**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

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| WASHINGTON UTILITIES ANDTRANSPORTATION COMMISSION,Complainant,v.PUGET SOUND ENERGY,Respondent. | DOCKETS UE-170033 & UG-170034JOINT MEMORANDUM INSUPPORT OF MULTIPARTYPARTIAL SETTLEMENT |

# I. INTRODUCTION

1. This Joint Memorandum in Support of Multiparty Partial Settlement (“Joint Memorandum”) is filed pursuant to WAC 480-07-740(2) by Staff of the Washington Utilities and Transportation Commission (“Staff”), Puget Sound Energy (“PSE”), Industrial Customers of Northwest Utilities (“ICNU”), The Kroger Company (“Kroger”), Sierra Club, NW Energy Coalition/Renewable Northwest/Natural Resources Defense Council (“NWEC/RNW/NRDC”), State of Montana (“Montana”), Northwest Industrial Gas Users (“NWIGU”), The Energy Project (“TEP”), and The Federal Executive Agencies (“FEA”) (collectively “settling parties”).
2. This Joint Memorandum summarizes and supports the Multiparty Settlement Stipulation and Agreement (“Settlement”). It is not intended to modify any terms of the Settlement. Filed in combination with this Joint Memorandum is each settling party’s testimony in support of the Settlement.

# II. OVERVIEW OF SETTLEMENT TERMS AND ITS PRINCIPAL ASPECTS

1. Ten of the eleven remaining parties to Dockets UE-170033/UG-170034 propose Settlement for the vast majority of the issues in this case.[[1]](#footnote-1) The ten settling parties believe that this Settlement, while not inclusive of every specific issue before the Washington Utilities and Transportation Commission (“Commission”), represents a commendable collaboration by the parties and covers a comprehensive array of PSE stakeholders. The Commission need look no further than the signatory pages to see that this Settlement brings together a diverse group of parties with very different and often competing interests. Nearly every constituency recognizes the proposed settlement as a fair and reasonable outcome of this litigation.
2. The proposed settlement includes many large-dollar, previously-contested items. The Settlement terms provide a plan to cover the costs of decommissioning and remediating Colstrip Units 1 and 2, and the accounting treatment for Colstrip Units 1 through 4 moving forward. Other terms included in the Settlement address PSE’s allowed cost of capital, overall revenue requirement, low income programs, and portions of electric rate design. This Settlement proposal resolves each of these issues with an approximate 1% increase for electric customers and an approximate 4% decrease for gas customers. The proposed settlement is a testament to the ten settling parties’ diligent work in this case and their commitment to a fair and reasonable outcome of this case.
3. As the Commission knows from the August 30, 2017, evidentiary hearing, however, the ten settling parties’ agreement excludes four issues.[[2]](#footnote-2) The settling parties ask the Commission to resolve the entirety of the current case by deciding those four issues and accepting the proposed settlement agreement without condition.

# III. SCOPE OF DISPUTE

1. On January 13, 2017, PSE filed with the Commission the revisions to its currently effective Tariff WN U-60, Tariff G, Electric Service in Docket UE-170033 and revisions to its currently effective Tariff WN U-2, Natural Gas Service in Docket UE-170034. PSE’s initial filing requested an increase in electric base rates of approximately $149 million (7.6 percent) on an annual basis. The net impact to customers after applying various offsets would have been an increase in electric rates of approximately $87 million (4.1 percent). PSE’s initial filing also requested an increase to natural gas base rates of $23 million (2.8 percent) on an annual basis. The net impact to customers after applying various offsets would have been a decrease in natural gas rates of approximately $22 million (-2.4 percent). PSE’s proposed treatment of Colstrip and cost of capital were among the most significant issues in its filing. The Commission suspended the as-filed tariffs and set the matters for hearing in Order 01 on January 19, 2017.
2. Kroger, ICNU, Sierra Club, NWEC/RNW/NRDC, Montana, NWIGU, The Energy Project, Nucor Steel, and FEA requested, and were granted, intervenor status in the proceeding. On February 15, 2017, the Commission issued a Prehearing Conference Order recognizing the parties and setting a procedural schedule. On April 3, 2017, PSE filed supplemental testimony to update several adjustments. Based on that supplemental filing, PSE reduced its initial requested increase in electric rates from $149 million to $144 million. But for the Settlement, the net impact to customers would have been an increase in electric rates of approximately $68 million (3.2 percent). PSE’s supplemental filing also changed the proposed increase for natural gas service, with the net impact on customers becoming approximately negative $29 million (-3.2 percent)
3. On June 30, 2017, various intervening parties filed responsive testimony to PSE’s initial and supplemental filings. On August 9, 2017, PSE filed rebuttal testimony, and various intervening parties filed cross-answering testimony. The Parties entered into settlement negotiations shortly thereafter. On August 25, 2017, several parties reached an agreement in principle to resolve most, but not all, of the disputed issues.
4. On August 30, 2017, the Commission held an evidentiary hearing focused on the four issues that the settling parties had not agreed upon. The Commission heard cross-examination and conducted questioning from the bench on PSE’s Electric Cost Recovery Mechanism (ECRM), all but one decoupling-related issue, a portion of electric rate spread/rate design, and the entirety of natural gas rate spread/rate design-related issues. Those four issues remain with the Commission for determination. The Parties’ proposed settlement resolves all other issues.

