Agenda Date: April 30, 2015
Item Number: F13

Docket: UG-150342
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-150342 to become effective on May 1, 2015 by operation of law.

Background

On February 27, 2015, Puget Sound Energy (PSE or company) filed revisions to its Natural Gas Conservation Service Rider, Schedule 120, with an effective date of May 1, 2015. This mechanism was established as part of a settlement agreement previously approved by the Washington Utilities and Transportation Commission (commission).[1]

The purpose of this tariff filing is to establish rates for conservation programs, reflecting changes documented in PSE's 2014 Annual Report of Energy Conservation Accomplishments[2] (2014 Annual Report) and expected 2015 expenditures. The 2015 conservation budget and target were reviewed by the Conservation Resources Advisory Group (CRAG) and acknowledged by the commission on the No Action Agenda of the December 30, 2014, open meeting.

Discussion

PSE spent $11.89 million on its natural gas conservation programs in 2014, 0.3 percent less than the $11.93 million budget that the commission approved for the 2014 program year. The program saved 4.35 million therms, exceeding its goal of 3.89 million therms by 12 percent. The program achieved a cost-effectiveness ratio of 1.09 in 2014.[3]

This filing requests a 2015 revenue requirement of $14.54 million, which consists of $13.94 million for 2015 program year expenditures and $0.6 million to true up revenues and expenditures from the 2014 program year. The company's savings goal for 2015 is 3.08 million therms.

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[1] Dockets UE-011570 and UG-011571 (consolidated), Twelfth Supplemental Order, Exhibit F to Settlement Attachment.
[2] Docket UE-132044, 2014 Annual Report of Energy Conservation Accomplishments, February 27, 2014.
[3] The 1.09 cost-effectiveness ratio does not reflect the 10 percent conservation credit that is applied to electric conservation programs per the Northwest Power Act. Were the credit applied, the gas conservation portfolio would have achieved a cost-effectiveness ratio of 1.18.

The requested revenue requirement would be a 0.21 percent increase in annual revenue. The average residential natural gas customer using 68 therms per month would see a bill increase of $0.16 per month.

If allowed to go into effect, the company's filing would change the natural gas rider rates as shown in the table below:

	Schedule	**Current Rate per Therm**	**Proposed Rate per Therm**
Firm Sales	Schedules 16, 23, 31, 41 and 53	$0.01268	$0.01504
Interruptible Sales	Schedules 85, 86, 87	$0.01137	$0.01359

Review of variance

While PSE spent slightly less than it budgeted for natural gas conservation programs in 2014, reduced sales resulted in the company collecting about $575,000 less than it had expected. This amount, when adjusted for taxes, regulatory fees and bad debts, constitutes the $601,000 true up that the company is seeking for the 2014 program year.

PSE's proposed 2015 budget of $13.94 million represents an increase of $1.46 million, or 11.7 percent, over the 2014 budget. Half of that increase is attributable to the company's $738,000 funding commitment for the newly formed natural gas market transformation initiative being undertaken by the Northwest Energy Efficiency Alliance. The remainder of the increase is primarily driven by funding increases for the company's programs that target new construction in the residential and commercial/industrial sectors.

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 in 2014 increased on the residential side and decreased on the business side, with a net increase overall:

PSE Direct Benefit to Customers (DBtC)	**2014**	**2013**	**2012**	**2011**
Residential – Gas	83%	73%	80%	62%
Business – Gas	65%	74%	82%	85%
Total – Gas	**78%**	**68%**	**74%**	**70%**

Staff review and program expenditure audit
Through its participation in PSE's Conservation Resource Advisory Group (CRAG), staff conducts an ongoing review of the company's conservation programs and their expenditures. In conjunction with this filing, staff performed an in-depth, on-site review of the natural gas conservation program's 2014 expenditures on March 30, 2015. The review focused on operating expenses and incentive rebates for a select group of programs and months, to confirm that expenditures were properly documented and recorded.

Staff reviewed 71 monthly program orders for the natural gas conservation program, representing 23 percent of the company's total 2014 expenditures, and examined 100 individual expense items representing 9 percent of total 2014 expenditures. The information provided by the company was organized and well documented, and staff identified no discrepancies in its review. Staff therefore concludes that the company's internal controls and review processes are performing effectively.

Customer comments
On March 31, 2015, PSE notified its customers of the combined proposed rate increases of multiple filings, including this one, by published notice in area newspapers. PSE also provided television stations, radio stations, and local newspapers with information about the filing. The commission received three customer comments, all opposed to the increase.

All three customers feel the company increases its rates too frequently and that the commission needs to look more closely at these requests. They believe the rates are too high and are making it difficult for customers to make ends meet. One of the customers believes the problems have been worse under foreign ownership. Staff provided information on the ratemaking process and energy rates. Staff advised customers 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.

Conclusion

Take no action, thereby allowing this tariff filing to go into effect by operation of law.