BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

DOCKET UE-161123

JOINT MEMORANDUM IN SUPPORT OF THE FULL SETTLEMENT AGREEMENT

I. Introduction

This Joint Memorandum in Support of the Full Settlement Agreement ("Joint Memorandum") is filed pursuant to WAC 480-07-740(2) by Staff of the Washington Utilities and Transportation Commission ("Staff"), Puget Sound Energy ("PSE"), the Microsoft Corporation ("Microsoft"), the Public Counsel Unit of the Attorney General's Office ("Public Counsel"), the NW Energy Coalition ("NWEC"), The Energy Project ("TEP"), the Northwest & Intermountain Power Producers Coalition ("NIPPC"), the Industrial Customers of Northwest Utilities ("ICNU"), the Kroger Company ("Kroger"), Sam's West, Inc. and Walmart Stores, Inc. (jointly, "Walmart") (collectively, "Settling Parties" and individually, "Settling Party").

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This Joint Memorandum summarizes and supports the Settlement Stipulation and Agreement ("Settlement"). It is not intended to modify any terms of the Settlement. Attached to this Joint Memorandum are Exhibits A through J, which contain each Settling Party's testimony in support of the Settlement.

II. Background

On October 7, 2016, PSE filed proposed revisions to WN U-60, Tariff G with the Washington Utilities and Transportation Commission ("Commission") to establish Schedule

451 ("Schedule 451"). The revision would create a new, optional retail wheeling service for customers who maintained a 10 aMW load at one or more customer sites served under PSE's Schedule 40 over the entire test year of the most recent general rate case. The total amount of electricity to be provided by alternative power suppliers and delivered to all Schedule 451 customers at any one time would be 100 MW. The service would allow the class of customers eligible to take service under Schedule 451 to become non-core, distribution-only customers that acquire energy from power suppliers other than PSE.

Along with the proposed Schedule 451, PSE also sought Commission approval of a Schedule 451 Large Customer Retail Wheeling Service Agreement executed by it and Microsoft. That agreement contained a provision committing Microsoft to pay \$23,685,000 to hold PSE's customers harmless from cost shifts to remaining customers caused by PSE's loss of Microsoft's load. PSE and Microsoft agreed on the \$23,685,000 amount bilaterally prior to filing, although Microsoft argued in its Prefiled Direct Testimony that the amount of this payment was more than necessary to ensure PSE's remaining customers were held harmless.¹ PSE proposed that the full payment would be distributed to ratepayers over a twelve-month period.

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On October 18, 2016, the Commission suspended the tariff pending an investigation to determine whether the proposed tariff revisions and the service agreement are in the public interest. The Commission convened a prehearing conference in this matter before Administrative Law Judge ("ALJ") Marguerite E. Friedlander on November 7, 2016, at which she addressed petitions for intervention and set a procedural schedule.

¹ Exh. No.__(GSS-1T) at 6:1-3.

On December 2, 2016, the parties met at the Commission's headquarters in Olympia, Washington to discuss the proper scope of issues in this proceeding. On February 22, 2017, the parties again met to engage in settlement negotiations. Settlement negotiations continued over the course of the next two weeks.

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On March 9, 2017, the parties notified the Commission that they had reached a multi-party settlement agreement in principle, and that negotiations continued with the hope of shortly reaching an all-party settlement agreement in principle. All parties requested that the Commission suspend the procedural schedule to allow time for negotiations, which the Commission did by notice on March 10, 2017. The parties subsequently informed the Commission that they had reached an all-party settlement that would resolve all the issues in the docket.

III. Scope of the Underlying Proceeding

At Microsoft's request, PSE developed Schedule 451 to enable Microsoft to acquire electricity from power suppliers other than PSE in order to pursue Microsoft's corporate commitments to carbon neutrality and renewable energy. For various reasons, Microsoft finds that PSE's existing tariffs are insufficient for achieving its goals.

