

**Puget Sound Energy (“PSE”)  
Additional Information Provided With  
December 2016 Commission Basis Report**

This additional information supplied with PSE’s December 2016 Commission Basis Report (“CBR”) includes cost per customer trend analysis similar to reports supplied with PSE’s CBRs since December 2013. The information included with this report contains non-production O&M cost per customer for calendar years 2011 through 2016 using the same categories and methodology utilized in the development of the K-Factor which was supported by Exhibit No. \_\_\_\_ (KJB-16) in WUTC Docket Nos. UE-130137 and UG-130138 (“ERF/Decoupling Proceedings”).

As demonstrated on page three of this report, the overall annual average increase in non-production O&M for 2016 is lower than the historical growth rate presented in the ERF/Decoupling Proceedings at 1.5% versus 3.8%, and is lower than the benchmark of 1.9% used in developing the O&M component of the K-factor in the ERF/Decoupling Proceedings.

Page five of this analysis demonstrates that the electric annual growth rate on a cost per customer basis has declined to 2.3%, which is below the 4.7% electric historical growth rate presented in the ERF/Decoupling Proceedings. Page six of this analysis demonstrates that the natural gas annual growth rate on a cost per customer basis has declined to 0.3% compared to the 2.2% historical growth rate in Natural Gas related O&M presented in the ERF/Decoupling Proceedings.

**Results of Earnings Test:** The Company’s performance as detailed in its CBR, shows over-earnings for both gas and electric operations. When reporting on a Commission basis, prior to any earnings sharing, the electric rate of return is 8.06%, or .29% above authorized which equates to \$11.9 million of earnings sharing. Likewise, the gas rate of return on a Commission basis is 7.93%, or .16% above authorized which equates to \$2.2 million in earnings sharing. After the earnings sharing is accounted for, PSE’s rate of return is 7.91% and 7.85% for electric and gas respectively for the reporting period.

PSE’s rate plan and the company’s demonstrated efforts to align costs to customer growth offset by an increase in power costs have all contributed to allowing PSE to earn above its authorized rate of return. Additionally, there are other factors that are contributing to PSE’s reported earnings.

One important factor that increased the Company’s reported earnings in the CBR is the requirement to apply commission normalizing adjustments to the test year. In contrast to the CBR reported earnings, the Company’s actual results of operations demonstrate that the Company under-earned for gas and would have shared less earnings on electric based on test year results. On a Test Year basis<sup>1</sup>, the company’s actual results of operations show that PSE over-earned less than on a Commission Basis at 7.98% for Electric and barely over-earned at 7.78% for Gas operations. Thus, PSE was over earning, but not to the extent that it will be sharing after adjustment based on the CBR.

For instance, weather was much warmer than normal for the reporting period. Although weather is not a factor in test year natural gas operations, since it is mostly all recovered on a decoupled basis, weather

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<sup>1</sup> For the purposes of this calculation, Test Year was adjusted to remove ASC815, the test year earnings sharing accrual activity and to include the Tax Benefit of Interest in Net Operating Income.

still has a significant impact in the test year on the generation side of electric operations. Even though PSE did not experience the benefit of the normal weather, the Commission required adjustment requires PSE to share as if it did. When taking into account this adjustment to revenue and the offsetting increase in power costs, PSE's electric net operating income was increased by \$5.5 million above its actual earnings, which resulted in an 11 basis points increase in ROR and \$4.4 million in sharing.

It should also be noted that this Commission Basis Report includes an adjustment that adds back revenues associated with the Merger Rate Credit that were paid to customers during the reporting period through Schedule 132. This adjustment added \$4.0 million and \$1.7 million of net operating income to electric and gas, respectively, which resulted in 8 basis points and \$3.1 million of additional sharing for electric and 10 basis points and \$1.4 million in additional sharing for gas. Although it is appropriate to include the Merger Rate Credit adjustment in a general rate case to ensure these funds come from investors and do not get included in the base revenue requirement, PSE believes that it is inappropriate to add back these revenues in the commission basis report, especially for purposes of determining earnings sharing, considering PSE has already given these rate credits to customers through Schedule 132. This adjustment essentially requires PSE to pay earnings sharing on amounts that have already been credited to customers and that will never be included in PSE's earnings. 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 2016 CBR report has continued to add back these revenues in a Commission Basis adjustment.

