FY 2018–2019

FINAL
AVERAGE SYSTEM COST REPORT

Puget Sound Energy

July 2017

FY 2018–2019

FINAL
AVERAGE SYSTEM COST REPORT

FOR

Puget Sound Energy
Docket Number: ASC-18-PS-01

PREPARED BY
BONNEVILLE POWER ADMINISTRATION
U.S. DEPARTMENT OF ENERGY

July 2017

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1 FILING DATA

Filing Utility: **Puget Sound Energy**
10885 NE 4th Street
Bellevue, Washington 98004-5591
http://www.pse.com

Parties to the Filing:

Investor-Owned Utilities ("IOUs"):
- Avista Corporation ("Avista")
- Idaho Power Company ("Idaho Power")
- PacifiCorp
- Portland General Electric ("Portland General")

Consumer-Owned Utilities ("COUs"):
- Public Utility District No. 1 of Clark County ("Clark")
- Public Utility District No. 1 of Snohomish County ("Snohomish")

Other Participants to the Filing:
- Public Utility Commission of Oregon ("OPUC")

Average System Cost Base Period: Calendar Year ("CY") 2015

Effective Exchange Period: Fiscal Years 2018–2019, October 1, 2017 – September 30, 2019

Statement of Purpose:

Section 5(c) of the Pacific Northwest Electric Power Planning and Conservation Act ("Northwest Power Act" or "Act"), 16 U.S.C. § 839c(c), established the Residential Exchange Program ("REP"). Under the REP, any Pacific Northwest utility interested in participating in the REP may offer to sell power to Bonneville Power Administration ("BPA") at the average system cost of the utility's resources. In exchange, BPA offers to sell an "equivalent amount of electric power to such utility for resale to that utility's residential users within the region" at a rate established pursuant to sections 5(b)(l) and 5(b)(3) of the Act. H.R. Rep. No. 976, Pt. I, 96th Cong., 2d Sess. 60 (1980). The cost benefits established by the REP are passed through directly to the exchanging utilities' residential and farm consumers. 16 U.S.C. § 839c(c)(3). A utility participating in the REP will hereinafter be referred to as a "Utility" or "Exchanging Utility."

The Northwest Power Act grants BPA's Administrator the authority to determine Utilities' average system cost(s) ("ASC") based on a methodology established in a public consultation proceeding. 16 U.S.C. § 839c(c)(7). The Act specifically requires the Administrator to exclude from ASC three categories of costs:

(A) the cost of additional resources in an amount sufficient to serve any new large single load[1] of the Utility;

(B) the cost of additional resources in an amount sufficient to meet any additional load outside the region occurring after the effective date of this Act; and

(C) any costs of any generating facility which is terminated prior to initial commercial operation.

Id.

The Act limits eligibility for the REP to utilities and load located within the geographical area defined as the "Pacific Northwest" or "region." *See* 16 U.S.C. § 839a(14)(A)-(B). Specifically, "region" is defined as follows:

the area consisting of the States of Oregon, Washington, and Idaho, the portion of the State of Montana west of the Continental Divide, and such portions of the States of Nevada, Utah, and Wyoming as are within the Columbia River drainage basin; and

any contiguous areas, not in excess of seventy-five air miles from the area referred to in subparagraph (A), which are a part of the service area of a rural electric cooperative customer served by the Administrator on December 5, 1980, which has a distribution system from which it serves both within and without such region.

Id.

BPA has conducted an ASC review to determine Puget's ASC for fiscal years ("FY") 2018-2019 based on BPA's 2008 ASC Methodology ("2008 ASCM"). *See* 18 C.F.R. Part 301, *Sales of Electric Power to the Bonneville Power Administration, Revisions to Average System Cost Methodology,* 74 Fed. Reg. 47,052 (2009).

This FY 2018–2019 Final Average System Cost Report ("Final ASC Report") describes BPA's ASC review process and evaluation used to implement the 2008 ASCM, and the results of BPA's ASC Filing review.

For more information regarding the 2008 ASCM, please refer to the Federal Energy Regulatory Commission's final ruling and the *2008 ASCM,* available at Federal Energy Regulatory Commission's Final Ruling and the 2008 ASCM, and the *Average System Cost Methodology Final Record of Decision ("2008 ASCM ROD")*, June 30, 2008, available at BPA's Residential Exchange Program website.

[1] A new large single load (NLSL) is defined in section 3(13) of the Northwest Power Act, and determined by BPA as specified in power sales contracts with its Regional Power Sales customers. See Section 2.6 of this report for more details.

General information regarding the ASC Review Process can be found at BPA's Residential Exchange Program website.

NOTE: If a filing Utility or an intervenor wished to preserve any issue related to an ASC Filing for subsequent administrative or judicial appeal, it must have raised such issue in its comments on the Draft ASC Report. If a party failed to do so, the issue is waived for subsequent appeal. *See* Rules of Procedure for BPA's ASC Review Processes ("Rules of Procedure"), § 3.6.1.

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2 AVERAGE SYSTEM COST SUMMARY

2.1 Puget Sound Energy Background[2]

Puget Energy, Inc. is an energy services holding company incorporated in the state of Washington in 1999. All of its operations are conducted through its subsidiary, Puget Sound Energy, Inc. ("Puget"), a utility company subject to state and Federal regulation. Puget Energy has no significant assets other than the stock of Puget.

Puget is engaged in the production, transmission, and distribution of electricity and the distribution of natural gas throughout western Washington's Puget Sound area, totaling eleven counties and over 6,000 square miles. Puget provides electric service to over 1,000,000 customers and natural gas service to over 760,000 customers. Puget's electric service territory contains over 2,600 miles of transmission lines and 20,000 miles of distribution lines.

The focus of this report is on Puget's electric generation and transmission system. In 2015, Puget's nameplate generation capacity was 3,930 megawatts ("MW"), and its generation plants produced 13,040,400 megawatt hours ("MWh"). Details of Puget's generation system are shown in the Table below:

Puget Sound Energy 2015 Electric Generation and Energy				
Type	**Capacity (MW)**	**Percent**	**Energy (MWh)**	**Percent**
Hydro	278	7	706,231	2
Coal	811	21	4,495,032	15
Natural Gas	2065	52	5,830,024	20
Wind	773	20	1,715,433	6
Purchases			16,874,776	56
Other	3	0	293,680	1
Total	**3,930**	**100**	**29,915,176**	**100**

Puget Sound Energy, 2015 FERC Form 1, pages 402-410, April 4, 2016.

[2] Information stated in this section was sourced from Puget's website and FERC Form 1.

2.2 Base Period ASC

The 2008 ASCM requires Utilities participating in the ASC Review Process, both IOUs and COUs, to submit to BPA "Base Period" financial and operational information. The Base Period is defined as the calendar year of the most recent Federal Energy Regulatory Commission ("FERC") Form 1 data for IOUs, or the most recent audited financial statements (Annual Reports) for COUs. The Base Period data are derived from the Base Period FERC Form 1s (for IOUs) or the Annual Reports (for COUs), and underlying accounting system data for all Utilities. For purposes of the FY 2018−2019 filing period, the Base Period is calendar year "CY" 2015. The submitted information includes the "Appendix 1," an Excel-based workbook populated with financial and load data used to calculate the Base Period ASC.

Table 2.2-1 identifies the CY 2015 Base Period ASC based on (1) the information contained in Puget's June 1, 2016, ASC Filing ("As-Filed"), and (2) as adjusted by BPA Staff for this Final ASC Report. This Table does not reflect the Exchange Period (defined below) ASC, which is noted in subsequent tables.

