PUGET SOUND ENERGY
The Energy To Do Great Things

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September 8, 2016

Mr. Steven V. King
Executive Director and Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, Washington 98504-7250

RE: Docket No. UE-160977 (Advice No. 2016-22) – Do Not Redocket
Electric Tariff Filing – Filed Electronically

Dear Mr. King:

Puget Sound Energy ("PSE") hereby submits in connection with Docket No. UE-160977 the following tariff sheets to replace the substitute tariff sheets accompanying PSE's August 30, 2016 filing. The original filing was submitted under PSE's Advice No. 2016-22 on August 1, 2016. This filing includes the following portion of the Company's WN U-60 tariff for electric service.

Original Sheet No. 139	– Schedule No. 139: Voluntary Long Term Renewable Energy
Original Sheet No. 139-A	– Schedule No. 139: Voluntary Long Term Renewable Energy (continued)
Original Sheet No. 139-D	– Schedule No. 139: Voluntary Long Term Renewable Energy (continued)
Original Sheet No. 139-E	– Schedule No. 139: Voluntary Long Term Renewable Energy (continued)
Original Sheet No. 139-F	– Schedule No. 139: Voluntary Long Term Renewable Energy (continued)
Original Sheet No. 139-G	– Schedule No. 139: Voluntary Long Term Renewable Energy (continued)

The purpose of this substitute filing is to update language in the tariff schedule sheets that provide more clarity based on the feedback PSE received from WUTC Staff and other interested parties. This letter also re-establishes the purpose of the filing, provides further description and details relating to the product offerings, and updates the pricing. The tariff sheets described herein reflect the original issue date of August 1, 2016 and effective date of September 23, 2016, as substituted on August 30, 2016. Posting of proposed tariff changes, as required by WAC 480-100-193, is being made by posting the proposed tariff sheets on the PSE web site immediately prior to or coincident with the date of this transmittal letter.

Purpose of Filing and Background

As provided for in RCW 19.29A.090, the purpose of this filing is for PSE to create an additional voluntary renewable energy product that provides customers with energy choices that will help them meet their sustainability goals, within the Washington State regulatory framework.

PSE serves large business and government customers that have the set goal of reducing their carbon footprint and increasing their use of renewable energy. To that end, some of these customers have asked PSE to provide them with cost-effective alternatives to PSE's diversified portfolio, which currently contains fossil fuels. Many of these customers have operations throughout the United States. They are experienced buyers of energy in states with deregulated wholesale energy markets. These customers also understand the role of Renewable Energy Credits ("RECs") and the need to transfer and retire the RECs in order to validate the renewable energy. Many large customers are informed about other renewable energy options that are available outside of PSE's territory and they expect PSE to create similar options to meet their needs, as they do for their own customers.

The Customer Experience

Over the last 5 years PSE has met with numerous customers who have indicated their desire for an electricity supply with a smaller carbon content. Customers can achieve that goal on their own by participating in PSE's Green Power Program, and many have. However to some customers the current products do not meet all of their needs, and there are two issues of primary concern: the current products utilize a portfolio of resources which limits the customer's ability to point to a specific resource; and the cost is additional to their bill with its charges for a mixed-resource energy portfolio with a recognizable carbon footprint.

The customers interested in the proposed Schedule 139 product fall into two groups: companies with operations throughout the country who are experienced at buying and managing energy and RECs, and local government customers that have set sustainability goals, including cities, counties and universities. For both types of customers, a long-term contract structure helps increase energy budget certainty while achieving their sustainability goals.

Availability for Customer

PSE included specific availability criteria to include the types of customers discussed above, to help customers achieve their sustainability goals and to ensure they have the energy management experience to enter into these agreements. It is expected that the cities, counties and universities will continue operations for decades to come, and most large businesses tend towards greater stability. If a larger chain store should cease operations locally, then PSE will collect the early exit fee, as provided for in the tariff schedule, from the parent company. If the customer should go bankrupt, as can occur, there are existing laws in place that provide the mechanism to collect on bad debts. Schedule 139 will follow existing rules but there may be some unanticipated costs or benefits to other customers as discussed below.

Initial Resource

The law authorizing utilities to offer these products, RCW 19.29A, provides that qualifying renewable energy may come from a resource owned by the utility or procured through a power purchase agreement. PSE considered the company-owned resources alternative, however it would take many years to get a new resource developed with lengthy planning and permitting processes needed. For the initial tranche of resources included in the proposal, PSE has identified a wind resource owned by a third party that has already navigated much of the engineering, environmental analysis, and permitting processes. This leaves an estimated two-year development plan once the financial issues are settled, in the form of a power purchase agreement.

Product Operation
The initial products, as proposed, are limited to 75 aMW of resources, which is roughly equivalent to the output from two new wind farms. The purpose of that limit is to allow PSE to evaluate the subscription to the products and examine any unintended issues of the optional product offering. After analyzing how the products are working for customers, PSE may propose a path to extend or modify Schedule 139.

