

**EXHIBIT NO. ___(KRK-4)
DOCKET NO. UE-051828/UE-051966
WITNESS: KARL R. KARZMAR**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WESTERN VILLAGE, LLC, D/B/A
WESTERN VILLAGE ESTATES,

Complainant,**

v.

**PUGET SOUND ENERGY, INC.

Respondent.**

Docket No. UE-051828

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,**

v.

**PUGET SOUND ENERGY, INC.,

Respondent.**

Docket No. UE-051966

**THIRD EXHIBIT TO THE PREFILED TESTIMONY OF
KARL R. KARZMAR
ON BEHALF OF PUGET SOUND ENERGY, INC.
IN RESPONSE TO THE
PREFILED TESTIMONY OF WESTERN VILLAGE, LLC
DATED MARCH 8, 2006**

APRIL 19, 2006

SERVICE DATE
JAN. 2 1981

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION)	
)	CAUSE NO. U-80-10
Complainant,)	
)	
vs.)	
)	
PUGET SOUND POWER & LIGHT COMPANY,)	FIFTH SUPPLEMENTAL ORDER
)	
Respondent.)	
.....)	

The above-entitled cause involves tariff revisions filed by Puget Sound Power & Light Company, hereinafter referred to as company, Puget, or respondent, by which it proposes to effect a general increase in its rates and charges for electric service furnished within its operating territories in the State of Washington. Hearings on the filing, pursuant to notices given in accordance with requirements of Title 34 RCW, were held at Olympia, Washington, on April 9, 24, and 30; May 5, 9, and 23; July 9, 10, 11, and 15; August 4, 5, 6, and 7; September 29 and 30; October 1 and 2; November 17, 18, 20, and 21; and December 10, 1980 before Chairman Robert C. Bailey, Commissioner Frank W. Foley, Commissioner A. J. Benedetti, and Administrative Law Judge William Metcalf. Hearings to receive testimony from members of the public were also heard on October 9, 1980, at Auburn and on October 10, 1980, at Bellingham before the Commission and Administrative Law Judge Alice L. Haenle; and also at Olympia on May 7 and October 8, 1980, and at Mount Vernon on May 5, 1980, before the Commission and Administrative Law Judge William Metcalf.

The parties were represented as follows:

COMPLAINANT: WASHINGTON UTILITIES AND
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INTERVENORS: PEOPLE'S ORGANIZATION OF WASHINGTON
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I. SCOPE OF PROCEEDING, PARTIES & WITNESSES

A. Scope of Proceeding.

Respondent's tariff revisions being considered in this proceeding were filed on February 25, 1980. The revisions state general increases for electric service and contain new designs for certain basic existing tariff structure. Effectiveness of the filing was suspended pending hearings on their justness and reasonableness.

A new initial residential energy block of 400 kilowatt hours is introduced. The applicable schedules increase the existing base rate 10 percent. The next rate block is for consumption up to 1,500 kilowatt hours, and the last, or tail, block is for consumption over 1,500 kilowatt hours. Percentage increases higher than that named for the base rate are given to the next two blocks, thereby tending towards an inverted rate structure for the purpose of encouraging conservation.

The revenue increase sought is based on increasing existing rates among the classes of customers, except for outdoor lighting customers, on a uniform cents per kilowatt hour basis. The original filing was designed to increase respondent's revenues by approximately \$90,500,000 per year over revenues being received from tariffs in effect at the time of the filing; revisions

to tariffs made in the course of hearing would produce an annual revenue increase of approximately \$118,000,000 under the suspended schedules (Exhibit No. 31).

As a part of the filing in this matter, respondent also filed a tariff revision and a petition seeking a five percent rate increase on an interim basis pending disposition of the balance of its filing. By order issued previously in this cause, Second Supplemental Order, dated June 25, 1980, the Commission approved the petition and authorized an interim filing that would increase respondent's annual revenues by \$15,448,762. Tariff revisions filed pursuant to the Second Supplemental Order became effective on July 1, 1980, pursuant to the Third Supplemental Order in this proceeding.

For the purposes of determining the extent of respondent's need for additional revenues, actual results of its operations for the year 1979 were introduced into the record. Both respondent and the Commission's staff made adjustments to test year data in order to restate them so that the results of 1981 and subsequent operations might be portrayed.

The purpose of a rate hearing such as this one has been stated by the Commission frequently in recent orders and need not be reiterated fully here. It will suffice to note that from a rate hearing the Commission seeks to determine the value of a company's rate base, or plant in service; to establish the fair rate of return the company's investors are entitled to realize on that rate base; to ascertain the results of its operations as restated to reflect anticipated changes in revenues and expenses; to determine the amount of any deficiency in gross revenue; and to direct how to spread any gross revenue deficiency through the company's tariffs.

B. Parties and Witnesses.

The company presented evidence in support of its tariff filing through testimony and exhibits of John W. Ellis, president and chief executive officer of the company; David E. Knight, vice president of power supply; Bruce Holm, controller; John W. King, vice president of finance; Richard H. Swartzell, vice president of rates; and Bill B. Baker, manager of rates and tariffs.

The Commission's staff case was presented by Michael P. McElliott, accounting analyst; Daniel E. Sherry, accounting analyst; George F. Hess, a consulting engineer from Minneapolis, Minnesota; and David A. Kosh, a public utility consultant and president of Kosh Louiselle Lurito and Associates Incorporated of Arlington, Virginia.

Three organizations intervened in this cause and presented expert testimony. Fair Electric Rates Now (FERN) was represented by Jim Lazar. Washington Industrial Committee for Fair Utility Rates (WICFUR) was represented by Elmer W. Moke, a consulting economist and rate consultant of Beaverton, Oregon. Peoples Organization of Washington for Energy Resources (POWER) was represented by Thomas Power, a professor of economics and chairman of the Economics Department of the University of Montana; David B. Goldstein, a consulting physicist at Lawrence Berkley Laboratory, Berkley, California; and Ray Czahar, economic analyst for the State of California Public Utilities Commission.

The following findings of fact are made on the oral and documentary evidence of these witnesses.

II. RESPONDENT'S FINANCIAL CONDITION

The essentials of Puget's present financial difficulties are largely uncontroverted; even counsel for the staff concedes that the conclusions of the staff's rate of return expert are unrealistic in light of the evidence of record of need for a rate increase. Parties, however, disagree on the appropriate solutions for the difficulties. The record establishes the following basic situation in which Puget finds itself.

