March 23, 2009

VIA E-MAIL ONLY
David Danner
Executive Director
Washington Utilities and Transportation Commission
1300 S. Evergreen Pk. Dr. S.W.
PO Box 47250
Olympia, WA 98504-7250

Re: ***Puget Sound Energy Advice Nos. 2009-07 and 2009-08***
Docket Nos. UE-090314 and UG-090315

Dear Mr. Danner:

Public Counsel submits these comments in advance of the Commission's March 26, 2009 Open Meeting. Puget Sound Energy (PSE) has filed tariff changes that would update its Schedules 120 and 121 tariff rider for electric and Schedule 120 for natural gas. These tariffs are associated with PSE's energy efficiency programs.

As a member of the Conservation Resources Advisory Group (CRAG) and the residential and small business ratepayer advocate, Public Counsel carefully tracks these programs, which put millions of ratepayer dollars at stake, not only through the energy efficiency programs themselves, but also through the pilot Electric Conservation Incentive Mechanism. The monetary amounts associated with these programs are not insignificant, and we want to assure the best use of every dollar of ratepayer money.

While Public Counsel does not object to this filing, we do have a concern with PSE's 2008 over-collection of tariff rider funds, and we would also like to call the Commission's attention to the upcoming evaluation of PSE's pilot Electric Conservation Incentive Mechanism.

2008 Over-collection

This filing reports that the Company's electric conservation target is increasing, its proposed budget is increasing, and that PSE earned an even larger incentive payment due to its electric conservation achievement in 2008. Yet the tariff filing calls for a $7.2 million dollar *reduction* of electric conservation tariff rider revenues. Public Counsel learned, after receiving PSE's workpapers for this filing, and through further inquiry with the Company, that roughly $17 million dollars in electric energy efficiency tariff rider revenues is estimated to have been over-collected from ratepayers due to three factors. The most significant factor is a calculation error from PSE's electric tariff rider filing last year, which resulted in approximately $11 million in over-collections. The second factor contributing to the over-collection is due to PSE's actual electric expenses being approximately $4 million lower than originally estimated. A final factor explaining about $1.4 million of over-collection, is due to differences between actual customer usage over the past year compared with PSE's load forecast.

While this $17 million over-collection will be trued up in the current 2009 filing, Public Counsel is most concerned that the Company did not mention the significant calculation error—representing about 20 percent of PSE's 2008 electric energy efficiency program budget for 2008—in its cover letter to the Commission describing this filing. PSE also has not informed the CRAG of this error, although we understand the Company intends to provide such an explanation to the CRAG. We respectfully request that in the future, PSE keep the CRAG informed of such issues as the Company is preparing its March 1st filing each year.

Target Setting and the Evaluation of the Pilot Electric Conservation Incentive Mechanism

Public Counsel recognizes that PSE is a leader in the region in terms of energy efficiency programs, and we congratulate the Company for its successful ventures. Yet, while we believe the Company has done good work, we also believe that this type of achievement is to be expected, in light of PSE's pilot Electric Conservation Incentive Mechanism. This Mechanism rewards PSE for meeting and exceeding electric savings targets. In addition, PSE's avoided cost has nearly doubled since the Incentive Mechanism took effect in 2007, from $59 per MWh to $108 per MWh. Because this significant increase means that more demand-side measures become cost effective, we would expect to see significant increases in savings achieved.

Public Counsel believes PSE's proposed annual target for 2009 of 31.7 aMW, as set forth in Schedule 121 (Electric Conservation Incentive Mechanism), is reasonable. We believe that at a minimum, the target should be increased above last year's level of achievement of 31.2 aMW, particularly considering that the budget for energy efficiency programs is increasing. This mechanism is designed to be an *incentive*. While this target is above what the Company achieved in 2008, it is slightly less than what the Company estimates it will achieve, 32.1 aMW, under its 2009 proposed budget of $64.4 million [1]

In general, the target setting process for the Incentive Mechanism is an imprecise science. The Commission's Order approving the Incentive Mechanism calls for the target to be "reasonably achievable."[2] In the first two years of the incentive, PSE has significantly exceeded its target and earned large incentive payments from customers. The amount of the incentive payment was $3.4 million in 2007, which represents 9 percent of PSE's 2007 actual electric energy efficiency expenditures of $36.3 million. The incentive payment for 2008 is $4.3 million, or 8 percent of total electric energy efficiency expenditures of $53 million in 2008.

Target setting is only one of numerous aspects to be considered in an upcoming evaluation of the Incentive Mechanism. For example, another aspect of the Incentive Mechanism that we anticipate will be examined is the shared incentive portion of the Mechanism. This component of the incentive payment calculation is determined by the difference between PSE's avoided costs and the total resource cost (TRC) of the electric portfolio. Because PSE's avoided cost has nearly doubled since the incentive was put into place, the Company has received an even larger incentive payment than the original mechanism predicted.

The Incentive Mechanism is a pilot program scheduled to expire at the end of 2009. The Commission observed in its Order approving the pilot Incentive Mechanism that the three-year period "will permit whatever transition to the requirements of I-937 will be necessary in 2010."[3]

[1] These figures exclude savings and costs for fuel conversion, demand response pilots, and small scale renewable programs. The total costs for all electric programs for 2009 is estimated to be $69.7 million.
[2] Order 08, Docket Nos. UE-060266 & UG-060267, at ¶ 154 (Order 08).
[3] Order 08, at ¶ 156.

The Commission also expressed their expectation that the Mechanism would be "professionally evaluated in a cost effective manner determined by Staff and PSE, with advice from the CRAG."[4]

Public Counsel believes that it will be important that a thorough independent evaluation of the incentive should be conducted and reviewed by the Commission if the program is continued beyond the trial period. At a recent CRAG meeting, CRAG members expressed their view that the evaluation should be performed by an independent third party evaluator. Public Counsel believes that PSE is developing an RFP for that evaluation, and we anticipate that the Company will share a draft with the CRAG. We look forward to working with PSE, Commission Staff and all CRAG members on the evaluation.

I plan to attend the Commission's March 26, 2009 Open Meeting to make a presentation and address any questions regarding this filing.

Sincerely,

Stefanie Johnson
Regulatory Analyst
Public Counsel
(206) 389-3040

cc: Mike Parvinen, UTC Staff (E-mail)
Deborah Reynolds, UTC Staff (E-mail)
Cal Shirley, PSE (E-mail)
Eric Englert, PSE (E-mail)
Lynn Logen, PSE (E-mail)

[4] Order 08, at ¶ 158.