EXHIBIT NO. ___(JKP-3)
DOCKET NO. UE-07___/UG-07___
2007 PSE GENERAL RATE CASE
WITNESS: JANET K. PHELPS

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UE-07____** **Docket No. UG-07____**

SECOND EXHIBIT (NONCONFIDENTIAL) TO THE PREFILED DIRECT TESTIMONY OF JANET K. PHELPS ON BEHALF OF PUGET SOUND ENERGY, INC.

DECEMBER 3, 2007

Gas Rate Schedule Review
Project Report
November 2007

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Introduction

In Puget Sound Energy's (PSE) last general rate case (UG-060267), staff of the Washington Utilities and Transportation Commission (WUTC, or Commission) recommended a review of PSE's natural gas rate schedules to consider whether some could be combined or separated to better reflect types of usage and cost causation. In its order in that case, the Commission encouraged PSE to conduct such a review. In response, PSE has conducted a comprehensive review of its natural gas rate schedules. This report summarizes the conduct and conclusions of the study.

Participating in the review were representatives of PSE's Rates, Total Energy System Planning, Business Account Services, and Revenue Management departments. The project was conducted from March to August 2007. The process included the following activities:

- Development of an issues map to identify issues that would need to be addressed during the review. Items in the issues map were responses to the question, "What factors and issues should be included as we consider how or whether rate schedules should be combined or separated?" The issues map is presented in Appendix A.
- Identification of principles to guide the review process. These guiding principles are presented in Appendix B.
- Performance of the research necessary to determine whether each existing rate schedule should be combined with another schedule or split into multiple schedules. This included gathering historical information and identifying customer and load characteristics of each schedule. A summary of load characteristics by rate schedule is presented in Appendix C.
- Discussion of the information gathered on each schedule, and development of a recommendation regarding whether the current schedule should be continued, combined with another schedule, or separated into multiple schedules.
- Performance of more detailed analysis of specific schedules as the need for it became apparent during the process.
- Meeting with customers to discuss the review and get their input regarding the schedules and issues that were being addressed.
- Meeting with parties involved in PSE's rate cases to present preliminary findings and get their input.
- Development of recommendations for consideration by PSE's management. A project summary is presented in Appendix D, and a summary of distribution and rental charges is presented in Appendix E.
- Development of a plan for implementing the recommendations.
- Communication internally with people regarding the review.

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A number of issues arose during the review, many of which were outside the scope of the review. These issues were identified but pursued only if they were considered to be within the project scope.

Scope of Review

The Commission stated in its order in UG-060267 the following:

The Joint Parties proposed, and PSE agrees that the Company's (gas) rate schedules should be reviewed before the next general rate case filing to consider how schedules could be combined or separated to better reflect similar types of usage and cost causation. We encourage the parties to undertake such a review prior to PSE's next general rate filing.

In accordance with this guidance, the scope of this review is the consideration of how schedules should be separated or combined. Issues that address whether a new type of service should be added or an existing service eliminated are beyond the scope.

Discussion of Existing Schedules

Residential

Schedule 23

Schedule 23, Residential General Service, currently applies to approximately 650,000 residential customers. It is the largest schedule in terms of both the number of customers served and total revenue. Customers are charged an $8.25 customer charge each month and a delivery charge of $0.30039 per therm. In previous years there were two additional residential schedules for customers with specific end uses, but these schedules were discontinued in 2002 because at that time there was no perceived cost difference between the different groups of residential schedules and because of a desire to simplify rate schedules.

The study did not reveal any compelling information that supports the addition of another residential schedule at this time and it was decided that Schedule 23 should be continued as it is.

Schedule 16

Schedule 16, General Gas Lighting and Street Lighting Service (Optional), relates to unmetered gas service for decorative gas lights. Customers are charged a flat delivery charge per mantle each month based on the number of mantles, and the rates are developed assuming usage of 19 therms per mantle. The lights are on constantly so their load is flat. There are approximately 50 customers with gas lights.

Schedule 16 was closed to new customers in 1973 as a result of legislative limits on gas lighting. Review participants are uncertain whether the legislation that led to its closure is still in effect. There have been recent questions internally about why PSE doesn't allow new service on this schedule.

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The review also revealed lack of clarity with regard to responsibility for maintenance of the lights. Periodically PSE receives and responds to calls from customers requesting service. PSE should consider clarifying responsibility for maintenance. This may necessitate a review of the underlying costs of providing such service and how they are reflected in rates.

The question arose whether 19 therms per mantle is still the correct assumption regarding gas use.

The study identified the above issues for future consideration, but concluded that the schedule should be continued because discontinuation would be disruptive to customers currently served and is outside the scope of this review. Continuing the schedule is consistent with the guiding principle of enhancing customer service. As a result of the study, it was decided that Schedule 16 should continue to be grouped with Schedule 23 for cost of service purposes because the Schedule 16 scope is too small to warrant the effort that would be required if its costs were specifically identified in the cost of service study.

Schedule 53

Schedule 53, Propane Service, provides a bridge service that allows residential customers whose equipment is not physically connected to PSE's distribution system to take service from PSE on an interim basis with the expectation that the distribution system will someday be extended to reach their homes. There are currently five customers on this schedule. The monthly customer and delivery charges are the same as Schedule 23 charges, but Schedule 53 customers are charged for the propane at a banded rate based on the cost of the propane instead of being charged the standard gas costs. Any decision to discontinue this service is outside the scope of this review, therefore the recommendation is to continue the schedule as it currently exists.

Commercial and Industrial

Schedule 31

Schedule 31, Commercial and Industrial General Service, is the basic schedule open to all commercial and industrial customers. There are approximately 48,000 customers on Schedule 31. They are charged a monthly customer charge of $17.50 and a delivery charge of $0.26461 per therm. The study did not reveal any compelling information that supports splitting or eliminating this schedule, and concluded that it should be continued as is.

Schedule 41

Schedule 41 applies to Large Volume High Load Factor Gas Service (Optional). As the title indicates, the purpose of Schedule 41 is to provide service to large-volume, high-load-factor customers. The idea behind this service offering is that customers with large, flat loads use the distribution system more efficiently, and thus are less costly to serve, on a per therm basis, than customers with small, seasonal loads. The combination of a lower volumetric rate, a demand charge and a higher customer charge is appropriate for these

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customers. The current customer charge is $80, compared with $17.50 on Schedule 31. Schedule 41 has a delivery charge of $0.15968 for the first 5,000 therms per month and $0.13030 for all remaining therms, compared with a $0.26461 delivery charge on Schedule 31. There is a minimum delivery charge based on 500 therms, which essentially requires customers to pay for at least 500 therms each month regardless of actual consumption. There is also a delivery demand charge of $0.70 per therm of demand.

Under Rule 4 of the tariffs, PSE allows customers the choice of whether to take service under either Schedule 31 or 41. The review indicated that there are customers with relatively small, highly seasonal loads currently taking service on Schedule 41. It also appears there are large, high-load-factor customers on Schedule 31 who would be better served on Schedule 41. (This is difficult to determine conclusively because Schedule 31 customers currently are not billed on demand, thus the same demand data that is available for Schedule 41 customers is not available for Schedule 31 customers.) Of the customers currently on Schedule 41, 85 percent, on average, consume less than 5,000 therms per month, which means they do not consume enough to take advantage of the lower, second-block rate.