The company's presently authorized return on common equity is 13 percent; its actual return for the test year was 9 percent. The company is faced with one of the largest construction programs, proportionate to its size, of any electric utility in the United States. At present it is carrying 274 million dollars in its construction work in progress (CWIP) accounts.

Although electric utility companies by average industry standards finance 40 percent to 50 percent of their construction requirements with internally generated cash, the company financed all of its construction projects in 1979 by borrowing money. The record shows that respondent had no earnings in that year to apply to construction. In 1980, 40 percent of the company's net income was from the non-cash accounting treatment of allowance for funds used during construction (AFUDC). Respondent contends with recognition of its current construction program, with AFUDC offset, 90 percent of the company's net income in 1981 will consist of non-cash AFUDC.

The company's earnings per share of common stock for the 12 months ended September 30, 1980, were \$1.25 compared to its annual dividend of \$1.64. In 1980, the company represents that it was necessary to utilize borrowed funds to maintain its current dividend level.

The record indicates the company's ratio of CWIP to net plant as of 1980 is 24 percent. By 1984, respondent estimates that it will increase to 38.8 percent.

The company must be able to show certain "coverage ratios" in order to issue preferred stock and first mortgage bonds in amounts to finance its ongoing and planned construction program. A corporation's earnings must cover dividends if its stock is to be attractive to investors.

III. RATE BASE

The ultimate question in this proceeding is whether the rates and charges named in respondent's suspended tariff filings are fair, just and reasonable. The resolution of this question depends on establishing the proper rate of return respondent is to be allowed on the fair value of its property, or rate base. In determining fair value of rate base the Commission has historically accepted the average net original cost theory of rate base measurement made during an actual operating period, comparing it with the results of operations that have actually occurred during that period, after appropriate restatement.

In addition to the historical treatment of rate base as consisting only of plant actually in service, the Commission has in several proceedings in the past five years allowed the costs of certain facilities in the progress of being constructed to be included in rate base. The rationale for this treatment is stated at length in the Second Supplemental Order in Cause No. U-78-21, the last general rate case dealing with the respondent here and as subsequently described in detail under Section A, below.

The testimony and exhibits of respondent reflect calendar year 1979 data. Both respondent and staff used actual results of operations for the 12 months ending December 31, 1979 in presenting their testimony and exhibits. With the limited exception to which reference will be made hereafter, there is no controversy on this point.

Parties are agreed that actual rate base, using average of monthly average account balances, for the test year 1979, is \$789,353,444.

The company and the staff propose a number of adjustments to actual rate base. There are restating adjustments, made to adjust the rate base per books so that the test year reflects only those items that properly belong in the test period, and pro forma adjustments, which give effect to all known changes which can reasonably be measured are stated as though such changes had been in effect for the entire test year, to the extent not offset by other factors. The actual rate base and adjustments are shown as follows:

RATE BASE-ACTUAL and PRO FORMA (Avg. of Mo. Avg.)

Calendar Year 1979

	<u>Company</u>	<u>Staff</u>	<u>Staff Greater</u>
Rate Base-Actual	\$ 789,353,444	\$ 789,353,444	\$ -
3 Uncontested Adjustments	(987,570)	(987,570)	-
Contested Adjustments			
RA-5 CWIP Overhead	-	(693,139)	(693,139)
RA-6 Property Held for Future Use	-	(1,271,963)	(1,271,963)
P-16 Colstrip Houses	-	(136,789)	(136,789)
P-17 Production Adjustment	(16,943,228)	(16,942,958)	270
P-18 CWIP in Rate Base	48,492,624	237,095,975	188,603,351
Weatherization Program	(1,006,029)	-	1,006,029
Rate Base-Pro Forma	\$ 818,909,241	\$1,006,417,000	\$187,507,759
Weatherization Program-Alternative	8,960,506	-	(8,960,506)
Rate Base-Pro Forma-Alternative	\$ 827,869,747	\$1,006,417,000	\$178,547,253

Staff and company agree to a restatement of the Tree Trimming account that reduces rate base in the amount of \$415,228 because the account was incorrectly capitalized rather than expensed in 1978. Parties also agreed to pro forma adjustments for depreciation expense (\$284,342) and Colstrip CWIP (\$288,000).

It should be noted that while the amount of the adjustment applicable to Colstrip CWIP (\$288,000) is not in dispute, the company contends such amount should be placed in Account 105, property held for future use, while staff contends such amount is properly includable in CWIP. We agree with staff that since the land in question is part of a project currently under construction, its cost is appropriately part of the construction cost and should be included in CWIP. The three adjustments reduce actual rate base by \$987,570. Elements of rate base which are disputed will be discussed next, beginning with additions to rate base.

A. Construction Work in Progress (CWIP)

Consistent with past construction work in progress treatment by the Commission, the company proposes to include \$48,492,624 of CWIP in rate base during the test period. This amount, however, does not include all major production and associated transmission projects but has been limited by the company to the two major construction projects involving the Satsop Nuclear Plant (WPPSS #3) and Colstrip coal-fired Units #3 and #4, that have all necessary permits and are in the construction stages.

As an integral part of its request for the inclusion in rate base of the two major projects indicated, the company also requested that no AFUDC offset be made to net operating income as has been the Commission's policy in past proceedings. Reasons stated by respondent for the inclusion of CWIP in rate base with no AFUDC offset include an increase in internal cash flow of the company, improve coverage requirements in future financing, reduce the AFUDC amount carried in the company's income statement and generally improve the quality of its earnings.

Staff presentation initially recognized the two major projects for inclusion in rate base but calculated an associated AFUDC offset in operations. As the proceeding progressed, the staff at time of oral argument and brief recognized the magnitude of respondent's immediate financial needs as shown in this record, and proposed to adjust rate base to show all test year CWIP with total test year AFUDC as the applicable offset.

In Cause No. U-75-24, involving Pacific Power & Light Company, the Commission first departed from a long-standing policy of not allowing the cost of incompleting construction to be included in rate base for ratemaking purposes and included the costs of major production and related transmission facilities with a corresponding AFUDC offset added back to operations. Primary among the reasons stated for such departure was the dramatic increase in CWIP as a percentage of net plant. The Commission noted in its reappraisal process for CWIP treatment in that proceeding that staff analysis did not show for telephone and gas utilities a similar need for improvement in cash flow requirements. It was the Commission's opinion at that time that the assessment of a portion of the future service cost to present users was equitable and necessary; that the addition of CWIP to rate base would add after taxes that level of earnings below which AFUDC had failed to yield the return on production and related transmission CWIP determined by the Commission as necessary to maintain adequate credit; and further, that the revised policy then implemented did not constitute a persuasive precedent in cases other than those involving electric utilities and then only as to those electric cases wherein CWIP is shown

to represent a dramatic, increasing percentage of net utility plant.

