BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent.	DOCKETS UE-190529 and UG-190530 (*consolidated*)
In the Matter of the Petition of PUGET SOUND ENERGY For an Order Authorizing Deferral Accounting and Ratemaking Treatment for Short-life IT/Technology Investment	DOCKET UE-190274 and UG-190275 (*consolidated*) COMMISSION STAFF'S MOTION FOR LEAVE TO FILE SUPPLEMENTAL TESTIMONY

I. INTRODUCTION

1 Staff of the Washington Utilities and Transportation Commission ("Commission") submits this Motion for Leave to File Supplemental Testimony and Exhibits pursuant to WAC 480-07-375(d). Commission Staff ("Staff") respectfully requests leave to file supplemental testimony and exhibits in light of Puget Sound Energy, Inc.'s ("PSE's") response to UTC Staff Data Request No. 223, which is attached to this motion. PSE's response included a term sheet pertaining to the provisions of a new coal supply agreement for Colstrip Units 3 and 4 ("Term Sheet"), which will likely replace the expiring contract on January 1, 2020. The parties to the Term Sheet (including PSE) agreed to the terms within it on July 2, 2019.

2 The existing coal supply agreement at Colstrip Units 3 and 4 will expire at the end of the year. Staff has been seeking information through discovery on the replacement contract since September 19, 2019 but received no information on the terms of this contract until November 20—two days before the filing deadline for Staff's testimony. Accordingly, Staff did not have adequate time to review the term sheet, propound follow-up discovery, and provide the Commission with testimony pertaining to the new coal contract in its November 22, 2019 testimony.

3 Staff is concerned that PSE's Power Cost Adjustment ("PCA") power cost baseline may have to be reset in light of the increased fuel costs associated with the terms of the new coal contract. Staff is also concerned that if the PCA power cost baseline is not reset in this rate case, it may result in rate instability for PSE's ratepayers. Staff therefore respectfully requests leave to file supplemental testimony and exhibits (pursuant to WAC 480-07-375(d)) in order to provide the Commission with testimony pertaining to the increased fuel costs that will be associated with the new coal contract for Colstrip Units 3 and 4—which will likely be in effect on January 1, 2020. In particular, Staff would like to provide supplemental testimony concerning whether the PCA power cost baseline should be reset in this rate case in light of the increased costs of fuel that will be associated with the new coal contract.

II. RELIEF REQUESTED

4 Staff respectfully requests that the Commission grant its motion for leave to file supplemental testimony and exhibits in this docket concerning the impact of increased fuel costs associated with the replacement coal contract at Colstrip Units 3 and 4. Staff believes that it can conduct the necessary discovery and provide the Commission supplementary

testimony on this issue within three weeks of the issuance of a Commission order granting this motion.

III. ARGUMENT

5 Staff applies the Commission's prior guidance in analyzing whether the PCA power cost baseline should be reset. The Commission has expressed the importance of setting the PCA power cost baseline to reflect an accurate estimate of actual costs that PSE will experience in the near and intermediate terms:

> ***It is important for a number of reasons that the power cost baseline be examined on a regular basis and, as the market changes, adjusted to reflect those changes***. The PCA establishes a deferral account in which PSE keeps track of over recovery or under recovery of costs it experiences on a monthly and annual basis. Any recovery of excess costs, or refund of excess revenues, does not take place until a point in time after a deferral is booked. PSE must bear the cash flow consequences during periods of under recovery. If the power cost baseline is set too low relative to actual prices, the greater the burden of those consequences for PSE's shareholders. Similarly, if the power cost baseline is set too high, ratepayers are burdened by the fact that they are paying more for power than what they should be paying. The PCA mechanism was meant to be fair to both shareholders and ratepayers.
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> In summary, as we examine the power cost baseline from time to time—recognizing that it is important that we undertake that examination on a regular basis—***we must strive to determine, with the greatest degree of precision that forward looking models can produce, an accurate estimate of actual costs that PSE will experience in the near and intermediate terms*****.** It is a challenging task to estimate what the Company's actual costs of power will be in future periods, yet that is what we must strive to do so that the PCA mechanism functions, as intended, to balance the risk of excursions in power costs as equally as possible between ratepayers and shareholders.
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> We resolve the philosophical question raised by ICNU in favor of the practical conclusion that ***power costs determined in general rate proceedings and in PCORC proceedings should be set as closely as possible to costs that are reasonably expected to be actually incurred during short and intermediate periods following the conclusion of such proceedings.***[1]

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[1] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-040640, UE-031471, & UE-032043, Order No. 06, 42–43, ¶¶ 106–108 (Feb. 18, 2005) (PSE Order) (emphasis added).

