

## Via Electronic Mail

February 6, 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, delay its implementation, or suspend and investigate Puget Sound Energy’s (“PSE”) third revised advice filing proposing to reduce its Schedule 91 avoided cost rates (“2017 Schedule 91”). The Coalition opposes the adoption of PSE’s third revised 2017 Schedule 91 because the tariff continues to under compensate qualifying facilities (“QF”) for capacity. The Coalition, however, supports the Commission approving PSE’s proposed 2017 form power purchase agreements (“Form PPAs”).

Even more important, PSE may be delaying finalizing PPAs with QFs until the Commission approves the lower 2017 Schedule 91 rates. If PSE is waiting to finalize PPAs with QFs until rates drop, then PSE’s actions would be illegal and will result in the filing of numerous complaints before the Commission. To avoid any unnecessary legal disputes, the Commission should not allow the proposed 2017 Schedule 91 rates to go into effect so that QFs that PSE has already concluded are “mature” projects can finalize their PPAs.

Attached to PSE’s Schedule 91 tariff filings is an Attachment A, with revised standard Form PPA (“2017 Form PPA”). The Coalition supports adoption of the new 2017 Form PPAs. PSE is currently refusing to execute some PPAs on the grounds that it is waiting for the Commission to approve these new 2017 Form PPAs. Given PSE’s position (that it should not sign new PPAs using the current 2016 Form PPAs), the Commission should delay ruling upon PSE’s proposed 2017 Schedule 91 rates, but approve the proposed 2017 Form PPAs. This would allow PSE to complete negotiations using the 2017 Form PPAs incorporating the current 2016 Schedule 91 rates before the proposed 2017 Schedule 91 rates go into effect.

## 1. Background

The Coalition is not recounting this background for the Commission to memorialize every change, but to make the point that PSE's filings have created a moving target for QFs, which warrants further review prior to their adoption. The Coalition also notes that PSE's changes were made in response to errors and improper adjustments identified by Staff, and the Coalition appreciates Staff's efforts reviewing the numerous filings.

- PSE filed lower Schedule 91 rates and revised Form PPAs on November 23, 2016, with a proposed effective date of December 24, 2016, making major changes from the currently effective 2016 Schedule 91 that included: 1) the elimination of capacity payments during the 2017-2021 period; and 2) significantly lower capacity payments from 2022-2032, from \$190.01 per kilowatt year ("kW-year") to \$130.04 kW-year.
- PSE made a substitute filing on December 19, 2016, that: 1) moved the effective date to January 27, 2017; 2) increased the zero capacity payment from 2017-2021 to almost zero (\$0.08 kilowatt year); 3) incrementally raised the capacity payment from 2022-2032 to \$135.04 kW-year; and 4) made some minor changes to the Form PPA.
- The Coalition submitted comments on January 3, 2017 opposing PSE's proposed rate change, and will not repeat those comments in their entirety here. The Coalition's January 3, 2017 comments, among other things, objected to PSE's: 1) decision to no longer pay for capacity during the 2017-2021 time period; and 2) reduction in capacity payments from \$191.01 per kW-year to \$135.04 per kW-year for the years 2022-2032.
- PSE made a second substitute filing on January 9, 2017, making changes that moved the proposed effective date to February 10, 2017.
- PSE made a third substitute filing on January 20, 2017, increasing the capacity payment from 2017 to 2021 to \$135.04 per kW-year, and keeping the February 10, 2017 effective date. PSE's final proposed capacity payments are approximately 30% lower than the current capacity payments.

**2. The Commission Should Reject or Delay the 2017 Avoided Cost Rate Change While Approving the 2017 Form PPA to Allow QFs that PSE Has Determined Have “Mature” Projects to Execute PPAs with PSE**

In spite of PSE’s recognition that certain QFs are “mature” enough to qualify for the current 2016 Schedule 91 rates, PSE is delaying finalizing some PPAs with these QFs. A utility cannot delay execution of a PPA to avoid paying currently effective avoided cost rates, or otherwise gain some advantage in the PPA negotiation process. The Coalition specifically requests that the Commission defer consideration of the merits of the proposed 2017 Schedule 91 avoided cost rates for two months to allow QFs and PSE to execute PPAs. As PSE claims it is delaying providing PPAs on the grounds that it wants to use the 2017 Form PPAs; the Coalition recommends that the Commission approve only the 2017 Form PPAs at the February 9, 2017 open meeting.

