Agenda Date: November 15, 2002
Item Number:

Docket: UE-021447
Company Name: Puget Sound Energy, Inc.

Staff: Merton Lott, Energy Industry Coordinator
James Russell, Regulatory Analyst
Joelle Steward, Regulatory Analyst
Yohannes Marriam, Regulatory Analyst

Recommendation:

Approve Puget Sound Energy's (PSE) request for LSN treatment in Docket UE-021447, and allow the proposed tariff filing to become effective November 18, 2002, as filed. Further, grant PSE's request for waiver of WAC 480-100-194.

Discussion:

On November 6, 2002 PSE proposed revisions to each of its existing time-of-day rate Schedules 307, 308, 309 and 324. The proposed revisions eliminate the time-of-day rate option for residential and small commercial customers. PSE filed substitute pages on November 8, 2002, which are intended to more clearly present PSE's intention in this filing. PSE's cover letter indicates that this request is due to information that has developed since the Twelfth Supplemental Order was issued on June 20, 2002 in consolidated Docket Nos. UE-011570, and UG-011571. In particular, PSE indicates that 94% of the customers taking service under these schedules have paid higher bills than they would have paid had they taken service under the non-time-of-day schedules. PSE's proposed tariff revisions bear an effective date of December 7, 2002, but PSE requests that the revised tariffs be allowed to become effective on November 18, 2002 on less than statutory notice.

The proposed tariff changes are related to PSE's Application for Amendment of Rate Case Order Provisions Regarding Time-of-Use (TOU) Rates and Approving Refund (Application). In the Application, PSE asks the Commission to amend its Twelfth Supplemental Order by changing the termination date of the current TOU program from September 30, 2003 to November 18, 2002. PSE also asks Commission approval to refund the additional $1.00 customer charge that TOU customers have paid since July, 1, 2002. Finally, PSE requests a waiver of the customer notice provisions of WAC 480-100-194. PSE proposes to notify customers of the elimination of time-of-day rates through bill inserts sent after Commission approval of the Application.

PSE's request to terminate the TOU program is not based on a complete evaluation of the program's cost effectiveness on a system wide basis. An evaluation of cost effectiveness of the program was ordered in the Twelfth Supplemental Order. On November 1, 2002, the parties to the collaborative filed with the Commission a Research Design, as required by the Twelfth Supplemental Order. As discussed in that document, such analysis requires a long-run evaluation of costs and benefits of the program.

The program, as designed, does not appear to have created a benefit for many of PSE's customers. Those benefits should include both the reduced price per KWh of shifted load and the value of reduced consumption (conservation or curtailment).

The intent of the current TOU program design was to provide participating customers with 100% of the long term benefits of the load shift generated by the program and full benefit of the customers' reduced load. At the same time, participating customers directly pay 92% of the direct incremental cost ($1.16 of $1.26). The benefits were valued based on estimates of long-run avoided costs of generation, transmission and distribution, as agreed to in the general rate case settlement. These are the same avoided costs estimates used for evaluation of PSE's conservation program. One part of the continuing evaluation is to revisit the avoided cost calculations, and to obtain a more precise determination of the impact of shifting, conservation, or curtailment on these long-run avoided costs. In the short run, PSE passes the estimated long-run avoided costs to the TOU customers, while experiencing only the benefits of short-run avoided costs. These short run avoided costs appear to be substantially less than the price differential in the TOU schedules. As a result, not only have TOU customers been paying higher bills than they would have paid under non-TOU rates, but, in addition, PSE apparently has experienced net lost revenue.

The termination of the program at this time will potentially impact the evaluation of the TOU program. As described in the research design submitted on November 1, 2002, the collaborative agreed to a staged research design. The first stage ("Threshold Analysis") will utilize certain preliminary data already available to determine if the program is unambiguously cost effective or not. If the Threshold Analysis is not unambiguous, then additional research is contemplated. While the first stage of this evaluation can be completed without continuation of the program, some of the proposed additional research requires more data than currently exists. Staff believes there is great value in completing at least the first stage of the evaluation, particularly with respect to the evaluation of avoided costs since they would also apply to other aspects of PSE's operations, including conservation.

Staff agrees that PSE should be allowed to terminate the program at this time on less than statutory notice. The substantial drop in participating customers and the bias of the remaining self-selected participants has already reduced the value of additional research. Further, the continuation of the opt-off portion of the program would appear not to be in the interest of those TOU customers who would be better off with non-TOU rates.

Staff also agrees that the Commission should grant PSE a waiver of the notice requirements in WAC 480-100-194. PSE proposes to provide notice to customers of the termination of TOU through billing inserts sent out after the Commission's approval of the termination. That proposal is reasonable under the circumstances.

Conclusion

Staff concludes that it is appropriate for PSE to terminate the pilot TOU program on less than statutory notice effective November 18, 2002, and that the Company's proposed method of noticing its participating customers is reasonable.