BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Petition of **PUGET SOUND ENERGY, INC.** **To Update Methodologies Used To Allocate Electric Cost of Service and For Electric Rate Design Purposes**	**Docket UE-14____** **PETITION**

I. INTRODUCTION AND RELIEF REQUESTED

1 Pursuant to the Settlement Stipulation and the Commission's Final Order Approving and Adopting Settlement Agreement in Docket UE-130617 *et al,* and pursuant to WAC 480-07-370(1)(b), Puget Sound Energy, Inc. ("PSE" or "the Company") respectfully submits this Petition To Update Methodologies Used To Allocate Electric Cost of Service and For Electric Rate Design Purposes.

2 PSE is engaged in the business of providing electric and natural gas service within the State of Washington as a public service company, and is subject to the regulatory authority of the Commission as to its retail rates, service, facilities and practices. Its full name and mailing address are:

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Attn: Ken Johnson
Director, State Regulatory Affairs
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Bellevue, Washington 98009-9734

PSE's representatives for purposes of this proceeding are:

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3 The following statutes and rules may be brought into issue by this petition: RCW 80.01.040; WAC 480-07-370(1)(b); and WAC 480-07-720.

II. BACKGROUND

4 On September 13, 2013, the parties to PSE's 2013 power cost only rate case ("PCORC")[1] entered into a Settlement Stipulation that constituted a full and complete settlement of PSE's PCORC, filed in Docket UE-130617, as well as other dockets that were consolidated with the PCORC.[2] As part of the Settlement Stipulation, PSE and the parties to the settlement agreed to participate in a collaborative process "to address issues with respect to electric cost of service, rate spread, and rate design."[3] The parties further agreed to the following process:

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[1] The parties to PSE's 2013 PCORC were as follows: PSE, the Staff of the Washington Utilities and Transportation Commission ("Commission Staff"), the Public Counsel Section of the Washington Attorney General's Office ("Public Counsel"), the Industrial Customers of Northwest Utilities ("ICNU").

[2] The four consolidated dockets are as follows: Docket UE-130617, Order 06 (primary PCORC docket); Docket UE-130583, Order 02 (Mint Farm); Docket UE-131099, Order 02 (Electron); and Docket UE-131230, Order 02 (LSR II). For simplicity, this petition refers to Order 06 in the PCORC, Docket UE-130617.

[3] Settlement Stipulation, ¶26.

> The first meeting of the collaborative will occur in November 2013. PSE agrees to provide information in response to reasonable requests for information from collaborative participants. If the Parties reach agreement in the collaborative, that agreement can be implemented in PSE's next PCORC, subject to Commission approval. If the Parties do not reach agreement, PSE agrees to initiate a docket no later than July 1, 2014, to address issues with cost of service, rate spread, and rate design.[4]

On October 23, 2013, the Commission issued Order 06 in Docket UE-130617, approving the Settlement Stipulation.

5 Consistent with the terms of the Settlement Stipulation, the parties to the stipulation, as well as other interested parties have participated in a series of regular collaborative meetings and conference calls since November 2013. These parties include: Commission Staff, Public Counsel, ICNU, the NW Energy Coalition ("NWEC"), the Kroger Company ("Kroger"), and The Energy Project ("Rate Design Collaborative Parties"). Much of the focus of the meetings was around the allocation of electric production and transmission costs, as well as certain issues pertaining to residential electric rate design. In addition, the Rate Design Collaborative Parties corresponded frequently through emails and an informal discovery process. The table below summarizes the topics discussed and the dates of scheduled meetings.

[4] Settlement Stipulation, ¶26.

Table 1 – Date and Topics of Cost of Service and Rate Design Collaborative Meetings

Topic	Date
Overview of PSE's Approach to Electric Cost of Service and Rate Design	November 21, 2013
Overview of Schedule 40	December 17, 2013
Peak Credit Methodology	January 27, 2014
Residential Basic Charge, Volumetric Blocks, and BPA Settlement	March 18, 2014
Peak Credit Methodology (cont.)	April 7, 2014
Discussion of status and path forward.	April 16, 2014

6 The Rate Design Collaborative Parties did not reach consensus on what changes, if any, should be made to PSE's electric cost of service, rate spread, and rate design. Accordingly, PSE is initiating this docket to address cost of service, rate spread and rate design issues.

