BEFORE THE

WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

IN RE: **WUTC V. PUGET SOUND ENERGY** **DOCKET NOS. UE-060266 & UG-060267**	**POST-HEARING REPLY BRIEF OF NW ENERGY COALITION**

November 13, 2006

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I. INTRODUCTION

1. The NW Energy Coalition ("Coalition") sees no need for an extensive reply brief; instead we focus on three key points. First we reply to Public Counsel's contention that decoupling will impose "severe hardships on customers" (Public Counsel Opening Brief ¶2) by rebutting the factual foundation on which it bases this charge. Second, although we are not convinced it is necessary, we propose a remedy for the Commission if it wants a further guarantee to prevent the potential for such a hardship. Third, we note that final passage of Washington State Initiative 937 is an additional reason to limit the Electric Energy Efficiency Incentive pilot to three years.

II. PUBLIC COUNSEL'S EVIDENCE FOR SEVERE HARDSHIP IF A DECOUPLING PILOT IS IMPLEMENTED IS BASED ON A FAULTY ANALYSIS OF THE DATA.

2. Apart from purely theoretical arguments that all trackers are harmful to customers, Public Counsel's main factual justification that customers would be harmed by a decoupling pilot comes from two facts. The first is that the Company's gas margin revenues are growing:

> PSE gas margin revenues are growing as a result of adding customers…. PSE's Gas Commission Basis Reports show that gas margin revenues from sales to customers (less purchased energy costs) have grown from $230 million in 1997 to about $336 million in 2005, an increase of more than $100 million. This shows that a major reason for stability of sales volumes is revenues provided by new customers. (Public Counsel Opening Brief ¶24)

3. We do not burden the record with repetitive arguments, but refer the Commission to our Opening Brief, ¶ 15, in which we point out that increased

revenues may, or may not, result in increased *profits*. The reason being that new customers create new costs that may or may not compensate for their added revenues. Thus a showing that PSE's revenues are growing as a result of adding customers has no probative value. In fact, Public Counsel's witness Brosch confirms our position when he states, "I would encourage the Commission to **not accept any unproven assumptions** regarding whether or not customers added to PSE's gas delivery system between rate cases are financially harmful or beneficial to the Company." (Exhibit 506C, pages 38:17-39:3, emphasis added)

4. The second fact Public Counsel uses to bolster its contention of harm to customers is a PSE simulation of the GRNA (decoupling) mechanism under PSE's proposed rates (Public Counsel Opening Brief ¶2, Table 2, originally Exhibit 563) showing that annual surcharges of $18-25 million would likely occur.

5. There are three problems with this simulation and the conclusion Public Counsel tries to draw from it. First, the amounts include adjustments from weather accounting for about two-thirds of the total. But the table "is based on the weather experienced in the last 3 years, which was warmer than normal in each year." (Exhibit 561, page 9, footnote #4) Weather adjustments are more likely to be symmetrical, resulting in a credit as often as a surcharge, and therefore no net harm. Subtracting the weather-related amounts from the table reduces the annual surcharge to a range of $8-9 million.

6. The second reason for skepticism toward this Table is that it assumes the Company will be allowed to collect all of this money. Under our proposal, PSE

would not recover *any* of this money unless it achieved conservation savings equal to its stretch target—and even then only 50% of the amount. PSE would have to achieve 150% of the stretch target in order to receive 100% of the amount. (Exhibit 502, page 24:4-13) Public Counsel favors incentives "tied to energy efficiency above the target levels" (Public Counsel Opening Brief, paragraph 69). Our decoupling proposal is consistent with that interest and is the only decoupling proposal that requires incremental investments in conservation if PSE is to recover monies pursuant to a decoupling mechanism.

7. Finally, Public Counsel neglected to subtract off the rate savings customers will receive from decoupling in the form of a lower cost of capital. We cited evidence that this would amount to about $14 million annually (Coalition Opening Brief ¶7). Together these three factors contradict Public Counsel's concern over "serious hardships."

III. SUGGESTED REMEDY IF THE COMMISSION WISHES TO FURTHER INSULATE CUSTOMERS FROM UNINTENDED HARM AS A RESULT OF IMPLEMENTATION OF A DECOUPLING PILOT.

8. Although the Coalition believes it is unnecessary, we offer a remedy for the Commission if it wishes to further insulate customers from potential unintended harm by decoupling. We refer to the "Earnings Test" that: (1) Avista Corporation proposed in UG-060518 (Direct Testimony of Brian Hirschkorn, pages 11-13); and (2) Avista Corporation, WUTC staff, NW Energy Coalition and Northwest Industrial Gas Users included in their October 27, 2006 Settlement Agreement). The Commission can condition the approval of decoupling for PSE on such a protective mechanism, and we would not object.

IV. FINAL PASSAGE OF WASHINGTON STATE INITIATIVE 937 IS ONE ADDITIONAL REASON TO LIMIT TO THREE YEARS THE ELECTRIC ENERGY EFFICIENCY INCENTIVE PILOT.

9. The Coalition continues to support the list of requirements recommended jointly by WUTC Staff (Exhibit 568 (Steward)) and Public Counsel (Exhibit 513 (Klumpp)) to be included in an Electric Conservation Incentive Mechanism. The limitation of the pilot mechanism to three years was discussed further in the Initial Brief of Commission Staff (paragraph 144) and the Opening Brief of Public Counsel (paragraph 79). With the passage of Initiative 937, a three-year pilot is good timing for evaluating effectiveness as it is prior to the new law's conservation requirement (starting in 2010).

DATED: November 13, 2006

By: _____

Nancy Glaser

NW Energy Coalition