PUGET SOUND ENERGY

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UE-230805

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Kathy Hunter, Acting Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, Washington 98503

Re: Puget Sound Energy Response to Alliance of Western Energy Consumers Comments in Docket UE-230805

Dear Executive Director Hunter:

The Settlement Stipulation and Agreement On Revenue Requirement and all Other Issues Except Tacoma LNG and Green Direct and the Commission's Final Order in Puget Sound Energy's ("PSE") 2022 general rate case, Dockets UE-220066/UG-220067 ("2022 GRC Settlement") requires PSE to file a power cost update, specifically, a 90-day compliance filing to change rates effective January 1, 2024 for power costs to be recovered in 2024. The 2022 GRC Settlement set forth the costs and inputs that would be updated in the power cost model as part of the 90-day compliance filing.

On August 1, 2023 PSE filed a description of complex changes to the Power Cost Adjustment ("PCA") mechanism baseline rate. This filing included work papers demonstrating the method and effect of changes to PSE's power cost forecast, which will be used to establish the 2024 PCA variable baseline rate. This filing was consistent with paragraph 29 of the 2022 GRC Settlement that required PSE to provide details regarding any changes to the PCA baseline rate by August 1, 2023 in order to allow parties additional time beyond the 90-day review period to ask questions and conduct their review in advance of the September 29, 2023 filing where final rates were filed. PSE did not receive any questions from parties prior to the September 29th filing.

On September 29, 2023 PSE filed a report and supporting documentation detailing its update to 2024 power costs and the resulting PCA variable baseline to be included in rates ("2024 Power Cost Update"), consistent with paragraph 28 of the 2022 GRC Settlement.

On November 20, 2023 the Alliance of Western Energy Consumers ("AWEC") filed comments acknowledging that PSE's 2024 Power Cost Update filing is consistent with the 2022 GRC Settlement and recommending several adjustments to PSE's forecast.

The comments below address each of AWEC's proposed adjustments. PSE respectfully requests the Commission approve PSE's compliance filing/Power Cost Update for 2024, as modified with respect to demand response contract benefits and potential BPA transmission rate credits described below, so that the new variable baseline rate may go into effect January 1, 2024 consistent with the terms of the 2022 GRC Settlement Agreement.

A. Energy Imbalance Market congestion revenues

PSE's 2024 power cost update includes Energy Imbalance Market ("EIM") benefits according to the methodology developed subsequent to the settlement agreement in PSE's 2020 power cost only rate case ("2020 PCORC")[1]. In that 2020 PCORC Settlement Agreement parties agreed to "participate in a collaborative workshop on the estimation and treatment of EIM costs and benefits for rate making purposes."[2] Between June 15th and September 17th, 2021 PSE hosted a series of five workshops with representatives from WUTC Staff, AWEC, and Public Counsel[3]. On November 22, 2021, PSE filed a report documenting the contents of the workshops, the approach developed for calculating EIM benefits, and agreement that the approach is "a reasonable method for quantifying and accounting for the net impact of EIM participation in PSE's rate year power cost forecasts." Participants further recommended that the approach be used in future rate proceedings including PSE's 2022 general rate case.[4]

AWEC argues in its comments that PSE's 2024 power cost forecast should be reduced $28.7 million to account for EIM congestion revenues that "are not being considered in the calculation of EIM benefits included in the 2024 Power Cost Update, as filed."[5] This is not a reasonable or appropriate adjustment to the 2024 power cost forecast. The method developed in the collaborative workshops and used to calculate EIM benefits in PSE's 2024 power cost update already includes benefits associated with congestion revenues. Congestion revenues arise in actual after-the-fact EIM settlement accounting because the settlement price that is paid to generators in the EIM is not always equal to the price that load or demand pays to the market. This difference occurs because transmission constraints cause locational marginal prices ("LMP") to differ within the market footprint. For EIM settlements, generators are paid a LMP based on the geographic location of the generator while load is charged a LMP based on the geographic location of the load. To the extent generation in one location is used to serve load in a different (higher LMP) location, revenue collected by the market operator from loads will exceed revenue paid out to generators. This surplus revenue is returned to market participants in the form of congestion revenue. The full value of an EIM transfer is the applicable LMP adjusted for any congestion revenue.

