

SERVICE DATE
SEP 26 1996

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Proposal by)	
)	
PUGET SOUND POWER & LIGHT)	
COMPANY)	DOCKET NO. UE-951270
)	
to Transfer Revenues from PRAM Rates)	
to General Rates.)	
.....)	
)	
In the Matter of the Application of)	
)	
PUGET SOUND POWER & LIGHT)	
COMPANY and WASHINGTON NATURAL)	DOCKET NO. UE-960195
GAS COMPANY)	
)	
for an Order Authorizing the Merger of)	
WASHINGTON ENERGY COMPANY and)	SEVENTH SUPPLEMENTAL
WASHINGTON NATURAL GAS COMPANY)	ORDER GRANTING
with and into PUGET SOUND POWER &)	JOINT MOTION TO
LIGHT COMPANY, and Authorizing the)	TRANSFER PRAM RATES
Issuance of Securities, Assumption of)	TO GENERAL RATES
Obligations, Adoption of Tariffs, and)	
Authorizations in Connection Therewith.)	
.....)	

This is a consolidated proceeding. Docket No. UE-951270 is a proposal by Puget Sound Power & Light Company (Puget or the company) to transfer to Puget's permanent rate schedules, currently-collected revenue of approximately \$165.5 million authorized in the PRAM ("Periodic Rate Adjustment Mechanism") under Schedule 100. Docket No. UE-960195 is the application of Puget Sound Power & Light Company and Washington Natural Gas Company ("WNG") for a Commission order authorizing the merger of Washington Energy Company and Washington Natural Gas Company with and into Puget Sound Power & Light Company, and authorizing the issuance of securities, assumption of obligations, adoption of tariffs, and authorizations in connection therewith. These matters were consolidated by an Order Instituting Investigation, Order of Consolidation, and Notice of Prehearing Conference entered April 10, 1996.

BACKGROUND

On October 13, 1995, Puget Sound Power & Light Company filed with the Commission a Petition for Rehearing in the PRAM dockets, Docket Nos. UE-901183-T, UE-901184-P, and UE-950618. The petition alleged that good and sufficient cause existed for allowing the company to defer a general rate filing that was otherwise scheduled to occur on or before November 1, 1995. In addition to deferring the general rate filing, Puget also sought permission to continue to collect a portion of the revenues authorized under its existing Schedule 100 after September 30, 1996.

On October 26, 1995, Staff of the Washington Utilities and Transportation Commission (Commission Staff) filed a Joint Proposal developed by Puget Power and Commission Staff. The Joint Proposal reflected that it was the product of discussions regarding a mutually acceptable course of action between Puget, Commission Staff, and Public Counsel, and that these discussions had taken into account Puget's announcement, on October 18, 1995, that it had reached agreement with Washington Energy Company to merge the two organizations into a single new combination energy company.

The Joint Proposal provided that:

(1) Puget was relieved from filing a general rate case on November 1, 1995, subject to items 3 and 4 below. (2) Puget would provide a restated and pro forma statement of operations for rate making purposes by November 1, 1995, with supporting work papers. Testimony and exhibits supporting the statement of operations would be provided by November 15, 1995. [These commitments were met.] Puget would respond to reasonable requests for discovery regarding this information. (3) Issues regarding the statement of operations would be among those noticed in, presented in, and relevant to the merger filing. Puget's submittal of the information was not a request for an increase in rates over current levels. Puget would file a general rate case within two weeks of April 15, 1996, if a merger application was not filed by that date. If a merger application was filed and subsequently withdrawn, Puget agreed to file a general rate case within two weeks of such withdrawal. Finally, (4) the tariffs currently supporting the \$165.5 million referenced in Puget's Petition would be maintained until the Commission's final order in the merger case; although it might be resolved by an earlier motion if the parties were able to verify that the revenue amounts currently collected under Schedule 100 were fully supported by cost data and the Commission determined they should be transferred to the company's permanent rate schedules. If no such motion was filed and resolved, the Commission would resolve the issue in its order in the merger case. In the event no merger application was filed (or such application was filed and subsequently withdrawn), the tariffs supporting the \$165.5 million would be maintained until the Commission's final order in the general rate case filed pursuant to item 3.

