Agenda Date: December 21, 2023
Item Number: A1

Docket: **UE-230805**
Company: Puget Sound Energy

Staff: Crystal Oliver, Regulatory Analyst
Keith Quinata, Section Manager of Energy Rates and Services

Recommendation

Commission staff recommends that the Commission issue an order rejecting in part Puget Sound Energy's tariff and compliance filing, requiring PSE to exclude $11.4 million in estimated costs associated with Demand Response Power Purchase Agreements and $22.7 million in estimated costs associated with the indirect impact of Climate Commitment Act compliance from the Power Cost baseline update and require an updated Compliance and Tariff Revision be filed.

Summary of Filings

Puget Sound Energy (PSE or Company) is seeking the Washington Utilities and Transportation Commission's (Commission) approval of the Company's power cost baseline update compliance filing and approval of Tariff Revisions to WN U-60 electric Schedule 95, Power Cost Adjustment Clause, in accordance with the Settlement approved by Final Order 24/10 in PSE's last General Rate Case.[1]

The Settlement states that the prudence of any new resources included in this 2024 update will be determined in the April 2024 Power Cost Adjustment (PCA) Compliance Filing.[2]

The Company is requesting a revenue increase of $185.6 million or 7.05 percent, effective January 1, 2024. A typical residential customer using 800 kWh would see a $7.25 increase on their bill each month.

Background

PCA Mechanisms were adopted in response to the Western U.S. Energy Crisis of 2000 and 2001, which negatively affected the financial condition of Washington state power and gas utilities. The traditional rate setting process could not keep up with the increases to market prices which,

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[1] Appendix A, Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and PSE's Green Direct Program, to Final Order 24/10 Rejecting Tariff Sheets; Approving Settlements, with Conditions; Authorizing and Requiring Compliance Filing in Dockets UE-220066, UG-220067, & UE-210918 (*Consolidated*), ¶ 28 and ¶ 29. (Dec. 22, 2022).

[2] *Id.* at 19 ¶ 31.

in turn, resulted in both under-recovery of power cost expense on the part of the utility and rate instability for the ratepayer."[3]

PSE's PCA includes sharing bands designed to allocate the risk of variations in power costs between the company and its ratepayers. The three main purposes of the sharing mechanism are:

(1) to equitably allocate between the company and its customers the risk of ordinary power cost variability;
(2) to incentivize the company to effectively manage or even reduce its power costs (given the operation of the dead and sharing bands); and[4]
(3) to promote rate stability.[5]

On June 18, 2002, the Commission entered its Twelfth Supplemental Order in Docket UE-011570, which authorized PSE to implement a PCA mechanism.[6] This mechanism accounts for differences in PSE's modified actual power costs relative to a power cost 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.[7]

In 2017, the PCA dead bands and sharing bands were modified and fixed production costs were removed from the calculation.[8]

PSE Sharing Bands now include a $17 million-dollar dead band which assigns 100 percent of costs and benefits that fall within it to the Company.

Current Sharing Bands	
$17 Million Dead Band	100% costs and benefits to Company.
$17- $40 Million	Under-recovery shared 50% to Company & 50% to Customers. Over-recovery shared 35% to Company & 65% to

[3] *WUTC v. PacifiCorp d/b/a Pacific Power & Light Company,* Docket UE-170485, Gomez Exh. DCG-1CT, Response Testimony Pro Forma Power Costs (October 27, 2017*)* ("The ERM came about as a result of the Western U.S. Crisis of 2000 and 2001, which contributed significantly to a decline in Avista's financial condition during that period."); *see also WUTC v. Puget Sound Energy*, Dockets UG-040640, UE-040640, UE-031471 & UE-032043, Order 06 ¶ 105 (Feb.18, 2005) ("[T]he PCA protects the public interest through cost sharing designed to mitigate against the consequences of market price excursions as were experienced during 2000 and 2001.").

[4] *See* Docket UE-060181, *In the Matter of the Petition of Avista Corp. for Continuation of the Company's Energy Recovery Mechanism, with Certain Modifications*, Order 03 at ¶ 23 (June 16, 2006).

[5] *See Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-011570 & UG-011571, Twelfth Supplemental Order at ¶ 22 (June 20, 2002).

[6] *Id.* at 11 ¶ 22-23; *see also* at 12 ¶ 24.

[7] *Id.*

[8] Docket UE-130617, Order 11, Attachment A, Settlement Agreement

	Customers.
> $40 Million	10% of costs and benefits to Company, & 90% of costs and benefits to Customers.

