

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Application of

PUGET SOUND ENERGY

For an Order Authorizing the Sale of All of
Puget Sound Energy's Interests in Colstrip Unit
4 and Certain of Puget Sound Energy's
Interests in the Colstrip Transmission System

DOCKET UE-200115

EXH. MSG-05

PSE RESPONSE TO NVEC DATA REQUEST NO. 064

**ON BEHALF OF
NW ENERGY COALITION AND
RENEWABLE NORTHWEST**

October 2, 2020

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**Docket UE-200115
Puget Sound Energy
Application Authorizing Sale of PSE Interest in Colstrip Unit 4****NWEC DATA REQUEST NO. 064:**

Please see PSE's statement in its response to NWEC DR 32 that "NorthWestern Energy could purchase 185 megawatts of firm Point-to-Point Transmission Service for a term of five (5) years or longer from Puget Sound Energy ("PSE") pursuant to the terms and conditions of PSE's Open Access Transmission Tariff. If NorthWestern Energy were to take such firm Point-to-Point Transmission Service, then it would have the right to continue to take transmission service from the PSE when the contract expires, rolls over or is renewed, and PSE would not be able to rely on that capacity to meet PSE's long term-needs because NorthWestern Energy would retain long-term rights to that transmission capacity."

- a. Could NorthWestern Energy purchase Point-to-Point Transmission Service for a term of less than five years from PSE? Please explain why or why not.
- b. If the term were less than five years, would NorthWestern Energy retain long-term rights to that transmission capacity?
- c. If NorthWestern Energy can purchase Point-to-Point Transmission Service for a term of less than five years from PSE without receiving long-term rights to that transmission capacity, why has PSE not proposed doing that instead of selling the Colstrip Transmission System ("CTS") transmission capacity to NorthWestern Energy?
- d. What annual revenue could PSE expect from selling 90 MW of Point-to-Point Transmission Service to NorthWestern Energy at current CTS transmission tariff rates approved by the Federal Energy Regulatory Commission ("FERC")?
- e. What annual profits could PSE expect from selling 90 MW of Point-to-Point Transmission Service to NorthWestern Energy at current FERC-approved CTS transmission tariff rates?
- f. If CTS transmission service sales were to generate a profit for PSE, would PSE ratepayers be credited for the market performance of the ratepayer-backed asset? Please explain why or why not.

Response:

- a. Yes. The Open Access Transmission Tariff of Puget Sound Energy (“PSE”) allows purchases of firm Point-to-Point Transmission Service for any number of terms, including terms of less than five years.
- b. No. In Order 890,¹ the Federal Energy Regulatory Commission required that transmission providers provide rollover rights to any firm transmission agreement under the Open Access Transmission Tariff with a minimum term of five (5) years. If NorthWestern Energy (or any firm transmission customer) were to enter into a transmission service agreement for firm Point-to-Point Transmission Service for a term of less than five years, then that transmission service agreement would fail to qualify for rollover rights because it is for a term of less than five (5) years.
- c. Even assuming the sale of those portions of PSE’s ownership interests in the Colstrip Transmission System identified in the Colstrip Transmission System Purchase and Sale Agreement, dated as of December 9, 2019, between NorthWestern Energy and PSE (the “Colstrip Transmission System Purchase and Sale Agreement”), PSE would maintain significant capacity rights on the Colstrip Transmission System.

Table 1. Summary of Effects of the Sale of Certain of PSE’s Rights in the Colstrip Transmission System Pursuant to the Colstrip Transmission System Purchase and Sale Agreement

PSE’s Current Total Transmission Capacity	750 MW
- Sale of the Initial Assets	-95 MW
- Sale of Option Assets	-90 MW
Remaining Capacity	565 MW
- Capacity for Transmission of Unit 3 Output	-185 MW
Remaining Capacity	380 MW

PSE will have ownership rights to about 565 MW of capacity after the sale of certain of PSE’s rights in the Colstrip Transmission System pursuant to the Colstrip Transmission System Purchase and Sale Agreement, of which PSE only needs capacity of approximately 185 MW to transmit power from Colstrip Unit 3. Accordingly, PSE will have surplus capacity of approximately 380 MW on the Colstrip Transmission system to offer for service pursuant to the terms and conditions of its Open Access Transmission Tariff.

¹ *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, 118 FERC ¶ 61,119, *order on reh’g*, Order No. 890-A, 121 FERC ¶ 61,297 (2007), *order on reh’g*, Order No. 890-B, 123 FERC ¶ 61,299 (2008), *order on reh’g*, Order No. 890-C, 126 FERC ¶ 61,228, *order on clarification*, Order No. 890-D, 129 FERC ¶ 61,126 (2009).

- d. If NorthWestern Energy were able to enter into a firm Point-to-Point Transmission Service Agreement for 90 MW of transmission capacity on the Colstrip Transmission System pursuant to the terms and conditions of PSE's Open Access Transmission Tariff, then PSE would expect annual revenues from NorthWestern Energy for such service (at PSE's current annual rate (\$9.1653/kW-year) and assuming NorthWestern Energy self-supplies ancillary services) would total approximately \$825,000. Of this amount, approximately \$262,000 would be attributable to the return on equity of 9.8 percent currently approved by the Federal Energy Regulatory Commission. These transmission revenues, including the return on equity component, received from NorthWestern Energy would become a revenue credit to PSE's retail customers, thus reducing PSE's retail revenue requirement in Washington. Therefore, the one-to-one offset of additional transmission revenues from NorthWestern Energy and the PSE retail revenue requirement in Washington would result in no change in PSE profits.
- e. Please see the response to part d. above.
- f. Transmission revenues are earned through cost-based rates subject to FERC approval and are not based on "market performance." Therefore, changes in market performance do not change PSE's rate recovery for these assets. Increased demand for use of an asset subject to cost-based rates may reduce the business risk of the asset (e.g., decreased likelihood of stranded costs) but does not increase the revenue requirement for that asset. PSE passes back all transmission revenues generated by FERC transmission rates to PSE retail ratepayers as transmission revenues are credited against retail cost of service.