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SERVICE DATE
AUG 14 1997

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION v. PUGET SOUND ENERGY COMPANY	DOCKET NO. UE-971102 ORDER APPROVING RETAIL ELECTRIC PILOT PROGRAM; ALLOWING TARIFFS TO BECOME EFFECTIVE; AUTHORIZING ACCOUNTING TREATMENT OF PROGRAM COSTS; AND, REQUIRING REPORTING

BACKGROUND

On July 1, 1997, Puget Sound Energy Company (PSE or Company) filed tariffs with the Washington Utilities and Transportation Commission (Commission) to effect a retail electric direct access pilot program in compliance with Commission Orders in Docket No. UE-960696 (Schedule 48). The Company's filing would establish a program allowing a limited number of customers the option of purchasing energy from alternative suppliers during the period November 1, 1997, through December 31, 1999.

According to the filing, key features of the pilot program include: all customer classes have an opportunity to participate; participating customers have the opportunity to purchase their energy supply from a provider other than the Company; the pilot is of sufficient size to provide useful information on customer choice; the pilot program is limited in duration to about two years; and, discounts are provided to encourage customer participation. Illustrative implementing tariff schedules were included in the Company's filing. PSE proposed establishing actual pilot delivery service rates closer to the actual beginning of the pilot program in order to reflect then-current regional commodity prices for electricity in the calculation of pilot delivery service rates.

The Commission addressed the proposal at its July 9, 1997 open public meeting in Olympia. No formal action was taken at that time; however, Commission Staff recommended the Company re-file the implementing tariff schedules within seven days, thus establishing with more certainty the pilot delivery service rates. The Company agreed, and re-filed tariff schedules on July 15, 1997. PSE indicated it would reserve the ability to re-file tariff sheets at a later date if regional commodity prices materially affect alternative supplier participation in the pilot -- and then only if changes in commodity prices would result in decreases to pilot delivery service rates.

Additional amendments to the pilot program were filed on July 25, 1997, and again on July 31, 1997, reflecting various changes to the pilot program from ongoing discussions with interested persons. The Commission addressed the Company's amended pilot program proposal on August 1, 1997.

PSE PILOT PROGRAM

In developing the pilot program, PSE worked with the Retail Consumer Choice Pilot Program Collaborative (Collaborative), chartered and sponsored by the Commission. The Collaborative met regularly during the first half of 1997. The Commission charged the Collaborative with producing a set of clear recommendations regarding a pilot program sufficient to yield meaningful and useful information about practical issues raised by open access retail competition.

I. Company Proposal

With the input of the Collaborative, PSE indicates it developed a pilot program to accomplish the following objectives:

- Test and evaluate procedures for small-load customers to participate in a customer choice model for selecting an alternative energy supplier, including the opportunity for aggregation.
- Test and evaluate procedures for alternative energy suppliers to schedule, deliver, and true-up energy deliveries to PSE as a separate delivery provider.
- Evaluate how customers respond to choice and marketing/information programs.
- Test and evaluate alternative metering and billing arrangements for customers.

The pilot will be made available to approximately ten percent of all PSE customers (85,565) with a maximum actual customer participation target of 10,321 or 1.2%. This represents approximately 32.44 aMW of Company load. PSE notes that while the pilot is open to a cross section of all customer classes, greater emphasis is placed on residential and small commercial customers.

To encourage participation, rate discounts will be offered to customers who choose to participate in the pilot program. These discounts vary across the customer classes in a manner inversely proportional to expected participation interest. For residential (Schedule 7) and small commercial (Schedule 24) customers, the targeted discount is nine percent. Customers on Schedules 25 and 29 would receive six percent discounts, while customers on Schedules 26, 31, and 43 would receive 4.5% discounts. High voltage customers (Schedules 46, 48, and 49) would receive 1.5% discounts. PSE proposes that the source of the discount come equally from Company shareholders, customers, and participating alternative suppliers. Consequently, PSE contributes two-thirds of the discount as a direct reduction to the bundled energy delivery rate. PSE expects the remaining third to be contributed indirectly by alternative suppliers in the form of discounts to attract customer interest.

