

**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 PETITIONS
FOR RECONSIDERATION FILED
BY NORTHWEST INDUSTRIAL
GAS USERS AND NUCOR STEEL
SEATTLE, INC.**

NOVEMBER 1, 2013

I. INTRODUCTION

1. Commission Staff, Puget Sound Energy, Inc. (“PSE”), NW Energy Coalition (“NWECC”), the Northwest Industrial Gas Users (“NWIGU”), and Nucor Steel Seattle, Inc. (“Nucor”) (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 to decoupling for large, non-residential gas customers. In this Joint Response, the Joint Parties ask the Commission to adopt the proposed alternative to decoupling described in this Joint Response. Adoption of this proposal as presented will satisfy the petitions for reconsideration filed by NWIGU and Nucor. Nucor agrees to drop its request for reconsideration of the issue of ROE reduction, set forth in Section II.B of its petition for reconsideration, if the Commission approves the alternative to decoupling proposed herein.

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 gas customers on Schedule 85, 85T, 87, and 87T 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 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.¹

3. On July 5, 2013, Nucor and NWIGU each filed a petition for reconsideration of Order 07. Both NWIGU and Nucor requested the Commission to reconsider its decision to include Schedules 85, 85T, 87 and 87T in the revenue decoupling mechanisms. Nucor 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 approaches to achieving the underlying goals and purposes of decoupling for the non-residential class of customers.²

¹ Order 07, ¶ 129.

² 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.

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 17.³ 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 the large, non-residential gas customers. The agreed-upon proposal is presented to the Commission in this Joint Response.
8. The Joint Parties request that the Commission approve this proposal. No further action by the Commission is required in response to the Petitions For Reconsideration filed by Nucor and NWIGU if the Commission approves this proposal. Nucor agrees to drop its request for reconsideration with respect to the ROE reduction issue if the Commission approves the proposal presented herein.

III. PROPOSED ALTERNATIVE TO DECOUPLING

A. The Proposed Alternative

9. The Joint Parties propose that Schedules 85, 85T, 87 and 87T will not be subject to the decoupling mechanism but will be subject to the “rate plan” as described in more detail below.
10. First, these schedules all have a steeply declining block rate structure. As such, the “marginal” throughput incentive is quite modest for large customers facing the tail block

³ 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”), The Energy Project, and Kroger.

rates on these schedules (i.e., additional sales lead to very little incremental revenue for PSE). Given this weakened throughput incentive, removing these customers from the decoupling mechanism is appropriate. This approach was supported by evidence before the Commission in the underlying proceeding. PSE acknowledged that any throughput incentive for large industrial gas users is “modest,”⁴ and NWECC offered that industrial gas customers contribute “little” to non-fuel cost recovery in variable charges.⁵

B. Description of the Proposed Alternative To Decoupling

11. Schedules 85, 85T, 87 and 87T of PSE’s natural gas tariff are removed from the decoupling mechanism and instead are treated consistently with “rate plan customers.”
- These schedules will be removed from the deferral calculations contained within the decoupling mechanism effective January 1, 2014.
 - The basic charge, all blocks of the delivery charge, and the gas procurement charge under these schedules will increase over the levels approved in PSE's expedited rate filing ("ERF") at the K-factor for gas service, which is currently 2.2 percent.
 - The K-factor increases will not apply to the demand charges under these schedules. The amount not collected from the demand charge will not be reallocated to the volumetric or any other charge.
 - The K-factor increases will occur consistently with the timing of such increases for other “rate plan customers,” and the rates charged to these schedules will reflect

⁴ Exhibit No. JAP-23T, 15:10.

