

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

DOCKET UE-130583

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

DOCKET UE-130617

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

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_____

DOCKET UE-131099

In the Matter of the Application 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-131230

SETTLEMENT STIPULATION

I. INTRODUCTION

1 This Settlement Stipulation (Settlement) is entered into by each of the parties to each
of the dockets in the above caption: Puget Sound Energy, Inc., (PSE), the Staff of the
Washington Utilities and Transportation Commission (Staff), the Public Counsel Division of
the Attorney General’s Office (Public Counsel) and the Industrial Customers of Northwest
Utilities (ICNU), hereinafter collectively referred to as “Parties” and individually as a
“Party.”

2 Because this Settlement is entered into by all Parties, and it resolves all issues in
these dockets, it is a “full settlement,” as that term is defined in WAC 480-07-730(1).

3 This Settlement consists of this “Settlement Stipulation” and Attachment A hereto,
which contains the calculation of the revenue requirement surplus, power cost rate, exhibits
A-1 through D, summary of adjustments, rate spread and design, and the tariff rates resulting
from this Settlement.

4 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).

5 This Settlement calls for PSE to file a revised tariff with an effective date of
November 1, 2013. Accordingly, the Parties request the Commission issue an order
approving the Settlement before that date.

II. NATURE OF THE DOCKETS

6 This case involves the following four dockets, which the Commission consolidated
in its “Order Granting Revised Motion for Consolidation” (August 8, 2013) and a “Notice of
Consolidation” (August 9, 2013).

7 **Docket UE-130617 – Power Cost Only Rate Case.** This docket is a Power Cost
Only Rate Case (PCORC) filed by PSE on April 25, 2013, which represented a revenue
decrease of \$616,833 (an average decrease of approximately 0.03 percent) for customers.
PSE’s rebuttal case, filed August 28, 2013, supports a revenue decrease of \$1,048,707 (an
average decrease of approximately 0.05 percent) for customers.

8 **Docket UE-130583 – Petition for an Accounting Order for Major Maintenance.**
Filed on April 23, 2013, this docket arises on PSE’s petition “[f]or an Accounting Order
Authorizing Accounting Treatment Related to Payments for Major Maintenance Activities”
(Petition). In the Petition, PSE seeks Commission approval for accounting for major
maintenance at PSE’s Mint Farm Combined Cycle Generating Station. The Petition
describes in detail the accounting treatment requested, which, in general, involves a deferral
method for accounting and ratemaking purposes.

9 **Docket UE-131099 – Application for Approval of Sale of Electron Hydroelectric
Project.** Filed on June 6, 2013, this docket arises from PSE’s application “[f]or an Order
Authorizing the Sale of the Water Rights and Associated Assets of the Electron
Hydroelectric Project” (Electron Application). In the Electron Application, PSE requests the
Commission to find that PSE’s Electron Hydroelectric Project (Electron Project) is either
not necessary or useful, or to approve the sale of that project to Electron Hydro, LLC. PSE

also seeks approval of the accounting and ratemaking treatment for the transaction, as described in the Electron Application.

10 **Docket UE-131230 – Application for Approval of Sale Related to Lower Snake River (LSR) Phase II.** Filed on June 27, 2013, this docket arises on PSE’s application “[f]or 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” (Sale and Transfer Application). The Sale and Transfer Application involves PSE’s sale of certain assets relating to Phase II of the Lower Snake River Wind Facility (renamed the Tucannon River Wind Farm by Portland General Electric (PGE)) and transfer of certain Bonneville Power Administration (BPA) Transmission Service Credits to PGE.

11 In the Sale and Transfer Application, PSE requested that the Commission find that certain “Purchased Assets” are not necessary or useful, per RCW 80.12.020 and WAC 480-143-180, and that the transfer of BPA Transmission Service Credits is in the public interest. In Docket UE-131230, Order 01,¹ the Commission: determined that the Purchased Assets are not necessary or useful; approved PSE’s application to transfer a pro rata share of PSE’s Transmission Service Credits to PGE; and set for hearing PSE’s proposed accounting and ratemaking treatment associated with the PSE’s transfer of the BPA Transmission Service Credits to PGE.

¹ Docket UE-131230: Order 01, “Order Finding that Development Rights are not Necessary or Useful, Approving Transfer of BPA Transmission Credits, and Setting Accounting and Ratemaking Issues for Hearing” (August 31, 2013).