# IV. SCOPE OF SETTLEMENT AND ITS PRINCIPAL ASPECTS

1. Under WAC 480-07-730, the proposed Settlement is a “multiparty partial settlement.” The Settlement resolves most, but not all, contested issues, and includes most, but not all, parties. The Settlement and supporting testimony from the settling parties provides the scope of the agreement for each issue and adjustment. The principal aspects of the Settlement are outlined in narrative below.

## A. COLSTRIP

1. The largest aspect of the Settlement concerns Colstrip. The issues presented in this case have significant economic and policy impacts. The Settlement embodies an historic agreement among the diverse settling parties with respect to the following seven principal areas.

### 1. The annual depreciation expense for Colstrip Units 1 and 2 is $18.5 million.

1. The agreed accounting treatment for Colstrip Units 1 and 2 impacts PSE’s expenses and rate base. The parties agree to set PSE’s annual depreciation expense at $18.5 million between now and the planned retirement date in 2022. At retirement, the Settlement provides that PSE would account for any unrecovered plant balance as a regulatory asset. PSE would then offset that regulatory asset against production tax credits as PSE monetizes those credits on PSE’s tax returns. PSE agrees to assume the risk that it will be unable to monetize the PTCs to offset additional unrecovered plant balances for Colstrip Units 1 and 2; provided, however that if Colstrip Units 1 and 2 close prior to the monetization of sufficient PTCs to offset additional unrecovered plant balances for Colstrip Units 1 and 2, PSE shall hold remaining unrecovered plant balances of Colstrip Units 1 and 2 in a regulatory asset in rate base until the earlier to occur of (i) the recovery of all plant balances for Colstrip Units 1 and 2 through monetized PTC offsets or (ii) December 31, 2029.

### 2. The depreciation schedule, and corresponding depreciation expense, for Colstrip Units 3 and 4 will be recalculated to run through December 31, 2027.

1. The settling parties agree to a stipulated date of December 31, 2027, for the purpose of setting a depreciation schedule for Colstrip Units 3 and 4. This schedule sets annual depreciation expense for Units 3 and 4 at $23.3 million.

### 3. PSE will place $95 million of treasury grants into an account pursuant to RCW 80.84.020(2) for the purposes of future decommissioning and remediation.

1. Under RCW 80.84.020(2), the Commission may authorize electric utilities to place certain regulatory liabilities into retirement accounts for the sole purpose of decommissioning and remediation costs for coal plants that commenced commercial operations before January 1, 1980. The relevant settlement provision in this case sets aside nearly $100 million in PSE’s hydro-related treasury grants for Colstrip Units 1 and 2 decommissioning and remediation costs pursuant to RCW 80.84.020.

