

**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 supporting by Exhibit No. ____ (KJB-16) in WUTC Docket No. 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 earning 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 basis¹, 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. The reported over-earnings result when the CBR adjustments required per WAC 480-100-257 are made to the test year.

¹ 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 NOI.

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 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 \$5.8 million above its actual earnings, which resulted in an 11 basis points increase in ROR and \$4.5 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 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.

Another factor for consideration is that, although the earnings sharing mechanism relates to the rate plan which only applies to PSE’s delivery business, it is calculated on PSE’s electric results in total which includes both its delivery and generation businesses. PSE’s PCA mechanism contains a dead band of \$20 million of power cost imbalances wherein PSE is exposed to 100% of the over or under recovery of its power costs within the dead band. For this reporting period, the earnings sharing mechanism has resulted in PSE sharing with customers \$5.7 million of benefits that fell within the PCA dead band (on a Commission Basis) that were also used to offset prior PCA receivables, and thus the benefit of which has also already been provided to customers.

In conclusion, a summary of PSE’s test year rate of return and earnings sharing and the impacts of Commission required adjustment 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