

PUGET SOUND ENERGY

Natural Gas

<p>2017 GRC (UG-170033)</p>	<p><i>Commission Order</i></p> <p>Deferred contemplation of changes to cost-of-service to the ongoing generic proceeding. Effectively continued status-quo without endorsing any particular methodology.</p> <p>Rejected Staff’s proposed treatment of special contract customers.</p>
<p>2011 GRC (UE-111048)</p>	<p><i>Multiparty Settlement - No changes to cost of service</i></p> <ul style="list-style-type: none"> • Review of Interruptible Tariffs Completed: <ul style="list-style-type: none"> ○ PSE declines to propose changes to interruptible schedules
<p>2010 Gas Only Case (UG-101644)</p>	<p><i>Multiparty Settlement - No changes to cost of service</i></p> <ul style="list-style-type: none"> • PSE continues Review of Interruptible Tariffs pursuant to 2008 Collaborative
<p>2009 GRC (UE-090704)</p>	<p><i>Multiparty Settlement</i></p> <ul style="list-style-type: none"> • SynerGEE direct assignment method abandoned <ul style="list-style-type: none"> ○ Peak and Average used for allocation of distribution main costs.
<p>2008 Natural Gas Collaborative</p>	<p><i>Consultant report results in no clear finding of consensus amongst the parties.</i></p>
<p>2007 GRC (UE-072300)</p>	<p><i>Multiparty Settlement</i></p> <ul style="list-style-type: none"> • Transportation Customers split into 5 different schedules.
<p>2006 GRC (UE-060266)</p>	<p><i>Multiparty Settlement - No changes to cost of service</i></p>
<p>2004 GRC (UE-040641)</p>	<p><i>Multiparty Settlement - No changes to cost of service</i></p> <ul style="list-style-type: none"> • SynerGEE (PSE Gas planning model) used to develop main allocations. <ul style="list-style-type: none"> ○ Direct assignment of mains less than 4” in diameter

2001 GRC (UE-011570)	<i>Multiparty Settlement - No changes to cost of service</i>
1994 Washington Natural Gas Cost of Service (UG-940814, Washington Natural Gas Company)	<p><i>Commission Order:</i></p> <p>Among other things, this Order rejects design day as a basis for calculating peak usage. <i>See below for more complete discussion.</i></p>
1992 Washington Natural Gas Company GRC (UG-920840)	<p><i>Commission Order:</i></p> <ul style="list-style-type: none"> • Rejects all cost studies as “insufficient”. • Company proposes cost allocation based solely on direct assignment and peak usage • Staff proposes peak and average methodology but does not identify separately transportation costs.

2013 Cost of Service/Rate Design Collaborative

Resulting from the 2013 Power Cost Only Rate Case, PSE convened a collaborative between various stakeholders to discuss electric cost of service and rate design. The parties spent more than a year discussing aspects of cost of service and rate design before reaching an accord. The settlement resolved cost of service issues for the Company’s next general rate case (anticipated at that time to be in late 2015). The parties agreed to the continued use of the peak credit methodology, with certain updates, and the use of a 4-CP allocator for demand related production and transmission costs. The settlement anticipated a generic cost of service proceeding to:

[A]ddress cost of service allocation methodologies for all system costs for the three electric investor-owned utilities. Through this process the Company and all interested interveners would be able to fully present their viewpoints on cost of service and allocation methodologies with the goal of receiving consistent policy direction from the Commission, and in that proceeding no party will be bound by any cost of service or allocation agreements in this settlement.¹

2008 Natural Gas Collaborative

Based on the settlement from the PSE 2007 GRC, PSE hired an outside consultant to facilitate a collaborative on natural gas cost of service, rate design, and rate spread. According to the final report, the collaborative focused mainly on the allocation of distribution mains and the differences between the parties on the correct approach to take. Unfortunately the collaborative

¹ UE-141368, Order 3 Attach A, at paragraph 14.

was unable to reach a consensus.² PSE stated later in its 2009 GRC that the collaborative resulted in the switch from the SynerGEE direct assignment method to the present main allocation methodology.³

Review of Interruptible Tariffs

The 2008 Collaborative (approved in the 2007 GRC) did find “conceptual merit” in separating firm and interruptible services for the purposes of cost allocation.⁴ PSE agreed to review firm and interruptible customers on schedules 85, 86, 87, 85T, 86T, and 87T. The review was meant to determine any necessary changes to the provision of service on these schedules. PSE described these schedules as “interruptible service with a firm option”⁵. The specific concerns were that the demand charges were too low, interruptible customers pay the same volumetric rates for unallocated capacity costs, and that interruptible schedules essentially provided discounted firm service. PSE found that alternative ways to provide customers with interruptible service existed but declined to propose any changes in the 2011 GRC until a meeting with various stakeholders had taken place.