### 4. PSE will place Production Tax Credits into an account as those credits are monetized.

1. PSE has generated nearly $300 million dollars of Production Tax Credits related to its wind generating assets that PSE has not been able to utilize on its tax returns due to net operating losses; customers, therefore, have not yet received the benefit of those credits. The relevant provision of the Settlement sets those credits aside as they are monetized for the purposes of: (1) community transition planning and assistance, (2) recovery of unrecovered plant balances, and (3) prudently incurred decommissioning and remediation costs related to all Colstrip Units. The Settlement does not place these amounts in an RCW 80.84.020-type account because of the settling parties’ objective to provide a portion of those funds to community transition planning and unrecovered plant balances as well as decommissioning and remediation. This enables these funds to be used flexibly to address multiple needs that the parties have identified for resolution in this agreement.

### 5. PSE will contribute $10 million to transition planning and assistance for the community of Colstrip, Montana.

1. PSE’s contribution to transition planning for Colstrip, Montana will include two parts. First, PSE will contribute $5 million in shareholder funds. PSE will place the shareholder portion of its contribution into an escrow account by the end of 2018. Those funds will remain in escrow until Colstrip stakeholders, including PSE, develop a community transition plan. Second, PSE will contribute $5 million of Production Tax Credits to the Colstrip community transition plan. PSE will make the PTC-related contribution available in either escrow or directly to the applicable funding mechanism as PSE monetizes those credits on its tax returns. The Settlement also provides that PSE will engage in a process with stakeholders, including the State of Montana and representatives of the community, in the development of a community transition plan.

### 6. Beginning in 2018, PSE will file an annual report with the Commission updating several Colstrip-related items.

1. PSE will file annual reports to document Colstrip’s status on an ongoing basis. These annual reports will include PSE’s most recent estimates for retirement dates and relevant discussions of consequences to customers in the event of any changes to those retirement dates. PSE’s reports will also indicate any new information or estimates related to future decommissioning and remediation costs as well as the sufficiency of the RCW 80.84.020-related retirement account, which is comprised of hydro-related treasury grants. PSE will also include documentation of the depreciation rates for Colstrip Units 3 and 4, and any updates to decommissioning and remediation costs related to those units. Lastly, PSE will update replacement power costs in its report during those years when PSE files an Integrated Resource Plan.

### 7. PSE will work with the other Colstrip Transmission System owners on a Colstrip Transmission Study, and the settling parties recommend the Commission initiate a workshop to discuss the future use of the Colstrip Transmission System.

1. The Settlement demonstrates and memorializes the fact that PSE has begun working with other Colstrip Transmission System owners on the design of an operational study of the use of the Colstrip Transmission System. PSE agrees to work in good faith to complete such a study on or before June 30, 2018. The settling parties also recommend the Commission convene workshops in early 2018 to discuss the use of the Colstrip Transmission System following the future retirement of Colstrip Units 1 and 2 in 2022. As a part of such workshops, the participants will raise and identify barriers associated with the use of the Colstrip Transmission system following closure of Colstrip Units 1 and 2, and develop timelines for addressing those barriers.

## B. COST OF CAPITAL AND RETURN ON EQUITY

1. The second most significant settlement term, at least in terms of dollar amount, is PSE’s cost of capital. In particular, and as always, the non-observable return on equity capital is the important issue. The Settlement provides for a capital structure of 51.5 percent debt and 48.5 percent equity. The settling parties agreed to a 9.50 percent return on equity capital and a 5.81 percent cost of total debt. PSE’s weighted average cost of capital, or overall rate of return, will be set at 7.6%. This represents a compromise between the litigation positions of the parties. The agreed 9.50 percent ROE also brings PSE’s authorized return on equity down thirty basis points, which is consistent with the two other large, investor-owned utilities in this state.[[3]](#footnote-3)

## C. OVERALL REVENUE REQUIREMENT

1. Colstrip and cost of capital are the largest revenue-impact items in this case. Although the Settlement includes a number of additional revenue-related adjustments, none of those adjustments represents nearly as significant an economic impact as Colstrip or cost of capital. The settlement of Colstrip and capital costs dramatically refined the number of possible revenue requirement outcomes in this case. With this more clearly defined range of potential revenue requirement outcomes, the settling parties were able to reach agreement on final revenue requirement figures for both electric and natural gas operations, which would not otherwise have been possible absent consensus on both Colstrip and cost of capital.
2. The settling parties agree to a net decrease of approximately $35 million for PSE’s natural gas operations and a net increase of approximately $20 million for PSE’s electric operations.