This mixing of customers is the result of rate design that has not yet reached the state whereby the three components of the rate – the customer charge, the demand charge and the energy charge – are fully cost-based. As a result, the current rate design does not preserve the Schedule 41 rates for the large-load, efficient customers for whom it was intended, nor does it sufficiently discourage small-load customers with low load factors from taking service on Schedule 41. The minimum delivery charge is based on 500 therms of consumption per month, which is a relatively low threshold. The existence of a number of small-load customers on Schedule 41 who pay the minimum delivery charge but remain on the schedule indicates the minimum delivery charge is not an effective gate. The presence of these small-load customers on Schedule 41 is inconsistent with the stated purpose of Schedule 41, to serve large, high-load-factor customers.

Perhaps more important than size in the determination of rate classes is load factor. The review revealed a number of customers on Schedule 41 with low load factors, many below 40 percent. The demand charge, which is billed based on the same peak demand 12 months per year, should deter low-load-factor customers from being on Schedule 41. However, the current rate of $0.70 per therm of demand is significantly below the cost of service. Raising the demand charge to the cost of service would encourage low-load-factor customers to migrate to Schedule 31.

This situation regarding the mixing of customers in Schedules 31 and 41 was described to participants at the customer meeting, and they were asked whether it is important to have a schedule for large, high-load-factor customers and whether changes to the schedule are warranted to make it more consistent with the intended users. Customers responded that it is important to have a schedule for customers with large loads and high load factors, and that minimum volumes and load factors should be enforced.

The study concluded that it is important to continue to offer Schedule 41, and that rate-design changes are warranted to encourage the appropriate customers to take service on

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Schedule 41 and to encourage customers with small loads and low load factors to take service on Schedule 31. Continuing Schedule 41 and revising the rate design to be more consistent with the schedule's purpose are consistent with the guiding principle of enhancing customer service. Changes should include the following:

- Higher minimum charges based on a higher volume threshold
- Higher customer charge
- Higher demand charge.

Changes to Schedule 41 are particularly important given one of the other recommendations of this review, which is closure of Schedule 36 (see below). It is important that Schedule 36 customers move to the schedule that is best designed to serve them given their load characteristics, and there is a risk that small-load, low-load-factor customers will migrate to Schedule 41 instead of Schedule 31 because of the lower volumetric rate on Schedule 41. Schedule 41 rates need to be redesigned to reflect the purpose of the schedule.

Schedule 36

Schedule 36, Special Commercial Heating Service (Optional), is available only to customers with the following end uses. Some of these customers have master meters and own the service lines beyond the meters.

- Apartments, condominiums, or townhouse buildings or complexes of not more than two structures and with a single plant for space or domestic water heating
- Hotels and motels
- Mobile home courts
- Group lodging facilities, including but not limited to rooming and boarding houses, fraternity or sorority houses, homes for the aged, convalescent homes, jails or prisons, and residential treatment centers
- Housing units of a government housing authority where the customer provides and maintains all facilities beyond the meter, including appliance servicing
- Inpatient hospitals or clinics
- Churches
- Schools
- Other multiple-unit housing served through a single meter

Schedule 36 became effective in 1964 to separate commercial heating from residential heating and to continue to carve out the space heating of living premises as a specific end use. Heating for all living premises, as well as churches and schools, had previously been offered under Schedule 23. This 1964 filing separated out all commercial living premises such as apartments, in addition to churches and schools, to form new rate Schedule 36. Customers were essentially charged the same as if they had remained on Schedule 23. Commercial heating for living premises continued to be offered at a lower rate than other commercial services. These changes were part of a larger filing which reduced rates for the purpose of promoting greater use of natural gas.

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The study concluded that Schedule 36 should be discontinued for the following reasons:

- The service Schedule 36 customers receive is not significantly different from the service provided to other commercial customers.
- Nearly all of the 5,100 Schedule 36 customers could be served at equal or lower rates on either Schedule 31 or Schedule 41, and there are other master-metered customers on Schedule 31.
- Encouraging use of natural gas for the heating of living premises over other end uses is no longer a priority.

Current distribution rates include a $35 per month customer charge and a $0.24574 per therm delivery charge. The customer charge is higher than the $17.50 rate for Schedule 31, and the delivery charge is lower than the Schedule 31 rate of $0.26461.

A bill analysis indicated that approximately 82 percent of current Schedule 36 customers would pay less on Schedule 31. This is because at existing rates a Schedule 36 customer needs to consume 927 therms per month to offset the higher customer charge with the lower delivery charge, and most Schedule 36 customers' usage is below this level. The larger customers, who would not benefit by migrating to Schedule 31, should benefit by migrating to Schedule 41. At current rates, an estimated 14 percent of Schedule 36 customers would reduce their cost for natural gas distribution service under Schedule 41. The remaining 4 percent of Schedule 36 customers are expected to see only modest increases in their distribution rates (of 0.1 percent to 4 percent) by switching to Schedule 31 (which is an even smaller percentage increase relative to their total bills, which include gas costs). These estimated customer bill impacts for the Schedule 36 customers are summarized in Table 1.

Table 1: Estimated Bill Impacts of Migrating Schedule 36 Customers

	Number of Customers (1)			
Percent Change	**Migrate to 31[2]**	**Migrate to 41[3]**	**Migrate to 31[4]**	**Total**
2 to 4%	0	0	42	42
0 to 2%	0	0	160	160
0 to -5%	712	161	0	873
-5 to -10%	653	216	0	869
-10 to -20%	1,152	224	0	1,376
More than -20%	1,315	62	0	1,377
Total[1]	3,832	663	202	4,697

[1]Current Schedule 36 customers who had a full year of consumption in 2006.
[2]Customers who would pay less on Schedule 31 at existing rates.
[3]Customers who would pay less on Schedule 41 at existing rates.
[4]Customers who would pay less on Schedule 36 at existing rates but are assumed to migrate to Schedule 31.

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Schedule 50

Schedule 50 applies to Compressed Natural Gas (CNG) for Vehicle Fuel. There are five customers on Schedule 50. Customers who use CNG vehicles stop at PSE facilities to fuel their vehicles.

Schedule 50 is unique in that it provides a service that cannot be obtained on any other schedule. If Schedule 50 were discontinued, the customers would need to find another source for CNG. Therefore it was decided that a determination as to whether or not service on Schedule 50 should be discontinued is outside the scope of this review.

Assuming Schedule 50 does continue, the rates should be increased so that they reflect the cost of service.

Schedule 51

Schedule 51, Special Multiple Unit Housing Service (Optional), is available to multiple-dwelling complexes of more than three structures that meet certain conditions. Gas service is metered through a single meter, PSE extends its service facilities to each building with an Extended Utility Facility (EUF), and the customer and PSE have executed a service agreement. Currently six customers take service on Schedule 51.

These customers pay a customer charge equivalent to the residential customer charge of $8.25 per dwelling unit, whereas multiple-unit housing facilities that are served on Schedules 31 or 36 pay customer charges of $17.50 and $35, respectively, regardless of the number of dwelling units. The delivery charge on Schedule 51 of $0.22724 is lower than the $0.26461 rate on Schedule 31. On average, because each customer has multiple dwelling units, these six customers pay $5,610 in customer charges for one year, compared with the $210 they would pay if they were served on Schedule 31. The theory behind the higher customer charge is that PSE incurs costs associated with maintaining the service line beyond the meter, and the customer-charge revenue goes to cover these costs.

