

**Agenda Date:** September 22, 2016

**Item Number:** F9

**Docket:** UE-160921  
**Company:** Puget Sound Energy

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### **Recommendation**

Take no action, thereby allowing Puget Sound Energy's proposed tariff revisions in docket UE-160921 to become effective by operation of law.

### **Background**

On July 15, 2016, Puget Sound Energy (PSE or company) filed revisions to Schedules 135 and 136 regarding Green Energy and Large Volume Green Energy. These Green Energy services satisfy the obligation under RCW 19.29A.090(1), which requires electric utilities to offer retail electricity customers a voluntary option to purchase "qualified alternative energy resources" (green energy). The proposed revisions reflect ongoing reduced costs of operating the program by lowering the rates for customers in both Schedules 135 and 136. In addition, the proposed revisions create a new voluntary solar-only green energy resource option available to all electric customers under Schedule 135.

### **Discussion**

#### *Differential Resource Pricing Between Schedule 135 and Schedule 136 Customers*

The difference in the kWh surcharge between the two schedules shown in the table below is due to differences in administrative costs, solar-only REC pricing, and locations of REC sources. Schedule 135 customers show a large preference for local RECs while Schedule 136 customers are more price sensitive. The administrative and education/outreach costs to enroll one large customer in Schedule 136 are far less than enrolling and administering many customers in Schedule 135 for the same number of kWhs.

The residential program experiences a much higher level of customer "churn" (nearly 10 percent of customers turn over annually) than the commercial and large-volume customers. The residential customers often drop out of the program when changing residences and then fail to re-enroll at their new homes. Administrative and promotional costs in the residential program (i.e., enrollment/disenrollment costs; marketing materials costs; consumer incentives such as gift cards; and municipal solar grant awards to benefit entire communities) are much higher in the residential program. Enrollment in the commercial and large-scale programs is more stable.

**Price Comparison**

Tariff Schedule 135	Current price per block	Current block size (kWh)	Current price per kWh	Proposed price per block	Proposed block size (kWh)	Proposed price per kWh	Proposed overall price reduction
Mixed resource	\$ 2.00	160	\$ 0.0125	\$ 2.00	200	\$ 0.01	-20.0%
Solar only (new)	N/A	N/A	N/A	\$ 5.00	150	\$ 0.0333	N/A
Tariff Schedule 136	Current cost for minimum purchase	Current monthly minimum purchase (kWh) <sup>2</sup>	Current price per kWh	Proposed cost for minimum purchase	Proposed monthly minimum purchase (kWh) <sup>2</sup>	Proposed price per kWh	Proposed overall price reduction
Large customers	\$ 500.00	83,333	\$ 0.006	\$ 291.67	83,333	\$ 0.0035	-41.7%

<sup>2</sup> Equates to 1 million kWh annual purchase minimum

*Managing Program Reserve Balance*

Due to factors such as below-expected pricing on RECs and a decrease in the cost of project overhead, the company has accrued a 2015 program reserve balance of \$4,735,444. In projections provided in support of Schedule 135 and Schedule 136 revisions, the company forecasts this capital reserve to reach an apex of \$4,997,331 in 2016, and then decline by just over 25 percent to \$3,717,407 in 2022. Historically (2006 – 2013), the company has maintained a program reserve balance that equates to \$40 to \$60 per program customer, but that figure has risen to \$113 per customer in 2016. Using the reduced costs in the tariff filing, the account balance will gradually decline, projected to \$71 per customer in 2022, where the financial projections end.

An evaluation comparing the historical balance to MWhs also indicated that the current balance is high compared to historical values. An offset to the program reserve balance exists, however, in the form of PSE commitments to purchase RECs that have not been billed to the company as of July 31, 2016. This obligation, essentially an “account payable,” has been calculated by staff for the calendar year 2016 as at least \$1.2 million due from the company to its aggregators, using historical cost data. The company has provided data showing that obligations to purchase RECs generated by 14 different wind, dairy digesters, biofuel, and new hydroelectric power producers through 2020 total \$2.5 million at a minimum. New solar resources are experiencing permitting issues and, once those issues are resolved, the company anticipates a commitment to purchase at

least an additional \$1.1 million in RECs. The company's contracts obligate it to purchase these resources whether or not it has a customer base willing to purchase the credits. The company also faces sizeable uncertainty regarding the future cost of solar-only RECs as this new option for consumers is added to its tariff.

Upon discussion with PSE representatives and stakeholders, commission staff agreed that a \$2.5 million program reserve balance was a reasonable target by 2022 by some additional program spending in the near term. This will be a smaller reserve balance than the \$3.7 million by 2022 without additional near term program spending. Due to uncertainty in future REC pricing, commission staff believe that a further rate reduction is not the best option to reduce the balance at this time. PSE plans to draw down the excess reserve in the next few years by funding more alternative energy grant projects and by increasing the marketing budget for the program to halt the natural attrition of green energy customers.

