

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of) DOCKET UE-230805
)
PUGET SOUND ENERGY,) COMMENTS OF THE ALLIANCE OF
) WESTERN ENERGY CONSUMERS
Advice No. 2023-44, Electric Tariff Revision.)
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_____)

1 The Alliance of Western Energy Consumers (“AWEC”) appreciates the opportunity to file additional comments regarding Puget Sound Energy’s (“Puget,” “PSE” or “Company”) 2024 Power Cost Update. AWEC filed initial comments on November 20, 2023, setting forth its concerns with PSE’s Power Cost Update. On December 13, 2023, PSE filed comments in response to AWEC’s comments, addressing each of AWEC’s proposed adjustments. AWEC has reviewed PSE’s comments and engaged in subsequent informal discussions with the Company. Based on its review and these discussions, AWEC offers these additional comments updating its recommendations to the Commission. Although AWEC maintains certain issues should be addressed by the Commission in this case, as discussed below, AWEC is not seeking adjudication of PSE’s Power Cost Update filing. Instead, AWEC recommends that the Commission make a determination on each issue at the scheduled Open Meeting.

A. Energy Imbalance Market congestion revenues.

2 In its initial comments, AWEC proposed that the Commission reflect congestion revenues from the Energy Imbalance Market (“EIM”) in the 12-months ending June 2023, which would serve as a reduction to Puget’s 2024 Power Cost Update. Congestion revenues arise in the

EIM because the locational marginal prices at each node within the EIM are different, primarily due to congestion. This results in a total amount of imbalance payments from the EIM that are less than the imbalance payments received from the EIM which are allocated to participating EIM entities in accordance with the applicable California Independent System Operator Tariff. As indicated in AWEC's first round of comments, congestion revenues are not being considered in the calculation of EIM benefits included in the 2024 Power Cost Update, as filed. However, this issue is complex and would benefit from additional discovery and the development of an evidentiary record, which the Power Cost Update does not allow time or process for. As such, AWEC will address this issue in PSE's next general rate case proceeding.

B. PSE's proposed modeling change for wind integration should be rejected in this case.

3 In its 2024 power cost forecast, PSE has proposed to change how it models wind integration costs. This update increases power costs by \$26.2 million.¹ PSE justifies this update by arguing that increasing amounts of wind are driving down market prices at times when wind generation is high.² AWEC maintains its position that PSE's modeling change is both outside of the scope of updates allowed under the 2022 GRC Settlement Agreement and implicates a significant policy decision that is inappropriately considered in the current filing.

4 Justifying its modeling change, PSE relies on Section D, paragraph 29, of the 2022 Settlement Agreement, seemingly arguing that this provision allows the Company broad discretion to make any methodological change to its 2024 power costs. However, this paragraph of the Settlement Agreement addresses the *timing* applicable to PSE's obligation to provide

¹ PSE 2024 Power Cost Update Report at 6 (Sept. 29, 2023).

² PSE 2024 Power Cost Update Regarding Complex Changes to the PCA Baseline Rate at 4-5.

notice of complex changes to the PCA baseline rate.³ As part of this obligation, PSE is required to disclose the change, effect and supporting workpapers for certain items, including “any methodological changes to PSE’s power cost calculations.” Read in context of the Settlement Agreement, however, PSE’s reading is unsupported and it is clear that the Settlement Agreement does not permit PSE to propose any modeling change that it desires. Paragraph 28(b) of the settlement agreement clearly identifies the specific costs and inputs that can be updated for 2024 power costs.⁴ As AWEC pointed out in its initial comments, none of those costs and inputs include how PSE’s renewable resources are modeled. While AWEC believes the terms of the settlement agreement are clear on their face, even if there is ambiguity on whether the updates listed in Paragraph 28(b) are exhaustive, a conservative interpretation of the settlement agreement is warranted given the limited timeline to review power cost updates (90 days) and the lack of accompanying testimony and process to develop a record. Again, PSE’s methodological change is complex and requires an AURORA license to evaluate its overall reasonableness, which has not been provided to intervenor parties for this limited update process.

