168

SERVICE DATE
SEP 24 1992

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND POWER & LIGHT COMPANY. Respondent.	DOCKET NO. UE-920630 FIRST SUPPLEMENTAL ORDER REJECTING TARIFF FILING; AUTHORIZING REFILING

PROCEEDINGS: On June 1, 1992, Puget Sound Power & Light Company filed tariff sheets for the Periodic Rate Adjustment Mechanism (PRAM) covering the 12-month period October 1, 1992, through September 30, 1993. The filings were made pursuant to the Commission's order in Docket Nos. UE-901183-T and UE-901184-P. The tariff filings would increase rates by $97,369,432. On rebuttal the company revised its request to an increase of $92,244,568.

The Commission suspended the tariff revisions pending hearings on the justness and reasonableness of the rates requested in the filings.

HEARINGS: The Commission held hearings on July 2, August 4, 5, 26, 27, 28, and September 9, 10, 11, and 18, 1992. The hearings were held before Chairman Sharon L. Nelson, Commissioner Richard D. Casad, Commissioner A.J. Pardini, and Administrative Law Judge Lisa A. Anderl of the Office of Administrative Hearings. The Commission gave proper notice to all interested parties.

APPEARANCES: Puget Sound Power & Light Company (Puget or company) was represented by James M. Van Nostrand and Steven C. Marshall, attorneys, Bellevue. The Staff of the Washington Utilities and Transportation Commission (Commission Staff) was represented by Donald T. Trotter, Steven W. Smith and Robert D. Cedarbaum, assistant attorneys general, Olympia. The public was represented by Charles F. Adams, assistant attorney general, public counsel section, Seattle. Intervenor Bonneville Power Administration (BPA) was represented by Susan B. Millar, attorney, Portland, Oregon. Intervenor Washington Industrial Committee for Fair Utility Rates (WICFUR) was represented by Peter J. Richardson, attorney, Boise, Idaho. Intervenor Building Owners and Managers Association of Seattle and King County (BOMA) was represented by Art Butler, attorney, Seattle. Intervenor

Skagit Whatcom Area Processors (SWAP) was represented by Carol Arnold, attorney, Seattle.

SUMMARY: The Commission authorizes Puget to refile tariffs to reflect the PRAM 2 revenue requirement of $66,360,449. The company may not file another PRAM until after it has filed a general rate case; a general rate case filing is expected by October 30, 1992.

I. BACKGROUND OF PERIODIC RATE ADJUSTMENT MECHANISM

In the past several years, the Commission has taken steps to encourage the state's investor-owned utilities to meet their loads with a least-cost resource mix including both generating resources and improvements in the efficient use of electricity. In this regard, the following cases or dockets are relevant:

o In May, 1990, the Commission issued a Notice of Inquiry (NOI), entitled "Examining Whether There Are Regulatory Barriers to Least Cost Planning for Electric Utilities". The Commission requested comment on four general objectives to be served by programs or mechanisms that encourage the goals of least-cost planning. Those objectives were identified as adjustment for changes in revenues and costs beyond a utility's control; purchased power cost recovery; conservation cost recovery; and, incentives for least-cost supply and demand-side acquisitions.

o In October, 1990, Puget filed its PRAM proposal.[1] The proposal involved decoupling revenues from sales levels. The proposal addressed the first three objectives of the NOI, listed above. By order dated April 1, 1991, the Commission adopted a version of the company's proposal on an experimental basis. Many issues were raised and considered in that proceeding, including the anticipated timing of future PRAM filings. The company's presentation made it clear that its intent was to file for rate adjustments annually, with a general rate filing every third year.

o On May 31, 1991, Puget filed tariff sheets for a rate adjustment under the periodic rate adjustment mechanism. This filing was made under Docket UE-910626 and is generally referred to as PRAM 1. The company requested $39.1 million in additional revenue for the period October 1, 1991, through

---

[1] The periodic rate adjustment mechanism proposal was Docket No. UE-901184-P. A companion filing in Docket No. UE-901183-T sought to implement the proposed mechanism for an initial accounting period. The two cases were consolidated for hearing.

September 30, 1992. On September 25, 1991, the Commission granted a rate increase of $38.1 million.

o On June 14, 1991, in Docket UE-910689, Puget filed for approval of an incentive plan for least-cost planning and performance.[2] On January 14, 1992, the Commission entered an order approving the demand-side incentives proposed in that docket. The Commission rejected other portions of the plan, not relevant to this filing.

II. POLICY ISSUES

The Commission listed four general criteria in the NOI which proposals or mechanisms to attain the goals of least-cost planning must meet. The mechanism must be measurable, it must be reasonably simple to administer, it must be intuitive enough to allow a straightforward explanation to utility customers, and it must be an improvement, on balance, over the then-current method of regulation at the WUTC.

In general, the Commission believes that the decoupling mechanism which is a part of this PRAM experiment has failed to meet the requirements of the NOI. In short, this most recent hearing process has established that the method is not easy to administer, that the public absolutely does not understand it and that although conservation goals have been met under the incentives plan, there remains some question whether there is a true cause and effect relationship between the PRAM mechanism and conservation the company has achieved.

The Commission is also concerned that the mechanism may create perverse economic incentives for the company. For example, is the company tempted to shift expenses between base and resource cost categories to its advantage? The changes in the level of conservation advertising expenses in the base and resource accounts seem to indicate that the temptation is present.

