Agenda Date: April 11, 2001
Item Number: 2A

**Docket:** UE-010409

Company: Puget Sound Energy

Staff: James M. Russell, Policy Research Specialist
Thomas Schooley, Policy Research Specialist
Joelle Steward, Policy Research Specialist
Lisa Steel, Assistant Director - Energy
Penny Hanson, Public Affairs Coordinator
Vicki Elliot, Assistant Director - Consumer Affairs

**Recommendation:**

Take no action on PSE's request to approve the filing in Docket UE-010409 on less than statutory notice and Order PSE to provide adequate notice by April 18, 2001, as described below.

I. Description of PSE's Proposal Before The Commission:

On March 27, 2001, Puget Sound Energy (PSE or Company) filed new tariffs implementing new Time-of-Use (TOU) rates for certain customers on PSE's Personal Energy Management (PEM) program. Also included within this filing is a broad-based energy buy-back program which PSE calls its Electric Conservation Incentive Credit (CIC).

PSE has requested that the Commission approve this filing on less than statutory notice in order to allow the filing to become effective April 16, 2001. The tariffs have a stated effective date of April 26, 2001. The following is PSE's stated reason for requesting approval on less than statutory notice:

> "The first billing under these Time of Day Rate Adjustments and the Electricity Conservation Incentive Credit will be approximately 30 days following the effective date of the respective schedules, therefore, the Company respectfully requests the Commission allow a waiver of the 30 day statutory notice period and issue an order making the effective date of the Time of Day Rate Adjustment and the Electric Conservation Incentive Credit in this filing, April 16, 2001."

As a result of the data requests and concerns Staff has raised with PSE upon initial review of this filing, the Company filed revised TOU tariff sheets on April 4, 2001. These revisions were made to: 1) Reduce the peak and off-peak rate differentials; 2) collapse the originally three proposed residential schedules back into a single schedule; and, 3) restore the multiple block rate structure on current Schedule 7, Residential Service, and

Schedule 25, Small Demand General Service, by implementing a usage credit (see usage credit below).

Below is a brief summary of both the time-of-use (TOU) rate proposal and the buy-back program followed by a discussion of customer notice concerns and other issues that still need careful consideration.

PSE serves approximately 925,000 electric customers in Western Washington.

A) Time-of-Use (TOU) rates (a load shifting program):

Customers under the following rate schedules that have had automated meter reading (AMR) equipment installed, and properly working for billing purposes, will be required to pay TOU rates:

| Rate Schedules: | Total # of Cust | Est. # of Cust billed at TOU |
|---|---|---|
| Sch 7 Residential Service | 818,000 | 328,000 |
| Sch 24 General Service | 71,000 | 29,180 |
| Sch 25 Small Demand Gen. Serv. | 5,590 | 2,530 |
| Sch 26 Large Demand Gen. Serv. | 490 | 120 |
| Sch 31 Primary Gen. Serv. | 440 | 15 |

Each of the above schedules' energy charges have been redesigned into 4 time-of-use (TOU) rate periods based on when electricity is consumed. The rate periods for each schedule include a morning rate (6 am -10 am), a mid-day rate (10 am - 5 pm), an evening rate (5 pm – 9 pm), an economy rate (9 pm – 6 am and Sundays).

In addition, the proposed schedules have seasonal TOU rates. For example proposed Schedule 307, Residential Service has the following seasonal rate structure:

| Time-Of -Use: | October-March: | April-September: |
|---|---|---|
| Morning Energy Charge | $.083817 per kWh | $.077178 per kWh |
| Mid-Day Energy Charge | .076197 per kWh | .084194 per kWh |
| Evening Energy Charge | .087627 per kWh | .084194 per kWh |
| Economy Energy Charge | .068855 per kWh | .054734 per kWh |
| Usage Credit | -.014821 per kWh | -.008786 per kWh |

(For first 600 kWh to restore the current inverted block rate structure)

PSE has filed an accounting petition under Docket UE-010410 requesting authority to establish deferred accounts that will defer the difference between the revenues charged under the TOU schedules and the amount of revenues that would have been billed under the existing schedules, thus restoring revenues associated with customers who decide to shift usage. By design, this deferred accounting treatment will surcharge all customers the reduction in billed revenue associated with TOU customers that shift usage from peak

periods to off-peak periods; ultimately increasing both TOU and non-TOU customer rates. If each schedule's balancing account stays within a 5% band, no surcharge (or refund) would begin until the expiration of the TOU schedules.

