BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of) DOCKET UE-121373
PUGET SOUND ENERGY, INC.,)
For Approval of a Power Purchase Agreement for Acquisition of Coal Transition Power, as Defined in RCW 80.80.010, and the Recovery of Related Acquisition Costs)) ORDER 07) REJECTING MULTIPARTY) SETTLEMENT))
In the Matter of the Petition of PUGET SOUND ENERGY, INC., and NW ENERGY COALITION) DOCKETS UE-121697 and) UG-121705
For an Order Authorizing PSE To Implement Electric and Natural Gas Decoupling Mechanisms and To Record Accounting Entries Associated With the Mechanisms)) ORDER 06) REJECTING MULTIPARTY) SETTLEMENT)
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,)) DOCKETS UE-130137 and) UG-130138)
Complainant, v. PUGET SOUND ENERGY, INC.,) ORDER 06) REJECTING MULTIPARTY) SETTLEMENT)
Respondent.)))

SUMMARY

This Order concerns five dockets and two separate adjudicative proceedings pending before the Washington Utilities and Transportation Commission (Commission).

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- Docket UE-121373 is PSE's Petition for Approval of a Power Purchase Agreement for Acquisition of Coal Transition Power, as Defined in RCW 80.80.010, and the Recovery of Related Acquisition Costs. This matter, referred to as the "Coal Transition PPA" docket, was resolved by the Commission's Order 03-Final Order Granting Petition Subject to Conditions on January 9, 2013. PSE filed a Petition for Reconsideration [of Order 03] and Motion to Reopen the Record on January 22, 2013. The petition and motion are pending.
- The other dockets are Dockets UE-121697 and UG-121705 (consolidated), and Dockets UE-130137 and UG-130138 (consolidated). These dockets, referred to respectively as the "Decoupling" dockets and "ERF" dockets, involve interrelated matters concerning PSE's rates and were considered in joint hearing proceedings on March 16, 2013. The parties filed briefs on March 30, 2013.
- Docket UE-121373 is related to the other dockets only by virtue of a "Multiparty Settlement Re: Coal Transition Power Purchase Agreement and Other Pending Dockets," filed on March 22, 2013, by Commission Regulatory Staff (Commission Staff or Staff),¹ on its own behalf and on behalf of PSE and the Northwest Energy Coalition (NWEC). The legal propriety of this settlement agreement is the subject of this Order.

PROCEEDINGS

Docket UE-121373: On August 20, 2012, PSE filed with the Commission a Petition for Approval of a Power Purchase Agreement for Acquisition of Cost Transition Power, as Defined in RCW 80.80.010, and the Recovery of Related Acquisition Costs (PPA Docket). The Commission conducted adjudicatory proceedings under RCW

¹ In formal proceedings, such as these, 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.

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Chapter 34.05, the Administrative Procedure Act, as required by RCW 80.04.570. The Commission entered its Final Order, Order 03, on January 9, 2013, granting PSE's petition for approval of the subject power purchase agreement subject to a reporting requirement. This closed the record in Docket UE-121373, subject only to a petition for reconsideration or a motion to reopen the record.²

- PSE filed its Petition for Reconsideration and Motion to Reopen the Record in this proceeding on January 23, 2013. The Commission, following continuances requested by Staff and supported by PSE, set May 30, 2013, as the date for any Responses to PSE's petition and motion. The Public Counsel Section of the Washington Office of Attorney General (Public Counsel) and the Industrial Customers of Northwest Utilities (ICNU) filed responses opposing PSE's petition and motion. They state their opposition on the merits as well as their opposition to the Multiparty Settlement by which means PSE, NWEC and Staff propose to resolve the matter.³
- Staff and NWEC also filed responses. These parties argue that the positions they have adopted in Docket UE-121373 via the Multiparty Settlement Agreement should be approved by the Commission in full resolution of the issues raised by PSE's Petition for Reconsideration and Motion to Reopen the Record.
- Dockets UE-121697 and UG-121705: PSE and the NWEC filed a petition on October 25, 2012, seeking approval of electric and a natural gas decoupling mechanisms and authority to record accounting entries associated with the mechanisms. After the petition and supporting testimony were filed, the Commission held two technical conferences to allow interested stakeholders to further discuss the proposed decoupling mechanisms and to propose variations to the proposed mechanisms. PSE agreed to cooperate with interested stakeholders by responding to

² See RCW 34.05.476(2) (identifying contents of the official agency record).