PSE maintains EUFs for customers on other schedules, including Schedule 31, and any costs associated with maintaining the EUFs would apply to all EUFs rather than just those served on Schedule 51. There has not been a study to identify the costs associated with EUFs in recent years.

There is no apparent reason to have a separate schedule for only these six customers based on the fact that they are served using EUFs. They could be served on Schedule 31. In addition, a review of the service orders between 2000 to 2007 indicated that there were few service calls in which the customer called PSE to provide service to customer-owned appliances or to research odors and leaks.

The number of customers on Schedule 51 has remained constant since before 2001. It is not advantageous for new housing developments to take service on Schedule 51 because they can receive lower-priced service on other schedules.

The study concluded that Schedule 51 should be discontinued and the customers should be served on Schedule 31. All six customers are expected to see lower bills if they switch to Schedule 31, with the average reduction to the distribution portion of their bills being

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32 percent. Treating these customers and similar customers consistently conforms to the guiding principle of enhancing customer service.

Schedule 61

Schedule 61 pertains to Special Standby and Auxiliary Heating Service for customers who take gas service on other schedules. It provides standby service to customers with qualifying equipment, and is charged at a rate of $0.10 per 1,000 Btu hour of the rated input capacity of the equipment. Of 342 Schedule 61 customers in 2006, 331 were commercial, six were industrial and five were residential.

The question arose whether there is increasing or decreasing demand for this service. There was an increase from 123 customers in 2002 to 306 customers in 2003, but the level has been relatively stable since 2003.

There were questions of whether use of standby service required enhancement of the location's basic metered service, such as larger meters than would otherwise be required. Examination of records on a few locations did not indicate any correlation between standby service and meter size. Equipment was installed at the same time so it was not clear whether installation of backup service required more expensive meters. A more thorough review would be necessary to conclude definitively whether these customers have different requirements for meters or other equipment because they take standby service.

Schedule 61 has been grouped for several years with Schedules 31, 36 and 51 for cost of service purposes, and no separate study has been done to identify what it costs to provide this service.

A decision to discontinue this service is outside the scope of this project, so the recommendation is to continue it.

Interruptible Sales

PSE provides interruptible gas sales service to customers on three schedules. Interruptible service on all three schedules is available to nonresidential customers where, in PSE's opinion, its facilities are adequate to render the required service. The schedules are:

- Schedule 85, Interruptible Gas Service with Firm Option, which is the basic interruptible schedule;
- Schedule 86, Limited Interruptible Gas Service with Firm Option (Optional), which is available to customers with specific end uses; and
- Schedule 87, Non-Exclusive Interruptible Gas Service with Firm Option (Optional), which is available only to very large customers.

All three schedules require a service agreement with the customer. Table 2 summarizes the service characteristics and distribution rates of the three interruptible schedules.

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Table 2: Service Characteristics and Rates of Interruptible Schedules 85, 86 and 87

Tariff Characteristic	Schedule 85	Schedule 86	Schedule 87
Availability	No specific requirements	At least 10,000 therms/year. Schools & buildings with boilers, turbines or engines	At least 1,000,000 therms/year
Minimum Volume	365,000 therms/year interruptible	10,000 therms/year	Contract volume of at least 750,000 therms/year interruptible
Fuel Exclusivity	Requires exclusive fuel	Requires exclusive fuel	No exclusive fuel requirement
Backup Facilities & Fuel	Requires backup	Requires backup	Requires backup
Curtailment Priority	Second priority	First priority	Last priority
Customer Charge/Month	$500	$100	$500
Delivery Demand Charge/Therm Demand	$1.02	$1.02	$1.02
Procurement Charge/Therm	$0.0065	$0.0065	$0.0050
Delivery Charge/Therm			
First 25,0000 therms	$0.10000	$0.21000	$0.12483
Next 25,0000 therms	$0.05127	$0.15055	$0.07621
Next 50,0000 therms	$0.04921	$0.15055	$0.04921
Next 100,0000 therms	$0.04921	$0.15055	$0.03226
First 300,0000 therms	$0.04921	$0.15055	$0.02376
Over 500,0000 therms	$0.04921	$0.15055	$0.01876

The three schedules are designed for different types and sizes of customers, and the load characteristics of the three groups are distinctly different. Table 3 summarizes 2006 load characteristics for the three schedules.

Table 3: Load Characteristics of Interruptible Schedules 85, 86 and 87

Load Characteristic	Schedule 85	Schedule 86	Schedule 87	Total
Total Volume (Therms)	16,343,624	17,548,168	39,203,460	73,095,252
Customer Count	34	419	17	470
Usage per Customer (Therms)	480,695	41,881	2,306,086	155,522

Customer service is one of the primary reasons for continuing to have three schedules. Most Schedule 86 customers' loads are too small to take service on Schedule 85, but the existence of Schedule 86 allows customers who want interruptible service to have it. Many of these customers are schools, who use their backup facilities to provide shelter to

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the community in cases of emergency. PSE can practice the guiding principle of being a good neighbor by continuing to provide interruptible service to these customers. The presence of interruptible customers on the system also enables PSE to optimize generation and delivery, because PSE can curtail interruptible customers during peak events rather than building the system to serve all customers during even the coldest weather.

At the customer meeting, customers indicated that curtailment priority is important to them. The existence of three schedules provides a natural way to determine which customers are curtailed.

Schedule 86 customers have expressed concern that the financial benefit to taking interruptible service has declined over time. They have the backup facilities that are required of customers who take interruptible service in place, so they are prepared for curtailments, but the rate differential between firm and interruptible service is not large enough for them to justify continued maintenance of their backup facilities. They are deterred from switching to firm service because they would be required to pay line-extension costs to PSE.

It was noted that that some Schedule 86 customers have firmed up their entire load, and receive the interruptible rate even though they essentially take firm service. They do pay the demand charge on their firm amount. The question arose whether it makes sense for these customers to be on Schedule 86. Based on annual average data by customer in 2006, approximately 10 percent of Schedule 86 customers have firmed 90 percent to 100 percent of their load. This is an issue for future consideration.

It was noted that some customers don't meet the minimum volume requirements of the schedules. If so, they would pay minimum charges. The question was raised whether the minimum charges on the interruptible schedules are effective.

The question was raised whether the penalty rates for burning through requested curtailments are effective.

As a result of the study, it was concluded that all three of the existing schedules for interruptible service should be continued. The customers on these schedules are sufficiently different to warrant continuation of all three schedules, and the rules of the tariffs are sufficiently different that combining schedules is expected to be problematic. Having the three separate schedules provides a basis on which to make curtailment decisions. The schedules and customer groups have the following differences:

- Customer load size. The loads of customers on the three schedules are significantly different. In 2006 on average, Schedule 85 customers used 42,000 therms per customer for the year, Schedule 86 customers used 481,000 therms per customer, and Schedule 87 customers used 2.3 million therms per customer. Costs are not all proportional to therm sales, so on a per therm basis there are differences in cost between small- and large-load customers. These differences warrant separate rates, which currently are provided using separate rate schedules.
- End use. Schedule 86 has specific limitations on the type of customers eligible for service on this schedule, therefore these customers are different from

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customers on Schedules 85 and 87. Schedule 86 requires that customers either have steam or hot water boilers, gas engines or gas turbines, or be student-occupied buildings. Schedule 86 customers are schools (34 percent); real estate organizations, primarily holders of leases (27 percent); religious, civic, professional and similar organizations (11 percent); and other types of customers. Schedules 85 and 87 have no requirements regarding the type of customer, and there is a wide variety in their end uses.

