Agenda Date: April 28, 2017
Item Numbers: A1 and A2

Dockets: UE-170227 and UG-170228
Company Name: Puget Sound Energy

Staff: Jing Liu, Regulatory Analyst

Recommendation

Take no action, thereby allowing the tariff sheets filed by Puget Sound Energy in Dockets UE-170227 and UG-170228 to become effective May 1, 2017, by operation of law.

Background

On March 31, 2017, Puget Sound Energy (PSE or company) filed 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.

The electric decoupling filing represents a revenue increase of $41.9 million, or 2.0 percent of the total electric revenue. A typical residential electric customer using 900 kWh per month will experience an increase of $2.54 per month.

The natural gas decoupling filing represents a revenue increase of $22.4 million, or 2.4 percent of the total natural gas revenue. A typical residential natural gas customer using 64 therms per month will experience an increase of $1.92 per month.

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 consists of two parts: (1) deferred accounting mechanism (deferral); (2) an embedded rate plan (K-factor). To determine the deferral, 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. Allowed revenue essentially creates an accounts receivable from the customers. Over the course of the ensuing year, customers are billed on a price per unit, either a kilowatt-hour (kWh) for electric service, or therm for natural gas service, to pay off the receivable. 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 twelve month period. If, during the course of a year, energy sales 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. The deferred balances are then trued up annually by a surcharge (in the case of deferral shortfall) captured in the next 12-month period.

---

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

The K-factor refers to the escalation factor set in the rate plan and is separate from the mechanics of the deferral process. The commission allows for an annual escalation of 3.0 percent for electric delivery revenue, and 2.2 percent for natural gas delivery revenue.

The settlement agreement also holds PSE to the following additional requirements:

- To protect customers from significant rate increases, the decoupling adjustments are limited to no more than 3 percent increase annually for each customer group (3 percent soft cap).[2]
- Share with customers on an equal basis any earnings that exceed its authorized rate of return (earnings test).[3]

In accordance of the decoupling order, PSE's current filing contains two-part adjustments: (1) the K-factor: the revenue increase allowance for the upcoming rate year from May 1, 2017, through April 30, 2018, and (2) Deferral: true-up of the difference between allowed and actual decoupling revenue during calendar year 2016. The proposed Schedule 142 rates are the sum of the two components.

Discussion

Electric

K-factor

PSE's allowed electric delivery revenue per customer increases each year by 3.0 percent. Compared to the previous rate year, the K-factor increases PSE's forecasted allowed volumetric delivery revenue for the 2017 rate year by approximately $28.7 million, of which the increase for residential customer is approximately $17.1 million.

Deferral

Table 1 shows the components of deferral balances for each customer group before the earnings test adjustment and the application of 3 percent soft cap.

[2] Decoupling Order, at ¶ 27.
[3] Decoupling Order, at ¶ 165 and 245.

Table 1. Decoupling Deferral Balances (Electric)

	Residential	Non-Residential	Schedules 12 & 26	Schedules 10 & 31	Total
Amortization Balance as of April 30, 2017	$160,405	$306,853	$(81,189)	$61,315	$447,384
Deferral in 2016	18,347,398	12,851,565	(35,456)	237,257	31,400,763
Interest Balance as of December 2016	1,193,863	470,745	34,858	63,466	1,762,932
Earnings Shared	(7,241,180)	(3,523,834)	(674,904)	(505,282)	(11,945,200)
Total	**$12,460,485**	**$10,105,330**	**$(756,691)**	**$(143,244)**	**$21,665,880**

For residential customers, the bill payments in the calendar year 2016 collected $18.3 million less than the allowed revenue, which will be assessed as a customer surcharge in the upcoming rate year. Similarly, non-residential customer group underpaid by $12.9 million. The deferrals for Schedules 12 & 26, Schedules 10 & 31 are relatively small. The weather was warmer than normal for most of the months in 2016. The weather effect accounts for about half of the decoupling deferral for the residential group. The total deferral balance of all schedules to be amortized is approximately $33.6 million.

Earnings Sharing

The Earnings Test shows a normalized rate of return that exceeds the authorized rate of return. Accordingly, this filing incorporates $11.9 million that will be returned to customers, representing 50 percent of the normalized excess earnings in 2016. Approximately $7.2 million will be returned to residential customers.

Total Electric Revenue Impact Summary

The change in the decoupling rates have the following revenue impact.

