

SERVICE DATE

SEP 27 1994

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application	)	
of	)	
	)	DOCKET NO. UE-910689
PUGET SOUND POWER & LIGHT COMPANY	)	
	)	
For Approval of an Incentive Plan	)	
for Least Cost Planning and	)	
Performance	)	
.....)	)	
	)	
WASHINGTON UTILITIES AND	)	
TRANSPORTATION COMMISSION,	)	DOCKET NO. UE-940728
	)	
Complainant,	)	
	)	THIRD SUPPLEMENTAL ORDER
v.	)	REJECTING TARIFF FILING;
	)	AUTHORIZING REFILING
PUGET SOUND POWER & LIGHT COMPANY,	)	
	)	
Respondent.	)	
.....)	)	

**SUMMARY**

**PROCEEDINGS:** On May 27, 1994, Puget Sound Power & Light Company filed tariff sheets for the Periodic Rate Adjustment Mechanism (PRAM) covering the 12-month period October 1, 1994, through September 30, 1995 (PRAM 4). 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 \$66,681,015.

On June 8, 1994, the Commission suspended the tariff revisions pending hearings on the justness and reasonableness of the rates requested in the filings.

On rebuttal, Puget revised its revenue requirement to \$55,542,414 which includes revenues from firm resale customers not under this Commission's jurisdiction. This change reflects acceptance of some proposals from other parties, and updated figures.

On April 11, 1994, Puget filed under Docket No. UE-910689, a Three Year Measure Verification Plan requesting Commission approval of up to a \$597,500 incentive payment to be collected in PRAM 4 rates. On May 27, 1994, the Commission set the matter for a June 22, 1994 prehearing conference, and encouraged the parties to attempt to resolve any differences over the filing prior to hearing.

The parties to the incentive proceeding filed with the Commission on August 10, 1994, a stipulation and proposed settlement. On August 17, 1994, the Commission set for a September 12, 1994 hearing the filed stipulation of the parties. The Commission entered an order on September 16, 1994, accepting the stipulation and consolidating the incentive filing with the company's PRAM 4 tariff filing.

**HEARINGS:** The Commission held hearings on June 22, July 20, and September 12, 13, and 15, 1994. The hearings were held before Chairman Sharon L. Nelson and Commissioner Richard Hemstad, and Administrative Law Judge Alice L. Haenle of the Office of Administrative Hearings. The Commission gave proper notice to all interested parties.

**PARTIES:** Puget Sound Power & Light Company (Puget or company) was represented by James M. Van Nostrand, attorney, Bellevue. The Washington Utilities and Transportation Commission (Commission Staff) was represented by Sally G. Johnston and Anne E. Egeler, assistant attorneys general, Olympia. The public was represented by Robert F. Manifold and Donald T. Trotter, assistant attorneys general, public counsel section, Seattle. Intervenor Bonneville Power Administration (BPA) was represented by Barry Bennett, attorney, Portland, Oregon. Intervenor Washington Industrial Committee for Fair Utility Rates (WICFUR) was represented by Grant E. Tanner and Mark P. Trincherro, attorneys, Portland, Oregon, and by Peter J. Richardson, attorney, Boise, Idaho. Intervenor Department of Defense and consumer interests of the federal executive agencies (FEA) was represented by Norman Furuta, attorney, San Bruno, California. Intervenor Skagit Whatcom Area Processors (SWAP) was represented by Carol S. Arnold, attorney, Seattle.

**COMMISSION:** The Commission authorizes Puget to refile tariffs to reflect the PRAM 4 revenue requirement increase of \$53,726,453. The Commission rejects the company's request for interest on PRAM deferrals. The Commission orders Puget to track dispatchability of the new contracts, use of the Third AC intertie, and BPA winter sales. The settlement in Docket No. UE-910689 is accepted.

## ***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.<sup>1</sup> 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 September 30, 1992. On September 25, 1991, the Commission granted a rate increase of \$38.1 million.

o On June 14, 1991, in Docket No. UE-910689, Puget filed for approval of an incentive plan for least-cost planning and performance. 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.

o On June 1, 1992, Puget filed tariff sheets under Docket No. UE-920630 for PRAM 2. The company on rebuttal requested \$92.3 million in additional revenue for the period October 1, 1992, through September 30, 1993. On September 24, 1992, the Commission granted a rate increase of \$66.4 million. The Commission also instructed the company not to file another PRAM until after filing a general rate increase request, during which the PRAM mechanism could be evaluated.