Table 2.2-1: CY 2015 Base Period ASC
(Results of Appendix 1 calculations)

	June 1, 2016 As-Filed	July 26, 2017 Final ASC Report
Production Cost	$1,354,954,776	$1,358,296,904
Transmission Cost	$262,923,282	$264,249,126
(Less) NLSL Costs	$0	$0
Contract System Cost ("CSC")	**$1,617,878,058**	**$1,622,546,031**
Total Retail Load (MWh)	20,509,764	20,509,764
(Less) NLSL	0	0
Total Retail Load (Net of NLSL)	20,509,764	20,509,764
Distribution Losses	1,158,802	1,158,802
Contract System Load ("CSL")	**21,668,566**	**21,668,566**
CY 2015 Base Period ASC (CSC/CSL)	**$74.66MWh**	**$74.88/MWh**

2.3 FY 2018–2019 Distribution Loss Factor

The 2008 ASCM requires a Utility to include with its ASC Filing a current distribution loss analysis as described in Endnote e. *See* 18 C.F.R. § 301, End. e.

Losses are the distribution energy losses occurring between the transmission portion of the Utility's system and the meters measuring firm energy load. *Id.* The distribution loss can be measured using one of the three methods outlined in Endnote e of the 2008ASCM: (1) a loss study, (2) revenue grade meter readings, or (3) calculating a five-year average total system loss factor using data from the FERC Form 1 or a comparable data source. *Id.*

BPA reviewed and accepted with Puget's Distribution Loss Factor calculations. For purposes of this Final ASC Report, BPA used the Distribution Loss Factor of 5.65 percent included in Puget's As-Filed Appendix 1.

2.4 FY 2018–2019 Exchange Period ASC

BPA and intervenors had the opportunity to review, evaluate, and comment on each Utility's Appendix 1 historical costs and forecast loads submitted in the ASC Review Process. Once the Base Period ASC was determined, the cost data were escalated forward using the "ASC Forecast Model," an Excel-based macro model, to the midpoint of the Exchange Period, which in this instance is October 1, 2018. For purposes of the FY 2018–2019 ASC Review Period, the "Exchange Period" is October 1, 2017, through September 30, 2019.

A Utility's As-Filed Exchange Period ASC may increase or decrease by the time of the Final ASC Report because of adjustments made during the ASC Review Process, such as updates to BPA's natural gas and market price forecasts, errata corrections, or other changes made by BPA. For all Utilities, BPA updated natural gas and market price forecasts to match natural gas and market price forecasts in the Final Proposal for the BP-18 Rate Proceeding. See the "Input" tab of the ASC Forecast Model for the Utility's (1) As-Filed and (2) BPA-Adjusted models for additional details. All other adjustments, if any, made during the review are explained in Section 4 of this Final ASC Report.

In addition to these changes, Puget's Exchange Period ASC decreased from the Base Period ASC due to the following factors:

1. 6.2% increase in projected load growth (total retail sales at the meter) between the Base Year and Exchange Period as provided in Puget's Appendix 1 Load Forecast tab
2. No major New Resources coming on line
3. Low inflation
4. Small changes in natural gas and market prices
5. Decreased net plant costs

All other adjustments, if any, made during the review are explained in Section 4 of this Final ASC Report.

For the COUs only, BPA updated the associated Tiered Rates tab in the Appendix 1, and the rates in the PF-Rates tab of the Forecast Model to match what is being used in the BP-18 Final Proposal. In the Tiered Rates tab of the Forecast Model, the total cost of power purchased from BPA is calculated.

Table 2.4-1 identifies the Exchange Period ASC Puget filed on June 1, 2016, and as adjusted by BPA for this Final ASC Report. The ASC shown will be Puget's for the entire Exchange Period.

Table 2.4-1: Exchange Period FY 2018–2019 ASC ($/MWh) With No Major Resource Additions or Removals

Date	June 1, 2016 As-Filed	July 26, 2017 Final ASC Report
FY 2018–2019	72.62	71.13

2.5 ASC Major Resource Additions or Removals

Under the 2008 ASCM, a Utility's ASC may be adjusted to reflect the addition or loss of a major resource if such resource commences commercial operation (or ceases production) at any point between the end of the Base Period and the end of the Exchange Period. Such new or existing resource must be used to meet a Utility's retail load during the Exchange Period.

However, although the 2008 ASCM permits adjustments, as part of the 2012 Residential Exchange Program Settlement Agreement, BPA Contract No. 11PB-12322 ("2012 REP Settlement"), all six regional IOUs agreed to waive this right: "Each IOU waives . . . the right to include in its ASC, . . . the cost of any major resource addition forecasted to occur during the Exchange Period as allowed by the ASC Methodology." 2012 REP Settlement, § 6.4. As a result of this waiver, the ASC reports do not include major resource additions that are scheduled to come on line *during* the Exchange Period for any IOU. [3] For COUs only, a major resource adjustment may be included in a COU's ASC at the commencement of or during the Exchange Period.

Before a Utility's ASC is adjusted to reflect the addition or loss of a major resource, the Utility must demonstrate that the proposed resource will meet the materiality requirements set forth in the 2008 ASCM. Section 301.4(c) of the 2008 ASCM provides that only a resource that affects a Utility's Base Period ASC by two and one-half percent (2.5%) or more will be considered a major resource. 18 C.F.R. § 301.4(c)(4). This is the materiality threshold. The 2008 ASCM also allows Utilities to submit stacks of individual resources that, when combined, meet the materiality threshold. *Id*. However, each individual resource in the stack must result in a change in Base Period ASC of one-half percent (0.5%) or more. *Id*. *See also* § 3.2.14 of this report.

In order for major resource additions to be included in a Utility's Exchange Period ASC at the beginning of the Exchange Period, a Major Resource Attestation must be received by BPA no later than the tenth (10th) business day after the Exchange Period begins.

Table 2.5-1 summarizes major new resource additions, prior to any NLSL adjustments, that are projected to become commercially operational, and major resources that will cease to be commercially operational, prior to the beginning of the Exchange Period.

Puget has no major new resources coming on line or being removed prior to the FY 2018−2019 Exchange Period.

[3] The exchanging COUs did not make such a waiver and will continue to include major new resource additions during the Exchange Period under the rules of the 2008 ASCM.

Table 2.5-1: Major Resources Coming On Line or Being Removed *Prior to* the Exchange Period

As-Filed FY 2018–2019 Exchange Period ASC ($/MWh)				
Resource	**N/A**	**N/A**	**N/A**	**N/A**
Expected On Line or Removal Date				
Delta*				

Final ASC Report FY 2018–2019 Exchange Period ASC ($/MWh)				
Resource	**N/A**	**N/A**	**N/A**	**N/A**
Expected On Line or Removal Date				
Delta*				

*The Delta is the incremental change in the ASC as major resources come on line or are removed.

2.6 NLSL Adjustment

An NLSL is any load associated with a new facility, an existing facility, or an expansion of an existing facility that was not contracted for or committed to (“CF/CT”) prior to September 1, 1979, and which will result in an increase in power requirements of ten average megawatts (“aMW”) or more in a consecutive 12-month period. 16 U.S.C. § 839a(13)(A)-(B).

By law, NLSLs and associated resource costs in an amount sufficient to serve them are not included in Utilities’ ASCs. *See* 16 U.S.C. § 839c(c)(7)(A). BPA determines the cost of resources in an amount sufficient to serve NLSLs through the methodology provided in Endnote d of the 2008 ASCM and Section 2.7 of this Final ASC Report.

NLSLs are not determined in the ASC Review Process. Instead, NLSLs are identified through a separate process conducted by BPA’s NLSL Staff. The ASC Review Process determines the cost of resources in an amount sufficient to serve the Utility’s NLSL and then excludes these costs from the Utility’s ASC.