- Minimum volume requirements and minimum charges. The three schedules have different minimum charging mechanisms related to their minimum volume requirements.
- Exclusivity. Schedules 85 and 86 require that the customer not use substitute fuels for its operations at times of non-curtailment. Schedule 87 does not have this requirement.
- Curtailment priority. Rule 23 details the priority order in which interruptible customers can be curtailed and restored to service in the event of a curtailment. Schedule 86 customers have highest priority (last curtailed / first resumed), Schedule 85 customers have second priority (second curtailed / second resumed), and Schedule 87 customers have lowest priority (first curtailed / last resumed).
- Curtailment costs. There are meter-reading costs in the event of a curtailment specific to Schedule 85 and 86 customers; these costs do not apply to Schedule 87 customers.

Transportation

Transportation service is provided under Schedule 57, Distribution System Transportation Service (Firm and Interruptible). Schedule 57 is available to customers who have executed a service agreement regardless of their load size. In 2006 there were 106 transportation customers, 33 of whom were commercial and 73 industrial.

Schedule 57 has a customer charge of $800 per month, a demand charge of $1.02 per therm of contract demand, a six-block declining delivery charge per therm, and a balancing charge of $0.0014 per therm. The demand charge and the declining block delivery charge are identical to the rates for Schedule 87, the large-volume interruptible sales schedule. The customer charge is $300 more than the Schedule 87 customer charge, based on the additional administrative costs related to serving transportation customers.

The basis for tying the transportation rates to Schedule 87 rates is that distribution service is the same for similar service whether gas is purchased from PSE or a third party. Customers should be able to choose between sales and transportation service based on the cost of gas they purchase either from PSE or a third party, rather than differences in the cost of transporting that gas through PSE's distribution system. There are administrative costs associated with serving transportation customers, such as managing nominations and balancing, but these can be identified and charged for separately through the higher customer charge and the balancing charge.

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There are differences between Schedules 87 and 57, however. Schedule 87 is only available to customers who use at least 1 million therms per year, and has a contract volume and minimum charge that encourage the customer to maintain a large amount of interruptible volume, rather than firm volume. Schedule 87 customers are required to maintain backup facilities. Schedule 57 does not have these requirements.

A significant number of Schedule 57 customers have loads below 1 million therms and would not qualify for Schedule 87 if they wanted sales service. In 2006, 77 percent of Schedule 57 customers used less than 1 million therms. If these smaller-load customers chose interruptible sales service, they would more likely be on Schedule 85, which is for smaller-load customers. Yet they pay the same delivery charge that Schedule 87 customers pay. Schedule 85 has a minimum interruptible volume requirement of 1,000 therms per day, or 365,000 therms per year, and the added requirement of using gas as an exclusive fuel.

Because there is one transportation schedule that serves both small- and large-load customers and three interruptible sales schedules that serve customers of different sizes, there is inconsistency between PSE's treatment of sales and transportation service. Schedule 57 customers pay Schedule 87 delivery charges even though many of them are too small to qualify for Schedule 87. Schedule 57 customers are not subject to the minimum charges, backup requirements or fuel exclusivity requirements of interruptible schedules.

Options for addressing this inconsistency between sales and transportation service were considered during the review. The pros and cons of combining the three interruptible schedules were considered, and the group decided to continue the three schedules for reasons discussed earlier in this summary. Creating a second transportation schedule to serve the smaller-load transportation customers was also considered. PSE originally had two transportation schedules: Schedule 58, which served the smaller-load customers, and Schedule 57, which served the larger-load customers. Schedule 58 was discontinued in 1994 as a result of a Commission order because no evidence had been presented that there was a cost basis for having two separate schedules.

The recommendation is to sunset Schedule 57 and to provide a transportation option on all major nonresidential schedules, Schedules 31, 41, 85, 86 and 87. The delivery rates for transportation would be the same as for sales service, and there would be an incremental customer charge for transportation that would reflect the additional administrative costs associated with providing transportation service. The balancing charge would apply to transportation customers but not to sales customers, and the procurement charge would apply only to sales customers. Under this recommendation customers of a given size would pay the same rates for delivery service regardless of whether they bought their gas from PSE or a third party. Schedule 57 would eventually cease to be a separate class in the cost of service study, and that study would include an analysis of the incremental costs associated with transportation, which would provide the basis for the incremental customer charge.

The current requirements and rules of all of the schedules, including the interruptible schedules, would apply to transportation customers. All customers on interruptible

schedules would be required to have alternative fuel capability. Those on Schedules 85 and 86 would be required to use gas as an exclusive fuel. Schedule 86 would have first priority during curtailments, Schedule 85 would have second priority, and Schedule 87 would have last priority. Minimum charges in the Schedule 85, 86 and 87 tariffs would apply to transportation customers.

The interruptible tariffs state that customers who do not want to maintain alternative fuel capability may apply to the Commission for a waiver, and if the waiver is granted they are exempt from the requirement. Transportation customers would have the option to seek these waivers.

The purpose of this proposed change is to make transportation rates more consistent with sales rates for customers of all sizes, and thereby enhance customer service.

This change is not expected to cause a significant rate change for the large transportation customers, because they would be served on Schedule 87 and their rates are currently tied to Schedule 87 rates. A bill analysis was conducted on all customers currently served on Schedule 57 and it was concluded that most small-load transportation customers would pay less under the recommended proposal than they currently do, because the first two block rates on Schedule 85 are lower than on Schedule 57. Those few customers whose bills would go up will be able to stay on Schedule 57 until the sun sets on that schedule.

Rentals

PSE has the following four schedules for rental service, with the number of rental units in 2006 noted:

- Schedule 71, Residential Water Heater Rental Service, 44,027 tanks
- Schedule 72, Large Volume Water Heater Rental Service, 4,040 tanks
- Schedule 74, Gas Conversion Burner Rental Service, 7,052 burners
- Schedule 75, Residential Gas Circulating Heater Rental Service, no heaters

There are approximately 55,000 rental units on customer premises. These customers receive gas service under other schedules in addition to rental service. Each rental unit (water tank or conversion burner) is charged at a flat monthly rate. There are different rates for different sizes and types of tanks.

All of the rental schedules are closed to new customers, but PSE replaces existing units when they break. Any decision to reopen the rental schedules or discontinue the service is beyond the scope of this review, therefore it is assumed that these schedules will continue as they are with the exception of Schedule 75. There are currently no customers being served on Schedule 75, and since it is closed to new customers its closure is recommended.

Input from Parties

The parties to the last general rate case were given the opportunity to meet with PSE, hear the recommendations of this review, and provide input. Input from those who participated in these meetings is summarized in the following points:

- When presented with the possibility of changes to transportation schedules, customers wanted assurance that the conservation rate would be excluded from any new or changed transportation service consistent with current transportation tariffs;
- Transportation customers expressed the need to maintain the flexibility that allows them to change schedules annually for the forthcoming year;
- Existing transportation customers expressed a desire to continue interruptible transportation service without any new requirement for backup facilities;
- Interruptible customers expressed concern about maintaining costly backup facilities. Customers were reminded that they can apply for a waiver of that requirement;
- Some customers did not see the need to make any changes to the gas rate schedules, but did not object to the proposed changes;
- Commission staff indicated support for the elimination of Schedules 51 and 36 and the offering of firm transportation service.