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[1] Docket UE-200980 Settlement Stipulation and Agreement.
[2] Docket UE-200980 Settlement Stipulation and Agreement, page 6.
[3] Staff and AWEC were signatories to the 2020 PCORC Settlement Agreement. Public Counsel was not a signatory to the 2020 PCORC Settlement Agreement but did participate in the EIM collaborative workshops and did not oppose the settlement.
[4] On December 29, 2021, WUTC Staff also filed a letter documenting completion of the EIM collaborative workshops and the agreement among parties that the approach developed is "a reasonable method for quantifying and accounting for the net impact of EIM participation in PSE's rate year power cost forecasts."
[5] AWEC comments page 1 paragraph 1.

The EIM methodology used in PSE's power cost model relies on an EIM price forecast that includes the impact of transmission constraints and therefore already reflects the full value of EIM transfers. These prices are an estimate of EIM transfer prices equivalent to LMPs *after* adjustment for congestion revenues – they are not an estimate of the specific LMPs that would be used to calculate after-the-fact EIM settlements. All EIM transfers in PSE's power cost model are executed at the EIM transfer price forecast so there is no difference between the prices paid by load and the prices received by generators. There is no surplus revenue collected by a market operator that must be returned to participants as congestion revenue. Instead, the full revenue or cost of each EIM transaction is captured in the EIM transfer price[6].

PSE's 2024 power cost forecast as filed includes $15.9 million of estimated EIM benefit. Congestion revenues are not additive to this amount as AWEC argues. The California Independent System Operator ("CAISO") publishes its own quarterly estimates of total EIM benefits for each participant. While PSE believes these estimates generally over-state actual EIM benefits, they nonetheless provided a useful benchmark in the development and testing of the EIM methodology used in PSE's power cost model. For calendar year 2020 the CAISO-estimated total PSE EIM benefits were $13.7 million. During that same calendar year congestion revenue received by PSE via the EIM settlements process was $15.3 million – implying that congestion revenue accounted for more than 100 percent of PSE's total EIM benefit. For the three calendar years 2020 through 2022 congestion revenue received by PSE was equivalent to 88 percent of the total CAISO-estimated PSE EIM benefit. AWEC's suggestion that PSE's EIM benefit methodology does not account for congestion revenues implies that participants in the collaborative workshops dedicated to identifying and estimating EIM benefits somehow overlooked or failed to account for the source of almost all EIM benefits. That is not a credible suggestion and should not be accepted by the Commission.

B. PSE's proposed methodology change for wind integration

PSE's 2024 power cost update includes the impact of an updated methodology for calculating wind integration costs. This update is necessary to account for the effect of wind resource variability on power costs. In short, variability in wind production relative to forecast has the effect of increasing expected power costs. Because wind output is inversely correlated with market power prices, the cost of purchasing replacement power when wind is below forecast will be higher than the benefit of surplus power when wind is above forecast. PSE's prior method for estimating the impact of this dynamic on power costs only recognized a small portion of actual wind variability (differences between the day-ahead wind forecast and actual wind output). The updated methodology includes the full impact of wind variability relative to the normal wind output included in PSE's Aurora power cost model.

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[6] This approach is analogous to the California Independent System Operator's method of calculating EIM benefits wherein EIM transactions are valued at a "transfer price" that is equal to LMPs adjusted for congestion revenue. See https://www.westerneim.com/Documents/EIM-BenefitMethodology.pdf.

AWEC first argues that updates to PSE's wind integration cost methodology are outside of the scope of updates allowed under the 2022 GRC Settlement Agreement. But this update is plainly within the scope of that Settlement. Section D paragraph 29 of the 2022 GRC Settlement states,

> "By August 1, 2023 PSE must provide details regarding any complex changes to the PCA baseline rate including work papers demonstrating the method and effect of the changes… Complex changes include, but are not limited to:
> - Any new power resources;
> - Any new contracts (e.g., transmission);
> - Modification in any existing contract structure or form;
> - ***Any methodological changes to PSE's power cost calculations***."

