

# Overview of Power Cost Tracker Mechanism

Exhibit\_\_(JAH-8)

# Power Cost Tracker Has Two Main Elements

- A mechanism to provide customers with a real-time price signal related to electricity consumption
- A mechanism that tracks a portion of variable power production costs, ensuring that PSE receives, and the customer pays only those costs

## Most of PSE's Energy Customers Are Served Under Bundled Rates

**Short term power purchases  
and sales**

**Natural gas and fuel oil**

**Coal, Long Term Purchased  
Power Contracts**

**Fixed Costs:**

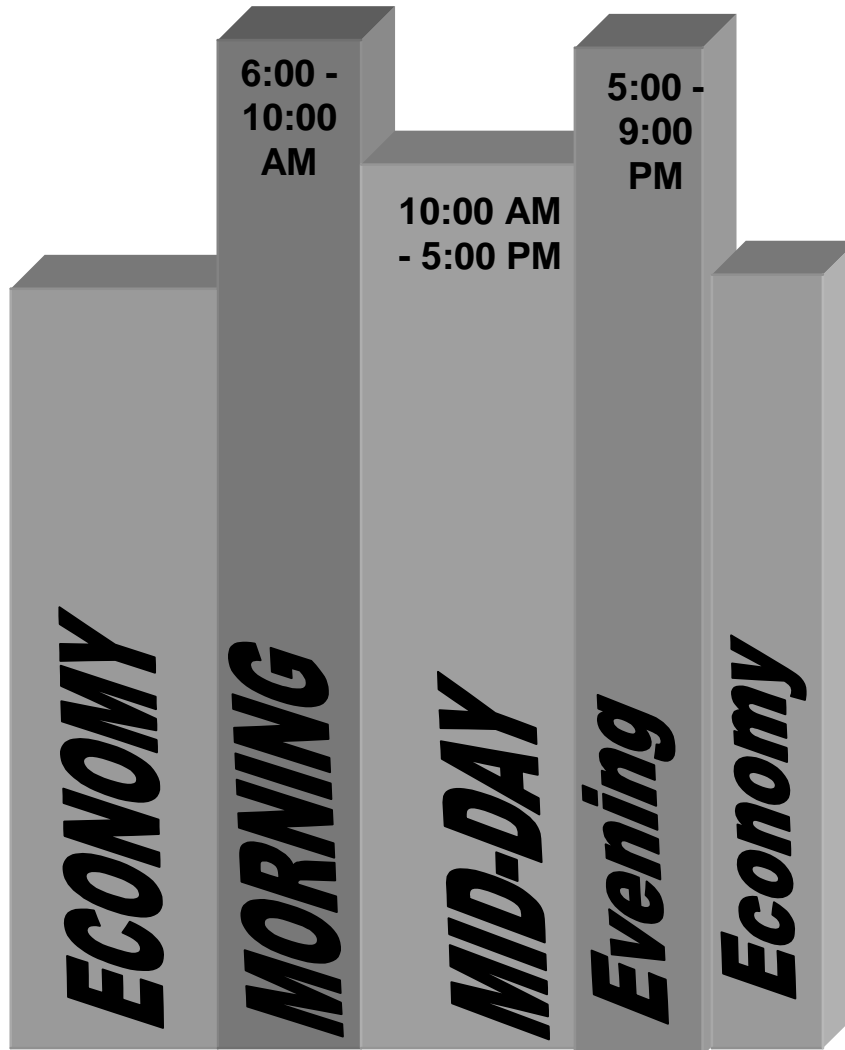
**Customer, Transmission, Distribution, &  
Production Plant**

