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**PUGET SOUND ENERGY**

*The Energy To Do Great Things*

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*Filed via WUTC Electronic Webportal*

June 1, 2009

Mr. David W. Danner  
Executive Director and Secretary  
Washington Utilities and Transportation Commission  
1300 South Evergreen Park Drive S.W.  
Olympia, WA 98504-7250

**Subject: Docket No. U-090222**  
***Review of PURPA Standards in the Energy Independence and Security Act of 2007***  
**Comments of Puget Sound Energy, Inc.**

Dear Mr. Danner:

Puget Sound Energy, Inc. (“PSE” or the “Company”) appreciates the opportunity to participate in the Commission’s examination of whether new regulations are needed to govern six aspects of investor-owned electric and natural gas utility operations for which new federal standards are included in the Energy Independence and Security Act of 2007, Public Law 110-140 (EISA). In response to the Commission’s Notice of Opportunity to File Written Comments dated May 22, 2009, in Docket No. U-090222, PSE offers the following comments on subjects discussed during the workshop on May 21, 2009, as well as the four questions posed by the Commission.

### COMMENTS

The following sections provide specific comments in response to the four questions posed in the Notice of Opportunity to File Written Comments. For ease of reading, the questions are reproduced below followed by PSE’s comments.

**Question 1.** *Please provide statutory authority for the Commission's ability to consider a conservation priority criteria, e.g., 10 percent.*

**Response:**

The Integrated Resource Planning Rules already allow for consideration of such items as: the cost of risk associated with environmental effects including the emissions of carbon dioxide; and public policies regarding resource preference adopted by Washington state or the federal government.

*WAC 480-100-238(2)(b) "Lowest reasonable cost" means the lowest cost mix of resources determined through a detailed and consistent analysis of a wide range of commercially available sources. At a minimum, this analysis must consider resource cost, market-volatility risks, demand-side resource uncertainties, resource dispatchability, resource effect on system operation, the risks imposed on ratepayers, public policies regarding resource preference adopted by Washington state or the federal government and the cost of risks associated with environmental effects including emissions of carbon dioxide.*

The Revised Code of Washington (RCW) at Ch. 19.285 RCW, allows utilities to establish a target for cost-effective conservation consistent with its identification of achievable opportunities. It also allows that the Commission may determine if a conservation program implemented by an investor-owned utility is cost-effective based on the Commission's policies and practice and that the Commission may rely on its standard practice for review and approval of investor-owned utility conservation target ranges. Furthermore, the law allows the Commission to adopt positive financial incentives to encourage a utility to exceed the target range.

**Question 2.** *How are the utilities currently evaluating smart grid technology and opportunities internally? Is this evaluation coordinated with or otherwise a part of processes used to develop the Integrated Resource Plan? If so, how? If not, please elaborate?*

**Response:**

Before Smart Grid became a common term, PSE had departments conferring internally on a periodic basis to discuss the future technologies and advances pertaining to Smart Grid. Additionally, over the past two decades PSE has already implemented various components of a Smart Grid system:

- A 'self-healing' transmission system throughout PSE's service territory where automatic sensors and controls are capable of sensing system overloads or outages and rerouting power to prevent or minimize a potential outage by working autonomously when conditions require resolution faster than humans can respond. Completed in 1983. Project involved the following PSE departments: System Planning, Engineering, System Operations, and Standards.

