

Agenda Date: June 28, 2012
Item Number: A4

Docket: UG-120680
Company: Puget Sound Energy

Staff: David Nightingale, Senior Regulatory Engineering Specialist

Recommendation

Take no action, allowing Puget Sound Energy's proposed gas conservation program tariff revisions in Docket UG-120680 to become effective July 1, 2012, by operation of law.

Background

On May 11, 2012, Puget Sound Energy (PSE or company) filed revised tariff sheets 1183-G and 1183-H adding a new Section 13, "Customers Who Change Provider of Commodity," to Schedule 183, Natural Gas Conservation Service, Tariff WN U-2. The tariff clarifies that conservation funding provided to a customer must be pro-rated over the life of the conservation measure and if a customer chooses to receive all or a portion of their natural gas from another party before the measure life has ended, the customer must repay to the company the remaining portion of the conservation funding if the amount of repayment is \$100 or greater. It also establishes an optional installment repayment plan which applies interest to the balance owed.

The tariff applies only to commercial, industrial and multi-family customers eligible for conservation programs under Schedules 205, 208, 217, 218, 251, and 261 who have elected to enter conservation grant agreements with repayment provisions included.

This prospective filing was presented to PSE's Conservation Resources Advisory Group (CRAG) on March 22, 2012. PSE provided a draft version of the proposed tariff at the April 9, 2012, CRAG meeting.

Discussion

The tariff revision memorializes the existing requirement found in conservation grant contracts for repayment of pro-rated conservation grants when a customer chooses to move to a gas-transportation-only tariff. This practice ensures fairness and consistency in balancing the benefit for conservation to accrue to those who pay for those services.

The new installment repayment plan provides an alternative for customers choosing to switch to gas-transportation-only service. The customer may choose an installment repayment option of up to 10 years with minimum monthly payments of \$250 and with an interest rate equal to the company's authorized after-tax rate of return for cost of capital if the customer's pro-rated amount due is at least \$3,000.

The current budgets for programs affected by this tariff revision are shown below. Even though the affected budgets account for almost 40 percent of the overall natural gas conservation program, the impact of the proposed tariff revision is likely to be small. The existing payback provision has been invoked only twice in the many years of this program, and in 2011 alone over 1,200 grant contracts were executed.

The 2012 Conservation Budget for these schedules is:

Schedule/Program	2012 Budget (\$ thousands)
205 Commercial/Industrial, Retrofits	\$2,895
208 Resource Conservation Managers	\$1,119
217 Multi-Family, Existing	\$227
218 Multi-Family, New	\$354
251 Commercial/Industrial, New Construction	\$609
261 Energy Efficiency Technology Evaluation	\$27

Parallel Tariff Revision Filing for Electric Conservation Docket UE-120679

Also on March 11, 2012, the company submitted a parallel tariff revision for electric conservation programs. It adapted the same tariff language for large electric customers who might similarly switch between the energy and transportation tariffs while under a similar electric conservation grant agreement. No party has opposed this tariff revision.

Concerns of the Northwest Industrial Gas Users, NWIGU

Since the CRAG meetings, NWIGU has expressed three concerns about some of the details of the grant repayment provisions.¹

NWIGU finds \$100 threshold too low

NWIGU's first concern is that the \$100 threshold is too low because the most likely customers to move to a transportation-only tariff are large industrial customers with very large conservation projects. They suggest \$10,000 as a more reasonable threshold for cost recovery or even as high as \$25,000.

The company believes this tariff revision protects conservation funds from the effects of customers switching between tariffs. The \$100 minimum threshold was thought to be a reasonable threshold to recover funds with minimal effort, such as a few phone calls or a short

¹ Paula Pyron e-mail to Deborah Reynolds, David Nightingale, Bob Stolarski, et.al. on June 21, 2012, see excerpted text in Attachment 1.

letter. The company believes that using a higher threshold has the potential to allow a significant amount of funds to be transferred from gas commodity to transportation-only customers.

The \$100 threshold for cost recovery is reasonable as long as the company recovers funds from former commodity customers in a cost-effective manner. A very large-volume customer may have a custom measure project that is near the original end-of-measure-life where the residual pro-rated grant amount calculated may be just under \$10,000. Automatically forgiving \$9,900 is a significant amount of customer money that could be better used to fund ongoing conservation programs.

NWIGU finds interest rate too high and interest payments overly burdensome

NWIGU's second concern is that the proposed tariff revision interest rate should reflect a cost of public debt or other rate instead of the utility's rate of return, and that interest payments are overly burdensome.

The interest rate will be based on calculations from the most recent general rate case, and it only applies to the installment plan. The installment plan is an optional service to the customer and the customers who use these conservation programs are typically large industrial users who likely have access to funding sufficient to pay the remaining pro-rated reimbursement in a lump sum. Therefore, the provisions of the company's proposed installment plan would probably not be used and the interest rate provision of the proposal is likely inconsequential.

NWIGU fears interest provisions may be overlooked

NWIGU recognizes that these are voluntary agreements and that the terms and conditions of the agreements are known prior to a customer agreeing to accept conservation funding. However, NWIGU suggests making the interest provisions in larger font and bold in all future contracts.

The company explains the repayment provisions to customers before they sign the contract and the contracts are only two pages long. The company is willing to entertain the need to change the font and size of this provision if requested.

Conclusion

Take no action, allowing PSE's proposed gas energy efficiency program tariff revisions in Docket UG-120680 to become effective July 1, 2012, by operation of law.

Attachment 1

Excerpt from e-mail from Northwest Industrial Gas Users, Paula Pyron, June 21, 2012.

NWIGU has some concerns with the filing, and I will try to talk with Bob Stolarski again later this afternoon or tomorrow morning if possible along with Dave and you. We have all been in CRAG/IRP meetings for a very long time today. The item does not belong on the consent agenda from NWIGU's perspective unless we can resolve the following:

1. Applying buyout requirement at the \$100 grant level for any sales customer that chooses transportation service is just unreasonably low. I know that Puget rejected the \$25,000 level that is in NW Natural's tariff as I suggested at the CRAG meeting but \$100 does not make sense given the volume size of these sales customers. I also think the point is to recoup funds from large project grants. My suggestion is \$10,000.
2. We have concerns with the proposed Interest rate, as the option of having to pay a utility rate of return does not make sense for the customer to pay over time. Why not a cost of debt tied to something public? That seems more appropriate.
3. Since other customer types are not being pursued for repayment (e.g., a large commercial operation that closes), it seems that these provisions if they are overly burdensome put an uneconomic burden on the customer's ability to make a service election. I know that this only applies to a customer whose contract spells out the buyout requirement if they go to transportation service so you can say they knew what they signed up for, but I remain concerned with adequate disclosure so it would be good to see that the contracts have this boldly stated in large font going forward.