

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

DOCKETS UE-180899 and
UG-180900 (*Consolidated*)

JOINT NARRATIVE IN SUPPORT
OF SETTLEMENT STIPULATION
AND AGREEMENT

I. INTRODUCTION

1 This Joint Narrative in Support of Settlement Stipulation and Agreement (“Narrative”) is submitted in accordance with WAC 480-07-740 by (i) Puget Sound Energy (“PSE”), (ii) the regulatory staff of the Washington Utilities and Transportation Commission (“Commission Staff”),¹ (iii) the Alliance of Western Energy Consumers, (iv) The Public Counsel Unit of the Washington State Office of the Attorney General (“Public Counsel”), (v) The Energy Project, (vi) the Federal Executive Agencies, and (vii) Nucor Steel Seattle, Inc. (collectively, “Settling Parties” and individually, “Settling Party”).

2 This Narrative summarizes and supports the Settlement Stipulation and Agreement (“Settlement”). Statements filed by each Settling Party further support the Settlement. This Narrative and each Settling Party’s statement do not modify any terms of the Settlement.

¹ 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.

II. SCOPE OF THE PROCEEDING

3 These dockets concern an expedited rate filing (“ERF”) made by PSE for limited rate relief. On December 5, 2017, the Washington Utilities and Transportation Commission (“Commission”) issued Final Order 08 in Dockets UE-170033 and UG-170034 (“2017 GRC”), which approved a Multiparty Settlement Stipulation and Agreement (“2017 Multiparty Settlement”). The 2017 Multiparty Settlement, to which Public Counsel was not a party, provided that PSE could, within one year of the date of the Commission’s final order, file an ERF for limited rate relief that did not exceed a 3 percent increase for any customer class. It required PSE to base the ERF on Commission Basis Reports and limited the adjustments PSE could permissibly make to restating adjustments, the use of end-of-period accounting, and annualizing adjustments necessary to appropriately match revenue and expenses in the test year results. The 2017 Multiparty Settlement forbade PSE from including in the ERF adjustments due to changes to power costs, purchased gas, the gas pipeline cost recovery mechanism, capital structure, return on equity, rate spread, or rate design.² Parties to the 2017 Multiparty Settlement also agreed to support, or not oppose, a schedule that would allow rates to take effect within 120 calendar days after filing.

4 On November 7, 2018, PSE filed with the Commission tariff revisions to increase rates for its electric and natural gas services via this ERF. Along with the tariff revisions, PSE submitted supporting prefiled direct testimony and exhibits from several witnesses. If allowed to become effective, the tariff revisions would have increased electric base rates by approximately \$18.9 million (0.9 percent) on an annual basis and increased natural gas base rates by approximately \$21.7 million (2.9 percent) on an annual basis.

² See Exhibit I to the Multiparty Settlement Stipulation and Agreement, Dockets UE-170033 and UG-170034.

5 On November 15, 2018, the Commission suspended the operation of the as-filed
tariffs, consolidated the dockets, and set the matters for hearing in Order 01. The
Commission convened a prehearing conference in this proceeding on November 28, 2018,
and two days later entered Order 03, Prehearing Conference Order; Notice of Hearing,
which established a procedural schedule for these dockets.

6 The parties to this proceeding participated in several telephonic settlement
conferences, convened a formal settlement conference on January 15, 2019, and participated
in settlement-related calls and correspondence after the formal settlement conference.

7 On January 18, 2019, the Settling Parties, except for Public Counsel, reached an
agreement in principle for all issues currently pending before the Commission in this case
and provided notice of this agreement in principle to Administrative Law Judges Rayne
Pearson and Laura Chartoff. That notice requested that the Commission suspend the current
procedural deadlines, cancel the evidentiary hearing, and adopt a streamlined review of the
proposed Settlement on a paper record to facilitate a proposed rate effective date of March 1,
2019, which is less than 120 days from PSE's initial filing. In addition, the Settling Parties
and Public Counsel requested that the Commission schedule the public comment hearing on
February 5, 2019,³ to ensure that the Commission had a reasonable opportunity to consider
any public comments received in these dockets.

8 On January 22, 2019, the Commission suspended the procedural schedule in Order
03, scheduled a public comment hearing for February 5, 2019, and agreed to review the
Settlement on a paper record without a hearing so long as the settlement remained
unopposed. Also on January 22, 2019, Public Counsel notified the Settling Parties that it

³ The parties originally agreed to a public comment hearing date of February 25, 2019.

would join the settlement.

III. SUMMARY OF THE SETTLEMENT

9 The Settlement is a “full settlement” as the term is defined in WAC 480-07-730(1) because it is entered into by all parties and it resolves all issues raised in these dockets. The Settlement provides for no change in overall rates for electric service, a rate increase for natural gas service, an increase for low-income funding for PSE’s natural gas service, deferral of costs related to Advance Metering Infrastructure (“AMI”), and new tariff schedules to pass back protected-plus excess deferred income tax (“EDIT”) resulting from passage of the Tax Cuts and Jobs Act of 2017. The Settlement also protects customers from remote disconnections for nonpayment while the Commission revises relevant rules.

