

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

DOCKETS UE-170033 & UG-170034

MULTIPARTY SETTLEMENT
STIPULATION AND AGREEMENT

I. INTRODUCTION

1. This Settlement Stipulation and Agreement (“Settlement”) is entered into by and between the following parties in this case: (i) Puget Sound Energy (“PSE”), (ii) the Commission’s regulatory staff (“Commission Staff”),¹ (iii) the Industrial Customers of Northwest Utilities (“ICNU”), (iv) NW Energy Coalition/Renewable Northwest/Natural Resource Defense Council, (v) The Energy Project, (vi) Sierra Club, (vii) Federal Executive Agencies, (viii) The Kroger Co., (ix) the State of Montana, and (x) Northwest Industrial Gas Users (“NWIGU”) as of September 15, 2017 (the “Settlement Date”). These parties are hereinafter collectively referred to as “Settling Parties” and individually as a “Settling Party.”

2. This Settlement is a “multiparty settlement,” as that term is defined in WAC 480-07-730(3), because this Settlement is entered into by some, but not all, parties on one or more issues.

¹ In formal proceedings, such as this, the Commission’s regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners’ policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

3. This Settlement is subject to review and disposition by the Washington Utilities and Transportation Commission (“Commission”). Section III of the Settlement is effective on the date of the Commission order approving it (unless the Commission establishes a different effective date).

II. BACKGROUND AND NATURE OF THE DOCKET

4. On January 13, 2017, PSE filed with the Commission, in Dockets UE-170033 & UG-170034, tariff revisions to increase rates for electric and natural gas services provided to customers in Washington. The tariff revisions, if allowed to become effective, would have increased electric base rates by approximately \$149 million (7.6 percent) on an annual basis and increased natural gas base rates by approximately \$23 million (2.8 percent) on an annual basis. The net impact to customers after applying various offsets would be an increase in electric rates of approximately \$87 million (4.1 percent) and a decrease in natural gas rates of approximately \$22 million (–2.4 percent). The Commission suspended operation of the as-filed tariffs and set the matters for hearing in Order 01 on January 19, 2017. The Commission convened a prehearing conference in this proceeding at Olympia, Washington on February 13, 2017.

5. At various times established in its procedural schedule, and by several orders, the Commission accepted prefiled testimony and exhibits from PSE, Commission Staff, and other parties. The parties to the proceeding participated in settlement conferences on August 11, 2017, and August 24, 2017, and have participated in subsequent settlement-related calls and correspondence after those dates. On August 25, 2017, the Settling Parties reached an agreement in principle for the settlement on some, but not all issues, and agreed that remaining issues may be litigated and provided notice of this agreement in principle to Administrative Law Judge Moss.

6. On August 30, 2017, the Commission conducted evidentiary hearings on the remaining issues not resolved in the agreement in principle among the Settling Parties. In addition, the Commission conducted public comment hearings in PSE’s service territory on July 31, 2017, and on August 31, 2017, during which the Commission received into the record oral comments and exhibits from interested members of the public.

III. AGREEMENT

A. Capital Structure and Cost of Capital

1. Capital Structure

7. The Settling Parties agree to a capital structure for PSE that includes 48.5 percent equity and 51.5 percent debt.

2. Cost of Equity

8. The Settling Parties agree to an authorized return on equity for PSE of 9.50 percent.

3. Costs of Debt

9. The Settling Parties agree to an authorized cost of debt for PSE of 5.81 percent.

4. Authorized Rate of Return

10. The Settling Parties agree to an overall authorized rate of return for PSE of 7.60 percent, as reflected in Table 1 below.

Table 1. Authorized Rate of Return

	Capital Structure	Cost	Weighted Cost
Debt	51.5%	5.81%	2.99%
Equity	48.5%	9.50%	4.61%
Overall Rate of Return	100.0%		7.60%

B. Revenue, Expense and Rate Base Restating and Pro Forma Adjustments

11. The Settling Parties agree to an overall electric revenue increase of \$20 million (or 0.9 percent increase) and an overall natural gas revenue decrease of \$35 million (or 3.8 percent decrease). For purposes of this Section III.B, the Settling Parties used as a common base (i) the Electric Results of Operations for the Twelve Months Ended September 30, 2016, as presented by Ms. Melissa Cheesman in Exh. MCC-2r, and (ii) the Gas Results of Operations for the Twelve Months Ended September 30, 2016, as presented by Ms. Melissa Cheesman in Exh. MCC-7r. All adjustment numbers and nomenclature in this Section III.B are identical to those presented in Exh. MCC-2r for electric operations and Exh. MCC-7r for natural gas operations. Additionally, the Settling Parties present a table of all agreed-upon revenue, expense and rate base restating and pro forma adjustments consistent with this Settlement as Exhibit A to this Settlement.

1. Actual Results of Operations

a. Actual Results of Operations for Electric Operations

12. The actual results of electric operations for the test year are uncontested and consist of (i) net operating income of \$401,002,972 and (ii) rate base of \$5,153,204,462. (*See, e.g.,* Cheesman, Exh. MCC-2r at 2.)

b. Actual Results of Operations for Natural Gas Operations

13. The actual results of natural gas operations for the test year are uncontested and consist of (i) net operating income of \$119,145,769 and (ii) rate base of \$1,727,319,760. (*See, e.g.,* Cheesman, Exh. MCC-7r at 2.)

2. Common Adjustments

a. Revenues and Expenses

i. Adjustment No. 13.01 – Revenues and Expenses (Electric)

14. Adjustment No. 13.01 – Revenues and Expenses is uncontested and decreases net operating income for electric operations by \$29,139,114. (*See, e.g.*, Cheesman, Exh. MCC-2r at 2.)

ii. Adjustment No. 11.01 – Revenues and Expenses (Natural Gas)

15. Adjustment No. 11.01 – Revenues and Expenses is uncontested and decreases net operating income for natural gas operations by \$32,674,131. (*See, e.g.*, Cheesman, Exh. MCC-7r at 2.)

b. Temperature Normalization

i. Adjustment No. 13.02 – Temperature Normalization (Electric)

16. The Settling Parties accept, for purpose of settlement, Adjustment No. 13.02 – Temperature Normalization proposed by PSE, which increases net operating income for electric operations by \$17,527,344. (*See* Barnard, Exh. KJB-19 at 2 (labeled therein as “Adjustment No. 20.02 – Temperature Normalization”).) The Settling Parties do not agree to any methodology for temperature normalization going forward and expressly reserve the right to address similar modifications in subsequent proceedings.

ii. Adjustment No. 11.02 – Temperature Normalization (Natural Gas)

17. The Settling Parties accept, for purposes of settlement, Adjustment No. 11.02 – Temperature Normalization proposed by PSE, which increases net operating income for natural gas operations by \$16,046,445. (*See* Free, Exh. SEF-14 at 2 (labeled therein as “Adjustment No. 15.02 – Temperature Normalization”).) The Settling Parties do not agree to any

methodology for temperature normalization going forward and expressly reserve the right to address similar modifications in subsequent proceedings.

c. Pass-Through Revenues and Expenses

i. Adjustment No. 13.03 – Pass-Through Revenues and Expenses (Electric)

