

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of) DOCKET UE-130583
)
PUGET SOUND ENERGY, INC.) ORDER 02
)
For an Accounting Order Authorizing)
Accounting Treatment Related to)
Payments for Major Maintenance)
Activities)
.....)
WASHINGTON UTILITIES AND) DOCKET UE-130617
TRANSPORTATION COMMISSION,)
) ORDER 06
Complainant,)
)
v.)
)
PUGET SOUND ENERGY, INC.,)
)
Respondent.)
.....)
In the Matter of the Petition of) DOCKET UE-131099
)
PUGET SOUND ENERGY, INC.) ORDER 02
)
For an Order Authorizing 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, INC.)
) ORDER 02
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 AGREEMENT

- 1 *Synopsis: The Commission approves and adopts the all-party Settlement Stipulation which decreases Puget Sound Energy, Inc.'s (PSE) revenue requirement by \$10.482 million, an average of 0.516 percent, beginning November 1, 2013. This reduction results from lower projected power costs and reflects the impacts of agreed regulatory treatments of certain cost elements including : (1) adjustment of the Lower Snake River Phase I rate base to the average of monthly average balance at the beginning of the rate year; (2) reduction of the regulatory asset associated with the Bonneville Power Administration (BPA) Transmission Service Credits by \$20.5 million; (3) removal of \$1.984 million associated with the not-in-model mark-to-market expenses related to the Cedar Hills Regional Landfill facility issues; and (4) inclusion in power costs of the sale of the Electron Project to Electron Hydro LLC. The Commission, in adopting the Settlement, authorizes the deferral of major maintenance expenses from the Mint Farm Generating Station and all future gas-fired major maintenance expenses over a \$500,000 minimum threshold. In addition, the Commission authorizes PSE to apply a regulatory treatment for the Treasury Grants it receives for the Snoqualmie and Baker Projects that is equivalent to a direct reduction of rate base.*

- 2 *We conditionally approve PSE's sale of the Electron Project to Electron Hydro LLC provided there are no material changes to the terms of the Asset Purchase Agreement filed on June 6, 2013. Further, we find the following resource acquisitions and renewals prudent: (1) acquisition and costs associated with the Ferndale Generating Station; (2) renovations and upgrades at the Snoqualmie Project; (3) renovations and upgrades at the Baker Project; and (4) PSE's acquired and renewed transmission contracts with BPA.*

- 3 *PSE is required, under the Settlement, to use a test year no earlier than December 31, 2013, for its next power cost only rate case (PCORC) which will be filed in 2014. The Settlement provides for two collaborative processes in which the settling parties will review: (1) power cost adjustment (PCA) mechanism/PCORC-related issues, including design and operation issues; and (2) electric cost of service, rate spread, and rate design issues. If parties do not agree on modifications to the PCA mechanism and the PCORC, PSE is required to make a filing by July 1, 2014, to address the issue of PCA and PCORC design.*

SUMMARY

- 4 **PROCEEDINGS:** This Order involves four consolidated dockets. On August 8, 2013, the Washington Utilities and Transportation Commission (Commission) consolidated Dockets UE-130583, UE-130617, and UE-131099. By notice on August 9, 2013, the Commission consolidated Docket UE-131230 with the other three cases.
- 5 **Docket UE-130583:** On April 23, 2013, Puget Sound Energy, Inc. (PSE or the Company) filed an accounting petition with the Commission requesting authority to defer and amortize major maintenance expenses related to the Mint Farm Combined Cycle Generating Station (Mint Farm). Under the Long Term Service Agreement the Company has with General Electric International, Inc. (GE), PSE makes quarterly prepayments to GE for scheduled maintenance performed on Mint Farm. In general, PSE requested deferral of these expenses for accounting and ratemaking purposes.
- 6 **Docket UE-130617:** On April 25, 2013, the Company filed a power cost only rate case (PCORC) requesting a reduction in its revenue requirement by \$616,833. This request amounted to a decrease in the average residential customer's monthly bill of \$0.03.
- 7 **Docket UE-131099:** On June 6, 2013, PSE filed an application for approval of the sale of the Electron Hydroelectric Project (Electron Project) to Electron Hydro LLC, or in the alternative, a finding that the Electron Project is not necessary or useful. The Company also sought approval of its accounting and ratemaking treatment of the sale.
- 8 **Docket UE-131230:** On June 27, 2013, PSE filed an application requesting that the Commission approve its sale of interests in the development assets associated with Phase II of the Lower Snake River Wind Facility (LSR II). The Company proposed to sell certain assets relating to LSR II and transfer certain Bonneville Power Administration (BPA) Transmission Service Credits to Portland General Electric (PGE). In addition to approval of the transaction, PSE requested the Commission find that the LSR II assets are not necessary or useful and transfer of the BPA Transmission Service Credits is in the public interest. On July 31, 2013, the Commission entered Order 01 finding that the development rights in LSR II are not necessary or useful and approving the transfer of the BPA Transmission Service Credits. The Order also directed the presiding officer to set the ratemaking and accounting treatment associated with the Transmission Service Credits for hearing in this proceeding.

