



PUGET
SOUND
ENERGY

March 24, 1998

Mr. Paul Curl, Acting Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, Washington 98504-7250

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

**Re: Petition for Rehearing of Fourth Supplemental Order
Docket No. UG-920840**

Dear Mr. Curl:

Pursuant to RCW 80.04.200, RCW 80.04.210 and WAC 480-09-820(1), Puget Sound Energy ("PSE" or "the Company") requests rehearing of the Fourth Supplemental Order in Docket No UG-920840 for the limited purpose of eliminating a required increase in residential natural gas water heater rental rates (Schedule 71) scheduled to occur on April 1, 1998.

As set forth in the Petition, circumstances have changed since the issuance of that Order, which required PSE's predecessor, Washington Natural Gas Company, to increase the residential natural gas water heater rental rates on an annual basis for five consecutive years beginning October 1, 1993. PSE conducted market research in August of 1997 and an economic analysis which shows that increasing the monthly rate for water heater rentals would cause a fall off in subscription and increase in requests for removal such that the combined removal costs and decreases in rental revenues would exceed any increased revenues from the scheduled rate increase. That analysis is included as Attachment A to the Petition. Based on this analysis, the Company submits that elimination of the final rate increase is in the interest of all customers. The enclosed Petition requests a rehearing of the Fourth Supplemental Order in Docket No. UG-920840 for the limited purpose of eliminating the final rate increase to Schedule 71 residential water heater rental rates scheduled to occur on April 1, 1998.

If you have any questions in regards to this filing please contact me at (425) 462-3451.

Very truly yours,

PUGET SOUND ENERGY, INC.

By James A. Heidell
James A. Heidell
Director, Federal and State Regulation

cc: R. Manifold
J. Van Nostrand

[BA980820.068]

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

Petition of

PUGET SOUND ENERGY, INC.

For Rehearing for the Limited Purpose of Eliminating
a Required Increase in Residential Natural Gas
Water Heater Rental Rates

Docket No. UG-920840

PETITION FOR REHEARING

98 MAR 24 PM 4:18
OFFICE OF THE
CLERK OF THE
COMMISSION
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In accordance with WAC 480-09-820 (1), Puget Sound Energy, Inc. ("Petitioner" or "the Company") respectfully petitions the Washington Utilities & Transportation Commission ("the Commission") for rehearing of the Fourth Supplemental Order in Docket No. UG-820840 for the sole purpose of eliminating that Order's requirement that residential natural gas water heater rental rates be increased. Currently, Petitioner's Schedule 71 provides for an increase in rates for Residential Water Heater Rental Service to become effective April 1, 1998.

BACKGROUND

1. Petitioner is engaged in the business of furnishing electric and gas service within the State of Washington as a public service company, and is subject to the regulatory authority of the Commission as to its rates, service, facilities and practices.

2. In Docket No. UG-920480, a general rate proceeding involving Petitioner's predecessor, Washington Natural Gas Company, the Commission determined that the Company's residential water heater leasing program failed "to earn an adequate return." (Fourth Supplemental Order, p. 16) Rather than direct the Company to get out of the business entirely, the Commission adopted the Company's proposal to continue the existing program for water heater rentals, under the conditions outlined in the order. (Order, p. 17) It was apparently the Company's proposal, as

set forth in the Company's response to Staff Request No. 799, to increase water heater rental rates each October from 1993 through 1997.

3. As required by the Order, the Company has increased residential natural gas water heater rental rates each year from 1993 through 1996.

4. On August 28, 1997 the Company requested a postponement of the final residential water heater rental rate increase from the initial effective date of October 1, 1997 to an effective date of October 1, 1998. On September 18, 1997 the Company filed substitute tariff sheets (Docket No. UG-971327) changing the effective date of the final water heater rental rate increase from October 1, 1998 to April 1, 1998.

5. The Commission approved a six month postponement of this final water heater rate increase until April 1, 1998 to allow time for the Company to perform an economic analysis.

