Exh. TES-4T
Dockets UE-170033/UG-170034
Witness: Thomas E. Schooley and
Melissa Cheesman

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondents.**	**DOCKETS UE-170033 and UG-170034 (*Consolidated*)**

TESTIMONY OF

Thomas E. Schooley and
Melissa C. Cheesman

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Staff Testimony in Support of Settlement

September 18, 2017

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I. THE PROPOSED SETTLEMENT SATISFIES STAFF'S INTERESTS AND IS CONSISTENT WITH THE PUBLIC INTEREST

Q. Please state your names, titles, and the party you represent in Dockets UE-170033/UG-170034.

A. My name is Thomas E. Schooley. I am employed by the Washington Utilities and Transportation Commission ("Commission") as the Assistant Director - Energy Regulation, Regulatory Services Division. I represent Commission Staff in this case and my testimony in support of the Multiparty Settlement Agreement focuses on Staff's overall policy objectives.

My name is Melissa Cheesman. I am employed by the Washington Utilities and Transportation Commission ("Commission") as a Regulatory Analyst in the Energy Section of the Regulatory Services Division. I represent Commission Staff ("Staff") in this case and my testimony in support of the Multiparty Settlement Agreement focuses on accounting issues and the agreed upon revenue requirement figures.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. Please summarize the results of the proposed settlement.

A. The multiparty party settlement ("Settlement") includes almost every party and resolves almost every issue in Dockets UE-170033 and UG-170034. PSE, Staff, Kroger, ICNU, NWIGU, Sierra Club, NWEC/NRDC/RNW, State of Montana, The Energy Project, and the Federal Executive Agencies all join the Settlement ("Settling

Parties"). For electric operations, the Settlement results in an overall revenue requirement deficiency of approximately $20.2 million (or 1 percent). For gas operations, the Settlement results in an overall revenue requirement sufficiency of approximately $35.5 million (or 4 percent).[1]

The Settlement excludes four issues: (1) Electric Cost Recovery Mechanism, (2) A portion of electric rate spread and rate design issues, (3) decoupling related issues, except the Settlement includes an agreement for the treatment of fixed production costs for decoupling, and (4) the entirety of rate spread and rate design issues for PSE's natural gas operations.

Q. What is Staff's position on the proposed Settlement?

A. Staff supports the Settlement's terms and recommends that the Commission adopt it without condition, in addition to resolving the still contested four issues identified above.

Q. What is the basis for Staff's recommendation?

A. Staff's recommendation is the result of four rounds of testimony, several months of discovery, and a series of complex, and at times contentious negotiations, settlement discussions with 11 interested parties, representing stakeholders with very different interests. The Settling Parties' proposed Settlement brings 10 of those stakeholders

[1] Please refer to Multiparty Settlement Stipulation and Agreement, Exhibit A, for the electric and gas revenue requirements.

together and provides a fair and reasonable resolution to the settled issues in this case.

As part of its decision to join the Settlement, Staff considered the range of potential outcomes of further litigation (or litigation risk) and concluded that this Settlement was a just and reasonable compromise of the issues presented in the case.

Q. Is the Settlement in the public interest?

A. Absolutely, yes. First, rate cases are about fair and reasonable outcomes. The Settlement resolves a series of contentious issues in a very reasonable, balanced manner for all stakeholder and customer groups. Second, the cross-section of PSE ratepayers represented by the Settling Parties strongly suggests that the Settlement serves the public interest. Among the Settling Parties are environmentalists, industrial customer groups for both gas and electric, a large commercial customer, a division of the federal government, the state's primary low income advocate, the Company, an economically neutral party - Staff, and even another state. Staff is puzzled by the remaining party's inability to reach the same conclusions regarding the Settlement.

Q Please explain the proposed Settlement agreement from Staff's perspective.

