

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application of)	
)	DOCKET NO. UG-971136
PUGET SOUND ENERGY, INC.,)	
)	
For a Certificate of Public Convenience and)	ORDER ACCEPTING
Necessity to Operate a Gas Plant for Hire in)	STIPULATION; REQUIRING
the Designated Ares of Kittitas County.)	TARIFF REFILING
.....)	


BACKGROUND

Proceedings: On July 11, 1997, Puget Sound Energy, Inc. (PSE) filed with the Commission an application for authority to provide natural gas service to portions of Kittitas County, including unserved regions within the geographic area currently certificated to the City of Ellensburg (City). PSE's request included the following: 1) an application for a certificate of public convenience and necessity pursuant to RCW 80.28.190, which requires a finding that PSE's application is in the public interest; 2) a finding that natural gas service currently provided by the City is not satisfactory; and 3) a waiver of rules pursuant to WAC 480-93-030 to operate part of the natural gas distribution system at greater than usual pressure in order to provide gas storage in the event that gas supply is interrupted on the Northwest Pipeline Corporation system.

The Commission convened a prehearing conference in this matter on September 10, 1997, at Olympia, Washington, before Administrative Law Judge Terrence Stapleton of the Washington Utilities and Transportation Commission. The City made an oral motion to intervene. PSE and Commission Staff did not object to the motion, and the City's motion to intervene was granted.

A procedural schedule was adopted at the prehearing conference. The schedule was as follows:

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| Simultaneous Legal Memoranda of the Parties Addressing the Scope of the City's Authority to Hold a Certificate Of Public Convenience and Necessity | September 17, 1997 |
| Joint Resolution by the Parties of the Appropriate Notice for the Proposed Rule Waiver Request by the Company | September 19, 1997 |



Commission Order on City's Authority	September 22, 1997
Commission Staff and City File Direct Testimony and Exhibits	October 17, 1997
PUBLIC HEARING	OCTOBER 27, 1997
Company File Rebuttal Testimony and Exhibits	October 31, 1997
EVIDENTIARY HEARINGS	NOVEMBER 19-21, 1997
Briefs Due	December 10, 1997
Expected Entry of Commission Order	December 30, 1997

The Company distributed and filed its direct testimony and exhibits at the September 10 prehearing conference. Commission Staff filed its testimony and exhibits on October 17, 1997, and the City's testimony and exhibits were filed on October 20, 1997, and October 31, 1997. Commission Staff filed revisions to its testimony on November 2, 1997. PSE filed rebuttal testimony on November 3, 1997.

The Commission convened a public hearing in this matter on October 27, 1997, in Ellensburg, Washington, to take testimony from the public on PSE's application for a certificate to provide natural gas service and on its petition for waiver of the Commission's gas safety rules. The public generally supported PSE's proposal to provide natural gas service. There was no opposition expressed on PSE's requested waiver of the pipeline operating pressure.

Evidentiary hearings were scheduled for November 17-21, 1997. On November 13, 1997, PSE and the City jointly notified the Commission that they were conducting settlement discussions and requested that the evidentiary hearings be continued to permit adequate time to pursue those discussions. The parties periodically thereafter filed status reports with the Commission regarding the settlement discussions. The proposed Stipulation, jointly executed by PSE, Commission Staff, and the City was filed with the Commission on February 11, 1998.

On March 11, 1998, the Commission convened a hearing in Olympia, Washington, to receive a presentation by the parties on their proposed settlement. At the conclusion of the hearing, the Commission notified the parties that it would take the matter under advisement and issue a final order not later than March 25, 1998.

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Parties: PSE is represented by Jamie Van Nostrand, Perkins Coie; Commission Staff by Robert D. Cedarbaum, assistant attorney general; the City of Ellensburg by Terrence L. Mundorf, Marsh Mundorf Pratt & Sullivan.

Commission: The Commission accepts the Stipulation and requires PSE to re-file the tariff revisions incorporated in the Stipulation with an effective date of March 26, 1998. The Commission thanks the parties for their efforts to achieve a negotiated resolution of their dispute, but regrets that the delay in reaching their Stipulation has prevented potential customers in Kittitas County from obtaining natural gas service during the preceding winter heating season.