In all electric rate proceedings since its decision in Cause No. U-75-24, the Commission has accorded CWIP treatment to rate base with the customary AFUDC offset. In the instant case, respondent seeks CWIP inclusion but no AFUDC offset. In the immediately preceding general rate case involving this company, Cause No. U-78-21, the company similarly requested a CWIP inclusion in rate base with no AFUDC offset. The Commission found in that proceeding that an effective increase in CWIP over the amount the Commission has heretofore authorized could not be permitted absent a showing that included as one element a demonstration that the company could not finance its construction program under the method previously adopted by the Commission.

In its rebuttal case in the instant proceeding, the company contends that retention of the present method of allocating CWIP would prohibit the company from not only earning a fair rate of return but would prevent the company from meeting the necessary coverage tests for future debt and preferred equity financings.

The attitude of the Commission in this proceeding remains unchanged from that stated in its order in Cause No. U-78-21----

"the continuation of the construction program and the company's ability to finance that program, including its ability to maintain debt coverages, reflect generally on the company's ability to finance for present as well as for future customers.

It is not arguable that plant in service is a more reliable object of funding than is a plant under construction, and service from projects under construction cannot now be flatly guaranteed. However, the likelihood of a needed project's being timely completed is influenced by a utility's ability to raise capital for the project and by a regulatory body's creating a climate which is not inhospitable to the funding of such necessary construction---

Respondent's present financial needs are no less critical now than they were two years ago. The record in this proceeding shows that the company's financial position currently is in a state of deterioration which requires significant and immediate relief. It is obvious that continued application of the AFUDC offset will not provide the necessary internal cash earnings to permit the company to meet its necessary construction requirements as well as its several coverage tests.

After careful consideration of all the facts on this record and for the reasons stated hereinabove, it is the conclusion of the Commission that a portion of CWIP should be included in rate base with no AFUDC offset. In recognition of Puget's particular financial needs, 20 percent of total test year CWIP is determined as an appropriate amount allowable in rate base without the recommended AFUDC offset. The Commission policy adopted in this case is not necessarily intended as a precedent for future cases of this company or other utilities, but does represent in the Commission's judgment an action deemed necessary in responsibly meeting the obligations of this Commission to regulate the company in the public interest. The solution adopted herein is based upon the showing of a critical need for cash and total construction

work in progress amounting to more than 20 percent of total net utility plant. The applicable allowance so determined herein is \$47,419,195.

B. Weatherization.

The company asks that its rate base not reflect investments in its weatherization program, the program approved in Cause No. U-78-45. The company proposes to treat weatherization investment and expenses in a separate proceeding. As an alternative the company asks that all weatherization investment and expenses through September 1980 be included. The staff contends that only test period weatherization expenses should be recognized here because the matching revenues, power costs, and load requirements cannot be identified beyond the test period and that consequently a correct pro forma adjustment cannot be made for this item. However, in the weatherization proceeding the Commission stated that all the company's unamortized operating expenses applicable to the program which are charged to Account 186 also will be included in its rate base for ratemaking purposes.

To include all the company's unamortized operating costs applicable to the weatherization program in rate base will provide the company with an incentive to expand its weatherization program. Expansion of the program will provide immediate conservation savings to the benefit of the company and its customers on a favorable cost to benefit ratio and thereby serve to decelerate the need for more costly construction projects. Accordingly, the company's evidence of weatherization costs through September 30, 1980 (a total of \$8,960,506) will be accepted in establishing the adjusted rate base for purposes of the present proceeding. Already included in the agreed rate base is \$1,006,029 for this item; the adjustment found proper here will recognize the additional costs.

C. Production Adjustment.

The staff's production adjustment reducing plant in service during the test period to reflect the production percentage factor to which Mr. Knight and Mr. Hess agree, is consistent with evidence of record. Exhibit No. 114 corrects Mr. Hess' original power supply calculation as a result of the load restriction case, Cause U-80-77. The record shows that the company and the staff are in substantial agreement on this adjustment. The correct net figure to be removed from rate base is \$16,943,228.

D. Cherry Point Property.

Respondent owns vacant land at Cherry Point and has since 1968 been carrying it in Account 105, Property Held for Future Use, at a value of \$1,271,963. Staff proposes removing this amount from rate base because the property is not being "held for future use in utility service under a definite plan for future use" as required by WAC 480-100-031 for Account 105.

Testimony indicates that the company is making feasibility studies for future use of the property for utility service, but testimony also establishes that the plans for its future use are general in nature. However, there is testimony indicating that the property does have a good potential for a future generating site, and the company will be allowed to reflect the booked amount in the rate base in this proceeding. In future proceedings the

Commission will require the company to formalize its intent by producing written plans for the future use of the property as a condition to its continued inclusion in rate base.

E. CWIP Overhead.

The record establishes that procedures established by the company with respect to overhead charged to construction were based on methodology in direct conflict with the Uniform System of Accounts and that the incorrect procedures were changed in March 1978 when the Federal Energy Regulatory Commission discovered the error. It appears that test period books of account did not accurately reflect the correct methodology on this point until September 1979 and the staff has quite properly made a restating adjustment; furthermore, the entire treatment by the staff is correct. The company's contention that it is being asked to revise retroactively its accounting records is not well taken; its records for this item need not be revised. This is not inconsistent with making a correcting rate base restatement to give effect to proper accounting for capitalization of overhead expense.

F. Colstrip Houses.

In 1979 and 1980 the company sold houses at Colstrip, Montana, to employees which it had theretofore owned and made available to them as part of their compensation. Staff proposes removing from results of operations \$115,593 associated with maintaining the houses; removing from rate base \$33,331 associated with sales of land connected with Colstrip housing; and removing the effect of retiring the loss on the sale of the houses which had not been properly booked as a debit to Account 108, Accumulated Provision for Depreciation.

The company contests such adjustments, contending that money paid to employees as living allowances would be accepted as operating expenses and that its accounting treatment of this matter was fully in keeping with normal accounting practices. The staff's treatment is correct. Pro forma adjustments are intended to give test year effect to known and measurable changes of a recurring nature. The sale of Colstrip houses is a one-time, non-recurring event not properly to be given pro forma treatment in rate base. Failure to make the staff's adjustments would overstate rate base and expenses and not give recognition to conditions that will exist when the rates authorized herein will be in effect.

G. Summary of Rate Base Findings.

The Commission's findings on proper test period rate base are summarized as follows: the adjustments to which parties stipulate have been examined and are found to be proper.