6 In Dockets UE-170485 and UG-170486 (*consolidated*), the Commission stated that Avista's Energy Recovery Mechanism (ERM) power cost baseline should be changed to reflect an "extraordinary circumstance": [S]etting a proper baseline is necessary for the ERM to function as necessary. . . . Going forward, the Commission will consider carefully any adjustments to the power cost baseline and change it only when ***extraordinary circumstance,*** which would include more closely matching the baseline to actual collections.[2]

7 In the same order, the Commission stated that an ***expiration of a major contract*** was a "finite, known event with a measureable impact, and adjusting the ERM baseline based on how that event would impact power costs during a normalized year is appropriate."[3]

8 The coal contract for Colstrip Units 3 and 4 will be *expiring* on December 31, 2019. Given the prior guidance by the Commission on this issue, Staff's position is that the expiration of this contract is an *extraordinary circumstance,* which may require that the PCA baseline be reset to reflect the increased fuel costs that will be associated with the new coal contract, effective January 1, 2020.

9 Staff is concerned that if the PCA baseline is not reset to reflect the increased fuel costs associated with a new coal contract, it may trigger large coal fuel surcharges to PSE's ratepayers at the end of the 2020–21 deferral years. This could create rate instability among PSE's ratepayers. As Staff witness Mr. David C. Gomez testified:

> If, as Mr. Roberts claims, the new contract increases [redacted], and these costs are not included in the Company's power cost baseline at the conclusion of this case, then large deferral balances

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[2] *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, UE-170485 & UG-170486, Order 07, 54, ¶ 160 (April 26, 2018) (Avista Order) (emphasis added).
[3] *Id.* at ¶ 158.

in the PCA mechanism will accumulate thereby potentially triggering a coal fuel surcharge to customers at the end of the 2020-2021 deferral years.[4]

10 Due to Staff's concerns over the expiration of this coal contract and its impact on the PCA mechanism (among other concerns), Staff issued numerous data requests pertaining to the new coal contract for Colstrip Units 3 and 4 within this docket. These data requests were necessary because PSE, within the prefiled direct testimony of both Paul Wetherbee and Ron Roberts, made no mention of the impact of the impending new coal contract for Colstrip Units 3 and 4.

11 On September 19, 2019, Staff issued UTC Staff Data Request No. 57. In response to this data request, PSE confirmed that it expected a new coal contract to replace the existing coal contract at Units 3 and 4—that would expire at the end of December 2019.[5]

12 On September 23, 2019, Staff issued UTC Staff Data Request No. 75. This data request stated the following:

> On September 10, 2019, Staff participated in an informational meeting with PSE to go over power cost testimony and work papers presented by Mr. Paul Wetherbee in UE-190529. In that meeting, PSE Staff indicated that a new coal contact with Westmoreland Rosebud Mining LLC (WECO) for Units 3 and 4 had been signed and executed by PSE.
> . . . .
> SUBPART A: When and how does PSE plan to update its power costs in this proceeding given Talen and the other Colstrip Owners have signed and executed a new coal contract with WECO and/or some other coal supplier? . . .[6]

PSE responded to this data request by stating:

> Discussion at the September 10 meeting between Commission Staff and PSE staff resulted in an incorrect understanding of the status of a new coal contract for Colstrip Units 3&4. PSE has not yet signed a coal contract with

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[4] Gomez, Exh. DCG-1CT at 30.
[5] UE-190529 & UG-190530, PSE's response to UTC Staff Data Request No. 57 (Declaration of Elizabeth M. DeMarco, Attachment A).
[6] *See* UE-190529 & UG-190530, UTC Staff Data Request No. 75 (Declaration of Elizabeth M. DeMarco, Attachment B(C)).

