

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Revision to)	DOCKET UG-140721
Tariff WN U-2, Natural Gas Service,)	
of)	ORDER 01
)	
PUGET SOUND ENERGY)	
)	ORDER APPROVING OPTIONAL
Designating a New Schedule No. 54,)	GAS COMPRESSION SERVICE
Optional Gas Compression Service.)	WITH CONDITIONS
)	
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BACKGROUND

1 On April 25, 2014, Puget Sound Energy (PSE or Company) filed with the Washington Utilities and Transportation Commission (Commission) a revision to its currently effective Tariff WN U-2, Natural Gas Service, as listed in the appendix attached to this Order, designating a new Schedule No. 54, Optional Gas Compression Service. On July 18 and 21, the Company filed replacement pages amending its initial filing. The stated effective date of the tariff sheets is July 25, 2014.

2 This tariff filing would establish an optional service to install natural gas compression facilities for eligible, non-residential natural gas customers on the customer’s premises to enable the customer to fuel its natural gas motor vehicle (NGV) with compressed natural gas (CNG) and/or offer retail sales of CNG for vehicle fuel to the public.¹ Pricing for the service will be on an individual case basis and determined using a CNG Pricing Model the Company will have on file with the Commission.

3 The Commission conducted a workshop on April 25, 2014, to explore procedural and policy issues arising from the provision of CNG for fueling NGVs from natural gas utilities regulated by the Commission. Participants in the workshop agreed that NGV transportation has environmental benefits, but this service should not be subsidized by the general body of ratepayers in any manner.

4 At the workshop, the Commission heard from a number stakeholders including PSE, regarding the role regulated gas utilities and the Commission should play in the development of NGV fueling infrastructure in Washington. Workshop participants

¹ The tariff filing in this docket is identical to PSE’s filing of August 28, 2013, in Docket UG-131589, which the Company withdrew on April 3, 2014.

generally agreed on the environmental and economic benefits derived from increased use of natural gas as a vehicle fuel, but they differed on the assignment of risk of stranded CNG service assets and whether it is more appropriate for a regulated utility to offer CNG service through an un-regulated subsidiary.

- 5 Commission Staff (Staff) reviewed PSE’s filing and recommended that the Commission suspend it for further investigation. Staff is particularly concerned with the risk non-CNG ratepayers will bear if the Company seeks compensation for stranded investment in CNG service assets if the service is not successful. Public Counsel and the Northwest Industrial Gas Users (NWIGU) support Staff’s recommendation and are similarly concerned with the risk to ratepayers.

DISCUSSION

- 6 All interested parties agree with the legislature’s finding that CNG “offers significant potential to reduce vehicle emissions and to significantly decrease dependence on petroleum-based fuels.”² Accordingly, the legislature has determined that “development of compressed natural gas refueling stations [is] in the public interest”³ and has directed the Commission to identify barriers to such development and to “develop policies to remove such barriers,” including consideration of “rate incentives to encourage natural gas companies to invest in the infrastructure required by such refueling stations.”⁴ PSE’s CNG tariff filing provides us with the opportunity to further these legislative policy goals and directives.
- 7 The most obvious barrier to development of CNG refueling stations is the investment needed to construct the necessary facilities and infrastructure. PSE proposes to overcome this barrier by relying on the Company’s existing gas delivery system and constructing the additional compression facilities at the customers’ location. PSE also will develop rates on an individual case basis to calculate PSE’s service costs and to provide the flexibility to recover those costs in a manner that is acceptable to both the Company and the customer. We find this proposal to be a reasonable means of expanding development of CNG refueling stations.
- 8 We nevertheless share the concerns expressed by Staff, Public Counsel, and NWIGU that deploying CNG service as a tariffed service poses potential risks to other ratepayers if the

² RCW 80.28.280.

³ *Id.*

⁴ RCW 80.28.290.

service fails to generate sufficient revenues to cover the Company's investment. We also do not want to stifle other providers' efforts to offer competing service by enabling PSE to cross-subsidize CNG service with revenues from the Company's other regulated operations. Indeed, the legislature cautioned that promoting development of CNG refueling stations is not intended to "allow the subsidization of one ratepayer class by another."⁵

9 We need not suspend PSE's tariff filing to address these concerns. Rather, we order the Company to satisfy certain requirements when developing its CNG service rates to minimize the likelihood of cross-subsidization and risk to other ratepayers. PSE has offered to file with the Commission the CNG Cost Model the Company will use to develop its service rates, and we accept that offer as a condition of allowing the tariff to go into effect. In addition, that model must calculate, and the CNG service rates must include, the following costs to be recovered:

- a. Capital costs to build the CNG facilities, including:
 1. Return on and return of investment capital;
 2. Additional construction costs;
 3. Costs to upgrade existing distribution facilities to accommodate the additional CNG load;
- b. Direct costs of installation of CNG facilities and any ongoing operations and maintenance costs; and
- c. Full contribution to overhead attributable to the CNG facilities and service, *e.g.*, an appropriate share of administrative and general operational costs.

