**Agenda Date:** April 24, 2014

Item Numbers: F1 and F2

**Dockets:** UE-140531 and UG-140533

**Company Name:** Puget Sound Energy

**Staff:** Kristen Russell, Regulatory Analyst

Bradley Cebulko, Regulatory Analyst

**Recommendation**

Take no action, thereby allowing the tariff sheets filed by Puget Sound Energy in Dockets UE-140531 and UG-140533 to become effective May 1, 2014, by operation of law.

**Background**

In June 2013, the commission approved a multi-party settlement agreement establishing electric and natural gas decoupling mechanisms for Puget Sound Energy (PSE or company) as part of the consolidated proceeding in Dockets UE-121697 and UG-121705.[[1]](#footnote-1) Decoupling is a ratemaking and regulatory tool intended to break the link between a utility’s recovery of fixed costs and a consumer’s energy consumption. Some energy conservation advocates have identified decoupling as a tool to promote greater conservation efforts by utilities by removing the so-called throughput incentive, thus leaving the company indifferent to sales lost as a result of the success of its conservation efforts.

The decoupling mechanisms in these filings are deferred accounting mechanisms combined with an embedded rate plan. First, the company records financial revenue based on the allowed delivery dollars per customer. This also creates an accounts receivable from the customers. Using the electric model as an example, the customers are billed on a cents per kilowatt-hour (kWh) as usual, and those billed dollars pay off the receivable. The difference between the financial revenues based on delivery revenues per customer and the actual bill payments based on cents per kWh are deferred. The deferred balances are trued-up annually by a surcharge or credit captured in the next 12-month period.

The rate plan allows for annual rate increases of 3.0 percent for electric rates, and 2.2 percent increases for natural gas rates. These percentages apply to delivery costs only, not power or gas costs. This escalation is known as the K factor and, “…will result in rates that are fair to customers and the company, leaving PSE with an improved opportunity to earn its authorized return while protecting customers by requiring PSE to improve the efficiency of its operations thus building savings that, over the long term, will keep rates lower than they otherwise might be.”[[2]](#footnote-2)

To protect customers from significant deferral rate increases, the revenue collected from the decoupling adjustments are limited by a ‘soft cap’ that restricts deferral surcharge increases to no more than 3.0 percent over the current rates. The settlement agreement also holds PSE to a number of other requirements:

* Achieve electric conservation five percent above its biennial target approved by the commission.[[3]](#footnote-3)
* Participate in the market transformation study for gas conservation by Northwest Energy Efficiency Alliance.
* Share with customers on an equal basis any earning that exceeds its authorized rate of return (Earnings test).
* Fund low-income bill assistance with an additional $1,000,000 per year.
* Fund low-income conservation with an additional $500,000 per year, over two years.
* Participate in a third-party review of the decoupling mechanisms.

**Discussion**

On March 31, 2014, Puget Sound Energy filed proposed revisions to Schedule 142 of its electric and natural gas tariffs. The purpose of the filings is to implement changes to rates under the established Revenue Decoupling Adjustment Mechanism for decoupled customers. The decoupling mechanisms consist of two parts: the deferral and the K-factor. New schedule rates are calculated by adding the surcharge or credit of the deferral to the K-factor escalation.

*Electric Rates*

Deferral

For residential customers, the bill payments collected $14,746,432 more than the allowed level of revenue which will be credited back to customers. Non-residential customers also over paid and will be credited back $742,290. Industrial schedules 26 and 31 will be credited $182,674 and $129,126, respectively. The primary drivers behind the over collections were relatively colder-than-normal temperatures in October and December.

K-factor

The company’s allowed delivery revenues per customer increases each year by 3.0 percent for electric customers. The total impact of the K-factor on current revenues is an additional $26,387,850.

Revenue and Residential Bill Impacts

The net revenue impact is as follows:

K-factor: $ 26,387,850

+ Deferral: $(15,800,522)

= Total: $ 10,587,328

As a result, a residential customer using 1,000 kWh would pay $0.06 more per month from $97.48 to $97.54. The combined effects of the K-factor and deferral within the decoupling mechanism on annual revenues and on PSE’s rates ($/kWh) are found in Tables 1 and 2 below.

Table 1. Revenue Impact of Decoupling and the K-Factor

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Schedule Classes** | **Deferral Amortization** | **K-factor Impact** | **Combined Revenue Impact** | **Percent Change** |
| Residential schedules | $(14,746,432) | $15,350,242 | $603,810 | 0.05% |
| Non-residential schedules | $(742,290) | $7,778,939 | $7,036,649 | 1.03% |
| Schedule 26 | $(182,674) | $2,365,560 | $2,182,886 | 1.34% |
| Schedule 31 | $(129,126) | $893,109 | $763,983 | 0.68% |
| Total | | | $10,587,328 | 0.50% |