### **Stakeholder Comments**

The company met with commission staff and stakeholders to discuss the proposed tariff revisions on August 19, and September 1, 2016. Attendees included commission staff and company representatives, along with representatives from Public Counsel, King County, Northwest Energy Coalition, Industrial Customers of Northwest Utilities, World Resources Institute, and Renewable Northwest. The primary topics of discussion between the stakeholders were program specifics and reducing the extra program reserve balance. The tariff garnered support in general. Details regarding comments are shown in Attachment A.

### **Conclusion**

Take no action, thereby allowing Puget Sound Energy's proposed tariff revisions to become effective by operation of law.

## ATTACHMENT A

### *Public Comments on the Proposed Tariffs*

Renewable Northwest cited a reduction in participation beginning in 2015, which paralleled a decreased marketing budget, and they indicated a preference to see program growth through more marketing and promotion. In response, PSE referenced the revised tariff filing which includes a projection for an increase in marketing expenses, and were hopeful that with the addition of the solar-only option, they will be able to grow the program. The company will submit the annual NREL report to this docket in order to make aggregate customer participation information readily available.

King County and Renewable Northwest inquired about resource procurement and transparency in the acquisition process. PSE specified that requests for quotes (RFQs) are issued as needed. The company prefers to add RECs from local projects when possible, and balance out prices by purchasing RECs from aggregators. PSE added that all REC supply is essentially procured for 2017, but they plan to issue RFQs for 2018 and beyond. From the company's perspective, the RFQ process will ensure a competitive REC acquisition process.

### *Purpose of Existing Tariffs*

Participating customers in both schedules are supporting the use and development of alternative energy resources which are new to the PSE generation portfolio. PSE provides the service in the form of Renewable Energy Credits (RECs) acquired for the program and retired by PSE on its customers' behalf. The company is allowed to provide RECs through either: (a) resources the company owns or contracts for; or (b) the purchase of credits from the market.<sup>1</sup>

The current tariffs provide RECs from "blended green power" sources. This means the RECs are sourced from a variety of alternative energy resources as opposed to one specific type of resource.

Schedule 135 is available to all customers and Schedule 136 is available to customers committing to purchase at least 1,000,000 kWh per year of green energy. The schedules provide retail electricity customers with the option to purchase green energy at a surcharge in addition to the existing electric service tariff.

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<sup>1</sup> WAC 480-109-200(1)(b) and RCW 19.29A.090(3). If companies buy RECs from the market, they must have verifiable evidence that there is a qualified alternative energy resource available and that the green energy attribute of the alternative energy resource will be available to the company for purchase by its customers.

### *Current Schedule 135*

Schedule 135 customers currently have two options for the purchase of green power. Both options are for blended-renewable green energy. The first option is to purchase an unlimited number of blocks of green energy at \$2.00 each, where each block is equivalent to a 160 kWh purchase. This option has a minimum purchase of two blocks per month. This pricing option is equivalent to \$0.0125 per kWh.

The second option is to purchase green energy that is equal to 100 percent of the customer's total monthly energy usage at the same rate of \$0.0125 per kWh.

### *Current Schedule 136*

Schedule 136 customers also currently have two options. The first option is to purchase an unlimited number of kWh of green energy at \$0.006/kWh with a minimum monthly purchase of 83,334 kWh of green energy, which amounts to at least 1 million kWh per year. With this choice, the monthly charge is based on a fixed number of kWh per month that meet or exceed the minimum.

The second option is to purchase green energy that is equal to 100 percent of the customer's total monthly energy usage at a rate of \$0.006 per kWh.

### *Proposed Rate Changes*

The company seeks to reduce the cost of green energy for both Schedule 135 and 136 customers due to reduced cost of RECs and administrative overhead.

For Schedule 135 customers, the company proposes to reduce the rates for blended green power to \$2.00 for one 200 kWh block (\$0.01/kWh) and to \$0.01/kWh for customers choosing to get 100 percent of their energy through the program. This is a 20 percent reduction from the previous rate of \$0.0125/kWh. The block purchase option includes a two block per month minimum purchase.

For Schedule 136 customers, the company proposes to reduce the rates for blended green energy to \$0.0035/kWh for both purchase options. This is a 41.7 percent reduction from the previous rate of \$0.006/kWh.

### *Proposed Solar-Only Option*

PSE proposes an additional option in Schedule 135, allowing customers to purchase green energy from a pool of solar-only resources. Customers choosing this option will be able to

purchase blocks of solar-only green energy at \$5.00 each. A block of solar-only energy is equivalent to a 150 kWh purchase. This pricing is equivalent to \$0.0333/kWh surcharge. The minimum purchase is 1 block per month. Service under this new option will be available on or by March 1, 2017. Solar REC pricing is based on information the company gathered from numerous developers through a Request for Information issued in late 2015.

*Sources of RECs*

The company has focused its REC purchases thus far on northwest sources in Washington, Idaho, and Oregon. The tariff does not specify locational restrictions for REC sources, though the company observes that customers consistently indicate that they want their purchases to support local projects.

RECs are purchased by the company from REC aggregators or marketers and directly from developers. The REC purchases are prioritized by location, resource type, and then cost. Renewable energy resources owned by PSE are not used for these schedules.