Updates to PSE's wind integration cost calculation clearly fall within "any methodological changes to PSE's power cost calculations." Consistent with the terms of the 2022 GRC Settlement, PSE on August 1, 2023 provided details describing this methodology update, the estimated impact on PSE's power cost forecast, and work papers demonstrating how the calculation is applied[7].

AWEC then argues that PSE's updated wind integration cost methodology is unreasonable because it does not reflect how PSE modeled wind resources in the Integrated Resource Plans and request-for-proposals processes that led to acquisition of the wind resources in PSE's portfolio. AWEC contends, "…had PSE modeled these resources as it now proposes, it may have selected different resources, or it may have paid a different price."[8] The merits of this contention are unreasonable. But even if true it does not preclude PSE from utilizing current estimates of wind variability and its power cost impact in the 2024 power cost forecast. PSE's decisions to acquire the wind resources currently in its portfolio were made with the best information available at the time those decisions were made. The decisions to acquire each and every wind resource included in PSE's 2024 power cost forecast have already been deemed prudent by the Commission[9]. The objective of the 2024 power costs update is to establish a forecast of power costs that is as close as possible to the power costs that PSE will actually incur in 2024.[10] This requires using the most current information and methodologies available today, even if they are not necessarily identical to those utilized nearly two decades ago when PSE made the decision to acquire its first wind resource or less than two years ago when PSE decided to acquire its most recent.

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[7] Compliance Filing of Puget Sound Energy's 2024 Baseline Rate – Complex Changes to the PCA Baseline Rate, Dockets UE-220066, UG-210918, & UG-210918 (Consolidated), August 1, 2023.
[8] AWEC comments page 7 paragraph 16.
[9] Hopkins Ridge in PSE's 2005 PCORC, Docket UE-050870; Wild Horse in PSE's 2006 GRC, Docket UE-060266; Hopkins Ridge Expansion and Klondike III PPA in PSE's 2007 GRC, Docket UE-072300; Wild Horse Expansion in PSE's 2009 GRC, Docket UE-090704; Lower Snake River in PSE's 2011 GRC, Docket UE-111048; Golden Hills PPA in PSE's 2020 PCORC, Docket UE-200980; and Clearwater PPA in PSE's 2022 GRC, Docket UE-220066.
[10] WUTC v. Puget Sound Energy, Dockets UE-111048 & UG-111049, Order 08 (May 7, 2012) n. 303.

C. Climate Commitment Act impacts on resource dispatch

PSE's 2024 power cost forecast includes estimated impacts of the Climate Commitment Act ("CCA") Cap & Invest program on the dispatch and utilization of PSE's natural gas and coal generation resources. The 2022 GRC Settlement specifically identifies "impacts to dispatch logic related to CCA compliance" among the agreed upon updates to the 2024 power cost forecast. Inclusion of these impacts increases forecasted 2024 power costs approximately $22.7 million. This power cost increase results from a calculated adjustment to PSE resource dispatch that minimizes total expected power supply cost (including the cost of purchasing any necessary Washington Carbon Allowances), given PSE's current understanding of Department of Ecology's no-cost allowance allocation and adjustment process. The estimated increase to 2024 power costs would be more than offset by reduced emissions from PSE resources, which would amount to an estimated $40 million reduction in the cost of allowances that PSE would need to purchase to comply with the CCA. Put differently, PSE can avoid the estimated 2024 power cost increase if it does not consider the cost of carbon allowances in its actual resource dispatch decisions. This could, however, result in actual dispatch decisions that are not economically optimal, ultimately increasing carbon allowance purchase costs by more than the reduction to power costs.

D. Demand response power purchase agreements

Section D paragraph 32 of the 2022 GRC Settlement Agreement states, "The cost of any DER PPA for distributed generation, battery resources and demand response costs are eligible for recovery through PSE's PCORC, PCA Mechanism and/or annual power cost update and are eligible for potential earning on PPAs pursuant to RCW 80.28.410." Additionally, the 2022 GRC Settlement provided for updates for "any new and updated resources…" Accordingly, PSE included the estimated 2024 cost of three executed demand response contracts in its 2024 power cost update. PSE did not include any offsetting benefits from these demand response contracts in its 2024 power cost update. AWEC disagrees with PSE's exclusion of demand response contract benefits from its 2024 power cost forecast, noting that it "would expect that such contracts would lead to a reduction in 2024 net power costs by reducing peak demand."[11] This is a reasonable expectation. PSE agrees that these demand response contracts will reduce peak demand and will reduce 2024 power costs, at least to some extent.