The Company is providing participating customers with bundled "delivery service," including all services necessary to deliver power from alternative suppliers to customers. Customers participating in the pilot would receive separate charges for energy service on bills. They have the choice of either: (1) PSE billing for both delivery and energy service or (2) PSE billing for delivery with alternative suppliers billing for energy service. Collection would be the responsibility of the party billing for services.

In the event a customer who has chosen to have PSE bill for delivery and energy makes a partial payment, the customer is permitted to designate how the payment is to be split between PSE for delivery service and the alternative supplier. PSE will not initiate a disconnection for customer non-payment of an alternative supplier.

II. Customer Education and Minimum Participation

All customers in the selected pilot areas will be mailed educational material by PSE. Also, an initial awareness campaign by PSE will include hosting educational/awareness fairs in the selected areas and making presentations about customer choice. The Company has committed to work with Commission Staff and Public Counsel on developing educational materials, including a consumer pamphlet that compares prices and other key elements of alternative suppliers' product offers.

PSE has committed that if alternative suppliers have been unable to obtain five percent of the number of eligible customers on Schedules 7 and 24 by six months after the start of alternative supplier marketing efforts, it will commence an active informational and promotional program to solicit customer participation.

If after four months of such efforts the specified five percent participation level has not been achieved, PSE will submit a filing to the Commission describing any actions which should be undertaken to encourage greater participation. Appendix K of the Company's pilot program filing describes PSE's customer education plan.

III. Availability and Customer Selection

PSE's pilot program is focused primarily on two market areas: Mt. Vernon/Skagit Valley and Bremerton. The 69,000 customers in these two areas represent approximately 80 percent of total eligible participants. The other 20 percent of eligible customers will come from six-digit zip code areas drawn from the 639 such regions included in PSE's electric service area. The additional samples were selected to target certain customer groups, notably low income and multi-family housing customers, and to examine other technical aspects of open access such as automated meter reading (AMR) technology and alternate customer aggregation methods. The specifically targeted customers are located in parts of Bellevue, Redmond, Issaquah, and North Renton.

Once eligible customers within the selected areas are mailed educational material, participating residential and small commercial customers (Schedules 7, 24, 25, 29, and 43) will be selected on a first-come, first-served basis, subject to a lottery if there is oversubscription. Large load and industrial customers (Schedules 26, 31, 46, 48, and 49) will be selected by a system wide lottery and notified. Participation of large load customers is limited by class and also by load.

Participating customers would be able to take energy service from alternative suppliers as early as November 1, 1997; however, they will be under no obligation to sign up with alternative suppliers during the term of the pilot and may choose to stay with PSE. Customers may switch between suppliers (including switching back to PSE for service) on their billing cycle day on five days notice to the Company. Once a customer returns to PSE, they cannot again become a participating customer.

IV. Pilot Rates

PSE used a "reverse engineering" method for developing delivery service rates, where estimated regional commodity prices and discounts were extracted from existing bundled rates. To generate the commodity prices, class-level forecasted market commodity costs were removed from class-level revenues.

Basic charge and demand revenues were then removed from the residual, with the remaining revenue requirement converted to an energy-based delivery rate. The energy delivery rate was then adjusted by the incentive discount.

Two sets of delivery rates are included in the tariff schedules. Phase 1 rates cover the period November 1997 - December 1998. Phase 2 rates cover January 1999 through December 1999. The rate change in Phase 2 reflects the electric rate increases authorized in Docket No. UE-960195 (merger proceeding).

The reverse engineering approach was selected to avoid two highly contentious issues: (1) cost shifting between customer classes, and (2) intra-class inequities resulting from changes in rate design. Appendix B includes an explanation of the calculation of pilot delivery service rates.

V. Alternative Supplier Participation, Taxation, and Disclosure

Participating alternative suppliers are required to provide PSE with a notarized pilot application providing the general and specific information identified in Appendix G. PSE will provide the information to the Commission which will maintain a publicly available list of eligible suppliers. Alternative suppliers must agree to the terms of the pilot schedules, including adherence to marketing rules (Schedule 80) which define fair and ethical practices. The marketing rules require suppliers to provide a typical bill comparison to customers prior to execution of an agreement.

