

111 FERC ¶ 61,020  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;  
Nora Mead Brownell, Joseph T. Kelliher,  
and Suedeen G. Kelly.

Puget Sound Energy, Inc.

Docket Nos. ER99-845-003  
ER99-845-004  
ER99-845-005  
ER99-845-006  
ER99-845-007  
ER99-845-008  
EL05-37-000  
EL05-37-001

ORDER ACCEPTING UPDATED MARKET POWER ANALYSIS AND  
TERMINATING PROCEEDING

(Issued April 13, 2005)

1. On December 20, 2004, the Commission issued an order<sup>1</sup> on Puget Sound Energy, Inc.'s (Puget) updated market power analysis, which, among other things, instituted a proceeding in Docket No. EL05-37 pursuant to section 206 of the Federal Power Act<sup>2</sup> to determine whether Puget may continue to charge market-based rates and establish a refund effective date. The December Order also gave Puget the option to file a revised simultaneous transmission import capability study that complies with the requirements set forth in Appendix E of *AEP Power Marketing, Inc.*<sup>3</sup> On February 1, 2005, Puget submitted a supplemental filing (February 2005 Filing) in response to the December

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<sup>1</sup> *Puget Sound Energy*, 109 FERC ¶ 61,293 (2004) (December Order).

<sup>2</sup> 16 U.S.C. § 824e (2000).

<sup>3</sup> 107 FERC ¶ 61,018 (April 14 Order), *order on reh'g*, 108 FERC ¶ 61,026 (2004) (July 8 Order).

Order. In this order, we accept Puget's updated market power analysis. As discussed below, the Commission concludes that Puget satisfies the Commission's standards for market-based rate authority. This order also terminates the proceedings in Docket Nos. EL05-37-000 and EL05-37-001. This order benefits customers by reviewing the conditions under which market-based rate authority is granted, thus ensuring that the prices charged for jurisdictional sales are just and reasonable. Puget's next updated market power analysis is due three years from the date of this order.

### **Background**

2. On January 29, 2002, Puget filed its three-year updated market power analysis pursuant to the Commission's order granting Puget authority to sell electric energy and capacity at market-based rates.<sup>4</sup>

3. On August 11, 2004, as amended on September 24, 2004 and November 19, 2004, Puget filed a revised updated market power analysis pursuant to the Commission's order issued on May 13, 2004.<sup>5</sup> The May 13 Order addressed the procedures for implementing the generation market power analysis announced on April 14, 2004, and clarified on July 8, 2004.<sup>6</sup>

4. In the December Order, the Commission found that the updated market power analysis submitted by Puget did not provide adequate information for the Commission to determine whether Puget passes the generation market power screens in the Puget control area. As we stated in the December Order, our analysis of Puget's simultaneous transmission import capability studies indicated that the studies did not comply with the requirements set forth in Appendix E of the April 14 Order (heretofore referred to as Appendix E). As a result, we determined that Puget's potentially overstated simultaneous import capabilities could affect the results of the generation market power screens by inflating the amount of uncommitted capacity available from competitors in the relevant wholesale markets.

5. Because we were unable to validate the results of Puget's generation market power analysis, we instituted a proceeding pursuant to section 206 of the FPA to determine whether Puget may continue to charge market-based rates. We also gave Puget several

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<sup>4</sup> *Puget Sound Energy Inc.*, 86 FERC ¶ 61,088 (1999).

<sup>5</sup> *Acadia Power Partners, LLC*, 107 FERC ¶ 61,168 (2004) (May 13 Order).

<sup>6</sup> *AEP Power Marketing, Inc.*, 107 FERC ¶ 61,018 (April 14 Order), *order on reh'g*, 108 FERC ¶ 61,026 (2004) (July 8 Order).

options, including the option to file, within 60 days from the date of issuance of the December Order, *i.e.*, February 18, 2005, a revised simultaneous transmission import capability study for the Puget control area, which complies with the requirements in Appendix E.

6. Puget submitted its February 2005 Filing in response to the December Order. Puget states that the February 2005 Filing demonstrates that Puget has sufficient simultaneous import capability to pass the wholesale market share screen in the Puget control area.

### **Description of the February 2005 Filing**

7. Puget states that its Supplemental Study addresses the Commission's concerns raised in the December Order regarding Puget's simultaneous transmission import capability studies in several ways. First, Puget provides an explanation of the atypical characteristics of Puget's transmission system that affect Puget's calculation of simultaneous transmission import capability under the guidance of Appendix E of the April 14 Order. Second, Puget provides a general explanation of the manner in which path ratings in the Western Electricity Coordinating Council (WECC) are calculated. Third, Puget provides revised proxy retail loads, which have been recalculated to exclude weekends and NERC holidays, as clarified by the December Order.<sup>7</sup> Fourth, Puget provides a description of short-term reservations and the wholesale load in the Puget control area. Finally, Puget provides several sensitivity cases for wholesale market share calculations for the Puget control area using two different sets of conservative assumptions regarding Puget's simultaneous transmission import capability. Puget states that it passes the wholesale market share screen under all of these sensitivity analyses.

