



Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, WA 98009-9734

Via electronic mail

August 11, 2006

Ms. Carole Washburn
Executive Secretary
Washington Utilities and Transportation Commission
1300 South Evergreen Park Drive S.W.
P.O. Box 47250
Olympia, WA 98504-7250

**Subject: Docket No. UE-060649
Public Utility Regulatory Policies Act Standards
Comments of Puget Sound Energy, Inc.**

Dear Ms. Washburn:

Puget Sound Energy, Inc. (PSE) appreciates the opportunity to participate in the Commission's examination of whether new regulations are needed to govern aspects of electric utility operations for which new federal standards were included in the Energy Policy Act of 2005. In response to the Commission's Notice of Opportunity to File Written Comments in Docket UE-060649, PSE offers the following comments on Smart Metering. PSE will submit comments on the interconnection issues in a separate filing to be made jointly with other regional utilities.

Smart Metering Comments.

1) Should the Commission, by rule, adopt PURPA Standard 14 – Time-Based Metering and Communications – to apply uniformly to PSE, Avista Utilities, and PacifiCorp requiring each utility to offer by February 8, 2007, a time-based rate to each customer class and the necessary time-based metering to individual customers upon request? Why, or why not?

PSE generally supports the concept of time-based rates for many reasons including: promoting expansion of customer choice for optional products; increasing economic efficiency of customers' loads; giving an additional incentive for energy efficiency; sending proper price signals; and promoting demand response as a capacity resource. PSE has worked to develop time-based metering and time-based rates over the past several years. In fact, PSE has proposed as part of its

pending general rate case filing with the WUTC, several pilot programs in the area of critical peak pricing, voluntary dynamic load curtailment, and load control programs. However, past experience indicates that cost-effective programs, for each customer class and available to individual customers upon request, may be elusive. Subject to the precondition that for any time-based program to be offered it must be cost-effective, PSE could support adoption of a uniform standard. Again, however, past experience suggests that a more focused effort on the most viable prospects would be ultimately more successful.

In addition, requiring this standard by February 8, 2007 will likely be a major challenge for both the utilities that have already deployed an automated meter reading (AMR) system and for those that have not done so. For a utility like PSE that has deployed an AMR system, there are still many key pieces to put in place in order to make voluntary time-based rates available to each and every customer. Such key elements include, but are not limited to, addressing back-office infrastructure program requirements, billing system programming requirements, potential changes to the customer bill itself based on the type of program, and programming updates to the AMR network. Needless to say, these changes as well as the work to set up and educate customers regarding specific programs require implementation time and incremental spending.

As noted above, PSE has proposed several pilot programs in the area of critical peak pricing, voluntary dynamic load curtailment, and load control programs. For most of these programs, PSE is proposing to have the initial pilot period be the winter of 2007-08. This gives an indication of the ramp-up period necessary to put a pilot program in place. For the voluntary pilot programs, such as the residential voluntary critical peak pricing pilot, PSE anticipates a marketing, education and customer recruitment time period of several months.

For purposes of answering all these questions, PSE has assumed that “smart-metering” does not necessarily require meters that have two-way communication ability.

2) Should the Commission examine and determine whether to adopt the Time-Based Metering and Communications Standard on a generic basis (*i.e.*, applying the same requirements to all utilities), or should it consider the standard within separate proceedings specific to the circumstances of each utility?

PSE began implementation of AMR metering in 1997. The technology used throughout PSE’s territory provides for advanced metering. However, in the past few years, other AMR technologies have arrived that implement advanced metering using different methodologies. Other utilities that have not begun widespread implementation of AMR will likely use a different technology. The variances between technologies imply the need for separate proceedings. However, PSE would support the adoption of the Time-Based Metering and Communications Standard on a generic basis, with minor changes and the opportunity for specific implementation in different utilities.

3) Should the Commission reject, reiterate or modify its policy enunciated in Cause U-78-05 that time-of-day rates are appropriate so long as they are cost-effective?

The Commission should reiterate its current policy from Cause U-78-05, which states:

“Sec. 111 (d) (3) Time-of-Day Rates. -- The rates charged by any electric utility for providing electric service to each class of electric consumers shall be on a time-of-day basis which reflects the costs of providing electric service to such class of electric consumers at different times of the day unless such rates are not cost-effective with respect to such class, as determined under section 115(b).

