



FROM: Dave Gomez
DATE: March 10, 2016
SUBJECT: Compliance Filing UE-121373; Puget Sound Energy

Background

In Order 03 of the referenced docket, the Commission required PSE to monitor, and report to the Commission annually, TransAlta's production levels at the Centralia Coal Transition Facility (CCTF). PSE was also be required to report whether and, if so, to what extent TransAlta has satisfied any part of its delivery obligations through the use of resupply power. The report was to also identify the amounts of resupply power by source. The Commission's rationale for such reporting was that it is conceivable that deliveries from the facility will reach a point where the contract may be determined to no longer qualify under the terms of RCW 80.04.570 and related authority as a coal transition PPA.¹

PSE's was also required to report on TransAlta's required payments under its obligations contained in its Memorandum of Agreement (MOA) with the State of Washington to support energy efficiency, economic and community development, and education and retraining initiatives for the communities impacted by the eventual closure of the CCTF. If the MOA is terminated by TransAlta at any time during the term of the Coal Transition PPA the Commission stated that it may initiate proceedings to determine whether the contract retains its identity as a coal transition PPA under RCW 80.04.570 and related authority, and whether PSE should be authorized to continue to recover equity return as authorized under RCW 80.04.570(6).

Staff Analysis of PSE's Annual Compliance Filing; Coal Transition PPA

PSE reports that TransAlta has made its required payments under the MOA for the year. Table 2 below summarizes these annual payments spanning the term of the Coal Transition PPA. TransAlta also reports that for 2015, the average number of full-time equivalent employees (FTEs) was 220 which is down from the 232 it had reported last year. When taking into account total generation for the year, the CCTF is operating at 44.1 percent of its total capacity factor. The Coal Transition PPA power generated by the CCTF accounted for about half of that.

¹ Order 03 at ¶ 68 states:

“We need not at this juncture determine definitively the full legal consequences that might flow from these circumstances, if they eventuate. It is better to take a conservative and practical approach than to establish a bright line beyond which the volume of resupply power means the contract between PSE and TransAlta will lose its character as a coal transition power purchase agreement. It is for this reason that we issued Bench Request No. 2, to which PSE responded on December 28, 2012. The confidential information PSE provided in its response shows the Historical Generation of the CTCF in GWhs on a quarterly basis from the 1st Quarter of 2008 through the 4th Quarter of 2012, as of the time of the response. These data show that TransAlta's operations of the CTCF are consistently at a level, in all quarters of the year, that would result in all power delivered under the Coal Transition PPA being from the facility. Over the five years reported, had the Coal Transition PPA been in effect, only 10 percent of the deliveries to PSE would have been considered resupply power.”

On a MWH basis, resupply power comprised 31.2 percent of the total 1.7 million MWH delivered under the Coal Transition PPA in 2015. Resupply power amounts were almost entirely delivered between the months of February and June when market prices at MidC were below the plant's variable costs of \$20.73 per MWH.² The cost delta, when compared to MidC prices, for the power delivered in 2015 by TransAlta under the Coal Transition PPA was \$41.9 million.³ This delta translates to a little over \$2.00 per MWH or about 3 percent of the company's current power cost baseline in its PCA mechanism (see Table 1 below).

Summary/Staff Recommendation

Clearly the Coal Transition PPA has provided PSE a hedge against declining baseline power costs. While circumstances in the future could change which would result in a hedge benefiting ratepayers, all indicators point toward the continued downward trend in power costs. In addition, resupply power percentages are much higher than the historical 10 percent mentioned by the Commission in Order 03 back in January of 2013.

Nevertheless, Staff believes these circumstances do not give rise for the Commission to take action within the authority it so reserved in the event the Coal Transition PPA no longer qualified under the statute which authorized its creation.

Staff recommends the Commission take no action at this time.

² SNL Energy shows CCTF's largest variable cost is fuel at \$17.99 per MWH.

³ Coal Transition PPA price was double the MidC spot market price average of \$22.50 per MWH.