18. Adjustment No. 13.03 – Pass-Through Revenues and Expenses is uncontested and decreases net operating income for electric operations by \$1,000,540. (*See, e.g.*, Cheesman, Exh. MCC-2r at 2.)

ii. Adjustment No. 11.03 – Pass-Through Revenues and Expenses (Natural Gas)

19. Adjustment No. 11.03 – Pass-Through Revenues and Expenses is uncontested and increases net operating income for natural gas operations by \$736,148. (*See, e.g.*, Cheesman, Exh. MCC-7r at 2.)

d. Federal Income Tax

i. Adjustment No. 13.04 – Federal Income Tax (Electric)

20. Adjustment No. 13.04 – Federal Income Tax is uncontested and decreases net operating income for electric operations by \$27,023,239. (*See, e.g.*, Cheesman, Exh. MCC-2r at 2.)

ii. Adjustment No. 11.04 – Federal Income Tax (Natural Gas)

21. Adjustment No. 11.04 – Federal Income Tax is uncontested and increases net operating income for natural gas operations by \$700,822. (*See, e.g.*, Cheesman, Exh. MCC-7r at 2.)

e. Tax Benefit of Pro Forma Interest

i. Adjustment No. 13.05 – Tax Benefit of Pro Forma Interest (Electric)

22. No party contested the manner in which Adjustment No. 13.05 – Tax Benefit of Pro Forma Interest should be calculated, although parties differed in the result based on the rate base items included. Based upon the rate base items included in this Settlement, the Settling Parties agree that Adjustment No. 13.05 – Tax Benefit of Pro Forma Interest increases net operating income for electric operations by \$54,067,781.²

ii. Adjustment No. 11.05 – Tax Benefit of Pro Forma Interest (Natural Gas)

23. No party contested the manner in which Adjustment No. 11.05 – Tax Benefit of Pro Forma Interest should be calculated, although parties differed in the result based on the rate base items included. Based upon the rate base items included in this Settlement, the Settling Parties agree that Adjustment No. 11.05 – Tax Benefit of Pro Forma Interest increases net operating income for natural gas operations by \$18,475,298.³

f. Depreciation Study

i. Adjustment No. 13.06 – Depreciation Study (Electric)

24. The Settling Parties agree to use the depreciation study provided by PSE as the Second Exhibit to the Prefiled Direct Testimony of Mr. John J. Spanos, Exhibit JJS-3r, subject to modifications with respect to (i) Colstrip Units 1 and 2 identified in paragraph 25 below and (ii) Colstrip Units 3 and 4 identified in paragraph 26 below. Please see Exhibit B to this

² Adjustment No. 13.05 – Tax Benefit of Pro Forma Interest is equal to the product of (i) electric rate base of \$5,166,534,272, multiplied by (ii) the weighted average cost of debt of 2.99%, multiplied by (iii) the federal tax rate of 35 percent.

³ Adjustment No. 11.05 – Tax Benefit of Pro Forma Interest is equal to the product of (i) natural gas rate base of \$1,765,436,979, multiplied by (ii) the weighted average cost of debt of 2.99%, multiplied by (iii) the federal tax rate of 35 percent.

Settlement for the electric depreciation study adjustment and the agreed-upon electric depreciation rates that result from this Settlement.

25. The Settling Parties agree to set depreciation rates for Colstrip Units 1 and 2 at amounts that will yield annual depreciation expense of \$18.5 million for the remaining operational lives of those units. The resulting depreciation rates are included on pages 12 and 13 of Exhibit B to this Settlement. At closure of Units 1 and 2, PSE shall offset all additional unrecovered plant balances for Colstrip Units 1 and 2 with monetized production tax credits (“PTCs”). PSE assumes the risk that it is unable to monetize the PTCs to offset additional unrecovered plant balances for Colstrip Units 1 and 2; provided, however that if Colstrip Units 1 and 2 close prior to the monetization of sufficient PTCs to offset additional unrecovered plant balances for Colstrip Units 1 and 2, PSE shall hold remaining unrecovered plant balances of Colstrip Units 1 and 2 in a regulatory asset in rate base until the earlier to occur of (i) the recovery of all plant balances for Colstrip Units 1 and 2 through monetized PTC offsets or (ii) December 31, 2029.

26. The Settling Parties agree to a depreciation schedule for Colstrip Units 3 and 4 that assumes a remaining useful life of those units through December 31, 2027. The Settling Parties understand that December 31, 2027, is a stipulated depreciation life for Colstrip Units 3 and 4. The resulting depreciation rates for Units 3 and 4 are included on pages 2 and 3 of Exhibit B to this Settlement.

27. The Settling Parties agree that Adjustment No. 13.06 – Depreciation Study (i) decreases net operating income for electric operations by \$34,311,788 and (ii) decreases rate base for electric operations by \$17,155,894, as is shown on page 1 of Exhibit B to this Settlement.

ii. Adjustment No. 11.06 – Depreciation Study (Natural Gas)

28. The Settling Parties agree to use the depreciation study provided by PSE as the Second Exhibit to the Prefiled Direct Testimony Mr. John J. Spanos, Exhibit JJS-3r. The Settling Parties further agree that Adjustment No. 11.06 – Depreciation Study is uncontested for natural gas operations and (i) increases net operating income for natural gas operations by \$13,174,098 and (ii) increases rate base for natural gas operations by \$6,587,049. (*See, e.g.*, Cheesman, Exh. MCC-7r at 2.)

g. Regulatory Asset Colstrip

29. The Settling Parties agree not to use Adjustment No. 13.06A – Reg. Asset Colstrip proposed by Commission Staff. Accordingly, Adjustment No. 13.06A – Reg. Asset Colstrip has no effect on either net operating income or rate base for electric operations.

h. Normalize Injuries and Damages

i. Adjustment No. 13.07 – Normalize Injuries and Damages (Electric)

30. Adjustment No. 13.07 – Normalize Injuries and Damages is uncontested and increases net operating income for electric operations by \$69,387. (*See, e.g.*, Cheesman, Exh. MCC-2r at 3.)

ii. Adjustment No. 11.07 – Normalize Injuries and Damages (Natural Gas)

31. Adjustment No. 11.07 – Normalize Injuries and Damages is uncontested and decreases net operating income for natural gas operations by \$57,738. (*See, e.g.*, Cheesman, Exh. MCC-7r at 2.)

i. Bad Debts

i. Adjustment No. 13.08 – Bad Debts (Electric)

32. Adjustment No. 13.08 – Bad Debts is uncontested and increases net operating income for electric operations by \$681,065. (*See, e.g.,* Cheesman, Exh. MCC-2r at 3.)

ii. Adjustment No. 11.08 – Bad Debts (Natural Gas)

33. Adjustment No. 11.08 – Bad Debts is uncontested and increases net operating income for natural gas operations by \$35,240. (*See, e.g.,* Cheesman, Exh. MCC-7r at 3.)

j. Incentive Pay

i. Adjustment No. 13.09 – Incentive Pay (Electric)

34. Adjustment No. 13.09 – Incentive Pay is uncontested and decreases net operating income for electric operations by \$109,903. (*See, e.g.,* Cheesman, Exh. MCC-2r at 3.)

ii. Adjustment No. 11.09 – Incentive Pay (Natural Gas)

35. Adjustment No. 11.09 – Incentive Pay is uncontested and increases net operating income for natural gas operations by \$104,023. (*See, e.g.,* Cheesman, Exh. MCC-7r at 3.)

k. Directors & Officers Insurance

i. Adjustment No. 13.10 – Directors & Officers Insurance (Electric)

36. Adjustment No. 13.10 – Directors & Officers Insurance is uncontested and increases net operating income for electric operations by \$16,141. (*See, e.g.,* Cheesman, Exh. MCC-2r at 3.)

ii. Adjustment No. 11.10 – Directors & Officers Insurance (Natural Gas)

37. Adjustment No. 11.10 – Directors & Officers Insurance is uncontested and increases net operating income for natural gas operations by \$11,636. (*See, e.g.,* Cheesman, Exh. MCC-7r at 3.)