A. The Settlement agreement includes accounting treatment for the eventual closure dates of Colstrip Units 1 and 2; dramatically reduces the potential for unrecovered plant in Colstrip Units 3 and 4; sets aside $95 million in treasury grants; and identifies potential monetized Production Tax Credits (or PTCs) anticipated to be in the range of about $300 million for any unrecovered Colstrip plant costs, the eventual Colstrip decommissioning and remediation costs, and community transition funding for the town of Colstrip, Montana.

The Settlement also brings PSE's cost of capital in line with other utilities in this state, increases low income funding, significantly improves electric rate design, and resolves a number of accounting issues around items such as storm damages and environmental remediation. This Settlement accomplishes all of that for a net increase of about 1 percent to electric ratepayers and a net decrease of about 4 percent to natural gas ratepayers. The Settlement is fair and reasonable from any perspective that Staff can conceive.

III. ISSUE-BY-ISSUE DISCUSSION

Q. Please list the adjustments Staff did not contest in its responsive case filed on June 30, 2017 and as revised on August 8, 2017.

A. The following are still uncontested by Staff:

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TABLE 1

Electric Adj. Number	Gas Adj. Number	Adjustment Description
13.01	11.01	REVENUES AND EXPENSES
13.03	11.03	PASS-THROUGH REVENUES AND EXPENSES
13.04	11.04	FEDERAL INCOME TAX
	11.06	DEPRECIATION STUDY
13.07	11.07	NORMALIZE INJURIES AND DAMAGES
13.08	11.08	BAD DEBTS
13.09	11.09	INCENTIVE PAY
13.10	11.10	DIRECTORS & OFFICERS INSURANCE
13.11	11.11	INTEREST ON CUSTOMER DEPOSITS
13.13		DEFERRED GAINS/LOSSES ON PROPERTY SALES
13.14	11.14	PROPERTY & LIABILITY INSURANCE
13.15	11.15	PENSION PLAN
13.16	11.16	WAGE INCREASE
13.17	11.17	INVESTMENT PLAN
13.18	11.18	EMPLOYEE INSURANCE
13.21	11.21	SOUTH KING SERVICE CENTER
13.22	11.22	FILING FEE AND EXCISE TAX
	7.01	COST RECOVERY MECHANISM
14.02		MONTANA ELECTRIC ENERGY TAX
14.03		WILD HORSE SOLAR
14.04		ACCOUNTING STANDARDS CODIFICATION 815 (FORMERLY SFAS 133)
14.06		REGULATORY ASSETS AND LIABILITIES
14.07		GLACIER BATTERY STORAGE
14.09		GOLDENDALE CAPACITY UPGRADE
14.10		MINT FARM CAPACITY UPGRADE

Q. Please identify the issues contested by Staff, but resolved by the Settlement.

A. Table 2 identifies the issues and adjustments contested by Staff, but now included in the Settlement.

TABLE 2

Electric Adj. Number	Gas Adj. Number	Adjustment Description
13.02	11.02	TEMPERATURE NORMALIZATION
13.05	11.05	TAX BENEFIT OF PRO FORMA INTEREST
13.06		DEPRECIATION STUDY
13.06A		REGULATORY ASSET COLSTRIP (Staff Proposed)
13.12	11.12	RATE CASE EXPENSES
	11.13	DEFERRED GAINS/LOSSES ON PROPERTY SALES
13.19	11.19	ENVIRONMENTAL REMEDIATION
13.20	11.20	PAYMENT PROCESSING COSTS
13.23		INVESTOR SUPPLIED WORKING CAPITAL (Staff Proposed Adj.)
13.24	11.24	LEGAL COSTS (Staff Proposed Adj.)
14.01		POWER COSTS
14.05		STORM DAMAGE
14.08		ENERGY IMBALANCE MARKET
14.11		WHITE RIVER
14.12		TRANSFER OF HYDRO TREASURY GRANTS IN RATEBASE
14.13		PRODUCTION ADJUSTMENT

A. Capital Structure and Cost of Capital

Q. Please explain the Settlement terms in Section III.A. for capital structure and cost of capital.

A. The primary component of capital structure and cost of capital is the return on equity. The Settlement provides for an authorized return on equity of 9.5 percent. The 9.5 percent figure is equal to the authorized equity returns granted by the Commission in recent dockets for both Avista and PacifiCorp. A 9.5 percent return on equity also falls within the range of reasonableness presented by the expert witnesses Mr. Gorman, Mr. Parcell, and Dr. Morin. As to capital structure, Staff presented a slight decrease to the equity portion of capital, a point that we conceded as a compromise to reach settlement in this case.

