Agenda Date:	April 30, 2015
Item Numbers:	A1 & A2
Dockets:	UE-150524 and UG-150525
Company Name:	Puget Sound Energy
Staff:	Jing Liu, Regulatory Analyst Bradley Cebulko, Regulatory Analyst Betty Erdahl, Regulatory Analyst Tom Schooley, Assistant Director – Energy Regulation

Recommendation

Take no action, thereby allowing the tariff sheets filed by Puget Sound Energy in Dockets UE-150524 and UG-150525 to become effective May 1, 2015, by operation of law.

Background

On March 31, 2015, Puget Sound Energy (PSE or company) filed proposed revisions to Schedule 142, Revenue Decoupling Adjustment Mechanism of its electric and natural gas tariffs. The filing is continued implementation of the decoupling mechanism established in 2013. The tariff revision will allow PSE to collect $53 million electric revenue, about 2.6 percent of its total revenue, and $22 million natural gas revenue, about 2.1 percent of its total revenue.

In June 2013, Washington Utilities and Transportation Commission (commission) approved a multi-party settlement agreement establishing electric and natural gas decoupling mechanisms for PSE.[1] Decoupling is a ratemaking and regulatory tool to break the link between a utility's recovery of fixed delivery costs and its energy sales. It is believed that decoupling can promote energy conservation because it removes the so-called throughput incentive, leaving utilities indifferent to sales reduction due to the success of its conservation efforts. It also provides regulated utilities with an opportunity to earn its authorized return by improving operational efficiency.

PSE's decoupling mechanism consists of two parts: (1) deferred accounting mechanism (deferral); (2) an embedded rate plan (K-factor). To determine the deferral, the company first establishes an annual per customer revenue requirement, also known as "Allowed Revenue," which is based on the fixed costs of delivering energy to end users and forecasted customer counts. Allowed revenue essentially creates an accounts receivable from the customers. Throughout the course of the ensuing year, customers are billed on a price per unit to pay off the receivable.[2] Bill payments are also knowns as "Actual Revenue." The difference between the Allowed Revenue and the Actual Revenues is deferred on a monthly basis and then summed over the twelve month period. If, during the course of a year, energy sales are relatively low because of a warmer than normal winter, conservation, or other factors, actual revenue will be

[1] Consolidated Dockets UE-121697 and UG-121705, UE-130137 and UG-130138, Order 07 (Decoupling Order). June 25, 2013.
[2] A unit can be kilowatt-hour, kilowatt, or therm.

less than allowed revenue and the deferred balance will reflect a shortfall in payments. Alternatively, if energy sales are relatively high due to a relatively cold winter or expanded economic activity, billing payments will exceed Allowed Revenue and the deferral balance will reflect a surplus. The deferred balances are then trued up annually by a surcharge (in the case of deferral shortfall) or credit (in the case of a deferral surplus) captured in the next 12-month period.

The K-factor refers to the escalation factor set in the rate plan and is separate from the mechanics of the deferral process. The commission allows for annual rate increases of 3.0 percent for electric delivery costs, and 2.2 percent for natural gas delivery costs. These percentages apply to delivery costs only, not power or gas costs.

The settlement agreement also holds PSE to the following additional requirements:

- To protect customers from significant rate increases, the decoupling adjustments are limited to no more than three percent increase annually for each customer group (three percent soft cap).[3]
- Share with customers on an equal basis any earnings that exceed its authorized rate of return (earnings test).[4]
- Achieve electric conservation five percent above its biennial target approved by the commission.
- Participate in the market transformation study for gas conservation by Northwest Energy Efficiency Alliance (NEEA).
- Fund low-income bill assistance with an additional $1,000,000 per year.
- Fund low-income conservation with an additional $500,000 per year, over two years.
- Participate in a third-party review of the decoupling mechanisms.

In accordance of the decoupling order, PSE's filing contains two-part adjustments: (1) Deferral: true-up of the difference between allowed and actual decoupling revenue during calendar year 2014 and (2) the K-factor: the revenue increase allowance for the upcoming rate year from May 1, 2015, through April 30, 2016. New decoupling rates are the sum of the two components. As will be discussed in details below, proposed decoupling rates will increase for most customer groups.

