

Docket Nos. UE-110400, 110399 & 110401
Puget Sound Energy's Electric Energy Efficiency Program,
Large Power User Self-Directed Program, Schedule 258

Comments of the NW Energy Coalition
Submitted April 25, 2011

Introduction

The NW Energy Coalition supports Puget Sound Energy's electric and gas conservation tariff filings in Docket Nos. UE-110399 and UG-110401. PSE consulted extensively with its Conservation Resources Advisory Group (CRAG), including the Coalition, on key aspects of those filings.

Our comments focus on the modifications that PSE proposes to Schedule 258, the company's industrial self-direction program, within Docket No. UE-110400. PSE proposes three primary changes to the way Schedule 258 currently operates:

- Use the peak credit method to assign costs of electric conservation programs to non-Schedule 449 customers of Schedule 258;
- Ensure that non-449 Schedule 258 customers pay their share of administration costs and costs related to PSE's investment in the Northwest Energy Efficiency Alliance (NEEA); and
- Deduct an additional \$1 million from the grant amounts available to non-449 Schedule 258 customers for the 2011 program year to pay for NEEA and administrative costs.

In addition, PSE commits to work with the CRAG to develop potential recommendations for additional modifications to Schedule 258, and proposes a reasonable timeline for those discussions. If the CRAG cannot reach consensus, any member can provide recommendations to the Commission following PSE's next conservation program filing in November 2011.¹

The Coalition supports the changes to Schedule 258 that PSE proposes in its filing. PSE staff worked hard to develop proposals that could be supported by all CRAG members. As we discuss in more detail later in these comments, we are interested in having additional conversations with the CRAG – and, potentially, with the Commission – regarding the relative merits of Schedule 258 and whether the complexities of this program outweigh its benefits, particularly for non-449 customers. Future modification or elimination of this program may be warranted.

Background

Before we review the changes that PSE proposes, we offer some historical context for the company's filing by describing the industrial self-direction program and how it developed.

¹ Docket No. UE-110400, substitute cover letter filed by PSE on March 29, 2011.

The industrial self-direction program began in 1999

In brief: The program enables large users of electricity to make their own facilities more energy efficient by investing up to the amount of conservation dollars they would otherwise pay for utility programs, minus some set-asides. Any funds not used by an individual customer within an allotted time period are then added to a central pot, and all eligible self-direction customers can request those funds to pay for cost-effective conservation in their facilities.

The Commission approved Schedule 258 as a pilot program beginning March 1, 1999 and continuing through March 31, 2002, and available for high voltage and optional large power sales customers.² The original tariff stated: “Project funding will be up to the amount of conservation revenues collected from the Customer under Schedule 120 of this Tariff over the period for which this Schedule is in effect, minus the Company’s cost to administer its Electricity Conservation Programs.”³

Revisions to the program in 2002

PSE revised its Schedule 258 tariff effective September 1, 2002.⁴ That revision, extending the program through the end of 2005, took place following the Commission’s order that approved the settlement agreement in PSE’s general rate case, UE-011570/UG-011571. Exhibit F to that agreement contained the following provisions related to the program:

Schedule 449 customers are eligible for self-direction under existing Schedule 258 and participation in efficiency programs offered by PSE, except as stated in paragraph 27. Schedule 258 customers who are not on Schedule 449 will be eligible to participate in other programs offered directly by PSE. *Non-449 Schedule 258 customers will share in paying NEEA/market transformation and administration costs consistent with all other non-449 customers.*⁵

Each Schedule 449 customer can self-direct and/or participate in programs offered directly by PSE up to a total dollar cap equal to the annual efficiency funding level for that 449 customer minus 17.5% of that amount. The 17.5% represents payments for market transformation (10%) and for administration (7.5%).⁶

*The Company shall continue to use the peak credit method of assigning the costs of its electric conservation programs to each rate schedule with one exception. The Schedule 449 customers will pay 0.045 cents per kWh toward the cost of the conservation program.*⁷
...

² Docket No. 990247 (Advice No. 99005).

³ PSE Electric Tariff G, Schedule 258, Original Sheet No. 258, WN U-60.

⁴ The tariff had been revised once before, effective April 1, 2002 and extending the program through December 2002.

⁵ Docket Nos. UE-011570/UG-011571, Exhibit F to settlement agreement, at 28. (*emph. added*)

⁶ Id., at 29.

⁷ Id., at 36. (*emph. added*)

These provisions indicate that all Schedule 258 customers would share in paying for administration and market transformation costs. Further, PSE would continue to use the peak credit method for allocating conservation program costs to all non-449 Schedule 258 customers.

