

# RUHTER & REYNOLDS

Consulting Economists *3625 North Hall Street  
Suite 750  
Dallas, Texas 75219*

---

*Telephone: 214 219 8100  
Facsimile: 214 219 8101*

---

*www.rrecon.com*

December 30, 2008

Transmitted via electronic mail

Ms. Janet Phelps  
Rates and Regulatory Affairs  
Puget Sound Energy  
P.O. Box 97034 PSE-08N  
Bellevue, WA 98009-9734

RE: Facilitator Report on the Puget Sound Energy Natural Gas Cost of Service Collaborative,  
Docket No. UG-072301

Dear Ms. Phelps:

In its October 8, 2008 Final Order in Puget Sound Energy's ("PSE's") last general rate case, the Washington Utilities and Transportation Commission ("Commission") approved a partial settlement agreement on natural gas rate spread and rate design.<sup>1</sup> Section 7 of the settlement agreement required PSE to conduct a collaborative on natural gas cost of service, rate spread and rate design. The agreement called for PSE to select an outside expert, with input from the parties, to facilitate the process; anticipated completion of the process prior to PSE's next general rate case; and required any agreements reached by the collaborative participants be presented to the Commission for its approval in PSE's next rate case.

On October 20, 2008, I was retained to serve as the facilitator for the collaborative process. My role was to clarify issues and assist the parties in reaching agreements, wherever possible. Collaborative meetings were held on November 3, November 10, December 4, and December 16, 2008. Representatives of the Commission Staff, Northwest Industrial Gas Users, Nucor Steel Seattle, Public Counsel Section of the Washington Office of Attorney General, Puget Sound Energy, and Seattle Steam Company participated in each of the meetings. In addition to these group meetings, various parties had informal discussions in an effort to narrow differences and promote agreements.

---

<sup>1</sup> "Partial Settlement Re: Natural Gas Rate Spread and Rate Design," Dockets UE-072300 and UG-072301, dated August 8, 2008.

Ms. Janet Phelps

RE: Facilitator Report on the Puget Sound Energy Natural Gas Cost of Service Collaborative,  
Docket No. UG-072301

December 30, 2008

Page 2

The group thoroughly addressed cost of service study methodology differences in the last rate case. The major issue leading to significant cost of service study differences in the last case was differences in the parties' approaches for allocating distribution mains. As a result, a large portion of the collaborative group's effort focused on distribution mains allocation methods. A number of mains allocation alternatives were developed, analyzed, and thoroughly discussed in group meetings; however, the parties were unable to reach an agreement on a single approach that was acceptable to all parties. While this outcome is disappointing, the process enabled parties to gain an understanding of considerations supporting each other's positions and should help focus the dialog in the next case on mains allocation methodologies.

The parties did agree that separation of firm and interruptible service in Schedules 85, 86, and 87 for purposes of developing a cost of service study has conceptual merit, but it is not feasible to include this feature as part of PSE's cost of service study in its next rate case.

The parties concluded that absent significant progress on narrowing cost of service study differences, it would not be productive to address and attempt to seek agreements on rate spread or rate design issues.

If I can provide any additional assistance, please do not hesitate to contact me.

Yours truly,

RUHTER & REYNOLDS, INC.



F. Jay Cummings, Ph.D.  
Senior Economist

Cc Tom Schooley, Commission Staff  
Don Schoenbeck and Paula Pyron, Northwest Industrial Gas Users  
Kevin Higgins and Neal Townsend, Nucor Steel Seattle  
Lea Daeschel, Public Counsel Section of Washington Office of Attorney General  
Glenn Watkins, Public Counsel Section of Washington Office of Attorney General  
Karl Karzmar and Dave Hoff, Puget Sound Energy  
Stan Gent and Robert Sheppard, Seattle Steam