(29,085,181)	\$ (1.379)	V	-	(29,085,181)	
21	456-Purch/Sales Non-Core Gas	(5,342,456)	\$ (0.253)	V	-	(5,342,456)	
22	Transmission Exp - 500KV	926,060	\$ 0.044	F	926,060	-	935,234
23	Depreciation-Production (FERC 403)	111,561,172	\$ 5.288	F	111,561,172	-	112,666,430
24	Depreciation-Transmission	4,204,776	\$ 0.199	F	4,204,776	-	4,204,776
25	Amortization - Regulatory Assets Fixed	18,713,824	\$ 0.887	F	18,713,824	-	18,899,226
26	Hedging Line of Credit	526,847	\$ 0.025	F	526,847	-	532,067
27	Subtotal & Baseline Rate	\$ 1,261,895,770	\$ 59.819		\$ 520,859,510	\$ 741,036,260	\$ 525,885,095
28	Revenue Sensitive Items	0.9543790					\$43,823,758
29		\$ 1,322,216,614					^
30	Test Year DELIVERED Load (MWh's)	21,095,348		<= includes Firm Wholesale			I
31							monthly
32							
33							
34							
35	Power Cost Baseline Rate	\$ 59.819					
36	Fixed Production Costs	\$ 24.691		F			
37	Variable Production Costs	\$ 35.128		V			
38	Power Cost Baseline Rate	\$ 59.819					

Interim Deferral using F16 Delivered Load - For Illustrative Purposes Only

Production Factor =>

Row		Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Total	
6	Total Allowable Fixed Costs	\$43,823,758	\$43,823,758	\$43,823,758	\$43,823,758	\$43,823,758	\$43,823,758	\$43,823,758	\$43,823,758	\$43,823,758	\$43,823,758	\$43,823,758	\$43,823,758	\$525,885,095	
7															
8	PCA period Del'd Load (Kwh) CY 2017	2,162,147,000	1,859,893,000	1,947,953,000	1,698,055,000	1,567,880,000	1,515,145,000	1,573,417,000	1,586,170,000	1,531,222,000	1,704,335,000	1,916,899,000	2,249,120,000	21,312,236,000	
9	Variable Baseline Rate	\$0.024691	\$53,384,985	\$45,922,113	\$48,096,379	\$41,926,215	\$38,712,099	\$37,410,034	\$38,848,812	\$39,163,693	\$37,806,987	\$42,081,273	\$47,329,633	\$55,532,411	526,214,632
10															
11	Imbalance to Defer: Under / (Over) recovery	(\$9,561,227)	(\$2,098,355)	(\$4,272,621)	\$1,897,543	\$5,111,659	\$6,413,724	\$4,974,946	\$4,660,065	\$6,016,771	\$1,742,485	(\$3,505,875)	(\$11,708,653)	(\$329,537)	
12	positive is potential cust surcharge, negative is potential cust credit														
13	Less Firm Wholesale	0.03486%	(9,557,894)	(2,097,624)	(4,271,131)	1,896,882	5,109,877	6,411,488	4,973,212	4,658,441	6,014,674	1,741,878	(3,504,653)	(11,704,572)	
14	Gross PCA		(9,557,894)	(2,097,624)	(4,271,131)	1,896,882	5,109,877	6,411,488	4,973,212	4,658,441	6,014,674	1,741,878	(3,504,653)	(11,704,572)	
15	Gross PCA Contra		9,557,894	2,097,624	4,271,131	(1,896,882)	(5,109,877)	(6,411,488)	(4,973,212)	(4,658,441)	(6,014,674)	(1,741,878)	3,504,653	11,704,572	
16															
17	Cumulative Gross PCA		(9,557,894)	(11,655,517)	(15,926,648)	(14,029,767)	(8,919,890)	(2,508,402)	2,464,810	7,123,251	13,137,924	14,879,802	11,375,150	(329,422)	
18	Cumulative Gross PCA Contra		9,557,894	11,655,517	15,926,648	14,029,767	8,919,890	2,508,402	(2,464,810)	(7,123,251)	(13,137,924)	(14,879,802)	(11,375,150)	329,422	

F2016 Final Electric Load Forecast

Load (MWh)

Year	Month	Production Factor =>										
		Residential	Commercial	Industrial	Streetlight	Resale	Net of Conservation		Total Load	Station Service	Station Service Losses	Full Load
						Total Delivered	Losses					
2016	1	1,231,621	869,173	113,177	7,671	904	2,222,546	175,023	2,397,569	2,180	172	2,399,921
2016	2	1,044,392	787,028	100,941	7,008	827	1,940,196	152,788	2,092,984	2,376	187	2,095,547
2016	3	1,016,301	822,053	108,288	7,572	818	1,955,032	153,956	2,108,988	2,205	174	2,111,367
2016	4	841,897	757,905	102,311	6,674	589	1,709,376	134,611	1,843,987	2,046	161	1,846,194
2016	5	718,536	743,921	108,424	7,034	456	1,578,371	124,295	1,702,666	2,037	160	1,704,863
2016	6	662,371	744,075	110,720	7,009	355	1,524,530	120,055	1,644,585	1,680	132	1,646,397
2016	7	674,510	787,013	113,562	6,748	316	1,582,149	124,592	1,706,741	2,694	212	1,709,647
2016	8	666,881	803,057	116,859	6,908	286	1,593,991	125,525	1,719,516	1,538	121	1,721,175
2016	9	659,728	761,424	109,617	6,714	322	1,537,805	121,100	1,658,905	1,338	105	1,660,348
2016	10	803,552	785,486	113,627	6,956	478	1,710,099	134,668	1,844,767	1,718	135	1,846,620
2016	11	992,252	812,477	108,460	7,333	694	1,921,216	151,293	2,072,509	1,710	135	2,074,354
2016	12	1,245,651	883,503	107,277	7,146	1,009	2,244,586	176,758	2,421,344	1,596	126	2,423,066
2017	1	1,188,084	849,267	116,940	6,982	874	2,162,147	170,266	2,332,413	2,180	172	2,334,765
2017	2	992,443	758,916	101,281	6,444	809	1,859,893	146,464	2,006,357	2,294	181	2,008,832
2017	3	1,003,734	821,462	114,831	7,120	806	1,947,953	153,399	2,101,352	2,205	174	2,103,731
2017	4	828,406	757,029	105,703	6,328	589	1,698,055	133,720	1,831,775	2,046	161	1,833,982
2017	5	705,982	743,693	111,068	6,680	457	1,567,880	123,468	1,691,348	2,037	160	1,693,545
2017	6	650,484	745,010	112,628	6,668	355	1,515,145	119,316	1,634,461	1,680	132	1,636,273
2017	7	662,596	789,325	114,750	6,430	316	1,573,417	123,904	1,697,321	2,694	212	1,700,227
2017	8	655,506	806,473	117,314	6,591	286	1,586,170	124,909	1,711,079	1,538	121	1,712,738
2017	9	649,086	765,851	109,549	6,414	322	1,531,222	120,582	1,651,804	1,338	105	1,653,247
2017	10	792,363	791,585	113,249	6,660	478	1,704,335	134,214	1,838,549	1,718	135	1,840,402
2017	11	981,267	820,554	107,346	7,038	694	1,916,899	150,953	2,067,852	1,710	135	2,069,697
2017	12	1,241,276	894,073	105,894	6,868	1,009	2,249,120	177,115	2,426,235	1,596	126	2,427,957
2018	1	1,192,385	858,909	114,914	6,716	874	2,173,798	171,184	2,344,982	2,180	172	2,347,334