

Agenda Date: November 22, 2023
Item Number: A1

Docket: UE-230313
Company: Puget Sound Energy

Staff: Crystal Oliver, Regulatory Analyst
Keith Quinata, Section Manager of Energy Rates and Services

Recommendation

Issue an order:

- Authorizing Puget Sound Energy (PSE or Company) to record a 2022 ratepayer deferral of \$76.4 million for calendar year 2022, as reported in PSE's Power Cost Adjustment (PCA) Mechanism report for 2022.
- Finding the two Powerex Peak Power Purchase Agreements (PPA) to be prudent.
- Deferring the prudence determination for the Chelan Power Supply Agreement (PSA) until PSE's next General Rate Case filing.
- Approving PSE's proposed method to recover the 2022 PCA customer deferral balance via revisions to Tariff WN U-60 Schedule 95, Power Cost Adjustment Clause, and Schedule 139, Voluntary Long Term Renewable Energy Purchase Rider.

Including the following condition:

- Future PCA Mechanism report filing petition and cover letter must include the following language "Per Attachment A to the Settlement Stipulation approved under Final Order 11 in Docket UE-130617 the "Commission must review and approve the filing by September 30 of that year." Until a new order modifies the review timeframe, the updated review deadline shall be included in the filing petition and cover letter.

Summary of Filings

Puget Sound Energy is seeking the Washington Utilities and Transportation Commission's (Commission) approval of the PCA Annual Report, it's proposed methodology for recovering the customer deferral via Tariff Revisions to WN U-60 Schedule 95, Power Cost Adjustment Clause, and Schedule 139, Voluntary Long Term Renewable Energy Purchase Rider. The Company is requesting a revenue increase of \$27.4 million or .96 percent, effective December 1, 2023. A typical residential customer using 800kWh would see a \$1.07 increase on their bill each month.

Additionally, PSE is seeking a prudence determination for three new PPAs executed during 2022:

- Two Powerex PPA's which were included in PSE's power supply portfolio during the last two months of 2022 and are also part of PSE's 2023 power supply portfolio.
- A Chelan PSA for November 1, 2031, through October 31, 2051, which will replace the current Chelan PSA set to expire in 2031.

Background

On June 18, 2002, the Commission entered its Twelfth Supplemental Order in Docket UE-011570, which authorized PSE to implement a PCA mechanism.¹ This mechanism 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. The 2002 PCA settlement defined the specific sharing levels and conditions.²

Initial Sharing Bands	
\$20 Million Dead Band	100% costs and benefits to Company.
\$20- \$40 Million	Under-recovery shared 50% to Company & 50% to Customers. Over-recovery shared 50% to Company & 50% to Customers.
\$40- \$120 Million	10% of costs and benefits to Company, & 90% of costs and benefits to Customers.
>\$120 Million	5% of costs and benefits to Company, & 95% of costs and benefits to Customers.

On November 21, 2005, the Commission entered the Sixteenth Supplemental Order in Docket UE-050870, amending the Twelfth Supplemental Order in UE-011570 and UG-011571 to “authorize changes to PSE’s PCA Mechanism,” which included changing the PCA from a “July 1 through June 30 period to a calendar year period, beginning January 1, 2007.”³

In 2013, the Company entered a PCA Collaborative as an outcome of PSE’s 2013 Power Cost Only Rate Case (2013 PCORC).

On March 27, 2015, following a PCA Collaborative, PSE, Public Counsel, and Commission staff (Staff) executed a settlement agreement that modified the PCA Mechanism.

On August 7, 2015, the Commission approved the 2015 Settlement Agreement, along with its Attachment A, in Order 11, issued in PSE’s 2013 PCORC in Docket UE-130617 with changes to the PCA Mechanism becoming effective January 1, 2017.

Changes to the PCA included:

- **Removal of Fixed Production Costs** from the PCA imbalance calculation to be collected instead through PSE’s decoupling mechanism.⁴
- **Modification of the dead bands and the sharing bands**, including reducing the dead

¹ Docket UE-011570, Twelfth Supplemental Order, 11, 22.

² *Id.*

³ Docket UE-050870 Settlement Agreement Paragraph 17

⁴ A similar change had already been implemented in Avista’s Energy Recovery Mechanism as well as Pacific Power & Light Company’s PCA.

band from \$20 million, reducing customer responsibility for power cost under recoveries from 95 percent & elimination of the last sharing band.

Current Sharing Bands	
\$17 Million Dead Band	100% costs and benefits to Company.
\$17- \$40 Million	Under-recovery shared 50% to Company & 50% to Customers. Over-recovery shared 35% to Company & 65% to Customers.
> \$40 Million	10% of costs and benefits to Company, & 90% of costs and benefits to Customers.