### **Notice of Filing and Responsive Pleadings**

8. Notice of the February 2005 Filing was published in the *Federal Register*, 70 Fed. Reg. 13, 022 (2005), with interventions or protests due on or before March 21, 2005. None were filed.

### **Discussion**

9. In the December Order, the Commission expressed concern that Puget's simultaneous transmission import capability studies may be overstated because the import limit calculated by Puget (5,640 MW) for the Puget control area appeared to be the sum of the total transfer capabilities (TTC) of intertie facilities with adjacent entities.

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<sup>7</sup> 102 FERC ¶ 61,293 at P 19.

We noted that in the April 14 Order, we indicated that simultaneous transmission import capability studies require a more comprehensive analysis than that which is based on TTCs.<sup>8</sup> The Commission is concerned that simply adding total transfer capabilities in this manner may fail to account for interdependencies between paths, contingencies, and actual operating conditions which could affect the actual effective total transfer capability between adjacent areas. The Commission further found that the import studies performed by Puget did not appear to include short or medium term firm/network reservations controlled by Puget and its affiliated resources as required by Appendix E. Because Puget's simultaneous transmission import capability was incomplete, the Commission could not validate the results of Puget's market power analysis to determine whether Puget passes the market share screens in the Puget control area.

10. In its February 2005 Filing, Puget provides several important pieces of information which specifically address the Commission's concerns. To respond to the Commission's concerns about Puget's import limits being the sum of total transfer capabilities of intertie facilities with adjacent entities, Puget provides important information about the derivation of transmission path ratings it used in performing its simultaneous transmission capability studies, and about the characteristics of its transmission system which affected the way Puget modeled its system using the guidance provided in Appendix E. From this, Puget argues that the methodology it used complies with the requirements of Appendix E, accounts for interdependencies between transmission paths and contingencies, and reflects actual operating conditions.

11. Puget states that the transmission import path ratings used in its simultaneous transmission import capability analyses are calculated using a WECC rating methodology which takes into account both contingencies and actual operating conditions, resulting in path ratings which are considered to be simultaneously feasible.<sup>9</sup> Puget's transmission import path ratings are posted on its OASIS, and accordingly, reflect actual historic operating conditions. Puget states that WECC transfer path operators compute summer, spring/fall, and winter path ratings, based upon power flow and stability studies that model the expected operation of the regional transmission grid under realistic load conditions for these seasons, and include potential contingencies and the interaction of

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<sup>8</sup> Citing 107 FERC ¶ 61,018 at P 83.

<sup>9</sup> In an order issued on February 11, 2005, the Commission stated that a simultaneous transmission import capability analysis which uses WECC path ratings should be based on the effective TTC of paths, reflective of the actual historic operating conditions that existed at the time of the seasonal peaks used in the screens. *Pinnacle West Capital Corporation*, 110 FERC ¶ 61,127 at P 10 (2005).

interconnected facilities operated by different parties. Puget states further that since the OASIS-posted path limits into the Puget control area take into account both local and regional contingency constraints, these path limits are in some cases significantly derated from the thermal limits for individual relevant facilities. Puget's simultaneous transmission import capability limit of 5,640 MW is the sum of the WECC-based path ratings for intertie facilities adjacent to the Puget control area.

12. Puget performed additional analysis and modeled its system to calculate simultaneous transmission import capability according to the guidance in Appendix E. In doing so, Puget states that it needed to account for certain characteristics of its transmission system which made it difficult to calculate the import transfer limit.<sup>10</sup> Puget contends that an implicit assumption underlying the Appendix E methodology is that a load-serving utility will have load in its control area that is greater than the amount of transmission capacity available at the interties to that control area, so that as internal control area generation is backed down incrementally, the intertie constraints will become binding (at the simultaneous import capacity limit) before generation is reduced to zero. Puget indicates that its system is not consistent with this assumption because there is significantly more transmission capacity connecting the Puget control area with surrounding areas than there is generating capacity located inside Puget's control area and actual load served inside the control area. Because of this, in modeling its system consistent with the Appendix E methodology, Puget states that it was able to reduce its internal generation to zero MW, and still not stress the inbound transmission facilities. Puget states that it then tried increasing its load in its control area to be served exclusively by imports to the point where inbound transmission facilities became constrained, with the result that it was able to increase load to the annual peak experienced during the study period (4,798 MW), and still not experience constraints on transfer facilities which would identify the simultaneous transmission import capacity limit into the Puget control area.

