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Ms. Amanda Maxwell, Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

**Re: Advice No. 2022-18
Puget Sound Energy - Natural Gas Tariff Revision**

Dear Ms. Maxwell:

Puget Sound Energy (“PSE”) hereby submits proposed changes to rates in its Supplemental Schedule 101 - Gas Cost Rates, Supplemental Schedule 106 - Deferred Account Adjustment, and Supplemental Schedule 138 - Voluntary Renewable Natural Gas Service-Purchase Rider in its WN U-2 natural gas tariff. Enclosed, pursuant to RCW 80.28.060 and Chapter 480-80 WAC, are the following proposed revised tariff sheets:

46th Revision of Sheet No. 1101 – Supplemental Schedule 101 – Gas Cost Rates
49th Revision of Sheet No. 1106 – Supplemental Schedule 106 – Deferred Account Adjustment
3rd Revision of Sheet No. 1138 – Supplemental Schedule 138 – Voluntary Renewable Natural Gas Service-Purchase Rider

Consistent with the calculation of PSE’s Purchased Gas Adjustment Mechanism (“PGA”) in its Natural Gas Rule No. 26, this filing consists of proposed changes to Supplemental Schedule 101 (“Gas Cost Rates”), which reflect changes in wholesale gas and pipeline transportation costs, and Supplemental Schedule 106 (“Tracker”), which reflect changes in deferral amortization rates. The overall impact of the Supplemental Schedule 101 rate change is a revenue increase of \$158.9 million, or 15.3%, mainly driven by an increase in commodity costs for the upcoming year. The overall impact of the Supplemental Schedule 106 rate change is a revenue increase of \$21.5 million, or 2.1%, mainly driven by higher commodity prices than projected in last year’s PGA filing. The combined impact of this filing is to increase the amount billed to customers under the Gas Cost Rates and its associated Tracker by 17.3% or an overall revenue increase of \$180.4 million. Bill assistance is available to PSE customers meeting the criteria described in Low Income Program Schedule 129.

Purpose of This Filing

The primary purpose of this filing is to adjust both PSE's Gas Cost Rates and associated Tracker rates. In addition, the 2022 Hedging Plan and Retrospective Report, proposed changes to Supplemental Schedule 138 Voluntary Renewable Natural Gas Service-Purchase Rider and an initial RNG report are included with this filing.

Gas Cost Rates (Supplemental Schedule 101):

The Gas Cost Rates recover expected gas costs from PSE's sales customers. On an average annual basis, the Gas Cost Rates included in this filing reflect a total average 36.0% increase in commodity and demand gas costs per therm in comparison to last year's filing. The increase in Gas Cost Rates is mainly due to higher forecasted commodity costs for the upcoming PGA year; wholesale gas prices are 51.0% higher than the level reflected in last year's filing. PSE's hedging program is estimated to mitigate a sizeable portion of the wholesale gas price increases (see PSE's Hedging Plan section below). The impacts of the increased gas costs, as proposed herein, are an average 14.5% increase in residential gas rates and an average 15.3% increase to all gas rates. The annual dollar amount of the change is an increase in revenue of \$158.9 million. This filing also represents a corresponding increase in expenses, resulting in no net change in net operating income to PSE.

To estimate gas commodity costs, PSE uses a probabilistic view of pipeline utilization to set constraints on pipeline capacity, which results in more realistic estimates of the proportion of purchases from the four supply hubs. This methodology creates a least cost supply portfolio that includes supply contracts, storage operations and transportation for the annual period. PSE has estimated annual gas supply costs for the period November 2022 through October 2023.

A necessary component of the gas cost forecast is the assumed "forward strip" of monthly prices for the basins from which PSE acquires gas. PSE's gas cost forecast utilizes a 3-month average (90-day average) of forward price marks. The 3-month price mark period is June 1 through August 31, 2022, the period immediately preceding the date of the analysis noted above. PSE believes the cost forecast overall is a reasonable basis for setting Gas Cost Rates. Actual market prices will most likely differ from the forecast used in 2022 PGA filing.

PSE includes Renewable Natural Gas ("RNG") costs as part of its gas costs as allowed by RCW 80.28.385 Renewable Natural Gas Program and by PSE's Natural Gas Rule No. 26, on July 11, 2020, which allow both the commodity costs and demand costs of RNG to be recovered in the PGA (as approved by the Commission in Docket UG-200832). RCW 80.28.385(1) requires that the RNG charges to natural gas customers may not exceed five percent of the amount charged to retail customers for natural gas. PSE began purchasing RNG in July 2020 through an agreement with Klickitat Public Utility District, continuing through June 2040. Under the first phase of the agreement, PSE is purchasing an estimated 550,000 dekatherms per year for the first three years.

In addition, see below for more information about PSE's Voluntary RNG Service – Voluntary Renewable Natural Gas Service-Purchase Rider (Supplemental Schedule 138). The voluntary RNG amounts that are subscribed through Schedule 138 are accounted for separately from the RNG that flows through the PGA.