- **Modification of the trigger mechanism for refunds and surcharges** when the PCA deferral account reaches \$20 million rather than \$30 million.
- **Timing and stay out provisions** including that the PCA continue unchanged through January 1, 2022.
- **Removal of costs associated with hedging activities** from the PCA to instead be addressed as an element of PSE’s cost of capital.⁵

Under the 2022 settlement agreement approved in Docket UE-220066 paragraph 30, “Prudence of any new resources effective in 2023 will be determined in the April 2023 PCA filing.”⁶ It also found under paragraph 31 that “all power supply resources (including transmission contracts) for which PSE sought prudence determination in its initial 2022 GRC filings are deemed prudent.”⁷

During the first 17 years of the PCA, deferral imbalances stayed within the dead band. This changed in 2019 and each year after PSE reported an under-recovery.

Year	Under-Recovery Amount
2019	\$67 million
2020	\$76 million
2021	\$68 million
2022	\$110.1 million

PSE has attributed the under recoveries to price and load volatility, extreme weather, market events, and changes to PSE’s portfolio that were unaccounted for during the baseline and rate-setting process.

⁵ Docket UE-130617 et al., Order 11

⁶ In the Settlement Stipulation and Agreement, any new resources included in the January 1, 2023 or January 1, 2024, baseline update will undergo a prudency review in the annual PCA Compliance Filing. *Settlement Stipulation and Agreement on Revenue Requirement and all other issues except Tacoma LNG and PSE’s Green Direct Program*, Dockets UE-220066/UG-220067 and UG-210918 (Consolidated), ¶ 30 (Aug. 26, 2022).

⁷ *Id* at 19, ¶ 31.

On April 28, 2023, PSE filed with the Commission, in Docket UE-230313, its 2022 PCA mechanism report regarding power cost deferrals for calendar year 2022.

On June 13, 2023, Staff met with PSE to review the filing and discuss the absence of workpapers supporting Brennan Mueller's testimony, which were then provided through email.

In late June 2023, Staff sent out numerous informal data requests, which PSE responded to. Around this time, the initial Lead Staff Member left their employment with the Commission and Staff Management advised supporting Staff Members that they would seek to hire an expert consultant for this filing.

In late July 2023, Staff Management reached out to Consultant John Wilson (Consultant) of Grid Strategies LLC to determine if he was available to serve as an Expert Consultant on this PSE PCA docket and a similar PacifiCorp docket. The contract had to be revised, reviewed, and approved several times, and the final contract was signed on August 31, 2023.

On September 7, 2023, Staff identified that because the filing contained confidential information, the Consultant would need to sign a non-disclosure agreement (NDA), which was then drafted by Staff Attorneys and provided to the Consultant and signed on September 21, 2023. A password-protected box folder was then created to provide secure access to the relevant confidential workpapers.

On September 28, 2023, Staff submitted eight additional informal data requests to PSE based on the Consultant's review and PSE responded to the e-mail clarifying that while the filing had an effective date of December 1, 2023, Attachment A to the Settlement Stipulation approved under Final Order 11 in Docket 130617 stated that the "Commission must review and approve the filing by September 30 of that year." Staff management then asked PSE if they would support an extension on the review to be heard at the Open Meeting on November 9, 2023, which PSE agreed to support.

On September 31, 2023, after Staff's legal counsel confirmed that all other parties supported the extension they requested a continuance to October 31, 2023, which was approved that same day.

On October 31, 2023, the Consultant provided Staff with the results of his review of the filing and on November 1, 2023, Staff met with the Consultant to discuss his findings.

On November 9, 2023, Staff presented its memo and recommendations at the Open Meeting and Public Counsel offered verbal comments voicing concerns about the prudence of the Powerex PPAs and recommending disallowance of expenses associated with those contracts but did not yet have written comments prepared to submit. The Commissioners decided to defer their decision until the November 22, 2023, Open Meeting and allow Public Counsel to submit written comments by close of business on November 14, 2023.

Overview of PSE's 2022 PCA Deferrals

Each month, PSE calculates the power costs subject to the PCA sharing bands. These total allowable costs are compared to the approved baseline power cost rate, multiplied by the actual delivered load, excluding Green Direct customers, and any differences allocated to the Company or customers based on the different levels or sharing. Any difference allocated to customers is recorded in FERC Account 182.3, Other regulatory assets, unless it is determined to be an over-collection at the PCA period end.