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<sup>1</sup> 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.

o By oral ruling on September 12, 1994, and Commission order entered September 16, 1994, the Commission accepted a Stipulation and Proposed Settlement offered by Puget, the Commission Staff and Public Counsel, in Docket No. UE-910689 (the incentives case). That settlement provided in part that a three-year bonus amount of \$232,000 was appropriate, based on the three-year verification results. That amount is included in the PRAM 4 rates.

## II. POLICY ISSUES

In the NOI, the Commission listed four general criteria 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 Commission. The Commission is concerned in this PRAM 4 proceeding that the four goals listed above become more illusory as experience is had with the PRAM. We certainly will look forward to the collaborative's report on its evaluation of the PRAM due on or about November 1, 1994.

## III. NONCONTESTED AND CONTESTED ISSUES

### A. Noncontested Issues

Puget modified its request on rebuttal to reflect acceptance of certain proposals by other parties. Those issues appear to be no longer contested. They include the following.

1. Eliminating Emergency Backup Power Costs in the Calculation of Actual Secondary Purchase Rates

The Commission in its Eleventh Supplemental Order found that "Emergency backup power costs should not be included in the calculation of actual secondary purchase rates".<sup>2</sup> The Commission Staff and Public Counsel contended that Puget had not followed this instruction in its original filing.

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<sup>2</sup> Eleventh Supplemental Order, Finding of Fact No. 21, page 103, and discussion at page 14.

Puget on rebuttal made this revision. The Commission agrees the adjustment is appropriate.

**2. Incentives Payment under Settlement**

Puget, the Commission Staff and Public Counsel submitted a Stipulation and Proposed Settlement. The Commission by oral ruling and by order entered September 16, 1994, accepted the Settlement.

The Settlement provides the company will collect an incentive payment of \$232,000 during the PRAM 4 period and, in addition, the company's labor cost of \$38,000 for the verification. The Commission in its Order found the Settlement terms to be in the public interest. The Commission therefore approves inclusion of these incentive amounts in the PRAM 4 filing.

**3. Rate Design and Rate Spread**

The company revised its rate spread in its direct case, as summarized in Exhibit 6. The revised rate spread and rate design proposed by the company have not been contested by other parties in this proceeding. The company's proposed rate spread and rate design are adopted.

**B. Contested Issues**

**1. Deferral Amount**

The company shows a deferral balance as of April 30, 1994, of \$84,780,538.

**a. Effects of Prudence**

Commission Staff included the impact of Staff's adjustments in the prudence review within its recommendation of an overall rate increase of \$45,446,815. Included in Commission Staff's recommendation is a reduction to PRAM deferrals as of April 30, 1994, of \$2,728,095.

Public Counsel did not include its proposed prudence adjustments in its filing, but argued that the findings in the prudence review proceeding would have to be incorporated. It is apparently the company's understanding that any prudence disallowance would reduce the deferral balances and the projected PRAM revenues.

The Commission agrees with the Commission Staff and Public Counsel that any disallowance found appropriate in the prudence review will result in a reduction in the deferral balance. It is not necessary, however, to automatically adjust the level of amortization of these deferrals as proposed by the Commission Staff.

**b. Under-utilization of Dispatchability**

Public Counsel witness Mr. Blackmon proposed an adjustment of \$381,000 to reflect his belief that the company could have displaced a larger portion of the March Point I and II, Sumas, and Encogen contacts during the months of May through September 1993. Mr. Blackmon's adjustment can be broken into two parts. The larger portion is associated with higher dispatchability assumptions. The smaller portion arises from Mr. Blackmon's use of the secondary rate as the replacement power cost, rather than the replacement power cost assumed by the company.

Puget argues that the adjustment is micro-management, and that the company and project owners have incentives to displace whenever they can. Puget argues that the use of projected displacements is improper, and that Mr. Blackmon's assumptions are not in accordance with the contracts.

The Commission Staff took no position on this issue.

The Commission shares Mr. Blackmon's concern that the company has failed to document the reasons for its dispatchability decisions. The Commission, however, declines to make Mr. Blackmon's adjustment at this time. The Commission elsewhere in this order has determined that true-ups of dispatch decisions should be made to actual figures, not to figures obtained from the Simple Dispatch Model. The Commission will also order the company to keep accurate records, so that Puget can document and defend its future dispatchability decisions.

