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Mr. Mark L. Johnson, Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

**Re: Advice No. 2020-31 (Gas Cost Rates and Deferred Account Adjustment)
Puget Sound Energy - Natural Gas Tariff Revision**

Dear Mr. Johnson:

Puget Sound Energy (“PSE”) hereby submits proposed changes to the rates in its Supplemental Schedule 101- Gas Cost Rates and Supplemental Schedule 106 - Deferred Account Adjustment (“Tracker”) 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:

- 44th Revision of Sheet No. 1101 – Supplemental Schedule 101 – Gas Cost Rates
- 47th Revision of Sheet No. 1106 – Supplemental Schedule 106 – Deferred Account Adjustment
- 2nd Revision of Sheet No. 1106-B - Supplemental Schedule 106 – Deferred Account Adjustment

Consistent with the updated calculation of PSE’s Purchased Gas Adjustment Mechanism (“PGA”) in PSE’s Natural Gas Rule No. 26, this filing consists of proposed changes to Supplemental Schedule 101 (“Gas Cost Rates”), which reflects changes in wholesale gas and pipeline transportation costs, and Supplemental Schedule 106 (“Tracker”), which reflects changes in deferral amortization rates. The overall impact of the Supplemental Schedule 101 rate change is a revenue increase of \$32.6 million, or 3.6%, 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 \$37.4 million, or 4.1%, primarily driven by higher commodity prices than projected during the previous year. The net impact of this filing is to increase the amount billed to customers under the Gas Cost Rates and its associated Tracker by 7.7% or an overall revenue increase of \$70.0 million. The filing includes an effective date of November 1, 2020.

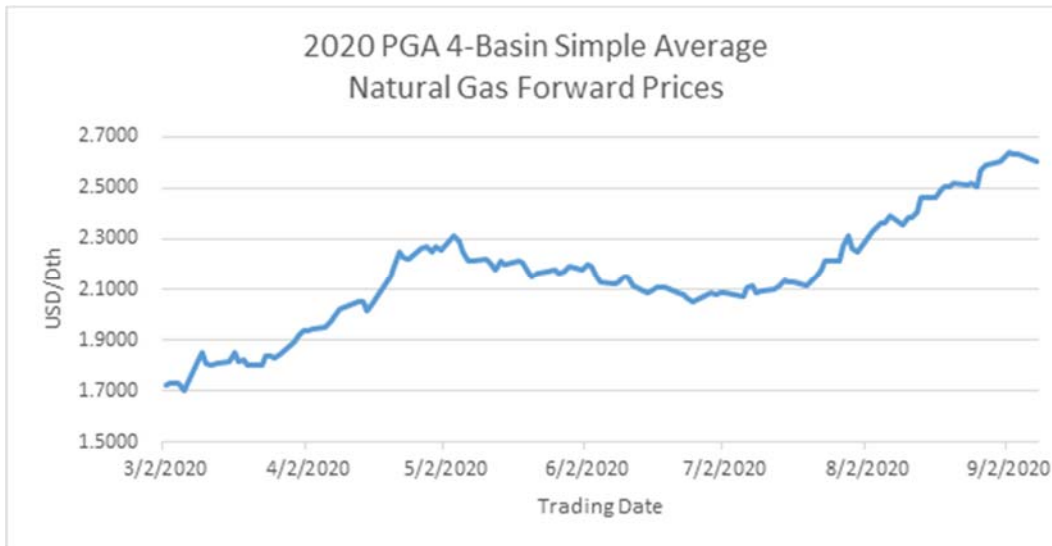
Purpose of This Filing

The purpose of this filing is to adjust PSE’s Gas Cost Rates and associated Tracker rates.

