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April 25, 2014

Mr. Steven V. King
Executive Director and Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, Washington 98504-7250

RE: Advice No. 2014-15 – Natural Gas Tariff Filing – Filed Electronically

Dear Mr. King:

Pursuant to RCW 80.28.060, WAC 480-80-101 and -105, please find enclosed for filing the following proposed revisions to the WN U-2, tariff for natural gas service of Puget Sound Energy, Inc. (“PSE”):

WN U-2, Natural Gas Service:

Original Sheet No. 154 – Schedule No. 54: Optional Gas Compression Service
Original Sheet No. 154-A – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-B – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-C – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-D – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-E – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-F – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-G – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-H – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-I – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-J – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-K – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-L – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-M – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-N – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-O – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-P – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-Q – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-R – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-S – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-T – Schedule No. 54: Optional Gas Compression Service (Continued)
Original Sheet No. 154-U – Schedule No. 54: Optional Gas Compression Service (Continued)

The purpose of this filing is to provide an optional service to eligible PSE natural gas customers where PSE provides compression facilities that are installed on the customer’s premise for the end uses of such customers, such as the fuelling of natural gas motor vehicles. Natural gas fueled vehicles lower the environmental impact of transportation, including reducing carbon dioxide (CO₂) emissions. By enabling customers to have

of the day to refuel, customers can increase their use of natural gas in transportation, traveling more miles on low-cost, low-emission natural gas.

PSE wants its customers to have improved choice in how they fuel their vehicles. Alternative fuels provide lower greenhouse gas and other emissions and lower costs than traditional fuels, benefitting customers directly as well as the region indirectly. Serving over 1.9 million electric and natural gas customers in the Puget Sound region, PSE feels that providing clear choices around the use of these alternative transportation fuels is part of its role in serving its customers, both directly and indirectly. This optional program is one way in which PSE can provide these choices and benefits within its context as a utility that provides electricity and natural gas for use in homes and businesses, and increasingly as a transportation fuel. PSE is pursuing other programs that will help customers receive the benefits of alternative fuels.

Description of service

The proposed compressed natural gas service (“CNG Service” or “CNG”) consists of PSE-provided natural gas conditioning/drying, compression, and related facilities to increase the pressure of the natural gas delivered to the customer for use by the customer for the refueling of natural gas vehicles (“NGV”). This will provide customers with the opportunity for a turn-key solution to obtain the higher gas pressure required for vehicle fueling, without a significant upfront capital investment into compression facilities. Since PSE will own, operate and maintain the facilities, this should remove any concerns a customer may have with maintaining high pressure gas equipment. PSE or its contractor will perform scheduled maintenance to ensure the facilities continue to operate at optimal levels.

Pricing structure

The pricing for CNG Service will vary for each installation and will be laid out in the customer’s Natural Gas Compression Service Agreement (as part of Schedule 54). The specific pricing will be based on the costs of the customer-specific requested facilities and reflect aspects of constructing those facilities at the customer site. Consistent with PSE Gas Rule 18 the customer will pay all costs to provide higher pressure service.

The determination of price will occur using a CNG Pricing Model, an economic test based upon a discounted cash flow calculation with consideration of the estimated annual CNG Service volume and the estimated PSE costs and expenses of providing the CNG Service for the specific customer. The customer may elect to pay the contracted volume compression charge as a fixed monthly charge or as a volumetric charge. A one-time election will occur at the beginning of the term of the Natural Gas Compression Service Agreement. A copy of the CNG Pricing Model, in electronic medium will be on file with the WUTC. The charges under this optional CNG Service will be in addition to the charges for natural gas service billed in accordance with the non-residential rate schedule on which the customer is served.

Proposed schedule ensures that CNG customers do not burden other ratepayers

The CNG Pricing model specifically recovers all costs related to each CNG facility over the life of the Natural Gas Compression Service Agreement from the natural gas customer who also elects CNG Service. PSE was deliberate in the design of the model and pricing to ensure that these natural gas customers, who also elect to use the CNG service, do not burden other customers. PSE also included the following provisions. First, if the customer terminates CNG Service prior to the end of the term of the Natural Gas Compression Service Agreement, the customer is obligated to pay a make-whole amount equivalent to all of PSE's unrecovered capital with respect to the compression facilities. Second, PSE has included credit requirements to ensure that customers remain viable for the term of the contract. Finally, in the unlikely event of customer bankruptcy, there will remain the equipment asset which PSE may also redeploy. PSE has taken into account the comments of Northwest Industrial Gas Users and other parties in this regard.

Commission has already ruled that a company's offering of CNG is not inimical to the ratepayers, to the public or to potential competition or competitors in the CNG market

In PSE's 1994 Schedule 50 CNG Service filing, the WUTC rejected Commission's Staff's objections, stating that it "...does not believe that [WNG's] offering of CNG is necessarily inimical to [WNG], to its ratepayers, to the public, or to potential competition or competitors in the CNG market."¹ The WUTC specifically found that the Schedule 50 CNG service met its incremental costs, thereby ensuring that the schedule required no subsidy by other customers. Notably, the WUTC held that WNG should have the opportunity, especially considering the statutory provisions, to offer CNG at rates that do not harm other customers and stated that they "...accept the [WNG's] contention that it earnestly seeks other vendors' participation in creating and serving a market and do not believe that the proposed rate will bar other vendors from the market."²

