

Agenda Date: October 27, 2011
Item Number: A4

Docket: **UG-111752**
Company Name: Puget Sound Energy, Inc.

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

Recommendation

Take no action, allowing the tariff filing made by Puget Sound Energy, Inc. in Docket UG-111752 to become effective on November 1, 2011, by operation of law.

Background

On September 30, 2011, Puget Sound Energy, Inc. (PSE or company) filed revisions to its Purchased Gas Adjustment (PGA) and deferred gas cost amortization tariffs in Docket UG-111752. The combined net effect of the proposed filings is a decrease in annual gas sales revenues of approximately \$43.5 million (4.3 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 over 750,000 gas customers in parts of Snohomish, King, Pierce, Thurston, Lewis, and Kittitas counties in Washington.

Schedule No. 101, Purchased Gas Adjustment (PGA)

PSE's PGA filing adjusts rates that recover expected gas costs from sales customers. PSE filed tariff sheets to reflect a total average cost of gas of \$0.64177 per therm (\$0.50845 commodity plus \$0.13332 demand) resulting in an overall decrease in annual gas sales revenues of approximately \$37.8 million, 3.7 percent, related to prospective natural gas purchases for the period November 2011, through October 2012. The proposed PGA rates reflect approximately 6.1 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 \$0.68321 per therm (\$0.56214 commodity + \$0.12107 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 7 through September 6, 2011) immediately preceding the filing preparation.

Schedule No. 106, Gas Cost Deferral Amortization (Tracker)

PSE's deferred gas cost amortization filing adjusts rates that true up prior over or under recoveries of revenue to cover actual purchased gas expenses. Currently, PSE projects a net over collection balance at the end of October 2011 of approximately \$8 million. 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 an under-collection of demand related costs. The company is proposing to amortize in rates the projected balance of over-recovered commodity costs, but not the under-collected demand related costs to avoid crediting customers while the balance is under-collected.

The net effect of the Tracker Filing is a \$23 million credit to customers through Schedule 106 rates over the upcoming PGA period from November 2011 through October 2012. The proposed tracker rates result in an increase in the credits 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	-\$22.7 (-3.4%)	-\$4.6 (0.7%)	-\$27.3 (4.1%)
Schedule 16*	\$0.0 (-2.3%)	\$0.0 (0.7%)	\$0.0 (4.1%)
Comm. & Ind.			
Schedule 31, 36, 51	-\$8.3 (-3.8%)	-\$1.5 (0.7%)	-\$9.8 (4.4%)
Schedule 41	-\$3.9 (-5.6%)	\$.4 0.6%	-\$3.5 (5.0%)
Interruptible			
Schedule 85	-\$.8 (-6.4%)	\$0.0 0.1%	-\$0.8 (6.3%)
Schedule 86*	-\$.7 (-5.5%)	-\$0.0 (0.0%)	-\$0.7 (5.5%)
Schedule 87*	-\$1.4 (-7.0%)	\$0.0 0.1%	-\$1.4 (6.8%)
TOTAL	-\$37.8 (-3.7%)	-\$5.7 (0.6%)	\$43.5(4.3%)
*\$0.0 due to rounding of small dollar amounts			

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 a decrease of \$3.39 or -4.0 percent, for a revised monthly bill of \$81.59.

Customer Comments

This filing results in a decrease in customer bills. The commission received one customer comment opposing amount of the decrease. Consumer Protection staff advised customers that

they may access company documents about this filing at www.utc.wa.gov, and that they may contact Roger Kouchi at 1-888-333-9882.

General Comments

- The customer commented that the rate reduction should be greater due to the declining natural gas prices.

Staff Response

State law requires rates to be fair and reasonable, and sufficient to allow the company the opportunity to recover reasonable operating expenses and earn a reasonable return on investment. Staff provided the customer a copy of the commission fact sheet, “Understanding Purchased Gas Cost Adjustments.” Additionally, the consumer was provided information regarding the history of PSE’s PGA increases and decreases since 2000.

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 Docket UG-111752 to take effect November 1, 2011, by operation of law.