**O&M Costs:**

**Production, Transmission, & Distribution**

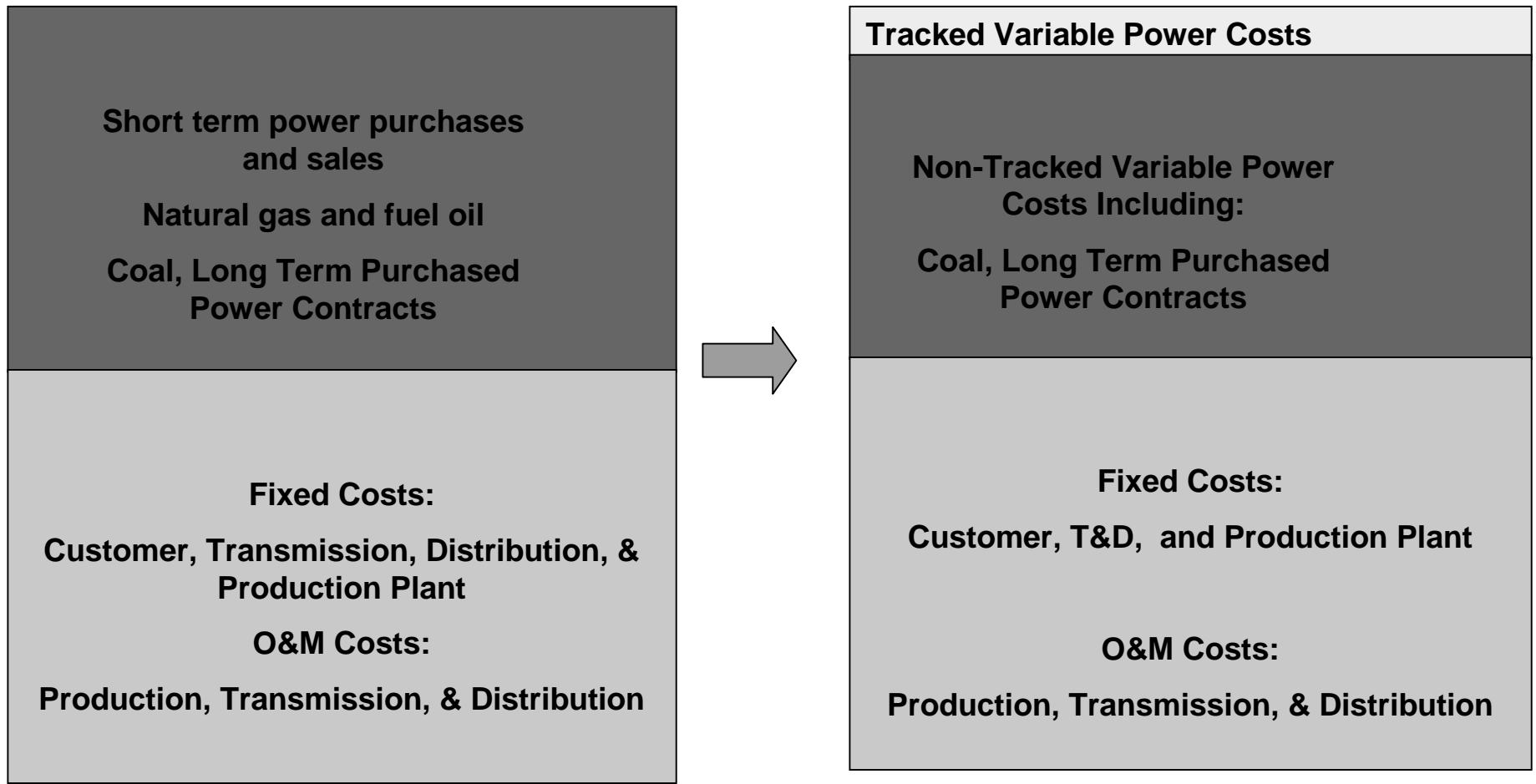
Bundled rates recover fixed and variable costs on customer charges, energy (\$/kWh) and demand charges (\$/kW)