³ The Energy Project and the Northwest Industrial Gas Users, who are not parties to Docket UE-121373, signed the Multiparty Settlement but make clear that their only interest is in the Decoupling and ERF dockets. Indeed, they specifically disavow having any interest in the Coal Transition PPA docket. *See* Exhibit No CME-3T at 2:13-16 (Ebert) and Exhibit No. EAF-4T at 4:6-14 (Finklea).

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their inquiries seeking additional information about the decoupling proposal. PSE and NWEC, taking this process into account, reached agreement on certain modifications to the decoupling mechanisms and filed on March 1, 2013, an amended petition and testimony in support of these modifications to the original decoupling proposal. The amended petition also includes a proposed rate plan that provides for fixed annual increases in PSE's general rates over a several year period. Commission Staff or Staff filed testimony in support of the revised proposal on March 4, 2013.

- The Commission placed these dockets on the agenda for its regular open meeting on March 14, 2013, and set these dockets for hearing. Staff supports the PSE/NWEC amended petition for decoupling and a rate plan, both independently on its merits and as a part of the Multiparty Settlement Agreement. The Northwest Industrial Gas Users (NWIGU) "support" the amended petition and rate plan to the extent PSE granted exceptions to the application of decoupling and the rate plan favorable to the organization's interests in order to gain NWIGU's support for the Multiparty Settlement. The Energy Project "supports" the amended petition and rate plan in exchange for a commitment by PSE as part of the Multiparty Settlement to increased funding for the Company's low income customers. Public Counsel, ICNU, Kroger⁴ and Nucor Steel⁵ oppose the amended petition.
- Dockets UE-130137 and UG-130138: On February 1, 2013, PSE filed with the Commission certain tariff revisions designed to increase rates for electrical and natural gas services provided to customers in Washington. PSE describes the filing as an update to its electric and natural gas rates consistent with the expedited filing method proposed by the Commission Staff in PSE's 2011-2012 general rate case, Dockets UE-111048 and UG-111049 (consolidated). The tariff revisions, if allowed to become effective, would increase rates to recover additional revenues of

⁴ Kroger Co., on behalf of its Fred Meyer Stores and Quality Food Centers divisions.

⁵ Nucor Steel of Seattle, Inc.

⁶ This filing does not meet the criteria defining a "general rate case" in WAC 480-07-505(1). PSE refers to the filing as an Expedited Rate Filing (ERF) and we adopt this lexicon and acronym for purposes of this Order.

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approximately 1.6 percent for electrical services and decrease rates by approximately 0.1 percent for natural gas services.

The Commission suspended operation of the as-filed tariffs by Order 01, entered in these dockets on March 14, 2013. ICNU opposes the ERF. Public Counsel would accept it, subject to certain conditions. NWEC, the Energy Project and NWIGU nominally support the ERF via their support for the Multiparty Settlement Agreement. Kroger and Nucor Steel take no active position on the ERF, either in support of, or in opposition to, it.

