PSE Decoupling Mechanisms

A Brief Overview

PSE PUGET SOUND ENERGY

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Basic Description of Decoupling Mechanisms

- Parallel electric and gas decoupling mechanisms
- Applied to the cost of energy delivery, not the energy supply
- Allowed revenue tied to the number of customers served
- Allowed revenue per customer grows annually (3% for electric and 2.2% for gas)
- Allowed revenue compared to actual volumetric revenue
- Differences trued-up in annual rate adjustment
- Any of the following can contribute to these differences:
  - Energy conservation
  - Weather variation
  - Changes driven by the economy

Customers Covered by Decoupling Mechanisms

- Electric mechanism all but certain lighting customers and a small group of very large industrial customers
- Gas mechanism includes all customers charged on a volumetric basis
- Notable for the gas mechanism is the inclusion of gas transportation customers that are not eligible to participate in PSE’s conservation programs
- Two rate groups within each mechanism: residential and non-residential

Customer Benefits

- Eliminate throughput incentive on delivery system costs
- Commitment by PSE to achieve more conservation
  - 5% more conservation than required by state law
  - Voluntarily submit to statutory financial penalties for failure to achieve higher conservation levels
- 20% increase in low-income weatherization funding
- 5% increase in low-income bill assistance
- No general rate cases for 2-3 years

Customer Protections

- Mechanisms approved as a pilot, and may be amended based on “lessons learned” or discontinued
- 3rd party evaluation of mechanism in PSE’s next rate case
- PSE shares 50% of any earnings above levels allowed by regulators with customers
- 3% cap on annual rate adjustments