During the first 17 years of the PCA, deferral imbalances stayed within the dead band. This changed in 2019 and each year after PSE reported an under-recovery.

Year	Under-Recovery Amount
2019	$67 million
2020	$76 million
2021	$68 million
2022	$110.1 million
2023	Filing due in April 2024

PSE's 2022 General Rate Case was the first time a forecasted test year was used in a multiyear rate plan for 2023 and 2024 as a result of the passage of Senate Bill 5295, which sought to "transform the regulation of gas and electrical companies toward multiyear rate plans and performance-based rate making."[9]

On December 22, 2022, The Commission entered Final Order 24/10 (Final Order 24/10) in Dockets UE-220066, UG-220067, and UE-210918 (*Consolidated*), approving three settlement agreements, including the Revenue Requirement Settlement which appears as Appendix A and includes Power Costs in part D of the Agreement. Final Order 24/10 provided an increase in electric rates of $223 million in rate year one and $38 million in rate year two.

Parties agreed that PSE is required to file a 90-day compliance filing to change rates effective January 1, 2024, by submitting a compliance filing by August 1, 2023, providing details regarding any complex changes to the PCA baseline rate, including work papers demonstrating the method and effect of the changes.[10] Parties also agreed that PSE must provide all other changes to the forecast impacting PCA baseline rates by October 1, 2023, providing the Commission sufficient time to review.[11]

Parties agreed in Paragraph 28b of Appendix A that PSE would update the rate recovering the PCA baseline by updating the power cost model with the following costs and inputs:

- Costs associated with Mid-C hydro contracts;
- Costs associated with upstream pipeline capacity;

[9] *See generally* RCW 80.28.425.

[10] Appendix A, Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and PSE's Green Direct Program, to Final Order 24/10 Rejecting Tariff Sheets; Approving Settlements, with Conditions; Authorizing and Requiring Compliance Filing in Dockets UE-220066, UG-220067, & UE-210918 (*Consolidated*) ¶ 28-29 (Dec. 22, 2022).

[11] *Id.* ¶ 29-30.

- Outage schedules;
- BPA rates;
- Load forecast (for the 2024 update);
- Variable O&M costs;
- Impacts to dispatch logic related to Climate Commitment Act (CCA) compliance;
- Hedges and physical supply contracts;
- Natural gas prices;
- Changes to terms of current resources;
- Any new and updated resources (including transmission contracts)[12]

Additionally, paragraph 29 states that 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.[13]

Paragraph 30 addresses the prudence of new resources included in these updates and reads:

"Any new resources included in the January 1, 2023, or January 1, 2024, baseline update will undergo a prudency review in the annual PCA Compliance Filing. To reduce the amount of time that costs spend in deferral, the prudence of any new resources effective in 2023 will be determined in the April 2023 PCA filing. Prudence of any new resources effective in 2024 will be determined in the April 2024 PCA Compliance Filing.

> a. The Settling Parties reserve the right to recommend to the Commission that a prudence determination of a particular resource occur in the following year.
> b. The Settling Parties reserve the right to challenge actual deferrals in the following year's PCA Compliance Filing."[14]

On December 27, 2022, the Company filed its first Power Cost update compliance filing[15] and tariff revisions which sought a $166.5 million increase in power costs for 2023, with the vast majority of the increase, $135.8 million, associated with forecasted impacts of the Washington

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[12] Appendix A, Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and PSE's Green Direct Program, to Final Order 24/10 Rejecting Tariff Sheets; Approving Settlements, with Conditions; Authorizing and Requiring Compliance Filing in Dockets UE-220066, UG-220067, & UE-210918 (Consolidated) ¶ 28(b) (Dec. 22, 2022).

[13] *Id.* at 18 ¶ 29.

[14] *Id.* at ¶ 30.

[15] *See generally* Docket UE-220066, Compliance Filing (Dec. 27, 2022).

Climate Commitment Act (CCA).[16] PSE submitted revised tariff sheets on December 28, 2022, and January 3, 2023, after discovering the need to correct certain charges contained in its tariffs.

On January 3, 2023, Staff filed a letter responding to the Company's compliance filing and opined that the revised tariff sheets complied with Final Order 24/10.

On January 3, 2023, the Commission issued a Notice Permitting Additional Responses to Compliance Filing (Notice). The Commission indicated that Staff and other parties may provide additional responses clarifying the rate increase set forth in the Company's compliance filing as compared to the findings set forth in Final Order 24/10.

On January 4, 2023, PSE and Staff submitted additional responses, both of which attributed significant increases in power costs to the impacts of the Climate Commitment Act on the Company's forecasted dispatch modeling. PSE also provided supporting workpapers with its clarifying response.