**c. Summary**

The Commission accepts the deferred revenue of \$84,780,538, less the disallowance associated with March Point Phase 2 and Tenaska adopted in the Nineteenth Supplemental Order in the combined Docket Nos. UE-920433, 920499, and 921262. These deferred revenues will be allowed to be recovered by December 31, 1996. Those disallowances are the products of the net costs of each project times the percentage disallowance for each project. The percentage disallowances are 3% for March Point Phase 2 and 1.2% for Tenaska. The net cost of each of these contracts is the full contract rate less any actual benefits achieved through displacement.

## 2. Deferral Amortization

The company proposes amortization of \$53,178,970, in the next twelve months. Staff proposes amortization of \$52,151,247. Public Counsel proposes amortization of \$52,797,340 before any reductions for prudence.

Each of these calculations sets the amortization at a level that will dispose of any deferrals through December 31, 1993, by the end of the PRAM 4 period. This method has not been used by the Commission in its previous orders. It is not the same method used in the PRAM 2 order, in which the amortization was based on three years (even though it was recovered on a two-year FIFO basis) in an attempt to phase-in the large increase that was taking place at the time.

In Docket No. UE-920630, the Commission rejected the theory that it would amortize the entire PRAM deferral amount in each case. The Commission agreed it would allow recovery in compliance with first-in, first-out (FIFO) accounting requirements, but otherwise left the recovery period to be determined in each case. The Commission intends to retain this flexibility. The recovery period will be determined on a case-by-case basis, but will always comply with FIFO requirements.

In this case, the Commission will accept the company's number. This level of amortization is most consistent with the Commission's previous decision in the PRAM 2 and 3 orders, even considering Staff's proposed prudence disallowance. This result is reasonable, given the magnitude of the PRAM amounts in this filing.

It should also be noted that the Commission does not believe that the level of amortization proposed by the company is required under the FIFO method. The FIFO method requires amortization of amounts deferred during a calendar year, within two years of the end of the year they were deferred. Therefore, the amount proposed by the company under their deferral assumptions need not be fully amortized until December 1995, as opposed to the September 1995 proposed by the company.

## 3. Projected Supply-side Resource Costs

The differences between parties' in projection of supply-side resource costs are in the calculation of the "Delta", the increase in supply-side costs since the general rate case. The company's "Delta" on rebuttal is \$133,564,300. "Delta" is calculated by use of the "Simple Dispatch Model" (SDM), which compares the power cost approved in the last general rate case to either the projected power costs for the upcoming PRAM period, or to the actual power costs in the true-up determination.

There are several issues which impact the calculation of projected supply-side resource costs, including the following.

a. Prudence Review

The Commission Staff's case includes an adjustment to the revenue requirement of \$9.9 million, reflecting its positions in the prudence review. Public Counsel's case did not include an adjustment for the prudence review, but stated the an adjustment would have to be made to the revenue requirement.

The amounts disallowed by the Commission in the prudence case will flow through to this case. The appropriate disallowance is \$1,538,700, which will be removed from the projected costs.

b. Washington Water Power Contract Update

The company adjusted the rate in the 15-year WWP contract, based on a contract amendment signed on June 27, 1994. Puget's direct case did not include any projection of the update. The change increased the revenue requirement by \$431,000. Through their questions during cross of Mr. Moast, the company argued that it will not recover these costs without the update, since this item is not trued-up. Puget also contended allowing the update would be consistent with the Commission's treatment of contracts in PRAM 1 and PRAM 2.

Commission Staff recommended the adjustment be rejected, because the updated number was not included in the company's direct case. The update information was not provided to other parties until after the cut-off date of April 30. The cut-off date was established in Docket Nos. UE-901183-T/UE-901184-P, where the Commission said "In order to provide certainty to the company and the parties to these proceedings, the Commission establishes an April 30, 1991 cut-off date. The company will use this date to determine its revenue requirement of October 1, 1991 implementation and as the date to begin accruing AFUCE on new conservation expenditures." The Commission Staff contended the company should have followed PRAM procedures by including projections for this contract computed on the "best estimates priced at contract rates known as of the PRAM cut-off date of April 30<sup>3</sup>". Because the company provided the update so late in the proceeding, other parties were not able to conduct full discovery and perform needed analyses.

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<sup>3</sup> Transcript Pages 389-390.



