Agenda Date: October 24, 2019
Item Number: F18

Docket: UG-190789
Company: Puget Sound Energy

Staff Elizabeth O'Connell, Regulatory Analyst

Recommendation

Take no action, thereby allowing the proposed tariff revisions filed by Puget Sound Energy in Docket UG-190789, to become effective November 1, 2019, by operation of law.

Overview of Filing

On September 19, 2019, Puget Sound Energy (PSE or company) filed with the Washington Utilities and Transportation Commission (commission) its annual purchased gas adjustment (PGA) in Docket UG-190789. This filing adjusts the PGA rates for projected gas costs for the upcoming PGA year (November 2019 through October 2020), as well as the tracker rates for the previous year's deferral balance.

The proposed PGA rates increase annual revenue by $17.8 million, while the new supplemental tracker rates increase annual revenue by $100.6 million. The tracker rates include deferral balances for three separate amounts: (1) $114.4 million of under collected commodity balances deferred in February and March (but amortized over two years from November 2019 through October 2021); (2) a $10.8 million balance of over-collected commodity costs for the 2018 PGA, and (3) a $4.1 million remaining balance from the $54.7 million credit to customers, caused by the 2017 over-collection, established in the 2018 Tracker.

For a typical residential customer using 64 therms, the proposed rates would increase bills by 13.3 percent, or $7.91 per month.

Discussion

Unusual Circumstances

PSE experienced three noteworthy events last winter: the Enbridge pipeline rupture, unusually low temperatures in February and March, and a compressor failure in February at the Jackson Prairie storage facility.

While the October 9, 2018, Enbridge rupture led to high gas prices across much of this past PGA year, the deferrals for three months of November 2018, December 2018, and January 2019, totaling $54 million, were reviewed and embedded in rates through PSE's out-of-cycle PGA, effective May 1, 2019 through April 30, 2020.[1] This Supplemental Schedule 106A remains in effect and unchanged.

The deferral balance subject to review in the current PGA includes costs accumulated from February 2019 through October 2019,[2] as well as for September and October of 2018, which were projections for last year's PGA. However, the majority of the deferral balance can be attributed to high costs in February and March of this year. In those two months, the natural gas market continued to be affected by the Enbridge rupture, and regional gas prices remained abnormally high, especially on the Sumas Pipeline.

In addition to the high cost of gas caused by the Enbridge rupture, temperatures in PSE's service territory in February and March were six degrees below normal, leading to loads 30 percent above PSE's forecasted levels. These unexpectedly high loads caused the need for PSE to purchase additional gas at high market prices. The combination of reduced transportation capacity in the pipeline system occurring contemporaneously with colder than normal temperatures put upward pressure in prices in regional markets. Sumas prices observed during this period deviated significantly from PGA assumed prices, reaching $159.27 during the cold snap.

Exacerbating the problem even further, on February 10, 2019, a compressor unit malfunctioned at the Jackson Prairie natural gas storage facility, limiting PSE's ability meet the high cold-weather demand with storage gas, and causing further exposure to the market.

Discussion:

Jackson Prairie Compressor Failure

The effects of the Enbridge rupture on gas costs experienced by Washington LDCs, especially those that rely on the Sumas pipeline, has been thoroughly discussed before this commission, and staff will not discuss it further here except to reiterate that the event was unexpected and the costs were largely out of PSE's control. Additionally, abnormally low temperatures in February and March were of no fault of the company.

However, without assessing the cause of the Jackson Prairie Compressor failure, it wouldn't be obvious whether the incremental costs associated with the failure were due to imprudent management of the site. Therefore, staff's review of this year's deferral balance centered primarily on the compressor failure and whether it could have been prevented. It's worth re-emphasizing that the timing of the compressor failure – during a cold spell when the market was already stressed from the Enbridge rupture – was particularly poor, and likely led to incremental market purchases that the company otherwise would not have made.

After the compressor failure, PSE commissioned the compressor's manufacturer SOLAR

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[1] Docket UG-190218, filed March 29, 2019.
[2] September and October 2019 are projected.

Turbines (SOLAR) to inspect and determine the cause. SOLAR concluded that the failure was due to corrosion. Previous maintenance reports did not show any risk of this type of failure; SOLAR performed its annual inspection of the C-9 compressor on November 28, 2018 – less than three months before the incident – and the bore scope uncovered no issues with the compressor. Staff uncovered no evidence that the event could have been prevented.