- Supervisory Control And Data Acquisition (SCADA) installed in 75% of the distribution substations that allows for conditional monitoring of some substation equipment. Ongoing project anticipates completion of 100% of PSE's distribution substations by 2015. Project involves the following PSE departments: System Planning, Engineering, and System Operations.
- Distribution automation for the underground distribution system at a customer's campus. Ongoing project as additional areas of the campus are continually evaluated between PSE and the customer for upgrades to meet the customer's needs. Project started in 2004. Project involves the following PSE departments: Major Accounts, System Planning, Standards, Engineering, Communications, and System Operations. PSE is also open to implementing smart grid technologies at the request of individual customers (typically the customer request is for improved reliability) where the customer pays the added cost for the upgraded smart grid equipment at the substation, such as automatic switches or two-way communications equipment.
- Installation of an AMR system throughout PSE's service territory. Project completed in 2001. Project involved the following PSE departments: Energy Information Infrastructure, Metering, Standards, and IT.
- Demand Response pilots (one with commercial and industrial customers throughout PSE's service territory and one with residential customers on Bainbridge Island) initial pilots should be completed in 2010. Project involves the following PSE departments: Energy Efficiency, System Planning, Energy Information Infrastructure, and IT.
- Conservation Voltage Reduction (CVR) pilot at two substations within King County in collaboration with NEEA. Project completed in 2007. Project involved the following PSE departments: System Planning, Energy Efficiency, Engineering, and Standards.
- Distribution Automation pilot on an overhead circuit in South King County with communications to a recloser and voltage regulator. Project should be complete in 4Q 2009. Project involves the following PSE departments: System Planning, Communications, and Meter Relay.
- Plan for installation of Distribution Automation at new substation on South Whidbey Island (Maxwelton Substation) and automation of adjoining substations and feeders to improve reliability. Project should be complete in 2010. Project involves the following PSE departments: System Planning, Engineering, Project Management, Communications, and System Operations.

In early 2009, an internal team consisting of personnel from the System Planning, Energy Efficiency, Emerging Technologies and Climate Change, and IT departments was formalized to review Smart Grid technologies, and develop a strategy/vision for the Company. Our System Planning department is responsible for planning and implementing parts of Smart Grid as it relates to evaluating the cost and benefit of implementing smart grid technologies on the distribution system in specific areas based on potential improvements in reliability and in areas where more information is needed about the system in order to make more informed decisions about equipment replacement and upgrades.

**Question 3.** *Would a planning requirement, analogous to an IRP, for assessment of smart grid technology and opportunities, be practical? Why or why not?*

**Response:**

Puget Sound Energy does not believe that the IRP rules should be permanently changed or amended to include a new planning requirement. We also do not believe that any other new rules should be put into place to require a permanent planning requirement on this topic. We do acknowledge that the Commission may benefit from receiving a one-time report on the current activities of a utility with regard to Smart Grid. The content of such a one-time report would require further consideration. Additional workshops or additional opportunities to comment on such a proposal would be necessary.

**Question 4.** *For Avista and PacifiCorp, how is smart grid assessment or planning addressed in the other states you serve?*

**Response:**

N/A

The following sections provide specific comments and suggested rule language in response to the Commission's invitation to provide additional comments on subjects discussed during the workshop, as noted in the Notice of Opportunity to File Written Comments.

**Additional written comments regarding PURPA Standards 17(A) and (B) (electric rate design) and PURPA Standard 6 (natural gas rate design) on subjects discussed during the workshop.**

In its initial comments, PSE proposed rule language regarding natural gas and electric rate design. At the workshop, several parties raised issues regarding the suggested language. The general language PSE proposed, which adopts language found in both the electric and gas PURPA amendments, is as follows:

*One of the goals of retail rate design is the promotion of cost-effective energy efficiency. In order to achieve this important goal, utilities will establish rates that align utility incentives with the delivery of cost-effective energy efficiency.*

**Scope of proposed general language**

One issue raised regarding this suggested rule language was whether or not it is PSE's position that, by adopting this language, the Commission would be making a decision on specific rate mechanisms, such as decoupling or rate blocking. It is not PSE's position that this language makes a determination as to a specific rate design or rate making mechanism. The suggested rule language does not state, or even suggest, how utilities establish rates that align utility incentives with the delivery of cost-effective energy efficiency. This would be determined in individual rate cases, based on evidence provided in those cases. There are

multiple rate mechanisms that could be used to implement the policy. What the suggested language would provide is an important statement of general policy that would be used as a guide for future rate filings and Commission decisions. We do not believe that such a written policy currently exists.

