



November 6, 2013

RE: Outcome of 2013 Formula Rate Annual Update

Dear Transmission Customers:

As Puget Sound Energy, Inc.'s (PSE) first formula rate Annual Update Customer Discovery Period draws to a close, we want to take this opportunity to thank those customers that have participated. We are pleased to announce that over the course of the 150-day Discovery Period, we have discovered only one substantive change that needs to be made to PSE's calculation of the True-Up Adjustment for the 2012 calendar year.¹

PSE's determination of the 2012 Actual Annual Transmission Revenue Requirement (ATRR), which was posted on OASIS as part of the 2013 Annual Update, included an input of \$564,092 on Attachment 2, Line 8 for State Utility Tax. This State Utility Tax, which is included as an expense in PSE's overall Formula Rate ATRR, is also recovered from transmission customers under Schedule 11 of the PSE Open Access Transmission Tariff (OATT). To avoid double recovery, this input on Attachment 2, Line 8 of the Formula Rate should have been set to zero in PSE's calendar year 2012 Actual ATRR calculation.² If PSE had set the State Utility Tax to zero, the pro-rated, four month (Sept. – Dec.) 2012 Actual ATRR for the Washington Area Transmission System would have decreased by \$167,678, from \$26,965,209, to \$26,797,531. As a result, the True-Up Adjustment included as a refund against the 2013-2014 Rate Year Projected ATRR would have increased by \$176,003, from \$634,120 to \$810,123. This revised True-Up Adjustment includes FERC interest compounded from September 1, 2012 through May 31, 2013, as provided in Attachment 6, Step 8 of the Formula Rate.

¹ Recall that the True-Up Adjustment is calculated as part of each Annual Update by comparing the prior calendar year's Actual Annual Transmission Revenue Requirement to the transmission revenues collected by PSE during that same calendar year, and refunding or surcharging any difference using interest rates prescribed by the Federal Energy Regulatory Commission (FERC).

² PSE will set the input for State Utility Tax on Line 8 of Attachment 2 to \$0 in all subsequent Annual Update calculations of the Projected ATRR and Actual ATRR for so long as state excise taxes are collected under Schedule 11 of the OATT. As a measure of materiality, removal of the State Utility Tax from the 2013-2014 rate year Projected ATRR would, in the absence of other adjustments, decrease the Washington Area network and point-to-point transmission rate \$0.01, from \$1.46 to \$1.45/kW-month.

As required by Section 4 of the Formula Rate Implementation Protocols, this change to the State Utility Tax, and the resulting \$176,003 increase in the 2012 calendar year True-Up Adjustment, will be carried forward with additional FERC interest, and combined with the calendar year 2013 True-Up Adjustment that will be determined under Attachment 6 of the Formula Rate during the June 2014 Annual Update. This combined True-Up Adjustment will be refunded to customers throughout the 2014-2015 Rate Year, from June 1, 2014 to May 31, 2015, as an adjustment to the Projected ATRR for the 2014-2015 Rate Year.

PSE has also worked with participants in the Annual Update Review Period to develop a set of "Frequently Asked Questions" for PSE's Formula Rate. These FAQs (see Enclosure) are intended to provide generic guidance to help customer's understand the mechanics of PSE's Formula Rate in future customer reviews, and are attached to this letter for your convenience.

Please don't hesitate to contact Lynn Dillender (lynn.dillender@pse.com) or Nate Hill (nathan.hill@pse.com) should you have any questions about the outcome of this year's formula rate Annual Update customer review, or the attached FAQs.

Sincerely,

Puget Sound Energy, Inc.

By: 
George Marshall

Its: Manager Federal and Regional Policy

Enclosure