6. Between August 21 and August 23, 1997 the Company performed a market research study whereby residential water heater rental program participants were interviewed by telephone (Informal Staff Data Request No. 5 - Docket No. UG-971327). This market research indicates that increasing the monthly rate for water heater rentals would cause a fall off in demand such that the Company would likely experience combined removal costs and decreases in rental revenues that exceed the increased revenues from the scheduled rate increase. This analysis is attached hereto as Attachment A.

7. During the period between October 1997 and March 1998 the Company performed an economic analysis. This analysis, coupled with the market research performed in August 1997, resulted in the determination that it is in the best interest of the Company and its customers to not make the final rate increase to the water heater rental rates.

REQUESTED RELIEF

1. Circumstances have changed since the Fourth Supplemental Order was issued in Docket No. UG-920840 requiring the Company to increase the residential water heater rental rates each year for five consecutive years beginning October 1, 1993.
2. The Company's market research and economic analysis show that increasing water heater rental rates would cause a fall off in subscription and increase in requests for removal such that the Company anticipates that combined removal costs and decreases in rental revenues are in excess of the increased revenues from the scheduled rate increase.
3. Accordingly, Petitioner respectfully requests that the Commission enter an order in the form included herewith as Attachment B that would grant rehearing of the Fourth Supplemental Order in Docket No. UG-920840 for the sole purpose of eliminating the final increase in residential water heater rental rates that would otherwise become effective April 1, 1998.

DATED this 24th day of March, 1998.

PUGET SOUND ENERGY, INC.

By James A. Heidell
James A. Heidell
Director, Federal and State Regulation

VERIFICATION

JAMES A. HEIDELL, being first duly sworn, on oath deposes and says:

That he is Director, Federal and State Regulation, of Puget Sound Energy, Inc., that he has read the foregoing Petition for Rehearing, that he knows the contents thereof, and that he believes the same to be true to the best of his knowledge and belief.

James A. Heidell
JAMES A. HEIDELL

SUBSCRIBED AND SWORN to before me this 24th day of March, 1998.



Jillian L. Miller
Print Name: Jillian L. Miller
Notary Public in and for the State of Washington,
residing at Bellingham
My commission expires: 11/26/99

Water Heater Summary (Old Programs)

Lower Boundary on 95% Confidence Interval	Revenues	Removal Cost	Current Units as of 11/97	Lost Units	Lost Unit % Reduction	5 YR	Incremental Revenue					Proposed	Current	
						Monthly Net Present Value of Incr Revenue	Year 1	Year 2	Year 3	Year 4	Year 5	Rate Increase Effective 4/98	Price	
Standard	\$ (115,186)	\$ (213,120)	6,202	2,664	42.95%	-\$663,713	\$ (328,306)	\$ (115,186)	\$ (115,186)	\$ (115,186)	\$ (115,186)	\$	0.60	\$ 4.40
Direct Vent	\$ 4,091	\$ (90,160)	10,551	1,127	10.68%	-\$69,480	\$ (86,069)	\$ 4,091	\$ 4,091	\$ 4,091	\$ 4,091	\$	1.25	\$ 10.15
High Recovery	\$ (9,774)	\$ (38,560)	3,729	482	12.93%	-\$75,815	\$ (48,334)	\$ (9,774)	\$ (9,774)	\$ (9,774)	\$ (9,774)	\$	1.10	\$ 9.10
Conservation	\$ 135,072	\$ (462,880)	57,544	5,786	10.05%	\$99,610	\$ (327,808)	\$ 135,072	\$ 135,072	\$ 135,072	\$ 135,072	\$	1.00	\$ 7.00
Total	\$ 14,203	\$ (804,720)	\$ 78,026	10,059										