Over the last few months, several QFs have attempted to finalize their PPAs with PSE under the current 2016 Schedule 91 rates. While the Coalition is not familiar with all of the projects’ circumstances, some of these QFs have been in significant discussions with PSE for almost a year. For at least fifteen projects, PSE requested documentary support for their project status, and “PSE reviewed the responses during the month of January 2017 and has concluded that all fifteen projects have met the requirements for a mature project.”<sup>1</sup> PSE sent letters to these projects including a notice of qualification (“Notice of Qualification”) informing them that they were mature, and that they “qualif[y] for pricing under the rates provided in PSE’s Schedule 91 in effect for calendar year 2016.”<sup>2</sup>

PSE’s commitment, however, was equivocal, and PSE retained the unilateral right to determine that each project would not be paid the 2016 Schedule 91 prices. The Notice of Qualification states it “neither constitute[s] the formation of a contract between PSE and [Insert Name of Developer] nor provides the notice of approval of interconnection . . . .”<sup>3</sup> In addition, each project’s eligibility for current 2016 Schedule 91 prices was expressly limited to, completion of the project and interconnection as well as “execution of a written power purchase agreement” by December 31, 2018.<sup>4</sup> The Notice of Qualification further clarified that PSE would not even provide a form PPA until “PSE approves an Interconnection Agreement . . . .”<sup>5</sup> While difficult to parse and follow, the complex timelines, steps, conditions, and hurdles in the Notice of Qualification mean that PSE could delay the interconnection agreement, PPA negotiations, or even the interconnection installation so that it would be impossible for a project to qualify for, or be paid, the 2016 Schedule 91 prices.

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<sup>1</sup> Attachment A at 2 (PSE Response to Commission Staff Informal Data Request No. 013).

<sup>2</sup> Id. at 6.

<sup>3</sup> Id.

<sup>4</sup> Id.

<sup>5</sup> Id.

PSE has informed at least one QF project developer that it has changed its position, presumably in light of a recent Federal Energy Regulatory Commission's ("FERC") decision confirming its illegality.<sup>6</sup> PSE now states that it may be willing to sign a PPA before it approves an interconnection agreement and that it will not wait until December 31, 2018 to sign a PPA.<sup>7</sup> However, PSE has raised a previously unmentioned condition that it claims prevents it from immediately executing a PPA. Specifically, PSE has stated that it will not sign a PPA using the Commission's currently approved 2016 Form PPA, and will wait until after the Commission approves its proposed 2017 Schedule 91 rates and 2017 Form PPA.

For at least one developer, PSE claims that it will then provide an executable PPA using a hybrid of the new 2017 Form PPA and the old (and higher) 2016 Schedule 91 rates. PSE's commitment to pay the currently existing 2016 Schedule 91 rates to this one QF developer is conditioned upon PSE executing a final PPA, which it may decide not to do. PSE may raise other unmentioned concerns regarding the projects or their specific contract terms to delay or refuse to finalize any contracts using the 2016 Schedule 91 rates.<sup>8</sup>

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<sup>6</sup> FLS Energy, Inc., 157 FERC ¶ 61,211 at P 26 (2016).

<sup>7</sup> The Coalition is not aware of whether PSE has informed Staff of this new position in updated data responses.

