

**EXH. SEF-3  
DOCKET UE-20\_\_\_\_  
2020 PSE PCORC  
WITNESS: SUSAN E. FREE**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY,**

**Respondent**

**Docket UE-20\_\_\_\_**

**SECOND EXHIBIT (NONCONFIDENTIAL) TO THE  
PREFILED DIRECT TESTIMONY OF**

**SUSAN E. FREE**

**ON BEHALF OF PUGET SOUND ENERGY**

**DECEMBER 9, 2020**

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of	)	DOCKET UE-130583
	)	
PUGET SOUND ENERGY	)	ORDER 07
	)	
For an Accounting Order Authorizing	)	
Accounting Treatment Related to	)	
Payments for Major Maintenance	)	
Activities	)	
.....	)	
WASHINGTON UTILITIES AND	)	DOCKET UE-130617
TRANSPORTATION COMMISSION,	)	
	)	ORDER 11
Complainant,	)	
	)	
v.	)	
	)	
PUGET SOUND ENERGY,	)	
	)	
Respondent.	)	
.....	)	
In the Matter of the Petition of	)	DOCKET UE-131099
	)	
PUGET SOUND ENERGY	)	ORDER 07
	)	
For an Accounting Order Authorizing	)	
Accounting the Sale of the Water Rights	)	
and Associated Assets of the Electron	)	
Hydroelectric Project in Accordance with	)	
WAC 480-143 and RCW 80.12.	)	
.....	)	
In the Matter of the Petition of	)	
	)	DOCKET UE-131230
PUGET SOUND ENERGY	)	
	)	ORDER 07
For an Order Authorizing the Sale of	)	
Interests in the Development Assets	)	
Required for the Construction and	)	
Operation of Phase II of the Lower Snake	)	
River Wind Facility	)	
.....	)	

**FINAL ORDER APPROVING AND ADOPTING SETTLEMENT STIPULATION**

- 1     **PROCEEDING:** On March 27, 2015, Puget Sound Energy (PSE or Company), the regulatory staff (Staff)<sup>1</sup> of the Washington Utilities and Transportation Commission (Commission), and the Public Counsel Section of the Washington Office of Attorney General (Public Counsel, collectively with Staff and the Company, Settling Parties) filed a multiparty settlement stipulation (Settlement) addressing modifications to PSE’s power cost adjustment (PCA) mechanism.<sup>2</sup> The Settling Parties filed revisions to the Settlement attachments on July 8, 2015. The Industrial Customers of Northwest Utilities (ICNU) opposes the Settlement. ICNU did not, however, sponsor witnesses or file exhibits in opposition to the Settlement.
- 2     **PARTY REPRESENTATIVES:** Sheree Strom Carson, Perkins Coie LLP, Bellevue, Washington, represents PSE. Simon J. ffitich, Senior Assistant Attorney General, Seattle, Washington, represents Public Counsel. Sally Brown, Senior Assistant Attorney General, Olympia, represents Staff. Jesse E. Cowell, Davison Van Cleve, PC, Portland, Oregon, represents ICNU.

### MEMORANDUM

- 3     **BACKGROUND.** On October 23, 2013, the Commission approved and adopted a settlement stipulation (2013 PCORC Settlement) in Dockets UE-130583, UE-130617, UE-131099, and UE-131230, under which the parties agreed to initiate a collaborative process to address issues relevant to the PCA mechanism and power cost only rate cases (PCORC), “but excluding the issue of whether the PCA or PCORC should continue.”<sup>3</sup> If the parties reached an agreement in the collaborative, they were to propose its implementation in PSE’s next PCORC.<sup>4</sup> If the parties did not reach agreement, PSE

<sup>1</sup> In formal proceedings, such as this, the Commission’s regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners’ policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

<sup>2</sup> The PCA was established as “an annual accounting process for sharing of modified actual power costs relative to a power cost baseline between PSE and its customers.” Joint Testimony at 4:19-21 (internal citation omitted). Under the PCA mechanism, PSE is allowed to file for rate changes to update its power costs. *Id.* at 4:23-5:2.

<sup>3</sup> Settlement, ¶¶ 25-26.

<sup>4</sup> *Id.*, ¶ 25.

agreed to initiate a new docket by July 1, 2014, to address PCA and PCORC-related issues, including whether the PCA or PCORC should continue.<sup>5</sup> Consistent with the terms of the 2013 PCORC Settlement, interested parties participated in a series of collaborative meetings. The Commission granted several extensions to the July 1, 2014, filing deadline, allowing negotiations among the parties to continue.<sup>6</sup>

4 On March 27, 2015, the Settling Parties filed the Settlement, attached to this Order as Appendix A and incorporated by reference in this Order. ICNU opposes the Settlement and states that the changes to PSE's dead bands and sharing bands "[make] customers susceptible to additional surcharges in the first sharing band."<sup>7</sup> ICNU contends that this will shift a considerable portion of production costs into PSE's decoupling mechanism which represents a major change to the Company's rate structure affecting all customers subject to the decoupling mechanism.<sup>8</sup> It argues that such a significant modification should only be made in the context of a general rate case. ICNU did not, however, support its opposition to the Settlement with witness testimony or exhibits.

5 On April 3, 2015, the Settling Parties filed supporting testimony and exhibits. A revised Exhibit B to the Settlement and corresponding revised testimony were filed by the Settling Parties on April 28, 2015. The Commission received further revisions to the exhibits to the Settlement and the testimony on July 8, 2015. The Settlement addresses:

- removal of Fixed Production Costs from the PCA imbalance calculation;
- modifying the dead band and the sharing bands;
- the refund or surcharge trigger;
- timing and stay out provisions; and
- administrative costs of PSE's hedging program.

<sup>5</sup> *Id.*

<sup>6</sup> On June 13, 2014, the Commission granted a request to extend the July 1, 2014, deadline to October 1, 2014. The Commission subsequently granted a second motion for extension, extending the deadline to January 12, 2015. On January 9, 2015, Public Counsel, Staff, and PSE notified the Commission that the Settling Parties reached an agreement.

<sup>7</sup> Letter from ICNU to the Commission at 1 (March 27, 2015).

<sup>8</sup> *Id.* at 1-2.