B. Common Operation Adjustments

Q. Please explain Section B.2.b. Adjustment No. 13.02 electric and 11.02 gas – Temperature Normalization.

A. With the aim of reaching an agreeable resolution in this case on a number of issues, including this one, Staff accepts the Company's temperature normalization adjustments. This issue may be addressed in future proceedings without prejudice.

Q. Please explain Section B.2.e. Adjustment 13.05 electric and 11.05 gas – Tax Benefit of Pro Forma Interest?

A. The differences between Staff's adjustment and PSE's are due to differing opinions on pro forma rate base.[2] The Settlement identifies a specific pro forma rate base, therefore this issue is also resolved.

Q. What is the purpose and importance of Section B.2.f. Adjustment 13.06 electric – Depreciation Study?

A. This section is the first Colstrip-related part of the agreement. In substance, it sets the depreciation schedules for all four Colstrip Units. For Units 1 and 2, the annual depreciation expense is $18.5 million between now and mid-2022. If Units 1 and 2

[2] See MCC-1Tr, at 14, lines 16-23.

close prior to the monetization of sufficient PTCs, the Company may account for the remaining unrecovered plant balance through a regulatory asset. PSE will then offset the regulatory asset with PTCs as the Company monetizes those credits on federal tax returns. In the event that PSE is unable to realize (i.e. monetize) sufficient PTCs by 2029, PSE will write off the remaining value of the regulatory asset. PSE is thus accepting the risk that PTCs will expire or otherwise never be able to be monetized. On the other hand, ratepayers are losing the direct benefit of the PTCs, when monetized, through rate reductions. The underlying rationale is that PSE will be largely made whole for Colstrip Units 1 and 2; the tax credits mitigate potential rate impacts if the depreciation expense is insufficient to recover the entire plant balances; and that by using these credits there is a better balance between today's generation of customers and the future generations.

Q. What about paragraph 27 and Colstrip Units 3 and 4?

A. Paragraph 27 of the Settlement (Section B.2.f.) sets a depreciation schedule for Units 3 and 4 through December 31, 2027. The 2027 date is not a retirement date, but simply reduces the depreciable life for Units 3 and 4 by eight years (compared to PSE's filed depreciation study). Projecting coal-related plant lifespans is difficult at best, but the plan endorsed by the Settlement reduces the potential risk of large unrecoverable plant balances. In this way, the proposed depreciation in paragraph 27 reconciles with recent decisions to close Units 1 and 2, and drastically reduces the likelihood of facing intergenerational inequities for Units 3 and 4.

Q. Please explain Section B.2.g. Adjustment No. 13.06A electric– Regulatory Asset Colstrip.

A. Staff rescinds its Adjustment No. 13.06A electric– Regulatory Asset Colstrip. The Settlement terms fairly and reasonably address the recovery of Colstrip Units 1 and 2, as discussed above.

Q. Please explain Section B.2.m. Adjustment No. 13.12 electric and 11.12 gas – Rate Case Expenses.

A. As a compromise, Staff forgoes its position on rate case expenses and accepts the Settlement's adoption of PSE's proposal to normalize rate case expenses. Staff's prior position carried substantial litigation risk with limited financial impact in this case.