We must ask whether to continue the experiment or to abandon it at this point. As we stated in the NOI, we are committed to exploring the concept of decoupling revenue from sales in order to reduce the incentive to sell more electricity. We also committed to a trial period to develop and learn from an experimental program. The Commission will not reject the mechanism now because of problems raised by the parties or dissatisfaction with its operations in certain areas. However, we believe the mechanism should not be left untouched when it has

---

[2]That order is the basis for the conservation incentive payments requested in this case.

become obvious that some mid-course corrections or modifications will fix defects which were not apparent at the PRAM's inception.

The Commission plans to evaluate the experiment fully, in the context of a general rate filing. In order to leave the rate adjustment mechanism in place, the Commission believes that it must order certain mid-course corrections and adjustments to the mechanism. Those corrections are discussed below. We will also identify other issues raised in this case that demand attention, but are more appropriately addressed in the general rate case.

III. SUMMARY OF THIS PERIODIC RATE ADJUSTMENT FILING

On June 1, 1992, Puget filed tariff sheets for the PRAM covering the 12-month period October 1, 1992, through September 30, 1993. This filing and that 12-month period are referred to as PRAM 2. In general, the company has requested a rate increase for this PRAM period to recover additional revenues of $92,244,568 (as modified on rebuttal). This amount includes $25.8 million in deferred, under-recovered revenue from PRAM 1, $59.7 million in projected increased resource costs for the estimating period of PRAM 2, and $6.7 million in incentive payments for having met certain conservation goals.

A. Puget Calculation

Puget's witness J. Richard Lauckhart calculated an overall revenue requirement under this PRAM filing of $97,369,432. This amount included a base cost calculation of $587.67 per customer, with a projected 794,719 customers for the estimating period. Multiplying the two numbers together results in revenues of $467,032,515 for base cost recovery.

Mr. Lauckhart further calculated a revenue requirement for resource costs of $586,748,231. The calculation included new resources which had not previously been included in rates.

Mr. John Story, a company assistant-treasurer, calculated the revenue requirement associated with conservation at $52,364,282. Mr. Story also discussed an error in the deferred account calculation resulting from inclusion of municipal tax revenues which should have been removed prior to calculation of the revenue requirement. Correction of this error would increase the revenue requirement during PRAM 2 by $16.7 million. However, because this error was not discovered until June, the company proposed to defer recovery of those revenues until its PRAM 3 filing.

On rebuttal, Mr. Lauckhart accepted projected power supply costs calculated by Commission Staff witness Curtis Winterfeld, and disputed Mr. Winterfeld's two adjustments to the

PRAM 1 deferral. In place of one of the deferral adjustments, he proposed a new adjustment to the PRAM 2 projection. The revised revenue requirement for resource costs sought by the company is $581,623,367. The resulting total increase in revenue now sought for the PRAM 2 estimating period was $92,244,568, still excluding the municipal tax revenues.

The company proposed to increase the Schedule 94 BPA residential exchange credit from 5.70 mills/kwh to 7.00 mills/kwh.

B. Commission Staff Calculation

The Commission Staff proposed an increase of $82,573,725 for the PRAM 2 estimating period. This includes approximately $27 million in deferred, under-recovered revenue from PRAM 1, $48.9 million in new resource costs during the upcoming estimating period and $6.7 million in conservation incentive payments.

The Commission Staff agreed with the company's base cost figure of $467,032,515. The Commission Staff calculated resource costs of $570,814,311 during PRAM 2.

C. Public Counsel Calculation

Public Counsel's witness Dr. Glenn Blackmon calculated a revenue requirement of $45.5 million as the amount of under-recovery during the PRAM 1 period. This amount includes $13.4 million of the $16.7 million municipal tax revenues error discovered by the company in June. The amount also includes revenues representing corrections in the allocation of conservation tax benefits (which Public Counsel contends were calculated erroneously by the company) and includes a $2.157 million credit for tax benefits in excess of the projected amounts.

Dr. Blackmon recommends recovery of the deferred amount over five years, for a total revenue requirement during this upcoming period of $14,716,964. This is one-fifth of $45.5 million, plus a return for the company on the unamortized balance.

Dr. Blackmon's calculation incorporated a number of recommended adjustments, including adjustments concerning the Pebble Springs amortization, contract power resources, coal plant availability, tax benefits associated with conservation expenditures, amortization of conservation resources, advertising expenses and conservation cost effectiveness.

Dr. Blackmon proposes that the schedule 94 residential credit be set at 7.50 mills/kwh. He agrees that the company is

entitled to $6.7 million in conservation incentive payments based on the incentive mechanism approved by the Commission.

Mr. Jim Lazar also testified for Public Counsel. He addressed issues of base and resource costs and suggested four adjustments which involve shifting costs from the base to the resource category. He stated that these costs represent the amortization of fixed amounts which do not increase with customer growth and that they are not properly included as base costs. Mr. Lazar contends that the company will collect $8.2 million in excess revenue if theses changes are not made.

D. Positions of Other Parties

WICFUR's witness Donald Schoenbeck urged evaluation of the PRAM experiment in the context of a general rate case, which he believes the company should be required to file by the end of the year. He suggests that the PRAM should be more narrowly focused and that it currently goes beyond the goals of the NOI by including cost categories over which Puget has control.