## SETTLEMENT

### *I. Removal of Fixed Production Costs.*

6 The Settlement proposes to move the recovery of Fixed Production Costs from the PCA and collect the Fixed Production Costs through the decoupling mechanism if it continues.<sup>9</sup> Currently, these costs are recovered on a dollar per megawatt hour (MWh) basis through the PCA, subject to dead bands and sharing bands. The Settling Parties have divided total electric costs<sup>10</sup> into three categories: Fixed Production Costs, which will be included in the electric decoupling mechanism if it continues; Variable Production Costs, which will continue to be recovered and traced through the PCA mechanism; and Delivery Costs, which include all other costs currently included in PSE's decoupling plan.<sup>11</sup> As Public Counsel argues, this "works to simplify an unnecessarily complex mechanism . . . [and makes] it easier for Public Counsel, Staff, and other interveners to review PSE's power costs."<sup>12</sup> Staff supports excluding Fixed Production Costs from the PCA because:

when fixed costs are included in an energy recovery mechanism, they are subject to true-up for load variations. This has an impact on cost sharing and may push other variable costs, which the Company may have some control over, into a higher sharing band or conversely contain the variable costs within the dead band. In either case, this alters the incentives for the Company to control its costs whenever possible.<sup>13</sup>

<sup>9</sup> Attachment A to the Settlement, ¶ 4. If the decoupling mechanism does not continue, recovery of Fixed Production Costs will occur through general rates.

<sup>10</sup> Settlement at 8.

<sup>11</sup> Joint Testimony at 9:21-10:2. In Attachment A to the Settlement, the Settling Parties provided a summary of the PCA mechanism as proposed. In Appendix 1 to the Joint Testimony, the Settling Parties provided a red-lined version of the summary, showing the changes since its creation over 13 years ago. The summary and red-lined summary proved extremely useful during our consideration of this matter. We encourage the inclusion of a summary and red-lined summary when parties propose modifications to power cost and decoupling mechanisms.

<sup>12</sup> *Id.* at 12:8-10.

<sup>13</sup> *Id.* at 15:11-17.

7 While Fixed Production Costs are removed from the PCA and added to the decoupling  
mechanism, the Settlement provides that PSE may still update Fixed Production Costs  
through a PCORC.<sup>14</sup> The Settlement explicitly allows the Settling Parties to either  
support or oppose decoupling in the Company’s next general rate case.<sup>15</sup>

***II. Reduction in the Size of the Dead Band/Adjustment to Sharing Bands.***

8 The Settlement reduces the size of the dead band from \$20 million to \$17 million.<sup>16</sup> The  
Settling Parties assert that this provides earlier sharing of both costs and benefits.<sup>17</sup>

9 The Settlement also proposes to adjust the sharing bands. With the reduction of the dead  
band, the first sharing band of costs and benefits will be for over- or under-recovery from  
\$17 million to \$40 million.<sup>18</sup> Under-recovery will be shared equally between customers  
and the Company, while over-recovery be shared between the Company and customers at  
35 percent and 65 percent, respectively.

10 For any over- or under-recovery in excess of \$40 million, customers and the Company  
will split responsibility at the rate of 90 percent and 10 percent, respectively. This is a  
reduction of customers’ responsibility for power cost under-recoveries beyond \$40  
million from 95 to 90 percent.<sup>19</sup>

11 The Settlement eliminates the last sharing band.<sup>20</sup>

12 Staff and Public Counsel support the proposed change because customers benefit from  
introduction of asymmetry to the first sharing band. Staff points out that the Settlement  
“recognizes the asymmetric risk of power costs for a utility operating primarily in a

<sup>14</sup> Summary of PCA Mechanism, ¶ 4.

<sup>15</sup> *Id.*, ¶ 13.

<sup>16</sup> Settlement at 5.

<sup>17</sup> Joint Testimony at 7:11-14. Up to the \$17 million threshold, PSE receives all of the benefit and is responsible for all of the costs.

<sup>18</sup> *Id.* at 7:15.

<sup>19</sup> *Id.* at 11:3-4.

<sup>20</sup> *Id.* at 7:11-20.

hydro-rich region like the Northwest and provides an appropriately tailored outcome.”<sup>21</sup> Public Counsel argues that “asymmetry is particularly important because mechanisms such as the PCA naturally shift risk from the Company to customers, who obviously do not wield any control over costs, and serves to encourage cost control on the part of PSE.”<sup>22</sup> PSE believes that asymmetry in recovery of power costs will occur primarily in the dead band, and that the direction and magnitude of the asymmetry will vary unpredictably.<sup>23</sup> PSE maintains its position that, generally, “specific asymmetry should not be built into the sharing bands.”<sup>24</sup> Nevertheless, PSE accepts this proposal “as part of the give and take of reaching a settlement,”<sup>25</sup> and “based on other changes to the mechanism that were agreed to by the Settling Parties, such as narrowing of the dead bands.”<sup>26</sup>

### ***III. Reducing the Amount of the Refund or Surcharge Trigger.***

- 13 When the balance of the PCA deferral account reaches a certain amount, the mechanism triggers a refund or surcharge to customers. Currently, this trigger is set at \$30 million, and the Settlement proposes to reduce the trigger to \$20 million.<sup>27</sup> Public Counsel discusses the trigger, pointing out that it prevents rate volatility “by avoiding overly frequent surcharges or refunds.”<sup>28</sup> It supports lowering the trigger amount because in 13 years of operation the current mechanism has never actually triggered a refund or a surcharge.<sup>29</sup> Reducing the trigger from \$30 million to \$20 million “would have only triggered a surcharge or refund once in its history.”<sup>30</sup>

<sup>21</sup> Joint Testimony at 16:13-15.

<sup>22</sup> *Id.* at 12:12-15.

<sup>23</sup> *Id.* at 20:7-11.

<sup>24</sup> *Id.* at 20:6-20.

<sup>25</sup> *Id.* at 20:5.

<sup>26</sup> *Id.* at 20:21-23.

<sup>27</sup> Summary of PCA Mechanism, ¶ 3.

<sup>28</sup> Joint Testimony at 12:20-23.

<sup>29</sup> *Id.* at 13:3-5.

<sup>30</sup> *Id.* at 13:5-7.

**IV. Timing and Stay Out Provisions.**

- 14 The Settling Parties propose that the revised PCA begin January 1, 2017, and continue unchanged through January 1, 2022.<sup>31</sup> Staff argues that maintaining a constant definition of power costs is necessary in order for the PCA to appropriately capture power cost variations over time.<sup>32</sup> PSE characterizes the moratorium on PCA and PCORC changes as “one of the key elements” of this Settlement.<sup>33</sup>
- 15 Additionally, the Settlement estimates PSE’s next general rate case will result in rates effective March 1, 2017. The Settlement provides that PSE may file, and the Settling Parties agree to support, an accounting petition deferring revenue variances in Fixed Production Costs between January 1, 2017, when Fixed Production Costs are removed from the PCA per this Settlement, and March 1, 2017, when rates from the general rate case become effective and Fixed Production Costs are placed in the decoupling mechanism, if PSE’s decoupling program continues.

**V. Administrative Costs of PSE’s Hedging Program.**

- 16 The administrative and line of credit costs of executing a hedging program were originally excluded from the PCA. In 2007, “interest costs and commitment fees associated with electric hedging activities” were added to net power costs recovered through the PCA.<sup>34</sup> The Settlement proposes to remove recovery of these “line of credit costs” from the PCA and instead address them as an element of PSE’s cost of capital.<sup>35</sup>

**DISCUSSION/DECISION**

- 17 The Settling Parties have presented us with a multiparty Settlement that purports to resolve all issues within the docket. In its evaluation, the Commission must “determine

<sup>31</sup> Settlement at 7.