In Docket UE-190529, PSE's General Rate Case updated the baseline power costs and went into effect October 15, 2020, and remained effective for the first six months of the 2021 PCA period (ending June 30, 2021).⁸ On July 1, 2021, rates for PSE's 2020 Power Costs Only Rate Case (2020 PCORC) went into effect, including a change to its baseline rate to recognize the updated variable power cost as approved in Docket UE-200980. The updated baseline rate was updated to \$38.983 per MWh.⁹

For January 1, 2022, through December 31, 2022, PCA period, PSE's actual power costs were \$44.254 per MWh and exceeded their authorized costs by approximately \$110.1 million (after adjustment for Firm Wholesale). Based on the current sharing bands, \$35.5 million of the imbalance was assigned to the Company and \$74.6 million to customers. In addition to the \$74.6 million of under-collection from 2022, a residual over-collection of \$3.5 million exists from the collection of prior period imbalances that is being used to offset the 2022 under-collection. Along with interest of \$1.5 million, the total imbalance assigned to customers is \$72.6 million, which, when grossed up for inclusion in rates, totals \$76.4 million.

PSE proposes to update the Schedule 95 surcharge for the first time since the start of the PCA to recover this amount over 13 months through December 31, 2024.

In addition to increasing the PCA surcharge, PSE proposes to update the Schedule 139 supplemental credits for Green Direct customers. Phases 1 and 2 of the PSE Green Direct Program commenced in November 2020, and March 2021, respectively, and accordingly, they were excluded from the PCA Mechanism at those times. Thus, the 2022 imbalance resulting after their initiation should not be charged to those Phase 1 and Phase 2 Green Direct Program customers and should only be charged to all other customers.

Discussion

Variance Analysis

During the 2022 PCA Period, PSE recovered \$814.8 million of power costs through the PCA variable baseline rate and incurred actual allowable power costs of \$925.0 million.

⁸ Docket UE-190529

⁹ Docket UE-200980, Order 05

In the Direct Testimony of Brennan D. Mueller Table 2 provides a good overview of the variances in millions (\$).

	Actual	Rates	Variance
Coal fuel	\$57.9	\$41.8	\$16.1
Natural gas fuel and transportation	\$178.9	\$97.6	\$81.4
Long-term contract purchases	\$534.10	\$382.0	\$152.10
Net market purchases & sales	\$3.6	\$99.7	(\$96.1)
Transmission	\$144.9	\$128.3	\$16.7
Other PCA items	\$5.5	\$5.4	\$0.0
Total PCA variable cost	\$925.0	\$754.7	\$170.2
PCA revenue from delivered load	(\$814.8)	(\$754.7)	(\$60.1)
2022 PCA under-recovery	\$110.2	\$0.0	\$110.1

Overall, differences in resources and contract rates contributed significantly to the 2022 PCA variance, with additional variance attributed to a higher actual 2022 load than forecasted, combined with market prices that were also higher.

Resources

The baseline rate in effect during the 2022 PCA period reflected the power portfolio from PSE's 2020 PCORC. There were several changes to resources during the 2022 PCA period, including:

- The addition of a 200 MW wind PPA with Golden Hills Wind Farm, LLC.
- The addition of a 350 MW wind PPA with Clearwater Energy Resources, LLC.
- The addition of a new Powerex PPA for the summer of 2022.
- The addition of two new Powerex PPA's for the winter of 2022.
- A larger share of Wells Hydroelectric Project output and costs under a PPA with Douglas County Public Utility District. (PUD)
- Extension of a PPA with Douglas PUD for 5.5 percent output from the Wells Hydroelectric Project.
- The addition of a PPA with Chelan County Public Utility District (Chelan PUD) for an additional 5 percent of the output of the Rockey Reach and Rock Island Hydroelectric Projects.
- Termination of a 22 WM PPA with Electron Hydro after they violated the Water Pollution Act, Fish & Wildlife Enforcement Code, Shoreline Management Act & Pierce County Code polluting the Puyallup River.

Market Prices

Actual market prices for both power and natural gas during 2022 were significantly higher than prices assumed in rates from the 2020 PCORC. Abnormally cold conditions fueled market price spikes in December. Warmer than normal conditions throughout the summer were punctuated by record-setting temperatures in September across much of the Western United States, resulting in all-time high demand for electricity across the region.

- The average cost of actual market purchases in 2022 was \$64.90 per MWh compared to only \$26.47 per MWh included in rates.
- The average price of actual market sales in 2022 was \$91.01 per MWh compared to only \$32.51 per MWh included in rates.
- Actual Colstrip unit fuel cost of \$19.92 per MWh was higher in 2022 than the \$17.48 per MWh included in rates for 2022.
- The average actual unit fuel cost for PSE's gas-fired resources in 2022 was \$51.00 per MWh compared to \$28.33 per MWh included in rates.

