



**UTC INQUIRIES ON CONSERVATION
INCENTIVES AND RENEWABLES INCENTIVES
Washington Clean Energy Leadership Council**

June 25, 2010

Jeff Goltz and Pat Oshie

**Washington Utilities and Transportation
Commission**

Commission Interim “Inquiries”

Conservation Incentives (Dkt. No. U-100522)

- Includes both mechanisms to recover “lost margin” (e.g., decoupling) and incentive mechanisms for exceeding conservation goals
- Initial session held in May
- Initial and reply comments filed
- Work session June 29

Commission Interim “Inquiries”

Renewables (Dkt. No. UE-100849)

- Focuses on possible ratemaking incentives to encourage utilities to meet or exceed their I-937 RPS
- Initial session to frame issues held June 22
- Commission will prepare issues list for two rounds of comments
- Work session to be held in August 18

IOU Conservation

2009 IOU Conservation Budgets:

- PSE \$76.5 million electric; \$16.2 million gas
- Avista \$12.6 million electric
- Cascade \$1.0 to \$1.3 million gas
- PacifiCorp \$6.4 million electric
- Northwest Natural \$780,000 to \$1.0 million gas

Renewable Generation by IOUs

- In 2009, the American Wind Energy Association (AWEA) ranks Washington as number five in the country for wind energy with 1447 MW, or 3.3 % of generating capacity.
- PSE, for example, has 430 MW capacity, which is about 142 aMW energy, or 5.7 % of its load.
- AWEA ranked PSE number two in the country for utility ownership of wind power resources.

Statutory Background

“All charges made, demanded or received by any gas company, electric company or water company . . . for any service rendered . . . Shall be just, fair, reasonable and sufficient.” RCW 80.28.010(1).

Statutory Background

“The function of rate making is legislative in character and may be directly exercised by the Legislature itself or, as in the usual case, by administrative bodies endowed to that end. It follows that the judicial branch of government is not empowered to usurp this legislative authority by itself undertaking to fix rates.”

POWER v. UTC, 104 Wn.2d 798, 807-08 (1985)

Statutory Background

“Adjudicative proceedings also include all cases of licensing or rate making in which an application for a license or rate change is denied” RCW 34.05.010(1) (Administrative Procedure Act).



Conservation Incentives – Statutory Background

“Each qualifying utility shall pursue all available conservation that is cost-effective, reliable, and feasible.” RCW 19.285.040(1).

Conservation Incentives – Statutory Background

“An investor-owned utility is entitled to recover all prudently incurred costs associated with compliance with this chapter. The commission shall address cost recovery issues of qualifying utilities that are investor-owned utilities that serve both in Washington and in other states in complying with this chapter.” RCW 19.285.050 (2).

Conservation Incentives – Statutory Background

“The commission . . . may consider providing positive incentives for an investor-owned utility to exceed the targets established in RCW 19.285.040.” RCW 19.285.060(4).



Conservation Incentives – Statutory Background

“The commission shall consider and may adopt a policy of allowing an incentive rate of return on investment in additional programs to improve the efficiency of energy end use or other incentive policies to encourage utility investment in such programs.” RCW 80.28.260 (2).

Conservation Incentives – Statutory Background

“The commission shall consider and may adopt other policies to protect a company from a reduction of short-term earnings that may be a direct result of utility programs to increase the efficiency of energy use. These policies may include allowing a periodic rate adjustment for investments in end use efficiency or allowing changes in price structure designed to produce additional new revenue.” RCW 80.28.260(2).

Setting of Rates

“In order to control aggregate revenue and set maximum rates, regulatory commissions such as the WUTC commonly use and apply the following equation:

$$R = O + B(r)$$

In this equation, R is the utility's allowed revenue requirements;

O is its operating expenses;

B is its rate base; and

r is the rate of return allowed on its rate base.”

-- *POWER*, 104 Wn.2d at 808-09.

Setting of Rates (cont.)

Determining annual level of sales.

- The Commission must determine an annual level of sales.
- The utility forecasts this sales level using empirical studies (therms for gas; kWh for electricity).
- The sales level is compared with a utility's revenue requirement to determine a rate for each unit sold.

Setting of Rates (cont.)

Actual level of sales can vary from forecast.

- Variation can be caused by customer behavior, the effects of weather, and economic conditions.

Setting of Rates (cont.)

Therefore, a utility may sell more or fewer therms or kWh in a given period.

- Uncertainty is reflected in the utility's risk profile, which can be taken into account when the Commission sets the utility's rate of return.

Setting of Rates – Fixed and Variable Costs

- A utility has fixed and variable costs.
- Many variable costs are covered by “tracker” mechanisms, such as the purchased gas adjustment (PGA) mechanism or an electric utility power cost adjustment mechanism (PCAs or ERMs).

Setting of Rates – “Lost Margin”

- Utilities impose both a per customer (fixed) charge and a volumetric (variable) charge based on the amount of energy consumed.
- However, a utility does not cover all of its fixed costs with its per customer charges. For example, Northwest Natural Gas Company charges a per customer charge of \$4.50, but its per customer fixed costs are over \$22.