<sup>32</sup> Joint Testimony at 17:1-10.

<sup>33</sup> *Id.* at 19:16-19.

<sup>34</sup> *Id.* at 5:10-11; *WUTC v. Puget Sound Energy*, Dockets UE-060266 and UG-060267 (consolidated), Order 08, ¶ 34 (January 5, 2007).

<sup>35</sup> Settlement at 5.



whether a proposed settlement meets all pertinent legal and policy standards.”<sup>36</sup>  
Settlements may be approved “when doing so is lawful, when the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the [C]ommission.”<sup>37</sup>

18 The Settling Parties propose removing Fixed Production Costs from the PCA mechanism for inclusion in the Company’s decoupling mechanism, should it continue. ICNU opposes this removal because its significance should only be addressed in a general rate case setting. However, ICNU declined to present any witnesses or exhibits that quantify the “significance” of such a change. Further, as Staff and Public Counsel explain, removal of these costs from the PCA is not a novel approach but brings the Company in line with the current design of Avista Corporation’s Energy Recovery Mechanism and Pacific Power & Light Company’s Power Cost Adjustment Mechanism. All three electric utilities will have power cost recovery mechanisms which include only variable costs, and do not include fixed costs. In addition, this modification to PCA does not allow or disallow any specific power costs, it simply changes the way costs will be recovered, and promotes consistency in the treatment of power costs among utilities. We find that this provision is in the public interest and supported by the evidentiary record.

19 ICNU also opposes both the modifications to the dead bands and sharing bands as well as the reduction of the trigger amount. While it argues that this shifts the risk from PSE shareholders to ratepayers, other provisions of this Settlement shift risk from ratepayers to PSE shareholders. For example, the Settlement provides for a 65 percent to 35 percent asymmetry in favor of ratepayers in the first sharing band. The division of costs or under-recovery, however, for that same band is split equally among the two. PSE has, in the process of settling other issues, given up some of its previous share in potential over-recovery from the first sharing band. Again, ICNU did not present evidence to substantiate its opposition to these Settlement provisions. The modifications to the dead bands, sharing bands, and trigger amounts do shift risk, but do not appear to do so unilaterally or unreasonably, and are consistent with similar provisions in other utility mechanisms. For these reasons, we find these provisions in the public interest.

<sup>36</sup> WAC 480-07-740.

<sup>37</sup> WAC 480-07-750(1).

- 20 The five-year moratorium on further modifications to the PCA mechanism should provide the parties and the Commission with stability of the PCA's design. The provision in the Settlement waiving the PCA requirement that PSE file a general rate case within three months of the PCORC's rate effective date, as well as PSE's agreement to not file a general rate case or a PCORC within six months of any PCORC's rate effective date, are intended to eliminate the administrative burden and repetition of processing a general rate case or a PCORC and recalculating power costs shortly after the conclusion a PCORC.
- 21 In 2007, the Commission approved a recommendation to include costs associated with a new line of credit to support wholesale power hedging transactions in the Power Costs Baseline Rate in the PCA mechanism.<sup>38</sup> At that time, we left it to the parties to "develop in PSE's next general rate case any arguments regarding whether inclusion of hedging costs in the baseline power cost rate should affect PSE's cost of capital."<sup>39</sup> With the Settlement, these costs will now be included in PSE's cost of capital. ICNU does not specifically oppose this provision. We find this reclassification is consistent with the financing nature of the hedging line of credit costs.
- 22 As is typical with settlements, the terms arrived at by the Settling Parties are the result of compromises necessarily borne out of a give-and-take process. As we discuss above, the terms arrived at by the Settling Parties in the collaborative are consistent with the public interest, and we find that the Settlement terms are supported by the available evidence in the record. We approve and adopt it as a full resolution of the issues presented.
- 23 The Settling Parties also filed a Motion in Dockets UE-011570 and UG-110571 to modify the Twelfth Supplemental Order, which established the PCA mechanism. Specifically, the Settling Parties ask for modification of Appendix A to the Twelfth Supplemental Order to conform to the terms of the Settlement we are approving and adopting. To the extent that the PCA terms originally approved Appendix A to the Twelfth Supplemental Order differ from the Settlement we are approving and adopting in this Order, we modify Appendix A of the Twelfth Supplemental Order in Dockets UE-011570 and UG-011571.

<sup>38</sup> *WUTC v. PSE*, Dockets UE-060266 and UG-060267 (consolidated), Order 08, Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing, ¶ 34 (January 5, 2007).

<sup>39</sup> *Id.*

## FINDINGS OF FACT

24 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the parties and the reasons therefore, the Commission now makes and enters the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

- 25 (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, and accounts of public service companies, including electrical companies.
- 26 (2) Puget Sound Energy is a “public service company” and an “electrical company” as those terms are defined in RCW 80.04.010 and used in Title 80 RCW. PSE is engaged in Washington state in the business of supplying utility services and commodities to the public for compensation.
- 27 (3) On October 23, 2013, the Commission approved and adopted a settlement stipulation in the consolidated Dockets UE-130583, UE-130617, UE-131099, and UE-131230, under which the parties agreed to initiate a collaborative process to address issues surrounding the power cost adjustment mechanism and power cost only rate cases.
- 28 (4) PSE, the Commission’s regulatory staff (Staff), and the Public Counsel Division of the Washington State Attorney General’s Office (Public Counsel, collectively with Staff and PSE, Settling Parties) filed a multiparty settlement stipulation (Settlement), attached to this Order as Appendix A and incorporated by reference, which purports to resolve all issues related to the collaborative. The Settling Parties request the Commission approve the Settlement and modify the Twelfth Supplemental Order in Dockets UE-011570 and UG-011571 to reflect the revisions to the PCA mechanism brought about by the Settlement.
- 29 (5) The Industrial Customers of Northwest Utilities (ICNU) opposes the Settlement but did not offer any witnesses or exhibits.

- 30 (6) The Settlement addresses five broad issues: removal of Fixed Production Costs from the PCA imbalance calculation; modifying the dead band and the sharing bands; the refund or surcharge trigger; timing and stay out provisions; and administrative costs of PSE's hedging program.