Summary

The recommendations by schedules are as follows.

Separate Schedules

None

Combine Schedules

Schedule 36 with Schedule 31 or Schedule 41 as appropriate
Schedule 51 with Schedule 31

Other Changes

Provide transportation service as an option on Schedules 31, 41, 85, 86 and 87.
Sunset transportation Schedule 57.
Review rate design of Schedule 41 to preserve it as a tariff for nonresidential customers with high load factors and large loads.

No Changes

Schedule 16 Gas Lighting
Schedule 23 Residential
Schedule 31 Commercial & Industrial
Schedule 50 Compressed Natural Gas
Schedule 53 Propane Service
Schedule 61 Standby & Auxiliary Heating
Schedules 71, 72 and 74 Rentals

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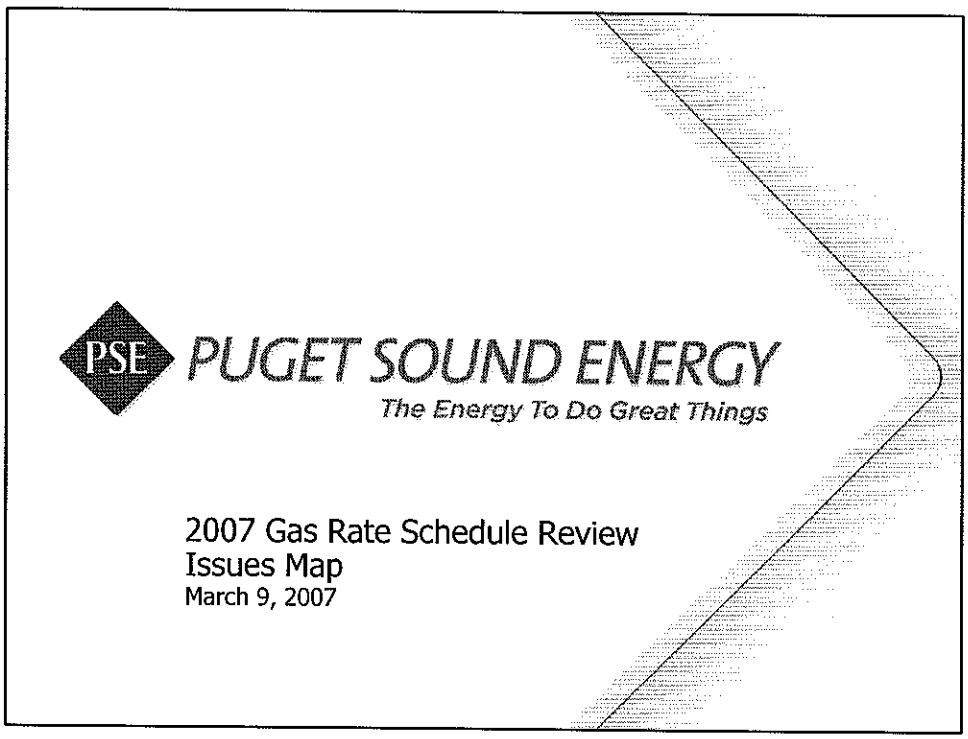
Appendix A
Issues Map



Purpose:

Identify a set of factors and issues to be considered in the gas rate schedule review that was encouraged by the Commission in UG-06026

Framing Question:

What factors and issues should be included as we consider how or whether rate schedules should be combined or separated?

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Instructions:

1. Write down one-sentence or sentence-fragment responses to the framing question.
2. For each response, write a 3-5 word summary.
3. One person at a time, each participant will verbally provide one response to the group. We will go around the room repeatedly until there are no more responses.
4. Ask only clarifying questions.
5. No debate.
6. Focus on issues and factors, not solutions.
7. Don't worry about duplication, within reason.

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Index:

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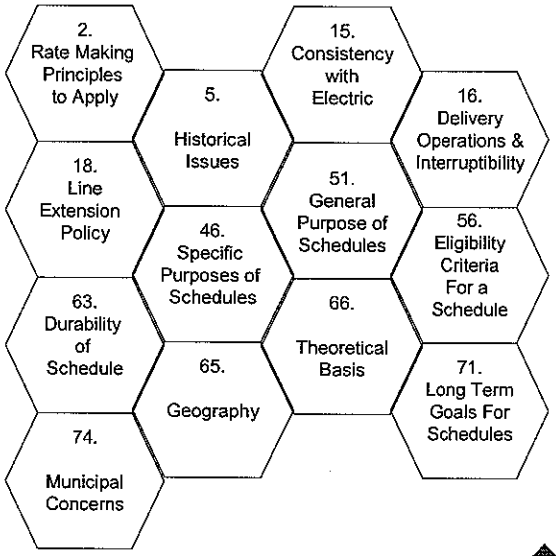
1. Policy Considerations



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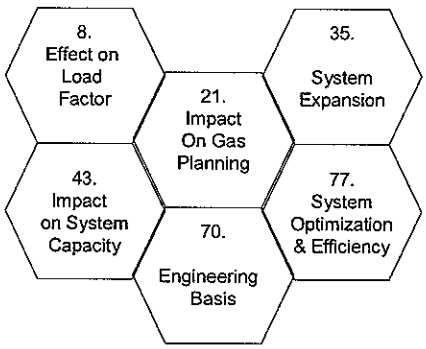
2. System



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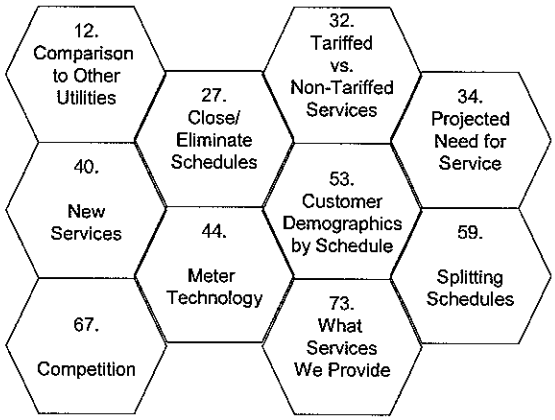
3. Services



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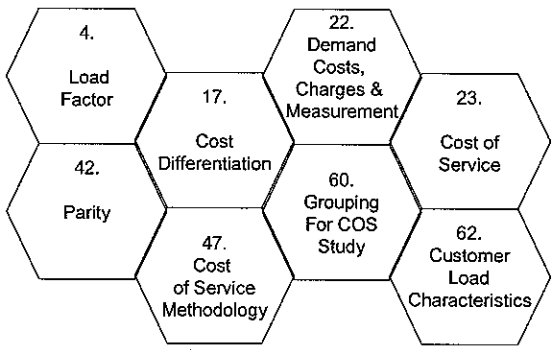
4. Cost of Service



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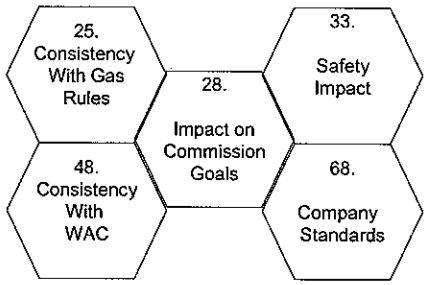
5. Rules and Standards