MEMORANDUM

I. PARTIES' TESTIMONY

A. PSE

In its testimony, PSE alleges various deficiencies with gas service in Kittitas County. It points to the fact that despite holding a certificate of public convenience and necessity to operate natural gas plant in Kittitas County for 30 years, only three percent of the geographic area covered by the certificate currently has access to natural gas service. PSE asserts that line extension and pricing policies discriminate against customers outside the City's corporate limits. PSE maintains it could economically extend service to a large portion of Kittitas County, providing service under the Company's existing supply and transportation agreements and serving customers under existing tariffs.

PSE asserts also that the project is economic and would meet appropriate rates of return, ensuring that existing customers would not be penalized. PSE bases its economic feasibility analysis on a 2.2 percent growth rate, and usage factors 20 percent higher than those assumed in its existing tariffs based upon the average temperature differential in Kittitas County. In addition, PSE assumes a 4-year build-out.

PSE proposes to take delivery of gas at a gate station west of Kittitas, and to install a high-pressure system along the valley corridor, with several intermediate reduced pressure systems to serve the local communities and other customers along the pipeline route. The high-pressure system would consist of 28 miles of large diameter high-pressure main and 10 miles of smaller diameter high-pressure main. Because the Northwest Pipeline Corporation's Wenatchee Lateral is unable to provide additional gas delivery during times of peak usage, the large diameter distribution main would operate at 500 psig, and could therefore serve as a local storage system. Gas packed into the line would provide significant volume for firm customers' requirements. The intermediate distribution system would be constructed of polyethylene natural gas pipe operating at a maximum pressure of 60 psig.

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PSE proposes a three-phase customer education program: 1) the public would have an opportunity to provide input on any part of the project that encroaches on environmentally sensitive areas; 2) before beginning construction, PSE would send out an informational letter to residents and business owners impacted by construction; and 3) PSE would conduct ongoing safety and awareness education through existing safety programs.

B. City of Ellensburg

The City agrees to relinquish part of its certificated area, but wants to retain areas adjacent to the City. The City challenges PSE's claim that all customers in the proposed area are needed to ensure economic viability.

C. Commission Staff

Commission Staff testifies that the Commission should grant PSE's application, subject to six conditions on operation of the pipeline at higher-than-normal pressure. The six conditions would require PSE to: 1) file design and construction standards with the Commission before beginning work; 2) file bi-weekly progress reports; 3) conduct random testing of 25% of field welds; 4) test 100% of the welds in areas that may be inaccessible after construction (e.g., beneath rivers or interstate highways) and within 100 feet of residential buildings; 5) require annual leak surveys; and 6) install pipeline marker signs to minimize the risk of inadvertent third-party damage.

II. PARTIES' STIPULATION

On February 11, 1998, PSE, Commission Staff, and the City of Ellensburg jointly submitted a Stipulation for the Commission's consideration in this proceeding. The Stipulation was considered by the Commission at an open meeting on March 11, 1998. The Stipulation specifies that Ellensburg's certificated area would be modified to roughly half its currently certificated area, as identified on the map attached as Exhibit A to the Stipulation. The Stipulation requests Commission approval of a certificate of public convenience and necessity authorizing PSE to serve customers in the area designated on the map attached as Exhibit A. The Stipulation also requests approval of revisions to PSE's Rule No. 7, *Extension of Distribution Facilities*, of its current Tariff WN U-2, to allow for consideration of operating characteristics unique to PSE's proposed natural gas service in Kittitas County. The following sections describe the components of the Stipulation:

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PSE Limited Use Areas: Parcels of property adjacent to PSE's proposed pipeline but within the City's modified area are designated as "PSE Limited Use Areas". PSE may provide service to customers within these areas once the pipeline is installed if the City is unable to serve customers at that time PSE offers service. However, if the City subsequently expands its own system and asserts its right to serve such customers, PSE agrees to relinquish service to the City. If the City assumes service within 5 years of PSE's commencement of service, it must compensate PSE for the revenue PSE otherwise would have collected had the customer taken service for the full 5 years.

Rate Issues: The parties propose several modifications to PSE's Rule No. 7, *Extensions of Distribution Facilities*, to accommodate the characteristics of gas service in Kittitas County. Customers would be required to pay a qualification payment of \$200, as well as the New Customer Rate: an additional non-refundable rate of 17¢ per therm to contribute to the cost of extending the natural gas distribution system. Some customers would also pay the incremental cost of connection to the distribution system. The New Customer Rate would be collected for at least seven years, as opposed to the five year period specified in the current tariff language. PSE refers to the aggregation of geographic areas in Kittitas County which will be constructed at the same time as a "Phase". For each Phase, PSE has identified target saturation levels needed to ensure economic viability of the project. In the event the initial customers in any Phase are below the minimum threshold target, the new customer rate may be extended beyond 7 years.