On January 6, 2023, the Commission issued Order 26/12 in Docket UE-220066, UG-220067, and UE-210918 (*Consolidated)*, rejecting the compliance filing in part, requiring revised compliance filing; and providing for further process.

The Commission found that the compliance filing departed from the findings of Final Order 24/10 in at least two ways. First, they found the proposed increase that was 74 percent higher than what was approved to be "a substantial and material departure from the rates the Commission determined were equitable, fair, just, reasonable and sufficient."[17] Additionally, the Settlement had stated that PSE would use the forecasted increase in 2023 power costs as a "reference point"[18] and the Commission found that this increase was so large that PSE couldn't reasonably contend that it used the initial forecast as a reference point.

The Commission also expressed concern regarding the magnitude of the increase and impact on customers from a "single line-item in a post-Final Order power cost update, largely devoid of any supporting testimony or exhibits."[19] Ultimately, the Commission rejected the $135.8 million increase associated with modeling of CCA impacts on dispatch of resources and provided PSE the option to either "(1) defer the $135.8 million in related projected power costs in question and request review of these costs in its 90-day power cost compliance filing in this proceeding for 2024 or (2) petition for Commission review of these costs in a separate proceeding."[20]

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[16] RCW 70A.65.260.

[17] *WUTC v. Puget Sound Energy,* Dockets UE-220066, UG-220067, and UE-210918 (*Consolidated),* Order 26/12, Order 26/12 Rejecting the Compliance Filing in Part, Requiring Revised Compliance Filing, ¶ 14 (Jan. 6, 2023).

[18] Final Order 24/10, App. A ¶ 23(d) (Revenue Requirement Settlement) (Dec. 22, 2022).

[19] *See* Dockets UE-220066, UG-220067, and UE-210918 (*Consolidated)*, Order 26/12 ¶ 17 (Jan. 6, 2023).

[20] *Id* at 6 ¶ 22.

On January 9, 2023, PSE filed its revised compliance filing, decreasing forecasted power costs by $135.8 million, which, when grossed up for revenue sensitive items and changes in rate rounding, resulted in a $142.5 million decrease from the original compliance filing consistent with Order 26/12.

PSE has not yet filed for recovery of 2023 CCA dispatch costs as it anticipates including those costs in its upcoming annual PCA filing in April 2024 consistent with option 2 in Order 26/12.

On August 1, 2023, PSE submitted its second Power Cost update compliance filing, including work papers demonstrating the method and effect of complex changes to the PCA baseline rate in Dockets UE-220066, UG-220067, and UE-210918 (*Consolidated*).

On September 29, 2023, PSE submitted another filing in Docket UE-230805 including a narrative describing additional complex changes impacting the PCA baseline forecasts.

On November 20, 2023, the Alliance of Western Energy Consumers (AWEC) filed substantive comments on PSE's 2024 Power Cost Update in Docket UE-230805.

On November 30, 2023, PSE published notice of this, and other proposed rate increases in area newspapers, pse.com, and provided notice to community agencies, news editors of newspapers, television, and radio stations in accordance with WAC 480-90-198 and WAC 480-100-198.

On December 13, 2023, PSE filed a response to AWEC's comments on PSE's 2024 Power Cost Update in Docket UE-230805.

<u>Discussion</u>

Overview

Forecasted 2024 power costs increases in this filing are $207 million,[21] or 22 percent higher than the forecast currently included in rates. The forecasted 2024 power cost increase is primarily caused by a significant reduction in forecasted secondary market sales revenue combined with an increase in the forecasted cost of wholesale market purchases. Of interest, the 2023 power cost forecast was $933 million and this 2024 forecast projects PSE's power cost will now exceed $1.1 billion dollars.

The Company explains that the increase is driven by updates to forecasted demand, changes to PSE's electric supply portfolio, including new resources and updates to existing resources, updated market prices and resulting changes to output from coal and natural gas fueled

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[21] PSE reduces the total 2024 Updated Power Costs by removing 557 fixed costs, changing the load to establish existing rates, and reducing for load growth between periods while grossing up costs to arrive at its $185.6 million dollar revenue requirement in its reconciliation between the Compliance Filing and this filing for 2023 power costs and 2024 revenue requirement.

resources, methodological updates to hydroelectric and wind resource generation, changes in transmission expense and gas pipeline and storage costs, and impacts of CCA compliance on resource dispatch and wholesale sales revenue.