I. Interest on Customer Deposits

i. Adjustment No. 13.11 – Interest on Customer Deposits (Electric)

38. Adjustment No. 13.11 – Interest on Customer Deposits is uncontested and decreases net operating income for electric operations by \$176,606. (*See, e.g.*, Cheesman, Exh. MCC-2r at 3.)

ii. Adjustment No. 11.11 – Interest on Customer Deposits (Natural Gas)

39. Adjustment No. 11.11 – Interest on Customer Deposits is uncontested and decreases net operating income for natural gas operations by \$50,137. (*See, e.g.*, Cheesman, Exh. MCC-7r at 3.)

m. Rate Case Expenses

i. Adjustment No. 13.12 – Rate Case Expenses (Electric)

40. The Settling Parties agree to use Adjustment No. 13.12 – Rate Case Expenses proposed by PSE, which decreases net operating income for electric operations by \$264,905. (*See* Barnard, Exh. KJB-19 at 3 (labeled therein as “Adjustment No. 20.12 – Rate Case Expenses”).)

ii. Adjustment No. 11.12 – Rate Case Expenses (Natural Gas)

41. The Settling Parties agree to use Adjustment No. 11.12 – Rate Case Expenses proposed by PSE, which decreases net operating income for natural gas operations by \$280,617. (*See* Free, Exh. SEF-14 at 3 (labeled therein as “Adjustment No. 15.12 – Rate Case Expenses”).)

n. Deferred Gains/Losses on Property Sales

i. Adjustment No. 13.13 – Deferred Gains/Losses on Property Sales (Electric)

42. Adjustment No. 13.13 – Deferred Gains/Losses on Property Sales is uncontested and increases net operating income for electric operations by \$171,200. (*See, e.g.,* Cheesman, Exh. MCC-2r at 3.)

ii. Adjustment No. 11.13 – Deferred Gains/Losses on Property Sales (Natural Gas)

43. The Settling Parties agree to use Adjustment No. 11.13 – Deferred Gains/Losses on Property Sales proposed by PSE, which decreases net operating income for natural gas operations by \$105,090. (*See* Free, Exh. SEF-14 at 3 (labeled therein as “Adjustment No. 15.13 – Deferred Gains/Losses on Property Sales”).)

o. Property & Liability Insurance

i. Adjustment No. 13.14 – Property & Liability Insurance (Electric)

44. Adjustment No. 13.14 – Property & Liability Insurance is uncontested and increases net operating income for electric operations by \$66,147. (*See, e.g.,* Cheesman, Exh. MCC-2r at 4.)

ii. Adjustment No. 11.14 – Property & Liability Insurance (Natural Gas)

45. Adjustment No. 11.14 – Property & Liability Insurance is uncontested and increases net operating income for natural gas operations by \$45,174. (*See, e.g.,* Cheesman, Exh. MCC-7r at 3.)

p. Pension Plan

i. Adjustment No. 13.15 – Pension Plan (Electric)

46. The Settling Parties agree to use Adjustment No. 13.15 – Pension Plan proposed by each of PSE and Commission Staff, which decreases net operating income for electric operations by \$1,184,945. (*See, e.g.*, Cheesman, Exh. MCC-2r at 4; Barnard, Exh. KJB-19 at 4 (labeled therein as “Adjustment No. 20.15 – Pension Plan”).)

ii. Adjustment No. 11.15 – Pension Plan (Natural Gas)

47. The Settling Parties agree to use the Adjustment No. 11.15 – Pension Plan proposed by each of PSE and Commission Staff, which decreases net operating income for natural gas operations by \$572,091. (*See, e.g.*, Cheesman, Exh. MCC-7r at 3; Free, Exh. SEF-14 at 3 (labeled therein as “Adjustment No. 15.15 – Pension Plan”).)

q. Wage Increase

i. Adjustment No. 13.16 – Wage Increase (Electric)

48. Adjustment No. 13.16 – Wage Increase is uncontested and decreases net operating income for electric operations by \$1,357,716. (*See, e.g.*, Cheesman, Exh. MCC-2r at 4.)

ii. Adjustment No. 11.16 – Wage Increase (Natural Gas)

49. Adjustment No. 11.16 – Wage Increase is uncontested and decreases net operating income for natural gas operations by \$907,409. (*See, e.g.*, Cheesman, Exh. MCC-7r at 3.)

r. Investment Plan

i. Adjustment No. 13.17 – Investment Plan (Electric)

50. Adjustment No. 13.17 – Investment Plan is uncontested and decreases net operating income for electric operations by \$96,705. (*See, e.g.*, Cheesman, Exh. MCC-2r at 4.)

ii. Adjustment No. 11.17 – Investment Plan (Natural Gas)

51. Adjustment No. 11.17 – Investment Plan is uncontested and decreases net operating income for natural gas operations by \$46,689. (*See, e.g.*, Cheesman, Exh. MCC-7r at 3.)

s. Employee Insurance

i. Adjustment No. 13.18 – Employee Insurance (Electric)

52. Adjustment No. 13.18 – Employee Insurance is uncontested and decreases net operating income for electric operations by \$121,751. (*See, e.g.*, Cheesman, Exh. MCC-2r at 4.)

ii. Adjustment No. 11.18 – Employee Insurance (Natural Gas)

53. Adjustment No. 11.18 – Employee Insurance is uncontested and decreases net operating income for natural gas operations by \$58,781. (*See, e.g.*, Cheesman, Exh. MCC-7r at 4.)

t. Environmental Remediation

i. General Provisions Related to Environmental Remediation

54. Within six months of filing of this Settlement with the Commission, PSE and Commission Staff shall commence a process to determine a methodology for assigning insurance recoveries received by PSE in a manner that does not potentially compromise PSE’s litigation position associated with such insurance recoveries. PSE and Commission Staff shall provide an update regarding such process in the earlier to occur of either (i) PSE’s next general rate case proceeding or (ii) any expedited rate filing (“ERF”) or limited rate proceeding of PSE to revise transmission and distribution rates.