<sup>8</sup> As the Commission may be aware, other utilities have provided final draft PPAs or even signed PPAs to QFs in the past, only to challenge the contracts after avoided cost rates dropped or other policy changes were made. E.g., Grouse Creek Wind Park, LLC, 142 FERC ¶ 61,187 at P 6 (2013) (Idaho Power Company argued that a fully executed PPA no longer qualified for a standard contract based on a change in Idaho state PURPA policy that occurred months after execution); Murphy Flat Power, LLC, 141 FERC ¶ 61,145 PP 6, 18 (2012) (Idaho Power Company argued that a fully executed PPA no longer qualified for a standard contract based on a change in Idaho state PURPA policy that occurred after execution); Rainbow Ranch Wind, LLC, 139 FERC ¶ 61,077 at PP 6, 16 (2012) (Idaho Power Company argued that a fully executed PPA no longer qualified for a standard contract based on a change in Idaho state PURPA policy that occurred after execution); Cedar Creek Wind, LLC, 137 FERC ¶ 61,006 at PP 5, 20 (2011) (Rocky Mountain Power/PacifiCorp argued that it should not be bound by PPAs that it delayed executing until after an Idaho state PURPA policy change); Re Farmers Irrigation District v. PacifiCorp, dba Pacific Power, Docket No. UM 1441, Order No. 10-493 at 2 (Dec. 27, 2010) (PacifiCorp raised a concern regarding a QF's continued eligibility, refused to sign a new or renewed PPA until after its prices changed, and then offered only the lower rates); Re Swalley Irrigation District v. PacifiCorp, dba Pacific Power, Docket No. 1438, Order No. 09-451 at 1 (Nov. 9, 2009) (QF had taken steps to establish a small power production facility, but PacifiCorp refused to execute a completed PPA unless the agreement included new, lower rates); Re International Paper Co. v. PacifiCorp, dba Pacific Power, Docket No. UM 1449, Order No. 09-439 at 6-7

PSE's various and changing conditions to finalize a PPA using the currently effective 2016 Schedule 91 violate the Public Utility Regulatory Policies Act ("PURPA"), and FERC's rules and orders. Utilities are not allowed to delay "the signing of a contract, so that a later and lower avoided cost is applicable."<sup>9</sup> Similarly, FERC has specifically held that a utility cannot refuse to sign a PPA while it considers approving an interconnection agreement. FERC explained that, such a requirement violates PURPA and its rules "because the utility can, for example, delay the facilities study and the tendering to the QF of an executable interconnection agreement, the requirement of an executed interconnection agreement ... is no different than requiring a utility-signed contract, and equally impermissible."<sup>10</sup>

The Coalition urges the Commission to substantiate PSE's claim by requiring PSE to provide these mature QF projects the currently effective 2016 Schedule 91 rates, under the contract terms and conditions of its proposed 2017 Form PPAs. Thus, the Commission should approve PSE's 2017 Form PPAs (that PSE has said that it wants to use), but defer resolution of the proposed 2017 Schedule 91 rates and leave the 2016 Schedule 91 rates in place until consideration at a future open meeting. This will allow PSE to fill project specific information into the 2017 Form PPAs, and provide executable PPAs to the projects.

The Oregon Public Utility Commission has taken a similar approach in the past. For example, in 2013 Portland General Electric Company's ("PGE") avoided cost rates were dropping, and QFs complained that the utility was delaying finalizing PPAs so that it could pay the soon-to-be-effective lower rates. The Oregon Commission approved the rate change, but set the effective date over four months later than that requested by PGE.<sup>11</sup> The later date was chosen to allow QFs sufficient time to complete negotiating their contracts.

In summary, the Coalition urges the Commission not to approve the lower 2017 Schedule 91 rates, or even address their merits at this time. Instead, the Coalition recommends that the Commission approve the 2017 **Form PPAs**, and defer resolution of the 2017 Schedule 91 **rates** until a future open meeting. This will put PSE's commitments to the test, because PSE's last and most recent justification for not signing PPAs with at least one

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(Nov. 4, 2009) (PacifiCorp refused to execute a PPA during a pending avoided cost rate change and then argued after the rate change that the lower rates should apply); Snow Mountain Pine Co. v. Maudlin, 734 P.2d 1366, 1370, 84 Or. App. 590 (1987) (CP National would not execute a PPA prior to an avoided cost rate change and argued that the applicable avoided cost rates should be the avoided cost rates in effect after the rate reduction).

<sup>9</sup> Cedar Creek Wind, LLC, 137 FERC ¶ 61,006 at P 36.

<sup>10</sup> FLS Energy, Inc., 157 FERC ¶ 61,211 at P 26 (2016).

<sup>11</sup> Re Portland General Electric Company, Application to Update Schedule 201 Quaifying Facility Information, Docket No. UM 1664, Order No. 13-378 at 1 (Oct. 17, 2013).

developer is that it will sign PPAs with current 2016 Schedule 91 rates, but only after the Commission approves and allows it to use the proposed 2017 Form PPAs.

