

Agenda Date: April 28, 2011  
Item Numbers: A1 and A2

**Dockets: UE-110399 and UE-110400**  
Company: Puget Sound Energy

Staff: David Nightingale, Senior Regulatory Engineer Specialist  
EJ Keating, Regulatory Analyst  
Rick Applegate, Regulatory Analyst

### **Recommendation**

Take no action, thereby allowing the tariff filings made by Puget Sound Energy, Inc., in Dockets UE-110399 and UE-110400 to become effective on May 1, 2011, by operation of law.

### **Background**

On March 1, 2011, Puget Sound Energy (PSE or company) filed revisions to its Electricity Conservation Service Rider, Schedule 120, in Docket UE-110399. This mechanism was established as part of the settlement agreement approved by the commission in Dockets UE-011570 and UG-011571.<sup>1</sup>

The company simultaneously filed Docket UE-110400, to revise the terms and conditions for conservation cost recovery for the electric large-power users under the self-directed conservation program, called Schedule 258. The self-directed conservation program will be described later in this memo.

These filings are also in compliance with Docket UE-100177 regarding settlement conditions related to the requirements of Washington's Energy Independence Act (I-937).

The purpose of these tariff filings is to establish conservation rates to recover the conservation program's budgeted costs previously approved by the commission at its December 30, 2010, open meeting in Dockets UE-101942, UG-101943, and UE-100177.

The conservation program changes were based on documentation provided by PSE in the December 2010 filings. The documentation was provided primarily through PSE's Annual Conservation Plan submitted which included:

- detailed descriptions of electric and gas conservation programs,
- program changes planned for 2011,
- budget projections for 2011 conservation programs,
- energy savings estimates for 2011,
- program and portfolio cost-effectiveness, and

---

<sup>1</sup> Twelfth Supplemental Order, UE-011570 and UG-011571 (consolidated), Exhibit F to Settlement Attachment. See also Docket UG-950288 for details on deferral.

- a conservation evaluation plan.

The program changes were reviewed by UTC staff (staff), the conservation resources advisory group (CRAG), and stakeholders last year. The company made changes to the proposed 2011 conservation programs in response to input from all interested parties. With the approval of the conservation program changes last December, the commission now must determine the correct rates to implement in order to recover the costs of these programs. Attached is a copy of the staff memo regarding the December 30, 2010, program and budget filing.

The implementation of Washington Energy Independence Act (I-937) by the commission has resulted in each company being required to comply with a set of conditions contained in orders issued by the commission last year. For PSE these conditions are found in the settlement agreement approved by Amended Order 5 of Docket UE-100177 on October 13, 2010. That order required PSE to submit tariffs to recover electric conservation costs on March 1, 2011, with a proposed effective date of May 1, 2011. The company filed those required tariffs on time and those are the tariffs now provided for consideration as dockets UE-110399 and UE-110400.

To set the stage for the rate revisions proposed in the current dockets, it is useful to provide a summary of what UTC staff and interested parties have done in preparation for this filing as well as an overview of the Schedule 258 issues.

Staff have attended CRAG meetings to discuss proposed changes in the conservation rates in accordance with past and current dockets. As directed in the conditions of settlement for conservation in Docket UE-100177, the parties have held a series of meetings to more fully discuss unresolved issues surrounding the rate structure for some of the large commercial and industrial customers. Specifically, PSE has a program called “self-directed conservation” designed to encourage large industrial and commercial customers to pay into a pot of available funds and then draw on the pot of funds to implement and achieve larger, longer lead time, conservation projects.

The large self-directed customers are of two classes. Both classes of customers can access self-directed conservation services through PSE’s Schedule 258. Self-directed conservation customers propose large energy conservation projects for their facilities and enter into multi-year agreements with PSE for feasibility, cost-effectiveness, and, if approved by PSE, their implementation. The first class of self-directed customers purchase only electric transmission services from PSE but not energy from PSE (wheeling customers). This class of customer are under tariff rate Schedule 449. The rest of the large self-directed customers purchase their energy, as well as transmission services from PSE and are under different tariffs than Schedule 449. Therefore, this class of self-directed customers are referred to as non-449 large self-directed conservation customers.