1994 Cost of Service Proceeding

The 1994 COS only proceeding was the culmination of several prior orders instructing Washington Natural Gas to provide transportation only rates. The Order established several important precedents for cost of service studies.

Usefulness of Cost of Service Studies:

While cost studies do not dictate rates, they can provide a useful reference point for analysis. To the extent that one goal of ratemaking is to adopt rates for each customer class that reflect the cost of serving that class, cost of service studies are a useful tool. To the extent that such studies must allocate historical and common costs, the studies can only approximate cost relationships. Market conditions and public policy considerations may dictate that returns vary between customer classes. The Commission therefore may depart from the indications of an acceptable study in allocating revenue requirements.

Cost of service studies can be very technical but, because of the need to allocate joint and common costs among various services, they depend to a great extent on principle, policy, and common sense. In the absence of detailed studies demonstrating responsibility for fixed costs, which would allow direct assignment of portions of the costs to particular classes of customers, allocation must depend on principled judgment rather than science.

Allocation Principles:

² Final Report JKP-4 UE-090704

³ UE-090704 JKP-1t 10:8-13

⁴ Final Report JKP-4 UE-090704

⁵ UE-111048 (JKP-1T at 25:37)

In an order involving Cascade Natural Gas (U-86-100, "Cascade") and modified in an order involving the Washington Water Power Company (UG-901459, "Water Power") the Commission adopted several cost allocation principles: Cost studies should allocate some fixed costs on the basis of annual use since the gas system exists to provide gas on a year-round basis. Fixed costs incurred in the past do not necessarily match current use patterns. Some costs cannot be separately attributed to specific customer groups. Embedded cost studies are important tools for comparing the relative contributions of different customer classes to a company's overall costs, but should be only one consideration in determining rate spread and rate design. Finally, discounting for competitive purposes should be done explicitly.

Other important findings:

- Rejects design day as a basis for calculating peak usage and approves average of top five peak days in three year period.
- Approves peak and average methodology for allocating mains resulting in 51/49 demand energy split
- Assigns all commodity costs to customer based on annual volume
- Categorizes fixed supply costs as baseload, seasonal, or peak related uses individual factors to allocate each
- Assigns 50% of A&G based on O&M and 50% based on throughput
- Meters & Services directly assigned where possible, allocated based on customer counts weighted by total cost where not
- Assigns 20 percent of Jackson Prairie to balancing needs and the rest to seasonal load
- Contributions in Aid of Construction allocated 100% to residential customers
- Separates transportation costs for sales and transportation customers.
- A&G segregated into separate components (labor, revenue, and general plant/ other) and use an appropriate allocator (labor, revenue, and a combined O&M and throughput factor, respectively)

Classification and Allocation of Distribution Main Costs

In 2009, PSE abandoned the SynerGEE direct assignment method in favor of a peak and average method for allocating costs. PSE stated that this method was to balance the concerns that large customers benefit at the expense of all other customers through the SynerGEE direct assignment method with the competing problem that sufficiently large customers may not be using smaller mains.

Peak and Average Method

Using a system peak allocator, costs associated with peak demand (approximately 2/3) are allocated based on each customer class's contribution to system design day peak demand. The remaining costs (about 1/3) are split in to three groups based on main size. The largest main (>=4" diameter) is allocated to all customers based on throughput. The medium size main (2"-3" diameter) is allocated to all customers based on throughput except 87, 87T, and contracts which

only receive 33% of the allocation. The smallest main (<2" diameter) is allocated to all customers except 87,87T, and contracts based on throughput.

SynerGee Direct Assignment Method

The SynerGEE model is used in PSE's gas planning activities to locate capacity constraints on its natural gas system. Using information on how gas would flow from a city gate to a particular customer, PSE allocated these costs to each of these customers using throughput on each of the mains. Principally, this method used the original cost of distribution mains 4" and larger and directly assigned these costs to each customer on schedules 85, 87, and 57. The remaining mains were assigned to the remaining customers using peak and average allocation.