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Item Number: E1

Docket: UE-220308
Company: Puget Sound Energy

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Recommendation

Issue an order authorizing Puget Sound Energy to record a 2021 ratepayer deferral of \$40.4 million for calendar year 2021, as reported in Puget Sound Energy's Power Cost Adjustment mechanism report for 2021.

Background

On June 18, 2002, the Washington Utilities and Transportation Commission (Commission) entered its Twelfth Supplemental Order in Docket UE-011570, which authorized Puget Sound Energy (PSE or Company) to implement a Power Cost Adjustment mechanism (PCA).¹ This mechanism accounts for differences in PSE's modified actual power costs relative to a power costs baseline and the sharing of those costs and benefits over dead and sharing bands of power costs. The 2002 PCA settlement defined the specific sharing levels and conditions.²

In 2013, PSE entered a PCA Collaborative as an outcome of the Company's 2013 Power Cost Only Rate Case (2013 PCORC). The 2013 PCORC resulted in a settlement that produced modifications to the PCA Mechanism that became effective January 1, 2017. In this settlement, PSE agreed to limit the PCA Mechanism to only variable power costs. This case also modified the size of the dead and sharing bands. Under the Settlement Stipulation approved by the Commission in the same order, PSE is required to make a filing by May 1 regarding the power costs it deferred the prior calendar year under the PCA, and the Commission and interested parties are afforded a 90-day period to review the prudence of and audit the reported PCA deferral entries.³

On April 29, 2022, in Docket UE-220308, PSE filed its 2021 PCA mechanism report regarding power cost deferrals for calendar year 2021. On June 8, 2022, counsel for Commission staff (Staff) filed a letter to Docket UE-220308 providing notice to the Commission that the parties participating in the review agreed to extend the review period for Avista's 2021 PCA deferrals to September 30, 2022.

¹ *WUTC v. Puget Sound Energy*, Docket UE-011570. Twelfth Supplemental Order, 11, 22 (June 2022).

² *Id.*

³ *WUTC v. Puget Sound Energy*, Docket UE-130617, Order 11, Attachment A to Settlement Stipulations (March 27, 2015).

Overview of PSE's 2021 PCA deferrals

Each month PSE calculates the power costs subject to the PCA sharing bands. These total allowable costs are compared to the approved baseline power cost rate, multiplied by the actual delivered load, excluding Green Direct customers, and any differences allocated to PSE or customers based on the different levels or sharing. Any difference allocated to customers is recorded in FERC Account 182.3, Other regulatory assets, unless it is determined to be an over-collection at a PCA period end.

In Docket UE-190529, PSE's general rate case updated the baseline power costs and went into effect October 15, 2020, and remained effective for the first six months of the 2021 PCA period (ending June 30, 2021).⁴ On July 1, 2021, rates for PSE's 2020 Power Costs Only Rate Case (2020 PCORC) went into effect, including a change to its baseline rate to recognize the updated variable power cost as approved in Docket UE-200980. The updated baseline rate was updated to \$38.983 per MWh and was in effect through the remainder of the 2021 PCA period.⁵

For the January 1, 2021, through December 31, 2021, PCA period, PSE's actual power costs exceeded their authorized costs by approximately \$68 million (after adjustment from Firm Wholesale and the Green Direct Program). The dead band include the first \$17 million of power cost variance (positive or negative). Within in the dead band, 100 percent of costs or benefits are retained by PSE. The first sharing band includes power cost variance between \$17 and \$40 million (positive or negative). Within this band, costs (under-recoveries) are shared 50 percent to PSE and 50 percent to customers, while benefits (over-recoveries) are shared 35 percent to PSE and 65 percent to customers. The second sharing band includes power cost variances over \$40 million (positive or negative). All variances in this band are shared 10 percent to PSE and 90 percent to customers, regardless of whether they are costs or benefits. The customers' share of power cost variances is accounted for each year and deferred until the cumulative balance in the deferral account triggers a refund or allows a surcharge.⁶ The trigger is \$20 million threshold trigger. If the cumulative deferral balance exceeds \$20 million in the positive direction, then a credit will be issued to ratepayers. If the cumulative balance exceeds \$20 million in the negative direction, then the Company may file requesting a surcharge be issued to ratepayers.

