Agenda Date: July 27, 2023
Item Number: A2

Docket: **UE-220797**
Company: Puget Sound Energy

Staff: Heather Moline, Section Manager, Energy Planning
Molly Brewer, Regulatory Analyst
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Recommendation

Issue an order rejecting the petition for a revised forecast filed by Puget Sound Energy in Docket UE-220797.

Background

In 2021, the Washington State Legislature passed the Climate Commitment Act (CCA) through Engrossed Second Substitute Senate Bill 5126 into law, codified as RCW 70A.65, to reduce greenhouse gas (GHG) emissions. Also referred to as "Cap and Invest," the law establishes a declining cap on GHG emissions from covered entities, and is intended to reduce emissions in the state by 95 percent by 2050.[1] The CCA allows electric utilities, which are subject to the Clean Energy Transformation Act (CETA), to receive no-cost allowances to mitigate the cost burden of the Cap and Invest Program on electric customers.[2] The CCA required the Department of Ecology (Ecology) to adopt rules, in consultation with the Washington Utilities and Transportation Commission (Commission) establishing the methods and procedures for allocating allowances for investor-owned electric utilities (IOU).[3]

On September 29, 2022, Ecology published final rules under Chapter 173-446 of the Washington Administrative Code, the "Climate Commitment Act Program." In these rules Ecology specifies that it will use utility-specific four-year demand and resource supply forecasts[4] to determine the cost-burden effect and the allocation of no-cost allowances to each electric utility, including PSE.

The rules also provide that the initial allocation of allowances will be adjusted as necessary to account for any differential between actual GHG emissions and forecasted GHG emissions.[5] Commission staff (Staff) and other parties refer to this informally as the true-up mechanism (true-up). Ecology clarified that it will not subtract allowances if actuals are less than forecasted emissions, but rather it would give the utility proportionately fewer allowances the next year. Based on Staff's reading of the rules and discussions with Ecology, Staff also assumes that if an electric IOU receives too few allowances based on its forecast, Ecology would issue additional allowances to a company in the following year.

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[1] See Climate Commitment Act - Washington State Department of Ecology.
[2] WAC 173-446-230(1)
[3] RCW 70A.65.120
[4] WAC 173-446-230
[5] WAC 173-446-230(2)(g)

On January 24, 2023, the Commission issued Order 01, granting approval of Puget Sound Energy's (PSE or Company) Four-Year Demand and Resource Supply Forecast (original approved forecast), pursuant to RCW 70A.65.120.

On July 3, 2023, PSE submitted a Petition for Approval of PSE's Revised Four-Year Demand and Resource Supply Forecast, which is intended to reflect the best estimate of electricity demand and resource supply mix for the first compliance period of CCA.[6] The Petition notes that, per rule, an updated forecast approved by the Commission by July 30 may allow Ecology to adjust its no-cost allowance allocation by October 1 of the same year.[7]

In part, the rationale for this revised forecast was due to discussions between PSE and Ecology after Order 01 was issued. Ecology clarified that an electric IOU will receive no-cost allowances corresponding to the resources serving its retail load, rather than those serving its entire portfolio. PSE had included its entire portfolio emissions in its original approved forecast, and had not disaggregated the resources that it projects will serve demand from the resources that it projects will be used for other purposes, such as balancing the bulk electric system and selling to the market. As such, Ecology applied the emissions factor from rule[8] corresponding to market *purchases*, to market *sales*, and then subtracted that number from total allowances. This resulted in the Company filing this petition, in order to clarify which resources are projected to serve retail load, and rectify that an emissions factor corresponding to purchases in rule should not be applied to sales. As described below, however, PSE has made additional changes to its forecast, beyond clarifying the difference between retail load and portfolio forecasts.

On July 12, 2023, PSE submitted Supplemental Information in Support of the Petition, providing source data for the revised forecast.

Summary of Filing

In their petition for an order approving its revised forecast, PSE intends to provide updated load and supply inputs, in addition to clarifying the portion of their resources that will be used to serve the Company's retail load.[9] The cumulative effect of PSE's proposed changes would result in an increase to 6,642,604 allowances allocated in 2023, 6,003,582 in 2024, 5,561,608 in 2025, and 3,711,273 in 2026. Importantly, if PSE received this projected number of allowances, it would still fall short of the total needed to match its compliance obligation, as described on page 17 of the petition.

Load Forecast

The revised four-year demand incorporates PSE's most recent internal load forecast (F23), which was approved by PSE's Energy Management Committee in early 2023. PSE indicates that F23 includes a more accurate forecast of demand than what was included in F21, which informed the 2021 CEIP.

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[6] WAC 173-446-230(2)(b).
[7] RCW 70A.65.120(2)(b) and WAC 173-446-230(2)(j).
[8] WAC 173-446-230(2)(d).
[9] See WAC 173-446-020 and RCW 19.405.020(36) for definition of "retail electric load."

