Service Date: July 27, 2023

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY, For an Order Approving Forecasts Pursuant to RCW 70A.65.120	DOCKET UE-220797 ORDER 02 APPROVING PETITION AND REVISED FORECAST SUBJECT TO CONDITION

BACKGROUND

1 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) to establish the methods and procedures for allocating allowances for investor-owned electric utilities (IOUs).[3]

2 On September 29, 2022, Ecology published final rules under Chapter 173-446 Washington Administrative Code (WAC), the Climate Commitment Act Program. WAC 173-446-230 specifies that Ecology will use utility-specific four-year demand and resource supply forecasts to determine the cost-burden effect and the allocation of no-cost allowances to each electric utility.

3 WAC 173-446-230(2)(g) provides that the initial allocation of allowances will be adjusted as necessary to account for any differential between actual GHG emissions and

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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.

forecasted GHG emissions.[4] Commission staff (Staff) and other parties refer to this informally as the true-up mechanism (true-up). Ecology has 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.

4 On October 31, 2022, Puget Sound Energy (PSE or Company) filed with the Commission a Petition for an Order Approving Forecasts Pursuant to RCW 70A.65.120, which was assigned to Docket UE-220797. PSE used its 2021 CEIP as the source for its forecast for all years, extending the modeling from its CEIP through 2026. PSE forecasted 22,160,079 MWh of total load in 2023; 22,502,456 MWh in 2024; 22,700,927 in 2025; and 22,928,549 in 2026.

5 On January 24, 2023, the Commission entered Order 01 in this Docket, Approving Supply and Demand Forecast (Order 01). The Commission approved PSE's four-year demand and resource supply forecast subject to the modified condition that the Company must notify the Commission if there are any substantive changes, as that term may be defined by the Commission in a subsequent proceeding.

6 On July 3, 2023, PSE filed a Petition for Approval of the Company's Revised Four-Year Demand and Resource Supply Forecast Pursuant to RCW 70A.65.120 and WAC 173-446-230(2)(j) (Petition).

7 In its Petition, PSE submits that on June 6, 2023, Ecology published its Allowance Allocation to Electric Utilities for the First Compliance Period, providing the following allowances to PSE: 4,492,356 allowances in 2023; 4,028,318 allowances in 2024; 3,879,337 allowances in 2025; and 3,565,788 allowances in 2026. Following publication of these allowances, PSE explains that it became clear that the Company had included extraneous information in its submission to Ecology. PSE provided a forecast of all resource supply and did not limit the forecast to the resource supply that PSE will use to meet retail demand in the original four-year demand and resource forecast. As a result of PSE's inclusion of all portfolio information in the original four-year demand and resource forecast, Ecology was unable to distinguish between the resource supply that PSE would use to serve demand and the resource supply that PSE would use for balancing or to make market sales. As a result of this issue, PSE submits that Ecology incorrectly applied an unspecified emissions factor of 0.437 per MWh to forecasted market sales and, as a

[4] WAC 173-446-230(2)(g).

result, allocated an insufficient number of no-cost allowances to cover PSE's forecast of retail demand.

8 PSE therefore requests in its Petition that the Commission approve an updated demand and resource supply forecast reflecting substantive changes and the Company's most current demand forecast approved by its Energy Management Committee, which is also known as the "F23" forecast. PSE's Revised Forecast (Revised Forecast) projects a total demand of 22,985,346 MWh for 2023; 23,090,114 MWh for 2024; 23,193,531 MWh for 2025; and 23,432,894 MWh for 2026. The Revised Forecast estimates an equal amount of MWh in total resource supply for each of the four years at issue. PSE also forecasts the total emissions that will be covered by no-cost allowances. PSE raises concerns with Ecology's rules and argues that those rules impose excessive costs on the Company as a Balancing Authority within the electric grid. Now that calendar year 2023 is half over, PSE submits that no-cost allowances will account for no more than 80 percent of its electric compliance obligation, resulting in an under-recovery of power costs for the year. PSE argues that it is essential for the Commission to approve its Revised Forecast given the uncertainty around Ecology's "true-up" mechanism. PSE intends to submit any approved Revised Forecast to Ecology for an adjustment of its no-cost allowances by July 30, 2023.

9 On July 12, 2023, PSE filed supplemental information in support of its Petition in this Docket.

10 Staff has reviewed the Company's Petition and its Revised Forecast and recommends that the Commission enter an order rejecting the Revised Forecast. Staff first raises concerns with the limited time provided for review. Staff notes that PSE filed the Petition on July 3 and provided the necessary supplemental workpapers to the filing on July 12 at Staff's request. While this may be permissible under WAC 480-07-900(5)(b), Staff submits that this left it with approximately seven business days to review all the new inputs to the Revised Forecast. Staff argues that this was not sufficient time to review a petition of this complexity in collaboration with other interested parties. Staff explains that in the future, for such complex filings with potentially significant monetary impacts, Staff will need at minimum 30 days to review new data.

11 Further, Staff clarifies that its recommendation to reject 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, nor determine if it was appropriate for PSE to use its power cost supply forecast. To recommend approval, Staff would have needed both more time and opportunity for collaboration with the other interested persons to determine if the proposed forecast is the best and most likely resource mix.