Q. Please explain Section B.2.n.ii. Adjustment No. 11.13 – Deferred Gains/Losses on Property Sales (Natural Gas).

A. The Settlement appropriately adopts PSE's proposed adjustment for deferred gain and losses on natural gas property sold. PSE fairly defended its testimony in its rebuttal case on August 9, 2017.[3]

Q. Please explain the Settlement's terms in Section B.2.t. Adjustment 13.19 electric and 11.19 gas – Environmental Remediation.

[3] Exh. SEF-12T, at 14:6 -15:3.

A. Given PSE's rebuttal to Staff's testimony, Staff agrees to engage in a collaborative with PSE and other stakeholders to look at the remediation projects, recoveries, and accounting methodologies in place to discuss a more identifiable tracking process that does not impede PSE's efforts to collect further insurance recoveries.

Paragraph 56 of the Settlement adopts Staff's proposal to improve the Company's reporting process related to environmental remediation. The reports will now be annual instead of quarterly, easier to understand, more focused on specific information, and less burdensome for Staff and the Company. A more transparent and easily reviewed reporting process benefits Staff specifically, and the public more generally, by preserving public resources and avoiding unnecessarily complicated documenting processes.

Based on the Company's rebuttal testimony documenting the accounting treatment and intention, including testimony from PSE's counsel who took part in those negotiations in the mid-1990s, Staff determined the proposal to write-off a portion of the Tacoma Tar Pits project is no longer necessary.

Q. Please explain Section B.2.u. Adjustment 13.20 electric and 11.20 gas – Payment Processing Costs.

A. As a compromise the Settlement adopts Staff's proposal to amortize, over three years, the balance of the deferred accounting mechanism established for the Company's fee-free credit and debit card payment program.

A longer amortization period reduces the probability of over-collection, which is likely in any scenario where the company does not immediately file for a new rate case after the conclusion of a rate case. Terms of the Settlement on this issue thus balances the goals of making the Company whole for expenses it prudently incurred on behalf of customers, while also shielding its customers from the likelihood of over-collection.

Q. Please explain Section B.2.x. Adjustment 13.23 electric and 11.23 gas – Investor Supplied Working Capital and Rate Base Adjustment?

A. The Settlement provision largely follows Staff's revised proposal filed on August 8, 2017. Staff's initial filing incorrectly reduced rate base by the amount of its proposed Investor Supplied Working Capital (ISWC) adjustment. Staff's revised testimony did not adjust rate base, but did place construction work in progress (CWIP) in the non-operating category for allocating ISWC among electric, gas, and non-operating groups. The Settlement therefore adopts PSE's proposal for ISWC but includes Staff's placement of CWIP as a non-operating account for allocation purposes.

Q. Please explain Section B.2.y. Adjustments No. 13.24 electric and 11.24 gas – Legal Cost.

A. Staff understands the Settlement captures these adjustments in the "Black Box" discussed below. Therefore, this adjustment has further effect on the revenue requirement calculation.

Q. Please explain Section B.2.z. Adjustment 13.25 electric and 11.25 gas – Black Box Adjustment.

A. The Black Box Adjustments (13.25 electric and 11.25 gas) resolve all remaining revenue requirement-related adjustments in this case. The reality is that, after Colstrip and cost of capital adjustments, very few adjustments can materially alter the revenue requirement. The Settlement narrowed the range of potential revenue outcomes in this case. Rather than expend significant public and private resources litigating dozens of issues with little to no impact on final revenue figures, Staff supports the "Black Box" as reasonable.

Q. Is the Black Box Adjustment within the reasonable range of outcomes for the various adjustments included therein?

A. Yes. While it may be possible, it is not feasible to calculate every potential combination of litigation outcomes for the miscellaneous adjustments proposed by the 11 parties and 50-some witnesses but not specifically mentioned above. A decrease of $1 million on the electric side and $1.5 million on the gas side fall well within a reasonable range of possible outcomes and adequately captures the benefits to customers and costs for the Company while avoiding the risk of an adverse outcome - to any party - through litigation.

