

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY

for a Declaratory Order Approving the
Avoided Cost Rate Methodology for Power
Purchases from Schedule 92 Large Qualified
Facilities per WAC 480-106-050(5)

DOCKET UE-191062

ORDER 01

DECLARATORY ORDER

BACKGROUND

- 1 On December 31, 2019, Puget Sound Energy (PSE or Company) filed a Petition for Declaratory Order (Petition) with the Washington Utilities and Transportation Commission (Commission). The Petition requests that the Commission approve PSE's proposed avoided cost rate methodology for power purchases from large qualified facilities (QFs) of greater than five megawatts pursuant to WAC 480-106-050(5).
- 2 This Petition follows the Commission's recent rulemaking to implement provisions of the Public Utility Regulatory Policies Act (PURPA) in Docket U-161024. On August 2, 2019, as required by General Order R-597 in that docket, PSE filed its proposed updates and additions to its tariff language in Schedule 91 for purchases from small QFs and a new tariff Schedule 92 for purchases from large QFs. On November 22, 2019, PSE filed substitute tariff sheets in response to comments by Commission staff (Staff), the Northwest and Intermountain Power Producers Coalition, and the Renewable Energy Coalition. PSE noted in Section 4 of Schedule 92 that it would be seeking Commission approval of its methodology consistent with WAC 480-106-050(5).
- 3 PSE now seeks a declaratory order approving its Schedule 92 Avoided Cost Methodology for Power Purchases from Large Qualified Facilities Greater than Five Megawatts (Methodology), attached as Exhibit A to the Petition. PSE submits that it uses the same Schedule of Estimated Avoided Costs (SEAC) contained in Schedule 91 as the basis for its negotiations with large QFs pursuant to Schedule 92, and contends that the proposed Methodology shows the process and considerations when negotiating agreements with large QFs.¹

¹ Petition ¶ 26.

4 On January 7, 2020, the Commission issued a Notice of Opportunity to Respond to Petition. On March 13, 2020, Staff filed comments tentatively supporting PSE’s Petition. Staff compared the Company’s proposed Methodology to WAC 480-106-050(5) and found that the Methodology discussed the relevant factors in the regulation. Staff posed additional questions to PSE seeking clarification, and PSE responded. On April 24, 2020, Staff indicated that it had “no further comments and recommends that the Commission issue an order approving the proposed methodology.” The Commission received no other responses to the Petition.

5 Harry Fukano, Assistant Attorney General, Olympia, Washington, represents Staff. Jon Piliaris, Director of Regulatory Affairs, represents PSE.

DISCUSSION

6 “Any person may petition an agency for a declaratory order with respect to the applicability to specified circumstances of a rule, order, or statute enforceable by the agency.”² As relevant here, the petition must demonstrate (1) that uncertainty necessitating resolution exists; (2) that there is an actual controversy arising from the uncertainty; (3) that the uncertainty adversely affects the petitioner; and (4) that the adverse effect of the uncertainty on the petitioner outweighs any adverse effect on others.³

7 We find that the Petition satisfies the statutory requirements for a declaratory order. PSE seeks Commission approval of its Methodology for large QFs as required by Commission rules. Effective July 13, 2019, WAC 480-106-050(5) states, “Each utility shall file and obtain commission approval of its avoided cost rate methodology for qualifying facilities with capacity greater than five megawatts.” PSE has legitimate concerns about whether its Methodology complies with this new regulation, giving rise to an actual controversy that adversely affects the Company to a greater degree than any adverse effect on others. PSE, therefore, appropriately seeks a declaratory order on the process it will use to negotiate rates with large QFs under the new regulatory framework. We note that a declaratory order provides only the applicability of Commission rules or governing statutes to particular circumstances. In this case, however, we find that a declaratory order satisfies the requirement in WAC 480-106-050(5) for Commission approval of PSE’s Methodology.

² RCW 34.05.240; *accord* WAC 480-07-930(1).

³ RCW 34.05.240.

8 We begin our analysis of the merits of the Petition by outlining the requirements in WAC 480-106-050. Subsection (1) requires that rates for purchases from QFs must be just and reasonable to the utility's customers and in the public interest; must not discriminate against QFs; and must not exceed the avoided costs to the utility of alternative energy, capacity, or both. Subsection (2) states that the utility should consider both (a) its schedule of estimated avoided costs filed pursuant to WAC 480-106-040 and (b) the factors set forth in WAC 480-106-050(5) to simplify negotiations with large QFs and imbue those negotiations with greater transparency and objectivity.

9 We conclude that PSE's Methodology satisfies these requirements. The Methodology outlines the issues the utility and the QF may consider when negotiating the contract for PSE's purchase of electricity. The outcome of the negotiations should be that the utility will pay the large QF at the Company's avoided cost, thus leaving customers indifferent to the source of the electricity and resulting in fair, just, reasonable, and sufficient rates as required by WAC 480-106-050(1). PSE's Methodology provides the appropriate framework for those negotiations and reaching the desired outcome.

10 PSE's Methodology also appropriately incorporates its SEAC as required by WAC 480-106-050(2) and WAC 480-106-050(5)(a), which is the same schedule currently included as part of PSE's Schedule 91 governing small QFs. PSE states that it provides this SEAC as "general information about PSE's avoided energy and capacity costs and as the basis for the Schedule 92 power purchase price determination."⁴ Exhibit B to the Petition includes fully functional pricing models that describe how the Company developed its estimated avoided costs, which the Company represents it will update whenever it revises Schedule 91.⁵ PSE then adjusts the resulting power purchase rate based on various factors outlined in the Methodology.⁶ PSE's incorporation of the Schedule 91 SEAC in its Methodology, the fully functional models, and the Company's commitment to update its pricing models satisfies WAC 480-106-050(5)(a).