## The Bundled Rates Were Shaped By Time of Day in the Pilot Program

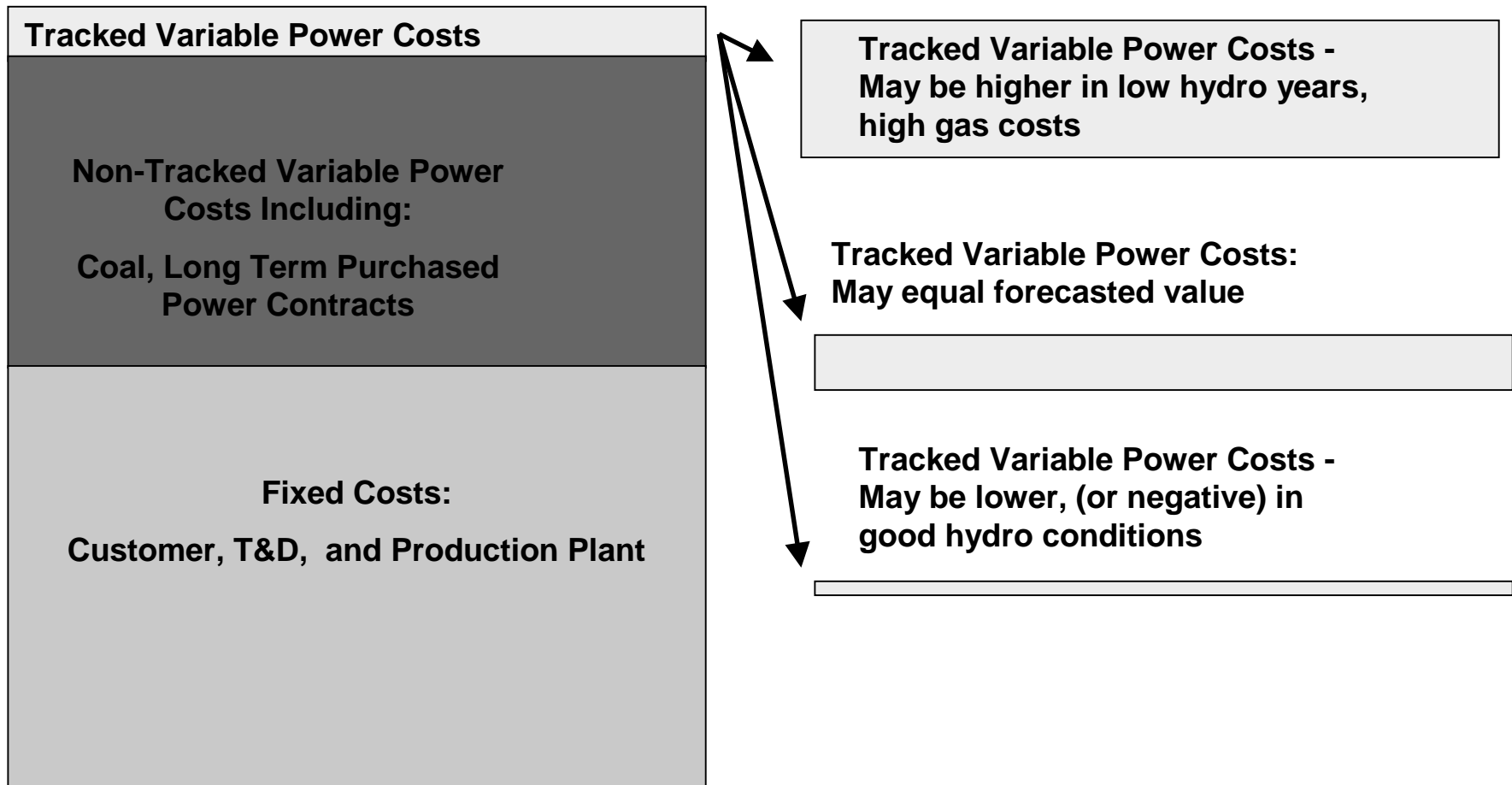


**Four time blocks, and three different prices are used to send a price signal to the customer. These rates do not change based upon price changes in the power markets**

