

Via Electronic Mail

January 3, 2017

Chairman David Danner
Commissioner Philip Jones
Commissioner Ann Rendahl
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Dr. SW
PO Box 47250
Olympia, WA 98504-7250

Re: Advice 2016-31—Schedule 91 – Cogeneration and Small Power Production
Docket No. UE-161240

Dear Commissioners:

The Renewable Energy Coalition (the “Coalition”) requests that the Washington Utilities and Transportation Commission (the “Commission”) reject, or in the alternative suspend and investigate, Puget Sound Energy’s (“PSE”) advice filing that proposes significant changes in the methodology and pricing related to its avoided cost rates applicable to cogeneration and small power production facilities. The Commission should not allow the filing to go into effect because it is inconsistent with the Commission’s policies, violates the Public Utility Regulatory Policies Act (“PURPA”), and will result in unjust and unreasonable rates for small cogeneration and renewable qualifying facilities (“QFs”) and the company’s consumers.

PSE is proposing major and unsupported revisions in its methodology for calculating its avoided costs that are inconsistent with recent Commission direction. Specifically, PSE’s revised Schedule 91 will no longer pay QFs for the capacity value they provide to the company during the years before PSE plans to acquire its next major combined cycle combustion turbine gas generation resource. PSE did not notify the Commission of this major change, but appears to have snuck this into its filing in hopes that it would miss. This may be because the Commission recently rejected a similar proposal by PacifiCorp to eliminate capacity payments because that proposal failed to compensate QFs for the value they provide when displacing power that utility would otherwise generate or purchase. In addition to violating this Commission’s and the Federal Energy Regulatory Commission’s (“FERC”) substantive precedent regarding capacity payments, PSE has also ignored this Commission’s direction that this type of industry wide change to the valuation of capacity should occur in a broader proceeding that allows all regional stakeholders an opportunity to participate.

There are other changes in PSE's filing that may inappropriately under compensate small QFs. PSE has proposed a major reduction in the capacity payments to QFs after the date of its next major resource acquisition (2022), which is not explained or supported. In addition, PSE has elected to use the lowest gas and market price forecasts from its integrated resource plan ("IRP"), which may not accurately forecast future energy prices. The Coalition has requested copies of PSE's data responses provided to Staff and other parties, but PSE has yet to provide this basic information. Review of these responses as well as further analysis and discovery could identify additional faulty assumptions and inappropriate methodological changes.

1. The Renewable Energy Coalition

The Coalition was established in 2009, and is comprised of over thirty members who own and operate about fifty QFs in Oregon, Idaho, Washington, Utah, and Wyoming. The Coalition's membership includes several types of entities, including irrigation districts, waste districts, water districts, small utilities, corporations, and individuals. The Coalition's members are either selling power or seeking to enter into power purchase agreements with regional utilities, including PSE, PacifiCorp, Portland General Electric Company, and Idaho Power Company. The Coalition represents their interests in regulatory proceedings regarding renewable energy, competitive markets, interconnection, integrated resource planning, and PURPA policies, including avoided cost rates. For example, the Coalition submitted comments and attended the workshop regarding integrated resource planning and avoided costs (UE-161024) and participated in PacifiCorp's last contested avoided cost rate case (UE-141260).

2. PSE's Schedule 91 Filing

PSE has proposed a significant reduction in its Schedule 91 avoided cost rates that is both inconsistent with recent Commission precedent and not factually supported. As the Commission recently rejected a similar proposal by PacifiCorp to eliminate capacity payments during certain contract years, the Coalition recommends that PSE's filing simply be rejected and that current rates be retained. Alternatively, the Commission should open a proceeding to review the issue of capacity payments as well as other infirmities with PSE's filing, including but not limited to lower market prices and reduced capacity payments.

