Agenda Date: April 26, 2018
Item Number: A4

Docket: UG-180281
Company Name: Puget Sound Energy

Staff: Jing Liu, Regulatory Analyst
Kristen Hillstead, Regulatory Analyst
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Recommendation

Take no action, thereby allowing the tariff sheets filed by Puget Sound Energy in Docket UG-180281 to become effective May 1, 2018, by operation of law.

Background

On March 30, 2018, Puget Sound Energy (PSE or company) filed proposed revisions to Schedule 142, Revenue Decoupling Adjustment Mechanism, of its natural gas tariff. The filing reflects the revenue true-up under the decoupling mechanisms established in 2013 with the implementation of changes the commission authorized in PSE's 2017 general rate case (GRC), Dockets UE-170033 and UG-170034.

The natural gas decoupling filing represents a revenue increase of $15.9 million, or 1.7 percent of the total natural gas revenue. A typical residential natural gas customer using 64 therms per month will experience an increase of $2.55 per month, or 3.9 percent.

In June 2013, Washington Utilities and Transportation Commission (commission) approved a multi-party settlement agreement establishing electric and natural gas decoupling mechanisms for PSE.[1] PSE's decoupling mechanism for the period of July 1, 2013, to December 18, 2017, consists of two parts: (1) a deferred accounting mechanism (deferral); and (2) an embedded rate plan (K-factor). The K-factor refers to the escalation factor set in the rate plan and is separate from the mechanics of the deferral process. On December 19, 2017, when the Order from the 2017 GRC became effective, the K-factor portion of the Schedule 142 was discontinued. The 2017 GRC commission order established the allowed decoupled revenue from December 19, 2017, forward.[2]

The company implemented the following important changes to the decoupling rates calculation based on the 2017 GRC commission order:

1. The company separated both the electric and gas non-residential groups into smaller subgroups to address the issue of cross-subsidization. For January 1 – December 18, 2017, the non-residential deferral is still calculated based on the Revenue per

[1] Consolidated Dockets UE-121697 and UG-121705, UE-130137 and UG-130138, Order 07 (Decoupling Order). June 25, 2013.
[2] UE-170033 and UG-170034, Order 08.

Customer for the entire non-residential group authorized in the 2013 decoupling proceeding. The total non-residential deferral for the period is then allocated to the new subgroups to determine their responsibility of the deferral. For December 19 – 31, 2017, the decoupling deferral is calculated based on the authorized revenue for the new decoupled groups determined in the 2017 GRC.

2. The company raised the soft cap for the gas decoupling mechanism from 3 percent to 5 percent to reduce the unamortized decoupling deferral balance.
3. The company will continue to share with customers half of the excess earnings that exceed its authorized rate of return (earnings test). However, for the purpose of the earnings test calculation, the company removed all normalizing adjustments from the adjusted earnings in the Commission Basis Reports (CBR) as authorized by the commission in the 2017 GRC.
4. The company allocated half of the excess earnings to the decoupled groups based on authorized delivery margin revenue. Going forward, the company will allocate the earnings sharing, if available, based on the combination of both delivery and fixed production revenue.
5. For the purpose of calculating the actual revenue for non-residential gas customers, the company started to use the actual margin revenue for those customers by multiplying the actual base rates with the billing determinants. It was a change from the prior practice of applying a blended average margin rate to volumetric sales.

Discussion

This filing reflects the true-up between the allowed decoupled revenue and actual volumetric revenue, including the recovery of unamortized balance from prior years. Table 1 shows the components of the deferral balances for each decoupled group.

Table 1. Decoupling Deferral Balances (Natural Gas)

	Schedules 23 & 53	**Schedules 31 & 31T**	**Schedules 41, 41T, 86 & 86T**	**Total**
Estimated Amortization Balance as of April 30, 2018	$473,998	$1,773,688	$1,858,419	$4,106,106
Deferred Balance at End of CY 2017	50,397,365	448,018	343,516	51,188,898
Interest Balance at End of CY 2017	2,531,144	327,024	138,701	2,996,870
CY 2017 Earnings Test Adjustment	(3,622,939)	(886,514)	(374,530)	(4,883,984)
Total Balance to Amortize	**$49,779,568**	**$1,662,216**	**$1,966,106**	**$53,407,890**

In 2017, residential customers' bill payments collected $2.9 million less than the allowed revenue. Including the unamortized deferral balance from the end of 2016, the cumulative residential deferral balance as of the end of 2017 was $50.4 million in the surcharge mode. For non-residential customers, the total deferral for 2017 was $0.8 million undercollection.

Since 2014, the residential natural gas customer group has accumulated a large unamortized deferral balance due to a combination of factors, including lower sales in several warm winters, the K-factor increase in allowed revenue, the effect of conservation, and the 3 percent soft cap. Table 3 provides a snapshot of the decoupling deferral balances for the end of calendar years 2014 through 2017. With the increase of the gas soft cap to 5 percent, the company anticipates it will be able to fully amortize the natural gas residential deferral balance in the next rate year.

Table 3. Unamortized Balances in Natural Gas Residential Deferral Account

	December 2014	December 2015	December 2016	December 2017
Calendar Year Deferrals	$ 22,137,962	$ 45,763,892	$ 41,363,333	$ 2,895,656
Prior Year Unamortized Balance	0	8,206,468	28,736,968	47,431,964
Total Balance	22,137,962	53,970,360	70,100,301	50,327,620
Amortized (Under Rate Cap)	(13,931,494)	(25,233,392)	(22,668,337)	(50,327,620)
Unamortized (Over Rate Cap)	$ 8,206,468	$ 28,736,968	$ 47,431,964	$ 0

The Earnings Test shows the company's actual rate of return in 2017 for gas operations to be 8.10 percent which exceeded the authorized rate of return of 7.76 percent. Accordingly, this filing incorporates $4,883,984 that will be shared with customers, representing 50 percent of the excess earnings in 2017. Approximately $3.6 million will be returned to residential customers.

Customer Comments

On March 31, 2018, the company notified its customers of multiple rate adjustments proposed to become effective May 1, 2018, via published notice in accordance with WAC 480-100-194(2). Staff received two consumer comments opposing the proposed 0.6 percent increase to natural gas service, resulting from the combined effects of the natural gas filings.

Conclusion

Staff determined that the rates are properly calculated and has documented the changes in the decoupling mechanism from prior years' filings above.

Recommendation

Staff recommends the commission take no action, thereby allowing the tariff sheets filed by Puget Sound Energy in Docket UG-180281 to become effective May 1, 2018, by operation of law.