

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY

For Approval of the 2021 Power Cost
Adjustment Mechanism Report

DOCKET UE-220308

ORDER 01

APPROVING POWER COST
ADJUSTMENT MECHANISM
ANNUAL REPORT AND
COST RECOVERY

BACKGROUND

- 1 On April 29, 2022, Puget Sound Energy (PSE or Company) filed with the Washington Utilities and Transportation Commission (Commission) a petition requesting approval of its Power Cost Adjustment (PCA) Mechanism Annual Report for 2021 (2021 PCA Report). PSE filed the PCA Report consistent with the Commission’s Twelfth Supplemental Order in Dockets UE-011570 and UG-011571, in which the Commission approved a PCA mechanism for PSE (2002 PCA Order).¹ PSE also requests the Commission approve its proposed methodology for recovering the 2021 deferral allocated to customers.
- 2 PSE further provided a cost and benefit tracking report associated with the over- and under-generation of the Company’s Green Direct Program resources. PSE filed the tracking report pursuant to the Commission’s Order 01 in Docket UE-160977, which noted that the “Company has committed to track all costs and benefits of Schedule 139 separately and identifiably in its Power Cost Adjustment mechanism.”²
- 3 PSE’s PCA mechanism accounts for differences in the Company’s actual power costs relative to a power cost baseline set in PSE’s General Rate Cases and Power Costs Only Rate Case. The PCA is a mechanism that provides for the sharing of power cost differences between the Company and ratepayers. The PCA cumulative deferral amount

¹ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-011570 and UG-011571, 12th Supp. Order: Rejecting Tariff Filing; Approving and Adopting Settlement Stipulation Subject to Modifications, Clarifications, and Conditions; Authorizing and Requiring Compliance Filing (June 20, 2002).

² *WUTC v. Puget Sound Energy, Inc.*, Docket UE-160977, Order 01 ¶ 10 (September 28, 2016).

must reach \$20 million before triggering either a mandatory refund or discretionary surcharge under PSE's Schedule 95. The Commission authorized a shift in the annual PCA period to calendar years beginning in January 2007.³ In 2015, the Commission approved a multi-party settlement that modified the PCA mechanism (2015 PCA Settlement).⁴ The 2015 PCA Settlement excluded fixed power costs from the power cost baseline starting January 2017, modified the annual dead band and sharing bands, and set the trigger for rate refunds or surcharges at a cumulative deferral balance of \$20 million.⁵

4 In its Petition, PSE provided the current PCA Annual Report, which covers the calendar year ending December 31, 2021. During 2021, actual power costs were significantly higher than the baseline, creating an under-recovery of \$68 million.⁶ PSE explains that the under-recovery is attributable to both lower revenue due to reduced delivered load in 2021, and to higher actual costs as compared to the costs assumed in the baseline. This difference in total actual under recovery was due to differences in resources, load, and market prices between the power cost forecasts used to establish rates and actual operations, primarily the result of changes to actual resource availability and cost information not being fully reflected in rates.⁷ Given the operation of the PCA's sharing mechanism, PSE absorbed \$31.3 million of the \$68 million under-recovered amount, and customers are responsible for the remaining \$36.7 million, or \$38.4 million including interest.⁸ The deferral balance has triggered the \$20 million threshold specified in the 2015 PCA Settlement. After adjusting for revenue sensitive items, PSE will need to collect \$40.4 million from customers.

5 In calculating the \$38.4 million 2021 net customer deferral balance, PSE provided adjustments to the Green Direct program to ensure there is no cross subsidization

³ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-011570 and UG-011571, 16th Supp. Order Amending 12th Supp. Order, ¶ 4 (Nov. 21, 2005).

⁴ *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-130583, Order 07, UE-130617, Order 11, UE-131099, Order 07, and UE-131230, Order 07: Final Order Approving and Adopting Settlement Stipulation (Aug. 7, 2015).

⁵ *Id.*

⁶ In calendar year 2020, the power cost baseline rate from January through October 15 was approved in the 2017 PSE General Rate Case; the power cost baseline rate from October 15 through December 31 was approved in the 2019 PSE General Rate Case.