9 The Commission conducted a settlement hearing on September 26, 2013, before Chairman David W. Danner, Commissioner Philip B. Jones, and Commissioner Jeffrey D. Goltz. Administrative Law Judge Marguerite E. Friedlander presided.

10 **PARTY REPRESENTATIVES:** Sheree Strom Carson and Donna L. Barnett, Perkins Coie LLP, Bellevue, Washington, represent PSE. Simon J. ffitch, Assistant Attorney General, Seattle, Washington, represents the Public Counsel Division of the Washington Office of Attorney General (Public Counsel). Donald T. Trotter and Steven W. Smith, Assistant Attorneys General, Olympia, Washington, represent the Commission's regulatory staff (Commission Staff or Staff).¹ Irion Sanger, Davison Van Cleve, Portland, Oregon, represents the Industrial Customers of Northwest Utilities (ICNU).

11 **COMMISSION DETERMINATIONS:** The Commission approves and adopts the Settlement Agreement to which PSE, Staff, Public Counsel and ICNU are signatories. We find the settling parties' proposal to reduce PSE's revenue requirement by \$10,481,843 will result in rates that are fair, just, reasonable, and sufficient.

12 The Commission finds the sale of the Electron Project in the public interest so long as there are no material changes to the Asset Purchase Agreement originally filed with PSE's application on June 6, 2013. The Commission finds prudent the Company's acquisition of the Ferndale Generating Station, the renovation and upgrades at the Snoqualmie Falls Project, the addition of a fourth generator unit and a floating surface collector at the Baker Project, and PSE's acquired and renewed transmission contracts with BPA.

MEMORANDUM

I. Background and Procedural History

13 On April 23, 2013, PSE filed a petition for an order authorizing the Company's proposed accounting treatment related to the prepayment of major maintenance

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.

expenses at Mint Farm (Mint Farm Petition). Two days later, the Company filed a PCORC requesting a revenue decrease of \$616,833 or approximately 0.03 percent. In its supplemental filing on July 2, 2013, PSE sought a \$491,934 revenue increase or approximately 0.02 percent. With PSE's rebuttal case, filed on August 28, 2013, the Company again asked for a revenue decrease, this time in the amount of \$1,048,707 or approximately 0.05 percent.

- 14 The Commission suspended the PCORC filing on May 9, 2013, and convened a prehearing conference on May 31, 2013. ICNU was granted leave to intervene. Staff, Public Counsel and ICNU conducted discovery on the Company's tariff filing and prefiled direct testimony.
- 15 On June 6, 2013, PSE filed an application for approval of the sale of the Electron Project and approval of its ratemaking and accounting treatment for the sale (Electron Sale Application). The fourth docket involves an application for approval of the sale of the development assets for LSR II (LSR II Sale Application), which PSE filed on June 27, 2013.
- 16 The Commission granted Staff's request and consolidated PSE's Mint Farm Petition, the Company's PCORC filing, and the Electron Sale Application on August 8, 2013. PSE's LSR II Sale Application was consolidated with the prior three dockets one day later.
- 17 Staff, Public Counsel, and ICNU filed response testimony and exhibits in the consolidated dockets on August 14, 2013. The Company filed its response testimony and exhibits on August 28, 2013.
- 18 PSE, Staff, Public Counsel, and ICNU reached agreement on all issues in the consolidated dockets and filed their Settlement Stipulation (Settlement) with supporting joint testimony pursuant to WAC 480-07-730(1) on September 16, 2013. The Commission convened a settlement hearing on September 26, 2013. The settling parties stipulated into evidence all prefiled testimony and exhibits. At hearing, the settling parties presented a panel of witnesses in support of the agreement: Katherine J. Barnard for PSE, Donald Schoenbeck for ICNU, Stefanie A. Johnson for Public Counsel and Christopher T. Mickelson for Staff.