Sec. 115 (b) Time-of-Day Rates. – In undertaking the consideration and making the determination required under section 111 with respect to the standard for time-of-day rates established by section 111 (d) (3), a time-of-day rate charged by an electric utility for providing electric service to each class of consumers shall be determined to be cost-effective with respect to each such class if the long-run benefits of such rate to the electric utility and its electric consumers in the class concerned are likely to exceed the metering costs and other costs associated with the use of such rates.”

Basically, this standard says that rates to classes of electric customers shall be on a time-of-day basis unless it is determined that time-of-day ratemaking is not cost-effective to the utility and its customers. We agree with this standard, and believe that it should be adopted.

4) What factors should the Commission consider in determining whether time-based rates and metering are cost-effective?

Determining cost-effectiveness is a complex issue. The Commission should apply the same cost-effectiveness standards that the Time-of-Use Collaborative of 2002-03 used in evaluating PSE’s time-of-use pilot program. The Time-of-Use Collaborative used a cost-effectiveness model that used a codified set of formulas derived from the California Standard Practice Manual for evaluating demand-side programs and innovative rate programs. The standard practice methodology laid out in this Manual has been adopted by regulatory commissions nationwide. Determining cost effectiveness of individual time-based rates requires certain inputs for the model. Estimating some of those inputs may require pilot programs to be conducted. Pilot programs are intended to test time-based rates in order to gain implementation experience and information on: (i) customer participation in voluntary programs; (ii) costs to recruit and communicate with customers; and (iii) the magnitude of expected load reductions and load shifting. Such information is necessary in order

to determine the practical feasibility and cost-effectiveness of expanding voluntary or mandatory time-based rates in the future.

5) If the Commission adopts the Time-Based Metering and Communications Standard, which, if any, of the 4 listed types of time-based rate schedules should be required? Should the same type of rate schedule be required of all utilities and for all rate classes?

The same type of rate schedule should not necessarily be required of all utilities and for all rate classes. Time-of-use and critical peak pricing products may be more appropriate for residential customers, whereas real-time pricing may only be appropriate for large commercial and industrial customers. As PSE learned on its one-year time-of-use pilot for commercial customers, customers within a “schedule” class can have very different usage patterns. In order to control for the issue of free riders, the utility should be able to differentiate between various business customers based on end use, (e.g., there would be a different rate for grocery stores, office buildings, hotels, hospitals, restaurants, etc.). Another possible method to deal with the participation of free riders on a voluntary program is to “build into” the rate structure an assumed shift in the consumption pattern in order to facilitate that participating customers must change their usage pattern in order to obtain financial rewards.

6) What, if any, relationship should there be between a utility’s integrated resource plan and its use of time-based metering, time-of-use rates and demand management programs?

The Integrated Resource Plan (IRP) is primarily structured to develop a long-term resource strategy based on generic resource costs, operating characteristics, etc. From the resource strategy perspective, it would seem reasonable for electric utilities to estimate the impact that time-of-use rates may have upon a utility’s long-term power portfolio costs, and this could extend to demand response programs as well. PSE cautions, however, that results of such analyses must not be over-applied. Just like utilities do not make energy efficiency acquisition decisions or supply resource acquisition decisions solely on the basis of IRP analysis, decisions to proceed with specific time-of-use and/or demand response programs may require more specific analysis on specific programs.

7) Are there other issues the Commission should consider in this Inquiry?

Yes, cost recovery is the single largest issue when dealing with smart metering initiatives. The spirit and intent of EPAct was to create incentives for infrastructure advancement with new and enabling technology for the grid. If the commission concludes that smart metering should be deployed to enable the grid of the future for Washington, there should be provisions that enable cost recovery so utilities are not forced to trade off infrastructure additions with a smart metering deployment. In addition, utilities that have been proactive in their deployment of smart metering systems or other grid efficiency efforts will have a potentially lower payback than those utilities that have chose not to deploy any such technology. Proactive utilities that are attempting to more effectively serve their

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customers are therefore seemingly punished in the business case that is developed since they are already realizing some of these savings.

PSE appreciates the opportunity to present its viewpoint on this issue and looks forward to further discussions on this topic. Please direct any questions regarding these comments to Eric Englert at (425) 456-2312 or the undersigned at (425) 462-3495.

Sincerely,

/s/ Wrp #GhE rhu

Tom DeBoer
Director – Rates & Regulatory Affairs