Consistent with Exhibit F to the settlement agreement, the tariff as revised in September 2002 stated: “Project funding will be up to the amount of conservation revenues collected from the Customer under Schedule 120 of this Tariff over the period for which this Schedule is in effect, minus 7.5% for the Company’s cost to administer this Conservation Program and 10% for support of the market transformation activities.”

Further revisions to Schedule 258

Schedule 258 was revised once again, effective January 1, 2006, to extend the program through the end of 2009. Yet another revision, effective January 1, 2008, eliminated the tariff language previously in effect that required non-449 Schedule 258 customers to contribute to administration and market transformation costs:

Project funding will be up to the amount of conservation revenues collected from the Customer under Schedule 120 of this Tariff over the period for which this Schedule is in effect. Customers receiving electric service from the Company under Schedules 448, 449, 458 or 459 shall have incentives reduced 7.5% for the Company’s cost to administer this Energy Efficiency Program and also reduced 10% for support of Market Transformation activities.⁸

The 2008 revision did not include an end date for the self-direction program; rather, there was to be a “mutually determined timeframe” for completion of projects.

More recently, PSE revised Schedule 258 effective January 1, 2010, with the same verbiage regarding project funding and timeframe. While no longer explicit in the tariff, Schedule 258 customers are on a total four-year timeframe for the current set of self-direction projects, and an end date of December 31, 2013 is specified in PSE’s conservation grant agreements.

PSE did not seek to amend Exhibit F to the UE-011570/UG-011571 settlement agreement concurrently with any of its revisions to Schedule 258. The provisions in the agreement pertaining to cost payment and cost allocation remained in effect through 2010.

Non-449 Schedule 258 customers did not contribute to administration or market transformation costs from 2002 through 2010

Despite the explicit requirements in the 2002 Settlement Agreement, as well as the tariff language in effect from 2002 through 2007, the CRAG was informed that non-449 Schedule 258 customers did not contribute to administration or market transformation/NEEA costs associated with PSE’s conservation programs from 2002 through 2010. In contrast, Schedule 449 customers did contribute to these costs during this time period.

⁸ PSE Electric Tariff G, Schedule 258, Fourth Revision of Sheet No. 258-a Canceling Third Revision of Sheet No. 258-a, WN U-60, at 4.

PSE did not use the peak credit method to allocate conservation costs to non-449 Schedule 258 customers from 2004 through 2010

According to a series of workpapers provided to the CRAG supporting PSE’s annual Schedule 120 filings, PSE did not use the peak credit method⁹ to allocate conservation costs to non-449 Schedule 258 customers from 2004 through 2010. Instead of adjusting the rates annually for Schedules 46 and 49, PSE held those rates constant from 2004-2009, and held Schedule 40 rates constant from its inception in 2005 through 2009. The following table shows these rates:

Sched.	Sch. 120 Base Conservation Rate (cents/kWh) by Effective Date								
	9/26/02 for 2002	9/26/02 for 2003	4/1/04	4/1/05	4/1/06	4/1/07	4/1/08	4/1/09	4/1/10
40	NA	NA	NA	0.1018¢	0.1018¢	0.1018¢	0.1018¢	0.1018¢	0.1527¢
46	0.0087¢	0.1244¢	0.1050¢	0.1050¢	0.1050¢	0.1050¢	0.1050¢	0.1050¢	0.1575¢
49	0.0087¢	0.1243¢	0.1050¢	0.1050¢	0.1050¢	0.1050¢	0.1050¢	0.1050¢	0.1575¢

Yet, notably, PSE’s conservation budget has increased each year since 2002.

If the peak credit method had been correctly applied from 2004 through 2010, we hypothesize:

- Customers not on Schedule 258 would have paid less in total for conservation costs (because non-449 Schedule 258 customers would have paid more), or
- PSE would have increased its annual conservation budget to cover its planned program costs. This would have resulted in a greater allocation of dollars to the non-449 Schedule 258 customers to spend on conservation in their facilities.

Discussions regarding the conservation “conditions list” associated with Initiative 937 compliance led to questions regarding cost allocation and the self-direction program

During the summer of 2010 process to develop PSE’s “Conditions List” for implementation of the energy efficiency standard within Initiative 937,¹⁰ the Coalition and other CRAG members raised questions about how PSE allocated conservation costs among its customer classes. These discussions led to the development of related provisions in the UE-100177 settlement agreement – provisions that were based conceptually on continuation of the 2002 settlement agreement from Dockets Nos. UE-011570 and UG-011571. In addition, the 2010 agreement contained a provision that stated: “Prior to PSE’s electric Schedule 120 filing in 2011, the CRAG will review the cost allocation methodology included in the 2002 Settlement Agreement and in Docket No. UE-970686.”¹¹ The final Conditions List reads:

Schedule 449 customers are eligible for self-direction under existing Schedule 258 and participation in efficiency programs offered by PSE, except as stated in paragraph 13. Schedule 258 customers who are not on Schedule 449 will be eligible to participate in

⁹ The peak credit method classifies costs as demand-related or energy-related based on the ratio between the costs of meeting peak demand and the total cost of a baseload facility.