II. Settlement Stipulation

19 The Settlement, which is attached as Appendix A and adopted in this Order:

- Decreases the Company's revenue requirement by \$10,481,843 and lowers the power cost baseline rate.
- Reduces the BPA Transmission Service Credits by \$20.5 million and creates a regulatory liability for the carrying charges on the payment from PGE.
- Allows PSE to recover major maintenance expenses using the deferral method provided for in General Accepted Accounting Principles (GAAP).² The deferral method applies to the April-May 2013 hot gas path inspection of Mint Farm and, on a going forward basis, for all future major maintenance events on PSE's gas-fired electric generation facilities, subject to a \$500,000 minimum threshold. The deferral will not bear a carrying charge.
- Applies a regulatory treatment equivalent to a direct reduction in rate base to the Treasury Grants PSE will receive for the Snoqualmie and Baker Projects and amortizes the return of and return on the grants over the life of the plants.
- Recommends the Commission find prudent PSE's acquisition of and upgrades to the following resources: Ferndale Generating Station, the Snoqualmie Project, the Baker Project, and PSE's acquired and renewed transmission contracts with BPA.
- Recommends the Commission conditionally grant PSE's application for approval of the sale of the 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 from the original filing made on June 6, 2013.
- Establishes separate collaboratives to address: (1) PCA and PCORC-related issues and 2) issues with cost of service, rate spread, and rate design.
- Requires PSE to evaluate PGE's Dispatchable Standby Generation program.
- Requires rates to become effective November 1, 2013.

² The accounting standard referred to in the Settlement is one that is used by the airline industry to amortize costs of major overhauls in the time period between overhauls (*see* Accounting Standards Code (ASC) 908-360-35-6). The Settlement here provides, and the Commission approves, a similar cost deferral which provides for the recovery of the incurred costs but does not provide a regulatory accrual of a return on associated capital.

II. Discussion and Decisions

20 **Major Maintenance.** The Settlement adopts Staff's proposed accounting treatment which provides a cost deferral of major maintenance on gas-fired electric generation plant.³ The Settlement's deferral accounting treatment, which is consistent with a GAAP cost deferral methodology, applies to major maintenance on all of PSE's gas-fired electric generation plants on a going forward basis, subject to a \$500,000 minimum threshold, and to the recent maintenance performed on Mint Farm.⁴ Staff testifies that this accounting approach provides a better matching of the expense and benefits resulting from the major maintenance expenditures.⁵ The parties testify that restricting major maintenance to a minimum \$500,000 threshold provides clear parameters for the treatment of these costs.⁶

21 Specifically, the cost deferral method agreed to in the Settlement provides for recovery of the incurred costs between major maintenance events for gas-fired generating units but does not provide an accrual of any return on the unamortized balance. We find this method of accounting to be a reasonable resolution of the issues and supported by the evidentiary record.⁷

22 **Colstrip Operations and Maintenance.** The Settlement removes \$1.0 million related to operations and maintenance (O&M) expenses for the Colstrip generating station from PSE's revenue requirement.⁸ ICNU originally proposed a \$3.0 million adjustment, claiming that PSE has consistently overstated its Colstrip O&M expenses when projecting for future years' budgets.⁹ We note that ICNU's Exhibit No. DWS-3 shows that, from 2009 to 2012, PSE budgeted between 2.0 percent and 11.6 percent more for Colstrip O&M expenses than it actually incurred, with an annual average of \$2.7 million more budgeted than actual expenses. It is not unusual for a company's filed budget to vary from its actual expenses for a particular generating station. We

³ Mickelson, Exh. No. S-2T at 10:19-11:2.

⁴ Barnard, Exh. No. S-2T at 8:15-19; Mickelson, Exh. No. S-2T at 10:19-11:2.

⁵ Mickelson, Exh. No. S-2T at 11:3-6.

⁶ Settlement, Exh. No. S-1 ¶¶ 17-18.

⁷ Mickelson, Exh. No. S-2T at 11:7-12.

⁸ Settlement, Exh. No. S-1 ¶ 14, n.4.

⁹ Schoenbeck, Exh. No. DWS-1T at 3:7-22.

note that this variation is expected whether the difference results in overstatements or understatements of cost. Here, however, several years of filed data show only overstatement of costs; thus, we find the Settlement's inclusion of this adjustment reasonable and in the public interest.

23 **Cedar Hills Biogas.** The Settlement removes contract costs related to the purchase of biogas from Cedar Hills Biogas, as proposed by Staff in response testimony.¹⁰ PSE, in agreeing to the adjustment on rebuttal, stated that the various Cedar Hills transactions will result in a net benefit to customers of over \$15 million due to the recent increase in price of the renewable attributes of biogas.¹¹ We find it reasonable to remove this expense from PSE's electric rate base because the gas has not been used in PSE's electric generating facilities. The Commission will address the treatment of these net benefits from the various Cedar Hills Biogas transactions separately in Docket UE-131276.¹²

