Agenda Date: September 26, 2024
Item Number: A3

Docket: **UE-240288**
Company: Puget Sound Energy

Staff: Kody McConnell, Regulatory Analyst

Recommendation

Issue an Order approving an actual ratepayer rebate of $22.2 million for the 2023 annual PCA review filing, a provisional ratepayer surcharge of $98.2 million for the 2024 annual PCA review filing subject to further prudency review in 2025, the collection of the $76 million net balance amortized over 15 months from October 1, 2024, through December 31, 2025, and approving the 2023 regulatory accounting of power purchase agreements supporting the Green Direct program.

Filing Purpose

Puget Sound Energy (Company) must file a report on its preceding calendar year annual Power Cost Adjuster (PCA) mechanism and Green Direct accounting activities in a review filing with the Washington Utilities and Transportation Commission (Commission) by April 30 of each following year.[1] Commission Staff (Staff) and interested parties received a 150-day period to evaluate the reasonableness of deferral period PCA net power cost (NPC) variances and Green Direct regulatory accounting.[2] The proposed revised tariff sheets seek NPC variance recovery with interest for the 2023-2024 deferral periods of $76 million[3] representing a 1.81 percent bill increase to all Schedule 95 (Power Cost Adjustment) affected ratepayers from October 1, 2024, through December 31, 2024, as well as a 0.10 percent bill increase from October 1, 2024, through December 31, 2025. A typical ratepayer using 800 kWh on Schedule 7 (Residential) will experience a $2.31, or 2.11 percent, increase per month from October 2024 to December 2024 and $0.48, or 0.44 percent, decrease per month from October 2024 to December 2025.

Procedural Background

On June 20, 2002, the Commission entered Supplemental Order 12 in Dockets UE-011570, *et al.(consolidated)* authorizing the Company to implement a PCA that guardrails adjustments to rates by tracking and recovering NPC variances that exceed an authorized deadband and accrete to an established surcharge or rebate balancing account threshold of $30 million.[4] On March 27,

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[1] WUTC v. Puget Sound Energy, Docket UE-011570 *(consolidated UG-011571)*, Supplemental Order 12 (June 20, 2002).
[2] Id. at ⁋ 22.
[3] All million-dollar figures ($MM) described in this memorandum are rounded approximates.
[4] WUTC v. Puget Sound Energy, Docket UE-011570 *(consolidated UG-011571)*, Supplemental Order 12 (June 20, 2002).

2015, a multiparty settlement stipulation[5] and Order 11 was entered in Dockets UE-130583, *et al. (consolidated)* leading to modifications to the PCA mechanism including sharing band design, defining variable production costs, excluding fixed production and other costs, and lowering the balancing account threshold to $20 million.[6] Variance excursions for NPC beyond the authorized deadband penetrate two sharing bands that extend equidistantly from forecasted baselines and provide proportionally asymmetric distribution of said variances.[7]

