APPENDIX 1

Attachment A to
Settlement Stipulation

Effective January 1, 2017

~~Exhibit A to~~
~~Settlement Stipulation~~

~~*PSE GENERAL RATE CASE*~~
~~*DOCKET NOS. UE-011570 and UG-011571*~~

~~SETTLEMENT TERMS FOR THE~~

SUMMARY OF POWER COST ADJUSTMENT (PCA) MECHANISM ~~(PCA)~~SETTLEMENT TERMS

~~**A. Executing Parties**~~

~~1. The following parties have participated in the Power Cost Adjustment mechanism (PCA) collaborative in Docket Nos. UE-011570 and UG-011571, and have reached consensus on the terms of settlement with respect to such issues, as set forth in this Agreement: Puget Sound Energy, Inc. ("PSE" or the "Company"); the Staff of the Washington Utilities and Transportation Commission; the Public Counsel Section of the Attorney General's Office; Intervenor the Kroger Co.; Intervenor AT&T Wireless Services, Inc.; Intervenor NW Energy Coalition and Natural Resources Defense Council; Federal Executive Agencies; and Intervenor Cogeneration Coalition of Washington (hereinafter referred to collectively as "Executing Parties").~~

~~B~~

A. OVERVIEW OF PCA

~~2.~~1. The ~~proposed~~ PCA is a mechanism that ~~would account~~accounts for differences in PSE's modified actual power costs relative to a power cost baseline. This mechanism ~~would account~~provides for a sharing of costs and benefits that are graduated over ~~four~~three levels of power cost variances~~, with an overall cap of $40 million (+/-) over the four-year period July 1, 2002 through June 30, 2006. If the cap is exceeded, costs and benefits in excess of $40 million would be shared at a different level of sharing.~~. The factors influencing the variability of power costs included in the ~~proposal~~mechanism are primarily weather or market related. PSE will be allowed to file for rate increases to implement limited power supply cost increases ~~related to new resources~~, discussed later.

~~3.~~2. **Sharing ~~proposal~~Bands:**

a. ~~**First**~~Dead Band ~~**(dead band):** $20~~: $17 million (+/-) annually, 100% of costs and benefits to Company.

b. ~~**Second**~~First Sharing Band: $~~20~~17-$40 million (+/-) annually,

i. Costs (under-recovered) will be shared 50% ~~of costs and benefits~~ to Company; 50% ~~of costs and benefits~~ to Customers.

ii. Benefits (over-recovered) will be shared 35% to the Company; 65% to Customers

~~b.~~c. ~~**Third**~~ Second Sharing Band: Over $40~~-$120~~ million (+/-) annually, 10% of costs and benefits to Company; 90% of costs and benefits to Customers.

- ~~**Fourth Sharing Band**: Greater than $120 million (+/-) annually, 5% of costs and benefits to Company; 95% of costs and benefits to Customers.~~

- ~~**Overall Cap For Four Year Period July 1, 2002 through June 30, 2006:** As a separate limit, the Company's share of power costs/benefits will not exceed a $40 million (+/-) cumulative net balance, as calculated per the sharing bands discussed above. If this cap is exceeded, sharing thereafter is adjusted to 99% of costs and benefits to Customers and 1% of costs and benefits to Company. The cap is removed at end of the fourth year (June 30, 2006), and any deferred balances associated with the cap are set for refund or collection at that time.~~

~~c.~~d. Deferral and Interest: The customer's share of the power cost variability will be deferred as described below, and the balance will accrue monthly interest at the interest rate calculated in accordance with WAC 480-90-233(4). Amounts will be deferred consistent with recovery under the provisions ~~of SFAS 71~~of Accounting Standards Codification 980.