As described in the comments submitted in this docket by both Public Counsel and the Northwest Energy Efficiency Coalition, in recent years there has developed a disconnect

between some previous commission orders and how the conservation rates were applied to the non-449 customers as well as how some of the administrative and Northwest Energy Efficiency Alliance (NEEA) costs were allocated between the various customer classes. This resulted in the Schedule 449 customer flat rate conservation tariffs being applied to all the self-directed customer classes. The parties agreed that the method for setting rates for the non-449 self-directed customers should use the “peak credit method” to be consistent with past orders and that the non-449 customers should bear appropriate administrative and NEEA costs. The peak credit method is a way to allocate costs to customer groups based on a combination of costs to meet peak demand and costs to meet baseload requirements.

The proposed electric conservation tariff rate proposed in Agenda Item 01, Docket UE-110399, corrects the allocation problem going forward so that the peak credit method is applied to the non-449 self-directed customers and that administrative costs will be allocated as intended by previous orders beginning May 1, 2011. Agenda Item A02, Docket UE-100400, provides clarifying language in the self-directed tariff, Schedule 258, to coincidentally reflect this change.

The modified conservation rates in these dockets correctly reflect the requirements of past commission orders. The effect will be to significantly increase the conservation rider rates for the non-449 schedule 258 customers, keep the schedule 449 customers the same, and slightly decrease most other customers’ conservation rates.

Because conservation budgets have increased dramatically in the past few years, staff is devoting more resources to the examination of how costs are accounted for and allocated. To that end, the energy section staff spent two days at the company reviewing the structure of the conservation program, reviewing records of conservation payments, program costs, and spot checking certain periods and specific conservation programs. A specific focus during the accounting review was an area of concern pertaining to expenditures for advertising, dues, and memberships. All records reviewed were found to be in good order.

## **Discussion**

### **Conservation Service Rider (UE-110399)**

During calendar year 2010, PSE spent \$73,942,895<sup>2</sup> on electric energy efficiency programs. The 2011 projected expenditures for electric energy efficiency programs increase 21 percent to \$89,406,000, not including Schedule 449 customers.<sup>3</sup> The projected expenditures were reviewed by PSE’s CRAG.<sup>4</sup>

---

<sup>2</sup> Energy efficiency budget excluding 449 (transportation) customers’ portion of Schedule 258 - Large Power User Self-directed Program.

<sup>3</sup> Ibid.

<sup>4</sup> See UE-091859, UG-091860, UE-101942 and UG-101943.

This filing changes the electric rider charges as shown in the following table, reflecting actual costs and collections over the past year, correcting the true-up from actual expenditures and revenues in previous years, and covering the increased amounts budgeted for energy efficiency programs in the upcoming year.

	<b>Schedule</b>	<b>Current Rate per kWh</b>	<b>Proposed Rate per kWh</b>
Residential Service	Schedule 7	\$0.004617	\$0.004336
Commercial Service	Schedules 24, 25, 26, 29	\$0.003971	\$0.003839
Primary Service	Schedules 31, 35, 43, 449/459	\$0.003453	\$0.003113
Campus Service	Schedule 40	\$0.001527	\$0.004713
Large User Services	Schedules 46, 49, 448, 449, 458, 459	\$0.001082	\$0.001574
Outdoor Lighting	Schedules 50, 52, 53, 54, 55, 57, 58	\$0.003373	\$0.003475

The filed rates include \$90,795,000<sup>5</sup> in projected energy efficiency program expenditures including Schedule 449 customers, \$1,096,275 in conservation incentives for the utility, a revenue-sensitive adjustment of \$4,238,263 and a decrease for PSE's previous net over-collection of \$266,621<sup>6</sup>. Staff believes the proposed rates are reasonable.

The proposed electric tariff rider reflects a 0.088 percent decrease in the company's base electric revenues, decreasing the average bill for an electric residential customer using 1000 kWh per month by \$0.29.

#### **Application of Rate Design Method (UE-110400)**

This filing changes the allocation methodology to consistently apply previous commission authorized methods as described earlier in this memo for customers taking conservation service under schedule 258.

<sup>5</sup> Total energy efficiency budget including 449 customers' portion of Schedule 258 - Large Power User Self-directed Program.

