

Agenda Date: October 29, 2015
Item Number: A7

Docket: UG-151870
Company Name: Puget Sound Energy

Staff: Jing Liu, Regulatory Analyst
Joanna Huang, Regulatory Analyst

Recommendation

Take no action thereby allowing the tariff revisions filed in Docket UG-151870 to become effective by operation of law.

Background

On September 18, 2015, Puget Sound Energy (PSE or company) filed with the Utilities and Transportation Commission (commission) to revise WN U-2 tariff for natural gas service in Docket UG-151870. The revisions request the approval of the 39th Revision of Sheet No. 1101 – Gas Cost Rates; the 42st Revision of Sheet No. 1106 – Deferred Account Adjustment. The tariff sheets have an effective date of November 1, 2015.

The filing includes PSE’s annual Purchased Gas Adjustment (PGA) mechanism and Deferred Gas Cost Amortization (Deferral) mechanism. They are designed to pass through the utility’s actual cost of natural gas to customers on an annual basis. Periodic technical adjustments to rates are necessary under the terms of the company’s tariffs in order to true up the cost and revenue in its deferred gas cost accounts (Account 191).

In this filing, PSE seeks to reduce annual revenue by \$186 million (-17 percent). PSE also filed for rate increase for pipeline replacement investment under the Cost Recovery Mechanism (CRM), effective November 1, 2015.¹ The following table shows the breakdown of requested revenue change from the two filings.

Docket	Description	Revenue Impact	Percent of Total Revenue
UG-151870	PGA	(\$117,122,634)	(10.74%)
UG-151870	Deferral	(\$68,759,645)	(6.31%)
UG-151159	CRM	5,331,376	0.49%
	Total	(\$180,550,904)	(16.56%)

PSE serves 813,240 natural gas customers in six counties in Washington – King, Kittitas, Lewis, Pierce, Snohomish, and Thurston.

Discussion

Purchased Gas Adjustment

The PGA establishes a projection of the PSE’s gas costs for the coming November 2015 –

¹ See Docket UG-151159 on the no action agenda of the October 29, 2015, open meeting.

October 2016 rate year. 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. Due to lower commodity gas costs, the company is proposing a decrease of approximately \$117 million (-10.7 percent) in annual revenue for the PGA portion.

PSE's PGA consists of two cost categories: the cost of the gas purchased by the company from its gas suppliers and the variable cost associated with pipeline transportation (commodity) and the fixed cost of pipeline transportation and storage capacity under contract (demand). PSE's current residential weighted average cost of gas (WACOG) is \$0.53699 per therm (\$0.40038 commodity and \$0.13661 firm demand) and the proposed WACOG is \$0.42168 per therm (\$0.29270 commodity and \$0.12898 firm demand).²

In arriving at an estimated commodity cost for the coming year, the company uses a variety of known and estimated inputs. Known inputs include volumes of gas to be delivered within the PGA year hedged at a fixed price, and actual cost and volume of gas in storage. Estimated inputs include the load for the PGA year, future spot/index market prices, and prices for financial hedges that will be transacted in, and for, the PGA year. PSE utilizes a 3-month average of forward strip of monthly gas prices from May 29 through August 28, 2015.

The company discovered that it understated the gas cost for September 2015 by \$2.8 million. If the company corrects the error, the proposed rates would have a small increase. Staff recommends not having PSE refile to adjust the costs at this time because the costs will be trued up in the deferral account in next year's PGA filing, and the rate impact is minimal.

WACOG Comparisons

A comparison of the WACOG for the commission's regulated local distribution companies' (LDCs) combined effects for the commodity and firm demand (\$/therm) are as follows:³

WACOG	Avista	Puget Sound Energy	Northwest Natural	Cascade Natural Gas
Commodity	\$0.25031	\$0.29270	\$0.30754	\$0.34417
Demand (firm)	\$0.12133	\$0.12898	\$0.11582	\$0.18370
Total	\$0.37164	\$0.42168	\$0.42336	\$0.52787

Deferral Gas Cost

The Deferral reflects balances in Account 191 that result from the difference between the actual gas costs incurred and the gas costs projected for the period of November 2014 to October 2015. Actual gas costs were lower than projected, which requires a decrease in annual revenue by \$68.8 million (- 6.3 percent).

² The listed charges are *before* revenue sensitive items for comparison purpose.

³ *Id.*

In last year's filing, the company made an error in forecasting the demand costs. It understated a pipeline cost by \$4,115,375 for the 2014 - 2015 PGA period. The cost difference has been trued up in the deferral portion of this year's filing.

Revenue and Residential Bill Impacts

A residential customer using 68 therms (the calculated monthly average) would pay \$12.94 less per month, reducing their average bill from \$81.35 to \$68.41. The combined effects of the PGA and Deferral mechanisms on PSE's rates (\$/therm) and annual revenues are as follows:⁴

Schedule Classes	PGA Change	Deferral Change	Revenue Impact	Percent Change
<i>Residential</i>				
Schedule 23	(\$0.12063)	(\$0.06949)	(\$118,138,297)	(16.1%)
Schedule 16	(\$0.12063)	(\$0.06949)	(1,910)	(16.2%)
<i>Commercial</i>				
Schedule 31	(\$0.12029)	(\$0.06992)	(42,241,007)	(18.0%)
Schedule 41	(\$0.11514)	(\$0.07634)	(15,735,085)	(23.6%)
<i>Interruptible</i>				
Schedule 85	(\$0.11711)	(\$0.07389)	(3,298,868)	(29.5%)
Schedule 86	(\$0.11736)	(\$0.07356)	(1,974,293)	(24.1%)
Schedule 87	(\$0.11700)	(\$0.07402)	(4,492,819)	(31.64%)
Total			(\$185,882,279)	(17.4%)

As a combined result from PGA, Deferral and CRM, a residential customer using 68 therms would pay \$12.54 less per month, decreasing their average bill from \$81.35 to \$68.81.

Customer Comments

PSE published a notice in area newspapers on September 28, 2015. PSE also provided a copy of the notice to community agencies, posted the notice on PSE.com and provided notice to news editors of area newspapers, television and radio stations.

The commission received one customer comment asking why the percentage reduction wasn't the same for all customer classes. The customer believes that large volume accounts receive a significantly greater reduction than Schedule 23 residential. Staff advised the customer that the net change related to PGA was distributed equitably among customer classes. Staff provided the calculation of the change by each class to the customer. The customer was satisfied with this explanation.

Conclusion

Staff has reviewed Puget Sound Energy's expected gas costs (Schedule 101) and deferral amortization rates (Schedule 106) proposed in the company's filing and find them to be reasonable. Staff recommends the commission take no action, thereby allowing the tariff filing in Docket UG-151870 to become effective November 1, 2015, by operation of law.

⁴ The listed charges are *after* revenue sensitive items to reflect the actual revenue impact.