Agenda Date: October 31, 2001
Item No.: 2A

Docket: **UE-011442**
Company Name: Puget Sound Energy, Inc.

Staff: James M. Russell, Regulatory Consultant
Joelle Steward, Policy Research Specialist
Merton Lott, Energy Coordinator
Thomas Schooley, Regulatory Consultant
Yohannes Mariam, Regulatory Consultant

Recommendation:

Take no action on PSE's request to approve the filing in Docket UE-011442 on less than statutory notice.

Summary of Filing:

On October 24, 2001, Puget Sound Energy (PSE or Company) filed a tariff revision to Schedule 125 to reduce the Conservation Incentive Credit (CIC) payment from $0.05 per kWh to $0.02 per kWh and requested a waiver of the 30-day statutory notice for an effective date of November 1, 2001. The program would continue at this level through the termination date of December 31, 2001. The Company is seeking this change due to the fact that market conditions have changed and therefore, they claim that the program is no longer self-funding. Although not directly stated, the apparent reason for less than statutory notice is the Company's desire to mitigate the purported losses from the CIC program.

Background:

Effective May 1, 2001, PSE began offering customers a bill credit of $0.05 per kilowatt-hour (kWh) for every kWh a customer saved beyond a 10% threshold. The CIC program in Schedule 125 was filed and approved to run through December 31, 2001. This program was proposed in conjunction with PSE's Time-of-Day pilot program in Docket UE-010409, also approved and effective May 1, 2001. A companion docket, UE-010410, an accounting petition, requested permission to book the CIC payment as a reduction to revenues. This accounting treatment of the CIC payment was approved by Commission Order entered April 25, 2001.

On September 4, 2001, PSE filed a Petition to Amend Order in Docket UE-010410 that proposes to unwind, from May 1, the accounting treatment of the Conservation Incentive Credit from a reduction of revenues to a method where the CIC payments and lost revenues, netted with wholesale power cost revenue/savings, would be re-accounted for as a regulatory asset (deferred cost) which would then be surcharged to customers through Schedule 120, Conservation Rider, at the conclusion of the CIC program. This petition is currently scheduled for the November 16, 2001, Open Meeting.

<u>Discussion</u>:

In the cover letter of the current tariff filing, the Company joins the discussions of the CIC tariff revision (UE-011442) and the Petition to Amend Order (re-opening UE-010410); therefore, Staff here discusses issues related to both filings, although only the LSN request in Docket UE-011442 is scheduled for decision at today's open meeting.

In the Petition to Amend Order, PSE proposes to calculate each month's deferral of the CIC program benefit/costs, from May through December 2001, as follows:

Conservation Incentive Credits Paid (vol. x $.05)	$x,xxx,xxx
Plus: Lost Revenue (vol. x $.055/kwh summer or $.06/kwh winter)	x,xxx,xxx
Less: Wholesale revenue/savings (vol. x Mid-C firm)	-x,xxx,xxx
Net deferral for recovery in Schedule 120	$x,xxx,xxx

PSE claims that, if the accounting petition is approved as filed, the deferral balance will be approximately $31,000,000 at the end of December (surcharge balance). In discussions with PSE, we have informed PSE that their deferred accounting treatment constitutes retroactive ratemaking, that their proposed deferral calculation is incorrect, and that Staff could not support the deferral mechanism for the following reasons:

First, on April 25, 2001, the Commission approved PSE's commitment in Docket UE-010409 to pay a conservation credit and to record the credit on the Company's books as a reduction to revenues. There was never a CIC deferral process proposed by PSE, even though some parties sought some form of a sharing mechanism. Staff believes that, upon approval of the Time-of-Day and CIC programs as requested by PSE, the risks were appropriately balanced (PSE got to keep all power cost savings and additional wholesale margins associated with both the Time-of-Day and CIC programs). PSE committed to pay customers $.05 per kWh for their reduced usage above 10% and customers may have invested in energy savings measures based on their expectation of receiving a billing credit.

Second, with regard to the proposed deferral calculation, the Commission does not currently allow recovery of lost revenues associated with conservation programs recovered through the rider and we are not prepared to support a change in that policy for this filing without looking at other off-setting factors associated with PSE's overall cost-of-service. In addition, use of the Mid-Columbia firm index price as a surrogate for PSE's actual selling/purchase prices in the deferral calculation is inconsistent with cost-of-service ratemaking.

Finally, the recovery of the deferral through the Conservation Rider, Schedule 120, violates the provisions of the tariff rider itself. The rider allows recovery of only *cost-effective* demand-side management. The Company has made no demonstration that this deferral could satisfy that condition. PSE states that it needs this deferral because the Company claims the CIC program has and will continue to lose money. Furthermore, the rider is intended to fund conservation programs that are a part of resource planning, i.e., that result in long-term sustainable savings. The CIC was implemented as a result of temporary market aberrations and poor hydro conditions and rewards short-term curtailment.

Staff is concerned about the diminishing message of conservation possibly inferred by customers as a result of significantly altering the credit, especially as we move into the winter peak months. According to the Northwest Power Planning Council, the probability for a power deficit this winter declined from 12 percent to less than 1 percent, in part, due to the great efforts of the region to reduce demand during the past spring and summer. Staff continues to believe that the message of conservation remains of great long-term value to our state and region.

Staff strongly encouraged the Company to balance any reduction of the incentive credit with new cost-effective energy efficiency programs. We recommended programs aimed at residential customers since this is where their current energy efficiency programs are lacking. For instance, we have seen nearly all other utilities in the state offering financial incentives for compact fluorescent light bulbs (CFLs) or giving away the CFLs outright, to residential customers. PSE has a conservation rider tariff in place that it could use to fund residential cost-effective energy efficiency programs, such as a CFL program. Currently, the Company's only electricity efficiency program available to residential customers (aside from low-income weatherization) is limited to information on efficiency measures. While Staff recognizes that some customers may use their incentive credits to buy new efficient end-use measures, we believe a program that directly targets energy efficient measures better enables customers to capture longer-term, sustainable savings. We believe that the CIC program largely encourages temporary behavioral changes that only produce short-term electricity curtailment. The Company has missed, and continues to miss, a great opportunity to capture cost-effective, persistent, energy savings that would serve their customers and investors as a resource for the future.

In recognition of reduced wholesale power prices, Staff communicated to PSE earlier that we would support reduction of the credit to $.02 per kWh effective November 1st, if PSE committed to offer new cost-effective residential DSM programs. New cost-effective DSM programs focused on sustainable energy savings would be recoverable through the conservation rider which is fully funded by ratepayers. On October 24th, PSE filed to reduce the CIC to $.02 per kWh, continuing to push for the deferred accounting treatment, with no offer to provide cost-effective residential DSM.

Conclusion:

For the foregoing reasons, Staff recommends that the Commission take no action on PSE's request to approve the filing in Docket UE-011442 on less than statutory notice .