Proposed Schedule 451 raised issues broader than necessary to resolve issues relating to Microsoft's need to meet its clean energy goals through direct purchases of electricity. It raised questions of law and policy concerning whether authorizing an optional retail wheeling service is in the public interest and whether Schedule 451's eligibility criteria and other terms are fair, just, and reasonable. These questions elicited broader questions, of potential statewide significance, about the extent to which competitive retail power supply

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should be available to utility customers. The Settlement does not address these broader issues as they are beyond its scope.

The Settling Parties have attempted to narrow the scope of this proceeding by settling based on a special contract that authorizes PSE to deliver the power that Microsoft procures from alternative suppliers of its choosing. Focusing on a special contract enabled the parties to bridge their diverse interests to support a unique agreement that holds other customers harmless and significantly promotes the public interest.

Some, but not all, of the Settling Parties would like an opportunity to conduct a broader discussion of retail wheeling for industrial and certain commercial customers of electrical companies regulated by the Commission. Although the Settling Parties do not agree on the need for such a broader discussion, the Settling Parties acknowledge that Staff will request that the Commission open a docket for that purpose after this proceeding is resolved. Staff will make the request with the hope that it can be completed by June 29, 2018. The Settling Parties have reserved the right to include, in individual testimony submitted in support of the Settlement, statements of support for or opposition to Staff's request, and no Settling Party shall be deemed to have expressed any opinion or position with respect to general retail wheeling electric services, which are beyond the scope of this Settlement.

IV. Commission Authority to Authorize a Special Contract for Retail Wheeling Service

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The Commission has broad authority to regulate in the public interest, as provided by the public service laws, the rates, services, facilities, and practices of electrical companies providing any utility service.² The public service laws do not define "utility service" but they are clear that the term "service" is used in Title 80 RCW in its "broadest and most inclusive sense."³ Among the public service laws are a variety of statutes that articulate and implement a strong commitment to renewable energy and to energy efficiency.⁴ The public service laws permit the Commission to protect low-income ratepayers from the adverse impact of increasing utility rates.⁵ They also permit the Commission to establish by order new services requested by customers.⁶ Commission rules provide for "special contracts" between the utility and customers where the services are "not specifically addressed in the . . . company's existing tariffs."⁷

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The Settlement includes a special contract for retail wheeling service ("Special Contract") that would enable Microsoft to achieve its corporate commitments to carbon neutrality and renewable energy while significantly advancing the energy policy goals of the State and of this Commission. In the Special Contract, Microsoft makes substantial commitments to: (1) procure only carbon neutral and renewable energy resources; (2) maintain its contributions to, and participation in, PSE's large power user self-directed energy efficiency program; (3) maintain its current contributions to low income funding while also providing additional funds to expand access for eligible low-income customers to energy efficiency services and renewable energy technology; and (4) pay a transition fee sufficient to hold other PSE customers harmless from potential adverse rate impacts. The

² RCW 80.01.040(3); see RCW 80.04.010(11), (12).

³ RCW 80.04.010(25).

⁴ See RCW 19.285; RCW 80.28.024; 80.28.025.

⁵ RCW 80.28.068.

⁶ RCW 80.28.040.

⁷ WAC 480-80-143.

Settling Parties agree that these commitments provide a sufficient basis for the Commission to find that the Special Contract is in the public interest.

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The Settling Parties further agree that the Commission has the authority to approve the Special Contract, including authorizing retail wheeling to the extent needed to provide Microsoft with its alternative access to renewable and carbon-neutral energy. The Settlement and Special Contract do not address broader legal and policy questions regarding retail competition and open access, which are beyond the scope of this proceeding. The Settling Parties request the Commission approve this Special Contract, and authorize PSE to provide Microsoft with retail wheeling service in that specific context.