¹⁰ RCW 19.285.040(1); Docket No. UE-100177.

¹¹ Docket No. UE-100177, Settlement Agreement at 11c.

other programs offered directly by PSE. *Non-449 Schedule 258 customers will share in paying NEEA/market transformation and administration costs consistent with all other non-449 customers.*¹²

Each Schedule 449 customer can self-direct and/or participate in programs offered directly by PSE up to a total dollar cap equal to the annual efficiency funding level for that 449 customer minus 17.5% of that amount. The 17.5% represents payments for market transformation (10%) and for administration (7.5%).¹³

The Company *shall continue to use the peak credit method* of assigning the costs of its electric conservation programs to each rate schedule with one exception, the Schedule 449 customers. (The CRAG will review cost allocation methodology per Section K, Paragraph (11)(c)). Schedule 449 customers currently pay 0.0944 cents per kWh toward the cost of the current Schedule 258 four-year conservation program (4/1/10 – 4/1/14). The current practice is to hold the payment amount constant over the Schedule 258 period. ...¹⁴

Following the Commission’s approval of the Conditions List provisions, the Coalition and other CRAG members began an in-depth examination of PSE’s use of the peak credit method for allocating conservation costs. That examination focused on customer classes that participated in Schedule 258, and led to a realization that certain of PSE’s practices for implementing Schedule 258 were out of compliance with the 2002 and 2010 settlement agreements (UE-011570/UG-011571 and UE-100177).

Discussion

As mentioned previously, the Coalition supports PSE’s current proposed changes to Schedule 258. On a going-forward basis, for non-449 Schedule 258 customers, using the peak credit methodology to allocate conservation costs and ensuring payment of NEEA and administrative costs will meet the requirements in the I-937 Conditions List. In addition, setting aside an additional \$1 million from non-449 Schedule 258 customers in 2011 for administrative and NEEA costs will help offset the lack of payment from those customers for these purposes over the past several years.

Given the Coalition’s support for PSE’s proposal, the Commission may ask why we have filed such extensive comments regarding Schedule 258. Our intent here is to provide the groundwork for potential future requests for modification to, or perhaps elimination of, this tariff.

The CRAG’s examination of Schedule 258 so far has highlighted the complex nature of this tariff, and raised questions concerning equity and effectiveness. Under the current practice:

- The four-year timeframe does not square with I-937’s focus on a biennial target.
- Rates are held constant over the four-year period to provide predictability for customers in determining available conservation dollars, but that practice is inconsistent with use of

¹² Id., at 12. (emph. added)

¹³ Id., at 13.

¹⁴ Id., at 16. (emph. added)

the peak credit method for non-449 customers. PSE proposes to change this practice to ensure consistency with the UE-100177 Conditions List, but that may lead to increased challenges for customers in managing their conservation dollars.

- Non-449 Schedule 258 customers participate in PSE conservation programs in addition to using their own self-direction funds,¹⁵ raising questions about fairness. On the one hand, we want to ensure that PSE's customers have the ability to pursue as much cost-effective conservation as possible, and don't want to artificially restrict that ability. At the same time, no other class of customers is guaranteed that they will receive a dollar for dollar (and then some) benefit for their contribution to the conservation program.
- Any unspent dollars at the end of the four-year period from Schedule 258 customers are returned to Schedule 258 customers, which raises the question as to whether this practice could discourage conservation investments.

It is important to remember that the self-direction program commenced in the era of electric utility restructuring, when electric utilities and their customers faced great uncertainty about the future. Investments in conservation were being slashed as utilities prepared to compete against one another in the market. And some utilities had focused on conservation in the residential sector, leaving large customers feeling less direct program benefits. Luckily, much has changed since the late 1990s, and the potential for cost-effective conservation in the residential, commercial and industrial sectors remains high.

The Coalition intends to explore potential additional changes to Schedule 258 within the context of the CRAG discussions referenced earlier. We are hopeful that the CRAG as a whole may be able to recommend modifications to this program to reduce its complexity, increase equity, and ensure PSE has no barriers to its pursuit of all cost-effective, achievable conservation under I-937.

¹⁵ For example, in response to an information request from Public Counsel, PSE provided the CRAG with data showing non-449 Schedule 258 customers received \$242,688 from PSE in 2010 for their participation in Schedule 258 self-direct programs, and \$2,716,606 for their participation in PSE conservation programs other than Schedule 258.