

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of
PUGET SOUND ENERGY,
Petitioner,

For Approval of 2023 Power Cost
Adjustment Annual Report

DOCKET UE-240288

ORDER 01

APPROVING POWER COST
ADJUSTMENT ANNUAL REPORT;
SUBJECT TO CONDITIONS

BACKGROUND

- 1 On April 30, 2024, Puget Sound Energy (PSE or Company) filed with the Washington Utilities and Transportation Commission (Commission) a petition seeking approval of the Company's 2023 Power Cost Adjustment Mechanism (PCA) Report (Petition), including direct testimony from several witnesses. PSE filed the PCA Report consistent with the Commission's Twelfth Supplemental Order in Dockets UE-011570 and UG-011571, in which the Commission approved a PCA mechanism for PSE (2002 PCA Order). The Company's 2023 Power Cost Adjustment Mechanism Report (2022 PCA Report) provides the Company's proposed methodology for recovering the customer deferral via Tariff Revisions to WN U-60 Schedule 95, Power Cost Adjustment Clause.
- 2 The Company determines its monthly net power cost (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. 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.
- 3 The proposed revised tariff sheets seek NPC variance recovery with interest for the 2023-2024 deferral periods of \$76 million 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.

4 Commission staff (Staff) has reviewed the 2023 PCA Report and recommends that the Commission approve it. Staff notes that while the pending request is novel, granting it is in the public interest for several reasons. First, combining 2023 and 2024 deferral period will smooth out pricing for consumers; if PSE's request were to be denied, ratepayers would experience an increase in rate volatility.¹ Second, the proposed accounting treatment saves ratepayers an estimated \$8.7 million in interest costs which would otherwise be passed through.

5 Staff explains that for the 2023 PCA period, 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.

6 Staff notes that the week-long period from January 12 through January 19, 2024,

¹ *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.").

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.

7 Staff observes that several factors contributed to PSE's actual power costs being higher than the amounts recovered in rates during the 2022 PCA period. These factors included increased coal fuel costs, natural gas fuel and transportation, and long-term contract purchases. Staff explains that actual market prices for both power and natural gas during 2023 were significantly higher than the prices assumed in rates in the Company's earlier power cost only rate case.² These factors are discussed more fully in Staff's open meeting memo posted to this docket.

8 Staff further observes, at the time of this filing, the Company provided actual NPC figures for January through March of 2024 and an under-recovery forecast for April through December of 2024. Based upon data current as of March 31, 2024, 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. NPC actuals and forecast baselines for 2024 are set provisionally in this docket and a full review for prudence will occur in 2025.

9 Staff also reviewed the Company's filing as it pertains to the Green Direct Program and power purchase agreements (PPAs) included in the PCA.³ Staff notes the Company has shown all costs and benefits associated with the Green Direct Program were allocated

² See generally *WUTC v. Puget Sound Energy*, Docket UE-200980 Final Order 05 (June 1, 2021).

³ Docket UE-160977, Order 1 at ¶ 10 (Sept. 28, 2016) (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).

only to customers voluntarily participating and all associated costs and benefits associated with PPAs related to the program were treated the same. Staff also notes that one PPA was added to the overall portfolio and the prudence of that PPA is being reviewed as part of PSE's current general rate case.

10 In sum, Staff recommends that the Commission 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 prudence review in 2025,
- The collection of the \$76 million net balance amortized over 15 months from October 1, 2024, through December 31, 2025,
- The 2023 regulatory accounting of power purchase agreements supporting the Green Direct program.

11 On September 26, 2024, Staff presented its memo and recommendations at the regularly scheduled Open Meeting. Public Counsel requested that the Commission set the matter for adjudication, as Public Counsel did not believe that PSE had proffered sufficient information to demonstrate a need for the novel approach proposed by the Company. The Alliance of Western Energy Consumers (AWEC), also made comments, requesting the Commission approve the filing for the 2023 PCA, but denying to consolidate and allow 2024 balances and forecasted balances to be collected, providing policy arguments for the treatment the Company requested to be used only in the most extraordinary of circumstances.

DISCUSSION

12 We agree with Staff that PSE's 2023 PCA Annual Report should be approved. The Company's proposal to collect a customer net deferral balance of \$76 million amortized over 15 months, is consistent with the Commission's 2002 PCA Order as well as the 2015 PCA Settlement. The deferral calculation appropriately adjusted the allowed actual power costs, baseline power costs, and load. Accordingly, we agree that PSE's 2023 PCA Report, the deferred balance, and proposal to recover the deferred balance are reasonable and should be approved.

13 Additionally, we agree with PSE and Staff, that it is appropriate for PSE to consolidate the 2023 and 2024 PCA periods, subject to the provisional ratepayer surcharge of \$98.2

million for the 2024 annual PCA review being subject to further prudency review in 2025. This methodology furthers the public interest as it will both lower rate volatility and save ratepayers \$8.7 million in interest costs which would otherwise be passed on.

14 Public Counsel requested an adjudication in this matter. There was also discussion of *Johnson v. Washington State Conservation Commission*, which affirmed that an application for adjudication of the removal of Commissioners was improperly denied and resolved during an open meeting.⁴ However, we find that the holding in *Johnson* does not restrict our ability to deny a request to set an application for adjudication, when the request is made in written comments, or in an oral request during an Open Meeting, as in this instance.

