

## ATTACHMENT A

### **Staff and Public Counsel Joint Proposal**

Staff and Public Counsel jointly support the implementation of a Commission approved "buy/sell" type tariff to replace the controversial Schedule 48 and Special Contracts at the earliest possible date, consistent with provision of a reasonable period for review of the proposal.

As a temporary solution (while Schedule 48 is under review in Docket UE-960696 or customers move to an approved "buy/sell" tariff) for rates under Schedule 48 and Special Contracts that may not be fair, just, and reasonable under certain market conditions, Public Counsel and Staff propose the following amendments to Schedule 48 and the Special Contracts:

- When the Mid-C Index is at or below \$125 per megaWatt-hr. (1), the energy price is the Mid-C Index.
- When the Mid-C Index is above \$125 per megaWatt-hr., the billing rate is the greater of \$125 per megaWatt-hr. or PSE's demonstrable costs (2) plus a margin equal to \$25 per megaWatt-hr.(3) with a maximum billing rate equal to the Mid-C Index amount.

#### **Examples (For illustrative purposes only)**

- Example 1: Mid-C Index up to \$125. Customers are billed at Index
- Example 2: Mid-C Index rises to \$150. PSE's demonstrable cost to serve is \$75. "Margin" is \$25. Customers are billed at \$125.
- Example 3: Mid-C Index rises to \$200. PSE's demonstrable cost to serve rises to \$150. "Margin" is \$25. Customers are billed at \$175.
- Example 4: Mid-C Index rises to \$300. PSE's demonstrable cost to serve remains at \$150. "Margin" is \$25. Customers are billed at \$175.
- Example 5: Mid-C Index rises to \$500. PSE's demonstrable cost to serve rises to \$500. "Margin" is \$25. Customers are billed at \$500.
- Example 6: Mid-C Index drops to \$100. PSE's demonstrable cost to serve drops to \$150. Customers are billed at \$100. (Cap mechanism only applies if Mid-C is over \$125.)

(1) Soft cap of \$125 per megaWatt-hr. is tentative and is based on the cost of self-generation by diesel units, as well as the approximate cost of operating relatively inefficient gas turbines at high gas

prices. We also believe that there is a high likelihood that market prices above this level generally reflect a "California influence" rather than actual marginal generating costs in the Pacific Northwest. The final determination of the proposed soft cap rate is subject to further discovery.

- (2) Demonstrable costs include only those costs that can reasonably be identified or estimated to be associated with serving the Schedule 48/Special Contract loads during the monthly period encompassing the cap period. This may include combinations of market purchases and operating expenses for variable priced resources that have been "assigned" to these customers. To prevent potential gaming of market purchases and sales amounts, Public Counsel and Staff tentatively propose the use of net transactions to determine the amount the company is into the market. PSE has the burden to demonstrate that its costs justify the increase in billing rates during periods that the Mid-C Index rises above \$125 per megaWatt-hr.
- (3) Margin amount of \$25 per megaWatt-hr. is tentative and is based on an estimate of the fixed costs associated with the PSE's existing resource portfolio. The final determination of proposed margin rate is subject to further discovery.