The Commission agrees with the Commission Staff that other parties are disadvantaged when one party brings in updates late in a proceeding. On the other hand, in some past PRAM proceedings the company has projected an increase, and the Commission Staff has brought in the actual numbers as they became available. In PRAM 2, for instance, the company in its direct case escalated the contract, then accepted the Commission Staff number which was on a known contract rate.

Although generally reluctant to allow changes to numbers late in a proceeding, the Commission will accept the company's number in this case. Because the number is not trued-up, the company would otherwise permanently lose the ability to collect this amount. The Commission expects that all parties in future proceedings will provide updated numbers to other participants as soon as the updates become available, to provide as much time as possible for discovery and analysis. The Commission will view late or insufficient documentation as reason to reject updates in the future. See Mr. Winterfeld's testimony in Docket No. UE-910626, Exhibit T-21, page 13.

**c. Montana Wheeling Update**

The company also updated in its rebuttal case the projected cost of wheeling of the Montana intertie, based on a recent amendment to its contract with BPA. This adjustment reduces revenue requirement by \$1.5 million.

The Commission Staff recommends rejection of this update. It makes the same arguments as it made in the case of the WWP contract. Unlike the WWP contract, this item will be trued-up. Benefits will, therefore, eventually flow to ratepayers.

The Commission will allow this update for the same reasons it will allow the WWP contract update. A similar procedure was followed in some previous PRAM cases, where the company accepted the Commission Staff's actual numbers, updating company projections.

**d. Projected Displacement**

The Commission Staff and Public Counsel both pointed out a flaw in the running of the SDM. The assumed benefit of displacing the new contracts resulted in an increase in power costs in the SDM. To correct this, the Commission Staff simply removed the displacements, thus increasing the secondary sales and decreasing net costs. The company generally accepted Staff's approach with corrections which were subsequently accepted by Staff.

Public Counsel witness Glenn Blackmon adjusted the SDM results to reflect the assumed benefits of dispatchability in the first place. His adjustment reduces revenue requirement by approximately an additional \$3.0 million.

The SDM's secondary sales and purchase rates are based on the position that within any particular month Puget has both sales and purchases, and, further, that the sales take place at rates that are higher than the purchases. This was the justification for the net in-month transactions adjustment approved by the Commission in the last general rate case. The purchases and sales are a compilation of transactions throughout the month, not an indication that the purchases are being made at the same time as the sales.

In certain months, the secondary rates for purchases and sales may span the dispatchability rates of the various contracts. At some points in the month it might be valuable to dispatch the resource and replace it with secondary purchases, and at other points in the month it might be advantageous not to displace the resource, selling the excess power at the secondary rates.

Public Counsel on oral argument stated he would accept the company and Staff positions if and only if Puget's projections were trued-up to actual experience in the PRAM 5 period. This true-up involves company actual experience, not "truing up" to SDM results. The Commission will adopt the proposal agreed to by the company and Commission Staff, with the requirement that these projections be trued-up to Puget's actual experience in the PRAM 5.

e. Third AC Intertie Benefits

Public Counsel witness Mr. Blackmon has proposed an adjustment based on the assumption of full utilization of Puget's entitlement to space on the Third AC to market non-firm energy to the southwest. Mr. Blackmon calculated an \$11.4 million adjustment. Mr. Blackmon priced out the amount of transmission capacity available at the difference between average secondary purchases and average secondary sales for each month. Mr. Blackmon assumed 100% use of the line, "in the absence of better information". Public Counsel on oral argument cited the company's original reasons justifying its purchase of space on the Third AC, that the company would market its own surplus energy and the surplus energy of others. Mr. Blackmon contends the company's assumptions here address only use of the intertie to market its own excess power.

The company argued that Public Counsel's adjustment improperly assumed the company could simultaneously buy and sell at a profit, because the prices which make up the average sales are not in the same time frame as the prices that make up the purchases. The company also argued that the Commission ordered that in-month net sales not be true-up. Further, the company argued that its own assumption of 70% use of the line is already high.

The Commission Staff recommended that all costs and benefits of the Third AC intertie entitlement be tracked and evaluated in the PRAM 5. The Commission Staff noted that Puget's level of participation has not yet been finalized. The Commission Staff strongly recommended the company be ordered to keep records to indicate the benefits of the AC line. On cross-examination, Mr. Moast indicated that it would be appropriate to true-up the benefits of these transactions. The company argued that tracking requirements would be of no benefit to it, because the results would be too late for the company to use.

