

**Gas Commission Basis Report Cover Letter
December 31, 2016**

Page 1.01

		<u>Adjusted Results of Operations</u>	<u>Earnings Sharing</u>	<u>After Earnings Sharing</u>
Restated Net Operating Income	a	\$ 137,394,249	\$ (1,359,527)	\$ 136,034,722
Restated Rate Base	b	\$ 1,733,271,497	\$ -	\$ 1,733,271,497
Normalized Overall Rate of Return	c=a/b	7.93%	-0.08%	7.85%
Restated Net Operating Income	d=a	\$ 137,394,249	\$ (1,359,527)	\$ 136,034,722
Restated Interest Expense	e	\$ 52,518,126		\$ 52,518,126
Restated NOI less Restated Interest Exp	f=d-e	\$ 84,876,123	\$ (1,359,527)	\$ 83,516,596
Restated Rate Base	g=b	\$ 1,733,271,497	\$ -	\$ 1,733,271,497
Actual Equity Percent	h	48.91%		48.91%
Equity Rate Base	i=g*h	\$ 847,743,089	\$ -	\$ 847,743,089
Restated Return on Actual Equity	j=f/i	10.01%	-0.16%	9.85%

PUGET SOUND ENERGY, INC.**Utility Capital Structure
Cost of Capital and Rate of Return****For The 12 Months Ending December 31, 2016**

	(A)	(B)	(C)	(D)	(E)
					Weighted Cost of Capital
	<u>Description</u>	<u>Amount (i)</u>	<u>Ratio</u>	<u>Cost</u>	
1					
2					
3					
4					
5					
6					
7	Short Term Debt	\$80,378,875	1.08%	4.20%	0.05% (A)
8					
9	Long Term Debt	\$3,743,421,926	50.01%	5.95%	2.98% (A)
10					
11	Common Stock	<u>\$3,661,028,217</u>	<u>48.91%</u>	9.80%	<u>4.79%</u>
12					
13	Total	<u>\$7,484,829,018</u>	<u>100.00%</u>		<u>7.82%</u>
14					
15					
16	(i) - Average of Month-End Balances			Total (A)	3.03%

**Decoupling Filing
Gas Earnings Test
2016 December CBR**

Line No.	Description	Calculation	Source
	(a)	(b)	(c)
1	Restated Rate Base	\$ 1,733,271,497	Commission basis report pg 1.01 line b
2	Threshold	7.770%	(Source: UE130137/UG130138)
3	Maximum Net Operating Income	\$ 134,675,195	line 1 x line 2
4	Restated Net Operating Income	\$ 137,394,249	Commission basis report pg 1.01 line a
5	Difference	\$ 2,719,054	line 4 - line 3
6	Excess Earnings	\$ 2,719,054	Greater of zero or line 5
7	Earnings Sharing Percentage	50%	UG-121705
8	After-Tax Earnings Sharing	\$ 1,359,527	line 6 x line 7
9	Net to Gross Conversion Factor	0.621335	As Approved in ERF
10	Earnings Sharing for CY 2016	\$ 2,188,074	line 8 / line 9

**PERIODIC ALLOCATED RESULTS OF OPERATIONS
FOR THE 12 MONTHS ENDED DECEMBER 31, 2016**

(Common cost is spread based on allocation factors developed for the 12 ME 12/31/2016)

	Electric	Gas	Total Amount
1 - OPERATING REVENUES:			
2 - SALES TO CUSTOMERS	\$ 2,147,655,566	\$ 854,614,988	\$ 3,002,270,554
3 - SALES FOR RESALE-FIRM	325,348	-	325,348
4 - SALES TO OTHER UTILITIES	180,683,383	-	180,683,383
5 - OTHER OPERATING REVENUES	60,271,453	35,895,209	96,166,662
6 - TOTAL OPERATING REVENUES	\$ 2,388,935,751	\$ 890,510,196	\$ 3,279,445,947
7			
8 - OPERATING REVENUE DEDUCTIONS:			
9			
10 - POWER COSTS:			
11 - FUEL	\$ 215,331,286	\$ -	\$ 215,331,286
12 - PURCHASED AND INTERCHANGED	546,513,843	313,953,738	860,467,582
13 - WHEELING	114,137,949	-	114,137,949
14 - RESIDENTIAL EXCHANGE	(69,823,672)	-	(69,823,672)
15 - TOTAL PRODUCTION EXPENSES	\$ 806,159,406	\$ 313,953,738	\$ 1,120,113,144
16			
17 - OTHER ENERGY SUPPLY EXPENSES	\$ 126,338,252	\$ 2,536,730	\$ 128,874,981
18 - TRANSMISSION EXPENSE	20,320,134	-	20,320,134
19 - DISTRIBUTION EXPENSE	86,297,607	59,765,034	146,062,640
20 - CUSTOMER ACCTS EXPENSES	48,794,685	26,674,421	75,469,106
21 - CUSTOMER SERVICE EXPENSES	20,016,503	7,926,046	27,942,549
22 - CONSERVATION AMORTIZATION	94,684,813	13,098,809	107,783,622
23 - ADMIN & GENERAL EXPENSE	118,560,450	52,765,995	171,326,445
24 - DEPRECIATION	270,719,902	124,027,466	394,747,368
25 - AMORTIZATION	46,836,789	11,987,329	58,824,119
26 - AMORTIZ OF PROPERTY LOSS	20,604,866	-	20,604,866
27 - OTHER OPERATING EXPENSES	(14,522,679)	(193,739)	(14,716,418)
28 - ASC 815	(83,794,605)	-	(83,794,605)
29 - TAXES OTHER THAN INCOME TAXES	232,019,597	96,060,993	328,080,590
30 - INCOME TAXES	19,618	(0)	19,617
31 - DEFERRED INCOME TAXES	189,448,153	65,109,447	254,557,601
32 - TOTAL OPERATING REV. DEDUCT.	\$ 1,982,503,490	\$ 773,712,268	\$ 2,756,215,758
NET OPERATING INCOME	\$ 406,432,260	\$ 116,797,929	\$ 523,230,189

