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Docket: UE-010525

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Recommendation

Suspend the filing in **Docket UE-010525.**

Introduction

In this Docket, Puget Sound Energy (PSE), advances a new Schedule to cover service to large customers who exhibit characteristics of very high daily load factor and very high reliability requirement, and uncertain growth rates which may not have been envisioned when the Schedules in the Tariff were created. In the cover letter, PSE warns of the inappropriateness of these customers to Schedules 31 and 49. Also, they warn of the consequences of absorbing growth with an extraordinarily uncertain longevity.

These new loads have been entirely those Internet Data Center (IDC) customers, potential customers, or developers. IDC operators have claimed that they are willing to build their own transmission and distribution equipment hedges. They also have said that generation reliability is adequate now. They say that access to the current Schedule 31 would give them certainty and a competitively even footing in the IDC economy. Developers want a low, certain price. It seems clear that they feel once on a "core" schedule, they will be "grandfathered" even if a new class of customer is created. (If so, Staff disagrees.) In any case, they want to attract new customers with a low, and therefore competitive, price.

PSE perceives a risk that loads which are large and joined with huge uncertainties are "unplannable" and necessitate a risk of ill-advised reliance on forwards markets or new investment in ownership of resources. PSE believes that the "Super Firm" group constitutes a collection of customers not similar to others in that they have a unique combination of cost, service type, and size differences. They seek a hedge of this risk, and claim that it is in the interest of other ratepayers since it will prevent inadvertent cost shifting later.

Background

PSE filed a similar schedule in May 2000 entitled Schedule 300 (Docket UE-001140). The circumstances for the filing were similar. Customer interest was high for electric service to supply developing IDC business centers. PSE reported that it feared the consequences of chaotic and rapid growth. The Docket was suspended and set for hearing. Subsequently, PSE withdrew the filing. During the Air Liquide case (Docket UE-001952), the status of three telecom companies who were developing IDC businesses as part of their corporate infrastructure was raised because they were also taking service on Schedule 48. As part of the Settlement Agreement in that case, PSE agreed to file a schedule for electric service for such customers no later than April 16, 2001.

As a collaborative effort to discover facts surrounding this filing and to facilitate discussion of ongoing service issues, Staff, PSE, customers and their representatives met on numerous occasions. Staff structured meetings in the following ways: (1) Staff and customer groups alone; (2) Staff with PSE alone; and (3) Staff, PSE and customers together. This meeting structure accelerated discovery and clarified the circumstances behind this proposal. In particular, these meetings allowed exchanges of views on the uncertainty of service requests, the firmness of service requested, availability of resources and alternative Schedule 45 terms. Initially, the "customer" group consisted of those who might want to enter the IDC role in the future, those who might develop property for such IDCs use, and IDC clients looking for rental space to start business. However, after a time, three current telecomm companies, which have started IDC functions and which are currently served under Schedule 48, joined the customer group. By the end of the meetings, no party except these three remained. This may be explained by the recent deflation in the internet "dot.com" economy which seems to have been expanding largely on rapid inflow of investment capital and not operating revenues. However, recent contacts with the developer community indicate that their concerns over the rate schedule for potential future service remain.

Staff has issued 29 informal data requests and at this writing, has received 25 initial responses from PSE. Staff analysis is thus incomplete.

PSE, as it said it intended to do in the Stipulation of Docket UE-001952 ¶ 10.4, has offered the three existing IDC companies, AT&T Wireless, MCI WorldComm, and Qwest, special contracts. PSE reports negotiations for these contracts are underway. These customers are facing approximately 50 $/mWh costs on Schedule 48, while the rate offered in Schedule 45 is 152 $/mWh. But then again, Schedule 31 costs approximately 33 $/mWh. See Attachment (1) for details. It should be remembered that Schedule 48 customers very recently emerged from a long period of prices in three digits, and that the volatility of their prices was extreme.

Issues

The Staff views the load data support for existence of the Class as a distinct category to be inadequate now. Factual basis for claims to cost differences should be more fully developed. The cost support for the offered rates no longer reflects the market world as it did when filed.

PSE's load and resources balance seems to show real opportunity for core growth. Capacity in excess of current core needs is now used to exploit market opportunities which makes core rates adequate for a longer period than would otherwise be obtained. This raises the issue of the adequacy of core rates when unsupported by current market opportunities. Perhaps this issue is best addressed in a general rate case proceeding.

This filing presents an unusual mix for this jurisdiction, of incremental and embedded costs in the basis of ratemaking. This feature may be a useful innovation as a substitute for a general rate case but at the same time, it may also be destructive of the rate structures customers have enjoyed for some time, which has averaged the cost of new growth with the costs of current service. It creates a potential of inadvertently impacting the relative competitive positions of new entrants and incumbents. The second block of energy pricing is at a level 3.9 times higher than the first block, and that under Schedule 31, all energy is priced at this first block level. See Attachment (1).

Discussion

These are uncertain times in the electric markets. The WSCC has just finished 12 months of anomalous price and volatility levels. The rate of load growth some new customers represent, due to their market niche and the technology they employ, may add uncertainty in estimation of real load requirements. In such times, one can decide to place all risk of supply on the utility, which will subsequently monetize that risk and pass to ratepayers, or to place that risk on the new entrants who then would find a possible barrier to entry to their preferred markets. Many compromise methods can be crafted. A short list of reasonable possibilities includes:

> Using modifications to existing Schedule 31 language to capture departure risk that seems to concern PSE. This could include for example, five-year customer agreements and trustee pledges for all customers, starting with new ones, to eventually be applied to all customers on the schedule.
>
> Using new rate blocks and rates in a revision to proposed Schedule 45 to segregate the well-established load and the potential growth separately, with the applicability tied to specific expiration dates so that no customer would be on the schedule for longer than the lesser of 36 months or completion of PSE's next general rate case.

Whatever solution is eventually crafted, it must avoid inter-class and new-entrant discrimination. Also, it should reflect cost causation. Further, it must not be the seed from which future lawsuits grow. Most importantly, it must reflect economic common sense.

Summary

Staff has reviewed the proposed Schedule 45, has started discovery, has held stakeholder meetings and finds that further investigation is required to establish that the proposal is in the public interest. There are material questions about the appropriateness of the rates and definition of service class in the proposed Schedule 45. These questions cover empirical issues and policy issues as well. Staff feels that the public interest would be served by providing a structure to hasten negotiation of the parties, hearing a case for establishing a new schedule, or possibly ordering PSE to render service under an existing schedule or special contract, if appropriate.

Conclusion

Staff recommends that the Commission suspend the filing of Schedule 45 in Docket UE-010525.

Attachment