

Agenda Date: August 29, 2001  
Item Number: **2B and 2C**

**Docket:** **UG-011050 and UG-011051**  
Company: Puget Sound Energy (Gas)

Staff: James Russell, Regulatory Consultant  
Joanna Huang, Revenue Requirements Specialist  
Yohannes Mariam, Rate Research Specialist

**Recommendation:**

Allow the revised filing in Docket UG-011050 to become effective September 1, 2001. Enter an order to allow the revised filing in Docket UG-011051 to become effective September 1, 2001, with conditions.

**Background:**

On July 23, 2001, Puget Sound Energy (PSE) filed its Purchased Gas Adjustment (PGA) and Deferred Gas Cost Amortization tariffs with an effective date of September 1, 2001, in Dockets UG-011050 and UG-011051, respectively. On August 23, 2001, PSE filed substitute filings in these Dockets to address certain issues as discussed below. The original filings would have resulted in a net reduction in annual revenues of approximately \$63.5 million (8.3%). The substitute filings will result in a net reduction of approximately \$84.2 million (11.1%).

PSE serves approximately 581,000 gas customers in parts of Washington including King, Snohomish, Pierce, Thurston, Lewis, and Kittitas Counties. Service is provided using resources from two interstate pipelines, two underground storage fields, as well as gas supplies from Canada, the Rockies, and the Southwest.

PSE originally proposed a seasonal PGA commodity rate (lower in summer, higher in winter) and a two-step, nine month, deferred gas cost amortization. Attachment 1 is a graphical representation of PSE's original rate proposal for residential gas service. In discussions with PSE, Staff indicated that seasonal differentiated rates involve cost of service and rate-design issues that go far beyond the scope of a PGA filing. Staff believes that cost of service and rate-design issues should be addressed in a general rate case proceeding, not in a PGA filing. With regard to the original deferred gas cost amortization filing, PSE had not included the months of July and August in the deferral balances that begin amortization September 1, 2001.

On August 23, 2001, PSE made substitute filings in both Dockets to eliminate the seasonally differentiated rates in the PGA and to reduce the amount in the deferred gas cost filing by including the deferrals for the months of July and August 2001. These substitute filings result in a further reduction in annual revenues from the original filings by approximately \$20.7 million. Attachment 2 is a graphical representation of PSE's revised rate proposal for residential gas service.

Purchased Gas Adjustment (PGA):

The PGA in Docket UG-011050 is to reflect changes in the expected cost of gas for the coming year. Given the recent decline in wholesale natural gas prices, PSE is reducing its average commodity cost of gas embedded in its sales rates from \$.49564 per therm to \$.31956 per therm. The PGA will result in a reduction in annual revenues of approximately \$166.2 million.

Deferred Gas Cost Amortization:

The deferred gas cost amortization in Docket UG-011051 is to amortize balances in deferred gas cost accounts resulting from the true-up of actual gas costs versus the gas costs reflected in customers' rates during the period from November 1999 through August 2001. The deferred gas costs balances are proposed to be amortized (surcharged) over 9 months, beginning September 1, 2001, and will result in an annual increase in revenues of approximately \$82 million.

There are a couple of issues with the proposed amortization filing that should be brought to the Commission's attention. First, the amortization filing includes prior deferred balances from the period November 1999 through December 2000 that are currently being amortized over a two year period. In the filing before you today, the amortization period of these prior balances is proposed to be shortened from 24 months to 17 months (9 months remaining). The new deferred amounts (those since December 2000) are also proposed to be amortized over the next 9 months. Second, PSE deferred gas cost balances still reflect estimated gas costs for the periods of March 2001 through August 2001. PSE accounting reconciliation process is behind schedule and has not been completed for those months. Therefore, the Staff audit of actual gas costs has not, and can not, be completed within the review period of this filing. Staff is confident that the estimates are fairly close to what the actuals will reflect after the reconciliation process is complete, so we are recommending allowing the deferred gas cost amortization filing at this time. However, Staff recommends that the Commission allow the filing to become effective with the condition that the prior periods covered by this filing continue to remain subject to ultimate correction or adjustment as necessary pending the completion of the Commission Staff's audit.

Summary:

The impact of the deferral amortization filing and the PGA filing on a monthly natural gas bill for residential customers with an average consumption of 75 therms will be a net decrease of about \$6.70 (a decrease of 9.7%). The combined effects of the PGA and deferral amortization filings will result in the following average per unit and overall revenue decrease for the following sales schedules:

	<u>Average Per Therm Change</u>	<u>Annual Rev. Change</u>	<u>Percent Change</u>
Residential	\$(.09001)	\$(44,500,000)	( 9.7 %)
Comm. & Ind.	(.10079)	(26,100,000)	(12.0 %)
Interruptible	(.10773)	<u>(13,600,000)</u>	<u>(16.4 %)</u>
Total		\$(84,200,000)	(11.1%)

Conclusion:

Allow the revised filing in Docket UG-011050 to become effective September 1, 2001. Enter an order to allow the revised filing in Docket UG-011051 to become effective September 1, 2001, with conditions.

Attachment 1 – Original residential gas rate plan.  
Attachment 2 – Revised residential gas rate plan.