# Tracker Rates Separates PSE's Costs into Three Major Components

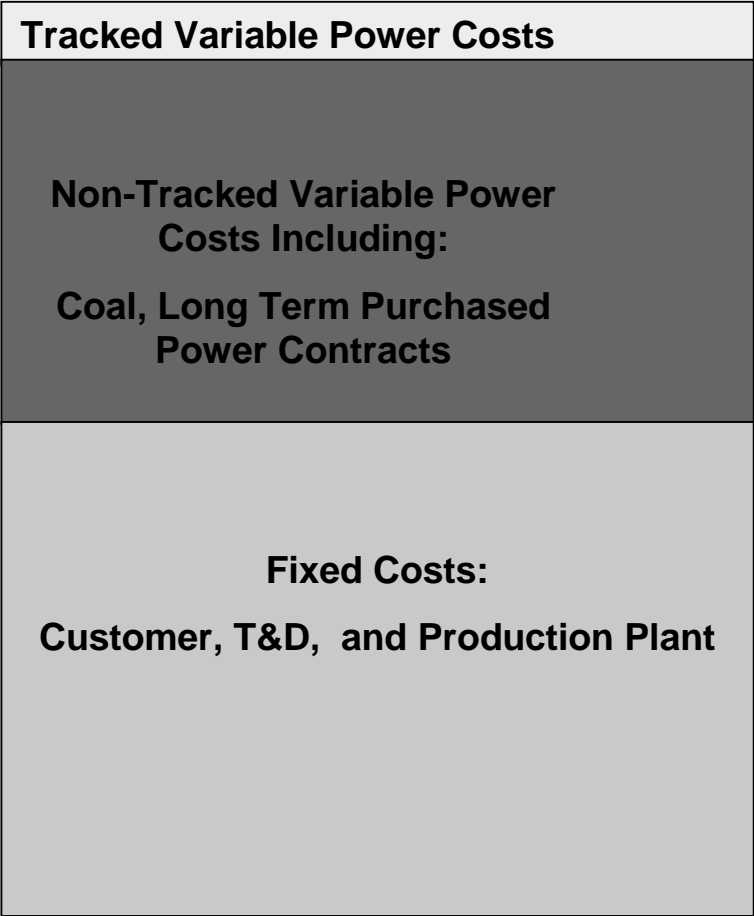


# Tracker Variable Costs Change With Market Conditions (Hydro, Fuel Costs, Secondary Power Markets)

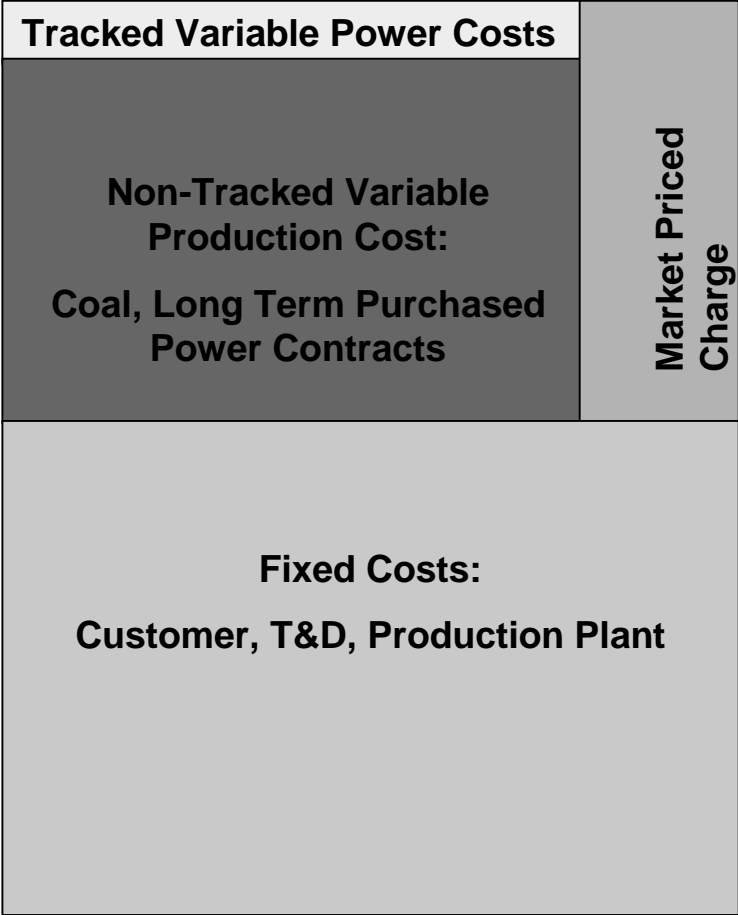


# The Tracker Mechanism Splits the Company's Costs For the Purposes of Sending a Customer a Price Signal, But Not For Setting Allowable Cost Recovery