**PUGET SOUND ENERGY
BALANCE SHEET
As of December 31, 2016**

FERC Account and Description	Dec-16	Dec 16 AMA
*ASSETS		
**UTILITY PLANT		
***Electric Plant		
101 Electric Plant in Service	9,396,472,413	9,215,978,925
102 Electric Plant Purchased or Sold	-	-
105 Electric Plant Held for Future Use	49,015,408	49,092,027
106 Comp. Construction Not Classfd.-Electric	73,458,402	49,893,812
107 Construction Work in Prog. - Electric	243,163,405	248,404,578
114 Electric Plant Acquisition Adjustments	282,791,675	282,791,675
Total Electric Plant	10,044,901,303	9,846,161,018
***Gas Plant		
101 Gas Plant in Service	3,444,210,171	3,384,955,115
105 Gas Plant Held for Future Use	1,436,770	2,415,940
106 Comp. Construction Not Classfd. - Gas	83,344,851	44,810,839
107 Construction Work in Progress - Gas	102,624,563	97,042,004
117.3 Gas Strd.in Resvr.& Pipln.-Noncurr.	8,654,564	8,654,564
Total Gas Plant	3,640,270,919	3,537,878,462
***Common Plant		
101 Plant in Service - Common	503,142,213	497,323,128
101.1 - Property under capital leases	644,576	74,136
105 Common Plant Held for Future Use	2,184,059	242,668
106 Comp Construction Not Classfd. - Common	2,541,490	1,401,505
107 Construction Work in Progress - Common	124,205,723	83,846,729
Total Common Plant	632,718,063	582,888,166
***Accumulated Depreciation and Amortization		
108 Accumulated Provision for Depreciation	(4,986,808,885)	(4,925,407,731)
111 Accumulated Provision for Amortization	(144,715,871)	(132,521,510)
115 Accm.Priv.for Amort.of Plant Acquis.Adj.	(121,205,532)	(116,690,319)
Less: Accumulated Depr and Amortizat	(5,252,730,288)	(5,174,619,560)
**NET UTILITY PLANT	9,065,159,997	8,792,308,085
**OTHER PROPERTY AND INVESTMENTS		
***Other Investments		
121 Nonutility Property	2,786,820	3,264,181
122 Accm.Prov.for Depr.& Amort.Non-utility P	343,834	148,035
123.1 Investment in Subsidiary Companies	29,527,738	29,738,570
124 Other Investments	49,106,001	51,029,880
***Total Other Investments	81,764,394	84,180,666
**TOTAL OTHER PROPERTY AND INVESTMENT	81,764,394	84,180,666
**CURRENT ASSETS		
***Cash		
131 Cash	24,594,661	18,632,611
134 Other Special Deposits	7,269,365	4,504,694
135 Working Funds	5,068,123	4,608,324
136 Temporary Cash Investments	-	3,166,667
***Total Cash	36,932,150	30,912,296
***Restricted Cash		
***Total Restricted Cash	-	-
***Accounts Receivable		
141 Notes Receivable	3,213,241	3,264,189
142 Customer Accounts Receivable	232,806,401	200,174,050
143 Other Accounts Receivable	89,735,816	76,189,223
146 Accounts Receiv.from Assoc. Companies	16,144,493	1,245,216
171 Interest and Dividends Receivable	-	-
173 Accrued Utility Revenues	234,052,760	156,091,168
185 Temporary Facilities	145,946	105,520
191 Unrecovered Purchased Gas Costs	2,784,765	(8,407,539)
***Total Accounts Receivable	578,883,422	428,661,826

***Allowance for Doubtful Accounts		
144 - Accumulated provision for uncollectible account credit	(9,797,823)	(9,587,163)
***Less: Allowance for Doubtful Accounts	(9,797,823)	(9,587,163)
***Materials and Supplies		
151 Fuel Stock	20,077,521	20,004,570
154 Plant Materials and Operating Supplies	104,509,800	95,306,836
156 Other Materials and Supplies	205,468	221,777
158.1 Carbon Allowances	4,083	4,083
163 Stores Expense Undistributed	1,864,432	3,231,270
164.1 Gas Stored - Current	36,506,049	33,417,610
164.2 Liquefied Natural Gas Stored	61,730	42,529
***Total Materials and Supplies	163,229,083	152,228,674
***Unrealized Gain-Derivative Instrumnts (ST)		
175 Invest in Derivative Instrumnts -Opt ST	54,341,129	30,005,022
176 Invest in Derivative Instrumnts-Gain ST	-	-
***Unrealized Gain on Derivatives (ST)	54,341,129	30,005,022
***Prepayments and Other Current Assets		
165 Prepayments	25,309,507	26,747,745
174 Misc.Current and Accrued Assets	-	7,366,396
186 Miscellaneous Deferred Debits	9,837	8,491
***Total Prepayments & Othr.Curr.Assets	25,319,344	34,122,632
Current Deferred Taxes		
Total Current Deferred Taxes	515,892,746	562,220,206
**TOTAL CURRENT ASSETS	1,364,800,051	1,228,563,492
**LONG-TERM ASSETS		
128 Qualified Pension Plan Funded Status	20,163,333	20,162,538
165 Long-Term Prepaid	22,437,376	10,187,946
165.8 Long-Term Prepaid Contra	(5,065,658)	(8,977,486)
165.9 Long-Term Prepaid	5,065,658	8,977,486
175 Invest in Derivative Instrumnts -Opt LT	8,738,208	7,313,196
176 Invest in Derivative Instrumnts-Gain LT	-	-
181 Unamortized Debt Expense	27,151,032	28,583,136
182.1 Extraordinary Property Losses	122,709,069	124,513,977
182.2 Unrecovered Plant & Reg Study Costs	5,230,665	7,794,400
Subtotal WUTC AFUDC	51,403,519	51,309,033
182.3 Other Regulatory Assets	580,964,326	571,632,385
183 Prelm. Survey and Investigation Charges	-	-
184 Clearing Accounts	5,441	(12,146)
186 Miscellaneous Deferred Debits	200,852,873	225,154,172
187 Def.Losses from Dispos.of Utility Plant	395,028	509,669
189 Unamortized Loss on Reacquired Debt	42,196,348	43,589,312
**TOTAL LONG-TERM ASSETS	1,082,247,217	1,090,737,619
*TOTAL ASSETS	\$ 11,593,971,660	\$ 11,195,789,862
*CAPITALIZATION AND LIABILITIES		
**CURRENT LIABILITIES		
230 Asset Retirement Obligations	(298,722)	(350,538)
244 FAS 133 Opt Unrealized Loss ST	(44,169,509)	(87,831,570)
245 FAS 133 Unrealized Loss ST	-	-
231 Notes Payable	(245,763,000)	(80,378,875)
232 Accounts Payable	(352,583,618)	(258,123,057)
233 Notes Payable to Associated Companies	-	-
234 Accounts Payable to Asscted Companies	-	-
235 Customer Deposits	(43,605,570)	(37,725,201)
236 Taxes Accrued	(111,128,413)	(104,881,674)
237 Interest Accrued	(48,087,314)	(57,765,635)
238 Dividends Declared	-	-
241 Tax Collections Payable	(1,358,171)	(1,199,317)
242 Misc. Current and Accrued Liabilities	(24,880,750)	(29,974,257)
243 Obligations Under Cap.Leases - Current	(665,055)	(74,989)
**TOTAL CURRENT LIABILITIES	(872,540,123)	(658,305,113)
**DEFERRED TAXES		