PARTY REPRESENTATIVES

- Dockets UE-121373, UE-121697 and UG-121705 (consolidated), and UE-130137 and UG-130138 (consolidated): Sheree Strom Carson, Jason Kuzma and Donna Barnett, Perkins Coie, Bellevue, Washington, represent PSE in each of these five dockets. Simon ffitch, Senior Assistant Attorney General, Seattle, Washington, represents the Public Counsel Section of the Washington Office of Attorney General (Public Counsel) in these dockets. Sally Brown, Senior Assistant Attorney General and Greg Trautman, Assistant Attorney General, Olympia, Washington, represent the Staff. Melinda Davison and Joshua Weber, Davison Van Cleve, Portland, Oregon, represent ICNU in these proceedings.
- Dockets UE-121697and UG-121705 (consolidated), and UE-130137 and UG-130138 (consolidated): Chad M. Stokes and Tommy Brooks, Cable Huston Benedict Haagensen & Lloyd LLP, Portland, Oregon, represent NWIGU. Kurt J. Boehm and Jody Kyler, Boehm, Kurtz & Lowry, Cincinnati, Ohio, represent the Kroger in the Decoupling and ERF Dockets. Damon E. Xenopoulos and Shaun Mohler, Brickfield, Burchette, Ritts & Stone, P.C., Washington, D.C., represent Nucor Steel. Norman Furuta, Associate Counsel, Department of the Navy, San Francisco, California, represents the Federal Executive Agencies (FEA). Ronald L. Roseman, Attorney, Seattle, Washington, represents the Energy Project.

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Dockets UE-121697and UG-121705 (consolidated): Amanda Goodin, Earthjustice, Seattle, Washington, represents NWEC in Dockets UE-121697 and UG-121705, and in the other dockets to the extent of the Multiparty Settlement Agreement, in which NWEC joins as a signatory party. ⁷

MEMORANDUM

I. Multiparty Settlement

Docket UE-121373 was resolved by a Commission Final Order on January 9, 2013. PSE filed its Petition for Reconsideration and Motion to Reopen the Record on January 22, 2013. At the instance of Staff, with support from PSE and NWEC, the Commission continued the filing date for responses to PSE's petition and motion several times and ultimately gave notice of its intention to act on PSE's Petition for Reconsideration and Motion to Reopen the Record by June 28, 2013. This delay resulted from these three parties' efforts to negotiate among themselves what they refer to as a "global resolution" of three significant matters:

In the Matter of the Petition of Puget Sound Energy, Inc. for Approval of a Power Purchase Agreement for Acquisition of Coal Transition Power, as Defined in RCW 80.80.010, and the Recovery of Related Acquisition Costs, Docket UE-121373 (Coal Transition PPA).

In the Matter of the Petition of Puget Sound Energy, Inc. and NW Energy Coalition For an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanisms and to Record Accounting

⁷ NWEC is a party to Docket UE-121373 in which it participates *pro se*, represented by Nancy Hirsh, NWEC Policy Director and Danielle Dixon, NWEC Senior Policy Analyst.

⁸ In the Matter of the Petition of Puget Sound Energy, Inc., for Approval of a Power Purchase Agreement for Acquisition of Coal Transition Power, as Defined in RCW 80.80.010, and the Recovery of Related Acquisition Costs, Docket UE-121373, Order 03 – Final Order Granting Petition Subject to Conditions (January 9, 2013).

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Entries Associated with the Mechanisms, Dockets UE-121697 and UG-121705 (Decoupling).

WUTC v. Puget Sound Energy, Inc., Dockets UE-130137 and UG-130138 (Expedited Rate Filing (ERF)).

- These settlement negotiations, however, did not include Public Counsel, a statutory party in all the listed dockets, ICNU, an intervenor in all these dockets, or numerous other stakeholders who are not parties to this docket but are known to be interested in Decoupling and the ERF.⁹
- PSE, NWEC and Staff filed their "Multiparty Settlement Re: Coal Transition Power Purchase Agreement and Other Pending Dockets" on March 22, 2013. The "other pending dockets" to which the settlement caption refers are the Decoupling dockets, UE-121697 and UG-121705 (consolidated) and the ERF dockets UE-130137 and UG-130138 (consolidated). PSE, NWEC and Staff essentially presented the other parties