## D. LOW INCOME

1. The Settlement also improves the structure and funding for PSE’s low income assistance programs. An advisory committee will be formed by January 1, 2018. That committee will meet on or before March 1, 2018. PSE also agrees to provide up to $2 million through June 30, 2019, to fund low-income weatherization projects as a one-time contribution in addition to current funding. PSE also agrees to continue its annual $100,000 contribution of shareholder funds to its low income weatherization program. These additional commitments by PSE ensure the continuity of aid for low-income customers within PSE’s service territory.
2. The Settlement further provides for a consultation process between PSE, The Energy Project, and the affected community action agencies. PSE will consult with The Energy Project and affected agencies to discuss PSE’s bill assistance and weatherization programs. PSE also agrees not to proceed with third party scheduling until after consultation with The Energy Project and the Advisory Committee.

## E. PORTIONS OF ELECTRIC RATE SPREAD AND RATE DESIGN

1. The settling parties agreed to resolve certain of the rate spread and rate design issues for PSE’s electric operations. The rate spread and rate design agreements cover six principal areas. First, the Settlement moves Schedules 7A, 10, 11, 12, 25, 26, 29, 31, 46, and 49 closer to parity by allocating to them 65 percent, rather than 75 percent, of the average rate increase. The Settlement also contains specific provisions for Schedule 25 customers, namely the maintenance of the current tail block energy rate, an increase in the basic charge, and an increase in demand charges. Third, the settling parties adopted Staff’s proposal to begin phasing out Schedule 40. Fourth, the Settlement adopts Staff’s proposal to increase demand charges for Schedules 46 and 49. Fifth, the settling parties agreed to recalculate the allowed revenue per customer figures when Microsoft leaves PSE’s system. Finally, the parties agreed to an adjustment to reflect the Ardmore Substation costs as a one-time adjustment that preserves each party’s right to argue for allocating Ardmore Substation costs differently in future proceedings. Although there is disagreement over the nature and relative size of certain benefits, the settling parties agree that the above settlement terms have substantial benefits and improve on PSE’s current electric rate spread and rate design.

# V. CONCLUSION

1. The Settlement proposed by the settling parties is the culmination of several months of discovery as well as a number of complex and sensitive settlement discussions. Characterizing the evidentiary record in this case as “voluminous” would not do justice to the time and effort the parties have dedicated to the thousands of pages of prefiled, rebuttal, and cross-answering direct testimony, exhibits, and workpapers contributed by the nearly fifty witnesses in this case. The settling parties – representing approximately 90 percent of the witnesses who filed testimony – now offer this Settlement for the Commission’s consideration, believing it to fairly and reasonably resolve most of the issues before the Commission and does so with the inclusion of stakeholders who quite often have such disparate interests as to prohibit the kind of cooperation and collaboration that this Settlement embodies. The settling parties request the Commission accept this multiparty settlement agreement in its entirety.

DATED this 15th day of September, 2017.

Respectfully submitted,

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1. The Public Counsel Unit of the Attorney General’s Office opposes the Settlement. Nucor Steel Seattle, Inc. takes no position on the Settlement. [↑](#footnote-ref-1)
2. The proposed settlement does not include terms for: (1) the Electric Cost Recovery Mechanism (ECRM), (2) the majority of decoupling-related issues, (3) certain portions of electric rate design, and (4) all of natural gas rate spread/rate design. [↑](#footnote-ref-2)
3. The Commission authorized returns on equity capital of 9.50 percent for PacifiCorp in 2015 and for Avista in 2015 and 2016. *Wash. Utils. & Transp. Comm’n. v. Pacific Power & Light Co.*, Docket UE-140762 Order 08, p. 78 Table 2, Mar. 25, 2015. *Wash. Utils & Transp. Comm’n. v. Avista Corp.*, Docket UE-150204 Order 04 ¶ 23, Jan. 6, 2016 (approving the settlement terms, including a proposed 9.5 percent return on equity. *See* ¶ 12) *and Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Docket UE-160228, Order 06 ¶ 112, Dec. 15, 2016. [↑](#footnote-ref-3)