***Reg. Liability for Def.Income Tax		
283 Accum.Deferred Income Taxes - Other	(70,264,585)	(69,540,707)
***Total Reg.Liab.for Def.Income Tax	(70,264,585)	(69,540,707)
***Deferred Income Tax		
255 Accum.Deferred Investment Tax Credits	-	-
282 Accum. Def. Income Taxes - Other Prop.	(1,892,407,598)	(1,846,995,950)
283 Accum.Deferred Income Taxes - Other	(287,908,304)	(301,082,995)
***Total Deferred Income Tax	(2,180,315,902)	(2,148,078,945)
***TOTAL DEFERRED TAXES	(2,250,580,486)	(2,217,619,652)
***OTHER DEFERRED CREDITS		
Subtotal 227 Oblig Under Cap Lease - Noncurr	-	-
Total Unrealized Loss on Derivatives -LT	(16,260,549)	(25,985,003)
228.2 Accum. Prov.for Injuries and Damages	(425,000)	(367,417)
228.3 Pension & Post Retirement Liabilities	(91,147,184)	(94,061,449)
228.4 Accum. Misc.Operating Provisions	(281,621,011)	(283,554,075)
229 Accum Provision for Rate Refunds	-	-
230 Asset Retirement Obligations (FAS 143)	(200,046,393)	(102,119,690)
252 Customer Advances for Construction	(82,187,305)	(78,028,901)
253 Other Deferred Credits	(398,297,338)	(367,624,960)
254 Other Regulatory Liabilities	(135,698,471)	(130,058,412)
256 Def. Gains from Dispos.of Utility Plt	(2,882,761)	(3,192,483)
257 Unamortized Gain on Reacquired Debt	-	41,497
***TOTAL OTHER DEFERRED CREDITS	(1,208,566,012)	(1,084,950,893)
***CAPITALIZATION		
***SHAREHOLDER'S EQUITY		
****Common Equity		
201 Common Stock Issued	(859,038)	(859,038)
207 Premium on Capital Stock	(478,145,250)	(478,145,250)
211 Miscellaneous Paid-in Capital	(2,804,096,691)	(2,804,096,691)
214 Capital Stock Expense	7,133,879	7,133,879
215 Appropriated Retained Earnings	(20,239,166)	(17,384,436)
216 Unappropriated Retained Earnings	(237,152,563)	(238,381,646)
216.1 Unappr.Undistrib.Subsidiary Earnings	14,969,706	14,758,874
219 Other Comprehensive Income	145,509,911	144,869,575
433 Balance Transferred from Income	(380,581,213)	(222,569,261)
438 Dividends Declared - Common Stock	257,363,965	125,916,241
439 Adjustments to Retained Earnings	5,848,610	5,848,610
****Total Common Equity	(3,490,247,850)	(3,462,909,143)
***TOTAL SHAREHOLDER'S EQUITY	(3,490,247,850)	(3,462,909,143)
***REDEEMABLE SECURITIES AND LONG-TERM DEBT		
****Preferred Stock - Manditorily Redeemable Capital	-	-
****Total Preferred Stock - Mand Redeem	-	-
****Corporation Obligated, Mand Redeemable Preferred Stock Subscribed	-	-
****Corporation Obligated, Mand Redeem	-	-
****Long-term Debt		
221 Junior Subordinated Debt	(250,000,000)	(250,000,000)
221 Bonds	(3,523,860,000)	(3,523,860,000)
226 Unamort.Disct. on Long-term Debt-Debit	1,822,812	1,854,938
Long-term Debt	(3,772,037,188)	(3,772,005,062)
****Long-term Debt Total	(3,772,037,188)	(3,772,005,062)
***REDEEMABLE SECURITIES AND LTD	-	-
***TOTAL CAPITALIZATION	(7,262,285,038)	(7,234,914,204)
*TOTAL CAPITALIZATION AND LIABILITIES	<u>\$ (11,593,971,660)</u>	<u>\$ (11,195,789,862)</u>

Puget Sound Energy
Gas Rate Base
12/31/2016

Line No.	Description	AMA 12/31/16
1	Gas Utility Plant in Service	3,423,126,874
2	Common Plant-Allocation to Gas	162,667,994
3	Gas Stored Underground - Non current	<u>8,654,564</u>
4	Total Plant in Service and Other Assets	3,594,449,432
5	Accumulated Provision for Depreciation	(1,320,749,606)
7	Common Accumulated Depreciation-Allocation to Gas	(68,002,472)
8	Customer Advances for Construction	(20,963,726)
9	Contributions in Aid of Construction - Accum. Def. FIT.	-
10	Liberalized Depreciation Total Accum. Def. FIT - Liberalized	(529,361,105)
11	NOL Carryforward	11,762,158
12	Customer Deposits	<u>(10,371,787)</u>
12	Accumulated Depreciation and Other Liabilities	(1,937,686,538)
13	Net Operating Investment	<u>1,656,762,894</u>
14	Allowance for Working Capital	<u>76,508,603</u>
15	Total Gas Rate Base	<u><u>1,733,271,497</u></u>

			31-Dec-16
Code	Line No.	Description	AMA
1	1	Average Invested Capital	
2	2	Common Stock	859,038
3	3	Preferred Stock	-
4	4	Additional Paid in Capital	3,274,616,487
5	5	Unamortized Debt Expense	(21,922,315)
6	6	Unappropriated Retained Earnings	362,354,859
7	7	Notes Payable - Misc	-
8	8	Long Term Debt	3,772,005,062
9	9	Short Term Debt	80,378,875
10	10	Accumulated Deferred ITC	-
10.1	11	Treasury Grants	-
11	12	Deferred Debits-Other	-
12	13	Unamortized Gain/Loss on Debt	(43,630,809)
14	14	Total Average Invested Capital	<u>7,424,661,197</u>
15	15		
16	16	Average Operating Investments - Electric	
17	17		
18	18	Plant in Service (includes acquisition adj)	9,455,825,505
19	19	Electric Future Use Property	49,092,027
20	20	Customer Advances for Construction	(57,065,176)
21	21	Customer Deposits	(27,353,415)
22	22	Deferred Taxes	(1,067,951,632)
23	23	Deferred Debits/Credits - Other	132,362,237
24	24	Less: Accumulated Depreciation	(3,649,228,149)
25	25	Snoqualmie & Baker Treasury Grants	(103,982,567)
26	26	Common Plant-Allocation to Electric	326,853,506
27	27	Common Accum Depr-Allocation to Electric	(136,639,333)
28	28	Common Deferred Taxes-Allocation to Electric	(29,387,399)
29	29	NOL Carryforward	68,926,240
30	30	Total Average Operating Investment - Electric	<u>4,961,451,844</u>
31	31		
32	32	Average Operating Investments - Gas	
33	33		
34	34	Gas Utility Plant in Service	3,423,126,874
35	35	Deferred Items - Other	101,804,176
36	36	Gas Stored Underground, Non-Current	8,654,564
37	37	Gas Accumulated Depreciation	(1,320,749,606)
38	38	Gas Customer Advances for Construction	(20,963,726)
38.1	39	Gas Customer Deposits	(10,371,787)
39	40	DFIT 17	(551,161,706)
40	41	PGA	(8,407,539)
26	42	Common Plant-Allocation to Gas	162,667,994
27	43	Common Accumulated Depreciation-Allocation to Gas	(68,002,472)
28	44	Common Deferred Tax	(14,625,480)
29	45	NOL Carryforward	11,762,158
46	46	Total Average Operating Investment - Gas	<u>1,713,733,450</u>
47	47		
48	48	Total Electric & Gas Operating Investment	<u><u>6,675,185,294</u></u>
49	49		
50	50	Construction Work in Progress	
51	51		
51	52	Elec Construction Work in Process	304,389,039
52	53	Gas Construction Work in Process	124,904,272
53	54	Other Work in Process	1,957,608
60	55	Electric Preliminary Surveys	-
56	56	Total Construction Work in Progress	<u>431,250,919</u>
57	57		
58	58	Nonoperating	
59	59		
54	60	Non-Utility Property	3,412,216
55	61	Investment in Associated Companies	30,983,787
56	62	Other Investments & FAS 133	(141,738,659)
57	63	Deferred Items-Other	159,339,417
58	64	Deferred Federal Income Tax	(34,243,471)
59	65	Investment Tracking Funds	1,598,116
61	66		-
62	67		-

			31-Dec-16
Code	Line No.	Description	AMA
67	68	Merchandising Inventory - Gas Only	
	69	Total Non Operatting Investment	19,351,406
	70		
	71	Total CWIP & Nonoperating Investment	450,602,325
	72		
	73	Total Average Investments	7,125,787,619
	74	Rounding	
	75	Total Investor Supplied Capital	298,873,578

