

Agenda Date: June 28, 2012
Item Number: A2

Docket: UE-120807
Company: Puget Sound Energy

Staff: David Nightingale, Senior Regulatory Engineering Specialist
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Recommendation

Issue a Complaint and Order suspending the revised tariff and set the matter for hearing.

Background

On June 1, 2012, Puget Sound Energy (PSE) filed a petition with the Washington Utilities and Transportation Commission (commission) to revise the WN U-60, Tariff G for Electricity Conservation Service. The petition requests approval of the Fifteenth Revision of Sheet 83 – Electricity Conservation Service and Twenty-First Revision of Sheet 120 – Electricity Conservation Service Rider both with effective dates of July 1, 2012.

Approval of this filing would allow PSE to:

- Cease all electric conservation programs under Schedule 83 in Jefferson County, and
- Cease charging PSE’s Jefferson County customers under Schedule 120 Electricity Conservation Rider.

Additionally, PSE is requesting that:

- The commission order PSE to cease conservation efforts in Jefferson County prior to the to “the expected transaction date for Jefferson PUD to own selected assets of that part of PSE’s system;” or in the absence of this order,
- The commission order PSE to continue its conservation programs in Jefferson County until a date certain; and
- The commission order PSE to collect costs for what the company calls “non-cost-effective” programs from all PSE customers.

In November, 2008, residents in Jefferson County voted to authorize Public Utility District No. 1 of Jefferson County (Jefferson PUD) to become an electric utility, with 54 percent of voters in favor.¹ On May 3, 2010, Jefferson PUD and PSE reached an agreement on a non-binding letter of intent to purchase PSE’s Jefferson County electric utility facilities for \$103 million. To help finance the transaction, Jefferson PUD secured a loan guarantee from the federal government’s Rural Utilities Service on April 10, 2012. The expected transfer date for Jefferson PUD to own

¹ May 3, 2010. “Jefferson PUD Electric Service backgrounder.” Public Utility District No. 1 of Jefferson County. http://jeffpud.org/power_backgrounder.pdf

selected PSE facilities is April 1, 2013.² PSE proposes to terminate conservation programs in Jefferson County on August 3, 2012, nearly eight months prior to the transfer date.

Discussion

PSE proposes incorrect approach to measure life and cost effectiveness for Jefferson County ratepayers

PSE's justification for terminating conservation programs in Jefferson County is that the transfer of ownership makes the programs no longer cost-effective because "there is less than one year of life left for conservation programs to achieve savings in Jefferson County."³ Based on that very short measure life timeframe PSE asserts that the conservation programs are no longer cost-effective. However, this rationale hinges on a re-definition of the term "measure life," which is used to calculate cost-effectiveness. The company then uses this non-standard measure life definition to call all such conservation efforts "non-cost-effective."

Accepted definitions and practice for measure life and cost-effective

Under RCW 19.285.040, PSE is required to "pursue all available conservation that is cost-effective, reliable and feasible." RCW 80.52.030 provides the following definitions (emphasis added):

- (7) "Cost-effective" means that a project or resource is forecast:
 - (a) To be reliable and available within the time it is needed; and
 - (b) To meet or reduce the electric power demand of the intended consumers at an estimated incremental system cost no greater than that of the least-cost similarly reliable and available alternative project or resource, or any combination thereof.
- (8) "System cost" means an estimate of all direct costs of a project or resource over its *effective life*, including, if applicable, the costs of distribution to the consumer, and, among other factors, waste disposal costs, end-of-cycle costs, and fuel costs (including projected increases), and such quantifiable environmental costs and benefits as are directly attributable to the project or resource.

PSE Schedule No. 83 – Electricity Conservation Service, paragraph 4 defines measure life as "the expected life (in years) of the savings of a Measure." The measure life is the length of time over which a measure produces conservation savings.

In accordance with the Agreed Conditions for Approval of Puget Sound Energy, Inc.'s 2010-2011 Biennial Electric Conservation Targets Under RCW 19.285, Docket UE-100177 ("Settlement Agreement"), PSE determines the cost-effectiveness of conservation programs

² April 10, 2012. "USDA approves financing for Jefferson PUD's power utility." Public Utility District No. 1. of Jefferson County. http://jeffpud.org/press_release_041012.pdf

³ Docket UE-120807, June 1, 2012, Cover letter to Mr. David Danner, p. 2.

using the Total Resource Cost (TRC) Test, as modified by the Northwest Power and Conservation Council (Council). The Council TRC calculations compare “all the costs of a measure with all of its benefits, *regardless of who pays those costs or who receives the benefits,*” using “the *net cost* (levelized over the life of the conservation resource) of each of the conservation technologies” and the net benefit, also levelized over the life of the conservation resource (emphasis added).⁴

Similarly, the Council’s Regional Technical Forum (RTF) uses the following definition of Effective Useful Life in calculating measure cost-effectiveness:

“Effective Useful Life (EUL) - Estimate reflecting the median lifetime, defined as the year during which half the measures installed under the program are still in place and operable and half are not (also known as retention, persistence, measure life, median life).”⁵

As established by RCW 80.52.030, the Council and the RTF, cost-effectiveness is calculated using the effective life of a measure.

