

Agenda Date: April 28, 2004

Item Numbers: A1 & A2

Dockets: UG-040640 and UE-040641

Company: Puget Sound Energy

Staff: Ken Elgin, Case Strategist

Recommendation:

Issue a complaint and order suspending tariff revisions filed by Puget Sound Energy (“PSE”) in Docket Nos. UG-040640 and UE-040641. Grant PSE’s request to file for an increase in its general electric rates pending the final determination of the Commission of the proposed rates by PSE in Docket No. UE-031725.

Discussion:

On April 5, 2004, PSE filed to increase its general rates for both electric and natural gas service. Pursuant to WAC 480-07-510 (4), the Company has provided certain summary information regarding its proposed tariffs in these dockets.

The Company states that it needs an additional \$81,600,777 in electric revenue and \$47,242,425 in natural gas revenue. This represents a 5.7% and a 6.3% increase in electric and natural gas revenue, respectively. The Company information states that the average residential electric customer will experience a rate increase of \$66.60 per year and the average residential natural gas customer an increase of \$56.28 per year.

The Company asserts that this increase is driven primarily by the following key items:

- A hypothetical equity ratio of 45 percent, and a request for the opportunity to earn 11.75 percent on common equity in order to enhance the financial strength of the Company
- Reduced usage of energy service. PSE proposes to redesign its residential rates to address customers’ declining use of energy
- Use of 60-year stream flow data for normalized power supply expense, rather than a 40-year study formerly used
- A request to redefine events considered “catastrophic storms”

The general rate filing presents the Commission with another issue: whether PSE should be allowed to file for general rates prior to resolving the rate issues currently pending before the Commission in another docket. This problem is caused by the Power Cost Adjustment (“PCA”) mechanism, the PCA’s interface with general rate filings and the Commission’s policy regarding the processing of multiple requests for rate changes.

The Company’s PCA mechanism includes the opportunity for PSE to request a change in rates in the context of a single-issue general rate proceeding (“PCORC”). The PCORC is

designed to set new baseline power costs and recognize those new costs in general rates. The parties are awaiting the Commission's final determination of rates in that proceeding. The Company in this docket now seeks to change electric rates while the PCORC is still pending. In order to comply with our procedural rules regarding general rate filings, PSE has presumed that the Commission will grant rate relief in the PCORC proceeding at the level of the Company's rebuttal request. Therefore, the Company's entire rate case presentation will need to change once the PCORC rate order is issued unless the Commission grants all of the Company's PCORC request.

Staff interprets the Commission's suspension order in the PCORC proceeding to prohibiting PSE from filing multiple rate requests for general rate relief. PSE must seek permission from the Commission to file new rates. (See Docket UE-031725, Order No. 1 at ¶ 15) By filing for new rates prior to the resolution of the PCORC, PSE is narrowly construing the Commission's suspension order in that proceeding. In its letter dated April 12, 2004, PSE argues that the language in the suspension order means that it may not propose any change to the proposed Schedule 95 within its tariff. Staff disagrees. The underlying principle of the language in the suspension order is to put the Company on notice that the Commission will not process multiple rate requests. The Commission may process a new rate request presumably for good cause. Staff believes there is no compelling need at this time. The Company's decision to file a PCORC should preclude it from seeking additional rates pending the Commission's final determination of the PCORC.

Although it may not be a violation of the prior PCORC suspension order due to the fact that PSE filed the PCORC rate changes within its tariff as a rider in Schedule 95, certainly the timing of the final PCORC order may result in major revisions to the current general rate case filing which will delay and impair Staff's ability to analyze this filing as well as any revised filing. In light of this, Staff requests that PSE agree to extend the suspension period for a reasonable period of time in the event the final PCORC order necessitates major revisions to the current filing. Therefore, Staff recommends that the Commission allow PSE to file the proposed changes to its electric rates. Staff believes that the Commission should direct PSE to amend its filing and notice to customers in these dockets within ten days after entry of the final order in the PCORC, in order to present its electric general case consistent with the rates that will be in effect after the Commission's decision in the PCORC.