Public Counsel witness Mr. Blackmon recommended that the benefits of the AC intertie entitlement be projected in each PRAM, with no true-up. He noted that the Commission must project a number in this PRAM, because none was projected in Puget's compliance filing.

The general rate case order specifically directed Puget to address the issue of the benefits of the third AC in this PRAM proceeding.<sup>4</sup> Acceptance of the company position might well result in an understatement of benefits, when no party has demonstrated the benefits of this new intertie entitlement. Mr. Moast's tracking requirements and true-up are the Commission's preferred solution. The company's contention that Mr. Blackmon's adjustment is excessive may or may not be correct, but Mr. Blackmon has at least addressed the issue with a specific recommendation.

The Commission will use the company's estimate for this case. The Commission also will order the company to keep records to demonstrate the benefits of the Third AC line. Costs and benefits will then be evaluated in the PRAM 5, and true-up to actuals. In this situation, also, "actuals" means the actual figures that occurred during the period in question. This is not "true-up" based upon running the SDM. True-up to actuals should reflect the experience of the company.

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<sup>4</sup> Page 46, Eleventh Supplemental Order, Docket Nos. UE-920433, UE-920499 and UE-921262.

#### 4. Conservation Costs

Through Mr. Story's rebuttal exhibit, Puget presented a conservation revenue requirement of \$68,867,468. Commission Staff witness Mr. Martin calculated a conservation revenue requirement of \$68,630,697. The \$237,000 difference in these calculations results from the Commission Staff's proposed disallowance in rate base of \$1,107,000. Public Counsel in oral argument concurred with the Commission Staff's position on conservation and advertising.

The Commission accepts adjustments to conservation revenue requirement totaling \$198,837. The adjustments relate to the following areas.

##### a. Conservation Advertising

The Commission Staff adjusted conservation advertising by \$523,000. The company accepted a portion of that adjustment testified to by Mr. Martin, \$48,000, in its rebuttal case (Exhibit 102). The remainder of Staff's advertising exclusions were based on the contention that the costs did not benefit ratepayers. Some costs incurred prior to October 1, 1993, were related to advertising campaigns which were not aired. The company testified previously it canceled its fall 1993 advertising campaign and did not run conservation advertising after May 1993. Commission Staff characterized some costs as overlapping conservation, enhancement of company image, and promotional advertising.

Puget argued that these amounts are all related to conservation. Puget contended that it has properly expensed all conservation advertising since October 1, 1993, and that costs prior to that time have benefitted ratepayers. Puget witness Mary Smith contended that some of the work product of these costs is currently being used in the fall 1994 campaign, and that some of these costs were related to advertising campaigns which were aired prior to October 1, 1993. Puget also contended that the cut-off date should be the date of the general case order, October 1, 1993, not May 1, 1993.

The Commission accepts the Commission Staff adjustment related to the 1993 fall advertising campaign. Some company witnesses previously testified that the fall 1993 campaign was canceled after the order in the general rate case was issued, and that no advertising was done from May 1993 to the date of the general rate case order. The Commission finds the testimony of Mary Smith to be confusing and contradictory regarding which campaigns were actually run. Further, as indicated in a memo from Hinton and Steel, Inc., to Puget on July 27, 1994, the advertising campaigns were designed to raise Puget's credibility (Exhibit 95). The company did not demonstrate that ratepayers received any benefit from these costs.

b. Transfer of Costs from Advertising to Other Codes

This proposed adjustment relates to expenses which were formerly classified as conservation advertising, and are therefore embedded in the \$2.1 million pro forma expense level in current rates. Commission Staff proposed adjustments for three items. One, on "empowerment instruction" for \$770, was conceded by the company on cross-examination.

The largest item related to school presentations, in the amount of \$150,000. The Commission Staff argues that this item was included within advertising costs moved to expense by the Commission in the general rate case order. The \$150,000 represents those costs booked to education between October 1993 and April 1994. The company argued that the booking of these costs to education, as has been done and is now being done, is correct. The company does not argue as to whether these costs were indeed part of the amounts moved to expense in the last order.

The third item related to general and administrative costs for the period May through September 1993 that were originally booked as advertising and then reversed in December 1993. These costs appear to be related to brochures and coupons. The Commission Staff removed them, consistent with their argument that the fall 1993 campaign was canceled. The company argues that there is no connection between the two. The company also notes that it has been expensing these items since October 1, 1993.

