

Agenda Date: April 25, 2001
Item Number: 2E and 2F

Dockets: UE-010409 and UE-010410

Company: Puget Sound Energy

Staff: James M. Russell, Policy Research Specialist
Thomas Schooley, Policy Research Specialist
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Lisa Steel, Assistant Director – Energy
Penny Hansen, Public Involvement Coordinator

Recommendation:

Suspend the revised Time-of-Use Schedules (sheets 105, 105-a, 307, 307-a, 307-b, and 307-c) proposed by Puget Sound Energy in Docket No. UE-010409 and set for hearing pursuant to RCW 80.04.210 to determine whether the Commission should: (1) amend its Fourteenth Supplemental Order Accepting Stipulation; Approving Merger in Consolidated Docket Nos. UE-951270 and UE-960195; and (2) approve the revised Time-of-Use Rates as filed by Puget Sound Energy in Docket No. UE-010409.

Allow the Conservation Incentive Credit (Sheets 2, 125, 125-a, 125-b, and 125-c) to become effective May 1, 2001, as filed and issue an Order approving the accounting treatment of the Conservation Incentive Credit.

I. Discussion:

On March 27, 2001, Puget Sound Energy (PSE or Company) filed new tariffs implementing Time-of-Use (TOU) rates for certain customers on PSE's Personal Energy Management (PEM) program. Also included within this filing is a broad-based energy buy-back program which PSE calls its Electric Conservation Incentive Credit (CIC).

At the April 11, 2001 Open Meeting the Commission addressed PSE request to approve the filing on less than statutory notice to become effective April 16, 2001. There was considerable discussion from a diverse group of interested parties and from the Commissioners at the Open meeting. At the end of the meeting PSE's request for less than statutory notice was not granted.

On April 17, 2001, PSE made substitute filings in these Dockets to make the following revisions: 1) TOU rates would only apply to approximately 330,000 existing residential customers; 2) The TOU rate differentials have been moderated to the levels reflected below; 3) The TOU rates would be effective on a temporary basis beginning May 1, 2001, and ending on September 30, 2001; and, 4) PSE has revised its accounting petition and the proposed Schedule 105, Time Of Day Pricing Adjustment, to refund only over-

collections that might result from the implementation of TOU rates (any refund would apply to TOU customers).

PSE serves approximately 925,000 electric customers (818,000 residential) in Western Washington.

II. Summary of Proposal Before the Commission:

A) Time-of-Use (TOU) Rates (a load shifting program).

Customers currently on Schedule 7, Residential Service, that have had automated meter reading (AMR) equipment installed, and that is properly working for billing purposes, will be required to pay TOU rates. Residential Service energy charges have been redesigned into 4 time-of-use (TOU) rate periods based on when electricity is consumed. The rate periods include a morning rate (6 am -10 am), a mid-day rate (10 am - 5 pm), an evening rate (5 pm – 9 pm), an economy rate (9 pm – 6 am and Sundays).

Currently, Schedule 7, Residential Service, rates are \$.061376 per kWh for the first 600 kWh and \$.070162 per kWh for all additional energy. The revised Schedule 307, Residential Service, has the following time-of-use rate structure (residential average load profile shown):

<u>Time-Of -Use:</u>	<u>May-September:</u>	<u>Average Load Profile (1,000 kWh)</u>	<u>TOU bill</u>
Morning Energy Charge	\$.079108 per kWh	158 kWh	\$12.50
Mid-Day Energy Charge	.070162 per kWh	240 kWh	16.84
Evening Energy Charge	.079108 per kWh	163 kWh	12.89
Economy Energy Charge	.063585 per kWh	439 kWh	27.91
Low Volume Credit	-.008786 per kWh		<u>(5.27)</u>
(For first 600 kWh to restore the current inverted block rate structure)			\$64.87

A customer with a monthly usage equal to the average residential load profile would experience no change in their bill. For the average load profile residential customer who uses 1,000 kWh per month the bill under current and proposed TOU base rates would be \$64.87 per month. Given the relative homogeneous nature of residential load profiles, 96% of TOU customers will realize a change in their bill of less than 3%, absent any load shifting.

PSE has filed a revised accounting petition under Docket UE-010410 requesting authority to establish a deferred account that will accumulate only over-collections of revenues charged under the TOU rates compared to the revenues that would have been billed under the existing rates. Any cumulative over-collection will then be refunded to TOU customers after the expiration of the TOU rates.

The TOU tariffs are scheduled to terminate at the earlier of either the Company's cancellation (with the approval of the Commission) or on September 30, 2001.

B) Electricity Conservation Incentive Credit (a buy-back program).