III. PSE'S PROPOSED CHANGES TO COST ALLOCATION

7 In this petition PSE is proposing to update the inputs and assumptions used to implement its "peak credit" methodology for allocating electric production and transmission costs. These assumptions have not been updated since PSE's 2011 general rate case ("GRC"), and due to the current GRC stay-out period, PSE will not file a GRC until 2015 or 2016.[5] Therefore, it is appropriate to update the allocation of production and transmission

[5] PSE filed its 2011 GRC in June 2011 and will not file another GRC any sooner than April 2015 (and no later than April 2016). *See In re Petition of Puget Sound Energy, Inc. and Northwest Energy Coalition For an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling*

costs, particularly as certain underlying assumptions used in the peak credit analysis (e.g., natural gas prices and carbon costs) have changed markedly since PSE's 2011 GRC. PSE is also proposing a new methodology for allocating demand-related production and transmission costs.

8 PSE's petition and proposal are supported by the Prefiled Direct Testimony of Jon A. Piliaris, and supporting exhibits thereto, filed with this petition.

A. Proposed Updated Assumptions and Inputs to Peak Credit Methodology

9 PSE proposes to update key assumptions and inputs for the peak credit methodology that fall into five broad categories: (1) those related to the cost and operational efficiency of the proxy generating resources assumed in PSE's integrated resource plan ("IRP"); (2) projections of natural gas prices; (3) projections of carbon costs; (4) the assumed capacity factor of the proxy baseload resource; and (5) the authorized rate of return. These are discussed in more detail below, and in the Prefiled Direct Testimony of Jon A. Piliaris, filed herewith.

(1) PSE proposes to generally use assumptions consistent with those found in its 2013 IRP, rather than assumptions from PSE's 2011 IRP which have been relied on since PSE's 2011 GRC. These include assumptions related to: capital costs, fixed and variable operation and maintenance ("O&M") costs, and the heat rates of the proxy generating resources.

(2) PSE proposes to use more recent projections of natural gas prices using an approach consistent with the one used in PSE's 2013 IRP. The gas price forecast proposed for the peak credit analysis in this filing is described in more detail in the Prefiled Direct

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Mechanisms and To Record Accounting Entries Associated with the Mechanisms, Dockets UE-121697 *et al.*, Order 07, ¶137 (June 25, 2013).

Testimony of Jon A. Piliaris, and would be consistent with the draft natural gas price projections to be used for PSE's 2015 IRP.

(3) PSE proposes to use a weighted average of the carbon cost projections from the 2013 IRP.

(4) The capacity factor for the baseload resource assumed in the peak credit analysis has been the subject of debate over the past few decades. As discussed in the Prefiled Direct Testimony of Jon A. Piliaris, PSE proposes to use an 80 percent capacity factor, which is supported by the operation of PSE's existing baseload resources.

(5) PSE's authorized rate of return on rate base was most recently set at 7.77 percent in Docket Nos. UE-130137 and UG-130138. PSE's peak credit analysis has been updated to reflect this more recently-authorized rate of return.

10 In total, these proposed changes increase the percentage of costs considered to be demand-related from the current level of 19 percent to almost 25 percent.

B. Updates to the Manner Demand-Related Production and Transmission Costs Are Allocated.

11 PSE proposes to use a coincident peak ("CP") allocator for demand-related production and transmission costs, rather than its current method of allocating demand-related production and transmission costs on the basis of customers' contribution to PSE's top 75 hours of load.

12 Since its 2006 GRC, demand-related production and transmission costs have been allocated on the basis of customers' contribution to PSE's top 75 hours of load.[6] This approach was taken to align with the way PSE's generation resource needs are identified in

[6] Prior to that time, PSE used the contribution to the top 200 hours of load.

its IRP, where it has a planning standard to meet peak loads at 23 degrees F. At the time of the 2011 GRC, PSE reviewed hourly temperature data over the preceding 15 years and determined that the largest number of hours in any one year where the hourly temperature was 23 degrees F or colder was 75 hours.

