

**Agenda Date:** June 30, 2011  
**Item Number:** A3

**Docket:** **UG-110723**  
**Company Name:** Puget Sound Energy, Inc.

**Staff:** Roland C. Martin, Regulatory Analyst  
Kathryn H. Breda, Regulatory Analyst  
Thomas E. Schooley, Accounting Manager – Energy  
Michael P. Parvinen, Assistant Director of Energy  
Roger Kouchi, Consumer Protection Staff  
Ken L. Elgin, Financial Analyst/Consultant

### **Recommendation**

Issue an order suspending the tariff filing made by Puget Sound Energy, Inc., in Docket UG-110723.

### **Background**

On April 26, 2011, Puget Sound Energy, Inc. (PSE or Company) filed revisions to its currently effective natural gas Tariff WN U-2 in Docket UG-110723. The purpose of the filing is to submit Schedule 134, Pipeline Integrity Program (PIP) which is a new tariff that provides for the recovery of the Company's investment in new plant to implement safety programs related to replacing certain categories of pipe in its natural gas distribution system. The tracker mechanism (Tracker) rate is based on forecasted return on net rate base and depreciation expense associated with the incremental investments over and above the levels embedded in existing rates. The rate estimate will be trued-up to actual costs and loads and will be updated each year.

The proposed tariff is related to four mitigation programs but could include other programs in the future. The initial scope of the PIP is limited to the following programs: (1) Bare Steel Replacement Program; (2) Wrapped Steel Service Assessment Program (3) Wrapped Steel Main Assessment Program; and (4) Older Polyethylene Pipe Replacement Program. Each program and the characteristics of the pipe involved are described below.

The partial-year effect of the proposed filing is an increase in gas revenues of approximately \$732,000 or about 0.4 percent, for the July 1 through October 31, 2011, initial program period. However, subsequent rate adjustments will be filed on an annual basis with a November 1 effective date which coincides with the Purchased Gas Adjustment (PGA) periodic rate change.

PSE, a combined electric and natural gas utility, serves approximately 750,000 gas customers in parts of Snohomish, King, Pierce, Thurston, Lewis, and Kittitas counties in Washington.

### **Residential Bill Impacts**

The typical residential customer with an average monthly consumption of 68 therms will see a monthly bill increase of approximately \$0.39 or 0.5 percent during the initial four-month cost recovery period.

### **Customer Comments**

On May 31, the company notified its customers of the proposed rate increase by posting notice on its website, publishing notice in area newspapers, and distributing through community agencies and organizations in the area. The company also provided information to the news editors of local newspapers, television and radio stations with information regarding the filing. The commission received two customer comments; one in favor and one opposed.

Please note that customers often address several issues of concern within one comment. Therefore, subtotals may not equal the total number of comments submitted. The date, time and place of the open meeting were provided to the customers.

#### General Comment

- One customer was in favor of the rate increase. The customer stated that it is a small price to pay to improve the reliability and safety of the network of pipelines.

#### Staff Response

Advised the customer his comments were added to the record and his name placed on the interested persons list.

- One customer believes PSE's business model is flawed. The customer stated that PSE customers, over the years, have been subjected to continual rate increases and surcharges for natural gas and electric service. He believes that the company wants higher rates to make up for a lack of sound business planning.

#### Staff Response

Customer was advised 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 will review the reasonableness of the rate request and make its recommendation(s) to the commission.

### **Discussion**

PSE is seeking approval of a new cost recovery mechanism that increases certain natural gas rates to recover costs related to replacing four types and vintages of gas piping that PSE's operational data demonstrate have a higher likelihood of leaking:

*Bare steel services and mains:* This is an ongoing replacement program that will remove all bare

steel and wrought iron by the end of 2014. These facilities were typically installed during or before 1958 and company data demonstrate these pipes have hazardous leaks at higher rate than any pipe in the company's system. As of the end of 2010 the company has replaced 178 miles of these facilities and has 29 miles more to remove. Between 2011 and 2014, PSE plans to increase the amount of pipe replaced annually by 38 percent from 99,205 to 137,485 feet. This program is the result of a settlement of a formal complaint brought by the commission and has been underway since 2005<sup>1</sup>.

Wrapped steel services: PSE initiated this program in 2006 to address higher risk services that were installed before 1972. The company began installing wrapped steel services in 1959. In 1972 the federal government required that steel pipeline facilities had to be protected from corrosion by cathodic protection systems. The wrapped steel program relies on a risk assessment model the company has validated through surveys and direct examination of exposed services. Most of facility the replacement in this program has been completed, although the company will continue to apply its risk model to these facilities each year. For example, the company replaced nearly 9,000 services in 2006 and 394 services in 2010. As with the bare steel, this program was the result of settlement of a 2004 commission complaint<sup>2</sup>.

Wrapped steel mains: This program was implemented in 2010 by the company based, in part, on the data collected as part of its wrapped steel service program. The facilities in question are wrapped steel mains installed between 1959 and 1972. As above, targeted mains are identified using a risk model.

Older, high density polyethylene pipe: Polyethylene (PE) pipe installed before 1986, particularly high density pipe manufactured by DuPont, has shown a higher than normal rate of cracking and fusion failure. PSE developed a risk model for such pipe in 2009 based on its failure history. Last year the company replaced 9,500 feet of this pipe and plans to replace 23,500 feet this year.

Staff agrees with the company's approach with respect to replacing these facilities. Bare steel facilities and wrapped steel facilities installed before implementation of the federal cathodic protection rule have failed with devastating results in other jurisdictions. Older PE pipe has a similar track record.

The company's operational data demonstrate that these facilities have a higher rate of leaks with the rate for older PE, Pre-1972 wrapped steel and bare steel mains leaking at between 0.21 to 1.82 leaks per mile, respectively compared with 0.1 or fewer leaks per mile for wrapped steel installed after 1972 or PE pipe installed in 1986. Similarly, facilities of these vintages and made of these materials accounted for 89 percent of the material, weld or joint failures in 2010.<sup>3</sup>

While staff supports PSE's plans to replace the identified facilities, staff has concerns with the proposed rate making and accounting treatment contained in the company's filing. However,

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<sup>1</sup> Docket PG-030080

<sup>2</sup> Docket PG-041624

<sup>3</sup> Puget Sound Energy 2010 Continuing Surveillance Annual Report, May 2011.

staff and PSE are still discussing acceptable alternative approaches.

**Conclusion**

Staff would like additional time to continue working with PSE and interested parties. We also need to consider the effects of the general rate case filed by PSE this month, Docket UG-111049.

**Recommendation**

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