5 PSE’s proposed modeling change also implicates important policy decisions. While PSE disagrees with AWEC’s contention that a shift away from the modeling method used in its IRPs and RFPs is unreasonable, whether and how a utility should be permitted to update its modeling is a larger policy question that should not be answered in this proceeding. It is unreasonable to materially reduce the value of PSE-owned and contracted wind resources, which

³ The title of the paragraph is “Timing.”

⁴ These costs and inputs are: (1) costs associated with Mid-C hydro contracts; (2) costs associated with upstream pipeline capacity; (3) outage schedules; (4) BPA rates; (5) load forecast; (6) variable O&M costs; (7) impacts to dispatch logic related to CCA compliance; (8) hedges and physical supply contracts; (9) natural gas prices; (10) changes to terms of current resources; and (11) any new and updated resources (including transmission contracts).

is the effect of shifting the market and resource procurement risk onto customers as PSE proposes here. If the Commission finds potential merit in PSE’s modeling change, it should be evaluated in a proceeding that allows for the development of an evidentiary record, including one that allows interested parties access to AURORA. Because this is a discrete, limited update proceeding on a short, 90-day review period where the parties stipulated to what updates may occur, this is not an appropriate proceeding to consider this change. The Commission should direct PSE to reduce its 2024 forecast power costs by \$26.2 million.

C. CCA dispatch costs should be excluded from the 2024 PCA, consistent with the Commission’s decision in UE-220066/UG-220067 Order 26/12.

6 In its initial comments, AWEC proposed that \$22.7 million in costs related to the impact of the Climate Commitment Act (“CCA”) on dispatch be removed because doing so would be consistent with the Commission’s decision on PSE’s 2024 power cost forecast update and because the Commission is currently considering how CCA costs should be modeled as part of Docket U-230161. In response, PSE argues that inclusion of CCA dispatch impacts is appropriate because it is consistent with its 2022 GRC Settlement and will likely lead to lower actual net power costs for 2024.⁵

7 To PSE’s first point, while CCA dispatch impacts were included as part of the stipulation in PSE’s 2022 general rate case, the Commission’s subsequent decision and rationale for rejecting PSE’s similar update to 2023 costs still holds as set forth in AWEC’s initial comments. Circumstances have not changed. The Company still has not presented any detailed testimony regarding impacts to dispatch logic related to CCA compliance on its power costs. Disparate access to information between the Company and parties, including AWEC, prevents

⁵ PSE’s Response Comments at 5 (Dec. 13, 2023).

full review of PSE’s proposed costs in this case. The wide swing in amounts sought in 2023 versus 2024 underscores the importance of a continued delay in the implementation of this provision – in 2023, anticipated impacts were \$135.8 million compared to 2024 anticipated impacts of \$22.7 million. During informal discussions with PSE, AWEC learned that PSE updated its methodology for 2024 which is a driver for reduced costs. There are no specifics as to the original methodology or updated methodology used so that parties may review the reasonableness of either the 2023 forecast or the 2024 forecast. The difference, however, appears quite stark and makes clear that additional investigation and guidance is needed prior to including impacts to dispatch logic related to CCA compliance. This is the Commission’s aim in Docket U-230161.

8 PSE’s second point – that its proposal will likely lead to lower actual NPC in 2024 – is a red herring. The Company argues that absent the Commission approving the inclusion of \$22.7 million in CCA costs related to forecast dispatch in this update, it will not operate its system by taking into account, to the best of its ability, CCA costs in making actual dispatch decisions. Again, based on informal discussions with PSE, AWEC understands that PSE is *capable* of considering CCA costs in actual dispatch (thereby likely reducing its CCA compliance costs, all else equal), but PSE would nevertheless *choose* not to do so because of the ratemaking methodology used to forecast 2024 power costs. PSE’s rationale and conclusion create significant concerns that the Company may not be intending to prudently operate its system in 2024 – as PSE admits in comments, the consequence of not considering CCA compliance costs in operations leads to an estimated increase to 2024 CCA compliance costs to

