

Agenda Date: February 22, 2006
Item Numbers: A1 and A2

Dockets: UE-060266 and UG-060267
Company: Puget Sound Energy

Staff: Joelle Steward, Regulatory Analyst
Jim Russell, Acting Assistant Director – Energy

Recommendation

Issue a complaint and order suspending tariff revisions filed by Puget Sound Energy in Dockets UE-060266 and UG-060267, and set this matter for hearing.

Discussion

On February 15, 2006, Puget Sound Energy (PSE) filed to increase its general rates for both electric and natural gas service. The proposed tariff revisions would increase electric revenues by \$148.8 million, or 9.21 percent, and gas revenues by \$51.3 million, or 5.34 percent. The filing shows that the average residential electric customer would see an increase of \$7.75 per month and the average residential natural gas customer would see an increase of \$4.94 per month.

This filing is submitted in compliance with the Commission Order No. 04 in Docket UE-050870, which stated, “PSE is authorized and required to file a general rate case by mid-February 2006 that, among other things, will result in a new or restated Power Cost Baseline Rate to be effective on January 1, 2007.”

The filing states that the key drivers of the proposed increases are customer growth, higher power costs and investments required to maintain and replace aging infrastructure. Attached is a summary of main cost drivers creating the need for additional revenue. The Company also states that another key driver is the need to maintain a high level of credit and capital market access.

The Company’s request includes:

- An overall rate of return of 8.76 percent.
- A rate of return on common equity of 11.25 percent.
- A capital structure with 45 percent common equity.
- Request for prudence determination for new power supply investments, including the Wild Horse Project (wind farm).
- A Depreciation Tracker for gas and electric infrastructure investment.
- Revisions to the Power Cost Adjustment sharing band.
- New demand-side management pilot programs.
- An electric conservation incentive mechanism.
- A Revenue Normalization Adjustment for natural gas (i.e., decoupling).

The Company notes in the filing that it intends to update its projection of rate year power costs during the course of the proceeding, which could result in an increase or decrease to the total requested electric revenue increase. Also, the Company has not included Schedule 95, Power Cost Adjustment Clause, as a proposed revised tariff sheet. To comply with Commission Order 04 in Docket UE-050870, paragraph 49, the Company will be filing a revised Schedule 95 by May 15, 2006, reflecting a new Power Cost Baseline Rate with an effective date of July 1, 2006. The Company will supplement its filing in this docket to reflect the new Power Cost Baseline Rate once it is known.

For a filing of this magnitude, it is necessary for Staff to complete a thorough analysis of the case before we can make a recommendation on whether the Company's proposed tariff revisions result in rates that are fair, just, reasonable and sufficient. Our analysis will include an audit of PSE's books, accounts, practices, and activities. Staff and other interested parties require sufficient time to conduct a full analysis; therefore, we recommend that the filing be suspended and set for hearing.

PSE serves approximately 1,007,000 electric customers in the counties of King (not Seattle), Kitsap, Thurston, Island, Skagit, Whatcom, Pierce (not Tacoma), Kittitas and Jefferson. It serves approximately 678,000 natural gas customers in the counties of King, Lewis, Pierce, Snohomish, Thurston and Kittitas.

Conclusion:

Staff recommends that the Commission issue a complaint and order suspending the tariff revisions filed by PSE, and set the matter for hearing.

Attachment - 1