In the workpapers submitted in this docket on July 12, 2023, and in subsequent discussions with Staff, PSE indicates that F23 includes several input changes as compared to the F21 forecast. First, F23 projects higher load growth with the addition of assumptions related to impacts from electric vehicle programs, including the zero-emission vehicle bill,[10] the low carbon fuel standard,[11] and the Infrastructure and Jobs Act. Second, the F23 includes updates that are informed by the 2023 Electric Progress Report and the 2023 Gas Integrated Resource Plan, including updates for revised codes and standards that affect demand response, energy efficiency programs, and the 2023 Washington State Commercial Building Code. Finally, F23 reflects temperature changes associated with the effects of climate change.

Resource Supply Forecast

The revised four-year resource supply is based on the Company's power cost supply forecast that was approved in UE-220066 & UG-220067,[12] rather than the supply forecast used as the basis for the original filing. This power cost supply forecast only projected to the year 2025, so the Company used the same modeling to project to the year 2026 for this filing. PSE indicates the revised four-year forecast of their resource supply includes updated information on market conditions. The effects of these changes can be seen in Appendix A of this memo.

The most notable change is seen in the use of non-emitting resources to serve load decreasing by 21.68 percent in compliance year 2023, 20.82 percent in compliance year 2024, and 17.08 percent in compliance year 2025, and increasing by 1.05 percent in compliance year 2026. PSE has clarified with Staff that these changes result from the removal of the Centralia Power Purchase Agreement from the Zero-emissions Plants and Contracts category. Critically, the percentage of energy resources from non-emitting plants does not fall below the interim targets included in PSE's approved CEIP, regardless.[13] Additionally, PSE has indicated that the increase in coal and gas supply is simply a reflection of what was included in the compliance filing in the Multi-Year Rate Plan approved in UE-220066.

Discussion

Timing of the Revised Forecast

The compressed timeframe of the filing is a factor in Staff's recommendation for the Commission not to approve the revised forecast.

Under WAC 480-07-900 (5)(a), the Commission *generally* includes items without a stated effective date on the agenda for the regular open meeting scheduled thirty days or more after the Commission receives a *complete* filing. Under WAC 480-07-900 (5)(b), a company may request for a filing to be heard at an open meeting if it files the item a minimum of seven days prior to the meeting. PSE filed the petition on July 3, and provided the necessary supplemental workpapers to the filing on July 12. While this may be permissible under section (b), Staff finds

[10] *See* Zero-emission vehicles (ZEV) – Department of Ecology.
[11] *See* Clean Fuel Standard – Department of Ecology.
[12] Dockets UE-220066 & UG-220067, Filed on January 31, 2022.
[13] *See* PSE's 2022-2025 CEIP.

that this was not sufficient time to thoroughly review a petition of this complexity. In effect, Staff had only approximately seven business days to review all the new inputs of this revised forecast, some of which had not been circulated outside the Company prior to this filing.

In the future, for such complex filings with potentially significant monetary impacts, Staff will need at minimum 30 days to review new data. Staff requests that future forecast updates give not only Staff, but other interested groups, sufficient time to review data changes.

Revised Demand and Supply Forecasts

In the time since receiving the filing and subsequent workpapers, Staff has had several discussions with the Company and has issued informal data requests. Staff clarifies that its recommendation not to approve the revised forecast is not necessarily due to Staff determining that the revised forecast is not the most likely scenario. Rather, Staff was not able to thoroughly analyze all the inputs in F23, the consistency with the GRC compliance filing, and the petition's consistency with the CEIP, in collaboration with the other interested persons.

Further, Staff notes PSE was the only Company to depart from CEIP data, to which the Ecology rule gives preference,[14] as approved in January 2023.

Staff expects companies will be prepared to explain discrepancies between approved CEIPs, CEIP reports showing renewable energy credit (REC) retirement, and forecast filings.

Proposed Alternative

Staff was generally comfortable with PSE's methodology in removing market sales from the forecast. Staff has recommended PSE prepare an alternative forecast that uses all the same inputs in supply and demand as was in the original approved forecast, and simply adjust by removing market sales, in line with what Avista has proposed.[15] PSE provided this alternative scenario on Friday, July 21 and the result is shown in **Appendix B** of this memo. Because Staff and the Commission already approved the original forecast with its inputs based on the 2021 CEIP, and because Staff is generally comfortable with PSE removing market sales from its forecast to address the allowance allocation concerns with Ecology, Staff would be comfortable with the Commission approving this alternative scenario.

Impacts on Ratepayers

Staff reached out to commenters who had taken interest in the forecasts approved in January 2023 regarding PSE's filing. Alliance of Western Energy Consumers submitted comments on July 21 and urged the Commission to approve the updated forecast as originally filed, given potential impacts on ratepayers.

Staff considered the potential cost burden on ratepayers in its recommendation. Staff understands that the reason electric IOUs receive no-cost allowances consistent with an approved forecast, is

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[14] WAC 173-446-230 (2)(C)
[15] See Docket UE-220770.

to mitigate the cost burden on customers of being subject to both CETA and the CCA, and that the Company believes that not approving the revised forecast may result in increased cost burden to ratepayers. PSE can petition the Commission to make these other updates to the supply and demand forecast next year, giving the Commission and all parties sufficient time to review those proposed changes. Given the July 30 deadline the Company has for an updated forecast under Ecology's rule however, Staff believes that the Commission should only approve the updates related to distinguishing retail load and market sales at this time.