The Commission accepted the Joint Proposal, based upon certain understandings, in an order entered October 31, 1995. The Commission told the parties:

The Commission views the commitments to file made in numbered paragraphs 2, 3, and 4 of the Joint Proposal as an agreement by Puget to file for inclusion of the PRAM rates in general rates. Although numbered paragraph 3 reflects the parties' agreement that the submittal of a statement of operations for rate making purposes is not a request for an increase in rates over current levels, we view it as a general rate request for inclusion of \$165.5 million in PRAM rates in general rates.

Order Reopening Proceedings; Adopting Joint Proposal. Docket Nos. UE-901183-T, UE-901184-P and UE-950618, October 31, 1995, pages 3 and 4.

The Commission went on to state our own requirement for inclusion of \$165.5 million in PRAM rates in general rates:

Any extension of rates beyond the October 1, 1996 expiration of Schedule 100 will be treated as temporary rates subject to refund.

Id., page 4.

The Commission also explained its concern that a timely resolution of the general rate case issues be obtained:

Important issues have been deferred from the PRAM to a future general rate filing. Among those issues are the question of the appropriate treatment of Puget's special contract with ARCO, of the appropriate manner for accounting for conservation investment (the company's accrual of AFUCE will end with the end of the PRAM; nothing in the Joint Proposal suggests extending it), and the proper rate treatment of the Montana Power contract. The Commission does not want to see the resolution of these, or other important issues, unduly delayed, and would expect to have all of them substantively addressed in the merger filing (or general rate case if there is no merger filing.)

Id., page 4.

We explained our view that moving \$165.5 million in PRAM rates to general rates is an increase in general rates. Puget and Commission Staff characterized Puget's request as one to " 'roll-in' to base rates the \$165.5 million currently being recovered through Schedule 100." Id., page 2. They characterized the November 1, 1995, filing as one made "to verify that the revenue amounts currently collected under Schedule 100 are fully supported by cost data and should be transferred to the Company's permanent rate schedules." Id., pages 2 and 3, quoting paragraph 4 of the Joint Proposal. On November 2, 1995, Public Counsel filed with the Commission a letter stating that he could "support the relief sought in that petition."

In a subsequent order, the Commission stated:

If the parties are able to reach a conclusion that the revenue amounts [the \$165.5 million in PRAM rates] are fully supported and should be transferred to permanent rate schedules, they may present appropriate motions to the Commission to allow us to determine whether that is the case on a time line that will allow for Commission review and action before September 30, 1996.

Order Denying Reconsideration, Docket Nos. UE-901183-T, UE-901184-P and UE-950618, (November 8, 1995).

On November 1, 1995, Puget filed a restated and proforma statement of operations for the year ended June 30, 1995, in compliance with paragraph 2 of the Joint Proposal adopted by the Commission in Docket Nos. UE-901183-T, UE-901184-P and UE-950618. Puget is seeking review and analysis to determine whether the currently collected revenue of approximately \$165.5 million authorized in the PRAM under schedule 100 is fully supported by cost data and should be transferred to Puget's permanent rate schedules.

On February 1, 1996, Puget jointly applied with Washington Natural Gas Company for an order of this Commission approving the merger of WNG and its parent company, Washington Energy Company, into the surviving company of Puget Sound Power & Light Company.

THE JOINT MOTION

On March 18, 1996, the Commission Staff and Puget filed with the Commission the Joint Motion of Commission Staff and Puget Sound Power & Light Company, and the Affidavit of Roland C. Martin (Joint Motion). The affidavit provided:

4. Based upon the Staff's review and analysis, it has concluded that there is sufficient cost support to transfer prior increased revenues authorized under the PRAM and collected under Schedule 100 to Puget's general rate schedules.

Page 2.

and:

7. Therefore, Staff recommends that the revenue currently collected under Schedule 100 (which excludes the deferral component) be moved into, and recovered under, Puget's general rate schedules. Puget should be authorized to file tariffs consistent with the Staff's recommendation.

Page 3.

The Joint Motion sought an order from the Commission authorizing the transfer for recovery under Puget's general rate schedules the amounts currently collected under Puget's Schedule 100, other than PRAM deferral rate elements.

The Second Supplemental Order in this matter was entered May 23, 1996. It states, on page 5:

The method to be used in determining appropriate levels of recovery of deferred PRAM revenues related to the ARCO load should be resolved in conjunction with any decision by the Commission with regard to transferring the \$165.5 million in PRAM revenues to general rates. The Commission, therefore, instructs the parties to propose a method and a time schedule in which this issue can be resolved before September 30, 1996.