The Stipulation alleges that Commission Staff has reviewed the tariff revisions and the supporting economic analysis, and that Staff believes that the resultant rates are fair, just, reasonable, and sufficient.

Pressure Waiver Request: As part of its original proposal, PSE requested a waiver of WAC 480-93-030 to operate a natural gas pipeline at 500 psig which is above the 250 psig criteria set by the Commission's rule. The parties agreed to the waiver with the following revised conditions. PSE must: 1) file comprehensive design and construction plans with the Commission 30 days prior to construction; 2) test 25% of all field welds and 100% of welds that cross beneath rivers or interstate highways, and welds within 100 feet of buildings; 3) backfill the pipeline trench with at least 6 inches of appropriate rock-free material above and below the pipe; 4) conduct quarterly patrols over the pipeline and leak detection surveys every three years; and 5) install adequate pipeline marker signs to identify the location of the pipeline.

As required by the Commission, PSE sent notifications of the proposed project to affected persons within proscribed areas that are within 100 feet of the pipeline.

Subsequent to the filing of the Stipulation, PSE requested an amendment to its original pressure authorization. The Company originally planned to use 18 inch pipe in the high pressure distribution system. PSE currently plans to use 16 inch pipe. PSE asserts in its request that safety considerations will still be met, while reducing the cost of both construction and maintenance. The request involves only a design change, and does not affect the pressure authorization waiver, the supporting economic analysis, or the Stipulation.

III. COMMISSION DISCUSSION AND DECISION

Following submittal of the proposed Stipulation, the Commission issued a bench request to the parties to address several issues regarding the proposal and the facilities extension tariff revisions. The Commission's primary concern is that new customers in Kittitas County fully understand the risks they bear prior to entering into any agreement to take natural gas service from PSE. In particular, the Commission is concerned with the open-ended duration of the new customer rate. In addition, the Commission is concerned with the potential for facilities abandonment in the event any phase of the project is terminated because assumptions regarding economic viability are not realized.

Based on PSE's response to the Commission's bench request and PSE's pledge to work with Commission Staff on customer education and notification materials communicated at the March 11 hearing on the Stipulation and proposed tariff revisions, PSE will not enter into written agreement with any potential customers in Kittitas County until the Commission has reviewed and approved the final Natural Gas Customer Agreement for Kittitas County. Further, based upon PSE's commitment at the March 11 hearing, the new customer rate for any Kittitas County customers will not change once the customer begins taking natural gas service from PSE.

PSE confirmed in its response to the Commission's bench request that prudence of the investment required for this proposed project is subject to review in a future general rate increase case proceeding. The Commission thus confirms that PSE's shareholders are at risk for expenditures of investment in plant and facilities which are abandoned in the event any portion of the proposed project is terminated for any reason.

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The Commission has reviewed the testimony of the parties filed in this proceeding and the parties' proposed Stipulation, as well as the parties' responses to the Commission's bench requests. Based upon our reading of the testimony filed in this matter, we believe the proposed Stipulation is not inconsistent with the public interest and should be accepted, with the clarifications and commitments fully described above.

FINDINGS OF FACT

Having above discussed and referenced in detail both the oral and documentary evidence concerning all material matters, and having stated findings and conclusions, the Commission now makes the following summary of those facts. Those portions of the preceding detailed findings pertaining to the ultimate findings are incorporated by this reference.

1. The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, and transfers of public service companies, including natural gas companies.
2. Puget Sound Energy, Inc., is engaged in the business of furnishing natural gas service to the public within the State of Washington.
3. On July 11, 1997, Puget Sound Energy, Inc. (PSE), filed with the Commission an application for a certificate of public convenience and necessity to furnish natural gas service in portions of Kittitas County, including unserved regions within the geographic area currently certificated to the City of Ellensburg (City).
4. On February 11, 1998, PSE, Commission Staff, and the City jointly submitted a Stipulation purporting to resolve all issues in this proceeding.
5. The Stipulation, attached to this Order and incorporated by this reference, provides in relevant part:

The City's current certificated area would be modified and reduced to roughly half the current geographic area, as identified on the map attached as Appendix A to the Stipulation; PSE would be granted a certificated area, as identified on the map attached as Appendix A.