The Coalition understands that PSE has traditionally calculated its avoided cost rates in a manner that includes a full capacity payment during all years. Current Schedule 91 rates include a \$190.01 per kilowatt ("kW") year capacity payment in all years. PSE's initial filing eliminated this capacity payment during the years 2017-2021. Notably, despite claiming that "[t]he methodology used to update the fixed-price alternative is consistent with the approach used in the 2007 through 2015 annual filings," PSE did not list this major change.¹ PSE's

¹ Docket No. UE-161240 PSE Initial Filing at 1-2 (Nov. 23, 2016).

advice letter identified three other major changes,² none of which rise to the same level of importance as eliminating capacity payments. After this significant unmentioned change was pointed out to PSE by Commission Staff, PSE re-filed its Schedule 91 rates with a near zero (\$0.08 per kW-year) instead of an actual zero capacity payment. This explained that the rates: “include an avoided capacity cost associated with firming up short-term market purchases during the time period before the Company's need to add capacity resources in 2022.”³ Despite this “payment,” QFs will essentially be paid nothing for capacity during the 2017-2021 time period (down from \$190.01 per kW-year to \$0.08 per kW-year). A change to move from compensating QFs for capacity based on a peaking plant to the alleged near zero costs to firm up market resources should only occur after notice and strong evidentiary support, both of which are lacking here.

PSE appears to have ignored the Commission’s recent direction in PacifiCorp’s avoided cost rate case in which it rejected PacifiCorp’s proposal to eliminate capacity payments that had been based for years on the capital costs of a simple cycle combustion turbine (“SCCT”).⁴ The Commission instead decided to maintain the status quo until an industry wide investigation can be completed.⁵ PacifiCorp had a capacity need, but proposed to replace the payment to QFs from the SCCT to forward market prices because PacifiCorp’s next major thermal resource was allegedly planned to occur in 2027.⁶ PSE also has a capacity need during the years 2017-2021, and has proposed to replace the costs of a frame combustion turbine with firm market purchases. After discovery, testimony and full briefing, the Commission rejected PacifiCorp’s argument that PacifiCorp’s projected forward market prices reasonably account for that utility’s avoided capacity costs.⁷ The Commission should also reject PSE’s proposal because neither utility should account for capacity costs using projected forward market prices.

As well as making a recommendation that is inconsistent with the substantive merits of the Commission’s order, PSE also disregarded the Commission’s guidance regarding how it wants to address and resolve the question of valuing capacity payments for QFs. In the PacifiCorp proceeding, Staff proposed, and the Coalition supported, a full capacity payment whenever PacifiCorp has an avoidable capacity acquisition during its ten-year planning horizon using the Commission’s renewable portfolio standard incremental cost methodology.⁸ While remarking positively upon Staff’s proposal, the Commission declined to make any

² Id.

³ Docket No. UE-161240, PSE Replacement Pages at 1-2 (Dec. 19, 2016).

⁴ Washington Utilities and Transportation Commission v. Pacific Power & Light Co., Docket No. UE-144160, Order 04 at ¶¶ 9, 29-31, 37 (Nov. 12, 2015).

⁵ Id. at ¶¶ 29, 37.

⁶ Id. at ¶¶ 18-20.

⁷ Id. at ¶¶ 20-21, 23.

⁸ Id. at ¶ 27.

changes because of the industry wide implications and the desire to consider information from a broader group of stakeholders. Specifically, the Commission concluded that:

because the implications of doing so would resonate industry wide, we do not adopt Staff's recommendation in this case. Policy initiatives of such breadth are better undertaken in proceedings that are not as narrow as this one. We intend, therefore, to initiate a workshop or other suitable form of proceeding during 2016 so that Staff's ideas, and those that may be brought forward by other stakeholders, can be fully developed and considered.⁹

The Commission opened a generic rulemaking proceeding this year that, among other things, is supposed to address "avoided costs" for PURPA projects.¹⁰ The Coalition submitted written and oral comments, recommending that the Commission require the utilities to continue to make full capacity payments in all years and to open a broader PURPA specific rulemaking in 2019.¹¹ PSE provided detailed comments on PURPA avoided cost rates, including a summary of how it calculates its rates for large and small QFs.¹² However, the Coalition is not aware of PSE indicating any concerns with how capacity costs are calculated, requesting that the Commission review that issue in the rulemaking or elsewhere, or informing the Commission and stakeholders that it was planning to file a wholesale change in compensating QFs for capacity in three weeks. Apparently, this radical change did not warrant a mention in either its advice filing in this case or PSE's detailed comments in the rulemaking.

PSE has made other important revisions based on new factual inputs that are not fully explained or supported. PSE has reduced its avoided cost of capacity from \$190 to \$135 per kW-year, with a note in the workpapers that this change is based on reduced frame CT costs: "The avoided capacity cost is decreased to \$135.04/kw-yr from \$190.01/kw-yr on guidance from the IRP analysts, for the years 2022-2032."¹³ There is no specific citation, reference or

⁹ Id. at ¶ 29 (emphasis added).