Load Forecast Update

PSE forecasts that the 2024 load will be four percent higher than 2023. It estimates that this will require more energy to be purchased from wholesale markets and reduce surplus energy available for wholesale market sales, increasing power costs by approximately $41 million relative to the 2023 forecast.

Paragraph 28b of the Settlement lists "Load forecast (for the 2024 update)" as one of the costs PSE will include to update the PCA baseline so this update appears compliant with the Settlement terms.

<u>Electric Supply Portfolio Updates</u>

Prudence of New Resources

In this filing, PSE states in its September 29, 2023, Power Cost Update narrative that paragraph 30 of the Settlement Agreement provides that "These new resources will undergo a prudency review in the 2024 annual PCA compliance filing or PSE's next general rate case filing, whichever comes first."[22] Additionally, in its December 13, 2023, response to AWEC's comments in footnote 12 PSE writes "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."

Staff wishes to call attention to these inaccuracies and notes that the Settlement states in paragraph 30 that "Prudence of any new resources effective in 2024 will be determined in the April 2024 PCA Compliance Filing." It only allows parties the ability to defer prudence determinations to the following year and explicitly reserves parties' "right to challenge actual deferrals in the following year's PCA Compliance Filing."[23]

New Resources

PSE entered into seven new power supply agreements that were not included in the previous forecast.

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[22] UE-230805, Advice 2023-44-PSE-2024-Power-Cost-Update-Rps (09-29-23) page 4.

[23] Appendix A, Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and PSE's Green Direct Program, to Final Order 24/10 Rejecting Tariff Sheets; Approving Settlements, with Conditions; Authorizing and Requiring Compliance Filing in Dockets UE-220066, UG-220067, & UE-210918 (*Consolidated*) ¶ 30.

- *Chelan Slice #38*
  A new contract for 5% of the output from Chelan County Public Utility District's (PUD) Rocky Reach and Rock Island hydroelectric projects.
- *HF Sinclair co-generation PPA*
  PSE pays a fixed charge for capacity and a variable charge for each MWh of energy delivered.
- *Five other new agreements*[24]
  Selected through a request for proposals issued by PSE.

Paragraph 29 of the Settlement notes that "Complex changes include but are not limited to" and lists "Any new power resources" and "Any new contracts," so these updates appear compliant with the terms of the Settlement.

Inclusion of Demand Response Contracts

PSE is including the costs of demand response contracts not previously included in power costs, which it estimates to add $11.4 million in costs.[25]

Paragraph 29 of the Settlement notes that "Complex changes include but are not limited to" and lists "Any new power resources" and "Any new contracts" so these updates appear compliant with the terms of the Settlement.

AWEC comments that "PSE has not included any discussion or evidence that addresses the anticipated benefits associated with demand response contracts in this filing." AWEC also highlights that "the Commission has stated, [w]hen fixed costs that reduce variable power costs are included in general rates, the PCAM's baseline power costs must be reset to reflect the benefits in order for ratepayers to realize the net benefits of the fixed costs they are being asked to pay for. Doing so matches the benefits with the burden."[26]

AWEC further explains that the "Commission has addressed circumstances where costs are included in rates when benefits are anticipated, but speculative. When PacifiCorp joined the Energy Imbalance Market (EIM), the Oregon Commission approved a settlement wherein benefits were set equal to costs.[27]

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[24] PSE executed six individual contracts as a result of the 2023 RFP, but deliveries under one of them will not begin until 2025. The costs and benefits of that contract are not reflected in the 2024 power cost update.

[25] 2024 Power Cost Update at 3 (Sept. 29, 2023) Docket UE-230805.

[26] Docket No. UE-152253, Order 12 ¶ 222 (Sept. 1, 2016).

[27] *In re PacifiCorp*, Oregon PUC Docket Nos. UE 287 and UM 1689, Order No. 14-331, 2014 Ore. PUC LEXIS 322 (Oct. 1, 2014).

The Commission's treatment of EIM benefits was slightly different, but the Commission again relied on the necessity of matching costs with the inclusion of benefits in rates.[28]" AWEC asserts that "The matching principle is a longstanding ratemaking principle that should not be abandoned in this case."

Staff have similar concerns to AWEC's regarding the inclusion of the costs of these Demand Response Contracts without including the benefits. In Staff's opinion, it violates the ratemaking principle of benefit follows the burden and would also recommend exclusion of these costs from this PCA baseline update.