Purpose of proposed general language

PSE believes the general policy statement is necessary because it specifically acknowledges and accepts federal policy regarding the role of rate design in the implementation of cost-effective energy efficiency. As stated in the EISA Standards Manual “*There has been concern in recent years that standard ratemaking practices may not encourage, or could even discourage, utilities from adopting energy conservation measures*”.<sup>1</sup> The Commission has been a pioneer in devising mechanisms which address this issue, dating back to the PRAM mechanism initially adopted for PSE’s predecessor, Puget Sound Power & Light, in 1991. The PRAM mechanism, coming at a time when utility conservation programs were in their infancy, played an important role in the development of the mature and robust energy efficiency program PSE has today.

With the passage of the EISA and the revision of the PURPA standards, the Commission has the occasion to make a general policy statement in support of the concept that rate design and rate making matter, not only to customers but also to a utility. The importance of the change in PURPA standards brought about by the passage of EISA is the recognition of this at the national level. The original PURPA standards focused on pricing from the customer’s (and society’s) point of view. What is new in the EISA is the utility’s perspective. We believe it would be helpful for the Commission to make a statement confirming that it agrees with the importance of this perspective.

In addition our recommended language comes directly from the EISA. In asking the Commission to accept the recommended language, we are, in essence, asking the Commission to adopt the IN GENERAL statements of the Standards (Standard 17 for electric, Standard 6 for gas). We feel the Commission has an obligation to review the standards and make a determination now, not in future rate cases on a case by case basis. Again, we believe this determination is appropriately related to the policy of aligning utility incentives with the deployment of cost-effective energy efficiency, not a determination of how this might be accomplished. This is a policy statement that can, and should, be made independent of, and outside, the specifics of a general rate case. In fact, this is the type of statement, either in the affirmative or the negative, which is required under EISA and PURPA.

A general policy statement such as that contained in our recommended language would meet the requirement contained in American Recovery and Reinvestment Act of 2009 (ARRA). Specifically, section 410(1) of the ARRA requires that the Governor obtain assurances that:

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<sup>1</sup> Reference Manual and Procedures for Implementation of the “PURPA Standards” in the Energy Independence and Security Act of 2007. Sponsored by the APPA, EEI, NARUC and NRECA. Prepared by Kenneth Rose and Mike Murphy. August 11, 2008. pg. 47.

*The applicable State regulatory authority will seek to implement, in appropriate proceedings for each electric and gas utility, with respect to which the State regulatory authority has ratemaking authority, a **general policy** that ensures that utility financial incentives are aligned with helping their customers use energy more efficiently and that provide timely cost recovery and a timely earnings opportunity for utilities associated with cost-effective measurable and verifiable efficiency savings, in a way that sustains or enhances utility customers' incentives to use energy more efficiently. (Emphasis added)*

Making a determination of the desirability of alignment or non-alignment on a case-by-case basis, as recommended by Public Counsel in both their written comments and comments at the workshop, would not be an implementation of a general policy as required by ARRA. Making decisions on an ad hoc, case-by-case basis is not the implementation of a general policy.

Proposed specific language

In addition to the adoption of the general standards mentioned above, PSE also suggested language that would be more specific to policy options contained in EISA and one of the purposes of PURPA. The suggested rule language is similar for electric and gas:

*Electric (gas) rate design with larger fixed charges, up to but not exceeding full recovery of fixed costs, helps align utility incentives with the delivery of cost-effective energy efficiency, makes rates more equitable for consumers, and is encouraged*

These statements address the Policy Options found in EISA for both gas, (6)(B)(i), and electric, (17)(B)(i), which state that State regulatory authorities should consider removing the throughput incentive and other regulatory and management disincentives to energy efficiency (electric), and separate fixed-cost revenue recovery from the volume of transportation or sales service (gas). The proposed language also addresses the PURPA purpose of encouraging equitable rates for electric consumers.

At the workshop, an issue was raised regarding the second part of this proposed language, implying there are differences of opinion as to whether higher fixed charges are more equitable for consumers. While there might be differences of opinion as to what is or is not equitable, there are no differences in facts regarding the impact of increasing fixed charges. Bills will be more stable and predictable, the fixed costs neighbors pay will be more similar, bills will be less weather sensitive, and the Company's throughput incentive will be reduced.