Puget currently has no NLSLs on record or new NLSLs under review, and therefore no NLSL resource costs will be removed from its ASC. *See* Table 2.6-1.

Table 2.6-1: New Large Single Loads Under Review

As-Filed FY 2018–2019 NLSL Load Amount (MWh)	
NLSL(s)	**Load**
N/A	N/A

Final ASC Report FY 2018–2019 NLSL Load Amount (MWh)	
NLSL(s)	**Load**
N/A	N/A

2.7 NLSL Formula Rate

Beginning with the FY 2014–2015 Exchange Period, BPA and Utilities agreed to use a formula rate calculation to remove resource costs from a Utility's ASC when an NLSL occurs after the Base Period. The reason was to alleviate additional administrative and calculation issues surrounding NLSLs taking power during an Exchange Period.

Base Period NLSLs will remain constant throughout the duration of the Exchange Period (*see* FY 2012-2013 Final ASC Report, Section 5.2.2).

For purposes of this Final ASC Report, no Utility identified potential new NLSLs taking power prior to or during the FY 2018–2019 Exchange Period. However, in the event a Utility learns it will begin to serve an NLSL during this period, even though the NLSL is not identified herein, BPA Staff will review and evaluate the NLSL and, as necessary, calculate a new ASC using the inputs and formula method as defined below:

$$\text{ASC} = \frac{\text{Contract System Cost} - (\text{Cost of Serving New NLSL} * \text{Actual New NLSL MWh})}{\text{Contract System Load MWh} - \text{Actual New NLSL MWh}}$$

Tables 2.7-1 and 2.7-2 show the inputs necessary to calculate a Utility's Exchange Period ASC using the above NLSL Formula Rate. The tables include the escalated inputs Contract System Cost ($), Cost of Serving NLSL ($/MWh), and Contract System Load (MWh) from the ASC Forecast Model and can be found in the ASCs tab, rows 64, 66, and 76 respectively. A Utility's Contract System Cost and Cost of Serving NLSL will change with each new resource addition.

Table 2.7-1: NLSL Formula Rate Inputs:
Contract System Cost and Cost of Serving NLSL

Inputs for both *Prior to* and *During* the Exchange Period			
	New Resource	**Contract System Cost ($)**	**Cost of Serving NLSL ($/MWh)**
None	No new resources coming on line	$1,637,458,533	N/A[4]
Prior to	N/A	N/A	N/A
During	N/A[5]	N/A	N/A

Table 2.7-2: Formula Rate Input:
Contract System Load

FY 2018–2019 Contract System Load (MWh)
23,020,897

4 During the Exchange Period, the average cost to serve an NLSL ($62.24/MWh) is less than Puget's (BPA-Adjusted) ASC ($71.13/MWh). Therefore, removing the costs of serving new NLSLs would raise Puget's ASC. The ASCM does not permit a Utility's ASC to increase as a result of excluding the cost of resources used to serve NLSLs. *See* 2008 Average System Cost Methodology, Final Record of Decision, at 93.

5 Under the 2012 REP Settlement Agreement, IOUs no longer include new resource additions during the Exchange Period. COUs will continue to include new resource additions during the Exchange Period under the rules of the 2008 ASCM.

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3 FILING REQUIREMENTS

3.1 ASC Review Process – FY 2018–2019

Utilities' ASCs are established in BPA's ASC Review Processes which began on June 1, 2016, with the submittal of ASC Filings by the following eight Utilities: Avista, Clark, Idaho Power, NorthWestern, PacifiCorp, Portland General, Puget, and Snohomish. An "ASC Filing" consists of two Excel-based models developed by BPA (the Appendix 1 workbook and the ASC Forecast Model), which are populated with supporting data and documentation provided by the Utility.

Notice of the ASC Review Processes was provided on BPA's REP public website, BPA's Secure REP website and via email. The Utilities posted ASC Filings on BPA's Secure REP website by the June 1, 2016, filing deadline. Parties interested in reviewing a Utility's ASC had the opportunity to request access to the Utility's ASC Filing by contacting BPA. Parties wishing to formally intervene in a Utility's ASC proceeding could file an intervention by the date identified in BPA's ASC Review Process schedule. Intervenors were afforded the opportunity to request data, submit comments, and raise issues with the Utilities' ASCs throughout a three-month period; the filing Utilities, in turn, were afforded the opportunity to respond to requests for data, raise and respond to issues, and answer any questions relative to the ASC Filings.
BPA engaged in this discovery throughout the entire ASC Review Processes.

Draft ASC Reports were issued November 17, 2016, for each of the eight Utilities. The schedule afforded Parties with an approximately 5-month period (through April 10, 2017) in which to submit comments to the Draft ASC Reports. Additionally, BPA offered to hold both a clarification workshop and oral argument if requested by any Party. BPA did not receive any requests and as a result, neither event was held. See Sections 4 and 5 to review comments, if any, submitted by the Utilities and intervenors.

This Final ASC Report reflects BPA's findings following its review of Puget's ASC Filing and addresses the errata, issues, and questions, if any, raised by the Utility, intervenors, or BPA during the ASC Review Process.

For details of the ASC Review Process and guidelines, please see the Rules of Procedures, available at [BPA's Residential Exchange Program website.]()

Final ASC Reports for each Utility are available at http://www.bpa.gov/Finance/ResidentialExchangeProgram/Pages/FY-18-19-ASC-Utility-Filings.aspx.

3.2 Explanation of Appendix 1 Schedules

The Appendix 1 consists of a series of seven schedules and other supporting information that presents the data necessary to calculate a Utility's ASC. The schedules and supporting data include the following:

1. Schedule 1 – Plant Investment/Rate Base ("Rate Base")
2. Schedule 1A – Cash Working Capital Calculation ("Cash Working Capital")
3. Schedule 2 – Capital Structure and Rate of Return ("Rate of Return")
4. Schedule 3 – Expenses
5. Schedule 3A – Taxes
6. Schedule 3B – Other Included Items ("Other Items")
7. Schedule 4 – Average System Cost
8. Purchased Power and Sales for Resale ("3-Year PP & OSS Worksheet")
9. Load Forecast
10. Distribution Loss Calculation ("Distribution Loss Calc")
11. Distribution of Salaries and Wages ("Salaries")
12. Ratios
13. New Resources – Individual and Grouped
14. Materiality for New Resource Additions – Individual and Grouped
15. New Large Single Loads ("NLSL Base New-Calc")
16. Tiered Rates
17. Above-RHWM Base Calculation

3.2.1 Schedule 1 – Plant Investment/Rate Base

Schedule 1 of the Appendix 1 establishes the Utility's Rate Base, which is the value of property on which the Utility is permitted to earn a specific rate of return (calculated in Schedule 2), in accordance with rules set by the state's Public Utility Commission or other regulatory agency, if required. The Rate Base computation begins with a determination of the Gross Electric Plant-In-Service's historical costs for Intangible, General, Production, Transmission, and Distribution Plant.

For Exchanging Utilities that provide electric, natural gas, and water services, only the portion of common plant allocated to electric service is included. These values (and all subsequent values) are entered into the Appendix 1 as line items based on FERC's Uniform System of Accounts. Each line item ("Account") is functionalized to Production, Transmission, and/or Distribution/Other in accordance with the functionalizations prescribed in Table 1 of the 2008 ASCM.

The Net Electric Plant-In-Service is determined next by entering and functionalizing depreciation and amortization reserves in the Appendix 1 and adjusting the above-calculated Gross Electric Plant-In-Service for the depreciation and amortization reserves.