When a customer signs up for a Schedule 139 product they will understand that they will not be receiving the electrons directly from the designated resource. As the tariff schedule states, the energy will be delivered to the PSE balancing authority area. The customer will remain a fully bundled electric customer and continue to receive system power. The customer's load will not be met in real time exclusively by the new resource but will be served through dozens of PSE-owned resources and contracts.

The renewable energy market is balanced on an annual basis for two reasons. First, the intermittency of many renewable resources requires that its production be mixed with other resources. A customer, even with a direct feeder to the resource, could not sustain operations solely on a wind resource, as load and production would often not coincide. Secondly, annual balancing keeps prices lower by avoiding the need for real time supply-load balancing. The annual balancing criteria are part of the Green-e standard which also allows "banking and borrowing" energy from Q3 and Q4 of the prior year and Q1 and Q2 of the subsequent year. Annual balancing was adopted by the State of Washington in the Energy Independence Act ("EIA"), RCW 19.285.040, and it allows "banking and borrowing" from the preceding and subsequent 12 months.

The Schedule 139 customers will continue to pay their share of the numerous costs that go into paying for the electric system including demand-related power costs and delivery and administrative costs through the existing tariff schedule that they are taking service under. Under Schedule 139 they will also pay for the incremental new costs of the renewable resource including the electricity, renewable energy credits, losses, taxes, billing and tracking.
The customer's bill will not change dramatically as fixed costs will still apply. The customer's bill will show two new lines: one for a credit for the unused energy-related power costs, and one for the cost of the new resource, delivered to the balancing authority area and grossed-up for taxes, losses and other costs.

To prevent fraud, WREGIS requires a third party (not the developer itself) to report how much energy was delivered to the grid. When the energy from the resource site is delivered directly to

PSE (without a transmission wheel) then PSE will be the Qualified Reporting Entity in the WREGIS system. Additionally, PSE will be the buyer of the metered energy so PSE will be informed on the project's productivity. Over the course of a year, the energy coming to PSE will be enough to meet the participating customers' loads, but it will not be matched on an hour-to-hour basis.

Renewable Energy Attributes
Renewable energy tracking is achieved through the RECs. The creation, transfer and retirement of RECs are performed in WREGIS to ensure no double counting. Further, as PSE is Green-e certified, an annual third-party audit of all resource purchases and all customer sales is performed each spring. PSE will allow the customer to retire the RECs if they are registered with WREGIS.

At the end of each year, PSE provides each Green Power participant a customized letter that recaps their purchases and its environmental benefits. For Schedule 139 customers, PSE can provide that information either by individual location or aggregated, whichever is preferred by the customer.

Energy Charge Credit Calculation
The proposed Energy Charge Credit in Schedule 139 is the product of two numbers: PSE's Power Cost Adjustment (PCA) Baseline rate, adjusted for revenue sensitive items (primarily the State Utility Tax), and the classification of PSE's power costs between energy and demand. Documentation supporting this calculation is included in an additional work paper titled "Energy Charge Credit."

The PCA Baseline rate is updated in each general rate case ("GRC"), as well as in a PSE Power Cost Only Rate Case ("PCORC"). The current PCA Baseline rate was set in Docket No. UE-141141 and can be found in what is normally referred to as "Exhibit A-1." This analysis is filed as part of PSE's revenue requirement exhibits and is normally updated in the subsequent compliance filing made at the conclusion of each case. The current calculation, which was submitted as part of PSE's compliance filing in that case, is presented in the additional work paper on the tab titled "Exhibit A-1", and is shown to be $62.678 per MWh (or 6.2678 cents per kWh), after adjusting for revenue-sensitive items. Although unlikely, the baseline rate may also be calculated in other power-related filings, such as the upcoming filing PSE will make on or before October 1, 2016 to reflect the last step up in its purchases of transition coal power from TransAlta. This new rate is expected to go into effect on December 1, 2016.

The classification of PSE's power costs between energy and demand is updated in each GRC. For several decades this energy/demand split has been determined using PSE's "peak credit" methodology which, in simple terms, divides the levelized cost of a generation peaking unit by the levelized cost of a baseload plant to determine a relationship (i.e., a percentage) that is considered to be demand-related. The residual is considered to be energy related. The current energy/demand split used to classify PSE's production costs was approved as part of a settlement, outside of a GRC, in Docket No. UE-141368. Per paragraph 10 of the approved settlement in that docket, 25 percent of PSE's production costs are considered to be demand-related and 75 percent to be energy-related.

To derive the proposed Energy Charge Credit in Schedule 139, the PCA Baseline rate included in current retail electric rates (6.2678 cents per kWh) is multiplied by 75 percent, reflecting the portion that is energy-related. This calculation is presented in the additional work paper on the tab titled "Credit Calculation" and is shown to be 4.7009 cents per kWh. This credit will be revised each time either component changes (i.e., each time PSE's PCA Baseline rate or classification of production costs between demand and energy changes). Normally, both elements of the Energy Charge Credit will change in every GRC. Only the PCA Baseline Rate will change in a PCORC. Of course, as noted earlier, this does not preclude either component from changing in filings made outside of a GRC or PCORC.

