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PUGET SOUND ENERGY

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September 28, 2005

Ms. Carole J. Washburn
Executive Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

RE: Least Cost Planning Rulemaking--Docket No. UG-030312

Dear Ms. Washburn,

This filing sets forth the response of Puget Sound Energy, Inc. ("PSE") to the Notice of Opportunity to File Written Comments dated September 9, 2005, in the above-noted docket. PSE appreciates the opportunity to participate in this rulemaking process.

Attached, please find a few suggested edits to the proposed rules. These suggested edits have two purposes. The first set of edits are designed to tighten up the language by modifying some definitions. The second type of edits suggested will translate some concepts into natural gas industry standard language and to reflect the current state of the natural gas industry. These edits are designed to help clarify and pull together concepts across the entire rule without any policy changes.

PSE hopes the suggested edits are helpful as the Commission considers development of the final new gas IRP rules. If you have any questions regarding these comments or if we can be of any other assistance, please contact me at 425-456-2797.

Sincerely,

Karl Karzmar
Director, Regulatory Relations

DRAFT

Integrated Resource Planning Requirements for Natural Gas Utilities

WAC 480-90-238 Integrated Resource Planning. (1) Purpose. Each natural gas utility regulated by the commission has the responsibility to meet system demand with the least cost mix of natural gas supply and conservation. In furtherance of that responsibility, each natural gas utility must develop an "integrated resource plan".

(2) Definitions.

(a) "Integrated resource plan" or "plan" means a plan describing the mix of ~~resources and strategies for purchasing, transporting, storing and delivering natural gas~~ natural gas supply[1] and conservation that ~~will~~ is designed to[2] meet current and future needs at the lowest reasonable cost to the utility and its ratepayers.

(b) "Lowest reasonable cost" means the lowest cost mix of resources determined through a detailed analysis of a wide range of commercially available sources. At a minimum, this analysis must consider, resource costs, market-volatility risks, demand-side resource uncertainties, the risks imposed on ratepayers, resource effect on system operations, public policies regarding resource preference adopted by Washington state or the federal government, the cost of risks associated with environmental effects including emissions of carbon dioxide, and the need for security of supply[3].

(c) "Conservation" means any reduction in natural gas consumption that results from increases in the efficiency of energy use[4]~~, production, or distribution~~.

(3) Content. At a minimum, integrated resource plans must include:

(a) A range of forecasts of future natural gas demand in firm and interruptible markets for each customer class that examine the effect of economic forces on the consumption of natural gas and that address changes in the number, type and efficiency of natural gas end-uses.

(b) An assessment of commercially available conservation,, including load management, as well as an assessment of currently employed and new policies and programs needed to obtain the conservation improvements.

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[1] "Gas supply" is a more concise way of capturing this list of resources and is further defined in section 3d and e. Also, this change make the gas and electric rules consistent with respect to PSE's recommendation in the electric IRP rule comments.

[2] "Will" seems too deterministic for a long-term plan, given the significant uncertainties in the energy industry. Softening the tone may provide a more reasonable expectation for the plan.

[3] The list of requirements in 2(b) may be easier to follow if these requirements were broken into sub-sections, such as 2(b)(i) resource cost, 2(b)(ii) market-volatility risks, etc.

[4] This definition seems problematic. Improvements in production/distribution/transmission efficiency do not reduce consumption of electricity, rather reduce the quantity of fuel to make the same quantity of electricity consumed. Dropping language indicated here, in conjunction with the change in footnote 1, above, provides a clearer definition.

(c) An assessment of conventional and commercially available non-conventional gas supplies~~manufacturing (as in coal to gas) and production technologies~~[5].

(d) An assessment of opportunities for using company-owned or contracted storage[6] ~~or production~~.

(e) An assessment of pipeline transmission capability and reliability and opportunities for additional pipeline transmission resources.

(d) A comparative evaluation of the cost of natural gas purchasing strategies, storage options, delivery resources[7] and improvements in conservation a using a consistent method to calculate cost-effectiveness.

(e) The integration of the demand forecasts and resource evaluations into a long-range (i.e., at least ten years; longer if appropriate to the life of the resources considered) integrated resource plan describing the mix of resources that ~~will~~ designed to[8] meet current and future needs at the lowest reasonable cost to the utility and its ratepayers.

(f) A short-term, two-year plan outlining the specific actions the utility will take to implement its integrated resource plan.

(g) A report on the utility's progress towards implementing the recommendations contained in its previously filed plan.

(4) Timing. Unless otherwise ordered by the commission, each natural gas utility must submit a plan within two years after the date on which the previous plan was filed with the commission. Not later than 12 months prior to the due date of a plan, the utility must provide a work plan for informal commission review. The work plan must outline the content of the integrated resource plan to be developed by the utility and the method for assessing potential resources.

(5) Public participation. Consultations with commission staff and public participation are essential to the development of an effective plan. The work plan must outline the timing and extent of public participation. In addition, the commission will hear comment on the plan at a public hearing scheduled after the utility submits its plan for commission review.

(6) The commission will consider the information reported in the integrated resource plan, when it evaluates the performance of the utility in rate and other proceedings.

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[5] The suggested language change conveys the same concept using language that is more standard in the natural gas industry.

[6] Reference to production seems a carry-over from pre-FERC Order 636 market structure. Since federal restructuring of the natural gas industry restructuring was completed in 1992 gas utilities in non-producing areas (including the Pacific Northwest) generally do not vertically integrate into the gas production area. Gas production firms employ cost and sophisticated approaches to identify potential gas reserves and successfully extract them. Such firms are able to spread such costs and risks over a much broader geographic base of customers, capturing economies of scale and scope not available to local distribution utility.

[7] "Delivery resources" are included because of the recommendation to drop the reference in section 2a as described in footnote 1. The intent is to ensure proper credit is given to conservation programs to the extent such programs are expected to avoid incremental distribution costs.

[8] Please refer to footnote 2.

[Statutory Authority: RCW 80.01.040 and 80.04.160. 01-11-003 (Docket No. UG-990294, General Order No. R-484), § 480-90-238, filed 5/3/01, effective 6/3/01.]