Agenda Date: April 25, 2019
Item Numbers: A1 and A3

Dockets: UE-190231 and UG-190232
Company Name: Puget Sound Energy

Staff: Elaine Jordan, Regulatory Analyst

Recommendation

Take no action, thereby allowing the tariff revisions filed by Puget Sound Energy in Dockets UE-190231 and UG-190232 to become effective May 1, 2019, by operation of law.

Summary of Filing

On April 1, 2019, Puget Sound Energy (PSE or company) filed with the Washington Utilities and Transportation Commission (commission) its proposed revisions to Schedule 142, Revenue Decoupling Adjustment Mechanism, of its electric and natural gas tariffs. These filings continue the implementation of electric and gas decoupling mechanisms established in 2013.

Table 1 – Summary of Year-over-Year Deferral Amounts

	Electric Service	Natural Gas
2017 Deferral (In current rates)	$(3,166,000)	$55,805,320
2018 Deferral (In proposed rates)	$17,402,000	$9,905,992
Year-over-Year Change	$20,568,000	$(45,899,328)

The electric decoupling filing represents an annual revenue increase of $20.6 million, or 0.94 percent of total electric revenue. A typical residential electric customer using 900 kWh would experience an increase of $1.67 per month.

The natural gas decoupling filing represents an annual revenue decrease of $45.9 million, or 5.3 percent of total natural gas delivery revenue. A typical residential natural gas customer using 64 therms would experience a decrease of $3.97 per month.

Background

A decoupling mechanism enables a utility to collect its authorized revenue, irrespective of sales volumes. To determine the annual deferral amounts, the company first establishes an annual per customer revenue requirement, also known as “Allowed Revenue,” which is based on the fixed costs of delivering energy to end users and forecasted customer counts.

Over the course of a year, customers are billed on a price per unit, either a kilowatt-hour (kWh)[1] for electric service, or therm for natural gas service. Bill payments are also known as "Actual Revenue." The difference between the Allowed Revenue and the Actual Revenue is deferred on a monthly basis and then summed over the 12-month period. If, for example, energy sales over the course of a year are relatively low because of a warmer than normal winter or other factors, actual revenue will be less than allowed revenue and the deferred balance will reflect a shortfall in payments. Deferred balances are trued up annually by a customer surcharge (in the case of revenue shortfall) or a customer credit (in the case of a revenue surplus) over the next 12-month period.

In December 2017, Washington Utilities and Transportation Commission issued Order 8 in which it authorized updates to PSE's electric and natural gas decoupling mechanisms.[2] PSE's electric decoupling mechanism now consists of two parts: (1) a delivery revenue deferral; and (2) fixed production cost revenue deferral. The natural gas decoupling mechanism continues to only use the delivery revenue deferral. The order also:

- Increased the cap on adjustments for each natural gas customer group from 3 percent to 5 percent annually. The cap for each electric customer group was kept at 3 percent.[3]
- Allowed the company to remove normalizing adjustments from the earnings test.[4]

Discussion

Electric Service

Deferral – Tables A1 and A2 in the appendix summarize the deferral balances for each customer group. Before the earnings test adjustment and application of the 3 percent cap, the company under collected $19.3 million, primarily due to warmer than normal temperatures. The weather effect accounts for about half of the delivery deferral for the residential group. The weather did not greatly impact the other decoupled schedules' deferral.

Earnings Sharing – The company's earnings test, based on the Commission Basis Report (CBR),[5] shows that there are no excess earnings in calendar year 2018 to share with customers. The 2018 CBR shows a rate of return (ROR) of 7.12 percent, but the company's authorized ROR is 7.60 percent. Therefore, none of the electric rate schedules will receive a credit related to excess earnings.[6]

---

[1] Consolidated Dockets UE-170033 and UG-170034, Order 08 (Final Order). December 5, 2017. Electric schedules 12/26 and 10/31 are billed on a kW basis instead of a kWh basis, at ¶ 284.
[2] *Id.* at ¶ 243-313.
[3] *Id.* at ¶ 302 and 303.
[4] *Id.* at ¶ 313.
[5] The company filed its 2018 CBR on March 29, 2019, in Dockets UE-190211 and UG-190212.
[6] *See* Consolidated Dockets UE-121697 and UG-121705, UE-130137, and UG-130138, Order 07 June 25, 2013. PSE is required to share 50 percent of its excess earnings if the company exceeds its authorized rate of return during the test period, i.e., calendar year 2018 for this filing.

Individual Rate Test – Deferral balances for all rate schedules except Schedule 40 are below the 3 percent rate increase cap. The Schedule 40 deferral balance would require a 9.04 percent increase to clear. After application of the rate cap for Schedule 40, a remaining balance of approximately $2.5 million will be deferred for the next rate year.