### CONCLUSIONS OF LAW

31 Having discussed above all matters material to this decision, and having stated detailed findings, conclusions, and the reasons therefore, the Commission now makes the following summary conclusions of law, incorporating by reference pertinent portions of the preceding detailed conclusions:

- 32 (1) The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of, and parties to, these proceedings.
- 33 (2) Pursuant to WAC 480-07-750, the Commission will approve settlements when doing so is lawful, when the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the Commission.
- 34 (3) The Settlement is lawful, its terms are supported by an appropriate record, and the result is consistent with the public interest in light of all the information available to the Commission.
- 35 (4) The Commission should approve and adopt the Settlement, attached to this Order as Appendix A and incorporated by reference in this Order, as a reasonable resolution of the issues presented.
- 36 (5) To the extent that the PCA terms originally approved in Appendix A to the Twelfth Supplemental Order differ from the Settlement we are approving and adopting in this Order, we modify Appendix A of the Twelfth Supplemental Order in Dockets UE-011570 and UG-011571.
- 37 (6) The Commission should retain jurisdiction to effectuate the terms of this Order.

**ORDER**

THE COMMISSION ORDERS:

- 38 (1) The Settlement Stipulation filed by PSE, Commission Staff, and Public Counsel,  
and attached to this Order as Appendix A and incorporated by reference, is  
approved and adopted.
- 39 (2) To the extent that the PCA terms originally approved in Appendix A to the  
Twelfth Supplemental Order differ from the Settlement we are approving and  
adopting in this Order, we modify Appendix A of the Twelfth Supplemental  
Order in Dockets UE-011570 and UG-011571.
- 40 (3) The Commission retains jurisdiction over the subject matters and parties to this  
proceeding to effectuate the terms of this Order.

Dated at Olympia, Washington, and effective August 7, 2015.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

PHILIP B. JONES, Commissioner

ANN E. RENDAHL, Commissioner

**NOTICE TO PARTIES: This is a Commission Final Order. 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 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-07-870.**

**APPENDIX A**  
**(Settlement Stipulation)**

BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For an Accounting Order Authorizing  
Accounting Treatment Related to  
Payments for Major Maintenance  
Activities

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WASHINGTON UTILITIES AND  
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COMMISSION,

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Project in Accordance with WAC 480-  
143 and RCW 80.12

.....  
In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For an Order Authorizing the Sale of  
Interests in the Development Assets  
Required for the Construction and  
Operation of Phase II of the Lower  
Snake River Wind Facility

DOCKET UE-130583 (*Consolidated*)

DOCKET UE-130617 (*Consolidated*)

DOCKET UE-131099 (*Consolidated*)

DOCKET UE-131230

SETTLEMENT STIPULATION

SETTLEMENT STIPULATION  
DOCKETS UE-130583, UE-130617, UE-  
131099 AND UE-131230

1



## I. INTRODUCTION

1 This Settlement Stipulation (“Settlement”) is entered into by the following parties in this case: Puget Sound Energy, Inc., (“PSE” or “the Company”), the Staff of the Washington Utilities and Transportation Commission (“Commission Staff”), the Public Counsel Unit of the Attorney General’s Office (“Public Counsel”). These parties are hereinafter collectively referred to as “Settling Parties” and individually as a “Settling Party.”

2 Because this Settlement is entered into by some, but not all of the parties to this case, and it resolves the issues in the docket, it is a “multiparty settlement,” as that term is defined in WAC 480-07-730(3).

3 This Settlement is subject to review and disposition by the Washington Utilities and Transportation Commission (“Commission”). Section III of the Settlement is effective on the date of the Commission order approving it (unless the Commission establishes a different effective date).

## II. BACKGROUND AND NATURE OF THE DOCKET

4 On September 13, 2013, the parties to PSE’s 2013 power cost only rate case (“PCORC”) entered into a settlement stipulation in Docket UE-130617, as well as other dockets that were consolidated with the 2013 PCORC. As part of the 2013 PCORC settlement, PSE and the parties to the docket agreed to participate in a collaborative process “to address PCA and PCORC-related issues.” As fully stated, the parties agreed to the following:

The Parties agree to participate in a collaborative process per WAC 480-07-720 to address PCA and PCORC-related issues. The first meeting of the collaborative will occur in November 2013. PSE agrees to provide information in response to reasonable requests for information from collaborative participants. All issues related to the PCA or PCORC can be

addressed in the collaborative, except the issues of whether the PCA or PCORC should continue, which are not issues for the collaborative. If the Parties reach agreement in the collaborative, that agreement can be implemented in PSE's next PCORC, subject to Commission approval. If the Parties do not reach agreement, PSE agrees to initiate a docket no later than July 1, 2014, to address PCA and PCORC-related issues. In such docket, any party may raise the issue of whether the PCA or PCORC should continue.<sup>1</sup>

5 On October 23, 2013, the Commission approved the 2013 PCORC settlement.

6 Consistent with the terms of the 2013 PCORC settlement stipulation, interested parties (the Settling Parties and Industrial Customers of Northwest Utilities (ICNU)) participated in a series of collaborative meetings to address issues with respect to PSE's Power Cost Adjustment ("PCA") mechanism, beginning in November 2013. On June 13, 2014, the Commission granted the collaborative parties' request to extend the July 1, 2014 deadline to October 1, 2014 to enable parties to continue work on a PCA modification proposal.<sup>2</sup> The Commission subsequently granted a second motion for extension, extending the deadline to January 12, 2015.<sup>3</sup> On January 9, 2015, the Settling Parties advised the Commission via letter that the Settling Parties had reached agreement on proposed changes to the PCA mechanism. Industrial Customers of Northwest Utilities has advised that it opposes the settlement.

7 This filing constitutes the agreement by all of the Settling Parties with respect to PCA and PCORC-related issues addressed in the collaborative and therefore PSE will not be required to initiate a new docket. The filing presents modifications to PSE's PCA mechanism that are supported by the Settling Parties. The Settling Parties request that the Commission schedule a prehearing conference to establish further process for consideration of the Settlement.

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<sup>1</sup> Settlement Stipulation, ¶ 25.  
SETTLEMENT STIPULATION  
DOCKETS UE-130583, UE-130617, UE-  
131099 AND UE-131230



3. Hydro and Other Production Operations and Maintenance Costs (including Payroll OH/taxes)
  4. Transmission Expense associated with specific transmission assets
  5. Transmission Revenue associated with specific transmission assets (FERC Account 456.1)
  6. Depreciation for Production and specific transmission assets
  7. Return on Regulatory Assets and Liabilities
  8. Amortization of Regulatory Assets and Liabilities (Except amounts amortized to FERC Accounts 501, 547, 555 and 565, included in item A. above).
  9. Property Insurance associated with Production Plant
- C. The line of credit costs associated with the hedging program will be included as an element of PSE's cost of capital and will be removed from the Power Cost Rate beginning with the rate effective date of the next GRC.
- D. Both the Colstrip Availability Adjustment and the Price Adjustment for New Resources greater than two years will be removed.
- E. The PCA imbalance calculation will have the following annual Sharing Bands:
1. Annual Dead Band: PSE is fully responsible for costs within \$17 million above the Baseline Costs and will fully receive benefits within \$17 million below Baseline Costs.
  2. The First Sharing Band for:
    - a. Annual Costs in excess of the baseline from \$17 to 40 million (that is, in the customer surcharge direction) will be shared 50% to PSE and 50% to customers
    - b. Annual Benefits where Costs are below the baseline from \$17 to 40 million (that is, in the customer rebate direction) will be shared 35% to PSE and 65% to customers.