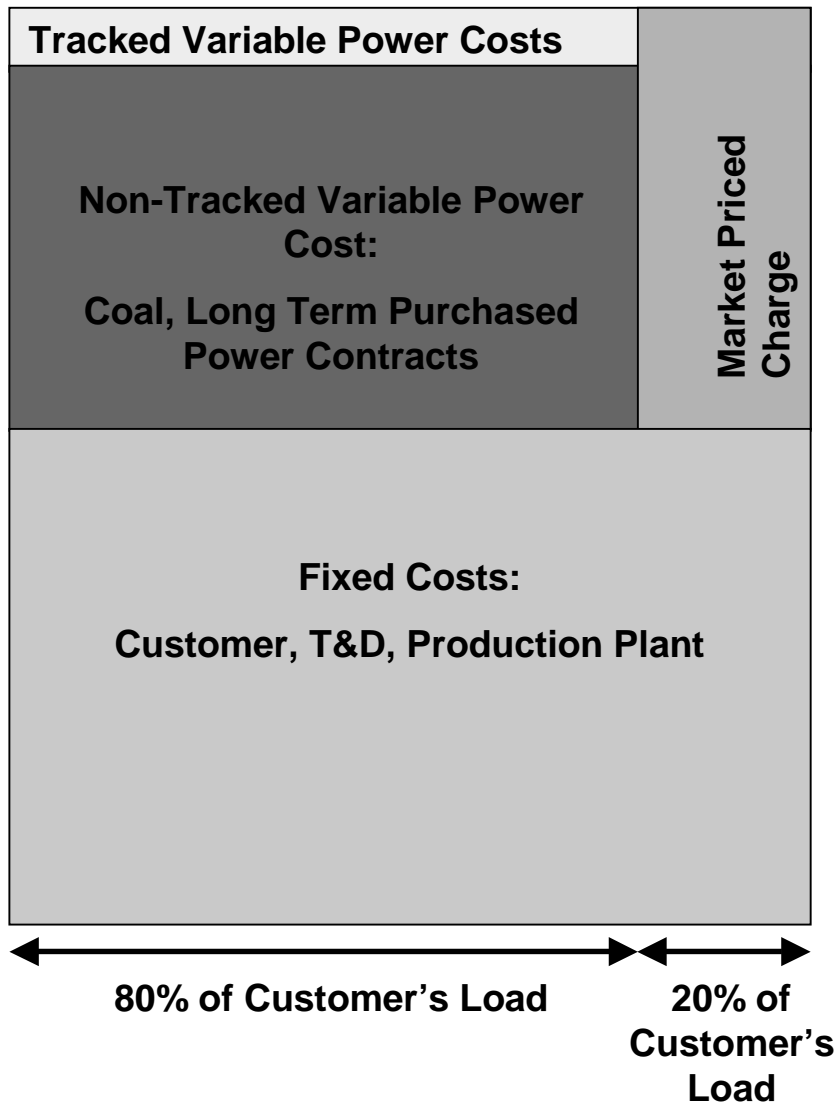
## Costs



## Rates



# 20% of the Customer's Bill Will be Based Upon Market Energy Prices



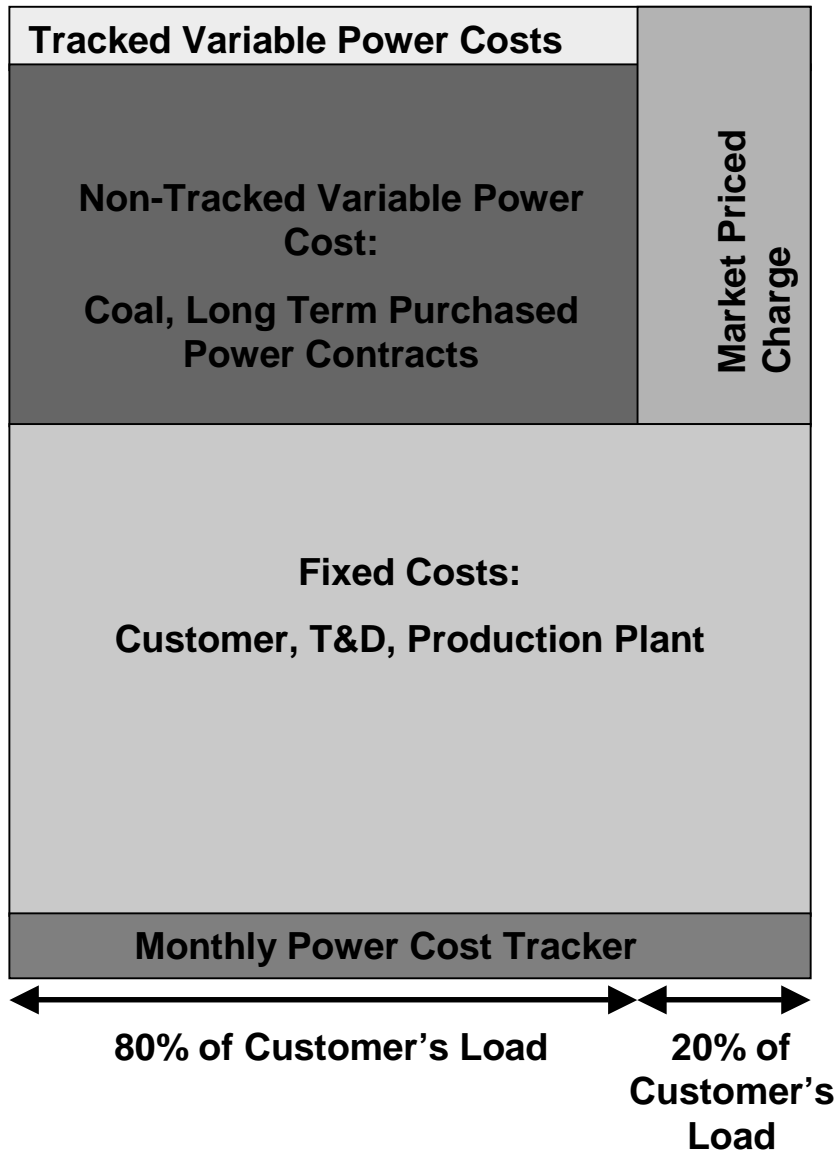
Market Priced Charge

Market Priced Charge

**Market Prices can be less than, or greater