the tune of \$40 million.⁶ Although actual costs associated with PSE’s operation of its system will be addressed in the Company’s 2024 power cost adjustment mechanism, utilities have a statutory duty to ensure that all charges made are “just, fair, reasonable and sufficient.”⁷ When considering whether a utility’s actual power costs are prudent with regard to the CCA, PSE stated in its November 3, 2023 comments in Docket U-230161 that: “Utilities should be required to demonstrate that they adequately studied CCA compliance needs and made reasonable investment decisions at the time the decisions were made.”⁸ PSE goes on to clarify that its understanding of the Commission’s prudence standard is as reflected in its 2003 Power Cost Only Rate Case proceeding, in which the Commission stated:

The test the Commission applies to measure prudence is what a reasonable board of directors and company management would have decided given what they knew or reasonably should have known to be true at the time they made a decision. This test applies both to the question of need and the appropriateness of the expenditures. The company must establish that it adequately studied the question of whether to purchase these resources and made a reasonable decision, using the data and methods that a reasonable management would have used at the time the decisions were made.⁹

9 It is antithetical to economic regulation for a utility to knowingly operate, and the Commission to approve rates reflective thereof, its system in a manner that will lead to higher costs to its customers assuming safe and reliable service is provided. The purpose of the Commission is to prevent such injustices on behalf of ratepayers.¹⁰ While AWEC understands the awkwardness of what is quite likely to be a temporary mismatch in how PSE’s CCA

⁶ PSE’s Comments at 5.

⁷ RCW 80.28.010(1).

⁸ Docket U-230161, Comments of Puget Sound Energy at 3 (Nov.3, 2023).

⁹ *Id.* at 3-4, quoting *WUTC v. Puget Sound Energy*, Docket UE-031725, Order 12 at ¶ 19 (Apr. 7, 2004).

¹⁰ RCW 80.01.040; RCW 80.28.020.

compliance costs are modeled versus how it operates its system consistent with least-cost, considering risk principles, that awkwardness does not justify PSE's request in this case. If actual net power costs are greater than forecast, the Company has relief through its annual power cost true-up. It is imprudent and unreasonable for a utility – regardless of how NPC costs are forecast – to fail to operate its system consistent with least-cost, considering risk principles.

10 In light of the foregoing, AWEC maintains its recommendation to remove \$22.7 million in estimated impacts of the CCA and requests that the Commission direct PSE, regardless of its decision on whether CCA impacts to dispatch logic should be reflected in PSE's 2024 power cost forecast, to operate its system in a reasonable and prudent manner.

D. PSE's proposed demand response Power Purchase Agreements should not be subject to cost recovery as part of 2024 Net Power Costs unless offsetting benefits are included.

11 PSE continues to propose inclusion of approximately \$11.4 million in costs of demand response contracts that have not previously been included in power costs. Confusingly, though, PSE notes that its "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."¹¹ Based on this statement, it appears that PSE is asking the Commission to approve rates reflective of demand response PPA costs without making a prudence determination on these resources. This is perplexing. Nothing in the Section D, paragraph 32, of the GRC Settlement Agreement changes, waives or otherwise impacts traditional review of PPA resources in a utility's net power cost forecast. While the Company has flexibility on the forum for seeking cost recovery, it has

¹¹ PSE's Response Comments at 5, n. 12.
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pointed to no basis or Commission authority that would allow for the inclusion of demand response PPA costs in rates prior to the Commission determining whether such costs are prudent and reasonable.