3. The Second Sharing Band for annual power costs or benefits in excess of \$40 million above the baseline or lower than \$40 million below the baseline will be shared 10% by PSE & 90% by customers.
4. The Third (former Fourth) Sharing Band is eliminated.<sup>5</sup>
5. The threshold to determine the timing of rate refunds or surcharges is reduced from the existing \$30 million cumulative deferral balance to a cumulative deferral balance of \$20 million.

F. Other Items:

1. PSE's ability to file a PCORC will not change, including the continued use of the PCORC to update Fixed Production Costs referenced in part B above. However, for the five-year moratorium referenced in item 5 below, PSE will agree to a limited stay-out period after the filing of any PCORC. Specifically, PSE will agree not to file a general rate case or PCORC within six months of the date new rates go into effect for any PCORC filing made during that five-year period.
2. The interest rate on deferred customer surcharges or refunds will continue per current policy.
3. The Settling Parties agree to the following changes in exhibits and contents of compliance filings for the PCA and the PCORC to simplify testimony, exhibits and filings.

Exhibit	Description	PCORC/GRC Filing	Annual Filing
A-1	Baseline Rate	Yes	Yes
A-2	Transmission Rate Base	Remove	N/A
A-3	Colstrip Fixed Costs	Remove	N/A
A-4	Power Costs	Remove	N/A
A-5	Production Adjustment	Remove	N/A
B	PCA Imbalance Calculation including Sharing Bands & Interest	N/A	Yes
C	Application of \$40 Million Cap	N/A	Expired
D	Regulatory Assets/Liabilities	Remove	N/A
E	Contract Adjustments	N/A	Removed <sup>6</sup>
F	Colstrip Availability Adjustment	N/A	Remove
G	New Resource Adjustment	N/A	Remove

4. Implementation of changes to the PCA mechanism set forth in this agreement will occur on January 1, 2017. PSE may file, and the Settling Parties agree to support, an accounting petition to request deferral of revenue variances associated with the recovery of Fixed Production Costs to bridge the two month period between implementation of the changes to the PCA mechanism on January 1, 2017 and the start of the rate year for PSE's next general rate case (estimated to be March 1, 2017) where the continuation of the electric decoupling mechanism will be considered.
5. The Settling Parties agree to a five-year moratorium on changes to the PCA mechanism, effective from the start of the modified PCA mechanism, January 1, 2017.

<sup>5</sup> The existing PCA labeled the bands as Deadband and Second, Third and Fourth Sharing Bands. The modifications in this Settlement label the bands as Deadband, First and Second Sharing Bands.

<sup>6</sup> *Washington Utilities & Transportation Commission v. Puget Sound Energy, Inc.*, Docket UE-060266/UG-060267, Order 08, ¶¶ 28-33.

6. The Settling Parties are not bound to any position with respect to the continuation of decoupling or the treatment of Fixed Production Costs within the decoupling mechanism in PSE's next general rate case. However, if the electric decoupling mechanism continues for PSE after the review of decoupling in PSE's next general rate case, the electric decoupling mechanism will include Fixed Production Costs that were formerly tracked in the PCA mechanism and which are identified in item III B above. Nothing in this Settlement binds any party to any position with regard to treatment of costs in an automatic escalation factor mechanism (such as a K-factor) or in a multi-year rate plan.
7. Total PSE Electric costs will be divided, or separately identified, into three categories: 1) Variable Production Costs (tracked through the PCA imbalance calculation), 2) Fixed Production Costs (that will be included in the electric decoupling mechanism if the mechanism continues), and 3) delivery costs (all other costs now included in the decoupling plan).
8. Attachment A hereto provides a Summary of the Power Cost Adjustment Mechanism Settlement Terms, as revised by this Settlement, including examples of the exhibits to be used in future PCA filings.

#### IV. GENERAL PROVISIONS

10        **Entire agreement; no precedent.** This Settlement is the entire agreement of the Settling Parties. Accordingly, the Settling Parties recommend that the Commission adopt and approve the Settlement in its entirety. This Settlement may not be cited as precedent in any proceeding other than a proceeding to enforce the terms of this Settlement. The Settling Parties enter into this Settlement to avoid further expense, uncertainty, and delay and to meet the requirements

from the 2013 PCORC Settlement. By executing this Settlement, no Settling Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed in arriving at the terms of this Settlement, and no Settling Party shall be deemed to have agreed that this Settlement is appropriate for resolving any issues in any other proceeding, except to the extent expressly set forth in this Settlement. No Settling Party shall represent that any of the facts, principles, methods, or theories employed by any Settling Party in arriving at the terms of this Settlement are precedents in any other proceeding, except to the extent expressly set forth in this Settlement.

11           **Manner of execution.** This Settlement is executed when all Settling Parties sign the Settlement. A designated and authorized representative may sign the Settlement on a Settling Party's behalf. The Settling Parties may execute this Settlement in counterparts. If the Settlement is executed in counterparts, all counterparts shall constitute one agreement. A Settlement signed in counterpart and sent by facsimile or emailed as a pdf is as effective as an original document. A faxed or emailed signature page containing the signature of a Settling Party is acceptable as an original signature page signed by that Settling Party. Each Settling Party shall indicate the date of its signature on the signature page. The date of execution of the Settlement will be the latest date indicated on the signature page(s).

12           **Approval process.** Each Settling Party agrees to support the terms and conditions of this Settlement as a settlement of all contested issues between them in the above-captioned consolidated proceedings. Each Settling Party agrees to support the Settlement during the course of whatever procedures the Commission determines are appropriate.

13           **Commission approval with conditions.** In the event the Commission approves this Settlement, but with conditions, the Settling Parties will have ten business days to file a letter

SETTLEMENT STIPULATION  
DOCKETS UE-130583, UE-130617, UE-  
131099 AND UE-131230



with the Commission accepting or rejecting each such condition. If, in such a timely filed letter, a Settling Party rejects a condition, this Settlement is void and the Settling Parties will jointly and promptly request the Commission convene a prehearing conference to address procedural matters, including a procedural schedule for completion of the case.

14           **Publicity.** Each Settling Party has the right to review in advance of publication each announcement or news release another Settling Party intends to issue about this Settlement. This right of advance review includes a reasonable opportunity for the non-issuing Settling Party to request changes to such an announcement. While the issuing Settling Party is not required to make any such requested change, the Settling Parties agree that if a news release or announcement issued by a Settling Party refers to Commission Staff, it shall include a statement that Commission Staff's recommendation to approve this Settlement is not binding on the Commission.