The Commission accepts the Commission Staff adjustment, except the item relating to school presentations. It is inappropriate to include in rate base amounts which were classified as conservation advertising at the time of the general case and included in the dollars used to calculate the pro forma amount for advertising expense in the general rate case. Further, costs related to brochures and coupons that were not utilized at the time were not a benefit to the ratepayers at that time, and should not be included in rate base.

The Commission is not convinced that the expenditures related to education were included within the conservation advertising expense in the last general rate case proceeding. These expenditures are appropriate conservation expenditures and should be included in rate base. The \$152,000, which includes estimated AFUCE, will be allowed in rate base.

**c. Non-residential Energy Code**

The Commission Staff adjusted Puget's proposed conservation rate base additions for costs related to Puget's participation in the Utility Code Group and the Commercial Energy Code, in the amount of \$325,506. The Commission Staff argued that the treatment of these items has not yet been resolved, and that costs should not be added to conservation rate base until the issues regarding the items are resolved. The Commission Staff does not recommend write-off of these expenditures at this time. (See Exhibit 67, Item C.) Ms. Kelly indicated that there are two more codes still being considered, and the level of costs previously projected by Puget appear to be understated. The Commission Staff wants better cost justification. The Commission Staff recommended these costs be excluded from rate base until the program is approved under Schedule 83, and until the company has demonstrated the costs are reasonable and prudent.

The company argued that the costs are justified. Puget pointed to statements indicating the value of these programs, and to calculations by the Washington State Energy Office (WSEO) that the costs meet the Total Resource Cost (TRC) test. The Commission Staff responded that the WSEO TRC test is not necessarily the same as Puget's TRC test.

The Commission accepts the Commission Staff's adjustment. The Commission Staff expressed its concerns to the company over a year ago. The company could have responded. The level of detail included in this record does not allow the Commission to determine how these funds are actually being spent.

It is important to demonstrate that these costs meet Puget's TRC test in a forum allowing the Commission to review the costs before they are included in rate base. The costs must pass this kind of test, whether or not they are included in Schedule 83. Although the Commission wants to give Puget incentives to enforce the code, Puget has the burden of demonstrating the funds are being prudently spent.

**d. Miscellaneous Conservation Expenditures**

The Commission Staff proposed removal from Puget's proposed conservation rate base additions of \$103,300 of expenditures that Staff characterizes as indirect administrative expenditures. This included items such as general software, staff meetings and team building, and membership dues. The Commission Staff did not consider most of these costs to be inappropriate operating expenditures, but argued instead that they are general in nature, and should not be booked to conservation rate base.

The company argued that these costs are overhead costs of the conservation group. Puget contended that such costs are required to help its conservation employees do their jobs and are therefore conservation related.

The Commission accepts the Commission Staff adjustment, except the amount related to software. The Commission agrees that software is sufficiently related to performing conservation jobs that it should be included. The costs of dinners, meetings, least cost planning, morale building, and dues, however, should not be included. Puget should be looking hard at cost control throughout its company. The conservation program should not be "gold plated". The Commission will adjust Puget's proposed rate base addition by \$78,199, which includes estimated AFUCE.

**e. Summary: Conservation Revenue Requirement**

In summary, the Commission reduces Puget's proposed conservation rate base additions from Puget's direct case by \$978,066. This is a reduction in revenue requirement of \$198,837.

**5. Other Issues**

**a. Interest on PRAM Deferrals**

The company is requesting recovery of carrying costs of its PRAM deferral, on a prospective basis only. Puget argues that the balance is substantial, and is affecting its overall earnings. Puget characterizes this as a financial penalty. Puget witnesses contended that the small amount included in working capital is insufficient to recover these carrying costs and argued that the company's earnings on a per-share basis are declining. Puget also indicated that if the Commission believes that the company agreed in PRAM 2 to forego interest in order to get the FIFO method, the Commission misunderstood the company's position.

The Commission Staff and Public Counsel both oppose the accrual of interest. They cite the PRAM 2 order which specifically rejected interest. They argue that the PRAM deferrals are in rate base, and that it is inappropriate to adjust the income requirement for one piece of the base revenue requirement without looking at the whole. Further, they argue that the company is earning a fair return. Public Counsel points to a comparison of earnings during this drought to earnings during the late 1970's drought. Public Counsel also characterizes this request for interest as more comprehensive than the interest originally approved by the Commission in PRAM 2.