Allocation of Working Capital

Electric Working Capital

Total Investment	7,125,787,619
Less: Electric CWIP	(304,389,039)
Less: Gas	(124,904,272)
Interest Bearing Regulatory Assets	
Other Work in Progress	(1,957,608)
Preliminary Surveys	-
Total	6,694,536,700
Electric Working Capital Ratio	4.4644%
Electric Working Capital	221,501,044

Gas Working Capital

Total Investment	7,125,787,619
Less: Electric CWIP	(304,389,039)
Less: Gas CWIP	(124,904,272)
Interest Bearing Regulatory Assets	
Other Work in Progress	(1,957,608)
Preliminary Surveys	-
Total	6,694,536,700
Gas Working Capital Ratio	4.4644%
Gas Working Capital	76,508,603

Non Operating Working Capital

	863,932
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PUGET SOUND ENERGY-ELECTRIC & GAS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
ALLOCATION METHODS

Method	Description		Electric	Gas	Total
1	* <u>12 Month Average Number of Customers</u>	12/31/2016	1,119,719	807,586	1,927,305
	Percent		58.10%	41.90%	100.00%
2	* <u>Joint Meter Reading Customers</u>	12/31/2016	759,651	450,504	1,210,155
	Percent		62.77%	37.23%	100.00%
3	* <u>Non-Production Plant</u>				
	Distribution	12/31/2016	\$ 3,561,850,556	\$ 3,319,192,245	\$ 6,881,042,801
	Transmission	12/31/2016	1,411,291,068	-	1,411,291,068
	Direct General Plant	12/31/2016	220,899,712	32,996,500	253,896,212
	Total		\$ 5,194,041,336	\$ 3,352,188,745	\$ 8,546,230,081
	Percent		60.78%	39.22%	100.00%
4	* <u>4-Factor Allocator</u>				
	Number of Customers	12/31/2016	1,119,719	807,586	1,927,305
	Percent		58.10%	41.90%	100.00%
	Labor - Direct Charge to O&M	12/31/2016	51,494,540	24,254,781	\$ 75,749,321
	Percent		67.98%	32.02%	100.00%
	T&D O&M Expense (Less Labor)	12/31/2016	77,247,846	36,555,222	\$ 113,803,068
	Percent		67.88%	32.12%	100.00%
	Net Classified Plant (Excluding General (Common)	12/31/2016	5,590,602,188	2,055,150,490	7,645,752,677
	Percent		73.12%	26.88%	100.00%
	Total Percentages		267.08%	132.92%	400.00%
	4 factor		66.77%	33.23%	100.00%
5	* <u>Direct Labor Allocator</u>				
	Direct Labor Accts 500-935	12/31/2016	57,144,838	27,470,504	84,615,342
	Total		\$ 57,144,838	\$ 27,470,504	\$ 84,615,342
	Percent		67.53%	32.47%	100.00%

**PUGET SOUND ENERGY-GAS
RESULTS OF OPERATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
COMMISSION BASIS REPORT**

LINE NO.	ACTUAL RESULTS OF OPERATIONS	TOTAL ADJUSTMENTS	RESTATE RESULTS OF OPERATIONS
1	<u>OPERATING REVENUES:</u>		
2	\$ 815,091,306	\$ (36,341,799)	\$ 778,749,507
3	39,523,681	(39,523,681)	-
4	35,895,209	22,627,167	58,522,376
5	<u>\$ 890,510,196</u>	<u>\$ (53,238,313)</u>	<u>\$ 837,271,883</u>
6			
7			
8	OPERATING REVENUE DEDUCTIONS:		
9			
10	GAS COSTS:		
11			
12	\$ 313,953,738	\$ 25,058,660	\$ 339,012,399
13			
14	<u>\$ 313,953,738</u>	<u>\$ 25,058,660</u>	<u>\$ 339,012,399</u>
15			
16	\$ 2,536,730	\$ (51,726)	\$ 2,485,004
17	-	-	-
18	59,765,034	-	59,765,034
19	26,674,421	(547,849)	26,126,572
20	7,926,046	(5,682,374)	2,243,672
21	13,098,809	(13,098,809)	-
22	52,765,995	(131,081)	52,634,913
23	124,027,466	0	124,027,466
24	11,987,329	-	11,987,329
25	-	-	-
26	(193,739)	-	(193,739)
27	96,060,993	(60,862,383)	35,198,610
28	(0)	9,477,222	9,477,221
29	65,109,447	(27,996,293)	37,113,154
30	<u>\$ 459,758,529</u>	<u>\$ (98,893,293)</u>	<u>\$ 360,865,236</u>
31			
32	\$ 116,797,929	\$ 20,596,320	\$ 137,394,249
33			
34	\$ 1,733,271,497	\$ 0	\$ 1,733,271,497
35			
36	RATE OF RETURN	6.74%	7.93%
37			
38	RATE BASE:		
39	\$ 3,594,449,432	\$ -	\$ 3,594,449,432
40	(1,388,752,078)	-	(1,388,752,078)
41	(529,361,105)	-	(529,361,105)
42	(19,573,355)	-	(19,573,355)
43	<u>\$ 1,656,762,894</u>	<u>\$ -</u>	<u>\$ 1,656,762,894</u>
44	76,508,603	-	76,508,603
45	<u>\$ 1,733,271,497</u>	<u>\$ -</u>	<u>\$ 1,733,271,497</u>

PUGET SOUND ENERGY-GAS
STATEMENT OF OPERATING INCOME AND ADJUSTMENTS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
COMMISSION BASIS REPORT

LINE NO.	ACTUAL RESULTS OF OPERATIONS 12 ME December 31, 2016	TEMPERATURE NORMALIZATION Adj 3.01	REVENUE & EXPENSE Adj 3.02	FEDERAL INCOME TAX Adj 3.03	TAX BENEFIT OF RESTATE Adj 3.04	PASS-THROUGH REVENUE & EXPENSE Adj 3.05	RATE CASE EXPENSES Adj 3.06	BAD DEBITS Adj 3.07
1	OPERATING REVENUES							
2	SALES TO CUSTOMERS	815,091,306	2,801,011	-	-	(39,287,864)		
3	MUNICIPAL ADDITIONS	39,523,681	(556,264)			(39,523,681)		
4	OTHER OPERATING REVENUES	35,895,209				23,183,431		
5	TOTAL OPERATING REVENUES	890,510,196	145,054			(55,628,114)		
6								
7								
8	OPERATING REVENUE DEDUCTIONS:							
9								
10	GAS COSTS:							
11								
12	PURCHASED GAS	313,953,738				25,058,660		
13								
14	TOTAL PRODUCTION EXPENSES	313,953,738				25,058,660		
15								
16	OTHER ENERGY SUPPLY EXPENSES	2,536,730				(51,726)		
17	TRANSMISSION EXPENSE							
18	DISTRIBUTION EXPENSE	59,765,034				(270,686)		(320,287)
19	CUSTOMER ACCTS EXPENSES	26,674,421	706			(5,682,374)		
20	CUSTOMER SERVICE EXPENSES	7,926,046				(13,098,809)		
21	CONSERVATION AMORTIZATION	13,098,809				(111,256)		
22	ADMIN & GENERAL EXPENSE	52,765,995	290					
23	DEPRECIATION	124,027,466						
24	AMORTIZATION	11,987,329						
25	AMORTIZATION OF PROPERTY LOSS							
26	OTHER OPERATING EXPENSES	(193,739)						
27	TAXES OTHER THAN F.I.T.	96,060,993	5,560			(60,822,426.98)		
28	FEDERAL INCOME TAXES	(0)	48,474	27,120,505	(18,381,344)	(227,324)		112,100
29	DEFERRED INCOME TAXES	65,109,447		(27,996,293)				
30	TOTAL OPERATING REV. DEDUCT.	459,758,529	55,030	(875,788)	(18,381,344)	(80,264,602)	278,512	(208,187)
31	NET OPERATING INCOME	116,797,929	90,024	875,788	18,381,344	(422,173)	(278,512)	208,187
32								
33	RATE BASE	1,733,271,497						
34								
35	RATE OF RETURN	6.74%						
36								
37	RATE BASE:							
38								
39	UTILITY PLANT IN SERVICE AND OTHER ASSETS	3,594,449,432						
40	ACCUMULATED DEPRECIATION	(1,388,752,078)						
41	ACCUMULATED DEFERRED FIT - LIBERALIZED	(529,361,105)						
42	DEPRECIATION AND OTHER LIABILITIES	(19,573,355)						
43	TOTAL NET INVESTMENT	1,656,762,894						
44	ALLOWANCE FOR WORKING CAPITAL	76,508,603						
45	TOTAL RATE BASE	1,733,271,497						

