

SERVICE DATE

APR 26 1991

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	
)	
vs.)	DOCKET NO. UE-901183-T
)	
PUGET SOUND POWER & LIGHT)	
COMPANY)	
)	
Respondent,)	
)	
.....)	
)	
In the Matter of the Petition)	
of PUGET SOUND POWER & LIGHT)	
COMPANY for an Order)	DOCKET NO. UE-901184-P
Approving a Periodic Rate)	
Adjustment Mechanism and)	
Related Accounting)	
)	
.....)	FOURTH SUPPLEMENTAL ORDER
)	ON RECONSIDERATION

BACKGROUND

On October 10, 1990, Puget Sound Power & Light Company ("Puget" or "company") filed two cases: Docket No. UE-901184-P is a petition for approval of a periodic rate adjustment mechanism, including deferred accounting; Docket No. UE-901183-T is tariff revisions to implement the periodic rate adjustment mechanism for an initial nine month period.

The Commission held hearings on November 19 and December 5-7, 1990, and February 11-15, 1991, in Olympia, and on February 19, 1991, in Bremerton and Bellevue. On April 1, 1991, the Commission issued the Third Supplemental Order in this matter adopting Puget's decoupling proposal, as modified on rebuttal, on an experimental basis, effective October 1, 1991. The Commission reduced the company's authorized rate of return to reflect a lower level of shareholder risk resulting from the Commission's determinations in this matter. The Commission rejected the company's tariff filing in Docket No. UE-901183-T.

On April 11, 1991, the Commission staff filed a Petition for Reconsideration (Clarification). On April 12, 1991, the Public Counsel filed a Petition for Reconsideration and/or Clarification. Responses to the petitions were received from intervenor WICFUR on April 19, 1991, and from the company and Commission staff on April 22, 1991.

SUMMARY

The Commission denies the petitions for reconsideration filed by the Commission staff and Public Counsel. The Commission finds the interest of all parties and the public interest to be served by the discussion herein clarifying the Third Supplemental Order as requested by the Commission staff and Public Counsel.

COMMISSION DISCUSSION

A. Variable Power Supply Costs

1. Secondary Energy Rate

The Commission Order at page 17 held that variable power supply costs "will be measured in the manner proposed by the company, as depicted in Exhibits 88 and 99." Public Counsel has asked the Commission to clarify which secondary energy rates will be used in the simplified dispatch model, as summarized in Exhibit 99. Public Counsel notes that both he and staff had recommended use of the secondary power rates, by month, approved in the previous general rate case. The company, according to Public Counsel, advocated use of actual costs, while WICFUR proposed use of a portion of actual costs.

The Commission staff seeks clarification out of concern that the prices for secondary transactions depicted in Exhibit 99 do not seem to comport with the company's position as expressed by its witness Lauckhart. Mr. Lauckhart represented the company's proposal as using the average of secondary purchases and sales, according to the staff.

The company refers to the Commission order for the resolution of this issue, noting that these costs are to be treated "in the manner proposed by the company[.]" The company cites Mr. Lauckhart's testimony that the collaborative process established what was included in such costs: "Such costs were inclusive of actual purchases, actual sales and actual combustion turbine costs."

WICFUR agrees that the Order should be clarified on this point as requested by Public Counsel and Staff.

The Commission reiterates its decision to treat such costs in the manner proposed by the company. The Third Supplemental Order intended to adopt the use of secondary rates computed to include secondary purchases, secondary sales, and combustion turbine costs for projected, allowed, and actual purposes.

2. Reexamination of Variable Costs

The Commission staff also seeks clarification on the status of cost items used in the simplified dispatch model. Specifically, staff asks whether these cost items are "frozen" or are to be reexamined with each general rate case proceeding. Because the variable costs of resources may change in future general rate proceedings, staff asks the Commission to decide now that the variable costs of other resources utilized in the simplified dispatch model will also be examined in the general rate proceeding.

The company contends that its proposal always intended that all costs of service would be reexamined in future general rate proceedings. Thereafter, the simplified dispatch model would incorporate costs at the new level fixed in each subsequent general rate case and utilize such new costs as a base.

WICFUR concurs in the staff request for clarification.

The Commission will clarify its position on this issue for the benefit of all parties. The Commission takes the opportunity again to emphasize that all costs are subject to review and reexamination during general rate case proceedings under this program. The Order at page 17 intended to indicate that the costs established by the Commission in the then most current general rate case proceeding would be the costs thereafter utilized in the simplified dispatch model and that these costs would be subject to investigation and adjustment in each succeeding general rate case.