In PSE's response to AWEC's comments it acknowledges that it "did not include any offsetting benefits from these demand response contracts"[29] and agreed with AWEC that the contracts will "reduce peak demand and will reduce 2024 power costs, at least to some extent."[30] However, PSE disagrees with the level of benefit these contracts will provide and suggests that rather than exclude the full $11.4 million cost of these contracts that it reduce forecasted 2024 power costs by $880,000 which it explains reflects the possible benefit of the contracts if they were to be deployed during the "highest forecasted load hours of the year."[31]

Changes to Existing Contracts and Costs

PSE also includes changes related to updates to the costs and volumes from several existing power purchase agreements, further increasing forecasted 2024 power costs relative to 2023.

- *Douglas County PUD's Wells Project*
  This hydroelectric project is approximately 30 percent below its 2023 share.
- *Grant County PUD's Priest Rapids Project*
  PSE notes that this contract's costs have increased.
- *Chelan County PUD's Rocky Reach and Rock Island Projects*
  PSE notes that this contract's costs have increased.
- *Centralia Coal Plant*
  PSE states that a price escalation in the contract has increased costs.
- *Winter Peak Capacity Contract*
  Expires March 31, 2024.

Paragraph 28b lists "Costs associated with Mid-C hydro contracts" as one of the costs and inputs PSE would include in the PCA update filing, so these updates appear compliant with the terms of the Settlement, though it is currently unclear to Staff which cost increases, for each of these are driven by contract costs versus decreases in volume.

Transfer of Contracts between Electric and Gas Utility

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[28] Docket No. UE-152253, Order 12 ¶ 222 (Sept. 1, 2016).

[29] PSE Response to AWEC at 5 (Dec. 13, 2023) Docket UE-230805.
[30] *Id.* at 5.
[31] *Id* at 6.

PSE explains that these transfers occurred to better align existing assets with the current needs of each utility and that the transfers are effective for approximately three years, ending on March 31, 2026. These will provide enhanced reliability and financial risk mitigation during periods of high price volatility or supply disruptions. PSE states the net power cost impact is a $650,000 decrease.

- *Jackson Prairie*
  Storage transfer from gas portfolio to electric portfolio for additional storage capacity and pipeline capacity.
- *Clay Basin*
  Storage transfer from gas portfolio to electric portfolio for storage capacity and transportation capacity.
- *Plymouth LNG*
  Storage transfer from electric portfolio to a gas portfolio with firm withdrawal rights of and associated pipeline capacity.

PSE did not indicate in its narrative which provision within the Settlement these changes fall under. However, staff notes paragraph 29 states "complex changes include, but are not limited to"[32] so these updates may be compliant with its terms.

Bonneville Power Administration (BPA) Transmission

PSE also includes losses associated with the Bonneville Power Administrations (BPA) transmission contract, resulting in an $18 million increase in power costs.

Paragraph 28b of the Settlement lists "Any new and updated resources (including transmission contracts)" as one of the costs PSE will include to update the PCA baseline so this update appears compliant with the terms of the Settlement.

In AWEC's comments, it explains that, after PSE submitted this filing, on "November 16, 2023, BPA presented its Q4 Quarterly Business Review" where it discussed "Transmission net revenues" and reserves which have reached a level triggering its Reserves Distribution Clause (RDC). "BPA's calculated RDC is $130.4 million," which the Administrator may choose to repurpose for high-value business unit-specific purposes, including Dividend Distributions."

AWEC notes that a decision is expected on or before December 15, 2023, and request that the distribution be included in PSE's forecast if "the information is known prior to rates becoming effective."[33]

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[32] Appendix A, Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and PSE's Green Direct Program, to Final Order 24/10 Rejecting Tariff Sheets; Approving Settlements, with Conditions; Authorizing and Requiring Compliance Filing in Dockets UE-220066, UG-220067, & UE-210918 (*Consolidated*) ¶ 29.

[33] AWEC Confidential Comments in Docket UE-230805 page 11.

In PSE's response to AWEC it agrees that the benefits from a dividend distribution should benefit customers and reduce PSE's 2024 power cost and states "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."[34]

Energy Imbalance Market

PSE reduces its power costs by $416 thousand for the net benefit of payments of avoided greenhouse gas emissions associated with its participation in the EIM.

AWEC provides a lengthy description and explanation of EIM revenues and requests that PSE include congestion revenues in the amount of a confidential number[35] equivalent to 2023 congestion revenues to reduce power costs by that amount.

In discussing this issue with PSE, the Company indicated that this revenue is already incorporated into the update. It just doesn't appear as a line item. In PSE's response to AWEC's comments it further explains that it used the methodology to include EIM benefits that was developed in the collaborative workshops held in accordance with the 2020 PCORC Settlement Agreement.[36]

<u>Other Changes</u>

- Removal of the Northwest Pipeline Refund Credit, which increases costs by $4.4 million.
- Short term physical power supply contract premiums are $2.2 million lower in this forecast due to volume reduction.
- Tax credits from Golden Hills wind facility reducing power costs by $1.5 million.
- Removal of FERC 557 expenses as they are not part of the update, increasing costs to $442,000.

