

Agenda Date: August 13, 2015  
Item Number: F1

**Docket:** UE-150200  
Company: Puget Sound Energy

Staff: Jason Ball, Regulatory Analyst  
Christopher Hancock, Regulatory Analyst

### **Recommendation**

Take No Action thereby allowing the proposed revision to Schedule 85 – Line Extensions and Service Lines to become effective August 14, 2015, by operation of law.

### **Background**

On February 6, 2015, Puget Sound Energy (PSE or company) filed proposed revisions to electric line extensions and service lines. Line extensions are divided into different categories based upon such factors as the voltage provided, the length of the extension, or whether the service is underground or overhead; additionally, certain types of extensions have a per foot charge. PSE's proposed tariff rates vary from a decrease of 30 percent to an increase of approximately 69 percent between each of these different categories. Most of the proposed changes are an increase between 10 and 20 percent.

The tariffs also included separate rate effective dates for each of the different categories listed above. On May 21, 2015, at the request of Staff, PSE filed revisions to the tariff that extended this rate effective date to September 1, 2015.

On June 18, 2015, following extended conversations with Staff, PSE filed additional revisions updating the margin allowances included in Schedule 85. Margin allowances are credits based on new customer revenue contribution that help offset the costs of line extensions for new electric services. There are no margin allowances for service line construction.

All of the company's proposed revisions are based on the 2013 Electric Line Extension Costs Study (Cost Study) filed in Docket UE-143797. The Cost Study uses a statistical sampling of line extensions performed during a calendar year. From these samples, average rates for different units of construction (overhead lines, underground lines, services, etc.) are derived based on such factors as: the length of the extension, contract costs, overheads, labor, materials, and permitting. The Cost Study is performed annually based on an informal agreement following a 2003 collaborative with PSE, Staff, and other parties.<sup>1</sup>

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<sup>1</sup> Staff Memo, Docket UG-031216

In an effort to mitigate the potential impact of the increase of costs, PSE proposed to incrementally increase the rates for certain extensions in Schedule 85 by less than the Cost Study results. The size of this rate increase is at least partially due to the time elapsed since the last update.<sup>2</sup>

On October 2, 2014 the commission opened Docket UG-143616 to investigate natural gas distribution infrastructure expansion. On November 3, 2014 the commission held a workshop and received comments on natural gas distribution infrastructure expansion. Given the commission interest in the line extensions through Docket UG-143616, the company announced plans to begin another study of its electric and natural gas line extension policies with interested parties that would result in a subsequent filing.

### **Discussion**

The average-rate approach of the Cost Study shows the differences between the actual individual costs of performing line extensions and the current tariff rates. These differences are the result of two factors. First, the implementation of line extensions and new service lines are highly unique – no two are alike. In this case, the principle of providing cost-based rates must be balanced between PSE's obligation to serve customers, certainty of pricing, and the public interest in expanding and utilizing electric infrastructure. Second, the results of the Cost Study differ notably from the current tariff rates in part due to the lag since the last tariff update. PSE proposed to incrementally increase the rates for certain extensions in Schedule 85 by less than the Cost Study results to help mitigate this impact.

The commission's workshops on natural gas infrastructure expansion will have strong parallels to electric line extensions that may result in significant policy changes. Due to the pending commission investigation that will most likely impact all line extension policies, staff sees a pressing need to identify as clearly as possible the costs of expanding infrastructure. Separate from this are the allocation of costs between current and new customers through a margin allowance, subsidies, or incentives to encourage line extension.

Staff has worked closely with the company over the last few months to streamline the cost study process and to provide guidance on clear distinctions between actual costs and margin allowance incentives.

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<sup>2</sup> The last change to the tariff rates for electric line extensions occurred in 2009 in Docket UE-091547. PSE has continued to file Cost Studies on an annual basis consistent with its agreement in the 2003 docket.

## **Conclusion**

Staff has reached an agreement with PSE on the best approach for improving Schedule 85:

1. PSE will update the Schedule 85 margin allowances to reflect any changes in the Company's electric Cost-of-Service studies that are accepted in its next general rate case.
2. PSE will develop a more granular cost study for electric residential service line charges in the fall of 2015 and implement it in 2016.
3. PSE and staff will meet again at the end of fall 2016 to discuss the results of the new electric residential service line cost study and other Schedule 85 updates, identify any necessary changes to the study, and redevelop Schedule 85 with a targeted effective date shortly after the conclusion of PSE's next general rate case.<sup>3</sup>
4. At the completion of the 2016 process outlined above, PSE will file Electric Line Extension Costs Studies at a minimum every two years starting 2018. These studies will cover a 12-month period.

## **Recommendation**

Take No Action thereby allowing the proposed revision to Schedule 85 – Line Extensions and Service Lines tariff sheets to become effective August 14, 2015 by operation of law.

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<sup>3</sup> The reason for using the general rate case effective date as a timer is to reduce the number of changes to the Schedule 85 tariff. Under this method the tariff is revised twice, once in August of 2015 and again shortly after the effective date of PSE's next general rate filing.