V. The Special Contract Complies with Commission Rule

Any application for Commission approval of a special contract filed by an electric company must: (1) include a complete copy of the proposed contract; (2) show that the contract meets the requirements of RCW 80.28.090 and RCW 80.28.100; (3) demonstrate that, at a minimum, the contract charges recover all costs resulting from providing the service during its term, and, in addition, provide a contribution to the company's fixed costs; (4) summarize the basis of the charges proposed in the contract and explain the derivation of the proposed charges, including all cost computations involved; and (5) indicate the basis for using a special contract rather than a filed tariff for the specific service involved; where the basis is the availability of an alternative service provider, the application must identify that provider.⁸

⁸ WAC 480-80-143(5); *Cost Mgmt. Servs., Inc. v. Cascade Nat. Gas. Corp.*, Dkt. No. 061256, Order 03, at 18 & n.88 (Jan. 12, 2007).

The application for approval of the Special Contract between PSE and Microsoft, which includes the Settlement, the Special Contract, this Joint Memorandum, and the individual testimony of each Settling Party submitted herewith, meets the Commission's requirements. For the following reasons, the Settling Parties agree that Settlement is in the public interest and meets the provisions of WAC 480-80-143.

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The Settling Parties have filed a complete copy of the proposed Special Contract with the Commission.

The Special Contract meets the requirements of state law. The terms of the Special Contract comply with RCW 80.28.090, which forbids electric companies from granting a customer any undue or unreasonable preference or from subjecting any customer to any undue or unreasonable prejudice or disadvantage. Microsoft has committed to meeting its large, concentrated load with renewable and carbon neutral resources in excess of what is currently provided by PSE. The Special Contract recognizes that distinction and allows Microsoft to meet its load under conditions that significantly advance state policy goals. Doing so does not grant Microsoft undue preference or prejudice any other customer. The terms of the Special Contract also comport with RCW 80.28.100, which forbids rate discrimination. The contract does not allow or require Microsoft to pay a lesser rate for services rendered than similarly situated customers pay. Microsoft will receive transmission service pursuant to PSE's Open Access Transmission Tariff, which is subject to Federal Energy Regulatory Commission jurisdiction, and will receive PSE distribution service pursuant to rates that will continue to be adjusted in PSE general rate cases as approved by the Commission.

The Special Contract allows PSE to recover all costs resulting from providing the service during its term. The terms of the Special Contract require Microsoft to hold PSE's remaining customers harmless for all cost impacts of the Special Contract. Microsoft does this in a number of ways, as described below.

20 First, Microsoft and PSE negotiated a \$23,685,000 transition payment as one of the terms of the Special Contract. PSE will distribute this payment to those customers continuing to take bundled service after Microsoft relinquishes its core customer status and begins to take service under the Special Contract. The Settling Parties agree that this payment is sufficient to hold customers harmless from the costs of Microsoft's decision to decline PSE's power supply services.

Second, Microsoft will continue to make payments under Schedule 120 as if it remained a core customer taking service under Schedule 40. These payments will ensure that Microsoft's relinquishment of PSE's power supply services will not affect the conservation programs funded through PSE's electric conservation service rider and will help ensure that both PSE and Microsoft pursue all available conservation that is costeffective, reliable, and feasible.

Third, Microsoft will make payments for PSE's HELP program at its current rate over the life of the Special Contract and any renewed contract terms. Microsoft will also make an additional payment amounting to 50% of its current payment to a separate account managed and dispersed by PSE's Low-Income Weatherization Manager. These payments will fund expanded access to energy efficiency services and renewable energy technology for eligible low-income customers in PSE's service territory.

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Fourth, Commission approval of the Special Contract and Settlement, including the transition fee embedded within the Special Contract, does not address or resolve Microsoft's potential obligation to contribute to decommissioning, remediation, or accelerated depreciation of any or all of the Colstrip Generating Units. Microsoft's obligation to contribute, if any, will be at issue in another docket, wherein each of the Settling Parties retains the right to make any argument it wishes about Microsoft's obligation to contribute.