24 **Electron Sale.** As stated above, PSE has reached an Asset Purchase Agreement with Electron Hydro LLC to sell the Company's Electron Project and purchase the power through a Purchase Power Agreement (PPA). The sale, however, will not occur in the near future.¹³ The parties request the Commission issue an order conditionally granting PSE's application for approval of the sale by finding that the sale is in the public interest, so long as there are no material changes to the Asset Purchase Agreement as filed by PSE with its application in Docket UE-131099.¹⁴ PSE, in direct testimony, outlined the various options the Company considered for the future of this 109-year-old facility.¹⁵ Various portions of the plant date back to the original construction in 1904 and are in great need of repair or replacement.¹⁶ As a result, continued ownership of the Electron Project would require significant capital investment by PSE.¹⁷ Likewise, retirement of the facility would have also necessitated significant expense given "the complete demolition and removal of each

¹⁰ Settlement, Exh. No. S-1 ¶ 15; Keating, Exh. No. EJK-1T at 3.

¹¹ Donahue, Exh. No. WFD-1T at 13:18.

¹² See Donahue, Exh. No. WFD-1T at 8-15.

¹³ Mickelson, Exh. No. S-2T at 11:15-17.

¹⁴ Settlement, Exh. No. S-1 ¶ 20.

¹⁵ Wetherbee, Exh. No. PKW-1CT at 22:4-5.

¹⁶ *Id.*, 23:2-13.

¹⁷ *Id.*, 23:14-15.

of the diversion dam, intake gate, rock chutes, and fish ladder” required for retirement.¹⁸ The Company’s decision to sell the plant obviates the need for either option’s capital outlay.¹⁹ Staff testifies that the sale is in the public interest.²⁰

25 The Settlement also recommends inclusion of the cost of the Electron Project in rates and its contribution to power production in the determination of power costs.²¹ The Commission finds the sale of the Electron Project to Electron Hydro LLC is in the public interest provided there are no material changes to the Asset Purchase Agreement as filed. If material changes occur, the Company must re-file its application for approval of the sale.

26 **Lower Snake River Phase II.** On June 3, 2013, PSE entered into an agreement with PGE to sell its development assets and rights in LSR II.²² As result of this sale, PSE proposed to reduce its regulatory asset for the BPA Transmission Service Credits by \$20.5 million.²³ No party objects to this reduction, but in response testimony Staff also argued that the Commission should reduce the regulatory asset by a commensurate share of the carrying costs that have accumulated from PSE’s facility prepayments to BPA.²⁴

27 The Settlement would transfer the \$20.5 million credit to PGE but does not include a reduction for the commensurate share of the carrying cost.²⁵ Staff appears to have compromised on this provision since it considers the \$10,481,843 reduction in the

¹⁸ *Id.*, 34:3-5.

¹⁹ *Id.*

²⁰ Mickelson, Exh. No. S-2T at 11:14-18.

²¹ *Id.*, 12:15-18. The parties agree no prudence finding is necessary regarding the PPA between PSE and Electron Hydro LLC. If the Commission determines that such a finding is required, the Commission should determine that the PPA is prudent. Settlement, Exh. No. S-1 ¶ 20.

²² The Commission has already determined that these assets are not necessary or useful and approved the transfer of the BPA Transmission Service Credits. *See 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, 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 (July 31, 2013).

²³ Settlement, Exh. No. S-1 ¶ 21.

²⁴ Huang, Exhibit No. JH-1T at 11:6-13:18.

²⁵ Settlement, Exh. No. S-1 ¶ 20.

PCORC revenue requirement through a lower baseline, on the whole, to be sufficient for purposes of settlement.²⁶ We find that transfer of the \$20.5 million Transmission Service Credits to PGE upon payment to be a reasonable compromise and supported by the evidence.

28 **Treasury Grants.** The Settlement also addresses Treasury Grants PSE may receive in the future for its Snoqualmie and Baker Projects. The Settlement provides for a regulatory treatment that is equivalent to a reduction of rate base; the unamortized grant amounts are, in effect, offsets to the fixed production rate base with its unamortized balance spread over the remaining life of the associated plant asset.²⁷

29 The accounting treatment will commence with receipt of the Snoqualmie and Baker Projects' Treasury Grants. Until the grants are included in rates, PSE agrees to defer the incurred amortization and related cost of capital consistent with the approach outlined in RCW 80.80.060(6), which provides for the deferral of costs associated with long-term financial commitments related to baseload electric generation. The parties explain:

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.²⁸

30 The amortization is timed to end at the same time as the original RCW 80.80.060 plant deferrals of the projects are scheduled to end and therefore will provide a dollar-for-dollar offset of rate base throughout the life of the related assets.

31 The Commission believes the Settlement provides a proper matching of costs and benefits and presents a fair resolution to both the ratepayers and the Company.