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PSE would be authorized to serve customers within the City's certificated service area, delineated as "PSE Limited Use Area"; if the City extends its natural gas distribution system and elects to serve a customer in this area then served by PSE within five years of PSE's commencement of service, the City would compensate PSE for revenue PSE otherwise would have collected.

PSE's Rule No. 7, Tariff WN U-2, would be modified to reflect the circumstances of service to Kittitas County. Customers would be required to pay a qualification payment of \$200, as well as the New Customer Rate: an additional non-refundable rate of 17¢ per therm, for at least seven years; in the event the initial number of customers in any phase of the project is below the minimum threshold target, the New Customer Rate may be extended beyond seven years. Commission Staff supports the proposed tariff revisions as fair, just, reasonable, and sufficient, and in the public interest.

PSE requested waiver of WAC 480-93-030 to operate a natural gas pipeline at 500 psig within 100 feet of buildings intended for human occupancy. The parties support the waiver request upon the following conditions: PSE will 1) file comprehensive design and construction plans with the Commission 30 days prior to construction; 2) test 25% of all field welds and 100% of welds that cross beneath rivers or interstate highways, and welds within 100 feet of buildings; 3) backfill the pipeline trench with at least 6 inches of appropriate rock-free material above and below the pipe; 4) conduct quarterly patrols over the pipeline and leak detection surveys every three years; and 5) install adequate pipeline marker signs to identify the location of the pipeline.

6. On February 17, 1998, PSE requested an amendment to its petition for waiver of WAC 480-93-030 reflecting a design change in pipe size.

7. PSE agreed to work with the Commission to develop customer education and notification materials for use in marketing its natural gas service to potential customers in Kittitas County.

8. The prudence of any PSE investment required for natural gas service in Kittitas County is subject to review and approval by the Commission in a general rate increase filing.

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9. The proposed tariff revisions to PSE's Rule No. 7, *Extension of Distribution Facilities*, should be re-filed and bear an effective date of March 26, 1998.

CONCLUSIONS OF LAW

1. The Washington Utilities and Transportation Commission has jurisdiction over the subject matter and all parties to this proceeding.

2. The testimony and exhibits and responses to Commission bench requests, delineated in the March 12, 1998 Commission Staff letter to the Commission, should be admitted into the record in this proceeding.

3. The Stipulation of the parties should be accepted.

4. The petition to waive the requirements of WAC 480-93-030 should be granted, as amended.

5. The New Customer Rate for any customer subject to the revisions to PSE's Tariff WN U-2 should not change after customers begin taking service pursuant to that tariff.

6. PSE is at risk for investment in plant and facilities which are abandoned in the event any portion of the proposed Kittitas County project is terminated for any reason.

7. The proposed revisions to PSE's Tariff WN U-2 should be re-filed and bear an effective date of March 26, 1998.

ORDER

THE COMMISSION ORDERS:

1. The Stipulation filed by the parties to this proceeding is accepted.

2. The petition to waive the requirements of WAC 480-93-030 is granted, as amended.

3. The tariff filed with the Stipulation is to be re-filed and bear an effective date of March 26, 1998.

4. PSE must obtain prior Commission approval of its Natural Gas Customer Agreement for Kittitas County before executing such agreement with potential customers.

5. The New Customer Rate proposed in the tariff filed with the Stipulation is not subject to change once the customer has begun taking service pursuant to that tariff.

6. PSE bears the financial risk for investment in this project until the prudence of such expenditures has been reviewed and approved by the Commission in a general rate increase case.

7. The testimony and exhibits and responses to Commission bench requests delineated in Commission Staff's March 12, 1998 letter to the Commission are admitted into the record in this proceeding.

8. The Commission retains jurisdiction over this matter and the parties to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this 18th day of March 1998.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



ANNE LEVINSON, Chair



RICHARD HEMSTAD, Commissioner



WILLIAM B. GILLIS, Commissioner

NOTICE TO PARTIES:

This is a final Order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within ten days of the service of this Order pursuant to RCW 34.05.470 and WAC 480-09-810, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-09-820(1).