

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.
and NW ENERGY COALITION

For an Order Authorizing PSE To Implement
Electric and Natural Gas Decoupling
Mechanisms and To Record Accounting
Entries Associated With the Mechanisms

DOCKET NOS. UE-121697
and UG-121704

**JOINT RESPONSE TO PETITION
FOR RECONSIDERATION FILED
BY THE KROGER COMPANY**

NOVEMBER 1, 2013

I. INTRODUCTION

1. Commission Staff, Puget Sound Energy, Inc. (“PSE”), NW Energy Coalition (“NWECC”), and The Kroger Co. (“Kroger”) (collectively referred to as the “Joint Parties”) present this filing to the Commission in response to the Commission’s Notice of Procedural Conference dated July 12, 2013, and the Commission’s Notice of Revised Deadline To File Answers to Petitions For Reconsideration, dated October 8, 2013 in Docket UG-121705 (the “Decoupling Docket”). The Joint Parties have engaged in meaningful dialogue and have reached agreement on an alternative approach for certain large, non-residential electric customers. In this Joint Response, the Joint Parties ask the Commission to adopt the proposed alternative decoupling mechanism for customers served under Schedules 26 and 31, as described in this filing. Adoption of this proposal as presented will satisfy the petition for reconsideration filed by Kroger. Kroger agrees to drop its request for reconsideration of the issue of ROE reduction, set forth in Section II.A of its petition for reconsideration, if the Commission approves the alternative to decoupling proposed herein.¹

II. BACKGROUND

2. On June 25, 2013, the Commission entered and served Order 07, its Final Order, in the above-captioned dockets, which approved decoupling mechanisms for PSE customers. Although the Commission determined in Order 07 to include non-residential electric customers on Schedules 26 and 31 in the decoupling mechanism, the Commission encouraged the parties to explore alternatives to decoupling for non-residential customers:

The Commission determines that we should not at this time exclude from the decoupling mechanisms non-residential customers other than electric lighting and retail wheeling

¹ In essence, this Joint Response is a multiparty settlement of the issues raised by Kroger in its petition for reconsideration. See WAC 480-07-730(3).

customers, and gas lighting, gas water heater rentals and special contracts. However, we strongly encourage customers such as Kroger and Nucor Steel, and trade organizations such as ICNU and NWIGU, to engage in meaningful dialogue with PSE, Staff and others who take an interest, and with the Commission, to monitor carefully how decoupling is working out in practice. It may be that there are alternatives for some, or all, non-residential customers that are better suited to meeting decoupling's goals than are the current decoupling mechanisms. The Commission remains open to hearing fully supported alternative proposals for fixed cost recovery from the non-residential class of customers, or subsets of the class.²

3. On July 5, 2013, Kroger filed a petition for reconsideration of Order 07. Kroger requested the Commission to reconsider its decision because, according to Kroger:

“including larger non-residential electric customers in the decoupling mechanism at this time will provide PSE with little incentive to engage its customers on the subject of developing rate design solutions that can address the Company’s fixed cost recovery concerns as an alternative to revenue decoupling.”³ Kroger also asked the Commission to reconsider its decision not to reduce PSE’s return on equity.

4. The Commission issued a Notice of Procedural Conference on July 12, 2013. In that notice the Commission stated the following:

The pending petitions for reconsideration open the possibility that this “meaningful dialogue” might occur sooner, rather than later, possibly leading to an alternative approach, or alternative approaches, for some, or all, non-residential customers that are better suited to meeting decoupling’s goals than are the current decoupling mechanisms. The Commission wishes to discuss with the parties on the record whether it should, and how it might best procedurally, facilitate such efforts. The Commission will convene a procedural conference for this purpose.

5. The Commission convened the Procedural Conference on July 15, 2013. Based on discussions at the Procedural Conference, the Commission established a schedule to provide an opportunity for the parties to conduct collaborative sessions to explore alternative

² Order 07, ¶129.

³ Kroger Petition For Reconsideration at 1.

approaches to achieving the underlying goals and purposes of decoupling for the non-residential class of customers.⁴

6. The parties met in person and telephonically to discuss alternative approaches to achieving the underlying goals and purposes of decoupling for the non-residential class of customers on August 5, August 19, September 30, October 7, October 14, and October 17.⁵ In addition to these scheduled meetings, the parties corresponded informally by email, telephone calls, and face-to-face meetings to further discuss alternative approaches.
7. As a result of these collaborations, the Joint Parties reached agreement on an alternative approach to achieving the underlying goals and purposes of decoupling for Schedules 26 and 31. The agreed-upon proposal is presented to the Commission in this filing. The parties also discussed possible alternatives to decoupling for Schedule 40, but no agreement on Schedule 40 was reached in this forum. Schedule 40 will be discussed in upcoming collaboratives.⁶
8. Kroger agrees to drop its request for reconsideration with respect to the ROE reduction issue if the Commission approves the proposal presented herein. No further action by the Commission is required in response to the Petition For Reconsideration filed by Kroger if the Commission approves this proposal. The Joint Parties request that the Commission approve this proposal.