Total "Rate Base" is then determined by adjusting Net Electric Plant for Cash Working Capital (calculated in Schedule 1A), Utility Plant, Property and Investments, Current and Accrued Assets, Deferred Debits, Current and Accrued Liabilities, and Deferred Credits.

3.2.2 Schedule 1A – Cash Working Capital

Cash working capital is an estimate of investor-supplied cash used to finance operating costs during the time lag before revenues are collected. This approach (cash) ignores the lag in recovery of non-cash costs of service (depreciation), deferred taxes, and other items. The Cash Working Capital concept is widely used by State Commissions and is the basic premise of the Commission's proposed working capital formula. The purpose of working capital is to compensate a Utility for funds used in day-to-day operations.[6]

Cash Working Capital is a ratemaking convention that is not included in FERC's Uniform System of Accounts, but is part of all electric utility rate filings as a component of Rate Base. To determine the allowable amount of Cash Working Capital in Rate Base for a Utility, BPA allows one-eighth (1/8) of the functionalized costs of total production expenses, transmission expenses, and administrative and general expenses, less purchased power, fuel costs, and public purpose charges, into Rate Base. *See* 18 C.F.R. § 301, End. f.

3.2.3 Schedule 2 – Capital Structure and Rate of Return

Schedule 2 calculates the Utility's rate of return ("ROR") on the Utility's Rate Base developed in Schedule 1.

The 2008 ASCM requires IOUs to use the weighted cost of capital ("WCC") from their most recent State Commission rate orders. The return on equity used in the WCC calculation is grossed-up for Federal income taxes at the marginal Federal income tax rate using the formula described in Endnote b of the 2008 ASCM. *See* 18 C.F.R. § 301, End. b. The 2008 ASCM requires a COU to use a rate of return equal to the COU's weighted cost of debt.

3.2.4 Schedule 3 – Expenses

This schedule represents operations and maintenance expenses for the production, transmission, and distribution of electricity. Each expense item is functionalized as outlined in Table 1 of the 2008 ASCM. Also included in Schedule 3 are additional expenses associated with customer accounts, sales, administrative and general expense, conservation program expense, and depreciation and amortization expense associated with Electric Plant-in-Service. The sum of the items in Schedule 3 reflects the Total Operating Expenses for the Utility.

3.2.5 Schedule 3A – Taxes

This schedule presents allowable ASC costs for Federal employment tax and certain non-Federal taxes, including property and unemployment taxes. COUs are allowed to include state taxes paid "in lieu" of property taxes. State income taxes, franchise fees, regulatory fees, and city/county taxes are accounted for in this Schedule, but are functionalized to Distribution/Other and therefore not included in ASC. Taxes and fees for each state listed are grouped together and entered as "combined" line items for Appendix 1 purposes.

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[6] James C. Bonbright *et al., Principles of Public Utility Rates* 244 (2d ed. 1998).

Federal income taxes are included in ASC and are calculated, as applicable, in Schedule 2 − Capital Structure and Rate of Return.

3.2.6 Schedule 3B – Other Included Items

This schedule includes revenues from the disposition of plant, sales for resale, and other revenues, including electric revenues and revenues from transmission of electricity for others (wheeling). The revenues in this schedule are deducted from the total costs of each Utility.

3.2.7 Schedule 4 – Average System Cost

This schedule summarizes the cost information calculated in Schedules 2 through 3B: Capital Structure and Rate of Return, Expenses, Taxes, and Other Included Items. The schedule also identifies the Contract System Cost and Contract System Load, as defined below, and calculates the Utility's Base Period ASC ($/MWh).

Contract System Cost (CSC) ($)
CSC includes the Utility's costs for production and transmission resources, including power purchases and conservation measures, which are includable in and subject to the provisions of the 2008 ASCM. CSC does not include distribution costs or the cost of serving a Utility's NLSLs. CSC is the numerator in the ASC calculation.

Contract System Load (CSL) (MWh)
CSL is the total regional retail load of a Utility, adjusted for distribution losses and NLSLs. CSL is the denominator in the ASC calculation.

3.2.8 Purchased Power and Sales for Resale

Purchased Power is an account in Schedule 3 – Expenses, and includes all power purchases the Utility made during the year, including power exchanges. Sales for Resale is an account in Schedule 3B – Other Included Items, and includes power sales to purchasers other than ultimate consumers. Listed in the information for both accounts are the statistical classification codes for all transactions. For identification of the classification codes, see FERC Form 1, pages 310-311 for Sales for Resale, and pages 326-327 for Purchased Power.

3.2.9 Load Forecast

Each IOU is required to provide a four-fiscal-year forecast of its total retail load beginning October 1 of the Base Year, as measured at the meter. For COUs, the total retail load forecast for the four-year period is determined in the Rate Period High Water Mark ("RHWM") process. This is consistent with the Tiered Rate Methodology ("TRM"). *See* the Tiered Rates tab in Appendix 1. *See also* http://www.bpa.gov/news/pubs/PastRecordsofDecision/2009/TRM-12S-A-02.pdf.

Additionally, each COU is required to provide a four-fiscal-year forecast of its qualifying residential and farm retail load, as measured at the retail meter. However, due to the 2012 REP

Settlement Agreement, the IOUs are no longer required to submit residential and farm load forecasts.

The total retail load forecasts for all Utilities, and residential and farm load forecasts for the COUs, are adjusted for distribution losses. In addition, the total retail load forecasts are adjusted for any NLSLs. The resulting load forecasts are the Contract System Load forecast and Exchange Load forecast, respectively.

3.2.10 Distribution Loss Calculation

Each Utility is required to provide a distribution loss calculation as described in Endnote e of the 2008 ASCM. *See* 18 C.F.R. § 301, End. e. The total retail and residential and farm load forecasts are adjusted for distribution losses (and NLSLs when appropriate).

3.2.11 Distribution of Salaries and Wages

This supporting tab is used to determine the Labor Ratio calculations. It includes salaries and wages from relevant operations and maintenance of the electric plant.

3.2.12 Ratios

The Ratios tab calculates all functionalization ratios by assigning costs included in the Utility's FERC Form 1 on a pro rata basis using values taken from the gross plant data (Schedule 1) for Production, Transmission, and Distribution/Other functions, and data taken from the salary and wage tab for Labor functions. For COUs, comparable information comes from the detailed salaries and wages data used in the Utilities' financial reports.

3.2.13 New Resources – Individual and Grouped

The 2008 ASCM allows a Utility's ASC to adjust during the Exchange Period to reflect the addition or loss of a major resource, when adding or removing the resource results in a change of the Utility's Base Period ASC of two and one-half percent (2.5%) (the materiality threshold) or more. New resources are defined as any new production or new generating resource investments, new transmission investments, long-term generating contracts, pollution control and environmental compliance investments relating to generating resources, transmission resources or contracts, hydro relicensing costs and fees, and plant rehabilitation investments. *See* 18 C.F.R. § 301.4(c)(3)(i)-(vii). For major resource reductions, the change to ASC will become effective when the resource is sold, retired, or transferred. 18 C.F.R. § 301.4(c)(2)

See Section 2.5 for a discussion of ASC Major Resource Additions or Removals.

To determine the effects of a major resource addition or reduction on a Utility's Exchange Period ASC, BPA performs one of the following calculations: (1) for major resources of all Exchanging Utilities that are expected to be on line, or be removed, prior to the start of the Exchange Period, BPA projects the costs of the resource forward to the midpoint of the Exchange Period; or (2) for major resources of COUs only that are expected to be on line, or be removed, during the Exchange Period, BPA calculates the resource cost as if the resource came on line, or was removed, at the midpoint of the Exchange Period. Under the REP Settlement, IOUs no longer include major resource additions that come on line during the Exchange Period. *See* Section 2.5.