12 This matter came before the Commission at its regular open meeting on July 27, 2023. The Commission heard comments from Staff, distinguishing its position in this Docket from its position on a similar filing from Avista Corporation d/b/a Avista Utilities in Docket UE-220770. Staff explained that it recommended PSE prepare an alternative forecast that uses all the same inputs in supply and demand as was in the original approved forecast (Alternative Forecast), and simply adjust it by removing market sales, in line with what Avista has proposed.[5] PSE provided this Alternative Forecast on Friday, July 21, and the result is shown in Appendix B to Staff's updated memo, posted in this Docket. Because Staff and the Commission already approved the original forecast with its inputs based on the 2021 CEIP, and because Staff notes that it is generally comfortable with PSE removing market sales from its forecast to address the allowance allocation concerns with Ecology, Staff supports approving this alternative scenario.

13 The Commission also heard comments from PSE. PSE explained that it had several discussions with Ecology and that Ecology recently declined to provide PSE and other investor-owned utilities additional time for seeking adjustments of no-cost allowances. PSE maintained that the Company's Revised Forecast reflected the most up-to-date information and should be approved. PSE noted the time-sensitive need for the Company to submit any revised forecast to Ecology to receive any adjustments for this year's no-cost allowances. PSE explained, as well, that the Company's F23 forecast reflected increased load from building electrification measures.

14 AWEC also provided comments at the open meeting, recommending approval of the Company's Revised Forecast. AWEC submits that concerns with the limited time for review of the Revised Forecast should not outweigh the risks to ratepayers of Ecology allocating an insufficient number of no-cost allowances. AWEC noted that Staff's alternative proposal came close, but still fell short of fully addressing these concerns. AWEC also observes that it is uncertain how the "true up" mechanism would be implemented in practice.

15 In response to questions from the Commissioners, PSE and AWEC indicated their support for the approving the Revised Forecast subject to a condition requiring the

[5] See Docket UE-220770.

Company to file a petition seeking approval of a revised forecast for years 2024 to 2026 by April 30, 2024.

DISCUSSION

16 We approve the Company's Petition and its Revised Forecast as filed on July 3, 2023, subject to the condition that the Company file a petition seeking approval of its revised forecast for the years 2024 to 2026 with the Commission by April 30, 2024.

17 WAC 173-446-230(2)(j) provides that "if a revised forecast of supply or demand is approved in a form and manner consistent with the requirements of this section by July 30th of the same calendar year, then ecology may adjust the schedule of allowances to reflect the revised information provided by an updated forecast."

18 In this case, the Commission recognizes Staff's concerns with the relatively limited amount of time provided to review the Revised Forecast. Pursuant to WAC 480-07-900(5)(a), "[t]he 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." Unlike the F21 forecast, the F23 forecast has not been subject to the same vetting and review.

19 However, we also recognize that there is some uncertainty as to how the adjustment mechanism in WAC 173-446-230(2)(g) will work in practice. Both the Company and AWEC raise valid concerns that rejecting the Revised Forecast could result in an under-allocation of no-cost allowances and that, even if the Company is provided a subsequent opportunity to submit revised forecasts, it may be difficult to adjust no-cost allowances for this calendar year. We also observe that Staff is generally comfortable with the Company's methodology the Company presented on July 21, 2023, refocusing the forecast on retail load.

20 After considering all relevant matters and for good cause shown, the Commission finds that the Company's Petition and its Revised Forecast should be approved subject to the condition that the Company file a petition for approval of its revised forecast for the years 2024 to 2026 with the Commission by April 30, 2024. Because the Company would be required to submit a revised forecast to Ecology by July 30, 2024, this will allow an approximately three-month period for the Commission and its Staff to appropriately review updated forecasts for 2024 to 2026. In our judgement, this appropriately balances the need to avoid undue ratepayer impacts for the present year with the need for further process and review for the remaining years of the compliance period.

FINDINGS AND CONCLUSIONS

21 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including electric companies.

22 (2) PSE is an electric company and a public service company subject to Commission jurisdiction.

23 (3) PSE is an investor-owned electric utility subject to the requirements of Chapter 19.405 RCW.

24 (4) The need to avoid an insufficient allocation of no-cost allowances for the present calendar year tends to outweigh concerns with the limited time provided for review of the Revised Forecast.

25 (5) PSE's Revised Forecast should be approved pursuant to RCW 70A.65.120, subject to the condition that the Company file a petition seeking approval of its revised forecast for years 2024 to 2026 with the Commission by April 30, 2024.

26 (6) This matter came before the Commission at its regularly scheduled open meeting on July 27, 2023.

27 (7) After reviewing PSE's Petition and Revised Forecast and giving due consideration to all relevant matters and for good cause shown, the Commission approves PSE's Petition and its Revised Forecast subject to the condition noted in paragraph 16 of this Order.

ORDER

THE COMMISSION ORDERS:

28 (1) The Commission approves Puget Sound Energy's Petition and its Revised Forecast pursuant to RCW 70A.65.120, subject to the condition noted in paragraph 16 of this Order.

29 (2) This Order shall not affect the Commission's authority over rates, services, accounts, valuations, estimates, or determination of costs, on any matters that may come before it.

30 (3) The Commission retains jurisdiction over the subject matter and Puget Sound Energy to effectuate the provisions of this Order.

Dated at Lacey, Washington, and effective July 27, 2023.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chair

ANN E. RENDAHL, Commissioner

MILTON H. DOUMIT, Commissioner