

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of  
  
PUGET SOUND ENERGY,  
  
Petitioner,  
  
For Approval of 2022 Power Cost  
Adjustment Mechanism Report

DOCKET UE-230313  
  
ORDER 01  
  
APPROVING POWER COST  
ADJUSTMENT MECHANISM  
ANNUAL REPORT SUBJECT TO  
CONDITIONS

**BACKGROUND**

- 1 On April 28, 2023, Puget Sound Energy (PSE or Company) filed with the Washington Utilities and Transportation Commission (Commission) a petition seeking approval of the Company's 2022 Power Cost Adjustment Mechanism (PCA) Report (Petition), including direct testimony from several witnesses. PSE filed the PCA Report consistent with the Commission's Twelfth Supplemental Order in Dockets UE-011570 and UG-011571, in which the Commission approved a PCA mechanism for PSE (2002 PCA Order). The Company's 2022 Power Cost Adjustment Mechanism Report (2022 PCA Report) provides the Company'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
- 2 PSE explains that during 2022, actual power costs were significantly higher than the baseline, creating an under-recovery of \$110.1 million. This under recovery was due 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. Given the operation of the PCA's sharing mechanism, PSE absorbed \$35.5 million of the \$110.1 million under-recovered amount; customers are responsible for the remaining \$72.6 million or \$76.4 million grossed up. The deferral balance has triggered the \$20 million threshold specified in the 2015 PCA Settlement. 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.
- 3 In calculating the \$76.4 million 2022 net customer deferral balance, PSE provided adjustments to the Green Direct program to ensure there is no cross subsidization

between participating and non-participating customers. 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.

4 Thus, 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.

5 Additionally, PSE is seeking a prudence determination for three new power purchase agreements (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.

6 Commission staff (Staff) has reviewed the 2022 PCA Report and recommends that the Commission grant it subject to condition. Staff notes that it sent the Company numerous informal data requests beginning in June 2023. Staff also retained Consultant John Wilson of Grid Strategies LLC to evaluate the Company's filing. Staff also obtained an extension of its period for reviewing the Company's 2022 PCA Report until October 31, 2023.

7 Staff explains that for the 2022 PCA period, January 1, 2022, through December 31, 2022, 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.

8 Staff observes that several factors contributed to PSE's actual power costs being higher than the amounts recovered in rates during the 2022 PCA period. These factors included increased coal fuel costs, natural gas fuel and transportation, and long-term contract purchases. Staff explains that actual market prices for both power and natural gas during 2022 were significantly higher than the prices assumed in rates in the Company's earlier power cost only rate case.<sup>1</sup> These factors are discussed more fully in Staff's open meeting memo posted to this docket.

9 Staff explains that it has no concerns with the Company's calculations for its Green Direct Program.

10 With respect to the Company's request for prudence determinations, Staff explains that it supports the prudence of the two Powerex Peak PPAs given the limited opportunities available to acquire firm capacity.

11 Staff raises concerns, however, that PSE should have negotiated for a cap on the cost-based portion of its contract for the Chelan PSA. Staff recommends that the Commission defer its consideration of the prudence of the Chelan PSA until the Company's next general rate case.

12 In sum, Staff recommends that 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 2022 PCA Report.
- Finding the two Powerex Peak PPAs to be prudent.
- Deferring the prudence determination for the Chelan 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.

13 Staff further recommends that the Commission approve the 2022 PCA Report subject to the condition that PSE's future PCA Mechanism report filing petitions and cover letters must include the following language "Per Attachment A to the Settlement Stipulation

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<sup>1</sup> See generally *WUTC v. Puget Sound Energy*, Docket UE-200980 Final Order 05 (June 1, 2021).

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.