~~4.~~3. **Timing of surcharges or credits:** .

a. The sharing amounts will be accounted for~~,~~ on an annual basis~~. The first 12 month~~ ~~.~~, with a PCA period ~~will be the period beginning July 1, 2002 and ending June 30, 2003. Subsequent PCA periods will be 12 month period beginning on July 1~~ of January 1 through December 31 for each year[1]. The surcharging of deferrals can be triggered by the Company when the balance of the deferral account is approximately $~~30~~20 million. The Company shall make a filing to refund deferrals when the balance in the deferral account is a credit of $~~30~~20 million or more.

b. To address financial needs and to provide Customers a price signal to reduce energy consumption, a surcharge can be triggered when the Company determines that, for any upcoming 12 month period, the projected increase in the deferral balance for increased power costs will exceed $~~30~~20 million. The surcharge will be implemented through a special filing subject to- Commission approval detailing the events giving rise to the projected cost variance.

c. In ~~August~~April of ~~2003 and~~ each year ~~thereafter~~, the Company shall file an annual report detailing the power costs included in the deferral calculation, in a form satisfactory to the Commission, for Commission review and approval~~.~~ by September 30 of that year. The Commission shall have an opportunity to review the prudence of the power costs included in the deferred calculation, and costs determined to be imprudent can be disallowed at that time. Staff and other interested parties will have the opportunity to participate in the prudence review process. The Company will also provide the Commission with a quarterly report of the deferral calculation in a form satisfactory to the Commission.

d. Unless otherwise determined by the Commission, surcharges or credits will be collected or refunded, as the case may be, over a one year period. If for any reason the PCA shall cease to exist, any balances in the deferred accounts not previously reviewed will be reviewed and set for refund or surcharge to customers at that time.

~~C. Elements of~~ B. ELEMENTS OF PCA

~~5.~~4. **Power Cost Baseline Rate**: In order to focus on the component of the Company's rates to be ~~adjusted by~~included in a PCA, it is necessary to distinguish between power costs and all other costs in ~~general~~ rates. ~~This~~ Total PSE costs will ~~single out~~be divided, or separately identified, into three categories: 1) Variable Production Costs

[1] PCA moved to calendar year per docket UE-050870

(tracked through the ~~relative~~PCA imbalance calculation), 2) Fixed Production Costs (that will be included in PSE's electric decoupling mechanism if the mechanism continues), and 3) Delivery Costs (currently included in PSE's decoupling plan). The Power Cost Baseline Rate is the combination of Variable Production Costs and Fixed Production Costs. The following table indicates the portion of the Company's rate to be adjusted by the ~~proposed~~ PCA mechanism and in the periodic "Power Cost Only Rate Case" review~~. The purpose is for the PCA, and any Power Cost Only case, to measure the cost of power delivered to PSE's system, and to measure the change in this overall cost. The following table illustrates the proposed distinctions among costs in the Company's rates.~~:

~~Total Revenue Requirement Table~~

~~Total Rate~~TOTAL REVENUE REQUIREMENT		
Power Cost Baseline Rate[1] (see Exhibit A)		**~~Non-power Costs~~**
Variable ~~Rate Component~~ Production Costs[2]	**Fixed ~~Rate Component~~Production Costs**	**Delivery Costs**
•Fuel ~~Other revenues~~, FERC accounts 547 and ~~costs associated with fuel~~501; •Purchase & Interchange ~~(purchase power contracts not to exceed general rate caseor PCA resource case cost level),~~ FERC account 555; •Purchases/Sales of Non-Core Gas, FERC Account 456.0; •Hedging Gains or Losses on Fuel and Power Purchases and Sales and related Brokerage Fees; •Sales to Others, FERC Account 447; •Wheeling costs, FERC Account 565; ~~Transmission income associated with specific lines~~ •Amortization of ~~Specific~~ Production regulatory assets or liabilities ~~* amortization~~	~~Following items to be recovered at the last general rate case or PCA resource case revenue levels:~~ •Return on Fixed Production Plant and specific ~~Transmission** Return on Ratebase (7.30%~~Transmission[3] Assets, at the current authorized net of tax~~)~~ rate of return; •Return on Production-related Regulatory Assets and Liabilities at the current authorized net of tax rate of return; •Depreciation expense for Production Plant and specific ~~Transmission Depreciation~~Transmission[3] Assets; •Hydro and other Production Plant ~~and specific Transmission Property Taxes Production plant and specific Transmission O&MOther~~O&M (including Payroll OH/taxes); •Other Power Supply Expenses, FERC 557 (including Payroll OH/taxes); ~~**~~ •Property Insurance associated with Production Plant;	•Transmission (other than what has been included in PCA ~~fixed rate~~Fixed Production Costs component) Distribution; •All other operating accounts not included in the Power Cost ~~Rate.~~Baseline Rate Variable Production Costs or Fixed Production Costs; •Line of Credit costs associated with Hedging program (included as a cost of capital item in next GRC).