²⁶ Mickelson, Exh. No. S-2T at 10:7-10.

²⁷ Settlement, Exh. No. S-1 ¶ 22.

²⁸ *Id.*

- 32 **2014 PCORC.** PSE has agreed to use a test period no earlier than the 12 months ending December 31, 2013, in its next PCORC filing.²⁹ Staff considers this test year an improvement over PSE's use of the 12 months ended September 30, 2012, the test year employed in this matter. According to the parties, PSE's compromise provides a twelve-month period as contemporaneous to the filing as possible.³⁰ The parties, recognizing that both the Snoqualmie and Baker Projects will not have a full 13 months in service prior to the 2014 filing, agreed to restate the plant balances on an average of monthly averages (AMA) basis to reflect 13 months ended November 30, 2014, the start of the rate year, similar to the Settlement's treatment of LSR I, discussed below.³¹ Commission Staff asserts that these provisions are in the public interest.³²
- 33 In addition to the beginning of rate year AMA rate base valuation, the agreement provides that PSE may include post-test year capital additions related to the Snoqualmie and Baker Projects up to the date PSE files its supplemental case for the 2014 PCORC.³³ Both of these Settlement provisions appear to be genuine attempts by the parties to address earnings attrition caused by large capital expenditures, which we consider consistent with our goal of setting the PCA baseline rate as closely as possible to what is expected to be experienced in the rate year.³⁴
- 34 While we have reservations with this method of rate base valuation on a going forward basis, we determine the outcome within the context of this Settlement is fair and reasonable.

²⁹ The next PCORC is expressly required in the Coal Transition Power docket. *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 08, ¶ 53 (June 25, 2013).

³⁰ Mickelson, Exh. No. S-2T at 12:15-18.

³¹ *Id.*, 12:19-13:3.

³² *Id.*, 15:12-15.

³³ Settlement, Exh. No. S-1 ¶ 24.

³⁴ *Utilities and Transp. Commission v. Puget Sound Energy, Inc.*, Docket UE-072300, Order 13, ¶ 11 (January 15, 2009) and *Utilities and Transp. Commission v. Puget Sound Energy, Inc.*, Docket UE-072300, Order 13, ¶ 11 (January 15, 2009).

- 35 The Settlement also proposes the LSR I adjustment, which modifies the book value of the project by using the AMA as of November 1, 2013. This adjustment accounts for \$8.43 million of the \$10.48 million reduction in the revenue requirement requested in the Settlement.³⁵ The test period in this case included only eight months of actual balances associated with the LSR I investment. Both Staff and PSE's pre-settlement positions recognized the necessity of reflecting a full year of the plant's AMA value. The two parties' positions differ on what twelve-month period to use.³⁶
- 36 PSE used the AMA plant value for the twelve months ended February 28, 2013, which coincides with the plant's first full year of service.³⁷ PSE supported its position by citing two examples from prior dockets in which the Commission used the same AMA treatment.³⁸
- 37 In calculating its adjustment, Staff used a rate year from December 1, 2013, through November 30, 2014, resulting in a much lower rate base value due to higher depreciation reserve and deferred federal income tax balance.³⁹ Staff argued that PSE's adjustment does not conform to the PCA Settlement Stipulation⁴⁰ and past practices in prior PCORC proceedings.⁴¹
- 38 For settlement purposes, both parties agreed to use the AMA book value of LSR I as of the beginning of the rate year, November 1, 2013, resulting in an approximately \$8.4 million decrease to PSE's revenue requirement.⁴² In addition, the parties agree

³⁵ Settlement, Exh. No. S-1 ¶ 14.

³⁶ Barnard, Exh. No. KJB-12T at 9:8-11. The Settlement also resolves the issue of the appropriate rate year to be used in this case. PSE projected costs for the rate year beginning November 1, 2013, while Staff used a rate year beginning December 1, 2013. *See* Mickelson, Exh. No. CTM-1T at 9:1-7.

³⁷ Barnard, Exh. No. KJB-12T at 9:11-13.

³⁸ *Id.*, 9:14-10:6.

³⁹ Mickelson, Exh. No. CTM-1T at 12:4-9.

⁴⁰ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-011570 and UG-011571, Twelfth Supplemental Order, Appendix, Exhibit A to Settlement Stipulation at 4 (June 20, 2002). This document is filed in the instant docket as Barnard, Exhibit No. KJB-3.

⁴¹ Mickelson, Exh. No. CTM-1T at 10:16-11:2.

