

**Exh. JDW-10C
UE-240004/UG-240005/UE-230810
Witness: John D. Wilson
REDACTED VERSION**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**DOCKETS UE-240004, UG-240005,
UE-230810 (*Consolidated*)**

EXHIBIT TO TESTIMONY OF

JOHN D. WILSON

**ON BEHALF OF STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

PSE's Response to Staff DR No. 215

August 6, 2024

CONFIDENTIAL PER PROTECTIVE ORDER – REDACTED VERSION

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Dockets UE-240004 & UG-240005
Puget Sound Energy
2024 General Rate Case**

WUTC STAFF DATA REQUEST NO. 215

“CONFIDENTIAL” Table of Contents

	“CONFIDENTIAL” Material
Data Request No. 215	Shaded information in each of PSE’s Response to WUTC Staff Data Request No. 215 and Attachment A to PSE’s Response to WUTC Staff Data Request No. 215 is designated as CONFIDENTIAL per Protective Order in Dockets UE-240004 and UG-240005.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Dockets UE-240004 & UG-240005
Puget Sound Energy
2024 General Rate Case**

WUTC STAFF DATA REQUEST NO. 215:

REQUESTED BY: John Wilson

RE: Power Costs

Please refer to Mueller Exh. BDM-1T, p. 29, lines 11-18 and p. 30, lines 11-15; BDM-11C.

- a. Please provide a reasonable forecast of CCA allowance costs not included in Exh. BDM-11C, including all assumptions and appropriate caveats or explanations of uncertainty. For purposes of this request, Staff requests that PSE provide its opinions regarding potential impacts of CCA variability due to hydro generation, power/fuel market conditions, and any other relevant factors, as well as its opinion as to a reasonable scenario for CCA emissions allowance prices. Please address both the wholesale and retail portions of the electric supply portfolio in this response.
- b. Please provide a table illustrating how the CCA cost impacts summarized in response to part (a) could affect the PCA mechanism. In other words, please illustrate the cost responsibility split between customers and PSE if PSE incurs either (i) recoverable costs of CCA allowances to serve retail load or (ii) net costs to serve wholesale load due to the total of CCA allowance costs and relevant power costs exceeding wholesale revenues.

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Response:

- a. Attached as Attachment A to Puget Sound Energy's ("PSE") Response to WUTC Staff Data Request No. 215 please find an MS Excel workbook that contains forecasted allowance costs for emissions associated with PSE's electric operations for calendar years 2025 and 2026. PSE's forecasted allowance costs for emissions associated with electric operations are \$ [REDACTED] million for emissions in calendar year 2025 and \$ [REDACTED] million for emissions in calendar year 2026. PSE has calculated the forecasted allowance costs in Attachment A to PSE's Response to WUTC Staff Data Request No. 215 using the same price, demand,

and resource assumptions used in the power cost forecast presented in the Prefiled Direct Testimony of Brennan D. Mueller, Exh. BDM-1T, and supporting

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PSE has not included these forecasted allowance purchase costs presented in Attachment A to PSE's Response to WUTC Staff Data Request No. 215 in the power cost forecast presented in this proceeding. However, PSE has included the forecasted benefit of wholesale market sales made possible by the emitting generation to which these forecasted allowance purchase costs apply. PSE's power cost forecast includes a net benefit (i.e., a power cost reduction to retail customers) of approximately \$[REDACTED] million and \$[REDACTED] million from wholesale market sales from emitting generation in calendar years 2025 and 2026, respectively. PSE calculated these estimates using the same methodology used to estimate PSE's 2023 allowance purchase obligation presented in PSE's 2023 Power Cost Adjustment ("PCA") compliance filing in Docket UE-240288 and provided in Attachments A and B to WUTC Staff Data Request No. 214.

PSE's forecasted allowance purchase costs are equal to the product of (i) emissions obligation associated with wholesale market sales of electricity multiplied by (ii) secondary market allowance prices of \$[REDACTED] per metric ton of carbon dioxide equivalents (mtCO_{2e}) for allowances with a 2025 vintage and \$[REDACTED] per mtCO_{2e} for allowances with a 2026 vintage. These secondary market prices were current as of November 15, 2023, and remain a reasonable estimate of allowance prices for such vintages in the future; *provided, however*, that such future allowance prices depend on many factors that PSE could not reasonably predict and are outside of PSE's control. Variability in generation from resources such as hydroelectric and wind generation, changes in demand, and differences in fuel or power prices will all have an effect on future allowance prices and actual allowance purchase obligation associated with PSE's electric operations. These variables are inter-related and affect Climate Commitment Act ("CCA") outcomes in complex ways, and PSE has not modeled the vast range of potential impacts. This response offers PSE's best estimate of its allowance obligation based on forecasted power prices, forecasted allowance prices, normalized demand, and resource assumptions used in the power cost forecast presented in this proceeding.

As explained in PSE's Response to WUTC Staff Data Request No. 214 and the Prefiled Direct Testimony of Brennan D. Mueller, Exh. BDM-1T, PSE expects to receive no-cost allowances for all emissions associated with serving retail demand, so PSE has not forecasted allowance purchase costs for any such emissions.

- b. Changes in allowance prices or other variables that have an impact on PSE's allowance obligation relative to the assumptions used in PSE's power cost forecast could cause PSE to over- or under-recover power costs in any particular year. Any such power cost variance caused by any CCA obligation relative to the variable PCA baseline rate would be shared with customers according to the PCA dead-band and sharing bands.

PSE sells electricity into the wholesale market when it has surplus electric energy supply. Such sales are either necessary for balancing PSE's electric system and maintaining reliability or, more often, carried out because the revenue from such sales is greater than the cost of generation, thereby providing a net reduction to total power supply costs paid by PSE's retail electric customers (economic wholesale sales). By including a forecast of CCA allowance costs in PSE's dispatch decisions whether to make economic wholesale sales, PSE minimizes the chance that wholesale sales revenue would be less than the cost of generating such sales (including power costs and CCA allowance costs). That net total benefit (reduction to customer cost) from wholesale sales is visible in the difference between estimated CCA allowance costs and estimated power cost reductions from such sales for calendar years 2025 and 2026 described in PSE's response to part a. above.

PSE's actual cost of fuel and market purchases and PSE actual secondary (wholesale) market sales revenue are likely to change when CCA allowance prices change—just as they do when countless other variables change relative to the PCA baseline rate forecast. PSE shares variances in these items with customers according to the PCA sharing bands. However, neither the variable PCA baseline rate nor any PSE electric rate includes the costs of CCA allowance purchases at this time. Therefore, there is no baseline against which PSE can measure variance. PSE expects to defer and ultimately recover all prudently incurred CCA allowance purchase costs in customer rates.

As explained in PSE's Response to WUTC Staff Data Request No. 214 and the Prefiled Direct Testimony of Brennan D. Mueller, Exh. BDM-1T, PSE expects to receive no-cost allowances for all emissions associated with serving retail demand, so PSE does not expect to incur CCA allowance costs for emissions associated with serving retail demand.

Shaded information in each of PSE's Response to WUTC Staff Data Request No. 215 and Attachment A to PSE's Response to WUTC Staff Data Request No. 215 is designated as CONFIDENTIAL per Protective Order in Dockets UE-240004 and UG-240005.

ATTACHMENT A to PSE's Response to WUTC Staff Data Request No. 215