~~1 References in table correspond to FERC accounts to be itemized in the Exhibits. For example, "Other Power Supply Expenses" corresponds to FERC Account 557.~~

2 Modifying the above table due to changes in account numbering by FERC or the addition of new production resources will not be subject to the 5-year moratorium. Inclusion of any other accounts will be decided in a General Rate Case, PCORC, or PCA compliance filing.

amortized to Accts.: 501, 547, 555 and 565. Inclusion of any other variable regulatory assets or liabilities will be decided in a future GRC or PCORC. Inclusion of any other variable regulatory assets or liabilities will be decided in a future GRC or PCORC;~~return (7.30% net of tax) at current PCA rate year level~~ ~~Adjustment for availabilityof Colstrip.~~ •Acct. 408.1—Montana Electric Energy Taxes; •Commission Approved Equity Adder associated with Coal Transition PPA.	•Amortization of Regulatory Assets and Liabilities (Except amounts amortized to Accts.: 501, 547, 555 and 565); •~~**~~ Specific Transmission[3]—~~Colstrip1&2 line, Colstrip 3&4 line. Third AC, Northern Intertie.~~ expense and revenues: 1. Transmission Expense—500 kV; 2. Acct. 456.1—Transmission Revenue	
~~*Regulatory Assets—Tenaska, Encogen (Cabot Oil buy out), Bonneville Exchange Power~~	~~**Specific Transmission—Colstrip 1&2 line, Colstrip 3&4 line. Third AC, Northern Intertie,~~	

~~6. **Adjustment for Availability of Colstrip**: A Colstrip adjustment will be measured against a weighted equivalent availability factor. If the actual availability factor (weighted by PSE ownership times unit capacity) for the four plants at Colstrip falls below a 70% equivalent availability factor a reduction will be made to the allowable revenue requirement for Colstrip. The calculation will be calculated by subtracting the actual weighted equivalent availability factor from 75%. This difference will be divided by 75% and the resulting percentage will be multiplied times the fixed costs (such fixed costs being more particularly described in Exhibit A) associated with Colstrip. The revenue requirement associated with this portion of these fixed costs will be removed from the allowable costs in the PCA.~~

3 Specific Transmission refers to: Colstrip 1&2 line, Colstrip 3&4 line, Third AC, & Northern Intertie.

~~7.~~5. **New Resources:** New resources ~~with a term of less than or equal to two years~~ will be included in the allowable PCA costs. The prudence of ~~these~~new resources with a term less than or equal to two years will be determined in the Commission's review of the annual PCA report. ~~New~~The prudence of new resources with a term greater than two years may be ~~included in the PCA allowable cost at the lesser of the actual cost or the average embedded cost in the PCA (including transmission into PSE's Puget Sound system) as a bridge mechanism, until the then future costs of these new resources can be~~ reviewed in a Power Cost Only Rate ~~review~~Case or general rate proceeding.

