



Puget Sound Energy
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PSE.com

March 31, 2016

Filed Via Web Portal and Overnight Courier

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

RE: Gas Accounting Report Pursuant to WAC 480-90-257

Dear Mr. King:

Enclosed are an original and two copies of Puget Sound Energy's ("PSE") Gas Commission Basis Reports ("CBR") showing Restated Results of Operations for the twelve-month period ended December 31, 2015. Electronic workpapers supporting this report will be submitted separately to Commission Staff and once filed will be available upon request. This report was prepared following the requirements of WAC 480-90-257 and therefore this report does not necessarily reflect all adjustments that PSE would submit in a rate filing. Additionally, there are no pro-forma adjustments made in this report in accordance with WAC 480-90-257.

The results show a normalized overall rate of return of 8.17% and a return on actual common equity of 10.49%, compared with PSE's authorized rate of return of 7.77% overall and 9.80% on common equity. Pursuant to Paragraph 245 of Order 07 in UE-130137 and UG-130138 and UE-121697 and UG-121705 ("Order 07"), an earnings sharing test exists that provides for equal sharing between PSE and its customers of any earnings that exceed the Company's overall rate of return of 7.77 percent. The forty basis points that PSE earned above its authorized return equates to \$5,305,334 in earnings sharing. An earnings rebate in this amount has been included in the Schedule 142 filing made concurrent with this filing. Consequently, PSE's normalized overall rate of return and return on actual common equity after consideration of earnings sharing is 7.97% and 10.07%.

It should be noted that this CBR includes an adjustment, made historically, that adds back revenues associated with the Merger Rate Credit that was provided to customers during the reporting period through Schedule 132, which PSE believes is inappropriate for the company's annual CBR and the Earnings Sharing Test. In a general rate case, this adjustment is necessary to ensure these funds come from investors and do not get included in the base revenue requirement since PSE is required to provide

rate credits to customers for a ten year period after its merger order in U-072375. However, PSE believes that it is inappropriate to add back these revenues in the CBR, and for purposes of calculating the earnings sharing since PSE has already given these credits to customers through Schedule 132, and this adjustment essentially requires PSE to disregard these revenue credits that have already been provided to customers. Based on brief discussions with Commission Staff, the company has continued to include the adjustment in this CBR, despite the company's concerns regarding its appropriateness. Commission Staff indicated that this adjustment is likely required under WAC 480-100-257(2)(a), which requires showing "booked results of ...operations and rate base, and all the necessary adjustments as accepted by the commission in the utility's most recent general rate case or subsequent orders". A narrow interpretation of that section could be used to require PSE to include this adjustment; however, PSE still believes that this treatment should not be applicable for a CBR. Section (2) subsection (b) of the WAC states that adjustments can be made for "any other item that materially distorts reporting period earnings" and PSE believes it is this section of the WAC that allows the company to exclude these revenues for Commission reporting purposes. As discussed above, PSE believes the adjustment should not be included in the CBR, however, rather than changing its historical approach PSE's 2015 CBR report has continued to add back these revenues in a Commission Basis adjustment. This adjustment added \$1.6 million of net operating income which resulted in 9 basis points and \$1.3 million in additional earnings sharing.

In an August 28, 2014 recessed open meeting related to these dockets, Commissioner's expressed a desire for PSE to provide additional information regarding its efficiency efforts and the impacts on the periodic CBRs. Accordingly, and in compliance with paragraphs 211 and 215 of Order 07, an analysis and write-up for the reporting period are enclosed, discussing both the Commission requested information and a further overview of the earnings sharing results.

If you have any questions, please feel free to call me at (425) 462-3716.

Sincerely,



Katherine J. Barnard

Director, Revenue Requirement and Regulatory Compliance

Enclosures