10 In PSE's advice letter (at 2), the Company states: "The proposed pricing ensures that Schedule No. 54 customers do not burden other ratepayers and that Schedule No. 54 customers contribute to their fair share of common general expenses and overheads and all costs related to each Compression Service facility." We need not address at this time whether PSE could recover from its other ratepayers any stranded investment costs that might result if the Company's CNG customers terminate service prematurely. PSE's proposed service contract would obligate the customer to compensate the Company for its unrecovered costs if the customer discontinues CNG service before the end of the contract term. PSE also has established credit requirements to ensure that customers will have the financial ability to make payments throughout the life of the service agreement.

⁵ RCW 80.28.280.

The Company will also have tangible assets that it can redeploy in the event of a customer bankruptcy. We find that the Company proposes to take reasonable measures to minimize the risk to other ratepayers, and we believe it most appropriate under these circumstances to resolve any issues of stranded cost recovery if and when they actually arise.

11 Accordingly, we allow PSE's tariff filing establishing CNG service to go into effect by operation of law subject to the requirements we adopt in this order.

FINDINGS AND CONCLUSIONS

- 12 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, regulations, and practices of public service companies, including natural gas companies.
- 13 (2) PSE is a gas company and a public service company subject to Commission jurisdiction.
- 14 (3) This matter came before the Commission at its regularly scheduled meetings on June 26, 2014, and July 24, 2014.
- 15 (4) The tariff revision PSE filed on April 25, 2014, and amended on July 18 and 21, would create an optional service to install natural gas compression facilities for eligible, non-residential natural gas customers on the customer's premises to enable fueling of natural gas motor vehicles with compressed natural gas.
- 16 (5) PSE's CNG service to fuel natural gas motor vehicles is in the public interest.
- 17 (6) PSE has developed a CNG Cost Model to calculate individual case basis rates for its CNG service, and the Company will file and maintain that model with the Commission.
- 18 (7) CNG service rates should recover all costs PSE incurs to provide that service, including capital costs to build the CNG facilities, direct costs of installing those facilities and any ongoing operations and maintenance costs, and full contribution to overhead attributable to the CNG facilities and service.
- 19 (8) The tariff revisions PSE filed on April 25, 2014, as amended on July 18 and 21, should be allowed to go into effect by operation of law on July 25, 2014.

ORDER

THE COMMISSION ORDERS:

- 20 (1) The tariff revisions filed by Puget Sound Energy on April 25, 2014, as amended
on July 18 and 21, will be allowed to go into effect by operation of law on July
25, 2014.
- 21 (2) Puget Sound Energy shall file and maintain with the Commission the cost model
the Company uses to calculate the individual case basis rates customers pay for
compressed natural gas service by July 31, 2014.
- 22 (3) The rates customers pay for compressed natural gas service must recover all costs
Puget Sound Energy incurs to provide that service, including capital costs to build
the compressed natural gas facilities, direct costs of installing those facilities and
any ongoing operations and maintenance costs, and full contribution to overhead
attributable to the compressed natural gas facilities and service.
- 23 (4) The Commission retains jurisdiction over Puget Sound Energy and its compressed
natural gas service to enforce the terms of this order.

DATED at Olympia, Washington, and effective July 24, 2014.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

PHILIP B. JONES, Commissioner

JEFFREY D. GOLTZ, Commissioner

Appendix

WN U-2:

Original Sheet No. 154	Schedule No. 54	Optional Gas Compression Service
Original Sheet No. 154-A	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-B	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-C	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-D	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-E	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-F	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-G	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-H	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-I	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-J	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-K	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-L	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-M	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-N	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-O	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-P	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-Q	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-R	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-S	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-T	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-U	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-V	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-W	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-X	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-Y	Schedule No. 54	Optional Gas Compression Service (Continued)
Original Sheet No. 154-Z	Schedule No. 54	Optional Gas Compression Service (Continued)