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Via Electronic Filing

Mr. Steven V. King
Executive Director
Washington Utilities & Transportation Commission
1300 S. Evergreen Pk. Dr. S.W.
P. O. Box 47250
Olympia, WA 98504-7250

Re: In the Matter of Puget Sound Energy 2017 Integrated Resource Plan
Docket No. UE-160918

Dear Mr. King:

Pursuant to the Washington Utilities and Transportation Commission's (the "Commission") January 17, 2018 Notice of Recessed Open Meeting, the Industrial Customers of Northwest Utilities ("ICNU") respectfully submits these comments on Puget Sound Energy's ("PSE" or the "Company") 2017 Integrated Resource Plan ("IRP").

Overall, ICNU commends PSE on a thoughtful and well-designed IRP. The IRP relies primarily on demand-side resources to meet projected needs until 2025. ICNU in particular supports PSE's creative proposal to redirect transmission to obtain additional cost-effective market capacity.

ICNU recognizes that the IRP is one component of a continuous planning effort by all utilities the Commission regulates, including PSE, and that the resource plan that results from the IRP is subject to changing conditions. In this case, there have been significant changes since PSE filed its IRP. Likely the most important of these is the Tax Cuts and Jobs Act, H.R. 1, the new federal tax law, passed at the end of last year. As the Commission is already aware, this new law will have dramatic impacts on customer rates going forward, particularly with a reduced corporate tax rate of 21%.

The law may also have important consequences for resource planning, however. Updated forward market price curves indicate that the new tax law will reduce future market prices relative to previous projections. This likely validates PSE's continued reliance on the market, and may even support PSE increasing that reliance. The tax reduction also factors into the calculation of avoided costs, which, among other things, may reduce the forecasted amount of cost-effective conservation available to PSE. To the extent PSE obtains tax credits from new and existing wind and solar resources, the Company's ability to use these tax credits, and their value to customers, are also impacted by the new tax law.

In short, recent changes to the federal tax code have far-reaching and comprehensive impacts on the utilities the Commission regulates. PSE notes that it has a need for physical and renewable resources as early as 2022, but the Company's proposal to issue an RFP in 2018 appears to be driven more by its need to meet the renewable portfolio standard rather than to fill a capacity need, which it indicates can be deferred until 2025. ICNU does not oppose issuing this RFP, but believes that, before PSE commits to acquiring a new supply-side resource, it should refresh its IRP analysis to determine whether the new federal tax law impacts the lowest reasonable cost portfolio.

ICNU also recommends that PSE take two additional actions in conjunction with this RFP. First, PSE should also issue an RFP for renewable energy credits ("RECs"). Washington's RPS allows PSE to meet its requirements either with bundled or unbundled RECs.[1/] Historically, prices for unbundled RECs have been quite low, at 50 cents or less per REC. In 2016, PacifiCorp issued simultaneous RFPs for renewable resources and for RECs and found that RECs were priced so attractively that it could not justify acquiring a new physical resource.[2/] Receiving bids for unbundled RECs will similarly allow PSE to better evaluate the cost-effectiveness of the bids for physical renewable resources and to make decisions that are in the best interests of its customers.

Second, before PSE commits to any new capacity resources, it should open bilateral negotiations with counterparties who own existing capacity resources. As Portland General Electric discovered, a number of capacity owners in the region, particularly public entities like public utility districts, are hesitant to bid into RFPs.[3/] By limiting itself to the RFP process, therefore, PSE could miss out on the ability to acquire valuable capacity products, including hydro resources that would mitigate exposure to future carbon pricing risks.

Carbon pricing is, in fact, another moving target that has already potentially impacted the results of the Company's IRP. Since PSE filed its IRP, the Thurston County Superior Court issued a ruling overturning the Clean Air Rule ("CAR"). PSE's IRP models every scenario assuming the CAR, and most assuming the federal Clean Power Plan as well. At this point, there is little reason to assume the Clean Power Plan will go into effect, and the same may soon be true of the CAR, pending additional legal process and appeals. ICNU raises this not to dismiss the need to model the impacts of carbon pricing. Ultimately, ICNU agrees with both conclusions PSE reaches in its IRP – that "some form of carbon regulation is likely to be enacted during the next 20 years," but also that "carbon regulation looms as a significant source of uncertainty."[4/] How carbon pricing is modeled impacts the lowest reasonable cost portfolio. ICNU supports PSE's efforts to remain as adaptable as possible to changes in this area.

1/ RCW 19.285.040(2)(a).
2/ http://www.pacificorp.com/sup/rfps/2016-rec-rfp.html.
3/ OPUC Docket No. LC 66, PGE Reply Comments at 11-12 (Mar. 31, 2017).
4/ PSE 2017 IRP at 1-4, 2-19.

ICNU appreciates the ability to provide comments on PSE's 2017 IRP. Please feel free to contact me if you have any questions or concerns.

Sincerely,

/s/ Tyler C. Pepple
Tyler C. Pepple