III. AGREEMENT

12 The Parties have mutually agreed to a means by which these dockets can be closed
without further action by the Commission beyond its approval of this Settlement. The
Parties agree and stipulate² as follows:

13 **1. Admission of Exhibits.** For purposes of the Commission's evaluation of the
reasonableness of the Settlement, the Parties agree the Commission should admit
into evidence all exhibits filed by the Parties in these dockets to date. If the
Commission rejects the Settlement, and these dockets proceed to hearing, the
Commission's action admitting such evidence will be ineffective.

14 **2. PCORC Revenue Requirement Decrease (Docket UE-130617).** PSE will
file a revised power cost baseline rate tariff designed to generate \$10.482 million less
revenue than the existing power cost baseline rate. The effective date of the tariff
will be November 1, 2013. No further updates for gas prices and other power cost
will occur prior to the tariff effective date. This \$10.482 million revenue
requirement reduction is derived by beginning with the revenue decrease in PSE's
rebuttal case (-\$1.049 million), adjusted to bring the book value of LSR Phase I³ to
the average of the monthly averages as of the beginning of the rate year (-\$8.433
million), and further reduced for an adjustment related to ICNU's production O&M
adjustment (-\$1.000 million).⁴

² Public Counsel's testimony in the consolidated dockets was limited to general issues regarding the PCA, as addressed in Item III.8 of this Settlement, and did not address the other issues resolved herein. Public Counsel has no objection to the settlement terms on the other issues presented.

ICNU's testimony addressed issues related to the PCORC Revenue Requirement and rate spread, and did not address other issues resolved herein. ICNU takes no position on the issues identified in sections III.3, III.4, III.5, III.6, III.10 and III.11, but does not object to the settlement terms in the aforementioned sections.

³ Book value includes gross plant less accumulated depreciation and less accumulated deferred income tax.

⁴ Schoenbeck, Exhibit No. DWS-1T, page 2, line 23 through page 3, line 22. ICNU proposed a \$3.0 million revenue reduction. The settlement accepts a \$1.0 million reduction.

15 This \$10.482 million revenue requirement reduction reflects: (1) removing the \$1.984 million associated with the not-in-model mark-to-market expenses related to the Cedar Hills Biogas issue;⁵ (2) reducing the regulatory asset related to BPA Transmission Credits by the \$20,500,000 payment when received from PGE, and adding the monthly booking of carrying charges on the deferred payment at PSE's authorized after-tax rate of return grossed up for federal income taxes; (3) sets LSR Phase I rate base at the beginning of the rate year (November 1, 2013); and (4) including the Electron Project in power costs as a PSE facility, and therefore the revenue surplus figure does not reflect the impact of the transfer of ownership to Electron Hydro, LLC, and the associated purchased power agreement.

16 Attachment A to this Settlement shows the calculation of the \$10.482 million revenue requirement reduction, power cost rate, Exhibits A-1 through D, summary of adjustments, rate spread and design, and the tariff rates resulting from this Settlement.

17 **3. Major Maintenance Petition (Docket UE-130583).** The issue of accounting for Major Maintenance is presented in Docket UE-130583 and applied in the PCORC docket. PSE agrees to follow General Accepted Accounting Principles (GAAP) for Major Maintenance,⁶ thereby applying the deferral method of accounting. Major Maintenance will be treated as a fixed component in the Power Cost Adjustment Mechanism (PCA) and PCORC and measured as follows: In a PCORC or general rate case, the test year for that proceeding is the basis except

⁵ Without prejudice to PSE's ability to request in Docket UE-131276 that the actual costs of Cedar Hills biogas be considered in the calculation of the net proceeds payable to customers

⁶ The GAAP standard is found in Accounting Standard Codification 908-360-25 and Financial Accounting Standards Board's Staff Position, No. AUG AIR-1. See Mickelson, Exhibit No. CTM-1T, page 15, line 14 to page 16, line 21.

when the amortization stream for a given Major Maintenance event is fully amortized prior to or during the rate year, in which case that amortization expense should be either removed or adjusted to the known and measurable amount of amortization occurring in the rate year. Commensurately, if there is a post-test year Major Maintenance event that is known and measurable by the time of the evidentiary hearing in that proceeding, then the amortization of the expense for that Major Maintenance event should be included in production O&M for recovery.⁷ Recovery of Major Maintenance under the deferral method of accounting, as agreed to in this Settlement, will apply to the hot gas path inspection for the Mint Farm Generating Station which occurred in April-May 2013 and will be amortized over the expected time until the next event, which is three years. Going forward, the deferral method of accounting treatment agreed to in this settlement will apply to all of PSE's gas fired electric generation facilities, subject to a \$500,000 minimum threshold for any Major Maintenance event to qualify for deferral accounting treatment and thus for rate making recovery as a Major Maintenance event.