In conclusion, a summary of PSE's test year rate of return and earnings sharing and the impacts of Commission required adjustments is summarized below.

Description	Electric		Gas	
	ROR	Sharing	ROR	Sharing
Test Year	7.98%	\$ 8,903,809	7.78%	\$ 100,867
Weather	0.11%	\$ 4,391,930		
Merger Rate Credit	0.08%	3,117,816	0.10%	1,398,896
Other	-0.11%	(4,468,355)	0.05%	688,311
Commission Basis	8.06%	\$ 11,945,200	7.93%	\$ 2,188,074

**PUGET SOUND ENERGY  
COMBINED RESULTS OF OPERATIONS  
COMMISSION BASIS REPORT**

LINE NO.	DESCR	12ME Dec 2011	12ME Dec 2012	12ME Dec 2013	12ME Dec 2014	12ME Dec 2015	12ME Dec 2016	COMPOUND GROWTH RATE
		RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	
1	COMBINED EXPENSES:							
2	TRANSMISSION EXPENSE	\$ 9,530,907	\$ 19,073,045	\$ 19,383,744	\$ 21,589,406	\$ 19,801,305	\$ 20,320,134	
3	DISTRIBUTION EXPENSE	130,531,255	126,441,451	127,563,845	136,490,873	131,977,836	146,062,640	
4	CUSTOMER ACCOUNT EXPENSES	78,512,657	80,013,147	82,230,612	82,709,937	76,520,034	71,881,945	
5	CUSTOMER SERVICE EXPENSES	4,800,000	3,249,127	3,914,400	5,603,627	3,810,121	4,899,412	
6	ADMIN & GENERAL EXPENSE	142,745,361	145,172,486	154,517,147	159,194,144	156,849,476	170,342,501	
7	TOTAL EXPENSES	\$ 366,120,180	\$ 373,949,255	\$ 387,609,749	\$ 405,587,987	\$ 388,958,771	\$ 413,506,632	<b>2.5%</b>
8								
9	AVERAGE CUSTOMER COUNT	1,840,114	1,852,951	1,858,766	1,876,129	1,898,648	1,927,305	
10	ACTUAL COST PER CUSTOMER	\$ 198.97	\$ 201.81	\$ 208.53	\$ 216.18	\$ 204.86	\$ 214.55	<b>CALCULATED 1.5%</b>
11	2011 GROWN AT HISTORICAL RATE	\$ 198.97	\$ 206.45	\$ 214.22	\$ 222.28	\$ 230.64	\$ 239.32	<b>COMBINED ERF 3.8%</b>

Calculation of Combined Escalation Factors from ERF

Description	2006 GRC			2011 GRC		
	Electric	Gas	Combined	Electric	Gas	Combined
7 Number of years between test years				5.25	5.25	5.25
8						
9 Transmission & Distribution Expense	\$ 65,086,999	\$ 34,532,486	\$ 99,619,485	\$ 92,084,397	\$ 49,783,566	\$ 141,867,963
10 Customer Account & Services Expenses	37,706,383	25,038,278	62,744,661	49,173,646	31,704,844	80,878,490
11 Admin & General Expenses	74,379,848	41,714,840	116,094,688	99,871,160	43,995,146	143,866,305
12						
13 Total O&M	177,173,230	101,285,604	278,458,834	241,129,203	125,483,555	366,612,758
14						
15 Average Customer Count	1,004,833	678,712	1,683,546	1,075,057	750,800	1,825,856
16						
17 Average Cost per Customer	\$ 176.32	\$ 149.23	\$ 165.40	\$ 224.29	\$ 167.13	\$ 200.79
18						
19						
20 Annual Escalation Factor				4.7%	2.2%	3.8%
21						
22						