PSE did not indicate in its narrative which provision within the Settlement these changes fall under, however, staff notes paragraph 29 states "complex changes include, but are not limited to"[37] so these updates may be compliant with its terms.

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[34] PSE Response to AWEC at 6 (Dec. 13, 2023) Docket UE-230805.
[35] AWEC Confidential Comments at 9 in Docket UE-230805.

[36] PSE Response to AWEC at 2 (Dec. 13, 2023) Docket UE-230805.
[37] Appendix A, Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and PSE's Green Direct Program, to Final Order 24/10 Rejecting Tariff Sheets; Approving Settlements, with Conditions; Authorizing and Requiring Compliance Filing in Dockets UE-220066, UG-220067, & UE-210918 (*Consolidated*) ¶ 29 (Dec. 12, 2022).

Methodological Changes

Hydroelectric

PSE presents a modification to its methodological approach for forecasting hydroelectric resources. The Company proposes using 30-year median stream flows from 1992 through 2021, instead of its prior use of 80-year medians from 1929 through 2008.

PSE states that this update "reflects more recent hydrological conditions, providing a better representation of expected future conditions" and notes "The National Weather Service's Northwest River Forecast Center defines normal hydrological conditions based on 30 years of historical data."

This approach results in a 3.6 percent decrease overall in projected MWh production when comparing the 80-year median to the 30-year median. PSE expects this to increase power costs by $11.2 million.

Paragraph 29 explicitly states that complex changes are not limited to and include "Any methodological changes to PSE's power cost calculations,"[38] so this change is potentially compliant with the Settlement.

Staff recognizes that utilizing a 30-year median is preferable to using an 80-year median, however, there are several Climate Models that may better predict the range of climate change outcomes and their impact on expected stream flows.[39]

Wind

PSE presents an update of its methodology for calculating wind integration costs.

PSE states that its "updated wind integration cost methodology relies on historical power prices and actual wind generation from 2013 to 2022 to calculate correlations between these two model inputs and to determine the standard deviation of generation for each wind resource on daily, monthly, and annual intervals. These values are then used as inputs in the Aurora model's risk sampling tool to generate 100 simulations of power price and wind output risk factors for each wind project. These risk factors are aggregated on a monthly basis to determine the adjustment to the modeled value of wind energy needed to account for variability."

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[38] *Id.*

[39] Pytlak, E., Frans, C., Rupp, D., Chegwidden, O., Nijssen, B., Johnson, J., & Duffy, K. (n.d.). (rep.). Climate and Hydrology Datasets for RMJOC Long-Term Planning Studies: Second Edition (RMJOC-II) Part I: Hydroclimate Projections and Analyses.

PSE further explains, "prior methodology used historical wind data and historical index prices to calculate wind integration cost as a product of price variance and generation forecast variance between the day-ahead and hour-ahead market timeframes. This method only recognizes the impact of variability between day-ahead and real-time markets but fails to capture costs associated with variability in wind output on daily, monthly, and annual timeframes. The need for this update to PSE's wind integration cost methodology is driven by increasing amounts of wind energy in PSE's portfolio combined with more wind generation in the region's resource supply stack. Market power prices are becoming increasingly influenced by and inversely correlated with wind generation as more resources are added in the region."

PSE expects this to increase power costs by approximately $26.2 million relative to the prior wind integration methodology.

AWEC asserts that PSE's proposed modeling change for wind integration should be rejected for two reasons.

First, it claims that "methodological change is outside the scope of updates allowed under the 2022 Settlement[40] agreement" citing Paragraph 28(b). However, Staff notes that Paragraph 29 explicitly states that complex changes are not limited to and include "Any methodological changes to PSE's power cost calculations."[41]

Second, AWEC asserts that the modeling change is unreasonable because the "change materially reduces the value of PSE's owned and contracted wind resources" and that the "new modeling method does not reflect how PSE modeled these resources in its Integrated Resource Plans (IRP)" and asserts that these "modeling changes effectively shift the market and resource procurement risks of these resources to its customers" and that "updating this methodology will disincentivize PSE from ensuring accuracy of future renewable resource forecasts"[42] and recommends rejection of the cost increase associated with this change.