PSE's share of the under-recovery of power costs is \$31.3 million, and the customer's share of this under-recovery of power costs is \$36.7 million. The customer deferral including, as of December 31, 2021, is \$38.4 million or \$40.4 million grossed up for revenue sensitive items. This is above the PCA's \$20 million threshold. However, PSE does not propose to collect the 2021 deferral now. Instead, PSE proposes to recover this balance beginning January 1, 2023, by allowing the rates that were approved for recovery of the 2019 deferral over one year in UE-200893 and left in place in Docket UE-210300 to continue to remain in effect for an additional

⁴ *WUTC v. Puget Sound Energy*, Docket UE-190529

⁵ *WUTC v. Puget Sound Energy*, Docket UE-200980, Order 05 (June 1, 2021).

⁶ *WUTC v. Puget Sound Energy*, Docket UE-130583, Order 11, Attachment A to Settlement Stipulation, 5 (March 27, 2015).

11 months from January 1, 2023, through November 30, 2023.⁷ So that they may recover the 2021 deferral without a required rate change to customers.

The PCA also contains the accounting and filing requirements for PSE's Voluntary Green Direct Program (Green Direct). In Docket UE-160977, PSE filed Schedule 139, Voluntary Long Term Renewable Energy Purchase Rider (Green Direct) pursuant to RCW 19.29A.090(1), which requires electric companies to offer retail electricity customers qualified alternative energy resources. In April 2017, PSE entered an initial purchase power agreement (PPA) with Skookumchuck Wind Energy Project, LLC, (Skookumchuck Project) for the output of its wind energy. PSE enrolled 21 of its corporate and government customers. However, due to permitting issues, the Skookumchuck Project was delayed until the first quarter of 2020. Phase 1 of PSE's Green Direct Program began November 2020. PSE is required to ensure there is no cross subsidization of costs between participating and non-participating customer. Phase 2 of the program began during the 2021 PCA period in March 2021 and has also been excluded from allowable costs and from the baseline power costs.⁸

Discussion

Variance Analysis

A large contributor to the variance between PSE's authorized and actual power supply costs in the 2021 PCA period was high load variance, resources, and market prices between the power costs forecasts use to establish rates and actual operations. PSE's total actual allowable power costs were \$68 million higher than power costs recovered in rates. This under-recovery was the result of actual allowable costs that were \$71.7 million higher than costs included in rates offset by baseline rate revenue that was \$3.7 million higher than revenue assumed in rates. Higher baseline rate revenue was due to actual delivered load that was 0.9 percent higher than the delivered load forecasted to use established rates.⁹

Resources

Rates established in the 2020 PCORC also did not reflect termination of PSE's PPA with Electron Hydro, the actual increase to BPA transmission rates, or tariff rate updates for PSE's natural gas pipeline contracts. Power costs in rates for the first half of 2021 did not include new PPAs, changes in prices to existing PPAs, changes to the cost and PSE's share of output from its Mid-Columbia hydroelectric contracts, or updates to the cost of PSE's transmission and gas-transportation contract.

As previously mentioned, in July 2021, the baseline rate changed and contributed to under-recoveries in the second half of 2021. The 3-year extension of the Wells Colville slice contract,

⁷ *WUTC v. Puget Sound Energy*, Docket UE-210300, Order 01 (September 30, 2021).

⁸ *WUTC v. Puget Sound Energy*, Docket UE-160977, Order 01 (September 26, 2016).

