

Agenda Date: July 24, 2014

Item Number: A5

Docket: UG-140721

Company Name: Puget Sound Energy

Staff: Dave Gomez, Assistant Power Supply Manager, Energy Regulation

Recommendation

Issue an Order allowing Puget Sound Energy's, (PSE or company) tariff filing establishing CNG service to go into effect by operation of law subject to the requirements specified in the Order.

Background

On April 25, 2014, PSE filed with the Washington Utilities and Transportation Commission (commission) a revision to its currently effective Tariff WN U-2, Natural Gas Service, designating a new Schedule No. 54, Optional Gas Compression Service. The stated effective date of the tariff sheets is July 25, 2014.

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.

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.

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 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.

Staff reviewed PSE's filing of April 25, 2014, and recommended, at the regularly scheduled commission open meeting on June 26, 2014, that the commission suspend it for further

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.

investigation. Staff was particularly concerned with the risk non-CNG ratepayers would bear if the company in the future seeks compensation for stranded investment in CNG service assets if the service is not successful. Public Counsel and the Northwest Industrial Gas Users (NWIGU) supported staff's recommendation and are similarly concerned with the risk to ratepayers.

At the open meeting of June 26, 2014, Commissioner Goltz acknowledged staff's concern over stranded investment. He also added additional concerns of his own posed by potential cross-subsidization of the proposed CNG service by other PSE customer classes:

- Non-CNG ratepayers bearing the cost burden if the service fails to generate sufficient revenues to cover the PSE's investment; and
- The stifling of unregulated providers' efforts to offer competing service.

At the conclusion of the June 26, 2014, open meeting, the commission decided to not suspend the filing and instead tabled the matter for consideration at its regularly scheduled open meeting of July 24, 2014.

Discussion

During the interim period between open meetings, the company and staff worked together to revise the language of the tariff and modify the CNG Pricing Model in an effort to address cross-subsidization concerns. Consistent with the guidance from the commission at the June 26, 2014, open meeting, staff and PSE:

- Added to the CNG Pricing Model² and the Contract Administration Charge³ contained in the tariff the CNG Service's full share of overhead costs as would be borne by any other PSE's customer class; and
- Modified tariff language to clarify the scope of the service provided, customer eligibility requirements, the determination of pricing and other clarifications designed to ensure that the entirety of the service offering is defined in Schedule No. 54's tariff pages.

On June 18 & 21, 2014, the company filed substitute pages from the original ones filed on April 25, 2014, in its Advice No. 2014-15 along with the CNG Pricing Model PSE will be using to determine the charges for this service. Staff is satisfied that statutory requirements preventing cross-subsidization⁴ are met in PSE's substitute pages of its proposed Schedule 54 and that the price as determined by the CNG Pricing Model includes the full contribution of overhead costs to the contract customers who take the service. Furthermore, staff is comfortable addressing the

2 Exhibits B and D of the Company's Schedule No. 54 tariff will include capital project and O&M overhead allocations which will be used as inputs into the CNG Pricing Model.

3 The company used its Cost of Service Study from its last General Rate Case, UG-111049, updated using its most recent O&M cost data from its last Commission Basis Report, UG-141022, to determine the Schedule No. 54 Contract Administration charge. The FERC expense accounts that were not included in the Contract Administration charge are those directly related to maintaining and operating the natural gas distribution system or are subaccounts that are directly assigned to other customers. As stated in the tariff, CNG customers are also required to have gas distribution service and therefore their contribution to those costs will be made through their distribution rates.

4 RCW 80.28.090 & RCW 80.28.280.

issue of stranded costs that might result if the company's CNG customers terminate service prematurely if and when they actually arise.

Conclusion

Issue an Order allowing Puget Sound Energy's, (PSE or company) tariff filing establishing CNG service to go into effect by operation of law subject to the requirements of the Order.