

Agenda Date: September 24, 2014
Item Number: A1

Docket: UE-141505
Company: Puget Sound Energy

Staff: Chris McGuire, Regulatory Analyst
Jeremy Twitchell, Regulatory Analyst

Recommendation

Discuss the filing requirements under RCW 80.28.075 and WAC 480-80-112(2) as they pertain to this banded rate schedule filing and direct Puget Sound Energy to (a) extend the effective date of Schedule 138 and (b) provide to the commission the information the commission determines here to be sufficient for a demonstration of compliance with RCW 80.28.075 and WAC 480-80-112(2). A decision on this matter should be delayed until commission staff and the commission have had sufficient time to evaluate the required documentation.

Background

On July 24, 2014, Puget Sound Energy (PSE or company) filed a new tariff schedule, Schedule 138, with the Washington Utilities and Transportation Commission (commission) that would create a voluntary program for large nonresidential customers to purchase renewable energy credits (RECs) from the company in large bulk volumes. The tariff would create a banded rate with a minimum charge of \$1 and a maximum charge of \$12 per REC, and a minimum annual purchase requirement of 10,000 RECs.

The proposed tariff would be in addition to PSE's existing Green Power Programs,¹ which allow customers to offset some or all of their electric usage with renewable resources by paying an additional, per-kilowatt-hour rate. The proposed Schedule 138 would be an additional option that would operate by contract between PSE and the customer, with the parties negotiating the number of RECs desired and the per-REC price. Per RCW 19.29A.090(2), PSE may provide qualified alternative energy resource options through either: (a) Resources it owns or contracts for; or (b) the purchase of credits issued by a clearinghouse or other system. PSE intends to provide the RECs from its own resources where able, but will purchase them from third parties if needed.

Discussion

RCW 19.29A.090 requires electric utilities to provide a voluntary program for customers to purchase energy from qualified renewable sources. As noted above, PSE has developed two programs to fulfill this requirement – one for residential customers and one for non-residential customers.

¹ Currently offered under Schedule 135 – Green Energy Option Purchase Rider, and Schedule 136 – Large Volume Green Energy Purchase Rider.

The company indicates that the proposed tariff would give customers with a preference for renewable energy an additional option that offers them more direct control over their REC purchases. PSE developed the proposed tariff at the request of customers, and has submitted a letter of support from Boeing with this filing. PSE states that the use of a banded rate will allow the company to readily adapt to changes in the market price for RECs and will also allow the parties to avoid publicly disclosing the contract price which, if publicly disclosed, could place both parties at a competitive disadvantage in the REC marketplace.

Commission staff (staff) is generally supportive of PSE's proposal and believes that the use of a banded rate is appropriate in this situation. Additionally, as there is currently little demand for PSE's excess RECs, this schedule would allow PSE to find a buyer for RECs that may otherwise expire, thereby returning additional revenues to all customers through the company's existing REC revenue tracker.

However, staff does not believe PSE submitted with this filing a complete demonstration of the need for a banded rate tariff as required by RCW 80.28.075 and WAC 480-80-112. Specifically, PSE did not demonstrate:

1. The service faces effective competition from non-regulated energy suppliers;² and
2. The minimum rate in the band will cover all of the utility's costs of providing the service and provide a contribution to fixed costs, through a verifiable cost-of-service study.³

Issue of First Impression. If the commission were to approve this tariff, it would be to staff's knowledge the first time that an electric utility in Washington would use a banded rate. Given the precedential nature of this decision, staff is requesting that the commission provide guidance on what constitutes a sufficient demonstration of compliance with WAC 480-80-112(2).

Effective Competition. Staff is particularly concerned with the requirement that the "service faces effective competition from non-regulated energy suppliers." In this filing, PSE simply asserts that "these customers have choices when it comes to buying RECs in the market." PSE provides no further evidence of effective competition. The commission does not have a rule, nor is there statutory guidance, regarding the classification of effective competition for natural gas or electric services.

RCW 80.36, however, does provide statutory consideration of effective competition within a regulated environment, but specifically for telecommunications companies. RCW 80.36.320(1) defines effective competition as the situation where "the company's customers have reasonably available alternatives and that the company does not have a significant captive customer base."

² RCW 80.28.075 and WAC 480-80-112(2).

³ WAC 480-80-112(2).

In that same subsection, the statute states that in determining whether a company is competitive, factors the commission shall consider but are not limited to include:

- a. The number and sizes of alternative providers of service;
- b. The extent to which services are available from alternative providers in the relevant market;
- c. The ability of alternative providers to make functionally equivalent or substitute services readily available at competitive rates, terms, and conditions; and
- d. Other indicators of market power which may include market share, growth in market share, ease of entry, and the affiliation of providers of services.

Staff seeks guidance on whether PSE's requirements for demonstrating effective competition under RCW 80.28.075 and WAC 480-80-112(2) entail the same or similar requirements as those under RCW 80.36.320(1).

Cost of Service. WAC 480-80-112(2)(b) requires that the "minimum rate in the band will cover all of the utility's costs from providing the service and provide a contribution to fixed costs, through a verifiable cost-of-service study." PSE provided a simplistic cost-of-service study that does not capture the full suite of costs associated with this schedule, and does not provide documentation to verify costs that it does capture. Staff is not convinced that the \$1.00 per REC minimum rate will cover all of PSE's costs to provide this service. Therefore, staff requests that the company work with staff to produce a comprehensive cost of service study in advance of the next open meeting at which this docket will be heard.

Conclusion

Due to the precedential nature of this banded rate tariff filing, staff seeks guidance from the commission regarding the demonstration of compliance with RCW 80.28.075 and WAC 480-80-112(2). Therefore, staff recommends discussing this issue at the September 24, 2014, Open Meeting and deferring a decision on this matter to a subsequent Open Meeting. PSE should extend the effective date of Schedule 138 to a date subsequent to the Open Meeting at which this issue will next be heard, as determined today by the commission.