

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

DOCKET UE-230805

PUGET SOUND ENERGY

ORDER 01

For Revisions to Tarif WN U-60 Electric
Schedule 95, Power Cost Adjustment
Clause, approved by Final Order 24/10

REJECTING IN PART 2024 POWER
COST UPDATE; AUTHORIZING AND
REQUIRING COMPLIANCE FILING

BACKGROUND

- 1 On August 1, 2023, Puget Sound Energy (PSE or Company) filed with the Washington Utilities and Transportation Commission (Commission) revisions to its currently effective Tarif WN U-60, designated as the Schedule 95 “Power Cost Adjustment Clause” in Dockets UE-220066, UG-220067, and UE-210918 (*Consolidated*).¹ PSE filed the report consistent with the Commission’s Twelfth Supplemental Order approving the settlement in Docket Nos. UE-011570 and UG-011571, in which the Commission approved a power cost adjustment (PCA) mechanism for PSE. The PCA accounts for differences in PSE’s modified actual power costs relative to a power cost baseline and the sharing of those costs and benefits over dead and sharing bands of power costs between the Company and its Customers. The 2002 PCA settlement defined the specific sharing levels and conditions.²
- 2 On September 29, 2023, PSE filed a 2024 Power Cost Update (2024 Power Cost Update) in the present docket, including a narrative describing additional complex changes made in the August 1, 2023, filing, impacting the PCA baseline forecasts. According to this filing, the effective date for the attached tariff sheets is January 1, 2023.
- 3 In its 2024 Power Cost Update, PSE seeks to adjust the rate recovering the PCA baseline by updating the power cost model as outlined in Appendix A to its filing, which provides for certain updates to be made to the power cost model from the 2022 GRC Dockets. The

¹ Dockets UE-220066, UG-220067, and UG-210918 (Consolidated) (“2022 GRC Dockets”).

² See *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-011570 & UG-011571, Twelfth Supplemental Order at ¶¶ 22-24 (June 20, 2002).

2024 Power Cost Update includes details of the complex changes that were included in the August 1, 2023, filing.

4 In PSE's August 1 filing, PSE indicated it was still evaluating whether and to what extent it would include the impacts of the Climate Commitment Act (CCA) in this filing. The Company noted that it has included estimated impacts of the CCA on resource dispatch, which accounts for \$22.7 million for a modest portion of the requested increase in this filing.

5 The Company's 2024 Power Cost Update contains a \$185.6 million revenue requirement increase over rates previously approved for 2024 in the 2022 GRC Dockets which contained total variable power costs of \$929.9 million.³ The 2024 Power Cost Update states that the overall impact of the adjustment is an increase of 7.05 percent in overall rates from their current level. Residential customers using 800 kilowatt-hours per month will experience a decrease of \$7.25 or 7.18 percent per month for the proposed base rate change.

6 On November 20, 2023, the Alliance of Western Energy Consumers (AWEC) filed substantive comments on PSE's 2024 Power Cost Update in Docket UE-230805.⁴ AWEC's arguments are addressed in greater detail below.

7 Commission Staff (Staff) has reviewed PSE's 2024 Power Cost Update and recommends that the Commission issue an order rejecting in part Puget Sound Energy's tariff and compliance filing, requiring PSE to exclude \$11.4 million in estimated costs associated with Demand Response Power Purchase Agreements and \$22.7 million in estimated costs associated with the indirect impact of Climate Commitment Act compliance from the Power Cost baseline update and requiring an updated Compliance and Tariff Revision be filed. Staff's arguments are discussed in greater detail below.

8 This matter came before the Commission at its December 21, 2023, open meeting. The Commission heard additional comments from Staff, PSE, AWEC, and NW Energy Coalition (NWEC). Staff reiterated its recommendation to reject the Company's filing in part and to require a compliance filing. Staff noted that PSE explained that its Aurora modeling could not support market sales and purchases within the same hour, which raised concerns with the modeling of CCA costs.

³ 2024 Power Cost Update at 2 (September 29, 2023).