While preparing the filing, PSE discovered an unintended mistake in the definition of Actual Revenue, for purposes of calculating the current deferrals, as specified in Appendix A and B to the Amended Petition approved in Decoupling Order. Decoupling deferrals are calculated by comparing Allowed Revenue to Actual Revenue. The current definition for Actual Revenue includes the revenue from the amortization of accumulated deferrals from the prior calendar year. As a result, between May 2014 and April 2015, PSE overstated the deferral by $9,544,527 for electric operation and by $2,338,210 for natural gas. The unintended miscalculation has only impacted non-cash tracking accounts and has not impacted customers' rates. PSE filed a petition

[3] Decoupling Order, at ¶ 27.
[4] Decoupling Order, at ¶ 165 and 245.

for approval of errata in the decoupling dockets on March 31, 2015. Staff reviewed the petition and agrees that the correction is necessary. PSE has incorporated the correction in this filing.

Discussion

Electric Rates

Deferral

For residential customers, the bill payments in the last rate year collected $7.4 million less than the allowed level of revenue, which will be assessed as a customer surcharge in the upcoming rate year. Similarly, non-residential and industrial customers underpaid, as well. The primary drivers behind the under-collections were warmer-than-normal temperatures in the 2013-2014 winter. The total deferral balance of all schedules as of year end 2014 is $17 million. Table 1 shows the detailed components of deferral balances for each customer group.

Table 1. Decoupling Deferral Balances As of Year End 2014 (Electric)

	Residential	**Non-Residential**	**Schedules 12 & 26**	**Schedules 10 & 31**	**Total**
2013 Deferral	($544,087)	($18,594)	($2,489)	($7,166)	($572,336)
2014 Deferral	7,989,706	6,421,203	1,245,744	1,856,220	17,512,873
Interest	(47,889)	112,834	13,777	20,522	99,244
Total	**$7,397,730**	**$6,515,443**	**$1,257,032**	**$1,869,576**	**$17,039,781**

K-factor

PSE’s allowed electric delivery revenue per customer increases each year by 3.0 percent. The forecasted allowed volumetric delivery revenue for 2015 rate year will increase from 2014 rate year by $22,576,142, of which the increase for residential customer is $12,918,156.[5]

Adjustments

The proposed rate increase for Schedule 10 & 31 customers (Primary Voltage – General Service) exceeded the 3 percent soft cap. As required by commission, PSE will defer the excess revenue requirement, approximately $2 million, to next year.

Based on its Commission Basis Report for the twelve months ending December 2014, PSE earned 7.74 percent rate of return on its electric operation, lower than the authorized 7.77 percent.[6] No earnings sharing is necessary.

[5] These stated numbers are before adjustments for 3 percent soft cap and earnings test.
[6] UE-150528.

Impact on Customer Bill and Company Revenue

Table 2 shows the proposed rate changes for Schedule 142 as a result of the combined effects of the K-factor and deferral. A residential customer using 1,000 kWh would pay $3.05 more per month from $92.89 to $95.94.

Table 2. Proposed Decoupling Adjustment Rates (Electric)

Schedule Classes	Current Decoupling Rate	New Decoupling Rate	Net Change
Residential schedules (per kWh)	$0.001685	$0.004729	$0.003044
Non-residential schedules (per kWh)	$0.001314	$0.003446	$0.002132
Schedule 12& 26 (per kW)	$0.34	$0.79	$0.45
Schedule 10& 31 (per kW)	$0.03	$0.76	$0.73

Attachment 1 shows revenue impact for different customer groups. The total revenue impact due to decoupling rate changes for all schedules is as follows.

	K-factor:	$ 22,635,092
+	Deferral:	$ 31,115,557
=	Total:	$ 53,750,649

Natural Gas

Deferral

For residential customers, the bill payments collected $21 million less than the allowed revenue which will be assessed to as a customer surcharge in the coming rate year. Non-residential customers paid $6 million less than the allowed revenue. As with electricity, the primary drivers behind the under-collection was the warmer-than-test year temperatures in the 2013-2014 winter. The total deferral balance for these two customer groups as of year end 2014 is $27 million. Table 3 shows components of deferral balances for these two customer groups.