55. In lieu of quarterly environmental reports, PSE shall submit annual environmental reports no later than April 30 of the following year that contain the following information:

- (a) Project amounts authorized for deferral with the Commission docket and order number that gives authority to PSE to do so.
- (b) Beginning date of the deferral of each project.
- (c) Beginning balances at the start of deferral.
- (d) Monthly balances and the year-end deferred balance for the reporting year.
- (e) Location of projects and internal naming convention (e.g., Tacoma Tar Pits and/or Tide Flats).
- (f) Total amount of third party and insurance recoveries received during the reporting year by month. Where possible, recoveries received by PSE will reduce the balance of corresponding project cost balances. If PSE receives lump sums for multiple projects, documentation that supports all the projects that caused the claim against third party and insurance should be included in the report.
- (g) PSE shall record costs incurred for newly established electric and gas remediation sites in FERC account 186. Balances of projects that have been authorized for amortization and are currently being amortized should be transferred to FERC account 182.3. All projects that are newly established or are being amortized should be included in the annual report to the Commission, along with Commission's order that authorized deferral number, Commission's order that authorized amortization, beginning balances when the amortization started, year end balances, and amortization start and end date.

Notwithstanding the foregoing, after the conclusion of the process for assigning insurance recoveries conducted pursuant to paragraph 54 of this Settlement, PSE shall report specific recoveries associated with specific projects consistent with the terms and conditions developed in such process.

ii. Adjustment No. 13.19 – Environmental Remediation (Electric)

56. The Settling Parties agree to use Adjustment No. 13.19 – Environmental Remediation proposed by PSE, which decreases net operating income for electric operations by

\$925,460. (*See* Barnard, Exh. KJB-19 at 4 (labeled therein as “Adjustment No. 20.19 – Environmental Remediation”).)

iii. Adjustment No. 11.19 – Environmental Remediation (Natural Gas)

57. The Settling Parties agree to use Adjustment No. 11.19 – Environmental Remediation proposed by PSE, which decreases net operating income for natural gas operations by \$5,592,128. (*See* Free, Exh. SEF-14 at 4 (labeled therein as “Adjustment No. 15.19 – Environmental Remediation”).)

u. Payment Processing Costs

i. Adjustment No. 13.20 – Payment Processing Costs (Electric)

58. The Settling Parties agree to use Adjustment No. 13.20 – Payment Processing Costs proposed by PSE, Public Counsel, and Commission Staff, which decreases net operating income for electric operations by \$2,010,221. (*See, e.g.*, Cheesman, Exh. MCC-2r at 4.)

ii. Adjustment No. 11.20 – Payment Processing Costs (Natural Gas)

59. The Settling Parties agree to use Adjustment No. 11.20 – Payment Processing Costs proposed by PSE, Public Counsel, and Commission Staff, which decreases net operating income for natural gas operations by \$1,449,117. (*See, e.g.*, Cheesman, Exh. MCC-7r at 4.)

v. South King Service Center

i. Adjustment No. 13.21 – South King Service Center (Electric)

60. Adjustment No. 13.21 – South King Service Center is uncontested and (i) increases net operating income for electric operations by \$434,046 and (ii) increases rate base for electric operations by \$15,915,060. (*See, e.g.*, Cheesman, Exh. MCC-2r at 4.)

ii. Adjustment No. 11.21 – South King Service Center (Natural Gas)

61. Adjustment No. 11.21 – South King Service Center is uncontested and (i) increases net operating income for natural gas operations by \$212,048 and (ii) increases rate base for natural gas operations by \$7,775,116. (*See, e.g.,* Cheesman, Exh. MCC-7r at 4.)

w. Excise Tax and WUTC Filing Fee

i. Adjustment No. 13.22 – Excise Tax and WUTC Filing Fee (Electric)

62. Adjustment No. 13.22 – Excise Tax and WUTC Filing Fee is uncontested and increases net operating income for electric operations by \$10,262. (*See, e.g.,* Cheesman, Exh. MCC-2r at 4.)

ii. Adjustment No. 11.22 – Excise Tax and WUTC Filing Fee (Natural Gas)

63. Adjustment No. 11.22 – Excise Tax and WUTC Filing Fee is uncontested and increases net operating income for natural gas operations by \$33,509. (*See, e.g.,* Cheesman, Exh. MCC-7r at 4.)

x. Investor-Supplied Working Capital and Rate Base Adjustment

i. Adjustment No. 13.23 – ISWC and RB Adjustment (Electric)

64. The Settling Parties agree to base Adjustment No. 13.23 – ISWC and RB Adjustment on Adjustment 20.23 – Working Capital proposed by PSE; *provided, however*, that PSE shall include construction work in progress (“CWIP”) in the non-operating category for purposes of allocating investor-supplied working capital among electric, gas, and non-utility operations. The calculation of investor-supplied working capital agreed to by the Settling Parties is included as Exhibit C to this Settlement. The Settling Parties agree that Adjustment

No. 13.23 – ISWC and RB Adjustment increases rate base for electric operations by \$19,006,090.

ii. Adjustment No. 11.23 – ISWC and RB Adjustment (Natural Gas)

65. The Settling Parties agree to base Adjustment No. 11.23 – ISWC and RB Adjustment on Adjustment 15.23 – Working Capital proposed by PSE; *provided, however*, that PSE shall include CWIP in the non-operating category for purposes of allocating investor-supplied working capital among electric, gas, and non-utility operations. The calculation of investor-supplied working capital agreed to by the Settling Parties is included as Exhibit C to this Settlement. The Settling Parties agree that Adjustment No. 11.23 – ISWC and RB Adjustment increases rate base for natural gas operations by \$4,743,346.

y. Legal Cost

i. Adjustment No. 13.24 – Legal Cost (Electric)

66. The Settling Parties agree not to make Adjustment No. 13.24 – Legal Cost proposed by Commission Staff. Accordingly, Adjustment No. 13.24 – Legal Cost has no effect on either net operating income or rate base for electric operations.

ii. Adjustment No. 11.24 – Legal Cost (Natural Gas)

67. The Settling Parties agree not to use Adjustment No. 11.24 – Legal Cost proposed by Commission Staff. Accordingly, Adjustment No. 11.24 – Legal Cost has no effect on either net operating income or rate base for natural gas operations.

z. Black Box Adjustment

i. Adjustment No. 13.25 – Black Box Adjustment (Electric)

68. The Settling Parties agree to Adjustment No. 13.25 – Black Box Adjustment, which decreases the revenue requirement for electric operations by \$1 million to address all

remaining electric revenue requirement issues that differ from PSE's rebuttal case filed in this proceeding on August 9, 2017. Each of the Settling Parties reserves its right to make arguments on methodologies for these and other issues in future cases without prejudice. Adjustment No. 13.25 – Black Box Adjustment increases net operating income for electric operations by \$619,051, which is equal to the product of (i) \$1,000,000, multiplied by (ii) the electric conversion factor of 0.952386,⁴ multiplied by (iii) the difference between (a) 100 percent, minus (b) the federal tax rate of 35 percent.

ii. Adjustment No. 11.25 – Black Box Adjustment (Natural Gas)

69. The Settling Parties agree to Adjustment No. 11.25 – Black Box Adjustment, which decreases the revenue requirement for natural gas operations by \$1.5 million to address all remaining natural gas revenue requirement issues that differ from PSE's rebuttal case filed in this proceeding on August 9, 2017. Each of the Settling Parties reserves its right to make arguments on methodologies for these and other issues in future cases without prejudice. Adjustment No. 11.25 – Black Box Adjustment increases net operating income for natural gas operations by \$930,675, which is equal to the product of (i) \$1,500,000, multiplied by (ii) the electric conversion factor of 0.954538,⁵ multiplied by (iii) the difference between (a) 100 percent, minus (b) the federal tax rate of 35 percent.