Future Decoupling Deferrals

At the present time, PSE's decoupling mechanism only pertains to the recovery of delivery system costs, not production costs. As such, nothing within Schedule 139 should impact PSE's existing decoupling mechanism or the associated Schedule 142 Revenue Decoupling Adjustment Mechanism rate calculations. That said, per the settlement agreement in Docket No. UE-130617, PSE anticipates proposing in its next GRC (to be filed no later than January 17, 2017) fixed production costs in its decoupling mechanism. A proposal to include fixed productions costs in its decoupling mechanism has not been finalized, nor has any proposal been approved. As such, it is unclear what, if any, effect Schedule 139 will have on the operation of PSE's decoupling mechanism or Schedule 142, following its next GRC.

Costs Borne by Participating Customers

An important aspect of offering products under RCW 19.29A is that the costs or benefits of the products should be borne by the customers who voluntarily accept the service of a green power rider. The creation of a new tariff product offering takes time and thought and therefore incurs some costs. Costs can be organized mostly chronologically into development, administration, operations and power, and can be the obligations of different groups of customers.

> **Development Costs** – In response to customer interest and inquiry for a new product offering, research of a new tariff schedule includes meetings and discussions with numerous interested parties including: customers from both the business and government sectors, subject matter experts including WWF, WRI and REBA, folks from other utilities with similar interests, regulators at NARUC meetings and the UTC, and cohorts within the utility. Time is spent creating scenarios of what the product could look like and analyzing data for feasibility. Ideas and explanations need to be written up and circulated internally for input, which leads to the identification of more tangential issues and further refinement of ideas. For technology requirements there is research on availability and cost, along with discussions/negotiations with both developers and the customers that have requested the new product offering. All of these costs occur in response to customer interest in a new product, and they represent the normal duties for people across the utility. These are the normal costs of doing business and interacting with our customers, and are paid for by all customers through existing rates.

Administrative Costs – These costs are incurred to get the new product up and running in the open season and subsequent period, after approval of the product or service. There are meetings with customers to review and understand their needs and loads. There will be IT costs to make changes to the SAP billing system, followed by revising the customer bills with new rider line items.

The billing updates will have a known and incremental cost that will be applied to the new Schedule 139 customers. Making changes to a billing system takes time and money and there are trade-offs between getting additional functionality and keeping the cost down. Given certain designs within the SAP billing system, the company chose to keep costs lower by requiring 100% of load at locations that will select the service. Once a new tariffed service is approved, existing employees will continue with their current activities that include normal customer service duties (meeting key accounts, adjusting bills and interacting with local government agencies) which are paid for by all core customers including Schedule139 customers.

Operating Costs – These are the costs of serving the Schedule 139 customers in years one through twenty of their agreement, for example. PSE will track energy production and purchases, and provide annual accounting to customers, UTC, WREGIS and Green-e. These costs will be paid for by the Green Power Program and its existing customers. These tasks are currently performed for 40,000 customers so the incremental cost of 4-10 more is negligible, even though they are large customers.

Power Costs –As PSE is short about 800 aMW of energy based on the expected dispatch of PSE's resources (2015 IRP, Figure 1-5) out of an annual need of 2,600 aMW. Therefore, there is a demonstrated need for energy. Any excess energy and RECs can be incorporated into the electric portfolio or can be used for compliance with RCW 19.285 or can be resold in the market, as appropriate.

The electric portfolio is paid for by all core customers including those who participate in the Green Power Program. If the new contract is about 40 aMW then under an extreme case scenario that 40 aMW would reduce PSE's need by ~1.5%. If any excess energy is utilized to meet the state EIA then the prudency of the expense is in comparison to the levelized cost of a resource with the same contract length per RCW 19.285.050. Should any excess energy be used for all customers, the actual cost of the energy will be reviewed by the WUTC (and intervenors) in the appropriate rate case as part of the power costs. The rate case review of power costs is important to ensure that any agreement is fair to both the new Schedule 139 customers and all of the existing electric customers. The use of excess energy for purposes other than that of serving Schedule 139 would not be considered as the shifting of costs and benefits to other non-participating customers since the Commission would determine whether or not any new Schedule 139 contracts or resources are prudent for purposes of satisfying core customer load in an appropriate proceeding, such as a GRC or PCORC. If determined prudent, then core customers would not be paying for a cost attributable to the Schedule 139 product, but would be paying for a prudently incurred cost that was entered into to serve core customer load.

Please contact Thomas MacLean at (425) 462-3064 or Julie Waltari at (425) 456-2945 or julie.waltari@pse.com for additional information about this filing. If you have any other questions please contact me at (425) 456-2110.

Sincerely,

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Manager, Regulatory Initiatives & Tariffs

for Ken Johnson
Director, State Regulatory Affairs

Enclosures

cc: Lisa Gafken, Public Counsel
Sheree Carson, Perkins Coie