A. **Rates for Electric and Natural Gas Service**

10 For electric service, the Settlement provides for no change in overall rates, which includes the effect of passing back to customers protected-plus annualized EDIT through a separate tariff schedule.

11 For natural gas service, the Settlement provides for a revenue increase of \$21.5 million with rates effective March 1, 2019. This increase includes the effect of passing back to customers protected-plus annualized EDIT through a separate tariff schedule. The Settlement also provides for a 2.66 percent increase to the annual level of funding available for the natural gas low-income Home Energy Lifeline Program (“HELP”). The 2.66 percent increase corresponds to the overall percent rate increase to the natural gas residential class. In addition, rate increases for gas transportation customers are limited to 2.90 percent.

12 The Settling Parties agree that PSE’s ERF is not a general rate case and it should not be treated as one by the Commission. Because the ERF is a limited rate filing reviewed on

an expedited basis, the Settlement on the electric and natural gas revenue is a black box; the Settling Parties have agreed to firm end-result numbers without indicating which parties' adjustments or issues were included in the final numbers. The Settlement reserves each party's right to challenge the prudence of any investments transferred to plant after the test year of the 2017 General Rate Case, except for those pro forma adjustments to plant included in the final revenue requirement calculation accepted by the Commission in the 2017 General Rate Case. As the Settlement does not identify specific values for electric and natural gas plant included in rate base, in instances where PSE needs to report an amount of approved rate base, PSE will use the rate base as approved in the 2017 General Rate Case. Similarly, in instances where PSE needs to report its authorized rate of return, PSE will use the rate of return of 7.49 percent that was filed in this case, which PSE based on the rate of return established in the 2017 General Rate Case, modified by changes in PSE's cost of debt, which lowered the overall rate of return. The Settling Parties agree that the Settlement produces fair, just, reasonable, and sufficient rates for PSE's electric and natural gas services.

B. Deferral of AMI-Related Costs

13 The revenue requirements for electric and natural gas service do not include the recovery on or the recovery of plant in service related to PSE's AMI investments. However, the Settlement provides for PSE's deferral of depreciation expense of the AMI investment in the ERF test year and on an ongoing basis until all such AMI plant in service is reviewed for inclusion rates. Additionally, the Settlement provides for PSE's deferral of the cost of capital invested in AMI plant during the ERF test year at PSE's authorized rate of return until the underlying investment is reviewed for inclusion in rates. PSE may not defer capital invested

in AMI after the ERF test year. Neither of the deferred balances will accrue carrying costs.

14 Importantly, the Settlement provides that there is no determination of prudence for any portion of AMI in this ERF. The issues of prudence and recovery of both AMI deferrals are reserved for PSE's next general rate case or a future proceeding in which the costs and benefits of the AMI platform can be considered. Parties have the right to challenge recovery of any element of the deferred AMI balances, and PSE has the right to advocate for full recovery of the deferred AMI balances.

C. EDIT/Tax Reform

15 Under the Settlement, PSE will create separate tariff schedules to pass back protected-plus EDIT to ratepayers consistent with the average rate assumption method ("ARAM"). The grossed-up, annualized EDIT reversals consistent with ARAM are \$25.9 million for electric and \$6.1 million for gas. The Settling Parties do not agree on the proper accounting and ratemaking treatment of protected-plus EDIT reversals for the period January 1, 2018, through February 28, 2019. Therefore, the disposition of those reversals, the proper ratemaking treatment thereof, and the issues subject to PSE's Petition for Accounting Order in Dockets UE-171225 and UG-171226 will all be addressed in PSE's next general rate case.

D. Remote Disconnect for Nonpayment

16 Because the Commission is considering rules in Docket U-180525, the Settlement provides that PSE will not remotely disconnect customers for nonpayment pending adoption by the Commission of rules pertaining to remote disconnection, provided the rules are

established by January 1, 2020.⁴ After the Commission adopts rules pertaining to remote disconnection, the Settling Parties agree that PSE will comply with the Commission's rules.

IV. CONCLUSION

17 In WAC 480-07-700, the Commission states its support for parties' informal efforts to resolve disputes without the need for contested hearings when doing so is lawful and consistent with the public interest. Pursuant to WAC 480-07-740, the Commission reviews settlement agreements to determine whether they comply with applicable legal requirements and whether approval of the agreements is consistent with the public interest.

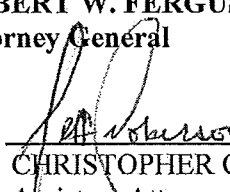
18 The Settlement resolves all of the issues in these dockets and, as explained further in the individually-filed statements of support, the Settling Parties all agree that their resolution complies with applicable legal requirements and is consistent with the public interest. The Settling Parties respectfully request that the Commission approve the Settlement in its entirety.

DATED this 30th day of January, 2019.

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⁴ Commission Staff anticipates rules pertaining to remote disconnection will be established well before January 1, 2020.

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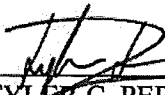
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