C. Electric Only Adjustments

Q. Please explain the Settlement terms for Power Costs described in Section B.3.a. Adjustment No. 14.01 – Power Costs.

A. As a result of the Settlement, net power costs are reduced by $26.0 million to $711.7 million from the $737.7 million contained in the Company's supplemental power cost filing of April 3, 2017. In order to reach a settlement with the parties in this case, PSE basically agreed to Staff's proposals, specifically:

a. Remove all of the Clean Air Rule (CAR) compliance costs affecting the output of PSE's gas-fired resources in the AURORA model during the rate year. In exchange, Staff agreed to support deferral of these costs once compliance obligations and requirements from the Washington Department of Ecology are finally determined and CAR compliance costs become known and measurable;

b. Remove from the AURORA model California Independent System Operator (CAISO) major maintenance adders (MMAs) which affect the hourly dispatch of its gas-fired resources in the rate year;

c. Restore the capacity factors for its wind resources it relied on in determining power costs in the 2011 GRC; and

d. Remove all costs and benefits associated with PSE's participation in the CAISO Energy Imbalance Market (EIM). Instead, the Settling Parties agreed to implement Staff's proposal that a line item for all costs related to PSE's participation in the EIM be included as actual costs in the annual PCA filing that determines whether PSE over- or under-collected on power costs.

Q. Please explain Section B.3.e. Adjustment 14.05 – Storm Damage.

A. The agreement on storm damages is a true compromise between Staff and the Company. The agreement takes parts from each Settling Party's proposals and incorporates them into a mechanism that serves the parties' interests and the public interest. For PSE, the Settlement maintains its retrospective look. The proposal protects the accumulated deferrals the Company currently has related to storm damages and PSE avoids any potential write-off for incurred storm expenses. The Settlement terms also allow a transition period between now and the end of 2017 when the Company can maintain that current deferral process. For Staff, the Settlement prospectively eliminates deferrals for minor incidents. The Settlement increases the storm deferral threshold by $2 million, yet excludes from deferral repairs of less than $500,000. Together these items reduce the number of storm deferrals while still allowing some accounting flexibility for major storms. From the public perspective, fewer Commission resources go to unnecessary deferred accounting mechanisms and PSE's expenses more accurately reflect costs associated with storm damage.

Q. Please explain Section B.3.h. Adjustment No. 14.08 – Energy Imbalance Market.

A. Staff's proposal for handling the costs and benefits of the EIM are addressed in the power cost section Adjustment No. 14.01 above. The Settlement adopts Staff's removal of this adjustment from the revenue requirement calculation.

Q. Please explain Section B.3.k. Adjustment No. 14.11 – White River.

A. As a compromise, the Settlement adopts PSE's proposal to amortize the remaining White River regulatory asset over three years as a means to shorten the recovery of the remaining balance, but this time period is also long enough to smooth its impact on rates.

Q. Please explain Section B.3.l. Adjustment 14.12 – Reclass of Hydro Treasury Grants.

A. Given the Settlement terms regarding Colstrip, Staff accepts PSE's proposal to reclassify the hydro plant treasury grants for later use as a means to pay for decommissioning and remediation costs at the Colstrip project. The protections afforded by recent legislation that this money may only be used for decommissioning and remediation costs are important to Staff's acceptance.

Q. Please explain Section B.3.m. Adjustment No. 14.13 – Production Adjustment.

A. The Settlement adopts PSE's Variable Production Factor of 3.839 percent based on the Temperature Normalization adjustment. The Settlement also adopts Staff's recommendation to remove the Fixed Production Factor (set as 0 percent). PSE's decoupling mechanism for fixed production cost recovery will be based on the fixed revenue requirement approved in this rate case and not based on the revenue per customer calculation. This modification is consistent with the rationale of Production Adjustment, which is to match the rate base and cost with the electricity production in both test year and rate year.

