

Agenda Date: October 30, 2013
Item Number: A9

Docket: **UG-131816**
Company Name: Puget Sound Energy, Inc.

Staff: Christopher T. Mickelson, Regulatory Analyst
Kendra White, Regulatory Analyst

Recommendation

Take no action thereby allowing the tariff revisions filed in Docket UG-131816 to become effective by operation of law.

Background

On September 24, 2013, Puget Sound Energy, Inc. (PSE or company) filed with the Utilities and Transportation Commission (commission) to revise WN U-2 tariff for natural gas service. The revisions request the approval of the 37th Revision of Sheet No. 1101 – Gas Cost Rates; the 40th Revision of Sheet No. 1106 – Deferred Account Adjustment; and the 2nd Revision of Sheet No. 40 – Purchased Gas Adjustment Mechanism. The tariff sheets have an effective date of November 1, 2013.

The revisions filed by PSE in docket UG-131816 are related to its Purchased Gas Adjustment (PGA) mechanism and Deferred Gas Cost Amortization (Deferral) mechanism. The filing seeks to increase annual revenue by approximately \$13.497 million (1.5 percent). PSE serves 783,659 natural gas customers in six counties in Washington – King, Kittitas, Lewis, Pierce, Snohomish, and Thurston.

The PGA and Deferral mechanism are designed to pass through the utility's actual cost of natural gas to customers on an annual basis. Periodic technical adjustments to rates are necessary under the terms of the company's tariffs in order to return to customer's credit or debit balances with interest in its deferred gas cost account (Account 191).

The PGA also establishes a projection of the utility's gas costs for the upcoming year. The difference between the projected cost and the actual cost is deferred and ultimately amortized back to customers with interest, as a surcharge or refund.

Staff's analysis showed a lower revenue requirement for PSE's PGA and Deferral than what the company proposed. Staff and the company agreed to a revised revenue requirement of \$3.955 million (0.4 percent) in additional annual revenue and revised rates. On October 14, 2013, the company filed revised rates at staff recommended levels.

Description	Revenue Impact	Percent Change
PGA	(\$20,661,003)	-2.3%
Deferral	\$24,616,337	2.7%
Total	\$3,955,333	0.4%

Discussion

Purchased Gas Adjustment

The PGA includes a projection of gas costs for the coming 2013-2014 heating season. The PGA consists of two cost categories: the cost of the gas purchased by the company from its gas suppliers (commodity) and the cost of pipeline and storage capacity under contract with pipeline transporters (demand). Due to lower commodity gas costs, the company is proposing a revised decrease of approximately \$20.661 million (-2.3 percent) in annual revenue for this portion. PSE's embedded residential weighted average cost of gas (WACOG) is \$0.57996 per therm (\$0.43770 commodity and \$0.14226 firm demand) and the proposed WACOG is \$0.55874 per therm (\$0.40747 commodity and \$0.15127 firm demand).

In arriving at an estimated commodity cost for the coming year, the company uses a variety of known and estimated inputs. Known inputs include volumes of gas to be delivered within the PGA year hedged at a fixed price, actual cost and volume of gas in storage, and the remaining expected load that will either be transacted at spot market prices or hedged at a fixed price through financial instruments. Estimated inputs include the load for the PGA year, future spot/index market prices, and prices for financial hedges that will be transacted in, and for, the PGA year.

Staff uses the term "hedging" to refer to the conversion of a future supply contract at a market price to a fixed price through the use of financial instruments, including options.

Deferral Gas Cost

The Deferral reflects balances in Account 191 that result from the difference between the actual gas costs incurred and the gas costs projected for the period of November 2012 to October 2013. Actual gas costs were higher than projected by approximately \$24.616 million (2.7 percent), which requires an increase in annual revenue.

Financial Hedging Costs

Financial instruments known as hedges have the potential to mitigate the risk of rising natural gas prices by locking in an assumed low fixed price now. However, in a declining or slowly inclining natural gas price environment, financial hedging have the potential to lock in "above market" prices for gas customers. In either case, both the actual spot/index market prices and the financial hedging costs are passed on to ratepayers, where the percentage of volumes hedged is an important component in determining the cost of hedging.