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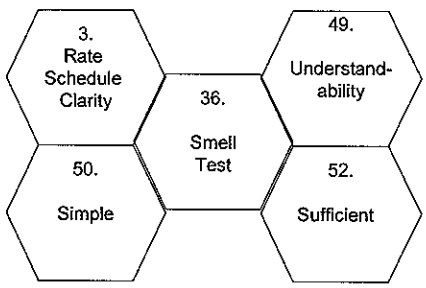
6. Workability



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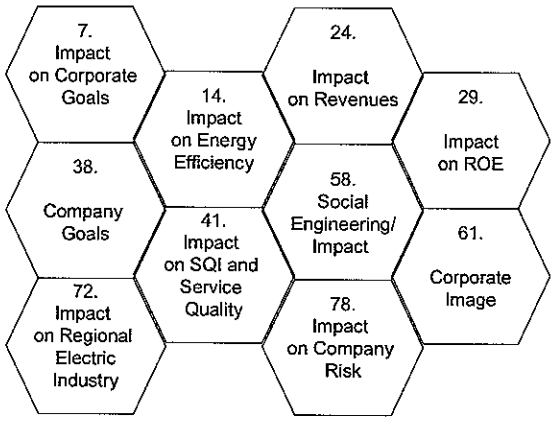
7. General Considerations



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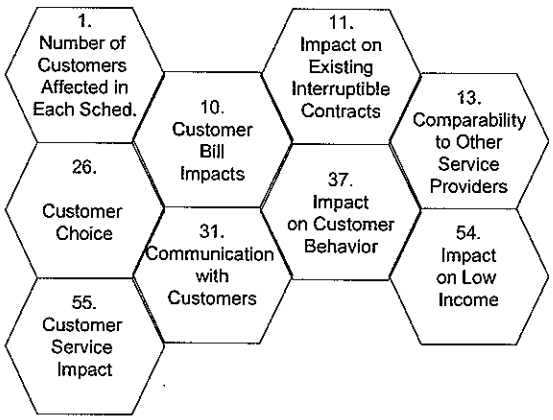
8. Customer Impacts



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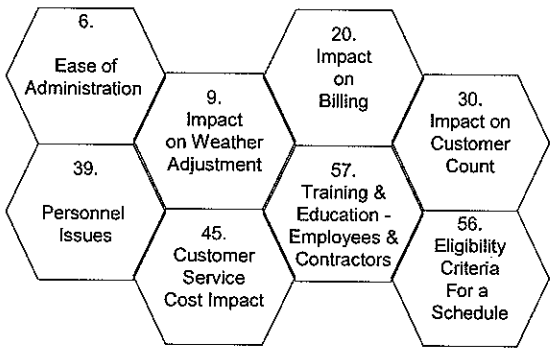
9. Company Impacts



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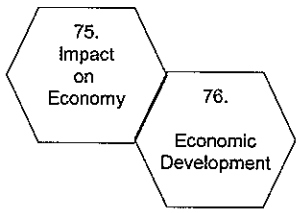
10. Economic Impact



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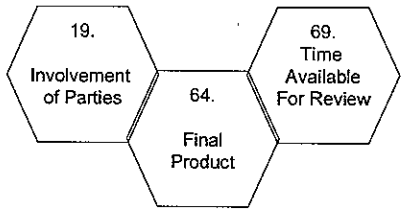
11. Process



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Appendix B
Guiding Principles

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Gas Rate Schedule Review
Guiding Principles
2007 Company Goals

1. Enhance customer service – Provide responsive service to our customers by listening, leveraging new systems, updating processes, and providing new and improved products.
2. Optimize generation and delivery – Manage existing resources as well as acquire, build and/or replace infrastructure in responsible ways that meet customers' needs, protect the environment, and provide a fair return to shareholders.
3. Be a good neighbor – Demonstrate that we accept leadership responsibility to protect and improve our region through our natural gas and electric service, energy efficiency initiatives, corporate giving, and community involvement.
4. Value employees – Focus on safety, teamwork, process improvement, and technology as well as employee development and recognition to make PSE truly a great place to work.
5. Own it – Be a company where employees manage resources as their own.
6. Learn from experience – Examine practices and procedures, including storm and other incident response efforts, and apply lessons learned to develop and implement solutions that add value and enhance customer service and community involvement.

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Appendix C
2006 Load Characteristics by Rate Schedule

2007 Gas Rate Schedule Review
Natural Gas Rate Schedules
2006 Load Characteristics

Rate Schedule	Description	Customer Count	Schedule Count (1)	Calendar Volume (Therms)	Use per Schedule	Nov-March Volume	Winter as Percent of Total Volume	Estimated Peak Demand (2)	Calendar Revenue	Revenue per Schedule	Average Rate per Therm (3)
Residential											
16	Gas lights (4)	2	54	16,872	312	7,030	42%		$ 26,284	$ 487	$ 1.55785
23	Residential	649,395	650,465	533,574,526	820	366,891,150	69%		$ 698,431,236	$ 1,074	$ 1.30897
53	Propane	5	5	3,607	721	2,607	72%		$ 7,575	$ 1,515	$ 2.09997
94P	Propane (5)	4	5	4,282	856	2,559	60%		$ 5,190	$ 1,038	$ 1.21199
	Total Residential	649,406	650,529	533,599,287	820	366,903,346	69%	6,090,165	$ 698,470,285	$ 1,074	$ 1.30898
Commercial & Industrial											
31G-C	Commercial	44,887	45,177	155,991,562	3,453	100,510,000	64%	2,010,204	$ 190,075,940	$ 4,207	$ 1.21850
31G-I	Industrial	2,511	2,547	17,467,352	6,858	11,179,058	64%	215,186	$ 20,815,917	$ 8,173	$ 1.19170
97P	Propane (5)	1	1	446	446	357	80%		$ 656	$ 656	$ 1.47145
31 Subtotal	Commercial & industrial general service	47,399	47,725	173,459,360	3,635	111,689,415	64%	2,225,390	$ 210,892,513	$ 4,419	$ 1.21580
36	Commercial heating	5,112	5,182	43,213,823	8,339	27,363,948	63%	459,401	$ 51,387,007	$ 9,916	$ 1.18913
41G-C2	Commercial	977	978	30,790,470	31,483	15,518,220	50%	254,132	$ 35,060,047	$ 35,849	$ 1.13867
41G-I2	Industrial	128	129	20,776,676	161,060	9,274,860	45%	166,095	$ 22,524,261	$ 174,607	$ 1.08411
41 Subtotal	Large volume high load factor	1,105	1,107	51,567,146	46,583	24,793,079	48%	420,227	$ 57,584,307	$ 52,018	$ 1.11669
50	Compressed natural gas	3	5	198,616	39,723	61,812	31%	2,262	$ 189,855	$ 37,971	$ 0.95589
51	Multiple unit housing (6)	6	6	194,922	32,487	114,456	59%	2,073	$ 247,950	$ 41,325	$ 1.27205
61G-C	Commercial	18	331						$ 82,556	$ 249	
61G-I	Industrial	0	6						$ 1,202	$ 200	
61G-R	Residential	1	5						$ 1,166	$ 233	
61 Subtotal	Standby & auxiliary heating (1,000 BTU)	19	342						$ 84,924	$ 248	
	Total Commericial & Industrial	53,644	54,367	268,633,866	4,941	164,022,709	61%	3,109,353	$ 320,386,556	$ 5,893	
Interruptible											
85G-C2	Commercial	20	20	10,150,707	507,535	6,189,599	61%	39,514	$ 10,119,123	$ 505,956	$ 0.99689
85G-I2	Industrial	14	14	6,192,918	442,351	2,511,690	41%	13,749	$ 6,112,171	$ 436,584	$ 0.98696
85 Subtotal	Interruptible with firm option	34	34	16,343,624	480,695	8,701,289	53%	53,263	$ 16,231,294	$ 477,391	$ 0.99313
86G-C2	Commercial	407	407	16,523,139	40,597	10,628,658	64%	54,874	$ 18,376,409	$ 45,151	$ 1.11216
86G-I2	Industrial	12	12	1,025,029	85,419	575,870	56%	869	$ 1,118,304	$ 93,192	$ 1.09100
86 Subtotal	Limited interruptible with firm option	419	419	17,548,168	41,881	11,204,527	64%	55,743	$ 19,494,713	$ 46,527	$ 1.11093
87G-C3	Commercial	12	12	32,982,376	2,748,531	18,022,667	55%	3,166	$ 29,611,564	$ 2,467,630	$ 0.89780
87G-I3	Industrial	5	5	6,221,084	1,244,217	2,901,759	47%	37,156	$ 5,932,482	$ 1,186,496	$ 0.95361
87 Subtotal	Non-exclusive interruptible with firm option	17	17	39,203,460	2,306,086	20,924,425	53%	40,322	$ 35,544,046	$ 2,090,826	$ 0.90666
	Total Interruptible	470	470	73,095,252	155,522	40,830,242	56%	149,328	$ 71,270,053	$ 151,638	$ 0.97503