> any party to provide coal to Colstrip Units 3&4, post December 31, 2019. Negotiations are still underway for a new coal contract. In light of this fact, PSE does not have a specific plan to update power costs in this proceeding to address the new coal contract, when it is finalized. PSE is willing to update power costs to include this new contract and to seek a prudence determination of this new contract, if Commission Staff will agree to such an update. However, based on Commission Staff's position at the prehearing conference, strictly limiting PSE's supplemental testimony and power cost update, PSE does not currently have a plan to update power costs to include the new coal contract.[7]

13 On October 21, 2019, Staff issued UTC Staff Data Request Nos. 172–176. In response to Data Request No. 172, PSE confirmed that it "does not plan to seek recovery for the costs of the new Colstrip Units 3 and 4 coal contract through rates set in this case."[8]

14 On November 6, 2019, Staff issued UTC Staff Data Request Nos. 223–225. Data Request No. 223 stated the following:

> Provide all documents, including dates, which memorialize Talen's and/or Puget Sound Energy's intent to sign contract(s) with suppliers(s) and/or mine(s) for coal to fuel Colstrip Units 3 and 4, including but not limited to: Letter(s) of Intent, Memorandums(s) of Understanding, and/or any other agreements.[9]

In its response to this data request, PSE confirmed that a new coal contract has not yet been signed. However, the company provided a Term Sheet dated July 2, 2019. The portion of the Term Sheet that is not marked as highly confidential states the following:

> This Term Sheet sets forth the essential terms and conditions that will be incorporated into a new Coal Supply Agreement ("Agreement") between Avista Corporation ("Avista"), NorthWestern Corporation ("NorthWestern"), PacifiCorp ("PacifiCorp"), Portland General Electric Company ("PGE"), Talen Montana, LLC ("Talen"), and Puget Sound Energy, Inc. ("Puget") (collectively, "Buyers"), on the one hand, and Westmoreland Rosebud

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[7] UE-190529 & UG-190530, PSE's response to UTC Staff Data Request No. 75 (First Supplemental Response of Paul K. Wetherbee) (Declaration of Elizabeth M. DeMarco, Attachment B(C)).
[8] UE-190529 & UG-190530, PSE's response to UTC Staff Data Request No. 172 (Declaration of Elizabeth M. DeMarco, Attachment C).
[9] *See* UE-190529 & UG-190530, UTC Staff Data Request No. 223 (Declaration of Elizabeth M. DeMarco, Attachment D(HC)).

> Mining, LLC ("Seller"), on the other. ***Buyers and Seller shall negotiate in good faith to conclude and execute the Agreement, based on the following:***[10]

15 In response to UTC Staff Data Request No. 225, and in light of the newly produced Term Sheet, PSE stated that the new coal contract will increase fuel costs by approximately [redacted] million annually.[11] Staff reviewed this number and believes that it may be incorrect and that the increase in fuel costs associated with the new coal contract may be as much as three times as high as PSE's estimate. Accordingly, Staff has concerns about the impact these increased fuel costs will have on the monthly PCA deferral balances once the coal contract becomes effective on January 1, 2020.

16 If this motion is granted, Staff will engage in additional discovery and will provide the Commission with supplemental testimony on this issue to ensure that the PCA baseline is "set as closely as possible to costs that are reasonably expected to be actually incurred during short and intermediate periods following the conclusion of [this] proceeding[]."[12]

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[10] UE-190529 & UG-190530, PSE's response to UTC Staff Data Request No. 223, Highly Confidential Attachment A (Declaration of Elizabeth M. DeMarco, Attachment D(HC)).

[11] UE-190529 & UG-190530, PSE's response to UTC Staff Data Request No. 225 (Declaration of Elizabeth M. DeMarco, Attachment E(C)).

[12] PSE Order at 43, ¶ 108.

IV. CONCLUSION

17 Staff respectfully requests that the Commission grant its motion for leave to file supplemental testimony and exhibits in this docket concerning the impact of increased fuel costs associated with the replacement coal contract at Colstrip Units 3 and 4.

Dated this 27th day of November 2019.

Respectfully submitted,

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