This past year has seen a steady incline in natural gas prices year-over-year. The fixed prices locked in by PSE resulted in a total cost of \$76.84 million above spot prices. Commission staff does not pre-determine prudence, or lack thereof, for the cost of PSE's natural gas operations as

reflected in the PGA mechanism. It should also be noted that financial hedging activities, PGA guidelines, and policies will be discussed in an upcoming workshop for all natural gas utilities regulated by this commission.

Anomalous Conditions

There are five unusual circumstances within this PGA filing:

- 1) Escalating lateral expansion costs that are owned and operated by Northwest Pipeline, but designed and paid for by PSE's customers.
- 2) Jackson Prairie storage related to Cedar Hills Biogas.¹
- 3) Implantation of converting swaps to options.
- 4) An increase in projected sales volume (therms) from decreasing billing determinants (customers).
- 5) A greater amount of gas supply purchased, contracted, and hedged compared to expected forecast sales volumes.

Revenue and Residential Bill Impacts

A residential customer using 68 therms (the calculated monthly average) would pay \$0.36 more per month, increasing their average bill from \$77.48 to \$77.84. The combined effects of the PGA and Deferral mechanisms on PSE's rates (\$/therm) and annual revenues are as follows:

Schedule Classes	PGA Change	Deferral Change	Revenue Impact	Percent Change
<i>Residential</i>				
Schedule 23	(\$0.02204)	\$0.02735	\$2,998,519	0.5%
Schedule 16	(\$0.02204)	\$0.02735	\$61	0.5%
<i>Commercial</i>				
Schedule 31	(\$0.02246)	\$0.02734	\$1,000,705	0.5%
Schedule 41	(\$0.02855)	\$0.02720	(\$101,349)	-0.2%
<i>Interruptible</i>				
Schedule 85	(\$0.02624)	\$0.02725	\$207,432	0.2%
Schedule 86	(\$0.02592)	\$0.02726	\$145,505	0.2%
Schedule 87	(\$0.02635)	\$0.02725	\$320,392	0.2%
Total			\$3,955,333	0.4%

Residential WACOG Comparisons

A comparison of the WACOG for the commission's regulated local distribution companies (LDCs) combined effects for the commodity and demand on residential gas rates (\$/therm) are as follows:

LDCs	Commodity	Demand	Total WACOG
Avista Corporation	\$0.36280	\$0.11298	\$0.47578
Puget Sound Energy	\$0.40747	\$0.15127	\$0.55874
Northwest Natural Gas	\$0.37961	\$0.13393	\$0.50394
Cascade Natural Gas	\$0.43796	\$0.16394	\$0.60190

¹ Is a resource in PSE's electric portfolio.

Customer Comments

PSE posted its proposed tariff changes on its website as required by WAC 480-90-194. This filing represents an increase in rates; therefore PSE is required to provide an additional notice to its customers. The company's news release to the media in its service territory included the specifics of the filing, and PSE provided bill inserts to customers explaining the specifics of the filing. The commission received four customer comments, all opposing the increase.

Consumer protection staff informed the consumer that the documents about this filing are available at www.utc.wa.gov and questions should be directed to Roger Kouchi at 1-888-333-9882. The consumers were advised of the opportunity to participate at the public open meeting.

General Comments

All four customers expressed frustration with the constant increases. Two customers commented about PSE having a monopoly in their service area and having no other options for their energy needs. The majority of the customers voiced concerns about struggling to maintain, are having cash flow problems, or on fixed incomes.

Staff Response

Staff advised the customers that PSE receives no profit from the wholesale purchase of natural gas and that spot market prices are not reflective of gas available for longer term contracts. Staff provided the consumer the fact sheet entitled "Understanding Purchased Gas Cost Adjustments." The consumer was also advised of the opportunity to participate at the public open meeting. In addition, the customers were informed that the commission's regulatory staff reviews the filing to ensure that all rates are appropriate.

Conclusion

Commission staff has completed its review of the company's supporting financial documents, prospective gas costs and deferral amortization filing. Staff's review shows that the expenses are reasonable and required as part of the company's operation. The company's financial information supports the conclusion that the revised rates and charges are fair, just, reasonable, and sufficient.

Take no action, allowing the tariff revisions filed by Puget Sound Energy, Inc., on October 14, 2013, to become effective November 1, 2013, by operation of law.