⁹ Among these stakeholders are the Energy Project, representing the interests of thousands of low-income customers in PSE's service territory, the Kroger Co., on behalf of its Fred Meyer Stores and Quality Food Centers divisions, Nucor Steel of Seattle, Inc., the Federal Executive Agencies, the Industrial Customers of Northwest Utilities whose members include companies such as Microsoft Corporation, Boeing and Weyerhaeuser that operate 140 facilities and employ more than 170,000 employees in Washington and Oregon, and the Northwest Industrial Gas Users whose member companies reflect diverse business interests such as food processing, pulp and paper, wood products, steel, chemicals, electronics, aluminum, aerospace, hospitals, electric generation and others. These stakeholders regularly participate as parties in PSE's rate cases and in other significant proceedings before the Commission. Some of them expressly made their interests in these pending dockets known to PSE and the Commission. Yet, none of them were informed of the ongoing settlement discussions among PSE, NWEC and Staff until these three participants had reached agreements in principle concerning the highly significant matters under consideration in the five dockets implicated by the Multiparty Settlement. The Commission made efforts to have all interested stakeholders participate in meaningful settlement negotiations, even assigning a Settlement Judge who conducted a mediation session that did not result in any agreement among the parties. The settling parties apparently, albeit belatedly, engaged with the Energy Project and NWIGU, offered them satisfactory concessions relative to their interests in the Decoupling and ERF matters, and gained their support for the Multiparty Settlement just before the evidentiary hearing in the Decoupling and ERF dockets on May 16, 2013.

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and stakeholders with a *fait accompli*. PSE made minor concessions to the Energy Project and NWIGU just prior to the evidentiary hearing in the ERF and Decoupling dockets and gained their nominal support for the Multiparty Settlement. These parties, however, have expressed no interest in the Coal Transition PPA docket and have limited, very specific interests in the ERF and Decoupling dockets. In any event, Public Counsel and ICNU contest PSE's arguments in its Petition for Reconsideration and Motion to Reopen the Record in the Coal Transition PPA docket, oppose granting much or all of the relief PSE seeks via the ERF and Decoupling proceedings, and propose alternative outcomes on a number of contested issues if the ERF and Decoupling dockets are approved. This means that the issues in all these cases must be resolved as contested matters on the bases of the records in the various proceedings.

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We place high value on PSE following through on its commitments under the Coal Transition PPA so that the legislature's goals and those of the Governor's office will be met. Indeed, we place such value on seeing PSE go forward with the transaction that we confirmed at hearing, in colloquy with Mr. Johnson and PSE's counsel concerning possible outcomes, that the Company will do so if it achieves on the merits its substantive goals in the Decoupling and ERF dockets, and is granted partial reconsideration in this proceeding, again on the merits and without regard to the Multiparty Settlement.

 $^{^{10}}$ We note in this connection the rebuttal testimony by PSE witness Mr. Kenneth S. Johnson, the Company's Director of Rates and Regulatory Affairs. Exhibit No. KSJ-1T. Mr. Johnson discusses the Multiparty Settlement as essentially an all-or-nothing, take-it-or-leave- it proposal that the Commission should approve because this is the only thing that will prevent PSE from walking away from the Coal Transition PPA: "One unfortunate consequence of the failure of the Multiparty Settlement would be PSE's rejection of the Coal Transition PPA at issue in Docket UE-121373." Id. at 12:2-4. Mr. Johnson's testimony unfortunately fails to recognize the Commission's statutory obligation to reach its decisions at all stages of its adjudicatory proceedings based exclusively on the record in the proceeding, the law as written, and established policy as embodied in the law. At the hearing, Mr. Johnson backed off from the threat that PSE will walk away from the Coal Transition PPA if the Company does not get exactly what it proposed via its Decoupling petition and ERF, as reflected in the Multiparty Settlement. See TR. 125:11-126:8; 127:11-129:2. This was wise given that the Commission decision approving the Coal Transition PPA expressly found that the PPA was prudent. PSE went to great lengths to convince us, and demonstrated by substantial evidence, that the combined acquisition of Ferndale and entry into the Coal Transition PPA is the least cost mix that meets the Company's capacity requirements identified in the 2010-2011 IRP and RFP processes. What PSE threatened in the wake of Order 03 would be inconsistent with the Company's legal obligation to "meet its system demand with a least cost mix of energy supply resources and conservation."