⁵ Exhibit No. RCC-4T, 10:6-8. NWIGU’s testimony also highlighted the fact that any concerns about customers switching schedules to game or to simply avoid the impacts of the Decoupling Mechanism are unfounded. That testimony pointed out the fact that there are benefits to providing customers with the flexibility of switching between schedules, but also that PSE’s tariffs are already structured in a way to prevent arbitrary switching between rate schedules that could otherwise be used to “game the system.” That testimony also pointed out that the best way to prevent unnecessary switching of schedules is to remove both sales and transportation customers on each of the large industrial schedules. See Exhibit No. EAF-1T. No evidence in the record contradicted these points.

the initial application of the K-factor in July 1, 2013, as well as the subsequent application on January 1, 2014, with additional applications of the K-factor each January 1 thereafter until the end of the rate plan period.

- Deferrals incurred through December 31, 2013 will be allocated between these customers (Schedules 85, 85T, 87 and 87T) and all other non-residential natural gas customers remaining in the decoupling mechanism on the basis of the relative actual revenue used as the basis for calculating these deferrals (i.e., “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 to the departing customers in the same manner as the allocation of deferrals incurred through December 31, 2013.
- PSE, NWIGU and Nucor will determine an agreed upon approach to surcharging or crediting the portion allocated to the removed schedules. PSE will propose the agreed upon approach for Commission approval concurrent with the filing of new Schedule 142 gas rates for the rate year beginning May 1, 2014.

12. The removal of Schedules 85, 85T, 87 and 87T will require certain changes for all remaining non-residential gas 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 85, 85T, 87 and 87T customers. These rate components will become effective January 1, 2014.

- The Schedule 142 rates for these remaining non-residential gas schedules continue in effect until the next rate year, beginning May 1, 2014.

13. Under the Joint Parties' proposal, the non-residential gas schedules remaining in the decoupling mechanism are projected to experience rate increases of 3.0% in 2014.⁶ This compares to the projected rate increase of 2.25% currently forecasted for the non-residential class in 2014 if Schedules 85, 85T, 87 and 87T remain in the decoupling mechanism. Taken separately, the remaining smaller non-residential customers are forecasted to produce a larger fixed cost recovery shortfall (in percentage terms) than customer in Schedules 85, 85T, 87 and 87T. The current decoupling mechanism comingles any fixed cost recovery shortfall across all non-residential customers. When Schedule 85, 85T, 87, and 87T customers are removed from the decoupling mechanism, the smaller non-residential customers are no longer able to rely on the smaller percentage shortfall forecasted for the Schedule 85, 85T, 87 and 87T customers and are simply responsible for their own (projected) shortfall in fixed cost recovery. Thus, the higher rate increase that remaining non-residential customers will experience results from the unwinding of cost shifting that had been introduced by the Commission-approved decoupling mechanism.

14. Spreadsheets illustrating the intended rate calculations under this proposal are provided as Exhibit No. ___(JPG-3) through Exhibit No. ___(JPG-7) to the Joint Testimony supporting this Joint Response.

15. Tariff sheets illustrating the delivery revenue per unit and monthly allowed delivery revenue per customer, as well as the rate plan increases for Schedules 85, 85T, 87, and 87T are provided as Exhibit No. ___(JPG-2) to the Joint Testimony supporting this Joint Response.

⁶ This proposal has no impact on the rates for residential customers.

IV. CONCLUSION

16. The Joint Parties have engaged in a meaningful dialogue to determine if there are alternative approaches to decoupling for non-residential customers that also meet decoupling's goals. As a result of this dialogue, the Joint Parties propose the alternative to decoupling set forth herein, which, if approved by the Commission, will eliminate the need for further action on the petitions for reconsideration of NWIGU and Nucor. The Joint Parties respectfully request the Commission approve the proposal contained herein.

DATED this 1st day of November, 2013.

PUGET SOUND ENERGY, INC.

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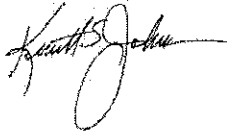
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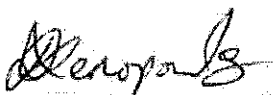
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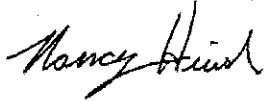
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