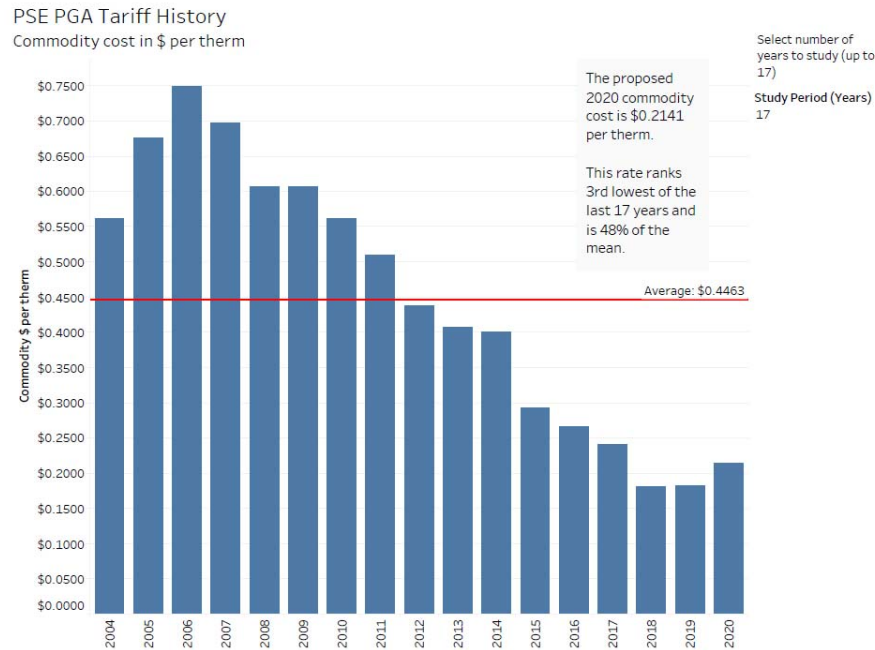
Gas Cost Rates (Supplemental Schedule 101):

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 10.1% increase in commodity and demand gas costs per therm in comparison to last year’s filing. The impact of the increased gas costs, as proposed herein, is an average 3.5% increase in residential gas service rates and an average 3.6% overall increase in gas service rates. The annual dollar amount of the change is an increase in revenue of \$32.6 million. This filing also represents a corresponding increase in expenses, resulting in no net change in net operating income to PSE.

The increase in Gas Cost Rates is mainly due to higher forecasted commodity costs for the upcoming PGA year. During 2020, wholesale gas prices have been steadily rising since the COVID-19 pandemic started in early March across North America, including at all four trading hubs where PSE purchases gas. The pandemic-driven economic slowdown has depressed oil production, which in turn has affected natural gas production; shortfall in gas inventories and lower than expected gas production coupled with stronger global demand for natural gas has caused gas prices to increase. The increase in costs is partially offset by projected hedging gains of \$13.4 million. The table below illustrates the four-basin simple average of natural gas forward prices for the time period of March 2020 to September 2020.



Even though commodity costs have been increasing during 2020, PSE’s commodity cost per therm as proposed in this filing is still well below the 17-year historical average as presented in the table below.



Additionally in this filing, PSE is including Renewable Natural Gas (RNG) costs as part of its gas costs for the first time as allowed by RCW 80.28.385 Renewable Natural Gas Program and by updated changes to PSE’s Natural Gas Rule No. 26 on July 11, 2020, which allows both the commodity costs and demand costs of renewable natural gas to be recovered in the PGA. Earlier this year PSE signed an agreement with Klickitat Public Utility District to purchase renewable natural gas starting in July 2020 and continuing through June 2040. Under the first phase of the agreement, PSE will purchase an estimated 550,000 dekatherms per year for the first three years. Under phase two, PSE will purchase an estimated 1.65 to 1.9 million dekatherms per year which could grow to as much as 2.5 million dekatherms, for the remainder of the contract. 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.

Tracker Rates (Supplemental Schedule 106):

In addition to the proposed Gas Cost Rates change, 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 3.9% increase in residential gas service rates and an average 4.1% overall increase in gas service rates. The annual dollar amount of the change is an increase in revenue of \$37.4 million. This change also results in no impact on PSE’s net operating income.