During the pilot, out-of-state alternative suppliers must agree to register with the appropriate state and local government taxation authorities. In-state alternative suppliers also must agree to make payments to appropriate state and local government taxation authorities such that total payments are equal to the tax payments that otherwise would be made by PSE. Alternative suppliers who directly bill customers will be responsible for remitting appropriate taxes to state and local government taxation authorities.

PSE proposes that alternative suppliers be required to disclose information about the price and characteristics of the source of power that participating pilot customers may purchase. Both elements of the disclosure are designed to help customers make informed choices based on comparable features. A standardized price and generating source disclosure would apply to small-use customers (Schedules 7 and 24). PSE, Commission Staff, and other interested persons have agreed to work with the Regulatory Assistance Project (RAP) in the development of the environmental disclosure labels, and to test customer reaction to such disclosures.

The Company may participate in the pilot as an alternative supplier through an unregulated affiliate. In the event an unregulated affiliate participates, PSE will be subject to the same participation requirements as other alternative suppliers. PSE proposes for the term of the pilot that registered power suppliers not be subject to additional reciprocity requirements associated with the pilot other than reciprocity under PSE's Federal Energy Regulatory Commission (FERC) transmission tariff.

VI. Pilot Operations

PSE is proposing to test a number of approaches to collecting hourly load data, scheduling power, and ensuring correct delivery of energy. Approaches range from using characteristic load profiles for small-load customers relying on current metering technology with monthly settlement with alternative suppliers, to use of automated meter reading (AMR) technology for larger load customers with specific load requirements and daily settlement. In addition, a limited number of customers may procure certain ancillary services from alternative power suppliers which would require telemetering load information outside of PSE's control area.

For a limited number of Schedule 7 and 24 customers, PSE proposes using AMR and advanced data collection techniques to collect hourly load data on an individual customer basis. These customers could be offered time-of-use and real-time pricing options by alternative suppliers.

In the event an alternative supplier fails to deliver sufficient energy to meet a pilot customer's load, PSE stands ready to supply this energy so as to preclude reliability problems for customers, subject to ultimate settlement between the alternative provider and PSE.

VII. Evaluation

The Company has defined a broad evaluation plan, focusing on customer selection process results, customer participation, supplier issues, and other operational issues such as metering, billing, and power scheduling. In the plan, PSE identifies a general timetable for reporting information to the Commission and other interested persons, including the possibility of a mid-stream status report for state legislators prior to the 1998 legislative session.

VIII. Pilot Program Costs

PSE requests an accounting order to defer certain costs associated with the implementation of the pilot program. PSE agrees to cap pilot costs at $3,515,000 subject to certain conditions specified in its filing. The Company proposes deferral of one-half of the pilot tariff power cost discounts and all of the direct incremental costs of administering the program in excess of the $1 million provided in accordance with the Order Approving Stipulation in Docket No. UE-950618. The deferred pilot costs, as reduced by the incremental revenue associated with the two month rate change acceleration as described in the filing, will be considered for recovery in rates in PSE's next electric general rate case. Actual deferred program costs and discounts will be amortized over a three year period immediately following the end of the merger rate plan period if the Company does not file a general rate case with rates in effect in 2002, the end of the rate stability period approved in the PSE merger in Docket No. UE-960195.

PUBLIC COMMENT

At the Commission's July 9 and August 1, 1997 open public meetings, the Commission heard presentations on the open access pilot program by PSE, Commission Staff, Public Counsel, Association of Washington Cities, Cost Management Systems (CMS), ENRON, Washington State Hospital Association (WSHA), and the Department of Community Trade and Economic Development (DCTED). The Commission also received letters commenting on various aspects of the proposed program from the Energy Project, Snohomish County Public Utility District (PUD), Mr. John H. Wolch, CMS, and WSHA. A number of these commentors participated in the Collaborative initiated by the Commission to help design the pilot program.