Tracker Rates (Supplemental Schedule 106):

In addition to the proposed Gas Cost Rates (Supplemental Schedule 101) changes, the proposed Tracker rate changes adjust the rate for deferred gas costs. The impact of the Tracker rate changes, as proposed herein, is an average 2.0% increase in residential gas rates and an average 2.1% overall increase in all gas rates. The annual dollar amount of the change is an increase in revenue of \$21.5 million. This change also results in no impact on PSE's net operating income.

The Tracker rates true-up prior over- or under-recoveries of purchased gas expenses. This filing reflects the true-up of actual costs to actual revenue collected through August 31, 2022, and estimated costs to estimated revenue for September 1, 2022 through October 31, 2022. PSE projects the balance in its 191 account will be a \$60.1 million under-collection at the end of October 2022. Of the \$60.1 million net under-collection, \$23.0 million is commodity-related deferrals that are already being collected through Supplemental Schedule 106 Supplemental Rate (B). During the 2019 General Rate Case in Docket UG-190530, to mitigate the impact of rate increases in response to the COVID-19 pandemic, the Commission's Final Order 08 extended the collection of \$69.4 million originally filed under Supplemental Schedule 106 Supplemental Rate (B) in the 2020 PGA from two to three years, to end on September 30, 2023. The remaining balance of \$37.1 million of under-collection results from the differences between actual gas market prices and forward prices used in the preparation of the 2021 PGA filing. The following is a breakdown of the \$37.1 million under-collection as of October 31, 2022:

Estimated Amortization Balance	\$0.02 million
Estimated Demand Balance	\$15.8 million
Estimated Commodity Balance	\$21.2 million

The estimated under-collected amortization balance of \$0.02 million is mainly due to actual volumes varying from the projected volumes used to set the amortization rates.

The estimated under-collected demand cost balance of \$15.8 million is related to differences between actual demand costs and those estimated in the preparation of the 2021 PGA filing. Of the \$15.8 million net under-collection, PSE is proposing to transfer \$243 thousand to the amortization account. An under-collected balance is expected at the end of October due to the cyclical nature of demand cost recoveries relative to cost incurrence.

The estimated under-collected commodity cost balance of \$21.2 million is related to differences between actual commodity costs and those estimated in the preparation of the 2021 PGA filing. PSE is proposing to transfer all of the \$21.2 million balance to the amortization account.

The proposed Gas Cost Rates and Tracker rates in this filing reflect allocation factors using results from the Gas Resource Allocation Study performed during PSE's 2019 General Rate Case in Docket UG-190530.

Please note that work papers submitted with this filing contain commercially sensitive information, disclosure of which could adversely affect PSE's ability to effectively negotiate

favorable gas supply agreements and conduct wholesale trading for its customers. Therefore, PSE requests that work paper tabs marked confidential be accorded confidential treatment. Pursuant to WAC 480-07-160, they have been marked “Shaded information is designated as confidential per WAC 480-07-160.”

Combined Impact of Proposed Gas Cost Rates and Tracker Rates:

With the proposed Tracker rates, PSE is proposing to increase the rates charged to customers during the November 2022 through October 2023 period, the same time period as the proposed Gas Cost Rates are expected to be in effect. The overall combined impact of the proposed PGA and Tracker rates is a revenue increase of \$180.4 million, or 17.3%. The typical residential customer with service under Schedule 23 using 64 therms per month would experience an increase of \$12.42 per month or 16.4% in their bill. The following table summarizes the separate and combined impacts of the proposed Gas Cost and Tracker rates, based on a percentage change in total revenue for each rate schedule:

Estimated Impact on Annual Bills

Rate Schedule	Sch. 101 Gas Cost Impact	Sch. 106 Tracker Impact	Total Impact
Residential			
23	14.49%	1.96%	16.45%
16	14.82%	2.00%	16.82%
Commercial and Industrial			
31	15.94%	2.16%	18.10%
41	23.48%	3.20%	26.68%
Interruptible			
85	30.33%	4.15%	34.48%
86	25.16%	3.47%	28.63%
87	32.99%	4.56%	37.54%
Total	15.26%	2.07%	17.32%

Annual Hedging Plan

In compliance with the Commission’s March 17, 2020 Hedging Plan Acknowledgment Letter in Docket UG-190726, also included in this filing is PSE’s 2022 Hedging Plan and Retrospective Report. Appendix A to this report includes all hedging transactions for the November 2021 through July 2022 period. Please note that parts of this report contain proprietary commercial information and commercially sensitive information and, in accordance with WAC 480-07-160, the pages containing confidential information submitted herewith have been marked with “Shaded information is designated as confidential per WAC 480-07-160”.

Voluntary Renewable Natural Gas Service-Purchase Rider (Supplemental Schedule 138)

This filing includes proposed changes to the Voluntary Renewable Natural Gas Service-Purchase Rider (Supplemental Schedule 138). Proposed changes include adjustments to the number of RNG therms purchased per RNG block and the credit amount for conventional natural gas.

