

Agenda Date: April 24, 2014
Item Number: A5

Docket: UG-140331
Company: Puget Sound Energy

Staff: Jeremy Twitchell, Regulatory Analyst
Juliana Williams, Regulatory Analyst

Recommendation

Take no action, thereby allowing the tariff filing made by Puget Sound Energy in Docket UG-140331 to become effective on May 1, 2014, by operation of law.

Background

On February 28, 2014, Puget Sound Energy (PSE or company) filed this tariff to recover the planned budget for its natural gas conservation programs in 2014. PSE's 2014-2015 Biennial Conservation Plan, which the commission approved at the December 18, 2013, Open Meeting, has a savings target of 6.94 million therms.

The proposed tariff change would increase the monthly bill of the average residential natural gas customer using 68 therms by 2 cents, from \$77.82 to \$77.84.

Staff Review

Through its participation in PSE's Conservation Resource Advisory Group (CRAG), staff conducts an ongoing review of the company's conservation programs. These meetings give staff an opportunity to review program proposals and budget variances before they are filed, discuss issues with other stakeholders and pose questions to company representatives.

After PSE filed this tariff, staff walked through the supporting work papers with company representatives and conducted an in-person audit of program expenditures at PSE's offices.

Review of variance. PSE collected approximately \$712,000 more for natural gas conservation programs than it spent in 2013, leaving a balance to be rolled forward that offset about half of the projected increase in program costs for 2014. In 2013, the natural gas conservation portfolio finished about 10 percent below its projected budget, but exceeded its savings target by more than 40 percent, driven by a number of large commercial projects that were funded in previous years but not completed (and therefore claimed no savings) until 2013. Overall, the natural gas conservation programs had a Total Resource Cost test ratio of 1.64.

Program evaluation. To measure the performance of its conservation programs, PSE has developed a metric called the Direct Benefit to Customers (DBtC), which measures the portion of program expenditures that provide a measurable benefit to customers. In addition to incentives paid to customers, this metric also includes benefits such as appliance removal and recycling and

regional market transformation funding that lowers the price of energy-efficient equipment for customers over time. Though somewhat subjective, the DBtC has been consistently applied over the years and has become a meaningful metric for evaluating the customer impacts of PSE's conservation programs over time.

As the table below shows, the DBtC for PSE's natural gas conservation programs declined in 2013 after an overall increase in 2012:

PSE Direct Benefit to Customers (DBtC)	2013	2012	2011
Residential – Gas	73%	80%	62%
Business – Gas	74%	82%	85%
Total – Gas	68%	74%	70%

PSE said the decline in DBtC is generally because as its programs mature, company staff must turn an increasing amount of attention to evaluation, measurement and verification activities, which increases overhead costs. For the natural gas programs, low natural gas prices have reduced the cost effectiveness of PSE's portfolio, which led the company to suspend some measures and reduce the incentive on others. And while the amount paid out in incentives decreased, the company had to carry the same overhead to implement the programs, which led to a smaller share of program budgets generating a direct benefit to customers.

Staff understands these external factors, but hopes that as natural gas prices recover and the conservation portfolio becomes more cost effective, the company will be proactive in expanding its offerings and attracting more customers to benefit from the programs.

Incentive rebate audit. On April 11, 2014, staff performed an on-site audit of PSE's electric and gas conservation programs. The audit focused on operating expenses and incentive rebates for a select group of programs and months, to confirm that expenditures were paid as stated. The priority of this audit was to ensure the integrity of the financial data presented by PSE, and secondarily to review the efficiency of program expenditures. PSE was able to provide most of the requested details during the audit, and followed up with staff on the remaining items.

Review of internal controls. In its audit, staff reviewed selected files and invoices for ten natural gas incentive programs and associated overhead accounts. Staff found no inconsistencies between the financial data reported by PSE and the files reviewed, and the files reviewed appeared to have been subjected to sufficient internal controls and adequately documented.

Discussion

PSE spent approximately \$11.9 million on its natural gas conservation portfolio in 2013, which was about 10 percent less than the \$13.2 million that was budgeted and a decrease of about 13 percent from the \$13.7 million that the company spent in 2012. PSE's 2014 budget, which has

been reviewed by the CRAG and was accepted by the commission at the December 18, 2013, open meeting, is about \$12.5 million.

The total revenue requirement for 2014 is \$11,764,991, which consists of the \$12,477,390 budget minus the 2013 over-collection of \$712,400. This filing changes the natural gas rider charges as shown in the following table:

	Schedule	Current Rate per Therm	Proposed Rate per Therm
Firm Sales ¹	Schedules 16, 23, 31, 41 and 53	\$0.01231	\$0.01268
Interruptible Sales ²	Schedules 85, 86, 87	\$0.01115	\$0.01137

Customer Comments

On April 1, 2014, the company notified its customers of the proposed rate increase via paid advertisements in daily newspapers distributed in its service territory. The company sent copies of the notice to community agencies and to the news editors of local newspapers, television and radio stations. The company also posted the notice on its website. The commission received one customer comment opposing the increases in this filing and the accompanying electric conservation programs rider in docket UE-140330. Consumer Protection staff advised consumers that they may access company documents about this rate case at www.utc.wa.gov, and that they may contact commission staff for more information.

The customer expressed frustration with frequent rate cases and said profit has become more important than people. Consumer Protection advised the customer that state law requires rates to be fair and reasonable and sufficient to allow the company the opportunity to recover reasonable operating expenses and earn a reasonable return on investment. Staff furthered advised the customer that the commission cannot deny rates that are needed to cover company costs, and provided information about the conservation requirements of the Energy Independence Act.

Conclusion

Take no action, thereby allowing the tariff filing made by Puget Sound Energy in Docket UG-140331 to become effective on May 1, 2014, by operation of law.

¹ Commercial Service rate shown in table equals an average of schedules.

² Primary Service rate shown in table equals an average of schedules.