

Agenda Date: February 9, 2017

Item Number: A2

Docket: UE-161240

Company Name: Puget Sound Energy

Staff: David Gomez, Assistant Power Supply Manager

Recommendation

Staff recommends the commission take no action, thereby, allowing the revisions to Puget Sound Energy's Tariff Schedule No. 91 – Cogeneration and Small Power Production, to go into effect by operation of law.

Background and Discussion

On November 23, 2016, Puget Sound Energy (PSE or company) filed with the Washington Utilities and Transportation Commission (commission) its annual revision to its Tariff Schedule No. 91 – Cogeneration and Small Power Production (Schedule 91).¹ The proposed revisions to Schedule 91:

1. Update the rates provided under the fixed-price option to reflect:
 - a. The company's most recent market prices for energy and gas; and
 - b. PSE's change in methodology for calculating avoided capacity.
2. Change the threshold for Schedule 91 eligibility to Qualifying Facilities (QFs) of less than five Megawatts; and
3. Edited the language contained in Attachment A of the schedule to reflect current insurance and financing practices.

PSE's initially proposed to eliminate the separate capacity component of its avoided cost rates where the company claimed it did not have a capacity need (2017-2021). Upon discussion with both commission and Regulatory Services staff, the company restored capacity payments for this period and also agreed to make other changes to its proposed tariff recommended by staff. On January 20, 2017, PSE filed replacement pages reflecting these changes.

Avoided Capacity

Both commission and Regulatory Services staff met with the company on December 15, 2016, to go over PSE's updated methodology for calculating its avoided cost for capacity. Staff also took the opportunity at this meeting to review with the company the commission's recent order in a Pacific Power & Light Company (Pacific) case regarding avoided capacity payments to QFs.² In the Pacific case, staff's initial brief and the commission's final order describe the utility's obligations to purchase Qualifying Facility (QF) power under the Public Utility Regulatory Policy Act (PURPA), FERC rules and rules adopted by the commission:

¹ WAC 480-107-055(1) requires investor-owned utilities to make an annual filing of their avoided capacity and energy costs.

² In *WUTC v. Pacific Power & Light Company*, Docket UE-144160, Order 04 (November 12, 2015).

- PURPA requires utilities, like PSE, to purchase power produced by QFs at rates that: (1) are just and reasonable to electric customers; (2) do not discriminate against QFs; and (3) do not exceed the incremental cost to the utility of alternative electric energy.³
- FERC rules require utilities to purchase QF power at rates that equal the utility’s “full avoided cost” — that is, the cost the utility avoids by not having to generate itself or purchase electricity from another source. The full avoided cost must account for the value of both the energy costs and the capacity costs that the utility avoids by purchasing QF power.⁴ Under the full avoided cost standard, rates for QF power must include a value for capacity, unless the purchasing utility can demonstrate that it does not need capacity over its ten-year planning horizon.⁵ FERC regulations also require utilities to maintain a schedule of their avoided costs for energy and capacity on file with their state regulatory authority, and to provide regular updates to that schedule.⁶
- The Commission has adopted rules that require utilities to update their avoided cost schedule at least once per year,⁷ and to file a standard tariff for purchases from small QFs.⁸

In its decision, the commission reaffirmed these requirements and rejected Pacific’s revised tariff sheets because it failed to carry its burden to show its proposal to eliminate the separate capacity component of its avoided cost rates produces results that are fair, just, reasonable and sufficient. PSE’s initial filing suffered from this same malady which the company has since corrected in its replacement pages filed on January 20, 2017.

Interested parties

Tables 1 and 2 illustrate the change in rates offered by the company as payment for QFs who qualify under the tariff and who select the Fixed Price option. The change in the rate offered is driven primarily by gas costs and market prices for power.

2016	2017	2018	2019	2020	2021	2022	2023
\$61.19	\$62.72	\$64.29	\$65.89	\$67.54	\$69.23	\$70.96	\$72.73
2024	2025	2026	2027	2028	2029	2030	
\$74.55	\$76.42	\$78.33	\$80.29	\$82.29	\$84.35	\$86.46	

Table 1; Rates In effect for Energy and Capacity; Schedule 91

2017	2018	2019	2020	2021	2022	2023	2024
\$44.54	\$45.65	\$46.79	\$47.96	\$49.16	\$50.39	\$51.65	\$52.94
2025	2026	2027	2028	2029	2030	2031	2032
\$54.26	\$55.62	\$57.01	\$58.44	\$59.90	\$61.39	\$62.93	\$64.50

Table 2; Proposed Rates for Energy and Capacity; Scedhule 91

³ 16 U.S.C. § 824a-3(b).

⁴ 18 CFR § 292.304(b)(2).

⁵ See 18 C.F.R. § 292.304; see also FERC Order No. 69 at 12225-6.

⁶ Twitchell Declaration ¶ 8 (citing 18 C.F.R. § 292.302(b)).

⁷ See WAC 480-107-055(1).

⁸ See WAC 480-107-095(2).

Staff was contacted by a number of QF developers whose initial comments centered around the issue of capacity payments but also extended into the methodology employed by the company to calculate its Schedule 91 rates. Staff has extensively reviewed the company's model and is satisfied that the resulting rates, reflected in the company's replacement pages filed on January 20, 2017, are reasonable. Staff has also provided interested parties with copies of the model along with the company's responses to data requests not marked confidential.

Besides the rate issue above, interested parties also commented on changes they would like to see made to the tariff which goes beyond the scope of what can be accomplished through this tariff revision. The commission, in Order 04 of the Pacific case mentioned above, indicated its desire to engage stakeholders and the companies in a broader discussion of QF policy later this year.⁹

Conclusion

Staff recommends the commission take no action, thereby allowing the tariff revisions to go into effect by operation of law.

⁹ UE-144160, Order 04, ¶29.