~~8.~~6. **Power Cost Only Rate ~~Review:~~ Case (PCORC)**

In addition to the yearly adjustment for power cost variances~~, there would be~~ in Variable Production Costs, PSE may file a periodic proceeding ~~specific to power costs~~ that would true up ~~the Power Cost Rate to~~ *all power costs* identified in the Power Cost Baseline Rate, as well as allow new resources into the Power Cost Baseline Rate. ~~The Company can also initiate a power cost only proceeding to add new resources to the Power Cost Rate.~~ In either case, the Company would submit a ~~Power Cost Only Rate~~PCORC filing proposing such ~~change~~changes. This filing shall include testimony and exhibits that include the following:

a. Current or updated ~~least cost~~integrated resource plan

b. Description of the need for additional resources (as applicable)

c. Evaluation of alternatives under various scenarios (as applicable)

d. Adjustments to the Fixed ~~Rate~~Production Cost Component

e. Adjustments to the Variable ~~Rate~~Production Cost Component

f. A calculation of proforma production cost schedules that ~~areconsistent~~are consistent with this docket, including power supply and other adjustments impacting then current production costs.

~~9. If, during the first three (3) years after new rates have gone into effect (i.e., the three year period commencing July 1, 2002 and ending July 1, 2005) the Commission shall approve a cumulative increase to general rates in excess of 5%, and such cumulative increase in excess of 5% is the result of rate increases sought by the Company and approved by the Commission in one or more such Power Cost Only reviews, then within three (3) months of the date such cumulative rate increase in excess of 5% shall take effect, the Company shall file a general rate case.~~

~~10.~~7. ~~Further, if at any time after July 1, 2005 the Company shall file for a Power Cost Only review~~ If the Company shall file for a PCORC, and such filing shall result in an increase to general rates then in effect, the Company shall, within three (3) months of the effective date of any rate increase resulting from such ~~Power Cost Only review~~PCORC, file a general rate case. Not more than one general rate case filing in any 12 month period shall be required to comply with this requirement. Except for requests for interim rate relief, PSE is prohibited from overlapping PCORC and general rate case filings. Additionally, PSE is limited to filing one power cost update per PCORC, with an additional update allowed as part of the compliance filing if the Commission determines the update is necessary due to increased gas costs and orders that such update be made as part of the compliance filing[5].

~~11.~~8. One objective of a new resource proceeding is to have the new Power Cost Baseline Rate in effect by the time the new resource would go into service. Upon receipt of ~~such~~a filing, hearings would be scheduled to review the appropriateness of adjusting the Power Cost ~~Rate and/or adding new resource costs to the Power Cost Rate.~~Baseline Rate. These hearings would consider only power supply costs included within the Power Cost Baseline Rate. It is contemplated that this review would be completed within ~~four~~five months.[6] Data request response time during the review period will be five days.[7] Within 30 days following the ~~four~~five month review, the Commission would issue an order determining the appropriateness of all power costs ~~to be~~ included in the Power Cost Baseline Rate and the prudence of any new resource (with a term greater than two years) acquisition.

~~D~~C. PCA ~~Mechanism (procedures~~ MECHANISM (PROCEDURES)

~~12.~~ 9. Exhibit A-1 details an example of PSE's presentation of the power costs, on a test year level (as defined in the revenue requirement settlement in Docket No. UE-~~011570~~141141) identified in the Total Revenue Requirement Table. The purpose of this exhibit is to calculate the Power Cost Baseline Rate which is defined as the sum of both the ~~Fixed Rate Components and~~ Variable ~~Rate Components~~Production Costs and Fixed Production Costs, divided by the test year delivered load (MWh). ~~The remaining Executing Parties agree to PSE's presentation shown in Exhibit A and will verify in due course the accuracy of the specific numbers in that exhibit.~~

~~13.~~10. Exhibit B, which is based on the Company's presentation of test year costs ~~and is subject to verification by the remaining Executing Parties as described above~~, is an explanation and example of ~~a~~the calculation used ~~in the PCA~~ to determine the amount of power cost that will be subject to the sharing mechanism. This exhibit calculates the amount subject to sharing by subtracting the Baseline ~~Power~~Variable Production

[5] *See* Docket UE-072300 (Order 13).

