PUGET SOUND ENERGY
The Energy To Do Great Things

Puget Sound Energy
P.O. Box 97034
Bellevue, WA 98009-9734
PSE.com

December 15, 2014

***Via Electronic Mail***

Steven V. King, Executive Director and Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
1300 S. Evergreen Park Drive S.W.
Olympia, Washington 98504-7250

**Re: Docket UG-143616**
**Comments of Puget Sound Energy, Inc. on Investigation of Natural Gas Distribution Infrastructure Expansion**

Dear Mr. King:

Puget Sound Energy, Inc. ("PSE") submits the following comments in response to the request in the Washington Utilities and Transportation Commission's (Commission) second Notice of Opportunity to Submit Written Comments (Notice) issued in Docket UG-143616.

PSE is a combined electric and natural gas utility serving approximately 770,000 natural gas customers in six counties in Washington State including King, Kittitas, Lewis, Pierce, Snohomish and Thurston. PSE's natural gas distribution system includes approximately 12,192 miles of natural gas mains, 13,657 miles of service lines, 40 gate stations and two natural gas storage facilities located at Jackson Prairie in Washington State (partnership) and Clay Basin in Utah (contract operations). PSE, in partnership with contractor InfraSource, installed approximately 615,000 feet of new natural gas main in 2013. PSE receives approximately 77 percent of its gas supply from Canada and 23 percent from the Western United States.

1. *Line Extension Tariffs.* Local distribution companies could file revised line extension tariffs to make line extensions more economically viable for new customers to obtain service. Revisions to line extension tariffs could consider different standards for certain underserved areas.

*Response*: PSE believes the Commission has the authority to approve revised line extension tariffs filed by the utilities, and that these line extension policies could consider different standards for certain underserved areas. PSE's Rule No. 7 gas tariff regulates the terms by which distribution facilities will be expanded to most new residential, commercial, or industrials customers. While not exhaustive, below are some examples of areas where the Company could propose, and the Commission could approve, changes to Rule No. 7 during a tariff proceeding to potentially make natural gas line extension more economically viable:

- Standards that allow for expansion that results in cost savings by installing infrastructure in conjunction with other work, such as other utility expansions or road widening projects, even without a specific customer request.
- Standards that result in cost savings to all customers through electric to gas fuel switching.
- Standards that allow expansion to designated areas that have developed a long-term development plan likely to bring sufficient revenue to support the costs of the infrastructure installation.
- Standards that results in broader societal benefits such as emissions reductions, carbon emission reductions, or tax revenues that outweigh the costs of expansion.

2. *Policy Statement.* The Commission could issue a policy statement clarifying its policy regarding application of prudence and "used and useful" standards for the recovery of costs for gas infrastructure in selected areas. The policy statement could address or include:
    a. A description of underserved areas in which considerations in the policy statement would apply, perhaps including:
        i. Whether the area is a non-attainment area;
        ii. Whether any electric energy conserved will assist the state in meeting its target under EPA rules implementing section 111(d); and

   iii. The demand for gas service, or the number of potential new customers (residential, commercial, and industrial).

b. A suggested process by which a local distribution company may identify the geographic boundaries of underserved areas.
c. A description of the criteria by which the Commission would review the prudence of capital additions in underserved areas and whether they are "used and useful." The Commission issued a policy statement on renewable energy resources in Docket No. UE-100849 (issued January 3, 2011), addressing the application of the "used and useful" standard.

*Response*: PSE believes the Commission has the authority to issue a policy statement clarifying its policy regarding application of prudence and "used and useful" standards for the recovery of costs for gas infrastructure in selected areas. Any such statement should articulate an assured subsequent rate recovery of natural gas plant that is constructed in advance of need, but yet is still considered used and useful because it will likely be used in the future.

The policy statement could address any of the areas described in the above sub-bullets and any further clarification in those areas would be useful. However, from PSE's perspective the most useful part of a Commission policy statement on this topic would clearly articulate the criteria, costs and benefits by which the Commission would review the prudence of capital additions in underserved areas and whether they are "used and useful." A greater understanding of these criteria from a policy statement creates greater investment certainty for utilities. Further description or definitions of "underserved areas" would also be useful, in particular if the definition gives more specificity to the criteria, benefits or costs considered by the Commission in meeting a prudence standard. PSE would welcome the opportunity to submit more detailed comments on potential policies, should the Commission determine that a policy statement is the preferred strategy to facilitate expansion of natural gas infrastructure.

3. *Discounted Rates for Low Income Consumers.* RCW 80.28.068 authorizes the Commission to set discounted rates for low-income consumers of electric and natural gas companies. The companies and the Commission could review current low-income tariffs for the local distribution companies and, if appropriate, authorize further discounts for low income consumers. These rates then could serve as part of a strategy for recruiting customers to switch to gas from oil furnaces or woodstoves.