Each resource that satisfies the minimum materiality threshold of one-half percent (0.5%) may be entered individually in the "New Resources – Individual" tab. Resources that do not meet the two and one-half percent (2.5%) materiality requirement independently may be grouped together with other resources within "New Resources – Grouped" tab to meet the two and one-half percent (2.5%) materiality requirement. The grouping and timing of materiality for new resource additions is discussed in Section 3.2.14 of this Report.

3.2.14 Materiality for New Resource Additions – Individual and Grouped

The 2008 ASCM states:

> Major resource additions or reductions that meet the criteria identified in paragraph (c)(3) of this Section will be allowed to change a Utility's ASC within an Exchange Period provided that the major resource addition or reduction results in a 2.5 percent or greater change in a Utility's Base Period ASC. Bonneville will allow a Utility to submit stacks of individual resources that, when combined, meet the 2.5 percent or greater materiality threshold, provided, however, that each resource in the stack must result in a change to the Utility's Base Period ASC of 0.5 percent or more.

18 C.F.R. § 301.4(c)(4).

Under the 2008 ASCM, a Utility may group or stack resources that individually result in a change in a Utility's Base Period ASC by one-half percent (0.5%) or more to meet the two and one-half percent (2.5%) materiality threshold. A stacked group of resources will not be added to the Utility's ASC until the last resource in that stack comes on line. The grouping of resources together, therefore, has a significant impact on the timing of when a Utility's ASC is changed as a result of a new resource addition.

BPA made materiality determinations for all new resources submitted by each Utility in its Draft ASC Report. To make these determinations, BPA used the following instructions:

- The Utility must include the costs and operating characteristics for each new resource addition.

- The Utility must submit the resource additions (individual and/or grouped) that meet the materiality test(s) given the Utility's Base Period costs.

- BPA Staff will review each new resource addition submitted by the Utility to determine the adequacy of costs and operating characteristics.

- For the Draft ASC Report, BPA Staff will calculate the materiality of a Utility's resources using the Utility's adjusted Base Period ASC and forecast natural gas prices used in BPA's Rate Case Initial Proposal. BPA Staff will remove all resources and/or groups of resource additions that do not meet the materiality test(s).

- BPA Staff will not unilaterally regroup resources.
- The Initial Proposal's natural gas price forecast will be the basis for the natural gas fuel costs used to calculate the materiality for new resource additions in both the Draft and Final ASC Reports.
- The Utility will have the option to recommend a "regrouping" of resource additions that meet the materiality test(s).
- Utilities must submit the regrouped resource additions in their comments on the Draft ASC Report.
- Only resources that were reviewed by BPA Staff and participants can be used in the regrouping process.
- BPA Staff will make a final materiality determination of the new resource additions in the Final ASC Report.
- For the Final ASC Report, BPA will calculate the materiality of the Utility's resources using the Utility's final Base Period ASC.

The final grouping of new resources will be determined after considering the filing Utilities' and other parties' comments on the Draft ASC Report based on the foregoing instructions.

The materiality determinations provided in both the Draft or Final ASC Reports are based on the Utility's BPA-Adjusted Base Period ASC in these Reports, respectively, and reflect the natural gas price forecast from the BP-18 Initial Proposal.

3.2.15 New Large Single Loads

This tab calculates the cost of resources in an amount sufficient to serve an NLSL, which BPA must exclude from a Utility's ASC pursuant to Northwest Power Act section 5(c)(7). An NLSL is any load associated with a new facility, an existing facility, or an expansion of an existing facility which was not CF/CT prior to September 1, 1979, and which will result in an increase in power requirements of ten (10) aMW or more in a consecutive 12-month period. 16 U.S.C. § 839a(13)(A)–(B). By law, BPA must exclude from a Utility's ASC the load associated with an NLSL and an amount of resource costs sufficient to serve such NLSL. *See* 16 U.S.C. § 839c(c)(7)(A). To determine the amount of resource costs to exclude from a Utility's ASC, BPA follows the methodology described in Endnote d of the 2008 ASCM. *See* 18 C.F.R. § 301, End. d. Base Period NLSLs will remain constant throughout the duration of the Exchange Period (*see* FY 2012-2013 Final ASC Report, Section 5.2.2).

3.2.16 Tiered Rates

All exchanging COUs have the right to purchase power at BPA's Tier 1 rate by executing Contract High Water Mark ("CHWM") Contracts with BPA. By signing the CHWM Contract, the Utility agrees to limit the resources it will exchange in the REP. Under the CHWM Contract, the COU agrees to exclude from its ASC the cost of resources necessary to serve the COU's Above-RHWM load. The CHWM Contracts require the cost of serving Above-RHWM loads to be calculated using a methodology similar to Endnote d of the 2008 ASCM. See Section 3.3 of this Report for details.

Data input in this tab is used to calculate the cost of Tier 1 Power Purchases from BPA, and comes from BPA's Power Rates group. For background information and details, see http://www.bpa.gov/news/pubs/PastRecordsofDecision/2009/TRM-12S-A-02.pdf .

3.2.17 Above-RHWM Base Calculation

The Above-RHWM Base Calc tab calculates the cost of resources in an amount sufficient to serve a COU's Above-RHWM load. Under the TRM and CHWM Contracts, BPA must exclude from a Utility's ASC any Above-RHWM load and an amount of resource costs sufficient to serve such Above-RHWM load. To determine the amount of resource costs to exclude from a Utility's ASC, BPA follows the methodology described in Exhibit D of the Utility's CHWM Contract.

The associated Above-RHWM Ratios tab calculates the functionalization ratios used to allocate the total amount of materials and supplies cost, general plant and general plant depreciation expense, administrative and general costs, Federal and state employment taxes, and property taxes that are to be included in the total costs of resources used to meet a Utility's Above-RHWM load.

3.3 Rate Period High Water Mark ASC Calculation Under the Tiered Rate Methodology

CHWM Contracts require that the cost of resources used to meet Above-RHWM loads be calculated using a methodology similar to Endnote d of the 2008 ASCM. BPA uses the following method to determine the RHWM ASC of a COU that is participating in the REP.

- $\text{RHWM ASC} = \dfrac{\text{Contract System Cost} - \text{NewRes\$}}{\text{Contract System Load} - \text{NewResMWh}}$
- NewRes$ is the forecast cost of resources used to serve a customer's Above-RHWM Load. The costs included in NewRes$ will be determined using a methodology similar to Appendix 1, Endnote d, of BPA's 2008 ASCM and as described below.
- NewResMWh is the forecast generation from resources used to serve a customer's Above-RHWM Load. For this Final ASC Report, the NewResMWh has been set equal to the customer's Above-RHWM Load.
- For calculating both NewRes$ and NewResMWh, Existing Resources for CHWMs specified in Attachment C, Column D, of the TRM (*see* TRM-12S-A-03,

September 2009, Attachment C) and purchases of power at Tier 1 rates from BPA are excluded.

A number of considerations are used in calculating the cost of serving Above-RHWM Loads using Endnote d of the 2008 ASCM:

- Types of resources to serve Above-RHWM Loads may be different from those resources used in the NLSL resource cost calculation and will be recognized in calculating RHWM ASC:
    - Power purchases less than five years in duration.
- Total output of new resources may exceed Above-RHWM Load:
    - RHWM ASC does not specify removal of costs associated with this excess.