15 In *Johnson*, the Court affirmed that pursuant to RCW 34.05.419(1), an agency has three options when it receives an application for adjudication, including to dispose of the application in accord with RCW 34.05.416.⁵ In *Johnson*, the Conservation Commission denied the application for hearing and proceeded to hear the matter relating to removal during an open meeting. The Court of Appeals affirmed the Superior Court’s finding that the Conservation Commission’s denial of an adjudication was improper, and it lacked discretion to deny the application for formal adjudication because the proceeding was also governed by RCW 89.08.200, which allowed for “district supervisor removal” only “upon notice and hearing.”⁶

16 Here, and generally before the Commission at the regularly scheduled Open Meetings, we are not hearing or deciding matters subject to intervening statutes like RCW 89.08.200, which explicitly limited the Conservation Commission’s discretion under RCW 34.05.419. Rather, we find that we retain discretion to deny an application for adjudication in most circumstances, even if there is no formal application, including when a party moves for adjudication at an open meeting during the comment period relating to a particular docket. We recognize, that in some circumstances, this discretion may be limited, but we find that this is not such a circumstance.

⁴ See, *Johnson v. Wash. State Conserv. Comm’n*, 16 Wn. App. 2d 265, ¶¶ 61-70, 480 P.3d 502, 515-16 (Wash. Ct. App. – Div. II, Feb. 9, 2021).

⁵ *Id.* at ¶65 (citing RCW 34.05.419(1) which allows agencies to “(a) Approve or deny the application, in whole or in part, on the basis of brief or emergency adjudicative proceedings, if those proceedings are available under this chapter for disposition of the matter; (b) Commence an adjudicative proceeding in accordance with this chapter; or (c) Dispose of the application in accordance with RCW 34.05.416.”)

⁶ *Id.* at ¶ 68 (internal quotations removed).

17 The Commission declines to send this matter to adjudication, as in the Commission’s view the flattening of rate volatility, and the savings on interest offered by the proposal, were strongly in support the public interest, that those reasons were reasonable and would result in the most fair rates to customers. These benefits to ratepayers, and the benefits to the Company regarding cashflow and stability, outweigh the policy concerns expressed by Public Counsel and AWEC.⁷

18 Lastly, to the extent that Public Counsel and AWEC have concerns about a slippery slope or other negative implications of this Order, we observe the non-precedential and fact specific nature of this decision. The circumstances of this PCA period and its interaction with this Company’s specific recovery mechanism, are unique and present circumstances where the consolidation of PCA periods uniquely benefits ratepayers. Further, the provisional surcharge of \$98.2 million for the 2024 annual PCA review, is provisional, and will be pending further prudency review in 2025. This protects ratepayers from paying costs not actually incurred by the Company while allowing the benefits to ratepayers discussed herein.

FINDINGS AND CONCLUSIONS

19 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including electric companies.

20 (2) PSE is an electric company and a public service company subject to Commission jurisdiction.

21 (3) WAC 480-07-370(1)(b) allows companies to file petitions, including the petition filed in this Docket for which PSE seeks approval.

22 (4) Staff has reviewed the petition filed in Docket UE-240288, including related work papers.

23 (5) This matter came before the Commission at its regular open meeting on September 26, 2023.

⁷ See, RCW 34.05.416 requiring the Commission provide a reason for denying an application for adjudication in writing.

- 24 (6) After reviewing PSE’s petition filed in Docket UE-240288 on March 23, 2023, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that it is in the public interest to approve the Petition seeking approval of the PCA filing for the reasons noted in paragraphs 12, 13, and 15 of this Order, subject to the condition that the 2024 PCA recovery is provisional and we will conduct prudency review in 2025 of the provisional ratepayer surcharge of \$98.2 million for the 2024 PCA.
- 25 (7) After review of PSE’s petition and Staff’s recommendations, and giving due consideration to all relevant matters and for good cause shown, the Commission finds the 2023 regulatory accounting of the power purchase agreements supporting the Green Direct program should be approved and finds the remaining power purchase agreement costs outside of the Green Direct program will be addressed in PSE’s general rate case.
- 26 (8) After consideration of *Johnson v. Washington State Conservation Commission*, the relevant matters and giving due consideration to the arguments presented by the parties in both written and oral comments, the Commission finds Public Counsel’s request for adjudication in this proceeding should be denied for the reasons stated in paragraphs 14 through 18 of this Order.

ORDER

THE COMMISSION ORDERS:

- 27 (1) The Commission grants Puget Sound Energy’s Petition for approval of an actual ratepayer rebate of \$22.2 million for the 2023 annual PCA review filing, and a provisional ratepayer surcharge of \$98.2 million for the 2024 annual PCA review filing, resulting in 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, subject to the condition of further prudency review in 2025 of the provisional ratepayer surcharge of \$98.2 million for the 2024 annual PCA review and customer refund if required.
- 28 (2) This Order shall not affect the Commission’s authority over rates, services,

accounts, valuations, estimates, or determination of costs, on any matters that may come before it. Nor shall this Order be construed as an agreement to any estimate or determination of costs, or any valuation of property claimed or asserted.

- 29 (3) The Commission retains jurisdiction over the subject matter and Puget Sound Energy to effectuate the provisions of this Order.

DATED at Lacey, Washington, and effective September 27, 2024.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

ANN E. RENDAHL, Commissioner

MILTON H. DOUMIT, Commissioner