Responses to the Joint Motion were due on June 3, 1996. Answers to those responses by Commission Staff and Puget were due on June 14, 1996. On May 31, 1996, Public Counsel filed with the Commission its Reply to the Joint Motion of Staff and Puget Power Regarding PRAM Revenues. Public Counsel indicated that he did not agree that the \$165.5 million was necessarily appropriate for collection after a merger decision, and therefore Public Counsel opposed moving the amounts to general rates at this time. Public Counsel had no objection to the continued collection of the rates pending a decision on the merger application. Public Counsel argued that the merger case decision should resolve the issue of the rates subsequent to that decision. Public Counsel concluded that the Commission should not grant a motion that would bind it to a present rate result in the post-merger decision setting.

On June 7, 1996, the National Resources Defense Council (NRDC) and the Northwest Conservation Act Coalition (NCAC) filed with the Commission the Response of NRDC and NCAC to Public Counsel Reply to Joint Motion of Staff and Puget Power Regarding PRAM Revenues. NRDC and NCAC agreed with Public Counsel that the Commission should refrain from making a decision affecting Puget's rates following the merger docket at this stage of the proceeding. These parties argued:

The merger docket is only just underway. Intervening parties have not yet submitted their testimony, and no opportunities for settlement negotiations of rate and other issues have yet occurred. Given this state of affairs, NRDC and NCAC support Public Counsel's suggestion that '[i]f the approval of the Joint Motion would cut off the ability of the parties to urge various rate or other conditions as a condition of the merger, then the Motion should be denied at this time.' Public Counsel Reply at 2.

Reply at 2.

On June 14, 1996, the Joint Response of Staff and Puget to Public Counsel Regarding Joint Motion was filed with the Commission. A footnote indicated that this response was also directed to NRDC and NCAC. Commission Staff and Puget argued that the Commission should grant the Joint Motion over Public Counsel's objection. They contend that the sole purpose of the Joint Motion is to verify that the revenue amounts collected under PRAM rates are fully supported by cost data and can be collected under Puget's general rate schedules, and that the Joint Motion was never intended to prevent Public Counsel, or any other party, from presenting rate recommendations going forward as conditions for approval of the merger. Commission Staff and Puget next note that Public Counsel does not dispute either the November 1995 statement of operations filed by Puget or Mr. Martin's conclusion that there is sufficient cost support to justify transferring revenue collections from PRAM rates to general rates. They argue that failure to approve their motion potentially opens the merger proceeding to a complete examination of Puget's revenues, expenses, and rate base at a level of detail and breadth that the Commission reserves only for a general rate case. They argue that this would interject a complexity to the merger proceeding that would be difficult to resolve under the current case schedule. They again ask the Commission to grant the Joint Motion.

In a July 11, 1996, Notice to the parties the Commission instructed the parties to propose a method and time schedule for resolving the issue of the deferred PRAM revenues related to the ARCO load. The Commission noted that it had received no response to the instructions given in the Second Supplemental Order entered May 23, 1996.

On August 7, 1996, Puget and Commission Staff jointly filed a letter proposing a procedure to resolve the issue of the deferred PRAM revenues related to the ARCO load. They proposed that the procedure also apply to Puget's other two special contracts then in effect, those with Georgia-Pacific and Bellingham Cold Storage. The proposed procedure would not change the adjustment currently made by Puget to the collection and true up of current period deferrals. That adjustment is described in the proposal. The new procedure would apply to the collection of prior period deferrals. It would allocate a portion of the deferral to these customers as if they are subject to PRAM deferral rates. Because these customers in fact are not charged any portion of the PRAM rate, it is proposed that the costs and benefits that would flow through to these customers be borne by, or allocated to, Puget. As a part of this process certain conservation tax refunds would be allocated to Puget. Puget proposed to file the final true up of the PRAM deferrals on or about October 15, 1996. A copy of that letter is attached as Appendix A. On August 22, 1996, Public Counsel filed with the Commission a letter supporting the procedure proposed by Puget and Commission Staff. No other party addressed this issue.

COMMISSION DECISION

The Commission has carefully reviewed the Joint Motion, the Public Counsel Reply, the NRDC and NCAC Response, and the Joint Response of Staff and Puget. The Commission also has examined the joint proposal governing the appropriate method to be used in determining appropriate levels of recovery of deferred PRAM revenues related to the ARCO load.