Staff consulted a 2023 Land Based Wind Market Report, which notes "Wind power purchase agreement (PPA) prices have been drifting higher since about 2018, with a recent range from below $20/MWh to more than $40/MWh" and noted that among regions reporting data "CAISO features the highest wind PPA pricing at approximately $60/MWh in the third quarter of 2022."[43] Staff notes that PSE's updated projected wind MWh values represent a significant downgrade, however, the new value is within the range described in this market report and seems fair.

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[40] Appendix A, Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and PSE's Green Direct Program, to Final Order 24/10 Rejecting Tariff Sheets; Approving Settlements, with Conditions; Authorizing and Requiring Compliance Filing in Dockets UE-220066, UG-220067, & UE-210918 (*Consolidated*) ¶ 28. (Dec. 12, 2022).

[41] *Id.* ¶ 29.

[42] AWEC Confidential Comments in Docket UE-230805 page 8.

[43] Wiser, R., & Mark Bolinger. (n.d.). (rep.). Land Based Wind Market Report: 2023 Edition (pp. 49-54).

In Staff's discussion of this issue with the Company, PSE acknowledged that it had not used this newly assigned value when modeling these resources in its IRP and making its selections but stood behind the modification as incorporating more than a decade of experience with wind resource variability and more accurately reflecting the resources actual future value. Staff found both the outcome and explanation behind this methodology change to appear reasonable.

In PSE's response to AWEC's comments it explains that its decision to acquire wind resources was made with the best information available at the time and those decisions were previously deemed prudent by the Commission. It emphasizes that the objective of the 2024 power cost 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."[44]

Market Price Updates

This forecast uses the average of forward market gas prices over the 90 days ending September 5, 2023, which results in the average annual gas prices as the Sumas trading hub as approximately 11 percent lower than the previous forecast overall.[45] However, PSE notes that there is significant variability across the year with some month's forecasted prices being higher and lower than the prior forecasts.

PSE estimates these changes increase power cost forecasts by $31.6 million.

The lower gas price projection drives lower power prices, which causes changes in the dispatch and volume output from PSE's natural gas and coal generation resources and the volume and costs of wholesale market purchases and sales. Overall, forecasted output from PSE's gas-fueled generation resources is approximately 20 percent lower than previously predicted, resulting in a forecasted increase in wholesale market purchase costs and decreases in forecasted secondary sales revenue.

PSE states that relative to the 2023 forecast, the average price of 2024 market purchases are down approximately $2 per MWh (4 percent) and the average price of secondary sales is down more than $15 per MWh (23 percent).[46]

Staff has identified a trend in PSE's prior PCA filings of power price forecasts being under actuals, though this variance is possibly a result of forecasts being based on expected outcomes under normal conditions, which are encountered less frequently due to climate change.

Climate Commitment Act Indirect Costs and Impacts

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[44] PSE Response to AWEC at 4 (Dec. 13, 2023) Docket UE-230805.
[45] 2024 Power Cost Update at 5 (Sept. 29, 2023) Docket UE-230805.

[46] *Id.* at 6.

This forecast includes changes in PSE's resource dispatch resulting from CCA compliance, which it estimates increases power costs by approximately $22.7 million. PSE states that this increase "is the net result of (a) a projected decrease in secondary market sales revenue ($66.9 million power cost increase) offset by (b) a decrease in projected natural gas fuel costs ($44.3 million power cost decrease)."[47]

PSE explains it "expects to receive no-cost allowances for emissions from generation used to serve retail electric load only. Accordingly, PSE must purchase allowances for emissions associated with any secondary market sales. This means that PSE cannot economically dispatch generation for secondary sales unless the revenue from such sales is sufficient to cover the sum of traditional variable costs (primarily fuel) plus the cost of emissions allowances under the CCA." It also clarifies that the costs of allowance purchases that may be required for compliance would continue to be deferred in accordance with the accounting petition approved in Docket UE-220974.

PSE states the dispatch adjustments to this forecast reduce emissions by approximately 600,000 metric tons.

AWEC recommends removal of these costs, noting that the Commission's rationale in rejecting PSE's previous filing[48] still hold in relation to this 2024 PCA update, namely, that "the Company did not present any detailed testimony regarding the impact of the CCA on its power costs."

AWEC acknowledges that the magnitude of the 2023 forecasted CCA indirect costs was a factor in the Commission's previous decision but states, "its underlying concerns about comparable access to information persist. Similar to the compliance filing, the parties in this case do not have access to AURORA for purposes of reviewing and analyzing the Company's modeling methodology and assumptions."[49]

AWEC also states, "the Commission is also considering whether and how greenhouse gas costs should be considered in dispatch as part of its CCA Commission-led workshop series in Docket U-230161, which may ultimately result in rules that address this issue directly." As a result of these concerns AWEC recommends these costs be disallowed.