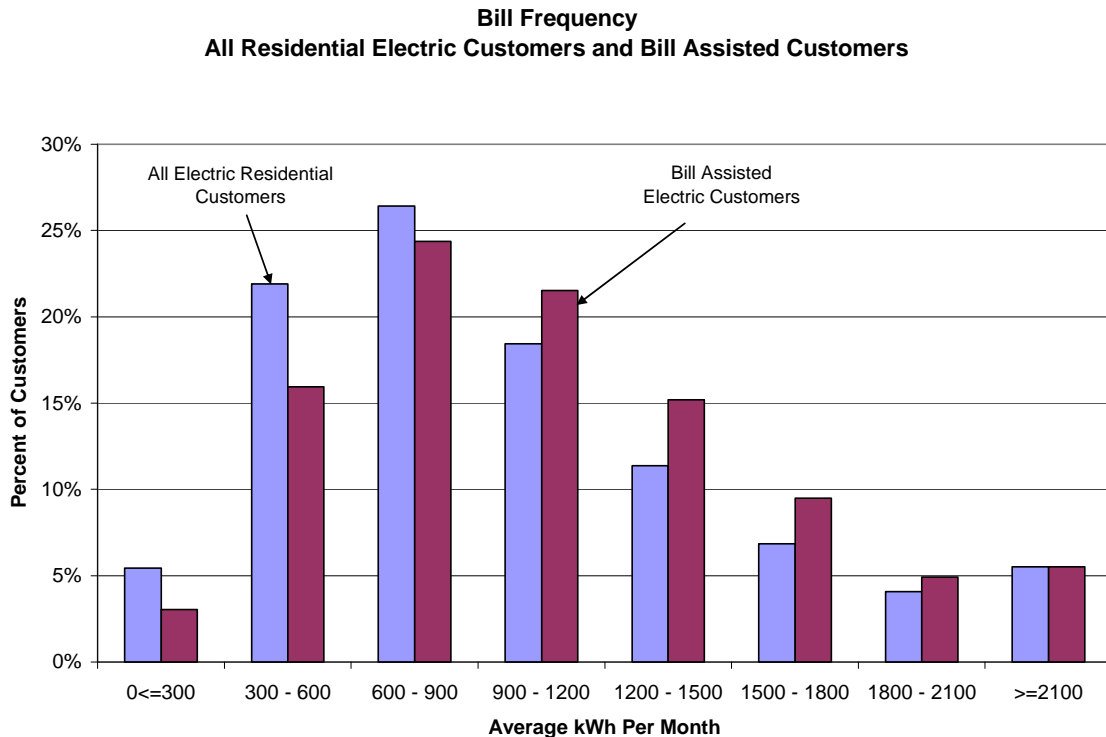
Regarding the equity issue, statements were made, or implied, at the workshop regarding the impact of higher fixed charges on low income customers. Following are the facts regarding this issue.

Response to comments raised by Public Counsel regarding fixed charges

At the workshop, representatives of Public Counsel raised objections to the above proposed rule language for encouraging the alignment of fixed rate charges with utilities' underlying cost structure. Specifically, Public Counsel claimed that higher fixed charges would adversely affect low-income customers, who they suggest are also low usage customers. Public Counsel referred to the testimony filed by their witness, Ms. Barbara Alexander, in PSE's 2007 General Rate Case (GRC) as evidence of this assertion.

While PSE agrees that low-usage customers would pay relatively more with a rate design that has a higher fixed charge, PSE strongly disagrees with Public Counsel that low-income customers are necessarily synonymous with low-usage customers. Public Counsel's argument hinges on the belief that (1) low-income residential customers use less energy than other residential customers and (2) low-use residential customers are also low-income. Neither is generally true.

The direct testimony of Mr. David Hoff filed in the 2007 GRC showed that PSE residential electric customers receiving bill assistance actually use more electricity, on average, than other PSE residential electric customers, and that, on a customer-by-customer basis, many customers receiving bill assistance use more energy than others who are more affluent. These facts are clearly shown in the chart below. Recovering a greater share of costs through an increase in fixed charges, with a corresponding reduction in the energy charge, would lower the monthly bills of the majority of PSE's bill-assisted, low-income electric customers.