Green Direct

Under RCW 19.29A, the cost and benefits of PSE's Green Direct Program must be borne by the participants in that program.¹⁰ During 2021, Phase 1 customers were participating in the Green Direct program for the entire twelve months. Phase 2 of Green Direct began on March 1, 2021, which resulted in Phase 2 customers participating in the PCA mechanism for 11 percent of 2021 and their participation in the Green Direct Program for 89 percent of 2021. Therefore, Phase 1 customers would receive a credit of 100 percent of the surcharge, and Phase 2 customers would receive a credit of 89 percent of the surcharge they are being charged from Docket UE-200893. PSE is not proposing to defer the cost or benefit of the Green Direct Program.

Our Consultant reviewed the Green Direct Program Calculations and relevant DR and expressed no concerns with the calculations.

Prudency of two Powerex Peak PPAs

While our Consultant noted the price per MWh was quite high, he found that they did address a short-term capacity deficit, but the vast majority of the bid price was informed by forward financial pricing, and he verified the high values of the forward and other market data. He found that PSE's statement that there are limited opportunities to acquire firm capacity resources to appear reasonable. Based on his review, he saw no basis to challenge the prudency of these PPAs despite their very high cost.

Prudency of Chelan PSA

PSE requests prudency determination on the Chelan PSA for 2031 to 2051 for a 25 percent share of two hydroelectric projects. Providing capacity, storage, and zero-emissions energy, the

¹⁰ Docket UE-160977, Order 01.

resource has desirable attributes. Chelan provides several benchmarks that support the levelized pricing as being reasonable.

Our Consultant noted that the key pricing considerations are that the price is indexed to cost, and there is also a fixed annual charge that PSE believes reflects Chelan PUD's assessment of market pricing. In other words, PSE customers bear some risks of cost-driven price increases while Chelan PUD benefits from receiving a long-term market-priced contract. These costs include capital improvements, without limitation. PSE has no right to exit the contract. The primary restraint on uneconomic investments is Chelan PUD's exposure of costs for its retail customers. A significant concern is unforeseen relicensing or civil works (dam/earthworks repair) costs.

If Chelan PUD retires units, then the Fixed Annual Charge is reduced. This means that Chelan PUD's incentives are not entirely aligned with PSE's. If Chelan faces substantial unexpected costs, its choices are to spend that money or to retire units and forsake a portion of the fixed annual charge from PSE. Chelan PUD customers are worse off in either direction, while PSE's customers may have the opportunity to replace the lost resource from the Chelan PSA at a similar cost in the future.

In his expert opinion, in exchange for the fixed annual charge, PSE should have negotiated a reasonable cap on the cost-based portion of the contract that, at a minimum, results in some reduction in the fixed annual charge for unexpectedly high costs. On the other hand, compared to the Powerex PPAs, these are much more reasonably priced resources.

Staff could request that the Commission place a limitation on PSE's cost recovery above the amount forecast in the PSA.

In addition to our consultant concerns regarding the lack of guardrails surrounding costs, including capital improvements, Staff notes that the recently approved Settlement Agreement in UE-220066 states the "prudence of any new resources effective in 2023 will be determined in the April 2023 PCA filing."¹¹ We note that the effective date of the Chelan PSA is November 1, 2031, because the PCA Mechanism is a backward-looking filing it is not the most appropriate venue for considering the prudence of a contract that is effective in the future, thus we recommend the Commission defer prudence consideration of the Chelan PSA for PSE's upcoming General Rate Case.

Interested Parties

Public Counsel submitted a written declaration and exhibits to support its declaration by expert consultant Robert L. Earle who states that there are issues with how PSE established need for the

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resource and justification for a specific adder it used in developing its bid price. Earle also states that PSE did not evaluate alternatives and recommends the Commission disallow PSE from collecting a total of \$32,021,040 over the life of the contract including \$6,446,480 from the 2022 PCA deferral.

Staff reached out to Alliance of Western Energy Consumers (AWEC) who said they were not planning to provide written or verbal comments on this docket.

Conclusion

Staff and our Consultant reviewed the workpapers, testimony and exhibits offered by PSE and find nothing to indicate that PSE's 2022 power costs were imprudently incurred.

Staff recommends the Commission Issue an order:

- Authorizing PSE to record a 2022 ratepayer deferral of \$76.4 million for calendar year 2022, as reported in PSE's PCA Mechanism report for 2022.
- Finding the two Powerex Peak PPA's to be prudent.
- Deferring the prudency determination for the Chelan PSA until PSE's next General Rate Case filing.
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Including the following condition:

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