		Revenue Impact
	K-factor:	$ 34,884,135
+	Deferral	7,014,831
=	Total:	$ 41,898,966

Natural Gas

K-factor

PSE's allowed delivery revenue per customer increases each year by 2.2 percent for natural gas. Compared to last rate year, the K-factor adjustment increases PSE's forecasted allowed volumetric delivery revenue for the 2017 rate year by approximately $13.9 million, of which the increase for residential customer is approximately $11.0 million.

Deferral

Table 2 shows components of deferral balances for the two customer groups before earnings test adjustment and the application of 3 percent soft cap.

Table 2. Decoupling Deferral Balances (Natural Gas)

	Residential	Non-Residential	Total
Amortization Balance as of April 30, 2017	$1,559,103	$1,991,311	$3,550,414
Deferral in 2016	70,100,301	13,154,715	83,255,016
Interest Balance as of December 2016	2,736,377	654,750	3,391,127
Earnings Shared	(1,619,175)	(568,899)	(2,188,074)
Total	**$72,776,606**	**$15,231,877**	**$88,008,483**

For residential customers, bill payments collected in 2016 were $41.4 million less than the allowed revenue. Including the $28.7 million unamortized deferral balance from 2015, the total residential deferral balance for December 2016 was $70.1 million.[4] However, due to the 3 percent soft cap, only $22.7 million will be amortized in this rate year. The remainder balance will be deferred to the following rate year. For non-residential customers, the total deferral balance for 2016 was $13.2 million, all of which will be amortized in this rate year. The weather effect accounts for about half of the gas decoupling deferrals.

For residential natural gas customer group, we continue to see large escalations in the annual deferral balance. Table 3 provides a snapshot of the decoupling deferral balances for the end of calendar years 2014, 2015 and 2016.

Table 3. Unamortized Balances in Natural Gas Residential Deferral Account

	Dec 2014	Dec 2015	Dec 2016
Calendar year Balance	$22,137,962	$45,763,892	$41,363,333
Prior year unamortized balance	-	8,206,468	28,736,968
Total Balance	22,137,962	53,970,360	70,100,301
Amortized (under 3% cap)	(13,931,494)	(25,233,392)	(22,668,337)
Unamortized (over 3% cap)	**8,206,468**	**28,736,968**	**47,431,964**

[4] This amount includes revenue sensitive items.

There are several reasons for escalating deferral balances. First, several consecutive warm winters, combined with the effect of conservation, have resulted in lower natural gas sales, causing a positive decoupling deferral balance. Second, PSE's authorized gas delivery revenue is escalated by a K-factor of 2.2 percent each year. Third, lower gas commodity prices reduce the basis for the 3 percent soft cap allowance. The three elements combined result in a surcharge on Schedule 142, which is still subject to a 3 percent soft cap. With the 3 percent soft cap and warm winters, the company has not been able to fully amortize the deferral balance for the natural gas residential group. The unamortized portion of the deferral balance is rolled over to the following year. When the volumetric sales are low for consecutive years, we see an exacerbation of the unamortized deferral balance. Parties will evaluate and make proposals to address the concern in the context of the ongoing general rate case.[5]

Earnings sharing

The Earnings Test resulted in a normalized rate of return that exceeded the authorized rate of return. Accordingly, this filing incorporates $2.2 million that will be returned to gas customers, representing 50 percent of the normalized excess earnings in 2016. Approximately $1.6 million will be returned to residential customers.

Total Gas Revenue Impact Summary

The change in the decoupling rates have the following revenue impact.

		Revenue Impact
	K-factor:	$ 17,754,021
+	Deferral	4,677,388
=	Total:	$ 22,431,409

Customer Comments

On March 31, 2017, the company notified its customers of the rate adjustments proposed to become effective May 1, 2017, via published notice in accordance with WAC 480-100-194(2). Staff received three consumer comments opposing the proposed rate increase. Customers were notified that they may access relevant documents about this rate increase on the commission's website, and that they may contact Andrew Roberts at 1-888-333-9882 or aroberts@utc.wa.gov with questions or concerns.

Conclusion

Staff determined that the 2017 rate is properly calculated and has uncovered no issues that warrant immediate remediation.

[5] UE-170033 and UG-170034.

Recommendation

Staff recommends the commission take no action, thereby allowing the tariff sheets filed by Puget Sound Energy in Dockets UE-170227 and UG-170228 to become effective May 1, 2017, by operation of law.