⁴² Settlement, Exh. No. S-1 ¶ 14.

to use the same methodology in PSE's 2014 PCORC proceeding for the Snoqualmie and Baker Projects.⁴³

39 The Company supports the Settlement's treatment of this adjustment as a compromise by all parties. PSE views the resolution of this issue as a reasonable outcome.⁴⁴ Commission Staff considers this revenue reduction as consistent with its original position in the case.⁴⁵

40 Although Staff did not provide any examples of prior treatments conforming to the rate year concept, our review of past dockets revealed numerous instances using the rate year values of major projects with less than 12 months of operation in a given historical test year. For example, the test year results in the general rate case (GRC) filing, Docket UE-072300, included only 8 months of operation of the Goldendale Generating Station. In that matter, it was necessary for the Commission to make an adjustment that reflected the value of the plant for the full rate year. Similar treatment was used for the Hopkins Ridge Wind Infill Facility, Mint Farm, Sumas Cogeneration Station and Whitethorn Generating Station generating facilities in the 2009 GRC, Docket UE-090704.

41 In the examples cited above, the Commission used its judgment and the factual record to exercise its discretion to vary the approved rate base treatments of major projects to set rates that are fair, just, reasonable, and sufficient. The compromise treatment reached is a fair and reasonable resolution of the differing positions of Staff and the Company. Therefore, we find the use of AMA book value as of November 1, 2013, for LSR I plant balance to be the appropriate time period and in the public interest.

42 We find it necessary to point out, however, that Commission Staff's initial proposal is more consistent with our stated goal of setting the PCORC baseline as close as possible to the rate year expectation.⁴⁶ However, given that this is a settlement with offsetting compromises, we approve the Settlement proposal here. We expect to address the full rate year approach for valuation again in a subsequent proceeding after the approach outlined in this Settlement for the 2014 PCORC has been followed.

⁴³ *Id.*, ¶ 24.

⁴⁴ Barnard, Exh. No. S-2T at 7:14-16.

⁴⁵ Mickelson, Exh. No. S-2T at 9:1.

⁴⁶ Mickelson, Exh. No. CTM-1T at 10:5-9.

- 43 **PCA Review Collaborative.** In testimony, Public Counsel’s witness, Sebastian Coppola, raised issues with the PCA Mechanism, which he argued is not working as intended. Specifically, he suggested the Commission “reset the dead band, simplify the mechanism, and set a lower threshold to occasionally trigger any cumulative surcharges or refunds to customers.”⁴⁷ The parties have agreed, pursuant to the Settlement, to initiate two collaborative processes to address all issues surrounding the PCA and PCORC, including electric cost of service, rate spread, and rate design, but excluding the issue of whether the PCA or PCORC should continue.⁴⁸
- 44 We commend the parties for entering into a collaborative review of issues that would otherwise go unaddressed for an extended period of time due to PSE’s recently-approved rate plan which imposes a “stay-out period” until 2015 at the earliest.⁴⁹ We realize these issues may be contentious, and it may be difficult for the Company and all parties to reach consensus on each power cost issue included in the PCORC. If the parties reach an agreement in the collaboratives, they will propose its implementation in PSE’s next PCORC.⁵⁰ If the parties do not reach agreement, PSE will initiate a new docket by July 1, 2014, to address PCA and PCORC-related issues, including whether the PCA or PCORC should continue.⁵¹ This new docket will allow for the review of the PCA outside of a PCORC, preserving the expedited treatment of PCORC filings. We find this collaborative to be in the public interest as it provides a creative process for addressing complex issues in a timely way and without litigation. We urge the Company to engage with all parties immediately in this collaborative process since there are only about eight months remaining until July 1st. We also expect the Company and Staff to keep the Commission apprised of the progress, or lack thereof, being made in this collaborative process.
- 45 **Dispatchable Standby Generation (DSG).** In its response testimony, Commission Staff described a program, implemented by PGE that utilizes emergency generators with nameplate capacity of 500 kilowatts and larger to meet the utility’s peak

⁴⁷ Coppola, Exh. No. SC-1T at 5:1-3.

⁴⁸ Settlement, Exh. No. S-1 ¶¶ 25-26.

⁴⁹ Schoenbeck, Exh. No. S-2T at 17:6-9.

⁵⁰ Settlement, Exh. No. S-1 ¶ 25.

⁵¹ *Id.*

generation needs.⁵² PGE uses this program to operate approximately 100 megawatts of peaking capacity that is less expensive than operating a simple-cycle peaker plant and provides all of the non-spinning reserves for PGE's system.⁵³ In this Settlement, PSE agrees to evaluate PGE's program and either file a tariff implementing a similar program or a report on its feasibility by December 1, 2014.⁵⁴ The Company should explore all available, least-cost options, including this particular DSG option used by PGE, to meet its peaking, energy, or capacity needs, and this Settlement provision is consistent with that obligation.⁵⁵ The Commission will evaluate the reasonableness and specific features of any program at the time PSE makes its filing according to the Settlement terms.