3. Electric-Only Adjustments

a. Adjustment No. 14.01 – Power Costs

70. The Settling Parties agree to base Adjustment No. 14.01 – Power Costs as proposed by PSE in Adjustment 21.01– Power Costs, subject to the following modifications:

- (i) PSE shall remove all costs associated with compliance with the Clean Air Rule from power costs in this proceeding;

⁴ See, e.g., Cheesman, Exh. MCC-3r at 3.

⁵ See, e.g., Cheesman, Exh. MCC-8r at 3.

- (ii) PSE shall use the same wind resource capacity factors used to determine power costs for purposes of establishing rates in Docket UE-111048 to determine power costs in this proceeding; and
- (iii) PSE shall remove major maintenance adders from the AURORA dispatch model in determining power costs in this proceeding.
- (iv) PSE shall remove both the costs and benefits associated with the California Independent System Operator (“CAISO”) Energy Imbalance Market (“EIM”).

The Settling Parties acknowledge that these modifications represent a compromise for settlement purposes only, and each Settling Party expressly reserves the right to advocate different positions in subsequent proceedings.

71. The Settling Parties support approval of a deferral mechanism in this proceeding, by which PSE will be allowed to defer Clean Air Rule compliance costs for future recovery once Clean Air Rule compliance requirements and obligations are finally determined. This will depend on (i) the timing of when Clean Air Rule compliance costs become known and measurable and (ii) the materiality of such compliance costs, the Settling Parties that intend to take a position on this issue will work together to include prudent Clean Air Rule costs in PSE’s Power Cost Adjustment (“PCA”) baseline rate as expeditiously as possible.

72. The Settling Parties agree that the moratorium on changes to the PCA mechanism adopted in Docket UE-130617 shall remain in effect. For purposes of this Settlement, however, the Settling Parties agree to Commission Staff’s proposal that a line item for all costs related to the CAISO EIM be included as actual costs in the annual PCA filing that determines whether PSE over- or under-collected on power costs. For purposes of calculating the PCA imbalance in the PCA mechanism, the Settling Parties agree to include the amount for capital items (depreciation and return on) and labor related to the CAISO EIM included in Exhibit D to this Settlement as a line-item in actual allowed power costs in Schedule B. PSE shall include these

costs in Schedule B in a manner similar to the Equity Adder for the Coal Transition PPA in that they will be included in the Adjustments section (currently shown on lines 52 through 57 in PSE's 2016 Annual PCA Compliance Filing in Docket No. UE-170334) of Schedule B. These rows adjust the variable costs associated with power costs not represented in actual expenses booked to the power cost accounts.

73. The Settling Parties agree that Adjustment No. 14.01 – Power Costs increases net operating income for electric operations by \$1,185,175, the calculation of which is provided as Exhibit E to this Settlement.

b. Adjustment No. 14.02 – Montana Electric Energy Tax

74. No party contested the manner in which Adjustment No. 14.02 – Montana Electric Energy Tax should be calculated, but changes to power costs affect the associated taxes. The impact of this increases net operating income for electric operations by \$148,016. Please see Exhibit E to this Settlement for the calculation of Adjustment No. 14.02 – Montana Electric Energy Tax.

c. Adjustment No. 14.03 – Wild Horse Solar

75. Adjustment No. 14.03 – Wild Horse Solar is uncontested and (i) increases net operating income for electric operations by \$137,890 and (ii) decreases rate base for electric operations by \$1,969,341. (*See, e.g.*, Cheesman, Exh. MCC-2r at 5.)

d. Adjustment No. 14.04 – ASC 815 (Prev. SFAS 133)

76. Adjustment No. 14.04 – ASC 815 (Prev. SFAS 133) is uncontested and decreases net operating income for electric operations by \$41,672,584. (*See, e.g.*, Cheesman, Exh. MCC-2r at 5.)

e. Adjustment No. 14.05 – Storm Damage

77. PSE shall defer the costs of any storms that occur on or after the Settlement Date and on or before December 31, 2017, under the terms of the storm loss deferral mechanism established in Order 6 in Dockets UE-040641 & UG-040640, *et al.*, and as revised in Order 12 in Dockets UE-072300 & UG-072301 (the “Qualifying Storm Loss Deferral Mechanism”). PSE shall propose amortization of any such storm costs deferred pursuant to the terms of the prior sentence for recovery in PSE’s next general rate case or any ERF or limited rate proceeding to revise transmission and distribution rates.

78. PSE shall retain the Qualifying Storm Loss Deferral Mechanism for any storm costs incurred on or after January 1, 2018, subject to the following modifications: (i) the cumulative annual cost threshold for deferral of storms under the Qualifying Storm Loss Deferral Mechanism shall be increased from \$8 million to \$10 million, (ii) qualifying events that cost less than \$500,000 will not qualify for deferral, and (iii) the cumulative annual cost threshold for the Qualifying Storm Loss Deferral Mechanism shall exclude storm events with costs less than \$500,000.

79. The Settling Parties agree to a six-year average of \$10,656,246 million for normalized storm expense.

80. The Settling Parties acknowledge that PSE has an over-amortization of \$12,560,038 associated with the 2010 storms. PSE shall use the over-amortization to absorb the remaining balance of December 2006 wind storm and the remaining balance of the over-amortization to reduce the balance of the January 2012 snowstorm. PSE shall amortize remaining storm deferrals, over four years, once approved for recovery in rates; provided, however, that PSE shall amortize the January 2012 snowstorm over six years.

81. The Settling Parties agree that PSE shall calculate normalized operating income, for purposes of PSE's Earnings Sharing Mechanism by removing the storm normalization adjustment from PSE's annual Commission Basis Report per WAC 480-100-257.

82. The Settling Parties agree that Adjustment No. 14.05 – Storm Damage decreases net operating income for electric operations by \$6,137,438, the calculation of which is provided as Exhibit F to this Settlement.

f. Adjustment No. 14.06 – Regulatory Assets and Liabilities

83. Adjustment No. 14.06 – Regulatory Assets and Liabilities is uncontested and (i) increases net operating income for electric operations by \$1,736,212 and (ii) decreases rate base for electric operations by \$44,085,326. (*See, e.g.,* Cheesman, Exh. MCC-2r at 5.)

g. Adjustment No. 14.07 – Glacier Battery Storage

84. Adjustment No. 14.07 – Glacier Battery Storage is uncontested and (i) decreases net operating income for electric operations by \$145,490 and (ii) increases rate base for electric operations by \$2,842,787. (*See, e.g.,* Cheesman, Exh. MCC-2r at 5.)

h. Adjustment No. 14.08 – Energy Imbalance Market

85. The Settling Parties agree not to make Adjustment No. 14.08 – Energy Imbalance Market proposed by PSE. Accordingly, Adjustment No. 14.08 – Energy Imbalance Market has no effect on either net operating income or rate base for electric operations.

i. Adjustment No. 14.09 – Goldendale Capacity Upgrade

86. Adjustment No. 14.09 – Goldendale Capacity Upgrade is uncontested and (i) increases net operating income for electric operations by \$2,156 and (ii) increases rate base for electric operations by \$18,140,954. (*See, e.g.,* Cheesman, Exh. MCC-2r at 6.)

