

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DOCKET NO. UE-111048 and
DOCKET NO. UG-111049
(consolidated)

REPLY BRIEF OF THE NORTHWEST INDUSTRIAL GAS USERS

March 26, 2012

I. INTRODUCTION

1. In its Initial Post Hearing Brief, the Northwest Industrial Gas Users (“NWIGU”) addressed Puget Sound Energy, Inc.’s (“Puget’s” or “Company’s”) proposed Conservation Savings Adjustment (“CSA”) and the appropriate return and capital structure the Commission should authorize for Puget in this general rate case. In this Reply, NWIGU addresses only the claims in the Initial Brief of Puget Sound Energy, Inc. (“Puget’s Opening Brief”) relating to the design of the CSA mechanism.¹ With respect to the Company’s overall return and capital structure, NWIGU relies on the arguments it made in its own opening brief, along with the arguments submitted by Commission Staff and the Industrial Customers of Northwest Utilities, and supports an ROE of 9.5 percent and a capital structure containing 46.0 percent common equity.

II. REPLY TO SPECIFIC ARGUMENTS IN PUGET’S OPENING BRIEF

2. In support of its proposed CSA mechanism, Puget’s Opening Brief blurs any distinction between its gas operations and its electric operations, urging the Commission to adopt a one-size-fits-all approach for allowing recovery of lost revenue allegedly resulting from all Company-sponsored conservation. For example, Puget’s Opening Brief attempts to put great weight on its assertion that conservation will result in \$18 million in unrecovered costs during the rate year.² The record makes clear, however, that only \$2.5 million of that total is related to the Company’s gas operations.³
3. Puget’s Opening Brief does not address the fact that the CSA mechanism, if approved, constitutes single-issue ratemaking. As NWIGU demonstrates in its own opening brief, single-issue ratemaking is an extraordinary remedy that requires a showing of extraordinary financial circumstances. To the extent the Company will attempt to rely on the

¹ Because NWIGU’s Opening Brief already addresses most of the arguments raised in Puget’s Opening Brief, and in order to avoid building a record for the Commission that is full of redundant arguments, this reply brief will not restate fully the arguments set forth in NWIGU’s Opening Brief. Instead, NWIGU incorporates the points and authorities in NWIGU’s Opening Brief by this reference as if stated fully herein.

² Puget’s Opening Brief at ¶150, ¶154.

³ Exh. No. JAP-1T at 30:15 to 31:5; Exh. No. JAP-10 at p.10.

\$18 million figure as evidence of extraordinary financial circumstances it faces utility-wide, the Company has not attempted at all to demonstrate that \$2.5 million in lost revenue for its gas operations is extraordinary enough to justify implementation of the CSA mechanism for its gas customers. Rates for Puget's gas customers should not be driven by impacts related to the Company's electric operations.

4. Puget's Opening Brief also attempts to rely on the Commission's approval of a limited decoupling mechanism for Avista as justification for allowing the CSA. In doing so, Puget ignores at least two differences between the design of Avista's mechanism and the design of the CSA mechanism. Those differences are significant and should serve as the basis for denying Puget's request to implement the CSA.
5. First, Avista's limited decoupling mechanism applies only to Avista's residential and small commercial gas customers.⁴ As NWIGU noted in its own opening brief, there are significant differences in the application of the CSA mechanism to large industrial gas users compared to other gas users such as residential customers. For example, the evaluation of Puget's conservation programs occurs on a programmatic basis, which is a front-end estimate of the amount of savings a particular program is estimated to generate and not an analysis of actual gas savings following the installation of any particular conservation measure. Large industrial gas users, however, often implement custom conservation measures, resulting in the need for the consideration of many complex and various factors on a customer-by-customer basis.⁵ Thus, a program-level review of conservation measures cannot determine that actual conservation that occurs for those customers as a result of any Company-sponsored conservation measures.
6. As Puget candidly acknowledges, energy savings for large industrial gas customers is only "partially" the result of the Company's conservation measures, but there may be an

⁴ *WUTC v. Avista Corp.*, Docket Nos. UE-090134 and UG -090135 (*consolidated*), Order 10 at ¶248 (describing pilot project as applying only to Schedule 101 customers) and ¶303 (approving application of limited decoupling mechanism only to Schedule 101 customers).

⁵ See Stolarski, TR 719:5-12.

“additional reduction in energy usage as a result of the economic conditions” a customer may face.⁶ Despite those other factors that may be the cause of energy savings, the CSA mechanism would allow the Company to recover lost revenue as a result of those other factors. Avista’s limited decoupling mechanism does not suffer from that same flaw (although it may suffer from others) because it does not apply to Avista’s large industrial gas users.

7. Second, Avista’s limited decoupling mechanism takes into account the lower operational risk that results from decoupling. Although NWIGU does not believe the Commission should approve the CSA mechanism, if the Commission decides to approve the CSA mechanism it should also reduce the Company’s ROE. The Company objects to any reduction in ROE related to implementation of the CSA mechanism.⁷ When it approved the Avista mechanism, the Commission acknowledged that a decoupling mechanism may reduce the operational risk to a utility and justify a lower ROE.⁸ In that decision, the Commission declined to reduce Avista’s ROE, however, because it had already reduced Avista’s recovery of lost margin from the 90 percent it was allowed during the pilot phase down to 45 percent.⁹ Puget proposes no such alteration to the amount it is allowed to recover under the CSA mechanism. Puget cannot plausibly argue that a guaranteed return of fixed costs does not reduce its operational risks.

8. The Commission has made clear that “the wide variety of alternative approaches to decoupling make it more efficient to address” decoupling on a case-by-case basis.¹⁰ Puget cannot simply rely on the fact that the Commission has approved one alternative approach for Avista as the basis for approving Puget’s proposal when those proposals have such drastically different designs.

⁶ Stolarski, TR 721:24 to 722:6.

⁷ Puget’s Opening Brief at ¶162.

⁸ *WUTC v. Avista Corp.*, Docket Nos. UE-090134 and UG -090135 (*consolidated*), Order 10 at ¶308 (“We acknowledge that reducing a Company’s risk can result in a reduction of its return on equity.”).

⁹ *Id.*

¹⁰ *Id.* at ¶241.

III. CONCLUSION

9. For these reasons, and for the reasons set forth in NWIGU's opening brief, the Commission should reject Puget's implementation of the proposed CSA mechanism.

Dated in Portland, Oregon, this 26th day of March, 2012.

Respectfully submitted,



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CERTIFICATE OF SERVICE
Docket No. UE-111048 and UG-111049 (consolidated)

I HEREBY CERTIFY that I have this day served the foregoing document upon all parties of record (listed below) in this proceeding by mailing a copy properly addressed with first class postage prepaid.

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