Mr. Schoenbeck proposed that the under-recovery from PRAM 1 be deferred for recovery over the next three years to promote greater rate stability. He proposed that the deferred amount from PRAM 1 to be recovered during PRAM 2 should be $13.1 million. Mr. Schoenbeck also believes that the issue of the IRS conservation expenditures settlement should not be resolved in a PRAM proceeding but should be considered and decided in a general rate case.[3]

Mr. Douglas G. Thomas, Special Projects Manager for Bellingham Cold Storage, testified as the witness for Skagit Whatcom Area
Processors (SWAP). He was concerned about the effect of Puget's rates on his business and the cold storage industry in Whatcom and Skagit Counties. Power costs are his second highest overhead item (after labor) and he believes that Puget's requested rate increase will make it difficult for members of SWAP to remain competitive with cold storage facilities in other areas of the state. This intervenor did not propose any specific adjustments or calculate a revenue requirement.

The other intervenors, BPA and BOMA, did not present any witnesses or propose any specific adjustments to the filing made by the company. On oral argument the intervenors, except BPA, all recommended a three- or five-year amortization of deferred revenue and urged the Commission to reevaluate the PRAM

[3]The Commission notes that its order in Docket UE-920349 provides for final determination of this issue in the context of a general rate case.

experiment, either in the context of a general rate case or otherwise.

IV. PUBLIC TESTIMONY

The Commission held three days of hearings for purposes of taking testimony from members of the public. Hearings were held in Olympia on August 26, in Bremerton on August 27, and in Bellevue on August 28, 1992. Seventeen witnesses appeared and testified in opposition to the proposed rate increase. Exhibit number 30 contains material submitted by witnesses at those hearings. In addition, illustrative exhibit number 95 contains letters from members of the public regarding the proposed rate increase.

In Olympia, one residential ratepayer expressed concerns about conservation expenditures. Another objected to the component of the rate increase which is due to customer growth, arguing that growth should pay for itself.

In Bremerton, Carma L. Foley testified in opposition to the increase. In particular, Ms. Foley was concerned about the conservation programs and felt that Puget should not limit conservation credits to conservation measures which are installed by contractors when a homeowner might be able to do the work alone. Other individuals, including a representative from the Crystal Grange, testified in opposition to a rate increase. One witness pointed out that the requested increase is well above the annual rate of inflation. Others questioned whether Puget is controlling costs properly. Witnesses also expressed concerns about the costs of conservation and whether the decoupling mechanism shifted too much of the risk of doing business from shareholders onto ratepayers.

In Bellevue, seven witnesses testified, all in opposition to the rate increase. At least one witness identified himself as a Puget shareholder as well as a residential ratepayer. Several of the witnesses stated that Puget should do more to encourage the use of natural gas for heating and cooking in areas where it is available. They suggested that this would do the most to conserve electricity over the long term.

One witness stated that the decoupling mechanism may encourage the company to rely disproportionately on conservation, to the detriment of optimal long term plans for meeting demand, including new generation. He was concerned that the attempt to align the public interest in conservation with Puget's private interest in profit may put Puget into a public policy development role it is not designed, as a privately owned utility, to play. As in Bremerton, the witnesses questioned whether Puget has appropriate incentives to control its operating costs.

V. RATE ADJUSTMENT ISSUES

A. Power Supply Issues

Contested power supply issues include adjustments to delay the inclusion of two cogeneration facilities which will supply Puget with power, reduction to costs from PRAM 1 by adjusting the deferral to reflect not only the addition of new contracts, but the resulting reduction in existing contracts, and the cost of conservation resources.

1. Encogen and Sumas

In its calculation of projected resource costs for the PRAM 2 period, the company included the costs attributable to contracts with Encogen and Sumas, two cogeneration plants which the company estimates will come on line on July 1, 1993. Three months of buying purchased power from these plants would add $21.4 million to projected power supply costs.

Commission Staff witnesses Patrick Moast and Curtis Winterfeld recommended excluding these costs from the PRAM 2 period, but allowing recovery during the PRAM 3 period if any power is received prior to September 30, 1993. Mr. Moast presented the rationale for excluding them and Mr. Winterfeld provided the calculation.

Mr. Moast explained that the timing of the projects to come on line so late in the PRAM 2 period makes it more equitable to begin recovery in rates in the PRAM 3 filing. In fact, the earliest that these plants could start providing power is July 1, 1993, nine months into the PRAM 2 period. The witness argued that ratepayers would be asked to "prepay" for nine months (84% of the total cost for this period) before the plants begin providing power.

The second reason proposed for excluding the costs from this period is the level of uncertainty with regard to the actual operation dates. Although Puget projects that both plants will begin commercial operation by July 1, 1993, the construction of each plant is still incomplete enough to raise doubts about whether those projections will be met. Extensive work remains to be done on each plant, including construction of almost eight miles of natural gas pipeline to Encogen. Both contracts have already been delayed once -- commercial operation for each was projected to begin earlier and Puget agreed to extensions. In addition, although the contracts contain liquidated damages clauses, the company does not receive extension payments under the Encogen contract unless operation is delayed beyond November 2, 1993.