j. Adjustment No. 14.10 – Mint Farm Capacity Upgrade

87. Adjustment No. 14.10 – Mint Farm Capacity Upgrade is uncontested and increases rate base for electric operations by \$19,004,590. (*See, e.g.*, Cheesman, Exh. MCC-2r at 6.)

k. Adjustment No. 14.11 – White River

88. The Settling Parties agree to use Adjustment No. 14.11 – White River proposed by PSE, which (i) decreases net operating income for electric operations by \$3,288,310 and (ii) decreases rate base for electric operations by \$4,108,724. (*See* Barnard, Exh. KJB-19 at 6 (labeled therein as “Adjustment No. 21.11 – White River”).)

l. Adjustment No. 14.12 – Reclass of Hydro Treasury Grants

89. The Settling Parties agree to use Adjustment No. 14.12 – Reclass of Hydro Treasury Grants proposed by PSE, which (i) decreases net operating income for electric operations by \$2,131,857 and (ii) increases rate base for electric operations by \$5,739,615. (*See* Barnard, Exh. KJB-19 at 6 (labeled therein as “Adjustment No. 21.12 – Reclass of Hydro Treasury Grants”).)

m. Adjustment No. 14.13 – Production Adjustment

90. The Settling Parties agree to use Adjustment No. 14.13 – Production Adjustment proposed by PSE, which uses the variable production factor of 3.839 percent. The Settling Parties also agree that there should be no Fixed Production Factor used in this adjustment as a result of the agreements made in the decoupling section below. The Settling Parties agree that Adjustment No. 14.13 – Production Adjustment increases net operating income for electric operations by \$32,769, the calculation of which is provided as Exhibit G to this Settlement.

4. Gas-Only Adjustment – Adjustment 7.01 – Cost Recovery Mechanism

91. Adjustment No. 7.01 – Cost Recovery Mechanism is uncontested and (i) decreases net operating income for natural gas operations by \$4,003,724 and (ii) increases rate base for natural gas operations by \$19,011,708. (*See, e.g.,* Cheesman, Exh. MCC-7r at 4.)

5. PCA Baseline Rate – Previously Exh. KJB-22

92. This Settlement results in a PCA baseline rate of \$32.895 per MWh for PSE. Please see page 1 of Exhibit H to this Settlement for the calculation of this PCA baseline rate. PSE shall use this PCA baseline rate of \$32.895 per MWh for purposes of calculating the imbalance for sharing in PSE’s PCA mechanism beginning with the date rates become effective in this proceeding. Please also see Exhibit H to this Settlement for (i) a calculation of the PCA baseline rate that will result once Microsoft takes service under a special contract and (ii) a calculation of the impact on Schedule 95 rates that would occur in a filing to be made once Microsoft takes service under the special contract. Exhibit H to this Settlement represents updated information originally discussed in the Prefiled Supplemental Direct Testimony of Katherine J. Barnard, Exh. KJB-10T, at page 11, line 14, through page 13, line 23.

C. Rate Spread and Rate Design

93. The Settling Parties have advocated for a variety of methodologies the Commission might use for resolving cost of service and rate spread issues in this proceeding. Except as otherwise set forth in this Settlement, the Settling Parties have not agreed upon any particular methodology, and the Settlement does not attempt to resolve those issues. PSE, Commission Staff, and other interested parties agree to participate in good faith in the ongoing generic proceeding to address cost of service and rate spread methodologies to be used in future cases.

1. Electric Rate Spread and Rate Design

a. Electric Rate Spread

94. The Settling Parties agree to change the allocation of PSE's electric revenue deficiency for Schedules 7A, 10, 11, 12, 25, 26, 29, 31, 46, and 49 from 75 percent to 65 percent of the average rate increase.

b. Electric Schedule 25

95. The Settling Parties agree with the Kroger proposal to (i) keep the tail-block energy rate of Schedule 25 at its current level, (ii) increase the Schedule 25 basic charge as proposed by PSE, and (iii) raise demand rates (and a portion of the first block energy rates) to recover the remainder of the revenue requirement spread to this schedule.

c. Electric Schedule 40

96. The Settling Parties agree with the Commission Staff proposal that Schedule 40 should be discontinued over time. Only customers on Schedule 40 as of the Settlement Date shall remain on Schedule 40, and Schedule 40 shall be closed to new customers. Customers on Schedule 40 as of the Settlement Date may remain on Schedule 40 for a period no later than the effective date of the tariffs resulting from PSE's next general rate proceeding, and PSE will work with such existing Schedule 40 customers to transition to electric service pursuant to one or more other PSE electric rate schedules.

d. Electric Schedules 46 and 49 Demand Charges

97. The Settling Parties agree to the increase of 48 percent to the demand charges for Schedules 46 and 49 proposed by Commission Staff.

e. Microsoft Recalculation

98. The Settling Parties agree that, when Microsoft is removed from Schedule 40, the allowed revenue per customer for other schedules will be recalculated consistent with the

contingent allowed revenue calculations illustrated in Exhibit JAP-43 for all customers that continue to be a part of PSE's electric decoupling rate mechanism at such time.

f. Ardmore Substation

99. The Settling Parties agree to a one-time revenue adjustment that removes from the applicable Schedule 40 customers \$250,000 of Ardmore Substation costs and reallocates such costs to other schedules. The Settling Parties acknowledge that this one-time revenue adjustment represents a compromise for settlement purposes only, and each Settling Party expressly reserves the right to address the issue of Ardmore Substation cost allocation in subsequent proceedings.

2. Natural Gas Rate Spread and Rate Design

100. The Settling Parties agree that all issues with respect to natural gas rate spread and rate design are not affected by this Settlement and are subject to litigation before the Commission.

D. Service Quality Index (SQI) No. 5

101. PSE shall revise Service Quality Index (SQI) No. 5 to establish an annual benchmark of 80 percent of calls answered within 60 seconds. The calculation will not include Integrated Voice Response System (IVR) transactions.

E. Low-Income Issues

102. The Settling Parties agree to PSE's proposal to increase the annual level of low-income electric assistance Home Energy Lifeline Program ("HELP") funding by double the corresponding overall percent rate increase to the residential electric class that is approved by the Commission in this proceeding.⁶ The amount of the percentage increase to the residential electric class shall be calculated in a manner consistent with column (y) of Exhibit JAP-44. Double this

⁶ The base funding for HELP of \$21,200,000 was approved in Dockets UE-121697/UG-121705. Approved additions were made to this level of HELP funding on October 1, 2013; October 1, 2014; October 1, 2015; and October 1, 2016. Thus, the total funding level approved for HELP is currently \$23,502,979.

percentage shall be added to the electric Schedule 129 low income tariff filings following the conclusion of this proceeding. Except for the redistribution of funds pursuant to paragraph 103, the Settling Parties agree to PSE's proposal to maintain the annual level of low-income natural gas assistance HELP funding at the same level as the current program year notwithstanding the decrease in rates for the natural gas residential class proposed in this Settlement.