13 However, in analyzing data for 2011, 2012 and 2013, the results show that less than 25 percent of the 75 highest hourly loads in each of these years occurred during the 75 coldest hours. In other words, hourly temperature alone is a poor predictor of hourly load. Based on this evaluation, it is reasonable to consider an alternative method for allocating demand-related production and transmission costs.

14 PSE proposes to use a "4CP" allocation factor, in which customers are allocated demand-related production and transmission costs based on their contribution to PSE's monthly peak loads in its four mid-winter months (i.e., November through February). As discussed in more detail in the Prefiled Direct Testimony of Jon A. Piliaris, a 4CP allocation factor has ample precedents within the industry, including the acceptance by the Federal Energy Regulatory Commission ("FERC"), and is more consistent with cost-causation principles.

15 The tables below reflects both the way production and transmission costs are classified between demand and energy, as well as how the classified costs are allocated across rate schedules. In general, customers with lower load factors will bear more of the demand costs relative to customers with higher load factors:

Table 2 – Comparison of Existing and Updated Peak Credit Allocation Factors

Rate Schedules	2011 GRC Allocation Factors	Proposed Allocation Factors	Difference
Schedule 7	53.26%	54.70%	1.44%
Schedule 8/24	12.07%	12.34%	0.27%
Schedule 11/25	13.33%	12.58%	-0.75%
Schedule 12/26	8.97%	8.42%	-0.55%
Schedule 29	0.06%	0.06%	0.00%
Schedule 10/31	5.62%	5.41%	-0.21%
Schedule 35	0.02%	0.01%	-0.01%
Schedule 43	0.55%	0.45%	-0.10%
Schedule 40	3.29%	3.01%	-0.28%
Schedule 46	0.19%	0.15%	-0.04%
Schedule 49	2.23%	2.43%	0.20%
Schedules 51-59	0.37%	0.40%	0.03%
Firm Resale	0.04%	0.04%	0.00%

16 Table 3 below provides an indication of the impacts of PSE’s proposed changes to the peak credit analysis. This table shows how the roughly $1.3 billion revenue requirement proposed in PSE’s 2014 PCORC would be allocated across the customer classes.

Table 3 –Illustration of Impacts of Proposed Peak Credit Results by Class Using PSE's 2014 Proposed PCORC Revenue Requirement

Rate Schedules	2011 GRC Allocation Factors	Proposed Allocation Factors	Difference	% Impact
Schedule 7	$709,454,446	$728,636,091	$19,181,645	2.7%
Schedule 8/24	$160,779,481	$164,376,039	$3,596,558	2.2%
Schedule 11/25	$177,563,420	$167,572,980	($9,990,440)	-5.6%
Schedule 12/26	$119,485,662	$112,159,340	($7,326,323)	-6.1%
Schedule 29	$799,235	$799,235	$0	0.0%
Schedule 10/31	$74,861,697	$72,064,374	($2,797,323)	-3.7%
Schedule 35	$266,412	$133,206	($133,206)	-50.0%
Schedule 43	$7,326,323	$5,994,264	($1,332,059)	-18.2%
Schedule 40	$43,824,730	$40,094,966	($3,729,764)	-9%
Schedule 46	$2,530,911	$1,998,088	($532,823)	-21%
Schedule 49	$29,704,908	$32,369,026	$2,664,117	9%
Schedules 51-59	$4,928,617	$5,328,235	$399,618	8%
Firm Resale	$532,823	$532,823	$0	0%
Total	$1,332,058,667	$1,332,058,667	$0	0%

17 This methodology applies to the allocation of costs or credits in PSE's PCORC filings (Schedule 95), production tax credits and treasury grants (Schedule 95A), conservation expenses (Schedule 120), and renewable energy credits (Schedule 137). PSE proposes that the peak credit results presented in this filing be applied to the preceding rate schedules as PSE files to have them updated. This would mean that the new peak credit results would not be applied to most transmission costs. The allocation of these costs would be addressed in PSE's next GRC.

IV. CONCLUSION

18 PSE respectfully requests that the Commission approve the proposed changes to cost allocation set forth in this petition, and as described in the supporting testimony and exhibits filed herewith.

DATED: July 1, 2014.

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By: ______________________
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