D. Remaining Issues

Q. Please walk through the Settlement's terms for Electric Rate Spread and Rate Design.

A. Specific rate spread and rate design topics for electricity were agreed to by the Settling Parties and spelled out in section C of the Settlement Stipulation. These terms are acceptable to Staff for the purposes of settlement. The result is fair and reasonable, and promotes movement towards some of Staff's long-term rate setting goals. The proposed 65 percent rate spread for certain classes eliminates the need to litigate these schedules proposed increase.[4] There is agreement to discontinue Schedule 40, the campus rate schedule, gradually over the next few years. The application of increased revenues to only the basic and demand charges for certain commercial schedules is a move in the right direction to recover fixed costs from the more stable components of total rates. Microsoft's move to purchase its own power gives rise to necessary revisions to Schedule 40 and to decoupling cost recoveries. The Settlement sets forth a plan to proceed on resolving this issue. The minor revision to the allocation of the cost of the Ardmore substation has little effect on other customers, but was key to gaining an additional party to the Settlement.

The details of the various cost-of-service studies, proposed rate spreads for the classes not addressed in the settlement, and rate design are topics to be decided in

[4] The proposed rate spread for schedules 7, 8, 24, 40, 43, 449, 459, and 50-59 remain at issue in the present proceeding

the litigated portion of this filing. The Settling Parties do agree to participate in good faith in the generic cost-of-service proceeding.

Staff finds all these points as a positive outcome for one of the traditionally contentious areas in a general rate case. To that point, there is no agreement on the natural gas cost of service, rate spread or rate design, all of which are matters still in litigation.

Q. Please explain the Settlement proposal for PSE's Service Quality Index (SQI) No. 5.

A. The Settlement resets the SQI benchmark for the percentage of live calls to the customer service center to 80 percent within one minute, up from the current 75 percent in 30 seconds (although in a longer time period). PSE's proposal to include calls handled by the Integrated Voice Response System as part of the response metric was not well received by various parties, including Staff, and PSE agrees to exclude this automated system from its SQI No. 5 calculation. This is a positive outcome.

Q. Please explain why the Settlement proposals for Low Income Issues benefit the parties and the public.

A. The Settlement made significant improvements to the Company's low income bill assistance and weatherization programs. All of these measures combined enable the Company to extend the benefits to more eligible households and alleviate their energy burden. Parties also intend to build stronger working relationships through a newly-created advisory committee and collaboratively strengthen the low income program.

Specifically, for low income bill assistance, the parties agree to multiple improvements to the HELP program proposed by the Company, Staff and the Energy Project:

(1) Increase the annual HELP program funding by double the overall percent rate increase to the residential customer class approved in this proceeding. The increased funding will allow more eligible customers to benefit from the program.

(2) Change the allocation of HELP funding from 75% electric and 25% gas to 80% electric and 20% gas. The re-allocation better aligns the funding with the actual utilization of the funds (more need from customers for electricity bill assistance in recent years).

(3) Allow senior, disabled and other customers with fixed income to be certified for a two-year period rather than one year. This can potentially alleviate community action agencies' administrative burden and make more resources available to serve new customers.

(4) Modify the income eligibility criteria to 150% of federal poverty line. The modification simplifies the eligibility determination and becomes more consistent with the criteria used by the federal Low Income Home Energy Assistance Program.

(5) Establish an Advisory Committee for PSE bill assistance. The Committee will identify and address bill assistance-related issues collaboratively in between rate cases.

For the Company's low income weatherization program, PSE will continue funding the low-income weatherization at $600,000 per year, $500,000 in rates plus $100,000 of shareholder contributions. Furthermore, Schedule 120 will be increased by an additional $2 million through June 30, 2019 as a one-time contribution to current funding. These funding commitments will make sure eligible households receive support for appropriate weatherization service they need.

Q. Does Staff support the prudence determinations for the projects included in the Settlement?

A. Staff agrees that the eight projects listed in the Settlement are prudent and shall be included as rate base. The prudence of these projects was not contested by Staff in its testimony and this result is fair.