TABLE II

RATE BASE-ACTUAL and PRO FORMA (Avg. of Mo. Avg.)

Calendar Year 1979

Rate Base-Actual	\$789,353,444
3 Uncontested Adjustments	(987,570)
Contested Adjustments	
RA-5 CWIP Overhead	(693,139)
P-16 Colstrip Houses	(136,789)
P-17 Production Adjustment	(16,943,228)
P-18 CWIP in Rate Base	47,419,195
Weatherization Program	<u>7,954,477</u>
Rate Base-Pro Forma	<u>\$825,966,390</u>

IV. RATE OF RETURNA. Components of Capital Structure.

Both company and staff construct a capital structure for Puget that is actually a hypothetical capital structure. Although normally the Commission determines fair rate of return on the basis of actual capital structure, when evidence of record demonstrates that actual capital structure is not the appropriate capital structure, the Commission will determine the appropriate hypothetical capital structure to determine fair rate of return. As to use of a higher debt ratio and lower equity ratio than actual, see WUTC vs. Pacific Northwest Bell, Cause No. U-9880 (1969), and W.U.T.C. vs. Pacific Northwest Bell Telephone Company, Cause No. U-71-5 (1971). As to use of a lower debt ratio and higher equity ratio than actual, see WUTC vs. Washington Water Power Co., Cause No. U-9143 (1960).

There is substantial agreement between company and staff on the components of capital structure. While differing in their methods of stating each component, the result in both cases is a statement of a technically hypothetical structure as to which the percentages are virtually the same.

TABLE III
RATE OF RETURN

	COMPANY		
	Capital Structure (%)	Cost Rates (%)	Weighted Cost Rates (%)
Long Term Debt	45.5	8.97	4.08
Short Term Debt	5.0	14.87	0.74
Preferred Stock	13.0	9.91	1.29
Common Equity	36.5	16.00 ⁽¹⁾	5.84
Total	<u>100.0</u>		<u>11.95</u>

(1) Witness Olson - 16½-17%, Witness Meyer-16.9%

Requested Rate of Return 11.95%

	STAFF		
	Capital Structure (%)	Cost Rates (%)	Weighted Cost Rates (%)
Debt	50.5	9.61	4.85
Preferred Stock	13.0	9.91	1.29
Common Equity	36.5	14.25	5.20
Total	<u>100.0</u>		<u>11.34</u>

Recommended Rate of Return 11.34%

B. Cost of Debt and Cost of Preferred Stock.

Percentage cost rates are, again, substantially agreed to by staff and company. The cost rate of preferred stock is 9.91 percent, and the cost rate of debt is found by the Commission to be properly stated as 9.61 percent.

C. Cost of Equity.

The company presented extensive evidence on the cost of equity capital through three witnesses. Dr. Charles E. Olson recommended a 16 to 17 percent return on equity. Mr. Eugene W. Meyer recommended that the return on equity be set at 16.9 percent in order to achieve a market to book ratio of 1.0. Mr. John King, in developing Puget's required fair rate of return, found a 16 percent return on equity as appropriate.

Mr. David A. Kosh, witness for the staff, recommended a return on common equity of 13.75 percent as appropriate. Subsequently on brief, the staff increased its recommended return on common equity to 14.25 percent in recognition of the company's distinct cash flow needs to accommodate its construction program and of the prevailing economic conditions.

The Commission does not set the cost of common equity, but in its judgment attempts to determine the actual return required in order to enable the company to attract investors who will purchase and retain the common stock of the company.

Based upon all the evidence of record, the Commission believes a fair rate of return on common equity is 15.25 percent.

In arriving at its determination, the Commission has accepted the presentation of Mr. Kosh as to his utilization of the discounted cash flow, or DCF, method for determining the investors' required rate of return but has modified his result to reflect a yield which, in our judgment, is more representative of current economic conditions.

We agree with Mr. Kosh that since we are seeking to set rates which can be relatively stable over the near term future, we are interested in determining a fair rate of return and cost of equity which will obtain over the near term future. In so doing, however, we feel that considering the financial condition of the company, its need to finance one of the largest, major construction programs in the electric industry, and the continuing depressed condition of its common stock in the market, recognition of a more current yield is necessary under the circumstances. Such adjustment to yield is not intended to recognize a spot market as being representative of what constitutes an appropriate market for yield determination but rather recognizes the unusual nature of economic conditions in today's market environment.

D. Rate of Return Summary.

The following table summarizes the findings herein and the ultimate determination of the fair rate of return which the company is entitled to earn on its test year rate base.

TABLE IV

RATE OF RETURN

	Capital Structure (%)	Cost Rates (%)	Weighted Cost Rates (%)
Debt	50.5	9.61	4.85
Preferred Stock	13.0	9.91	1.29
Common Equity	<u>36.5</u>	<u>15.25</u>	<u>5.57</u>
Total	<u>100.0</u>		<u>11.71</u>

V. RESULTS OF OPERATIONS

RESULTS OF OPERATION-ACTUAL and PRO FORMA

Calendar Year 1979

	<u>Company</u>	<u>Staff</u>	<u>Staff Greater</u>
Net Operating Income-Actual	\$ 68,249,271	\$ 68,249,271	\$ -
15 Uncontested Adjustments	1,564,955	1,564,955	-
Contested Adjustments			
RA-5 CWIP Overhead	(566,713)	(550,026)	16,687
RA-6 Property Held for Future Use	-	6,434	6,434
RA-7 Liquid Breeder Reactor	-	99,114	99,114
P-7 Storm Damage	(228,670)	(120,815)	107,855
P-8 Rate Case Expense	(53,485)	(9,960)	42,525
P-9 Bad Debt Expense	(187,338)	(149,113)	38,225
P-14 Tax Benefit Pro Forma Interest	(929,459)	1,632,642 (1)	2,562,101
P-15 CWIP Colstrip	-	28,685	28,685
P-16 Colstrip Houses	-	115,593	115,593
P-17 Production Adjustment	347,572	344,965	(2,607)
P-18 CWIP in Rate Base	-	4,220,040 (2)	4,220,040
P-19&20 Power Costs & Sales for Resale	(27,966,003)	(18,910,357)	9,055,646
Weatherization Program	5,798	-	(5,798)
Net Operating Income-Pro Forma	\$ 40,236,928	\$ 56,521,428 (3)	\$ 16,284,500
Weatherization Program Alternative Treatment	(95,075)	-	95,075
Net Operating Income Pro Forma Alternative	\$ 40,141,853	\$ 56,521,428 (3)	\$ 16,379,575

(1) Increase to \$3,345,964

(2) Increase to \$17,292,249

(3) Effect of (1) and (2) increase to \$71,306,559

The actual net operating income of respondent for test year 1979 was \$68,249,271. Adjustments, restating and pro forma, are proposed by parties, just as they were for adjusting actual rate base, so that improper or inappropriate expenses and revenues are removed and so that known and measurable changes occurring during or after the test year are expressed as if they had been in effect for the entire test year; thus, a more accurate and realistic picture of annual net revenues may be perceived for the ultimate goal herein of establishing revenue need in the future.