Dated this 27<sup>th</sup> day of March, 2015.

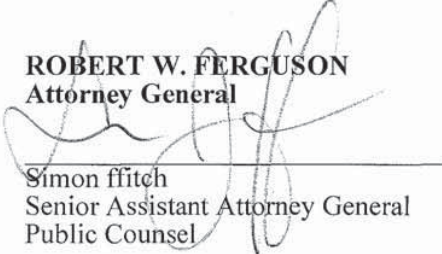
**ROBERT W. FERGUSON**  
Attorney General

**PUGET SOUND ENERGY, INC.**

\_\_\_\_\_  
Sally Brown  
Senior Counsel  
Counsel for Commission Staff

\_\_\_\_\_  
Ken Johnson  
Director, State Regulatory Affairs

**ROBERT W. FERGUSON**  
Attorney General

  
\_\_\_\_\_  
Simon ffitch  
Senior Assistant Attorney General  
Public Counsel

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Dated this 27<sup>th</sup> day of March, 2015.

**ROBERT W. FERGUSON**  
**Attorney General**

  
\_\_\_\_\_  
Sally Brown  
Senior Counsel  
Counsel for Commission Staff

**PUGET SOUND ENERGY, INC.**

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Dated this 27<sup>th</sup> day of March, 2015.

**ROBERT W. FERGUSON**  
Attorney General

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Sally Brown  
Senior Counsel  
Counsel for Commission Staff

**ROBERT W. FERGUSON**  
Attorney General

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Simon ffitc  
Senior Assistant Attorney General  
Public Counsel

**PUGET SOUND ENERGY, INC.**



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Ken Johnson  
Director, State Regulatory Affairs

**Attachment A to  
Settlement Stipulation**

**Effective January 1, 2017**

**SUMMARY OF POWER COST ADJUSTMENT (PCA) MECHANISM  
SETTLEMENT TERMS**

**A. OVERVIEW OF PCA**

1. The PCA is a mechanism that accounts for differences in PSE's modified actual power costs relative to a power cost baseline. This mechanism provides for a sharing of costs and benefits that are graduated over three levels of power cost variances. The factors influencing the variability of power costs included in the mechanism are primarily weather or market related. PSE will be allowed to file for rate increases to implement limited power supply cost increases, discussed later.
2. **Sharing Bands:**
  - a. **Dead Band:** \$17 million (+/-) annually, 100% of costs and benefits to Company.
  - b. **First Sharing Band:** \$17-\$40 million (+/-) annually,
    - i. Costs (under-recovered) will be shared 50% to Company; 50% to Customers.
    - ii. Benefits (over-recovered) will be shared 35% to the Company; 65% to Customers
  - c. **Second Sharing Band:** Over \$40 million (+/-) annually, 10% of costs and benefits to Company; 90% of costs and benefits to Customers.
  - d. **Deferral and Interest:** The customer's share of the power cost variability will be deferred as described below, and the balance will accrue monthly interest at the interest rate calculated in accordance with WAC 480-90-233(4). Amounts will be deferred consistent with recovery under the provisions of Accounting Standards Codification 980.

3. **Timing of surcharges or credits:**

- a. The sharing amounts will be accounted for on an annual basis, with a PCA period of January 1 through December 31 for each year<sup>1</sup>. The surcharging of deferrals can be triggered by the Company when the balance of the deferral account is approximately \$20 million. The Company shall make a filing to refund deferrals when the balance in the deferral account is a credit of \$20 million or more.
- b. To address financial needs and to provide Customers a price signal to reduce energy consumption, a surcharge can be triggered when the Company determines that, for any upcoming 12 month period, the projected increase in the deferral balance for increased power costs will exceed \$20 million. The surcharge will be implemented through a special filing subject to Commission approval detailing the events giving rise to the projected cost variance.
- c. In April of each year, the Company shall file an annual report detailing the power costs included in the deferral calculation, in a form satisfactory to the Commission, for Commission review and approval by September 30 of that year. The Commission shall have an opportunity to review the prudence of the power costs included in the deferred calculation, and costs determined to be imprudent can be disallowed at that time. Staff and other interested parties will have the opportunity to participate in the prudence review process. The Company will also provide the Commission with a quarterly report of the deferral calculation in a form satisfactory to the Commission.
- d. Unless otherwise determined by the Commission, surcharges or credits will be collected or refunded, as the case may be, over a one year period. If for any reason the PCA shall cease to exist, any balances in the deferred accounts not previously reviewed will be reviewed and set for refund or surcharge to customers at that time.

B. **ELEMENTS OF PCA**

4. **Power Cost Baseline Rate:** In order to focus on the component of the Company's rates to be included in a PCA, it is necessary to distinguish between power costs and all other costs in rates. Total PSE costs will be divided, or separately identified, into three categories: 1) Variable Production Costs (tracked through the PCA imbalance calculation), 2) Fixed Production Costs (that will be included in PSE's electric decoupling mechanism if the mechanism continues), and 3) Delivery Costs (currently included in PSE's decoupling plan). The Power Cost Baseline Rate is the combination

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<sup>1</sup> PCA moved to calendar year per docket UE-050870

of Variable Production Costs and Fixed Production Costs. The following table indicates the portion of the Company's rate to be adjusted by the PCA mechanism and in the periodic "Power Cost Only Rate Case" review:

<b>TOTAL REVENUE REQUIREMENT</b>		
<b>Power Cost Baseline Rate (see Exhibit A)</b>		
<b>Variable Production Costs<sup>2</sup></b>	<b>Fixed Production Costs</b>	<b>Delivery Costs</b>
<ul style="list-style-type: none"> <li>•Fuel, FERC accounts 547 and 501;</li> <li>•Purchase &amp; Interchange, FERC account 555;</li> <li>•Purchases/Sales of Non-Core Gas, FERC Account 456.0;</li> <li>•Hedging Gains or Losses on Fuel and Power Purchases and Sales and related Brokerage Fees;</li> <li>•Sales to Others, FERC Account 447;</li> <li>•Wheeling costs, FERC Account 565;</li> <li>•Amortization of Production regulatory assets or liabilities amortized to Accts.: 501, 547, 555 and 565. Inclusion of any other variable regulatory assets or liabilities will be decided in a future GRC or PCORC;</li> <li>•Acct. 408.1—Montana Electric Energy Taxes;</li> <li>•Commission Approved Equity Adder associated with Coal Transition PPA.</li> </ul>	<ul style="list-style-type: none"> <li>•Return on Fixed Production Plant and specific Transmission<sup>3</sup> Assets, at the current authorized net of tax rate of return;</li> <li>•Return on Production-related Regulatory Assets and Liabilities at the current authorized net of tax rate of return;</li> <li>•Depreciation expense for Production Plant and specific Transmission<sup>3</sup> Assets;</li> <li>•Hydro and other Production Plant O&amp;M (including Payroll OH/taxes);</li> <li>•Other Power Supply Expenses, FERC 557 (including Payroll OH/taxes);</li> <li>•Property Insurance associated with Production Plant;</li> <li>•Amortization of Regulatory Assets and Liabilities (Except amounts amortized to Accts.: 501, 547, 555 and 565);</li> <li>•Specific Transmission<sup>3</sup> expense and revenues:               <ol style="list-style-type: none"> <li>1. Transmission Expense—500 kV;</li> <li>2. Acct. 456.1 - Transmission Revenue.</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>•Transmission (other than what has been included in PCA Fixed Production Costs component) Distribution;</li> <li>•All other operating accounts not included in the Power Cost Baseline Rate Variable Production Costs or Fixed Production Costs;</li> <li>•Line of Credit costs associated with Hedging program (included as a cost of capital item in next GRC).</li> </ul>