<sup>6</sup> This true-up may be considerably larger next year due to the change in the review period with rates not becoming effective until May 1, per Docket UE-1001777

### **Pilot Utility Conservation Incentive Mechanism Summary and Program End**

This filing includes recovery of 25 percent of the utility incentive earned during 2009, the final year of the company's pilot conservation incentive mechanism.<sup>7</sup> Per Schedule 121 the company is allowed recovery of 75 percent of the incentive in the first year after the savings were achieved and 25 percent of the incentive in the second year. The total incentive earned during 2009 was \$4,385,101. In 2010, \$4,102,849 (75 percent of the 2009 incentive) was recovered. The remaining \$1,096,275 (25 percent of 2009 incentive) is included in the current filing. The company chose not to renew the incentive mechanism.

### **Conclusion**

Take no action, thereby allowing the tariff filings made by Puget Sound Energy, Inc., in Dockets UE-110399 and UE-110400 to become effective on May 1, 2011, by operation of law.

---

<sup>7</sup> Order 08, Dockets UE-060266 and UG-060267, ¶ 154. See also Staff Testimony of Joelle R. Steward, filed July 25, 2006, in the same dockets.

## Attachment 1

Agenda Date: December 30, 2010

Item Numbers: A4, A5 and A6

**Dockets:** UE-101942

UG-101943

UE-100177

Company: Puget Sound Energy

Staff: David Nightingale, Senior Regulatory Engineering Specialist

Deborah Reynolds, Regulatory Analyst

Ryan Dyer, Regulatory Analyst

### **Recommendation**

Take no action, allowing Puget Sound Energy's proposed electric and natural gas energy efficiency tariff revisions to Natural Gas Schedules 183, and 207, and Electric Schedules 83, 201, 202, 241, 248, and 254 in Dockets UE-101942 and UG-101943 to become effective January 1, 2011, by operation of law.

### **Background**

Puget Sound Energy (PSE or company) is currently operating its energy efficiency programs under conditions approved by the Washington Utilities and Transportation Commission (commission) pursuant to RCW 19.285 and WAC 480-109.<sup>8</sup> PSE's 2010-2011 biennial conservation target is 622,000 megawatt-hours, at the customer meter level.<sup>9</sup>

On November 1, 2010, the company timely provided its Conservation Resource Advisory Group (CRAG) draft copies of its intended filing in accordance with the conditions in Docket UE-100177, EIA Settlement; its Draft Annual Conservation Plan for 2011, as well as associated proposed tariff filings. On December 1, 2010, the company timely filed three items: its 2011 Annual Conservation Plan (Annual Plan or ACP) in

---

<sup>8</sup> *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-011570, UG-011571, and UE-100177, Final Order 05, (September 28, 2010).

<sup>9</sup> *Agreed Conditions for Approval of Puget Sound Energy, Inc.'s 2010-2011 Biennial Electric Conservation Targets Under RCW 19.285*, Docket UE-100177, Order 05, September 3, 2010, [EIA Settlement], and *Docket 100177 Joint Narrative Supporting Settlement Agreement Regarding Conditions for Approval Under WAC 480-109-010(4)(c)* September 3, 2010, (the "Joint Narrative" in Order 05) ¶ 1.

Docket UE-100177; and the tariff filings for electric service in Docket UE-101942 and for natural gas in Docket UG-101943.

The Annual Plan describes PSE's energy efficiency program plans for 2011. The core programs in the portfolio serve all customer classes through information and financial incentives for customers to incorporate cost-effective energy-efficient measures and services. The Annual Plan includes detailed descriptions of programs, program changes planned for 2011, budgets, energy savings estimates, program and portfolio cost-effectiveness, and an evaluation plan. This submittal is called for by the EIA Settlement.<sup>10</sup>

Through these filings, PSE is proposing program changes and narrative clarifications to its electric and gas conservation programs. The proposed changes have no effect on the level of funding generated by the conservation service schedules. Any changes to the gas conservation service tracker or the electric conservation service rider will be submitted on or before March 1, 2011. The company has developed these filings and a course of action for its conservation programs in consultation with its Conservation Resource Advisory Group (CRAG).

Some of the PSE tariff language changes allow for the use of tariff rider conservation funds for Low-Income programs, as called for in the recent Renewable Energy Credits (REC) decision in Docket UE-070725, Order 05, which "require[s] PSE to use the CRAG as soon as possible to consider the impact of this funding source on existing budgets, including consideration of an appropriate balance of expenditures for repairs and energy efficiency measures that will optimize the use of these funds to capture additional cost-effective conservation."<sup>11</sup>

## **Discussion**

The company timely filed its Annual Conservation Plan. The company provided the required budget and program-by-program details. Staff believes the company has complied with the conditions of Order 05 in Docket UE-100177 that require the filing of

---

<sup>10</sup> EIA Settlement, Section K(Conditions) (4), (5), and (8)(b).