⁴ AWEC's Comments (November 20, 2023).

9 The Company argued that interested parties had ample time to review the filing and that the Commission previously encouraged the Company to increase its investments in DR. PSE recommended including DR costs but offsetting those costs by a conservative forecast of the benefits of the DR investments to its power costs. The Company also observed that while CCA costs were difficult to forecast and disagreements remained about whether CCA costs should be reflected in dispatch decisions, CCA costs were explicitly included in power costs pursuant to the Revenue Requirement Settlement resolving the Company's last general rate case. The Company raised some concerns about its opportunity to recovery DR costs, if they were not recovered in this proceeding, but acknowledged that it had pending petition before the Commission for CCA costs. PSE also argued that it was inconsistent to advocate for including CCA costs in dispatch but not to support the recovery of CCA costs in forecasted power costs. The Company noted that the Aurora model had certain limitations and did not reflect the number of actual transactions, but Aurora nonetheless provided a reasonably accurate forecast of CCA costs.

10 AWEC maintained its recommendation to reject PSE's modeling change for wind integration. AWEC submits that it was not fully able to review the modeling change in the time provided, that the modeling change shifted risk to customers, and that it indicated a significant policy change, which should be reserved for a later general rate case. AWEC raised further concerns that this modeling change was inconsistent with the earlier Revenue Requirement Settlement. AWEC noted its earlier comments regarding CCA dispatch costs, arguing that least-cost principles required PSE to model CCA costs in dispatch decisions. AWEC recommended that the Commission advise PSE that it may face a prudence disallowance in a future post cost filing. Regarding DR, AWEC maintained that the benefits of the DR resources should be included and that it did not have an opportunity to review the Company's claims that the DR resources resulted in \$880,000 in benefits. AWEC supported Staff's proposal to remove DR costs in the alternative. Regarding the possible decision by BPA to provide some benefit to customers, including PSE, for transmission costs, AWEC noted that BPA's decision was expected the day following the open meeting and that there would be an opportunity to include these cost reductions in the Company's compliance filing. AWEC submitted that it did not have full information regarding the Company's modeling of CCA costs.

11 NWECC commented that it would not be prudent for the Company to not consider CCA costs in its modeling of dispatch decisions. NWECC also noted its general support for the Company investing in DR technologies.

DISCUSSION AND DECISION

12 We largely agree with Staff’s recommendation, and we therefore reject in part the Company’s 2024 Power Cost Update and require a compliance filing reflecting our findings in this Order.

Prudency Review of Power Costs under the Revenue Requirement Settlement

13 First, Staff submits that the 2024 Power Cost Update inaccurately refers to the prudency review process set forth in the Revenue Requirement Settlement, in the Company’s 2022 general rate case.⁵ Staff points out that in its narrative, PSE claims that paragraph 30 of the Settlement Agreement provides that “These new resources will undergo a prudency review in the 2024 annual PCA compliance filing or PSE’s next general rate case filing, whichever comes first.” However, Staff claims that this statement is inaccurate. We agree. Paragraph 30 actually states, “Prudence of any new resources effective in 2024 will be determined in the April 2024 PCA Compliance Filing.” It only allows parties the ability to defer prudence determinations to the following year and explicitly reserves parties’ “right to challenge actual deferrals in the following year’s PCA Compliance Filing.”⁶ Thus, we remind PSE and all parties to adhere to requirements of the Settlement Agreement.

Inclusion of Demand Response Contracts

14 We note that paragraph 29 of the Revenue Requirement Settlement notes that “Complex changes include but are not limited to” and lists “Any new power resources” and “Any new contracts.”⁷ In its 2024 Power Cost Update, PSE includes the costs for its Demand Response Contracts.⁸ Specifically, PSE is including the costs of demand response contracts not previously included in power costs, which it estimates to add \$11.4 million

⁵ See generally *WUTC v. Puget Sound Energy*, Dockets UE-220066 *et al.* Final Order 24/10 App. A Revenue Requirement Settlement (December 22, 2022) (Revenue Requirement Settlement).