Setting of Rates – “Lost Margin” (cont.)

- “Lost margin” has always been an issue between rate cases.
- Just as “lost margin” reduces a company’s earnings, there are factors that generally increase a company’s earnings between rate cases (sometimes termed “found margin”). Examples include growth in customer base or management efficiencies.

Decoupling Issues

Options:

1. “Full decoupling”
2. Recover “lost margin” due to conservation
 - a. Company sponsored programs
 - b. Company education programs
 - c. Codes and standards
 - d. Customer initiated conservation
 - e. Other

Decoupling Issues

Issues raised in Inquiry:

1. Offsets (“found margin”)
2. Measurement
3. Impact on rate of return
4. Need in light of requirement to meet conservation goals
5. Earnings test
6. Other mechanisms to compensate for lost margin
 - a. Incentive rate of return
 - b. Pro forma adjustment to reflect future decrease in load



Approved Decoupling Programs

- Avista
 - Allows recovery for Avista's programmatic and educational programs
 - Replaces pilot program
- Cascade
 - Pilot program to be evaluated in September 2010
- PSE PRAM (approved in 1991; terminated in 1996)

Sample PSE Bill

Customer [REDACTED]



STATEMENT SUMMARY AS OF JUN 07, 2010

Account No. [REDACTED]
Account Balance
 \$148.07
 Thank you for your payment(s) \$148.07CR
 Balance Forward \$0.00

Current Charges \$136.92
CURRENT TOTAL AS OF JUN 07, 2010 \$136.92

A bank withdrawal is scheduled for Jun 25, 2010 **AUTOMATIC WITHDRAWAL** \$136.92

Due to the expiration of a 12-month credit passed through to customers, your natural gas bill this month reflects an increase averaging 2.2 percent, effective June 1.

Electric Detail: [REDACTED]

Rate/Dates	Meter Number	Pres Read	Prev Read	Pres Date	Prev Date	Mult	KWH (Usage)	Bill Demand	KVAR Hours	Code	Amount
07E	U011430002	93066	92258	06/04	05/05	1	808			ACTL	
05/06/10 06/04/10	Basic Charge										\$7.25
05/06/10 06/04/10	Energy Charge										600 KWHS @ \$.085544 Per KWH \$51.33
05/06/10 06/04/10	Energy Charge										208 KWHS @ \$.103527 Per KWH \$21.53
05/06/10 06/04/10	Electric Conservation Program Charge										808 KWHS @ \$.004617 Per KWH \$3.73
05/06/10 06/04/10	Power Cost Adjustment										808 KWHS @ \$.00 Per KWH \$0.00
05/06/10 06/04/10	Energy Exchange Credit										808 KWHS @ \$.007269CR Per KWH \$5.87CR
05/06/10 06/04/10	Wind Power Production Credit										808 KWHS @ \$.001684CR Per KWH \$1.36CR
05/06/10 06/04/10	Merger Credit										808 KWHS @ \$.000374CR Per KWH \$.30CR
05/06/10 06/04/10	Regulatory Asset Tracker										808 KWHS @ \$.002684 Per KWH \$2.17
05/06/10 06/04/10	Effect Of Olympia City Tax										\$78.48 @ \$.09 Per Dollar \$7.06
Current Electricity Charges											<u>\$85.54</u>



UTILITIES AND TRANSPORTATION
COMMISSION

Sample PSE Bill

Customer XXXXXXXXXX



PUGET SOUND ENERGY

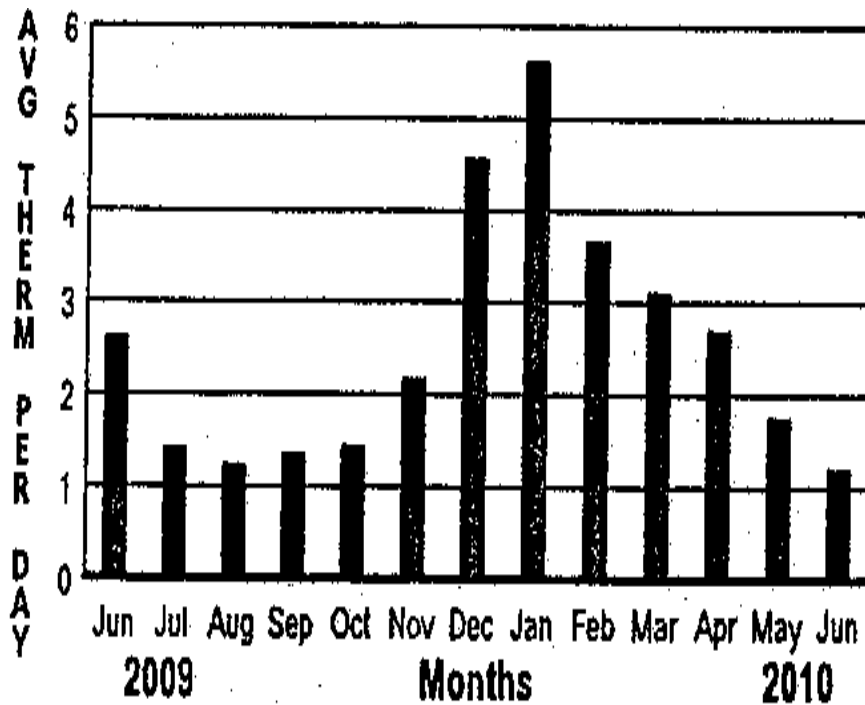
The Energy To Do Great Things
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Account No. XXXXXXXXXX

