

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of)
) DOCKET NO. UE-160977
PUGET SOUND ENERGY)
) COMMENTS OF THE INDUSTRIAL
Voluntary Renewable Energy Tariff,) CUSTOMERS OF NORTHWEST
Schedule 139) UTILITIES
)
_____)

I. INTRODUCTION

1 Pursuant to WAC § 480-07-900(5)(c), the Industrial Customers of Northwest Utilities (“ICNU”) files these Comments on Puget Sound Energy’s (“PSE” or the “Company”) new Schedule 139 to implement a voluntary renewable energy tariff (“VRET”).

2 ICNU generally supports increased choice in the products and services to which electric customers have access, and agrees that customers should have the option to source their power from renewable resources if they are willing to assume the costs of the program. PSE’s proposed VRET, however, also raises a number of complicated ratemaking issues that create the potential for cost-shifting to non-participating customers. ICNU does not oppose implementation of Schedule 139 at this time, but these issues should be addressed in a future ratemaking proceeding, such as a power cost only rate case (“PCORC”) or a general rate case, and not simply flown through the Company’s power cost adjustment (“PCA”) mechanism. ICNU also recommends that if PSE proposes to increase the VRET program’s size in the future, that such an increase be based on a full evaluation of the costs and benefits of the program in an adjudicative proceeding.

II. COMMENTS

3 PSE has proposed the VRET under RCW § 19.29A.090. This statute states that “[a]ll costs and benefits associated with any option offered by an electric utility under this section 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.”^{1/} As PSE has proposed it, any unsubscribed portion of a VRET resource would be used to serve core customers.^{2/} Thus, if a VRET customer goes bankrupt, or if the customer’s service agreement with the Company expires before the Company’s PPA with the resource developer, or if the Company is simply unable to market the entire output it has purchased, that excess energy will be used to serve core customers. The Company states that, so long as the Commission finds that the costs of these resources were prudently incurred, there will be no cost-shifting “because core customers would not be paying for a cost attributable to the Schedule 139 product, but would be paying for a prudently incurred cost that was entered into to serve core customer load.”^{3/} ICNU generally agrees with this but notes that this statement does not identify how the Commission should determine prudence.

4 ICNU has concerns with the Company’s statements regarding how the Commission might make such a prudency finding. PSE states that it has a demonstrated need for energy because it relies on the market to meet 800 aMW of its load, a need that can be partially filled by unsubscribed portions of a VRET resource.^{4/} This is a misleading statement, however. As PSE’s 2015 IRP shows, the 800 aMWs it purchases on the market to meet its energy needs

^{1/} RCW § 19.29A.090(5).
^{2/} PSE Advice No. 2016-22 at 6.
^{3/} *Id.*
^{4/} *Id.*

“reflects the most economical dispatch of our electric resource portfolio based on expected market conditions; it is not a physical need. PSE could generate significantly more energy than needed to meet our load on a monthly or annual basis, but will purchase on the wholesale market when it is more cost effective than running our thermal resources.”^{5/} Consequently, to the extent PSE displaces market purchases with more expensive energy from a VRET resource, this is not the lowest reasonable cost action the Company could take and would not be a prudent decision for serving customer load, as confirmed by PSE’s own IRP.

5 The Company also states that “the prudence of the expense [of a VRET resource] is in comparison to the levelized cost of a resource with the same contract length per RCW 19.285.050.”^{6/} This statute, however, addresses the method for calculating the incremental cost of a resource used to meet the renewable portfolio standard (“RPS”) in order to determine whether a utility has reached the four percent cost cap provided in RCW § 19.285.050(1).^{7/} ICNU, therefore, does not understand this statute to relate to the prudence of the costs of RPS resources sought to be included in customer rates. Furthermore, based on conversations with PSE during stakeholder discussions on the VRET, ICNU understands that if an unsubscribed portion of a VRET resource is allowed in customer rates, PSE would then remove that portion of the resource from rates if it is subsequently able to market it to a new VRET customer. This indicates that the levelized cost of the resource over the contract term is not the appropriate basis on which to judge prudence, as there is no certainty that the resource will be in customer rates

^{5/} PSE 2015 IRP at 1-15.

^{6/} PSE Advice No. 2016-22 at 6.

^{7/} Under this statute, “[a] qualifying utility shall be considered in compliance with [the RPS] for a given year if the utility invested four percent of its total annual retail revenue requirement on the incremental costs of eligible renewable resources, the cost of renewable energy credits, or a combination of both”

for the duration of the contract. The prudence of costs associated with a VRET resource, therefore, should be based on a comparison with the market price – the cost PSE would have otherwise incurred to serve its core customers in the absence of unsubscribed VRET energy.