PUGET SOUND ENERGY-GAS
TEMPERATURE NORMALIZATION
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
COMMISSION BASIS REPORT

LINE NO.	DESCRIPTION	ACTUAL	RESTATED	ADJUSTMENT
1	TEMPERATURE NORMALIZATION ADJUSTMENT:			
2		ACTUAL	TEMP ADJ	THERMS
3		<u>THERMS</u>	<u>THERMS</u>	<u>CHANGE</u>
4	Jan-16	24,870,088	25,444,659	574,571
5	Feb-16	23,565,988	24,855,226	1,289,238
6	Mar-16	20,945,939	21,787,185	841,246
7	Apr-16	19,923,398	21,428,499	1,505,101
8	May-16	20,979,671	21,715,752	736,081
9	Jun-16	18,262,716	18,399,443	136,727
10	Jul-16	20,091,554	20,091,554	0
11	Aug-16	18,942,428	18,942,428	0
12	Sep-16	17,482,263	17,502,644	20,381
13	Oct-16	21,461,969	21,847,877	385,908
14	Nov-16	20,452,749	21,869,713	1,416,964
15	Dec-16	26,657,431	25,751,194	(906,237)
16		<u>253,636,194</u>	<u>259,636,174</u>	<u>5,999,980</u>
17	REVENUE ADJUSTMENT:			
18				
19	TRANS. INTERRUPT WITH FIRM OPTION - COM		85T	\$ 31,454
20	TRANS. NON-EXCLUS INTER W/ FIRM OPTION - COM		87T	26,866
21	INTERRUPTIBLE WITH FIRM OPTION - COM		85	44,292
22	NON-EXCL INTERRUPT W/ FIRM OPTION - COM		87	20,084
23	SPECIAL CONTRACTS		SC	22,357
24	INCREASE (DECREASE) SALES TO CUSTOMERS			\$ 145,054
25				
26	OPERATING EXPENSES:			
27	PURCHASED GAS COSTS			<u>0</u>
28				\$ -
29	UNCOLLECTIBLES @		0.487%	\$ 706
30	ANNUAL FILING FEE @		0.200%	<u>290</u>
31	INCREASE (DECREASE) EXPENSE			996
32				
33	STATE UTILITY TAX @		3.833%	<u>\$ 5,560</u>
34	INCREASE (DECREASE) TAXES OTHER			<u>5,560</u>
35				
36	INCREASE (DECREASE) OPERATING INCOME			138,498
37				
38	INCREASE (DECREASE) FIT @		35%	<u>48,474</u>
39	INCREASE (DECREASE) NOI			<u>\$ 90,024</u>

PUGET SOUND ENERGY-GAS
REVENUE & EXPENSE RESTATING
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
COMMISSION BASIS REPORT

LINE NO.	DESCRIPTION	ADJUSTMENT	
1	SALES TO CUSTOMERS:		
2			
3	REMOVE MERGER RATE CREDIT SCH 132	\$	2,801,011
4			
5	TOTAL INCREASE (DECREASE) SALES TO CUSTOMERS		\$ 2,801,011
6			
7	OTHER OPERATING REVENUES:		
8			
9	REMOVE RENTALS ASSOC WITH SCH 132	\$	53,986
10			
11	REMOVE EARNINGS SHARING ACCRUALS		(610,250)
12			
13			
14	TOTAL INCREASE (DECREASE) OPERATING REVENUES		\$ (556,264)
15			
16	TOTAL INCREASE (DECREASE) REVENUES		2,244,748
17			
18	UNCOLLECTIBLES @	0.48660%	10,923
19	ANNUAL FILING FEE @	0.20000%	4,489
20	INCREASE (DECREASE) EXPENSE		15,412
21			
22	STATE UTILITY TAX @	3.83330%	\$ 86,048
23			
24	INCREASE (DECREASE) TAXES OTHER		86,048
25			
26	INCREASE (DECREASE) OPERATING INCOME		2,143,287
27	INCREASE (DECREASE) FIT @	35%	750,151
28	INCREASE (DECREASE) NOI		\$ 1,393,136

Adj 3.03

PUGET SOUND ENERGY-GAS
FEDERAL INCOME TAX
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
COMMISSION BASIS REPORT

LINE NO.	DESCRIPTION	AMOUNT
1	TAXABLE INCOME	\$ 77,487,158
2		
3	ADD BACK	
4	CURRENT FIT	27,120,505
5	DEFERRED FIT	37,113,154
6	SUB TOTAL	<u>64,233,659</u>
7		
8		
9		
10		
11	FIT PER BOOKS:	
12	CURRENT FIT	-
13	DEFERRED FIT-DEBIT	254,054,774
14	DEFERRED FIT CREDIT	(188,945,327)
15	DEFERRED FIT-INV TAX CREDIT	-
16	TOTAL CHARGED TO EXPENSE	<u>65,109,447</u>
17		
18	INCREASE (DECREASE) FIT	27,120,505
19	INCREASE (DECREASE) DEFERRED FIT	(27,996,293)
20	INCREASE(DECREASE) NOI	<u><u>\$ 875,788</u></u>

PUGET SOUND ENERGY-GAS
TAX BENEFIT OF RESTATED INTEREST
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
COMMISSION BASIS REPORT

LINE NO.	DESCRIPTION	AMOUNT
1	RATE BASE	\$ 1,733,271,497
2		
3	NET RATE BASE	<u>\$ 1,733,271,497</u>
4		
5	WEIGHTED COST OF DEBT	<u>3.03%</u>
6	RESTATED INTEREST	\$ 52,518,126
7		
8		
9		
10	INCREASE (DECREASE) INCOME	\$ (52,518,126)
11		
12	INCREASE (DECREASE) FIT @	35% (18,381,344)
13	INCREASE (DECREASE) NOI	<u><u>\$ 18,381,344</u></u>

PUGET SOUND ENERGY-GAS
PASS-THROUGH REVENUE & EXPENSE
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
COMMISSION BASIS REPORT