B. Bonneville Exchange Power O & M

Public Counsel urges the Commission to address the appropriate level of Bonneville Exchange Power (BEP) O & M costs to be included in the resource recovery mechanism. This issue was raised during the hearings in this matter but not addressed by the Commission Order. Public Counsel continues to advocate that O & M costs be included in the periodic rate adjustment mechanism at the midpoint of the floor and ceiling level allowed by the BEP agreement.

The company cites to the Commission Order in Docket No. U-86-131 for the proposition that this issue was decided and has been consistently followed: ". . . the only supportable approach is to allow Puget to recover its actual O & M costs for the settlement power . . ." (Emphasis added.)

WICFUR supports clarification of this issue.

The Commission did not address this issue in its Order because it was not persuaded that any amount other than the actual amount of BEP O & M costs was the appropriate amount to be recovered by the company. Nor is the Commission now otherwise persuaded. The BEP O & M costs should be the actual costs incurred by the company.

C. AFUCE Allowance on Conservation Investment

Public Counsel petitions the Commission to clarify the accrual of AFUCE on conservation investment. Specifically, he asks that only increases in conservation above the level included in rates should be used to calculate AFUCE. The resulting amount would then be adjusted by a factor equal to the rate of customer growth.

The Commission staff response to Public Counsel agrees that AFUCE should accrue on net new conservation costs above the level of amortization included in rates. Further, staff sought clarification on the frequency of the accrual and the method of compounding accruals.

The company claims there is no misunderstanding: "Puget's proposal clearly contemplated that new conservation investment would accrue AFUCE." The company asserts the Order is clear in mandating accrual of AFUCE only on new conservation investment.

WICFUR seeks clarification of this point.

The Commission believes its Order is clear and unambiguous on this point. The Commission held that AFUCE will be accrued on new conservation investment until that investment is included in rates. Calculation of conservation investment, for inclusion in resource costs, will be based upon the rate period average of monthly averages ("a.m.a.") net balance of conservation investment. Only capitalized grants and other capitalized costs will be valued as of the cut-off date in the determination of the a.m.a. net balance of conservation investment. All other conservation items, including accumulated amortization, will be based upon actual a.m.a. balances during the rate year.

The Commission clarifies the frequency and method of compounding AFUCE. The Commission assumed that AFUCE would be accrued similar to the accrual of AFUDC on CWIP. Specifically, monthly accruals, including the half-month convention on new conservation expenditures, and annual compounding are ordered.

E. Banded Rate of Return

Public Counsel petitions for reconsideration of the banded rate of return established by the Commission. In Public Counsel's assessment, the banded return "amounts to a guaranteed rate of return for Puget," the effect of which is to eliminate "the very few risks that remain with the company -- thus virtually eliminating downside incentives for efficiency." Public Counsel claims the Commission has substantially reduced shareholder risk: 1) elimination of hydro risk, for a small adjustment to the rate of return; 2) effective elimination of weather conditions as a financial risk factor; 3) elimination of regulatory lag and disincentives to conservation investment through the periodic rate adjustment mechanism and AFUCE; 4) elimination of power supply cost risk between rate cases; and, 5) elimination of the limited risk of resource failure, even though that risk was accepted by the company as part of its proposal.

Public Counsel also is concerned about the use of actual rather than Commission basis reporting under the periodic rate adjustment mechanism. He cites as problems that 1) Commission disallowed costs are not removed; 2) Commission orders requiring amortization of the gain on sale of real property are not recognized; and, 3) Commission decisions allocating certain costs to subsidiaries may not be followed.

Public Counsel urges adoption of his recommendation to install a 50 basis point cap with no floor and use of Commission basis reporting. If the Commission adheres to its position, Public Counsel proposes four qualifications to application of the rate of return band.

The Commission staff requests clarification of the adoption of the banded rate of return by the Commission; specifically, staff finds no record support from the parties for adoption of the company's band proposal. Likewise, the staff asserts that the order misstates its position and misapplies its statement "that a safety net be provided for ratepayers and shareholders."

The staff had proposed limiting the amount of rate increases and decreases indicated by the rate adjustment mechanism based upon a 50 basis point band on the rate of return. If the company was earning above the band, no mechanism-indicated rate increase would take effect; conversely, if the company was earning below the band, no mechanism-indicated rate decrease would take effect. The staff brief in support of its own band proposal argued against adoption of the company band:

The Company would be guaranteed never to earn less than (or more than) 50 basis points from its authorized ROR, no matter what abnormal conditions, lack of cost control, or mismanagement existed. Such guarantee is far beyond the purpose of the Company's rate mechanism or this proceeding and, if implemented, would be a totally inappropriate and unnecessary outcome. The staff's proposal for a rate of return band properly creates a safety net for stockholder and ratepayer during experimental implementation of the decoupling mechanism. (Emphasis added.)