⁶ Appendix A, Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and PSE’s Green Direct Program, to Final Order 24/10 Rejecting Tariff Sheets; Approving Settlements, with Conditions; Authorizing and Requiring Compliance Filing in Dockets UE-220066, UG-220067, & UE-210918 (*Consolidated*) ¶ 30.

⁷ *Id.* ¶ 30.

⁸ *Id.* ¶ 32 (“The cost of any DER PPA for distributed generation, battery resources and demand response costs are eligible for recovery through PSE’s PCORC, PCA Mechanism and/or annual power cost update and are eligible for potential earning on PPAs pursuant to RCW 80.28.410.”).

in costs.⁹ AWEC's comments in response assert that "PSE has not included any discussion or evidence that addresses the anticipated benefits associated with demand response contracts in this filing." AWEC also highlights that "the Commission has stated, [w]hen fixed costs that reduce variable power costs are included in general rates, the PCAM's baseline power costs must be reset to reflect the benefits in order for ratepayers to realize the net benefits of the fixed costs they are being asked to pay for. Doing so matches the benefits with the burden."¹⁰

15 AWEC adds that the "Commission has addressed circumstances where costs are included in rates when benefits are anticipated, but speculative. When PacifiCorp joined the Energy Imbalance Market (EIM), the Oregon Commission approved a settlement wherein benefits were set equal to costs.¹¹ The Commission's treatment of EIM benefits was slightly different, but the Commission again relied on the necessity of matching costs with the inclusion of benefits in rates."¹² AWEC asserts that "The matching principle is a longstanding ratemaking principle that should not be abandoned in this case."¹³

16 Staff have similar concerns to those voiced by AWEC regarding the inclusion of the costs of these Demand Response Contracts without including the benefits. Specifically, Staff argues that inclusion of the Demand Response Contracts violates the ratemaking principle of benefit following the burden and therefore we should direct that these costs be excluded from the 2024 Power Cost Update. However, based on our review of the filing and testimony provided at the open meeting, the Commission will allow the inclusion of DR contract costs as the value of demand response carries an offsetting benefit amounting to \$880,000, which will accrue to the benefit of customers.¹⁴

17 With regard to the modeling change for calculating wind integration costs, we agree with Staff's conclusion that the outcome and explanation behind the Company's methodology for calculating these costs are reasonable. However, our approval of the modeling change

⁹ 2024 Power Cost Update at 3 (September 29, 2023) Docket UE-230805.

¹⁰ Docket No. UE-152253, Order 12 ¶ 222 (September 1, 2016).

¹¹ AWEC's Comments ¶ 21 citing *In re PacifiCorp*, Oregon PUC Docket Nos. UE 287 and UM 1689, Order No. 14-331, 2014 Ore. PUC LEXIS 322 (Oct. 1, 2014).

¹² *Id.* at ¶ 21 citing Docket No. UE-152253, Order 12 ¶ 222 (September 1, 2016).

¹³ *Id.*

¹⁴ During the December 21, 2023, Open Meeting, the Commission determined to include the DR contract costs, pursuant to Commissioner Rendahl's Motion.

on calculating wind integration costs does not preclude review of that in PSE's general rate case proceeding.

Bonneville Power Administration (BPA) Transmission

18 Paragraph 28b of the Revenue Requirement Settlement lists “[a]ny new and updated resources (including transmission contracts)” as one of the costs PSE will include to update the PCA baseline so this update appears compliant with the terms of the Settlement. In accordance with paragraph 28b, PSE includes the losses associated with the Bonneville Power Administrations (BPA) transmission contract, resulting in an \$18 million increase in power costs. In its comments, AWEC claims that, after PSE submitted this filing, on “November 16, 2023, BPA presented its Q4 Quarterly Business Review” where it discussed “Transmission net revenues” and reserves which have reached a level triggering its Reserves Distribution Clause (RDC). “BPA’s calculated RDC is \$130.4 million,” which the Administrator may choose to repurpose for high-value business unit-specific purposes, including Dividend Distributions.”¹⁵

19 AWEC notes that a decision is expected on or before December 15, 2023, and requests that the distribution be included in PSE’s forecast if “the information is known prior to rates becoming effective.”¹⁶ We agree with AWEC and direct PSE to include this transmission adjustment in its forecasts between now and when the Company submits its compliance filing following this Order.