Mid Boundary	Revenues	Removal Cost	Current Units as of 11/97	Lost Units	Lost Unit % Reduction	5 YR	Incremental Revenue							
						Monthly Net Present Value of Incr Revenue	Year 1	Year 2	Year 3	Year 4	Year 5			
Standard	\$ (75,406)	\$ (160,080)	6,202	2,001	32.26%	-\$454,075	\$ (235,486)	\$ (75,406)	\$ (75,406)	\$ (75,406)	\$ (75,406)	\$		
Direct Vent	\$ 43,763	\$ (66,960)	10,551	837	7.93%	\$111,314	\$ (23,197)	\$ 43,763	\$ 43,763	\$ 43,763	\$ 43,763	\$		
High Recovery	\$ 4,547	\$ (29,200)	3,729	365	9.79%	-\$9,613	\$ (24,653)	\$ 4,547	\$ 4,547	\$ 4,547	\$ 4,547	\$		
Conservation	\$ 249,408	\$ (367,600)	57,544	4,595	7.99%	\$647,722	\$ (118,192)	\$ 249,408	\$ 249,408	\$ 249,408	\$ 249,408	\$		
Total	\$ 222,312	\$ (623,840)	\$ 78,026	7,798										

Upper Boundary on 95% Confidence Interval	Revenues	Removal Cost	Current Units as of 11/97	Lost Units	Lost Unit % Reduction	5 YR	Incremental Revenue							
						Monthly Net Present Value of Incr Revenue	Year 1	Year 2	Year 3	Year 4	Year 5			
Standard	\$ (35,626)	\$ (107,040)	6,202	1,338	21.57%	-\$244,437	\$ (142,666)	\$ (35,626)	\$ (35,626)	\$ (35,626)	\$ (35,626)	\$		
Direct Vent	\$ 83,435	\$ (43,760)	10,551	547	5.18%	\$292,108	\$ 39,675	\$ 83,435	\$ 83,435	\$ 83,435	\$ 83,435	\$		
High Recovery	\$ 18,745	\$ (19,920)	3,729	249	6.68%	\$56,021	\$ (1,175)	\$ 18,745	\$ 18,745	\$ 18,745	\$ 18,745	\$		
Conservation	\$ 363,744	\$ (272,320)	57,544	3,404	5.92%	\$1,195,833	\$ 91,424	\$ 363,744	\$ 363,744	\$ 363,744	\$ 363,744	\$		
Total	\$ 430,298	\$ (443,040)	\$ 78,026	5,538										

Market Research 16% Losses	Revenues	Removal Cost	Current Units as of 11/97	Lost Units	Lost Unit % Reduction	5 YR	Incremental Revenue							
						Monthly Net Present Value of Incr Revenue	Year 1	Year 2	Year 3	Year 4	Year 5			
Standard	\$ (14,866)	\$ (79,360)	6,202	992	15.99%	\$ (135,033)	\$ (94,226)	\$ (14,866)	\$ (14,866)	\$ (14,866)	\$ (14,866)	\$		
Direct Vent	\$ (72,653)	\$ (135,040)	10,551	1,688	16.00%	\$ (419,220)	\$ (207,693)	\$ (72,653)	\$ (72,653)	\$ (72,653)	\$ (72,653)	\$		
High Recovery	\$ (23,850)	\$ (47,760)	3,729	597	16.01%	\$ (140,884)	\$ (71,610)	\$ (23,850)	\$ (23,850)	\$ (23,850)	\$ (23,850)	\$		
Conservation	\$ (193,344)	\$ (736,560)	57,544	9,207	16.00%	\$ (1,474,771)	\$ (929,904)	\$ (193,344)	\$ (193,344)	\$ (193,344)	\$ (193,344)	\$		
Total	\$ (304,713)	\$ (998,720)	\$ 78,026	12,484										

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION
COMMISSION

Petition of

PUGET SOUND ENERGY, INC.

For Rehearing for the Limited Purpose of
Eliminating a Required Increase in Residential
Natural Gas Water Heater Rental Rates

Docket No. UG-920840

ORDER GRANTING REHEARING
[PROPOSED]

On March 24, 1998, Puget Sound Energy, Inc. (PSE) petitioned the Commission pursuant to RCW 80.04.200 and 80.04.210 and WAC 480-09-820(1) for rehearing of the Fourth Supplemental Order in Docket No. UG-820840. PSE sought rehearing for the sole purpose of eliminating that Order's requirement that residential natural gas water heater rental rates be increased. At the time of the Petition, PSE's Schedule 71 provided for an increase in rates for Residential Water Heater Rental Service to become effective April 1, 1998.

