SCHEDULE 99

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DECOUPLING MECHANISM – ELECTRIC

**PURPOSE:**

This Schedule establishes balancing accounts and implements an annual rate adjustment mechanism that decouples or separates the recovery of the Company’s Commission authorized revenues from kilowatt-hour sales to customers served under the applicable electric service schedules.

**APPLICABLE:**

To Customers in the State of Washington where the Company has electric service available. This schedule shall be applicable to all retail customers taking service under Schedules 1, 11, 12, 21, 22, 25, 31, and 32. This Schedule does not apply to Street and Area Light schedules (41-48). Applicable Customers will be segregated into three (3) distinct Rate Groups:

Group 1 – Schedule 1

Group 2 – Schedules 11, 12, 21, 22, 31, 32

Group 3 – Schedule 25

**MONTHLY RATE:**

Group 1 – $0.00000 per kWh

Group 2 – $0.00000 per kWh

Group 3 – $0.00000 per kWh

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DECOUPLING MECHANISM – ELECTRIC (continued)

**DESCRIPTION OF THE ELECTRIC DECOUPLING MECHANISM:**

Calculation of Monthly Allowed Delivery Revenue Per Customer:

Step 1 – Determine the Total Retail Revenue - The Total Retail Revenue is equal to the final approved base rate revenue approved in the Company’s last general rate case, individually for each Rate Schedule.

Step 2 – Determine Amount of Revenue related to Power Supply - The Normalized kWhs by rate schedule from the last approved general rate case are multiplied by the approved Retail Revenue Credit to determine the total Power Supply Related Revenue.

Step 3 – Determine Non-Power Supply Related Revenue – To determine the Non-Power Supply Related Revenue, the mechanism subtracts the Power Supply Related Revenue from the Total Retail Revenue.

Step 4 – Remove Fixed Revenues – included in the Non-Power Supply Revenue are revenues that are recovered from customers in Basic and Fixed Demand charges (“Fixed Charges”). Because the decoupling mechanism only track revenues that vary with customer energy usage, the revenue from Fixed Charges is removed. The number of Customer Bills in the test period, multiplied by the applicable Fixed Charges determines the total Fixed Charge revenue by rate schedule.

Step 5 – Determine Allowed Non-Power Supply Revenue –Allowed Non-Power Supply Revenue is equal to the Non-Power Supply Revenue (Step 3) minus the Fixed Charge Revenue (Step 4).

Step 6 – Determine the Allowed Non-Power Supply Revenue per Customer – To determine the annual per customer Allowed Non-Power Supply Revenue, divide the Allowed Non-Power Supply Revenue (by Rate Group) by the Test Year number of Customers (by Rate Group) to determine the annual Allowed Non-Power Supply Revenue per Customer (by Rate Group).

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SCHEDULE 99B

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DECOUPLING MECHANISM – ELECTRIC (continued)

Step 7 – Determine the Monthly Allowed Non-Power Supply Revenue per Customer - to determine the monthly Allowed Non-Power Supply Revenue per customer, the annual Allowed Non-Power Supply Revenue per customer is shaped based on the monthly kWh usage from the test year. The mechanism uses the resulting monthly percentage of usage by month and multiplied that by the annual Allowed Non-Power Supply Revenue per Customer to determine the 12 monthly values.

Calculation of Monthly Decoupling Deferral:

Step 1 – Determine the actual number of customers each month.

Step 2 – Multiply the actual number of customers by the applicable monthly Allowed Non-Power Supply Revenue per Customer. The result of this calculation is the total Allowed Non-Power Supply Revenue for the applicable month.

Step 3 – Determine the actual revenue collected in the applicable month.

Step 4 – Calculate the amount of fixed charge revenues included in total actual monthly revenues.

Step 5 – Multiply actual kWh sales by the approved Retail Revenue Credit. The results of this calculation is the total revenue collected related to power supply.

Step 6 – Subtract the fixed charge revenue and the power supply revenue from the total actual monthly revenue. The result is the Actual Non-Power Supply Revenue.

Step 7 – The difference between the Actual Non-Power Supply Revenue (Step 6) and the Allowed Non-Power Supply Revenue (Step 2) is calculated, and the resulting balance is deferred by the Company.

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SCHEDULE 99C

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DECOUPLING MECHANISM – ELECTRIC (continued)

**ANNUAL ELECTRIC DECOUPLING RATE ADJUSTMENT:**

On or before September 1st each year, the Company will file a request with the Commission to surcharge or rebate, by Rate Group, the amount accumulated in the deferred revenue accounts for the prior July through June period. The amount of deferred revenue that the Company can request to surcharge is subject to limitation based on the Earnings Test. The first deferral period would be the six-month time period of January 1, 2015 through June 30, 2015, and would then be based on a July – June deferral period thereafter.

The proposed tariff revisions included with that filing would include a rate adjustment that recovers/rebates the appropriate deferred revenue amount over a twelve-month period effective on November 1st. The deferred revenue amount approved for recovery or rebate would be transferred to a balancing account and the revenue surcharged or rebated during the period would reduce the deferred revenue in the balancing account. Any deferred revenue remaining in the balancing account at the end of the July - June year would be added to the new revenue deferrals to determine the amount of the proposed surcharge/rebate for the following year.

After determining the amount of deferred revenue that can be recovered through a surcharge (or refunded through a rebate) by Rate Group, the proposed rates under this Schedule will be determined by dividing the deferred revenue to be recovered by Rate Group by the estimated kWh sales for each Rate Group during the twelve month recovery period. The deferred revenue amount to be recovered will be transferred to a Decoupling Balancing Account and the actual revenue received under this Schedule will be applied to the Account to reduce (amortize) the balance. Interest will be accrued on the unamortized balance in the Decoupling Balancing Account at the quarterly rate published by the FERC.

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DECOUPLING MECHANISM – ELECTRIC (continued)

**EARNINGS TEST:**

The Mechanism is subject to an Earnings Test. The Earnings Test is based on the Company’s annual “Commission-basis” operating results, which are filed with the Commission by April 30 for the previous calendar year results. If the Commission-basis rate of return for the Company’s Washington electric operations exceeds the most recently authorized rate of return, the amount of the proposed surcharge (amount transferred to the balancing account) is reduced or eliminated to move the rate of return down to, or toward, the Commission-authorized level.

**3% ANNUAL RATE INCREASE LIMITATION:**

Following the application of the Earnings Test described above, the amount of the incremental proposed rate adjustment under this Schedule cannot reflect more than a 3% rate increase. This will be determined by dividing the incremental annual revenue to be collected (proposed surcharge revenue less present surcharge revenue) under this Schedule by the total “normalized” revenue for the three Rate Groups for the most recent July – June period. Normalized revenue is determined by multiplying the weather-corrected usage for the period by the present rates in effect. If the incremental amount of the proposed surcharge exceeds 3%, only a 3% incremental rate increase will be proposed and any remaining deferred revenue will be carried over to the following year. There is no limitation for rate decreases.