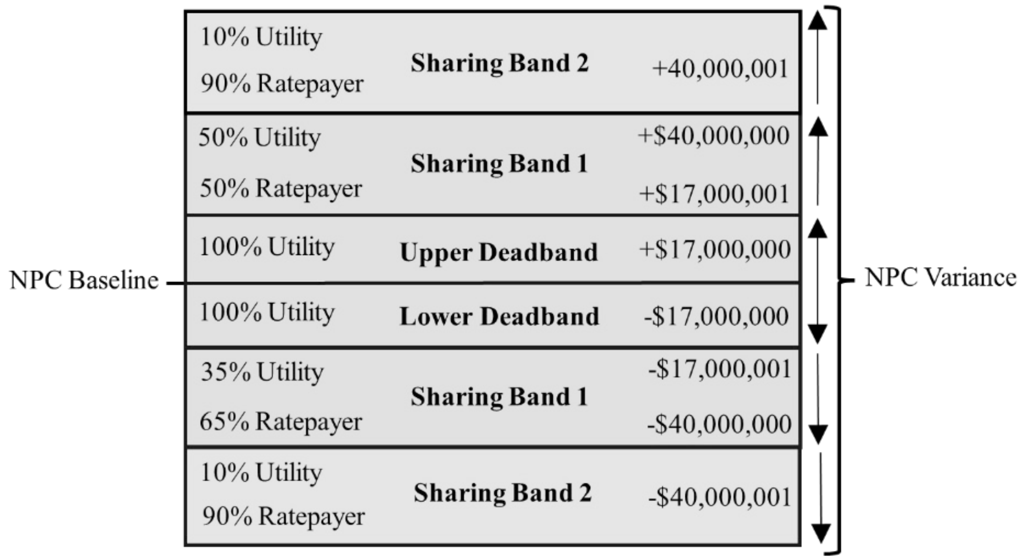

Figure 1: Puget Sound Energy Power Cost Adjuster Visual

The Company determines its monthly NPC variances by calculating the difference between actual and authorized NPC. Net variance values receive deferred accounting treatment and accrue interest at the quarterly FERC rate, currently 8.5 percent. The PCA also contains a provision allowing the Company to elect, with Commission approval, to recover customer receivables that exceed $20 million through a separate and special filing detailing the events giving rise to the projected NPC variance.[8] This filing represents the first instance the Company has made a request to make this election over a cumulative surcharge variance beyond the balancing account threshold during a review period. The cost recovery periods of PCA filings have historically ranged between 11 to 13 months while the current proposal is for 15 months.

NPC Variance Analysis

Annual 2023 Baseline v. Actual

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[5] *See* 480-07-730(3) Washington Administrative Code.
[6] WUTC v. Puget Sound Energy, Docket UE-130583 *(consolidated UE-130617, UE-131099, and UE-131230)*, Multiparty Settlement Stipulation at 3(a) (March 27, 2015).
[7] See Figure 1: PSE Power Cost Adjuster Visual Model.
[8] WUTC v. Puget Sound Energy, Docket UE-130583 *(consolidated UE-130617, UE-131099, and UE-131230)*, Multiparty Settlement Stipulation at 3(b) (March 27, 2015).

During 2023, the Company recovered $947.8 million of power costs through the PCA variable forecast baseline rate while incurring actual allowable power costs of $896.7 million. The energy sources used to serve the Company's ratepayer demand in 2023 varied from forecast baseline because of growth in actual load demand of 3.5 percent, reduced wind and hydroelectric variable resource availability, and natural gas generation increases driven by wholesale energy market prices. NPC were lower than the average forecast baseline power costs established in the Company's 2022 General Rate Case for the 2023 deferral period by an adjusted $51.1 million even though the average variable power cost rate for the year was higher than baseline forecast at $43.85 per MWh. Notably, actual wholesale electric market purchase costs were $52.4 million higher than forecast baseline but were offset by wholesale electric market sales revenue and financial hedging contracts that were $90.6 million higher than forecast baseline resulting in an overall $38.2 million reduction to NPC in 2023 with ratepayers entitled to share in the surplus.

January 2024 Excursion

The week-long period from January 12 through January 19 witnessed a major intrusion of frigid arctic air into much of the Pacific Northwest. The high of 21 degrees Fahrenheit on January 13 was the coldest daily high temperature in the region since 1990. This created conditions that drove retail demand to a record high that also coincided with the sustained disruption to variable wind generation resources and pushed wholesale electric market prices to extreme levels at times exceeding $1000 per MW at the Mid-Columbia trading node. The Company reports $93 million in 2024 NPC variance stemming from this single month, a very significant baseline excursion. It is the magnitude of this variance that compelled the Company to make a consolidation proposal.

Remaining 2024 Variance Forecast

At the time of this filing, the Company provided actual NPC figures for January through March of this year and an under-recovery forecast for April through December. Based upon data current as of March 31 the annual NPC ratepayer surcharge variance for the 2024 deferral period was anticipated to be $127 million. Reassessed with data current as of August 31 the annual NPC ratepayer surcharge variance has been reduced to $125 million. Staff deems the difference of about 2 percent between the March 31 and August 31 projections not material enough for the Company to meaningfully alter its consolidation proposal.[9] NPC actuals and forecast baselines for 2024 are set provisionally in this docket and a full review for prudency will occur in 2025.

[9] Per personal communication between Staff and Puget Sound Energy, (September 16, 2024).

<u>Consolidated Recovery Proposal</u>

Rate Volatility & Price Signals

Staff agrees that the Commission has long recognized that both avoiding rate volatility[10] and providing accurate price signals[11] is in the public interest. The consolidation of the 2023 and 2024 recovery periods for the PCA furthers these objectives by smoothing the incremental changes to utility bills between October 1, 2024, and December 31, 2025. As the proposal is structured ratepayers will experience minimal changes in NPC tariff recovery amounts in 2025.

Cash Flow v. Short-Term Debt

Under its consolidation proposal, the Company seeks to prevent itself from absorbing an approximately $100 million estimated reduction to its cash flow from operations during 2025. It contends that this capital is needed now to most economically finance ongoing energy transition projects that are unprecedented. Alternatively, the Company evaluated the relative net costs of replacing this cash flow from operations with short-term debt and determined that this approach would be financially inefficient and to the ultimate detriment of ratepayers. Approving the Company proposal would not just improve credit rating metrics influenced by cash flow from operations compared to debt liabilities but would also from a credit rating agency's perspective reflect well on Washington's regulatory environment signaling continuing policy support for compliance with aggressive carbon transition targets that are requiring extensive grid overhauls.