than, the sum of the tracked and non-tracked power costs in rates. Customers receive a real-time price signal**



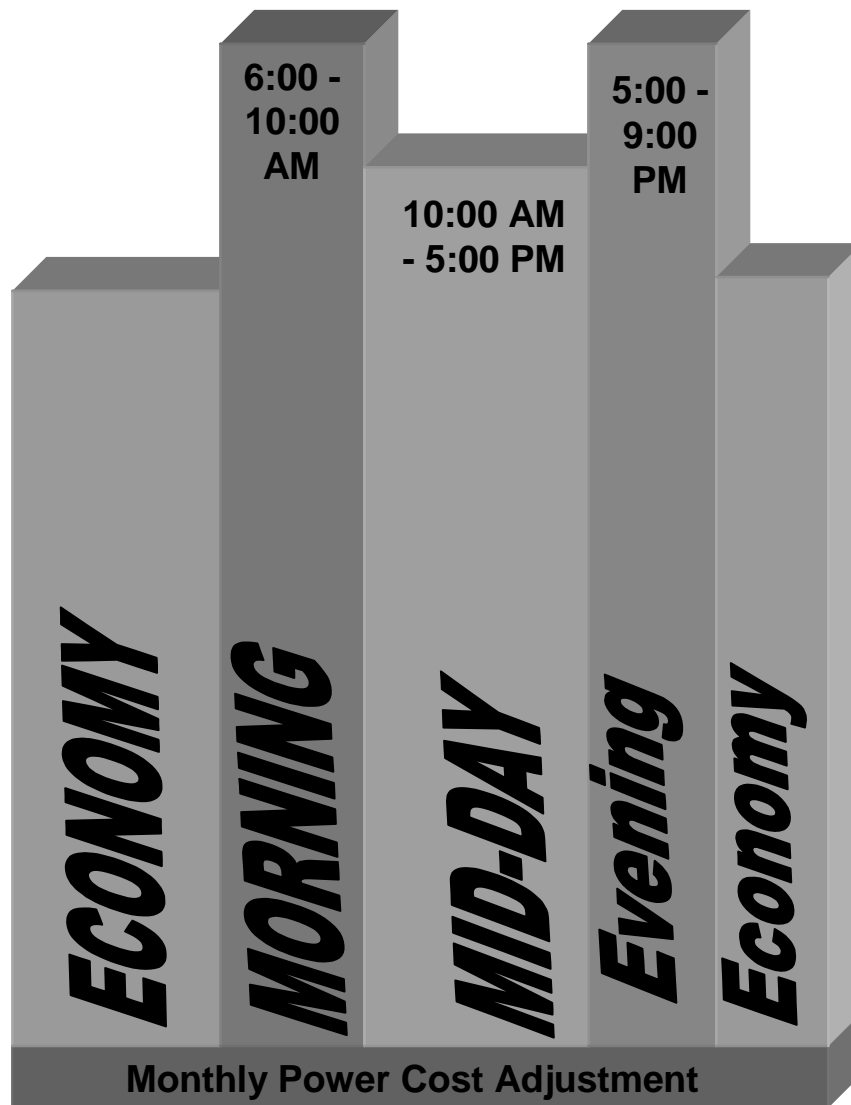
# A Monthly Power Cost Tracker Ensures that Customers End up Paying Only The Company's Allowed Costs