Concurrent with RCW 80.28.385, a separate law, RCW 80.28.390 Tariff-Voluntary Renewable Natural Gas Service also went into effect. This separate law required gas companies to offer a new optional tariff schedule that provides RNG service to all individual natural gas customers, at the customer's choice. In May 2020, the Commission approved revision to PSE's Tariff WN U-2 to add a new Supplemental Schedule 138 – Voluntary Renewable Natural Gas Service-Purchase Rider (“Voluntary RNG”) allowing customers to purchase blocks of renewable natural gas (see Docket UG-210194). PSE's RNG contract with Klickitat Public Utility District, along with any additional future RNG contracts or projects, will provide an RNG supply that is both adequate for PSE to make optional purchases under RCW 80.28.385(1), and to comply with the separate law RCW 80.28.390(1). See below, for information about an initial RNG report included in this filing which also includes RNG in the Voluntary RNG Service.

The proposed changes to Supplemental Schedule 138 decrease the number of therms purchased from 3.221 to 2.732 and increase the credit for conventional natural gas from \$1.00907 to \$1.30486, both per \$5.00 block of RNG. The changes are mainly driven by higher forecasted commodity costs for the November 1, 2022 to October 31, 2023 period. The changes also reflect updated Voluntary RNG Service growth assumptions and a true-up of actual costs to actual revenue recovered from the Voluntary RNG Service start on December 24, 2021 through August 31, 2022 of \$4,836. As stated in PSE's WN U-2 natural gas tariff, the participating customer revenue in the Voluntary RNG Service is solely used to fund the ongoing costs of RNG purchases, administration, marketing and overheads. Voluntary RNG Service is a self-funded, pass-through service. This change results in no impact to PSE's net operating income.

RNG Service Reporting

Consistent with the RNG Policy Statement from Docket U-190818 and Supplemental Schedule 138, PSE intends to use the Midwest Renewable Energy Tracking System (“M-RETS”) as the third-party entity for its RNG attribute tracking and verification system of Renewable Thermal Certificates (“RTCs”) for both the Voluntary Renewable Natural Gas Service (Schedule 138) under RCW 80.28.390 and the Renewable Natural Gas Program under RCW 80.28.385. PSE has established an account, and is in the process of sourcing an Independent Reporting Entity (“IRE”), as required by M-RETS, for defining and receiving approval of generators, uploading volumes and generating RTCs.

PSE understands that in accordance with RCW 80.28.385(2), that the Commission will establish and approve procedures for the banking and transfer of environmental attributes; PSE looks forward to working with the Commission in the creation of those procedures and rules. PSE understands that Commission Staff will work with all four gas local distribution companies (“LDCs”) to create an appropriate reporting framework for future reports, as stated in the Staff

Memo in Docket UG-210194, on April 21, 2021. PSE looks forward to working with Staff and the three other LDCs on its creation.

In the meantime, as indicated in its cover letters for the initial and revised Schedule 138 filings (Dockets UG-210194 and UG-210758), PSE is including RNG reporting with its PGA filing. It is an initial report of the RNG volumes used for the Voluntary RNG Service Schedule 138 and PSE's PGA portfolio, planned to be registered into the M-RETS system and estimated RTCs to be retired on behalf of PSE's customers.

Customer Notification

Posting of the proposed Supplemental Schedules 101 and 106 tariff changes, as required by law and the Commission's rules and regulations, for inspection and review by the public is being completed coincident with the date of this transmittal letter, through web, telephone and mail access in accordance with WAC 480-90-193(1). PSE will additionally publish the change in accordance with WAC 480-90-194(2) a minimum of thirty days prior to the November 1, 2022 effective date.

Conclusion

PSE's proposed Gas Cost Rates and proposed Voluntary RNG Service gas credit in this filing reflect PSE's best forecast of gas costs that will be incurred to serve customers during the PGA period November 1, 2022 through October 31, 2023. The proposed Tracker rates reflect the proposed treatment of deferred costs for the same period. The rates proposed in this filing reflect a balancing of customer impacts with reasonable results for gas utility operations. While actual costs will vary from projections due to volatility of market prices and sales volumes, the rates proposed in this filing will provide a reasonable matching of gas costs with revenue generated by the revised rates.

Questions regarding this filing can be directed to Kelima Yakupova at (425) 462-3588 or Julie Waltari at (425) 456-2945. If you have any other questions, or if I can be of any assistance, please contact me at (425) 456-2142.

Sincerely,

/s/ Jon Piliaris

Jon Piliaris
Director, Regulatory Affairs
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cc: Lisa Gafken, Public Counsel
Sheree Carson, Perkins Coie
Edward Finklea
Andrew Rector, UTC Staff

Attachments: Natural Gas Tariff Sheets (listed on page 1)
Work Paper – Schedule 101 (redacted & confidential)
Work Paper – Schedule 106 (redacted & confidential)
Work Paper – Schedule 138 (redacted & confidential)
RNG Report – July 2020 through August 2022
PSE 2022 PGA Hedging Plan and Retrospective (redacted & confidential)
Appendix A – Hedging Transactions (redacted & confidential)
Appendix B – UG-132019 Natural Gas Hedging Practices White Paper July 2015