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Together, the transition fee, Microsoft's agreement to continue making conservation payments as if the load wheeled under the Special Contract had never left Schedule 40, Microsoft's agreement to make low-income payments at 150 percent of its current contribution, and the Settling Parties' agreement that nothing in this docket addresses or resolves Microsoft's potential liability for Colstrip ensure that Microsoft will pay all costs under the Special Contract and hold PSE's remaining customers harmless from Microsoft's decision to relinquish its core customer status.

The Special Contract also requires Microsoft to contribute to PSE's fixed costs. PSE will charge Microsoft for distribution services rendered. That charged rate will continue to be updated in general rate case proceedings using test year data, and thus allow PSE to recover Microsoft's share of fixed distribution costs. Furthermore, Microsoft's transition payment contributes to fixed costs by ensuring that customers are held harmless from any increase to other customers' contributions to PSE's fixed costs as a consequence of Microsoft's transfer of its Schedule 40 load to the Special Contract.

The application for approval of the Special Contract, which includes the testimony attached to this Joint Memorandum, contains the bases and derivations of all charges proposed in the contract. Allowing Microsoft to take service under the Special Contract also significantly advances state policy goals. Washington public policy prefers carbon-neutral power generation, as prescribed by the Legislature's directive to reduce greenhouse gas emissions,⁹ Washington's Energy Independence Act (EIA),¹⁰ the Baseload Electric Generation Performance Standard,¹¹ Washington's Greenhouse Gas Emission Reporting Requirements,¹² Washington's Clean Air Rule,¹³ Executive Order 14-04,¹⁴ and the Memorandum of Understanding signed by the Commission's chair and the chairs of the Oregon and California Public Utility Commissions.¹⁵

Microsoft will meet 25 percent of its power needs under the Special Contract with EIA-eligible renewable resources during the years 2018 through 2020. From 2021 on, Microsoft will meet 40 percent of its power needs under the Special Contract with EIAeligible renewable resources. If the renewable portfolio standard changes during any year Microsoft takes service under the Special Contract in a way that exceeds the percentage of renewable energy Microsoft agrees to procure under the Special Contract, it will comply with the elevated standard. Microsoft may meet its obligation to procure power from eligible renewable resources using renewable energy credits. Microsoft will supply the balance of its load with carbon-free power.

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The Special Contract significantly advances the state policy embodied in the EIA. During the first three years of the Special Contract, Microsoft's renewable procurement

⁹ RCW 70.235.020.

¹⁰ Chapter 19.285 RCW.

¹¹ Chapter 80.80 RCW.

¹² Chapter 173-441 WAC.

¹³ Chapter 173-442 WAC.

¹⁴ Washington Carbon Pollution Reduction and Clean Energy Action, Exec. Order 14-04 (Apr. 29 2014).

¹⁵ Western Public Utility Commissions' Joint Action Framework on Climate Change, Wash.-Or.-Cal. (Mar. 7, 2017).

would exceed the renewable portfolio standard ("RPS") set for utilities by the EIA by 16 percent for the first two years and 10 percent for the third year. After that, Microsoft's renewable energy procurement would exceed the RPS set for utilities by the EIA by 25 percent, meaning that it would nearly triple the current RPS. By so doing, Microsoft will substantially increase the amount of renewable energy procured for servicing its Puget Sound area loads. Indeed, Microsoft will eliminate the emission of carbon dioxide to serve one of the larger loads in Washington State.

Further, by making conservation payments for the load wheeled under the Special Contract as if it remained on Schedule 40, Microsoft will continue to fund and pursue the conservation efforts contemplated by the EIA.

V. CONCLUSION

In WAC 480-07-700, the Commission expresses its support for parties' informal efforts to resolve disputes without the need for contested hearings when doing so is lawful and consistent with the public interest. The Settling Parties have resolved all of the issues in dispute among them, and their resolution complies with Commission rules and, as explained in the attached testimony, satisfies the Settling Parties' interest and is consistent with the public interest. The Settling Parties request that the Commission approve the Settlement and Special Contract in their entirety.

Respectfully submitted this 11th day of April, 2017.

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