Natural Gas Service

Deferral – Table A3 in the appendix shows components of deferral balances for the customer groups before the earnings test adjustment and application of the 5 percent cap. All of the deferred balances will be amortized in the coming rate year. The weather for 2018 was significanlly warmer than normal, contributing to lower-than-normal sales volumes. Accordingly, residential and small commercial customers on Schedules 23 and 53, respectively, produced the largest deferrals as those customers exhibit the most sensitivity to weather.

Although the 2018 deferrals are approximately $9.9 million in the surcharge direction, natural gas customers will still see a rate decrease because the overall rate impact is a funcation of the year-over-year change in deferral balance. As shown in Table 1, above, the deferral balance for 2017 was $55.8 million whereas the deferral balance for 2018 is only $9.9 million. Therefore, natural gas customers will experience a rate decrease because the deferral balance is smaller this year than last.

Earnings sharing – The company's earnings test, based on its 2018 CBR, shows that there are no excess earnings in calendar year 2018 to share with its customers. The 2018 actual ROR was 5.64 percent, while the authorized ROR is 7.60 percent. Therefore, none of the rate schedules will receive a credit related to excess earnings.

Rate Test – The rate test is not applicable to the gas decoupling filing because the rate test is only applied to rate increases. The current filing represents a rate decrease for all decoupled schedules.

Customer Comments – On April 1, 2019, the company notified its customers of the rate adjustments proposed to become effective May 1, 2019, via published notice in accordance with WAC 480-100-194(2). No customer comments were received.

Conclusion

Staff concludes that the revised Schedule 142 rates accurately reflect the effect of the decoupling deferral balances for calendar year 2018, and correctly apply the earnings sharing and rate cap criteria. Therefore, staff recommends the commission take no action, thereby allowing the tariff sheets filed by Puget Sound Energy in Dockets UE-190231 and UG-190232 to become effective May 1, 2019, by operation of law.

Appendix

Table A1. Delivery Revenue Deferral (Electric)

Schedules	Amortized Balance, as of April 30, 2019	Deferral, calendar year 2018*	Interest Balance, as of December 31, 2018	Earnings Shared	Total
Schedule 7 – Residential	$116,101	$7,972,606	$(159,083)	$0	$7,929,625
Schedules 8 & 24	$360,614	$5,245,012	$261,382	$0	$5,867,009
Schedules 7A, 11, 25, 29, 35 & 43	$(41,966)	$1,472,859	$148,528	$0	$1,579,421
Schedule 40 – Large General Service	$198,629	$1,866,510	$77,573	$0	$2,142,712
Schedules 12 & 26	$24,745	$1,498,428	$47,854	$0	$1,571,027
Schedules 10 & 31	$(19,736)	$516,633	$4,793	$0	$501,691
Schedules 46 & 49 – High Voltage Service	$85,975	$0	$33,274	$0	$119,250
Total	$724,362	$18,572,049	$414,323	$0	$19,710,735

* Positive deferral numbers means the company undercollected during the year. Negative numbers means an overcollection during the year.

Table A2. Fixed Production Revenue Deferral (Electric)

Schedules	Amortized Balance, as of April 30, 2019	Deferral, calendar year 2018*	Interest Balance, as of December 31, 2018	Earnings Shared	Total
Schedule 7 – Residential	$15,030	$(1,431,275)	$(102,804)	$0	$(1,519,049)
Schedules 8 & 24	$(14,774)	$2,468,297	$44,896	$0	$2,498,419
Schedules 7A, 11, 25, 29, 35 & 43	$987	$(3,615,897)	$(111,391)	$0	$(3,726,301)
Schedule 40 – Large General Service	$27,795	$2,784,490	$65,483	$0	$2,877,768
Schedules 12 & 26	$1,308	$(230,971)	$(4,804)	$0	$(234,467)
Schedules 10 & 31	$(362)	$(319,648)	$(23,703)	$0	$(343,714)
Schedules 46 & 49 – High Voltage Service	$249	$0	$233	$0	$481
Total	$30,233	$(345,004)	$(132,091)	$0	$(446,863)

* Positive deferral numbers means the company undercollected during the year. Negative numbers means an overcollection during the year.

Table A3. Decoupling Deferral Balances (Natural Gas)

Schedules	Amortized Balance as of April 30, 2019	Deferral, calendar year 2018*	Interest Balance as of December 31, 2018	Earnings Shared	Total
Schedules 23 & 53	$1,256,895	$9,092,967	$2,153,954	$0	$12,503,815
Schedules 31 & 31T	$(133,982)	$(2,343,130)	$(4,137)	$0	$(2,481,249)
Schedules 41, 41T, 86, & 86T	$172,424	$(343,220)	$69,780	$0	$(101,016)
Total	$1,295,336	$6,406,617	$2,219,596	$0	$9,921,549

* Positive deferral numbers means the company undercollected during the year. Negative numbers means an overcollection during the year.