

Agenda Date: July 26, 2002  
Item Number: A1

**Docket:** UE-020883  
Company Name: Puget Sound Energy, Inc.

Staff: H. McIntosh, Regulatory Analyst

**Recommendation:**

Issue an Order approving rates filed under the Special contract between Puget Sound Energy and King County Metro in Docket UE-020883, to become effective by its own terms, on August 7, 2002. In addition, the Order should note that approval of special contracts is no guarantee of future recovery in rate making.

**Background:**

On July 8, 2002, Puget Sound Energy (PSE or Company) and King County (KC) signed a Special contract. On July 8, 2002, PSE filed an application for this contract under WAC 480-80-335 requesting approval. The proposed Contract is for amended retail electric service to KC from date of Commission approval for a period of exactly three years.

**History:**

King County has two sewage treatment sites: West Point and Renton. These plants process King County's wastewater for treatment (including storm drainage runoff in rainy conditions). In extreme conditions, the Renton Plant employs two 5 MW electric pumps to push effluent uphill to the larger West Point Plant, to avoid spilling contaminated wastewater that exceeds the capacity of the Renton Plant. These events last between one and 4 hours and can cause the demand to rise from a typical 6 MW to about 15 MW.

King County was the only Schedule 48 customer who did not participate in the final UE-001952, negotiation and settlement. After resolution of Docket UE-001952, King County entered into a special contract for electric service with PSE, approved in, Docket No. UE-010772, dated May 30, 2001. The Contract allowed KC to leave the Schedule 48 tariff and gain stable and comparatively moderate rates during a period of unprecedented market uncertainty until the end of PSE's next general rate case.

During PSE's general rate case in UE-011570, PSE and KC agreed to a final stipulation by resolving remaining Schedule 48 and special contract claims in return for a three-year transition to self-generation. On May 7, 2002, KC became a core Schedule 49 customer by Commission Order of Settlement.

As part of this transition, King County and PSE agreed that to modify the application of Schedule 49, High Voltage General Service to KC to limit how KC's unmanageable, large,

and non-coincident peak would be treated under the rate design of that Schedule. Thus, an element of the General Rate case settlement was that King County would file for approval of a Special contract which would craft a more appropriate rate design. This change would, further, facilitate King County's policy of energy independence. Lastly, PSE agreed to seek this accommodation in consideration of KC's release of Schedule 48 and special contract claims against PSE.

**Proposed Contract:**

The proposed special contract provides for:

- a. Identification of King County's *Renton site* as point of delivery and metering
- b. Current Schedule 49 Rates of \$2.79 /kVa demand, and 3.7309 cents/ kWh energy
- c. Basic Terms and Conditions of Current Tariff Schedule 49 with this revision--  
For the months March-October, demand will be billed at the maximum of :
  - 1) actual metered demand for the month,
  - 2) highest demand reading for the previous November-February period;  
*but not to exceed 10MVA,*
  - 3) 4.4MVA.
- d. Maximum term of **three years** from day of approval.

Staff notes that PSE has made evident intent to create an unbundled transmission and distribution service schedule or special contract for filing at some future time. King County will need it for delivery of power from the proposed Cedar Hills Landfill Gas Turbine Project to the load centers at Renton and Westpoint. Schedule 449 provides this service for qualifying noncore customers now. Further, back-up distribution service may be needed in a new tariff like Schedule 459, which is only available to Schedule 449 customers.

**Standards for Approval and Other Considerations:**

The chapter in the Washington Administrative Code (WAC) covering special contracts for electric service is WAC 480-80-335. This rule makes clear specific conditions for its application. Under WAC 480-80-335, each application filed for Commission approval must:

- (1) Show that the Contract meets the requirements of RCW 80.28.090 (prohibiting unreasonable preference) and RCW80.28.100 (prohibiting rate discrimination),
- (2) Demonstrate at a minimum that the contract charges recover all costs resulting from providing the service during its term, and, in addition, provide a contribution to the Company's fixed costs.

The special contracts Rule WAC 480-80-335(6) also states "...Unless otherwise provided by the Commission, such approval will not be determinative with respect to the expenses and revenues of the company for subsequent ratemaking considerations."

Cost Recovery:

Staff analysis of Schedule 49 costs during the rate case indicates that the special contract rate proposed here is identical to the tariff schedule, and it is sufficient to cover the embedded accounting costs of this load, costs associated with existing facilities specifically built to serve transmission, distribution and generation requirements, as well as provides an additional margin to offset the cost of common facilities and expenses of the Company.

Effective Bargaining:

The form of this contract was the result of rate case collaborative discussions. Following discussion with PSE and based on the results of the contract, it is evident that effective negotiations produced the proposed contract.

Alternative Source of Power:

Alternative power source is not the basis for this special contract. However, the goal of this agreement is aiding a customer to complete an ongoing self-generation investment process. Staff conversations with King County managers has lent credibility to this idea. Three projects are in various stages of development:

- 1) Digester gas fuel cell at Renton Wastewater Treatment Plant.
- 2) Landfill methane feeding gas combustion turbines to wheel power to the sewage treatment plant sites.
- 3) Sewage treatment digester gas projects at Renton and West Point Treatment Plants.

Based on these discussions, Staff believes KC may accomplish its self-generation goal within the three-year term of this filed special contract.

Discrimination and Preference:

A critical requirement of the rule governing consideration of special contracts is for the Commission to find that the proposed rates and terms of service are not unduly discriminatory or preferential. A review of other Schedule 49 customers shows that no other customer is similarly situated in that its problematic peaks only occur in conditions of extreme rainfall, which do not accompany extreme low temperatures, and so guarantees that they are non-coincident with the PSE system peak. Since system peak is a major determinant of capacity costs, KC will be paying its revenue requirement, as will the other Schedule 49 customers.

**Recommendation:**

Therefore Staff recommends that the Commission issue an Order approving rate and terms, filed under the Special Contract between Puget Sound Energy and King County, in Docket UE-020883, to become effective by its terms on August 7, 2002. Since electricity supply independence is partly driving this proposal, Staff is glad to note that PSE has agreed to inform them about the progress of the generation projects periodically.