Gas Detail: XXXXXXXXXX

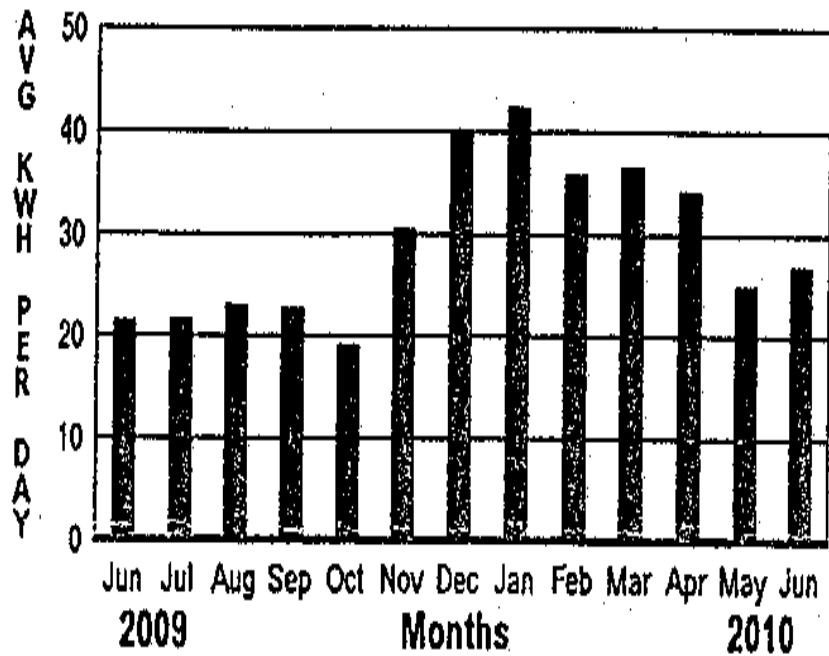
Rate/Dates	Meter Number	Pres Read	Prev Read	Pres Date	Prev Date	CCF	BTU Factor	Therms (Usage)	Price per Therm	Code	Amount
23G	000386427	01485	01451	06/04	05/05	34 @	1.0614	36.09		ACTL	
05/06/10 05/31/10											\$8.67
05/06/10 05/31/10								31.28 Therms @ \$0.35349 Per Therm			\$11.06
05/06/10 05/31/10								31.28 Therms @ \$0.65501 Per Therm			\$20.49
05/06/10 05/31/10								31.28 Therms @ \$0.02097 Per Therm			\$0.66
05/06/10 05/31/10								31.28 Therms @ \$0.0045CR Per Therm			\$0.14CR
05/06/10 05/31/10								\$40.74 @ \$0.0904 Per Dollar			\$3.68
Charge Total											\$44.42
06/01/10 06/04/10											\$1.33
06/01/10 06/04/10								4.81 Therms @ \$0.35349 Per Therm			\$1.70
06/01/10 06/04/10								4.81 Therms @ \$0.67889 Per Therm			\$3.27
06/01/10 06/04/10								4.81 Therms @ \$0.02097 Per Therm			\$0.10
06/01/10 06/04/10								4.81 Therms @ \$0.0045CR Per Therm			\$0.02CR
06/01/10 06/04/10								\$6.38 @ \$0.0904 Per Dollar			\$0.58
Charge Total											\$6.96
Current Gas Charges											\$51.38

Sample PSE Bill



For Bill Period	This Year	Last Year	Change
May-Jun			
No. of days	30	30	0
THRM use	36.1	78.9	-42.8
Avg. THRM use per day	1.2	2.6	-1.4
Avg. temp. per day	54F	58F	-4F

Sample PSE Bill



For Bill Period	This Year	Last Year	Change
May-Jun			
No. of days	30	30	0
KWH use	808	642	166
Avg. KWH use per day	26.9	21.4	5.5
Avg. temp. per day	54F	58F	-4F

Conservation Incentives

Threshold Issues raised by stakeholders:

- Different than decoupling or lost margin recovery issue
- Need for incentives if there is a mandate to acquire all “cost-effective” conservation?

Conservation Incentives

Examples

- PSE incentive mechanism
- Put conservation expenditures in rate base



Renewables Incentives – Statutory Background

- “The commission . . . may consider providing positive incentives for an investor-owned utility to exceed the targets established in RCW 19.285.040.” RCW 19.285.060(4).

Renewables Incentives

Possible incentives suggested by stakeholders

- Allow “site banking”
- Allow consideration of federal and state tax and other incentives to be factor in resource acquisition
- Put conservation in rate base
- Preapproval of resource acquisition
- Provide guidance on criteria for approval of resource acquisition
- Concern with integration costs and need to acquire non-renewable resources to balance intermittent renewables
- Amendments to I-937

QUESTIONS?