Commission Staff represented that the proposed pilot program will yield useful information concerning operational, administrative, and consumer educational aspects of retail electricity competition. Upon examination, Staff concluded the bundled pilot program pricing to be reasonable given the experimental nature and short duration of the program. Further, Staff believed the participant selection process to be not unduly discriminatory and the program proposal consistent with the direction provided in the Commission's January 15 and May 19, 1997 letters to the Collaborative. The Staff recommended that the program be approved as filed on July 1, 1997, and subsequently amended on July 15, July 25, and July 31, 1997. Staff described these amendments as addressing a number of issues important to clarifying details of the program, including procedures to accomplish tax neutrality and to reduce perceived barriers to alternative supplier participation associated with registration or reciprocity requirements.

Commission Staff emphasized that consumer protection issues would be handled in three ways: 1) Commission consumer affairs staff will accept and attempt to resolve customer complaints and requests for information; 2) a dispute resolution process will be included in PSE's contracts with suppliers; and, 3) consumer education about making informed market choices. Finally, Staff agreed to work with the Company and Public Counsel on a number of implementation details including registration, pricing data collection, consumer information standards, evaluation implementation, and preparation of FERC filings.

The Company confirmed its intention to work with Commission Staff on developing the final details for implementation of the pilot program including: the registration process; consumer information related to environmental characteristics of electric generation products; pricing information to be obtained and made public during the pilot; evaluation plans and analyses; and, any approvals from FERC necessary for the pilot program to proceed. The Company represented that it believes that the proposed program fulfills the direction provided by the Commission in its letters to the Collaborative and will yield information useful to the Company, the Commission, and others in Washington State interested in practical aspects of open access retail electricity competition. Finally, the Company committed to reporting to the Commission or Staff on the milestone progress of the pilot program, and to revisiting strategies to encourage consumer and supplier participation or other program design issues if, by six months after initiation of the program, participation has not achieved adequate levels.

Public Counsel supported the proposal and made special note of several positive aspects including; geographic areas of eligible customer concentration; a participation incentive for customers; detailed marketing rules; public availability of meaningful pricing information; and, environmental disclosure and labeling information. Public Counsel noted a concern about both the size and the incentive levels as they may affect levels of supplier and customer participation adequate to result in a meaningful pilot program. In particular, Public Counsel noted that the size of the incentive may not be sufficient and that this issue should be revisited if participation does not meet expectations. Public Counsel also noted some concern with alternative supplier registration being done by the Company rather than the Commission. He agreed to work with Commission Staff and the Company on the details of this process, as well as details concerning environmental information labeling, pricing information to be made publicly available, and any requests for waivers or other applications made necessary by rules and procedures of FERC.

Olympia Mayor Bob Jacobs, representing the Association of Washington Cities (AWC), participated in the Collaborative and supported the program. He noted that AWC is particularly interested in three issues: 1) the ability of cities to serve a consumer aggregation function; 2) the ability of city departments or facilities to participate as an eligible customer; and, 3) the ability of cities to maintain traditional tax revenues from electricity sales, whether made by the utility or an alternative supplier. He indicated that the proposed program is consistent with all three of these issues.

CMS, a potential alternative supplier of electricity, was a participant in the Collaborative. While CMS indicates that it is very supportive of a successful pilot program and that a number of issues related to program details were resolved successfully by the collaborative and are included in the program proposal, some key issues remain inadequately addressed. CMS does not support the program as proposed because it does not offer a sufficient number of customers to attract alternative suppliers. CMS argues that the number of customers available for competitive service will not offer alternative suppliers an adequate opportunity to recover their costs and earn a return on their investment to participate in the program. Specifically, CMS recommended that the program could be improved if: 1) the size of pilot participation were increased to 10 to 15% of the Company's customer load; 2) linkage of an increase in eligible large load customers to achievement of participation targets for residential and small load sectors; 3) addition of large customers to the geographic target areas; 4) account for supply to partial load customers as "first through the meter"; and, 5) remove the reciprocity provision.

ENRON, a potential alternative supplier of electricity, was a participant in the Collaborative. ENRON echoed the concerns raised by CMS focusing on the size of the program as a threshold issue inadequately addressed by the program proposal. Consequently, ENRON did not support the proposal. ENRON also emphasized the implications of the timing of the opening of the retail electricity market in California, noting that the number of eligible customers in this pilot is likely not to be sufficient to attract suppliers also preparing to compete in California. ENRON neither offered specific recommendations to improve the proposed program nor suggested a size they believed minimally adequate.