### **3. PSE Has Failed to Justify Its Lower Capacity Payments**

As explained above and in the Coalition's January 3, 2017 letter to the Commission, PSE has proposed to lower its capacity costs significantly without evidentiary support. PSE's workpapers simply stated that the changes are based on "guidance from the IRP analysts . . . ." PSE provided additional information in response to data requests from Staff, which explains that PSE has lowered its capacity payments because it believes that QFs do not provide the same capacity benefits as demand response ("DR").<sup>12</sup> This is a novel and unsupported claim that departs from PSE's current methodology for capacity payments and should not be adopted without further investigation and hearing.

While the Coalition has not had the opportunity to independently investigate PSE's filing, PSE's current rates appear to be based on a basket of DR measures that were identified as the avoidable resource in the 2015 IRP, with a levelized cost of \$190 per kW-year. PSE appears to be basing the reduction of this avoided capacity cost to \$135 per kW-year because it claims QFs no longer provide the same capacity value as DR.

Given the lack of supporting documentation, neither the Coalition nor the Commission can verify the accuracy of PSE's claims. The Coalition has identified several concerns and grounds for the Commission not to adopt PSE's lower capacity payments at this time. First, PSE has used the \$190 per kW-year for Schedule 91 pricing in the past, and PSE offers nothing to justify why it should not continue to use this value, at least until a new avoidable resource is defined in the 2017 IRP. If PSE is going to make such a significant change, it should at least provide advance notice and explanation in its IRP.

Second, PSE claims that QF resources cannot displace an entire peaker resource and that small QF capacity cannot be added in short periods or provide other capacity benefits that are at least equal to DR. For example, PSE states that: "Currently, the Schedule 91 resources in the total of 36 MW nameplate capacity does not match the firm peak reduction as DSR and do not have the same capacity credit. At best, they can reduce the size of the peaker needed in 2022, but there are not enough resources to completely avoid building resources."<sup>13</sup>

This is not how PURPA works. Small QFs can never by themselves displace an entire peaker resource. The question is not whether a single or small group of QFs that are

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<sup>12</sup> The Coalition also notes that PSE repeatedly refused to provide copies of its responses to Staff's data requests, and the Coalition only obtained these documents after making a public records request with the Commission. The Coalition and its members that are impacted by the reduced Schedule 91 rates should be provided an opportunity to review and vet PSE's proposed changes.

<sup>13</sup> Attachment A at 7 (PSE Response to Staff Informal Data Request No. 5).

negotiating with the utility at any given moment can defer any particular resource, but what investments all QFs in the aggregate would allow the utility to avoid over the life of the deferred resource. FERC's rules require, to the extent practical, that the Commission consider the aggregate capacity value of small QFs.<sup>14</sup> Even though small amounts of capacity provided from QFs might not enable a purchasing utility to defer or avoid scheduled capacity additions, the aggregate capability of such purchases could permit the deferral or avoidance of a capacity addition.<sup>15</sup> It would be a radical departure to how avoided cost rates are set to reduce the capacity credit based on only the number of QFs that were currently negotiating PPAs with the utility. The Coalition participates in avoided cost rate filings in Washington, Idaho, Oregon, Utah and Wyoming, and is unaware of any Northwest utility that discounts the capacity payment based on only the number or capacity of QFs that have requested contracts.

Third, even if QFs can only displace a portion of the demand response resources identified in the 2015 IRP, PSE has not explained why \$190 per kW-year is not still the avoided capacity cost. Demand response resources consist of a large number of DR contracts with customers or DR providers; presumably, the utility could choose not to pursue a portion of these DR resources if its need changes by an amount less than the full capacity of the package of DR resources. Moreover, the avoided cost to ratepayers should not be reduced because PSE does not have a newly completed and acknowledged IRP that identifies a peaker costing \$135 per kW-year as the avoidable resource. Instead, PSE is still relying on the 2015 IRP's DR as the avoidable capacity resource.