In Docket No. UG-920480, a general rate proceeding involving PSE's predecessor, Washington Natural Gas Company, the Commission determined that the company's residential water heater leasing program failed "to earn an adequate return." (Fourth Supplemental Order, p. 16) Rather than direct the company to get out of the business entirely, the Commission adopted the company's proposal to continue the existing program for water heater rentals, under the conditions outlined in the order. (Order, p. 17) It was the company's proposal to increase water heater rental rates each October from 1993 through 1997. As required by the Order, PSE has increased residential natural gas water heater rental rates each year from 1993 through 1996.

On August 28, 1997 PSE requested a postponement of the final residential water heater rental rate increase from the initial effective date of October 1, 1997 to an effective date of October 1, 1998. On September 18, 1997 PSE filed substitute tariff sheets (Docket No. UG-971327) changing the effective date of the final water heater rental rate increase from October 1, 1998 to April 1, 1998. The Commission approved a six month postponement of this final water heater rate increase until April 1, 1998 to allow time for the Company to perform an economic analysis.

PSE states that between August 21 and August 23, 1997, it performed a market research study whereby residential water heater rental program participants were interviewed by telephone (Informal Staff Data Request No. 5 - Docket No. UG-971327). This market research indicates that increasing the monthly rate for water heater rentals would cause a fall off in demand such that PSE would likely experience combined removal costs and decreases in rental revenues that exceed the increased revenues from the scheduled rate increase. This analysis was attached as Attachment A to PSE's Petition.

According to the Petition, PSE performed an economic analysis during the period between October 1997 and March 1998. This analysis, coupled with the market research performed in August 1997, resulted in PSE's determination that it would be in the best interest of PSE and its customers to not make the final rate increase to the water heater rental rates. PSE therefore requested that the Commission grant rehearing of the Fourth Supplemental Order in Docket No. UG-920840 for the sole purpose of eliminating the final increase in residential water heater rental rates that would otherwise become effective April 1, 1998.

We have considered PSE's Petition and the accompanying economic analysis included as Attachment A. It appears, as PSE suggests, that circumstances have changed since the Fourth Supplemental Order was issued in this Docket requiring the company to increase the residential water heater rental rates each year for five consecutive years beginning October 1993. It would appear from the company's analysis that a further increase in the rates would produce less, rather than more revenues, which is counter to the objective of pricing these services to earn an adequate return. Accordingly, we will grant PSE's Petition and eliminate the final increase in residential water heater rental rates required by the Fourth Supplemental Order.

FINDINGS

1. Puget Sound Energy, Inc. is engaged in the business of furnishing electric and gas service within the State of Washington as a public service company, and is subject to the regulatory authority of the Commission as to its rates, service, facilities and practices.

2. On March 17, 1998, the Company filed a Petition for rehearing of the Commission's Fourth Supplemental Order in Docket No. UG-920840 for the sole purpose of eliminating that Order's requirement that residential water heater rental rates be further increased.

3. Circumstances have changed since the issuance of the Fourth Supplemental Order in Docket No. UG-920840.

ORDER

THE COMMISSION HEREBY ORDERS:

1. Rehearing of the Fourth Supplemental Order in Docket No. UG-920480 is hereby granted for the limited purpose of eliminating that Order's requirement that residential water heater rental rates under PSE's Schedule 71 be further increased.

2. The Commission retains jurisdiction to effectuate the provisions of this order.

DATED at Olympia, Washington, and effective this ___ day of March, 1998.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

ANNE LEVINSON, Chair

RICHARD HEMSTAD, Commissioner

WILLIAM R. GILLIS, Commissioner

[BA980820.069]