12 These issues aside, in response to AWEC’s concerns about the lack of corresponding benefits reflected in rates, PSE concedes that “...the total benefit of these contracts to ratepayers may approach or even exceed their cost, much of that benefit will be from maintaining the electric system reliability and avoiding the need to purchase alternative new capacity resources.”¹² PSE argues, though, that this level of benefit cannot be reflected in 2024 forecast net power costs because the benefits of these contracts – avoiding energy purchases that will be avoided “when the demand response is deployed to reduce load”¹³ – are estimated to be an \$880,000 reduction in 2024 forecast power costs based on a benefits methodology that PSE introduced for the first time in comments filed six business days before the Open Meeting considering this filing. PSE also argues that given anticipated deployment of demand response resources, PSE is also likely to under-recover its 2024 actual net power costs by approximately \$340,000.¹⁴

13 A matching of costs to benefits is axiomatic in utility ratemaking.¹⁵ PSE did not provide AWEC with ample evidence to review the prudence of these contracts as part of this proceeding, nor did the Company provide ample time to review the alleged level of benefits that would accrue to customers in 2024. Given PSE’s comments on this issue and clarification about

¹² PSE’s Response Comments at 5.

¹³ *Id.* at 5-6.

¹⁴ *Id.* at 6.

¹⁵ *See, e.g., WUTC v. Pacific Power & Light Company*, Docket UE-152253, Order No. 12 at ¶ 222 (Sept. 1, 2016) (Commission matching costs and benefits in rates related to Energy Imbalance Market costs); *WUTC v. Puget Sound Energy, Inc.*, Docket No. UE-031725, Order No. 15 at ¶ 38 (Jun. 7, 2004) (referring to “the familiar regulatory principle under which we consider the match between costs and benefits....”)

where the Company supports that a prudence determination be made, AWEC supports exclusion of demand response PPA costs in this proceeding and instead addressing both costs and benefits in PSE's 2023 PCA filing in April 2024. Should the Commission both undertake a prudence determination in this proceeding and determine that PSE's demand response PPAs are prudent and thus subject to cost recovery, the Commission should order PSE to reflect the same level of benefits as costs in rates, consistent with AWEC's initial comments. Given the late-filed information on potential benefits and the lack of time to evaluate the reasonableness of PSE's assumptions and modeling, benefits off-setting costs strikes an appropriate balance between PSE and ratepayers. Actual benefits can be trued-up as part of PSE's 2023 PCA filing.

E. If the Administrator for the Bonneville Power Administration orders a 2023 distribution dividend for Transmission, those benefits should be reflected in PSE's 2024 net power costs.

14 On November 16, 2023, the Bonneville Power Administration ("BPA") presented its Q4 Quarterly Business Review, during which BPA's financial results for its 2023 fiscal year were reported. As part of this presentation, BPA discussed its Transmission net revenues and the resulting Reserves Distribution Clause ("RDC") calculations that resulted in a Transmission RDC of \$130.4 million. A final decision from the BPA Administrator was anticipated on December 15, 2023. In its response comments, PSE agreed with AWEC that "the benefits of any transmission rate credits resulting from [BPA's] dividend distribution should be returned to customers as a reduction to PSE's 2024 power costs," but noted that a delay in BPA's decision would result in PSE's decision not to reflect those credits in its 2024 power cost forecast.¹⁶ Instead, PSE would reflect the credits as part of the Power Cost Adjustment ("PCA") which

¹⁶ PSE's Response Comments at 6.
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would be subject to sharing bands. On December 15, 2023, BPA alerted that its decision on the RDC would be postponed until December 22, 2023.

15 AWEC appreciates PSE’s agreement that any BPA transmission rate credits should be passed back to customers; however, AWEC continues to recommend that PSE reflect these rate credits, if any are approved, in its 2024 net power cost forecast. While December 22nd is a delay from BPA’s initial timeline for a decision, it is one day after the Commission makes a determination on PSE’s proposed tariff update at its December 21, 2023 Open Meeting. As such, PSE will already be prepared to make adjustments to its tariff and resulting rates pending the outcome of the Commission’s decision, obviating the need to address RDC amounts in PSE’s PCA true-up. Any BPA transmission rate credits announced on December 22, 2023 should be reflected in PSE’s 2024 forecast power cost update.

16 Dated this 18th day of December, 2023.

Respectfully submitted,

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