Agenda Date: October 30, 2014
Item Number: A5

Docket: **UG-143433**
Company Name: Puget Sound Energy

Staff: Joanna Huang, Regulatory Analyst
Jing Liu, Regulatory Analyst

Recommendation

Take no action thereby allowing the tariff revisions filed in Docket UG-143433 to become effective by operation of law.

Background

On September 18, 2014, Puget Sound Energy (PSE or company) filed with the Utilities and Transportation Commission (commission) to revise WN U-2 tariff for natural gas service in docket UG-143433. The revisions request the approval of the 38th Revision of Sheet No. 1101 – Gas Cost Rates; the 41st Revision of Sheet No. 1106 – Deferred Account Adjustment. The tariff sheets have an effective date of November 1, 2014.

UG-143433 incluses PSE's annual Purchased Gas Adjustment (PGA) mechanism and Deferred Gas Cost Amortization (Deferral) mechanism. PSE seeks to increase annual revenue by approximately $23.3 million (2.5 percent) in this filing. PSE serves 805,176 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 customers credit or debit balances with interest in its deferred gas cost accounts (Account 191).

The PGA establishes for the upcoming year a projection of the utility's gas costs. 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.

Description	Revenue Impact	Percent Change
PGA	($19,864,550)	(2.1%)
Deferral	$43,157,781	4.5%
Total	$23,293,232	2.5%

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 decrease of approximately $19.9 million (-2.1 percent) in annual revenue for this portion. PSE's embedded residential weighted average cost of gas (WACOG) is $0.55874 per therm ($0.40747 commodity and $0.15127 firm demand) and the proposed WACOG is $0.53699 per therm ($0.40038 commodity and $0.13661 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. PSE utilizes a three-month average of forward strip of monthly prices for the three basins where PSE acquires gas. The three-month prices mark period is June 5 through September 4, 2014.

Staff discovered during the review that the demand costs for the prospective gas cost were understated by $4,115,375 for the 2014-2015 PGA period. If the company corrects the error, the proposed rates would have a small increase. Staff recommends not having PSE refile to adjust the costs at this time because the costs will be trued up in the deferral portion of next year's PGA filing.

WACOG Comparisons

A comparison of the WACOG for the commission's regulated local distribution companies' (LDCs) combined effects for the commodity and firm demand ($/therm) are as follows:[1]

WACOG	Avista	Puget Sound Energy	Northwest Natural	Cascade Natural Gas
Commodity	$0.38497	$0.40038	$0.40999	$0.43750
Demand (firm)	$0.11830	$0.13661	$0.11970	$0.19486
Total	**$0.50327**	**$0.53699**	**$0.52969**	**$0.63236**

[1] Commodity and demand charges for all LDC's are *before* revenue sensitive items for comparison purpose.

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 2013 to October 2014. Actual gas costs were higher than projected by approximately $43.2 million (4.5 percent), which requires an increase in annual revenue.

Staff discovered during the review that PSE erroneously overstated capacity release revenue in its projected demand costs by approximately $1 million in last year's PGA filing (UG-131816). The error resulted in lower rates in the 2013-2014 PGA period. The understated projection of the 2013-2014 demand cost was captured in the deferral portion of this year's PGA filing.

Revenue and Residential Bill Impacts

A residential customer using 68 therms (the calculated monthly average) would pay $1.61 more per month, increasing their average bill from $77.29 to $78.90. The combined effects of the PGA and Deferral mechanisms on PSE's rates ($/therm) and annual revenues are as follows:

Schedule Classes	PGA Change	Deferral Change	Revenue Impact	Percent Change
Residential				
Schedule 23	($0.02276)	$0.04642	$ 13,891,694	2.2%
Schedule 16	($0.02275)	$0.04642	$ 262	2.1%
Commercial				
Schedule 31	($0.02208)	$0.04642	$ 5,194,513	2.4%
Schedule 41	($0.01220)	$0.04642	$ 2,484,105	4.5%
Interruptible				
Schedule 85	($0.01596)	$0.04642	$ 565,224	4.9%
Schedule 86	($0.01647)	$0.04641	$ 323,993	4.0%
Schedule 87	($0.01577)	$0.04642	$ 833,442	5.4%
Total			$ 23,293,232	2.5%

Customer Comments

Puget Sound Energy notified its customers of the proposed rate increase through a news release and bill inserts mailed to customers in September and October. The commission received no customer comments.

Conclusion

Staff has reviewed Avista's expected gas costs (Schedule 101) and deferral amortization rates (Schedule 106) proposed in the company's filing and find them to be reasonable. Therefore staff recommends the commission take no action, thereby allowing the tariff filing in Docket UG-143433 to become effective November 1, 2014, by operation of law.