⁴ Notice of Opportunity to File Answer and Establishing Process Pending Reconsideration at 3 (July 19, 2013). On August 29, 2013, the Commission extended the time to file answers to the pending petitions for reconsideration to October 14, 2013. On October 8, the Commission again extended the time to file answers to November 1, 2013.

⁵ In addition to the Joint Parties identified herein, the following parties also participated in some or all of these meetings: Public Counsel, Industrial Customers of Northwest Utilities ("ICNU"), Northwest Industrial Gas Users, Nucor Steel Seattle, Inc. and The Energy Project.

⁶ See Docket UE-111048, Electric Settlement Agreement, ¶15; Docket UE-130617, Order 6 ¶19.

III. PROPOSED ALTERNATIVE DECOUPLING MECHANISM

A. The Proposed Alternative for Customers Served Under Schedules 26 and 31

9. The Joint Parties propose that, effective January 1, 2014, Schedules 26 and 31 will be moved into new rate groups within the existing electric decoupling mechanism as described in more detail below.
10. The Joint Parties request approval by the Commission of a modified form of decoupling for customers served under Schedules 26 and 31 where, most importantly, the operation of the mechanism is tied to demand charge revenue rather than revenue derived from energy charges. The proposed alternative includes changes in rate design such that some of the costs currently recovered through energy charges will instead be recovered through demand charges. Also the proposed alternative adopts a decoupling mechanism for Schedule 26 and 31 customers that some parties believe is likely to have less volatility in annual adjustment charges than the kilowatt-hour based mechanism.
11. Finally, the Joint Parties propose that the evaluation of the decoupling mechanism provided for in the original PSE/NW Energy Coalition joint proposal be modified to include an examination of whether and how the change to rate design for Schedule 26 and 31 affects conservation achievement by these customers. The evaluation will examine whether there is conclusive evidence that the change had an appreciable effect on customers' energy efficiency achievements, including but not limited to achievements made through customer participation in PSE's energy efficiency programs.

B. Description of the Proposed Alternative Existing Decoupling Mechanism

12. The proposed alternative for Schedules 26 and 31 is composed of two primary components: a redesign of rates for customers served under existing Schedules 26 and 31 and the application of a separate decoupling mechanism for these schedules.

13. Rates charged for service under Schedule 26 and 31 are proposed to be modified in the following manner:

- For each schedule, energy charges are set to recover 100 percent of the energy-related portion of each schedule's allocated Power Cost Adjustment ("PCA") mechanism costs, as reflected in pages 51 and 53 of PSE's compliance Schedule 141 electric rate spread and rate design work papers, plus 50 percent of the difference between these costs and energy revenue that would be recovered at existing base rates.⁷
- For each schedule, the difference in revenue resulting from the change in energy charges is then added to the existing seasonal demand charges in proportion to the revenues derived from such demand charges in each season.
- For each schedule, their energy charges within Schedule 141 are eliminated and the resulting difference in revenue is then added to the existing seasonal demand charges within Schedule 141 in proportion to the revenues derived from such Schedule 141 demand charges in each season.
- Spreadsheets illustrating these rate design changes are provided as Exhibit No. _____ (JPE-3) to the Joint Testimony supporting this Joint Response.

⁷ In other words, today's volumetric rate contains some measure of fixed costs from the cost-of-service study that underlies today's rates. The alternative plan moves one-half of those fixed costs into the demand rates leaving the other one-half still in the volumetric rate.

14. Schedules 26 and 31 of PSE electric tariff are then moved into new rate groups with the existing electric decoupling mechanism. Schedules 26 and 31 are still subject to the rate plan increases each year. The basic elements of the alternative decoupling proposal for Schedules 26 and 31 mirror those for other non-residential customers within the existing electric decoupling mechanism except for what is described in more detail below.