46 **Prudence Determinations.** Staff conducted a detailed review of PSE's recently acquired and upgraded generating facilities and transmission contracts and concluded that each acquisition and upgrade was prudent. The parties request that the Commission find the following actions by PSE prudent:

- the acquisition of the Ferndale Generating Station and costs associated with this project;
- the renovation and upgrades at the Snoqualmie Falls Project to implement the Federal Energy Regulatory Commission (FERC) license;
- the addition of a fourth generator unit and a floating surface collector at the Baker Project to implement the FERC license; and
- the acquisition and renewal of transmission contracts with BPA.⁵⁶

We appreciate Staff's thorough review of these plan additions and agree that they are prudent. The acquisition of the Ferndale Generating Station was completed pursuant

⁵² Williams, Exh. No. JMW-1T at 45:17-46:13.

⁵³ *Id.*

⁵⁴ Settlement, Exh. No. S-1 ¶ 27.

⁵⁵ We commend Staff for bringing forth a specific technology option that the Company may use to meet its peak energy and capacity needs rather than relying too heavily on single-cycle gas-fired peaking units as outlined in its 2013 Integrated Resource Plan (IRP). However, we note that this particular DSG solution is not the only possible solution, and the Company should continue to explore in depth other options to make peak needs, such as electric storage, accelerated energy efficiency and demand response, reciprocal engines and others outlined in its 2013 IRP.

⁵⁶ Settlement, Exh. No. S-1 ¶ 28.

to a competitive process in response to demonstrated need.⁵⁷ The Snoqualmie and Baker Projects were completed pursuant to the FERC license requirements.⁵⁸ Finally, the renewal of transmission contracts with BPA is prudent because the transmission is needed to serve customers with low-cost market power during the rate year.⁵⁹

47 In sum, the record shows the Settlement terms to be well supported by the evidentiary record and consistent with the law. We conclude that our approval and adoption of the Settlement, in full resolution of the issues in this proceeding, is in the public interest.

FINDINGS OF FACT

48 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:

- 49 (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.
- 50 (2) PSE 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.
- 51 (3) On April 23, 2013, PSE filed a petition requesting authority to account for prepayments it makes for major maintenance performed on its Mint Farm Combined Cycle Generating Station (Mint Farm) by General Electric International, Inc. by deferring the expense as a regulatory asset.

⁵⁷ Williams, Exh. No. JMW-1T at 32-42.

⁵⁸ *Id.*, at 19-32.

⁵⁹ Gomez, Exh. No. DCG-1T at 8:18-9:9.

- 52 (4) PSE filed revisions to its currently effective Tariff WN U-60 on April 25, 2013. PSE proposed to change its Schedule 95 rates (including Schedule 95A) effective May 26, 2013, to lower rates for electric customers due to changes that have occurred or will occur in PSE's electric portfolio that were projected to decrease the Company's revenue requirement during the rate year beginning November 1, 2013.
- 53 (5) The Commission suspended the operation of the proposed tariff revisions on May 9, 2013, pending an investigation and hearing concerning the proposed changes and whether they are just and reasonable.
- 54 (6) On June 6, 2013, PSE filed an application requesting the Commission find that the Company's Electron Hydroelectric Project (Electron Project) is not necessary or useful, or in the alternative, to approve the sale of the Electron Project to Electron Hydro LLC. PSE also sought approval of its proposed accounting and ratemaking treatment of the sale.
- 55 (7) PSE filed an application on June 27, 2013, requesting approval of the sale of its Lower Snake River Wind Facility Phase II (LSR II) development assets to Portland General Electric (PGE). PSE sought a finding that the assets were not necessary or useful and sought approval of the transfer of its BPA Transmission Service Credits to PGE. The Commission entered Order 01 on July 31, 2013, finding that the assets are not necessary or useful, approving the transfer of the BPA Transmission Service Credits to PGE, and setting for hearing the accounting and ratemaking treatment related to the transfer of the credits.
- 56 (8) On September 16, 2013, PSE, Commission Staff, Public Counsel, and ICNU filed an all-party Settlement Stipulation (Settlement) that, if approved, would resolve all the issues in these dockets.
- 57 (9) The Settlement provides for: (1) a decrease of \$10.482 million in the Company's revenue requirement; (2) the application of the deferral method of accounting to major maintenance as a result of the hot gas path inspection for Mint Farm that occurred in April-May 2013 and future major maintenance performed on all PSE gas-fired electric generation facilities, subject to a \$500,000 minimum threshold; (3) a finding that the sale of the Electron Project to Electron Hydro LLC is in the public interest so long as the executed