Ratepayer Time Value of Money

Interest considerations for substantial deferred sums have gained increased policy valence over the preceding year. With the FERC rate presently resting at 8.5 percent, ratepayers are receiving a meaningful real return on their NPC rebate that was accrued throughout 2023. In consolidating the 2023 and 2024 deferral periods this interest return would be applied as an additional offset to

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[10] In the Matter of the Petition of Northwest Natural Gas Co., Docket UG-220735, Order 01 Granting Accounting Petition at ¶ 9 (Oct. 27, 2022) (appreciating an "innovative proposal to mitigate some of the rate shock to customers); WUTC v. PacifiCorp d/b/a Pacific Power & Light Company, Docket UE-111190, Order 07 Approving and Adopting
Settlement (Mar. 30, 2012) (recognizing the importance of the principles of rate stability and gradualism.); see also Wash. State Attorney General's Office v. WUTC, 128 Wn. App. 818, 820, 116 P.3d 1064 (2005) (upholding the Commission's balancing of interests regarding utility rates, including goals "to avoid rate shock and establish relatively stable rates over a reasonable period.").

[11] In the Matter of the Petition of Avista Corporation, Docket UG-060518, Order 04 Approving Decoupling Pilot Program (Feb. 1, 2007) (Balancing fixed-cost recovery on an annual basis via a surcharge or credit mechanism diminishes the value of rates as a means to send appropriate price signals to customers.").

the 2024 ratepayer surcharge. Additionally, the Company is currently accruing its own interest at the same rate for the approximately $100 million NPC under collection already apparent for 2024. With all adjustments considered, permitting the consolidation proposal for the 2023 and 2024 deferral periods saves ratepayers on balance $8.7 million in additional interest costs.

Green Direct Accounting

As part of Docket UE-160977, in which the Commission approved Tariff Schedule 139 for the Green Direct program, the Commission noted that the Company has committed to track all costs and benefits of Schedule 139 separately and identifiably in its PCA mechanism.[12] The Company has shown that all costs and benefits associated with their Green Direct program were allocated only to customers who voluntarily chose that option and were not shifted to non-participating ratepayers. Additionally, it shows costs and benefits associated with the generation variances of related power purchase agreements were allocated exclusively to program participants.[13]

Other Considerations

Sequential v. Net Clearing

The Company devotes considerable effort to describing the potential benefits to ratepayers of allowing net clearing of the NPC variances for the 2023 and 2024 deferral periods. None of the existing NPC adjustment mechanisms for Washington electric utilities were designed with the intention to permit routine consolidated recovery periods. Sequential clearing is the normative operation of the PCA, and the Company's request represents a deviation from traditional practice. As noted, the Commission has authorized the Company to elect to request accelerated surcharge recovery when projected variances exceed $20 million within the calendar year recovery period. Staff agrees this circumstance represents an application of discretion that serves public interests.

HF Sinclair Cogeneration

The Company has made only one addition to its actual resource portfolio in 2023 through a power purchase agreement for 70 MW of energy and capacity from cogeneration at the HF Sinclair refinery in Anacortes, Washington. The prudency of this contract is being reviewed within the 2024 General Rate Case presently underway and is not determined by this docket.[14]

Interested Parties

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[12] Docket UE-160977, Order 1 at ¶ 10 (Sept. 28, 2016).
[13] WUTC v. Puget Sound Energy, Docket UE-190529, Order 8 at ¶296 (July 8, 2020).
[14] PSE presented details regarding its decision to enter the HF Sinclair PPA in its 2024 GRC in the prefiled direct testimony and supporting exhibits of Philip A. Haines, and such testimony and supporting exhibits are provided in this filing as Exh. BDM-3C.

Staff has engaged with the Company, Office of Public Counsel, Alliance of Western Energy Consumers, The Energy Project, and the Northwest Energy Coalition. Through this Staff has received wide-ranging input from stakeholders in formulating its recommendation and expects substantive discussion during open meeting. No other public comments have been received.

Conclusion

Staff deems the workbooks and narrative provided adequate for determination of 2023 NPC prudency, the consolidated recovery proposal and 2024 NPC forecasts acceptable, and the tariff revisions and related cost recovery to be fair, just, reasonable, and sufficient while furthering the essential public interest in preserving the integrity of the regulatory social construct.