Application of accepted measure life and cost-effectiveness concepts to Jefferson County

Until April 10, 2012, all of the conservation programs in Jefferson County were still considered cost-effective. The only rationale PSE provides for deeming the programs no longer cost-effective is their inappropriate adjustment of measure life. However, measure lives are determined by the effective useful life, e.g., how long the measure produces conservation savings for the customer, not PSE’s tenure as the owner of the electric system assets in Jefferson County. As shown on page 3 of PSE’s cover letter,⁶ the conservation programs in question have measure lives ranging from three to twenty-eight years, with the exception of Home Energy Reports. Therefore, PSE’s assertion that the conservation programs in Jefferson County are no longer cost-effective because the measure life is less than one year is inaccurate.

PSE is required to pursue all cost-effective conservation resources

As previously stated, PSE is required to “pursue all available conservation that is cost-effective, reliable and feasible” (RCW 19.285.040). Because the conservation measures in Jefferson County are still cost-effective using accurate measure lives, PSE is obligated to continue the conservation programs in Jefferson County until the time PSE ceases to provide electricity service to Jefferson County with an appropriate transition plan.

The proposed change in ownership does not require prospective rate or program changes

Recently, when regulated electric companies have been purchased, conservation programs have not been eliminated or reduced in anticipation of the execution of an ownership change. When

⁴ Northwest Power and Conservation Council. Sixth Power Plan. p. 4-4

<http://www.nwcouncil.org/energy/powerplan/6/final/SixthPowerPlan.pdf>

⁵ Regional Technical Forum. Guidelines for the Development and Maintenance of Measure Lifetimes.

<http://www.nwcouncil.org/energy/rtf/subcommittees/measurelife/RTF%20Measure%20Useful%20Life%20Guidelines%20Final%202012%200515.pdf>

⁶ Docket UE-120807, June 1, 2012, Cover letter to Mr. David Danner, p. 3.

PSE experienced its last ownership change, part of the settlement agreement required an increased level of conservation programming after the transaction was completed. There is no recent precedent for cessation of conservation programs due to asset ownership changes and any changes to programs that have occurred through settlement agreements and orders have not been implemented in anticipation of an ownership change as requested by PSE in this docket. While many pieces of the transaction have reportedly been put in place, the transaction may or may not occur as anticipated. PSE cites no precedent for such an unusual proactive elimination of the conservation program and tariff as requested in this filing.

PSE's proposal is unfair to Jefferson County customers

PSE provides the same cost-effective conservation programs to its customers outside of Jefferson County. It would be unfair for PSE to selectively discriminate against its Jefferson County customers by denying access to the same cost-effective conservation programs it offers to its other customers. Cost-effective conservation is by design a least cost resource for the utility and ratepayer. It would be unjustly discriminatory and unduly preferential to deny least cost resources to Jefferson County customers that are provided to all other PSE customers. Unjustly discriminatory or unduly preferential rates are not allowed by RCW 80.28.020. In addition, RCW 80.28.090 states that no electric company shall "make or grant undue or unreasonable preference or advantage to any person, corporation or locality... or any particular description of service to any undue or unreasonable prejudice or disadvantage in any respect whatsoever." Based on these statutory requirements, the proposal to end conservation services early to existing Jefferson County ratepayers should be denied by the Commission.

Jefferson County customers pay for conservation services on an ongoing basis

PSE notes in the filing that electric customers do not pre-pay for future conservation programs, but rather "pay-as-you-go" through the Electricity Conservation Service Rider.⁷ Conservation is provided on an ongoing basis, therefore Jefferson County customers should be allowed to pay for and receive conservation programs on an ongoing basis. Using this "pay-as-you-go" philosophy, PSE should not prematurely end or change the way conservation programs are paid for and implemented in Jefferson County.

PSE will still meet its RCW 19.285 Biennial Conservation Target

PSE is required to acquire enough conservation resources to meet the company's Biennial Conservation Target, approved by the Commission (UE-111881). PSE is also obligated to pursue all cost-effective, reliable, feasible and available conservation. Because the conservation programs in Jefferson County are still cost-effective, PSE is obligated to pursue them under RCW 19.285, regardless of whether the company has met or exceeded its Biennial Conservation Target. There is no direct connection between the company's obligation to meet its overall conservation target and whether the company should continue to serve its customers or prematurely terminate the Jefferson County conservation program.

⁷ Docket UE-120807, June 1, 2012, Cover letter to Mr. David Danner, p. 5.

PSE's transition plan is appropriate if implemented when electric service ceases

The company has presented an orderly transition plan for ending conservation service to Jefferson County customers.⁸ The dates of the transition plan should be changed to coincide with the transfer of ownership between PSE and Jefferson PUD. This plan does not affect the more fundamental obligation of the company to provide energy conservation programs to all of its electric customers.

Public policy is served by a continuous conservation program

Utilities are required to develop Integrated Resource Plans (IRPs) which describe “the mix of energy supply resources and conservation that will meet current and future needs at the lowest reasonable cost to the utility and its ratepayers.” WAC 480-100-238. When conservation is cost-effective it provides the least cost resource. Additionally, RCW 19.285.040 requires utilities to pursue all cost-effective conservation and includes no provision allowing utilities to pursue less than all cost-effective conservation. The proposed tariff is inconsistent with the requirements of the statute because it would allow PSE to avoid pursuing all cost-effective conservation and the least cost resource available. It is in the public interest and required by law that PSE continue its cost-effective conservation programs in Jefferson County.

Conclusion

Issue a Complaint and Order suspending the revised tariff and set the matter for hearing.

⁸ Id., p. 6.