<sup>2</sup> Modifying the above table due to changes in account numbering by FERC or the addition of new production resources will not be subject to the 5-year moratorium. Inclusion of any other accounts will be decided in a General Rate Case, PCORC, or PCA compliance filing.

<sup>3</sup> Specific Transmission refers to: Colstrip 1&2 line, Colstrip 3&4 line, Third AC, & Northern Intertie.

5. **New Resources:** New resources will be included in the allowable PCA costs. The prudence of new resources with a term less than or equal to two years will be determined in the Commission's review of the annual PCA report. The prudence of new resources with a term greater than two years may be reviewed in a Power Cost Only Rate Case or general rate proceeding.

6. **Power Cost Only Rate Case (PCORC)**

In addition to the yearly adjustment for power cost variances in Variable Production Costs, PSE may file a periodic proceeding that would true up *all power costs* identified in the Power Cost Baseline Rate, as well as allow new resources into the Power Cost Baseline Rate. In either case, the Company would submit a PCORC filing proposing such changes. This filing shall include testimony and exhibits that include the following:

- a. Current or updated integrated resource plan
  - b. Description of the need for additional resources (as applicable)
  - c. Evaluation of alternatives under various scenarios (as applicable)
  - d. Adjustments to the Fixed Production Cost Component
  - e. Adjustments to the Variable Production Cost Component
  - f. A calculation of proforma production cost schedules that are consistent with this docket, including power supply and other adjustments impacting then current production costs.
7. If the Company shall file for a PCORC, and such filing shall result in an increase to general rates then in effect, the Company shall, within three (3) months of the effective date of any rate increase resulting from such PCORC, file a general rate case. Not more than one general rate case filing in any 12 month period shall be required to comply with this requirement. Except for requests for interim rate relief, PSE is prohibited from overlapping PCORC and general rate case filings. Additionally, PSE is limited to filing one power cost update per PCORC, with an additional update allowed as part of the compliance filing if the Commission determines the update is necessary due to increased gas costs and orders that such update be made as part of the compliance filing<sup>4</sup>.

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<sup>4</sup> See Docket UE-072300 (Order 13).

8. One objective of a new resource proceeding is to have the new Power Cost Baseline Rate in effect by the time the new resource would go into service. Upon receipt of a filing, hearings would be scheduled to review the appropriateness of adjusting the Power Cost Baseline Rate. These hearings would consider only power supply costs included within the Power Cost Baseline Rate. It is contemplated that this review would be completed within five months.<sup>5</sup> Data request response time during the review period will be five days.<sup>6</sup> Within 30 days following the five month review, the Commission would issue an order determining the appropriateness of all power costs included in the Power Cost Baseline Rate and the prudence of any new resource (with a term greater than two years) acquisition.

**C. PCA MECHANISM (PROCEDURES)**

9. Exhibit A-1 details an example of PSE's presentation of the power costs, on a test year level (as defined in the revenue requirement settlement in Docket No. UE-141141) identified in the Total Revenue Requirement Table. The purpose of this exhibit is to calculate the Power Cost Baseline Rate which is defined as the sum of both the Variable Production Costs and Fixed Production Costs, divided by the test year delivered load (MWh).
10. Exhibit B, which is based on the Company's presentation of test year costs, is an explanation and example of the calculation used to determine the amount of power cost that will be subject to the sharing mechanism. This exhibit calculates the amount subject to sharing by subtracting the Baseline Variable Production Costs from the allowed total Variable Production Costs for the PCA period. Baseline Variable Production Costs are defined as the Variable Production Cost component of the Power Cost Baseline Rate multiplied by the actual delivered load in the PCA period.
11. **Adjustments of Costs Outside of the PCA Period:** Power cost adjustments or true-ups for prior periods that fall within the PCA period are included as recoverable power costs through the Variable Production Costs component.
  - a. **Adjustments for Previous PCA Periods:**
    - i. Adjustments for previous PCA period(s) that are equal to or less than \$1 million (debit or credit) will flow through the current months PCA calculation.
    - ii. Adjustments or true-ups greater than \$1 million (debit or credit) that relate to prior PCA period(s) will flow through a recalculation of the previous PCA period(s) for regulatory purposes. Any changes to the customer deferrals from

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<sup>5</sup> See Docket UE-072300 (Order 13).

<sup>6</sup> See Docket UE-072300 (Order 13).



the prior PCA period(s) will be indicated in a reconciliation schedule for deferrals by PCA period(s).

b. Exceptions to Adjustments for Previous Periods:

- i. *Company Accounting Errors:* If an error has been made in regard to accounting for power cost transactions, except for Colstrip fuel costs and to the extent that the Company should have known at the time of the transaction, the Company will reflect the appropriate adjustment to the PCA period(s) and adjust the deferral for the PCA period(s) accordingly.
- ii. *Mid-Columbia Power Costs:* Since it is difficult to determine the months impacted by any annual true-ups under PSE's Mid-Columbia contracts, any annual true-ups for PSE's costs under its Mid-Columbia contracts will be considered a Variable Production Cost and included in the same PCA period(s) for which they are booked to power costs.
- iii. *Colstrip Fuel Costs:* Any adjustments, true-ups, or corrections made for Colstrip inventory valuation for prior period will be considered a Variable Production Cost and included in the same PCA period(s) for which they are booked to power costs.

c. Adjustments for Costs Recorded after Termination of PCA Mechanism: Power cost adjustments posted in the month following the termination of the PCA Mechanism relating to the PCA period(s) will be included in power costs for the month of the final PCA calculation and the deferral will be adjusted subject to the exceptions in item B.

12. Unless otherwise ordered by the Commission, changes in rates attributable to PCA adjustments shall be charged on a cents/kWh basis, and changes in rates attributable to adjustments to the power costs as a result of a PCORC shall be charged based upon the Company's most recent approved Cost-of-Service methodology as agreed to in Docket UE-141368 or as subsequently modified pursuant to that agreement. No party is deemed to have approved or accepted these methodologies for any other purpose or precedent. Wholesale customers will be allocated power costs and power revenues at the end of a PCA year in the same relationship as done in the rate allocation from the Company's most recent approved Cost-of-Service methodology proceeding as agreed to in Docket UE-141368 or subsequently modified pursuant to that agreement.