The TOU tariffs are scheduled to terminate at the earlier of either the Company's cancellation (with the approval of the Commission), or upon the first anniversary of the effective date of the tariffs.

B) Electricity Conservation Incentive Credit (a buy-back program):

The Electricity Conservation Incentive Credit component of PSE's proposal is a buy-back program available to all PSE's firm core customers. The Company would compare each customer's monthly energy consumption with the customer's actual consumption in that same month a year earlier. For every kilowatt hour of electricity a customer saved beyond 10 percent the customer would receive a $.05 per kWh credit against that month's bill. This program is proposed to run from the effective date through December 31, 2001.

II. Staff Customer Notice Issues and Customer Comments:

Late last year PSE began mailing informational materials about its Personal Energy Management (PEM) program to approximately 420,000 customers who had automated meter reading (AMR) equipment installed (for sample, see attachment A). These are the customers that might move to the time-of-use rate design. Coincident with filing its tariff revision, the Company posted notices of tariff changes in its business offices in Bellingham, Ellensburg, Oak Harbor, Olympia and Port Townsend (see attachment B). It also issued a press release about the program. PSE proposes to provide direct notice to affected customers after the tariffs become effective. The Company points to the informational mailings, the posting in business offices, and the extensive media coverage of this program and believes customers have received the information they need about the proposed time-of-use program.

With respect to the PEM materials customers received, the focus is on the fact that the Company is making usage information available and that the cost of energy may differ depending on the time-of-use. Nowhere does it inform customers that they need to pay attention to their energy usage because the Company plans to change its rate design and begin charging for electricity by the time-of-use.

We do not believe the Company has done enough to ensure customers have been adequately informed. We recommend that the Commission require that, by April 18, the Company directly mail notice to every customer. We also recommend that Commission staff help draft that notice and approve it prior to mailing. The notice we recommend would replace the notice the Company proposes to send if the tariffs went into effect.

The recommended notice should, at a minimum, address the following points for each rate schedule:

- A clear description of the buy-back program and time-of-use rate design, how each works, and why the Company is proposing such a change;
- An explanation of how each proposal would affect customers who are moved to TOU rates and who will not (those who will not be billed TOU rates may still be affected by the proposed deferred accounting mechanism).
- A comparison of current and proposed rates by time-of-use period and an example showing how the average customer can estimate their monthly bill based on the time-of-use periods;
- The date the Company proposes to implement these programs;
- A description of how customers may contact the utility if they have specific questions or need additional information about the proposal; and
- A description of how customers may send their comments to the Commission and a statement that final rates may vary from what the Company has proposed. (Public Affairs has standard language for both of these items,)

We believe the recommended notice is appropriate for the following reasons:

Customer rates will be affected. If this tariff goes into effect, all customers with higher-than-average load profiles will see increases in their bills if they don't shift their energy usage. Businesses such as restaurants, which have high energy demand during peak periods, could see significant increases in their cost of electricity. In addition, customers not included in this program will eventually be asked to pay for the deferred revenues - either at the end of the rate plan or when the deferrals exceed the five percent threshold. The Commission has consistently required that companies provide notice <u>prior</u> to Commission action for any filing that increases rates for some customers.

Customers are confused. This is acknowledged to some extent by PSE requesting that any potential impacts of implementing this program on service quality indices established in the Merger Agreement be “disregarded” by the Commission. Comments indicate that customers are confused about the program. They do not understand whether their participation is voluntary or mandatory, if they will be affected or not, and what changes from the new program would mean for them. Customer notice provided now will reduce this confusion and ensure a smoother transition for customers and PSE if TOU rates are implemented.