RHWM ASC calculation methodology:

- Set NewResMWh equal to Above-RHWM Load.
- NewRes$ = NewResMWh times Fully Allocated Cost (calculated using Endnote d).
- If output of material new resources fails to meet Above-RHWM Load, meet deficit with short-term ("ST") market purchases at utility-specific market price.
- If output of new resources exceeds Above-RHWM Load, reduce ST market purchases by excess to the extent possible in Contract System Cost calculation.
- Sell any remaining surplus at utility-specific short-term Sales for Resale price in the Contract System Cost calculation.

3.4 ASC Forecast

Once the Base Period ASC is calculated, BPA Staff uses the ASC Forecast Model to escalate forward the Base Period ASC to the midpoint of the Exchange Period and calculate the Exchange Period ASC.

The ASC Forecast Model uses IHS Markit's (an international economic and market forecasting company formally known as IHS Global Insight) forecast of cost increases for capital costs and fuel (except natural gas), operations and maintenance ("O&M"), and general and administrative ("G&A") expenses; BPA's forecast of market prices for purchases to meet load growth and to estimate short-term and non-firm power purchase costs and sales revenues; BPA's forecast of natural gas prices; and BPA's estimates of the rates it will charge for its PF rate and other products. For both the Draft and Final ASC Reports, BPA updates the escalators in the ASC Forecast Model to be consistent with the escalators used in the BP-18 rate proceeding. For additional background on the determination of Exchange Period ASCs, see the 2008 ASCM, 18 C.F.R. § 301.4.

3.4.1 Forecast Contract System Cost

Forecast Contract System Cost includes a Utility's forecast costs for production and transmission resources, including power purchases and conservation measures, which are includable in and subject to the provisions of the 2008 ASCM. BPA escalates Base Period costs to the midpoint of the Exchange Period to calculate Exchange Period ASCs. *See* 18 C.F.R. § 301.4(a).

3.4.2 Forecast of Sales for Resale and Power Purchases

BPA does not normalize short-term purchases and sales for resale. The short-term purchases and sales for resale for the Base Period are used as the starting values for the forecast. Utilities are then allowed to include new plant additions and use utility-specific forecasts for the prices of (1) long-term purchased power contracts, and (2) long-term sales for resale contracts to value purchased power expenses and sales for resale revenue. *See* 18 C.F.R. § 301.4(b).

3.4.3 Forecast Contract System Load and Exchange Load

As part of its ASC Filing, each IOU is required to provide a four-fiscal-year forecast of its total retail load, as measured at the meter. For the COUs only, total retail forecast loads, as determined by BPA under the TRM, will be provided through the end of the Exchange Period. In addition, for the COUs, forecasts of qualifying residential and farm retail loads, as measured at the retail meter, are required. *See* Section 3.2.9.

Each Utility is required to submit a distribution loss calculation as described in the 2008 ASCM, Appendix 1, Endnote e. The total retail and the residential and farm load forecasts are adjusted for distribution losses (and NLSLs when appropriate). The resulting load forecasts are the Contract System Load forecast and Exchange Load forecast, respectively.

3.4.4 Load Growth Not Met by New Resource Additions

All load growth not met by new resource additions is met by purchased power at the forecast utility-specific short-term purchased power price. To calculate the cost of serving load growth not served by new resource additions, BPA uses the method outlined in the 2008 ASCM. *See* 18 C.F.R. § 301.4(e).

4 REVIEW OF THE ASC FILING

Pursuant to the 2008 ASCM, the Rules of Procedure for ASC Review Processes, and section 5(c) of the Northwest Power Act, BPA is responsible for reviewing all costs, revenues, and loads used to establish ASCs for the REP. BPA began the FY 2018–2019 ASC Review Process of Puget's ASC Filing in June 2016. BPA raised four issues related to Puget's ASC Filing in the BPA Issues and Clarification List (*see* BPA Issues List for FY 2018-2019 ASC Filing: Puget, September 13, 2016); no other party raised issues. Puget responded to each issue. In addition to these issues, BPA was notified that Puget filed an updated FERC Form 1 with corrections to certain Accounts following the close of the formal Discovery period. However, BPA did not consider those corrections in this ASC Filing. See Section 4.3 of this Report for details.

This Final ASC Report summarizes BPA's review of Puget's ASC Filing and any comments received during the Draft Report comment period.

BPA's ASC determinations for all Utilities are limited to specific findings on issues identified for comment, with the exception of ministerial or mathematical errors or deviations due to changes in functionalizations. There may be additional issues BPA has not identified for comment in this Final ASC Report. Acceptance of a Utility's treatment of an item without comment does not signify a decision as to the proper interpretation to be applied either in subsequent ASC Filings or universally under the 2008 ASCM. Similarly, further experience under the 2008 ASCM may result in BPA adopting a modified or different interpretation of the 2008 ASCM in future ASC reviews.

On April 12, 2016, prior to the start of the FY 2018–2019 ASC Review Processes, BPA held a conference call with parties interested in the processes to review the schedule, rules of procedure, and past generic issues; explain the latest revisions to the Forecast Model; remind utilities on general accounting and functionalization guidelines for the Appendix 1; and provide time to discuss other REP topics of interest from the workshop participants.

During this meeting, BPA proposed the use of errata as a uniform approach to correcting inadvertent errors and other ministerial, non-substantive changes. Previously, these matters were often addressed in data requests and responses and incorporated into Draft and Final ASC Reports as Resolved Issues. BPA's proposal was met with agreement by the workshop participants as a simple and uniform practice to document these or similar types of corrections.

In addition to the discussions stated herein, BPA provided clarification and requested input to the generic issue that was not resolved in the FY 2016-2017 ASC Review. See Section 5 of this report for additional information. Following review and discussion, the Parties and BPA resolved all questions and were satisfied with the outcome. No further public discussions took place.

Although a Utility's state, county, or municipal regulatory bodies, or the Commission, may allow a particular functionalization to a specific account, BPA is not required to follow that treatment when calculating ASCs under the 2008 ASCM. Rather, BPA is tasked with making an independent determination of the appropriateness of inclusion or exclusion of particular costs, the reasonableness of the costs included in Contract System Costs, the appropriateness of Contract System Loads, and the functionalization method used in the calculation of any cost in conformance with the 2008 ASCM. *See* Rules of Procedure, § 3.2.2.

Table 4-1 summarizes any direct adjustments BPA made to Puget's Appendix 1 in this Final ASC Report as a result of BPA's review and evaluation. Supporting arguments may be found in the Errata, Resolved Issues and/or Unresolved Issues sections listed in Table 4-1.

Table 4-1: Summary of ASC Errata Corrections and Issues

Appendix 1 Schedule	**Adjustment**
Schedule 1 – Plant Investment/Rate Base	Direct adjustment. See Sections 4.2.1.1.
Schedule 1A – Cash Working Capital	No direct adjustments.
Schedule 2 – Capital Structure and Rate of Return	No direct adjustments.
Schedule 3 – Expenses	No direct adjustments.
Schedule 3A – Taxes	Direct adjustment. See Sections 4.2.2.1.
Schedule 3B – Other Included Items	Direct adjustments. See Sections 4.2.3.1– 4.2.3.2.
Schedule 4 – Average System Cost	No direct adjustments.
Appendix 1 Supporting Worksheets	**Adjustment**
Load Forecast	No direct adjustments.
New Resource Additions	No direct adjustments.
Materiality – Individual	Erratum Correction. See Section 4.4
Materiality - Grouped	Erratum Correction. See Section 4.4
NLSL Calculation	No direct adjustments.
Wind Resource	No direct adjustments.
Tiered Rate	No direct adjustments.
Salary and Wages	No direct adjustments.
Ratios	No direct adjustments.
ASC Forecast Model	**Adjustments to Model**
Natural Gas Updates	Nat_Gas_Mkt_Prices_Tab
Market Price Updates	Nat_Gas_Mkt_Prices_Tab

4.1 Errata Corrections Filed by Utility

Puget did not file any errata corrections to its June 1, 2016, ASC Filing.