WSHA was a participant in the Collaborative and supports the proposal as filed. WSHA would have preferred a larger program and supports the opportunity to revisit program design in the event of inadequate participation. As a program improvement, WSHA recommended that program eligibility and participation targets be expanded to include Schedule 26 and 31 customers within the geographic target areas.

The Energy Project was a participant in the Collaborative. In a July 7, 1997 letter to the Commission commenting on the program proposal, the Energy Project stated neither opposition nor support for the proposal. It did raise several issues it believed required modifications to be made in the proposal. Specifically, these dealt with the allocation of program costs, customer information and product labeling, and the relationship between partial payment and disconnection. Subsequent amendments were made to the program by PSE to address the partial payment and disconnection issues.

The Department of Community Trade and Economic Development (DCTED) participated as a member of the Collaborative and supported the proposed program. DCTED did note a concern about the likely level of participation in the program and the role the incentive level will have in encouraging participation. They noted that a relatively small incentive may cause the program to get off to a slow start and therefore delay the development of useful information. DCTED noted that it views retail competition pilot programs as research efforts, not an "on-ramp" to any particular state policy regarding electricity competition or industry structure for retail service. DCTED emphasized that it was particularly supportive of the program aspects addressing evaluation, aggregation and geographic concentration, accommodation of media support, environmental characteristics and product labeling, efforts to actively target the low-income community, and modifications made to the original filing to avoid the possibility of service cut-offs due to partial bill payments.

Mr. John H. Wolch, a residential customer of the Company and a member of the Collaborative, submitted a letter to the Commission on July 30, 1997. Mr. Wolch did not take a position on the proposed program, but did offer a number of comments concerning the pilot program and the general issue of restructuring retail electricity service. Mr. Wolch notes that the pilot does not address a full unbundling of metering and billing services and therefore will not present to the consumer the full range of decisions and complexity that a fully restructured retail market may present. Moreover, he notes that the inclusion of an incentive (or discount) to encourage participation may provide inaccurate information about residential customer interest in choosing alternate electricity suppliers. He also comments that environmental information and disclosure that attributes adverse fisheries' impacts to hydroelectricity does a disservice to the non-electric values of hydro development and to the revenue contribution hydro facilities make to fisheries' restoration. Finally, Mr. Wolch expresses skepticism about whether the level of ultimate benefits of electricity competition for residential customers will outweigh the "level of complexity, lack of accountability and confusion" residential customers may face.

Snohomish County Public Utilities District (PUD) was not a member of the Collaborative, but did attend the groups' meetings as an observer and occasional participant in discussion. The PUD submitted a letter to the Commission on July 18, 1997, in which it explains why the PUD will not participate as an alternative electricity supplier in the program. Specifically, the PUD objects to the reciprocity requirement included in the proposal and notes this requirement would so limit the number of customers it might serve that it would be unable to recover its costs and earn a reasonable return on its investments to participate. The reciprocity requirements included in the original filing were amended on July 31, 1997, to be substantially removed and are therefore no longer a part of the program.

A number of other participants in the Collaborative did not submit written comments to the Commission, make a presentation, or take a position regarding the program proposal. These participants include: The Boeing Company, Industrial Customers of Northwest Utilities, and Northwest Conservation Act Coalition. We take the absence of comments from these parties to mean that they do not oppose the proposed program.

COMMISSION DISCUSSION AND DECISION

The Company has developed the proposed pilot program in compliance with its commitment made to the Commission and interested persons at the time Schedule 48 service was approved (Docket No. UE-960696). The Commission chartered a collaborative to work with the Company to develop a pilot program that addressed the concerns of interested persons as well as the objectives of the Commission. In communications to that group (letters of January 15 and May 19, 1997), the Commission described that it expected the pilot program to be designed to "yield meaningful and useful information about the practical issues raised by open access retail competition." Further, the Commission noted that the pilot should provide a practical and actual test of operational and administrative issues, as well as experience with the information consumers will need to make informed and meaningful choices among power suppliers and power products. We reaffirm those objectives and reiterate that, at this point in time, we consider pilot customer choice programs to be important experiments from which utilities, customers, competitive power suppliers, and state policy makers can gain relevant practical and important information for the development of policy affecting retail electricity service. We do not view these programs to establish precedent for, or "on-ramps" to, any specific form of retail market structure.