⁹ *Wetherbee*, Exh PKW-1CT, 14.

which allows PSE to receive a 5.5 percent cut of the output from the Wells Project beginning October 2021, was not included in the PCORC forecast used to set the baseline rate because the contract had not been executed at the time. Overall, differences in resource assumptions embedded in rates relative to actual 2021 resources and contract rates contributed approximately 38.8 percent of the total under-recovery.¹⁰

Market Prices

Actual market prices for both power and natural gas during 2021 were significantly higher than prices assumed in rates for the 2018 GRC and 2020 PCORC. Colder than usual conditions fueled market price spike in December and February. Warmer than usual conditions during the summer were accentuated by record setting Pacific Northwest temperatures in June, July, and September.¹¹ Relatively high actual market prices in 2021 drove variances in the cost of market purchases, the cost of fuel for power generation, and changes in the dispatch of PSE's coal-and natural gas-fired resources relative to the forecast used to establish rates.

During the February cold snap (February 12, 2021), PSE changed their power supply monitoring status from green (normal) to yellow. The yellow status indicates that generation or transmission constraints could potentially limit wholesale power supply. PSE managed this price volatility by dispatching and running gas-fired units, running hydroelectric plants, and executing short term market purchases and sales to meet demand.¹² PSE purchased 950 MW of on-peak in the day-ahead market for February 14. These day-ahead purchases limited financial and reliability risk associated with the potential for unavailable and/or very expensive energy in the real time market.¹³

During the June 2021 heat dome (June 16-July 6), PSE deployed similar countermeasure by escalating the already yellow status to red. PSE's electric load between June 25 and June 29 was 38 percent higher than normal for that time of year. On June 28, PSE recorded its highest summer peak load at 4,036 MW. This peak was 15 percent higher than the previous summer peak load of 3,508 MW set in July 2009. The day-ahead Mid-C on peak price for June 28 rose to \$334.22 per MWh and off-peak traded at \$51.17 per MWh. The rates in effect for June from PSE 2019 GRC included power price of \$12.25 per MWh on-peak and \$10.31 per MWh of peak.¹⁴

In 2021 PSE's actual electric market purchases were 1.7 million MWh more than actual market sales. The forecast in rates for 2021 estimated PSE would be a net purchaser of 6.4 million MWh. Lower actual net market purchase volume for the year was the result of increased generation from PSE's coal-and natural gas-fired resources, more generation from PSE's Mid-Columbia hydroelectric resources, and higher output from PSE's wind facilities. The average

¹⁰ Wetherbee, Exh PKW-1CT, 17.

¹¹ [Puget Sound region makes history over record-setting weekend of snow - MyNorthwest.com](#)

¹² Wetherbee, Exh PKW-1CT, 31.

¹³ Wetherbee, Exh PKW-1CT, 31-.

¹⁴ Wetherbee, Exh PKW-1CT, 32-33.

cost of actual market purchases in 2021 was \$47.73 per MWh, compared to only \$26.05 per MWh included in rates.

Staff has reviewed the workpapers, testimony and exhibits offered by PSE and finds nothing to indicate that PSE's 2021 power costs were imprudently incurred. Staff agrees that extending the rates put into effect by UE-200893, and left in place by Docket UE-210300, for an additional 11 months (effective January 1, 2023, ending November 30, 2023) will avoid rate shock to customers and is in the best interest of the public.

Green Direct

Under RCW 19.29A, the cost and benefits of PSE's Green Direct Program must be borne by the participants in that program.¹⁵ During 2021, Phase 1 customers were participating in the Green Direct program the entire twelve months. Phase 2 of Green Direct began on March 1, 2021, which resulted in Phase 2 customers participating in the PCA mechanism for 11 percent of 2021 and their participation in the Green Direct Program for 89 percent of 2021. Therefore, Phase 1 customers would receive a credit of 100 percent of the surcharge and Phase 2 customers would receive a credit of 89 percent of the surcharge they are being charged from Docket UE-200893. PSE is not proposing to defer the cost or benefit of the Green Direct Program, and this filing is for reporting purposes only.

Staff has reviewed the Green Direct Program reporting for 2021 and finds the amounts to be accurately calculated and reflective for market conditions during the year.

Interested Parties

Staff has not received any customer comments.

Conclusion

Staff recommends the Commission approve PSE's 2021 PCA report and the associated PSE Deferral Balance of \$40.4 million as of December 31, 2021.

¹⁵ *WUTC v. Puget Sound Energy*, Docket UE-160977, Order 01 (September 26, 2016).