The Commission approves the method proposed in Appendix A for determining the appropriate levels of recovery of deferred PRAM revenues related to the ARCO load. All parties who examined the method support its use.

The Commission also has determined that the Joint Motion should be granted. We agree with Commission Staff and Puget that the sole purpose of the Joint Motion is to verify that the revenue amounts collected under PRAM rates are fully supported by cost data and can be collected under Puget's general rate schedules, and that the Joint Motion was never intended to prevent Public Counsel, or any other party, from presenting rate recommendations going forward as conditions for approval of the merger. We agree with Mr. Martin's conclusion that there is sufficient cost support to justify transferring revenue collections from PRAM rates to general rates. We also agree with Public Counsel that the merger case decision should resolve the issue of the rates subsequent to that decision. We assure Public Counsel, and other parties, that approval of the Joint Motion does not cut off the ability of parties to urge various rate or other issues as a condition to approval of the merger.

FINDINGS OF FACT

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 is engaged in the business of furnishing electric service within the state of Washington as a public service company.

3. On March 18, 1996, Commission Staff and Puget filed with the Commission the Joint Motion of Commission Staff and Puget Sound Power & Light Company, and the Affidavit of Roland C. Martin (Joint Motion). The Joint Motion asked that the revenue currently collected under Schedule 100 (which excludes the deferral component) be moved into, and recovered under, Puget's general rate schedules. The motion should be granted.

4. Effective October 1, 1996, Puget shall transfer for recovery under its general rate schedules the amounts currently collected under its Schedule 100 (other than the PRAM deferral rate elements), comprising about \$165.5 million in revenue. Puget should be authorized to file tariffs to accomplish this transfer.

5. The rate design reflected in such tariff sheets shall preserve the rate spread currently in effect with respect to such revenues. The total rate (general rates plus Schedule 100) for each class of customer shall not change as a result of the transfer. The tariff revisions herein authorized will result in rates and charges that are fair, just, reasonable and sufficient.

6. The method proposed in Appendix A for determining the appropriate levels of recovery of deferred PRAM revenues related to the ARCO load should be used by Puget in its October 1996 PRAM filing. Appendix A is incorporated herein by this reference.

CONCLUSIONS OF LAW

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

2. Revision of rates and charges to Puget's tariffs made in accordance with the findings herein will result in rates that, if filed pursuant to this authorization, will be fair, just, reasonable and sufficient.

ORDER

THE COMMISSION ORDERS:

1. Puget is authorized to file revisions to tariffs found appropriate in this order. The filings authorized shall bear an effective date of October 1, 1996. The filings shall bear the notation on each sheet: "By Authority of Order of the Washington Utilities and Transportation Commission, Docket Nos. UE-951270, and UE-960195."

2. A notice of the filings shall be posted at each business office of Puget in Washington, on or before the date of filing with the Commission. The notices shall state when the filing is to become effective and advise that a copy of the filing is available for inspection at each such office. The notice shall remain posted until the Commission has acted on the filings.

3. The method proposed in Appendix A for determining the appropriate levels of recovery of deferred PRAM revenues related to the ARCO load shall be used by Puget in its October 1996 PRAM filing.

4. The Commission retains jurisdiction to effectuate the provisions of this order.

DATED at Olympia, Washington, and effective this 25th day of September 1996.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



SHARON L. NELSON, Chairman



RICHARD HEMSTAD, Commissioner



WILLIAM R. GILLIS, Commissioner

APPENDIX "A"

PERKINS COIE

A LAW PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS
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August 8, 1996

HAND-DELIVERED

Steve King, Acting Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, Washington 98504-7250

**Re: Puget Sound Power & Light Company
Docket Nos. UE-951270 and UE-960195**

RECEIVED
RECORDS MANAGEMENT
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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

Dear Mr. King:

In the Commission's July 11 Notice to the parties in the above proceeding, the Commission instructed the parties to propose a method and time schedule for resolving the issue of the deferred PRAM revenues related to the ARCO load. This issue arises from the PRAM 5 Proceeding (Docket No. UE-950618), where the Commission adopted a Stipulation which contained the following provision relating to the special contract between Puget Sound Power & Light Company ("Puget") and ARCO:

(d) Arco Special Contract. In accordance with the provisions of the Commission orders in Docket No. UE-950599, in calculating the deferral for the affected period, the actual revenue will be adjusted by the difference between the revenues to be collected pursuant to the ARCO contract and what would have been collected as revenue under Schedule 49, as set forth in the methodology shown in Exhibit C-24. The recoverability in rates of the portion intended to collect prior period deferrals, as included in the effective rate of Schedule 49, shall be considered in the Company's next general rate proceeding.