On December 13, 1995, the Commission issued a policy statement entitled Guiding Principles for Regulation in an Evolving Electricity Industry. These principles were established to provide guideposts to aid Commission review of tariffs, contracts, programs, and other issues as competition enters the electricity industry. The proposed pilot program is intended to provide information about how retail competition might be practically introduced into electricity service. Judged against the eight principles in the policy statement, the proposed experimental program represents a constructive research step toward a utility structure that provides benefits from competition while preserving reasonable and fair rates; avoiding cost shifts; maintaining service reliability; offering consumers an ability to make informed choices; addressing and preserving public purposes; protecting against tax-related competition; providing the public with the ability to make resource choices as consumers; and, not prejudging the treatment of "stranded" resource costs. Consequently, the Commission finds the proposed program to be consistent with the policy statement.

The Commission wishes to thank the individuals who worked so diligently in the Collaborative to produce this proposal. We understand that not all issues have been addressed to the satisfaction of all persons. But, we took note of Public Counsel's observation that the process served to reach agreement where we could and to understand why where we didn't. We agree with Public Counsel that this is a good measurement for the success of a collaborative effort and are pleased that this effort measures well against this yardstick.

As an experiment intended to yield practical information, the program proposed meets well the expectations we established in our letters for a retail competition experiment. We are particularly impressed with the detail devoted to examining various metering, settlement, and operational issues, and to the thoroughness of the evaluation plan. Nevertheless, the program is not perfect. The Commission appreciates the recommendations and suggestions provided by some of the parties for improvements. But, for purposes of gathering timely information that can inform important policy decisions concerning changes in the market structure for retail electricity service, we should not let "the perfect be the enemy of the good." Consequently, the Commission will approve the pilot program proposal made by the Company. The following discussion will clarify our expectations concerning the program, as well as our view of some of the specific provisions it contains.

The Commission acknowledges the concern expressed by a number of parties that program participation from alternative suppliers or consumers may not meet expectations. We share with the parties a desire to see a pilot program with robust participation; however, the issues raised by some parties have important implications for retail competition that go beyond this limited experimental program. The alternative suppliers and large customers have noted that supplier and customer interest in the residential and small commercial classes will likely be the greatest challenge for participation. In fact, the three suppliers who have spoken on the program (CMS, ENRON, Snohomish County PUD) have represented that the "small size" of the program may discourage, or even prevent, their participation. Allusion has been made to the influence of larger markets and opportunities in the soon to be restructured California market. Moreover, representations have been made about minimum program size necessary to yield return on investments necessary to participate.

We find these arguments troubling. Many sectors of the residential and small commercial classes will be inherently small in magnitude and low in available margin. If alternative suppliers demonstrate a lack of interest in participating in a moderate sized pilot that includes all customer classes, should we be skeptical about their future interest in competing to serve sectors of the market that contain predominately small or low margin loads? This question remains rhetorical for now, but we are troubled by the implications of some of the arguments regarding conditions for participation we have heard during review of this program. As noted below, modifications to both the registration and reciprocity provisions have been made to address perceived barriers to alternative supplier participation.

We note the Company's commitment to report to the Commission on the progress of the program and to revisit important program features should participation prove not to meet minimum thresholds. We expect to receive this report, including a discussion of any clearly identifiable reasons for low participation, on or about **March 2, 1998**. Should modifications to program features be needed at that time, the report should include consideration and evaluation of the following: the recommendation made by Public Counsel regarding higher customer incentive levels; the recommendation made by CMS regarding linkage between large customer and residential targets; and, the recommendation of WSHA concerning expansion of the Schedule 26 and 31 eligibility to the geographic target areas. At this time, the Commission believes that the additional recommendation of CMS to permit partial service by alternative suppliers to large loads to be accounted as "first through the meter" is not consistent with program research objectives to test the ability to schedule and track transactions when both PSE and competitive suppliers load-follow.