⁷ See PKW-1TC, at 14-16.

⁸ Per the terms of the PCA mechanism, for the under-recovered amount of \$68 million PSE absorbs 100 percent the first \$17 million, 50 percent between \$17 million and \$40 million (or \$11.5 million), and 10 percent of the amount between \$40 million and \$68 million.

between participating and non-participating customers.⁹ Those adjustments include: (1) removing the cost of the Green Direct Power Purchase Agreements (PPAs) from the total allowable power costs; (2) removing the baseline power costs associated with the Green Direct customer load starting from November 1, 2020; (3) refunding Phase 1 Green Direct customers a portion of their Schedule 95 PCA surcharge as a credit on Schedule 139 so that they do not pay for the portion of PCA deferral allocated to November and December 2020 when they switched to dedicated renewable energy resources; (4) effective January 1, 2023, when the 2021 imbalance will begin to be collected, PSE will change the credit that Phase 2 customers receive in Schedule 139 Supplemental Energy Charge by an amount that equals 89 percent of the Schedule 95 Supplemental Surcharge rate that is currently in effect for Phase 2 customers.¹⁰

6 In its petition, PSE also requests the Commission approve its proposed methodology for recovering the 2021 deferral allocated to customers. The current Schedule 95 includes surcharges that are intended to collect the cumulative PCA deferral balance as of December 2019 over a 12-month period from December 1, 2020, through November 31, 2021.¹¹ In Docket UE-210300, the Commission approved the 2020 PCA to keep these surcharges in rates between December 1, 2021, and December 31, 2022, (additional 13 months) so that it could collect approximately \$48.4 million of the PCA deferral balance incurred in 2020. PSE requests that the rate approved in Docket UE-200893 and continued in Docket UE-210300 remain in effect from January 1, 2023, through November 30, 2023, an additional 11 months. Any residual balance as of December 31, 2023, will be rolled into the overall customer deferral in the PCA mechanism, either to recover or pass back to customers in a future period.

7 PSE also presented a 202 Green Direct Tracking Report in its filing pursuant to Order 01 in Docket UE-160977 to track the incremental costs and benefits associated with the Green Direct resources.¹² In Order 08 in PSE's 2019 General Rate Case, the Commission

⁹ The Green Direct program is a voluntary program for PSE's governmental and large corporate customers who wish to enter into a long-term arrangement to purchase renewable power from dedicated sources. RCW 19.29A.090(5) provides that all costs and benefits associated with the optional program must be allocated to the customers who voluntarily choose that option and may not be shifted to any customers who have not chosen such option.

¹⁰ See, SEF-1T, at 4-17.

¹¹ Docket UE-200893. The cumulative customer deferral balance as of December 31, 2020, is \$39.5 million. After including interest and grossing up for revenue sensitive items, PSE sought recovery of \$43.9 million.

¹² See, SEF-12-3

ordered PSE to work collaboratively with Commission staff (Staff) and other interested parties to ensure that the costs and benefits of the Green Direct program are tracked and maintained separately pursuant to RCW 19.29A.090(5).¹³ In 2021, the parties reached a settlement agreement in PSE's 2020 Power Cost Only Rate Case (2020 PCORC Settlement), which included an agreed-upon method to track costs and benefits associated with generation surplus or deficiency from the Green Direct PPAs.¹⁴

8 Staff has reviewed PSE's 2021 PCA Annual Report and has verified that the 2021 power cost were prudently incurred, and that the deferral balance is both reasonable and consistent with the Commission's orders in Dockets UE-011570, UG-011571, and UE-130617. Staff also agrees with PSE's adjustments associated with the Green Direct program outlined above. Staff believes that these adjustments are appropriate and necessary to ensure the matching of allowed actual power costs, baseline power costs, load, and contribution to the cost recovery. Accordingly, Staff recommends the Commission approve the customer deferral in this filing.