Table 3. Decoupling Deferral Balances As of Year End 2014 (Natural Gas)

	Residential	Non-Residential	Total
2013 Deferral	($856,350)	$48,114	($808,236)
2014 Deferral	22,137,962	5,999,847	28,137,809
Interest	67,481	95,049	162,530
Total	**$21,349,092**	**$6,143,011**	**$27,492,103**

Customers on Schedules 85/85T and 87/87T has been excluded from the decoupling mechanism from January 1, 2014. They will be credited back $27,957 and $16,459, respectively as PSE zeroes out their 2013 deferral balances.

K-factor

PSE's allowed delivery revenue per customer increases each year by 2.2 percent for natural gas. The forecasted allowed volumetric delivery revenue for 2015 rate year will increase from 2014 rate year by $14,165,260. Increases for residential and non-residential customers are $10,840,437 and $3,324,823, respectively.[7]

Adjustments

The proposed rate increase for residential natural gas customers exceeded the 3 percent soft cap. PSE will defer the excess revenue requirement, approximately $8.2 million, to next year.

Based on its Commission Basis Report for the twelve months ending December 2014, PSE earned 7.87 percent rate of return on its natural gas business, exceeding its authorized 7.77 percent.[8] As required, PSE will refund half of its excess earnings, $811,398, to customers.

Impact on Customer Bill and Company Revenue

As a result of the combined effects of the K-factor and deferral, PSE proposes to increase the decoupling adjustment rate for residential customers by $0.03253, from $0.00677 to $0.03930. A residential customer using 68 therms would pay $2.22 more per month from $79.04 to $81.26. Rate changes for non-residential customers vary by blocks.

Attachment 1 shows revenue impact for different customer groups. The total revenue impact due to decoupling rate changes for all schedules is as follows.

	K-factor:	$ (996,102)
+	Deferral:	$ 23,009,281
=	Total:	$ 22,013,180

Meeting other requirements

As part of the decoupling settlement, PSE must achieve an additional five percent above its biennial conservation target. In May 2014, PSE filed its 2012-2013 biennial conservation report and reported that it achieved 4.8 percent above its target.[9] However, the decoupling mechanism went into effect near the end of the 2012-2013 biennium. To clarify the conservation requirements for a partial biennium, staff reached an agreement with PSE to accept PSE's

[7] These stated numbers are before adjustments for 3 percent soft cap and earnings test.
[8] UG-150529.
[9] Docket UE-111881.

compliance for the 2012-2013 biennium with conditions.[10] The commission adopted this settlement in Order 03 of Docket UE-132043. Although 2014 conservation results have not been approved by the commission, nor verified by a third party, PSE is reporting 378,500 MWh of savings, 10 percent above its 2014 target.

PSE continues to play a prominent role in NEEA's natural gas market transformation program, as a founder and as an active member. PSE also continues to fund low-income conservation with an additional $500,000 per year, and fund low-income bill assistance with an additional $1,000,000 per year. A draft of the third party's first year report on the decoupling mechanism was completed on April 22, 2015.

Customer Comments

On March 31, 2015, PSE notified its customers of the proposed rate increase by published notice in area newspapers. PSE also provided television stations, radio stations, and local newspapers with information about the filing. The commission received three customer comments, all opposing the increase.

General Comments

> All three customers feel the company increases its rates too frequently and that the commission needs to look more closely at these requests. They believe the rates are too high and are making it difficult for customers to make ends meet. One of the customers believes the problems have been worse under foreign ownership.

Staff Response

> Staff provided information on the ratemaking process and energy rates. Staff advised customers that state law requires rates to be fair and reasonable and sufficient to allow the company the opportunity to recover reasonable operating expenses and earn a reasonable return on investment. The commission cannot deny rates that are needed to cover company costs. Staff also provided information to consumers about decoupling.

Conclusion

Staff recommends the commission take no action, thereby allowing the tariff sheets filed by Puget Sound Energy in Dockets UE-150524 and UG-150525 to become effective May 1, 2015, by operation of law.

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[10] PSE agreed to exceed its biennial conservation target by five percent for any biennium after 2012-2013 in which decoupling is in effect through December 2017. If the commission terminates or PSE withdraws the decoupling program prior to the end of the biennium, PSE will still be subject to the additional five percent requirement through the remainder of the biennium.