The registration of participating alternative power suppliers by the Company, rather than by the Commission, is an acceptable compromise for purposes of this pilot program. However, the Commission is not satisfied that this mechanism would be adequate or sustainable under a more general retail competition policy.

This approach is used in the program in order to minimize the jurisdictional issues that might arise with public utilities and out-of-state entities and thereby to maximize the participation of alternative power suppliers.

Registration will serve an important role in consumer protection and system reliability should the policy of the state become general retail competition in the future. Consequently, the Commission believes registration of competitive power suppliers will be an important issue for the Legislature to address as it considers retail competition policy. For purposes of this pilot program, we expect Commission Staff to work with Public Counsel and the Company to establish a registration process and protocol that ensures that: 1) the registration process is non-discriminatory; 2) registration information requirements are sufficient to ensure alternate providers can meet their obligations to the Company and participating customers; and, 3) that the Commission is provided with sufficient information to permit it to assist in resolving customer complaints or other customer requests for assistance.

The retail access reciprocity conditions originally proposed by the Company to be required of alternative suppliers were removed from the final program proposal in the interests of maximizing participation of alternative suppliers. The Company balanced its desire for reciprocal competitive access to the customers of its competitors with its desire for a successful pilot program offering participating customers the widest possible range of competitive suppliers. We commend the Company for striking this balance. The Commission anticipates that a state policy to generally promote retail competition would be fashioned to ensure that all competitors have fair and equal access to all competitive customers.

In pilot programs previously approved for other jurisdictional utilities, the Commission has been adamant that the ability of the state and local jurisdictions to collect taxes related to electricity service should not be adversely affected and that alternate supply competition not simply be a matter of tax avoidance. This program includes a pragmatic approach to this principle. Alternative suppliers are required, as a condition of participation, to make payments to local jurisdictions and the state equal to otherwise applicable taxes. We hope this solution will prove adequate for the duration of this short-term, experimental program. The equal taxation of monopoly and competitive electric utility services is another matter we anticipate will be addressed by the Legislature as it considers retail competition policy.

The Commission understands that electricity pricing information is to be collected during the duration of the program in a manner prescribed in Appendix M of the Company's filing. This information will provide the public with data on market pricing at a level of aggregation sufficient to protect the privacy of individual customers. We consider this to be an important aspect of the pilot program and expect Commission Staff to work with the Company and alternative suppliers to ensure that pricing information is collected and made available to the public in a practical and meaningful way.

The Commission acknowledges the Company's commitment, as a part of this pilot program, to work with Commission Staff and the Regulatory Assistance Project (RAP) to test various ways of presenting environmental and other characteristics of competitive power services to consumers. The Commission believes this to be a very important aspect of the program. We noted in our letter to the Collaborative that we expected the pilot to "test ways to make the option of choosing a power provider as meaningful, understandable, and practical for consumers as possible." When the details of this aspect of the program have been completed, the Commission expects the Company to arrange with Staff for these details to be described in a report or presentation to the Commission.

Finally, the Commission understands the pricing of tariffs for customer participation in the pilot program to be fundamentally a bundled retail service net of an estimate of the market price for power and net of the participation incentive. Approval of the tariffs for this pilot program does not constitute any precedent for unbundling of the components of retail service, or the pricing principles to be followed in such unbundling. The Company is under Order issued in another proceeding to file an unbundled cost study by December 31, 1997. It is in the review of this study that a detailed examination of the disaggregation of costs for the various components of retail service, including transmission and local distribution, will be examined. This process may involve some controversy and is likely to consume some time. In order to permit the pilot program to proceed in a timely manner to yield information important for policy making, it is reasonable for pricing to be set for the program without further unbundling of transmission or delivery charges. If the Company is required to submit these pilot program tariffs for review and approval by the Federal Energy Regulatory Commission (FERC), the Commission is prepared to join the Company and Public Counsel in describing the program and seeking FERC approvals necessary for the program to proceed. We direct Commission Staff to work with the Company and Public Counsel on any such necessary FERC application. If, in response to such an application, FERC orders additional unbundling, the Commission expects program tariffs to be refiled by the Company along with a presentation of the consequences for program pricing.