9 Staff supports PSE's proposal to recover \$40.4 million over 11 months with the existing PCA surcharge rates. Staff believes the proposed cost recovery will introduce no rate volatility. Staff also supports the continuation of the current PCA surcharges used to recover the cumulative PCA balance as of December 31, 2019. Coincidentally, spreading the \$40.4 million to the most up-to-date load forecast for the 11-month period from January 1, 2023, through November 30, 2023, renders results almost identical to the existing PCA rates. There will be no material difference to any customer classes.

10 Staff concludes that PSE's 2021 Green Direct Tracking Report is consistent with the Commission's Order 01 in Docket UE-160977 and satisfies the provision in the 2021 PCORC Settlement and RCW 19.29A.090(5). It appropriately tracks the under- and over-generation from the Green Direct PPAs.

¹³ *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-190529 and UG-190530 (consolidated), Order 08: Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing, ¶296 (Jul. 8, 2020).

¹⁴ *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Docket UE-200980, Order 05: Final Order Approving and Adopting Settlement Agreement, Appendix A Settlement Stipulation and Agreement (June 1, 2021).

DISCUSSION

- 11 We agree with Staff that PSE's 2021 PCA Annual Report, including the calendar year 2021 customer net deferral balance of \$36.7 million (before interest), is consistent with the Commission's 2002 PCA Order as well as the 2015 PCA Settlement. The deferral calculation appropriately adjusted the allowed actual power costs, baseline power costs, and load to account for the commencement of the Green Direct PPA. Accordingly, we agree that PSE's PCA Annual Report and the customer deferral should be approved.
- 12 We agree with PSE's proposal to recover the 2021 PCA customer deferral balance over an 11-month period from January 1, 2023, through November 30, 2023, with no change to the existing Schedule 95 PCA surcharges. Maintaining the existing surcharge is appropriate because it avoids any rate changes and reduces administrative burden as compared to other alternatives.
- 13 We also agree that PSE's Green Direct Tracking Report is consistent with prior Commission Orders.

FINDINGS AND CONCLUSIONS

- 14 (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.
- 15 (2) PSE is an electric company and a public service company subject to Commission jurisdiction.
- 16 (3) WAC 480-07-370(1)(b) allows companies to file petitions, including the petition filed in this Docket for which PSE seeks approval.
- 17 (4) Staff has reviewed the Petition filed in Docket UE-210300, including related work papers.
- 18 (5) This matter came before the Commission at its regularly scheduled meeting on October 27, 2022.

- 19 (6) After reviewing PSE's petition filed in Docket UE-220308 filed on April 29, 2022, and, giving due consideration to all relevant matters and for good cause shown, the Commission finds that the Petition seeking approval of the 2021 PCA Report is in the public interest and should be granted.
- 20 (7) The Commission finds that PSE's proposed recovery of the 2021 PCA Period deferral balance in the public interest and should be approved.
- 21 (8) The Commission finds PSE's Green Direct Tracking Report is consistent with the Commission's Order 01 in Docket UE-160977 and Order 05 in Docket UE-200980.

ORDER

THE COMMISSION ORDERS:

- 22 (1) The Commission grants Puget Sound Energy's Petition requesting approval of its Power Cost Adjustment Mechanism Report for the Twelve Months Ended December 31, 2021.
- 23 (2) The Commission approves Puget Sound Energy's proposed method to recover the 2021 PCA customer deferral balance, as discussed above in paragraphs 6 and 12 of this Order.
- (3) The Commission finds that Puget Sound Energy's Green Direct tracking report is consistent with the Commission's Order 01 in Docket UE-160977 and Order 05 in Docket UE-200980.
- 24 (4) 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. Nor shall this Order be construed as an agreement to any estimate or determination of costs, or any valuation of property claimed or asserted.
- 25 (5) The Commission retains jurisdiction over the subject matter and Puget Sound Energy to effectuate the provisions of this Order.

- 26 The Commissioners, having determined this Order to be consistent with the public interest, directed the Secretary to enter this Order.

DATED at Lacey, Washington, and effective October 27, 2022.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

AMANDA MAXWELL
Executive Director and Secretary