Rate Schedule	Description	Customer Count	Schedule Count (1)	Calendar Volume (Therms)	Use per Schedule	Nov-March Volume	Winter as Percent of Total Volume	Estimated Peak Demand (2)	Calendar Revenue	Revenue per Schedule	Average Rate per Therm (3)
Transportation											
57G-C	Commercial	33	33	38,017,264	1,152,038	18,630,698	49%		$ 3,058,387	$ 92,678	$ 0.08045
57G-I	Industrial	73	73	132,443,541	1,814,295	53,616,471	40%		$ 8,870,123	$ 121,509	$ 0.06697
57 Subtotal	Transportation	106	106	170,460,805	1,608,121	72,247,169	42%		$ 11,928,511	$ 112,533	$ 0.06998
Total sales and transportation		703,626	705,472	1,045,789,211	1,482	644,003,466	62%		$ 1,102,055,405	$ 1,562	$ 1.05380
Rentals											
71	Residential water heater rentals		44,027						$ 5,074,939		$ 115.27
72	Large volume water heater rentals		4,040						$ 1,939,849		$ 480.21
74	Gas conversion burner rentals		7,052						$ 703,470		$ 99.76
75	Residential gas circulating heater rentals		0						$ -		$ -
	Total Rentals		55,119						$ 7,718,258		$ 140.03

(1) For rentals, counts are rental units (tanks, burners, or heaters).
(2) Estimated peak demand assuming 52 heating degree days. Estimate is for firm demand only, so it does not include all use for interruptible classes.
(3) Average annual revenue per tank for rentals.
(4) Schedule 16 has approximately 74 mantles, with assumed usage of 19 therms per mantle. Usage is per schedule count.
(5) These schedules no longer exist.
(6) Schedule 51 had 340 dwelling units and 573 therms per unit.

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Appendix D
Project Summary

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2007 Gas Rate Schedule Review
Project Summary

Overview

- Background
- Overview of process
- Proposals

2006 Gas Customers & Volume

Schedule	Description	Customers	Percent	Volume (Therms)	Percent
23	Residential	649,399	92.2%	533,578,808	51.0%
31	Commercial & industrial	47,399	6.7%	173,459,360	16.6%
36	Commercial heating	5,112	0.7%	43,213,823	4.1%
41	Large volume	1,105	0.2%	51,567,146	4.9%
86	Limited interruptible	419	0.1%	17,548,168	1.7%
61	Standby & auxiliary heating	342	0.0%	0	0.0%
57	Transportation	106	0.0%	170,460,805	16.3%
16	Gas lighting	54	0.0%	16,872	0.0%
85	Interruptible	34	0.0%	16,343,624	1.6%
87	Non-exclusive interruptible	17	0.0%	39,203,460	3.7%
51	Multiple unit housing	6	0.0%	194,922	0.0%
53	Propane service	5	0.0%	3,607	0.0%
50	Compressed natural gas	5	0.0%	198,616	0.0%
	Total	704,003	100.0%	1,045,789,211	100.0%

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2006 General Rate Case

Whether schedules should be combined or separated to better reflect similar types of usage and cost causation

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Overview of Process

- Identify issues
- Identify guiding principles
- Research all schedules
  - History
  - Purpose
  - Customer characteristics
- Meet with customers
- Develop recommendations

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Guiding Principles

- Enhance customer service
- Optimize generation and delivery
- Consider impacts to customers and community
- Identify customer traits and treat like customers consistently
- Learn from experience

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Schedules Not Changed

- Schedule 16 Gas Lighting
- Schedule 23 Residential
- Schedule 31 Commercial & Industrial
- Schedule 50 Compressed Natural Gas
- Schedule 53 Propane Service
- Schedule 61 Standby & Auxiliary Heating
- Schedules 71, 72 and 74 Rentals

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Schedules 36 and 51

Schedule 36

- Single meter
- Customer owns service line
- Multiple unit housing of 1-2 structures
- Other customers:
  - Hotels/motels
  - Mobile homes
  - Group lodging
  - Government housing
  - Hospitals/clinics
  - Churches
  - Schools

Schedule 51

- Single meter
- PSE owns service line
- Multiple unit housing of more than 3 structures

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Schedule 36

- 5,100 customers
- Introduced in 1964
  - To separate commercial heating from residential heating
  - To separate space heating of living premises as a specific end use
  - To promote use of natural gas
- Combined with 31 and 51 in cost of service study

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Schedule 36 Closure

- Could all be served on Schedules 31 or 41
- Service comparable to service to other commercial customers
- There are master meters on Schedule 31
- No compelling reason to maintain separate schedule

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Schedule 36 Customer Impacts

Of 4,697 customers with a full year of usage in 2006, at existing rates

- 3,832 could migrate to 31: 0-50% decreases
- 663 could migrate to 41: 0-31% decreases
- 202 migrate to 31: 0-4% increase

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Schedule 51

- 6 customers
- Introduced in 1956
  - For mobile home parks
  - To promote use of natural gas in multi-family housing
- No new customers in several years
- Combined with 31 and 36 in cost of service study

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Schedule 51 Closure

- Customers could all be served on Schedule 31
- There are master meters on Schedule 31
- No compelling reason to maintain separate schedule

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Schedule 51 Customer Impacts

All 6 customers would pay less on Schedule 31 at existing rates

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Schedule 41

- Large volume, high load factor
- Optional
- Demand charge, higher customer charge, lower delivery charge
- Customers don't all match description
  - Small
  - Low load factors
- Some Schedule 31 customers might fit description for Schedule 41 customers

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Schedule 41

- Customers indicated it is important to have a schedule for large, high load factor customers
- Rate design does not sufficiently encourage
  - The right customers to be on Schedule 41
  - Other customers not to be on Schedule 41
- Potential changes
  - Higher minimum charges
  - Higher customer charge
  - Higher demand charge