**PUGET SOUND ENERGY  
ELECTRIC RESULTS OF OPERATIONS  
COMMISSION BASIS REPORT**

LINE NO.	DESCR	12ME Dec 2011	12ME Dec 2012	12ME Dec 2013	12ME Dec 2014	12ME Dec 2015	12ME Dec 2016	COMPOUND GROWTH RATE
		RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	
1	<u>COMBINED EXPENSES:</u>							
2	TRANSMISSION EXPENSE	\$ 9,481,215	\$ 19,058,040	\$ 19,355,851	\$ 21,589,071	\$ 19,801,305	\$ 20,320,134	
3	DISTRIBUTION EXPENSE	78,245,091	74,862,781	77,321,920	84,585,141	82,427,091	86,297,607	
4	CUSTOMER ACCOUNT EXPENSES	48,140,876	49,220,845	50,570,101	51,078,600	48,055,081	45,755,373	
5	CUSTOMER SERVICE EXPENSES	3,719,955	2,032,132	2,090,482	2,575,945	2,145,431	2,655,739	
6	ADMIN & GENERAL EXPENSE	96,361,837	99,264,866	106,511,054	110,332,421	109,690,022	117,707,588	
7	TOTAL EXPENSES	\$ 235,948,974	\$ 244,438,664	\$ 255,849,409	\$ 270,161,178	\$ 262,118,931	\$ 272,736,441	<b>2.9%</b>
8								
9	AVERAGE CUSTOMER COUNT	1,083,403	1,089,296	1,085,381	1,091,517	1,103,635	1,119,719	
10	<b>ACTUAL COST PER CUSTOMER</b>	<b>\$ 217.79</b>	<b>\$ 224.40</b>	<b>\$ 235.72</b>	<b>\$ 247.51</b>	<b>\$ 237.51</b>	<b>\$ 243.58</b>	<b>CALCULATED 2.3%</b>
11	<b>2011 GROWN AT HISTORICAL RATE</b>	<b>\$ 217.79</b>	<b>\$ 228.00</b>	<b>\$ 238.69</b>	<b>\$ 249.89</b>	<b>\$ 261.61</b>	<b>\$ 273.88</b>	<b>COMBINED ERF 4.7%</b>

**PUGET SOUND ENERGY  
GAS RESULTS OF OPERATIONS  
COMMISSION BASIS REPORT**

LINE NO.	DESCR	12ME Dec 2011	12ME Dec 2012	12ME Dec 2013	12ME Dec 2014	12ME Dec 2015	12ME Dec 2016	2011-2016
		RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	COMPOUND GROWTH RATE
1	COMBINED EXPENSES:							
2	TRANSMISSION EXPENSE	\$ 49,692	\$ 15,005	\$ 27,893	\$ 335	\$ -	\$ -	
3	DISTRIBUTION EXPENSE	52,286,164	51,578,669	50,241,925	51,905,732	49,550,744	59,765,034	
4	CUSTOMER ACCOUNT EXPENSES	30,371,782	30,792,302	31,660,511	31,631,337	28,464,953	26,126,572	
5	CUSTOMER SERVICE EXPENSES	1,080,045	1,216,995	1,823,918	3,027,682	1,664,690	2,243,672	
6	ADMIN & GENERAL EXPENSE	46,383,523	45,907,620	48,006,093	48,861,723	47,159,453	52,634,913	
7	TOTAL EXPENSES	\$ 130,171,206	\$ 129,510,591	\$ 131,760,339	\$ 135,426,809	\$ 126,839,840	\$ 140,770,191	<b>1.6%</b>
8								
9	AVERAGE CUSTOMER COUNT	756,711	763,655	773,385	784,612	795,013	807,586	
10	ACTUAL COST PER CUSTOMER	\$ 172.02	\$ 169.59	\$ 170.37	\$ 172.60	\$ 159.54	\$ 174.31	<b>CALCULATED 0.3%</b>
11	2011 GROWN AT HISTORICAL RATE	\$ 172.02	\$ 175.77	\$ 179.61	\$ 183.53	\$ 187.53	\$ 191.62	<b>COMBINED ERF 2.2%</b>