The company presented two witnesses, Mr. Greg J. Imus, Project Manager on Cogeneration Projects for Ebasco Constructors Inc., and Mr. Angelo Urbani, Project Manager for the Sumas Cogeneration Project for Calpine Corporation, who are involved in the construction of the plants. They testified that construction work is on schedule and that there is no reason to believe that the July 1, 1993, date will be delayed.

The company also argued that these resources are projected to begin operations in the PRAM 2 period and should therefore be included in resource costs for this period. The company reasons that simply because they are scheduled to be completed toward the end of the period is not a basis to exclude them.

The Commission adopts the Commission Staff's recommendation. Both the timing and the uncertainty associated with construction completion dates persuade us that these costs are more equitably recovered in PRAM 3. Even if the plants do come on line as projected and begin providing power on July 1, 1993, the company is not harmed by this treatment. These power costs would be included in the true-up of the PRAM 2 period. The adjustment to projected resource costs is a reduction of $10.2 million. See, Appendix A, page 2, line 2.

Public Counsel's witness, Dr. Blackmon, recommended that these same resource costs be disallowed as surplus. That rationale is not adopted in this order. Given the difficulty of precisely matching supply to demand, and the methodology used in calculating need for new resources, it was not demonstrated that these resources are surplus.

2. <u>Resources contracts -- adjustments for the PRAM 1 and PRAM 2 periods.</u>

Commission Staff witness Curtis Winterfeld recommended two adjustments to resources costs included by the company in the PRAM 1 deferral.

Mr. Winterfeld suggested adjusting the costs associated with the Pacific Gas & Electric (PG&E) seasonal energy and capacity exchange agreement. Under this agreement, Puget may take up to 144,000 MWh/month up to a maximum of 413,000 MWh annually. Puget receives energy during January, February, November and December of a calendar year. For PRAM 1, Puget projected that it would take half its annual allowance in January and February and projected costs accordingly. In fact, Puget took less than half, but then projected that it would use the balance of its annual maximum during November and December in PRAM 2. Under these projections, Puget proposed including costs for 465,426 MWh for 1992 -- 52,426 MWh more than it can actually

take under the contract. Mr. Winterfeld recommended subtracting the cost of this 52,426 MWh from the PRAM 1 deferral.

Mr. Winterfeld also recommended adjusting to actual levels the costs associated with the San Diego Gas & Electric (SDG&E) and BPA-NR contracts. This adjustment would recognize the capacity costs incurred under the SDG&E contract and reduce capacity costs that Puget was therefore able to avoid under the BPA-NR contract. The SDG&E contract was entered into after the PRAM 1 projections were approved. Its costs were thus included in the PRAM 1 deferral, but no reduction in expenses is shown to reflect the capacity charges that Puget avoided under the BPA-NR contract.

Company witness J. Richard Lauckhart argued that these adjustments are not appropriate because it was never intended that these costs be trued-up to actuals and that an adjustment should not be made to do so retroactively. Mr. Lauckhart did propose to make an adjustment to the PRAM 2 projections reflecting Mr. Winterfeld's analysis of the PG&E contract. On oral argument, the Commission Staff agreed with the company's PG&E adjustment. However, neither Commission Staff nor the company provided a breakdown of Mr. Winterfeld's two deferral adjustments. Public Counsel argued in favor of the Staff's original position.

The Commission accepts Mr. Winterfeld's adjustments to the PG&E contract and to the capacity charges associated with the SDG&E and BPA-NR contracts. The inconsistencies created by adding a new contract and not subtracting the capacity it replaces should be resolved, and Mr. Winterfeld's adjustments provide a fair and sensible solution. The adjustment to resource costs deferred from the PRAM 1 period is a reduction of $2,966,500.

Mr. Winterfeld also suggested adjustments to projected power supply costs for PRAM 2. The company accepted these adjustments on rebuttal.

The adjustments involve reducing the capacity costs in the BPA-NR contract, revising the energy schedule and price projections for the Pacific Power & Light 15 year-contract, and excluding the price escalations for both the WNP-3 Bonneville Exchange Power and the Washington Water Power 15-year contract.

The Commission believes these adjustments are reasonable and should be accepted. They produce a reduction in projected power supply costs of approximately $5.2 million.

3. <u>Conservation cost effectiveness test</u>

Public Counsel witness Dr. Glenn Blackmon proposed an adjustment to disallow the cost of conservation resources which were in excess of the company's avoided cost. Dr. Blackmon argued that three of the company's conservation programs were not cost-effective and that the company calculated cost effectiveness incorrectly by failing to include customer and BPA contributions when calculating cost. Dr. Blackmon conceded that his analysis does not include an assessment of non-energy benefits (aesthetic improvements, etc.) that customers receive from their conservation investment. The Commission Staff agrees with the company's use of the utility cost test and its calculation. Both the company and Commission Staff argue that the company's tariff authorizes use of this test.

The company's integrated resource plan and the testimony of company witness David Moskovitz in the incentive proceeding[4] indicated to the Commission that the company would use the total resource test to determine the proper level of spending for conservation resources. This test considers the resources contributed by all sources in determining whether the cost of conservation is appropriate. The company tariff defines the cost effectiveness test as follows:

> Cost effective measures and modifications shall be those that do not cost, including the Company's administrative costs, more per kilowatt hour of energy savings than the company's full avoided cost . . .