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The Commission's procedural rules distinguish a Multiparty Settlement from a "Full Settlement" and a "Partial Settlement." A Full Settlement involves all parties proposing resolutions of all issues in a proceeding. A Partial Settlement involves all parties proposing resolutions to some, but not all of the contested issues. These forms of settlement thus require the Commission to evaluate uncontested issues. So long as the resolutions proposed are supported by substantial competent evidence, developed through the processes provided under WAC 480-07-740(2)(a) and (b) or otherwise in the record, they may be lawfully approved.

19 A Multiparty Settlement, in contrast, is:

An agreement of some, but not all, parties on one or more issues may be offered as their position in the proceeding along with the evidence that they believe supports it. Nonsettling parties may offer evidence and argument in opposition.¹³

WAC 480-07-740(2)(c) expressly preserves the rights of parties who do not support the outcome the settling parties propose via their agreement to Commission determinations of the contested issues on their merits:

Rights of opponents of a proposed settlement. Parties opposed to the commission's adoption of a proposed settlement retain the following rights: The right to cross-examine witnesses supporting the proposal; the right to present evidence opposing the proposal; the right to present argument in opposition to the proposal; and the right to present evidence or, in the commission's discretion, an offer of proof, in support of the opposing party's preferred result. The presiding officer

¹² WAC 480-07-730(2).

¹¹ WAC 480-07-730(1).

¹³ WAC 480-07-730(3).

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may allow discovery on the proposed settlement in the presiding officer's discretion.

Thus, in the case of a Multiparty Settlement, the Commission weighs the evidence offered in support of the common positions advocated by the settling parties against the evidence opposing the results advocated by the settling parties, and evidence offered by non-settling parties in support of the alternative results that they advocate. Each contested issue is decided on its merits considering the full record.

The Administrative Procedure Act requires that "the agency record constitutes the exclusive basis for agency action in adjudicative proceedings under this chapter and for judicial review of adjudicative proceedings." Commission orders must contain statements of findings and conclusions on "all material issues of fact, law, or discretion presented on the record . . . [and] findings of fact shall be based exclusively on the evidence of record in the adjudicative proceeding" The existence of a record in any given docket cannot serve as the basis for decisions in another docket unless there is a joint or consolidated record.

PSE, however, offers in the Multiparty Settlement to abandon certain of the arguments in its petition for reconsideration in Docket UE-121373 in exchange for the Commission granting its motion to reopen the record, granting other relief requested in its petition for reconsideration and approving PSE's Decoupling petition and ERF tariffs without modification. That is, PSE and the other settling parties would have the Commission make determinations in each of the respective dockets based, in significant part, on the records developed in the other dockets. This, we cannot legally do.

¹⁴ RCW 34.05.476(3). There are some limited exceptions, not relevant here.

¹⁵ RCW 34.05.461(3)-(4).

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- There is a joint record in the Decoupling and ERF dockets. These dockets were conducted as joint proceedings from the time they were first set for hearing on March 22, 2013. The Commission conducted a duly noticed joint evidentiary hearing and a joint public comment hearing in these four dockets on May 16, 2013.
- The Commission conducted no joint proceedings including all five dockets with the exception of a prehearing conference on March 22, 2103. By the time of the prehearing conference, the Coal Transition PPA evidentiary record was long closed and the Commission had entered its Final Order. No party filed a motion in the Decoupling or ERF dockets asking the Commission to adopt by reference the record of Docket UE-121373 (Coal Transition PPA). Likewise, no party filed a motion to reopen the record in Docket UE-121373 to receive into evidence the joint record developed in the Decoupling and ERF dockets. Finally, no party filed a motion requesting the Commission to consolidate the five dockets. There simply is no joint

