

Agenda Date: October 24, 2019

Item Number: F17

Docket: UG-190784

Company: Puget Sound Energy

Staff: Elizabeth O'Connell, Regulatory Analyst
Andrew Roberts, Regulatory Analyst

Recommendation

Take no action, thereby allowing the proposed revisions to tariff Schedule 74 filed by Puget Sound Energy in Docket UG-190784, to become effective November 1, 2019, by operation of law.

Background

On September 18, 2019, Puget Sound Energy (PSE or company) filed with the Washington Utilities and Transportation Commission (commission) its proposal to discontinue the company's Gas Conversion Burner Rental Service, effective March 31, 2020.

Schedule 74 was approved in 1961, allowing customers to rent gas conversion burners owned and maintained by PSE. This is a closed schedule meaning that the availability is limited to those existing installations as of October 9, 1993. As of October 1, 2019, there are 2,516 customers on Schedule 74.¹ There are 33 units of conversion burners that remain on the company's books, though the exact vintages of these units are presently unknown. Once PSE discontinues the service it will transfer the ownership of the units to the customers.

Discussion

Commission staff (staff) has raised concerns about this rental service in the past, and is supportive of PSE's proposal to terminate. Staff's primary concern was that PSE continued to collect revenues on assets that were fully depreciated; depreciated assets have no depreciation expense and provide no base upon which to provide a return, calling into question the rates charged for the service. The net book value of the conversion burners currently in service is \$49,474; the book value is \$0 for 98 percent of the units.

Although staff would like to see the rental service end as soon as possible, PSE's proposal to terminate the service effective March 21, 2020, is reasonable, as it provides the service through the heating season while customers evaluate their options. Additionally, upon termination of the service PSE will transfer ownership of the burners

¹ 2,398 residential and 118 commercial customers.

to the customers currently taking this service. PSE is not required to obtain commission authorization for a property transfer of this size.²

There is also a negative reserve of approximately \$688,000 associated with the amortization of unrecovered depreciation for these burners. PSE will defer any negative reserve and book value remaining balances as of March 31, 2020, for consideration with the sale of the company's water heater leasing business.

Customer Comments

On October 1, the company notified its customers via mail of the proposed changes to its natural gas conversion burner service. Customers were advised that they may access relevant documents about tariff revisions on the commission's website, and that they may contact Andrew Roberts at (888) 333-9882 or andrew.roberts@utc.wa.gov with questions or concerns. Staff received 16 consumer comments, 15 opposed to the proposed termination of the conversion burner leasing program and one undecided.

Eleven commenters expressed concern that termination of the leasing program could pose a financial hardship when the aged equipment eventually fails. Multiple customers expressed disappointment that after countless payments to PSE, they will now have to deal with equipment repair or replacement on their own. The undecided commenter proposed PSE offer some form of assistance in purchasing newer heating systems. One commenter found that few heating companies were able or willing to service natural gas conversion burner units.

Staff informed customers that PSE will transfer ownership of the gas conversion burner to the customer at no cost. Thus, customers will retain their current burners, and will need to upgrade their heating system after March of 2020 only if the unit fails. Additionally, given that the rental service will be offered through the upcoming heating season, customers interested in upgrading their system before the next heating season have a full year to consider their options.

Recommendation

After reviewing the company's filing, staff finds appropriate PSE's proposal to discontinue the conversion burner rental service. Therefore, staff recommends that the commission take no action, allowing the proposed tariff sheet filed by Puget Sound Energy in Docket UG-190784, to become effective November 1, 2019, by operation of law.

² WAC 480-143-180 does not require an authorization to transfer property if the equipment value is less than 0.1 percent of PSE's natural gas rate base, in this case \$1.77 million. PSE's rate base for its natural gas business is approximately \$1.77 billion.