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PUGET SOUND ENERGY

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via electronic mail

Ms. Carole Washburn, Executive Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Subject: Docket No. UG-050369 Rulemaking to Review Natural Gas Decoupling
Comments of Puget Sound Energy, Inc.

Dear Ms. Washburn:

Puget Sound Energy, Inc. (PSE) appreciates the Commission's initiative to sponsor a dialogue on this issue. From the recent workshop, it is apparent that all four natural gas companies serving customers in Washington are experiencing declining usage coupled with rate designs that are heavily weighted towards recovering a significant portion of fixed costs through variable charges. As usage declines, it becomes increasingly difficult to recover the fixed costs associated with serving customers. In response to the Commission's Notice of Opportunity to File Written Comments in Docket UG-50369, PSE offers the following.

Comments in regard to the Decoupling Model presented by Cascade Natural Gas:

PSE supports Cascade being allowed to proceed with a decoupling model that is designed to fit with their billing system and customer base, and does not oppose any specific elements of Cascade's plan as it relates to Cascade.

PSE believes that it is important to recognize flexibility in methodologies. Each utility should be free to propose different forms of decoupling based on the individual utility's customer base and supporting information systems' capabilities. Specific concerns regarding the applicability of Cascade's model to PSE are:

- Implementation costs would be prohibitive for PSE. PSE does not currently use three years of data in any billing context. As a result, implementation of the Cascade mechanism might require extensive billing system changes and would be prohibitively expensive.

- The mechanism may not work well for a utility that experiences high turnover or customer growth, as historical information would not be available for many customers.

Specific Changes to Cascade's Methodology that would make it work better for PSE:

A modified approach to the Cascade Methodology that would be more appropriate for PSE would be to design a decoupling mechanism that would be based on usage per meter from the last general rate case (GRC) instead of the lowest individual customer usage for the last three years.

Northwest Natural Gas's Mechanism:

PSE has several concerns regarding Northwest Natural's mechanisms, which have separate adjustments for weather and decoupling. PSE would prefer one mechanism that addresses both weather and volumetric shifts. PSE believes that a single mechanism would be easier to administer and easier for customers to understand.

PSE does not believe that the elasticity adjustment in the Northwest Natural Gas's decoupling mechanism is appropriate. Price response is difficult to isolate and quantify. The results of such an adjustment could have unforeseen consequences due to the level of error inherent in an elasticity adjustment.

Northwest Natural is only allowed a 90% recovery rate. PSE believes 100% recovery would be more appropriate, as the underlying embedded costs have been reviewed and approved for recovery. To allow only partial recovery of embedded costs would be to impose yet another form of regulatory lag and would defeat one of the primary purposes of decoupling.

Alternative Decoupling Models:

A primary cause of lost revenues due to conservation is a rate design where fixed costs for providing service are recovered in a variable rate. Absent a rate design that would allow for greater recovery of fixed costs through fixed charges, PSE would prefer a decoupling mechanism expressed on a cents per therm basis. A high level description of a mechanism that would work for PSE is as follows:

Calculate the difference between actual per meter usage and per meter usage from the last GRC for each month for each customer group. Note: GRC usage would be normalized compared against actual usage.

Multiply the difference by the margin per therm rate from the most recent GRC and the current number of meters for each customer group.

Defer the total margin under- or over-collection.

File for recovery of the under collection or refund of the over collection annually in conjunction with a Purchased Gas Adjustment (PGA) filing, to minimize the number of rate changes per year.

Recovery would be a cents per therm adjustment.

This type of mechanism would be more compatible with PSE's information systems and would eliminate the concern about historical information not being available due to customer growth and turnover. This type of mechanism would also combine recovery for changes in weather and lost revenues due to conservation.

Interests and Objectives That Need to be Addressed in a Decoupling Mechanism:

Utilities regulated by the WUTC should be authorized to implement decoupling mechanisms either within or outside of the context of a general rate case, with no fixed or arbitrary reduction of a utility's return on equity (ROE). Decoupling is currently needed in order to address factors that contribute to under recovery of costs and inability to achieve ROEs that have in fact been authorized by the Commission. Over time, the existence of decoupling mechanisms and their track records with respect to actually achieving increased fixed cost recovery can be taken into account along with other factors considered in establishing ROEs in general rate cases.

In addition, a decoupling mechanism:

1. Must reduce regulatory lag and increase recovery of the costs incurred to serve customers that have been approved for recovery in a GRC.
2. Must be compatible with the utility's billing system.
3. Should allow 100 percent margin recovery based on calculations from the last GRC.
4. Should be easy for customers to understand.
5. Should be easy to administer.

Conclusion:

In summary, PSE supports the implementation of decoupling mechanisms, but believes that each utility's situation is unique, and one decoupling model should not be imposed upon all utilities. Each participating utility should be allowed to develop and implement a mechanism that achieves the goals of decoupling and can be implemented given the utility's information systems, customer demographics, and other unique characteristics of its service area.

PSE appreciates the opportunity to present its viewpoint on decoupling and looks forward to further discussions on this topic.

Very truly yours,

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