Climate Commitment Act Indirect Costs and Impacts

20 Another issue that came to our attention was the indirect costs and impact costs associated with CCA compliance. PSE estimated that the cost for CCA compliance would increase by approximately \$22.7 million. PSE states that this increase “is the net result of (a) a projected decrease in secondary market sales revenue (\$66.9 million power cost increase) offset by (b) a decrease in projected natural gas fuel costs (\$44.3 million power cost decrease).”¹⁷ PSE explains it “expects to receive no-cost allowances for emissions from generation used to serve retail electric load only. Accordingly, PSE must purchase allowances for emissions associated with any secondary market sales. This means that PSE cannot economically dispatch generation for secondary sales unless the

¹⁵ *Id.* at ¶ 23.

¹⁶ AWEC Confidential Comments in Docket UE-230805 page 11.

¹⁷ 2024 Power Cost Update at 6.

revenue from such sales is sufficient to cover the sum of traditional variable costs (primarily fuel) plus the cost of emissions allowances under the CCA.” It also clarifies that the costs of allowance purchases that may be required for compliance would continue to be deferred in accordance with the accounting petition approved in Docket UE-220974.¹⁸ According to PSE, the dispatch adjustments to this forecast will reduce emissions by approximately 600,000 metric tons.¹⁹

21 We note that the Commission in issuing Order 26/12 rejecting in part 2023’s compliance filing, and power cost update gave PSE the option to:

1. defer the \$135.8 million in related projected power costs in question and request review of these costs in its 90-day power cost compliance filing in this proceeding for 2024; or
2. petition for Commission review of these costs in a separate proceeding.²⁰

22 We have not yet received a filing under the first option, and PSE has indicated it will be filing a petition in its upcoming annual PCA filing in April of 2024, based on option 2. At this time, it is unclear to us whether the Company actually reduced dispatch of fossil fuel resources in 2023. We are encouraged by PSE’s statements that the CCA will drive a meaningful reduction in PSE’s dispatch of coal and fuel-burning resources, reducing its carbon emissions. However, we remain concerned about the unknown extent of this impact on PSE’s power costs as we have no historical data to consider. Additionally, upon review of PSE’s statements regarding secondary sale and their effect on indirect costs, we believe there is not sufficient information that is known and measurable regarding those costs and the impact of CCA compliance on PSE’s 2024 power costs. Consequently, we order that the indirect costs and impacts for CCA compliance of \$22.7 million be excluded from the 2024 Power Cost Update.

23 Moreover, based on the information provided by the parties during the Open Meeting, it was made clear just how pronounced the information imbalance has been between the Company and the parties regarding the CCA compliance costs. Consequently, we have no choice but to deny inclusion of CCA direct costs for compliance as well. However, the Commission raised concerns that the Company was not reflecting CCA costs in its

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ Order 26/12 Rejecting the Compliance Filing in Part, Requiring Revised Compliance Filing, Dockets UE-220066, UG-220067, and UE-210918 (*Consolidated*) ¶ 22 (Jan. 6, 2023).

modeling of dispatch decisions and noted that this could risk potential prudence concerns about power costs in a future proceeding.

24 Based on Staff recommendations and our review, we reject in part the 2024 Power Cost Update and direct PSE to file an amended Compliance and Tariff Revision of the 2024 Power Cost Update, in accordance with the directives of this order. We are disappointed with the lack of information and development regarding the CCA and the dispatch costs calculations for the 2024 Power Cost Update. Going forward we hope the Company will provide complete, concrete and substantive, and less speculative data in order to support its subsequent Power Cost Update filings. To that end, we require the Company to work with Staff in the preparation of the amended 2024 Power Cost Update with regard to the CCA and the dispatch costs.