**D. DECOUPLING**

13. Parties are not bound to any position with respect to the continuation of decoupling or the treatment of fixed production costs within the decoupling mechanism in PSE's next general rate case. However, if the electric decoupling mechanism continues for PSE after the review of decoupling in PSE's next general rate case, the electric

decoupling mechanism will include the Fixed Production Costs as defined in Section B above that were formerly tracked in the PCA imbalance calculation. Nothing in this agreement binds any party to any position with regard to treatment of costs in an automatic escalation factor mechanism (such as a K-factor) or in a multiyear rate plan.

**E. TEMPORARY PROVISIONS**

14. The parties agree to a five-year moratorium for changes to the PCA mechanism, from the implementation date of this agreement, January 1, 2017.
15. PSE's ability to file a PCORC will not change, including the continued use of the PCORC to update Fixed Production Costs referenced in Section C above. However, for the five year moratorium, PSE will agree to a limited stay-out period after the filing of any PCORC during that five-year period. Specifically, PSE agrees to not file a general rate case or a PCORC within six months of the date new rates go into effect for any PCORC filing. Additionally, the requirement to file a general rate case within 3 months of the completion of a PCORC, as outlined in Section 7 is suspended during this five-year moratorium.

**Exhibit A-1 Power Cost Baseline Rate  
2014 PCORC**

Row		Test Year		Production		
3	Regulatory Assets (1) (Variable)	\$ 265,497,445		Factor		
4	Transmission Rate Base (Fixed)	91,215,648		0.99019		
5	Production Rate Base (Fixed)	2,127,242,636				
6		\$ 2,483,955,728				
7	Net of tax rate of return	6.69%				
8						
9			Test Yr			
9A			\$/MWh			
10	Regulatory Asset Recovery (on Row 3)	\$ 27,325,814	(I)	F	(II)	(III)
10a	Equity Adder Centralia Coal Transition PPA	2,326,384	\$ 0.110	V	-	2,326,384
11	Fixed Asset Recovery Other (on Row 4)	9,388,195	\$ 0.445	F	9,388,195	-
12	Fixed Asset Recovery-Prod Factored (on Row 4)	218,942,357	\$ 10.379	F	218,942,357	-
13	501-Steam Fuel	95,694,641	\$ 4.536	V	-	95,694,641
14	555-Purchased power	400,022,510	\$ 18.963	V	-	400,022,510
15	557-Other Power Exp	6,286,927	\$ 0.298	F	6,286,927	-
15a	Payroll Overheads - Benefits	7,402,047	\$ 0.351	F	7,402,047	-
15b	Property Insurance	2,692,723	\$ 0.128	F	2,692,723	-
15c	Montana Electric Energy Tax	1,732,920	\$ 0.082	V	-	1,732,920
15d	Payroll Taxes on Production Wages	1,955,229	\$ 0.093	F	1,955,229	-
15e	Brokerage Fees	236,520	\$ 0.011	V	-	236,520
16	547-Fuel	165,904,888	\$ 7.865	V	-	165,904,888
17	565-Wheeling	109,546,034	\$ 5.193	V	-	109,546,034
18	Variable Transmission Income	(6,685,935)	\$ (0.317)	F	(6,685,935)	-
19	Production O&M	116,299,220	\$ 5.513	F	116,299,220	-
19a	Colstrip - Major Maint. Amort	1,320,253	\$ 0.063	F	1,320,253	-
20	447-Sales to Others	(29,085,181)	\$ (1.379)	V	-	(29,085,181)
21	456-Purch/Sales Non-Core Gas	(5,342,456)	\$ (0.253)	V	-	(5,342,456)
22	Transmission Exp - 500KV	926,060	\$ 0.044	F	926,060	-
23	Depreciation-Production (FERC 403)	111,561,172	\$ 5.288	F	111,561,172	-
24	Depreciation-Transmission	4,204,776	\$ 0.199	F	4,204,776	-
25	Amortization - Regulatory Assets Fixed	18,713,824	\$ 0.887	F	18,713,824	-
26	Hedging Line of Credit	526,847	\$ 0.025	F	526,847	-
27	Subtotal & Baseline Rate	\$ 1,261,895,770	\$ 59.819		\$ 520,859,510	\$ 741,036,260
28	Revenue Sensitive Items	0.9543790				
29		\$ 1,322,216,614				
30	Test Year DELIVERED Load (MWh's)	21,095,348				<-- includes Firm Wholesale
31						
32			Before Rev.		After Rev.	
33			Sensitive Items		Sensitive Items	
34			Rev Req (Column (I))			
35	Power Cost Baseline Rate	\$ 59.819	\$ 62.678			
36	Fixed Production Costs	\$ 24.691	\$ 23.922	Sum of F		
37	Variable Production Costs	\$ 35.128	\$ 38.756	Sum of V		
38	Power Cost Baseline Rate	\$ 59.819	\$ 62.678			

## Exhibit B: Power Costs Subject to PCA Sharing

Row	Variable Rate Component	FERC a/c	Example Using 2014 PCORC	Source
1	Steam Operating Fuel	501	96,642,706	SAP Actuals
2	Other Power Generation Fuel	547	167,548,539	SAP Actuals
3	Purchase & Interchange	555	403,985,609	SAP Actuals
4	Purchases/Sales of Non-Core Gas	456.0XXXX	(5,395,385)	SAP Actuals
5	Brokerage Fees	55700003	238,863	SAP Actuals
6	Sales to Others	447	(29,373,333)	SAP Actuals
7	Wheeling	565	110,631,328	SAP Actuals
8	Centralia Equity Adder	n/a	2,349,432	Centralia PPA Actual MWhs * \$1.49
9	Montana Electric Energy Taxes	408.1	1,750,088	SAP Actuals
10	Total Variable Rate Component		<u>748,377,847</u>	
11				
12				
13	PCA Delivered Load (MWh)		21,304,344	Actual Delivered Electric Load (GPI net of losses)
14	Power Cost Baseline Rate for Variable Production Costs		\$ 35.12795	Per Exhibit A-1
15	Baseline Power Cost		<u>\$ 748,377,917</u>	
16				
17	Imbalance for Sharing: (Over) / Under Recovery		<u>\$ (70)</u>	
18				
19				
20				
21	First Band - Deadband	(Over)/Under	\$ 17,000,000	100%
22	2nd Band = next	(Over)/Under	\$ 23,000,000	50%
23	3rd Band = over	(Over)/Under	\$ 40,000,000	10% 90%
24	Total Company Share		<u>\$ (70)</u>	
25	Total Customer Share		<u>\$ -</u>	

**Revised**  
**April 28, 2015**