WICFUR agrees with Public Counsel's criticisms of the banded return adopted by the Commission: "it is a virtual guarantee of Puget's rate of return, which is unnecessary to accomplish the goals of regulatory reform and well beyond the scope of the NOI and the PRAM proposal." WICFUR also asserts the band renders superfluous additional, ratepayer-financed incentives for acquisition of least cost resources.

WICFUR supports an earnings test based upon the increase or decrease indicated by the rate adjustment mechanism. WICFUR proposes that if, under normal operating conditions, the company's earnings were above the last authorized rate of return, the company's revenues would be adjusted to bring revenue requirements and return into balance. If Puget's earnings were less than authorized, the company would be permitted recovery of the full amount indicated by the mechanism -- but not additional revenues to maintain the company's profit level.

The company maintains that the concerns of Commission staff and Public Counsel about a rate of return band based upon actual operating results should be given less weight in light of the Commission-ordered reduction in the company's rate of return from 10.22% to 10.16%. According to the company, this results in a lower "ceiling" and "floor" on the company's return than had been contemplated by the company in its filing. The company therefore argues that if the Commission reconsiders in any respect its position on the banded rate of return, the company's allowed rate of return of 10.22% authorized in the past general rate case should be restored.

The Commission adopted a banded rate of return primarily out of a concern that the experimental nature of this program might lead to an over-earnings situation for the company. In order to protect ratepayers against this eventuality, the Commission capped the company's return at a "ceiling" of 50 basis

points above the newly-authorized rate of return of 10.16%. The Commission however noted at page 19 that neither it nor any "party to this proceeding . . . can forecast with any certainty the ultimate outcome of implementing the company proposal." To be consistent with its conservative position on over-earning, the Commission adopted the converse "floor" of 50 basis points below the company's newly-authorized rate of return. The banded rate of return is effective only through the initial period of this experimental program.

The Commission is keenly aware of the concerns expressed by Public Counsel, WICFUR, and its own staff and directs the parties to the last paragraph of section V. of the Order at page 19. The Commission there addresses concerns regarding application of the adopted band to "actual results" of company operations. The Commission noted its intent to "carefully monitor expenditures" to protect against abuse of the banded rate of return. While the Commission declines the invitation to reconsider its adoption of the banded rate of return, the Commission clarifies the meaning of this paragraph to eliminate any potential confusion over the scope of its examination of expenditures in the periodic rate adjustment review.

The Commission expects the reporting of actual results of operations to be in conformity with prior Commission decisions on ratemaking treatment of various revenue, expense, and ratebase items. Just as the Commission declines to use the list of items proffered by Public Counsel to condition operation of the band, the Commission will not here identify pertinent or illustrative items from prior cases. The company is well aware of the Commission's prior accounting treatment of various ratemaking items and strictly should adhere to those principles.

The Commission denies the petitions for reconsideration filed by the Commission staff and Public Counsel. The Commission believes that the Third Supplemental Order, with the clarifying discussion herein contained, adequately addresses the concerns of the petitioning parties and fully represents the position of the Commission on these matters.

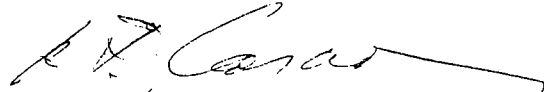
O R D E R

WHEREFORE THE COMMISSION HEREBY ORDERS:

The petitions for reconsideration filed by the Commission staff and Public Counsel are hereby denied.

DATED at Olympia, Washington, and effective this 26th day of April, 1991.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



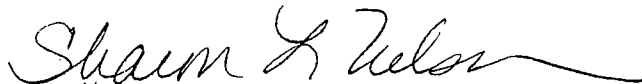
RICHARD D. CASAD, Commissioner



A. J. PARDINI, Commissioner

Sharon L. Nelson, Chairman (Concurring in part and dissenting in part) - I continue to dissent from the majority's decision to adopt a banded rate of return with the approval of the periodic rate adjustment mechanism for the same reasons I expressed in my separate opinion in the Third Supplemental Order.

I concur with the decision of the majority regarding all other issues discussed in this order.



SHARON L. NELSON, Chairman

NOTICE TO PARTIES:

This is a final order of the Commission. 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 480-09-810, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-09-820(1).