FINDINGS AND CONCLUSIONS

- 25 (1) The Commission is an agency of the State of Washington, vested by statute with authority to regulate electric companies and public service companies to the fullest extent allowed by federal and state law, and the Commission has jurisdiction over the parties and subject matter of this proceeding.
- 26 (2) PSE is a public service company and electric company subject to Commission regulation.
- 27 (3) The Commission's Twelfth Supplemental Order approved the settlement in Dockets UE-011570 and UG-011571, and approved a power cost adjustment (PCA) mechanism for PSE in that proceeding.
- 28 (4) On August 1, 2023, Puget Sound Energy filed with the Commission, consistent the settlement in Dockets UE-011570 and UG-011571 with a revision to its currently effective Tariff WN U-60, designated as the Schedule 95 "Power Cost Adjustment Clause."
- 29 (5) On September 29, 2023, in Docket UE-230805, PSE submitted its 2024 Power Cost Update, which contained additional changes to the August 1, 2023 filing.
- 30 (6) The 2024 Power Cost Update sought inclusion of \$11.4 million in costs for demand response contracts.
- 31 (7) The 2024 Power Cost Update sought inclusion of \$22.7 million of alleged increased cost for CCA compliance.

- 32 (8) Staff has reviewed the 2024 Power Cost Update in Docket UE-230805.
- 33 (9) The Commission finds that the inclusion of \$11.4 million in costs for Demand Response Contracts violates the ratemaking principle of benefit following the burden and should be excluded from the 2024 Power Cost Update.
- 34 (10) The Commission finds that there is not sufficient information that is known and measurable regarding \$22.7 million indirect costs and impacts for CCA compliance costs and that these costs should be excluded from the 2024 Power Cost Update.
- 35 (11) The Commission finds that there was an information imbalance between the Company and the other parties to this proceeding as to make difficult to ascertain the direct costs for CCA compliance and that these costs should be excluded from the 2024 Power Cost Update.
- 36 (12) The Commission finds that the Company should calculate the dispatch costs, based on the CCA.
- 37 (13) The Commission finds that the outcome and explanation behind the Company's methodology for calculating wind integration costs are reasonable.
- 38 (14) The Commission will review the Company's methodology on calculating wind integration costs in PSE's general rate case proceeding.
- 39 (15) Staff concluded that there were inaccuracies and insufficient information in the forecasts related to the 2024 Power Cost Update that did not comply with the Settlement approved by Final Order 24/10 in PSE's last General Rate Case.
- 40 (16) Staff recommends that the Commission reject, in part, the 2024 Power Cost Update and that PSE refile the update.
- 41 (17) This matter came before the Commission at its regularly scheduled meeting on December 21, 2023.
- 42 (18) After examination of the Company's 2024 Power Cost Update, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that the 2024 Power Cost Update should be rejected, in part, and that PSE should be authorized and required to refile the update in order to conform with this order. A properly modified report should be approved by the Commission by letter from the Commission's executive secretary.

ORDER

THE COMMISSION:

- 43 (1) Puget Sound Energy's 2024 Power Cost Update is REJECTED, in part. Puget Sound Energy is directed to refile its update consistent with paragraphs 16, 21 and 22 of this Order. The Commission will approve a properly modified report by letter from the Commission's executive secretary.
- 44 (2) Puget Sound Energy shall include the transition adjustment in its forecast between now and when the Company files its amended 2024 Power Cost Update, pursuant to paragraphs 18 and 19 of this Order.
- 45 (3) This Order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates, or determination of costs on any matters whatsoever that may come before it, nor shall anything herein be construed as acquiescence in any estimate or determination of costs claimed or asserted.
- 46 (4) The Commission retains jurisdiction over the subject matter of this proceeding and Puget Sound Energy to effectuate the provisions of this Order.

DATED at Lacey, Washington, and effective December 22, 2023.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chair

ANN E. RENDAHL, Commissioner

MILT DOUMIT, Commissioner