Table 2. Rate Impacts

|  |  |  |  |
| --- | --- | --- | --- |
| **Schedule Classes** | **Current Rate** | **New Rate** | **Net Change** |
| Residential schedules | $0.001628 | $0.001685 | $0.000057 |
| Non-residential schedules | $0.000337 | $0.001314 | $0.000977 |
| Schedule 26 | $(0.12) | $0.34 | $0.46 |
| Schedule 31 | $(0.19) | $0.03 | $0.22 |

*Natural Gas*

Deferral

For residential customers, the bill payments collected $5,706,591 more than the allowed revenues which will be credited back to customers. Non-residential customers paid $262,519 less than the allowed revenues requiring a surcharge. Customers on Schedules 85, 85T, 87, 87T also paid $44,485 less than the allowed revenues. As with electricity, the primary drivers behind the over collection was the relatively colder-than-test year temperatures in October and December. The non-residential customers were far less affected by the temperature swings. None of the schedules exceeded the three percent ‘soft cap’ threshold.

K-factor

The company’s allowed delivery revenue per customer increases each year by 2.2 percent for natural gas. The total impact of the K-factor on current revenues is an additional $4,116,819.

Revenue and Residential Bill Impacts

The total revenue impact is as follows:

K-factor: $ 4,116,819

+ Deferral: $(5,102,375)

= Total: $ (985,557)

A residential customer using 68 therms would pay $0.97 less per month from $77.82 to $76.85. The combined effects of the K-factor and deferral within the decoupling mechanism on annual revenues and on PSE’s rates ($/therm) are found in Tables 3 and 4 below:

Table 3. Revenue Impact of Decoupling and the K-Factor

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Schedule Classes** | **Deferral Amortization** | **K-factor Impact** | **Revenue Change** | **Percent Change** |
| Residential schedules | $(5,367,408) | $(2,602,549) | $(7,969,958) | -1.28% |
| Non-residential schedules | $223,035 | $6,719,368 | $6,942,403 | 2.65% |
| Schedules 85, 85T, 87, & 87T | $41,998 | \* | $41,998 | \* |
| Total | | | $(985,557) | -0.11% |

\*Schedules 85, 85T, 87, and 87T were removed from the non-residential schedule calculation this year, therefore, there is no K-factor increase relative to a previous year.

Table 4.Rate Impacts

|  |  |  |  |
| --- | --- | --- | --- |
| **Schedule Classes** | **Current Rate** | **New Rate** | **Net Change** |
| Residential schedules | $0.02101 | $0.00677 | $(0.01424) |
| Non-residential schedules | \* | \* | \* |
| Schedule 85, 85T, 87, 87T | \* | \* | \* |

\*Rates vary by block. Please see attachment 1 for rate impacts by schedule block.

Non-residential natural gas customers are particularly impacted by this filing. The change of overall revenue impacts is a 2.65 percent increase, but this includes the natural gas commodity revenue, which is unaffected by decoupling. The settlement agreement’s 3.0 percent cap on revenue increases only applies to the overall revenue.

*Meeting other requirements*

As stated previously, PSE is obliged to meet additional settlement requirements. The biennial conservation plan filed in November 2013 included an additional five percent above its biennial conservation target. The company has been participating in the market transformation study of natural gas conservation by NEEA. The earnings test is based on the Commission Basis Reports which are currently under review and have been delayed because the company has not yet provided work papers. However, the initial earnings test analysis shows that PSE did not earn above its authorized rate of return. The company has been funding the low-income conservation with an additional $500,000 per year, and funding low-income bill assistance with an additional $1,000,000 per year. The company and staff are currently developing the request for proposal for a third party evaluation of the decoupling mechanisms and will have the first report by the end of 2014.

**Customer Comments**

On April 1, 2014, PSE notified its customers of the proposed rate increase by published notice in area newspapers. PSE also provided television stations, radio stations, and local newspapers with information about the filing. The commission received five customer comments on this filing; two opposed to the increase and three undecided.

General Comments

* Five customers expressed frustration with the frequent rate increases. Increases are hurting senior citizens, people on fixed incomes, and average working class folks.
* Four customers questioned the need for an increase. They stated that PSE is focused on profit and its shareholders, and there is adequate rainfall and hydro-electric power.

Staff Response:

Staff provided information on the ratemaking process and energy rates. Staff advised customers that 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. The commission cannot deny rates that are needed to cover company costs.

Staff also provided information to consumers about decoupling and conservation.

**Conclusion**

Staff recommends the commission take no action, thereby allowing the tariff sheets filed by Puget Sound Energy in Dockets UE-140531 and UG-140533 to become effective May 1, 2014, by operation of law.

1. Consolidated Dockets UE-121697 and UG-121705, Final Order 07, at ¶ 237. June 25, 2013. [↑](#footnote-ref-1)
2. Id. at ¶ 173 [↑](#footnote-ref-2)
3. Per the Amended Petition, PSE is subject to financial penalties for failing to meet the higher level of conservation achievement. [↑](#footnote-ref-3)