**The Monthly Power Cost Tracker charges / refunds revenues collected under the Market Priced Charge so that**

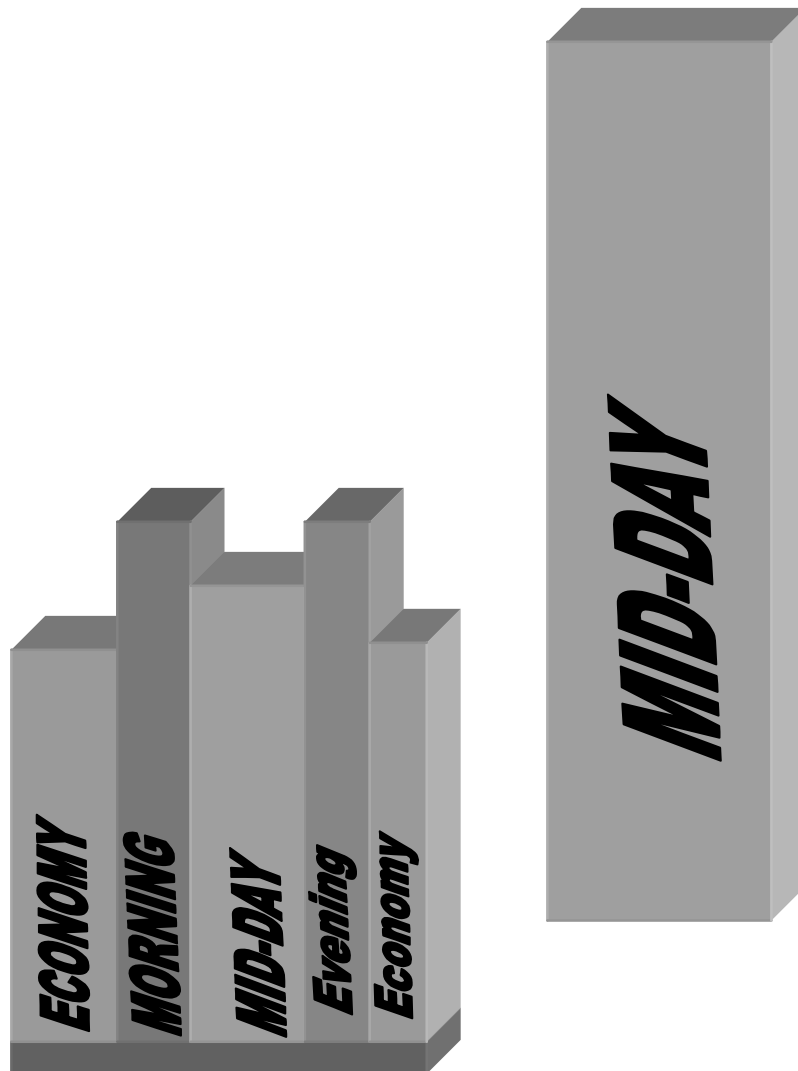
- 1) the Company recovers its tracked variable power costs and**
- 2) the Company recovers non-tracked power costs (on a cents /kWh basis) approved in the general rate case**

## The Overall Rate Design Creates a Time of Day Rate That Has Fixed Differentials Between the 4 Time Periods (3 Prices)



The overall prices in each of the 4 time periods changes daily since 20% of the energy consumed in each period has a Market Price Charge Component