- Allowed Delivery Revenue Per Customer is calculated separately for customers served under Schedules 26 and 31.
- Allowed Volumetric Delivery Revenue Per Customer for each schedule is shaped across months to calculate Monthly Allowed Delivery Revenue Per Customer using the projected monthly delivery charge revenue for each schedule in 2014.
- Monthly delivery charge revenue is derived from billed demands, as currently defined within each schedule, multiplied by a Delivery Revenue Per Unit calculated as a demand charge.
- Deferrals are calculated and trued-up separately for each rate schedule.
- The Delivery Revenue Per Unit for each schedule is calculated using the ratio of each schedule's ERF-related demand charge revenue in each season divided by the test period billing demand in that season. As with the current calculation of the Delivery Revenue Per Unit, under this proposal it will also include the then-current rate adjustments under Schedule 142.
- The calculation of Schedule 142 rate adjustments for each schedule will mirror the existing calculations, except that: (1) energy usage and energy charges are replaced with billed demands and demand charges and (2) the initial Schedule 142 rates will be calculated using PSE's current F2013 load forecast.

- Deferrals incurred through December 31, 2013 will be allocated between customers served under Schedules 26 and 31, and all other non-residential electric customers remaining in the decoupling mechanism on the basis of the relative “margin revenue”.
- If the decoupling mechanism’s Earnings Test results in a customer credit of “over-earning” by PSE in 2013, the customer credit will be allocated between customers subject to the electric decoupling mechanism in the same manner as the allocation of deferrals incurred through December 31, 2013.
- Spreadsheets illustrating the operation of the decoupling mechanism for customers served under Schedules 26 and 31 are provided as Exhibit No. ___(JPE-2) to the Joint Testimony supporting this Joint Response.

15. The removal of Schedules 26 and 31 from the non-residential group within the existing electric decoupling mechanism will require certain changes for all remaining non-residential electric schedules with the decoupling mechanism.

- The Delivery Revenue Per Unit, used to calculate volumetric revenue, and the Monthly Allowed Delivery Revenue Per Customer, used to calculate allowed revenue, will be recalculated to reflect the removal of Schedules 26 and 31 customers. These rate components will become effective January 1, 2014.
- The Schedule 142 rates for these remaining non-residential electric schedules continue in effect until the next rate year, beginning May 1, 2014.
- Spreadsheets illustrating the calculation of Delivery Revenue Per Unit and Monthly Allowed Delivery Revenue Per Customer under the existing mechanism, but without customers served under Schedules 26 and 31, are provided as Exhibit

No. ___(JPE-5) through Exhibit No. ___(JPE-8) to the Joint Testimony supporting this Joint Response.

16. Under the Joint Parties' proposal, the other non-residential electric schedules in the decoupling mechanism are projected to experience rate increases of 1.29% in 2014.⁸ This compares to the projected rate increase of 1.22% currently forecasted for the non-residential class in 2014 if Schedules 26 and 31 remain in the decoupling mechanism. Taken separately, the other non-residential customers are forecasted to produce a larger fixed cost recovery shortfall (in percentage terms) than customer in Schedules 26 and 31. The current decoupling mechanism comingles any fixed cost recovery shortfall across all non-residential customers. When Schedule 26 and 31 customers are removed from the non-residential group within the decoupling mechanism, the other non-residential customers are no longer able to rely on the smaller percentage shortfall forecasted for the Schedule 26 and 31 customers and are simply responsible for their own (projected) shortfall in fixed cost recovery. Thus, the somewhat higher rate increase that remaining non-residential customers will experience results from the unwinding of cost shifting that is inherent between schedules with disparate growth rates.

17. Tariff sheets illustrating the Delivery Revenue Per Unit and Monthly Allowed Delivery Revenue Per Customer under this decoupling proposal are provided as Exhibit No. ___(JPE-4) to the Joint Testimony supporting this Joint Response.

IV. CONCLUSION

18. The Joint Parties have engaged in a meaningful dialogue to determine if there are alternative approaches to decoupling for non-residential electric customers that also achieve

⁸ This proposal has no impact on the rates for residential customers.

the principal goals of decoupling for customers served under Schedules 26 and 31. As a result of this dialogue, the Joint Parties propose the alternative form of decoupling for customers served under Schedules 26 and 31, as set forth herein. If approved by the Commission, this will eliminate the need for further action on the petition for reconsideration of Kroger. The Joint Parties respectfully request the Commission approve the proposal contained herein.

DATED this 1st day of November, 2013.


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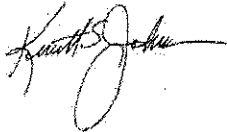
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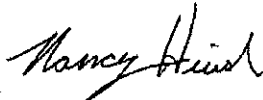
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