103. The Settling Parties agree to PSE's proposal to change Schedule 129 tariffs so that the HELP funding will be distributed to electric and natural gas customers at 80% electric and 20% gas, respectively, going forward. PSE reserves the right to revisit this allocation in future rate proceedings. PSE will work with the Community Action Partnership agencies ("Agencies") to explore ways to adjust the allocation if necessary to target and utilize funds throughout a program year so that low-income customer needs are better met.

104. The Settling Parties agree to PSE's proposal to modify Schedule 129 for electric and natural gas service to allow senior, disabled, and other steady-income customers to certify their HELP eligibility for a two-year period. Such customers must meet the existing HELP criteria and elect to certify eligibility for two years after demonstrating a steady income that meets 150% of the federal poverty level, established by steady-income payment documentation.

105. PSE shall consult with The Energy Project and Agencies jointly regarding any initiatives or modifications affecting operation or administration by the agencies of bill assistance or weatherization programs.

106. PSE shall not proceed with implementation of third party scheduling of HELP/weatherization appointments until the proposal has been discussed with The Energy Project and affected agencies jointly and reviewed by the Advisory Committee.

107. The Settling Parties agree to the establishment of an Advisory Committee for PSE bill assistance. The Advisory Committee shall be formed no later than January 1, 2018, and the first meeting of the Advisory Committee shall occur no later than March 1, 2018. The Advisory Committee shall include representatives from PSE, The Energy Project, Commission Staff, Public Counsel, and other interested stakeholders. The costs of the Advisory Committee will be recovered through general rates, similar to the manner in which Avista is authorized to recover such costs. The goals of the Advisory Committee are (i) to keep customers connected to their energy service; (ii) to provide assistance to more customers than are currently served; (iii) to lower the energy burden of PSE's HELP participants; and (iv) to collect data necessary to assess program effectiveness and inform ongoing policy discussions.

108. PSE shall provide up to \$2 million through June 30, 2019, for the purpose of covering expenses related to the delivery of the Low-Income Weatherization Program to eligible PSE customers as a one-time contribution in addition to current funding. This will be recovered through Schedule 120. Eligible expenses include the installation of Department of Commerce Weatherization Manual approved cost effective energy efficiency measures, project coordination, health and safety measures, and repairs necessary for the installation of energy efficiency measures.

109. As part of the original decoupling mechanism, PSE agreed to increase its funding for low-income weatherization by \$500,000 per year. The Settling Parties agree to PSE's proposal to continue this higher funding level for the proposed mechanism in this proceeding.

110. PSE shall continue annual \$100,000 shareholder contributions to low-income weatherization, until the next general rate case, consistent with the commitment that PSE made

in the multi-year rate plan approved in Docket UE-121697. This term does not modify any other pre-existing obligation for shareholder funding.

111. The Settling Parties agree to PSE's proposal to modify Schedule 129 to remove Area Median Income from the HELP program Income Eligibility Criteria. On and after the effective date of the tariffs resulting from this proceeding, income eligibility will be based on a household income not exceeding 150 percent of the federal poverty level.

F. Prudence Issues

112. The Settling Parties agree to support a Commission determination in this proceeding that the following projects of PSE are prudent and PSE shall fully recover costs associated with the following projects:

- (i) the Snoqualmie Falls hydroelectric redevelopment project;
- (ii) the acquisition of the Buckley Natural Gas Distribution System;
- (iii) the acquisition and development of the Glacier Battery Storage System;
- (iv) the development and construction of the Ardmere Substation;
- (v) the power purchase agreement with Public Utility District No. 1 Public Utility District No. 1 of Douglas County, Washington to purchase power from the Wells Hydroelectric Project;
- (vi) the acquisition of transmission capacity from Bonneville Power Administration for the (a) the Goldendale Generation Facility (38 MW) and (b) the Mint Farm Generation Facility (15 MW); and
- (vii) the renewal of agreements for transmission capacity from Bonneville Power Administration associated with (a) the Coal Transition Power Purchase Agreement (100 MW), (b) the Mint Farm Generation Facility (20 MW), and (c) purchases from Garrison, Montana (94 MW); and
- (viii) the total amount of actual costs accumulated and deferred until September 30, 2016, associated with PSE's electric and natural gas Environmental Remediation program.

G. Decoupling

113. The Settling Parties agree to Commission Staff's proposal to set the total Allowed Revenue for fixed production costs recovery per decoupled group at the level the Commission authorizes in this general rate proceeding.

114. The Settling Parties agree that all other issues with respect to PSE's revenue decoupling mechanism are not affected by this Settlement and are subject to litigation before the Commission. This includes all other issues regarding the Earnings Sharing Mechanism not otherwise addressed in this Settlement.

H. ERF Issues

115. PSE may file one ERF within one year after the effective date of the tariffs resulting from this proceeding that is consistent with the process and procedures used by the Commission in Dockets UE-130137 & UG-130138 and the parameters identified in Exhibit I to this Settlement. The Settling Parties will support, or not oppose, a schedule for such ERF that would allow rates to take effect within 120 calendar days after filing. Any subsequent ERF or limited rate proceeding filed by PSE shall be consistent with Commission guidance provided by rule or policy statement in Docket A-130355.

I. Colstrip Plant and Transmission System Issues

1. Retirement Account Established Pursuant to Chapter 80.84 RCW

116. PSE shall place \$95 million in hydro-related Treasury Grants into a retirement account established pursuant to RCW 80.04.350 to fund and recover prudently incurred decommissioning and remediation costs for Colstrip Units 1 and 2 consistent with Chapter 80.84 RCW.

2. Account Not Established Pursuant to Chapter 80.84 RCW

117. PSE shall place PTCs as they are monetized in a second, more flexible account not established pursuant to Chapter 80.84 RCW. PSE shall use the monetized PTCs in the second account in accordance with the following priority for use: (i) to fund community transition planning funds of \$5 million, as identified in paragraph 118; (ii) to recover unrecovered plant balances for Colstrip Units 1 through 4; and (iii) to fund and recover prudently incurred decommissioning and remediation costs for Colstrip Units 1 through 4. The account shall be consistent with the discussion of the account set forth in the Prefiled Rebuttal Testimony of Ms. Katherine J. Barnard, Exh. KJB-17T.

3. Community Transition Planning Process & Funding

118. PSE shall engage in a process with stakeholders to develop a community transition plan, including a funding mechanism, to address the transitioning of PSE's interest in the community of Colstrip, Montana. PSE shall contribute the following amounts to the community transition plan: (i) \$5 million of shareholder dollars and (ii) \$5 million of monetized PTCs. PSE shall place the \$5 million of shareholder dollars in an escrow account (the "Escrow Account") by the end of calendar year 2018. PSE shall place \$5 million of monetized PTCs, when available, from the account established pursuant to paragraph 117 in the Escrow Account. All such funds shall remain in the Escrow Account until such time that there is a community transition plan, including a funding mechanism, in place.