LINE NO.	DESCRIPTION	ADJUSTMENT
1	<u>REMOVE REVENUES ASSOCIATED WITH RIDERS:</u>	
2	REMOVE LOW INCOME RIDER - SCHEDULE 129	\$ 5,944,527
3	REMOVE CONSERVATION TRACKER - SCHEDULE 120	13,499,953
4	REMOVE PROPERTY TAX TRACKER - SCHEDULE 140	21,369,364
5	REMOVE REVENUE ASSOC WITH PGA AMORTIZATION - SCHEDULE 106	(26,244,903)
6	REMOVE CARBON OFFSET - SCHEDULE 137	95,406
7	REMOVE OTHER ASSOC WITH CARBON OFFSET - SCHEDULE 137	(39,540)
8	REMOVE DECOUPLING SCH 142 REVENUE	24,623,518
9	REMOVE DECOUPLING SCH 142 SURCHARGE AMORT EXPENSE	(23,510,560)
10	REMOVE MUNICIPAL TAXES ASSOC WITH SALES TO CUSTOMERS	39,523,681
11	REMOVE MUNICIPAL TAXES ASSOC WITH OTHER OPRTG REV	366,669
12	TOTAL (INCREASE) DECREASE REVENUES	<u>\$ 55,628,114</u>
13		
14	<u>DECREASE REVENUE SENSITIVE ITEMS FOR DECREASE IN REVENUES:</u>	
15	UNCOLLECTIBLES @	0.487% \$ (270,686)
16	ANNUAL FILING FEE	0.200% (111,256)
17	STATE UTILITY TAX	3.833% (2,132,393)
18	TOTAL	<u>\$ (2,514,335)</u>
19		
20	<u>REMOVE EXPENSES ASSOCIATED WITH RIDERS</u>	
21	REMOVE LOW INCOME AMORTIZATION - SCHEDULE 129	\$ (5,682,374)
22	REMOVE CONSERVATION AMORTIZATION - SCHEDULE 120	(13,098,809)
23	REMOVE PROPERTY TAX AMORTIZATION EXP - SCHEDULE 140	(20,426,975)
24	REMOVE PGA DEFERRAL AMORTIZATION EXP - SCHEDULE 106	25,058,660
25	REMOVE CARBON OFFSET AMORTIZATION EXP - SCHEDULE 137	(51,726)
26	REMOVE MUNICIPAL TAXES ASSOC WITH SALES TO CUSTOMERS	(38,263,060)
27	TOTAL INCREASE (DECREASE) EXPENSE	<u>\$ (52,464,283)</u>
28		
29	INCREASE (DECREASE) OPERATING INCOME BEFORE FIT	\$ (649,497)
30	INCREASE (DECREASE) FIT (LINE 26 * 35%)	(227,324)
31	INCREASE (DECREASE) NOI	<u>\$ (422,173)</u>

PUGET SOUND ENERGY-GAS
RATE CASE EXPENSES
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
COMMISSION BASIS REPORT

LINE NO.	DESCRIPTION	AMOUNT	
1	EXPENSES TO BE NORMALIZED:		
2			
3	2011 AND 2009 GRC EXPENSES TO BE NORMALIZED	\$ 1,040,000	
4			
5	ANNUAL NORMALIZATION (LINE 3 / 2)	520,000	
6	LESS TEST YEAR EXPENSE: GRC DIRECT CHARGES TO O&M	91,519	
7	INCREASE (DECREASE) EXPENSE	\$ 428,481	\$ 428,481
8			
9			
10	TOTAL INCREASE (DECREASE) EXPENSE		\$ 428,481
11			
12	INCREASE(DECREASE) FIT @	35%	(149,968)
13	INCREASE(DECREASE) NOI		<u>\$ (278,512)</u>

PUGET SOUND ENERGY-GAS
BAD DEBTS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
COMMISSION BASIS REPORT

LINE NO.	YEAR	NET WRITEOFFS	GROSS REVENUES	OTHER OPERATING REVENUE	NET REVENUES	PERCENT WRITEOFFS TO REVENUE
		December	August	August	August	
1	12 ME 12/31/2013 and 8/31/2013	\$ 4,892,400	\$ 1,001,308,155	\$ 15,716,065	\$ 985,592,090	0.4964%
2	12 ME 12/31/2015 and 8/31/2015	4,066,021	975,271,378	65,323,769	909,947,609	0.4468%
3	12 ME 12/31/2016 and 8/31/2016	4,457,529	896,161,552	33,443,418	862,718,134	0.5167%
4						
5	3-YR AVERAGE OF NET WRITE OFF RATE					0.4866%
6						
7	REPORTING PERIOD REVENUES		\$ 890,510,196	\$ 35,895,209	\$ 854,614,988	
8						
9						
10	PROFORMA BAD DEBT RATE				0.4866%	
11	PROFORMA BAD DEBTS				\$ 4,158,557	
12						
13	UNCOLLECTIBLES CHARGED TO EXPENSE IN TEST YEAR				4,478,844	
14	INCREASE (DECREASE) EXPENSE					\$ (320,287)
15						
16	INCREASE(DECREASE) IN INCOME					\$ 320,287
17	INCREASE (DECREASE) FIT				35%	112,100
18	INCREASE (DECREASE) NOI					\$ 208,187

Adj 3.08

PUGET SOUND ENERGY-GAS
EXCISE TAX & FILING FEE
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
COMMISSION BASIS REPORT

LINE NO.	DESCRIPTION	AMOUNT
1	RESTATED EXCISE TAXES	\$ 33,389,216
2	CHARGED TO EXPENSE FOR TEST YEAR	33,397,350
3	INCREASE(DECREASE) EXCISE TAX	\$ (8,135)
4		
5	RESTATED WUTC FILING FEE	\$ 1,709,180
6	CHARGED TO EXPENSE FOR TEST YEAR	1,761,010
7	INCREASE(DECREASE) WUTC FILING FEE	\$ (51,830)
8		
9	INCREASE(DECREASE) EXPENSE	\$ (59,965)
10		
11	INCREASE(DECREASE) OPERATING INCOME	\$ 59,965
12		
13	INCREASE(DECREASE) FIT 35%	\$ 20,988
14		
15	INCREASE(DECREASE) NOI	\$ 38,977

Adj 3.09

PUGET SOUND ENERGY-GAS
INTEREST ON CUSTOMER DEPOSITS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
COMMISSION BASIS REPORT

LINE			AMOUNT
NO.	DESCRIPTION		
1	INTEREST EXPENSE FOR TEST YEAR	\$	31,496
2			
3			
4	INCREASE (DECREASE) NOI	<u>\$</u>	<u>(31,496)</u>

PUGET SOUND ENERGY-GAS
PENSION PLAN
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
COMMISSION BASIS REPORT

LINE NO.	DESCRIPTION	ACTUAL	RESTATED	ADJUSTMENT
1	QUALIFIED RETIREMENT FUND	\$ 2,586,383	\$ 3,591,773	\$ 1,005,390
2				
3				
4	INCREASE (DECREASE) IN EXPENSE	\$ 2,586,383	\$ 3,591,773	\$ 1,005,390
5				
6	INCREASE (DECREASE) INCOME			(1,005,390)
7	INCREASE (DECREASE) FIT @		35%	(351,887)
8				
9	INCREASE (DECREASE) NOI			<u>\$ (653,504)</u>

PUGET SOUND ENERGY-GAS
D&O INSURANCE
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
COMMISSION BASIS REPORT

LINE NO.	DESCRIPTION	TEST YEAR	RESTATE	ADJUSTMENT
1	D & O INS. CHG EXPENSE	\$ 79,887	\$ 67,285	\$ (12,601)
2				
3	INCREASE (DECREASE) IN EXPENSE	\$ 79,887	\$ 67,285	\$ (12,601)
4				
5	INCREASE (DECREASE) OPERATING INCOME			12,601
6				
7	INCREASE (DECREASE) FIT @		35%	4,410
8				
9	INCREASE (DECREASE) NOI			<u>\$ 8,191</u>