Q. Please explain the Settlement's terms on the issue of decoupling.

A. Staff proposed and the Settling Parties agree that the total Allowed Revenue for the recovery of fixed production costs as allocated per decoupled group will be set at the dollar level the Commission authorizes in this general rate proceeding. This resolution balances the Company's desire for cost recovery assurance and other parties' concern that future fixed production rate base and cost would increase proportionately with the customer growth. There are many issues about the decoupling mechanism that remain to be decided in the litigated portion of this general rate case.

Q. Does Staff support the Expedited Rate Filing (ERF) proposal as beneficial to the parties and the public?

A. Yes. Staff supported PSE's proposed ERF for delivery service in Staff's responsive testimony. The Settling Parties agree to one ERF filing within one year after the effective date of the tariffs in this general rate case. The ERF will be filed by the parameters listed in Exhibit I of the Multiparty Settlement Stipulation and Agreement. This is acceptable to Staff as a way to reduce regulatory lag for delivery rates and resetting the decoupling baseline in a manner that is less contentious, and fair to all.

Q. Please walk through any of the Settlement's remaining terms for Colstrip.

A. In addition to the Treasury Grants addressed above, PSE will accumulate monetized PTCs in a deferred liability account. The monetized tax credits will be booked into an account separate from the Treasury Grants and will not be subject to the terms of Chapter 80.84 RCW. This flexibility will allow PSE to apply them to fund the Colstrip community transition fund ($5 million), to recover unamortized plant balances for Colstrip Units 1 through 4, and to pay for prudently incurred decommissioning and remediation costs at the Colstrip plant.

Staff accepts this plan as a viable means to accomplish the above goals without directly charging customers, now or in the future, for those programs.

PSE will work with stakeholders to develop a community transition plan for the town of Colstrip, Montana. The $5 million from the PTCs will be matched with $5 million of PSE shareholder dollars and placed into an escrow account to fund the transition plan.

PSE agrees to report annually on several aspects of the fate of the Colstrip generation plant. These reports will keep the Commission informed of progress on the eventual closing of all units and the costs of decommissioning and remediating the environmental impacts of the plant.

The eventual closing, in part or in whole, of the Colstrip plant will leave its dedicated transmission line available for others to use. PSE and stakeholders will work towards solutions to this problem. The Settling Parties recommend the Commission commence workshops in early 2018 to further this process.

The Settling Parties agree that this Settlement cannot be construed as a release or waiver of any liability for PSE and that PSE is still subject to any federal and Montana state laws regarding the operations and cleanup of the Colstrip units.

Staff finds the above conditions acceptable and necessary at this time. Staff does not consider these terms as final or complete resolutions of future matters at the Colstrip generation plant.

Q. Please explain the Settlement's terms for the rental program phase out.

A. Staff proposed to end the rental program in its entirety. PSE opposed Staff's request, emphasizing the known consequences for customers and the Company. The Settling Parties agree to start a collaborative process to discuss the future of the rental program. This collaborative process will result in the best possible outcome because it will provide a forum to discuss and address all of the interested parties' concerns.

Q. What is the status of the electric cost recovery mechanism proposal?

A. PSE's proposed electric cost recovery mechanism is a subject of continued litigation. The matter will be decided by the Commission.

Q. Please state Staff's opinion of the Settlement as a whole.

A. Staff is pleased to support the Settlement as a major and historic accomplishment by all the Settling Parties. The diversity of opinions expressed in testimonies could lead to many possible outcomes, any of which could be decided by the Commission as in the public interest. The outcome embedded in this Settlement represents many "gives and takes" and compromises by the Settling Parties and is a tribute to all parties trying to reach what is, in total, in the public interest. To do so with only a one percent increase in electric rates and a four percent decrease in gas rates is astonishing. Staff recommends the Commission accept the Settlement in its entirety, without condition.

Q. Does this conclude Staff's testimony?

A. Yes.