Parties do not contest that numerous restating and pro forma adjustments shown in the record produce an increase in pro forma net operating income of \$1,564,955. There are disagreements over three restating adjustments and 11 pro forma adjustments which must be resolved in order to make a finding on pro forma net operating income for the test year.

The impact on revenues and expenses of the findings on rate base stated previously need not be reiterated here. Because of the findings on the weatherization program, the Cherry Point vacant land, CWIP overhead, Colstrip houses, Colstrip CWIP, the Production Adjustment, and CWIP in rate base, the related adjustments for results of operations, shown in the record, necessarily follow and they are individually stated in the summary table at the end of this section. Disputed evidence of pro forma and restating adjustments to test year revenues and expenses are resolved next.

A. Liquid Breeder Reactor.

As the company experienced no actual test year costs associated with the company's involvement in "Clinch River Breeder Reactor Project" \$99,114 must be added to net operating income. This addition is not contested by the company, although it asks as a condition of removing the asserted expense that the Commission accord certain favorable treatment later when and if it incurs any obligation under the project. The request need not be determined here in the absence of a factual record on the point. Actual costs will be considered in a future case on the basis of whatever evidence is then presented.

B. Storm Damage.

The staff's adjustment uses the average of years 1974 through 1979 actual storm damage, after giving consideration to insurance refunds in those years, to arrive at the \$1,013,732 average storm damage figure based on the company's actual experience. There was then deducted the actual storm damage expensed in the test year 1979 of \$790,000 to arrive at an increase in the storm damage costs of \$223,732.

The company proposes an inflation adjustment, contending that the staff did not understand a proposed recognition of approximately \$200,000 to keep up with inflation; the company, in brief, states that it has "made only one allowance for inflation in the cost of recognizing storm damage" whereas the staff does not recognize true labor costs.

It is clear from the record that the company's pro forma storm damage labor costs have already been recognized in other adjustments agreed to in this record. Notwithstanding rejection of an "indexing" adjustment, the record shows that the company's reserve account for storm damage has a considerable deficit balance. To rectify this situation the company's proposal of including the \$1,260,264 deficit in the computation of the six-year historical average will be accepted. The record shows that the proper addition to operating expenses, at the net operating income level, is \$234,239. The procedure employed here is not adopted as a restating principle, but is made only to improve the large existing deficit in the account. The Commission will closely audit the reserve balance in future cases.

C. Rate Case Expense.

Staff proposes amortizing the expenses of the present proceeding over 24 months; the company proposes a 12-month period, resulting in a difference of \$42,525 less than the staff's approach for test period pro forma net operating income. The company's proposal is more realistic in light of the increased frequency of general rate filings each year for the foreseeable future. The \$150,000 relating to Commission rate case expense will not be given recognition because the regulatory fee appears sufficient.

D. Bad Debt Expense.

Staff and company propose different adjustments to test year operations for the amount of bills that will not be collected in the future. The staff proposes an adjustment using an average level of uncollectibles of the lowest five years out of the last 10 years; it is contended on the basis of historical experience that this level of uncollectibles is achievable.

The company's argument on this point is persuasive. Prevailing economic conditions and the rate of increases being applied to consumers' bills argue for recognition of the company's position on this point; it advances a pro forma figure that is \$38,225 higher than that of the staff, and its adjustment is accepted.

E. Colstrip CWIP.

The company stipulates to the staff's inclusion in rate base of \$288,000 of land related to Colstrip 3 and 4 but argues against giving APUDC effect to this item. Because of the treatment given in this order to CWIP, no further adjustment is appropriate.

F. Tax Benefit of Pro Forma Interest.

The company proposes that the tax benefits of being allowed the construction work in progress adjustment should belong to future ratepayers. The staff's adjustment is based on the proposition that the adjustment should be based on actual taxes paid rather than on theoretical calculations.

This record is not significantly different than any of those on this point dealt with previously, and there is no reason to reverse previous holdings in this respect. However, the inclusion of \$47,419,195 in rate base found proper above, coupled with the increases in the debt component of the capital structure found appropriate herein requires modification of the staff's adjustment shown in this record. Based on the modified rate base of \$1,015,643,170, a debt percentage of 50.5 percent, a weighted cost of debt of 9.61 percent, and a 46 percent federal income tax rate, the tax effect of pro forma interest is increased to \$3,568,665.

G. Power Costs and Sales for Resale.

The company's test period supply costs must be restated with a pro forma adjustment to reflect hydro and thermal resource operation that would occur under "normal" streamflow conditions. These normalized costs were estimated from an analysis of the hydro energy available from each of 40 separate historical water years. Although the company revised its calculation of the proper adjustment downward by \$10,528,300 during the hearing, the staff's evidence contends that the adjustment is still excessive by approximately \$13,700,000.

The disagreement involves three assumptions, one dealing with recall of surplus power sales, another over the pricing of nonfirm, secondary sales from Colstrip and Centralia in a seller's market and the third over the correct way to make a hydro adjustment on the basis of a difference between West Group Forecast regulations and Coordination Agreement reservoir regulations. These will be considered in the order identified.

(1) Recall of Surplus Power Sales. The Commission will accept the company's position as to its ability to obtain recall of surplus power sales. While some contracts may be expected to include this provision, the staff calculation of the measurement of the number of recallable sales is not persuasive. The company is directed to obtain recall whenever conditions permit, and this issue will be reviewed again in subsequent proceedings. Exhibits permit calculating the adjustment at \$3,165,000.

(2) Secondary Sales in a Seller's Market. Evidence indicates that the 17 mill rate advanced by the company is appropriate. The higher rate recommended by the staff may be theoretically calculated from the applicable FERC tariffs, but there is no evidence to support the assumption that FERC would actually approve such rates. Again, exhibits permit calculating the gross reduction to power sales; the amount found to be proper is \$2,443,500.