The Tracker rates are designed to true-up prior over or under recoveries of revenue to recover purchased gas expenses. This filing reflects the true-up of actual costs to actual revenue collected through August 31, 2020, and estimated costs to estimated revenue for September 1, 2020 through October 31, 2020. PSE projects the balance in its 191 account will be a \$102.4 million under-collection at the end of October 2020. Of the \$102.4 million net under-collection, \$64.4 million is commodity-related deferrals already being collected through Supplemental

Schedule 106 Supplemental Rate (B). The remaining balance of \$38.0 million of under-collection results from the differences between actual gas market prices and forward prices used in preparation of the 2019 PGA filing. The following is a breakdown of the \$38.0 million under collection as of October 31, 2020.

Estimated Amortization Balance	\$4.8 million
Estimated Demand Balance	\$19.4 million
Estimated Commodity Balance	\$13.8 million

The estimated under-collected amortization balance of \$4.8 million is mainly comprised of the remaining amounts from the out-of-cycle Supplemental Schedule 106 Supplemental Rate (A) filing in Docket UG-190218. The rates under the Supplemental Rate (A) were originally set from May 1, 2019 through April 30, 2020 and were related to the October 2018 West Coast Pipeline rupture. As Supplemental Rate (A) concluded on April 30, 2020, PSE is removing it from its tariff and reserving Sheet 1106-B for future use.

The estimated under-collected demand cost balance of \$19.4 million is related to differences between actual demand costs and those estimated in preparation of the 2019 PGA filing. The \$2.3 million portion of the PGA demand balance is proposed to be transferred to the amortization account because 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 \$13.8 million is related to differences between actual commodity costs and those estimated in preparation of the 2019 PGA filing. PSE is proposing to transfer all of the \$13.8 million balance to the amortization account. The majority of this under-collection is due to the higher demand for gas during winter months November 2019 through January 2020 than compared to estimates in the 2019 PGA filing.

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 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."

Estimating Gas Commodity Costs

PSE has estimated annual gas supply costs for the period November 2020 through October 2021 for the purpose of determining Gas Cost Rates using an Excel-based model which is the same as the model used in last year's PGA filing. This methodology creates a least cost supply portfolio that includes supply contracts, storage operations and transportation for the annual period.

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-days average) of forward price marks. The 3-month price mark period is June 1 through August 31, 2020, 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.

Combined Impact of Proposed Gas Cost and Tracker Rates

With the proposed Tracker rates, PSE is proposing to increase the rates charged to customers during the November 2020 through October 2021 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 \$70.0 million, or 7.7%. The typical residential customer on Schedule 23 using 64 therms per month would experience an increase of \$ 4.77 per month or 7.3%. The following table summarizes the separate and combined impact of the proposed Gas Cost and Tracker Rates, based on a percentage change in total revenue from each rate schedule:

Estimated Impact on Annual Bills

Rate Schedule	Gas Cost Impact	Tracker Impact	Total Impact
Residential			
23	3.5%	3.9%	7.4%
16	3.6%	4.0%	7.6%
Commercial and Industrial			
31	4.1%	4.5%	8.6%
41	4.1%	6.5%	10.6%
Interruptible			
85	4.0%	8.9%	12.9%
86	6.4%	7.2%	13.6%
87	7.9%	10.3%	18.2%
Total	3.6%	4.1%	7.7%

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 2020 Hedging Plan and Retrospective Report. Appendix A to this report includes an Independent Evaluator Report by Deloitte. Appendix B to this report includes all hedging transactions for the November 2019 through July 2020 period. Please note that parts of this Report contain proprietary commercial information and commercially sensitive information, 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”.

Customer Notification

Posting of the proposed 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, 2020 effective date.

Conclusion

PSE's proposed Gas Cost Rates in this filing reflect PSE's best forecast of gas costs that will be incurred to serve customers during the PGA period November 1, 2020 through October 31, 2021. 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 Elena Zakharova at (425) 462-3539 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

Attachments: Natural Gas Tariff Sheets (listed on Page 1)
Work Paper – Schedule 101 (redacted & confidential)
Work Paper – Schedule 106 (redacted & confidential)
PSE 2020 PGA Hedging Plan and Retrospective (redacted & confidential)
Appendix A - PSE - Deloitte Hedge Plan Evaluation Summary
Appendix B - PSE 2020 PGA Hedging Plan and Retrospective (redacted & confidential)