By definition, cost effective measures are those that do not cost in total[5] more than the company's avoided cost. Only cost effective measures are authorized by the tariff. In defining how the cost of cost effective measures and modifications shall be shared by the customer and the company, the tariff provides that:

> The Company will pay the difference between the full cost of the measures and the Customer's portion of such costs, provided that in no case will the Company's proportional payment exceed its full avoided costs. Any costs of measures and modifications in excess of the full avoided costs shall be paid by the Customer.

The final sentence of the tariff provision regarding payment is in conflict with the tariff's cost effectiveness test. It cannot

---

[4]Docket UE-910689.

[5]In Puget's case, the contribution of the company, its customers and BPA would have to be considered.

be reconciled with the other provisions and will be treated as surplusage.

Because of the confusion shared by the company and the Commission Staff regarding the meaning of the tariff, the Commission will not approve the adjustment proposed by Dr. Blackmon to disallow $7.5 million dollars of conservation investment. The Commission will, however, apply this test prospectively. Unless and until a different measure is approved, the cost effectiveness of conservation programs should be calculated on a total resource cost basis, as defined above.[6]

B. Accrual and Recovery of Deferred Revenue

Several issues have arisen in this proceeding regarding booking and recovery of deferred revenues.[7] The question of how the company should book monthly accruals is generally referred to as the shaping issue. There was also a question about the proper method of determining the amount to be collected in succeeding PRAM filings. In this regard, the Commission Staff proposed a 12-month estimated true-up, while the company proposed a seven-month actual true-up. Finally, parties raised the issue of whether the deferrals should be amortized over a period of years or included in a single year as proposed by the company.

1. Shaping

The shaping issue has been argued by the company, Commission Staff, and Public Counsel. In response to bench request 12, each of these parties indicated that in the long run each of the shaping methods will produce the same revenue requirement. However, the parties agreed that shaping does have real consequences.[8]

---

[6]The company should include, as part of any tariff filing for new conservation programs, a demonstration that the program meets the total resource cost test.

[7]A PRAM proceeding determines an annual revenue requirement based on projections of future loads and costs. As actual results replace the projections, the company determines an actual revenue requirement, which is booked as revenue. The difference between this revenue and the amount billed to the customers for that period is deferred as either an asset (when the company under collects) or as a liability (when the company over collects). The deferred amount is included in the next PRAM for collection or refund.

[8]Shaping will affect the timing of recovery, particularly if a seven-month true-up is adopted. Shaping affects the spread of revenue requirement between base and resource, thus affecting rate

The company and Public Counsel propose shaping methods that allocate revenue to the months when the revenue is collected. The company's approach allocates actual revenues collected on a factor basis, while Public Counsel attempts to match each of the revenue requirements with the projections in PRAM 1.

Staff on the other hand recognizes revenue associated with the fixed costs in the base, and resource accounts for conservation and production rate base, on a straight line basis. Staff also proposed that recovery be based on a 12-month estimate, thus, eliminating the impact of shaping on deferral recovery. Both Staff and Public Counsel calculate revenue for base recovery on a fixed rate per kWh, while the company assumes that rate spread is on a percentage of revenue basis.

The Commission believes that revenue collection and revenue requirement should be matched as closely as possible, reducing the need for deferrals. Review of the record indicates that Public Counsel's approach best achieves the matching of revenue to collections. However, Public Counsel's method appears to allocate revenues inappropriately between base and resource categories. The Commission does not agree that base revenues are earned on a flat cents per kWh basis. The Commission also believes that the concept of an estimated 12-month true-up should be explored further and may have some merit.

The Commission will adopt for this proceeding the method proposed by the company. This amount will be adjusted by deducting Mr. Winterfeld's adjustments and adding in the municipal taxes which were left out through a company error, as set forth on page 15.

The Commission expects that the parties can agree to a resolution of this issue under these guidelines for the next PRAM proceeding. While the Commission rejects the flat cents per kWh approach for base revenue, it is not necessarily stating that the company factoring method is its preferred solution.

2. <u>Recovery of deferred revenue in 1, 2, 3, or 5 years</u>

The company proposes to recover the deferred amount from PRAM 1 during the 12-month period of PRAM 2. A one year recovery was likely what all the parties contemplated when this mechanism was first adopted.

---

spread. Shaping also affects revenue and income recognition on the company's financial statements and could affect the company's earnings in 1991 and 1992.

Because the deferred amount is large and contributes to rate instability, both Public Counsel and WICFUR have suggested an alternate method to recover the deferral. Both parties expressed concern about wide rate swings and about sending improper pricing signals to ratepayers. Their proposed solution would amortize the deferral for collection for up to three years (WICFUR) or for five years (Public Counsel). The company would receive a smaller revenue increase during the upcoming period, and would earn interest on the unamortized balance. The hope is that an under-recovery during one period might be somewhat offset by an over-recovery in the next, thereby lessening the impact on ratepayers and creating narrower rate fluctuations from one year to the next.

The company opposed this treatment, arguing that this amortization would prohibit it, under generally accepted accounting principles, from recognizing the PRAM true-up revenue. The company contended that this result would cause confusion in the financial community and a lack of comparability in its financial statements. On oral argument, the company expressed a willingness to adopt a two-year amortization, which it contends would allow it to recognize the deferred revenue for its financial statements.