Commission re-affirmed PSE's ability to provide CNG service in 2012

On February 28, 2011, the Pierce Transit CNG fueling facility in Lakewood, Washington, suffered a failure that threatened interruption to Pierce Transit's operations. On March 22, 2012 in Docket No. UG-110442, PSE filed Schedule 50 (Emergency Compressed Natural Gas (CNG) Service) for vehicle fuel in short-term, emergency situations. Under this new Schedule 50, PSE would offer firm sales service on an emergency basis to allow Pierce Transit to fuel its buses at nearby PSE facilities at a comparable market price. The WUTC approved PSE's request for the new Schedule 50³ and subsequently amended the temporary service until June 1, 2012, to allow Pierce Transit sufficient time to complete repairs at the Pierce Transit CNG fueling facility in Lakewood, Washington.⁴

¹ *WUTC v. Wash. Natural Gas Co.*, Docket UG-940034, Fifth Supplemental Order (1995).

² *Id.*

³ *In re Puget Sound Energy, Inc.*, Docket UG-110442, Order 01 (2011).

⁴ *In re Puget Sound Energy, Inc.*, Docket UG-120388, Order 01 (2012).

Current Commission-approved Natural Gas Tariff, already allows PSE to offer higher pressure services such as CNG Service

The WUTC expressly stated in the Sixth Supplemental Order in Docket No. UG-920840, that the existence of a vehicle fuel tariff would not bar any customer from taking gas under any other schedule for use as a fuel in its own vehicles.⁵ This order clearly contemplates that customers may purchase natural gas for use as a vehicle fuel from a gas company under an applicable schedule. Pursuant to PSE Gas Rule 18, PSE may sell gas to its customers under an existing schedule at higher than normal pressures:

Gas is normally supplied by [PSE] at low pressure. The standard pressure of gas provided by [PSE] is .22 PSIG at the outlet of the meter. Higher pressure service may be supplied where available at the option of [PSE] and by special agreement. The special agreement may require the Customer to pay all costs relating to providing higher pressure service. In some cases, higher pressures may be supplied but not guaranteed.⁶

Under Gas Rule 18, PSE may already provide a CNG service to customers, provided that PSE offers such service pursuant to a special agreement and the customer pays all costs relating to the provision of higher pressure service.

In effect, the proposed Schedule 54 seeks to achieve what PSE may accomplish pursuant to WUTC precedent and Gas Rule 18—offer CNG service on a case-by-case basis. Formalizing such services through the filing of Schedule 54 provides certain advantages over special agreements because, (i) PSE may develop and provide service pursuant to a pro forma agreement under Schedule 54, and (ii) the adoption of Schedule 54 and a pro forma agreement saves both PSE and the WUTC the time associated with filing and review of special agreements. Therefore, the proposed Schedule 54 does not represent a marked departure from—but instead seeks to make more efficient—those services that PSE may already provide pursuant to existing arrangement.

Commission currently allows PSE to provide natural gas services in other so-called “competitive markets”

The Commission has already approved the following services and products that some would consider “competitive”: Natural Gas Residential Water Heater Rental Service; Natural Gas Large Volume Water Heater Rental Service; Natural Gas Conversion Burner Rental Service; and General Gas Lighting and Street Lighting Service.

No precedent exists that would prohibit PSE from offering Schedule 54 as a CNG service regulated by the WUTC. Section 404(b) of the Energy Policy Act prohibits the WUTC

⁵ *WUTC v. Wash. Natural Gas Co.*, Docket UG-920840, Sixth Supplemental Order (1993).

⁶ Puget Sound Energy, Inc., *Natural Gas Rules and Regulations, Rule No. 18: Measurement of Gas Service, Section I: Gas Delivery Pressures*, available at www.pse.com/aboutpse/Rates/Documents/gas_rule_18.pdf.

from regulating the rates for sales of natural gas for vehicle fuel by any entity that is not already regulated as a public utility under state law. As a gas company, PSE is a public utility under Washington law, and nothing prohibits the WUTC from regulating proposed Schedule 54 rates.

Proposed tariff schedule is consistent with state policy and state laws


In RCW 80.28.280, Washington State Law encourages the investment in CNG refueling stations by stating that "...development of compressed natural gas refueling stations are in the public interest."

Furthermore, Senate Bill 6440 approved on April 3, 2014 recognizes that CNG refueling stations will lead to more jobs, a better economy, environmental benefits and lower fuel costs. "The legislature further finds that the construction and operation of a natural gas liquefaction plant and compressed natural gas refueling stations as well as the ongoing use of compressed and liquefied natural gas will lead to positive job creation, economic development, environmental benefits, and lower fuel costs."

The tariff sheets described herein reflect an issue date of April 25, 2014, and an effective date of July 25, 2014. Posting of proposed tariff changes, as required by law and the Commission's rules and regulations, is being completed immediately prior to or coincident with the date of this transmittal letter through web, telephone and mail access in accordance with WAC 480-90-193.

Please contact Ben Farrow at (425) 456-2541 or Eric Englert (425) 456-2312 for additional information about this filing. If you have any other questions please contact me at (425) 456-2110.

Sincerely,



Ken Johnson
Director, State Regulatory Affairs

Enclosure

cc: Simon J. ffitich, Public Counsel
Sheree Carson, Perkins Coie