

Agenda Date: April 26, 2012
Item Number: A1

Docket: UE-120292
Company: Puget Sound Energy

Staff: EJ Keating, Regulatory Analyst
Deborah Reynolds, A/D of Conservation and Energy Planning

Recommendation

Take no action, thereby allowing the tariff filing made by Puget Sound Energy, Inc., in Docket UE-120292 to become effective on May 1, 2012, by operation of law.

Background

On March 1, 2012, Puget Sound Energy (PSE or company) filed revisions to its Electricity Conservation Service Rider, Schedule 120. This mechanism was established as part of a settlement agreement previously approved by the commission,¹ and is also in compliance with conditions related to the requirements of Washington's Energy Independence Act² (EIA).

The purpose of this tariff filing is to establish conservation rates to recover the conservation program's budgeted costs previously approved by the commission.

The conservation program changes were based on documentation provided by PSE in the December 2011 filing³ and its Biennial Conservation Plan filing⁴ which included:

- detailed descriptions of electric conservation programs,
- program changes planned for 2012,
- budget projections for 2012 conservation programs,
- energy savings estimates for 2012 and 2013,
- program and portfolio cost-effectiveness, and
- a conservation evaluation plan.

The program changes were reviewed by UTC staff (staff), the conservation resources advisory group (CRAG), and stakeholders last year. The company made changes to the proposed 2012 conservation programs in response to input from all interested parties. With the approval of the

¹ Twelfth Supplemental Order, UE-011570 and UG-011571 (consolidated), Exhibit F to Settlement Attachment. See also Docket UE-970686 for details on deferral.

² Order 05, Docket UE-100177, Settlement Agreement, October 13, 2010, requiring submission of tariffs to recover electric conservation costs on March 1, 2012, with a proposed effective date of May 1, 2012. See also initial filing in Docket UE-111881.

³ See UE-111860, December 29, 2011, open meeting memo.

⁴ See UE-111881, October 28, 2011 filing.

conservation program changes last December, the commission now must determine the correct rates to recover the costs of these programs.

Staff Review

To set the stage for the rate revisions proposed in the current dockets, it is useful to provide a summary of what UTC staff and interested parties have done in preparation for this filing.

First, over the preceding year, staff members attended numerous CRAG meetings to discuss proposed changes in the conservation rates in accordance with past and current dockets. Next, during the review of this filing, staff asked a variety of questions that were answered through email, phone conversations or in person. Staff received answers in a timely manner and was satisfied with explanations pertaining to changes in year-over-year budget amounts. Many of these details were highlighted in PSE's Annual Conservation Plan and reviewed in prior dockets. As discussed above, the 2012 budget had been reviewed by staff, CRAG members and other stakeholders. Any programmatic changes were reviewed and accepted during that time.

Review of variance. PSE spent approximately \$12 million less on its electric conservation programs in 2011 than previously budgeted. Although all categories showed a decrease in expenditures, the largest decrease was in the direct benefits to customer category⁵. The direct benefit to customer category consists of contract labor and incentives paid to customers and represented approximately 75 percent of overall spending. Staff would prefer to see the direct benefit to customer category increase as an overall percentage to total spending, but understands that there is a cost to running these programs and having the ability to provide information in a timely, efficient and effective manner as PSE does. The trade-off between providing high quality information that is easily audited versus higher rebates to customers is very subjective. Staff believes that 75 percent is an acceptable number. According to PSE, overall spending was down mostly due to residential customers electing to participate in lower-cost conservation measures and commercial customers using lower amounts of Schedule 258 incentives.

Appropriate advertising expenses. Staff requested and received all marketing material. This included conservation related brochures, bill inserts, trade show ads and signage. Staff reviewed all print ads and listened to various TV and radio ads via a link provided by PSE. The marketing materials reviewed complied with WAC 480-100-223 for advertising which informs customers how to conserve energy.

Incentive rebate audit. On April 5, 2012, staff performed an on-site financial audit of PSE's electric and gas conservation programs. The audit focused on operating expenses and incentive rebates for a select group of programs and months and attempted to confirm that expenditures

⁵ Energy Efficiency Services 2011 Annual Report of Energy Conservation Accomplishments.

were paid as stated. The main priority was ensuring the integrity of the financial data with a secondary focus on the efficiency of the programs from a business perspective.

All of the materials requested were available for review upon arrival and efficiently and neatly organized for Staff.