The Commission is very concerned about the rate impact of the deferred revenue from PRAM 1. All the parties agree that unusually warm weather and other circumstances worked to create an unusually large deferred amount. Because of this, the Commission believes it appropriate in this case to adopt a three-year amortization for the deferred revenue from the PRAM 1 period. The Commission hopes that this will work to smooth out the effect of the deferral and cushion the impact to ratepayers during this next period.

The Commission acknowledges the company's concerns regarding recognition of the accrued revenue and the impact on its financial statements. In this case, the Commission is satisfied that the company can communicate appropriate information to the financial community through notes to its financial statements and otherwise. The accounting treatment of a particular issue cannot drive the regulatory policy or the proper ratemaking treatment. Finally, there seems to be no reason why the company cannot seek approval from the Financial Accounting Standards Board to recognize the revenue under this alternate regulatory treatment.

It is important to note that the Commission has adopted this deferral period as a reasonable option for treating the facts presented in this case. However, that is not to suggest that a three-year amortization will be the rule. A smaller amount of deferred revenue might reasonably be collected over a 12-month period. Similarly, overcollection in a subsequent year

may offset deferred amounts. Therefore, the Commission will determine an appropriate amortization period each time it approves collection of a PRAM deferral in rates.

3. Calculation of deferred recovery

As indicated above, the Commission adopts the company's shaping method for PRAM 1. The company adjustment amount of $25,833,630 is increased by the municipal tax revenues improperly booked through April, 1992, of $13,404,014. Further, Mr. Winterfeld's adjustment to the delta of $2,966,500 reduces this balance by $3,107,700, resulting in a net unrecovered revenue of $36,129,944. As previously discussed, the Commission will allow only one third of this amount in PRAM 2, resulting in a PRAM 2 recovery amount of $12,043,314. The remaining unrecovered revenue, $24,086,630, will be allowed to accrue carrying costs at the net of tax rate of return rate (currently 8.63%) until its disposition.

C. Other PRAM Issues

1. Pebble Springs amortization

Public Counsel suggested that nuclear plant amortization for Pebble Springs, WNP-3 and Skagit be shifted from base costs to resource costs to prevent over-recovery of the costs associated with and allowed for those plants. In Docket U-82-38 the Commission approved a ten-year amortization for Pebble Springs, which expires at the beginning of August 1993. Public Counsel further argued that even if no adjustment is made to shift these costs to the resource side, then at a minimum the Pebble Springs amortization should be removed from rates upon its expiration next year. The company and Commission Staff argued that no adjustments should be made to the base and resource cost categories outside of a general rate case.

Although we accepted the company's allocation of base and resource costs in the original filing, the Commission is astonished that the company so stubbornly insists that the Pebble Springs amortization is a proper element of base costs after the expiration of the 10-year Pebble Springs amortization period. It is this type of controversy that has convinced us that a reassessment of the base and resource cost categories is necessary.

The Commission has considered the company's argument that this cost is offset by other costs which will increase during PRAM 2, but for which the company has not requested a corresponding increase. We are not persuaded. It is not at all clear that these unspecified costs, which might be increasing, warrant leaving this specific item in the base cost calculation. Pebble Springs was allowed in rates at a specific dollar amount

and was set for recovery over a specific amount of time. When that recovery is complete, the item should not stay in rates.

In this case, the Commission has determined that an adjustment to base costs is required to remove the Pebble Springs amortization for the period after August 1, 1993. This adjustment reduces the revenue requirement associated with base costs by $1.284 million. The calculation is shown on Appendix A, page 1, line 6.

2. Rate of return band

In the decoupling order, Docket UE-901184-P, the Commission approved a rate of return band of 50 basis points on either side of the company's authorized rate of return. This was due primarily to concerns about the uncertainty of the results of the PRAM experiment and was intended as a safety net for both ratepayers and shareholders.

The parties have differing views of when that band would cease to exist. Commission Staff believes that the band was in place only during PRAM 1 and is no longer effective. The company believes that the band was to stay in place until the experiment was evaluated in the context of a general rate case. The band has not yet been activated.

The Commission recognizes that there may have been some ambiguity in the discussion of this issue in the Third and Fourth Supplemental Orders in Docket UE-901184-P. The Commission clarifies in this order that the banded rate of return was intended to be effective only during the first year of the PRAM and does not exist beyond September 30, 1992.

D. Schedule 94 (residential exchange credit)

The company proposed to increase the Schedule 94 BPA residential exchange credit from 5.70 mills/kwh to 7.00 mills/kwh for this estimating period. Public Counsel witness Dr. Blackmon recommended an increase to 7.50 mills/kwh. He stated that the higher amount distributes the credit fully and is consistent with the Commission goal that the credits be passed along as soon as they become available (Docket UE-910626). The Commission was distressed to learn that the Schedule 94 account has a current balance of $14 million, despite its earlier order.

The Commission accepts Dr. Blackmon's recommendation on this issue. A credit of 7.00 mills/kwh as proposed by the company would distribute only $60.5 million, when total credits during the PRAM 2 period are projected to be $64.9 million. The company's rate under-distributes the amount, while the 7.50 mills/kWh more fairly distributes the credits. The company

should increase its Schedule 94 residential credit to 7.50 mills/kWh for the PRAM 2 period.

E. Uncontested issues

1. $6.7 million conservation incentives payment

Commission Staff and Public Counsel agreed that the company properly calculated the incentive payment for conservation energy savings. The company achieved energy savings of 17.58 aMW (average megawatts) during 1991. Incentive payments were predicated on achieving a minimum of 12 aMW savings. The company was to receive $1,000/aKW for savings between 12 and 16 aMW and $1,250 for savings over 16 aMW. This results in an incentive payment of $5.975 million.