*Response*: PSE agrees that the Commission currently has authority to set discounted rates for low-income consumers of electric and natural gas companies. However, using discounted rates to incentivize low-income consumers to switch to natural gas from other heat sources raises several concerns. First, how would the utility recover costs from discounting rates and would funding for discounted rates compete with existing low-income programs? The current low-income program for natural gas under schedule 129 surcharges all customer classes to create a Home Energy Lifeline Program (HELP) fund that is used to pay for bill payment assistance in conjunction with other state and federal programs. PSE would be concerned if funds for discounted rates for switching would compete with bill payment assistance funds. Second, it is unclear whether discounted rates alone would make any marginal difference in customer making the decision to switch. In many cases, the upfront cost of new equipment and/or service connections borne by the customer, such as a gas furnace or water heater, is a much larger deterrent to switching than the rate structure. Using discounted rates to incentivize low-income consumers to switch to natural gas from other sources would need to be implemented carefully.

4. *Advertising Rule Changes.* Current rules prohibit cost recovery of promotional advertising by local distribution companies (WAC 480-90-223). The Commission could consider revising this rule to permit cost recovery of such advertising when it is directed toward encouraging connection to gas in under and unserved areas.

*Response*: The Commission could initiate a rulemaking to permit cost recovery of advertising directed toward connection to natural gas in under and unserved areas under its existing authority. Since the current line extension policy requires a customer request to initiate an extension, lack of awareness can be a significant deterrent to expansion. Advertising would help raise awareness to the benefits of natural gas and the options available to residents in underserved areas and would improve understanding of total demand in an unserved or underserved area to determine an overall project cost to install natural gas infrastructure to an area. Absent a rulemaking the Commission could send a clear signal that it would support requests for waiver of this rule in the case of underserved areas.

5. *On-Bill Financing.* RCW 80.28.065 authorizes local distribution companies to offer on-bill financing for energy conservation measures. The Commission seeks comments on whether local distribution companies are interested in pursuing on-bill financing as an option for customers to finance line extensions over a longer period of time than current tariffs allow.

*Response*: PSE agrees the Commission has existing authority to allow on-bill financing. Generally, PSE has used on-bill financing in the past and would be interested in exploring options for customers to finance line extensions in the future. To use on-bill financing would require a proceeding, which could be either around a utility-filed tariff or through a Commission-initiated proceeding to address issues including financing terms, finance instrument length customer credit requirements and other issues.

6 *Infrastructure Fund.* To the extent that installation of new infrastructure would result in incremental tax revenues (such as public utility taxes), the incremental revenues could be used to secure bond financing for some of the infrastructure.

*Response*: PSE believes that tax financed bonds dedicated to natural gas infrastructure expansion would likely require a legislative solution. Infrastructure funds, generally, have the potential to kick-start investments in system expansions to underserved or economic developments areas with longer-term potential for natural gas use. In absence of a specific example, it is unclear whether a meaningful infrastructure fund would be created by using incremental tax revenues from new infrastructure installations to finance the bonds. Based on a simplified example, PSE estimates that at current utility tax rates, tax revenues generated for an individual residence would only offset a portion of the construction costs to bring natural gas main to residences not on or close to the existing natural gas distribution system.

7. *Pilot Rules.* To the extent it may be necessary to develop different policies for different geographic locations, or to experiment with one or more methods or strategies discussed in this notice, it may be useful to adopt "pilot rules" under the Administrative Procedure Act, which authorizes such rules. RCW 34.05.310(2)(b); 34.05.313.

*Response*: PSE agrees the Commission could use its authority under the Administrative Procedures Act to adopt "pilot rules." Pilot rules may have applicability when assessing costs and/or benefits in certain geographic areas. For example, a pilot rule could allow for expansion to designated areas that have developed a long-term development plan likely to bring sufficient revenue to support the costs of infrastructure installation.

8. *Local Construction Costs and Impact Fees*. The Commission seeks data or specific examples from local distribution companies concerning the specific costs companies or their customers have experienced when constructing or expanding gas distribution infrastructure including impact fees and the costs of other local requirements.

*Response*: Increasing hard surface restoration requirements among many jurisdictions in PSE's service territory have dramatically increased the cost of obtaining gas service. The hard surface areas PSE is being required to restore is not necessary to install the gas service or meter, and goes well beyond patching the hole created to access the gas main. From the consumer perspective, today's tariff pricing would require a Seattle homeowner in the Ballard neighborhood, for example, to contribute about $2,400 in order to have a gas service and meter installed. This is primarily due to the added cost of street restoration imposed by the city. A similar home without the hard surface restoration requirements would be able to have a meter and service installed at no cost.