Fourth, PSE also inappropriately assumes that its peaking resource will not need any firm pipeline costs. PSE explained that: "The \$190/kw-year was calculated using the 2015 IRP resource cost and Base power price. The \$135/kw-year was calculated using the 2015 IRP resource cost with no firm pipeline cost on the frame peaker"<sup>16</sup> and that "the frame peaker has zero firm gas transport."<sup>17</sup> PSE should have to explain how its peaking resource can provide any capacity value without a guaranteed gas supply.

Finally, additional review and the opportunity for PSE to conduct discovery could identify other concerns with PSE's capacity cost calculation, or other elements of the filing.

#### 4. Conclusion

The controversy regarding PSE's new Schedule 91 filings is entirely of PSE's creation. PSE has had more than sufficient time to finalize and sign PPAs with the few developers that it has said are sufficiently mature as to warrant contracts with the current 2016

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<sup>14</sup> 18 C.F.R. § 292.304(e)(2)(vi).

<sup>15</sup> Small Power Production and Cogeneration Facilities; Regulations Implementing Section 210 of the Public Utility Regulatory Policies Act of 1978, Order No. 69, 45 Fed. Reg. 12,214, 12,227 (Feb. 25, 1980).

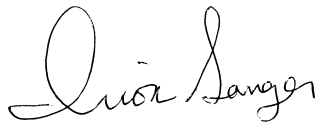
<sup>16</sup> Attachment A at 8 (PSE Response to Staff Informal Data Request No. 5).

<sup>17</sup> Id. (citing PSE Response to Staff Informal Data Request No. 3).

Schedule 91 rates. PSE also could have easily continued to use the same methodology for valuation of QF capacity as it has in the past, which would remove any controversy regarding the calculation of the rates.

The Coalition recommends that the Commission either reject PSE's 2017 Schedule 91 **rates**, suspend the rates pending an investigation, or postpone any resolution of the rates until a future open meeting. However, the Commission should approve the 2017 **Form PPAs** because there are no known disputes regarding their terms and conditions, and PSE is claiming that their pending approval is the sole reason why it will not finalize PPAs with at least one QF developer.

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".

Irion A. Sanger

cc: John Lowe  
David Gomez  
Ken Johnson  
Jason Kuzma



## **Attachment A**

**PSE Response to Commission Staff Informal Data Request No. 13**

**PSE Response to Commission Staff Informal Data Request No. 5**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**Docket No. UE-161240  
Puget Sound Energy's  
Schedule No. 91 Cogen and Small Power Production**

**WUTC INFORMAL DATA REQUEST NO. 013**

**WUTC INFORMAL DATA REQUEST NO. 013:**

In my meeting with Ken, Kathie, Susan, Jon P. etc. they also indicated they would look into another issue brought up by interested parties regarding standard offer QF PPA's under the current Schedule 91 tariff which are awaiting execution by PSE. I don't know where we stand with regard to the company's position on these pending QF PPA's but a decision on this matter is required if we are going to have any chance at resolving this at the February 9 open meeting. I know you may not be the one making these decisions but I need to have an idea when I will get an answer (preferably by the end of today) so I can proceed with what I need to do.

**Response:**

Based upon further clarification from Kathie, Puget Sound Energy ("PSE") interpreted this data request to be as the following and prepared the data response accordingly:

Please explain how PSE is addressing any current pending requests for Schedule 91 service that had identified evidence of mature eligible generation projects prior to end of the 2016. Please explain how PSE's approach is consistent with PURPA under Schedule 91.

PSE recognized that PURPA requires PSE to purchase power from qualifying facilities that have reached sufficient maturity that have principal conditions that can be identified, (e.g., contract for construction of the facility, selection of a site, and completion of an environmental impact statement)<sup>1</sup> before a power purchase agreement can be executed.