In PSE's response to AWEC's comments it restates the explanation provided in its Power Cost narratives and highlights that PSE could "avoid the estimated 2024 power cost increase if it does not consider the cost of carbon allowances in its actual resource dispatch decision. 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."[50]

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[47] 2024 Power Cost Update at 5 (Sept. 29, 2023) Docket UE-230805.

[48] Order 26/12 in Docket UE-220066 rejecting the compliance filing in part, requiring revised compliance filing; and providing for further process. (Jan. 6, 2023).

[49] AWEC Confidential Comments at 9 in Docket UE-230805.

[50] PSE Response to AWEC at 5 (Dec. 13, 2023) Docket UE-230805.

Staff notes that the Commission in issuing Order 26/12 rejecting in part 2023's compliance filing, and power cost update gave PSE the option to:

(1) defer the $135.8 million in related projected power costs in question and request review of these costs in its 90-day power cost compliance filing in this proceeding for 2024 or
(2) petition for Commission review of these costs in a separate proceeding.[51]

As explained in the background of this memo, PSE has not yet filed for recovery of 2023 indirect CCA dispatch costs as it anticipates including those costs in its upcoming annual PCA filing in April of 2024, consistent with option 2. This creates a unique situation, where the Commission is being asked to address 2024 CCA dispatch cost impacts prior to 2023. While PSE is aware of actual CCA impacts on dispatch for most of 2023, the other parties in this proceeding do not have access to this same information in evaluating the reasonableness of this forecast. Staff cannot say whether or not PSE actually reduced dispatch of fossil fuel resources in 2023.

While Staff is encouraged by PSE's statements that the CCA will drive a meaningful reduction in PSE's dispatch of coal and fuel-burning resources reducing its carbon emissions, Staff remains concerned about the unknown extent of this impact on PSE's power costs as we have no historical data to consider.

Additionally, PSE attributes most of the CCA's indirect costs to a sizable decrease in secondary sales. In PSE's most recently analyzed 2022 PCA filing, Staff noted a significant increase in secondary sales compared to its forecast. When Staff inquired about the reason for the high variance, PSE provided a detailed explanation. In its explanation, PSE highlighted some of the limitations of the Company's forecast methodology in accurately forecasting market sales and purchases, including its inability to include both market sales and market purchases in the same hour when in "actual operations, PSE transacts to balance electric supply with load in multiple market timeframes amid constantly changing conditions."[52]

Given the unknown and perhaps unmeasurable indirect costs and speculative impacts of CCA compliance on PSE's 2024 power cost, Staff also recommends exclusion of these costs from this PCA update.

Interested Parties

AWEC submitted twelve pages of comments, which are summarized throughout the discussion portion of this memo. AWEC recommends several adjustments and reductions to PSE's power cost forecast including:

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[51] Order 26/12 Rejecting the Compliance Filing in Part, Requiring Revised Compliance Filing, Dockets UE-220066, UG-220067, & UE-210918 (*Consolidated*) ¶ 22 (Jan. 6, 2023).

[52] PSE's Response to WUTC Staff Informal Data Request No. 004, Docket UE-230313.

- Incorporating EIM congestion revenues resulting in a confidential number[53] reduction.
- Rejecting PSE's proposed modeling change for wind integration, a $26.2 million reduction.
- Excluding CCA dispatch costs, a $22.7 million reduction.
- Excluding demand response Power Purchase Agreements, a $11.4 million reduction.
- Including Bonneville Power Administration (BPA) rate credit dividend distribution should BPA make a decision (expected on December 15, 2023) on how to treat its Transmission Reserve Distribution Clause (RDC) calculations prior to January 1, 2024.

Public Counsel and The Energy Project have indicated that they do not plan to offer comments on this docket.

Staff reached out to Consumer Protection Division Staff inquiring if any customer comments have been received and as of December 14, 2023, had not been advised of any.

Conclusion

Considering AWEC and Staff's shared concerns related to estimated costs associated with Demand Response PPAs and CCA Compliance included in PSE's PCA Update, Staff recommends that the Commission issue an order rejecting in part PSE's tariff and compliance filing, requiring PSE to exclude $11.4 million in estimated costs associated with Demand Response PPAs and $22.7 million in estimated costs associated with the indirect impact of CCA compliance from the Power Cost baseline update and require an updated Compliance and Tariff Revision to be filed.

[53] AWEC Comments 11-20-23 at Paragraph 2 Docket UE-230805.