(3) Hydro Adjustment Derived From Different Reservoir Regulation Forecasts. The critical period in the 1979-80 Operating Program was changed to one of 20 months duration based on a recurrence of 1943-44 streamflows. The two other electric utility companies regulated by this Commission used the 1943-44 reservoir regulations in the West Group Forecast in making this adjustment in cases they had before this Commission. The staff therefore used the 1943-44 West Group regulations. The West Group Forecast is used as the source of the reservoir regulation for the 40 historical water years, but actual operations are conducted on the basis of reservoir regulations in the Coordination Agreement Operating Program. The two regulations are not the same. The Operating Program calls for greater draft of the reservoirs in the early months of the operating year, thereby making more energy available in the fall months and less in the spring. The company's adjustment in this case was made by comparing the energy shown in the 1979-80 Operating Program with the energy in the West Group Forecast for the 1929-30 water conditions. The calculations were made on the basis of the second year of the critical period established in the 1978-79 reservoir regulations. The staff's evidence demonstrates with certainty that the year of the critical period, on which it based its adjustment, is correct and that the company's selection of the second year of the critical period does not permit an accurate pro forma adjustment.

(4) FERN's Proposed Conservation Reduction. Intervenor FERN presented evidence purporting to establish that the company may expect to realize a reduction of approximately five and a half million dollars to its power costs because ratepayers have reduced usage in times of shortages upon being requested to do so by the company. While we agree that the adjustment recommended by Mr. Lazar may have some merit, the Commission will order rates in this proceeding based upon an average of 40 historical water years as recommended by Mr. Hess and adjusted only for recall and secondary sales as noted above.

In our opinion, Mr. Lazar's calculation is based upon certain conservative estimates that nevertheless cannot be verified for future periods. In addition, the Commission would expect that in the event of a serious water condition that may require a voluntary curtailment program or a regional conservation program, Puget will endeavor to obtain necessary resources outside the region to meet required load.

In summarizing the foregoing power supply adjustments total pro forma power supply costs of \$132,913,500 are recognized. The resulting net operating income effect is a reduction of \$21,880,889.

H. Central Surveys.

Intervenor POWER proposes an adjustment to operating expenses that would disallow the cost of certain community attitude surveys that the company purchased in the test year. The surveys are in evidence and it must be concluded that the cost of \$107,372 cannot be found to be associated with reasonable undertakings for providing electric service. In addition, this is another non-recurring expense, such as the sale of Colstrip houses, and a restating adjustment is appropriate.

I. Edison Electric Institute.

Intervenor POWER also asks that the Commission not allow an expense of \$211,159 for membership in the Edison Electric Institute on the ground that its activities appear to be primarily concerned with lobbying and political activity. Evidence is lacking which would permit an allocation between lobbying and other activities other than that submitted by the company. The Commission finds that the evidence indicates that the Edison Electric Institute is an ordinary trade organization and as such the company's affiliation with it is a legitimate business expense.

J. Summary of Findings.

The Commission's findings on pro forma net operating income are summarized as follows; the adjustments to which parties stipulate have been examined and are found to be proper.

TABLE VI
RESULTS OF OPERATION-ACTUAL and PRO FORMA

Calendar Year 1979

Net Operating Income-Actual	\$ 68,249,271
15 Uncontested Adjustments	1,564,955
Contested Adjustments	
RA-5 CWIP Overhead	(550,026)
RA-7 Liquid Breeder Reactor	99,114
P-7 Storm Damage	(234,239)
P-8 Rate Case Expense	(52,485)
P-9 Bad Debt Expense	(187,338)
P-14 Tax Benefit Pro Forma Interest	3,568,665
P-16 Colstrip Houses	115,593
P-17 Production Adjustment	347,572
P-19 & 20	
Power Costs & Sales for Resale	(21,880,889)
Weatherization Program	(89,277)
Central Survey	57,981
Net Operating Income-Pro Forma	<u>\$48,415,400</u>

VI. GROSS REVENUE DEFICIENCY

In Section III of this order, the Commission found the appropriate rate base for respondent to be \$825,966,390 for identifying with operating results as finally restated for the test period. Application of the return rate of 11.71 percent found to be fair in Section IV and a rate of return of 11.89 percent for weatherization produce a net operating income requirement of \$96,736,793. From this amount the net operating income on a pro forma basis at present rates was found to be \$48,415,400, resulting in a net operating income deficiency of \$48,321,393.

The net operating income revenue deficiency when divided by the net-to-gross conversion factor of .5075028 produces the gross revenue deficiency of \$95,214,042.

TABLE VII
GROSS REVENUE REQUIREMENT

	<u>Weatherization</u>	<u>Other</u>	<u>Total</u>
Rate Base	\$8,960,506	\$817,005,884	\$825,966,390
Rate of Return	11.89%	11.71%	---
Net Operating Income Requirement	<u>\$1,065,404</u>	<u>\$ 95,671,389</u>	\$ 96,736,793
Net Operating Income			<u>48,415,400</u>
Net Operating Income Deficiency			\$ 48,321,393
Conversion Factor			.5075028
Gross Revenue Requirement			<u>\$ 95,214,042</u>

Respondent will be permitted to file rate revisions that will produce additional annual revenues not to exceed \$95,214,042.

VII. TARIFF DESIGN & SPREAD OF RATES

Recommendations for changes in basic rate spread as well as for changes in the design of the tariff revisions under suspension here have been made by all parties. Most recommendations are connected with the issue of cost of service. In the Commission's "generic" order, U-78-05, it was announced that PURPA's cost of service standards would be applied to future electric utility rate proceedings and that embedded cost of service studies would be required in determining rate design and spread when alterations to existing tariffs were sought. The generic order was issued after commencement of the record herein, and there is not on this record the necessary information to entirely restructure respondent's rates and tariffs.

Intervenor WICFUR introduced testimony and documentary evidence in support of its position that a uniform percentage increase is the most desirable method of spreading the burden of a revenue increase in the absence of cost of service or other evidence justifying a change in the company's existing rate structure. Its evidence establishes that such a uniform percentage increase will produce the utility's revenue requirement and that it makes no change in the existing rate structure. There is sufficient evidence to establish that the usual practice of permitting recovery of a revenue increase through uniform cents per kilowatt hour increase of existing charges cannot be continued without seriously distorting the relationships between major customer classes.

The Commission finds that it is appropriate to increase the revenue derived from each of the company's major customer classes by a uniform percentage equal to the total percentage increase of Tariff G revenues authorized herein exclusive of outdoor lighting. The rate design and revenue proposed for outdoor lighting was not challenged and will be accepted by the Commission. However, within each class it is the Commission's determination that the revenue increase should be obtained from a uniform cents per kilowatt hour charge, subject to the further modifications for the residential class and for seasonal rates described below. Additionally, the rates for service in the Point Roberts area under Tariff C are cost-based and will be accepted as proposed.

