

Agenda Date: October 28, 2010
Item Numbers: A6 and A7

Dockets: **UG-101642 and UG-101643**
Company Name: Puget Sound Energy, Inc.

Staff: Roland C. Martin, Regulatory Analyst
Roger Kouchi, Consumer Protection Staff

Recommendation

Take no action, thereby allowing the tariff filings made by Puget Sound Energy, Inc., in Dockets UG-101642 and UG-101643 to become effective on November 1, 2010, by operation of law.

Background

On October 1, 2010, Puget Sound Energy, Inc., (PSE or company) filed revisions to its Purchased Gas Adjustment (PGA) and deferred gas cost amortization tariffs in Dockets UG-101642 and UG-101643, respectively. The combined net effect of the proposed filings is an increase in annual gas sales revenues of approximately \$18.3 million (1.9 percent).

The PGA and deferred gas cost amortization mechanisms are designed to pass through to customers the utility's actual cost of natural gas on a periodic basis. The PGA establishes for the upcoming year a projection of the utility's gas costs. The difference between the projected cost and the actual cost is deferred and ultimately amortized back to customers with interest, as a surcharge or refund.

PSE, a combined electric and natural gas utility, serves approximately 750,000 gas customers in parts of Snohomish, King, Pierce, Thurston, Lewis, and Kittitas counties in Washington.

Schedule No. 101, Purchased Gas Adjustment (PGA, Docket UG-101642)

Docket UG-101642 is PSE's PGA filing to adjust rates that recover expected gas costs from sales customers. PSE filed tariff sheets to reflect a total average cost of gas of \$0.68321 per therm (\$0.56214 commodity + \$0.12107 demand) resulting in an overall decrease in annual gas sales revenues of approximately \$30.4 million (3.1 percent) related to prospective natural gas purchases for the period November 2010 through October 2011. The proposed PGA rates reflect approximately 4.3 percent decrease in gas costs due to decreases in forward market prices. Currently embedded in PSE's natural gas retail rates is a total average cost of gas of \$0.71360 per therm (\$0.60641 commodity + \$0.10719 demand).

PSE estimated the annual gas supply costs using a model that creates a least-cost supply portfolio of fixed and variable priced contracted supplies, gas storage operations, and transportation costs.

Variable priced (market based) contracts were priced in the model using an average of forward market prices for the basins from which PSE acquires gas, during the 3-month period (June 9 through September 8, 2010) immediately preceding the filing preparation.

Schedule No. 106, Gas Cost Deferral Amortization (Docket UG-101643)

Docket UG-101643 is PSE’s deferred gas cost amortization filing to adjust rates that true up prior over or under recoveries of revenue to cover actual purchased gas expenses (“Tracker Filing”). Currently, PSE projects a net over-collection balance at the end of October 2010 of approximately \$3.4 million, including a \$63.2 million refund currently being amortized in rates effective October 1, 2009. The over collection is a net result of over recovery caused by lower actual gas market prices than the forward prices used in last year’s PGA and under collection of demand related costs together with costs in the amortization account. The company is proposing to amortize in rates the entire projected balance of over-recovered commodity costs and a portion of under-collected demand related costs to reflect the cyclical nature of demand gas costs recoveries relative to incurred costs.

The net effect of the Tracker Filing is a \$17 million credit to customers through Schedule 106 rates over the upcoming PGA period from November 2010 through October 2011. The proposed credit results in increased rates due to the higher credit reflected in the current Schedule 106 rates.

Revenue and Residential Bill Impacts

The following table shows the annual revenue impacts of the filings by customer class:

| In Millions of \$ | PGA Impact | Tracker Impact | Total Impact |
|-------------------------|------------------------|----------------------|---------------------|
| Residential | | | |
| Schedule 23 | -\$18.2 (-2.8%) | \$30.8 (4.8%) | \$12.6 (1.9%) |
| Schedule 16 | \$0.0 (-2.3%) | \$0.0 (3.9%) | \$0.0 (1.6%) |
| Comm. & Ind. | | | |
| Schedule 31, 36, 51 | -\$6.6 (-3.1%) | \$10.9 (5.2%) | \$4.3 (2.0%) |
| Schedule 41 | -\$3.1 (-4.8%) | \$3.7 (5.7%) | \$0.6 (0.9%) |
| Interruptible | | | |
| Schedule 85 | -\$.6 (-5.3%) | \$.9 (7.1%) | \$0.2 (1.8%) |
| Schedule 86 | -\$.6 (-4.5%) | \$.8 (6.2%) | \$0.2 (1.6%) |
| Schedule 87 | -\$1.2 (-5.8%) | \$1.6 (7.6%) | \$0.4 (1.9%) |
| TOTAL | -\$30.4 (-3.1%) | \$48.7 (5.0%) | \$18.3(1.9%) |

The impact of the PGA and tracker filings on a monthly bill for a residential customer with monthly average consumption of 68 therms will be an increase of \$1.56 or 1.9 percent, for a revised monthly bill of \$82.88.

Customer Comments

On October 1, 2010, the company notified its customers of the proposed rate increase by

advertising in nine daily newspapers. The company issued a news release to editors of those newspapers, television stations, and radio stations within the company's service area. PSE also forwarded the notice to community action agencies and posted to its website. The commission did not receive any customer comments on this filing.

Conclusion

Staff's review of PSE's PGA and deferred gas cost amortization filings show them to be reasonable. Therefore, staff recommends the Commission take no action allowing the tariff filings in Dockets UG-101642 and UG-101643 to take effect November 1, 2010, by operation of law.