Asset Purchase Agreement (Agreement) does not contain any material changes from the originally filed Agreement; (4) reduction of the BPA Transmission Service Credit by \$20.5 million when payment is received for the LSR II development assets and creation of a regulatory asset for carrying charges on the payment; (5) deferral of the return of and return on the Treasury Grants the Company will receive for the Snoqualmie and Baker Projects and a direct rate base reduction for those grants; (6) PSE's consent to use a 12-month test year ended no later than December 31, 2013; (7) creation of two collaborative to address PCA and PCORC-related issues and cost of service, rate spread, and rate design issues; (8) PSE's commitment to evaluate the PGE Dispatchable Standby Generation program; and (9) a determination that the acquisition of the Ferndale Generating Station, the renovation and upgrades to the Snoqualmie Project, the additions to the Baker Project, and PSE's acquired and renewed transmission contracts with BPA are prudent.

- 58 (10) PSE's currently effective rates are not fair, just, or reasonable for the services rendered.

CONCLUSIONS OF LAW

59 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:

- 60 (1) The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of, and parties to, these proceedings.
- 61 (2) PSE's proposed tariff revisions, filed on April 25, 2013, would not result in rates that are fair, just, or reasonable.
- 62 (3) Application of the deferral accounting methodology for major maintenance expenses from the April-May 2013 hot gas path inspection of the Mint Farm Combined Cycle Generating Station and for future major maintenance expenses from PSE's gas-fired generation facilities amounting to at least \$500,000 is reasonable.

- 63 (4) The sale of PSE's Electron Project to Electron Hydro LLC under the originally filed Asset Purchase Agreement (Agreement) is in the public interest and should be conditionally approved so long as there are no material changes to the Agreement.
- 64 (5) The Commission should grant PSE's request to reduce the Bonneville Power Administration (BPA) Transmission Service Credits by \$20.5 million when payment is received from Portland General Electric, and credit a regulatory liability for carrying charges on the payment from the date of receipt through October 31, 2013.
- 65 (6) The direct reduction of PSE's rate base by application of the Snoqualmie and Baker Project Treasury Grants is a reasonable alternative to the use of a Schedule 95A tracker, and this proposed accounting methodology should be approved.
- 66 (7) Deferral of the return on and return of the Treasury Grants associated with the Snoqualmie and Baker Projects is appropriate and in the public interest.
- 67 (8) The Commission should find prudent: (a) the acquisition of the Ferndale Generating Station and the costs associated with the project; (b) the renovation and upgrades at the Snoqualmie Falls Project to implement the Federal Energy Regulatory Commission (FERC) license; (c) the addition of a fourth generator unit and a floating surface collector at the Baker Project to implement the FERC license; and (d) PSE's acquired and renewed transmission contracts with the BPA.
- 68 (9) The Settlement Stipulation (Settlement) filed by the parties on September 16, 2013, if approved, would result in rates for PSE that are fair, just, reasonable, and sufficient.
- 69 (10) Rates determined on the basis of the terms set forth in the Settlement would be neither unduly preferential nor discriminatory and should become effective November 1, 2013.
- 70 (11) The Settlement fully and fairly resolves the issues in these dockets and is in the public interest.

- 71 (12) 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.
- 72 (13) The Commission Secretary should be authorized to accept by letter, with copies to all parties to this proceeding, a filing that complies with the requirements of this Order.
- 73 (14) The Commission should retain jurisdiction to effectuate the terms of this Order.

ORDER

THE COMMISSION ORDERS:

- 74 (1) The proposed tariff revisions PSE filed on April 25, 2013, and suspended by prior Commission order, are rejected.
- 75 (2) The Settlement Stipulation filed by PSE, Commission Staff, Public Counsel, and ICNU, and attached to this Order as Appendix A, is approved and adopted.
- 76 (3) PSE is authorized and required to make a compliance filing including such new and revised tariff sheets as are necessary to implement the requirements of this Order.
- 77 (4) The sale of PSE's Electron Hydroelectric Project to Electron Hydro LLC is conditionally approved so long as there are no material changes to the Asset Purchase Agreement (including exhibits) filed on June 6, 2013.
- 78 (5) PSE's acquisition of the Ferndale Generating Station and the costs associated with this project, the renovation and upgrades at Snoqualmie Falls Project to implement the FERC license, the addition of a fourth generator unit and a floating surface collector at the Baker Project to implement the FERC license, and PSE's acquired and renewed transmission contracts with BPA are prudent.

- 79 (6) The Commission Secretary is authorized to accept by letter, with copies to all parties to this proceeding, a filing that complies with the requirements of this Order.
- 80 (7) 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 October 23, 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.

APPENDIX A
(Settlement Stipulation)