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<sup>10</sup> It is the Commission's understanding that the WECC-based path ratings are incorporated as constraints into Puget's modeling of its system. In calculating simultaneous transmission import capability into a relevant market, Appendix E requires applicants to scale up available generation in the interconnected first-tier markets and scale down the study area resources according to the same methods used historically in assessing available transmission for non-affiliate resources. Scaling down generation in the study area and scaling up generation in exporting areas results in additional power from first-tier areas being imported into the study area to serve load. As the applicant continues to scale down generation further in the study area, the additional imports of power required to serve load will eventually be limited by transmission constraints at a level equal to the simultaneous transmission import capability.

13. Based on our review of Puget's analyses, the Commission finds that 4,798 MW is a reasonable representation for the simultaneous transmission import capacity into the Puget control area. Puget has calculated this value for simultaneous import capability using the Appendix E methodology, and in doing so increased load in the Puget control area only to the actual level experienced at the annual peak during the study period. At a level for the simultaneous transmission import capacity equal to 4,798 MW that is based on actual annual peak load during the study period, Puget has demonstrated in its February 2005 Filing that it passes the market share screens in all seasons in the Puget control area. Moreover, Puget shows further that it passes the market share screens for all seasons at even lower values for the simultaneous transmission import limit equal to the respective seasonal peak loads experienced during the study period. The Commission finds that Puget passes the market share screens for each season in the Puget control area.

14. In addition, to address the Commission's concerns about short and medium term firm/network reservations not being included in its import studies, Puget's February 2005 Filing identifies all short and medium term transmission reservations that were in effect at the time of the four seasonal peak load events during the study period. Puget states that in reviewing these transmission reservations, it found that all the reservations were for non-firm service and, further, involved very small quantities.

15. Appendix E requires that only firm/network transmission reservations held by the applicant or its affiliates be accounted for in the calculation of simultaneous transmission import capability. Therefore, since Puget held no short or medium term firm/network transmission reservations during the seasonal peaks, and since longer term firm/network reservations held by Puget or its affiliates were included in Puget's earlier filings, the Commission finds that Puget has adequately accounted for its firm/network transmission reservations in its simultaneous transmission import capability studies. Accordingly, the Commission finds that Puget satisfies the Commission's generation market power standard for the grant of market-based rate authority.<sup>11</sup>

### **Reporting Requirements**

16. Puget must timely report to the Commission any change in status that would reflect a departure from the characteristics the Commission relied upon in granting

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<sup>11</sup> In the December Order, the Commission also found that Puget passes the pivotal supplier screen in all markets, including the Puget control area and the wholesale market share screen in its first-tier markets. The Commission further found that Puget satisfies the Commission's standards regarding transmission market power, barriers to entry and affiliate abuse.

market-based rate authority.<sup>12</sup> Order No. 652 requires that the change in status reporting requirement be incorporated in the market-based rate tariff of each entity authorized to make sales at market-based rates. Accordingly, Puget is directed, within 30 days of the date of issuance of this order, to revise its market-based rate tariff to incorporate the following provision:

[market-based rate seller name] must timely report to the Commission any change in status that would reflect a departure from the characteristics the Commission relied upon in granting market-based rate authority. A change in status includes, but is not limited to, each of the following: (i) ownership or control of generation or transmission facilities or inputs to electric power production other than fuel supplies, or (ii) affiliation with any entity not disclosed in the application for market-based rate authority that owns or controls generation or transmission facilities or inputs to electric power production, or affiliation with any entity that has a franchised service area. Any change in status must be filed no later than 30 days after the change in status occurs.

17. Puget is directed to file an updated market power analysis within three years of the date of this order, and every three years thereafter. The Commission also reserves the right to require such an analysis at any intervening time.

**Docket Nos. EL05-37-000 and EL05-37-001**

18. The Commission terminates Docket Nos. EL05-37-000 and EL05-37-001. The proceedings in these dockets were established to determine whether Puget may continue to charge market-based rates and establish a refund effective date. As the Commission has accepted Puget's updated market power analysis above, there is no further need for the proceedings in these dockets.

The Commission orders:

(A) Puget's updated market power analysis is hereby accepted for filing, as discussed in the body of this order.

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<sup>12</sup> *Reporting Requirement for Changes in Status for Public Utilities with Market-Based Rate Authority*, Order No. 652, 70 Fed. Reg. 8,253 (Feb. 18, 2005), FERC Stats. & Regs. ¶ 31,175 (2005).

(B) Puget's next updated market power analysis is due within three years of the date of this order.

(C) Puget is hereby directed, within 30 days of the date of issuance of this order, to revise its market-based rate tariff to include the change in status reporting requirement adopted in Order No. 652.

(D) Docket Nos. EL05-37-000 and EL05-37-001 are hereby terminated.

By the Commission.

( S E A L )

Magalie R. Salas,  
Secretary.