Table 1; PCA Mechanism – Power Cost Baseline Rate Impact Illustration⁴					
Power Cost Rate Element	with Coal Transition PPA		w/o Coal Transition PPA		Delta
		\$/MWh		\$/MWh	
Regulatory Assets (1) (Variable)	\$31,901,717	\$1.550	\$29,441,541	\$1.431	\$0.119
Transmission Rate Base (Fixed)	\$9,439,637	\$0.459	\$9,439,637	\$0.459	
Production Rate Base (Fixed)	\$240,302,815	\$11.679	\$240,302,815	\$11.679	
501-Steam Fuel	\$81,919,012	\$3.981	\$81,919,012	\$3.981	
555-Purchased power	\$391,751,942	\$19.039	\$352,488,969	\$17.131	\$1.908
557-Other Power Expense	\$6,470,600	\$0.314	\$6,470,600	\$0.314	
Payroll Overheads	\$6,720,476	\$0.327	\$6,720,476	\$0.327	
Property Insurance	\$2,935,157	\$0.143	\$2,935,157	\$0.143	
Montana Electric Energy Tax	\$1,722,250	\$0.084	\$1,722,250	\$0.084	
Payroll Taxes on Production Wages	\$2,063,367	\$ 0.100	\$2,063,367	\$0.100	
547-Fuel	\$182,418,319	\$8.866	\$182,418,319	\$8.866	
565-Wheeling	\$108,412,772	\$5.269	\$108,412,772	\$5.269	
Variable Transmission Income	\$(9,768,403)	\$(0.475)	\$(9,768,403)	\$(0.475)	
Production O&M	\$127,418,503	\$6.193	\$127,418,503	\$6.193	
Colstrip Major Maintenance	\$542,346	\$0.026	\$542,346	\$0.026	
447-Sales to Others	\$(41,680,012)	\$(2.026)	\$(41,680,012)	\$(2.026)	
Purch/Sales Non-Core Gas	\$(8,264,681)	\$(0.402)	\$(8,264,681)	\$(0.402)	
Transmission Expense - 500KV	\$970,038	\$0.047	\$970,038	\$0.047	
Depreciation-Production (FERC 403)	\$121,231,524	\$5.892	\$121,231,524	\$5.892	
Depreciation-Transmission	\$4,142,492	\$0.201	\$4,142,492	\$0.201	
Amortization - Regulatory Assets (1)	\$26,266,332	\$1.277	\$26,266,332	\$1.277	
Hedging Line of Credit	\$721,121	\$0.035	\$721,121	\$0.035	
Total & Baseline Rate	\$ 1,287,974,218	\$62.579	\$ 1,248,374,350	60.552	\$2.027
Load (MWH's)	20,575,878		20,575,878		

⁴ Based on PSE's 2014 PCA mechanism annual report.

MOA Payments by TransAlta

Year	Weatherization Fund	Economic and Community Development Fund	Energy Technology Fund	Total
2012	\$833,333	\$1,666,667	\$2,083,000	\$4,583,000
2013	\$833,333	\$1,666,667	\$2,083,000	\$4,583,000
2014	\$833,333	\$1,666,667	\$2,083,000	\$4,583,000
2015	\$833,333	\$1,666,667	\$2,083,000	\$4,583,000
2016	\$833,333	\$1,666,667	\$2,083,000	\$4,583,000
2017	\$833,333	\$1,666,667	\$2,083,000	\$4,583,000
2018	\$833,333	\$1,666,667	\$2,083,000	\$4,583,000
2019	\$833,333	\$1,666,667	\$2,083,000	\$4,583,000
2020	\$833,333	\$1,666,667	\$2,083,000	\$4,583,000
2021	\$833,333	\$1,666,667	\$2,083,000	\$4,583,000
2022	\$833,333	\$1,666,667	\$2,083,000	\$4,583,000
2023	\$833,333	\$1,666,667	\$2,083,000	\$4,583,000
				\$54,996,004

Table 1; TransAlta Annual MOA Payments

Month	Centralia Unit 1 & 2 Capacity Factor	Centralia Unit 1 & 2 Net Generation MWH	Coal Transition PPA Contract Amounts MWH	Re-supply Power MWH	Power Generated by Centralia MWH	Coal Transition PPA \$MWH Price with \$1.49 equity adder	Spot Market Power Prices \$MWH MidC	Total Contract Deliveries w/equity adder	PPA Deliveries at MidC Market Spot Prices
1/31/2015	55.6%	554,454	133,920	0	133,920	\$47.66	\$21.39	\$6,382,627	\$2,864,566
2/28/2015	0.0%	68	120,959	120,959	0	\$47.66	\$13.26	\$5,764,906	\$1,603,715
3/31/2015	0.0%	0	133,739	133,739	0	\$47.66	\$16.72	\$6,374,001	\$2,236,685
4/30/2015	0.0%	0	129,599	129,599	0	\$47.66	\$13.06	\$6,176,688	\$1,692,891
5/31/2015	16.8%	166,959	133,848	79,927	53,921	\$47.66	\$26.03	\$6,379,196	\$3,484,388
6/30/2015	57.1%	550,606	129,600	36,000	93,600	\$47.66	\$31.71	\$6,176,736	\$4,109,290
7/31/2015	66.0%	657,969	133,920	0	133,920	\$47.66	\$30.80	\$6,382,627	\$4,124,530
8/31/2015	60.7%	605,376	133,920	0	133,920	\$47.66	\$27.53	\$6,382,627	\$3,686,594
9/30/2015	63.5%	612,886	129,600	0	129,600	\$47.66	\$27.49	\$6,176,736	\$3,562,334
10/31/2015	65.3%	650,671	133,920	0	133,920	\$47.66	\$22.75	\$6,382,627	\$3,046,234
11/30/2015	52.4%	505,152	129,780	0	129,780	\$47.66	\$19.50	\$6,185,315	\$2,530,586
12/31/2015	72.1%	719,236	208,320	15,337	192,983	\$48.81	\$19.82	\$10,168,985	\$4,129,414

Table 2; 2015 Coal Transition PPA