¹⁰ Rulemaking for Integrated Resource Planning, WAC 480-100-238, WAC 480-90-238, and WAC 480-107, Docket UE-161024, Notice of Workshop and Opportunity to File Written Comments, at 4 (Sept. 6, 2016). The Coalition understands that, at the December 7, 2016 Workshop, Commission Staff indicated that it wanted to not address a wide array of PURPA issues immediately.

¹¹ Rulemaking for Integrated Resource Planning, WAC 480-100-238, WAC 480-90-238, and WAC 480-107, Docket UE-161024, Coalition Comments at ¶¶ 8-13 (Nov. 2, 2016); Oral Comments of Nancy Esteb (Dec. 7, 2016).

¹² Rulemaking for Integrated Resource Planning, WAC 480-100-238, WAC 480-90-238, and WAC 480-107, Docket UE-161024, PSE Comments at 5-7 (Nov. 2, 2016).

¹³ Docket No. UE-161240, PSE Revised Workpaper_Sch 91 for 2017 (12-14-2016).

any other way to verify, analyze or challenge this 30% reduction in capacity costs. This lack of supporting information violates at least the spirit of the Commission's rules that require PSE to provide "documentation supporting its schedule of estimated avoided cost."¹⁴

Finally, PSE appears to be using the spring 2016 natural gas forecast from Wood Mackenzie as the basis for a reduction in its energy costs. The gas market bottomed out in March 2016, and has rebounded since then, with recent fundamentals forecasts, such as the Energy Information Agency's *Annual Energy Outlook 2016* forecast, significantly higher than what PSE appears to have used. This forecast is almost a year out of date, and PSE appears to have selected the lowest gas forecast. A more recent gas forecast would result in more accurate avoided cost rates.

3. PSE's Filing Violates FERC Rules and Precedent

The Commission should reject, or in the alternative, suspend and investigate PSE's proposed rates because they violate the Commission's policies and rules, and the federal law. PURPA allows the federal government to set the broad policy goals and directs the states to implement the law. In Washington, avoided cost rates available to QFs must be just, reasonable, non-discriminatory, in the public interest, and consistent with federal PURPA rules and policies.¹⁵

FERC has adopted federal PURPA rules and policies, and has concluded that utilities must purchase any capacity made available by a QF.¹⁶ Unless a utility has absolutely no need for capacity, FERC has concluded that all electric utilities must purchase and pay for capacity provided by the QF.¹⁷ While PSE claims that it is not planning to build new baseload thermal resources until 2022, the company still has a need for capacity and should compensate QFs for the capacity value they provide.

The Coalition appreciates this opportunity to submit comments, and recommends that the Commission simply reject PSE's filing. The Commission should address PSE's significant changes in policy in a generic docket that includes all interested stakeholders, including customer groups, other utilities, and environmental organizations rather than a

¹⁴ WAC § 480-107-055(2).

¹⁵ WAC § 480-107-105(1)(a)(b); WAC § 480-107-101(3).

¹⁶ 18 CFR § 292.303(a).

¹⁷ Hydrodynamics Inc., 146 FERC ¶ 61,193 at P. 35 (2014) (FERC's regulations require "an electric utility to purchase any capacity which is made available from a QF" and when a utility has a demand for capacity, then the avoided cost rates must include the capacity costs); see also 18 C.F.R. §§ 292.101(b)(6), 292.304; Am. Paper Inst., Inc. v. Am. Elec. Power Serv. Corp., 461 U.S. 402, 406 (1983); FERC Order No. 69, 45 Fed. Reg. 12, 214 at 12,226 (FERC's rules require a reasonable account of the utility's avoided costs).

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limited advice filing. If the Commission does reject the filing, then the Coalition will participate in an investigation to ensure PSE's avoided cost rates are fair and reasonable for both renewable electricity generators and utility customers.

Sincerely,

A handwritten signature in black ink, appearing to read "Irion A. Sanger". The signature is written in a cursive style with a large initial "I" and a long, sweeping tail.

Irion A. Sanger

cc: John Lowe
David Gomez
Ken Johnson
Jason Kuzma