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August 31, 2012

Mr. David W. Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 South Evergreen Park Drive S.W.
P.O. Box 47250
Olympia, WA 98504-7250

Subject: Docket No. UG-121207
Commission Investigation into Natural Gas Conservation Programs
Filed via WUTC Electronic Web Portal

Dear Mr. Danner:

In response to the Commission seeking written comments on issues related to natural gas conservation in Docket UG-121207, Puget Sound Energy, Inc. ("PSE" or the "Company") offers the following comments regarding the two questions the Commission posed in its opportunity to file written reply comments.

1. What are the appropriate assumptions or factors to include in natural gas avoided cost calculations?

For PSE, the appropriate assumptions or factors to include in natural gas avoided cost calculations are highlighted in Schedule 183 of PSE's Natural Gas Tariff:

"Avoided Cost, also known by the terms Conservation Cost Effectiveness Standard or Energy Efficiency Cost Effectiveness Standard herein for Conservation/energy efficiency activities and/or Measures is based on forecast gas commodity market prices and includes the credits for avoided pipeline capacity and transport costs and avoided storage and distribution costs."

Please see Attachment 1 which describes PSE's current process for calculating the avoided cost for natural gas conservation programs. This description is similar to what was included in our most recent Biennial Conservation Plan ("BCP").

In addition, there are some assumptions and factors that are different on the natural gas side than the electric side. This should be no surprise, and should not be an issue of concern. For

example, in the electric calculation, there is the use of a 10% environmental adder, this factor is only appropriate to be used on the electric side and not on the natural gas side. There are no regulatory requirements for applying this to natural gas. This has issue has been transparent with our stakeholders and has a long-time precedent within PSE's Commission-acknowledged Integrated Resource Plan.

PSE believes that the Commission should exercise caution in proscribing changes to the assumptions or factors in the avoided cost calculations. Any such short-term changes should not be viewed as "policy" decisions, but rather as a fundamental change in the methodology of calculating avoided costs. Any such short-term changes could have serious implications upon how both customers and stakeholders view the veracity of whether or not conservation programs are appropriate programs to fund. In short, PSE believes that nothing is fundamentally "broken" with the avoided cost calculation for natural gas conservation that necessitates fixing.

2. Should companies use a combination of cost tests in evaluating the cost-effectiveness of natural gas conservation programs?

PSE is comfortable with the way the uses of the cost test are described in the tariff book, and does not believe that anything is broken and needs to be fixed. For PSE, the cost test that is highlighted in Schedule 183 of PSE's Natural Gas Tariff is the Total Resource Cost ("TRC") Test:

"Conservation/energy efficiency activities will be consistent with cost-effectiveness as defined by a Total Resource Cost Test."

The same tariff schedule also discusses the Utility Cost Test ("UCT"):

"Company funding for services will be limited to cost-effectiveness defined by a Utility Cost Test using the Company's Energy Efficiency Cost Effectiveness Standard, also known as the Conservation Cost Effectiveness Standard."

The same tariff schedule also describes how individual conservation measures must be consistent with both the TRC and the UCT:

"In addition to meeting the definition of Measure in Section 4 a Measure must reasonably be expected to satisfy the Total Resource Cost Test and the Utility Cost Test."

Proposed Issues

In addition to the two questions the Commission has posed above, the Commission may also want to consider the following Proposed Issue:

Does starting and stopping conservation programs, in the short-term, have an additional cost?

PSE appreciates the opportunity to present these comments. Please direct any questions regarding these comments to Eric Englert at (425) 456-2312 or the undersigned at (425) 462-3495.

Sincerely,



Tom DeBoer
Director – Federal & State Regulatory Affairs