[6] *See* Docket UE-072300 (Order 13).

[7] *See* Docket UE-072300 (Order 13).

Costs from the ~~Allowed Power~~allowed total Variable Production Costs ~~(rate year).~~ for the PCA period. Baseline ~~Power~~Variable Production Costs are defined as the Variable Production Cost component of the Power Cost Baseline Rate ~~times~~multiplied by the actual delivered load in the PCA period. ~~The allowed power costs include: return on fixed production and transmission ratebase, return on variable (regulatory asset) ratebase, other Fixed Rate Components and actual cost of variable rate components included in the specified FERC accounts. The allowed power costs are adjusted for:~~

- ~~existing (Docket No. UE-921262) prudence adjustment of Tenaska and March Point Phase 2~~
- ~~regulatory asset ratebase and amortization will be adjusted to the amounts to be included for the appropriate PCA period (Exhibit D)~~
- ~~purchase power contracts will be adjusted to the amounts allowed in either the settlement Docket No. UE-011570 or the most recent Power Cost Rate Case (Exhibit E)~~
- ~~Colstrip availability adjustment if applicable (Exhibit F)~~
- ~~New resource pricing adjustment if applicable (Exhibit G)~~

~~14. Exhibit C is an example that demonstrates the sharing and application of the $40 million cap.~~

11. **Adjustments of Costs Outside of the PCA Period:** Power cost adjustments or true-ups for prior periods that fall within the PCA period are included as recoverable power costs through the Variable Production Costs component.

a. Adjustments for Previous PCA Periods:

i. Adjustments for previous PCA period(s) that are equal to or less than $1 million (debit or credit) will flow through the current months PCA calculation.

ii. Adjustments or true-ups greater than $1 million (debit or credit) that relate to prior PCA period(s) will flow through a recalculation of the previous PCA period(s) for regulatory purposes. Any changes to the customer deferrals from the prior PCA period(s) will be indicated in a reconciliation schedule for deferrals by PCA period(s).

b. Exceptions to Adjustments for Previous Periods:

i. *Company Accounting Errors:* If an error has been made in regard to accounting for power cost transactions, except for Colstrip fuel costs and to the extent that the Company should have known at the time of the transaction, the Company will reflect the appropriate adjustment to the PCA period(s) and adjust the deferral for the PCA period(s) accordingly.

ii. *Mid-Columbia Power Costs:* Since it is difficult to determine the months impacted by any annual true-ups under PSE's Mid-Columbia contracts, any annual true-ups for PSE's costs under its Mid-Columbia contracts will be considered a Variable Production Cost and included in the same PCA period(s) for which they are booked to power costs.

iii. *Colstrip Fuel Costs:* Any adjustments, true-ups, or corrections made for Colstrip inventory valuation for prior period will be considered a Variable Production Cost and included in the same PCA period(s) for which they are booked to power costs.

c. Adjustments for Costs Recorded after Termination of PCA Mechanism: Power cost adjustments posted in the month following the termination of the PCA Mechanism relating to the PCA period(s) will be included in power costs for the month of the final PCA calculation and the deferral will be adjusted subject to the exceptions in item B.

~~15.~~12. Unless otherwise ordered by the Commission, changes in rates attributable to PCA adjustments ~~for the Variable Rate Component~~ shall be charged on a cents/kWh basis, and changes in rates attributable to adjustments to the ~~Power Cost Rate~~power costs as a result of a ~~power cost only review~~PCORC shall be charged based upon the ~~peak credit~~Company's most recent approved Cost-of-Service methodology ~~utilized~~as agreed to in ~~computing the rate spread methodology in this proceeding~~Docket UE-141368 or as subsequently modified pursuant to that agreement. No party is deemed to have approved or accepted these methodologies for any other purpose or precedent. Wholesale customers will be allocated power costs and power revenues at the end of a PCA year in the same relationship as done in the rate allocation from ~~this docket~~the Company's most recent approved Cost-of-Service methodology proceeding as agreed to in Docket UE-141368 or subsequently modified pursuant to that agreement.