The Electricity Conservation Incentive Credit component of PSE's proposal is a buy-back program available to all PSE's firm core customers. The Company would compare each customer's monthly energy consumption with the customer's actual consumption in that same month a year earlier. The customer would then receive a bill credit of \$.05 per kWh for every kWh saved beyond a 10 percent threshold. This program is proposed to run from the effective date through December 31, 2001.

III. Customer Notice:

Staff believes it is essential that all affected customers are aware that they are participating in the program. If the program is approved, the Company should provide direct customer notification to the affected customers that clearly explains the terms and conditions of the program. Because this program is designed to be mandatory for a defined set of customers, the Company's media plan, customer service scripts and direct notice all need to be consistent and clear about which customers must participate in the program and which customers cannot.

A notice also should be sent to all residential customers regarding the Conservation Incentive Credit.

Given the complexity and the conflicting information that has caused many customers to be confused about this proposed program, the Company should work with Staff on the content and design of the notice.

IV. Customer Comments:

The Commission has received 200 letters opposed and 47 letters in favor. In addition, public affairs has received 94 calls opposed and 14 calls in favor and 11 calls that never indicated a position. Total opposed, to date is 294 opposed and 61 in favor.

The general theme of customer comments from these contacts were:

- The Company's proposal rewards the people that have not yet started to conserve energy. Customers wonder how, having already conserved energy, they could participate in the buy-back program by trimming an additional 10% off of their usage.
- Customers feel their monthly bills would increase under this proposal, and that it is a rate increase disguised as a proposal to conserve electricity. A few business owners stated that this proposal will increase their rates up to 32% and believe this proposal needs to be looked at very carefully before the Commission takes final action.

- Modify this rate structure so that it doesn't penalize customers that work during normal business hours, have families, or have already conserved energy.
- In general, customers understand the concept of the time of day proposal but do not accept the proposed rate design. Customers acknowledge the importance of conserving energy but believe there are better ways to achieve this goal.

V. Remaining Issues and Concerns:

A) Threshold Legal Issue: Does this filing fall within the carve-outs authorized in the Merger Order in consolidated Dockets UE-951270 and UE-960195?

Legal Counsel has advised Staff that the TOU rate proposal does not fall within the carve-outs under the Merger Order (see Attachment A).

B) Reporting Requirements at the End of The Program.

PSE has proposed no formal reporting or technical review process with its April 17th substitute filing. Staff has briefly discussed possible reporting requirements with PSE in telephone conversations. Under such a program Staff would hope to be able to determine the amount of load shifting and curtailment, net cost reductions and additional net revenue benefits, and possibly, an estimate of net system benefits.

C) Sharing of Benefits.

PSE's substitute filing includes no sharing mechanism of additional earnings associated with the energy made available by its customers under the load shifting and curtailment programs. Staff is disappointed that PSE has shown an unwillingness to propose any type of sharing mechanism, either through additional financial incentives, funding of conservation programs, or through the write down of regulatory assets (especially related to generation resources).

D) Service Quality Indices (SQI).

The Company has requested that the Commission disregard any potential impacts to the SQI of implementing this program. The specific indices that may be impacted by the proposals are: 1) Percent of customers satisfied with the Company's performance, 2) Number of complaints to the WUTC per 1,000 customers, 3) Percent of calls answered "live" within 30 seconds by the Customer Access Center, and 4) Percent of customers "more than satisfied" with our Customer Access Center. The SQI's were put into place by the merger stipulation in 1997. The Company must annually file with the Commission a report on their SQI performance, including the calculation for penalties incurred, if any, for failing to meet the benchmarks.

The Stipulation from the merger allows the Company to file, with their annual SQI report, a mitigation petition for relief from penalties. The standard to be applied for such petition is that the penalty is due to unusual or exceptional circumstances for which PSE's level of preparedness and response was reasonable. Staff contends that the SQI should not be disregarded or given a grace period with approval of these programs. Rather, the appropriate mechanism to deal with impacts to the SQI is the mitigation petition, if necessary. Staff sees no basis to diverge from the procedure that was agreed to by all parties in the merger Stipulation.

E) Outstanding Data Requests and Review of Information.

As of the drafting date of this memorandum, Staff has outstanding data requests which we are still awaiting a response. We are also continuing to analyze information we received from earlier data requests.

VI. Summary and Conclusion:

For the foregoing reasons, Staff recommends that the Commission suspend the revised Time-of-Use Schedules (sheets 105, 105-a, 307, 307-a, 307-b, and 307-c) proposed by Puget Sound Energy in Docket No. UE-010409 and set for hearing pursuant to RCW 80.04.210 to determine whether the Commission should: (1) amend its Fourteenth Supplemental Order Accepting Stipulation; Approving Merger in Consolidated Docket Nos. UE-951270 and UE-960195; and (2) approve the revised Time-of-Use Rates as filed by Puget Sound Energy in Docket No. UE-010409.

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Attachment.