Information as to the customer charge has not changed since the company's last general rate proceeding, Cause No. U-78-21. In its order in that cause the Commission stated:

"However, the Commission's action herein, raising the energy charge on a cents per kilowatt hour basis and leaving residential basic charges unchanged, actually lowers the ratio of service charges to energy charges. The record does not demonstrate that present residential basic charges are unduly high. To say that a service charge is per se discriminatory is to ignore the elemental fact that all customers impose service requirements on a regulated utility independent of the amount of the utility's

product consumed by the customer. Certain items such as metering, line maintenance and some labor costs exist independent of the amount of demand a customer may place on a utility's capacity to serve. "

Further, in the generic order the Commission stated:

"Various parties have advocated ignoring customer costs for rate spread purposes, eliminating customer charges in residential rate design, or replacing the residential customer charge with a disappearing minimum. All of these proposals conflict with the cost of service standard which we adopt, and all are rejected."

Therefore, the proposal to reduce or eliminate the customer charge is rejected. The Commission finds no evidence to support requests to impose no increase on the first 400 kilowatt hours of residential usage over the existing rate, to flatten industrial and commercial rates, or to require differing initial blocks of usage for summer and winter months.

In its recent generic order the Commission indicated a policy favoring a low-cost initial baseline block for residential customers. Respondent in the case has proposed a rate design incorporating that feature, and it was not substantially disputed by any party. The Commission finds it appropriate to authorize a rate design for Schedule 7 energy charges that provides different charges for the first 400 Kwh per month of usage, the next 1100 Kwh and all usage over 1500 Kwh.

With respect to the rates for energy charges in each block of residential usage, the Commission accepts the view that rates for the initial block should be increased when other rates increase, but by a lesser magnitude. The company recommended that the increase for the first block be limited to 10%. The Commission finds that it is appropriate to relate the first block increases to that of the others, however. Therefore, the first block energy charge should be increased by a percentage equal to one-half of the average of the summer and winter percentage increases imposed on the tail block. The middle block may be increased proportionately in accordance with the design proposed by respondent.

VIII. WEATHERIZATION, SCHEDULE 83

Although a good deal of testimony and evidence was placed in this record to indicate that the company's present weatherization program should be expanded, it was determined in the course of hearings that revisions in the program could not be required in the present order. The evidence of witnesses for FERN and POWER suggests that a review of the cost/benefit criterion and the items covered by the program is in order. The Commission requests that such a review will be made by the company and recommended changes be presented to the Commission as soon as practicable.

IX. SCHEDULE 91, VARIABLE POWER COST RATE

An operating expense which the company believes cannot be adequately reimbursed through general tariff rates is termed

"variable power costs." This term is defined by the company as "the costs of fuel (oil, gas and coal) purchased and interchanged power and a credit for sales for resale." The company alleges that it cannot continue to operate with revenues derived from rates fixed on an average of 40 historical water years with no mechanism to accommodate variations. Accordingly, in addition to the usual tariff schedules filed in this cause, the company filed a schedule, number 91, which is intended to produce revenues dollar for dollar commensurate with excess power costs and "in an expeditious manner" to meet quickly variations in power costs as they occur; that is the Schedule 91 rates would return to the company via increased revenues variable power costs immediately after they are incurred. Schedule 91 rates would be adjusted from time to time to account for the differences in actual costs experienced from those originally projected, either higher or lower.

At the time of filing the proposed Schedule 91 in February 1980 the company looked ahead to costs expected to prevail when the rates to be established by the present order become effective--January 1, 1981 in the company's estimation--and it selected a variable power cost figure by using the variable costs which would be incurred if 1966-67 water conditions existed in 1981-82 (Exhibit No. 6, page 22). Also pertinent to understanding this new concept of ratemaking is the fact that if the Schedule 91 charges failed to cover the net variable power costs in any six-month period, Puget would seek an adjustment to recover such shortfall in some manner even though Schedule 91 does not contain any specific procedures for doing so. It was suggested that recovery of a shortfall could be accomplished by including it among the costs to be collected in a subsequent six-month period, a procedure that would constitute retroactive rate making.

After cross-examination on the original filing the company presented a substantially revised Schedule 91 as an alternative in its Exhibit No. 150 in the course of its rebuttal testimony. The company proposes that if rates are derived from certain power costs under a 40-year historical water study, on average power costs, then the company and ratepayers should have no greater exposure to the financial impact of fluctuating actual power costs than they have had in the past. To accomplish this purpose, the company proposes that it be "constrained" from increasing or decreasing its variable power costs rate, which would be fixed at average power costs, unless it was clear that actual variable power costs were going to be greater than or less than average variable power costs by a margin of \$3,000,000 in the summer and \$12,000,000 in the winter. Such a margin was called a "deadband method", and it is contended that the method would reduce the frequency with which the company would have to request changes in Schedule 91 while assuring that the company had an incentive to keep costs at a minimum because it would be unable to pass on a substantial amount of such costs to ratepayers. Further, in support of the proposal, the company argues that rates named in Schedule 91 could be reduced as well as increased in the event that variable power costs were to be significantly less than anticipated, thus furnishing a mechanism that works directly to reduce rates as well as to increase them, depending on the actual power costs situation.

Although the company asserts that its Exhibit No. 150 is designed to meet objections of parties half way, it appears from cross-examination and briefs that its view is optimistic.

Parties advance extensive objections to the new proposal to recoup variable power costs outside the basic tariff structure.

There are many defenses and objections on both sides of the argument over the proposed innovation for recovery of a certain category of power costs. It is acknowledged that because of delays in construction of base load thermal plant, the company faces greater exposure to high cost oil and gas-fired generation and purchases than it has in the past; but it cannot be assumed for ratemaking purposes that all years will be less than average water years. Thus, Puget will also certainly enjoy substantial improvement in earnings in good water years by displacing high cost generation and purchases included within test year costs with low cost hydro. In addition, it will be able to substantially increase revenues from secondary sales in good water years. The solution to any financial difficulty the company might find itself in is not the guaranteed recovery of any particular element of cost. There is no basis for the assumption that any financial difficulties in the future are solely caused by variable power costs.

The Commission has often stated the standards it perceives to be applicable for any request for emergency rate relief. These are essentially financial in character. For instance mere failure of the currently realized rate of return to equal that approved is not sufficient standing alone to justify the granting of interim relief. The Commission has also stated that it will review all financial indices as they concern an applicant for interim relief, including rate of return, interest coverage, earnings coverage, and the growth, stability, or deterioration of each, together with the immediate and short term demands for new financing and whether the grant or failure to grant interim relief will have such an effect on financing demands as to substantially affect the public interest.