4.2 Decision on Draft Report Resolved Issues

During the ASC Review Process, BPA raised the issues discussed in this section. Puget responded to these issues in its Issue List response (see Puget Sound Energy Issue List_Response, October 3, 2016). Following the issuance of the Draft ASC Report, Puget submitted a statement to the REP Secure website on April 6, 2017, notifying BPA that "PSE does not have any comments on its FY 2018-2019 Draft Average System Cost report." No other Party raised issues or commented on Puget's ASC Filing. BPA considers the issues identified in this section resolved.

4.2.1 Schedule 1 – Plant Investment/Rate Base

4.2.1.1 Account 254 – Other Regulatory Liabilities

Issue:

Whether Sub Account 25400431 Dfrd Principal on BioGas in Rates and 2540044 Dfrd Interest on BioGas in Rates are properly functionalized to Distribution.

Parties' Positions:

In Account 254 – Other Regulatory Liabilities, Puget recorded Sub Account 25400431, Dfrd Principal on BioGas in Rates, totaling ($554,658), and Sub Account 25400441, Dfrd Interest on BioGas in Rates, totaling ($80,710), as items functionalized to Distribution.

BPA's Position:

Both Sub Account 25400431, Dfrd Principal on BioGas in Rates, and Sub Account 25400441, Dfrd Interest on BioGas in Rates, are production related costs and as such should be functionalized to Production.

Evaluation of Positions:

In the FY 2016-2017 Average System Cost Review, BPA and Puget determined that Sub Accounts 25400431, Dfrd Principal on BioGas in Rates, and Sub Account 25400441, Dfrd Interest on BioGas in Rates, were related to the King County Cedar Hills Landfill and as such were Production related costs. *See* FY 2016-2017 Final Average System Cost Report, Puget Sound Energy, § 4.2.1.3 Account 254 – Other Regulatory Liabilities.

In its response to BPA-PS-FY18-01, Puget confirmed that Sub Account 25400431, Dfrd Principal on BioGas in Rates, and Sub Account 25400441, Dfrd Interest on BioGas in Rates, had

inadvertently been functionalized to Distribution. Furthermore, Puget agreed with BPA that said sub accounts should be correctly functionalized to Production.
End note j of the 2008 ASCM states:

> All revenues associated with the production and transmission function of a Utility will be functionalized to production or transmission respectively.
>
> 18 C.F.R. § 301 End. j.

In response to BPA's Issue List, Puget agreed with BPA's proposal to functionalize Sub Account 25400431, Dfrd Principal on BioGas in Rates, and Sub Account 25400441, Dfrd Interest on BioGas in Rates, to Production. *See* Puget Sound Energy FY 2018-2019 Issues List Response, No.1.

Decision:

BPA will functionalize Sub Accounts 25400431, Dfrd Principal on BioGas in Rates, and 25400441, Dfrd Interest on Biogas in Rates, line items under Account 254 – Other Regulatory Liabilities, to Production.

Table 4.2.1.1-1: Account 254 – Other Regulatory Liabilities

	Total	Production	Transmission	Dist/Other
As Filed	$126,886,539	$2,796,764	0	$124,089,775
Adjusted	$126,886,539	$3,270,712	0	$123,615,826

4.2.2 Schedule 3A – Taxes

4.2.2.1 Account 408.1 – Employment Tax

Issue:

Whether Puget Sound Energy had properly recorded Employment Tax.

Parties' Positions:

In Account 408.1 – Employment Tax, Puget recorded no value and the as-filed Appendix 1 states $0.00 for Employment Tax paid in the base-year.

BPA's Position:

A value should be recorded each year for Employment Tax paid by a utility.

Evaluation of Positions:

BPA recognized that the absence of a value for Employment Tax paid during the base year was most likely an inadvertent error by Puget. Although no value for Employment Tax was recorded in the Puget Sound Q4 FERC Form No.1, BPA believed that there must be an associated value to be recorded into Account 408.1.

In its response to BPA-PS-FY18-02, Puget confirmed that the recording of a $0.00 balance in Account 408.1, Employment Tax, was in error. Puget informed BPA that $9,247,159 had been paid by the utility in Employment Tax during the base year.

In response to BPA's Issue List, Puget agreed with BPA's proposal to record a value of $9,247,159 to Account 408.1, Employment Tax, and to functionalize said amount utilizing the Labor ratio. *See* Puget Sound Energy FY 2018-2019 Issues List Response No.2.

Decision:

BPA will record a value of $9,247,159 to Account 408.1, Employment Tax, and functionalize said amount utilizing the Labor ratio.

Table 4.2.2.1-1: Account 408.1 – Employment Tax

	Total	Production	Transmission	Dist/Other
As Filed	$0	$0	$0	$0
Adjusted	$9,247,159	$3,368,917	$1,182,978	$4,695,264

4.2.3 Schedule 3B – Other Included Items

4.2.3.1 Account 421 – Miscellaneous Non-Operating Income

Issue:

Whether Sub Account 42130001 – WUTC ADUFC Miscellaneous Non-Operating Inc-Elec is properly functionalized to PTD.

Parties' Positions:

In Account 421 – Miscellaneous Non-Operating Income, Puget recorded Sub Account 42130001, WUTC AFUDC – Misc Non-Op Inc-Electric, totaling $926,002, to PTD.

BPA's Position:

By nature of the account and relative to the functionalization treatment of associated accounts, Sub Account 42130001, WUTC AFUDC – Misc Non-Op Inc-Electric should be removed from Average System Cost calculation through the functionalization to Distribution.

Evaluation of Positions:

In Puget's ASC Filing, Sub Account 42130001, WUTC AFUDC – Misc Non-Op Inc-Electric, totaling $926,002 was functionalized utilizing the PTD ratio. In the course of the FY 2018-2019 ASC Review, BPA Staff requested clarification as to the nature of the aforementioned sub account, and subsequent functionalization treatment of PTD.

In its response to Data Request BPA-PS-FY18-06, Puget informed BPA that Sub Account 42130001 – WUTC AFUDC – Misc Non-Op Inc-Elec accounts for the difference between the AFUDC calculated using the FERC approved formula and the value using the rate authorized by the Washington Utilities and Transportation Commission. It was determined by Puget that both debt and equity portions of FERC approved AFUDC are booked into Account 419 and thus not included in the Average System Cost calculation. Furthermore, Sub Account 18230021 which is used to carry the deferred difference between the AFUDC calculated by the FERC approved formula and the WUTC authorized rate is currently functionalized to Distribution.

To further clarify its response, Puget provided the following:

> Puget Sound Energy ("PSE") uses Account 42130001 to account for the difference between the Allowance for Funds Used During Construction ("AFUDC") calculated using the FERC-approved formula and using the rate authorized by the Washington Utilities and Transportation Commission ("WUTC"). The functionalization of "PTD" originally seemed appropriate since the underlying projects for the AFUDC cannot be determined individually. However upon further review, PSE found that the FERC-approved AFUDC, for both debt portion and equity portion, is booked in Account 419 and is not included in the ASC calculation. Also, Account 18230021 which is used to carry the deferred difference between the AFUDC calculated by FERC-approved formula and the AFUDC calculated using WUTC-authorized rate is currently functionalized as "distribution". For these reasons, PSE believes it may be appropriate to change the functionalization of Account 42130001 from "PTD" to "Distribution".

BPA Staff believes Puget's response adequately addresses this issue.