It is not possible to ascertain to what extent, or even whether, the event affected PSE's gas costs. On each gas scheduling day, decisions as to how much to withdraw from or inject into storage are based on daily circumstances with respect to the storage facility, the pipelines, current market conditions, forward markets, loads, and load forecasts, making the construction of a reliable counterfactual extremely difficult. Moreover, at the time of the compressor failure, storage reserves were substantially depleted; nearly 60 percent of the total working gas had already been extracted, thus limiting the volumes that could have been used to serve load.

Schedules and Rate Impacts

The PGA tariff proposal has four components: Schedule 101, Schedule 106, Supplemental Schedule 106A and Supplemental Schedule 106B.

Schedule	Balances ($ mm)	Revenue	Billing effect	What it is	Reason	Amortization period
101	17.8	Increase	Increase	Forward-looking Cost of Gas	Increase in forward price	Nov 2019 - Oct 2020
106	4.1	Decrease	Refund	Remaining true-up balance for 2017	PSE refunded $50.6 million of the $54.7 million over-collected in 2017	Nov 2019 - Oct 2020
106	10	Decrease	Refund	Deferral balance for current PGA year (except Nov 2018 - Mar 2019)	True-up of $10 million over-collected from Sch. 101 rates	Nov 2019 - Oct 2020
106A	40.4	In effect/ Unchanged	Surcharge	Out-of-cycle PGA; deferrals for Nov 2018 - Jan 2019	Enbridge/ high commodity costs	May 2019 - Apr 2020
106B	114.4 (57.2/year)	Increase	Surcharge	Deferrals for Feb-Mar 2019	Enbridge, cold temps, high	Nov 2019 - Oct 2021

					commodity costs	

PSE has introduced a new supplemental rate schedule, Schedule 106B, to account for the large deferral balance accumulated in February and March 2019, and proposes to amortize the balance over a two-year period, from November 2019 through October 2021.

The following table provides combined effect of the supplemental rate changes and current approved schedules 106 and 101 revenue impact by schedule.

Customer Class	**Schedule 101 Revenue change**	**Schedule 106 Revenue change**	**% change over total forecasted revenue per schedule**
Residential (16,23,53)	$ 11,939,436	$ 63,770,925	12.4%
Commercial & industrial (31,31T)	$ 4,430,729	$ 25,051,310	15.4%
Large volume (41,41T)	$ 830,475	$ 7,020,242	17.7%
Interruptible (85,85T)	$ 197,731	$ 1,568,133	12.6%
Limited interruptible (86,86T)	$ 94,539	$ 814,980	20.9%
Nonexclusive interruptible (87,87T)	$ 268,387	$ 2,354,156	22.2%
Contracts	$ -	$ -	0.0%
Total	**$ 17,761,297**	**$ 100,579,746**	**13.5%**

Customer Comments

On October 1, the company notified its customers via published notice of the proposed PGA filing. Customers were advised that they may access relevant documents about this rate increase on the commission’s website, and that they may contact Andrew Roberts at (888) 333-9882 or andrew.roberts@utc.wa.gov with questions or concerns. Staff received two consumer comments opposed to the proposed rate increase. One customer expressed concern about the impact the proposed rate increase would have on low and fixed income customers. The other consumer indicated that the cost of living was stagnant and natural gas prices are at record lows.

Staff informed customers that natural gas utilities do not profit on the actual cost of natural gas. Customers were also informed of the impacts the Enbridge Pipeline incident had on natural gas costs and supply over the winter of 2019. Customers were also told that commission staff performs a thorough review of rate filings to ensure all rates and fees are appropriate.

Conclusion

In summary, unusually high commodity costs resulted from high market prices that were largely out of the company’s control. The compressor failure at Jackson Prairie does not appear to have been preventable, and likely did not significantly contribute to the large deferrals in February and March. After reviewing the company’s filing, staff finds that the true ups and deferrals presented are appropriate for recovery. Therefore, staff recommends that the commission take no action, allowing the proposed tariff sheets filed by Puget Sound Energy in Docket UG-190789, to become effective November 1, 2019, by operation of law.