The Commission notes the history of requests for deferral interest. The PRAM mechanism as originally approved had no interest component. In PRAM 2, when faced with an extremely large increase, the Commission decided that it was appropriate to delay a portion of the deferral recovery, both in the hope that deferrals would disappear on their own with more favorable weather, and to alleviate some of the rate pressure. This treatment was done at the recommendation of Public Counsel and WICFUR, which had proposed three- to five-year amortization periods. The company had agreed to accept a two-year amortization, saying any period longer would violate generally accepted accounting principles (GAAP).

In PRAM 2, the Commission adopted a three-year amortization. Because postponement of recovery was a change in the PRAM procedure, the Commission decided to allow the company to accrue interest for the period recovery was to be delayed. Such interest was not to be accrued on new deferrals, nor on portions of the deferrals being amortized in the particular PRAM period. It should be noted that the Commission rejected the two-year amortization originally proposed by the company.

In its request for expedited reconsideration, the company proposed the FIFO method as necessary to satisfy the requirements of GAAP and its auditors. Puget's demonstration of the method included no interest request. The Commission adopted the FIFO method that Puget demonstrated. Subsequent to that order, the company has not made a timely request for interest recovery until this proceeding.

The Commission's Fifteenth Supplemental Order on Reconsideration rejected interest on PRAM deferrals. The Commission continues to believe that treatment is appropriate for the reasons stated in the Order.<sup>5</sup> Puget traded off direct interest accrual for a shorter deferral recovery period in the PRAM 2, and that trade-off remains fair. The statistics the company uses to show earnings are not done on a Commission basis and may not be relied upon for ratemaking purposes.

Parties should not bring new issues into each PRAM. The Commission is not willing to make major changes in the PRAM mechanism without considering the entire mechanism. Allowing interest on PRAM deferrals would be such a change. The Commission has established a collaborative to evaluate the PRAM mechanism and to consider changes and revisions to that mechanism. Proposals for major changes in the PRAM mechanism may be made in the context of a general rate case, or in the PRAM collaborative.

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<sup>5</sup> The discussion of interest on PRAM deferrals occurs at pages 11-13 of the Fifteenth Supplemental Order (December 15, 1993).



**b. Schedule 83**

Commission Staff witness Andrea Kelly recommends the company use the technical collaborative to amend Schedule 83. The company commits to a 1994 refiling of revisions to the Schedule, but does not believe that the technical Collaborative is the appropriate body to analyze it.

The Commission encourages the parties to use the collaborative process to the extent possible. The company must file its revisions, whether or not there is time for a collaborative process before the filing. Participants should certainly work together to the extent possible, but the Commission will not order the company to do this through the technical collaborative.

**c. True-up of Items Transferred to Resource Side**

In the general rate case, the Commission ordered that certain items be moved from base to resource. These new resource costs include production property depreciation, property taxes, wages, insurance, etc. The company did not true-up any of the transferred items except abandoned plant amortization. The company did propose that these costs be treated on an actual basis in the future.

The Commission Staff recommended rejection of this proposal. The Commission Staff argued that the nature of many of these costs will be difficult to true-up without adding to the contentiousness of the proceeding.

The Commission agrees with the Commission Staff that the company proposal should be rejected. These changes to the PRAM procedures should be considered as part of the PRAM procedure evaluation.

**d. Other Changes to PRAM**

The company hints at some additional changes that should be made to the PRAM, such as true-up of the Mid-Columbia projects. Other parties contend it is inappropriate to consider such changes on a piecemeal basis. They also indicate that such changes would more appropriately be brought up in the currently convened evaluation collaborative.

The Commission agrees these changes would be inappropriate to make in this proceeding. If these changes are to be considered, it should be through the collaborative evaluating the PRAM.

e. BPA Winter Sales

The Commission Staff has not proposed any adjustment associated with this contract. However, Commission Staff witness Mr. Moast indicates that the Commission Staff has not been able to evaluate the benefits of the sales, and asks that the company be required to track the sales and costs related to these transactions. The company claims that they do track light load secondary rates, as provided Staff in Exhibit 87.

The Commission agrees that tracking of these sales is appropriate, and will order the company to track them.

f. Transmission Costs

The Commission Staff agreed to the company's transmission costs, which are set out in Exhibit No. 8. The Commission finds these transmission costs are appropriate.

#### **IV. PUBLIC PARTICIPATION**

The Commission held a hearing on September 15 at Olympia for the purpose of taking testimony from members of the public. One witnesses testified. Exhibit No. 105 contains letters and materials sent by persons who did not necessarily attend the hearings.