The company always has had and will continue to have interim or emergency rate relief available if all financial indices indicate that rate relief is required. In the last analysis, the Commission is of the opinion that on the record before it the innovation proposed by rebuttal Exhibit No. 150 has not been sufficiently examined on the record to permit definitive findings on the issues. Therefore, the proposal will be rejected. However, the Commission is keenly aware of the situation which the company seeks to resolve with its original and its revised Schedule 91. The company is aware that in the past the Commission has always promptly considered every request for relief from the financial burdens imposed by excess variable power costs.

X. SEASONAL RATES

The evidence submitted by respondent in support of Schedule 91 shows a large seasonal variation in the cost of power. This variation is not reduced by rejecting the full cost pass-through method proposed by the company, but rather remains even under the average power cost approach adopted by the Commission. In its order in Cause No. U-78-05, the Commission adopted the following standard with respect to seasonal rates:

"The rates charged by an electric utility for providing electric service to each class of electric consumers shall be on a seasonal basis which reflects the costs of providing service to such class of consumers at

different seasons of the year to the extent that such costs vary seasonally for such utility."

The Commission finds that the evidence of record in this case is sufficient to support initial implementation of seasonal rates for respondent, using October through March as the winter and April through September as the summer seasons. Recognizing the limitations of the cost studies that were presented, and the impact of full implementation as proposed by the company, the Commission determines that the following constraints should apply to the seasonal rates hereby authorized. First, the seasonal rate shall be applicable to the entire energy charge rather than being imposed as a surcharge. Second, the winter energy rate shall not exceed the summer rate by more than 25%. Third, the seasonal rate differential shall not apply to the 400 Kwh baseline residential block nor to service under Tariff C. The Commission believes that these restrictions will satisfy the criteria it has previously set forth requiring gradual implementation of the seasonal rate concept based upon evidence and good judgment.

XI. MANAGEMENT AUDIT

In the course of oral argument following the close of evidentiary hearings in this proceeding the staff suggested to the Commission that a review of the company's many rate proceedings in recent years indicates the possible need of a management audit. The Commission recognizes that in the past two years the company has presented numerous requests for rate relief. With the sole exception of its motion for early partial implementation of the filing under suspension herein, which could not be granted as a matter of law, the Commission has acted in timely fashion on such requests; hearing schedules have been accelerated and issuance of orders has been expedited.

There may well be reasonable grounds for a management audit but the Commission is of the opinion at this time that it should await the impact on the company's financial profile of the rate increases granted herein before further addressing the management audit question.

FINDINGS OF FACT

Having heretofore discussed in detail both the oral and documentary testimony concerning all material matters inquired into and having stated findings and conclusions, the following summary of these facts is now made. The portions of the preceding detailed findings pertaining to the ultimate facts are incorporated herein by this reference.

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, accounts, securities, and transfer of public service companies, including electrical companies.
2. Puget Sound Power & Light Company, respondent herein, is engaged in the business of furnishing electric service within the State of Washington as a public service company.
3. On February 25, 1980, respondent filed revisions to the rules, rates, and charges named in various schedules

of its tariffs Nos. WN U-53 and WN U-58. On February 27, 1980, the Commission suspended operation of this filing and ordered public hearings held on the reasonableness of the revisions.

4. The filing would produce an increase in annual gross revenues from its operations of approximately \$118,000,000.

5. The 12-month period ended December 31, 1979 is appropriate to examine for ratemaking purposes in this cause.

6. The pro forma average rate base for respondent's test year is \$825,966,390.

7. A rate of return of 11.71 percent on respondent's rate base will maintain its credit and financial integrity and will enable it to raise new capital at reasonable rates to meet its service requirements.

8. The net operating income indicative of respondent's operations in this state, on a final pro forma basis before proposed rates, is \$48,415,400.

9. A deficiency exists in test period gross annual revenues on respondent's operations of \$95,214,042, calculated on a rate of return of 11.71 percent herein found appropriate.

10. The tariff revisions filed by respondent should be rejected and respondent should be authorized to refile revisions which will provide additional revenues which include the interim rates previously authorized and not to exceed \$95,214,042, as determined in the body of this order. The design of the tariff revisions to be filed shall conform with the directions and findings set out in the order.

CONCLUSIONS OF LAW

1. The Washington Utilities and Transportation Commission has jurisdiction of the subject matter and of the parties to this proceeding.

2. The existing rates for electric service in respondent's tariff are insufficient to yield reasonable compensation for electrical service rendered in the State of Washington. Revisions of rates and charges made in accordance with findings herein will yield a fair return on the rate base found proper herein, and if filed pursuant to the authorization herein will be just, reasonable, and sufficient.

3. All motions made in the course of hearings which are consistent with the findings and decision herein should be granted; those inconsistent should be denied.

On the basis of the foregoing analysis of evidence, findings, and conclusions, the Washington Utilities and Transportation Commission enters the following order:

O R D E R

THE COMMISSION THEREFORE ORDERS:

1. The tariff revisions filed herein by Puget Sound Power & Light Company on February 25, 1980, now under suspension

and docketed in Cause No. U-80-10, are hereby rejected in their entirety.

2. Respondent is hereby authorized to file tariff revisions hereinbefore found to be appropriate which will produce no more than the additional annual gross revenue hereinbefore found to be proper.

3. The filing authorized herein shall bear an effective date which allows the Commission at least four working days following the day of the Commission's receipt thereof to consider same; shall reflect no retroactive rate treatment; and shall bear the notation on each sheet thereof, "By authority of order of the Washington Utilities and Transportation Commission, Cause No. U-80-10".

4. Material in support in the manner in which the additional annual gross revenue authorized herein is obtained shall be submitted along with the filing relating thereto.

5. A notice of the filing authorized herein shall on the same day as filed or immediately prior thereto, be posted at each business office of respondent in the territory affected thereby stating that the filing is to become effective on the date inserted as the effective date in keeping with the foregoing and advising that a copy of the filing is available for inspection at each such office. The notice shall remain posted until the Commission has acted on the filing.


6. All motions inconsistent herewith are denied; those consistent herewith are granted.

7. Jurisdiction is retained to effectuate the provisions of this order.

DATED at Olympia, Washington, and effective this 2nd day of January, 1981.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION


ROBERT C. BAILEY, Chairman


A. J. BENEDETTI, Commissioner