The company is also rewarded for cost control measures, so long as it achieves at least 13 aMW in energy savings. This payment is $500,000. In addition, the company receives 10% of the amount it saved beyond the targeted cost savings, $2,189,255. The total cost control incentive payment is $718,926.

One final item regarding conservation incentive payments warrants discussion here. There is a third element of the incentive plan which involves verification of conservation measures in 1994 and payment of an additional incentive to the company, on a sliding scale, depending on how much conservation is still in place. The Commission is looking forward to an opportunity to make this evaluation, but would remind the parties that no plan or sliding scale has yet been approved. No payments can be sought under this incentive until after the Commission reviews, analyzes and approves a plan for payment.

2. Transmission costs

The company projected transmission costs for the PRAM 2 period in Exhibit 7. The Bonneville Power Administration requires this information to calculate its average system cost. The costs include transmission plant at $287,306,394, depreciation at $10,681,000, and transmission and distribution O&M at $49,514,000. Commission Staff witness Roland Martin testified that these figures appear to be a reasonable projection of costs for the PRAM 2 period. The Commission accepts these projections for purposes of this filing.

VI. ISSUES TO BE ADDRESSED IN THE GENERAL RATE FILING

The Commission has determined that the company must file a general rate case this year in order to comply with its order authorizing the PRAM experiment. As proposed by the company, the Commission approved a three year cycle for the PRAM, consisting of a PRAM, a second PRAM and then a general rate case.

A number of issues have been raised regarding possible theoretical inconsistencies between the projections and "results" orientation of the PRAM as opposed to the historical test year and pro forma adjustment approach of a traditional rate case. The current PRAM filings are based on Docket No. U-89-2688-T, which used a 1988 test year; all costs, including the cost of money, need to be updated.

The Commission is also concerned about the logistics of the third year of the PRAM cycle, and looks forward to learning the details of how the company believes the rate case year should be implemented. The Commission will set an expiration date of September 30, 1993 for all tariffs approved in this proceeding. The company must file a general rate case before it may make any further PRAM filings.[9]

Several parties raised issues in this proceeding which will best be decided in the context of the general rate filing. These issues include the calculation of coal plant availability and the general question of the prudence of resource contracts, items which were specifically slated for discussion in a general rate case in earlier orders. In addition, there are several issues relating to conservation which will require analysis and discussion in the rate case, including whether the conservation amortization period should be changed from 10 to 20 years, the proper treatment of the costs of the conservation tax benefits settlement with the IRS, and the issue of advertising expenses.

Finally, the parties should be prepared to reexamine the base and resource cost categories in the next general rate filing. The parties are aware that these cost categories are to considered and adjusted in a general rate filing. In this regard, the proposals of Mr. Lazar in this filing are particularly well taken, especially now that all parties have had an opportunity to see how the base and resource category allocations work to recover various cost elements. However, with the exception of an adjustment for the Pebble Springs amortization, discussed in section V. C. 1., above, those adjustments will not be made in this filing.

VII. SUMMARY

As a result of the decisions made in this order on the issues set forth above, the Commission will authorize the company to refile tariff revisions conforming to the results of this order. The refiled tariffs should result in a rate increase of

---

[9] The company must, therefore, file a general rate case no later than October 30, 1992 if it wishes to have new rates in effect at the time the rates approved in this proceeding cease.

$66,360,449 for this PRAM accounting period. These tariffs must include a termination date of September 30, 1993.

The tables in Appendix A summarize the calculation of the revenue requirement associated with the PRAM.

FINDINGS OF FACT

Having discussed above in detail both the oral and documentary evidence concerning all material matters, and having stated findings and conclusions, the Commission now makes the following summary of those facts. Those portions of the preceding detailed findings pertaining to the ultimate findings are incorporated herein by this reference.

1. The Washington Utilities and Transportation Commission is an agency of the state of Washington vested by statute with authority to regulate rates, rules, regulations, practices, accounts, securities, and transfers of public service companies, including electric companies.

2. Puget Sound Power & Light Company, respondent herein, is engaged in the business of furnishing electric service within the state of Washington as a public service company.

3. On June 1, 1992, Puget filed revisions to its currently-effective Tariff WN U-60. The filings would have increased revenues approximately $97,369,432 for the 12-month period October 1, 1992, through September 30, 1993.

4. The Commission suspended the proposed tariff revisions and commenced this proceeding to determine whether the revisions would result in rates that were fair, just, reasonable and sufficient.

5. On rebuttal, the company revised its calculation to request increased revenues of $92,244,568.

6. The PRAM revenue requirement is $66,360,449, as reflected in the tables included in Appendix A, attached hereto and incorporated herein by this reference.

7. The company should increase its Schedule 94 residential credit to 7.50 mills/kwh.

8. The Commission approves the transmission costs listed in Exhibit 7 of company witness J. Richard Lauckhart for purposes of this PRAM filing. The costs include transmission plant at $287,306,394, depreciation at $10,681,000, and transmission and distribution O&M at $49,514,000.

From the foregoing findings of fact, the Commission enters the following conclusions of law.

