

Agenda Date: September 24, 2003

Item Numbers: A2 and A3

Dockets: UG-031485 and UG-031486 (Refiling of Dockets UG-031396 and UG-031397)

Company Name: Puget Sound Energy, Inc.

Staff: Roland C. Martin, Regulatory Consultant
James M. Russell, Regulatory Analyst

Recommendation:

Grant the request of Puget Sound Energy, Inc. (PSE) in Dockets UG-031485 and UG-031486 for the tariffs to become effective October 1, 2003, on less than statutory notice.

Background:

On August 29, 2003, Puget Sound Energy, Inc. ("PSE" or "Company") filed revisions to its Purchase Gas Adjustment (PGA) and Deferral Amortization (Deferral) tariffs under Dockets UG-031396 and UG-031397, respectively. On September 16, 2003, PSE withdrew those filings and on the same date refiled revised PGA and Deferral tariff proposals, requesting an effective date of October 1, 2003 on less than statutory notice (LSN). The Company withdrew the Deferral filing (UG-031397) to incorporate minor revisions to the deferral rates resulting from a change in demand/commodity allocation of the Deferral Amortization balance. Although the proposed PGA rates in the refiling are identical to those filed under Docket UG-031396, PSE withdrew the initial filing to avoid future confusion of having exhibits on file at the Commission that do not match revised joint PGA and Deferral Amortization rate impacts. The refilings resulted in slightly higher residential rate increase request (from 12.2% to 12.4% increase in revenues) and lower non-residential rate increase request (15.2% to 14.6% increase in revenues), with the overall per cent increase unchanged. The combined effect of the two refilings is an increase in annual gas sales revenues of approximately \$78.8 million (13 per cent).

The Purchased Gas Adjustment (PGA) and Deferral Amortization mechanisms are designed to pass on gas costs to customers on a periodic basis. The PGA establishes for the upcoming year what the best projection is going to be for the utility's gas costs. The difference between the projected cost and the actual cost is deferred and ultimately amortized back to customers with interest, whether it be a refund or surcharge balance.

PSE, a combined electric and natural gas utility company, serves approximately 594,781 residential, 50,334 commercial and industrial, and 617 large volume gas customers in Snohomish, King, Pierce, Thurston, Lewis, and Kittitas counties.

Purchase Gas Adjustment (PGA, Docket UG-031485)

Docket UG-031485 is PSE's PGA filing. PSE filed tariff sheets to reflect a prospective total weighted average cost of gas of \$0.52124/therm (\$0.42243 commodity + \$0.09881 demand) resulting in an increase in annual revenues of approximately \$50.6 million (8.48%), for the

period October 2003, through September 2004. The increase is due to higher demand costs and the reflection in rates of unmitigated commodity cost. In the Company's last PGA filing effective April 10, 2003 (Docket UG-030305), the Company mitigated the significant rate increase impact of that filing through an adjustment of the commodity rate by (\$0.05)/therm, with the hope that forward prices for the coming 2003-2004 winter would decline. The current forward prices, as reflected in this filing, did not fall as hoped. Currently embedded in PSE natural gas retail rates is a total average weighted cost of gas of \$0.46162/therm including the mitigated commodity cost of \$0.37974/therm and \$0.08188 demand/therm. PSE's proposed cost of gas is in line with the comparative costs of other gas utilities regulated by this Commission (see Attachment). The commodity cost of natural gas in the market has recently been in the \$0.40 to \$0.50 per therm range.

Gas Cost Deferral Amortization (Docket UG-031486)

Docket UG-031486 is PSE's deferred gas cost amortization filing that reflects the true-up of actual costs to actual revenue collected through September of 2003, including estimates for August and September, 2003. Currently, PSE estimates that as of the end of September, 2003, the balance of prior period over-recovery of gas costs currently being refunded under existing deferral rates will be approximately \$16.4 million and the balance of under-collections since the last PGA rate was put into effect on April 10, 2003 will be approximately \$16.5 million, or a net balance of approximately \$70,000. To reflect the cyclical nature of gas cost recoveries, the Company is proposing to transfer approximately \$6.1 million of current under-recoveries as an offset to the prior period refund balance, resulting in rates designed to refund approximately \$10 million over the twelve month period ending September, 2004. The current refund rates were originally designed to refund approximately \$47 million over seventeen months. The reduction to the refund rate results in a net increase to customers' bills averaging 5% and a net increase of approximately \$28.2 million in annual revenue.

Summary:

The impact of the two filings on a monthly bill for a residential customer with consumption of 80 therms will be an increase of \$7.81 (12.5%) from \$62.40 to \$70.21. The net effect of the PGA and gas cost deferral amortization (refund) filings on the Company's rates and annual Washington revenues is as follows:

	PGA Per Therm <u>Change</u>	Refund Per Therm <u>Change</u>	Total Annual Revenue <u>Change</u>	Percent
Residential				
23	\$.06281	\$.03487	\$46,010,036	12.4%
16	\$.05753	\$.03240	\$ 2,091	8.8%
Comm.& Industrial				
31,36, and 51	\$.06101	\$.03405	\$18,931,775	13.5%

41	\$.05378	\$.03075	\$ 4,485,627	14.6%
50	\$.05049	\$.02925	\$ 5,154	8.2%
Interruptible				
85	\$.05724	\$.03234	\$2,066,023	17.5%
86	\$.05724	\$.03234	\$2,278,084	14.5%
87	\$.05220	\$.03004	<u>\$5,020,172</u>	18.9%
Total			\$78,798,962	13.3%

Conclusion:

Staff has reviewed PSE's prospective gas costs and deferral amortization rates proposed in its filings and found them to be reasonable. Staff recommends that PSE's request for less than statutory notice be granted and the tariffs filed in Dockets UG-031485 and UG-031486 become effective October 1, 2003.

Attachment