- 14 On November 9, 2023, Staff presented its memo and recommendations at the regularly scheduled Open Meeting. 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.
- 15 On November 14, 2023, Public Counsel filed a Declaration of Robert L. Earle with supporting exhibits. Earle submits that PSE acted imprudently with respect to the Powerex Winter Contract, commenting on PSE’s evaluation of alternatives along with other matters subject to confidentiality designations. Earle recommends that the Commission disallow a portion of the costs incurred in connection with this contract.
- 16 On November 20, 2023, PSE filed a response to the Declaration of Robert L. Earle, arguing that PSE has established a capacity need, that the Company reasonably evaluated alternatives to the PPAs identified in this filing, and that the Commission should reject Public Counsel’s proposed disallowance.
- 17 On November 21, 2023, Staff filed comments from its power cost expert John D. Wilson, who did not find a reason to challenge the Company’s PowerEx PPAs as imprudent.
- 18 At its regularly scheduled November 22, 2023, the Commission heard additional comments in this proceeding from the Company, Staff, Public Counsel, and Public Counsel witness Earle. Public Counsel maintains that PSE did not fully respond to informal discovery requests regarding its participation in the Western Resource Adequacy Program (WRAP), failed to establish a resource-specific need, and failed to reasonably consider alternatives to the Powerex PPAs. Public Counsel maintains that portions of Company’s costs in connection with the Powerex Winter contract should be disallowed.
- 19 PSE witness Brennan Mueller responded, however, that the Company was well-aware of capacity available in the region and that the Company’s capacity need was independent of WRAP. PSE noted that it did not object to Staff’s proposal to defer a prudence

determination on the Chelan PSA until the next general rate case. PSE witness Susan Free further noted that Public Counsel did not contact the Company to confer regarding any discovery disputes.

### DISCUSSION

- 20 We agree with Staff that PSE's 2022 PCA Annual Report should be approved subject to conditions. The Company's proposal to record a customer net deferral balance of \$72.6 million (before interest), is consistent with the Commission's 2002 PCA Order as well as the 2015 PCA Settlement. The deferral calculation appropriately adjusted the allowed actual power costs, baseline power costs, and load. Accordingly, we agree that PSE's 2022 PCA Report, the deferred balance, and proposal to recover the deferred balance are reasonable and should be approved.
- 21 The Company acted prudently to acquire the two Powerex PPAs, set forth in its Petition. Pursuant to the Revenue Requirement Settlement in the Company's last general rate case, the "prudence of any new resources effective in 2023 will be determined in the April 2023 PCA filing."<sup>2</sup> Staff credibly explains that the cost of these resources appears reasonable given limited opportunities to acquire firm capacity resources.
- 22 Yet we agree with Staff that it is appropriate to defer our prudence review of the Chelan PSA until the Company's next general rate case. In the Revenue Requirement Settlement, Staff and other settling parties reserved their right to recommend to the Commission that a prudence determination of a particular resource occur in the following year.<sup>3</sup> Given the concerns raised by Staff's consultant regarding customer exposure to costs under the Chelan PSA contract, it is reasonable and appropriate for the Commission to allow more time before we determine the prudence of this resource.
- 23 We further agree that PSE should be required to include Staff's proposed language in future PCA Report petitions and cover letters, as noted in paragraph 13 of this Order. Such a course would provide Staff with sufficient time to review the Company's PCA reports to ensure the protection of the public interest.

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<sup>2</sup> *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) (Revenue Requirement Settlement).

<sup>3</sup> *Id.*

**FINDINGS AND CONCLUSIONS**

- 24 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including electric companies.
- 25 (2) PSE is a natural gas company and a public service company subject to Commission jurisdiction.
- 26 (3) WAC 480-07-370(1)(b) allows companies to file petitions, including the petition filed in this Docket for which PSE seeks approval.
- 27 (4) Staff has reviewed the petition filed in Docket UE-230313, including related work papers.
- 28 (5) This matter came before the Commission at its regular open meeting on November 9, 2023, and was held over for consideration at the Commission's regular open meeting on November 22, 2023.
- 29 (6) After reviewing PSE's petition filed in Docket UE-230313 on March 23, 2023, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that it is in the public interest to approve the Petition seeking approval of the 2022 PCA Report subject to the conditions noted in paragraphs 12 and 13 of this Order.

**ORDER**

**THE COMMISSION ORDERS:**

- 30 (1) The Commission grants Puget Sound Energy's Petition for approval of its 2022 PCA Report for the twelve months ending December 31, 2022, subject to the conditions noted in paragraphs 12 and 13 of this Order.
- 31 (2) This Order shall not affect the Commission's authority over rates, services, accounts, valuations, estimates, or determination of costs, on any matters that may come before it. Nor shall this Order be construed as an agreement to any estimate or determination of costs, or any valuation of property claimed or asserted.

- 32 (3) The Commission retains jurisdiction over the subject matter and Puget Sound Energy to effectuate the provisions of this Order.

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

**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

DAVE W. DANNER, Chair

ANN E. RENDAHL, Commissioner

MILTON H. DOUMIT, Commissioner