FINDINGS OF FACT

1. The Washington Utilities and Transportation Commission is an agency of the state of Washington, vested by statute with authority to regulate rates, rules, regulations, practices, accounts, securities, property transfers, and mergers of public service companies, including electric companies and natural gas companies.

2. Puget Sound Energy Company (PSE or Company) is engaged in the business of furnishing electric service within the state of Washington as a public service company.

3. On July 1, 1997, PSE filed an application for approval of a Pilot Program to Test Certain Operational Aspects of Providing a Sample of Electric Customers Direct Access to Alternate Suppliers for a Limited Period of Time (Pilot Program). The filing was amended on July 15, July 25, and July 31, 1997. The filing included tariff changes which were to become effective August 1, 1997.

4. The proposed Pilot Program is consistent with the policy statement issued in Docket No. UE-940932, Guiding Principles for Regulation in an Evolving Electricity Industry.

5. The Company, Commission Staff, and Public Counsel should work together to develop and implement a registration protocol for competitive suppliers, and other implementation mechanisms of this pilot program, consistent with the discussion in the body of this Order.

6. The pricing of the bundled Pilot Program service is adequate to meet the purposes of this experimental retail competition program; however, the pricing principles used, and the allocation of costs between functions, does not constitute a precedent for any future unbundling of retail utility services.

7. The Company, Commission Staff, and Public Counsel should work together to develop any necessary FERC applications and requests, in order to permit the pilot program to proceed. Any such applications do not constitute explicit or implicit approval of any specific facility or functional split between distribution and transmission services. Further, Commission participation in the applications does not constitute a general acceptance of FERC jurisdiction over retail transmission.

8. If any changes to the bundled Pilot Program service tariffs are required by FERC, then the Company must report on the implications of these changes, and refile the Pilot Program tariffs with the Commission if the changes are material.

9. After careful examination of PSE's application for a Pilot Program, giving consideration to all relevant factors, and for good cause shown, the Commission finds that the retail electric pilot program and tariffs are in the public interest. The program should be allowed to become effective October 1, 1997, with service from alternative suppliers commencing on November 1, 1997. The program should expire December 31, 1999. At that date, participating pilot customers should switch back to PSE's standard service, beginning with their last scheduled meter reading before the end of December 1999.

CONCLUSIONS OF LAW

1. The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of this proceeding and the Company.

2. The Pilot Program and its implementing schedules are in the public interest. The program should be allowed to become effective October 1, 1997, with service from competitive suppliers commencing on November 1, 1997. The program should expire December 31, 1999. At that date, participating pilot customers should switch back to PSE's standard service beginning with their last scheduled meter reading before the end of December 1999.

3. The Commission approves the Company's proposed accounting treatment for Pilot Program costs, as described in the body of this Order.

ORDER

THE COMMISSION ORDERS:

1. Subject to the reporting requirements established in this Order, the Puget Sound Energy Company Pilot Program to Test Certain Operational Aspects of Providing a Sample of Electric Customers Direct Access to Alternate Suppliers for a Limited Period of Time (Pilot Program), filed July 1, 1997, and amended July 15, July 25, and July 31, 1997, along with associated implementing tariffs and accounting treatment, is allowed to become effective October 1, 1997, with service from competitive suppliers commencing on November 1, 1997. The program shall expire December 31, 1999. At that date, participating pilot customers shall switch back to PSE's standard service, beginning with their last scheduled meter reading before the end of December 1999.

2. PSE shall file a report to the Commission on or about March 2, 1998, describing the progress of the Pilot Program, and any implementation or participation issues encountered. PSE shall also be prepared to report on such issues during the 1998 and 1999 sessions of the Washington State Legislature.

3. The Company shall follow its proposed accounting treatment for Pilot Program costs, as described in the body of this Order.

DATED at Olympia, Washington, and effective this 1st day of August 1997.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Sharon L. Nelson

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