Section 3(d) of the Stipulation (emphasis added).

In response to the Commission's notice, Puget and Commission Staff propose the following procedure to resolve the issue of the deferred PRAM revenues related to the ARCO load. This procedure would also apply to Puget's other two special contracts currently in effect with Georgia-Pacific and Bellingham Cold Storage, respectively.

Method

1. The deferral portion of current PRAM rate has two components: (a) the collection and true up of current period PRAM revenues, and (b) the collection of prior period deferrals.

2. With respect to the first component, Puget currently makes an adjustment for its special contracts in the monthly determination of deferrals due to the variance between projected and allowed revenues, in accordance with the procedures set forth in the Stipulation above. Under this adjustment, the PRAM rate is currently used for special contract customers in that the revenue tariff the customer was billed under prior to the special contract is used in calculating receipts from customers. The purpose of this adjustment is to ensure that the current deferral is no greater than what it would have been if the customer were billed under the PRAM revenue tariff. The procedure set forth herein will not affect this adjustment.

3. The procedure described herein relates to the second component, prior deferrals. The prior period deferral portion of the PRAM rate is not currently being allocated to customers with special contracts. It is proposed that this rate will be applied to customers that have received special contracts in the following manner. For purposes of calculating the under-collection or over-collection of prior deferrals approved for current recovery, collections from customers with special contracts will be calculated as if these customers are subject to PRAM deferral rates. This procedure will apply whether the calculation passes through costs or benefits associated with the PRAM deferral process. Because these customers in fact are not charged any portion of the PRAM rate, the costs and benefits that would flow through to these customers will be borne by, or allocated to, Puget.

4. The conservation tax refund is an example of a benefit that would be allocated to Puget under this procedure. This is a tax benefit under a recent IRS ruling that allows Puget to take a current deduction for conservation expenditures instead of having to recognize that tax benefit over the conservation amortization period. When received, the prior period benefits that would have passed through to the special contract customers will be allocated to Puget.

5. If the deferral amounts owed by special contract customers are in excess of the benefits allocated to Puget, the deferral balance will be adjusted so that any deficiency is borne by Puget and remaining customers are not adversely affected.

6. The impact on the deferral balances will be dependent on the additions or reductions to the deferral balance through September 1996. Under the Joint Proposal adopted in the PRAM 5 Proceeding, Puget ceases accruing additional PRAM deferrals as of the end of

Mr. Steve King
August 8, 1996
Page 3

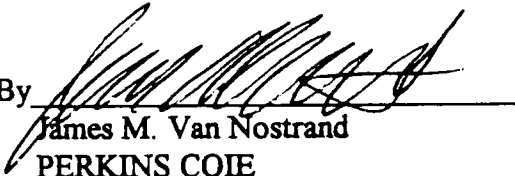
the PRAM 5 period, September 30, 1996. The Joint Proposal further provides that Puget will file the final true up of the PRAM deferrals on or about October 15, 1996. It is proposed that the requirements of this filing be expanded to include the deferral adjustments required under this proposal.

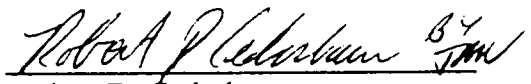
Timing

Puget and Staff propose that a reasonable time be allowed for parties to respond to this proposal, similar to the procedure used by Judge Schaer with respect to the Joint Motion. (In the case of the Joint Motion, the parties agreed upon a schedule which set a June 3 due date for responses, with a June 14 due date for Answers by Staff and Puget.) Puget and Staff suggest an August 19 due date for responses to this proposal, with Puget and Staff's Answer due the following Monday (August 26). This schedule would seem to allow the issue to be resolved by September 30, 1996. If the Joint Motion is granted, Puget could make a compliance filing with the necessary tariff schedules to allow an October 1, 1996 effective date.

**PUGET SOUND POWER &
LIGHT COMPANY**

COMMISSION STAFF

By 
James M. Van Nostrand
PERKINS COIE
Counsel for Puget Sound Power &
Light Company

By 
Robert D. Cedarbaum
Assistant Attorney General

cc: Administrative Law Judge Marjorie R. Schaer
Service List in Docket Nos. UE-951270 and UE-960195