PSE's 2011 showerhead program. There was an approximately 6,200 percent increase in the year-over-year program. PSE explained that the 2010 program was the tail end of a previous campaign and the numbers weren't representative of a full year program. The 2011 campaign was a new web-based replacement program that offered a greater variety of available showerheads. Staff noted that the direct benefit to customer ratio (55 percent of program costs) seemed lower than most other programs; however the Total Resource Cost (TRC) ratio was high at 3.6.

TV Turn-In program. This program had approximately \$50,000 in outside services with no direct benefit to customer payments. This trial program was halted in the research stage when PSE concluded it would not result in cost-effective savings. Staff applauds PSE for not going forward with a questionable program, however also cautions against spending ratepayer funds with no known benefit. Staff would question the use of the conservation tariff to recover spending on research and development or "pipeline" projects prior to determining potential for benefits.

Review of internal controls. Overall the information, documentation and internal controls in place for the PSE conservation programs were very good. However, PSE does not estimate the possible amount of fraudulent activity, such as non-qualifying customers attempting to receive incentive rebates so internal controls are of high importance. Five large grant projects and three different residential rebate batch files containing customer incentive payments were selected to review for the Single Family Existing Space Heat, Electric to Gas Fuel Conversion and C/I Retrofit programs. Total dollar amounts in the files matched documentation presented by PSE. However, one of the Electric to Gas Fuel Conversion rebates appeared to have been customer-installed rather than contractor-installed as required. The paperwork showed initial rejection due to insufficient documentation. It was then processed when receipts and further explanation were provided. However, the paperwork does not reflect the full process. Another file did not have a watermark on the check showing void. Generally copies of checks have a watermark showing void to avoid duplication. PSE has agreed to provide an overview of its residential rebate processing system and the steps it takes to minimize the potential for fraud, duplicate rebates, returns and other areas of concern in addition to detailing the process for allowing customer self-installs.

Discussion

Conservation Service Rider (UE-120292)

During calendar year 2011, PSE spent \$77,865,547 on electric energy efficiency programs, which was a decrease of approximately 13 percent of projected 2011 expenditures. The 2012 projected expenditures for electric energy efficiency programs increased 8 percent to \$96,613,435, not including Schedule 449/459 customers.⁶ The projected expenditures were reviewed by PSE's Conservation Resource Advisory Group (CRAG).⁷

This filing changes the electric rider charges as shown in the following table, reflecting actual costs and collections over the past year, correcting the true-up from actual expenditures and revenues in previous years, and covering the increased amounts budgeted for energy efficiency programs in the upcoming year.

	Schedule	Current Rate per kWh	Proposed Rate per kWh
Residential Service	Schedule 7	\$0.004336	\$0.004359
Commercial Service ⁸	Schedules 24, 25, 26, 29	\$0.003839	\$0.003855
Primary Service ⁹	Schedules 31, 35, 43	\$0.003265	\$0.003609
Campus Service	Schedule 40	\$0.004713	\$0.004360
Large User Services ¹⁰	Schedules 46, 49	\$0.003831	\$0.003807
Outdoor Lighting ¹¹	Schedules 50, 51, 52, 53, 54, 55, 57, 58	\$0.003475	\$0.003880

The filed rates include \$98,476,000¹² in projected energy efficiency program expenditures including Schedule 449 customers, a revenue-sensitive adjustment of \$4,552,667, a decrease for PSE's previous net over-collection of \$11,091,356 and a one-time reduction to Schedule 258 program grants of \$1,000,000 for NEEA and administrative costs. Staff believes the proposed rates are reasonable.

The proposed electric tariff rider reflects a 0.03 percent increase in the company's base electric revenues, increasing the average bill for an electric residential customer using 1000 kWh per month by \$0.02.

⁶ Energy efficiency budget excluding 449/459 customers.

⁷ See UE-111881 and UE-111860.

⁸ Commercial Service rate shown in table equals an average of schedules.

⁹ Primary Service rate shown in table equals an average of schedules.

¹⁰ Large User Services shown in table equals an average of schedules.

¹¹ Outdoor Lighting shown in table equals an average of schedules.

¹² Docket UE-111881.

Customer Comments

On or before March 30, 2012, the company notified its customers of the proposed rate increase by published notice in area newspapers, paid advertisements to community agencies and organizations in the area and provided information to the news editors of local newspapers, television and radio stations with information regarding the filing. The company also posted the notice on its website. The commission did not receive any customer comments on this filing.

Conclusion

Take no action, thereby allowing the tariff filing made by Puget Sound Energy, Inc., in Docket UE-120292 to become effective on May 1, 2012, by operation of law.