<sup>11</sup> PSE Order Authorizing the Use of the Proceeds from the Sale of Renewable Energy Credits and Carbon Financial Instruments, Docket UE-070725, Order 05, Denying PSE Petition for Reconsideration; Denying Energy Project Petition for Reconsideration; Granting in Part Staff Petition for Reconsideration, August 31, 2010, ¶42.



an annual conservation plan as well as the requirement to find an appropriate balance for repairs versus energy efficiency measures in Order 05 of Docket 070725.

There are no changes proposed in this compliance filing to the previously approved Washington Energy Independence Act (I-937) 2010-2011 biennial conservation targets in Docket UE-100177. By placing this filing on the Open Meeting Agenda, the ACP is acknowledged as called for in the EIA Settlement conditions in UE-100177.<sup>12</sup>

The company's 2011 Annual Conservation Plan provides discussion and rationale for the changes in the tariffs and a redline version of those tariffs was provided to the CRAG and staff as Exhibit 5 of the ACP.

### ***Public Involvement***

The company worked closely with the CRAG in 2010 on adjustments to its conservation program including meeting the requirements called for in the REC decision, Order 05, Docket UE-070725. This work culminated in the distribution of proposed changes to the conservation program to the CRAG and detailed discussion at the CRAG meeting of November 4, 2010.

### ***Significant Adjustments to Residential Program Offerings***

PSE proposes to shift from an in-class educational outreach model to a train-the-trainer program which will reduce the educational component of its conservation program. This course was chosen after evaluating the ability to quantify savings from this program. Because of the difficulty in verifying savings from this program it is being scaled back.

The Home Print program, sometime referred to as an in-home energy audit program, is being significantly redeployed to make it cost effective. This is a new program which has not been as productive in providing energy savings as anticipated. Consequently, the company is making significant changes which are anticipated to result in the implementation of more conservation measures for a similar level of effort. The results of this new approach will be closely monitored and reviewed to identify any additional adjustments or continuance going forward.

---

<sup>12</sup> EIA Settlement, Section K(Conditions) (8)(b).

Home Energy Reports, also known as OPower, is a pilot program showing encouraging initial results. This is a high profile project and because its results rely on induced behavior change, there is significant interest in whether this program will be able to provide sustained and verifiable savings. The company will be working with the CRAG in 2011 to discuss the possibility of any potential claimed savings.

As previously mentioned, the Low-Income weatherization program can use tariff rider funds for health and safety work associated with cost-effective energy conservation. This clarification is reflected in the ACP and the associated tariff, Schedule 201. The methodology for calculating cost-effectiveness for Low-Income programs will be explored further during the U-101973 workshop on February 1, 2011.

#### *Significant Adjustments to Commercial Program Offerings*

These program changes are mostly being made to clarify program descriptions and make strategic adjustments to existing programs. There are significant increases in some of these programs being driven by ARRA funding. In addition, large power users are making conservation investments at a faster rate than anticipated.

#### *Evaluation, Measurement and Verification (EM&V) Plan*

The company's ACP includes an EM&V Plan at Exhibit 6. This includes a list describing which programs will be or have been evaluated and timelines and assignments for those studies. In addition, a portfolio-wide conservation evaluation, as required by the Commission<sup>13</sup>, will be contracted through a third-party beginning in early 2011.

#### *Market Transformation, Codes & Standards*

The ACP does not discuss savings from codes and standards. Staff expects that any proposal to count savings from codes and standards other than the savings from the Northwest Energy Efficiency Alliance (NEEA) market transformation programs would be presented to the CRAG for discussion prior to inclusion in the Biennial Plan. The company's filing included a more detailed Schedule 254 NEEA Program description as previously requested.

#### **Conclusion**

---

<sup>13</sup> EIA Settlement in Order 05, Section K(Conditions), (6)(g).

Changes to program tariffs were appropriately filed and were also included in the ACP. The tariff revisions are consistent with provisions in the recent REC decision and conditions listed in the I-937 energy conservation order. Consequently, staff recommends that the Commission take no action, thereby allowing the tariff revisions in Dockets UE-101942 and UG-101943 to take effect on January 1, 2011, by operation of law.