PUGET SOUND ENERGY-GAS
INJURIES AND DAMAGES
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
COMMISSION BASIS REPORT

LINE NO.	DESCRIPTION	ACTUAL	RESTATED	ADJUSTMENT
1	INJURIES & DAMAGES ACCRUALS	\$ 137,500	\$ 170,333	\$ 32,833
2	INJURIES & DAMAGES PAYMENTS IN EXCESS OF ACCRUALS	89,013	188,497	99,484
3	INCREASE/(DECREASE) IN EXPENSE	226,513	358,830	132,318
4				
5	INCREASE/(DECREASE) IN OPERATING EXPENSE (LINE 3)			\$ 132,318
6	INCREASE (DECREASE) FIT @		35%	(46,311)
7				
8	INCREASE (DECREASE) NOI			<u>\$ (86,007)</u>

PUGET SOUND ENERGY-GAS
INCENTIVE PAY
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
COMMISSION BASIS REPORT

LINE NO.	DESCRIPTION	ACTUAL	RESTATED	ADJUSTMENT
1	INCENTIVE/MERIT PAY			
2	TOTAL INCENTIVE PAY	\$ 4,578,267	\$ 3,051,905	(1,526,361)
3				
4	PAYROLL TAXES ASSOC WITH MERIT PAY	370,223	246,793	(123,430)
5	INCREASE(DECREASE) EXPENSE	4,948,489	3,298,698	(1,649,791)
6				
7	INCREASE (DECREASE) OPERATING EXPENSE			(1,649,791)
8				
9	INCREASE(DECREASE) FIT @		35%	577,427
10	INCREASE(DECREASE) NOI			\$ 1,072,364

Adj 4.01

PUGET SOUND ENERGY-GAS
CONVERSION FACTOR
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
COMMISSION BASIS REPORT

LINE NO.	DESCRIPTION	BASE	RATE	AMOUNT
1	BAD DEBTS			0.004866
2	ANNUAL FILING FEE			0.002000
3	STATE UTILITY TAX (3.852% - (LINE 1 * 3.852%))		3.852%	0.038333
4				
5	SUM OF TAXES OTHER			0.045199
6				
7	CONVERSION FACTOR BEFORE FIT			0.954801
8	FEDERAL INCOME TAX ((1 - LINE 5) * 35%)		35%	0.334180
9	CONVERSION FACTOR (1 - (LINE 5 + LINE 7))			0.620621

**Puget Sound Energy (“PSE”)
Additional Information Provided With
December 2016 Commission Basis Report**

This additional information supplied with PSE’s December 2016 Commission Basis Report (“CBR”) includes cost per customer trend analysis similar to reports supplied with PSE’s CBRs since December 2013. The information included with this report contains non-production O&M cost per customer for calendar years 2011 through 2016 using the same categories and methodology utilized in the development of the K-Factor which was supported by Exhibit No. ____ (KJB-16) in WUTC Docket Nos. UE-130137 and UG-130138 (“ERF/Decoupling Proceedings”).

As demonstrated on page three of this report, the overall annual average increase in non-production O&M for 2016 is lower than the historical growth rate presented in the ERF/Decoupling Proceedings at 1.5% versus 3.8%, and is lower than the benchmark of 1.9% used in developing the O&M component of the K-factor in the ERF/Decoupling Proceedings.

Page five of this analysis demonstrates that the electric annual growth rate on a cost per customer basis has declined to 2.3%, which is below the 4.7% electric historical growth rate presented in the ERF/Decoupling Proceedings. Page six of this analysis demonstrates that the natural gas annual growth rate on a cost per customer basis has declined to 0.3% compared to the 2.2% historical growth rate in Natural Gas related O&M presented in the ERF/Decoupling Proceedings.

Results of Earnings Test: The Company’s performance as detailed in its CBR, shows over-earnings for both gas and electric operations. When reporting on a Commission basis, prior to any earnings sharing, the electric rate of return is 8.06%, or .29% above authorized which equates to \$11.9 million of earnings sharing. Likewise, the gas rate of return on a Commission basis is 7.93%, or .16% above authorized which equates to \$2.2 million in earnings sharing. After the earnings sharing is accounted for, PSE’s rate of return is 7.91% and 7.85% for electric and gas respectively for the reporting period.

PSE’s rate plan and the company’s demonstrated efforts to align costs to customer growth offset by an increase in power costs have all contributed to allowing PSE to earn above its authorized rate of return. Additionally, there are other factors that are contributing to PSE’s reported earnings.

One important factor that increased the Company’s reported earnings in the CBR is the requirement to apply commission normalizing adjustments to the test year. In contrast to the CBR reported earnings, the Company’s actual results of operations demonstrate that the Company under-earned for gas and would have shared less earnings on electric based on test year results. On a Test Year basis¹, the company’s actual results of operations show that PSE over-earned less than on a Commission Basis at 7.98% for Electric and barely over-earned at 7.78% for Gas operations. Thus, PSE was over earning, but not to the extent that it will be sharing after adjustment based on the CBR.

For instance, weather was much warmer than normal for the reporting period. Although weather is not a factor in test year natural gas operations, since it is mostly all recovered on a decoupled basis, weather

¹ For the purposes of this calculation, Test Year was adjusted to remove ASC815, the test year earnings sharing accrual activity and to include the Tax Benefit of Interest in Net Operating Income.

still has a significant impact in the test year on the generation side of electric operations. Even though PSE did not experience the benefit of the normal weather, the Commission required adjustment requires PSE to share as if it did. When taking into account this adjustment to revenue and the offsetting increase in power costs, PSE's electric net operating income was increased by \$5.5 million above its actual earnings, which resulted in an 11 basis points increase in ROR and \$4.4 million in sharing.

It should also be noted that this Commission Basis Report includes an adjustment that adds back revenues associated with the Merger Rate Credit that were paid to customers during the reporting period through Schedule 132. This adjustment added \$4.0 million and \$1.7 million of net operating income to electric and gas, respectively, which resulted in 8 basis points and \$3.1 million of additional sharing for electric and 10 basis points and \$1.4 million in additional sharing for gas. Although it is appropriate to include the Merger Rate Credit adjustment in a general rate case to ensure these funds come from investors and do not get included in the base revenue requirement, PSE believes that it is inappropriate to add back these revenues in the commission basis report, especially for purposes of determining earnings sharing, considering PSE has already given these rate credits to customers through Schedule 132. This adjustment essentially requires PSE to pay earnings sharing on amounts that have already been credited to customers and that will never be included in PSE's earnings. Based on brief discussions with Commission Staff, the company has continued to include the adjustment in this CBR, despite the company's concerns regarding its appropriateness. Commission Staff indicated that this adjustment is likely required under WAC 480-100-257(2)(a), which requires showing "booked results of ...operations and rate base, and all the necessary adjustments as accepted by the commission in the utility's most recent general rate case or subsequent orders". A narrow interpretation of that section could be used to require PSE to include this adjustment; however, PSE still believes that this treatment should not be applicable for a CBR. Section (2) subsection (b) of the WAC states that adjustments can be made for "any other item that materially distorts reporting period earnings" and PSE believes it is this section of the WAC that allows the company to exclude these revenues for Commission reporting purposes. As discussed above, PSE believes the adjustment should not be included in the CBR, however, rather than changing its historical approach PSE's 2016 CBR report has continued to add back these revenues in a Commission Basis adjustment.