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Interruptible Schedule 85

Interruptible with firm option

- 365,000 therms/year minimum
- Requires gas as exclusive fuel
- Requires backup facilities and fuel (can be waived)
- Supply & localized curtailments - second curtailed, second resumed

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Interruptible Schedule 86

Limited interruptible with firm option

- Schools and buildings with boilers, turbines or engines
- 10,000 therms/year minimum
- Requires gas as exclusive fuel
- Requires backup facilities and fuel (can be waived)
- Supply & localized curtailments - last curtailed, first resumed

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Interruptible Schedule 87

Non-exclusive interruptible with firm option

- 1,000,000 therms/year minimum
- Requires contract volume
- Does not require gas as exclusive fuel
- Requires backup facilities and fuel (can be waived)
- Supply & localized curtailments - first curtailed, last resumed

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Transportation Schedule 57

Firm and interruptible transportation

- Requires telemetering equipment
- No backup requirement
- Localized curtailments - first curtailed, last resumed

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Schedules 85, 86, 87, 57

- Three interruptible schedules
- One transportation schedule – large and small customers
- Rates are connected
  - 85 and 87 same customer charge
  - 87 and 57 same delivery charges
  - 85 shares third block rate with 87 and 57
  - Same demand charge

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Schedules 85, 86, 87, 57

- Inconsistency between treatment of transportation and sales customers
  - Curtailment priority
  - Fuel exclusivity
  - Minimum charges
  - Rates for smaller customers
- Inconsistent margin per therm between transportation and sales customers

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Schedules 85, 86, 87, 57

- Keep current interruptible schedules
  - There are reasons for the differences
  - Cost differences
- Modify transportation to be consistent with sales

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Transportation Proposed Change

- Provide transportation as an option on other schedules
  - Interruptible Schedules 85, 86, 87
  - Firm Schedules 31 and 41
  - Same terms as sales schedules
  - Different customer charges
  - Balancing charge
  - No procurement charge
  - Otherwise the same rates
- Put an end date on Schedule 57 out 4 years

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Summary of Recommendations

- Eliminate Schedule 36
- Eliminate Schedule 51
- Revise rate design of Schedule 41
- Add transportation service to Schedules 85, 86, 87, 41 and 31
- Put closure date on Schedule 57

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Next Steps

- Finalize results
- Propose in next general rate case
- Implement

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Appendix E
Summary of Gas Distribution and Rental Charges

Puget Sound Energy
Summary of Gas Distribution Charges
Rates in Effect October 1, 2007

Rate Schedule	Description	Customer Charge	Demand Charge	Delivery Charge	Block Ending	Balancing/ Procurement Charges (1)
16	Gas lighting (optional, closed)			$ 13.28	4 mantles	
				$ 12.28	9 mantles	
				$ 11.28	Over 9 mantles	
23	Residential	$ 8.25	$ -	$0.30039	all therms	
31	Commercial & industrial general service	$ 17.50	$ -	$0.26461	all therms	
36	Special commercial heating (optional)	$ 35.00	$ -	$0.24574	all therms	
41	Large volume high load factor (optional)	$ 80.00	$ 0.70	$0.15968	5,000	
	Minimum delivery charge of $79.84 based on 500 therms/month			$0.13030	Over 5,000	
50	Compressed natural gas	$ 150.00	$ -	$0.19470	all therms	
51	Special multiple unit housing (optional)	$ 8.25	$ -	$0.22724	all therms	
53	Propane	$ 8.25	$ -	$0.30039	all therms	
57	Distribution system transportation (firm & interruptible)	$ 800.00	$ 1.02	$0.12483	25,000	$ 0.0014
	Requires telemetering equipment			$0.07621	50,000	$ 0.0014
	Has balancing charge			$0.04921	100,000	$ 0.0014
	No backup requirement			$0.03226	200,000	$ 0.0014
	First curtailed, last resumed for supply & localized curtailments			$0.02376	500,000	$ 0.0014
				$0.01876	Over 500,000	$ 0.0014
61	Special standby & auxiliary heating	$ -	$ 0.10	$ -	Per 1,000 Btu per hour	
85	Interruptible with firm option	$ 500.00	$ 1.02	$0.10000	25,000	$ 0.0065
	365,000 therms/year minimum			$0.05127	50,000	$ 0.0065
	Has procurement charge			$0.04921	Over 50,000	$ 0.0065
	Requires gas as exclusive fuel					
	Requires backup facilities & fuel					
	Second curtailed, second resumed for supply & localized curtailments					
86	Limited interruptible with firm option (optional)	$ 100.00	$ 1.02	$0.21000	1,000	$ 0.0065
	Available to schools, buildings with boilers/engines/turbines			$0.15055	Over 1,000	$ 0.0065
	10,000 therms/year minimum					
	Has procurement charge					
	Requires gas as exclusive fuel					
	Requires backup facilities & fuel					
	Last curtailed, first resumed for supply & localized curtailments					
87	Non-exclusive interruptible with firm option (optional)	$ 500.00	$ 1.02	$0.12483	25,000	$ 0.0050
	1,000,000 therms/year minimum			$0.07621	50,000	$ 0.0050
	Has contract volume			$0.04921	100,000	$ 0.0050
	Has procurement charge			$0.03226	200,000	$ 0.0050
	Does not require gas as exclusive fuel			$0.02376	500,000	$ 0.0050
	Requires backup facilities & fuel			$0.01876	Over 500,000	$ 0.0050
	First curtailed, last resumed for supply curtailments					

(1) Balancing charge for Schedule 57, procurement charge for Schedules 85, 86, 87

Puget Sound Energy
Summary of Gas Rental Charges
Rates in Effect October 1, 2007

Rate Schedule	Description	Model	BTU Input	Monthly Rental Charge
71	Residential water heater rental service (closed)			
		71G-A Standard Models	Less than 55 gallons or 60,000 BTU	$ 6.37
		71G-B Conservation Models	Less than 55 gallons or 60,000 BTU	$ 10.23
		71G-C Direct Vent Models	Less than 55 gallons or 60,000 BTU	$ 14.35
		71G-D High Recovery Models	Less than 55 gallons or 60,000 BTU	$ 14.05
		71G-E High Efficiency Standard	Less than 55 gallons or 60,000 BTU	$ 5.12
		71G-F High Efficiency Direct Vent	Less than 55 gallons or 60,000 BTU	$ 8.98
72	Large volume water heater rental service (closed)			
		72G-F 25-40 gallon storage	30,000 to 50,000	$ 12.50
		7G2-G 45-55 gallon storage	70,000 to 79,000	$ 16.35
		72G-H 45-55 gallon storage	51,000 to 75,000	$ 16.35
		72G-I 50-65 gallon storage	60,000 to 69,000	$ 25.60
		72G-J 60-84 gallon storage	70,000 to 129,000	$ 33.40
		72G-K 75-90 gallon storage	130,000 to 169,000	$ 44.60
		72G-L 75-100 gallon storage	170,000 to 200,000	$ 51.80
74	Gas conversion burner rental service (closed)			
		74G-A Sandard Models	45,000 to 400,000	$ 8.65
		74G-B Standard Models	401,000 to 700,000	$ 22.95
		74G-C Standard Models	701,000 to 1,300,000	$ 31.01
		74G-D Conservation Models	45,000 to 400,000	$ 13.02
75	Residential gas circulating heater rental service (closed)			$ 2.90