PSE PUGET SOUND ENERGY

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September 19, 2019

Filed Via Web Portal

Mr. Mark L. Johnson, Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

Re: Advice No. 2019-35 (PGA and Tracker)
Puget Sound Energy - Natural Gas Tariff Revision

Dear Mr. Johnson:

Puget Sound Energy ("PSE") hereby submits a proposed Purchased Gas Adjustment ("PGA") and proposed Deferred Account Adjustment ("Tracker") including proposed revisions to its WN U-2 natural gas tariff. Enclosed, pursuant to RCW 80.28.060 and Chapter 480-80 WAC, are the following proposed revised tariff sheets:

43rd Revision of Sheet No. 1101 – Supplemental Schedule 101 – Gas Cost Rates
46th Revision of Sheet No. 1106 – Supplemental Schedule 106 – Deferred Account Adjustment
1st Revision of Sheet No. 1106-B - Supplemental Schedule 106 – Deferred Account Adjustment (Continued)
Original Sheet No. 1106-C - Supplemental Schedule 106 – Deferred Account Adjustment (Continued)

The filing consists of proposed changes to Schedule 101 ("PGA"), which reflect changes in wholesale gas and pipeline transportation costs, and Schedule 106 ("Tracker"), which reflect changes in deferral amortization rates. The overall impact of the Schedule 101 rate change is a revenue increase of $17.8 million, or 2.0%, mainly driven by an increase in forecasted demand costs and a slight increase in commodity costs for the upcoming year. The overall impact of the Schedule 106 rate change is a revenue increase of $100.6 million, or 11.4%, driven by higher commodity prices than projected during the previous year. The net impact of this filing is to increase the amount billed to customers under the PGA and its associated Tracker by 13.4% or an overall revenue increase of $118.3 million. The filing includes an effective date of November 1, 2019.

A combination of factors contributed to higher actual commodity costs than projected in the 2018 PGA filing. The October 2018 Enbridge-owned West Coast Pipeline rupture created a capacity reduction, which severely affected the natural gas supply in the Pacific Northwest region. In addition, temperatures in the month of February averaged six degrees below normal and a week of temperatures, were more than 10 degrees below normal. The colder than normal weather lasted through March 12th. Additionally, on February 9th, a compressor at Jackson Prairie (JP) failed and remained out of the service through March 8th, decreasing PSE's withdrawal rights. PSE relies on JP to meet high loads, reduce market purchases during high priced events and seasons, and manage load forecast to actual variances. As a result, PSE experienced an increase in exposure to the Sumas market from both a volume and price perspective.

Purpose of This Filing

The purpose of this filing is to adjust PSE's PGA and Tracker rates. The PGA rates recover expected gas costs from PSE's sales customers. On an average annual basis, the PGA rates included in this filing reflect a 5.7% increase in gas costs. The impact of the increased gas costs, as proposed herein, is an average 2.0% increase in residential gas service rates and an average 2.0% overall increase in gas sales service rates. The annual dollar amount of the change is an increase in revenue of $17.8 million. This filing also represents a corresponding increase in expenses, resulting in no net change in net operating income to PSE.

In addition to the proposed PGA rate changes, the proposed Tracker rate changes adjust the rate for deferred gas costs. The proposed Tracker rates increase the current rates for all rate schedules, which will result in an 11.4% increase to overall gas sales service revenues. This change also results in no impact on net operating income. The combined effect of both the PGA and Tracker proposed rate changes is to increase residential rates by an average 12.4% and overall rates for gas sales customers by 13.4%.

The Tracker rates are designed to true-up prior over or under recoveries of revenue to recover purchased gas expenses. This filing reflects the true-up of actual costs to actual revenue collected through August 31, 2019, and estimated costs to estimated revenue through October 31, 2019. PSE projects the balance in its 191 account will be a $158.3 million under-collection at the end of October 2019. Of the $158.3 million net under-collection, $103.6 million is commodity-related under-recovery resulting from the differences between actual gas market prices and forward prices used in preparation of the 2018 PGA filing. Of the net under-collection, $18.5 million is demand cost under-recovery related to differences between actual demand costs and those estimated in preparation of the 2018 PGA filing. There is also projected to be approximately $4.1 million of an over-recovered balance remaining in the amortization account at the end of October 2019, related to deferrals amortized in PSE's 2018 PGA filing under Schedule 106. There is also projected to be approximately $40.4 million of an under-recovered balance remaining at the end of October 2019, related to November 2018 through January 2019 commodity deferral and interest amortized in PSE's out of cycle supplemental filing earlier this year in March (Docket UG-190218) of Schedule 106.