18 This accounting treatment does not involve creation of a regulatory asset, nor does it receive accrual of carrying costs on the deferred maintenance costs, and as required by the GAAP deferral method, commences amortization immediately after the Major Maintenance event until the next scheduled equivalent Major Maintenance event for that facility. Moreover, this accounting treatment is consistent with the Uniform System of Accounts and thus is appropriate for rate recovery purposes. Accordingly, it is not necessary for the Commission to issue an accounting order in Docket UE-130583.

⁷ As described in Barnard, Exhibit No. KJB-12T, page 26, lines 5 through 23.

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For purposes of this Settlement, “Major Maintenance” is defined as a maintenance activity that “typically occurs when PSE overhauls or substantially upgrades various systems and equipment for purposes of maintenance or modernization, on a scheduled basis. Extensive testing is usually conducted as part of this activity.”⁸

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4. Electron Application (Docket UE-131099). The Commission should issue an order conditionally granting PSE’s application for approval of the sale of PSE’s Electron Project to Electron Hydro LLC, by finding that the sale is in the public interest, so long as there are no material changes to the Asset Purchase Agreement (including all exhibits thereto) PSE filed with its application in Docket UE-131099. The Parties understand and agree that the Purchased Power Agreement (PPA) between PSE and Electron Hydro LLC is part of the consideration for the sale. The Parties also understand and agree that no prudence finding is necessary regarding that PPA. To the extent the Commission determines that a prudence determination is required, the Parties agree that the Commission should determine that the PPA is prudent.

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5. Sale and Transfer Application – LSR Phase II (Docket UE-131230). The Commission should issue an order granting the treatment requested in PSE’s petition in Docket UE-131230, i.e., (i) reduce the BPA Transmission Credits⁹ by \$20,500,000, which is currently listed as a regulatory asset in “Exhibit D”¹⁰ within the PCA, when payment is received from PGE, and (ii) credit a regulatory liability

⁸ Mickelson, Exhibit No. CTM-1T, page 12, lines 19-23.

⁹ These are called “Network Upgrade Credits” in PSE’s petition in Docket UE-131230.

¹⁰ Barnard, Exhibit No. KJB-5C, page 9; and Attachment A to this Settlement.

for carrying charges on the payment from the date of receipt through October 31, 2013, at PSE's approved net of tax rate of return grossed up for federal income taxes.

22 **6. Treasury Grants.** For Treasury Grants that PSE receives for the Snoqualmie Project and Baker Project, PSE agrees with Staff's proposal not to use the Schedule 95a tracker. Rather, PSE will apply a regulatory treatment equivalent to a direct rate base reduction (i.e. a regulatory liability amortized over the life of the plant and included as fixed production rate base in a PCORC and the PCA). These Treasury Grants will be treated as fixed production rate base and will be amortized over the remaining life of the associated plant asset, starting with receipt of the Treasury Grant.

23 In addition, PSE will defer the return of and return on the Treasury Grants associated with the Snoqualmie Project and Baker Project in the same manner as permitted under RCW 80.80.060. For purposes of an example, the calculations will follow the same method as the deferral treatment of LSR and Mint Farm under RCW 80.80.060.¹¹ The recognition and deferral of the return of and return on the Treasury Grant balances commences when PSE receives the Treasury Grants and will cease to accumulate once the balance of the Treasury Grants are included in rates in the 2014 PCORC. The amortization of the deferrals will be set in the 2014 PCORC to fully amortize by October 31, 2018, which is the same time the associated RCW 80.80.060 plant deferrals will be fully amortized, and the Treasury Grant deferrals will be treated as variable costs in the PCA mechanism, as are the RCW 80.80.060 plant deferrals.

¹¹ The Snoqualmie and Baker Projects follow this same deferral method.