4. Colstrip Reporting Requirements

119. Beginning in 2018, on or before December 1 of each year, PSE shall provide the Commission an annual report containing the following:

- (i) the most recent estimate of the actual retirement date for Colstrip Units 1 and 2 and Colstrip Units 3 and/or 4;

- (ii) In the event of an estimated retirement date earlier than July 1, 2022, for Colstrip Units 1 and 2, and upon the determination by PSE of an estimated retirement date for Colstrip Units 3 and/or 4, a discussion and evaluation of consequences to customers arising from those estimated retirement dates;
- (iii) decommissioning and remediation expenditures associated with Colstrip units since the time of the last report and updated estimates of future costs;
- (iv) an evaluation of the sufficiency of the retirement account established pursuant to Chapter 80.84 RCW to fund and recover decommissioning and remediation activities for Colstrip Units 1 and 2;
- (v) an evaluation of the sufficiency of existing depreciation rates for Colstrip Units 3 and 4 to cover decommissioning and remediation costs for those units; and
- (vi) for years in which PSE issues an Integrated Resource Plan, updated replacement power costs.

5. Colstrip Transmission System Operational Study

120. PSE is working with NorthWestern Energy and the other Colstrip Transmission System owners on the design and staffing of an operational study of transfer capability of the Colstrip Transmission System after Colstrip Units 1 and 2 retire. PSE agrees to work in good faith with the other Colstrip Transmission System owners to have this study completed by June 30, 2018. Upon completion of the study, study results will be submitted to the Commission and interested stakeholders, subject to the consent of the other Colstrip Transmission System owners and subject to disclosure restrictions, such as restrictions on disclosure of Critical Energy Infrastructure Information and non-public transmission information.

6. Colstrip Transmission System Workshop

121. The Settling Parties recommend that the Commission convene one or more workshops, to commence in the first quarter of 2018, to discuss the use of the Colstrip

Transmission System following closure of Colstrip Units 1 and 2, including use by new generation. Commission Staff, the Colstrip Transmission System owners, Path 8 operators, and interested stakeholders will be invited to attend the workshop(s) and to participate in the development of a “Scoping Document” that is intended to (i) identify any known policy or contractual barriers and the technical questions surrounding the use of the Colstrip Transmission System following closure of Colstrip Units 1 and 2, (ii) identify methods, forums, and possible timelines for addressing barriers and technical questions, and (iii) provide information regarding, and promote an understanding of, the applicable processes and procedures, studies, and timelines for addressing these questions, including but not limited to those specified in the Open Access Transmission Tariffs of the Colstrip Transmission System owners for requesting and procuring interconnection to and transmission on the Colstrip Transmission System. The Scoping Document should identify the necessary engineering studies, data, and costs associated with completing the studies, and any other barriers to completing the studies. It is anticipated that PSE will be the primary author of the Scoping Document with input from Commission Staff, the Colstrip Transmission System owners, Path 8 operators, and interested stakeholders. Compliance with the settlement terms does not necessarily include the completion of any additional transmission engineering studies themselves, though the Scoping Document may identify studies that can be completed in the near-term.

7. No Release

122. Nothing in this Settlement shall be construed to operate as a settlement, release or waiver of any and all of PSE’s liabilities for decommissioning and remediation in the State of Montana under Montana or federal law regarding any or all of Colstrip Units 1 through 4.

Nothing in this Settlement shall be construed to operate as expanding or contracting the powers of the State of Montana with respect to any or all of Colstrip Units 1 through 4.

J. Water Heater Rental Program

123. PSE will participate in a collaborative with Commission Staff and other interested stakeholders to discuss the future of the water heater rental programs in PSE's natural gas Schedules 71, 72, and 74.

K. Electric Cost Recovery Mechanism

124. The Settling Parties agree that all issues with respect to PSE's proposed Electric Cost Recovery Mechanism are not affected by this Settlement and are subject to litigation before the Commission.

IV. GENERAL PROVISIONS

125. Entire Agreement. This Settlement is the product of negotiations and compromise amongst the Settling Parties and constitutes the entire agreement of the Settling Parties. Accordingly, the Settling Parties recommend that the Commission adopt and approve the Settlement in its entirety as a full resolution of contested issues in this docket. This Settlement will not be construed against any Settling Party on the basis that it was the drafter of any or all portions of this Settlement. This Settlement supersedes any and all prior oral and written understandings and agreements on such matters that previously existed or occurred in this proceeding, and no such prior understanding or agreement or related representations will be relied upon by the Settling Parties to interpret this Settlement or for any other reason.

126. Confidentiality of Negotiations. The Settling Parties agree that this Settlement represents a compromise in the Settling Parties' positions. As such, conduct, statements and documents disclosed during the negotiation of this Settlement are not admissible in this or any

other proceeding and will remain confidential. Notwithstanding the foregoing, the Settlement itself and its terms do not fall within the scope of this confidentiality provision, and each Settling Party is free to publicly disclose the basis for its own support of the Settlement.

127. Precedential Effect of Settlement. The Settling Parties enter into this Settlement to avoid further expense, uncertainty, inconvenience and delay. The Settling Parties agree that this Settlement Agreement does not serve to bind the Commission when it considers any other matter not specifically resolved by this Settlement in future proceedings. Nothing in this Settlement compels any Settling Party to affirmatively intervene or participate in a future proceeding.

128. Positions Not Conceded. In reaching this Settlement, the Settling Parties agree that no Settling Party concedes any particular argument advanced by that Settling Party or accedes to any particular argument made by any other Settling Party. Nothing in this Settlement (or any testimony, presentation or briefing supporting this Settlement) shall be asserted or deemed to mean that a Settling Party agreed with or adopted another Settling Party's legal or factual assertions in this proceeding. The limitations in this paragraph 128 will not apply to any proceeding to enforce the terms of this Settlement or any Commission order adopting this Settlement in full.

129. Manner of Execution. This Settlement is executed when all Settling Parties sign the Settlement. A designated and authorized representative may sign the Settlement on a Settling Party's behalf. The Settling Parties may execute this Settlement in counterparts. If the Settlement is executed in counterparts, all counterparts shall constitute one agreement. A Settlement signed in counterpart and sent by facsimile or emailed as a pdf is as effective as an original document. A faxed or emailed signature page containing the signature of a Settling Party is acceptable as an original signature page signed by that Settling Party. Each Settling Party shall indicate the date of

its signature on the signature page. The date of execution of the Settlement will be the latest date indicated on the signature page(s).

130. Approval Process and Support of Settlement. Each Settling Party agrees to support in this proceeding the terms and conditions of this Settlement as a full and final resolution of all contested issues between them in the above-captioned docket. Each Settling Party agrees to support or not to oppose the Settlement during the course of whatever proceedings and procedures the Commission determines are appropriate for approval of the Settlement.

131. Commission Approval with Conditions. In the event the Commission approves this Settlement, but with conditions not proposed in this Settlement, the provisions of WAC 480-07-550(2)(b) will apply. The Settling Parties will have ten (10) business days to seek reconsideration and/or file a letter with the Commission accepting or rejecting each such condition. If, in such a timely filed letter, a Settling Party rejects a condition, this Settlement is deemed rejected and void and the Settling Parties will jointly and promptly request the Commission convene a prehearing conference to address procedural matters, including a procedural schedule for resolution of the case at the earliest possible date.

132. Commission Rejection. In the event the Commission rejects this Settlement, the provisions of WAC 480-07-550(2)(a) will apply. In that event, the Settling Parties agree to jointly and promptly request the Commission convene a prehearing conference to address procedural matters, including a procedural schedule for resolution of the case at the earliest possible date.

[Remainder of Page Intentionally Left Blank. Signature Page to Follow]

Dated this 15th day of September, 2017.

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