Due to the size of deferrals and in order to limit rate impacts on customers, PSE is proposing to transfer $114.4 million of under-collected commodity deferrals and interest related to the February through March 2019 time period, to the amortization account and amortize this amount over two years from November 2019 through October 2021 under Supplemental Rate (B) in Schedule 106. PSE is proposing to transfer the remaining $10.8 million projected balance of over-collected commodity costs to the amortization account and amortize this amount over one year under Schedule 106. None of the PGA demand balance is proposed to be transferred to the amortization account because an under-collected balance is expected at the end of October due to the cyclical nature of demand gas cost recoveries relative to cost incurrence. When the current costs that PSE is proposing to transfer to the amortization account are combined with the remaining over-recovered balance of $4.1 million in the amortization account, the net effect is $42.3 million to be surcharged to customers through all Schedule 106 Tracker rates over the upcoming PGA period (November 2019 through October 2020). Because current Schedule 106 Tracker rates reflect the amortization of a $54.7 million credit to customers established in the 2018 Tracker filing, the proposed rates result in an increase to customers through the Tracker rates. The proposed rates in this filing reflect allocation factors using results from PSE's last-filed and Commission approved gas cost of service study, which was performed during its 2017 General Rate Case.

Please note that work papers submitted with this filing contain commercially sensitive information, disclosure of which could adversely affect PSE's ability to effectively negotiate favorable gas supply agreements and conduct wholesale trading for its customers. Therefore, PSE requests that work paper tabs marked confidential be accorded confidential treatment. Pursuant to WAC 480-07-160, they have been marked "Shaded information is designated as confidential per WAC 480-07-160."

Estimating Gas Commodity Costs

PSE has estimated annual gas supply costs for the period November 2019 through October 2020 for the purpose of determining PGA rates using an Excel-based model which is the same as the model used in last year's PGA filing. This methodology creates a least cost supply portfolio that includes supply contracts, storage operations and transportation for the annual period.

A necessary component of the gas cost forecast is the assumed "forward strip" of monthly prices for the basins from which PSE acquires gas. PSE's gas cost forecast utilizes a 3-month average (90-days average) of forward price marks. The 3-month price mark period is June 1 through August 30, 2019, the period immediately preceding the date of the analysis noted above. PSE believes the cost forecast overall is a reasonable basis for setting PGA rates. Actual market prices will most likely differ from the forecast.

Combined Impact of the Proposed PGA and Tracker Rates

With the proposed Tracker rates, PSE is proposing to increase the rates charged to customers during the November 2019 through October 2020 period, the same time period as the proposed PGA rates are expected to be in effect. The combined impact of the proposed PGA and Tracker rates is a revenue increase of $118.3 million, or 13.4%. The typical residential customer on Schedule 23 using 64 therms per month would experience an increase of $7.91 per month or 13.3%. The following table summarizes the separate and combined impact of the proposed PGA and Tracker rates, based on a percentage change in total revenue from each rate schedule:

Estimated Impact on Annual Bills

Rate Schedules	PGA Impact	Tracker Impact	Total Impact
Residential			
23	2.0%	10.5%	12.4%
16	2.2%	11.6%	13.8%
Commercial and Industrial			
31	2.3%	13.1%	15.4%
41	2.1%	18.2%	20.3%
Interruptible			
85	3.3%	25.9%	29.2%
86	2.2%	19.0%	21.2%
87	3.5%	30.7%	34.3%
Total	2.0%	11.4%	13.4%

Customer Notification

Posting of the proposed tariff changes, as required by law and the Commission's rules and regulations, for inspection and review by the public is being completed coincident with the date of this transmittal letter, through web, telephone and mail access in accordance with WAC 480-90-193(1). PSE will additionally publish the change in accordance with WAC 480-90-194(2) a minimum of thirty days prior to the November 1, 2019 effective date.

Conclusion

PSE's proposed PGA rates in this filing reflect PSE's best forecast of gas costs that will be incurred to serve customers during the PGA period November 1, 2019, through October 31, 2020. The proposed Tracker rates reflect the proposed treatment of deferred costs for the period November 2019 through October 2021. The rates proposed in this filing reflect a balancing of customer impacts with reasonable results for gas utility operations. While actual costs will vary from projections due to volatility of market prices and sales volumes, the rates proposed in this filing will provide a reasonable matching of gas costs with revenue generated by the revised rates.

Questions regarding this filing can be directed to Elena Zakharova at (425) 462-3539. If you have any other questions, or if I can be of any assistance, please contact me at (425) 456-2142.

Sincerely,

/s/ Jon Piliaris

Jon Piliaris
Director, Regulatory Affairs
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cc: Lisa Gafken, Public Counsel
Sheree Carson, Perkins Coie
Edward Finklea

Attachments: Natural Gas Tariff Sheets (listed on Page 1)
Work Paper – Schedule 101 (redacted & confidential)
Work Paper – Schedule 106 (redacted & confidential)
Work Paper – Commodity Variance Narrative (redacted & confidential)