11 WAC 480-106-050(5)(b) requires the parties to consider "[t]he availability of energy, capacity, and ancillary services from a qualifying facility during the system daily and seasonal peak periods." The rule then lists specific factors to consider that could have a material impact on the QFs' ability to deliver energy, capacity, and ancillary services.

⁴ Petition, Exhibit A, Subsection 1.

⁵ PSE Answers to the Questions from the Commission Staff Regarding PSE's Petition, April 6, 2020.

⁶ Petition, Exhibit A, Subsection 2.

Ancillary services include voltage and frequency control, black start capabilities, reactive services. Storage is a capacity resource that also can provide ancillary benefits. We find that PSE's Methodology appropriately incorporates these requirements.⁷ PSE reasonably uses the Effective Load Carrying Capacity (ELCC) to value the peak capacity contribution of a resource and modifies the ELCC to consider the project's specific location and attributes.⁸ PSE's Methodology thus appropriately considers the availability of energy during system daily and season peak periods.

- 12 WAC 480-106-050(5)(c) directs the parties to consider how a particular QF may defer a utility's need for additional capacity or reduce its reliance on fossil fuels: "The relationship of the availability of energy, capacity, or both, from the qualifying facility as derived in (b) of this subsection, to the ability of the utility to avoid costs, including the deferral of capacity additions and the reduction of fossil fuel use." PSE's Methodology sufficiently considers these factors. For instance, the Company's use of the ELCC recognizes the capacity value that a QF provides to the utility and its customers. Exhibit A also discusses how a QF project may provide value by deferring investment in transmission and distribution resources.⁹ PSE's Methodology will value the QF's capacity contribution based on its ELCC and acknowledges that the QF may help defer future capacity. PSE does not specifically reference a QF's ability to reduce the use of fossil fuels and meet statutory obligations such as the Clean Energy Transformation Act, RCW Chapter 19.405, but we expect that the QF and the utility will negotiate the value of a specific QF to deferring the utility's future capacity needs.
- 13 WAC 480-106-050(5)(d) requires the negotiating parties to consider "[t]he costs or savings resulting from variations in line losses from those that would have existed in the absence of purchases from a qualifying facility." PSE's Methodology satisfies this consideration by discussing transmission losses and distribution losses.¹⁰
- 14 Finally, PSE includes additional potential adjustments to reflect different supply characteristics of QF technologies. The rule permits such potential adjustments. WAC 480-106-050(5)(b) requires the parties to consider "[t]he availability of energy, capacity, and ancillary services from a qualifying facility," but does not provide an exclusive list of

⁷ Petition Exhibit A, Subsection 2(A).

⁸ Petition Exhibit A, Section 4(A).

⁹ Petition, Exhibit A, section 4(B).

¹⁰ Petition, Exhibit A Section 4.C.

factors the parties may consider during a negotiation. Indeed, WAC 480-106-040(2) provides that a utility “may differentiate among qualifying facilities based on the supply characteristics of different technologies of qualifying facilities for purposes of calculating the estimated avoided cost of capacity.” Here, PSE discusses “Available Transfer Capability,” explaining that “[s]ome locations on PSE’s system are more appropriate than others when assessing the ability to transmit energy from a generation QF project to serve PSE customer load.”¹¹ PSE also discusses potential “Lost Revenues Associated with Operational Flexibility,”¹² and explains that operational flexibility “refers to the ability of the QF to adequately meet various operational conditions that may affect PSE system reliability,” which includes but is not limited to “integration, shaping, balancing, frequency regulation, and contingency reserves.”¹³ PSE also discusses “Lost Revenues Associated with Curtailment of New or Existing Resource.”¹⁴ PSE submits that depending on the QF project location, curtailment of generation resources may be necessary to deliver power safely to customers.¹⁵ We find that WAC 480-106-050(5) permits these potential adjustments.

- 15 We conclude that PSE’s proposed avoided cost rate methodology for the Company’s power purchases from large QFs is consistent with the requirements in WAC 480-106-050(5), and that this conclusion satisfies the requirement in WAC 480-106-050(5) for Commission approval of that Methodology.

ORDER

THE COMMISSION ORDERS:

- 16 (1) The Commission grants Puget Sound Energy’s Petition for a Declaratory Order Approving the Avoided Cost Rate Methodology for Power Purchases from Schedule 92 Large Qualified Facilities per WAC 480-106-050(5).
- 17 (2) Puget Sound Energy’s Avoided Cost Rate Methodology for Power Purchases from Schedule 92 Large Qualified Facilities is consistent with the requirements of WAC 480-106-050(5).

¹¹ Petition, Exhibit A, section 4(D).

¹² Petition, Exhibit A, section 4 (E).

¹³ *Id.*

¹⁴ Petition, Exhibit A, section 4(F).

¹⁵ *Id.*

- 18 (3) This declaratory order satisfies the requirement in WAC 480-106-050(5) for Commission approval of Puget Sound Energy's Avoided Cost Rate Methodology for Power Purchases from Schedule 92 Large Qualified Facilities.

DATED at Lacey, Washington, and effective May 18, 2020.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chair

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner