Agenda Date: December 13, 2018
Item Number: A5

Docket: UE-180928
Company Name: Puget Sound Energy

Staff: Kathi Scanlan, Acting Senior Resource Planning Manager

Recommendation

Staff recommends the commission take no action, allowing the revisions to Puget Sound Energy's Tariff Schedule 91 – Cogeneration and Small Power Production to go into effect by operation of law.

Background

On November 14, 2018, Puget Sound Energy (PSE or company) filed with the Washington Utilities and Transportation Commission (commission) its revision to its Tariff, Cogeneration and Small Power Production (Schedule 91, Sheets No. 91-B and 91-C), effective December 15, 2018.[1]

Utilities are obligated to purchase Qualifying Facility (QF) power as required by the Public Utility Regulatory Policy Act (PURPA), FERC rules, and commission rules and orders.[2] PURPA requires utilities to purchase power produced by QFs at rates that: (1) are just and reasonable to electric customers; (2) do not discriminate against QFs; and (3) do not exceed the incremental cost to the utility of alternative electric energy.[3]

FERC rules require utilities to purchase QF power at rates that equal the utility's "full avoided cost." That is, the cost the utility avoids by not having to generate itself or purchase electricity from another source.[4] The full avoided cost must account for the value of both the energy costs and the capacity costs that the utility avoids by purchasing QF power. Under the full avoided cost, standard rates for QF power must include a value for capacity, unless the purchasing utility can demonstrate that it does not need capacity over its ten-year planning horizon.[5]

The commission's current PURPA rules require utilities to update their avoided cost schedule at least once per year, and to file a standard tariff for purchases from small QFs.[6] The company's avoided energy costs should be based on several factors, including current projected market prices for power.[7] This approach is consistent with the incremental cost methodology adopted in the commission's Energy Independence Act rules (WAC 480-109), which serves a similar avoided cost function.

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[1] WAC 480-107-055(1) requires investor-owned utilities to make an annual filing of their avoided capacity and energy costs.
[2] WUTC v. *Pacific Power & Light Company*, Docket UE-144160, Order 04 (November 12, 2015).
[3] 16 U.S.C. § 824a-3(b).
[4] 18 CFR § 292.304(b)(2).
[5] 18 C.F.R. § 292.304; see also FERC Order No. 69 at 12225-6.
[6] WAC 480-107-095(2).
[7] WAC 480-107-055.

Discussion

The proposed revisions to Schedule 91 update power price projections consistent with PSE's 2019 Integrated Resource Plan using the Mid C prices for the *Base + No CO2 price* scenario, including the 2019 power price forecast from the AURORA electricity market model (model). Under the current regulatory framework, Puget Sound Energy proposes to continue to offer standard contracts for QF's of five (5) megawatts or less. In this filing, the company is not changing its current threshold for Schedule 91 eligibility to QF's and will continue to offer standard contract term lengths between one and sixteen years, consistent with its previously filed tariffs.[8]

Tables 1 through 3 show that the company's fixed price option for standard power rates have decreased for "firm base" (dispatchable) resources by over 20 percent. For wind and solar "non-firm" (non-dispatchable) resources, rates for purchase of energy decreased by approximately 25 percent.

Table 1: Firm Base—16 Year Power Rates for Qualifying Facility

	2018	2019	2020	2021	2022	2023	2024	2025	
Current	$41.33	$42.36	$43.42	$44.51	$45.62	$46.76	$47.93	$49.13	
Proposed	n/a	**$33.18***	**$34.01**	**$34.86**	**$35.73**	**$36.62**	**$37.54**	**$38.47**	
	2026	2027	2028	2029	2030	2031	2032	2033	2034
Current	$50.36	$51.61	$52.91	$54.23	$55.58	$56.97	$58.40	$59.86	n/a
Proposed	**$39.44**	**$40.42**	**$41.43**	**$42.47**	**$43.53**	**$44.62**	**$45.73**	**$46.88**	**$48.05**

Table 2: Wind—16 Year Power Rates for Qualifying Facility

	2018	2019	2020	2021	2022	2023	2024	2025	
Current	$37.66	$38.61	$39.57	$40.56	$41.57	$42.61	$43.68	$44.77	
Proposed	n/a	**$28.96***	**$29.68**	**$30.42**	**$31.18**	**$31.96**	**$32.76**	**$33.58**	
	2026	2027	2028	2029	2030	2031	2032	2033	2034
Current	$45.89	$47.04	$48.21	$49.42	$50.65	$51.92	$53.22	$54.55	n/a
Proposed	**$34.42**	**$35.28**	**$36.16**	**$37.07**	**$38.00**	**$38.95**	**$39.92**	**$40.92**	**$41.94**

Table 3: Solar—16 Year Power Rates for Qualifying Facility

	2018	2019	2020	2021	2022	2023	2024	2025	
Current	$37.05	$37.98	$38.93	$39.90	$40.90	$41.92	$42.97	$44.04	
Proposed	n/a	**$28.26***	**$28.96**	**$29.69**	**$30.43**	**$31.19**	**$31.97**	**$32.77**	
	2026	2027	2028	2029	2030	2031	2032	2033	2034
Current	$45.14	$46.27	$47.43	$48.62	$49.83	$51.08	$52.35	$53.66	n/a
Proposed	**$33.59**	**$34.43**	**$35.29**	**$36.17**	**$37.07**	**$38.00**	**$38.95**	**$39.92**	**$40.92**

**Proposed energy rates for agreements entered into 12/15/2018 – 12/31/2019*

Energy and Capacity Payments

[8] Current rates for Small Power Production and Cogeneration, Schedule 91; *Puget Sound Energy*; Docket UE-180063 (solar, effective March 1, 2018) and Docket UE-171164 (effective January 1, 2018).

The company's avoided cost calculation methodology is consistent with its last filing and includes both energy and capacity payment components. Further, PSE utilizes a similar avoided cost calculation methodology as compared to that of Avista Corporation – both utilities use the proxy resource method, which uses the next supply side capacity resource identified in the IRP as the avoided plant to set the capacity portion of the avoided cost.

After staff identified an issue with the company's workpapers, including capacity delivered labels, PSE corrected the errors and filed revised workpapers on December 5, 2018. The corrections did not affect the calculations of the base firm, solar, or wind Schedule 91 rates. The primary drivers of the decreased rates are projections of lower gas prices and the company's associated energy market power price forecast for Mid-Columbia trading hub, which is consistent with PSE's 2019 Integrated Resource Plan (IRP) under development for the *Base + No C02 price* scenario.[9] In developing its calculations for the market power price forecast, PSE used the discount rate from its most recent tax reform filing (Docket UE-180282) and capacity contribution and delivery rates from its 2017 Electric IRP (Docket UE-160918).

As of December 4, 2018, the company contends that it is not in current active contract negotiations with any QFs that may qualify for these standard power rates. Staff has reviewed the company's avoided cost model, energy and capacity payment calculations and is satisfied that calculation methodology and resulting rates are reasonable.

PURPA Rules Under Development
The commission is currently revising its rules related to PURPA included within the scope of the IRP Rulemaking (Docket U-161024). The new rules under development will address the following key policy issues related to PURPA, such as:

- avoided cost methodology for standard offer
- capacity payments for standard offer
- length of standard offer contract
- published rate eligibility for standard offer
- legally enforceable obligation.

The commission's rulemaking team will develop draft rules for public comment, along with the CR 102, which will likely be filed the first quarter of 2019 (Q1 2019). In early 2019, staff notes there is a possibility that electric utilities may need to refile their PURPA-related tariffs in accordance with the newly promulgated rules, where the frequency of filing will ultimately be determined by the commission.

Stakeholder Engagement
Staff met with representatives from Sanger Law, on behalf of the Northwest and Intermountain Power Producers Coalition (NIPPC), on December 4, 2018, to discuss the changes that are causing PSE's standard rates to decrease. As of December 4, 2018, no comments were filed in the docket.

Conclusion
Staff recommends the commission take no action, thereby allowing the tariff revisions to go into

[9] This forecast is an estimate of the future price of electricity as traded on the wholesale, short-term (spot) market. For carbon (C02) modeling purposes, this scenario accounts for all *existing* policies, such as state RPS requirements, CA AB32 and British Columbia existing policy.

effect by operation of law.