In response to BPA's Issue List, Puget agreed with BPA's proposal to functionalize Sub Account 42130001 – WUTC AFUDC – Misc Non-Op Inc-Elecs to Distribution. *See* Puget Sound Energy FY 2018-2019 Issues List Response, No.4.

Decision:

BPA will functionalize Sub Account 42130001, WUTC AFUDC – Misc Non-Op Inc-Electric, a line item under Account 421 – Miscellaneous Non-Operating Income, to Distribution.

Table 4.2.3.1-1: Account 421 – Miscellaneous Non-Operating Income

	Total	Production	Transmission	Dist/Other
As Filed	$923,202	$411,570	$143,143	$368,489
Adjusted	$923,202	($4,173)	$276	$927,009

4.2.3.2 Account 456 – Other Electric Revenues

Issue:

Whether Sub Account 45600079 – Biogas Principal Amortization UE-131276 is properly functionalized to Distribution.

Parties' Positions:

In Account 456 – Other Electric Revenues, Puget recorded Sub Account 45600079, Dfrd Principal on BioGas in Rates, totaling $393,711, to Distribution.

BPA's Position:

Sub Account 45600079, Dfrd Principal on BioGas in Rates, is a production related cost and as such should be functionalized to Production.

Evaluation of Positions:

BPA recognized that Sub Account 45600079, Dfrd Principal on BioGas in Rates, correlates to sub accounts addressed in 4.2.1.1 (Sub Account 25400431, Dfrd Principal on BioGas in Rates, and Sub Account 25400441, Dfrd Interest on BioGas in Rates) and represents a value associated with the King County Cedar Hills Landfill.

In its response to Data Request BPA-PS-FY18-04, Puget confirmed that Sub Account 45600079, Dfrd Principal on BioGas in Rates represented a value associated with the King County Cedar Hills Landfill, and had been incorrectly functionalized to Distribution.

End note j of the 2008 ASCM states:

> All revenues associated with the production and transmission function of a Utility will be functionalized to production or transmission respectively.

18 C.F.R. § 301 End. j.

In response to BPA's Issue List, Puget agreed with BPA's proposal to functionalize Sub Account 45600079, Dfrd Principal on BioGas in Rates to Production. *See* Puget Sound Energy FY 2018-2019 Issues List Response, No.3.

Decision:

BPA will functionalize Sub Account 45600079, Dfrd Principal on BioGas in Rates, a line item under Account 456 – Other Electric Revenues, to Production.

Table 4.2.3.2-1: Account 456 – Other Electric Revenues

	Total	Production	Transmission	Dist/Other
As Filed	($15,442,913)	($14,641,527)	$10,149	($811,535)
Adjusted	($15,442,913)	($14,247,816)	$10,149	($1,205,246)

4.3 Decision on Draft Report Unresolved Issues

BPA discovered one unresolved issue with Puget (*see* Section 4.3.1) just prior to the publication of the Draft ASC Report. No other Party had the opportunity to review or comment. Therefore, notice for the opportunity to comment was provided in all Draft ASC Reports.

4.3.1 Revisions to Puget Sound Energy FERC Form No.1

In late October, 2016, BPA learned that Puget filed an updated FERC Form 1 which included changes to its Transmission Plant, Distribution Plant, Accumulated Depreciation Reserve (Schedule 1), and Depreciation Expense (Schedule 3). Based on BPA's review, Puget's update of the new Base Year data would increase its FY 2018-2019 ASC.

BPA has not previously experienced the situation where a Utility files an amended FERC Form 1, after the close of the Discovery period, with changes that could affect its ASC, and potentially impact the Exchange Period benefits for all Utilities. For this ASC Review Process, BPA did not revise Puget's ASC with these updates because these adjustments were made after the close of the formal time for reviewing Puget's Appendix 1 data. Allowing adjustments would not afford any party (including BPA) an opportunity to fully evaluate or review the data.

BPA sought Parties input on this issue and requested that the Parties direct any comments specifically to Puget's Draft ASC Report. No Party submitted comment, including Puget.

Prior to the next formal ASC Review Processes (June 2018), BPA Staff will propose a protocol to address this issue for future ASC Filings.

For this ASC Filing, BPA will not change its Draft Report proposal and will not revise Puget's ASC to reflect the updates in the FERC Form 1.

4.4 ASC Appendix 1 Errata Corrections Filed by BPA

BPA discovered an error in the formula for calculating materiality, both individual and grouped. This error does not affect Puget's Exchange Period ASC. BPA will correct the error for the next ASC Filing. For specific details on the errata, please see Snohomish's or Avista's FY 2018-2019 Final ASC Report.

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5 GENERIC ISSUES

5.1 Rate of Return and Capital Structure

During the FY 2016-2017 ASC Review Process, Portland General raised a question on Endnote b regarding the timing of the Rate of Return (ROR), specifically on the meaning of "most recently approved Regulatory Body Rate Order." BPA included Portland General's argument in its FY 2016-2017 Draft ASC Report as an unresolved issue. Portland General and the Oregon Public Utility Commission provided the only comments. BPA provided a decision for Portland General's Final FY 2016-2017 ASC Report, but removed the generic issue from all ASC Reports with the understanding the question would be addressed prior to the FY 2018-2019 ASC process. *See* Portland General's FY 2016-2017 Final ASC Report, Section 4.3.1, and Section 5, Generic Issues.

In the FY 2016-2017 review process, BPA acknowledged that the interpretation of Endnote b would benefit from additional clarification. Accordingly, BPA met with Portland General in January 2016 to further understand its concern. Following the Portland General meeting, BPA met with the Utilities, including Portland General, on April 12, 2016, to clarify BPA's interpretation of Endnote b. There were no objections to BPA's current policy on the timing of rate orders, and BPA considers this issue resolved.

To calculate its weighted cost of capital, BPA will use the ROR data from the rate order that was in effect as of BPA's official deadline for submittal of ASC Filings. The ASC Filing deadline date clarifies the timing issue.

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6 FY 2018–2019 ASC

Puget's As-Filed Base Period (CY 2015) ASC was $74.66/MWh. As a result of adjustments made during the ASC Review Process, Puget's Base Period ASC increased to $74.88/MWh.

Puget's As-Filed Exchange Period ASC for FY 2018–2019 was $72.62/MWh. As a result of adjustments made during the ASC Review Process, Puget's Exchange Period ASC decreased to $71.13/MWh (*see* Section 2.4). Puget does not have any major resources coming on line or being removed prior to the FY 2018-2019 Exchange Period.

This Exchange Period ASC does not reflect any changes in NLSL status. See Section 2.7 for potential adjustments to Exchange Period ASCs.

7 REVIEW SUMMARY

This Final ASC Report is BPA's determination of Puget's FY 2018 and FY 2019 ASC based on the information and data provided by Puget, including comments, if any, received in response to the Draft ASC Report, and based on the professional review, evaluation, and judgment of BPA's REP Staff.

BPA has resolved the issues set forth in Section 4 of this Report in accordance with the 2008 ASCM and with generally accepted accounting principles. The information and analysis contained herein properly establish Puget's ASC for FY 2018–2019.

8 APPROVAL ON BEHALF OF THE BONNEVILLE POWER ADMINISTRATION

I have examined Puget's ASC Filing, as amended, and the administrative record of the ASC Review Process. Based on this review and the foregoing analysis of the issues, I certify that the calculated ASC conforms to the 2008 ASCM and generally accepted accounting principles, and fairly represents Puget's ASC.

Issued in Portland, Oregon, this 26th day of July, 2017.

BONNEVILLE POWER ADMINISTRATION

By: */s/ Garry R. Thompson*
Vice-President for Northwest Requirements Marketing

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