CONCLUSIONS OF LAW

1. The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of this proceeding and the parties thereto.

2. The tariff revisions now under suspension should be rejected. The company should be authorized to refile tariff revisions prepared in accordance with this order. Tariff revisions prepared in accordance with this order will result in rates that are fair, just, reasonable and sufficient.

On the basis of the foregoing findings of fact and conclusions of law, the Commission hereby makes and enters the following order.

ORDER

WHEREFORE, IT IS HEREBY ORDERED:

1. The tariff revisions filed by respondent on June 1, 1992, now under suspension in Docket No. UE-920630, are rejected in their entirety. Respondent is authorized to file revisions in the form found to be appropriate in the body of this order.

2. The filing authorized herein shall bear an effective date which allows the Commission at least two complete working days following the date of the Commission's receipt thereof, to consider it, or October 1, 1992, whichever is later.

3. The tariff revisions shall bear the notation on each sheet thereof, "By Authority of the Washington Utilities and Transportation Commission in Docket No. UE-920630". Each sheet shall bear an expiration date of September 30, 1993.

4. Notice of the filing authorized herein shall be posted at each business office of respondent in the territory effective thereby on or before the date of filing with the Commission. The notice shall state that the filing is to become effective on the date inserted as the effective date thereon, pursuant to the above authorization, and the notice shall advise that a copy of the filing is available for public inspection at each such office. This notice shall remain posted until the Commission has acted on the filing.

5. Jurisdiction is retained by the Commission to effectuate the provisions of this order.

DATED at Olympia, Washington, and effective this 24th day of September, 1992.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

SHARON L. NELSON, Chairman

RICHARD D. CASAD, Commissioner

A. J. PARDINI, Commissioner

Table 1

PUGET SOUND POWER & LIGHT COMPANY
Revenue Requirement for Base Costs
Twelve Months ending September 30, 1993

1.	U-89-2688-T Revenue requirement for base cost	$395,274,358
2.	U-89-2688-T Number of customers	672,617
3.	U-89-2688-T Revenue per customer- base costs (line 1/line2)	$587.67
4.	Estimated average customers for this PRAM period	794,719
5.	Base revenue requirement subtotal (line 4 x line 5)	$467,032,515
6.	Pebble Springs Adjustment (Ex. 96)	1,284,747
7.	Revenue requirement for base costs this PRAM period (line 5-line 6)	$465,747,768

Table 2

PUGET SOUND POWER & LIGHT COMPANY
Revenue Requirement for Resource Costs
Twelve Months ending September 30, 1993

1.	Power costs from U-89-2688-T		$374,386,535
2.	Delta from power cost adjustment		118,131,400
3.	Conservation		52,364,282
4.	Sub-total resource costs	(sum lines 1 - line 3)	$544,882,217
5.	Conversion factor		0.95457
6.	Revenue requirement for resource costs	(line 4/line 5)	$570,814,311

Table 3

PUGET SOUND POWER & LIGHT COMPANY
Required Revenue Increase, Base and Resource
Twelve Months ending September 30, 1993

Calculation of total revenue increase:

1.	Estimated revenue requirement for base costs	$465,747,768
2.	Estimated revenue requirement for resource costs	$570,814,311
3.	Total estimated revenue for second PRAM period	$1,036,562,079
4.	Revenue requirement for conservation incentives	$6,693,926
5.	Revenue requirement for under-estimate PRAM 1 Base revenue under-collection $7,387,978	$12,043,314
6.	Total PRAM 2 revenue requirement	$1,055,299,319
7.	Estimated receipts for period at present rate levels	$988,938,870
8.	Estimated total revenue increase, second PRAM period	$66,360,449

Calculation of resource & base cost revenue increases:

9.	UE-910626 revenue requirement base costs	$451,569,154
10.	UE-910626 basic revenue charge	$49,291,867
11.	UE-910626 KWH sales	18,772,887,000
12.	UE-910626 base cost less basic charge per KWH	0.02143
13.	Estimated KWH sales second PRAM period	19,102,942,512
14.	Estimated receipts less basic charge revenue	$409,349,925
15.	Estimated basic charge revenue	$50,982,674
16.	Estimated receipts of base costs, current rates	$460,332,599
17.	Estimated revenue increase/(decrease)- BASE COSTS	$12,803,147
18.	Estimated revenue increase/(decrease)- RESOURCE COSTS	$53,557,302

Table 4

PUGET SOUND POWER & LIGHT COMPANY
Calculation of Conservation Level
Twelve Months ending September 30, 1993

1.	Investment without 2% equity premium	$80,321,552
2.	Rate of return without premium (net of tax)	8.63%
3.	Return requirement without premium (line 1 x line 2)	$6,931,750
4.	Investment with 2% equity premium	$83,956,650
5.	Rate of return with premium (net of tax)	9.42%
6.	Return requirement with premium (line 4 x line 5)	$7,908,716
7.	Total return requirement (line 3 + line 6)	$14,840,466
8.	Amortization from UE-910626	$17,761,921
9.	Increase in amortization	5,108,296
10.	Total amortization (line 8 + line 9)	$22,870,217
11.	Normalized tax benefit	($3,150,257)
12.	Total conservation cost (sum lines 7,10,&11)	$34,560,426
14.	Conversion factor	0.66
15.	Rev. req. excluding other revenue sensitive items (line 13/line 14)	$52,364,282