6 The Commission can allow Schedule 139 to go into effect without resolving prudence issues, as these are more appropriately addressed when the Company seeks to include VRET costs in rates. Given the uncertainty over the necessary showing PSE must make to include unsubscribed VRET costs in customer rates, however, ICNU recommends that when PSE seeks to include costs associated with a VRET resource in customer rates, it must demonstrate prudence either in a general rate case or a PCORC. Stakeholders also have discussed the possibility of these costs being included through the PCA. However, it is important that the appropriate prudence demonstration for including unsubscribed VRET costs in core customer rates be established and understood by all parties and the Commission at the outset and, as a true-up filing, the PCA less well-suited to establishing prudence than a general rate case or PCORC. Further, in accordance with the recent PCA settlement approved by the Commission, while the prudence of new resources with a term of two or fewer years can be determined in the PCA, costs associated with new resources with a term greater than two years may be reviewed in a PCORC or a general rate proceeding.^{8/} Given that it is unclear how long a portion of a VRET resource may be in customer rates, but that this term could be well beyond two years, it is most consistent with this settlement to review prudence outside of the PCA.

7 There are other complex cost issues related to the VRET that have the potential to impact core customer rates. Following passage of legislation in Oregon that required the

^{8/} Docket Nos. UE-130583 *et al.*, Order 11, Appendix A, Attachment A ¶ 5 (August 7, 2015).

Commission to evaluate allowing PacifiCorp and Portland General Electric Company to offer VRETs to their customers, the Oregon Public Utility Commission (“OPUC”) engaged in a stakeholder process that took a year-and-a-half to complete.^{9/} At the end of this stakeholder process, OPUC Staff produced a 25-page report evaluating the costs and benefits of a utility VRET program.^{10/} Like the VRET considered by the OPUC, PSE is proposing to provide a fundamentally different product than the other offerings in its Green Power Program, and there are inherent uncertainties associated with the cost impacts to non-participating customers associated with such a product.

8 For instance, PSE notes that, if fixed production costs are included in its decoupling mechanism following the next general rate case, “it is unclear what, if any, effect Schedule 139 will have on the operation of PSE’s decoupling mechanism or Schedule 142”^{11/} Additionally, VRET resources could impact PSE’s transmission and ancillary services costs, which flow through to core customers. Target, in its comments, has raised the potential for VRET customers to receive capacity benefits, which implicates complex issues of how to measure the contribution to system capacity of a variable resource.^{12/}

9 By limiting its procurement to PPAs and not proposing to build resources itself, PSE has avoided a number of the risks OPUC Staff identified in its report, but the report, as well as the issues identified above, nevertheless demonstrates that a utility VRET program is not a simple one to oversee with respect to how it is administered and its potential impact on non-participating customers.

^{9/} *Re Voluntary Renewable Energy Tariffs for Non-Residential Customers*, OPUC Docket No. UM 1690.

^{10/} *Id.*, Order No. 15-405, Appen. A (Dec. 15, 2015).

^{11/} PSE Advice No. 2016-22 at 5.

^{12/} Docket No. UE-160977, Target Letter of Support at 1 (Sept. 9, 2016).

10 PSE has proposed initially to limit its VRET program to 75 aMWs.^{13/} ICNU recommends that the Commission treat this initial offering as a type of pilot program, the results of which can be used to evaluate the costs and benefits of these initial VRET contracts should PSE subsequently propose to expand the program. Additionally, this evaluation should be undertaken in an adjudicative proceeding (either on its own or as part of a larger proceeding such as a general rate case) to allow for discovery, the development of stakeholder positions, and a Commission decision on the merits to expand or not expand the program based on a fully developed record.

III. CONCLUSION

11 ICNU appreciates the opportunity to provide comments on PSE's proposed VRET program. ICNU supports the enhancement of customer choice, including potentially through a VRET, and does not oppose implementation of the Company's proposed Schedule 139. However, there remain outstanding issues related to potential cost-shifting from VRET participants to non-participating customers. ICNU, therefore, recommends that the Commission allow Schedule 139 to go into effect, subject to two conditions:

(1) When PSE seeks to include costs associated with an unsubscribed portion of a VRET resource in core customer rates, it must justify the prudence of doing so either in a general rate case or a PCORC where stakeholders can fully evaluate, and present their positions on, the Company's proposal; and

(2) Due to uncertainties with respect to other potential costs associated with a VRET program, PSE can only propose an expansion of the VRET program in an adjudicative

^{13/} *Id.* at 3.

proceeding to allow for a full examination of the program's impacts to date and a full development of the record based on this examination.

Dated in Portland, Oregon, this 19th day of September, 2016.

Respectfully submitted,

DAVISON VAN CLEVE, P.C.



Tyler C. Pepple

333 S.W. Taylor, Suite 400

Portland, Oregon 97204

Telephone: (503) 241-7242

Facsimile: (503) 241-8160

E-Mail: tcp@dvclaw.com

Of Attorneys for the Industrial Customers
of Northwest Utilities