The Commission's role in this docket, as set forth in WAC 173-446-230(2), is limited to determining if it can approve a supply and demand forecast that represents the best estimate of the most likely electricity resource mix scenario. However, Staff recommends that the Commission continue to collaborate with all the companies, interested persons, and Ecology through ongoing workshops to ensure that the impacts of allowance allocation on ratepayers is addressed appropriately.

Balancing the Public Interest

Given these factors, Staff was in a difficult position making a recommendation in this filing. Staff acknowledges the difficulty that the Company faced in quickly adapting to an allocation scenario it was not anticipating, and appreciates its efforts to meet with Staff and respond to data requests to discuss all aspects of the petition. In summary, Staff finds that it would not be in the public interest to recommend approval of this filing without adequate time and collaboration with all interested persons in analyzing the new inputs. As interested groups continue to work together on implementing the CCA, we look forward to learning from these situations to improve upon how we navigate many new considerations.

Conclusion

Staff considered the causes for filing this revised forecast, the methodology of removing market sales from the forecast, the possible impacts to ratepayers, and to the extent possible, the inputs of the F23 load forecast and the power cost supply forecast. Because Staff could not determine if the revised forecast was the best estimate of the most likely resource supply and demand scenario, in collaboration with other interested persons, Staff recommends that the Commission reject the petition as filed.

Appendix A: Revised Forecast

	Approved MWh from Order 01 (Operations-based Load)	Percent of Total Supply Used to Meet Retail Load	Proposed MWh (Retail Load)	Percent of Total Supply Used to Meet Retail Load
Annual MWh, Year 2023				
Resource Supply Category				
Zero-emissions Plants and Contracts	14,853,218	67.03%	11,632,960	50.61%
Coal	2,092,743	9.44%	2,715,295	11.81%
Gas	4,657,102	21.02%	8,637,091	37.58%
Unspecified Contracts and Exchange In	682,226	3.08%	0	0.00%
Market Purchases	2,190,905	9.89%	0	0.00%
Market Sales	(2,316,115)	-10.45%	N/A	N/A
Retail load	*22,160,079*	*N/A*	*22,985,346*	*N/A*
Operations-based load	*24,476,194*	*N/A*	*N/A*	*N/A*
Annual MWh, Year 2024				
Resource Supply Category				
Zero-emissions Plants and Contracts	16,350,762	72.66%	12,945,951	56.07%
Coal	2,157,468	9.59%	2,534,845	10.98%
Gas	4,434,187	19.71%	7,609,318	32.95%
Unspecified Contracts and Exchange In	687,708	3.06%	0	0.00%
Market Purchases	1,608,594	7.15%	0	0.00%
Market Sales	(2,736,263)	-12.16%	N/A	N/A
Retail load	*22,502,456*	*N/A*	*23,090,114*	*N/A*
Operations-based load	*25,238,719*	*N/A*	*N/A*	*N/A*
Annual MWh, Year 2025				
Resource Supply Category				

Zero-emissions Plants and Contracts	16,912,266	74.50%	14,023,469	60.46%
Coal	2,172,594	9.57%	2,506,331	10.81%
Gas	4,297,031	18.93%	6,663,730	28.73%
Unspecified Contracts and Exchange In	683,748	3.01%	0	0.00%
Market Purchases	1,546,635	6.81%	0	0.00%
Market Sales	(2,911,347)	-12.82%	N/A	N/A
Retail load	*22,700,927*	*N/A*	*23,193,530*	*N/A*
Operations-based load	*25,612,274*	*N/A*	*N/A*	*N/A*
Annual MWh, Year 2026				
Resource Supply Category				
Zero-emissions Plants and Contracts	14,755,579	64.35%	14,910,418	63.63%
Coal	0	0.00%	0	0.00%
Gas	3,624,415	15.81%	8,155,886	34.81%
Unspecified Contracts and Exchange In	683,748	2.98%	366,590	1.56%
Market Purchases	4,844,055	21.13%	0	0.00%
Market Sales	(979,249)	-4.27%	N/A	N/A
Retail load	*22,928,548*	*N/A*	*23,432,894*	*N/A*
Operations-based load	*23,907,797*	*N/A*	*N/A*	*N/A*

Appendix B: Alternative Scenario

Resource Supply Category	2023		2024		2025		2026	
	MWh	Emissions	MWh	Emissions	MWh	Emissions	MWh	Emissions
Non-emitting	11,524,457	0	13,013,381	0	14,286,636	0	14,755,579	0
Coal	2,092,743	2,221,237	2,157,468	2,289,937	2,172,594	2,305,991	0	0
Natural Gas	4,657,102	2,027,702	4,434,187	1,930,645	4,297,031	1,870,927	3,624,415	1,578,070
Unspecified	3,885,776	1,698,084	2,897,419	1,266,172	1,944,666	849,819	4,548,554	1,987,718
Total	22,160,079	5,947,024	22,502,456	5,486,754	22,700,927	5,026,737	22,928,549	3,565,788