~~**E. Least-Cost Planning/Decoupling**~~

D. DECOUPLING

13. Parties are not bound to any position with respect to the continuation of decoupling or the treatment of fixed production costs within the decoupling mechanism in PSE's next general rate case. However, if the electric decoupling mechanism continues for PSE after the review of decoupling in PSE's next general rate case, the electric decoupling mechanism will include the Fixed Production Costs as defined in Section B above that were formerly tracked in the PCA imbalance calculation. Nothing in this agreement binds any party to any position with regard to treatment of costs in an automatic escalation factor mechanism (such as a K-factor) or in a multiyear rate plan.

~~16. One of Puget Sound Energy's important responsibilities involves electric resource portfolio development, a responsibility addressed in the Company's least cost plans prepared pursuant to WAC 480-100-238. This includes, among other things, assembling a mix of demand-and supply-side resources that promotes the societal benefits of reliable least cost electricity supplies. The parties agree that PSE's least-cost planning process provides an appropriate forum to address the evaluation of PSE's portfolio development, including consideration of rewards and/or penalties tied to PSE's overall long-term performance in portfolio development. The parties recommend that the Commission address these issues as soon as possible in Puget's least-cost planning process, pursuant to WAC 480-100-238, with opportunities for public comment prior to final determination.~~

~~17. Nothing in this settlement precludes any party from raising in an appropriate future Commission proceeding issues surrounding the decoupling of distribution fixed cost recovery from retail sales volumes. The parties have reached no consensus on what constitutes an "appropriate proceeding" for this purpose, and reserve the right to oppose any effort to raise such issues.~~

E. TEMPORARY PROVISIONS

14. The parties agree to a five-year moratorium for changes to the PCA mechanism, from the implementation date of this agreement, January 1, 2017.

15. PSE's ability to file a PCORC will not change, including the continued use of the PCORC to update Fixed Production Costs referenced in Section C above. However, for the five year moratorium, PSE will agree to a limited stay-out period after the filing of any PCORC during that five-year period. Specifically, PSE agrees to not file a general rate case or a PCORC within six months of the date new rates go into effect for any PCORC filing. Additionally, the requirement to file a general rate case within 3 months of the completion of a PCORC, as outlined in Section 7 is suspended during this five-year moratorium.

~~F. Miscellaneous Provisions~~

~~18. **Binding on Parties:** The Executing Parties agree to support the terms and conditions of this Agreement, as described above. The Executing Parties understand that this Agreement is subject to Commission approval.~~

~~19. **Integrated Terms of Settlement:** The Executing Parties have negotiated this Agreement as an integrated document. Accordingly, the Executing Parties agree to recommend that the Commission adopt this Agreement in its entirety.~~

~~20. **Negotiated Agreement:** This Agreement represents a fully negotiated agreement. Each Executing Party has been afforded the opportunity, which it has exercised, to~~

~~review the terms of the Agreement. Each Party has been afforded the opportunity, which it has exercised, to consult with legal counsel of its choice concerning such terms and their implications. The Agreement shall not be construed for or against any Executing Party based on the principle that ambiguities are construed against the drafter.~~

~~21. **Execution:** This Agreement may be executed by the Executing Parties in several counterparts, through original and/or facsimile signature, and as executed shall constitute one agreement.~~

~~DATED this 4th day of June, 2002.~~

~~**PUGET SOUND ENERGY, INC.**~~

~~By~~ ______________________________

~~Kimberly Harris~~

~~Vice President of Regulatory Affairs~~

~~**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF**~~

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~~By~~ ______________________________

~~Its~~ ______________________________

~~**COGENERATION COALITION OF WASHINGTON**~~

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~~**NW ENERGY COALITION and NATURAL RESOURCES DEFENSE COUNCIL**~~

~~By ______________________________~~
~~Danielle Dixon~~
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