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PUGET SOUND ENERGY

The Energy To Do Great Things

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Filed via WUTC Electronic Web Portal

April 8, 2013

Mr. Steven V. King
Acting Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 South Evergreen Park Drive S.W.
P.O. Box 47250
Olympia, WA 98504-7250

Subject: Docket No. UG-121207
Commission Investigation into Natural Gas Conservation Programs

Dear Mr. Danner:

In response to the Commission seeking written comments on issues related to natural gas conservation in Docket UG-121207, Puget Sound Energy, Inc. ("PSE" or the "Company") offers the following comments regarding the questions the Commission posed in its opportunity to file written reply comments on March 22.

1. **Should Commission continue to use the Total Resource Cost (TRC), or switch to using the Utility Cost Test (UCT), to evaluate the cost-effectiveness of the portfolio of natural gas conservation programs?**

The Commission should continue to use the Total Resource Cost (TRC) to evaluate the cost-effectiveness of the *entire portfolio* and, in general, *individual* programs. This approach is already proscribed by settlement, Commission order and Company tariff language to use a Total Resource Cost Test for natural gas conservation programs. Changing to the Utility Cost Test is not in the public interest. Such a policy change would essentially use the Commission's rate setting authority to effect transfer payments between participants and non-participants to support acquisition of conservation that may not be cost-effective for participants or society as a whole. While individual customers may choose to make conservation investments that otherwise do not appear to

be least-cost decisions, the Commission should not change its current policy to affect transfer payments to support such decisions. The TRC continues to be reasonable and in the public interest because it focuses on supporting decisions that will minimize ratepayer's costs as a whole.

2. What criteria should be met before stopping a portfolio of programs?

Puget Sound Energy's Natural Gas Conservation Service already includes provisions for stopping an individual program or a portfolio of programs. There are three conditions that an individual program or an entire portfolio of programs can be terminated under. First, the entire portfolio of natural gas conservation programs (all programs) terminate on December 31, 2013. Second, programs can be terminated when the program is no longer cost effective. And thirdly, programs can be terminated when the following or similar conditions exist or arise: regional economic downturn, resulting in the cancellation of all or a portion of energy efficiency projects; force majeure, such as events affecting the environment, regional economy, infrastructure, etc.; lack of customer participation due to either of the above or other conditions beyond the Company's influence; lack of qualified contractors to install approved measures; or the Company has achieved significant market penetration, as long as the Conservation Resource Advisory Group (CRAG) is notified with 30 days written notice.

- A. While communication with other utilities can certainly be a good idea, the main communication should be taking place in the Company's advisory group, as prescribed by settlement, Commission order and Company tariffs.
- B. In some cases, consultation with advisory group may be appropriate, but under current tariff provisions a conservation program may be stopped if it is not cost-effective without consultation with the advisory group.
- C. A Company deciding to discontinue a conservation program should not singularly trigger the issuance of a request for proposals (RFP) for a conservation services provider. There are plenty of opportunities for issuance of an RFP. An RFP may be issued after an IRP or during a biennium, or in preparation for setting a Biennial Conservation Target. With so many other opportunities and requirements already in place; PSE does not believe that the discontinuance of one or many programs should trigger an RFP.
- D. Having an avoided cost at which the company will restart its program, seems a reasonable data point to have available, should advisory group members ask for it. There are already guidelines in place that determine the components to be included in the calculation of avoided costs, as well as the frequency at which the company will recalculate its avoided cost and make a proposal to restart a program if applicable. This is also part of the Biennial planning process.

- E. A request to discontinue conservation programs does not need to be presented in an Annual Conservation Plan or Biennial Conservation Plan, since the Company tariff already allows the Company to discontinue programs that are not cost effective.

3. Accounting for program start and stop costs in the cost effectiveness test.

PSE agrees that starting and stopping costs should be considered in the TRC test; but PSE also believes that, by default, those costs may already be in the portfolio costs and that quantification of those costs may be difficult and/or contentious. Conservation measures and conservation programs have been started and stopped during the Biennial period, therefore those costs are already in the costs of administering and analyzing the programs. The Commission asks if the following potential “costs” can be quantified: “effects on conservation program delivery infrastructure”; “effects on trade ally networks” and “effects on workforce skills related to installing energy efficiency measures”. PSE believes that it may be very difficult for a utility to put a quantifiable cost on those items; and further that as those categories will likely be contentious in PSE’s CRAG process, and during the Commission’s Biennial Conservation Target approval and Conservation Service Rider Tariff Schedule filing processes.

4. Market transformation programs / Northwest Energy Efficiency Alliance (NEEA).

Puget Sound Energy’ Natural Gas Conservation Service Tariff Schedule defines Market Transformation as:

Market Transformation means effecting permanent changes in the markets for targeted, cost-effective, energy efficiency products and services that will result in sustainable market penetration, without the need for long-term utility incentives. Market Transformation is a temporary market intervention with a clear expectation that involvement will end.

Puget Sound Energy Natural Gas Conservation Service already includes Market Transformation services as part of the Description of Services:

Market Transformation activities that will result in cost-effective and durable market penetration in the Company’s distribution service territory, as well as in the Northwest. Cost effectiveness of Market Transformation activities depends heavily on projections of future energy savings impacts in the market.

Puget Sound Energy Natural Gas Conservation Service already allows for regional market transformation programs. In Puget Sound Energy's Natural Gas Conservation Service Tariff Schedule it defines those special conditions:

Regional Market Transformation: Northwest regional programs include projects aimed at advancing new promising technologies or changes to standards, codes and practices, which are anticipated to be cost-effective from a Total Resource Cost Test perspective over time.

Furthermore, Puget Sound Energy Natural Gas Conservation Service already allows for pilot programs and demonstration projects. In Puget Sound Energy's Natural Gas Conservation Service Tariff Schedule it defines those special conditions:

Pilot Programs/Demonstrations Projects: Pilot programs and demonstration projects may be undertaken to determine whether certain strategies and Measures are cost-effective over an extended period of time. Pilots are employed to test cost-effective ways to demonstrate market opportunities for energy efficiency. Pilots may include tests of Measure Cost and performance, Customer acceptance or delivery methods. Pilots are not subject to achieving energy savings sufficient to demonstrate cost-effectiveness in the short term.

5. Apply the savings-to-investment ratio test for low-income programs.

Low-income programs should not be removed from a utility's portfolio-level cost-test analysis. For PSE this is proscribed by settlement, Commission order and tariff language to use a Total Resource Cost Test.

Puget Sound Energy Natural Gas Conservation Service already uses a lower TRC for low income programs. In Puget Sound Energy's Natural Gas Conservation Service Tariff Schedule it defines those special conditions:

Low Income: Low Income Customers are qualified by government agencies, using federal low income guidelines. Approved Low Income agencies may receive Measure funding equal to the lesser of one hundred percent (100%) of the Measure Cost or the value that will result in a Total Resource Cost Benefit/Cost ratio of a minimum of 0.667. Funding is in accordance with funding described in Natural Gas Energy Efficiency Schedule 201.

PSE appreciates the opportunity to present these comments. Please direct any questions regarding these comments to Eric Englert at (425) 456-2312 or the undersigned at (425) 456-2110.

Sincerely,

/s/ Ken S. Johnson

Ken S. Johnson
Director – State Regulatory Affairs