On December 8, 2016, PSE sent an email to all developers that have submitted an application to sell power to PSE pursuant to Schedule 91. Please see Attachment A for a copy of the email. The email indicated to potential developers that they would qualify for Schedule 91 pricing available in calendar year 2016; provided, that, they could demonstrate that project or projects were sufficiently mature. PSE asked for the

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<sup>1</sup> See *In re Wheelabrator Env'tl. Sys., Inc.*, 1st Supp. Order, Docket No. U-89-3043-F (Sept. 28, 1989).

following information that would be indicative of a mature project and consistent with the Commission's prior orders:<sup>2</sup>

1. Site control (ownership option, or lease documents)
2. A committed completion date (as per WAC 480-108, initial operation must occur within one year for Tier 1 and within two years for Tiers 2 & 3, of the date of approved application)
3. Specific Generation nameplate output (KW and KVA)
4. Projected average monthly output in KWh to PSE per year
5. A description of the financing (if necessary) and the status of securing such financing
6. Evidence regarding necessary site and environmental permits, including the status in obtaining these permits.

Attachment A. PSE accepted responses from potential developers through the end of calendar year 2016.

PSE received information from seven developers (representing fifteen projects) that submitted the information requested. PSE reviewed the responses during the month of January 2017 and has concluded that all fifteen projects have met the requirements for a mature project. PSE has drafted a letter providing notice to the developers that they qualify as mature projects and are eligible to receive Schedule 91 pricing available for calendar year 2016. Please see Attachment B for a copy of the form letter. PSE plans to send the notice to qualifying developers in the week of January 23, 2017.

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<sup>2</sup> *Id.*; see also *WUTC v. Wash. Water Power Co.*, Cause No. U-86-119 (Apr. 23, 1987).

# **ATTACHMENT A to PSE's Response to WUTC INFORMAL Data Request No. 013**

**From:** Haman, Micah  
**Sent:** Thursday, December 08, 2016 9:46 AM  
**To:** [REDACTED]

**Cc:** Einstein, William T; Lenz, Brian  
**Subject:** PSE Schedule 152 Small Scale Generation Interconnection Developers – 2016 Rate Schedule 91

Small Scale Generation Interconnection Developers – 2016 Rate Schedule 91

For those developers who have been working with PSE on projects which could qualify for Schedule 152 Generation Interconnections, you know our Schedule 91 PPA prices reset each year based on external factors including the market price of natural gas. Schedule 91 PPA prices are set to drop for 2017. Your project may still qualify for 2016 Schedule 91 PPA prices if you can provide sufficient evidence of a mature generation project which includes:

1. Site control (ownership option, or lease documents)
2. A committed completion date (as per WAC 480-108, initial operation must occur within one year for Tier 1 and within two years for Tiers 2 & 3, of the date of approved application)
3. Specific Generation nameplate output (KW and KVA)
4. Projected average monthly output in KWh to PSE per year
5. A description of the financing (if necessary) and the status of securing such financing
6. Evidence regarding necessary site and environmental permits, including the status in obtaining these permits.

Please provide this evidence by December 23, 2016 at 4 pm via email so that individual projects may qualify for 2016 Schedule 91 PPA pricing.

Approval of interconnection under Schedule 152 is a separate and ongoing process. If PSE approves an Interconnection Agreement under Schedule 152, then PSE can provide the PPA under Schedule 91 with 2016 pricing.

V/R,  
Micah

**Micah Haman**  
Puget Sound Energy  
**Customer Renewable Energy Program Manager**  
355 110th Avenue NE EST-10E  
Bellevue, WA 98004  
office: 425-456-2992

REP - Certified Renewable Energy Professional with the Association of Energy Engineers  
MPM - Certified Master Project Manager with American Academy of Project Management

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**ATTACHMENT B to PSE's Response to  
WUTC INFORMAL Data Request No. 013**

[Insert date when award notification letter is emailed]

[Insert name and address of develop being notified]

**RE: Notice of Qualification for Pricing for [Insert Name of Project] Under the Rates Provided in Puget Sound Energy's Schedule 91 in Effect for Calendar Year 2016**

Dear [Insert Name of Developer Representative]:

This letter is in regard to the submission of materials provided by [Insert Name of Developer] to Puget Sound Energy ("PSE") in December 2016 to qualify [Insert Name of Project] for pricing under the rates provided in PSE's Schedule 91 in effect for calendar year 2016. PSE has evaluated the materials received by [Insert Name of Developer] for [Insert Name of Project]. PSE is hereby providing notice of its determination that [Insert Name of Project] qualifies as a mature generation project as of December 31, 2016, and thereby qualifies for pricing under the rates provided in PSE's Schedule 91 in effect for calendar year 2016.

