

Exh. JDW-24T
Dockets UE-240004/UG-240005
Witness: John D. Wilson

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent

**DOCKETS UE-240004 & UG-240005
(Consolidated)**

CROSS-ANSWERING TESTIMONY OF

JOHN D. WILSON

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

Power Costs

September 18, 2024

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LIST OF EXHIBITS

- Exh. JDW-25C PSE Response Staff Data Request No. 222, including Confidential Attachments
- Exh. JDW-26 Composite of ICE Forwards for WCC (Vintage 2025) and WCD (Vintage 2026), dated August 12, 2024

1 I. INTRODUCTION

2

3 **Q. What is the purpose of your cross-answering testimony?**

4 A. I am providing Staff’s updated power cost forecast for rate years 2025 and 2026
5 based on data responses received from Puget Sound Energy subsequent to filing my
6 response testimony. Staff recommends a power cost forecast, including CCA
7 allowance costs, of \$1,095.7 million for 2025 and \$1,143.4 million for 2026, as
8 summarized in Tables 1 and 2.

9

10 **Q. Does your cross-answering testimony reflect any changes in Staff’s positions on**
11 **power costs?**

12 A. No. As stated in my response testimony, because two of my recommended changes
13 to PSE’s forecast power costs require updates to PSE’s model, I was unable to
14 provide a recommended adjustment in my response testimony. I have considered
15 other parties’ testimony and have not identified any other changes to PSE’s forecast
16 power costs that are supported by Staff at this time. Accordingly, my cross-answer
17 testimony is limited to supplementing the record with PSE’s model results and
18 opining on an alternative model result provided by PSE in that same response to
19 Staff’s data request.

20

21 **Q. Have you prepared exhibits in support of your testimony?**

22 A. Yes. I sponsor Exhibit JDW-25C and Exhibit JDW-26.

1 forecast, primarily because Staff recommends including a reasonable forecast of
 2 CCA allowance costs in forecast NPE rather than deferring those costs and
 3 considering them for cost recovery in a future proceeding.⁴

Table 1: Comparison of forecasted 2025 power costs and CCA allowance costs (\$millions)⁵

	Staff Recommendation (\$38.16 allowance price included in all dispatch)	PSE Recommended Allowance Price (\$57.91 allowance price included in all dispatch)	PSE As-filed Forecast (\$57.91 allowance price applied only to dispatch for wholesale sales)
Power costs	\$1,082.0	\$1,101.7	\$982.6
CCA allowance costs	\$13.7	\$14.2	\$63.4
Power costs + allowance costs	\$1,095.7	\$1,115.9	\$1,046.0

4 **Table 2: Comparison of forecasted 2026 power costs and CCA allowance costs (\$millions)⁶**

	Staff Recommendation (\$38.16 allowance price included in all dispatch)	PSE Recommended Allowance Price (\$57.91 allowance price included in all dispatch)	PSE As-filed Forecast (\$57.96 allowance price applied only to dispatch for wholesale sales)
Power costs	\$1,138.2	\$1,167.6	\$1,096.4
CCA allowance costs	\$5.2	\$5.6	\$34.6
Power costs + allowance costs	\$1,143.4	\$1,173.1	\$1,131.0

⁴ Wilson, Exh. JDW-1TC at 26:1-5.

⁵ Wilson, Exh. JDW-25, PSE Response to Staff DR No. 222 (Table 1).

⁶ Wilson, Exh. JDW-25, PSE Response to Staff DR No. 222 (Table 2).

1 **Q. Please explain how you informed PSE’s calculation of CCA allowance costs.**

2 A. PSE calculated CCA allowance costs as the product of forecast natural gas
3 generation for wholesale sales, the relevant emissions per generation factor, and the
4 relevant forecast allowance price.⁷ For allowance prices, PSE used ICE forwards for
5 Vintage 2025, Contract month December 2025 of \$38.16 and for Vintage 2026,
6 Contract month December 2026 of \$36.46, as provided by Staff in WUTC DR 222.⁸

7
8 **Q. Please explain how Staff’s recommendation differs from the other two forecasts.**

9 A. PSE provided two additional forecasts. In its as-filed power cost forecast, PSE
10 forecast of CCA allowance costs of \$57.91 per metric ton in 2025 and \$57.96 per
11 metric ton in 2026 (note that all references to “per ton” costs in my testimonies are to
12 the standard metric ton).⁹ As shown in Table 1 and Table 2, PSE applied these values
13 in two forecast variations. In one variation, PSE included the CCA allowance price
14 in its dispatch for wholesale sales but not retail sales. In the other variation, PSE
15 included the CCA allowance price in its dispatch for all generation.

16 The highest forecast of power costs is, unsurprisingly, the one in which the
17 higher \$58 per ton allowance price is applied to all generation. The second highest
18 forecast cost is based on a the \$36 (or \$38) per ton allowance price for all generation.

19

⁷ Based on an informal consultation with PSE staff, it is my understanding that PSE excluded other generation from its CCA allowance cost estimates because it expects that it will be taking delivery inside Washington (placing CCA allowance cost responsibility on the supplier) for all but the small amount of power delivered via the EIM. Assuming that PSE staff have accurately represented this information, I agree that it is reasonable to limit CCA allowance cost estimates for wholesale sales to forecast natural gas generation.

⁸ Wilson, Exh. JDW-26.

⁹ Wilson, Exh. JDW-25 at 2.

1 **Q. Which CCA allowance price should the Commission direct PSE to rely upon for**
2 **forecast purposes?**

3 A. The Commission should direct PSE to rely upon market forwards for CCA
4 allowance prices, just as PSE does for fuel and other commodity forecasts.

5 PSE's response to WUTC DR 222 argues as follows:

6 ... WUTC Staff's recommended CCA price inputs are not a likely forecast
7 of actual 2025 or 2026 CCA allowance prices. These secondary market
8 prices are heavily influenced by the risk of CCA repeal created by
9 Washington ballot Initiative 2117. If that initiative passes the CCA will be
10 repealed, and allowance prices will effectively go to \$0. If that initiative
11 fails, the CCA will remain in place, and allowance prices can be expected
12 to return to levels near where they were prior to the initiative, or
13 somewhere around \$60. In either case, secondary market prices will
14 change considerably from today's repeal-risk-adjusted prices in the mid-
15 \$30 range.¹⁰

16 PSE's proposed CCA allowance price forecast effectively assumes that the
17 ballot initiative will fail. If PSE expects the ballot initiative to fail, it should purchase
18 allowances (or market forward contracts) at the current price in order to secure lower
19 costs for its customers, both retail and wholesale. But it is more likely that PSE is
20 uncertain about the ballot initiative's prospects, and that there is some risk that future
21 allowance prices will be higher or lower than today's market forwards.

22 This is no different than fuel and other commodity contracts. There is always
23 a risk that some global or regional event or policy decision will cause fuel costs to
24 increase (or decrease). This does not mean that, for purposes of forecasting power
25 costs in a general rate case, PSE should arbitrarily deviate from the practice of using
26 market forwards in its forecast of fuel costs.

¹⁰ Wilson, Exh. JDW-25 at 2.

1 Nor should it do so in the case of CCA allowance prices.

2

3 **Q. Does this conclude your testimony?**

4 A. Yes.