## **The Effective Rate for Each Period Is Constructed From a Two Block Rate For That Period**



**For Example: the Mid-Day energy consumption is billed in two blocks.**

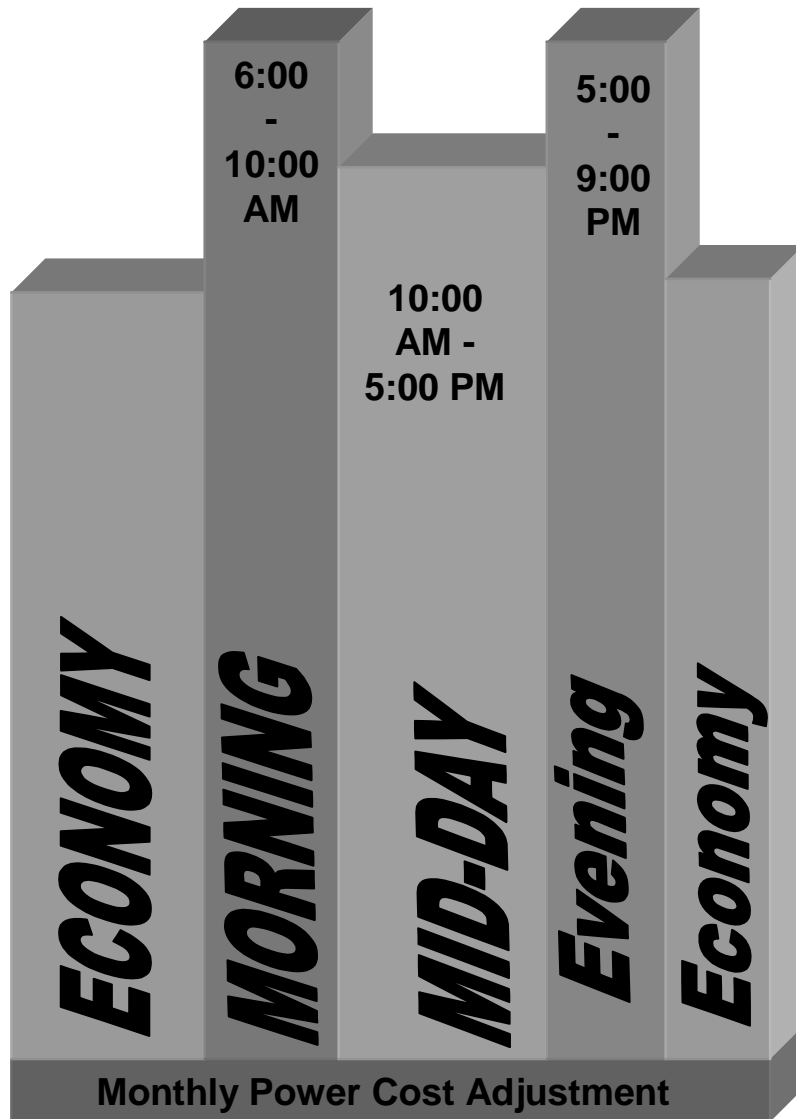
**80% is billed in Block 1 at an bundled energy charge (\$/kWh) that does not change from day-to-day**

**20% is billed in Block 2. Block 2 has two charges:**

**1) a Fixed Cost Charge (\$/kWh) that does not change each day, and**

**2) a Market Price Charge (\$/kWh) that changes daily**

## **Customers on Tracked Rates Receive 2 Additional Rate Adjustments that Lower their Monthly Bill**



**Customers Receive Two Credits (on a \$/kWh basis) for:**

**A pro rata share of the Company's margin on secondary power sales**

**A credit for power cost hedges included in the test year revenue requirement**

# The Monthly Power Cost Tracker Ensures that the Customers Pay Only the Company's Allowed Costs

Monthly Power Cost Adjustment

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Associated Revenues Collected

-

Tracked Variable Power Costs

**Determined by revenues collected at the Market Price Charge plus revenues collected in the first block attributable to tracked variable power costs, less the Monthly Sales Credit less a credit to the Company for non-tracked variable power cost for each kWh sold in the second block.**

**Tracked variable power costs are determined from the Company's accounting system.**