Prior to Seattle adopting stricter hard surface restoration requirements, Seattle homeowners could typically obtain gas service and a meter at no cost. At that time, over 90% of customers who inquired about gas service elected to have gas installed. Since the adoption of the current restoration requirements, approximately 30% of customers in Seattle elect to have gas installed. The added cost to obtain a service (e.g., $2,400) combined with the cost of equipment being installed inside the home (often $4,000 to $7,000) puts the project out of financial reach for many customers. More and more jurisdictions are creating stricter hard surface restoration requirements.

In addition to higher restoration costs, the cost of permitting has also increased significantly. In Seattle for example, if more than 100 feet of pipe is planned for installation, an engineering approved survey drawing of the street and restoration plan, and a traffic control plan must be submitted along with the permit application. The cost of creating such plans can be significant depending on the scope. These requirements did not exist 5 years ago.

In response to the Commission's request for more specific costs, PSE will provide simple examples from four municipalities its service territory. The examples below are for service line extensions only. The costs in the table below break out the regulatory permitting fees and design and construction costs (including paving) from the overall job costs. The municipalities in these examples are Seattle, Bellevue, Tacoma and Snohomish. Specific customer names and addresses are withheld for confidentially reasons.

Seattle: Customer site located in a dense residential neighborhood along a non-arterial street. Customer requires 75' service line extension. Total costs for the project were $11,128.

Bellevue: Customer site located in a residential neighborhood along a non-arterial street. Customer requires 100' service line extension. Total costs for the project were $14,223.

Tacoma:  Customer site located in a residential neighborhood along a non-arterial street Customer requires 150' service line extension. Total costs for the project were $7,421.  .

Snohomish:  Customer site located in a less dense neighborhood along a non-arterial street Customer requires 900' service line extension. Total costs for the project were $10,415.

| | | | | |
|---|---|---|---|---|
| City | Total Job Cost | Regulatory Permits | Design & Construction | Paving* |
| Seattle | $11,128 | $820 | $8,615 | $4,025* |
| Bellevue | $14,223 | $667 | $12,108 | $7,123* |
| Tacoma | $7,421 | $292 | $5,437 | $1,584* |
| Snohomish | $10,415 | $1,014 | $5,368 | $994* |

* *Paving costs are technically included in the Design & Construction Costs. For illustration purposes paving costs have been highlighted in a separate column.*

9. *Concurrent Construction Projects.*  The Commission seeks comments on how it might assess the economic feasibility of expanding natural gas service concurrently with other utility infrastructure or construction projects

*Response*:  The economic feasibility of expanding natural gas service in conjunction with other infrastructure or construction projects should be determined based on whether there is a reasonable likelihood that such coordinated expansion could be completed at a cost lower than a stand-alone expansion, taking into account the time value of money.  One hypothetical example would be that of a rezoned area.  If a road was being developed to improve traffic access to an area being rezoned for higher density, PSE could hypothetically install natural gas infrastructure prior to installation of the road at a cost of $100,000.  After the installation of the road, PSE would have to repave the road to install the natural gas infrastructure, increasing the total project cost to $200,000.  In net present value terms, the infrastructure would have to be installed more than 10 years later for it to be a savings to install it later as opposed to prior to the road construction.

This scenario does not address the issue of timing of future connections, which cannot be determined with absolute accuracy.  However, a number of indicators can be used to determine if there is reasonable certainty that the infrastructure will be used in the future, including number of residences and businesses not currently having access to natural gas that could be served from the extension, zoning changes consistent with comprehensive plans, submitted development plans, and active marketing of properties.

10. *Other Strategies and Methods.* Interested parties should submit comments to the Commission concerning any other strategies or methods that would be useful to consider in taking action or developing rules to expand natural gas infrastructure to unserved and underserved areas in Washington.

*Response:* The Commission could approve infrastructure expansion funds for utilities to provide natural gas infrastructure in unserved or underserved areas, perhaps those identified to be consistent with a policy statement or rulemaking outlined in Strategy #2 above. These funds could be funded as riders to all customers (or a subset of customers) and could be capped in their annual collection to mitigate rate impacts.

PSE appreciates the opportunity to provide these responses to the questions identified above in the Notice of Opportunity to File Written Comments. Please contact Nate Hill, Regulatory Affairs Initiatives Manager at (425) 457-5524 or myself at (425) 456-2110 for additional information about this filing.

Sincerely,

Ken Johnson
Director, State Regulatory Affairs

cc: Simon ffitch
Sheree Carson