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Docket: UG-131589
Company Name: Puget Sound Energy

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Recommendation

Issue a Complaint and Order Suspending the Tariff Revisions filed by Puget Sound Energy, on August 28, 2013, and set the matter for hearing.

Background

On August 28, 2013, Puget Sound Energy (PSE or company) filed with the Washington Utilities and Transportation Commission (commission) a revision to its natural gas tariff. The proposed tariff schedule is an optional service for eligible, non-residential natural gas customers. Under this schedule, PSE would install gas compression facilities located on the gas customer's premise to enable a customer to fuel its natural gas motor vehicles (NGV) with compressed natural gas (CNG).

Discussion

This tariff filing raises significant policy issues regarding the role of regulated gas utilities in the development of NGV fueling infrastructure in Washington State. These issues merit review and analysis in a hearing. A full record on these issues is necessary to avoid possible adverse impacts on the state's competitive natural gas refueling market and, as a result, harm the public interest.

Market Structure

Commission staff has several important concerns regarding the structure of the NGV market and the need for regulation. The Washington State Energy Office found in a report discussing natural gas as a fuel that "supplying compressed natural gas is not a natural monopoly."¹ In particular, minimal barriers to entry are present for private capital seeking to build and operate NGV refueling structures.² As an example, operators of large vehicle fleets such Waste Management, a solid waste hauler, are developing the ability to self-provision CNG for use in its own vehicles thereby calling into question the need to treat PSE's proposed service as a regulated offering. Staff believes that these and other features of the current NGV market require a much deeper analysis accomplished through a hearing.

1 Compressed Natural Gas as a Vehicle Fuel; Barriers to Refueling Infrastructure Development and Policy Options, Washington State Energy Office, Page V, ¶3

2 Ibid, page 25, ¶2; page 28, ¶3 p

CNG Pricing Model

Commission staff examined the CNG Pricing Model that PSE proposes to use in determining customer pricing for CNG compression services. Clearly, a customer must meet a minimum fleet size for an investment in compression infrastructure to be cost effective for either PSE under the proposed schedule or by an un-regulated third party. Customers with smaller fleets and private CNG vehicle owners would not benefit from the services in the proposed tariff. These customers would have to rely on unregulated retail service outlets or whatever public access to private refueling sites is made available to them which are entirely at the discretion of fleet owners. The prices charged to these customers would not be subject to commission regulation.

Ratepayer Risk

In the event of a customer default, the proposed gas compression service agreement requires the customer to repay all unrecovered company capital less the value of any equipment that PSE can sell or reinstall within 12 months.³ Staff has concerns that the assurances provided for in this section of the agreement will not be enough to mitigate all ratepayer risk. Staff can envision situations where, in spite of its agreement with a CNG compression service customer, PSE will be unable to recover its stranded investment. In that event, staff believes the company might seek recovery from its other regulated gas customers through general rates.

PSE's Claims of Policy Support for Proposed Service

In support of the tariff, PSE cites various policies and laws at the national and state levels. The company claims these policies and laws support the expansion by regulated utilities of CNG infrastructure for the transportation sector in Washington. Staff's initial analysis of these claims finds the company's reliance on these policies and statutes is overstated.

Conclusion

Given the limited information contained in this filing and the substantial policy issues surrounding this proposed tariff, staff recommends the commission issue a Complaint and Order Suspending the Tariff Revisions filed by Puget Sound Energy on August 28, 2013, and set the matter for hearing.

³ UG-131589, Advice 2013-16, Natural Gas Compression Service Agreement, Section 19 – Customer Default, Original Sheet No. 154-M.