In conclusion, a summary of PSE's test year rate of return and earnings sharing and the impacts of Commission required adjustments is summarized below.

Description	Electric		Gas	
	ROR	Sharing	ROR	Sharing
Test Year	7.98%	\$ 8,903,809	7.78%	\$ 100,867
Weather	0.11%	\$ 4,391,930		
Merger Rate Credit	0.08%	3,117,816	0.10%	1,398,896
Other	-0.11%	(4,468,355)	0.05%	688,311
Commission Basis	8.06%	\$ 11,945,200	7.93%	\$ 2,188,074

**PUGET SOUND ENERGY
COMBINED RESULTS OF OPERATIONS
COMMISSION BASIS REPORT**

LINE NO.	DESCR	12ME Dec 2011	12ME Dec 2012	12ME Dec 2013	12ME Dec 2014	12ME Dec 2015	12ME Dec 2016	COMPOUND GROWTH RATE
		RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	
1	COMBINED EXPENSES:							
2	TRANSMISSION EXPENSE	\$ 9,530,907	\$ 19,073,045	\$ 19,383,744	\$ 21,589,406	\$ 19,801,305	\$ 20,320,134	
3	DISTRIBUTION EXPENSE	130,531,255	126,441,451	127,563,845	136,490,873	131,977,836	146,062,640	
4	CUSTOMER ACCOUNT EXPENSES	78,512,657	80,013,147	82,230,612	82,709,937	76,520,034	71,881,945	
5	CUSTOMER SERVICE EXPENSES	4,800,000	3,249,127	3,914,400	5,603,627	3,810,121	4,899,412	
6	ADMIN & GENERAL EXPENSE	142,745,361	145,172,486	154,517,147	159,194,144	156,849,476	170,342,501	
7	TOTAL EXPENSES	\$ 366,120,180	\$ 373,949,255	\$ 387,609,749	\$ 405,587,987	\$ 388,958,771	\$ 413,506,632	2.5%
8								
9	AVERAGE CUSTOMER COUNT	1,840,114	1,852,951	1,858,766	1,876,129	1,898,648	1,927,305	
10	ACTUAL COST PER CUSTOMER	\$ 198.97	\$ 201.81	\$ 208.53	\$ 216.18	\$ 204.86	\$ 214.55	CALCULATED 1.5%
11	2011 GROWN AT HISTORICAL RATE	\$ 198.97	\$ 206.45	\$ 214.22	\$ 222.28	\$ 230.64	\$ 239.32	COMBINED ERF 3.8%

Calculation of Combined Escalation Factors from ERF

Description	2006 GRC			2011 GRC		
	Electric	Gas	Combined	Electric	Gas	Combined
7 Number of years between test years				5.25	5.25	5.25
8						
9 Transmission & Distribution Expense	\$ 65,086,999	\$ 34,532,486	\$ 99,619,485	\$ 92,084,397	\$ 49,783,566	\$ 141,867,963
10 Customer Account & Services Expenses	37,706,383	25,038,278	62,744,661	49,173,646	31,704,844	80,878,490
11 Admin & General Expenses	74,379,848	41,714,840	116,094,688	99,871,160	43,995,146	143,866,305
12						
13 Total O&M	177,173,230	101,285,604	278,458,834	241,129,203	125,483,555	366,612,758
14						
15 Average Customer Count	1,004,833	678,712	1,683,546	1,075,057	750,800	1,825,856
16						
17 Average Cost per Customer	\$ 176.32	\$ 149.23	\$ 165.40	\$ 224.29	\$ 167.13	\$ 200.79
18						
19						
20 Annual Escalation Factor				4.7%	2.2%	3.8%
21						
22						

**PUGET SOUND ENERGY
ELECTRIC RESULTS OF OPERATIONS
COMMISSION BASIS REPORT**

LINE NO.	DESCR	12ME Dec 2011	12ME Dec 2012	12ME Dec 2013	12ME Dec 2014	12ME Dec 2015	12ME Dec 2016	COMPOUND GROWTH RATE
		RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	
1	<u>COMBINED EXPENSES:</u>							
2	TRANSMISSION EXPENSE	\$ 9,481,215	\$ 19,058,040	\$ 19,355,851	\$ 21,589,071	\$ 19,801,305	\$ 20,320,134	
3	DISTRIBUTION EXPENSE	78,245,091	74,862,781	77,321,920	84,585,141	82,427,091	86,297,607	
4	CUSTOMER ACCOUNT EXPENSES	48,140,876	49,220,845	50,570,101	51,078,600	48,055,081	45,755,373	
5	CUSTOMER SERVICE EXPENSES	3,719,955	2,032,132	2,090,482	2,575,945	2,145,431	2,655,739	
6	ADMIN & GENERAL EXPENSE	96,361,837	99,264,866	106,511,054	110,332,421	109,690,022	117,707,588	
7	TOTAL EXPENSES	\$ 235,948,974	\$ 244,438,664	\$ 255,849,409	\$ 270,161,178	\$ 262,118,931	\$ 272,736,441	2.9%
8								
9	AVERAGE CUSTOMER COUNT	1,083,403	1,089,296	1,085,381	1,091,517	1,103,635	1,119,719	
10	ACTUAL COST PER CUSTOMER	\$ 217.79	\$ 224.40	\$ 235.72	\$ 247.51	\$ 237.51	\$ 243.58	CALCULATED 2.3%
11	2011 GROWN AT HISTORICAL RATE	\$ 217.79	\$ 228.00	\$ 238.69	\$ 249.89	\$ 261.61	\$ 273.88	COMBINED ERF 4.7%

**PUGET SOUND ENERGY
GAS RESULTS OF OPERATIONS
COMMISSION BASIS REPORT**

LINE NO.	DESCR	12ME Dec 2011	12ME Dec 2012	12ME Dec 2013	12ME Dec 2014	12ME Dec 2015	12ME Dec 2016	2011-2016
		RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	RESTATED RESULTS OF OPERATIONS	COMPOUND GROWTH RATE
1	COMBINED EXPENSES:							
2	TRANSMISSION EXPENSE	\$ 49,692	\$ 15,005	\$ 27,893	\$ 335	\$ -	\$ -	
3	DISTRIBUTION EXPENSE	52,286,164	51,578,669	50,241,925	51,905,732	49,550,744	59,765,034	
4	CUSTOMER ACCOUNT EXPENSES	30,371,782	30,792,302	31,660,511	31,631,337	28,464,953	26,126,572	
5	CUSTOMER SERVICE EXPENSES	1,080,045	1,216,995	1,823,918	3,027,682	1,664,690	2,243,672	
6	ADMIN & GENERAL EXPENSE	46,383,523	45,907,620	48,006,093	48,861,723	47,159,453	52,634,913	
7	TOTAL EXPENSES	\$ 130,171,206	\$ 129,510,591	\$ 131,760,339	\$ 135,426,809	\$ 126,839,840	\$ 140,770,191	1.6%
8								
9	AVERAGE CUSTOMER COUNT	756,711	763,655	773,385	784,612	795,013	807,586	
10	ACTUAL COST PER CUSTOMER	\$ 172.02	\$ 169.59	\$ 170.37	\$ 172.60	\$ 159.54	\$ 174.31	CALCULATED 0.3%
11	2011 GROWN AT HISTORICAL RATE	\$ 172.02	\$ 175.77	\$ 179.61	\$ 183.53	\$ 187.53	\$ 191.62	COMBINED ERF 2.2%