This Notice of Qualification neither constitute the formation of a contract between PSE and [Insert Name of Developer] nor provides notice of approval of interconnection of [Insert Name of Project] under Schedule 152. Indeed, this Notice of Qualification is subject to the following conditions on or before December 31, 2018: (i) interconnection of [Insert Name of Project] to the PSE electrical system pursuant to the terms and conditions of Schedule 152; (ii) operational completion of [Insert Name of Project]; and (iii) execution of a written power purchase agreement in accordance with the terms and conditions set forth in Attachment A to PSE's Schedule 91. If each of these conditions precedent is not satisfied on or before December 31, 2018, then [Insert Name of Project] will not qualify for pricing under the rates provided in PSE's Schedule 91 in effect for calendar year 2016, and the pricing would be pursuant to the Schedule 91 prices in effect at the time of operational completion of the project.

If PSE approves an Interconnection Agreement for [Insert Name of Project] under Schedule 152, then PSE will subsequently provide [Insert Name of Developer] with a form power purchase agreement in accordance with the terms and conditions set forth in Attachment A to PSE's Schedule 91 for the purchase of the output of [Insert Name of Project]. This form power purchase agreement will contain pricing under the rates provided in PSE's Schedule 91 in effect for calendar year 2016.

Thank you for your interest in doing business with PSE.

Sincerely,

Micah Haman  
Puget Sound Energy  
Customer Renewable Energy Program Manager

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**Docket No. UE-161240  
Puget Sound Energy's  
Schedule No. 91 Cogen and Small Power Production**

**WUTC INFORMAL DATA REQUEST NO. 005**

**WUTC INFORMAL DATA REQUEST NO. 005:**

Please provide the justification for the change from \$190.01 to \$135.04 in the avoided capacity price and resource PSE used to calculate Schedule 91 avoided capacity costs. The notes in the Company's workpapers reference "guidance from the IRP analysts" as a reason for this change. Please provide and explain the guidance provided along with any corresponding IRP reference and how it informed the Company's decision to use \$135.04 to calculate this year's capacity payments. Also provide the justification which PSE relied on to arrive at the \$190.01 per kW-year which PSE states was derived from the 2015 IRP. If the amount was not derived or based on the Company's 2015 IRP, provide the reference that was used.

**Response:**

As stated in Puget Sound Energy's ("PSE") response to WUTC Informal Data Request No. 003

The \$190.01/kw-year in the 2015 Schedule 91 filing was calculated as the "avoided cost" of a specific set of resources: all demand-side resources ("DSR") together. This includes energy efficiency and demand response that were found cost effective in the 2015 IRP. The total DSR starts at 60 MW in 2016 and ramps up to 881 MW by 2035. If PSE can achieve this level of DSR to offset 4 peaker builds by 2035, then the value of that DSR is \$190.01/kw-year. The DSR is modeled as a 20-year vector of capacity and energy, and it is not a constant vector. The energy and capacity escalate over time and the escalation rate changes over the planning horizon. That is, the avoided capacity associated with DSR is not similar to a contract under Schedule 91. Currently, the Schedule 91 resources in the total of 36 MW nameplate capacity does not match the firm peak reduction as DSR and do not have the same capacity credit. At best, they can reduce the size of the peaker needed in 2022, but there are not enough resources to completely avoid building resources. The levelized cost of the peaker is \$135.04/kw-year and so by reducing



the size of the peaker built, that is the cost that PSE is avoiding. Also, the Schedule 91 resources are not must-take now to achieve a certain level by 2035. Commercial online dates can be pushed back until any Schedule 91 resource is needed which is why the start date was moved to 2022 to correspond with when PSE goes deficit on capacity resources.

The values included in this years' [Schedule 91] calculation reflect the resource assumptions from PSE's 2015 Integrated Resource Plan ("IRP"), with the exception that the frame peaker has zero firm gas transport.

The \$190/kw-year was calculated using the 2015 IRP resource cost and Base power price. The \$135/kw-year was calculated using the 2015 IRP resource cost with no firm pipeline cost on the frame peaker and the updated Base + No CO2 prices from the March 2016 PSE's revised Avoided Cost filing.