

Agenda Date: September 24, 2009
Item Numbers: A3 and A4

Dockets: UG-091372 and UG-091380
Company Name: Puget Sound Energy, Inc.

Staff: Michael Foisy, Regulatory Analyst
Roland C. Martin, Regulatory Analyst

Recommendation

Take no action, allowing the tariff filings made by Puget Sound Energy in Dockets UG-091372 and UG-091380 to become effective on October 1, 2009, by operation of law.

Background

On August 31, 2009, Puget Sound Energy, Inc. (PSE or Company) filed revisions to its Purchased Gas Adjustment (PGA) and deferred gas cost amortization tariffs in Dockets UG-091372 and UG-091380, respectively. The combined net effect of the proposed filings is a decrease in annual gas sales revenues of approximately \$198.1 million (17.1 percent).

The PGA and deferred gas cost amortization mechanisms are designed to pass through to customers the utility's actual cost of natural gas on a periodic basis. The PGA establishes for the upcoming year a projection of 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, as a surcharge or refund.

PSE, a combined electric and natural gas utility, serves approximately 750,000 gas customers in parts of Snohomish, King, Pierce, Thurston, Lewis, and Kittitas counties in Washington.

Schedule No. 101, Purchased Gas Adjustment (PGA, Docket UG-091372)

Docket UG-091372 is PSE's PGA filing to adjust rates that recover expected gas costs from sales customers. PSE filed tariff sheets to reflect a total average cost of gas of \$0.71360 per therm (\$0.60641 commodity + \$0.10719 demand) resulting in an overall decrease in annual gas sales revenues of approximately \$148.5 million, 12.8 percent, related to prospective natural gas purchases for the period October 2009 through September 2010. The proposed PGA rates reflect an 18 percent decrease in gas costs due to decreases in forward market prices. Currently embedded in PSE's natural gas retail rates is a total average cost of gas of \$0.87080 per therm (\$0.76254 commodity + \$0.10826 demand).

PSE estimated the annual gas supply costs using a model that creates a least cost supply portfolio of fixed and variable priced contracted supplies, gas storage operations, and transportation costs.

Variable priced (market based) contracts were priced in the model using an average of forward market prices for the basins from which PSE acquires gas, during the 3-month period (April 21 through July 20, 2009) immediately preceding the filing preparation.

Schedule No. 106, Gas Cost Deferral Amortization (Docket UG-091380)

Docket UG-091380 is PSE's deferred gas cost amortization filing to adjust rates that true up prior over or under recoveries of revenue to cover actual purchased gas expenses ("Tracker Filing"). Currently, PSE projects a net over collection balance at the end of September 2009 of approximately \$71.4 million, including \$18.9 million currently being amortized in rates effective June 1, 2009. The over-collection is a net result of over-recovery caused by lower actual gas market prices than the forward prices used in last year's PGA and under-collection of demand related costs together with costs in the amortization account. The Company is proposing to amortize in rates the entire projected balance of over-recovered commodity costs and a portion of under-collected demand related costs to reflect the cyclical nature of demand gas costs recoveries relative to incurrence.

The net effect of the Tracker Filing is a \$63.2 million credit to customers through Schedule 106 rates over the upcoming PGA period from October 2009 through September 2010. This is in addition to the \$18.9 million refund implemented in June 2009

Revenue and Residential Bill Impacts

The combined effect of the two filings is to decrease overall revenues from gas sales customers by \$198.1 million or -17.1 per cent. The following table shows the revenue impacts of the filings by customer class:

In Millions of \$	PGA Impact	Tracker Impact	Total Impact
Residential			
Schedule 23	-\$91.8 (-12.1%)	-\$30.5 (-4.0%)	-\$122.3 (-16.1%)
Schedule 16	\$0 (-10.1%)	-\$0 (-3.4%)	\$0 (-13.5%)
Comm. & Ind.			
Schedule 31, 36, 51	-\$33.1 (-13.0%)	-\$11.0 (-4.3%)	-\$44.1 (-17.4%)
Schedule 41	-\$13.2 (-15.4%)	-\$4.5 (-5.3%)	-\$17.6 (-20.6%)
Interruptible			
Schedule 85	-\$2.8 (-17.7%)	-\$1.0 (-6.0%)	-\$3.8 (-23.7%)
Schedule 86	-\$2.6 (-15.8%)	-\$0.9 (-5.3%)	-\$3.4 (-21.1%)
Schedule 87	-\$5.1 (-18.8%)	-\$1.7 (-6.3%)	-\$6.9 (-25.1%)
TOTAL	-\$148.5 (-12.8%)	-\$49.6 (-4.3%)	-\$198.1 (-17.1%)

The impact of the PGA and tracker filings on a monthly bill for a residential customer with monthly average consumption of 68 therms will be a decrease of \$14.88 or -16.0 percent, for a revised monthly bill of \$78.30.

Conclusion

Staff's review of PSE's PGA and deferred gas cost amortization filings show them to be reasonable. Therefore, Staff recommends the Commission take no action allowing the tariff filings in Dockets UG-091372 and UG-091380 to take effect October 1, 2009, by operation of law.