24 **7. 2014 PCORC.** The Parties agree that in PSE's 2014 PCORC, PSE will use a test year that will be no earlier than the 12 months ended December 31, 2013. For the Snoqualmie Project and Baker Project, because these assets will not have a full 13 months in service for the average of monthly averages (AMA) plant value, the Parties agree that PSE will restate these balances on an AMA basis to the 13 months ending November 30, 2014 (the beginning of the rate year), and that PSE may also include post-test year capital additions related to these Projects up to a cutoff date, which is the date of PSE's supplemental filing in the 2014 PCORC.

25 **8. PCA and PCORC-Related Issues.** 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

26 **9. Cost of Service, Revenue Allocation, and Rate Design Issues.** The Parties agree to participate in a collaborative process per WAC 480-07-720 to address issues with respect to electric cost of service, rate spread, and rate design. 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. 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 issues with cost of service, rate spread, and rate design.

27 **10. Distributed Generation.** PSE agrees to evaluate the PGE Dispatchable Standby Generation (DSG) program, described in the testimony of Staff witness Juliana Williams,¹² and either provide a report to the Commission of PSE's conclusions and recommendations by December 1, 2014, regarding the financial and technical feasibility of PSE implementing a similar DSG program in its territory, or file a tariff implementing DSG service by December 1, 2014.¹³

28 **11. Prudence Determination.** The Parties agree that the following resource acquisitions and renewals meet the Commission's prudence standard and should be determined to be prudent by the Commission:

- (i) the acquisition of the Ferndale Generating Station and the costs associated with this project;¹⁴
- (ii) the renovation and upgrades at Snoqualmie Falls Project to implement the Federal Energy Regulatory Commission ("FERC") license;
- (iii) the addition of a fourth generator unit and a floating surface collector at the Baker Project to implement the FERC license;¹⁵ and

¹² Williams, Exhibit No. JMW-1T, pages 45-46, lines 17-13.

¹³ Mills, Exhibit No. DEM-8CT, page 19, lines 7-15.

¹⁴ Williams, Exhibit No. JMW-1T, page 39, lines 7-11.

- (iv) PSE's acquired and renewed transmission contracts with BPA.¹⁶

IV. GENERAL PROVISIONS

29 **Entire agreement; no precedent.** This Settlement is the entire agreement of the Parties. Accordingly, the Parties recommend that the Commission adopt and approve the Settlement in its entirety, including the Attachment. This Settlement may not be cited as precedent in any proceeding other than a proceeding to enforce the terms of this Settlement. The Parties enter into this Settlement to avoid further expense, uncertainty, and delay. By executing this Settlement, no 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 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 Party shall represent that any of the facts, principles, methods, or theories employed by any 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.

30 **Manner of execution.** This Settlement is executed when all Parties sign the Settlement. A designated and authorized representative may sign the Settlement on a Party's behalf. The 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

¹⁵ The Parties agree that the prudence determinations for the Snoqualmie Falls Project and Baker Project include the updated budget amounts for these plants, as updated through June 2013, which is the amount of plant included in rates in this proceeding.

¹⁶ Gomez, Exhibit No. DCG-1CT, page 8, line 18 through page 9, line 9.

document. A faxed or emailed signature page containing the signature of a Party is acceptable as an original signature page signed by that Party. Each 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).

31 **Approval process.** Each 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 Party agrees to support the Settlement during the course of whatever procedures the Commission determines are appropriate.

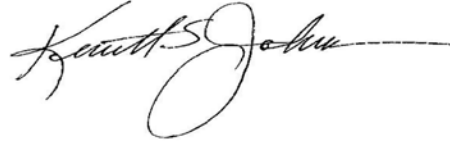
32 **Commission approval with conditions.** In the event the Commission approves this Settlement, but with conditions, the Parties will have ten business days to file a letter with the Commission accepting or rejecting each such condition. If, in such a timely filed letter, a Party rejects a condition, this Settlement is void and the 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.

33 **Publicity.** Each Party has the right to review in advance of publication each announcement or news release another Party intends to issue about this Settlement. This right of advance review includes a reasonable opportunity for the non-issuing Party to request changes to such an announcement. While the issuing Party is not required to make any such requested change, the Parties agree that if a news release or announcement issued by a 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 ____ day of September 2013.

ROBERT W. FERGUSON
Attorney General

PUGET SOUND ENERGY INC.



DONALD T. TROTTER
Assistant Attorney General
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Dated this 13th day of September 2013.

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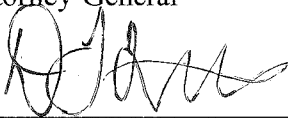
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for SIMON FFITCH, *per email authorization*
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