¹⁶ Following the prehearing conference, the Commission entered two separate orders establishing a common procedural schedule for consideration of PSE's Decoupling petition and ERF tariffs. *In the Matter of the Petition of Puget Sound Energy, Inc. and NW Energy Coalition For an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanisms and to Record Accounting Entries Associated with the Mechanisms, Dockets UE-121697 and UG-121705, Order 02-Prehearing Conference Order (March 22, 2013); WUTC v. Puget Sound Energy, Inc., Dockets UE-130137 and UG-130138, Order 02-Prehearing Conference Order (March 22, 2013). This schedule gave parties opportunities for discovery and to pre-file testimony and exhibits. The Commission gave notice of a hearing date, and a date for public comment. The prehearing orders in the Decoupling and ERF dockets set a date for each party to address both matters in a single post-hearing brief. The Commission entered a third order in the Coal Transition PPA docket establishing a procedural schedule providing dates for responses to PSE's Petition for Reconsideration and Motion to Reopen the Record in Docket UE-121373, and announcing the date by which the Commission would act on the petition for reconsideration. <i>In the Matter of the Petition of Puget Sound Energy, Inc., for Approval of a Power Purchase Agreement for*

Acquisition of Coal Transition Power, as Defined in RCW 80.80.010, and the Recovery of Related Acquisition Costs, Docket UE-121373, Order 06-Continuing the Deadline Date for Parties to File Answers to Puget Sound Energy's Petition for Reconsideration and Motion to

Reopen the Record and Revised Notice Of Intention To Act (March 22, 2013)

¹⁷ Even if the Commission had been presented with such a motion, however, it seems doubtful that it could have been approved. WAC 480-07-320 provides that: "The commission, in its discretion, may consolidate two or more proceedings in which the facts or principles of law are

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or consolidated record that encompasses both the Coal Transition PPA docket and the other dockets.

Despite this, the settling parties propose that the resolution of the issues pending on PSE's Petition for Reconsideration and Motion to Reopen the Record in the Coal Transition PPA docket should be tied to, and depend on, the resolution of issues in the Decoupling and ERF dockets, which by law must depend on the joint record in those proceedings. In like manner, the settling parties propose that PSE's agreement to withdraw its arguments with respect to one issue as to which it seeks reconsideration in the Coal Transition PPA docket should be viewed as a basis for Commission approval of PSE's amended Decoupling petition and ERF Tariff. The Commission cannot legally rely on facts of record in one docket to support its determination of unrelated issues in another docket. Every adjudicatory proceeding must be resolved exclusively on the basis of its own record. The Commission accordingly concludes that it cannot legally approve and adopt the Multiparty Settlement.

Rather, we find that it is appropriate to evaluate the individual outcomes proposed by the Multiparty Settlement only to the extent the various positions are supported by an appropriate record in the proceedings to which they pertain, and on an equal basis with the alternative outcomes urged by other parties. The Commission ultimately must decide each issue in the three matters encompassed by these five dockets based

related." There are no related facts or principles of law that even arguably provide a basis for consolidating Docket UE-121373 with the other dockets.

¹⁸ We note this conclusion of law would apply with equal force even if the issues decided on separate records in the two dockets were related. We find inapposite the cases cited by PSE and Staff in support of their arguments that approval of the Multiparty Settlement would be legal and consistent with prior decisions. The cases on which PSE and Staff rely both involved extensive joint proceedings in which the records concerning all matters were considered during the settlement hearing process. *See WUTC v. Puget Sound Energy, Inc.*, Dockets UE-011570 and UG-011571 9th Supp. Order (March 28, 2002). *See also In the Matter of the Application of GTE Corp. and Bell Atlantic Corp.*, Docket UT-981367, 4th Supp. Order (Dec. 1999); *WUTC v. GTE Northwest Inc.*, Docket UT-990672, 4th Supp. Order (Dec. 1999); *Informal Staff Investigation of GTE Northwest's Earnings and Revenue*, Docket UT-991164 (Dec. 1999).

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exclusively on the evidence in their separate records considered in light of the parties' advocacy in these separate proceedings. This we do by separate orders entered simultaneously with this Order.

ORDER

THE COMMISSION ORDERS THAT:

- 27 (1) The Multiparty Settlement Re: Coal Transition Power Purchase Agreement and Other Pending Dockets is rejected.
- 28 (2) The Commission retains jurisdiction to effectuate the terms of this Final Order.

Dated at Olympia, Washington, and effective June 25, 2013.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

PHILIP B. JONES, Commissioner

JEFFREY D. GOLTZ, 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.