Bob Jacobs of Olympia recommended that ratepayers not be required to fund the "growth" element of this increase. Instead, he suggested that Puget be allowed to charge fees similar to development impact fees charged on new housing, so that those who cause growth would pay for that growth.

#### **V. 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 provisions of this order. The calculation of revenue requirement is shown in the attached tables.

#### **FINDINGS OF FACT**

Having discussed 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 May 27, 1994, Puget filed revisions to its currently-effective Tariff WN U-60. The filings would have increased revenues approximately \$66,681,015 for the 12-month period October 1, 1994, through September 30, 1995. On rebuttal, Puget revised its revenue requirement to \$55,542,414, to reflect acceptance of some proposals from other parties and updated figures.

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. The PRAM revenue requirement increase is \$53,726,453, as reflected in Table Three of the Appendix.

6. The rate spread and rate design methodology used by the company in its revised direct case is appropriate.

7. The Commission's Fifteenth Supplemental Order on Reconsideration rejected interest on PRAM deferrals. That treatment continues to be appropriate. Puget traded direct interest accrual for a shorter deferral recovery period in the PRAM 2, and that trade-off remains fair. The statistics the company uses to show earnings are not done on a Commission basis, and may not be relied upon for ratemaking purposes.

8. The Commission approves the transmission costs listed in Exhibit No. 8 of company witness J. Richard Lauckhart for purposes of this PRAM filing. The costs include net transmission plant at \$310,341,133, depreciation at \$11,843,000 and transmission and distribution O&M at \$48,341,000.

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**

**THE COMMISSION ORDERS:**

1. The tariff revisions filed by respondent on May 27, 1994, now under suspension in Docket No. UE-940728, 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 be made by Thursday, September 29, 1994 by 12:00 noon, in order to have an effective date of October 1, 1994. Any filing made later than that time must bear an effective date which allows the Commission at least five complete working days following the date of the Commission's receipt thereof, to consider it.

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-940728".

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 27th day of September 1994.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



SHARON L. NELSON, Chairman



RICHARD HEMSTAD, Commissioner

NOTICE TO PARTIES:

This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-09-810, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-09-820(1).

Table 1

PUGET SOUND POWER & LIGHT COMPANY  
Revenue Requirement for Base Costs  
Twelve Months ending September 30, 1995

1. UE-921262 Revenue requirement for base cost	\$365,278,253
2. UE-921262 Number of customers	765,849
3. UE-921262 Revenue per customer - base costs (line 1/line2)	\$476.96
4. Estimated average customers for this PRAM period	822,085
7. Revenue requirement for base costs this PRAM period (line 5-line 6)	\$392,101,662

Table 2

PUGET SOUND POWER & LIGHT COMPANY  
Revenue Requirement for Resource Costs  
Twelve Months ending September 30, 1995

1. Power costs from UE-921262	\$506,356,100
2. Delta from power cost adjustment	132,025,600
3. Conservation	68,668,631
4. Sub-total resource costs (sum lines 1 - line 3)	\$707,050,331
5. Conversion factor	0.956814
6. Revenue requirement for resource costs (line 4/line 5)	\$738,963,196

Table 3

PUGET SOUND POWER & LIGHT COMPANY  
 Required Revenue Increase, Base and Resource  
 Twelve Months ending September 30, 1995

Calculation of total revenue increase:

1. Estimated revenue requirement for base costs		\$392,101,662
2. Estimated revenue requirement for resource costs		\$738,963,196
3. Total estimated revenue for fourth PRAM period		\$1,131,064,858
4. Revenue requirement for conservation incentives		\$232,000
5. Revenue requirement for deferral recovery		\$53,178,970
Base revenue under-collection	\$7,387,978	
6. Total PRAM 4 revenue requirement		\$1,184,475,828
7. Estimated receipts for period at present rate levels		\$1,130,749,375
8. Estimated total revenue increase, fourth PRAM period		\$53,726,453

Calculation of resource & base cost revenue increases:

9. Increase allowed base revenue requirement PRAM 4 (Exhibit 64)		\$5,589,665
10. Allowed resource revenue requirement PRAM 4		\$30,464,127
11. Change in amortization for Base Costs (Exhibit 64)		(\$1,222,971)
12. Change in Resource Cost amortization		\$18,895,632
13. Estimated revenue increase/(decrease)- BASE COSTS		\$4,366,694
14. Estimated revenue increase/(decrease)- RESOURCE COSTS		\$49,359,759