However, PSE disagrees with the level of benefit AWEC proposes for inclusion in the 2024 power cost forecast. AWEC proposes that PSE's 2024 power cost forecast be reduced by $11.4 million, or the full estimated cost of the contracts in 2024, such that the net impact to power costs is $0. While the total benefit of these contracts to ratepayers may approach or even exceed their cost, much of that benefit will be from maintaining electric system reliability and avoiding the need to purchase alternative new capacity resources[12]. Avoided capacity costs cannot reduce the 2024 power cost forecast because the forecast does not include any alternative new capacity

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[11] AWEC comments page 9 paragraph 20.

[12] PSE's evaluation of the benefits of these demand response contracts will be presented when PSE seeks a prudence determination for the resources. According to the 2022 GRC Settlement, this will occur on or before PSE's 2023 PCA filing in April 2024.

resources that the demand response contracts displace. The reduction these contracts provide to 2024 forecasted power costs is equal only to the cost of energy purchases currently in the forecast that will be avoided when the demand response is deployed to reduce load. In any particular hour, this cost reduction is equal to the amount of demand response deployed multiplied by the forecasted market electricity price in that hour. Using forecasted 2024 hourly market prices and assuming demand response is deployed to its fullest extent during the highest forecasted load hours of the year, demand response contracts reduce forecasted 2024 power costs by $880,000. PSE's calculation of the power cost reduction associated with demand response contracts is included in confidential Attachment A to these comments.

PSE requests confidential treatment for Attachment A to this filing under RCW 80.04.095 and in accordance with WAC 480-07-160. The information labeled as confidential includes commercially sensitive data such as counter-party and confidential information which could expose PSE and its counterparties to competitive injury if disclosure is unrestricted. Therefore, PSE requests confidential treatment and has labeled such information as "Shaded Information is Designated as Confidential per WAC 480-07-160" as provided in RCW 80.04.095 and in accordance with WAC 480-07-160(2)(c).

Additionally, it is worth noting that this adjustment as proposed does not account for the reduction in retail revenue that would necessarily accompany any load reduction from deployment of demand response. All other things equal, any such revenue reduction in actual 2024 results will cause a small PCA under-recovery (approximately $340,000).

E. Potential Bonneville Power Administration dividend distribution for Transmission customers

PSE agrees with AWEC's position that the benefits of any transmission rate credits resulting from a Bonneville Power Administration ("BPA") dividend distribution should be returned to customers as a reduction to PSE's 2024 power costs. If BPA makes a final decision that provides for any such credits on or before December 15, 2023 PSE can and will reflect such benefits in its 2024 power cost forecast and the effective baseline beginning January 1, 2024. However, any 2024 transmission rate credits that become known after this time will not have been included in PSE's 2024 power cost forecast. Any such credits would still reduce actual 2024 power costs and accrue to the benefit of customers, but subject to the PCA sharing bands. Many of the costs included in power costs and the variables affecting them change regularly. Updating power costs as closely as possible to the start of rate effective periods helps ensure the most current assumptions are reflected in the PCA baseline rate. But there will always be differences that cannot be known until after rates are in effect. The impacts of those differences – both costs and benefits – are shared according to the PCA sharing bands.

PSE respectfully requests the Commission approve PSE's compliance filing/Power Cost Update for 2024, as modified with respect to demand response contract benefits and potential BPA transmission rate credits described above, so that the new variable baseline rate may go into effect January 1, 2024 consistent with the terms of the 2022 GRC Settlement Agreement.

Please contact Susan Free at susan.free@pse.com for additional information about this filing. If you have any other questions, please contact me at (425) 462-3946.

Sincerely,

/s/ Birud D. Jhaveri

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cc: Lisa Gafken, Public Counsel
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Attachment: Attachment A (Confidential) & (Redacted)