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PUGET SOUND ENERGY
The Energy To Do Great Things

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November 30, 2012

Mr. David W. Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 South Evergreen Park Drive S.W.
P.O. Box 47250
Olympia, WA 98504-7250

Subject: **Docket No. UG-121207**
Commission Investigation into Natural Gas Conservation Programs

Dear Mr. Danner:

In response to the Commission seeking written comments on issues related to natural gas conservation in Docket UG-121207, Puget Sound Energy, Inc. ("PSE" or the "Company") offers the following comments regarding the discussion at the November 16th Workshop.

Risk Premiums: Four Concerns

1. Consistency Between Demand-Side ("DSR") and Supply-Side Resources and Unintended Consequences

Why should risk premiums only be applied to DSR? Risk has a direct application to supply-side considerations. It is crucial to keep in mind that the Commission is considering making changes to a complex system—there may be far-reaching and unintended consequences. A simple example will help illustrate. This example is based on the assumption that a risk premium could be reasonably estimated, which is a separate question not addressed in these comments.

Assume for simplicity's sake that the gas price ($5/Dth) plus risk premium ($2/Dth) which equals $7/Dth reflects the full avoided cost.

This would suggest the utility would acquire DSR up to $7/Dth. However, doesn't this also mean the utility should lock in prices on long-term gas supply at any price below $7/Dth? Why would it matter whether the price could be locked in with supply-side versus demand-side resources?

When looking at just DSR alone, it might feel like a reasonable consideration. However, keep in mind that gas DSR is the tail of the dog: gas DSR is only ~1% of projected gas sales volumes. Logically extending the risk premium to the supply side would mean the utility should lock in all supply possible with prices at or below $7/Dth. The logical application of the risk premium to supply-side resources illustrates the WUTC may be making a significant policy decision with respect to long-term gas price hedging. That is probably an unintended consequence, given the WUTC just suspended the PGA filings of all four gas utilities to investigate short-term hedging. It is crucial to keep in mind the Commission is considering making changes to a complex system, with implications that may be far-reaching.

2. Risk Premiums: Individual Resources vs. Portfolio

Risk management decisions should be made on a portfolio basis, not an individual resource. Examining how individual resources impact risk can be helpful when costs are very close. However, the decision to pay more for a resource because it reduces risk should focus on how the resource impacts portfolio risk.

3. Calculating a Risk Premium

"Risk" is being used very loosely in these policy discussions. Long-term market risk, short-term market risk, and volatility are often being referred to generically as "risk." In order to calculate a risk premium, we first need to be clear about what the term means so the proper metrics can be chosen.

This would be a very complicated process, resulting in complex risk premiums. DSR programs that have different lives would have different risk premiums. Furthermore, such risk premiums would have to recognize that DSR is not like a fix-priced gas supply contract. Fix-priced supply contracts have volumetric certainty as well as price certainty. DSR has three kinds of volumetric uncertainty. First is how many measures will actually be installed into the future. Second is the savings per unit installed. Third is the weather-related impact. All three aspects of volumetric uncertainty would have to be specifically addressed in order to calculate a risk premium.

This would be a very complex undertaking. It is not at all clear such effort would be worth the cost, again considering the relatively small size of gas DSR. If the Commission did find it worthwhile to pursue such an undertaking, the Commission might first choose to start with gas supply—which has a much more significant impact on customers.

4. What's the Question?

If these market risks are so important, wouldn't it be more appropriate to establish a risk constraint that is indifferent toward demand-side/supply-side resources? That would allow utilities to use the least-cost combination of resources to achieve such target risk constraint. Building on the previous example, if utilities could lock-in long-term gas supplies at $6, rather than DSR for $7, wouldn't that be a better way to manage risk for customers? Minimizing the cost of meeting a risk metric is essentially the basis of gas utility resource planning. Design-day planning standards are a measure of physical risk. Utilities strive to minimize the cost of meeting design-day peaks (and loads for all days) using the least cost combination of demand-side and supply-side resources. This again points to the integrated and complex nature of the entire system.

Question: Besides for low-income, do you recommend any other exemptions to the TRC? If so, why?

Pilot programs should be exempted because they are constrained from achieving economies of scale in their delivery, may be subject to significant revisions, and may also incur startup and evaluation costs that are disproportionate to their size, thus making their cost-effectiveness problematic. Technology is often expensive in the early stages of availability/development (e.g., LED and CFL), and that high price often creates cost-effective problems for up and coming technologies. However, to the extent that PSE views specific technologies as advantageous in the future, we want to ensure we have the time to test and understand the technology, via a pilot. By launching a pilot, we can understand the customer's willingness to adopt the technology, barriers to adoption, and energy savings. These are all important to understand before we offer a wide reaching program.

PSE appreciates the opportunity to present these comments. Please direct any questions regarding these comments to Eric Englert at (425) 456-2312 or the undersigned at (425) 462-3495.

Sincerely,

/s/ Tom DeBoer

Tom DeBoer
Director – Federal & State Regulatory Affairs