PSE's experience with residential gas customers that receive bill assistance is slightly different, with these customers typically using less than residential gas customers in general, although many of these customers consume more energy than other individual customers who are more affluent. Additionally, very few bill-assisted customers use natural gas. Moreover, the vast majority of low-use residential gas customers do not receive bill-assistance.

This brings us to an important point. There is no evidence to support the notion that low-use customers necessarily have low incomes. In fact, quite the opposite is true. Using data from PSE's 2007 GRC, bill-assisted customers made up less than 2% of residential gas customers that use less than 40 therms per month.<sup>2</sup> Therefore, the other 98% of low-use residential gas customers, who do not receive and are not likely to qualify for bill assistance, experience lower monthly bills through fixed charges set below full fixed-cost recovery.<sup>3</sup>

The same holds true for PSE's electric customers, where bill-assisted customers made up less than 2% of residential electric customers that use less than 600 kWh per month (vs. an average closer to 1,000 kWh per month). Again, the other 98% of low-use residential electric customers, who do not receive and are not likely to qualify for bill assistance, experience lower monthly bills through fixed charges set below full fixed-cost recovery.

It is difficult to imagine a situation where the majority of any utility's low-use customers are also predominantly low-income.<sup>4</sup> It is also particularly ironic that high-use residential customers that receive bill assistance<sup>5</sup> end up subsidizing low-use residential customers, the vast majority of whom are not low-income.

This begs the question of whether artificially suppressing residential basic charges is the most efficient mechanism for administering benefits to low-income customers. For all the reasons explained earlier in our comments it is more appropriate to fully recover fixed costs through fixed charges and then implement customer-assistance programs that efficiently target the small percentage of customers that really need the help.

Comments regarding PURPA Section 303(B) Standard 6:

Gas question number 1: *“Are there any benefits from separating fixed-cost revenue recovery from the volume of transportation or sales service provided to customers that the Commission has not yet considered in either a rulemaking or in adjudication?”*

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<sup>2</sup> The average monthly gas use for PSE's residential customers is 70 therms. Forty therms was used as a break point for "low" use. However, the answer would not change much using any other metric for low use.

<sup>3</sup> Northwest Natural (NWN) shares a similar experience, where the vast majority of their low-use customers do not receive bill assistance. See the work papers to Exhibits RJA-4 and RJA-5 of the testimony of Ronald J. Amen in NWN's recent general rate case before the WUTC (Docket No. UG-080546).

<sup>4</sup> We have confirmed that very few of the low-use customers of NWN and PacifiCorp receive bill assistance.

<sup>5</sup> As illustrated above, for PSE's electric system, residential customers that receive bill assistance are more likely to be high-use customers.



Public Counsel states that it “sees no valid justification for making a dramatic shift in the Commission’s current rate design policy with respect to recovery of fixed costs.” Inherent in this statement is an acknowledgement that PURPA Standard 6, which includes consideration of separating fixed-cost revenue recovery from the volume of transportation or sales service provided to the customer, would be a change from current Commission policy. A federal standard that is different from current Commission policy warrants careful consideration by the Commission.

Gas question number 2: *“Are there any drawbacks of separating fixed-cost revenue recovery from the volume of sales service provided to customers that the Commission has not yet considered?”*

The only drawback pointed out by other commenters was a lack of customer understanding of decoupling mechanisms. The fact that the parties did not identify drawbacks to this standard indicates that there are no compelling reasons not to implement the standard. In contrast, there were specific benefits identified in response to Question No. 1 that do provide reasons to implement this federal standard.

PSE appreciates the opportunity to present its viewpoint on this issue and looks forward to further discussions on this topic. Please direct any questions regarding these comments to Eric Englert at (425) 456-2312 or the undersigned at (425) 462-3495.

Sincerely,



Tom DeBoer  
Director – Federal & State Regulatory Affairs