If TOU rates are implemented, ongoing customer education is needed. This radical change in rate design means that customers need to think very differently about their use of electricity. Accomplishing this change will require an ongoing customer education effort by the Company. Customer notice can be a useful element in that effort.

Information from customers will aid the Commission. Information from customers about potential problems will help staff as we work with the Company to perfect any program and its implementation.

Customer Comments:

As of April 6, the commission has received 53 letters opposed and 3 in favor. In addition, Public Affairs received approximately 25 phone calls - all but one caller were opposed to the Company's proposal. The general theme of the comments from these 78 contacts were:

- The Company's proposal rewards the people that have not yet started to conserve energy. Customers wonder how, having already conserved energy, they could participate in the buy-back program by trimming an additional 10% off of their usage.
- Customers feel their monthly bills would increase under this proposal, and that it is a rate increase disguised as a proposal to conserve electricity. A few business owners stated that this proposal will increase their rates up to 32% and believe this proposal needs to be looked at very carefully before the Commission takes final action.
- Modify this rate structure so that it doesn't penalize customers that work during normal business hours, have families, or have already conserved energy.

III. Legal Issues and Other Concerns:

The ultimate threshold question with regard to this filing is: Is it allowed under the Settlement Agreement and the Commission's Order in Docket UE-951270?

In addition to the legal issues surrounding this filing and the concerns staff has discussed above with regard to customer notice, we have many other concerns with this filing, as proposed by PSE. Over the course of the last two weeks we have requested and received a lot of information; studies, analysis, documentation, data, and written explanations behind these proposals. We have not completed our analysis of all this information. Not withstanding the merits, we have been asked to do a rate redesign, normally which is done over the course of months, in two weeks.

IV. A Fairness Issue and an Alternative Proposal:

PSE is in an enviable load/resource position. While many public and private utilities are net purchasers of power in the wholesale market, and suffering the financial burden, PSE is a net seller. There are huge financial implications for electric utilities based on their exposure to current and future market conditions in the foreseeable future. Currently, wholesale market prices are approximately 4 or 5 times **greater** than PSE's tariff rates. There is a strong financial incentive for PSE to avoid, or shift to off-peak, the sale of a kWh under regulated tariff rates in order to increase its opportunity to make that sale on the open market. PSE's mandatory TOU proposal, especially with the deferral

mechanism, is unfair especially in light of the potential financial benefits for PSE under this proposal.

Under current market conditions, even a voluntary residential TOU program (without the deferral), can still be financially beneficial for PSE. For example (based on firm power prices at Mid-C on 4/4/2001), if a customer voluntarily shifts a kWh from a peak period to an off-peak period and saves $.029 cents (difference between Summer "evening" and "economy" rate), PSE can take that peak kWh that the customer shifted, sell it in the "on-peak" market, and buy it back "off-peak", realizing a net margin of $.051 per kWh [($.345, on-peak sale)-($.265, off peak purchase)-($.029, lost revenue). This net margin calculation assumes no deferred accounting mechanism. If the deferred accounting mechanism was approved, the net margin associated with this transaction would be an additional $.029 per kWh higher ($.080 per kWh). Even absent the deferral, this example is conservative because rather than having to buy the off-peak kWh on the open market PSE could generate it at its incremental cost.

If any TOU rates are approved, Staff believes that it should be done as a residential "voluntary" (optional) program or limited pilot, without the deferral. The data we have reviewed so far shows that the residential class load profiles are fairly homogeneous, and therefore, the majority of customers will receive smaller increases or reductions in their bill (at revised rates) than commercial and industrial customers will. Commercial and industrial schedules' load profiles are non-homogeneous, which will result in a large number of customers receiving substantial increases or decreases in their bills compared to current rates.

V. Summary and Conclusion:

Not withstanding the legal issues this filing poses, PSE's mandatory TOU proposal is unfair given PSE's load/resource position and current and expected market conditions. If TOU rates are allowed, it should be considered on a voluntary (optional) basis for residential customers only.

Therefore, staff recommends that the Commission take no action on PSE's request to approve the filing in Docket UE-010409 on less than statutory notice and Order PSE to provide adequate notice by April 18, 2001, as described above.

Attachments